



Evergreen's Fate Hangs in Balance of Bank Battle

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In the tug-of war for **Wachovia** between **Citigroup** and **Wells Fargo**, analysts say the fate of Wachovia's **Evergreen Investments** could vary greatly depending on which bank wins.

Evergreen represents \$245 billion in assets under management. That includes equity, fixed-income and money market funds, and the company's institutional and high-net-worth business lines. But analysts agree Evergreen is not the focus of the deal.

"People are buying assets," says Lisa Cohen, president of **Momentum Partners**. "As talented as the asset management team may be, the attractiveness [of Wachovia] is the fee-generating assets," she said. "Evergreen is not likely to be perceived as the crown jewel."

With its initial \$2.2 billion offer, Citigroup sought Wachovia's extensive bank branch network, which includes 3,348 retail bank outlets concentrated primarily on the eastern seaboard. The bid did not include Wachovia's brokerage or asset management arms. Wells Fargo, meanwhile, has offered \$15 billion to acquire Wachovia in its entirety, which would significantly boost its assets and give San Francisco-based Wells a retail banking presence on the East Coast.

The banks agreed to suspend their Fed-brokered talks on Monday until noon Wednesday, to give negotiators time to work out possible solutions.

Cohen calls Wells Fargo "almost a mirror image" of Wachovia in terms of the business model, and most analysts agree the West Coast bank is a more natural fit. Both Evergreen and Wells Fargo declined to comment for the story.

In terms of equity and fixed income mutual funds, the Evergreen line represented about \$33 billion as of the end of August, while the Wells Fargo Advantage Funds had about \$42 billion under management. The firms rank 35th and 33rd by size, respectively. Combined assets of \$81 billion would catapult them to the top right between MFS, which had \$77 billion, and Janus, which managed \$98 billion, according to **Morningstar** analyst Hilary Fazzone.

Evergreen's strength lies in its equity line, says Morningstar analyst Greg Brown. Wells Fargo, on the other hand, has a deep fixed-income line. Evergreen has tried to strengthen its fixed-income funds with the addition of newly named chief investment officer, David Germany, who was lauded for his experience when he joined in August. Fixed income had been considered an Achilles' heel to the shop in the face of a wave of retiring baby boomers, says Brown.

Still, a Wells Fargo-Evergreen union would likely lead to a rationalization of product line-ups. Both shops offer a full slate of core products. "There will certainly be a fair bit of overlap," says Fazzone. "It would be a great opportunity for Wells Fargo to pass on

economies of scale to shareholders.”

Further, an Evergreen acquisition would move Wells Fargo far closer to the universal banking model, which has rapidly become what appears to be the future of banking in the U.S. In that model, retail banking, investment banking and brokerage make up the three legs of a stool, says Robert Ellis, managing director of wealth management at **Celent**. Wells Fargo already has a strong retail banking presence, concentrated in the west and southwest, and a brokerage operation Ellis characterizes as “modest.”

“With Wachovia, they would get more investment banking capability and a wide-ranging but troubled retail brokerage. That gives them two and a half strong legs of that stool,” he says.

Still, whichever way the deal works, the Evergreen name is not a big selling point, Ellis says.

“The brand value is not huge,” he says. Were the fund group to stay under the Wachovia umbrella, as proposed under Citi’s original offer, Ellis says, “it would have been a natural for a private equity firm because of the strong cash flow.” Ellis does not rule out such a deal for Evergreen, especially if Citi’s claim to first rights makes acquisition or integration of the line legally challenging or costly for either party, he says.

Brown says that while Evergreen has recently worked to make improvements, a rebranding would not be bad. “I think they could benefit from starting over and using the Wells Fargo name on some of their funds,” he says.

Wells Fargo brings a very strong brand name, which the company has used to effectively cross-sell its products through the banking and direct channels. It also has a long history of successfully integrating asset managers, says Dennis Gallant, principal and founder of **Gallant Distribution Consulting**. In fact, Wells Fargo, overall, has executed 280 acquisitions since 1988. Wells Fargo’s acquisition of much of **Strong Capital Management’s** assets is among more recent examples.

Combined, Wachovia and Wells Fargo would have 6,675 retail outlets, compared to 6,138 for current top-spot-holder, **Bank of America**. Wachovia also adds an army of about 14,600 financial advisors to Wells Fargo’s team of 2,500 financial consultants.

In all, Wells Fargo estimates that although the upfront cost of the merger will be \$10 billion; longer-term, the new company could save \$5 billion annually.

How well a rebranding of the Evergreen line as Wells Fargo Advantage Funds would play in the brokerage channel, where Wells Fargo has less reach than Wachovia, is unclear, says Momentum’s Cohen. Investors and advisors still prefer the arms-length appearance a different name affords fund families.

Just as regional recognition of the Wells Fargo name is a great strength to the bank, the regional recognition Evergreen has with investors — especially those familiar with Wachovia brokers, cannot be overlooked, says Jeff Keil, principal at **Keil Fiduciary Strategies**. “The question becomes the level of loyalty that exists in the brokerage office. Will it be similar now that they are selling a Wells Fargo product?”

As the company grows its distribution in the intermediary channel, such considerations could push Wells Fargo to rebrand the entire slate of Wells Fargo Advantage funds, says Celent’s Ellis.

Such a merger and rationalizations would take time, notes Keil. And although Evergreen may be only an afterthought in the wrangling over Wachovia, he says, "Don't kid yourself, it's a nice chunk of assets."