

The Martens era

Martens led Close Brothers for 25 years until his death in 1964 at the age of 85.

During the second world war he arranged with the Canadian finance minister for the leasing of the White Pass and Yukon Railway Company, which was then still controlled by Close Brothers, to the American government.

The Issuing Houses Association was established in 1946, with Close Brothers as a founder member. In 1955 the bank opened an office in Toronto, Canada. The main activity of the office was to raise sufficient finance for Bramalea Consolidated Developments Ltd to develop a new town, based on Milton Keynes, approximately 16 miles north west of Toronto. By the beginning of 1964, approximately \$80 million had been spent on Bramalea and its shopping centres.



The romantic sea diamonds venture, whereby Close Brothers financed specially designed "floating diamond mines" which were supposed to scoop up diamonds from beneath the African surf, was successful until the mid-sixties but finally resulted in losses.

From 1960 Close Brothers sponsored 23 issues to finance a variety of projects in the gas, electricity, water, property, banking and mining industries, including the placing of Purle Brothers Holdings, which later became Redland Purle and then Redland plc.

1970-72 Max Maimann

After the death of Arthur Martens in 1964 the bank was controlled by his son Fraser Martens and Peter Anninos, a former director of Purle Brothers. They did not have the success of Arthur Martens and by the end of the sixties the bank was in further need of working capital.



Max Maimann

Control of the bank was acquired by Mr Max Maimann and his family interests in July 1970. Mr Maimann was the son of a Viennese textile merchant. He came to England as a refugee in the second world war, and ran two public companies with interests in textiles - Francis Sumner and Macanie (London).

Close Brothers made a loss before tax of £95,749 in the year to 31 March 1971. By the next year, following the sale of the loss-making Canadian subsidiaries, Mr Maimann achieved a turnaround by recording a profit of £32,354. He later began to look around for a buyer for the bank.

The modern era - Michael Morley

In June 1972 two colleagues, Michael Morley and Nigel Openshaw, left the merchant bank Samuel Montagu to form an investment trust with a friend, Richard Hanna. In September James Leek, another ex-Montague man, joined the team. Their new vehicle, London & Western Trust, was to be a merchant and investment banking business.

Their intention was to form a new merchant bank, but the team was advised that it would be more advantageous to buy a bank with an established name. By 29 November 1972 London & Western Trust announced that it had agreed to acquire 45.1% of the issued capital of Close Brothers, together with an option to purchase the remaining 54.9% in 1973, in exchange for shares in London & Western Trust.



Michael Morley

Morley, aged 32 at the time of the acquisition, was chairman and managing director of Close Brothers during an important transitional period. At this time Close Brothers was a small bank, with only a minimal form of banking authorisation (a moneylender's licence), and no other businesses apart from a share registration company in Leyton.

Sale of Close to Consolidated Goldfields in 1973

The new team sought to build up Close Brothers throughout 1973, with Morley doing the corporate finance and Openshaw the property lending. Other activities were investment, investment management and registration services.

Special emphasis was placed on meeting the needs of the substantial private company and the smaller quoted company. During that year, Terry Cansick was recruited as company secretary.

The property crisis was looming and it was decided that a volume business was needed to tack onto the merchant bank. Morley had ambitious plans for Close Brothers and approached the mining finance group Consolidated Gold Fields with a view to acquiring its export finance subsidiary Tennant Guaranty.

Consolidated Gold Fields declined, but expressed interest in buying London & Western Trust, which included Close Brothers, instead. It was Consolidated Gold Fields' first excursion into merchant banking.

With many banks embroiled in the secondary banking crisis, Morley was forced to stress that the purchase of London & Western was not a rescue operation, but a means to future growth.

The transaction went ahead, with Tennant Guaranty's immediate parent company C Tennant, Sons & Co acquiring London and Western for £2.71 million in a profitable deal for London & Western's original shareholders.

Morley was appointed chief executive of the enlarged group, leaving Leek to run Close Brothers, by now based in Fenchurch Street.

1974 - 1977 A new management team joins Close

In 1974, soon after the acquisition by Consolidated Gold Fields, Rod Kent was recruited to assist James Leek. Kent had left J Henry Schroder Wagg in 1973 to go to INSEAD, the business school near Paris where he met Leek. On the latter's departure in 1975, Kent took over as Close Brothers' managing director.

At the time, the economic conditions for banks were very difficult and the new recruit found it heavy going to sort out the loan portfolio, a large proportion of which posed interest and repayment problems. At 27, he had a challenging task and worked closely with Michael Morley. On the principle that banking is "a lot of common sense and lot of law", their next recruit was a lawyer.

Peter Stone, then a young partner with Pall Mall solicitors Clintons, had been at Kings' School, Canterbury with Kent in the 1960's. His articles with City solicitors Slaughter and May had been spiced with stints in the basket of Britain's fourth registered professional hot air balloon team.

The foundations of the modern Close Brothers were laid during this period when the new management team developed a distinctive strategy for the bank, recognising the practicalities of life for a small bank in the aftermath of the 1974-5 secondary banking crisis and yet pinpointing, how such a business might seek to thrive by spreading and differentiating itself from the big battalions.

By 1977 a third man was needed to add accounting skills to the board, and Peter Winkworth was recruited from Barings, having trained with the accountants Peat Marwick Mitchell.

The Management Buyout

The move to Great St Helen's in the bank's centenary year of 1978 signalled the start of a key era which saw the bank grow and prosper.

By this time the bank's position as a specialist merchant bank within a large international mining finance house had become something of an anomaly, there being few opportunities remaining for either party to introduce business to the other. In a radical move, the three directors embarked on the first management buy-out of a UK merchant bank.



36 Great St Helen's, London

Anatomy of an MBO

Kent, Stone and Winkworth sought buy-out investors whose interests were more complementary to Close Brothers' activities, and in taking equity participations themselves the three directors acted in accordance with advice often given to their own clients. Each of them borrowed £25,000 from Midland Bank - giving second charges on their houses in the process - and took a 10% equity stake in the new equity structure capitalised at £250,000.

Michael Morley invested £20,000 and continued as deputy chairman until 1981, when he left to run the industrial investment interests of the merchant bank Charterhouse. Terry Cansick also invested £5,000 in the buy-out.

Lord Denman, then a director of Consolidated Gold Fields and of Close Brothers, remained a director throughout the MBO.

"Our initial approach to our parent company, Consolidated Gold Fields, was a particularly difficult time. Not surprisingly, when the management of one of their minor subsidiaries said they wished to buy the business (a wholly unheard-of concept in 1978), the corporate reaction was one of considerable incredulity and resistance. Looking back on it, a group of young men aged between 29 and 31 didn't look the most plausible counter-party for a major worldwide mining finance house. Indeed, for a few days our prospects of continued employment looked distinctly dodgy, if not non-existent. We were, briefly, fired - but ignored it and continued to work while the directors of our immediate parent company interceded on our behalf."

Going public

The brave investors who supported the buy-out were London & Yorkshire Trust, an issuing house owned and run by the Keeling family, and Safeguard Industrial Investments, a quoted investment trust which they managed. Safeguard was a pioneer venture capital investor established in 1953 as a vehicle for institutions, particularly insurance companies, to invest in private UK companies.

In 1982 Close Brothers needed more capital and so arranged a private placing which was taken up by three investment trusts within the Foreign & Colonial Group. Then, in 1984, came a piquant moment as Close Brothers reversed into (ie, effectively took over) its original backer Safeguard, which by then had reached something of a strategic impasse. At this point Close Brothers was valued at some £3.7 million and Safeguard at £21 million.

This was a quantum leap for the bank and marked Close Brothers' arrival as a fully quoted company on the London Stock Exchange. The new name for the company was Close Brothers Group plc.

Following the reverse takeover of Safeguard, Jonathan Thornton who had been running CINVen, the unquoted investment arm of the National Coal Board Pension Fund, was recruited to become the fourth executive director. Johnny Keeling, formerly chairman of Safeguard, became chairman of the enlarged group. A few years later he was succeeded as chairman by his younger brother, Mike Keeling.

Developments 1982 - '87

It was Mike Keeling who had punched through the 1979 buy-out, and Mike who christened Kent, Stone and Winkworth "the Brothers" - a name that was to stick for many years. In 1985 Michael Morley joined the board again as a non executive director, having left Charterhouse to join Portals, the quoted security and specialist paper maker and the world's largest manufacturer of banknote paper.

Various investments were made from 1982 to 1987. First came the acquisition of Century Factors; this business was later to be headed by Leslie Bland and renamed Close Invoice Finance. Then later the bank acquired Air and General Finance, an aircraft finance company run by Victor Cannock.

During this period an innovative product for the financing of insurance premiums was launched by Peter Stone, and the business, known as PROMPT, later grew into a substantial profits earner for the bank. Meanwhile, the banking division was concentrating on "brainy banking" and lending against property projects. Such was the complexity of the advances that all the early directors of the lending team were lawyers.



Mike Keeling

From 1973 onwards Close Brothers had, slowly but surely, developed a promising corporate finance division.

Perhaps the highlight of the earlier years was the 1981 flotation by tender of England's then leading independent software house, Logica. It was Logica which, in 1985, introduced Acorn Computers to Close Brothers.

The rescue of Acorn, the supplier of BBC computers, from the brink of collapse, was a tremendous publicity coup for the bank. The press, hugely interested in Acorn's difficulties, virtually laid siege to the bank. On the long night when the rescue by Olivetti was finally completed, the team of advisers in the building outnumbered Close Brothers' entire City staff.

Caledonia Investments

At the beginning of 1987 Caledonia Investments, the low profile investment company controlled by the Cayzer family, acquired a 10% stake in Close Brothers.

It was Close Brothers which, in summer 1987, advised Caledonia on the disposal of its large shareholding in the financial and industrial conglomerate British & Commonwealth Holdings, for £427 million, of which a large proportion was deferred over several years. Some two years later British & Commonwealth collapsed in an unexpected and spectacular fashion, but all of the deferred consideration still then outstanding to Caledonia was safely received thanks to bank guarantees shrewdly negotiated back in 1987.

Later that year Close Brothers bought 75% of a newly formed hire purchase company for £800,000. Renamed Close Asset Finance, the company was set up by four former employees of British Credit Trust who together put up £200,000 for their 25% stake.

Specialising principally in financing printing presses but also such other assets as coaches, plant and machine tools, the company was headed by David Hardisty.

The investment in Close Asset Finance was to prove another substantial success for the bank.

In July 1987 Close Brothers announced a simultaneous rights issue and share placing which, together, raised some £24 million of additional capital for the group.

The share placing was with Caledonia Investments which thereby increased its stake in Close Brothers to around 20%.

Continued growth

The group continued to grow both organically and by acquisition. Careful and energetic management, combined with a strongly decentralised group and financial incentives for minority management teams, proved to be a winning formula - and year on year the group's profits advanced.

However, not everything was successful. A second mortgage business proved to be a miscalculation as the property sector ran aground in the early 1990's, PROMPT was not able to reproduce in Hong Kong the success it was enjoying in England, and the bank sold its share registration business, Close Registrars, when it proved impossible to develop the business into a significant contributor to group profits.

In May 1990 the group chairman Mike Keeling retired, to be replaced by Hugh Ashton.

During the recession in the early nineties, the bank was even more active with acquisitions. In 1991 Close Brothers recruited a specialist BES team. Named Close Brothers Investment, the company was managed by Craig Reader.

Another acquisition was Close Consumer Finance, a Yorkshire-based car financing company headed by John Lewis, and the following year a debt collection agency, Business Advisory Services, managed by Ron Mountain, joined the stable of financial services subsidiaries.

Hugh Ashton retired from his post in 1995, when Michael Morley became chairman of Close Brothers for the second time.

Riding out the recession into the early '90s

By 1991 the recession was biting hard and the banking sector suffered badly from losses on loans and investments set up in the boom years of the 1980's. However, Close Brothers fared much better than most and the diversity of profit centres enabled the unbroken record of profit growth since 1975 to continue.

Profits increased only slightly in 1991 and 1992, but in the climate prevailing any increase in profits was a hard-won achievement. In 1993 profits bounced back with an increase of 42% and rose by 86% in the following year.

Early in 1993 Close Brothers made a substantial acquisition for shares, paying £19.1 million to acquire 91% of Winterflood Securities, the leading market-maker for smaller company stocks, from Union Discount. This business, formed by Brian Winterflood and his senior colleagues in 1988, then enjoyed a period of excellent trading in 1993 and 1994 as record volumes of bargains were transacted on the London Stock Exchange.



12 Appold Street

In July 1994 all the group's London operations except Winterflood Securities were reunited under one roof when the bank moved to new and modern offices at 12 Appold Street - a site once occupied by a taxidermist, and later a pub called the Baker & Basket. The new office was formally opened by the Governor of the Bank of England, Eddie George, on 3 August 1994.

Building on success 1995 - 1996

In September 1995 Close Brothers announced its twentieth year of unbroken profit increases, with profits before tax rising to £33.96 million. At the same time, the group launched a 1 for 5 rights issue to raise over £53 million to fund the growth of the business and future expansion.



*Peter Stone, Rod Kent & Peter Winkworth in 1995
(l to r)*

Corporate finance operations were transformed when Hill Samuel's 50-strong team was acquired from Lloyds TSB Group in June 1996.

The acquisition was an immediate success, with the far larger Hill Samuel team melding well with the Close Brothers team and moving into Appold Street within 2 months.

Several substantial transactions were successfully completed for clients within the first few weeks, and 18 deals were completed within the first six months. There were very few losses of staff or clients.

Further growth and acquisition 1996 - 2000

1996 to 2000 were years of further growth and acquisition for Close Brothers, as its investments continued to yield uninterrupted growth in profits.

In particular, Winterflood Securities, the Group market making subsidiary which specialises in the small and mid-cap sector of the Stockmarket, started to grow substantially. WINS increased substantially the number of stocks it covered and, at the same time, spent considerable time and effort in linking up electronically with its customers, the private client brokers. This coincided with the rise of execution-only brokers and a step-change in the amount of share dealing which private clients were undertaking. On top of this, WINS experienced six months of intense stock market activity created by the interest in dot.com companies, culminating in WINS reporting spectacular profits in the year ending 31st July, 2000.

On the investment management side Close Brothers continued to build up the two existing businesses in development capital and tax sheltered products. In addition, the Group started up Close Fund Management in 1995, which launched a range of risk-protected index-tracking unit trusts, known as the Escalator range, and more recently has added two FTSE-100 tracking funds and the Close FTSE techMARK Fund.

In 1997, Close acquired a fund management business, specialising in AIM and smaller company stocks, which brought the Close Beacon Investment Fund into the group's stable of funds. This was followed in 1999 by the start-up of Close Wealth Management, which offers personalised investment management to investors with portfolios of £25,000 and upwards.

The size of the investment management division took a major leap in 1999 with the acquisitions of Rea Brothers Group plc.

Rea, with its trust, asset management and banking businesses in the Isle of Man and Guernsey and the Finsbury range of investment trusts and funds, brought the funds managed by the group up to £2.5 billion. These were further increased by the purchase of Olim in 2000 to over £3.0 billion.

The Treasury and Lending operations of the Group also grew substantially during this period. Third party customer deposits more than doubled to over £1 billion and the overall Group loan book grew at a brisk rate.

The property lending side was increased substantially by the acquisition of Granville Bank, whilst the Asset Finance operations acquired Warrior and Braemar Finance as complementary in-fills to their existing specialist businesses.

Under a new management team PROMPT, the insurance premium financing business, moved offices to Tolworth and, with a substantial investment in technology, increased its operations substantially.

All the bank's businesses embraced the impact of the Internet in their different ways. None more so than Close Invoice Finance, which doubled its profits over this period, mainly by focussing on high levels of service to its client base, some of which was delivered through the Internet.

The organisation changes and grows

As the Group continued to grow, so did the top management team. In 1995 Brian Winterflood and David Hardisty were appointed to the Close Brothers Group board. So too were Stephen Hodges and Colin Keogh, who had come up through the ranks. John Llewellyn-Lloyd, chief executive of Close Brothers Corporate Finance was appointed to the board in 1998.



10 Crown Place

However, 1998 saw the departure of the first buy-out partner, with the retirement of Peter Stone to move on to a new career involving non-executive directorships and consultancy. He was followed in 1999 by Terry Cansick, after 26 years. Sadly, 1999 also saw the death of Michael Morley, the Chairman, shortly before he was due to retire.

The growth in the Group board was mirrored by that of other subsidiary boards, with new talent being promoted and new people coming in through recruitment or acquisition. Between 1995 and 2000 the total number of employees grew from 523 to 1461.

Despite this growth, the overall structure of the Group remained the same, each business being run quite separately by their own management teams. No individual company employed more than 150 people.

In October 1999 Close Brothers moved into spacious new offices in Crown Place, whilst retaining the Appold Street premises that it had acquired only five years before to house its asset management division.

25 years of growth and the new Millennium

Close Brothers celebrated the millennial year by announcing pre-tax profits of £144 million, which represented 25 years of continuous increases in profits and earnings per share at a rate of over 25% per annum compound.

As the Chairman said in his Statement for that year:

"We are proud to celebrate 25 years of unbroken profit growth under the same leadership. Close Brothers has a robust and clear strategy, a proven and well supported management team and the motivation to achieve its goals."

Over the 25 years, the landscape of merchant banking in the UK had changed dramatically. There had been massive consolidation amongst those traditional merchant banks that had once ruled supreme in the City of London - Hill Samuel, Morgan Grenfell, Warburgs, Kleinworts, Barings, Hambros, Schroders and Flemings had all sold out in whole or part to larger global players, mainly American or European. Amongst the substantial merchant banks, only Lazards and Rothschilds remained independent, but in both cases they also remained privately owned.

Against the trend, with its highly distinctive strategy, Close Brothers emerged at the start of the new millennium as the UK's largest, independent quoted merchant bank.