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SEAN HEALEY'S $400 BILLION FUND EMPIRE

THE FORMER GOLDMAN SACHS EXEC HAS FOUND A WAY TO COIN MONEY BY BUYING UP STAKES IN 28 FUND MANAGERS, INCLUDING YACKTMAN AND CLIFF ASNESS'S AQR.

BY **ANTHONY EFFINGER** AND **SREE VIDYA BHAKTAVATSALAM**

PHOTOGRAPH BY **RYAN PFLUGER**

One of the things Sean Healey missed most when he left Goldman Sachs Group Inc. in 1995 was his business card. Flashing it was a surefire way to convince people of his credentials.

"People would say, 'Oh, you must be a genius,'" Healey jokes. Then he moved to Boston to work for a three-person startup with a bland name and a big idea. Affiliated Managers Group Inc. set out to buy stakes in equities money-management companies, including hedge funds, and share their investment fees. In return, the owners got cash for the companies they had built.

Healey's AMG card didn't have the same mojo as the one from Goldman. And Healey handed it out often because he was cold-calling money managers, trying to convince them to sell. The demographics of the fund management business worked in his favor. Baby-boom-era managers who started their funds in the 1970s were ready to sell as they prepared for retirement.

Still, the Goldman alum usually got the brushoff. "They treated you like dirt," Healey says.

A varsity wrestler when he was an undergrad at Harvard University, Healey kept fighting. AMG has since locked up chunks of mutual fund companies Yacktman Asset Management Co.; Tweedy, Browne Co.; Friess Associates LLC (manager of the Brandywine Fund); and Cliff Asness's hedge fund AQR Capital Management LLC. Healey has found a way to make money—lots of it—by choosing managers who in turn pick good stocks. And he favors equities—not bonds. To profit in the current environment, "investors will have to take risk," he says. "Over the long term, the best return for investors will be in equities."

AMG's 28 affiliated fund managers—plus one wealth adviser—controlled $392 billion as of March 31. The fees earned by the 27 fund firms in which AMG held stakes in 2011 totaled $1.7 billion, up 25 percent from $1.36 billion in 2010. AMG's share was $553.4 million in 2011 and $489.2 million in 2010. The firm's stock has risen more than sixfold since the company's initial public offering in November 1997. It's up 6 percent this year as of June 11.

AMG succeeds because it buys top-performing funds and doesn't get in the way of independent-minded managers, Healey says. Asness, for one, is an outspoken libertarian who has a tattoo of Captain America's shield on his left arm. "We have wild personalities in the money management business," says Don Putnam, co-founder of Grail Partners LLC, a San Francisco–based firm that invests in money managers. "AMG has a secret sauce."

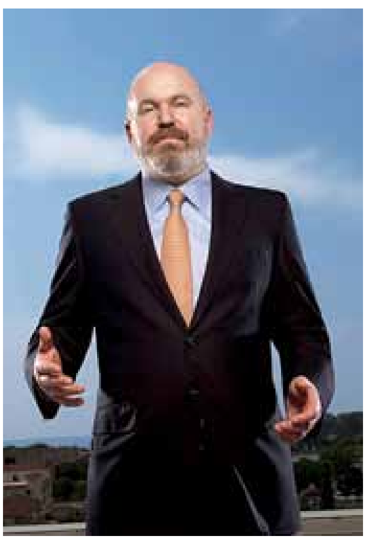
The ingredients, says Healey: Identify skilled managers and put them in social situations—such as dinner or golf—to make sure the prospective partners will get along. He never buys 100 percent of a firm, since managers need to have skin in the game to stay motivated. Healey also requires sellers to sign a 10-year employment contract, just to be safe. Then he leaves them alone.

AMG's funds are attracting cash while others lose it. Investors have pulled $502 billion out of U.S. stock mutual funds since 2007, according to the Investment Company Institute in Washington. The money has gone to bond managers, who have vacuumed up $1 trillion, the institute says.

AMG, by contrast, had positive flows for the eight quarters ended on March 31, taking in $40 billion. AMG owns just one bond manager. "It's deliberate design," Healey says. Bond funds charge low fees, so you need substantial assets to make them pay, he says. AMG couldn't compete with Bill Gross's Pacific Investment Management Co., which manages $1.77 trillion.

More important, Healey thinks the flight to safety in bonds is about to end. The stampede had driven the 30-year U.S. Treasury yield down to 2.7 percent as of mid-June. Nobody can retire on that, he says, and losses will be huge when interest rates rise. "Many of the investments that people, especially retail investors, are making now will end badly," Healey says.

These days, AMG is looking mostly for hedge funds and emerging-markets managers because they're harder to replicate with low-cost index funds, another threat to AMG's business. In



AMG partner **Cliff Asness** of AQR Capital is an outspoken libertarian with a Captain America tattoo.

NATHANIEL WELCH/REDUX

Healey at play off the Massachusetts coast. In 2009, he caught a 94-pound white marlin, below, in a Maryland tournament and netted a $903,000 prize.

RIGHT: OCEAN CITY TODAY

March, Healey went further afield and agreed to buy Veritable LP, a firm that manages the financial affairs of 200 wealthy families.

Healey returned to plain-vanilla mutual funds in April when he agreed to buy most of Yacktman, based in Austin, Texas. The Yacktman Fund returned 7.3 percent last year, more than triple the 2.1 percent return on the Standard & Poor's 500 Index. For the past three years, the firm's two funds have been among the best performers in BLOOMBERG MARKETS' annual ranking of mutual funds.

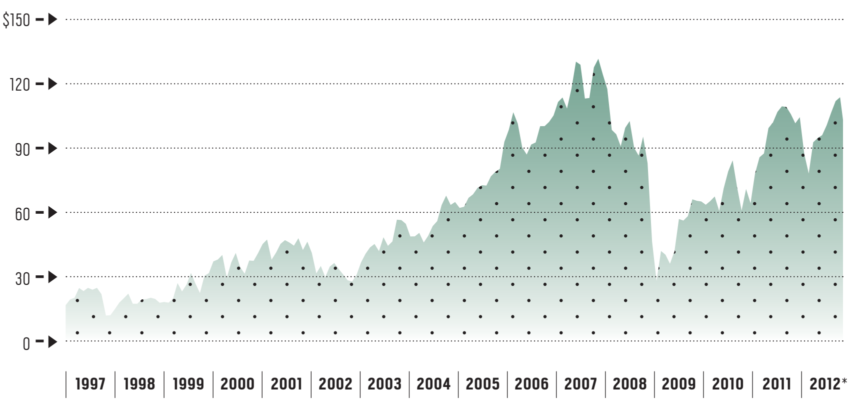
Healey wrestled at 158 pounds (72 kilograms) at Harvard. He remains trim and compact, with graying hair cut short. He exudes a cheery confidence that either comes with having good luck or brings it. In a 2009 fishing tournament, he pulled a 94-pound white marlin onto his 77-foot (23-meter) yacht, Orion, off Ocean City, Maryland. It was the biggest white marlin caught since 1980, and it won him prize money of $903,000.

Healey and a majority of his 120 employees make their deals from a hilltop mansion in Prides Crossing, Massachusetts, near the North Shore haunt of the late novelist John Updike. AMG's 90-acre (36-hectare) spread once belonged to William Loeb III, the late publisher of the conservative *Union Leader* in Manchester, New Hampshire. Healey kept the tennis court when he rebuilt the place.

Healey, the son of a lieutenant colonel in the U.S. Marine Corps, shares some of the former owner's politics. His wife, Kerry, was lieutenant governor of Massachusetts under Mitt Romney from 2003 to 2007. Now, she's foreign policy coordinator on Romney's campaign for president. Former AMG Chief Financial Officer Darrell Crate moonlighted as treasurer for Romney's failed campaign in 2008. He left AMG in February 2011 to do the

KEEPING INVESTORS HAPPY

AMG'S STOCK HAS RISEN SIXFOLD SINCE IT WENT PUBLIC IN LATE 1997. THE FIRM SUCCEEDS BECAUSE IT BUYS TOP-PERFORMING FUNDS AND DOESN'T GET IN THE WAY OF THEIR MANAGERS, HEALEY SAYS.



**As of June 11. Source: Bloomberg*

Healey's wife, **Kerry**, chairs a meeting as lieutenant governor in 2006. Ex-AMG CFO **Darrell Crate**, above left in 2004, is Mitt Romney's campaign treasurer.

same job again, and to run private-equity firm Easterly Capital.

Healey is a reluctant New Englander. Born in San Rafael, California, north of San Francisco, he recently paid $17 million for a house in Florida's Palm Beach, where he goes to get away from Massachusetts weather—and Massachusetts politics.

During Kerry Healey's term as lieutenant governor, news helicopters routinely hovered over their house, Healey says, and the *Boston Globe* once referred to AMG's offices as the "state Republican Party headquarters." After closing one deal, Healey headed to the porch to smoke a cigar. A helicopter approached and hovered outside. A photo appeared on the front page of the *Globe* that Sunday.

WHEN HIS WIFE WAS LIEUTENANT GOVERNOR, THE FAMILY WAS UNDER CONSTANT MEDIA SURVEILLANCE. 'POLITICS IS A BLOOD SPORT,' HEALEY SAYS.

"There is no other place like this," Healey says, shaking his head. "Politics is a blood sport."

He'd rather talk about money management. Even during rough patches like the current one, the industry is attractive because profit margins are so high. Baltimore-based T. Rowe Price Group Inc., for example, had net income of $773 million on revenue of $2.75 billion in 2011, giving it a profit margin of 28 percent. Margins tend to stay high even in down periods. Most costs are compensation, and that falls along with revenue because managers are paid mostly for their results, says Grail Partners' Putnam. And once retail investors put money into a mutual fund, they leave it there. "You can't kill these companies," Putnam says.

Many are injured now, though. Legg Mason Inc., home to stock picker Bill Miller, who beat the S&P 500 for a record 15 years through 2005, has been hemorrhaging assets. They fell to $627 billion in May from a peak of $1 trillion in 2007. Legg Mason shares have lost two-thirds of their value in that period.

Healey says the gloom makes for good angling. Few others are buying these days, he says. Banks, once serial acquirers, are selling assets to repair balance sheets. In 2010, AMG teamed up with managers at Artemis Investment Management Ltd. to buy the mutual fund company from Brussels-based Fortis Bank SA/NV, which was rescued by the Belgian government.

Shrewd purchases have helped Healey outdo his old employer. In 2007, Goldman started an AMG look-alike called the Petershill fund, run by Jonathan Sorrell, son of Martin Sorrell, CEO of WPP Plc, the world's biggest advertising agency. Jonathan had the Goldman business card, and connections.

It wasn't enough. The fund invested in Level Global Investors LP in April 2010. Level closed a year later after the FBI raided its offices looking for evidence of insider trading. Co-founder Anthony Chiasson pleaded not guilty to insider trading charges in February. Goldman got another bad break when it took an 8 percent stake in hedge fund Shumway Capital Partners LLC in late 2009. A year later, in November 2010,

HEALEY: MICHAEL DWYER/AP; CRATE: STEVEN SENNE/AP

AMG'S TOP FUNDS

THESE 10 FUND FIRMS ARE THE TOP CONTRIBUTORS TO AMG'S BOTTOM LINE. THE FIRM'S SHARE OF ALL OF ITS AFFILIATES' FEES WAS $553 MILLION IN 2011.

	Name, Type, Purchase Date	Assets (in billions)	Asset Growth Since Purchase
1	**AQR CAPITAL MANAGEMENT** ALTERNATIVES & EQUITY, 2004	$52	316%
2	**GENESIS INVESTMENT MANAGEMENT** EMERGING-MARKETS EQUITY, 2004	$34	370%
3	**PANTHEON VENTURES** PRIVATE EQUITY, 2010	$30	11%
4	**HARDING LOEVNER** GLOBAL EQUITY, 2009	$20	285%
5	**ARTEMIS INVESTMENT MANAGEMENT** EUROPEAN STOCKS, 2010	$19	18%
6	**FIRST QUADRANT** ALTERNATIVES & EQUITY, 1996	$17	53%
7	**TIMES SQUARE CAPITAL MANAGEMENT** GROWTH EQUITY, 2004	$15	194%
8	**TWEEDY BROWNE** GLOBAL EQUITY, 1997	$14	174%
9	**THIRD AVENUE MANAGEMENT** GLOBAL EQUITY, 2002	$12	164%
10	**VALUEACT CAPITAL** ACTIVIST EQUITY, 2007	$8	35%

All values are as of March 31. Source: AMG

founder Chris Shumway said he would no longer serve as chief investment officer. Investors yanked $3 billion from the fund. Then Shumway returned all of his investors' money, depriving Goldman of the fees it had expected to collect. The firm now manages money just for Shumway and his employees. Goldman is trying to sell Petershill, according to two people familiar with the situation. Goldman spokeswoman Andrea Raphael declined to comment.

Healey had a Shumway-type problem early on. The founder of Systematic Financial Management LP left a year after AMG paid $20 million for a piece of the firm. Assets plummeted to $200 million from $1.4 billion. Healey's solution was the 10-year employment contract. Leave, and you forfeit your ownership.

Asness and AQR co-founder David Kabiller signed their 10-year commitment in 2004. "You show that to a lawyer, and they say, 'You've got to be kidding me,'" Kabiller says. He and Asness agreed to the terms to diversify their personal investments. "No matter how good an investor you are, you always have tough moments," he says.

The demographics of fund management are going AMG's way. Many managers are nearing retirement age, yet cashing out is difficult because few fund firms are publicly traded. That's where Healey comes in.

Don Yacktman is 70 and has been running his namesake company since 1992. He co-manages the firm's two funds with his son Stephen. They've beaten 99 percent of rivals during the past five years. "I have seven children; one works here and six don't," Yacktman says. The sale to AMG will help him implement a succession plan for a company that has grown beyond its family roots, he says.

Healey took a winding path to money management. For three generations, the Healeys went to Stanford University or the University of

Don Yacktman and his son **Stephen** co-manage their firm. Don decided to sell to AMG to guarantee a smooth succession.

WYATT MCSPADDEN

California, Berkeley. He went east to Harvard, graduating in 1983 with a degree in history and literature, got a master's degree in philosophy at University College Dublin and then enrolled at Harvard Law School, intending to be a law professor.

He veered away from that idea while working at the *Harvard Law Review* alongside future Supreme Court Justice Elena Kagan. He saw that the *Review* was highly political. "I could tell that these were the kinds of people who would be on a law faculty," Healey says, and he wasn't interested.

During his second year, a friend went to a recruiting session for summer associates at Goldman Sachs. Healey decided to check it out. He got the summer job and then returned full time after law school. Three and a half years later, he was promoted to work for J. Christopher Flowers, the buyout specialist, in the unit that did investment banking for financial firms.

In 1994, he got a call from Bill Nutt, former president of the Boston Company. Nutt had just started AMG with backing from TA Associates, a Boston-based buyout firm. TA wanted AMG to mimic United Asset Management Corp., which, starting in 1980, made a business of acquiring money managers. At its peak, the Boston-based company had stakes in some 50 firms that managed $200 billion. Unlike AMG, UAM typically acquired 100 percent of its affiliates.

Nutt needed a detail-oriented deputy who could do deals, and he picked Healey. Leaving Goldman was a tough decision, Healey says. The firm was a partnership in those days, and Healey expected to become one. The hours were long, however, and he had two young children. So he decamped to Boston and went to work with Nutt and Nathaniel Dalton, a young lawyer whom TA had retained. Dalton is now AMG's president and chief operating officer.

Soon after, they did the deal that made the firm, Healey says. It was May 1997, and an old friend from Goldman, Don Truesdale, called. Tweedy Browne, a value investor founded in 1920 and boasting superior returns, was looking to do a deal. Tweedy had $5 billion then, and its owners agreed to sell 70 percent of the firm for $300 million, Healey says, or about 10 times Tweedy's earnings of $30 million. AMG had paid as little as eight times earnings on the four deals it had done before then, so Tweedy was expensive.

Nathaniel Dalton is AMG's president and chief operating officer.

"To me, it was a no-brainer," Healey says. Tweedy was a marquee name that would double profit at AMG.

Yet AMG had no money. Nutt and Healey borrowed from banks to get Tweedy, betting they could sell AMG shares to the public and repay the loans. They hired Goldman to manage the offering, and in November 1997 sold 7.5 million shares at $23.50 each, raising $176 million.

Loaded with cash, AMG got busy buying big names. Foster Friess sold a majority stake in Friess Associates to AMG in 2001. Martin Whitman sold most of Third Avenue Management LLC to them in 2002.

Whitman was 77 at the time and still owned most of the company. "Every first, second or third question from investors was, 'What are you going to do when Marty Whitman retires?'" Third Avenue's current CEO, David Barse, recalls. Whitman sold to AMG because it promised the manager autonomy, Barse says. He also met with UAM in 2001, passing on a deal because UAM wanted 100 percent of the firm, taking away, in Healey's view, the managers' incentive to perform.

UAM had faltered in the late 1990s as investors pulled money from the firm for three straight years. In 2000, Old Mutual Plc, South Africa's biggest insurer, bought it for $2.2 billion.

Healey says he'll dodge UAM's mistakes. After his 17 years in business, fund managers know who he is. His business card is worth something again.

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