

AMERICAN BANKER®

THE FINANCIAL SERVICES DAILY

Friday, December 14, 2007

Legg Mason Out of Wealth Management? Wrong

■ BY MATT ACKERMANN

Since Legg Mason Inc. swapped its brokerage network for Citigroup Inc.'s asset management operations in December 2005, many have assumed that the Baltimore investment manager had abandoned wealth management to focus on product manufacturing.

Not true, says Harry O'Mealia, the chief executive of Legg Mason Investment Counsel, Legg's wealth management unit for high-net-worth individuals and families.

"Since the Citi swap, a lot of people don't think we work with families and individuals anymore, but that is not the case," he said. "We have Legg Mason Investment Counsel, and it is expanding."

The unit, which works with persons and families having more than \$2 million of investable assets (though the average relationship has \$8 million to \$10 million), is hiring — and interested in acquisitions — in an effort to expand nationally, Mr. O'Mealia said in an interview Tuesday.

The unit has offices in New York, Philadelphia, Cincinnati, Chicago, and Baltimore. Legg Mason gained access to all of these cities except Baltimore when it bought Scudder Private Investment Counsel from Deutsche Bank in December 2004 for \$81.3 million.

This deal brought with it \$5.8 billion of assets under management. The unit was not included in the swap with Citi because Legg saw the potential for expansion, Mr. O'Mealia said. Legg Mason Investment Counsel has increased assets at a double-digit annual pace for two years and now has \$9.5 billion under management.

Mr. O'Mealia said he expects to maintain that pace for the next three to five



O'Mealia: "We have been able to maintain" double-digit growth.

years, despite the recent market turmoil.

"We want to grow quickly but without growing so quickly that we can't absorb" it, he said. "We are hoping for double-digit growth, and we have been able to maintain that trajectory for the last two years."

Legg Mason Investment Counsel offers Legg's proprietary investment products but also supplies an array of third-party products. It designs customized investment portfolios for wealthy families, individuals, trusts, and small institutional investors. Mr. O'Mealia says that the unit "sells advice, not products."

"Wealthy clients want to work directly with managers that make the investment decisions, and honestly, not many firms are doing that now," he said. "Most firms have turned to model portfolios and mass customization. The wealthy individuals that we work with want to be intimately involved in the process."

Mr. O'Mealia said his unit is open to doing deals but plans to expand primarily by hiring.

First, its focus will be on adding people to existing offices. This month, two principals joined the New York office. Lori Laub, who had worked for U.S. Trust Co., Bank of America Private Wealth Management in New York, was hired for the private-client-management area. Kathy Nalywajko, who was a managing director at Weiser Capital Management in New York, was hired for the business development area.

"New York has proven to be a great market for us," Mr. O'Mealia said. "Our growth strategy is to be opportunistic and to find the right people in order to grow."

In the past three months, the firm has added three people in its Chicago office and two in its Cincinnati office. Mr. O'Mealia said Legg Mason Investment Counsel is most likely to continue adding professionals in its five-city footprint but would "love to expand nationally."

"We are likely to expand in five cities, but there are 95 other cities that are very interesting places for us to expand into," he said. "We are not just looking at the largest cities. For us, it is more about finding places that have enough wealth to support our business model."

"You will find us in the markets where the money is," he added.

Mr. O'Mealia said that he is continually considering acquisition opportunities for their expansion potential. In recent months, he said, he has been in Florida, the West Coast, and the Southwest talking to firms about the possibility of being acquired.

"Legg is a growth-oriented investment firm in every area it practices," he said.

“There are a lot of deals on the table and a lot of opportunities, but finding the right fit is a little more challenging.”

To expand in its existing footprint, Mr. O’Mealia said, Legg Mason Investment Counsel is more likely to hire, but “an acquisition is not out of the question. We ... continue to look at both.”

Analysts said Legg has developed its reputation as a product manufacturer rather than an investment adviser. When the company made its swap with Citi, it told investors that it was not interested in being a wealth manager.

Burton Greenwald, a Philadelphia analyst at BJ Greenwald Associates, said Legg spent 20 to 25 years before the Citi swap disengaging itself from the transactional brokerage business.

“Legg Mason Investment Counsel is a small piece of the overall picture at Legg,” he said. “These people at Legg Mason Investment Counsel are basically asset managers to extremely wealthy people, like Bessemer Trust or U.S. Trust. Essentially, they are a fee-based asset manager as opposed to

a brokerage business. This business is still consistent with the whole operation there, but this is not an important part of their business.”

Mr. O’Mealia said Legg never intended to abandon wealth management. The investment counsel unit will continue to expand, giving Legg a foothold with wealthy investors. “Legg Mason is an aggressive firm,” he said. “When we decide that we will play in certain areas of the investment world, we will play there.” ■



All information in this reprint has been compiled and prepared by the American Banker. As a result, neither Legg Mason, Inc. or Legg Mason Investment Counsel & Trust Company, N.A. can guarantee the accuracy or completeness of any statement set forth in the reprint. Views expressed are not intended to be a forecast of future events, a guarantee of future results or investment advice. Predictions are inherently limited and should not be relied upon of actual or future performance. All information and opinions expressed herein were current at the time of publication and are subject to change without notice.

Legg Mason Investment Counsel & Trust Company, N.A. is a business unit of Legg Mason, Inc.