Charles Goldman's turnaround of Genworth castoff leads Chinese investor to pay stunning price

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It wasn't something Charles Goldman ever imagined doing when he accepted the job to turn around and lead AssetMark after it had begun to unravel under Genworth's ownership.

Yet there he was at his company's headquarters at about 8 p.m. on Thursday, March 24 making his way through his firm's offices in Concord, Calif. flipping on light switches and doing his best job of being a good host to a delegation of 10 Chinese executives who were trailing behind him.

AssetMark employees were safely home on that Good Friday eve — none the wiser that their destiny might soon be in the hands of a giant Chinese broker-dealer that produces $6 billion in annual revenue from 11 million customers.

But by April 5, Reuters reported Huatai Securities was nearing a deal with AssetMark that could top $800 million, even as it engaged in a bidding war with other interested parties, including a Chinese private equity firm.

The turnkey asset management provider today made it official today that it had indeed completed a deal — one worth about $780 million in cash.

TAMPs are outsourcers that build investment portfolios, typically for IBD reps, who want to rely on experts both to relieve them of the workload but also of the fiduciary liability that comes along with the process.

Supply and demand

Observers are noting not only the nature of the buyer, Huatai Securities, but how much more the price was than in 2013 when Aquiline Capital Partners and Genstar Capital purchased AssetMark. That was a $412 million deal and it even included Altegris, which was not part of this deal. Genstar and Aquiline ended up making four times their investment.

The price is likely attributable a combination of positive factors — starting with supply and demand, according to **Dan Seivert**, CEO of **ECHELON Partners** in Manhattan Beach, Calif.

"There are very few TAMP platforms of scale available for purchase and to acquire them necessitates a takeout premium," he writes in an email. "We recently saw this when RCS acquired Cetera from Lightyear."

Seivert adds that that Goldman and staff may have been able to grow revenue and earnings by selling more to existing clients and significantly reducing costs through operations and technology.

Buying the team

On the other hand, it also contains elements of good horse-trading by its private equity investors.

"The Company was purchased at a relatively low price by Genstar and Aquiline. This is often the case with smaller "under-loved" divisions of larger companies," says Seivert"

In this $780-million deal, Goldman personally cashed out of AssetMark, as did many senior executives who held options and stock, though many of them, Goldman included, then invested a portion of those sale proceeds back into the recapitalized company.

Since the 2013 sale, AssetMark's assets jumped from about $21 billion to $29 billion and it rebuilt its technology and added a roster of impressive talent including some of Goldman's old team at Schwab.The asset increases were bolstered by rising markets and the implosion of Curian Capital.

"They're buying the management team," says Goldman. "They have nobody in the U.S.".

IBD-like trend

Huatai Securities is likely celebrating this deal as much as AssetMark management because for a relatively small investment it gets a quality brand in the United States, according to Min Zhang, CEO and co-founder of Totum Wealth, which provides analytics for financial advisors.

"It's more strategic," she says. "It's not about making a quick buck." By "strategic", she says she means "long-term" and that the Chinese realize how much it would cost to start an AssetMark-type-firm from scratch.

But there is a thin line between paying up as a long-term play and paying up simply because you're late to the game — a possibility Seivert says is a distinct possibility.

"It says we could be moving into the fifth quintile of the M&A cycle," he writes in an email. "This is what we saw in 2006 and is characterized by an increase of buyers from outside North America … i.e., domiciled in Asia, Europe and/or Australia."

Huatai's president and executive director, Zhou Yi, echoes the thoughts of Goldman and Zhang in a statement.

"This transaction is a strategically important action for Huatai as it is our first investment in the U.S. We are excited to work with the management team and invest in AssetMark's growth. We also believe that AssetMark's asset management capabilities and technology leadership give us the opportunity to provide new and innovative wealth management solutions to our clients."

Zhang adds that the deal seems to fit larger Chinese trends: The determination to invest cash in assets besides foreign real estate and the country's expansion into what we consider to be IBD reps. In China, they are called third-party advisors and they are beginning to make inroads against an entrenched brokerage, real estate, bond and insurance business that have typically sopped up Chinese investible assets.

Round trip

The cash reserves of Huatai Securities' were likely beefed up last May when it completed its IPO, becoming the third Chinese brokerage to do so last year after GF Securities raised $4.1 billion in March 2015, and Orient Securities Co. raised $1.6 billion from an IPO in Shanghai.

But cash burning a hole in its balance sheet didn't cause Huatai to make hasty decision in purchasing AssetMark, according to Goldman. Huatai's had a large delegation in California for several weeks performing due diligence. Goldman adds that the deal is structured to give AssetMark all of the autonomy that it has enjoyed until now and with all the incentives in place to keep management pursuing continued growth.

Still, Zhang points out that Huatai is known primarily as a giant life insurance company in China, with Huatai Securities as a subsidiary. She knew of the company both as a Chinese consumer and because she met with Huatai people during her time working for PIMCO.

The irony is AssetMark's round trip. In three years, it went from being a mini-investment of a giant insurer in Genworth in 2013 to an investment of another, except in China.

PE-like deal

But the similarities end there considering that, in its former incarnation, AssetMark was an actual part of Genworth and subject to cumbersome corporate management, according to Goldman. In this case, Huatai happens to be a big company but it is investing the way a PE firm does, with a couple board members and a hands-off approach. AssetMark executives get AssetMark options, not Huatai options.

Although Goldman says that the deal was made with some general ideas about AssetMark operating in China in mind, such a move is not contemplated in any immediate future. Rather, the deal gives AssetMark the ability to continue doing mergers and acquisitions and otherwise grow.

Moelis & Company LLC, Raymond James & Associates, Inc. and Starr Strategic Partners, LLC served as financial advisors to AssetMark, while Willkie Farr & Gallagher LLP and Jun He Law Offices served as legal counsel.

Moelis is a legendary M&A firm.

Goldman, who was formerly head of the RIA custody units at Fidelity Investments and Charles Schwab & Co., continues to increase the dimensions of his legend by showing up where the action is.