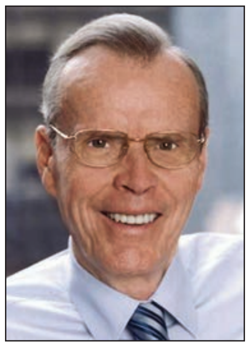
Operating Experience

An Interview with
Donald B. Marron, Chairman, Lightyear Capital



Donald B. Marron

EDITORS' NOTE *Donald Marron founded Lightyear Capital in 2000 and serves as Chairman and a member of the Investment Committee. Prior to this, he served as Chairman and Chief Executive Officer of PaineWebber Group Inc. for 20 years. In 2000, PaineWebber merged with UBS AG, creating a top wealth and asset management firm. Following the merger, Marron served as Chairman of UBS Americas until September 2003. Prior to his tenure at PaineWebber and UBS, Marron served as President and Chief Executive Officer of Mitchell Hutchins. He began his career at the New York Trust Company. In 1969, he co-founded Data Resources Inc. (DRI) with Harvard economist, Dr. Otto Eckstein. Marron served as DRI's Chairman until McGraw-Hill Inc. purchased the firm in 1979. Marron serves as Chairman of the board of directors of Lightyear portfolio company Cetera Financial Group and serves on the board of directors of Lightyear portfolio company Clarion Partners. Marron is Chairman Emeritus of the Center for the Study of the Presidency and Congress and Life Trustee and President Emeritus of the board of directors of the Museum of Modern Art. Marron attended The City University of New York.*

COMPANY BRIEF *Based in New York, Lightyear Capital (www.lycap.com) is a leading private equity firm making primarily control investments in North America-based, middle-market financial services companies. Through its affiliated funds, Lightyear has managed approximately $3 billion of committed capital with investments across the financial services spectrum, including asset management, banking, brokerage, financial technology, insurance, and specialty finance. The senior team of professionals averages over 25 years of financial services-related experience.*

With the volatility we have seen in the economic environment, is this a time of opportunity and where are we today in regard to recovery?

Today's volatility is as much a function of the political issues as it is a function of the financial issues. The uncertainty surrounding both Europe and the U.S. and the widely differing political views and solutions make investors hesitant.

On the other hand, American companies, about which Lightyear knows the most, are in the main doing okay. We look for financial services companies where demand is solid. We're viewing today's environment as an opportunity because, beyond the volatility, we're optimistic about the outlook for the next three to five years.

What are the key ingredients you look for when deciding on companies?

We focus on whether the company's services are important, significant, and sustainable.

Also, this climate gives us a special opportunity to look at how a company's management has performed through the crises – this performance tells us more about the company, the strength of its products, and its position in the industry, as well as much more about the abilities of the management.

In addition, since we're in a climate of increasing regulation and some possible changes in Europe that might impact things here, we look carefully at how the company is positioned, which means a lot of due diligence in Washington and making sure that the final demand for its product is solid.

One of the key ingredients that makes Lightyear successful is the financial expertise and operational advantage that your team provides. Why is that so critical?

We have deal expertise and operating expertise that gives us a particular ability to understand the forces at work in the financial services industry.

Also, we look for specialized financial service companies (whether it was crop insurance or, today, insurance brokerage) and it's usually within areas where we have past experience.

So it's this combination that gives us a certain degree of confidence in our decision-making process.

Would you give us an example of one of the successful companies from your portfolio?

Cetera Financial Group (which was a subsidiary of ING) is in the registered investment advisor business that today has approximately 7,000 advisors. For obvious reasons, it is a business we're familiar with and we have worked closely with the management to give them the benefit of our experience and relationships. Some of the key value-add initiatives we have completed are assisting the company on strategic acquisitions, key strategic executive hires, improved financial analytics and reporting, and the implementation of a scalable information technology infrastructure.

You have always been engaged in the community and a leader in philanthropic efforts. With so much need, how do you decide where to focus your efforts?

Many people in business are fortunate to have resources to give back. In New York City, there are a number of great organizations that need support and I have chosen art, education, and medicine, so I'm involved with three organizations, one in each area. It's an important thing to do for our city. These organizations are also research oriented so our efforts support long-term activities. It's the right thing to do.

Are you surprised with how close-knit the Partnership for New York City is and what makes it so effective?

It doesn't surprise me. I know the people and they are committed and successful and many, including myself, can define their success partially in terms of being in New York City and taking advantage of the things that are here.

This is a very smart, creative group of people who are interested in the long term and in helping effective charitable organizations.

How critical is having a mayor with a sense of the needs of business and are you concerned that his successor might not have that focus?

Someone as smart and successful as Mike Bloomberg who is truly independent and who works hard on the short term but is constantly thinking about the long term has been a great asset to the city.

Understanding business and its priorities and potential impact is very important. People can get that understanding in various ways. Mike Bloomberg is a special person in this context. So I will be interested to see who surfaces as a contender.

Where is the U.S. in terms of regulation and is it addressing many of the key issues to avoid future problems?

History shows that a crisis generally results in stronger regulation.

However, serious issues have emerged from this, not the least of which is the importance of the banks, the strength of their capital, what businesses they're in, and how they are run.

Implementing these regulations is an ongoing process and it remains to be seen how these regulations will play out in the practical world.

Wall Street, and the financial industry in general, is pretty creative about how to run its business, but the basic principles are okay. ●

