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Amid pandemic, new buyers emerge and deal execution continues

For deal-makers in asset management and related industries, the first half of 2020 was a tale of two quarters split by the Covid-19 pandemic. Coming off a 2019 in which the number of asset management transactions remained comfortably above 200 for the third year in a row, the "pre" period remained active and incorporated two major deals. But as the virus that initially appeared confined to China accelerated around the world in March, many deal-makers hit the pause button.

Data from the overall M&A universe reveal a first-quarter deceleration, largely unrelated to the virus, with the value of deals down 25% (to $731 billion) from the same period in 2019, according to Refinitiv. In the U.S., value was down 50% to $256 billion, the lowest first-quarter total since 2014. But the reckoning from the virus was apparent in the second quarter, when global deal value sank to just $485 billion, half the amount in the second quarter of 2019. In the U.S., the three-month total dropped about 90% to just $75 billion.

Writing about the U.S. M&A market in March, EY opined that companies "with the healthiest balance sheets" may proceed with plans, but "most are focused on protecting cash and shoring up their own businesses." EY writes that "market observers" expect 2020 to be the slowest year for M&A in at least a decade "but are nonetheless optimistic dealmaking will boomerang back within 12 to 18 months, if not sooner."

With everyday life and economies upended in ways not seen since World War II, global markets retreated after flatlining or gaining in the first two months. In the U.S., the S&P 500 dropped 34% between its mid-February high and March, with credit sectors across the board caught in the downdraft. The FTSE 100 and Nikkei 225 followed a similar decline during that period, along with indices elsewhere.

Central banks in Asia-Pacific, Europe and the U.S. responded immediately to the fast-moving crisis by providing liquidity while governments advanced aggressive stimulus programs. In the U.S., the Federal Reserve began to buy a variety of fixed income products, including high yield, its balance sheet ballooning to nearly $7 trillion by early May compared with $4.2 trillion at year-end 2019.

That intervention bolstered investor spirits and drove improbable market comebacks even as unemployment rates reached Depression-era levels and consumer and business spending tanked, along with numerous industries. By the end of June, the S&P 500 had clawed back most its losses while the Nasdaq was up 13%, driven by the small group of powerful and cash-rich tech companies. European and Asian markets also rebounded strongly. In the U.S., investors and others who had flooded the money markets with $1.2 trillion in inflows in the three months through May began to pull some of those funds in June. Still, a lot of pros weren't buying the rally, with two-thirds in **Bank of America**'s (NYSE: BAC) May survey calling it a bear market bounce and three-quarters expecting a slow U- or W-shaped economic recovery.

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For **Federated Hermes** (NYSE: FHI), the rush to safety spelled opportunity, as assets in its dominant money market business reached a record $451 billion in the first quarter, up 14% from the end of 2019. (In February, the company changed its name from Federated Investors.) But for most U.S. asset managers AUM dropped sharply in the first quarter as markets sank and active and passive funds hemorrhaged record outflows of $326 billion in March — or 1.7% of the industry's total assets, according to **Morningstar** (NASDAQ: MORN). In Europe, ETF assets dropped 13% between February and March to €781 billion ($855 billion), with Morningstar saying the decline exceeded "the darkest days of the global financial crisis of 2008."

In the first quarter, aggregate AUM for publicly traded U.S. asset managers of all types fell by 10% compared with year-end 2019, according to *Pensions & Investments*. At **AllianceBernstein** (NYSE: AB), for example, AUM declined 13% in the quarter while smaller asset manager **Artisan Partners Asset Management** (NYSE: APAM) suffered a 21% drop. But the industry's fortunes began turning in April with markets, and mutual funds and ETFs recorded inflows in April-May totaling $50 billion, according to Morningstar. AllianceBernstein was able to gain back 67% and Artisan 73% of their lost assets (to reach totals of $596 billion and $114 billion, respectively).

Artisan Partners also announced the sort of technology-driven initiatives that asset managers, wealth managers and broker-dealers are taking to respond to the crisis. These included launching a blog to communicate "in real time with multiple constituents across geographies," announcing that its June annual meeting will be held virtually, and fine-tuning its IT infrastructure. "The face of the investment industry will change after the crisis, as social distancing forces fund managers to adapt their communication and sales processes to more digitalized solutions," predicts Detlef Glow, head of Lipper EMEA Research at Refinitiv.

Dry powder spells opportunity

Although private equity managers find themselves in something of a sweet spot, with plenty of capital ($1.4 trillion in dry powder) and a universe of distressed companies to pick through, in the near term their businesses are pressed. **Apollo Global Management** (NYSE: APO), **Blackstone Group** (NYSE: BX), **Carlyle Group** (NASDAQ: CG) and **KKR & Co.** (NYSE: KKR) all reported losses in the first quarter. At Blackstone, the net loss was more than $1 billion as the value of its private equity holdings dropped 22%, with energy investments weighing heavily. At KKR, the net loss was $1.3 billion with a drop of 12% in a private equity portfolio with lower exposure to the hard-hit energy sector.

In Blackstone's April 23 earnings call, Chairman and CEO Stephen Schwarzman emphasized opportunities, noting that the firm has an industry-leading $152 billion in capital, which "uniquely positions us to invest during this period of historic dislocation." Between the start of the crisis and the earnings call, Blackstone spent $11 billion buying public equities and liquid debt while raising $12 billion in March. "What we're looking for are businesses that are cyclically — not secularly — under pressure," said Jon Gray, president and chief operating officer. "The opportunity to invest in them across various parts of the capital structure should be robust."

First-quarter results from wealth managers provided some insight into the challenges they were facing early in the year. At **UBS**' (SW: UBSG) global wealth management business, an 11% decline in invested assets led Kirt Gardner, group chief financial officer, to warn analysts of a "headwind in the second quarter" that would likely cause a $200 million to $300 million drop in recurring net fee income (from $2.4 billion in the first quarter).

Aggressive consolidator **Focus Financial Partners** (NASDAQ: FOCS) indicated it would be unlikely to reach its 20% revenue and adjusted net income per share growth targets for the year due to market declines and a slowdown in acquisitions. Having closed on 34 transactions in 2019 primarily through its partner firms, Focus entered into just four deals in the first five months of this year. Chairman and CEO Rudy Adolf told analysts in May that "client service has become the overarching priority," a sentiment expressed throughout the industry.

Citing that factor and logistical issues, Adolph said he anticipates that M&A activity "will be muted" through the third quarter while adding that the "transactions in our pipeline will ultimately sign and close as the rationale for the transactions has not changed — in fact, in many cases, has been reinforced by the crisis."

Two big consolidation deals

Prior to the turmoil, there were two major consolidation deals, including another among traditional managers: **Franklin Resources**' (NYSE: BEN) agreement to pay $4.5 billion in cash for **Legg Mason** (NYSE: LM). If completed in the second half of the year as expected, the combined firm will have $1.5 trillion in AUM, enlarging to nine the number of trillion-plus pure asset managers. The deal would add eight of Legg's nine diverse affiliates to Franklin's business, from real estate advisory firm **Clarion Partners** to fixed income manager **Western Asset**.

Legg would also deliver considerable institutional heft, creating parity between institutional and retail assets on a pro forma basis while strengthening Franklin's fixed income capabilities from 36% to 46% of AUM. Additionally, Legg would bring some complementary international markets to the mix, although the ratio of U.S. to international AUM would remain steady at 70% to 30%. In Franklin's April earnings call, President and CEO Jennifer Johnson said her company's "record of acquiring and leaving the independent investment teams in place" built confidence among Legg's affiliates "that we wouldn't go in and muddle with the investment teams and the investment process."

The second mega-deal saw **Morgan Stanley** (NYSE: MS) agree to pay $13 billion in stock for **E*Trade Financial Corp.** (NASDAQ: ETFC), a transaction that would further Morgan Stanley's ambitions in wealth management and comes on the heels of **Charles Schwab**'s (NYSE: SCHW) agreement last

November to pay $26 billion for another leading discount broker, **TD Ameritrade** (NASDAQ: AMTD). The Schwab-Ameritrade deal was approved by shareholders in June following a nod from antitrust officials, while the Morgan Stanley deal is expected to be approved in the second half of this year.

E*Trade would add 5.2 million customers to Morgan Stanley's current 3 million along with $360 billion in assets to bring Morgan Stanley's total above $3 trillion. E*Trade also has a large corporate employee stock plan business that would extend Morgan Stanley's existing such business and adds an online bank that Morgan Stanley could tap to lower its funding costs. "Morgan Stanley's full-service, advisor-driven model, coupled with E*Trade's direct-to-consumer and digital capabilities, will allow the combined business to have best-in-class product and service offerings to support the full spectrum of wealth," Morgan Stanley said. The merger also promises to deliver $400 million in annual synergies.

In the first quarter, the major online brokers drew hundreds of thousands of new retail clients to their platforms. Charles Schwab, E*Trade, and TD Ameritrade all set records for new accounts in the January through March period, adding 1.6 million in total. Schwab noted that clients had added $73 billion in new assets, a first-quarter record and year-over-year gain of 42%.

TD Ameritrade registered record daily average revenue trades of 2.1 million, including 3 million during the most volatile trading days in March — a level that continued during the first three weeks of April. In line with the aggressive trading, the company's online video network drew record viewership in the quarter, up 90% from the previous year's period "as investors sought consistent coverage and context on market conditions."

Among the newer and zero-commission trading apps that are drawing millennial clients, **Robinhood** added three million new accounts in the first four months of the year, with half of them first-time investors. The Silicon Valley-based firm announced in early May that it had secured $280 million in its latest fundraising led by **Sequoia Capital**, implying a valuation of $8.3 billion. Citing an unnamed source, *Bloomberg* said revenue at the firm in March was $60 million, three times the level during the year-earlier period. **Stash**, which sports 4.5 million users, raised $112 million amid the crisis. **LendingTree** (NYSE: TREE) led several other firms in the Series F fundraising, giving Stash a valuation around $800 million.

In conservative Japan, the *Financial Times* reported that the nation's five leading online brokers signed up more than 500,000 new accounts in March and April, twice the usual number for that time period. The newspaper notes that many of those investors have been making wagers on the **Tokyo Stock Exchange**'s market for startups, driving that exchange up 72% in the two-plus months after its mid-March low. "Looking at the characteristics of people who are trading, it seems likely that office workers who are now working from home are stepping up trading as it is easier to do so at home," a senior market analyst at **Matsui Securities** told *Reuters*.

Big players cut deals for traditional investment managers

Several other major firms joined Franklin Resources in cutting deals for traditional managers in the pre-crisis months. One was Charles Schwab, which acquired an independent fixed income manager, **Wasmer, Schroeder & Co.** Based in Florida and started in 1987, Wasmer has $10.5 billion in AUM in a mix of taxable and tax-exempt strategies "with strong risk-adjusted performance track records." Schwab said the addition will enhance its separately managed account business and meets the growing demand among retirees for income.

Daiwa Securities Group (OTCMKTS: DSEEY) was another high-profile buyer, as it invested $120 million via a convertible bond in New York's **Global X ETFs**. Daiwa can convert the bond into a minority shareholding in five years. The investment follows an ETF joint venture the two firms formed last year for the Japanese market. Global X has a lineup of more than 70 ETFs, many focused on thematic growth areas such as disruptive technology. In 2018, Global X was acquired by South Korea's **Mirae Asset Global Investments**.

Other U.S. transactions involved smaller players enhancing their scale and managing costs via fund consolidation. One featured two established Colorado equity and fixed income boutiques, **Shelton Capital Management** and **ICON Advisers**. Through that deal, Shelton will restructure ICON funds into a Shelton mutual fund trust while ICON will continue to subadvise a "streamlined" ICON domestic fund lineup. Shelton's international portfolio team will also assume management of ICON's emerging markets fund and wrap ICON's international equity fund into a similar Shelton fund. Shelton (AUM: $2.2 billion) has completed six other transactions, including one last year for a small credit manager.

A second transaction between two independent fund managers that was initially proposed last July saw **Integrity Viking Funds** complete the acquisition of two funds from **M.D. Sass**: A short-term government agency bond fund and a dividend-oriented value equity fund that employs derivatives to increase income and hedge downside risk. Integrity, founded in 1987 and based in North Dakota, will wrap the equity fund into a similar fund it already runs while retaining M.D. Sass as a subadvisor for the fixed income fund.

In a Canadian deal announced in April, **Canoe Financial** acquired the rights to manage a variety of **Fiera Investments**' (TSX: FSZ) retail funds comprising C$1.1 billion ($780 million) in AUM. For Canoe, an independent mutual fund company with C$5.5 billion in AUM, the deal adds scale and fits its strategy of growing in part via acquisition. In a cross border deal, Toronto's **Galileo Global Equity Advisors** bought back the 50% share acquired in 2013 by **U.S. Global Investors** (NASDAQ: GROW) of Texas. Galileo manages two small- and mid-cap funds, one designed to generate income and the other focused on technology. U.S. Global is an equity and fixed income boutique focused on gold and precious metals, natural resources and emerging markets.

Two major European asset managers also extended their portfolios via acquisition prior to the crisis. A consolidation deal within the UK saw **Jupiter Fund Management** (LSE: JUP) pay £370 million ($450 million) for **Merian Global Investors** in an all-shares deal. Jupiter could pay an additional £20 million in a deferred earnout and will assume around £29 million in Merian debt. Merian had been part of **Old Mutual Wealth** before a sale in 2017 to management and **TA Associates**, which will gain a 16% stake in Jupiter when the deal closes.

The deal merges two retail-oriented active managers and lessens Jupiter's dependence on five funds that accounted for 46% of its AUM, expanding the number with more than £1 billion in assets from 10 to 16. Merian also offers a stronger presence in equities and alternatives (70% and 21%% of AUM vs. Jupiter's 49% and 3%). Although the mid-February announcement said the deal would create a more formidable firm with £65 billion in AUM, one-third from Merian, by the time Jupiter released its first-quarter results Merian's assets had shrunk below £16 billion while the pro forma number declined to £51 billion. Still, Jupiter said the "strategic and financial rationale of the acquisition remains compelling" and noted that the original projection of low to mid-teens accretion in underlying earnings per share beginning in 2021 might actually improve.

In the second deal, Paris-based **Amundi** (PA: AMUN) crossed borders to pay €430 million in cash ($480 million) for the asset management business of Spanish bank **Sabadell** (OCTMKTS: BNDSF) while announcing a 10-year "strategic partnership" between the two. Amundi gains €22 billion in AUM, the majority in Spanish-domiciled funds, and access for its other products to Sabadell's large distribution network. Spain is the fourth-largest asset management market in Europe, with banks the primary source for sales.

In China, **JPMorgan Chase** (NYSE: JPM) reportedly spent around $1 billion to buy out the 49% interest of its Chinese partner in their joint venture, **China International Fund Management**. Formed in 2004, the firm has $21 billion in AUM. The deal follows reforms by China that allow asset managers to assume full control of their joint ventures. Last year, JPM took a first step toward that end when it acquired 2% of partner **Shanghai International Trust**'s shareholding to gain a 51% stake. **Goldman Sachs** (NYSE: GS) and Morgan Stanley also gained approval to assume majority control of their Chinese securities joint ventures. Among U.S. firms, **BlackRock** (NYSE: BLK), **Fidelity Investments** and **Neuberger Berman** have all applied to create wholly owned Chinese mutual fund companies.

Buyers seek out credit specialists

As in 2008, the Covid-19 crisis has placed long-running concerns about debt worldwide front and center, although sovereigns and corporations have topped consumers this time around. The OECD projects that its members will assume at least $17 trillion in new debt as a result of the crisis. Among emerging markets, Argentina became an early casualty when it defaulted on its debt in May.

Within a private sector that has been feasting on low interest rates since the last crisis, Fitch Ratings downgraded 405 corporate and financial institutions worldwide between January and April, most since mid-March, exceeding the average annual total for 2002 through 2019. Fitch anticipates that the 2020 full-year total will pass the high mark of 747 reached in 2009.

Prior to the Federal Reserve's aggressive liquidity measures, returns on fixed income products in the U.S. between January and March 20 reflected those concerns, ranging from negative 9.3% on investment grade through negative 26% on triple-C high yield, according to *Bloomberg* and **DoubleLine**. Following the Fed's actions, in the month-plus through the end of April the returns on those investments bounced back, but spreads remained significantly higher than at year-end 2019 for many of the riskier products. For example, triple-C loans were yielding nearly 30% by April 30 compared with 17% at year-end 2019. This compared with 8.9% and 6.4% during the same periods, respectively, for leveraged loans as a whole.

Stacked against that is another set of sobering numbers: The Center for Retirement Research at Boston College says the aggregate public pension funding ratio could dip below 70% in the 2020 fiscal year ending in June and drop to between 56% to 63% by 2025, depending upon the performance of markets. As those under-funded institutions review their generally unattractive fixed income options going forward, the lure of higher risk/reward credit products should remain strong.

For example, amid the crisis, Connecticut's $32 billion state pension fund made plans to allocate 5% of its assets to a new private credit strategy designed primarily to deliver yield. Christopher Ailman, chief investment officer for the $240 billion **Calstrs** pension fund, told the *Financial Times* in May that he viewed the current crisis as more health than financial related and will "look more into private markets for opportunities…. We're seeing more debt opportunities — senior debt, secured debt, to help bridge the time period the economy is shut down."

Demand for CLOs continues

Among deal-makers, demand for alternative credit managers remained strong, including the CLO managers that have been on buyers' radar screens since the 2008 crisis, with multiple deals concluding after the crisis. In an April transaction between two New York credit firms, **Anchorage Capital Group** acquired the management contracts for three portfolios of CLOs with $1.2 billion in AUM from **Garrison Investment Group**.

Prior to the deal, Anchorage had $13.2 billion in credit-oriented AUM, primarily via four fund families. The company employs active long and short positions "with a particular focus on defaulted and leveraged issuers." This year, Anchorage and two other investors agreed to provide up to $400 million in financing for J.Crew, along with a debt-for-equity swap for their existing holdings in the bankrupt apparel company.

In another post-crisis CLO deal in the U.S., **Clearlake Capital Group** acquired a majority stake in **WhiteStar Asset Management** in partnership with management, from seller **Pine Brook Capital Partners**. Launched in 2013, WhiteStar, whose AUM has grown fourfold in the last three years to $6 billion, adds a CLO component to Clearlake's credit platform. Primarily a private equity investor specializing in the technology, industrials and consumer sectors, Clearlake has $24 billion in AUM with the addition of WhiteStar. In April, prior to the deal, Clearlake closed its sixth private equity fund, having raised $7 billion.

The highest-profile buyer was **Ares Management Corp.** (NYSE: ARES), which agreed to acquire a "managing interest" in a restructured **Crestline Denali Capital**, adding seven CLOs with $2.6 billion in AUM "without the assumption of any debt or headcount." In Ares' first-quarter earnings call, CEO and President Michael Arougheti said acquiring such contracts delivers "close to 100% marginal profit, so a really nice way to generate earnings accretion." In a second credit deal, Ares bought a controlling interest in Hong Kong's **SSG Capital Holdings**, which has $6.2 billion in private credit and special situations AUM. Ares called the 11-year-old firm "the ideal partner for Ares to further expand into the strategically important Asian region." Ares has $113 billion in credit-related AUM.

In February, **Affiliated Managers Group** (NYSE: AMG) acquired a minority interest in **Comvest Partners**, a middle-market credit and private equity firm focused on North America. Founded in 2000, Comvest, whose management will invest all of the deal proceeds into future funds, has $3.7 billion in AUM. In AMG's April earnings call, President and CEO Jay Horgen praised Comvest's "long track record of delivering returns to clients across market cycles." In discussing AMG's pipeline of other potential deals, Horgan told analysts that the opportunities "don't go away because of market dislocation but market stability does help us come together as partners."

In a second transaction, AMG made a "modest investment" and entered a "strategic partnership" with **iCapital Network**, an alternative investments platform for financial advisors and asset managers. AMG, which said the deal will enhance its affiliates' access to alternative strategies, made the investment as part of a $146 million fundraising iCapital completed in March. Following that, iCapital cuts it own deal for another fintech alternatives platform, **Artivest**. iCapital gains Artivest's "Open Network" platform, several large enterprise relationships, and management of 28 proprietary alternative investment funds. With the addition of smaller Artivest, iCapital's platform will include $55 billion in assets across 650 funds and 115,000 underlying accounts.

In May, two alternatives firms, **Investcorp** and **Tages Group**, formed a 50-50 joint venture by merging their absolute return businesses. The companies said the new venture, **Investcorp-Tages Ltd.**, leverages their "investment expertise and complementary footprints" to create a global absolute return and multi-manager platform with more than $6 billion in assets. The new firm's portfolio includes private credit, hedge funds, impact investments and manager seeding. Rishi Kapoor, co-CEO of Bahrain-based Investcorp, said the JV will serve "the evolving needs of investors for absolute return investments in the post-Covid landscape."

In another alternatives deal completed during the pandemic, management at **Mariner Investment Group** bought 100% of their business from parent **Orix Corp. USA**. Orix retains Mariner's leveraged credit business, originally launched by Orix and with $4.6 billion in CLO assets. Orix USA's leveraged credit team shifted to Mariner in 2014, four years after the Japanese-owned firm assumed a majority stake in Mariner, which specializes in public and private fixed income relative value and credit strategies.

Neuberger Berman acquired a North American-focused real estate advisory firm, **Almanac Realty Investors**, whose funds have committed more than $5.5 billion to private and public companies since 1996. Neuberger said ARI complements its own public REIT strategies, real estate private equity secondaries, and public and private mortgage credit. ARI will operate as a distinct investment platform. Two years ago, ARI closed its most recent fund of $1.9 billion plus another $360 million for sidecar co-investment vehicles to "capitalize on the continued shift of real estate ownership to integrated entities." One investment ARI made in 2019 involved **CIP Real Estate**, a vertically integrated company specializing in the acquisition, repositioning and management of industrial and office flex business parks in California and other U.S. markets.

Wealth managers ponder the future

The broadly defined wealth industry, including broker-dealers and securities firms, has been a hotbed of deal-making in recent years, with much of the activity driven by private equity firms directly or via the aggregators they own. Industry transactions continued apace in the first couple of months before coming to a virtual halt: **Fidelity Investments** counted just three deals among registered investment advisors in March. Although others followed in the months after, buyers and sellers largely stayed on the sidelines, stymied by the lack of clarity about valuations and the future. Additionally, wealth managers on both sides of the negotiating table were consumed with managing client relationships.

In addition to gauging the financial impact of the crisis going forward, the industry is examining how the experience might permanently change that client interaction. Technology, already a critical competitive advantage, is at the forefront of the discussions. Ron Carson, CEO of aggregator **Carson Group**, told *ThinkAdvisor* in May that Covid-19 is forcing the industry to reimagine "how to communicate and deliver services differently" and will "accelerate the number of people that will be very comfortable getting advice digitally." He added: "If you don't provide a great digital experience, your business is going to face a headwind in the future."

Michael Klein, who leads a 25-person advisory team at **Baird**, told *Barron's* in May that the crisis has changed the industry in fundamental ways, driving faster decision-making (no more "three-meeting decisions") and normalizing remote work. "I think this period of isolation has completely reinforced our reliance on technology and our reliance on being able to grab data and quickly analyze it," he said. *Wealthmanagement.com* reported that the 1,000 stay-at-home advisors associated with

TIAA are fielding a total of 600-700 video meetings per day compared with 30 to 50 last year.

The last financial crisis drove a sharp downturn in the number of wealth deals, which sank from 80 to 47 between 2008 and 2009 and to 39 in 2010 before turning up on 2011. Dave Welling, CEO of aggregator **Mercer Advisors**, told *Barron's* in May that he's seen a 20% drop in sellers since the crisis began. "This is like a dark cloud on the horizon," said Welling, whose firm has made more than 30 acquisitions. Prior to the crisis, Mercer added two Midwestern RIAs with a total of $500 million in assets.

The pattern that played out in the years after 2008 may not hold true this time, however, given the aging of baby boomer RIA owners and the emergence of private equity buyers with deep pockets. "We think that the RIA space is just a terrific industry, for all the reasons it was two months ago," Roy Burns, managing director at TA Associates, told *Forbes* in May. "The tailwinds of independent advice and supporting clients through thick and thin really doesn't change based on economic activity." Last year, TA acquired a majority share in **Wealth Enhancement Group** from **Lightyear Capital**.

John Bahnken, president of the wealth management division of Providence-based **Citizens Bank** (NYSE: CFG), believes banks could also step up their activity. "People want that integrated experience," he told *WealthManagement.com* in February. "So one of the challenges that RIAs face, even very successful ones, is if they don't offer their clients banking services, lending and deposits." Last year, Citizens completed the acquisition of a large wealth manager and multi-family office, Clarfeld Financial Advisors (now **Clarfeld Citizens Wealth Management**).

In the first half, Morgan Stanley's $13 billion all-stock deal for E*Trade Financial led the broadly defined wealth industry, where aggregators continued to predominate as buyers. Additionally, Morgan Stanley announced the launch of a wealth management business in Canada, where it already offers workplace financial services, with **Canaccord Genuity** (TSX: CF) operating as the local platform provider.

Among the aggregators, **Hightower** cut two deals after the crisis for firms in different geographies. One involved **Wellspring Associates** of Atlanta and Dallas, an ultra high net worth firm that under its new parent will begin to serve clients with assets of $5 million and more. Hightower said Wellspring brings "decades of experience" dealing with "highly integrated trust, estate planning and insurance strategies" that it can apply to Hightower's other advisors.

Wealth Enhancement Group, which made 15 acquisitions in the six years through 2019, entered the Atlanta market in February with the purchase of **JOYN Advisors**. Founded in 1991 and with $1.3 billion in assets, JOYN represents WEG's 32nd office. In a message to clients about the change, JOYN emphasized the additional resources it will be able to offer covering "all angles of your financial life, from planning, investments, tax strategies estate planning and beyond."

In April, **Allworth Financial**, backed by **Parthenon Capital Partners**, acquired **Houston Asset Management**, adding $450 million in assets to bring Allworth's total to $8 billion. "Despite the current uncertainty in response to Covid-19, we believe it is critical to continue to find great partners and invest in the RIA space," Allworth co-CEO Scott Hanson said. Allworth has made eight acquisitions since Parthenon's investment in 2017.

Three private equity firms made minority investments in the first half in U.S. wealth managers that are on the prowl for deals. **General Atlantic** took a stake in a recent entrant to the consolidator ranks, **Creative Planning**. An established RIA with $50 billion in assets, Creative Planning only began making acquisitions last year. But CEO Peter Mallouk told *InvestmentNews* in February that the General Atlantic deal was made to secure capital "while valuations are high" to ensure the company "can continue growing even in down markets," rather than for acquisition currency. Creative Planning has made two acquisitions this year, including one in April for a small RIA in its home state of Kansas.

In the case of **Beacon Pointe Wealth Advisors** of California, Boston's **Abry Partners** provided a recapitalization in part to fuel acquisitions. "We needed to enhance our balance sheet and have a better capital structure in order to compete," Beacon President Matt Cooper told *Financial Planning*. "It's a different M&A market than it was just three years ago." Simultaneous with Abry's investment, Beacon acquired **Ferrell Wealth Management** of Florida, adding $460 million to the $11 billion in assets it already managed and advised.

In the third such deal, financial services specialist **GTCR** acquired a 25% interest in North Carolina's **Captrust Financial Advisors**, reflecting a $1.25 billion valuation for the firm. Established in 1997, Captrust has $390 billion in assets, including $45 billion in AUM, and has completed 40 transactions since 2006. "We see tremendous opportunities ahead and to execute them successfully we need a strong capital partner," said Captrust Chairman and CEO Fielding Miller.

Prior to that June transaction, Captrust cut two deals of its own, including one of the larger ones in the first half for Alabama's **Welch Hornsby**, an established firm with $5.5 billion in assets. Captrust already served 34 retirement plan sponsors in Alabama with $4.3 billion in assets. Welch, Hornsby said the deal "lays a foundation for the firm's growth for the next generation of clients and employees."

Emigrant Partners made three minority investments after the pandemic began, the largest for **Stratos Wealth Holdings**, an Ohio-based aggregator with $14.5 billion in assets. Stratos said the capital will be used to "expand its capabilities for current affiliates and to position them as a partner of choice for succession planning in the industry." In an interview with *Citywire*, Emigrant President and CEO Karl Heckenberg held out the potential for Stratos to go public, saying, "They needed a capital partner that could be flexible enough to help them continue to grow to whatever they aspire to do." Emigrant and its affiliate **Fiduciary Network**, both part of **New York Private Bank & Trust**, hold stakes in some 18 partner firms.

Among independents with no private equity partners, **Savant Capital Management** of Rockford, Ill., was a notable buyer, expanding its Chicago-area footprint by acquiring **Huber Financial Advisors**, with $1.2 billion in assets. Founder David Huber, who has known Savant CEO Bent Brodeski for years, told *Financial Planning*, "We wanted to maintain our Midwestern roots and didn't want to deal with headquarters on the East Coast or West Coast."

UK consolidators remain active

In the UK, the major center for wealth advisor consolidation outside the U.S., deal-makers were also active with the sort of tuck-in additions that have defined the sector. As in the U.S., increased costs related to regulations and technology is a key factor driving deals, along with the aging of advisory firm owners and competitive concerns that consolidation itself raises among smaller independents.

The Covid-19 crisis will likely be the last straw for many small firms. When networking and resource site Panacea Adviser surveyed advisors after the crisis began, 44% indicated they will have to consider furloughs of employees while 14% said their businesses would fold without additional funding.

As elsewhere in the world, the crisis is also causing British advisors to reflect upon the future of client relationships. "The big thing we are all wrestling with is, what is the value to face to face?" chartered financial planner Alasdair Walker said during an April *FTAdviser* podcast. "That's a question we are going to find the answer to in the next few months." One of the largest advisors, **Quilter** (LSE: QLT), began its own experiment in April, when it was established a full-service telephone-based option for clients "who need advice but do not want, or do not require, face-to-face advice."

Amid the various deals cut by aggressive consolidators such as **Fairstone Group** and **Mattioli Woods** (LSE: MTW), Quilter cemented one of the larger ones for **Prescient**, a City of London-based high net worth firm with £800 million ($975 million) in assets. The two firms had an existing relationship, and Prescient's founder retired following the deal. Quilter's January deal followed two in 2019, including a significant one for **Lighthouse** that consolidated Quilter's position as the No. 2 retail advisory business in the UK.

Mattioli Woods also acquired a large firm, **Hurley Partners**, which serves more than 300 client families with £570 million in assets and has "a proven track record of attracting new funds under management." Hurley adds scale to Mattioli's operations in London and Manchester while providing expansion into Surrey. Mattioli, with more than £9 billion in assets prior to the deal, could pay up to £25.6 million, including £8 million in contingency payments.

Fairstone made multiple deals, most after the crisis began. Backed by several investment firms, Fairstone employs a "downstream buy out" model that works by acquiring a stake in a target and integrating it over a multi-year period before completing the purchase. One of the deals involved **Goodman Chartered Financial Planners**, an established firm with £150 million in assets that saw the link to Fairstone as an opportunity to hand off "time consuming and costly" compliance demands so it could focus solely on supporting clients.

The major non-U.S. deal took place in Australia, where KKR & Co. agreed to pay A$1.7 billion ($1.1 billion) in cash for 55% of **Commonwealth Bank of Australia**'s (ASX: CBA) **Colonial First State** superannuation and retirement business. The sale is part of CBA's ongoing plan to restructure around its core banking business and follows a series of banking scandals surrounding the A$2.8 trillion superannuation program. The two firms said they would "undertake a significant investment program" to strengthen Colonial's position. In 2018, CBA sold its global asset management business to **Mitsubishi UFJ Financial** (NYSE: MUFJ) for A$4.1 billion. ▲

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