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Goldman to Sell Unit to State Street for \$550 Million

While Goldman Sachs is planning on building up its offerings for wealthy clients in a private bank, [as WSJ reported today](#), the bank is shedding a unit that works with hedge funds.

Goldman agreed to sell its Goldman Sachs Administration Services unit to State Street Corp. for \$550 million in cash. The unit is a hedge-fund administration business, meaning it does back-office and paperwork for hedge fund clients, actions like helping the funds calculate net-asset values and profit-and-loss statements on a daily basis.

For Goldman, it was a relatively small business that does not impact its ability to continue catering to hedge funds as a prime brokerage unit, which it views as an important business. (The move also has nothing to do with the so-called Volcker Rule, which restricts Goldman's ability to use its own money in trading and investing in hedge funds.)

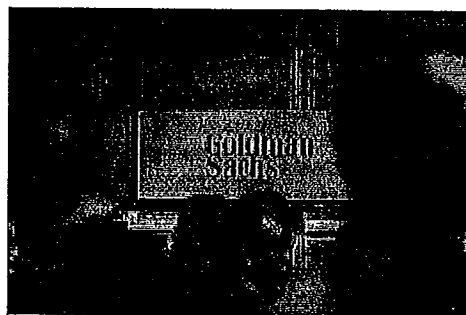
Chief Financial Officer David Viniar told analysts on Goldman's earnings conference call that the unit had little capital tied up in it and wasn't material to the company.

"There was not a lot of revenue and earnings associated with it," Viniar said of the business. "It'll have a very immaterial effect on our business going forward."

Viniar added the majority proceeds from the sale will be booked as a gain, delivering Goldman a chunk of cash when the deal closes, expected in the fourth quarter.

Goldman has had some headaches from similar operations that handle basic functions for hedge funds and brokerages, including several large payouts for actions the bank's operations allegedly should have caught.

Earlier this month, [Goldman lost a court ruling](#) that upheld an order requiring the firm to pay \$20.6 million to the unsecured creditors of failed hedge fund Bayou Group LLC. Bayou's creditors had accused Goldman Sachs Execution & Clearing LP of ignoring signs of fraud at the hedge fund run by Samuel Israel III before it imploded in 2005. They took the matter to arbitration and won the award in a June 2010 decision. It has now been upheld by two federal rulings.



Reuters

Goldman has also paid out \$7 million to settle allegations its brokerage clearing arm had failed to “diligently supervise” some clients. Goldman didn't admit or deny the allegations.

Neither of those fined were from the business being sold, but the ever increasing scrutiny makes back-office operations somewhat less attractive for Goldman.

But for State Street, the business fits its core operations: the behind the scenes workings of Wall Street.

The bank already operates the world's largest alternative investment administration office and with Goldman's operations and its \$200 billion in assets under administration the Boston bank will top \$1 trillion in assets under administration.

Scott Carpenter, the head of State Street's Alternative Investment Solutions client relationship management and strategy group, said in an interview the Goldman business adds some big-name clients as well as newer, smaller firms. Carpenter said all Goldman employees will be offered a job and noted that the acquisition adds new locations for the State Street operations, including Singapore.

Calling State Street “very excited” about the deal, Carpenter added the bank sees positive trends for hedge funds in the macroeconomic world, particularly because institutional investors are pouring money into hedge funds.