



2021 Financial Services Industry Review

BERKSHIRE
GLOBAL ADVISORS

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As a black swan menaces, the bulls take charge

Imagine a black swan event playing out worldwide that includes the most significant pandemic since World War I, the sharpest short-term contractions in economic growth and the highest unemployment rates since the Depression, the collapse of numerous industries, and generalized uncertainty and political acrimony. Where should an investor hide under such circumstances? If you were sitting around a conference table of investment pros mulling such a hypothetical situation and said, "The stock market," odds are you might raise a majority of eyebrows.

Yet, as that very scenario played out last year, the outlier at the table would've proved prescient. After declines of between 30% and 37% in the first quarter following the global spread of Covid-19, the three major U.S. equity indices made their most rapid — and perhaps most improbable — comebacks of the postwar era. Within three to eight months, they had recaptured all their losses before heading into the black. By the end of November, the S&P 500 was up 12% for the year while the Nasdaq gained a stunning 36%. The Dow Jones Industrial Average lagged with a 4% return, though it had climbed 61% from its March low and in November recorded its best monthly performance (up 12%) since 1987.

By contrast, following the dot-com crash in the U.S., the S&P 500 index did not reach its 2000 peak until 2007 while the Nasdaq took 15 years. When the rumbles from the financial crisis began to rock markets in late 2007, it took the S&P 500 six years to reach the previous high-water mark. "I don't think there's any analog in history that looks like this," Benjamin Bowler, head of equity derivatives research at **Bank of America** (NYSE: BA), said last September in assessing the year for the *Wall Street Journal*.

Indeed, by August, the bears were on the run, as **Goldman Sachs** (NYSE: GS) reported that short interest in U.S. stocks as a proportion of market capitalization sank to the lowest level (1.8%) since it began tracking that metric in 2004. By late November — with positive news about Covid vaccines emerging — 60% of U.S. advisors surveyed by Investors Intelligence were bullish compared with 30% at the low point in March, with the bears at just 18%.

A handful of powerful technology stocks drove the market last year as the information technology sector grew to account for 28% of the S&P 500's market value by the end of the third quarter. These included Apple, which reached a \$2 trillion market capitalization in August. The financial sector, lagging the market during the year, accounted for 10% of the S&P 500, down nearly five points from 2017.

The U.S. market for IPOs was similarly robust, with companies raising \$61 billion in the third quarter for the largest quarterly fundraising in the last decade, according to FactSet. Nearly half of

that total was raised by the special purpose acquisition companies that were a prominent feature of the market last year. Among them was **Pershing Square Tontine Holdings** (NYSE: PSTH), which became the largest-ever SPAC when it raised \$4 billion. The company, controlled by noted investor Bill Ackman, intends to pursue mergers "with private, large capitalization, high-quality growth companies."

Second-Half Surge

MERGERS & ACQUISITIONS 2020, ALL INDUSTRIES

Value of Announced Deals by Half-Year

Jan. - June:	\$1.25 trillion *
July - Dec.:	\$2.35 trillion **

Value of Announced Deals by Full Year (\$B)2020(vs. 2019+/-)

Worldwide=	\$3,628	(- 5%)
U.S.	1,412	(- 21%)
Europe	1,000	(+ 36%)
Asia-Pacific (ex-Japan)	883	(+ 16%)

Of Which (by \$ value 2020, worldwide)

Cross Border	35%
Emerging Markets	26%
Private Equity-Backed	16%
Financials	14%
Real Estate	8%

* Lowest first-half total since 2013

** 2nd-half record

Source: Refinitiv

Elsewhere in the world, markets had recaptured most of the losses but largely remained in the red or flat by the end of November. The FTSE 100, which at its low point in March declined 36% from the year's high, regained most of those losses by the end of November but was still off 17%. The Nikkei 225 was a notable exception outside the U.S., as it rebounded from March declines to reach its highest level since 1991, though still one-third below the 39,000 mark reached during the speculative frenzy of the 1980s. In China, where the virus took hold before extending its reach, the Shanghai Composite declined 14% from its high but had risen 12% by the end of November.

Investment Management Transactions

	2016	2017	2018	2019	2020
Majority Equity	160	176	211	183	195
Minority Equity	22	32	51	41	37
Management Buyout	9	12	13	10	9
Total	191	220	275	234	241
Total Transaction Value (\$B)	\$24.0	\$28.9	\$41.3	\$21.4	\$35.4
Total AUM Changing Hands (\$B)	\$2,443	\$2,086	\$2,422	\$1,050	\$3,006

Source: Berkshire Global Advisors LP

Data from eVestment show the year's rapidly evolving sentiment. In the fourth quarter of 2019, the median cash position among traditional long-only managers was at the lowest level in "at least" 12 years, below 2%. By the first quarter of 2020, that number had climbed

to 2.5%, on par with levels during the European sovereign debt crisis of 2012, but below the 3%-plus level at the height of the financial crisis. By the third quarter, however, cash positions had again dropped to the lowest levels in more than a decade, at 1.8%.

Investment Management Transactions

WHO'S BUYING

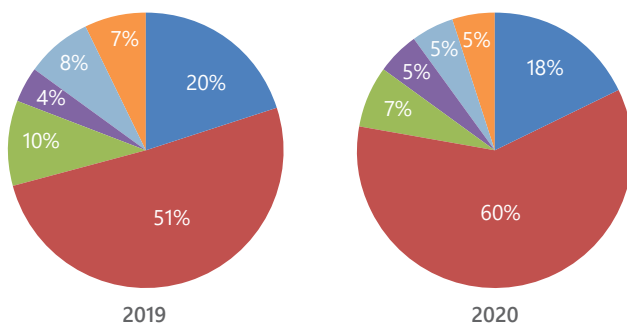
	2016	2017	2018	2019	2020
Wealth Manager	32	38	58	76	84
Traditional Investment Manager	46	44	49	33	45
Financial Buyer	26	25	42	38	31
Alternatives Manager	14	15	17	17	23
Insurance	20	27	23	17	15
Management Buyout	9	10	14	9	9
Bank	19	22	35	17	7
Real Asset Manager	5	15	14	10	7
Securities Firm	6	15	10	8	7
Other	14	9	13	9	13
Total	191	220	275	234	241

Source: Berkshire Global Advisors LP

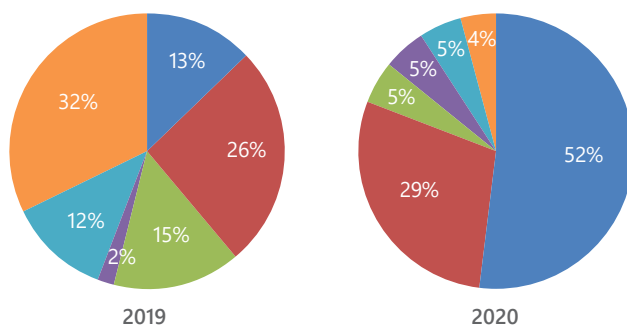
Investment Management

WHO'S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of total



■ Traditional Investment Management
 ■ Hedge Fund / Fund of Funds
 ■ Private Equity
 ■ Real Assets
 ■ Credit

Source: Berkshire Global Advisors LP

Individuals idled by the pandemic or working from home joined the party. In the U.S., retail investors accounted for 20% of trading volume by midyear, up five points from 2019, by Bloomberg Intelligence estimates. **Charles Schwab** (NYSE: SCHW) recorded a 126% increase in second-quarter daily trading activity over the 2019 period. At **E*Trade Financial Corp.**, second-quarter daily average revenue trades (DARTs) of one million and derivative DARTs of 253,000 set records. **TD Ameritrade** averaged a record 3.4 million DARTs during the April through June period. Trading app **Robinhood**, popular with millennials, added three million new customers during the first five months of the year.

The story was similar elsewhere in the world. In China, where retail investors drive market activity, trading volume, margin lending and new account openings spiked. In the first half of 2020 in Russia, the number of retail brokerage accounts rose 39% to 5.3 million and individuals accounted for 42% of trading volume. In South Korea, margin lending by securities firms reached the highest total since the Korea Financial Investment Association began recording such data in 2010, with the largest increase among individuals in their 30s. Even Iran joined in, as a booming stock market in the first seven months of last year drew an unprecedented number of retail investors.

The markets' about-face was welcome news for asset managers, who endured a sharp decline in assets in March and April with no relief apparent at that moment. Rapid central bank intervention worldwide, and the liquidity unleashed, reversed the panic and set the stage for the rebound. By the third quarter, aggregate AUM at the 24 publicly traded asset managers tracked by *Pensions & Investments* had grown to \$28.4 trillion, a \$4 trillion gain from the first quarter, when AUM dropped 10%. Fourteen of the managers reported net inflows in the third quarter.

Asset management deal-makers also bounced back after applying the brakes in the second quarter, tracking the larger M&A trend: Deal

value in all industries grew 80% between the second and third quarters to top \$1 trillion according to Refinitiv. By November, Refinitiv had tallied up the highest second-half five-month total (\$1.9 trillion) since it began tracking such data in the 1970s.

The quick turnaround in asset management transactions ran counter to the multi-year slowdown that followed the financial crisis, underlining the significant changes the industry has experienced in the years since. One key trend has been ongoing consolidation among large active asset managers confronted by passive investments. There were two such deals last year before and after the pandemic, bringing the total number of consolidation megadeals to six since 2016.

The first, **Franklin Resources'** (NYSE: BEN) \$4.5 billion cash acquisition of **Legg Mason**, created a top-10 global firm with \$1.5 trillion in AUM and a broad portfolio incorporating the diverse products from Legg's roster of affiliates. Legg also brings considerable institutional heft, with Franklin doubling its institutional AUM to 51% of the total. In the second deal, **Morgan Stanley** (NYSE: MS) agreed to pay \$7 billion in cash and stock for **Eaton Vance** (NYSE: EV), in the company's second major transaction of 2020. If the deal is approved by the second quarter of this year as expected, Morgan Stanley — already the largest distributor of EV funds — will gain \$500 billion in AUM to bring its total asset management business to \$1.2 trillion.

There was one other major deal involving a traditional asset management target: **Macquarie Group's** (ASX: MQG) \$1.7 billion agreement in December to buy **Waddell & Reed** (NYSE: WDR). The all-cash deal represented a 48% premium to the W&R's closing price the day before the announcement, but incorporates a second component that would impact the effective price: Macquarie will sell W&R's wealth business to **LPL Financial** (NASDAQ: LPLA) for \$300 million. W&R's asset management business had \$68 billion in AUM, which would give Macquarie Asset Management \$465 billion in AUM; the wealth business has assets of \$63 billion. In a fourth \$1 billion-plus deal in the sector, this one involving a passive target, **BlackRock** (NYSE: BLK) acquired **Aperio Group** (AUM:

\$36 billion), a specialist in tax-optimized index equity separately managed accounts (SMAs).

Last October, activist investor Nelson Peltz, who held a stake in Legg Mason prior to Franklin's acquisition, assumed shareholdings in both **Invesco** (NYSE: IVZ) and **Janus Henderson** (NYSE: JHG), a potential harbinger of an additional megadeal. **Wells Fargo** (NYSE: WF) was

Securities & Investment Banking Transactions

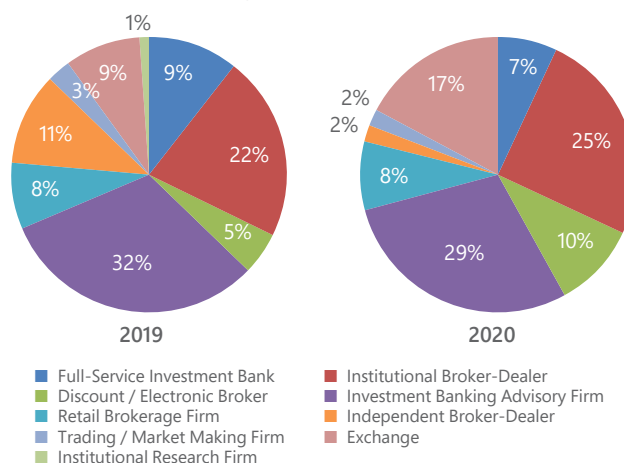
	2016	2017	2018	2019	2020
Majority Equity	63	54	62	62	48
Minority Equity	6	15	14	3	11
Total	69	69	76	65	59
Total Transaction Value (\$B)	\$14.2	\$10.4	\$9.9	\$39.6	\$25.2

Source: Berkshire Global Advisors LP

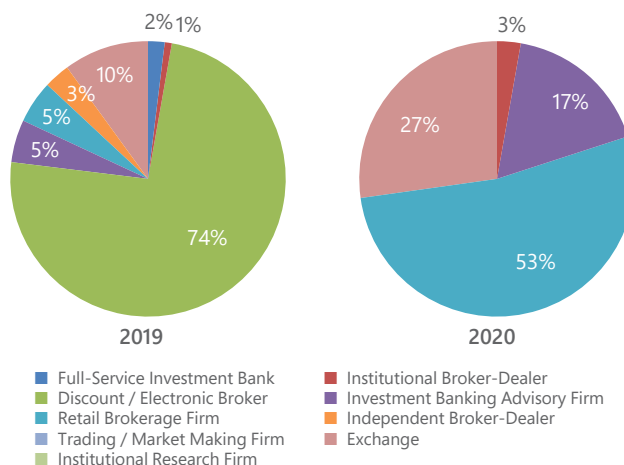
Securities & Investment Banking

WHO'S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of total



Source: Berkshire Global Advisors LP

Securities Industry & Investment Banking Transactions

WHO'S BUYING

	2016	2017	2018	2019	2020
Full-Service Investment Bank	12	2	4	16	11
Commercial Bank	4	3	5	5	8
Exchange	6	5	6	7	7
Institutional Broker-Dealer	4	2	4	4	7
Private Equity Firm	4	4	3	4	6
Diversified Financial Services Company	7	15	17	10	4
Investment Banking Advisory Firm	7	8	3	1	4
Independent Broker-Dealer	2	2	6	4	3
Discount/Electronic Broker	4	3	5	8	2
Retail Brokerage Firm	1	0	1	0	2
Trading/Market Making Firm	6	5	5	2	1
Institutional Research Firm	1	0	0	0	0
Insurance Company	3	0	1	1	0
Other	8	20	16	3	4
Total	69	69	76	65	59

Source: Berkshire Global Advisors LP

also weighing the sale of its large asset management unit (AUM: \$600 billion), as were two non-U.S. banks: **Bank of Montreal** (TSX: BMO) and **Societe Generale** (PA: GLE). "Strategically combining firms to meet the needs of the capital markets ... [and] of clients and to adapt to the changing landscape is absolutely vital," Michelle Seitz, chairman and CEO of **Russell Investments**, told the *Financial Times* last November.

Other deals involving traditional managers followed the ongoing pattern of tack-ons by larger firms or tie-ups between independents. Among the former was Charles Schwab's acquisition of **Wasmer Schroeder**, a fixed income shop with \$11 billion in SMAs that enhances Schwab's large SMA business. In a deal between two small U.S. independent firms, **Shelton Capital Management** and **ICON Advisers** restructured and merged funds in a bid to enhance efficiency. A significant UK deal involving two retail-oriented independent firms saw **Jupiter Fund Management** (LSE: JUP) pay £244 million (\$315 million) in shares for **Merian Global Investors**.

Cross Border Investment Management Transactions

	2016	2017	2018	2019	2020
U.S. - INTERNATIONAL					
Number of Deals	20	32	43	31	34
Value (\$B)	\$6.3	\$7.9	\$8.1	\$7.4	\$6.2
INTERNATIONAL - INTERNATIONAL					
Number of Deals	32	30	79	57	64
Value (\$B)	\$6.6	\$3.6	\$10.6	\$4.4	\$5.7
TOTAL					
Number of Deals	52	62	122	88	98
Value (\$B)	\$12.8	\$11.5	\$18.7	\$11.8	\$11.9

Source: Berkshire Global Advisors LP

In wealth management, the drive for scale has been combining with private equity capital to push consolidation since the financial crisis. After a virtual standstill in activity during the second quarter — **Fidelity Investments** counted just 10 deals for RIAs and independent broker-dealers between March and May — the floodgates opened. The private equity-backed consolidators in the U.S. remained major participants, including **Beacon Pointe**, **Captrust**, **Creative Planning**, **Focus Financial Partners** (NASDAQ: FOCS), **Hightower Advisors** and **Mercer Advisors**.

Creative Planning is a newer entrant, having made its first acquisition in 2019 after 36 years of organic growth before selling an equity interest last year "in the teens" to **General Atlantic**. With \$48 billion in assets as 2020 began and a goal to double that number, Creative Planning cut deals for firms ranging from **Coe Financial Services** of Kansas with \$126 million in assets to **TrueWealth Management** of Atlanta with \$1.6 billion in assets.

There were numerous cross border wealth transactions of note. **CI Financial** (TSX: CIX) of Canada continued its aggressive expansion into the U.S. under new CEO Kurt MacAlpine, making multiple acquisitions. Among them was **Balasa Dinverno Foltz**, an established suburban Chicago firm with \$4.5 billion in assets. In a transatlantic deal between two established firms, **FWM Holdings** of the U.S. and **Stanhope Capital Group** of the UK merged to create a larger, independent entity with \$24 billion in AUM and six offices worldwide.

A second transatlantic deal saw Italian asset and wealth manager **Azimut Group** (MI: AZM) acquire a 55% stake in **Sanctuary Wealth** of the U.S. Sanctuary, which employs a hybrid model for wealth managers "breaking away from traditional warehouses and brokerage firms to own, operate and grow their own businesses," has since 2018 built a network of more than 40 partner firms with \$12 billion in assets under management and advise-ment. Within Europe, **Intesa Sanpaolo Group** (MI: ISP) of Italy acquired 69% of Swiss private bank **Reyl & Cie**, adding CHF13 billion (\$14 billion) in AUM to the CHF5 billion it already managed in that market.

Two of the participants in last year's megadeals made plays to expand their wealth management businesses. Prior to the Morgan Stanley acquisition announcement, Eaton Vance purchased Florida's **WaterOak Advisors**, adding \$2 billion in AUM to bring total assets in its wealth unit to \$10 billion. Franklin Resources acquired **Athena Capital Advisors** and **Pennsylvania Trust Co.**, expanding its wealth footprint and

adding \$10 billion in AUM to bring that total to \$29 billion.

The largest broker-dealer transaction involved Morgan Stanley's \$13 billion all-stock purchase of E*Trade, which followed by just a few months Charles Schwab's \$26 billion all-stock acquisition of TD Ameritrade in 2019. E*Trade adds 5.2 million clients and strengthens Morgan Stanley's online trading and corporate employee stock plan businesses while delivering a projected \$400 million in annual synergies.

Alternatives have been another beneficiary of the industry's metamorphosis over the past decade, and asset managers in those areas remain attractive targets, with credit and real estate managers of particular interest. There were numerous transactions in 2020 involving credit managers, the largest of which was **Sun Life Financial's** (TSX: SLF) \$338 million purchase of a 51% stake in **Crescent Capital Group** of Los Angeles. A large and established independent credit manager with \$28 billion in AUM, Crescent offers a broad portfolio and a global investor base of more than 600 institutions.

Managers of collateralized loan obligations are an ongoing target, with the need for scale driving transactions: \$10 billion in AUM is seen as the new threshold for significant players. Buyers included **Anchorage Capital Group**, **Ares Management Corp.** (NYSE: ARES) and **Clearlake Capital Group**. Ares acquired a "managing interest" in **Crestline Denali Capital**, adding seven CLOs with \$2.7 billion in AUM to its portfolio, and cut a second deal in Hong Kong, where it bought a controlling interest in **SSG Capital Holdings**, an Asian private credit and special situations investor.

Affiliated Managers Group (NYSE: AMG) continued to expand its alternatives platform by acquiring a minority interest in **Comvest Partners**, a middle-market credit and private equity firm with \$3.7 billion in AUM. Comvest management said it will invest all of the transaction proceeds into future funds. **Dyal Capital Partners**, **Neuberger Berman's** alternatives private equity unit, sold its minority ownerships in six established alternative managers to Australia's **Navigator Global Investments** (ASX: NGI). The transaction was structured so that Dyal retains an economic interest in the portfolio of companies through 2025.

Subsequently, in late December, Dyal agreed to merge with one of the firms in which it holds a minority stake, **Owl Rock Capital Group**, with the combination going public via a special purpose acquisition vehicle, **Altimar Acquisition** (NYSE: ATAC). In another major deal last year involving the permanent capital vehicles, Goldman Sachs purchased about a 10% stake in **Permira** via its Petershill alternatives investment arm. The deal reportedly valued Permira at €5 billion (\$5.9 billion).

Within the commercial real estate market, the pandemic accelerated two key trends: The decline of traditional retail space and the ascendancy of industrial properties serving the distribution needs of online retailers. The pandemic also raised questions about the health of formerly attractive urban office markets. Last year's disruption aside,

Cross Border Transactions by Domicile and Type

2020	BUYER: SELLER:	U.S. INT'L	INT'L U.S.	INT'L INT'L	TOTAL
Wealth Management		2	14	30	46
Traditional Investment Management		0	5	17	22
Other		4	9	17	30
Total		6	28	64	98

2019	BUYER: SELLER:	U.S. INT'L	INT'L U.S.	INT'L INT'L	TOTAL
Wealth Management		4	3	21	28
Traditional Investment Management		2	4	17	23
Other		9	9	19	37
Total		15	16	57	88

Source: Berkshire Global Advisors LP

asset managers continued to draw capital — **Blackstone** (NYSE: BX) raised €9.8 billion (\$10.7 billion) for a European property fund and \$8 billion for a real estate debt fund, for example — and deals for advisory firms continued to be concluded.

Within the U.S., Neuberger Berman's acquisition of **Almanac Realty Investors** was one such transaction. Almanac invests in independent real estate firms seeking growth capital rather than directly in properties, a strategy that complements Neuberger's portfolio of REIT strategies, real estate private equity secondaries, and public and private mortgage credit. There were multiple cross border transactions involving buyers **Bonaccord Capital Partners**, **PineBridge Investments** and **Schroders** (LSE: SDR).

For PineBridge of New York, the target was **Benson Elliot Capital Management**, a London private equity real estate manager with \$3.5 billion in assets across a diversified European portfolio. In its most recent fund closed in 2019, Benson Elliot raised €836 million (\$980 million), boasting a repeat investor rate of more than 95% from the prior fund. Bonaccord, a division of the UK's **Aberdeen Standard Investments** that invests in private markets managers, bought a minority stake in San Francisco's **Spear Street Capital**, an owner and operator of office properties in North America and Europe. Spear Street targets assets and portfolios above \$25 million in value where it can enhance performance with renovations, creative leasing efforts and adaptive re-use strategies.

Since opening **Berkshire Global Advisors** in 1983, we have passed through some extraordinary and often stomach-churning events beginning with the 1987 market crash and continuing through the 2008 financial crisis that threatened to sink the global financial system. But the Covid-19 pandemic that began last year surely ranks as the most disruptive event during the life of our business.

At Berkshire, the pandemic meant quickly reorienting our operations to accommodate remote work and virtual meetings with partners, employees and clients. We were scarcely alone in that shift, of course. At BlackRock, as one significant example in our industry, Chairman and CEO

Laurence Fink informed shareholders last March that he was among the 90% of employees working remotely on many days. "I write to you in isolation from home, like millions of other people," he wrote in the annual report.

Overall, we were pleased by our ability to continue business efficiently and effectively, in what we hope will be a relatively short-term new normal, albeit one that will likely alter the traditional workplace going forward. The "old normal" meant lots of travel to see clients, many of whom we have cultivated relationships with over time. In 2020, with travel curtailed, we called upon those relationships — and the trust and reputation we have built among those clients and within our larger industry — to help facilitate transactions from afar.

At the time of our writing, there was hope that the pandemic may recede this year with the rapid introduction of vaccines. Still, as we noted in the first paragraph of our closing thoughts, when we view Covid-19 within the context of the additional crises we have faced over our five separate decades in business, we are reminded that while an inter-connected and complex world offers many benefits it also provides its share of ongoing challenges. The pandemic will force investors and businesses in general to once again recalibrate their assessment of risk.

The broad-based asset management industry that we serve is at the center of that global economy, providing the capital and enhancing the wealth and economic development that assist the progress of humanity. After a frightening first quarter and outlook, investors showed surprising equanimity and helped recharge markets in a wholly unpredictable and confounding manner.

Deal-making, which stalled in the second quarter against the initial headwinds of the crisis, turned robust in the second half, as the pandemic appeared to reinforce the logic of scale. At Berkshire, we engaged in a range of deals by size and sector that included traditional asset management and wealth as well as alternatives, including private markets.

In a recent report, Preqin forecast that alternative assets will grow by an average of 10% annually between 2020 and 2025 to \$17 trillion. We have witnessed this trend in our own business, where we have built a leading alternatives/private markets practice: In 2020, we were engaged with 13 such transactions, bringing the cumulative number since 2017 to 38. As we turn our eyes toward 2021, we thank you for the trust you have shown in our firm through times both tranquil and volatile.

Traditional Investment Management

As assets in index and exchange traded equity funds multiplied after the financial crisis of 2008-2009 to the detriment of active funds, value managers seemed to suffer particular discredit. Many analysts questioned how these managers could generate alpha by bargain-hunting in markets driven by passive investments and large technology stocks. Others said traditional value metrics such as tangible assets hold less sway these days compared with the intangibles of tech companies.

Performance data have reinforced the opinions of skeptics. Value-oriented managers in the U.S. consistently lagged behind growth managers and the S&P 500 in the decade after the financial crisis. One of the most prominent large-cap value-oriented funds, Dodge & Cox Stock Fund, outperformed the S&P 500 in only three of the 10 years through 2019, although it fared better against its category rivals.

But as the pandemic storm lashed stocks indiscriminately in the first quarter, value managers wondered if their moment had finally arrived. "The medium term odds for value are dramatically more favorable than normal, and on many scales they are better than any other period in history," Cliff Asness, **AQR's** high-profile managing and founding principal, said in a webinar last May.

In the short term at least, Asness' optimism appeared misplaced. In a glaring example of the challenges facing such managers, already lofty technology stocks soared in the second quarter while "cheap" financial stocks dropped sharply. Indeed, the gap

between the two grew to the widest level in nearly 20 years as the KBW Nasdaq Bank index declined 39% in the first three quarters of 2020 while Nasdaq rose 20%.

In the 12 months through June 2020, from 59% to 91% of U.S. value funds across the board — large cap, multi-cap and small cap — trailed their benchmarks, according to S&P Indexes Versus Active (SPIVA). Dodge & Cox Stock Fund registered a 14% decline in 2020 through the end of September, though its performance turned sharply higher in November along with value funds in general. In the UK, the gap between large-cap value and growth funds in 2020 through August was a "staggering 25 percentage points" in favor of growth, **Morningstar** (NASDAQ: MORN) wrote.

In October, prominent quantitative value manager **AJO Partners** told its institutional clients it was throwing in the towel altogether and closing shop. "Our domestic perfor-

Traditional Investment Management Transactions

	2016	2017	2018	2019	2020
Number of Transactions	66	74	66	47	42
Combined Value (\$B)	\$11.3	\$13.3	\$17.2	\$2.8	\$18.5
Total Seller AUM (\$B)	\$1,772	\$1,281	\$1,183	\$328	\$1,686
Average Deal Size (\$M)	\$172	\$180	\$260	\$59	\$441
Average Seller AUM (\$B)	\$26.8	\$17.3	\$17.9	\$7.0	\$40

Source: Berkshire Global Advisors LP

mance is value, value, value and it's just suffered from the value glut or dirt or whatever you want to call it — rout — for the last 13 years," founder Ted Aronson told *Chief Investment Officer*. Since 2007, AJO's assets have dropped from more than \$30 billion to \$10 billion.

Underlining the woes of value, by the third quarter of last year, Apple, Alphabet (Google's parent), Amazon and Facebook each boasted market capitalizations higher than the four largest U.S. banks combined. For Apple, the market cap was nearly three times higher. "Value is dead," declared **Bank of America** (NYSE: BA) rather dramatically in a September note, adding, "The last 10 years have been even worse for value investors than the dot-com bubble." BoA blamed low interest rates, little inflation, a flatter yield curve — and of late the economic downturn — for the outperformance of growth vs. value, and said it expects growth to "probably keep winning."

As U.S. value managers continued to struggle for most of the year, their active peers weren't faring much better in the 12 months through June 2020. In 11 of 18 categories for domestic equity funds, the majority of managers underperformed their benchmarks, according to SPIVA. Two-thirds of all domestic equity funds lagged the S&P Composite 1500, which covers 90% of U.S. market capitalization. Large-cap managers remained notable laggards, with 63% trailing their benchmarks over the 12 months through June 2020. Mid- and small-cap managers were exceptions, with 56% and 53%, respectively, beating benchmarks.

In Europe, Morningstar's Active/Passive Barometer report said market volatility in early 2020 provided active managers in the region with a "once-in-a-decade opportunity to ... deliver excess returns, shielding investors from a vicious drawdown in global markets." But managers failed to produce in large numbers, with only half of equity funds beating their passive peers during the first half of 2020.

Those ongoing negative trends for active managers of all stripes aside, traditional investment managers in general enjoyed a rebound after a jarring first quarter, as markets bounced back from the pandemic-driven shock in late February and March. During that time, the S&P 500 index experienced its fastest 30% decline ever over 22 trading days, reaching a low point of negative 34%. But by the end of the second quarter the index was down just 8%, including its best one-month performance since 1987, and as the third quarter ended it had erased the losses and began an upward climb in the fourth quarter.

Accordingly, at **BlackRock** (NYSE: BLK) AUM dropped 13% between the end of 2019 and the first quarter of 2020 before rebounding by 13% in the second quarter to \$7.3 trillion. At smaller **Artisan Partners** (NYSE: APAM), AUM fell 21% between the end of 2019 and the first quarter of 2020, but jumped by 27% in the second quarter to \$121 billion. In Europe, where markets also enjoyed a comeback, **Schroders** (LSE: SDR) saw its AUM drop by £30 billion to £471 billion (\$615 billion) between December 2019 and the first quarter before climbing to £526 billion by midyear. Schroders particularly benefited from inflows into its solutions business, largely in risk-controlled growth and liability-driven investments. By the third quarter, AUM

at the 24 publicly traded asset managers tracked by *Pensions & Investments* had enjoyed a further bounce, growing to a combined \$28.4 trillion, a \$4 trillion gain from the first quarter.

Deals in the sector tracked trends of recent years, including two major consolidation transactions in the U.S. following a lull in such activity in 2019: **Franklin Resources'** (NYSE: BEN) \$4.5 billion cash acquisition of **Legg Mason**; and **Morgan Stanley's** (NYSE: MS) announced \$7 billion cash and stock purchase of **Eaton Vance** (NYSE: EV). The transactions, which took place before and after the pandemic hit, bring the total number of large consolidation deals since 2016 to six (see sidebar). In October, activist investor Nelson Peltz, who held a stake in Legg Mason prior to Franklin's acquisition, entered the consolidation picture anew by assuming shareholdings in both **Invesco** (NYSE: IVZ) and **Janus Henderson** (NYSE: JHG), leading analysts to speculate he will press for a merger of the two.

Peltz acquired 9.9% stakes in both firms via his investment company, **Triam Fund Management**. In its SEC filings, Triam noted that competitive pressures mean the largest players "will be best positioned to succeed in the industry and serve clients going forward," listing M&A as one strategy toward that goal. There was one other major deal for a traditional manager, this one crossing borders: **Macquarie Group's** (ASX: MQG) agreement in December to pay \$1.7 billion in cash for **Waddell & Reed** (NYSE: WDR), representing a 48% premium to W&R's closing price the day before the announcement. As part of the deal, Macquarie will sell W&R's wealth business to **LPL Financial** (NASDAQ: LPLA) for \$300 million (see *Wealth*).

Kansas-based W&R would add \$68 billion in AUM — almost all retail and three-quarters in equity products — to boost **Macquarie Asset Management's** total to \$465 billion. MAM already has a significant U.S. presence via its **Delaware** funds business, while the Americas region accounted for 31% of income in MAM's business in the first half of 2020 through September, on par with the Australian business. Macquarie said the deal, including the partnership with LPL, "significantly strengthens our position as a top-25 U.S." active and diversified manager.

BlackRock accounted for a fourth \$1 billion-plus deal, paying just over that amount for **Aperio Group** (AUM: \$36 billion), a specialist in tax-optimized, index-equity separately managed accounts (SMAs). The deal enhances BlackRock's existing business providing SMAs for wealth management intermediaries, increasing those assets to \$160 billion. "The wealth manager's portfolio of the future will be powered by the twin engines of better after-tax performance and hyper-personalization," said Martin Small, head of BlackRock's U.S. wealth advisory business. BlackRock acquired the 21-year-old firm from **Golden Gate Capital** and Aperio employees.

The Aperio deal highlights the growing attraction of firms offering customized index-driven portfolios, as well as the premium such companies can command from buyers. Morgan Stanley was also drawn by Eaton Vance's

Parametric unit, a leader in customized portfolios whose AUM has about doubled since 2015 to \$300 billion.

The other U.S. deals involved the sort of niche targets that have defined the sector for many years. Outside the U.S., cross border plays and smaller consolidation transactions occurred in Canada and Europe. In a year in which investment grade bond issuance in the U.S. reached a stunning \$1.6 trillion by the third quarter — 71% higher than during the same period in 2019, according to Refinitiv — fixed income managers were one target.

High-yield issuance globally also broke records, reaching \$415 billion in the first three quarters. The U.S. accounted for two-thirds of that volume, with a 78% increase over the first three quarters of 2019. “It has been remarkable the amount of volume that has come to the market,” Rich Zogheb, head of global debt capital markets at **Citigroup** (NYSE: C), told the *Financial Times* last June. “We keep waiting for investor demand to wane and for us to have a problem but we haven’t seen it.”

Charles Schwab (NYSE: SCHW) was a major buyer, paying cash for an established Florida-based manager, **Wasmer Schroeder**. With \$10.7 billion in AUM in SMAs, Wasmer enhances Schwab’s large SMA business while adding in-house fixed income strategies with “strong risk-adjusted performance track records” for Schwab’s wealthier and older clients. Previously, Schwab’s fixed income SMA business had been handled by third parties. Following the close, Schwab took its first rebranding move by wrapping the Wasmer Schroeder High Yield Municipal Bond fund under its own name. The fund (AUM: \$68 million) had the largest proportion of its holdings (39%) in triple-B securities and another 32% below investment grade.

A second notable fixed income deal in North America involved another U.S. target, **Agincourt Capital Management**. The buyer, Toronto’s **Guardian Capital Group**’s (TSX: GCG), acquired a 70% stake in employee-owned Agincourt, an institutional manager with \$7 billion in AUM. Agincourt owners will retain a “significant long-term ownership” in their firm while reinvesting a portion of the sale proceeds into Guardian shares. Agincourt pursues a “value-based” process targeting opportunities among investment grade securities. A diversified financial services firm, Guardian had C\$7.5 billion (US\$5.7 billion) in fixed income AUM at the end of 2019, more than one-quarter of total AUM. For Guardian, which acquired another U.S. asset manager in 2017 and also operates in the UK, the deal expands its non-Canadian presence.

Within the U.S., specialized equity managers also remained in demand. London-based boutique **Polar Capital Holdings** (LSE: POLR) acquired the value equity team and two related global funds from **First Pacific Advisors** of Los Angeles. The deal adds \$1 billion in AUM to bring Polar Capital’s total to \$20 billion. The two funds each hold between 30 and 50 securities and have the flexibility to maintain cash “in the absence of compelling investment opportunities.” Polar said it will provide the acquired business with “global operational support and distribution capabilities” and called the value orientation complementary to its existing strat-

egies. Polar, which has 12 other specialized investment teams, said it will establish a joint venture with the First Pacific value team.

In a second cross border deal for a value manager, **BrightSphere Investment Group** (NYSE: BSIG) of Boston sold its 75% interest in Dallas-based affiliate **Barrow, Hanley, Mewhinney & Strauss** (AUM: \$44 billion) to Australian financial services firm **Perpetual Ltd.** (ASX: PPT). The price tag was \$319 million, or eight times pro forma EBITDA. Founded in 1979, Barrow manages a variety of U.S. and international equity and fixed income funds. Barrow, which counted Perpetual among its clients, said the partnership will extend its products to investors in Asia-Pacific while ensuring continued operational independence and branding. For Perpetual, the deal triples AUM, adds new strategies and expands its global footprint. The company said it will “accelerate” investment in European and U.S. distribution to support Barrow’s growth.

A third deal involving a value manager saw **Grantham, Mayo, Van Otterloo** make a rare entrance into the M&A world to acquire a Japanese equity specialist, **Usonian Investments**, saying it “brings another differentiated alpha source to our clients.” Based in Chicago and launched in 2017, Usonian manages more than \$1 billion for institutions. GMO will offer the Usonian strategy as a standalone investment and as part of its asset allocation portfolios. Warren Buffet made news among Japanese value investors last August when **Berkshire Hathaway** (NYSE: BRK) revealed it had invested \$6 billion of its \$143 billion cash and short-term Treasury bill stash in five of the country’s major trading companies, including Mitsubishi Corp. and Sumitomo Corp.

Perpetual Ltd. stepped into the market last year for another U.S. specialist, **Trillium Asset Management**, an established ESG (environmental, social and governance) firm. Perpetual paid \$41 million for Boston-based Trillium, which has nearly \$4 billion in assets in a mix of equity, fixed income and alternative strategies. Perpetual could pay an additional earnout based on Trillium’s revenues in mid-2024. As with Barrow, Hanley, Perpetual said it will expand distribution for Trillium’s products in North America and internationally, including in Australia, where it plans to introduce new ESG offerings this year. As institutions, family offices and retail investors flock to ESG investments, firms specializing in those products have become annual targets for buyers. Last year, Morningstar said funds worldwide applying ESG principles had surpassed \$1 trillion in assets, with Europe dominating.

Multi-boutique **Spouting Rock Asset Management** acquired 65% of growth equity firm **Copper Rock Capital Partners** in combination with management in a buyout from BrightSphere Investment Group. Copper Rock, whose employees will be majority shareholders, manages small- and mid-cap international, global and emerging markets strategies for institutions. The purchase represents the entire interest of BrightSphere. In discussing its two divestitures, BrightSphere said its business will now be “much more focused” on quantitative and secondary private market strategies. In a second and larger deal, SRAM acquired a majority of **Penn Capital Management**, a

fixed income and equity manager with \$2.3 billion in AUM that is “transitioning into a new generation of leadership.” SRAM (AUM: \$700 million) was formed in 2018 by Philadelphia-area family office and investment consulting firm **Spouting Rock Financial Partners** with the aim of “hiring and partnering with boutique managers.”

In a year marked by unexpected volatility, **AllianceBernstein** (NYSE: AB) acquired Connecticut’s **AnchorPath** (AUM: \$400 million), a risk-oriented manager established in 2009. In AB’s second-quarter earnings call, President and CEO Seth Bernstein said AnchorPath brings a systematic risk overlay to the company’s multi-asset business that “will be immediately relevant to the insurance subadvisory channel as well as our global retail channel.” AnchorPath’s principal, Marshall Greenbaum, joined AB, bringing two decades of experience providing risk-protected solutions to U.S. insurers. The deal is in line with the tack-on acquisitions AB has made over the years.

There continue to be smaller tie-ups among independent firms seeking to enhance scale and cut costs while maintaining their status. One such deal last year involved two established Colorado active managers, **Shelton Capital Management** and **ICON Advisers**. Shelton subsequently restructured ICON funds into a Shelton mutual fund trust and assumed management of ICON’s emerging market fund, rebranding it under the Shelton name. The two firms also merged their respective international equity funds under the Shelton brand. For its part, ICON will subadvise a streamlined ICON domestic fund lineup. Shelton Capital, with more than \$3 billion in AUM after the deal, said the “innovative transaction” will save nearly \$2 million annually in fund costs. The company has completed six other transactions aimed at improving financial performance.

In Canada, independent mutual fund manager **Canoe Financial** added scale by acquiring the rights to manage fixed income and equity retail funds from **Fiera Investments** (TSX: FSZ) comprising C\$1.1 billion (\$780 million) in AUM. Canoe (AUM: C\$5.5 billion), which had an existing relationship with Fiera and merged the acquired funds into its own branded funds, said the deal provides “enhanced efficiencies and other benefits.” Fiera will remain as subadvisor to more than one-third of the divested AUM.

A second and larger Canadian restructuring deal took place among various subsidiaries of **Power Corporation of Canada** (TSX: POW), with **Mackenzie Financial Corp.** acquiring **GLC Asset Management Group** from **Great-West Lifeco** (TSX: GWO). GLC has C\$36 billion in AUM in a broad range of strategies, bringing Mackenzie’s total to C\$172 billion and making it a top-three domestic provider of investments to defined contribution and other group retirement plans. As part of the C\$175 million deal, Lifeco subsidiary **Canada Life** bought certain fund management contracts from Mackenzie for C\$30 million, wrapping them into a newly formed fund unit in which Mackenzie will operate as a subadvisor. A distribution agreement also makes Mackenzie a “core investment advisor” for Canada Life’s individual and group product offerings. Prior to this transaction, Mackenzie and Lifeco engaged in a “strategic partnership” involving the joint purchase of an alternatives firm (see *Credit/Private Equity*).

Within Europe, there were two mid-size consolidation deals, one a domestic UK transaction and the other a cross border affair on the continent. The UK deal saw **Jupiter Fund Management** (LSE: JUP) pay £244 million (\$315 million) in shares for **Merian Global Investors** in a merger of two retail-oriented firms with a combined £56 billion in AUM. Merian’s contribution of £16.7 billion at the time of closing last July was down from £22 billion when the deal was announced in February, including £4.3 billion in net outflows in the first half of the year. The closing price was a significant drop from the initial pre-Covid £370 million agreement with Merian owner **TA Associates**, which gains a 16% stake in Jupiter.

In the company’s midyear report, Jupiter Chief Executive Andrew Formica said the “rationale for acquiring Merian remains strong,” citing diversification of investment strategies and added distribution strength in the UK and internationally. Merian brings equity and alternatives products to Jupiter’s more balanced portfolio of equity, multi-asset and fixed income products. Both firms derive three-quarters of AUM from the UK. In December 2019, Jupiter acquired a minority stake in a newly formed U.S. global equities manager, **NZS Capital**.

In a cross border deal, **Amundi** (PA: AMUN) of Paris paid €430 million in cash (\$480 million) for the asset management business of one of Spain’s leading banks, **Banco Sabadell** (OCTMKTS: BNSDF). Sabadell adds €22 billion in AUM in Spanish-domiciled funds to double Amundi’s existing business in that country. The two firms also announced a 10-year “strategic partnership” that provides Amundi with access to Sabadell’s network of 1,900 branches in a market where banks are the main distribution vehicle for funds. Sabadell said the deal allows it to “outsource our product offering to a reliable, leading fund company” while strengthening its “commitment to providing expert advice and excellence in customer service.”

With €409 billion in assets as of 2017, according to a 2019 report from the European Fund and Asset Management Association, Spain ranks as one of the larger European asset management markets, albeit far smaller than its more affluent neighbors, with domestic retail customers dominating the market. But with AUM just 35% of GDP, Spain lags significantly behind the levels in Europe’s richer nations, providing a runway for future growth.

As ETF assets worldwide crossed the \$7 trillion mark last August — even registering positive inflows during the market slide in February and March — two major buyers cut deals for two high-profile providers. The transactions continued the ongoing M&A activity in the sector that has occurred virtually uninterrupted since the 2008-2009 financial crisis and the spike in ETF sales. With the ETF universe dominated by three major players, small ETF sellers can capitalize on the distribution muscle of a larger partner while buyers gain an existing product line.

“I get calls six or seven times a month from folks who have an ETF in the market that just isn’t getting enough traction,” Sean O’Hara, president of Pennsylvania-based **Pacer ETFs**, told *ETF.com*. “Almost every time they have

U.S. mega-deals further consolidation in fund industry

Two U.S. mega-deals last year increased the ranks of trillion-dollar asset managers while reinforcing the logic of consolidation, with both buyers paying a premium to their targets' share prices. In the process, the deals could add to the pressure from activist investor Nelson Peltz on two other large managers to merge, **Invesco** (NYSE: IVZ) and **Janus Henderson** (NYSE: JHG). Peltz revealed he had taken 9.9% stakes in both firms last October via his **Triam Fund Management** vehicle. In 2018, Invesco cut a \$5.7 billion deal for **OppenheimerFunds**, a potential check on the company jumping back into the market.

Morgan Stanley's (NYSE: MS) \$7 billion cash and stock bid last October for **Eaton Vance** (NYSE: EV), expected to be approved in the second quarter of this year, was the larger of the two deals; it also represents the largest potential asset management deal among the wave of key consolidation transactions in the U.S. and Europe that have occurred since 2016. The deal, aided by a Morgan Stanley balance sheet with 300 basis points of excess capital, followed shortly after the company closed its purchase of **E*Trade Financial Corp.** (see *Wealth*) and is in keeping with the firm's expansion into capital-light businesses with lower-risk revenue sources. "This transaction further advances our strategic transformation by continuing to add more fee-based revenues to complement our world-class investment banking and institutional securities franchise," said James Gorman, chairman and CEO.

EV would add more than \$500 billion in AUM, bringing Morgan Stanley's total asset management business to \$1.2 trillion, including complementary capabilities in areas such as socially responsible investing and fixed income. EV's **Parametric** unit also adds a large customized investment solutions business, an area that Morgan Stanley referred to in the analyst call as a "a decades-long, very strong secular trend."

Morgan Stanley, which is already the largest distributor of EV funds, would have \$5 billion in net asset management revenues in combination with EV. Added to the \$21 billion from wealth management (including E*Trade), the company would generate 58% of its revenues from asset and wealth management, with the rest from more volatile institutional securities. For EV, the deal would expand distribution via Morgan Stanley's large wealth management network, among institutions and internationally. In the analyst call, EV Chairman and CEO Thomas Faust, Jr., said Morgan Stanley's reach "overwhelms anything we could possibly put together."

In the second deal, announced in the first quarter and closed last July, **Franklin Resources** (NYSE: BEN) also capitalized on a "robust balance sheet" to pay \$4.5 billion in cash for **Legg Mason**, creating a firm with \$1.5 trillion in AUM and a broad portfolio of products, including from Legg's roster of diverse affiliates. Legg adds particular strength in fixed income and among institutional investors, both of which account for the majority of its \$800 million in AUM. The two firms also operate in numerous and similar international markets, although combined AUM outside the U.S. remains steady at 30%.

Jenny Johnson, president and CEO of Franklin, said the deal "add(s) differentiated capabilities to our existing investment strategies with modest overlap" and expands "multi-asset solutions, a key growth area for the firm amid increasing client demand for comprehensive outcome-oriented investment solutions." Franklin also emphasized that it would "preserve the autonomy" of Legg Mason's affiliates, which range from real estate advisory firm **Clarion Partners** to global equity manager **Martin Currie**.

In both deals, the acquiring firms noted anticipated synergies, amounting to \$270 million annually for Franklin and \$150 million for Morgan Stanley. Following its midyear earnings release, Franklin said that it planned to cut 8% of the post-acquisition workforce. Having announced two major deals and concluded one, Gorman told analysts the firm planned to step back from M&A. "We're very focused on integrating them successfully," said Gorman. "That's where our focus and energy has to be and will be for the next couple of years."

no distribution footprint at all." Pacer (AUM: \$5 billion) acquired three ETFs last year from two companies. These included two factor-based products from **Salt Financial** of New York that Pacer said "align with our investment approach and rules-based philosophy."

The major players that stepped into the market last year were Legg Mason and **Daiwa Securities Group** (OTCMKTS: DSEFY). Prior to its sale to Franklin Resources, Legg acquired a 19.9% stake in **Precidian Investments** with the intention of assuming a majority. Precidian is a

pioneer in active, nontransparent ETFs, where it employs proprietary ActiveShares technology that it has also licensed to more than a dozen ETF providers. Following the deal, Legg launched its first ETF using the technology, via global equity affiliate **ClearBridge Investments**. Legg called the launch of the large-cap ClearBridge Focus Value “groundbreaking” and said ActiveShares has the potential to “transform how retail investors access the best active strategies.”

Daiwa’s investment in New York’s **Global X ETFs** involved an initial \$120 million convertible bond that can become a minority shareholding in five years. The deal followed a Japanese ETF joint venture the two firms created in 2019, **Global X Japan**, which introduced its first two funds last September. Japan remains a relatively undeveloped but fast-growing ETF market, with some \$400 billion in assets as of 2019, according to ETFGI, but little retail penetration. Global X, acquired in 2018 by South Korea’s **Mirae Asset Global Investments**, called Daiwa “an ideal partner to further grow our presence in Asia.” Global X offers more than 70 ETF strategies with about \$15 billion in AUM, including various thematic funds such as Global X Robotics & Artificial Intelligence (AUM: \$1.9 billion).

In China, **JPMorgan Chase** (NYSE: JPM) capitalized on additional financial services reforms to buy out the 49% interest of its local partner in their **China International Fund Management** joint venture. The bank reportedly paid a hefty premium of \$1 billion for its partner’s stake, in the process becoming the first non-Chinese firm to assume full ownership of a domestic fund company. In 2019, JPAM bumped its stake to 51%, in line with earlier regulatory changes allowing majority control by non-Chinese firms. CIFM, established in 2004, has more than \$22 billion in AUM. In addition, BlackRock gained regulatory approval last year to form a wholly owned mutual fund business in China, while **Fidelity International** and **Neuberger Berman** were among other firms applying for the same privilege.

In Australia, listed financial services firm **Generation Development Group** (ASX: GDG) acquired a minority stake in a major retail funds ratings business by paying A\$20.1 million (\$14 million) for a 37% stake in **Lonsec Holdings**. Lonsec is a qualitative research firm that provides ratings to fund managers, superannuation funds, advisory firms and platforms. The firm also offers managed portfolios combining active investment selection and “dynamic” asset allocation. GDG, which manages fixed income products and offers a variety of investment-related administrative services, said Lonsec “will provide GDG with a highly strategic foothold in an attractive market niche of the financial services and wealth management market.” GDG is also one of the last remaining “Pooled Development Funds” or PDF remaining in Australia, a specialize investment company structure that afford’s its shareholders with capital gains tax advantages for investing in Australia domiciled growth companies.

Credit/Private Equity

Jeffrey Gundlach has been one of the most successful bond investors of the 21st century. Having made his name at **TCW** before an acrimonious exit in 2009, he then built his own bond-oriented shop, **Doubleline**, into a significant asset manager (AUM: \$140 billion). Media savvy and outspoken, Gundlach draws attention whether he’s commenting on markets or politics.

Last September, he made news during a Doubleline webcast when he fired a warning shot about complacency in a high-yield market characterized by low yields and narrow spreads in the face of an uncertain economic environment. The market could be squeezed by tighter lending standards and the downgrading “en masse” of triple-B investment grade securities, Gundlach said, leading the high-yield default rate to nearly double to 10% to 11% this year.

Although Federal Reserve policy “made it possible for [junk-rated] companies to borrow oodles of money, which they’re doing gleefully.... solvency problems depend on

Credit Transactions

	2016	2017	2018	2019	2020
Number of Transactions	10	13	22	16	13
Combined Value (\$M)	\$741	\$1,727	\$3,396	\$6,932	\$1,324
Total Seller AUM (\$B)	\$55	\$98	\$228	\$215	\$68
Average Deal Size (\$M)	\$74	\$133	\$154	\$433	\$102
Average Seller AUM (\$B)	\$5.5	\$7.5	\$10.4	\$13.4	\$5.3

Source: Berkshire Global Advisors LP

economic fundamentals,” he said, “and I am quite certain that there are many junk bonds that are priced today, or certainly were a week ago, at levels in excess of the recovery rate should they default.”

As suggested by Gundlach, 2020 was a volatile and often puzzling year for credit markets. The Covid-19 storm arriving in the first quarter battered fixed income from investment grade to bank loans, but supportive action by the Federal Reserve made fast work of the downturn. The Fed’s moves included an unprecedented intervention into the high yield market, which quickly rebounded: Yields dropped by half between March and August to an average of 5.6% while issuance set a monthly record in June of \$52 billion, according Dealogic.

Gundlach’s comments notwithstanding, the high-yield default rate between end of July and early September produced a “modest” \$2.8 billion of volume, according to Fitch, a post-pandemic low to that point. In September, Moody’s lowered a baseline high-yield default rate in the Gundlach range for both the fourth quarter (10.6%) and the first quarter of 2021 (11.3%). “Helping to explain the downshifting of the baseline default outlook were an improved outlook for corporate

Hedge Fund / Hedge Fund of Funds Transactions

	2016	2017	2018	2019	2020
Number of Transactions	11	10	13	10	13
Combined Value (\$M)	\$1,874	\$1,011	\$1,939	\$446	\$1,591
Total Seller AUM (\$B)	\$89	\$71	\$67	\$18	\$91
Average Deal Size (\$M)	\$170	\$101	\$149	\$45	\$122
Average Seller AUM (\$B)	\$8.1	\$7.1	\$5.1	\$1.8	\$7.0

Source: Berkshire Global Advisors LP

earnings and a deep plunge by the net downgrades of U.S. high-yield issuers," wrote Moody's.

In the early part of the pandemic, **Morgan Stanley** (NYSE: MS) projected that "fallen angel" debt would reach \$300 billion through the first quarter of 2021, three times its previous 2020 estimate, according to the *Wall Street Journal*. But by early September, the company had tabulated only half its revised estimate of investment-grade to high-yield downgrades. "[Fed action] really helped open up the funding markets and probably contributed to the lower number of fallen angels," Eric Bernstein, head of U.S. investment grade research at **JPMorgan Chase** (NYSE: JPM), told the Journal.

The gains and pain in fixed income weren't shared equally. Investors in sectors such as hospitality and traditional retail were particularly hard hit: By July, 24% of lodging and 16% of U.S. retail commercial mortgage-backed securities were delinquent, according to Trepp, driving an overall CMBS delinquency rate above 9%. Among industrial properties, the delinquency rate was just 1%, however. In the agency MBS market, the Fed exerted significant influence, holding \$1.9 trillion in such securities by August, \$562 billion more than in March. (The Fed's overall assets climbed by \$2.7 trillion between March and August to \$7 trillion.)

Investors in bank loans suffered a 12% loss in March that turned into a 10% gain in the second quarter. The primary market also revived in June with \$26 billion in new loan volume that exceeded the total for the previous three months, according to Doubleline. Similarly, the J.P. Morgan index for collateralized loan obligations dropped nearly 9% in March before rebounding 7% in the second quarter as spreads between the highest and lowest-rated tranches tightened.

Still, in the dominant U.S. market in the first half through mid-June, CLO volume had dropped by 53% from the previous year's period to \$28 billion, according to FitchRatings. Additionally, for new CLOs priced between April and the first half of June, shorter reinvestment periods became the norm: 80% were for less than three years compared with the usual 10%. By the third quarter, the market had begun picking up, however, with \$25 billion in CLO issuance, according to **Wells Fargo** (NYSE: WF).

Early on, opportunistic investors began sniffing around the credit markets, and major firms such as **Apollo Global Management** (NYSE: APO), **Oaktree Capital** and **Silver Point Capital** began raising related funds. Apollo also

created a new platform designed to provide about \$12 billion in corporate loans of \$1 billion each over three years, with backing from Abu Dhabi sovereign wealth fund **Mubadala Investment**. By the second quarter of 2020, Apollo's credit assets had climbed to \$300 billion. On the retail side, **Janus Henderson Group** (NYSE: ASX) launched the first-ever dedicated CLO exchange traded fund last October, comprising triple-A-rated securities with the aim of seeking "capital preservation and current income."

The uncertainty in credit markets posed by the pandemic and a foggy economic outlook didn't deter deal-makers, who maintained a steady flow of transactions in line with recent history, many within the first few months after the pandemic outbreak. As in other asset management sectors, scale is the driving force behind most transactions. Within the collateralized obligation market, for example, \$10 billion in AUM is viewed as the new threshold for significant players. Interestingly, as of September, more than half of CLO managers with less than \$5 billion in AUM had not done any new issuance, according to **Citigroup** (NYSE: C), while the largest managers had increased their market share above 50%.

The key credit deal last year delivered scale for both buyer and seller: **Sun Life Financial's** (TSX: SLF) \$338 million purchase of a majority stake in a large and established private credit firm, **Crescent Capital Group** (see sidebar). **Ares Management Corp.** (NYSE: ARES), with \$117 billion in credit AUM, was another notable buyer, cutting two diverse deals. Within the U.S., Ares acquired a "managing interest" in **Crestline Denali Capital**, adding seven CLOs with \$2.7 billion in AUM to its portfolio. Ares praised Crestline's "similar approach and philosophy toward credit investing" while Crestline emphasized Ares' "capabilities, scale and experience."

The second transaction took place in Hong Kong, where Ares bought a controlling interest in **SSG Capital Holdings**, an established Asian private credit and special situations investor with more than \$6 billion in AUM. SSG's most recent fund, closed in late 2019, raised \$2.7 billion targeting distressed assets and special situations. The acquisition boosts Ares' Asian business, but CEO and President Michael Arougheti told analysts in the second quarter earnings call that the company also plans to extend SSG's portfolio into other alternative investments such as real estate and private equity.

A second CLO deal in the U.S. between two established credit managers saw **Anchorage Capital Group** acquire the management contracts for three CLO portfolios with \$1.2 billion in AUM from **Garrison Investment Group**. Anchorage, founded in 2003 and with \$13 billion in AUM prior to the deal, manages credit, special situations and illiquid investments in North America and Europe. The company, with a particular focus on defaulted and illiquid issuers, engaged with other investors last year in a debt-for-equity swap involving J. Crew. Following a brief restructuring of the apparel company, Anchorage

emerged as majority owner. Garrison is a middle-market credit, distressed and asset-based investor that had \$3.2 billion in AUM at the end of 2019.

A third U.S. deal saw private equity firm **Clearlake Capital Group** acquire a majority of **WhiteStar Asset Management** in partnership with management. In the three years before the transaction, WhiteStar closed seven new CLOs under the "Trinitas" name while AUM climbed from \$1.5 billion to \$6 billion.

Clearlake, based in the Los Angeles area, had \$18 billion in AUM prior to the deal. **Pine Brook Capital Partners**, which invests in the financial services and energy, was the seller. "We're excited to finally be in the long-only performing credit space and believe this could be a significant growth platform for us through the launch of CLO vehicles, other funds, or potential acquisitions," Clearlake Managing Partner and co-founder Jose Feliciano told *Bloomberg*. In 2018, **Dyal Capital Partners** and **Petershill** made a minority investment in Clearlake, joining existing investor **Landmark Partners**. Dyal and Petershill operate as permanent capital vehicles for **Neuberger Berman** and **Goldman Sachs** (NYSE: GS), respectively, investing in private equity and other alternatives firms.

In another U.S. credit deal, **Blackstone** (NYSE: BX) acquired San Francisco's **DCI**, a quantitative shop with \$7.5 billion in AUM across a range of credit products. DCI will be wrapped into Blackstone's credit unit (AUM: \$135 billion). DCI CEO Tim Kasta said the connection to Blackstone will provide his firm with "unparalleled institutional resources ... and accelerate the development of innovative solutions in corporate credit." In an interview with *Creditflux* last August (prior to the deal), Kasta described DCI's long-short, market-neutral strategy, saying the firm targets the most liquid five-year corporate credit default swap contracts with the goal of capitalizing on individual mispricings. "On average, it takes two to six months for credit prices to converge to our model spreads," he said, noting that exposure and volatility can impact the time frame.

The European front was quiet, but there was one significant deal between two alternatives firms in which London-based **Bridgepoint Advisers** acquired the credit business of Sweden's **EQT Partners**. Established in 2008, **EQT Credit** has €5.6 billion (\$6.6 billion) in AUM (including committed capital) and targets direct lending and special situations. Bridgepoint, a private equity investor in such industries as consumer, financial services and healthcare, said the deal provides portfolio diversification while adding exposure in the Nordic countries, Germany and the U.S.

For EQT, credit was the smallest of its three businesses — private capital and real assets are the other two — and the sale reflects its focus "on investment strategies which can fully utilize EQT's governance and ownership impact model." In 2017, EQT Credit closed its third opportunities fund with €1.3 billion in capital and a focus on medium-term opportunities in "complex situations" via the secondary market and through "creative capital solutions" for companies unable to access the capital markets. The

Private Equity Fund Transactions

	2016	2017	2018	2019	2020
Number of Transactions	10	13	18	19	12
Combined Value (\$M)	\$638	\$4,223	\$1,831	\$2,468	\$1,863
Total Seller AUM (\$B)	\$78	\$118	\$118	\$98	\$192
Average Deal Size (\$M)	\$64	\$325	\$102	\$130	\$155
Average Seller AUM (\$B)	\$7.8	\$9.1	\$6.6	\$5.2	\$16.0

Source: Berkshire Global Advisors LP

Nordic region accounted for 57% of commitments in that fund, which remains active. In 2019, EQT raised the equivalent of \$600 million through a partial IPO, saying the capital would be used to drive growth "across geographies and investment strategies."

Two additional transactions for alternatives firms incorporated a credit element. **Investcorp** of Bahrain and **Tages Group** of Italy merged their respective absolute return businesses into a 50-50 joint venture with more than \$6 billion in assets, **Investcorp-Tages**. The companies, which have no client overlap, said the combined business will offer a broader product lineup, including multi-manager portfolios across hedge funds, private debt and impact investments. The two firms also said their combined experience seeding emerging alternative managers "would create one of the global leaders" in that area. Several months after the May announcement, Investcorp-Tages was the anchor investor in a \$100 million long-short equity fund launched by New York startup **Hickory Lane Capital Management**. In touting Hickory Lane's "fundamental equity analysis" in sectors such as industrial and consumer, Investcorp-Tages said "there are many opportunities to capitalize on misplaced assets in the market."

In the second deal with a credit component, **Affiliated Managers Group** (NYSE: AMG) continued to expand its network of alternatives firms by acquiring a minority interest in **Comvest Partners**, an established middle-market credit and private equity firm with \$3.7 billion in AUM. Comvest management said it will invest all of the transaction proceeds into future funds. Comvest typically offers credit facilities between \$25 million and \$200 million for companies with revenues above \$20 million. Last August, for example, it teamed with **Morgan Stanley Private Credit** as co-lead arrangers for \$90 million in junior capital securities for a U.S. manufacturer of paper products.

In discussing the Comvest deal with analysts during an earnings call, AMG President and CEO Jay Horgen said the partnership was structured to facilitate investment "over time and in line with the growth of their business, which enables AMG to put more capital to work in higher growth scenarios and provides a level of protection in lower growth scenarios." Alternatives comprise 37% of AMG's \$770 billion in AUM, making it the No. 2 asset class behind global equities (42%). AMG also made a "modest investment" and entered a "strategic partnership" with **iCapital Network**. Founded in 2013, iCapital is an alternative investments platform for financial advisors and asset managers that AMG said its affiliates can utilize for access to such strategies.

The private equity industry began the year with \$1.4 trillion in dry powder and by the second quarter was reviewing an investment landscape unexpectedly awash with opportunities as well as risk. Simultaneously, private equity firms were grappling with diminished valuations and bankruptcies among companies in their own portfolios. Institutions remained faithful: By midyear, industry dry powder had climbed to \$1.5 trillion, according to Preqin, while buyouts in the second quarter dropped to half the level of the comparable 2019 period.

In the secondaries market, which set a record for dollar volume in 2019, volume dropped by 56% in the first half compared with the 2019 period as deal size and the number of transactions declined, according to **Setter Capital**. But on the fundraising side, secondaries added a robust total of \$44 billion in the first half, according to Preqin, including a \$19 billion fund from **Ardian** that drew 275 institutional investors from 40 countries.

The numbers at publicly traded firms were starting to recover, too. At Blackstone, net accrued performance revenues rose by \$521 million to \$2.7 billion between the first and second quarters, although that was still down from \$4.3 billion in the final quarter of 2019. Many firms were also capitalizing on demand for corporate debt to pay themselves dividends via their portfolio companies. Citing data from S&P Global Market Intelligence, the *Financial Times* reported that private equity dividend recapitalizations accounted for 24% of the U.S. loan market in September, well above trends in recent years.

Given the turmoil and uncertainty wrought by the pandemic, perhaps it isn't surprising there were just a handful of transactions involving private equity targets last year, following an active 2019. Importantly, the roster of firms that acquire stakes in private equity and other alternative firms kept their own powder relatively dry even as they raised more money: By last summer, Blackstone's Strategic Capital Holdings vehicle had raised most of the \$4 billion for its latest such fund, according to *WSJ Pro Private Equity*.

Neuberger Berman's Dyal Capital Partners launched a fifth fund last year aiming for \$5 billion in capital, having closed a fourth in late 2019 with \$9 billion in commitments. Dyal also reportedly securitized \$1 billion of future income payouts from management fees at its partner firms to provide payouts to investors in its third fund. That fund, with \$5.3 billion in commitments, was closed in 2017. In an interview last February with Bloomberg TV, Michael Rees, Dyal head and managing director, said the major private equity players have been shifting from a "buy and sell business 10, 20 years ago into.... firms [that] create platforms that can go in and transform a company." While that might take longer than the "original model," he said, it can "really drive value creation over time to generate returns for investors."

Dyal engaged in one deal for the sale to Australia's **Navigator Global Investments** (ASX: NGI) of minority ownerships in six established alternative managers Dyal held in its various funds. But the transaction was structured so that Dyal retains an economic interest in the portfolio of companies through 2025, after which it will receive a final performance-based payout. Navigator (AUM: \$12 billion) is

the parent company of U.S.-based **Lighthouse Investment Partners**, a multi-manager hedge fund.

Hedge funds predominate among the six managers, which have a combined \$35 billion in AUM, but two of the companies manage credit-related strategies. One of those, **Waterfall Asset Management** (AUM: \$8.3 billion), also runs a private equity platform providing flexible equity capital to middle-market financial services firms. Navigator said the addition will diversify and "materially increase" its earnings with "high-quality institutional alternative" boutiques whose earnings have low correlation with one another and with Navigator's existing business. In the August earnings call, CEO Sean McGould also touted the connection with Dyal, saying "we expect to be able to partner with them on individual transactions for Navigator and things they may do in their funds as well."

Subsequently, in late December, Dyal agreed to merge with one of the firms in which it holds a minority stake, **Owl Rock Capital Group**, with the combination going public on the New York Stock Exchange via a special purpose acquisition vehicle, **Altimar Acquisition** (NYSE: ATAC). Altimar is controlled by an affiliate of another Dyal partner, **HPS Investment Partners**. The resulting company, **Blue Owl Capital**, will have \$45 billion in AUM and an expected market capitalization of \$12.5 billion; the transaction is expected to close in the first half of this year. Owl Rock's direct lending business to middle- and upper-middle-market private equity-sponsored companies complements Dyal's capital solutions focus for alternatives firms.

Formed in 2016, Owl Rock has \$24 billion in AUM. The combined firm is projected to have a 65% pre-tax operating margin in 2021 while EBITDA is projected to double to \$1.2 billion by 2025. Doug Ostrover, an Owl Rock co-founder who will serve as CEO of Blue Owl, said the combination "will enable us to offer a holistic platform of capital solutions to private equity firms and privately held businesses.... and provide us with unrivaled access to compelling investment opportunities."

A newly formed permanent capital vehicle, **RidgeLake Partners**, acquired a minority interest in an established secondaries manager, **Newbury Partners**. The companies said the investment "will support the future growth of Newbury and strengthen the firm's alignment with its global investor base." A partnership between **New York Life Insurance** subsidiary **PA Capital** and **Ottawa Avenue Private Capital**, RidgeLake targets minority investments in private equity firms focused on the middle market and pursuing a variety of strategies. Formed in 2006, Newbury has completed more than 250 transactions and manages \$5.5 billion in capital commitments.

In 2018, Newbury closed its latest fund, capitalized at \$1.4 billion and targeting small to mid-sized transactions in North America and Europe. The company makes investments of up to \$250 million but with no minimum. RidgeLake was launched last year with \$500 million in capital from its two partners but with the aim of doubling that number from other investors, according to *Private Equity International*. In an interview with PEI, Todd Milligan, managing director at PA Capital, said limited partners "typically" invest in lower and middle-market strategies

Sun Life adds private credit to its alternatives portfolio

Sun Life Financial's (TSX: SLF) \$338 million purchase of a 51% stake in **Crescent Capital Group** led deals in the credit sector last year, extending the Canadian firm's alternatives portfolio while providing Crescent with the financial muscle of a large parent. As part of the deal, which includes an upfront payment of \$276 million and a future performance-based one of \$62 million, Sun Life committed to co-investing up to US\$750 million in Crescent investment strategies. With additional call and put options, Sun Life could assume full ownership of Crescent five years after close.

Based in Los Angeles, Crescent is one of the larger independent credit managers (AUM: \$28 billion) and also one of the most established, having opened its doors in 1991. Crescent will continue to operate independently and retain its branding and offices, but will be wrapped into Sun Life's alternatives asset manager, **SLC Management**. SLC had C\$262 billion (US\$193 billion) in AUM prior to the deal.

Crescent manages a broad portfolio, led by mezzanine lending (29% of AUM), U.S. direct lending (16%), collateralized loan obligations (16%), and high-yield and leveraged loans (14%). The company, which since 2011 has averaged annual AUM growth of 13%, serves a global investor base of more than 600 institutions, three-quarters in North America. In 2017, Crescent raised \$4.6 billion from investors in more than 20 countries for its seventh mezzanine fund, exceeding its \$3 billion target.

Discussing the mezzanine business on the company's website, Managing Director Chris Wright said Crescent has been reviewing 250 to 300 deals annually for the last 25 years. "At this point in time we have a vast data base of deals that we've looked at, of companies that we've investigated, and competitors," he said, adding, "Our execution capabilities have been honed over a number of years, and we can move very quickly, particularly in situations where it could give our client — the private equity sponsor — a differentiated advantage."

For Sun Life, Crescent adds credit strategies and related investment opportunities while significantly increasing alternative third-party assets to C\$143 billion — three times the total in 2015. "We've been looking to expand our alternative credit capabilities for some time now, offering our clients a broader, deeper array of investment solutions across the public and private credit markets," said Steve Preacher, president of SLC Management.

The transaction continues the string of deals Sun Life has made for alternative managers since 2015, when it acquired North American real estate asset manager Bentall Kennedy Group. In 2018, Sun Life added Green Oak Real Estate, merging it with Bentall to form **Bentall Green Oak**, in which it holds a 56% interest. In 2019, Sun Life acquired a majority of **InfraRed Capital Partners**, a global infrastructure and real estate asset manager. In 2015, the company cut deals for two U.S.-based fixed income managers specializing in liability-driven investment, in part to build the client base for the higher-yield and more profitable alternative products it has subsequently acquired.

to diversify, adding, "We think that that the same complementary exposure applies here for [general partner] stakes," he said.

A major acquisition last year involving the permanent capital vehicles saw **Goldman Sachs** (NYSE: GS) purchase about a 10% stake in **Permira** via its **Petershill** alternatives investment arm. The deal reportedly valued Permira at €5 billion (\$5.9 billion). Permira, with €44 billion in committed capital, closed an €11 billion fund in 2019 focused on such sectors as technology and financial services. Petershill also acquired a minority stake in real estate private equity firm **Oak Street Real Estate Capital** (see *Real Assets*).

In the thick of the pandemic, **Kudu Investment Management** bought a minority interest in a small but established private equity firm specializing in

impact investments, **Creation Investments Capital Management**. Chicago-based Creation manages \$700 million in private funds and "other vehicles" in the developing world, focusing on firms engaged with microfinance, small- and medium-sized enterprise credit, and other financial services. Kudu, backed by **White Mountains Insurance Group** (NYSE: WTM), praised Creation's "exceptional ability" to serve its market while delivering strong financial returns. Kudu provides permanent capital solutions to asset and wealth managers. In the fourth quarter of 2019, White Mountains increased its capital commitment to Kudu by \$100 million to a total of \$350 million, two-thirds of which was undrawn by June 2020. (Kudu also invested in Ohio wealth manager **Sequoia Financial Group**; see *Wealth Management*.)

In Canada, demand for private equity and other alternative investments drove **Mackenzie Financial Corp.** and **Great-West Lifeco** (TSX: GWO) to acquire a 49.9% voting interest and a 70% economic interest in **Northleaf Capital Partners**. An acquisition vehicle jointly owned by Mackenzie and Lifeco paid C\$245 million (\$185 million) for Northleaf and could add a contingency payment at the end of five years based on “exceptional growth in performance measures.”

Lifeco is majority-owned by **Power Corporation of Canada** (TSX: POW) while Mackenzie is a subsidiary of wealth and asset manager **IGM Financial** (TSX: IGM), also majority-owned by Power Corp. IGM and Lifeco committed to investing at last C\$700 million over about two years in Northleaf products. The transaction broadens Mackenzie’s investment portfolio as it seeks to meet “our clients’ appetite for diversification” and adds alternative investments to Lifeco’s balance sheet. In addition to private equity, Northleaf invests in private credit and infrastructure; it has US\$14 billion in commitments under management. (Separately, Lifeco paid US\$3.4 billion for the retirement service business of **Massachusetts Mutual Life Insurance Co.**)

Real Assets

The Covid-19 pandemic accelerated divergent trends in two sectors of the U.S. commercial real estate market — industrial and retail — and in the process delivered two stark examples of the divide. Last July, Amazon announced it was on track to open 33 new fulfillment centers, or an additional 35 million cubic feet of space. Two months later, **Simon Property Group** (NYSE: SPG) and **Brookfield Property Partners** (NASDAQ: BPY), two major mall owners, said they had agreed to pay \$800 million (including debt) to take retailer J.C. Penney out of bankruptcy, assume ownership of most of the stores, and thereby sustain a significant tenant.

For Simon Property, the J.C. Penney deal marked the third time it had intervened in 2020 to prop up a high-profile retail tenant amid a wave of related bankruptcies. The travails of U.S. retail property — already facing the headwinds of changing consumer habits before the pandemic — showed up in the data for related commercial mortgage-backed securities, which registered a special servicing rate of 18% last September, according to Trepp. The only property class surpassing retail for CMBS delinquencies was lodging, at 26%.

“The pandemic is further altering the retail landscape, leading to retailer bankruptcies and property cash flow volatility and long-term value decline for non-core properties,” wrote Fitch in September. Simon Property was reportedly engaged in talks last year with Amazon about converting empty department stores into distribution centers, indicating one potential strategy for mall owners seeking to repurpose and reinvigorate their holdings.

By contrast, industrial CMBS, which includes the warehouses and distribution centers coveted by Amazon and other e-commerce players, had a special servicing rate

of just 1% in September. The U.S. story was mirrored in the UK, where the logistics market set a leasing record in the 2020 second quarter of nearly 13 million square feet, according to **CBRE Group** (NYSE: CBRE), 64% above the same period in 2019. Online retail accounted for 44% of the take-up. “The logistics sector has gone from strength to strength through some testing times for the wider market,” wrote CBRE in the UK.

The shift was evident in the maneuvers of real estate advisory giant **PGIM Real Estate**, which acquired a large portfolio of industrial properties in Germany, Singapore and the U.S. in the second half of 2020. In reviewing the five properties it bought in Germany, PGIM said it had “achieved our aim of allocating a high proportion” of the assets in its European core strategy fund to logistics. The company noted the “increasing online retail-related demand and a shifting trend for industrial companies to carry larger and more robust inventories as part of their supply chain management.”

In a pandemic-driven environment where offices cleared out and remote work became normalized, the office market also faced uncertainty, with previously red-hot urban areas suddenly losing some of their allure. In the U.S., CBRE projects 2020 will deliver the first negative net absorption of office space since 2009. In Europe’s main markets, take-up is expected to decline 40%, exceeding any single-year drop during the financial crisis. Asia-Pacific is expected to show a similar decline in demand. Accordingly, CBRE projected that rents would fall in the single digits to 10% throughout those regions. Meanwhile, global commercial real estate investment was \$109 billion in the second quarter of 2020, a 57% drop from the same period in 2019 and the lowest quarterly total since 2012.

Despite the disruption and uncertainty wrought by the pandemic, institutions continued to commit capital to real estate funds, banking on the diversification and anticipated income and returns they offer over the long term. “The black swan event that was the coronavirus outbreak may lead to a reduction in valuations, giving rise to potential outperformance by funds able to deploy capital in a repriced environment,” wrote Lisa Knee, leader for **EisnerAmper’s** real estate private equity group, last August.

Although the number of private real estate funds closing worldwide dropped 28% between the first and second quarters of 2020 to 58, the fundraising increased and was also higher than the 2019 second quarter, according to Preqin. Size dictated fundraising success, with 75% of the global capital going to the largest 11 funds of \$1 billion or more. In the first half in North America, however, private equity fundraising was far off the 2019 full-year mark while real estate dry powder rose to a record \$147 billion.

Among the funds closed was **Blackstone’s** (NYSE: BX) Real Estate Partners Europe VI, which gathered €9.8 billion (\$10.7 billion) for the firm’s largest-ever European fund. Last September, Blackstone also closed an \$8 billion real estate debt fund that was the largest such fund of its kind and well above the original \$5 billion target set in 2019. “There’s an expectation that there will be a greater opportunity in real estate debt than there has been,” Jonathan

Pollack, global head of Blackstone Real Estate Debt Strategies, told the *Wall Street Journal*.

Those sort of expectations across the real estate universe led investors from family offices to institutions to funnel cash to a range of opportunistic funds created last year. In April, for example, **Kayne Anderson Capital Advisors** raised a \$1.3 billion distressed real estate debt fund in just two weeks. "Having built up a good track record made it a lot easier to make those phone calls where we could, on short notice, say, 'Remember when we turned away the capital you wanted to give us? We're ready now,'" Andrew Smith, co-portfolio manager of Kayne's real estate debt platform, told *PERE*.

On the transaction front, demand for real estate asset managers remained steady in a volatile year, delivering several notable deals in the world's key markets. Three of the deals were carried out by two of the UK's largest asset managers as part of their ongoing efforts to expand their real assets capabilities. The U.S. was the center for several strategic domestic and cross border deals, including **Neuberger Berman's** acquisition of **Almanac Realty Investors**. Almanac's strategy involves investing in independent real estate firms seeking growth capital rather than directly in properties. Neuberger said Almanac's focus complements its existing portfolio of \$1.8 billion in REIT strategies, real estate private equity secondaries, and public and private mortgage credit. Almanac, which will operate as a distinct platform within Neuberger, has committed \$5.5 billion to private and public companies in North America since 1996.

In explaining Almanac's strategy during a webcast with PREA, Managing Partner Matt Kaplan said ownership of a corporate entity provides "transparency into what's going on with the management company and the managers and the people who actually touch the buildings every day. We like that because it's alignment of interests." That kind of structure calls on "corporate finance and governance skills which you might not need in a joint venture," Kaplan said, in addition to underlying real estate acumen. In its financial arrangements with public companies, Almanac often assumes convertible preferred shares while with private companies the terms generally involve convertible debt as well as warrants and common equity. In 2018, Almanac closed its most recent fund of \$1.9 billion plus another \$360 million for sidecar co-investment vehicles.

A second deal in the U.S. involved the **Petershill** alternatives investment unit of **Goldman Sachs** (NYSE: GS), which acquired a minority stake in **Oak Street Real Estate Capital**, a private equity firm specializing in single-tenant net leases. For Oak Street, founded in 2009, the connection with Petershill will enhance its fundraising and other capabilities "to accelerate growth" and "our vision to continue innovating the net lease sector." In 2019, Oak Street closed its largest-ever fund, of \$2.5 billion.

Oak Street's strategy involves acquiring properties from investment-grade tenants — primarily retail stores and

Real Assets Transactions

	2016	2017	2018	2019	2020
Number of Transactions	18	30	44	23	17
Combined Value (\$B)	\$2.9	\$3.3	\$7.2	\$3.2	\$1.7
Total Seller AUM (\$B)	\$151	\$184	\$228	\$107	\$78
Average Deal Size (\$M)	\$161	\$109	\$164	\$139	\$99
Average Seller AUM (\$B)	\$8.4	\$6.1	\$5.2	\$4.7	\$4.6

Source: Berkshire Global Advisors LP

warehouses — and then leasing them back to those same firms. For example, last November *Real Deal* reported that Oak Street paid more than \$7 million for a South Florida Walgreens store, with the pharmacy subsequently signing a 17-year lease. The strategy allows businesses to generate capital from a non-core asset while the partners in Oak Street funds collect income from the properties. Amid the early months of the Covid pandemic, Oak Street CEO and co-founder Marc Zahr told *PERE* that the goal of the founders was "to create something that could perform in any economic environment... [and] could withstand really bad events." By year-end Zahr told the *Wall Street Journal* that Oak Street had collected rents in full during the year.

A transatlantic deal saw **PineBridge Investments** of New York acquire London-based **Benson Elliot Capital Management**, a private equity real estate manager with \$3.5 billion in assets across a diversified European portfolio. Founded in 2005, Benson pursues a value-add strategy that is risk-sensitive and "exit focused" and has delivered a 14% net internal rate of return across its various funds. The most recent of its four European funds raised €836 million (\$980 million) and closed in 2019, boasting a repeat investor rate of more than 95% from the prior fund. PineBridge (AUM: \$105 billion) said Benson expands its alternatives portfolio, calling real estate "a strategically important asset class for institutional investors ... looking to meet their long-term investment objectives, especially during a period of low real interest rates."

In a second transatlantic deal, **Bonaccord Capital Partners** acquired a minority stake in San Francisco's **Spear Street Capital**, an owner and operator of office properties in North America and Europe. Established in 2001, Spear Street has invested in more than 70 properties representing \$8.6 billion in total value; its most recent investment partnership was formed in 2019. The company targets assets and portfolios above \$25 million in value where it can enhance performance with renovations, creative leasing efforts and adaptive re-use strategies. Bonaccord, a division of **Aberdeen Standard Investments** (ASI) of the UK, acquires "long-term interests" in private markets managers. Bonaccord, which will "provide capital to support the future growth" of Spear Street, praised the company's "world-class investment platform, with an exceptional long-term track record of investment success."

Last year, Bonaccord also announced a strategic partnership with Houston family office and investment advisor **CAZ Investments** that is expected to make \$250 million in commitments to ASI mid-size general partner strategies

“over multiple investment cycles.” CAZ has itself invested more than \$750 million in GP minority strategies. “Sophisticated private markets investors like CAZ continue to develop away from passive [limited partner] investments and into pursuing deeper, holistic relationships with their GPs,” said Peter McKellar, global head of private markets for ASI.

Within the UK, ASI tapped a hot sector by acquiring a 60% interest in **Tritax Management**, a specialist logistics real estate fund manager with £5.1 billion (\$6.8 billion) in AUM in the UK and continental Europe. Established in 1995, Tritax invests in the logistics pipeline from large warehouses employed by the major online retailers through to the last-mile deliverers. Tritax’s portfolio includes two of Europe’s leading listed industrial logistics funds. ASI said the deal “significantly enhances our already strong real estate franchise in an area of the market which benefits from accelerating trends.” ASI has £37 billion in real estate AUM, 8% of total AUM.

In a cross border deal targeting an Asian real estate advisor, **Schroders** (LSE: SDR) acquired a majority stake in **Pamfleet**, an established value-add real estate advisory firm with \$1.1 billion in AUM. The company’s most recent fund, closed in 2019, was for \$450 million and targeted Hong Kong and Singapore properties. Calling Pamfleet a leader in value-add Asian real estate, Schroder said the addition will “provide extra choice” for its clients. The deal marks the third year in a row that Schroders has acquired a real estate investment firm, with the other two deals taking place in Europe. As of midyear 2020, Schroders had £45 billion in private assets and alternatives (9% of total AUM), with the largest share (36%) in real estate.

Unlisted infrastructure funds ended 2019 and began 2020 with the two largest quarterly fundraising totals ever, according to Preqin. In the second quarter, the Covid pandemic delivered an abrupt blow: fundraising declined 70% from the first quarter to \$12 billion. Second-quarter deal activity also dropped sharply. Preqin attributed part of the deal decline to “ongoing disruptions in key supply chains necessary to bring large-scale projects to completion” and held out the potential for a second-half rebound as lockdowns began to end.

The third quarter did deliver better news: Fundraising climbed by 56% from the second quarter, with the capital concentrated among larger funds. At the same time, the proportion of funds taking more than 18 months to close “has increased notably” over the course of the year, Preqin noted. “I think the need for infrastructure investment is not going away despite what is going on,” David Lebovitz, global market strategist at **J.P. Morgan Asset Management**, told *Pensions & Investments* last May. “It’s an asset class in which investors are under-allocated.... I see pretty significant room for growth.”

There were two infrastructure deals of note on both sides of the Atlantic in an arena where the opportunity to buy such dedicated companies is limited. Alternatives asset manager **Tikehau Capital** (PA: TKO) of Paris cut a cash-and-shares deal for **Star America Infrastructure Partners**, a developer and manager of mid-size infrastructure

projects in North America. Star, with \$600 million in AUM and a heavy tilt toward U.S. institutional investors, has particular expertise in public-private partnerships in such areas as transportation and the environment. Tikehau (AUM: €26 billion), a European-focused investor, said the deal provides diversification into a “promising asset class and boost(s) its strategy to expand in North America.”

In an all-UK deal, infrastructure and private equity manager **Foresight Group** acquired **Pensions Infrastructure Platform**, adding £1.8 billion (\$2.3 billion) in infrastructure assets to the £4.5 billion it already managed. Established in 2013 with backing from British pension funds, PIP manages a portfolio of 17 assets, primarily through its Multi-Strategy Infrastructure fund. Foresight, which has been investing in infrastructure for more than 13 years, had a total of £4.5 billion in AUM prior to the deal. PIP said it will have more resources and attract greater investment as part of a larger platform.

Wealth Management

In 1983, Ron Carson founded a financial advisory firm from his dormitory room at University of Nebraska. Raised on a farm north of Omaha, Carson drew his initial clients from similar families he knew. As he sought to build his business in the years after, he drove as many as a thousand miles a week across Nebraska to visit clients, in the process discovering the value of the personal touch. “I learned that if you took a genuine interest in people, got to know them, and could provide random acts of kindness, they would be open to having a conversation with you,” he told *Citywire* in 2018.

Over the decades, Carson turned his dorm room startup into a thriving business: By the first quarter of 2020, **Carson Group** was managing \$12 billion in assets directly and via its partner firms. Then the Covid-19 pandemic struck, and suddenly the up-close-and-personal service that wealth managers such as Carson had cultivated over a lifetime was undone. Overnight, webinars, podcasts, blogs, Zoom, Webex and other Internet communication tools took centerstage. Meanwhile, advisors decamped to their home offices or carved out work spaces in tight quarters.

Chalk up 2020 as the year financial advisors in the U.S. and around the world learned to manage their clients remotely while ditching the office. Although the changes were jarring for an industry steeped in tradition, firms adapted, albeit with varying success depending upon resources and flexibility. In an interview with *Barron’s* last June, Carson sounded a common theme when he predicted that “a big percentage” of client meetings “will go permanently virtual,” adding, “If you don’t have a great digital experience this is going to be a major separator in the future. Most people are going to demand it. And without it, you’re not prepared for the next pandemic or catastrophe that hits.”

Mike Durbin, president of **Fidelity Institutional**, which serves 13,000 advisory firms, expanded on Carson’s thoughts by suggesting a premium will be placed on “remote-first design.” That, he explained to *Barron’s*, involves flipping the question of how to digitize “an existing physical

process or interaction” into “why would I ever do this interaction or process in person?”

A Fidelity survey last June showed a significant number of advisors comfortable using the internet to connect with existing clients and make pitches for new ones. In a second-quarter earnings call, **Focus Financial Partners** (NASDAQ: FOCS) Chairman and CEO Rudy Adolf noted that the company’s partner firms had attracted “very large” wealthy clients without in-person meetings. “This is unheard of in this industry,” he said, adding that “very wealthy clients” are making “decisions remotely that would have never happened in the past.”

The workplace is also undergoing a significant re-evaluation. Michael Rossman, chief operating officer of California-based **Aspiriant**, expects a flexible model to emerge. “As we evolve into widely different ways of working, especially if you consider each individual’s home environment, we have to be willing to say what is permissible for Jane may not be permissible for Joe,” he told **Morton Capital** and **PFI Advisors** in an interview. “That will be a shift in our culture at Aspiriant, and one we just have to be okay with and embrace.”

Outside the U.S., executives were posing similar questions — and engaging remotely with clients in previously unimaginable ways. On a video call with one wealthy family, David Durlacher, CEO of **Julius Baer’s** (SWX: BAER) UK entity, provided an impromptu lesson on proper technique for cooking an omelette. “The advantage of being on a video conference was that I was able to help them by demonstrating,” he told the Financial Times. In reviewing the landscape in Asia, McKinsey suggests clients will “make an enduring shift from ‘branch-first’ to ‘digital-first’ ways of engaging” with advisors and customer service.

As the year started, wealth managers were already confronting multiple ongoing challenges, from paying for state-of-the-art technology to robo advisor competitors to pressure on fees that have squeezed margins. Still, the robust performance of financial markets and the growing ranks of millionaires and mass affluent since the 2008-2009 financial crisis left the industry as a whole in a strong position when the pandemic struck.

Between 2012 and 2018, the number of high net worth (HNW) individuals (\$1 million or more in investible assets) worldwide increased by an annual average of 7.1%, according to Capgemini. In 2019, that rose to 8.8%, with North America topping all regions with a 10.9% gain. On the business side in North America, between 2015 and 2019 median assets per advisor rose by an annual average of 8.4% to \$120 million while median revenue per advisor rose 5% annually to \$717,000, according to McKinsey. But asset-based fees as a percent of revenues have also been climbing sharply, from 49% to 69% of overall gross production since 2015, leaving advisors vulnerable when markets tumble, as they did last March and April.

For deal-makers, the shock of the pandemic put a damper on activity in the second quarter as wealth managers

Wealth Management Transactions

	2016	2017	2018	2019	2020
Number of Transactions	76	80	112	119	144
Combined Value (\$B)	\$6.5	\$5.3	\$9.7	\$5.6	\$10.5
Total Seller AUM (\$B)	\$298	\$334	\$598	\$284	\$891
Average Deal Size (\$M)	\$86	\$66	\$87	\$47	\$73
Average Seller AUM (\$B)	\$3.9	\$4.2	\$5.3	\$2.4	\$6.2

Source: Berkshire Global Advisors LP

prioritized client servicing to the exclusion of everything else while buyers paused to assess the market. In the U.S., **Fidelity Investments** counted just 10 deals for RIAs and independent broker-dealers between March and May. But unlike the financial crisis, after which transactions dropped sharply from the pre-crisis levels, buyers and sellers quickly regrouped. By June and July, Fidelity had tallied the highest two-month deal number (27) since it began tracking such data in 2016, and the third quarter delivered a similarly robust marketplace.

The rebound was driven by several factors that were less prominent during the last crisis. A critical one has been the emergence of deep-pocketed private equity firms with investments in ambitious consolidators. A second factor is the cost pressure on smaller firms driven by post-crisis regulations and the need to update technology. In an arm’s-length environment, the latter issue has become particularly critical, yet a post-Covid report by **Morgan Stanley** (NYSE: MS) and **Oliver Wyman** underscores the tech strides firms still need to make. The report notes that retail banks updated their mobile apps almost twice as often as “pure-play” wealth managers in 2019 and called the industry’s tech footprint “immature relative to other financial service industries.”

A third factor driving sales is simply the logic of scale that has been driving M&A since the financial crisis. Finally, there’s the influence of Father Time: Many baby boomer owners have added another decade since the financial crisis and are simply ready to cash in and enjoy the fruits of their labors. For others who were on the fence regarding a sale, the prospect of working through another crisis is daunting. “If you were older and you were thinking about exiting, you could have taken the position, ‘Well, I’ll just wait another year and I’ll grow more,’” **Creative Planning** CEO Peter Mallouk told *Wealthmanagement.com* last June. “Covid-19 was a reminder that things can change and you can wind up in a recession for years now, and maybe you’re not committed to being in the game that long.”

Still, the immediate pickup in activity left some players uneasy about the trajectory of valuations. A significant one was Focus Financial, which during the second quarter cut just one deal via an affiliate. In the company’s August conference call, Rudy Adolf referred to “some pretty unusual multiples” in recent industry transactions while emphasizing that his company would remain disciplined. “We will be maintaining our return hurdles,” he said, noting that half the company’s deals deliver an internal rate of return “north of 30%.”

Retail Brokerage Firm Transactions

	2016	2017	2018	2019	2020
Number of Transactions	10	4	12	5	5
Disclosed Value (\$M)	\$3,070.8	\$3,599.0	\$632.8	\$1,839.2	NA
Average Deal Size (\$M)	\$512	\$1,800	\$127	\$613	NA

Source: Berkshire Global Advisors LP

Focus' own valuation climbed sharply during the year, with the share price rising from a low of \$12 in March to the mid-\$30s by August, about on par with the IPO pricing in 2018. The company's acquisition pace also picked up in the third quarter, including the addition of another partner firm, Chicago's **InterOcean Capital**. Founded in 2005 and with \$2.5 billion in assets, InterOcean said Focus provides "access to the growth capital and other resources that will help us accelerate the expansion of our business."

Focus was joined in the market by several other large, publicly traded North American firms. Toronto's **CI Financial** (TSX: CIX) was a notable participant, engaging in multiple acquisitions on both sides of the border on top of the two it made in the U.S. in late 2019 (see sidebar). In an interview with *Investment Executive*, CEO Kurt MacAlpine said that CI Financial could add C\$10 billion (\$7.6 billion) to C\$15 billion a year in new wealth assets via acquisitions. "Our pipeline is absolutely phenomenal," he said, emphasizing the firm's growing profile in the U.S.

Another was **Franklin Resources** (NYSE: BEN), which acquired two firms prior to Covid-19 in a bid to add scale to its wealth subsidiary, **Fiduciary Trust Co. International**. (Franklin also acquired **Legg Mason**; see *Traditional Investment Management*.) The two targets, **Athena Capital Advisors** and **Pennsylvania Trust Co.**, added a combined \$10 billion in AUM to the \$19 billion Fiduciary already managed while enhancing the company's footprint. In Franklin's second-quarter earnings call, Chief Financial Officer Matthew Nicholls held the door open for more "bolt-on-type [wealth] transactions in particular states" that can "make a real difference to how we continue to reposition and grow" the business.

Athena, an ultra-HNW firm based in suburban Boston and with an additional office in New York, delivers a speciality in impact investing and employs an endowment investment style. "We had nowhere near the infrastructure and track record on impact [investing] that Athena has built," Fiduciary Trust CEO John Dowd told *Financial Planning*. Penn Trust, in suburban Philadelphia, has a speciality in managing trusts for families with special needs children. Franklin cut one more related deal for **AdvisorEngine**, a digital wealth platform serving 1,200 U.S. advisory firms with \$600 billion in assets. The addition provides Franklin with a new technology-driven business. "We're in the midst of the fourth industrial revolution, and technological advances are reshaping how financial solutions are delivered," said Franklin President and CEO Jennifer Johnson.

Eaton Vance (NYSE: EV) also cut a deal through its wealth management unit, **Eaton Vance Investment Counsel**,

which acquired Florida's **WaterOak Advisors**. The transaction took place last July amid the industry's M&A rebound and prior to Morgan Stanley's announcement that it was acquiring EV (see *Traditional Investment Management*). Founded in 2006 and based near Orlando, WaterOak has \$2 billion in AUM, bringing EVIC's total to \$10 billion. All three principals at WaterOak will join Eaton, including founder L. Clarke Lemons, who said his "ability to serve clients will be significantly enhanced." Calling wealth management a "strategic priority," EV Chairman and CEO Thomas Faust, Jr., told analysts during a third-quarter earnings call that WaterOak will "allow us to develop a much larger business" serving wealthy clients in Florida and the Southeast.

The private equity-backed consolidators in the market last year led the action, including **Beacon Pointe**, **Captrust**, **Creative Planning**, **Hightower Advisors** and **Mercer Advisors**. Creative Planning is a new entrant to the ranks, having made its first acquisition in February 2019 after 36 years of organic growth. In the two years since, the company has set a torrid pace with more than a dozen deals. Last February, the Kansas City-based firm also sold an equity interest "in the teens" to **General Atlantic**. CEO Peter Mallouk told *InvestmentNews* he was "securing capital while valuations are high," but maintained that "none of the money is for acquisitions — that's just reserved for the firm."

Creative Planning, with \$48 billion in assets as 2020 began and a goal to double that number, cut a variety of deals last year, ranging from **Coe Financial Services** of Kansas with \$126 million in assets to its largest transaction to date, **TrueWealth Management** of Atlanta with \$1.6 billion in assets. The TrueWealth deal expands Creative Planning's presence in Atlanta, where it already had \$1 billion in assets. "We are sitting in a good position to quickly emerge as the number one independent wealth management choice in the region," Mallouk said.

Beacon Pointe also welcomed a minority investor last year before the pandemic struck full force, **Abry Partners**. The California wealth manager was founded in 2002 and had \$11 billion in assets and 15 offices nationwide at the time and had made several acquisitions in recent years. In an interview with *Financial Advisor*, Beacon Pointe President Matt Cooper explained that past acquisitions involved equity swaps, saying "we needed to evolve" to become more competitive. "We needed capital to align all the partners' [interests.... and] on our balance sheet for further M&A, so we can begin to do deals incorporating cash," he said. At the time of the recapitalization, Beacon Pointe merged the two RIAs that operated under the Beacon brand name and acquired Orlando-based **Ferrell Wealth Management**, adding \$460 million in assets and a location in Florida.

Hightower Advisors, backed by **Thomas H. Lee Partners**, remained an aggressive buyer, cutting more deals (seven) in the first eight months of 2020 than it did in all of 2019. In a sign of the times, new affiliates have been introduced to Hightower via video calls. One Hightower deal that had a generational aspect to it involved Dallas-based **Frontier**

Investment Management, founded in 1994 and with \$3.3 billion in AUM. Frontier, which has offices in five states outside Texas, said the link to Hightower allows it to “nurture our next generation of leaders,” among other benefits. Hightower praised Frontier’s “talented, energetic next generation that [is] poised to scale” the business. In conjunction with the deal, Frontier added several partners.

THL also concluded a secondary recapitalization of Hightower with investments from funds run by **Collier Capital**, **Goldman Sachs** (NYSE: GS) and **Neuberger Berman**. THL, which remains the lead investor, said the additional capital will support Hightower’s “institutional-class services to catalyze organic growth while at the same time fueling the firm’s acquisition strategy.” The *Wall Street Journal* placed the size of the deal between \$700 million and \$800 million, citing a person “familiar with the transaction.”

In a continuation of a recent trend of secondary sales of wealth managers among private equity firms, **Lightyear Capital** acquired **Allworth Financial** from **Parthenon Capital Partners**. **Ontario Teachers’ Pension Plan** joined Lightyear in making a direct investment while Allworth management remained as “significant shareholders.” Calling the investment “consistent ... with our long-term thesis around the growing need for financial advice,” Lightyear said Allworth has “the opportunity to become a national brand name.” Allworth has made 12 acquisitions since Parthenon’s investment in 2017 and seen its AUM climb from \$2.4 billion to \$10 billion as it expanded beyond its California base.

Lightyear, which beat out two other private equity bidders for Allworth, has made four other related acquisitions in recent years, including for **Advisor Group** and **Cetera**. For its part, Ontario Teachers has a large private equity portfolio of direct and indirect investments, exceeded only by its fixed income portfolio. In the four years through 2019, the private equity portfolio delivered the highest annualized return of any asset class, of 12.8%.

Independent firms with no private equity backing continue to join hands in a bid to maintain their status while enhancing competitiveness. A notable such deal took place in one of the hottest wealth markets in the U.S.: **Laird Norton Wealth Management’s** purchase of **Filament**, both based in Seattle. The deal creates an independent powerhouse with \$6 billion in assets, two-thirds from Laird Norton, which said the merger “provides a unique platform for services and solutions unrivaled in the Pacific Northwest.”

The combined firm will retain the Laird Norton name and be led by Kristen Bauer, who left another large independent wealth firm, **Tiedemann Advisors**, to become CEO at Laird Norton last May. In an interview with *Family Wealth Report* prior to the Filament deal, Bauer emphasized the importance of social responsibility to local wealthy families. “Seattle is a market where clients want to align their investments with their values,” she said. “They think creatively about their impact on the world, and they have really great role models here with organizations like the

Independent Broker-Dealer Transactions

	2016	2017	2018	2019	2020
Number of Transactions	6	5	4	7	1
Disclosed Value (\$M)	\$102.6	\$375.6	\$67.7	\$1,364.3	NA
Average Deal Size (\$M)	\$34	\$376	\$68	\$682	NA

Source: Berkshire Global Advisors LP

Gates Foundation. And they want to have like-minded partners when they make their decisions.”

Cresset Asset Management, a Chicago firm started by two ex-private equity investors that made its first two deals in 2019, boosted its AUM by \$2.3 billion to a total of \$9.5 billion by acquiring **PagnatoKarp**, a Virginia multifamily office with a client list heavy on founder-CEOs of private companies. The two PagnatoKarp founders had been part of **Merrill Lynch** before joining Hightower in 2011 for five years and then going independent. The cash-and-equity deal includes shares for all PagnatoKarp employees.

Cresset co-founder Eric Becker told *Barron’s* that PagnatoKarp’s digital capabilities will be of particular value, having allowed the firm to lower account minimums to \$10 million, or \$5 million below Cresset’s minimums. Succession planning was part of the motivation for PagnatoKarp, the founders of which are in their 50s. In a second deal, a Cresset affiliate acquired a minority stake in San Francisco-based **True Capital Management**, which specializes in handling professional athletes and other “sudden wealth” clients. Founded in 2007, True has \$1.2 billion in assets.

Savant Wealth Management, which completed a \$50 million recapitalization in 2016 from multiple investors, acquired **Huber Financial Advisors** in a largely equity deal between two Chicago-area independents. Huber, established in 1988, adds \$1.6 billion in assets and gives Savant considerable scale in Chicago with a total of \$3.1 billion in assets and \$8 billion overall. Huber also represents by far the largest of the nine deals Savant has concluded over the course of its 30-plus-year history. Noting that the top three players in a market tend to gain half the business opportunities, Savant CEO Brent Brodeski told *Citywire*, “We’ll be in the top three or very close to the top three.” Savant also rebranded last year, deleting “Capital Management” in favor of its new name to “better describe the comprehensive wealth management services it provides.”

A smaller example of the marriages between independents involved another in-state deal in which Richmond, Va.-based **Cary Street Partners** acquired 19-year-old **Waypoint Advisors**, adding \$215 million in assets to place Cary at the \$4 billion mark while expanding its presence into Virginia Beach. Waypoint had been seeking a buyer since 2018 to provide a succession solution as well as resources “to cover growing compliance, operations and technology requirements,” said Elizabeth Patterson, founder and president. Patterson told *Citywire* she was approached by several consolidators but viewed them as focused on an eventual sale. “That’s not what we wanted to be a part of,” she said. Patterson noted that Cary offered a high level of independence and “a home for my clients and work

family.” Cary Street has made four other acquisitions since its founding in 2002, including a significant one in 2019 for **Tradition Capital Management** of New Jersey. That same year, independent investment bank **Ducera** made an investment in Cary “to support the growth” of its business.

As was the case with the recapitalization of Cary Street, non-private equity players are introducing or expanding their financing options in support of wealth managers. **Dynasty Financial Partners**, which has offered capital and other services to its network of some 45 independent advisory firms, last year launched a program in conjunction with wealth platform **Investnet** (NYSE: ENV) to incorporate debt and equity financing for independent firms outside its network. Investnet also made a minority investment in Dynasty. The program, Advisor Services Exchange, includes additional services in such areas as business management tools and marketing services.

Another platform, **Sanctuary Wealth**, introduced a financing program that will allow its partner firms to make acquisitions on their own. In explaining the initiative to Wealthmanagement.com, founder and CEO Jim Dickson said Sanctuary provides capital while the partner firm provides the “sweat equity” in return for a majority interest of between 55% and 80% in the targeted firm. Subsequently, Italian asset and wealth manager **Azimut Group** (MI: AZM) purchased a 55% stake in Sanctuary, in one of the year’s most significant transactions involving an independent target. Azimut, one of Europe’s larger independent asset managers but with a global presence, cut the deal via its U.S. subsidiary.

Sanctuary was founded in 2018 and employs a hybrid model for wealth managers “breaking away from traditional wirehouses and brokerage firms to own, operate and grow their own businesses.” In the two-plus years since, Sanctuary has built a network of more than 40 partner firms in 17 states with \$12 billion in assets under management and advisement. “By partnering with Azimut, Sanctuary Wealth is well-positioned to capitalize on this once in a lifetime opportunity to grow and invest alongside our partner firms,” said Dickson, who praised Azimut for its “significant patient capital” and complementary “entrepreneurial culture.” Prior to the deal, Azimut acquired a minority interest in a U.S. private credit manager, **Kennedy Lewis Investment Management** (AUM: \$2.1 billion), and bought 51% of Florida-based wealth manager **Genesis Investment Advisors** (AUM: \$400 million).

In a second key cross border deal, **Stanhope Capital Group** of the UK and **FWM Holdings** of the U.S. merged to create a major transatlantic player with \$24 billion in AUM (split about evenly between the two firms) and six offices in the U.S. and Europe. In addition to the geographic expansion the deal creates, the firms said the combination strengthens investment capabilities “across multiple asset classes, including listed equities and alternatives.” FWM, which manages money for the Forbes media family, acquired an established hedge fund, **Optima**, in 2019.

Keith Bloomfield, CEO of FWM, told Barron’s U.S. clients will have greater access to “niche investment opportunities” overseas while Stanhope clients will be able to diversify their current U.S. holdings with alternative and socially re-

sponsible investments. Stanhope founder Daniel Pinto, who will become CEO of the combined firm, told *Bloomberg* that growth via acquisition on both sides of the Atlantic is likely in the future, adding, “Asia is interesting, and I would be remiss not to look at expansion opportunities there in due time.” The two firms will retain their branding under the Stanhope umbrella. As part of the deal, **Wealth Partners Capital Group** sold its interest in FWM.

Kudu Investment Management, backed by **White Mountains Insurance Group** (NYSE: WTM), last year invested \$37 million in Ohio’s **Sequoia Financial Group** on top of the 2019 investment it made in **First Long Island Investors**. Kudu, started up in 2015, provides “patient capital” to asset and wealth managers. Founded in 1991 and with \$4.7 billion in assets, Sequoia said the investment provides “generational capital” and “will help accelerate our U.S. expansion plans.” (Kudu also invested in private equity impact investor **Creation Investments Capital Management**; see *Credit/Private Equity*.)

Among broker-dealers in the U.S., the pandemic drove a frenzy of trading, as individuals working at home or unemployed took to their computers and phones to play the markets, helping to propel the rally that began in the second quarter. By the middle of last year, retail investors accounted for 20% of trading, according to Bloomberg Intelligence estimates, up five points from 2019. One 26-year-old in Cleveland explained to the *Wall Street Journal* that he started using the **Robinhood** trading app two years ago but doubled down during the pandemic. “There’s not much to spend money on, but also I can pay attention to it more. I have more time to do it.”

Robinhood was a particular beneficiary: The seven-year-old company’s latest round of fundraising last August conferred an \$11 billion valuation based on a \$200 million investment from hedge fund **D1 Capital**, up more than \$2 billion from the previous month. Robinhood’s payment for order flow revenue doubled between the first and second quarters to \$180 million, the majority from options, while its customer base increased by three million during the first five months of the year.

The established online brokers also recorded torrid trading numbers. **Charles Schwab’s** (NYSE: SCHW) second-quarter daily trading activity rose 126% over the 2019 period. During **E*Trade Financial Corp.’s** second quarter, daily average revenue trades (DARTs) of one million and derivative DARTs of 253,000 set records. At **TD Ameritrade**, DARTs averaged a record 3.4 million during the April through June period.

In the year’s largest asset management or securities deal, Morgan Stanley acquired E*Trade in a \$13 billion all-stock purchase. The announcement last February followed by just a few months Charles Schwab’s \$26 billion all-stock acquisition of TD Ameritrade in 2019; both deals were completed last October. The E*Trade transaction preceded the October announcement of Morgan Stanley’s \$7 billion deal for **Eaton Vance** (NYSE: EV; see *Traditional Investment Management*). The addition of E*Trade strengthens Morgan Stanley’s online trading and corporate employee stock plan businesses while delivering a projected \$400 million in annual synergies. TD also has an online bank

that Morgan Stanley could employ to lower its funding costs.

E*Trade adds 5.2 million clients to Morgan Stanley's existing roster of three million, but the distinction in clients is evident in the wide asset gap: \$2.7 trillion for Morgan Stanley vs. \$360 billion for E*Trade. Still, E*Trade's operating margin is more attractive at 46% vs. around 27% at Morgan Stanley's wealth and asset management business, based on the 2019 year. E*Trade shifts the pre-tax profit balance at Morgan Stanley from parity between its wealth and institutional businesses to 57% to 43% in favor of wealth, in line with the company's long-term strategy.

Calling the deal an "extraordinary growth opportunity for our wealth management business," Morgan Stanley Chairman and CEO James Gorman said, "The combination adds an iconic brand in the direct-to-consumer channel to our leading advisor-driven model while also creating a premier workplace wealth provider for corporations and their employees."

LPL Financial (NASDAQ: LPLA) was another major broker-dealer in the marketplace, as it cut three deals, including one agreement to buy the wealth business of **Waddell & Reed** (NYSE: WDR) from **Macquarie Group** (ASX: MQG). The \$300 million deal is part of a larger transaction that saw Macquarie agree to acquire W&R's asset management business (see *Traditional Investment Management*). When that deal closes, expected by mid-2021, LPL and Macquarie agreed to enter a long-term partnership in which Macquarie will become one of the broker's "top-tier strategic asset management partners."

W&R's wealth business has 900 advisors and assets of \$63 billion, up around 10% in the year through September 2020. LPL praised the advisors as "highly experienced and well-respected throughout the industry," calling them a "terrific fit both culturally and strategically." The company estimates the transaction multiple at around 6.5 times run-rate EBITDA. In two additional smaller transactions, LPL acquired the assets of two West Coast broker-dealer/RIAs: **E.K. Riley Investments** of Seattle and **Lucia Securities** of San Diego. Combined, the two firms have \$3.5 billion in assets and 55 advisors.

Tax-focused broker-dealer and tax preparation software firm **Blucora** (NASDAQ: BCOR) stepped into the marketplace in a significant way for the second year in a row, buying a tax-oriented RIA, **HK Financial Services**. Based in Iowa, HK has \$4.4 billion in assets with a growth rate averaging 14% annually. The acquisition comes on top of the \$180 million deal Blucora made in 2019 for a tax-oriented broker-dealer. The original \$160 million price for HK announced last January was lowered to \$100 million by April "in response to current economic conditions," but the amended terms added future potential earn-out payments. The amended price on HK was 6.3 times fully realized synergies on pro forma 2020 EBITDA. Blucora said the deal strengthens its ability to serve "tax professionals with wealth management services."

Discount / Electronic Broker Transactions

	2016	2017	2018	2019	2020
Number of Transactions	5	8	10	3	6
Disclosed Value (\$M)	\$2,521.9	\$243.6	\$5,627.1	\$29,265.1	\$13,350.1
Average Deal Size (\$M)	\$1,261	\$81	\$1,125	\$9,755	\$4,450

Source: Berkshire Global Advisors LP

Outside North America, Australia accounted for the largest wealth deal: **KKR & Co.**'s (NYSE: KKR) A\$1.7 billion (\$1.1 billion) purchase of 55% of **Commonwealth Bank of Australia**'s (ASX: CBA) superannuation and retirement business. Both firms said they would "undertake a significant investment program" to strengthen the position of the **Colonial First State** business, which serves more than one million clients and has A\$135 billion in funds under administration. Pricing was placed at 15.5 times CFS's pro forma after-tax profit.

For KKR, the cash acquisition provides a solid position in the nation's A\$2.9 trillion superannuation program. For CBA, the deal is part of the ongoing effort to exit wealth management in favor of its core banking business and follows the 2018 sale of its global asset management business to **Mitsubishi UFJ Financial** (NYSE: MUFJ). In an insurance deal in the U.S. with an asset management element, KKR paid about \$4.4 billion for privately held **Global Atlantic Financial Group**, a retirement and insurance company that adds \$71 billion in insurance AUM to the \$26 billion in insurance assets KKR already managed.

The UK remained a center of European activity, driven by an expanding number of aggressive and diverse consolidators gobbling up their smaller colleagues. As in the U.S., the sheer number of advisory firms (some 5,700) — combined with cost pressures, aging owners and the drive for scale — ensure that deal-making will remain robust in the years ahead. The pandemic is an additional factor weighing on smaller firms.

"I'm now approached around three to four times a month by firms looking to buy my business," Tim Harvey, founder of an established regional firm, told *FTAdviser* last August. "The more targeted approaches have used rising costs as a shoe-in to open up the conversation. They just think, 'Small firm, things must be going down the drain.'" In a survey last year by consultant AKG, 78% of advisory firms surveyed predicted increased M&A activity over the next two to three years while 53% said Covid-19 will also force firms out of business. About half said the pandemic will increase demand for advice among existing and new customers.

Among the newer consolidators is **Socium Group**, backed by £160 million (\$210 million) in capital from British mid-market private equity firm **Penta Capital** and founded by several seasoned wealth management executives. These include Mary-Anne McIntyre, the former CEO of financial advice network **Openwork**. The company, launched in 2019, aims to acquire up to 20 "regional hubs" with 300 advisors over five years. A notable deal last year involved **Beaufort Group**, with £1.1 billion in assets

A Canadian fund manager expands its wealth portfolio in the U.S.

In September 2019, Kurt MacAlpine assumed the CEO position at **CI Financial** (TSX: CIX) and made expansion of the fund manager's wealth business a strategic priority. The former executive at ETF provider **Wisdom Tree Asset Management** (NASDAQ: WETF) hasn't wasted time since, cutting 10 direct U.S. deals last year and another three by affiliated RIAs, on top of two that were done in the U.S. in the last quarter of 2019. "Our intention," MacAlpine wrote in the company's latest annual report, "is to create the industry's leading RIA platform by selectively pursuing acquisitions of fast-growing firms in strategically attractive markets and market segments, and leveraging economies of scale."

Having begun the year with C\$49 billion (US\$38 billion) in wealth assets, CI Financial had accumulated C\$90 billion by last November, aided by US\$21 billion in the U.S. business, thanks to the numerous deals last year. The U.S. transactions in 2020 were diverse in terms of CI's ownership interest as well as geography, spanning such markets as Boston, Cincinnati, the Chicago area, Dallas and Arkansas. The 2019 deals covered firms in Los Angeles and Phoenix.

But in an interview last summer with the [Toronto] *Globe and Mail*, MacAlpine said talent rather than geography is the driving force. "We're really looking for great management teams, high-quality platforms and above-average growth rates," he said. He also touts the company's ownership flexibility, telling *Citywire* this approach "makes it easier for us to move quickly ... and get deals announced fast." One of last year's largest U.S. deals was for 100% of **Balasa Dinverno Foltz**, an established suburban Chicago firm with \$4.5 billion in assets.

His comments about geography notwithstanding, MacAlpine said BDF provides "a solid presence in the Midwest and the affluent Chicago market." MacAlpine also said CI will begin introducing its **CI Private Wealth** brand in the U.S. and Canada. "I'm trying to draw people closer to the CI brand.... [and] provide more consistency and clarity for a client to see," he told the *Globe and Mail*.

CI Financial also cut deals last year in its dominant home market, including a significant one for **Aligned Capital Partners**, a Toronto-area firm with C\$10 billion in assets. CI bought a 70% interest while Aligned management retained 30%. In discussing the August deal with analysts, MacAlpine cited Aligned's "exceptional growth rate" and leadership, along with its track record for employing technology to support clients and enhance advisor efficiency.

CI Financial isn't alone among Canadian firms in using acquisitions to expand their wealth businesses. In 2018, **Scotiabank** (TSX: BNS) paid C\$2.6 billion in cash for **MD Financial Management**, which serves Canadian doctors, their families and employees. In 2019, **Onex Corp.** (TSX: ONEX) paid C\$445 million for **Gluskin Sheff**, at the time one of Canada's largest independent wealth managers.

and nearly 60 advisors — numbers that far exceed the average deal pursued by consolidators. For example, at leading consolidator **AFH Financial Group** (LSE: AFHP) the average deal in the 2019 financial year involved a firm with £150 million in assets. "The strategy for Socium has been to work with growing firms aiming to double their businesses over the next few years, becoming hubs at the heart of the group," McIntyre told *Wealth Manager*.

Bowmore Wealth Group, launched last June, is another newcomer with money to spend, amounting to £10 million in credit. Formed from the merger of two advisory firms, Bowmore is aiming for advisors with £100 million in assets seeking greater scaler as well as a good cultural fit. "A growing number of owner-manager teams at smaller firms are considering selling their businesses but find the idea of joining a large consolidator an unattractive prospect," Bowmore CEO Mark Incedon told *FTAdviser*.

Two veterans of aggressive consolidator **Mattioli Woods** (LSE: MTW) launched their own such firm in 2019, **Truinvest**. The company, backed by UK family office **Stonewood Wealth Management**, began making acquisitions last year with the aim of garnering £1 billion in assets by 2021. Last March, **Carlyle Group** (NASDAQ: CG) closed its £91 million acquisition of established consolidator **Harwood Wealth Management**, first announced in December 2019. At the time, Carlyle said it believed then-publicly traded Harwood's future growth was "best conducted in the private domain" and pledged capital and other support to facilitate the expansion.

Among other notable wealth managers, **Quilter** (LSE: QLT) followed up on its major 2019 purchase of **Lighthouse** to cut a smaller deal for **Prescient**, a City of London-based firm with £800 million in assets. Prescient's founder retired following the January deal. In its midyear financial report,

Quilter noted that 98% of its employees were working remotely by last April, with CEO Paul Feeney highlighting how the technology group was able to facilitate the complex transition within three weeks.

Schroders (LSE: SDR) expanded its **Cazenove Capital** wealth business with the acquisition of **Sandaire**, an established London family office with £2.2 billion in assets. Schroders said the addition will strengthen Cazenove's "leading position" in the UK's ultra-HNW segment "and be a springboard for developing an exceptional global service in this space." Sandaire, which reported a loss in the financial year prior to the deal, added a dedicated private equity business and real estate advisory services in 2019 to extend its investment capabilities.

M&G (LSE: MNG) acquired wealth platform **Ascentric** from longtime owner **Royal London**, gaining entry to a space serving more than 1,500 advisory firms and 90,000 clients in the UK. Ascentric has £14 billion in assets under administration. Spun off from **Prudential** (LSE: PRU) in 2019, M&G is a savings and investment firm that operates in the UK and elsewhere in Europe; it has £339 billion in assets for individuals and institutions. "The deal strengthens our position in the UK savings and investment market, complementing our existing offering to advisors and customers with a well-established digital wealth platform," said M&G Chief Executive John Foley.

For a second consecutive year, Switzerland was relatively quiet, hosting two cross border deals as steady consolidation continues among the nation's private banks. The number of Swiss banks primarily operating as wealth managers declined 13% to 118 in the five years through 2019, according to PwC, primarily driven by sales of unprofitable firms with less than CHF2 billion (US\$2.2 billion) in AUM. Last year's key deal was more formidable: **Intesa**

Sanpaolo Group's (MI: ISP) purchase of 69% of **Reyl & Cie**. The Italian bank, which cut the deal through its Swiss private bank, adds CHF13 billion in AUM to the CHF5 billion it already managed in that market.

In a smaller deal, financial group **Oddo BHF** announced an agreement to merge with **Landoldt & Cie** to form a firm with €6 billion (\$7 billion) in AUM. Oddo BHF said the deal adds a "third pillar" to its growth strategy, with Switzerland complementing its existing footprint in France and Germany. Landoldt, which like Oddo is privately held, said the two firms share a "common ambition to continue building the leading independent financial group in Europe with strong local roots in each country." Separately, Beatriz Sanchez, head of Americas for Swiss giant Julius Baer, told *Bloomberg* the firm is mulling starting a U.S. wealth management business and seeking acquisitions and partnerships in Latin America, where it already operates in several markets. "I would not be doing my job as somebody that is totally committed to making our Americas business a top competitive business for Julius Baer if I wasn't seriously looking at a U.S. platform," she said.

Capital Markets

As the financial crisis ushered in a new and tougher regulatory climate, investment banks began rewriting business plans to account for the sharp decline in their trading units. **Goldman Sachs** (NYSE: GS), which in the heart of the crisis converted to a bank holding company, was a prime example. As Goldman's trading revenues fell sharply in the years after 2007, the company mined more prosaic businesses, including delivering banking and advisory services to Main Street customers.

But last year, the Covid-19 pandemic provided an unexpected shot in the arm for the trading activities of Goldman and its competitors. At Goldman, trading revenue in the second and third quarters of 2020 rose 93% and 29%, respectively, over the year-earlier periods. The New York bank had plenty of company. **Morgan Stanley** (NYSE: MS) — tilting ever more toward its wealth and asset management businesses with two major deals last year (see *Traditional Investment Management and Wealth*) — showed a 20% gain in sales and trading revenues in the third quarter. At **JPMorgan Chase** (NYSE: JPM), markets and securities services revenues rose 29% in the third quarter.

For the 12 largest investment banks worldwide, trading and investment banking revenues totaled \$101 billion in the first half of 2020, 32% over the previous year's period and the highest first-half total since 2012, according to researcher Coalition. A half-year operating margin of 45% was also the highest since 2012.

Results were driven by hyperactive securities markets and corporate fundraising, with revenues from fixed income, currencies and commodities (FICC) climbing by 50% to account for 55% of total revenues. That compares with levels

Investment Banking Advisory Firm Transactions

	2016	2017	2018	2019	2020
Number of Transactions	18	17	19	21	17
Combined Value (\$M)	\$201.9	\$1,828.1	\$127.7	\$2,003.2	\$4,337.7
Average Deal Size (\$M)	\$40	\$609	\$43	\$1,002	\$868

Source: Berkshire Global Advisors LP

between 35% and 39% of the total during the same period from 2016 to 2019. Referring to corporate borrowing, Susie Scher, a partner at Goldman, told the *Wall Street Journal*, "The idea is to build a bridge to a reopened economy. If the story is good enough and investors believe a company can get to the other side of this, the demand is there."

Advisory revenues from M&A work were more restrained, as deal-making seized in the second quarter before picking up in the third. In the first half, announced deals worldwide totaled \$1.2 trillion, according to Refinitiv, down 41% from the year-earlier period, while the number of deals dropped to a six-year low. In the U.S., the decline was even steeper at 69% to \$355 billion — the lowest first-half total since 2012 and the lowest U.S. share of global M&A

Institutional Broker-Dealer Transactions

	2016	2017	2018	2019	2020
Number of Transactions	12	13	17	14	15
Disclosed Value (\$M)	\$286.1	\$1,542.9	\$1,786.6	\$261.3	\$817.6
Average Deal Size (\$M)	\$95	\$171	\$199	\$37	\$273

Source: Berkshire Global Advisors LP

since records began in 1980. But in the third quarter, M&A rebounded, topping \$1 trillion for an 80% gain over the second quarter, with U.S. activity tripling between the quarters to \$415 billion. Still, dollar volume was down 21% worldwide in the first nine months compared with the same period in 2019, while U.S. activity declined 43%.

Those numbers were reflected in the advisory results of publicly traded investment and commercial banks. At **Evercore** (NYSE: EVR), advisory fees declined 11% in the first three quarters from the 2019 period while Goldman's fees were off 16% during the same period. But in the company's third-quarter earnings call, Evercore Co-Chairman and Co-CEO John Weinberg sounded an optimistic note, saying that "absent a negative event, which could certainly happen, we are in the early stages of recovery, as many of the key conditions necessary for a healthy M&A market continue to improve." Weinberg cited strong equity markets, access to credit and greater confidence among corporate executives.

Full-Service Investment Bank Transactions

	2016	2017	2018	2019	2020
Number of Transactions	6	8	4	6	4
Disclosed Value (\$M)	\$3,314.7	\$698.3	\$421.6	\$765.4	\$35.5
Average Deal Size (\$M)	\$1,657	\$116	\$211	\$191	\$36

Source: Berkshire Global Advisors LP

Among companies engaged in the capital markets, there were several notable deals that joined the generally predictable purchase of small to mid-size targets with specialized capabilities. The largest was the \$4.2 billion acquisition of **Duff & Phelps** led by two private equity firms, **Stone Point Capital** and **Further Global Capital Management**. **Permira**, which acquired Duff & Phelps in 2018 for \$1.8 billion, was the seller, following a pattern of secondary transactions among private equity firms. The deal came together quickly after discussions in late 2019, with an announcement last January and a close during the early days of the pandemic in April. Permira continues to hold a stake along with Duff & Phelps management.

Based in New York, Duff & Phelps is a prominent valuation firm that offers a range of other corporate services in such areas as finance and governance. The company serves more than 50% of S&P 500 firms, along with law firms and private equity and hedge funds. "Every illiquid asset that you can think of in this world is going to have to be revalued," Duff & Phelps CEO Noah Gottdiener told

the *Wall Street Journal* after the close. "So there's going to be great demand for our service." Under Permira, Duff & Phelps made several acquisitions to extend its menu of services, including a 2018 deal for Kroll, a global risk consulting firm.

Stone Point is a repeat investor, having been part of a consortium that acquired Duff & Phelps in 2013 for \$666 million, a position it sold two years later. The company employed capital from a recently closed \$7 billion fund to make its latest investment in Duff & Phelps. Founded in 2017, Further Global Capital invests in financial services firms and has a portfolio of six other holdings.

There were two significant deals, both in October, involving targets that manage "dark pool" institutional trading venues. The first spanned the Atlantic, with **TP ICAP** (LSE: ICAP) of London agreeing to pay \$575 million to acquire **Liquidnet**, a U.S. firm primarily dealing in equities but including a smaller fixed income business. TP ICAP, which could pay an additional \$125 million based on performance, will finance the deal mostly through a share issuance. TP ICAP, the world's leading interdealer broker, said its dealer relationships and product expertise complement Liquidnet's electronic capabilities and global buy-side client base.

Liquidnet, with a strong track record for technology innovation, serves 1,000 institutions worldwide managing \$33 trillion in assets. In 2019, the company generated \$302 million in revenue, 84% split about evenly between the U.S. and Europe. Both companies also have data analytics units that TP ICAP said it can leverage to "drive non-transaction-related earnings." TP ICAP said the deal meets the goal of "expand[ing] its proposition as a leading global provider of market infrastructure," calling Liquidnet a "transformational opportunity ... to diversify its business mix" and drive growth and profitability.

In a second and smaller such deal between U.S. firms, **Cboe Global Markets** (CBOE: CBOE) agreed to acquire **BIDS Trading**, a broker-dealer and operator of the BIDS Alternative Trading System, the largest block-trading ATS in the U.S. by volume. Although BIDS is a far smaller firm than Cboe, with \$42 million in revenue in the 12 months through June 2020, Cboe said the transaction will allow it "to diversify its U.S. equities offering beyond traditional exchange products and services." As Cboe's share of U.S. stock trading volume has steadily declined in recent years, off-exchange venues have grown to account for more than 40% of such volume. The two firms have a prior relationship, having partnered in 2016 to create a block-trading venue for European equities. Although financial terms were not disclosed, Cboe said the price is not material; it will fund the deal with debt.

Within the U.S., **Oppenheimer Holdings'** (NYSE: OPY) acquisition of **Brandis Tallman** is typical of the smaller, strategic

deals defining the capital markets sector. The deal strengthens the municipal bond side of Oppenheimer's investment banking business with an established California-focused firm. Based in San Francisco, BT has since 2016 closed more than 240 municipal bond transactions in that competitive state market, operating as sole or private placement manager. Oppenheimer said the addition of BT to its existing public finance capabilities will create a larger firm in California "well-positioned to capture significant opportunities."

The deal, under which BT will retain its branding, also provides Oppenheimer with a pool of muni bonds it can offer its private clients. The private client business made up 63% of Oppenheimer Holdings revenues in 2019, compared with 28% for the capital markets unit (9% was in asset management). In 2019, Oppenheimer negotiated 149 bond deals with a par value of \$45 billion and ranked No. 3 in the U.S. for short-term municipal note issuers.

A U.S. advisory deal saw investment bank **Houlihan Lokey** (NYSE: HLI) acquire **MVP Capital**, an established New York firm specializing in the technology, media and telecommunications sectors. MVP, which provides M&A, capital formation and other advisory services, said Houlihan offers a "global platform, deep financial sponsor relationships and outstanding private capital markets capabilities." Houlihan said MVP "adds substantially" to its coverage of the telecoms sector. Prior to the deal, Houlihan had raised \$189 million via a share issue, saying some of the funding could be used for acquisitions.

Fintech

As the world adjusted to the constraints imposed on everyday life by Covid-19, firms that could serve consumers and businesses remotely emerged as prime beneficiaries of the crisis. E-commerce giant Amazon saw sales rise 37% to \$96 billion in the third quarter of 2020. Zoom Video Communications registered a 367% gain in third-quarter revenue to \$777 million. At fitness platform Peleton Interactive, sales rose 172% to \$607 million in its fiscal year fourth quarter. All three of those stocks and related ones soared during the year.

Joining those high-profile winners were the fintechs, which provide the convenience and safety of a range of remote financial services either directly to consumers or via third parties such as banks. In the U.S., banking, investment and lending platforms experienced increases in usage from 21% to 25% between May and November of last year while the more established payment platforms rose a slower 7%, according to McKinsey. Even tech-savvy Gen Zers (18 to 23 years old) showed a sharp rise in usage, McKinsey noted, as an additional 14% of that age group began to employ financial technology during the pandemic, boosting the total Gen Z user number to 66%.

Fintech infrastructure firm MX found that 39% of the U.S. consumers it surveyed said the pandemic had made them more likely to use banking services from a fintech company. Globally, investment apps were the second fastest-growing vertical in 2020 tracked by global app

marketing platform Adjust, beating out other "hot" verticals such as casual and hyper-casual games. "The impact the pandemic has had on banking and the acceleration in mobile digital services should not be underestimated," said Paul Muller, co-founder of Adjust.

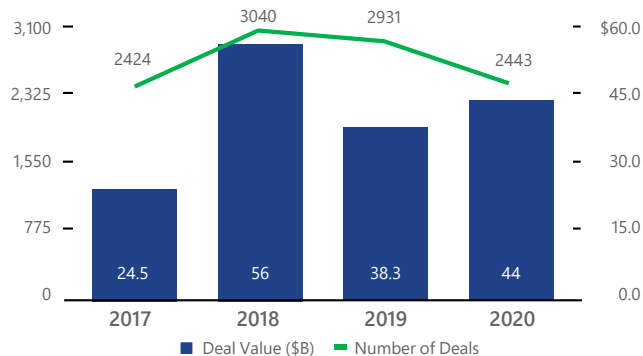
Traditional financial firms ramped up their technology infrastructure to both fuel and meet the demand. On that front, in a small survey of wealth managers, researcher Aite found that only a handful of North American firms reported a negative impact from the pandemic compared with more than half worldwide, a gap that Aite attributed to the more robust level of investment in front- and back-office technology among North American firms.

Fintech investors also remained active. The major event was set to take place last October with the planned \$34 billion IPO for China's **Ant Group** on the Hong Kong and Shanghai stock exchanges, until regulators and politics intervened to suspend it. That high-profile failure aside, investment in fintechs worldwide remained steady last year, edging up 4% to \$23 billion during a disruptive first half, according to Accenture and CB Insights.

In the wealth-related fintech sector, investors ponied up \$1.5 billion for 62 deals in the third quarter of 2020, 79% above the previous year's period and coming on the heels of \$1.4 billion in the second quarter, according to CB Insights. One example of a company that benefitted from the investment capital is **OpenInvest**, a platform focused on socially responsible investments. Last April, the San Francisco-based company completed a \$10.5 million Series A1 round of financing led by **QED Investors**. QED was joined by existing investor System IQ and two new ones, **Resolute Investment Managers** and **ABN Amro Ventures**. OpenInvest said the funding will help it "expand engineering capacity" to meet demand from financial advisors to "seamlessly personalize products for clients according to their values and tax situations."

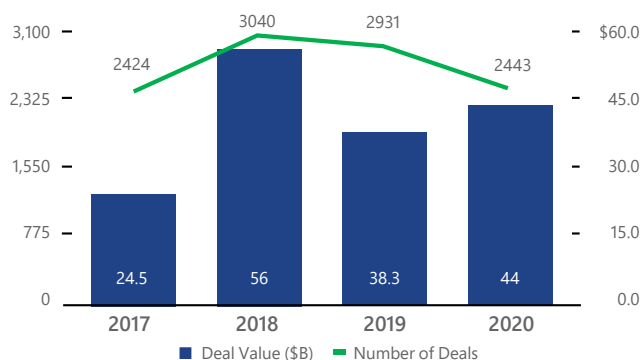
In 2019, OpenInvest expanded its impact reporting and tax optimization capabilities while adding such investment categories as disability inclusion, racial justice and heart healthy (targeting companies fighting heart disease). The company also partnered with **Bank of the West** to offer their financial advisors customized values-based portfolio tools. Resolute CEO Gene Needles referenced those capabilities last year in discussing his firm's investment in

Global FinTech Capital Raising



Sources: KPMG, PitchBook, SNL Financial and S&P Capital IQ

Global FinTech M&A Activity



Sources: KPMG, PitchBook, SNL Financial and S&P Capital IQ

OpenInvest, saying it will help Resolute “meet accelerated demand for impact investing solutions at scale.”

Another fledgling wealthtech firm with a socially responsible platform, **Just Invest**, received a minority equity investment last June from an undisclosed strategic investor. JustInvest, based in Oakland, Calif., also focuses on tax management. The capital is designed to enhance RIA distribution, product development, and sales and marketing. The company saw its AUM climb by 50% in the four months through last October to \$600 million, “underscoring increased market demand for modern technology-driven portfolio management.”

An established alternative investments platform, **CAIS**, raised \$50 million in Series B funding last November from **Eldridge Industries**, which is led by Todd Boehly, former president of **Guggenheim Partners**. The funding came on top of a 2019 capital infusion from a consortium of institutions. In addition to its product lineup, CAIS’ platform incorporates an educational component, CAIS IQ, that employs artificial intelligence to help advisors “master” alternative investing. The company serves more than 3,000 financial advisory firms and teams.

Discussing the deal in an online video, Boehly called CAIS a “fintech pioneer in identifying a large, untapped opportunity,” saying the company “is at an inflection point, and we believe our industry expertise, network and capital will accelerate their continued growth and success.” In a November 2019 interview with *MutualFunds.com*, CAIS founder and CEO Matt Brown noted that financial advisors allocate less than 5% of their portfolios to alternatives compared with about 30% among institutions. “This gap persists in part because independent financial advisors don’t have the same resources as large Wall Street institutions to evaluate funds, conduct due diligence, and meet high investment minimums imposed by alternative asset managers,” he said.

CAIS competitor **iCapital Network** was another beneficiary of the flow of investment dollars into U.S. firms in 2020, as it drew \$146 million of development capital from numerous financial giants. Among them were **BlackRock** (NYSE: BLK), **Goldman Sachs** (NYSE: GS) and **China’s Ping An Insurance** (HKSE: 2318). An alternatives platform,

iCapital has enjoyed explosive growth of late, with assets increasing from \$8 billion to \$65 billion since 2019 via multiple acquisitions as well as organic growth.

Following the fundraise, iCapital cut two deals, adding a combined \$7 billion in alternative assets. In the first, the company acquired **Artivest**, including its technology, operating platform, and proprietary alternative investment funds. Artivest served 1,800 financial advisors. “The acquisition will create further operational economies of scale in the offering and servicing of alternative investments,” iCapital said while also praising Artivest’s “technical innovations and capabilities in registered funds and direct investments.” In the second deal, iCapital acquired **Wells Fargo’s** (NYSE: WFC) alternative investments feeder fund platform, in the process securing an investment from the bank. Wells Fargo’s platform incorporated about 70 investment vehicles across the range of alternative sectors.

There were three wealthtech-related deals of note in the second half of 2020, led by BlackRock’s \$1 billion acquisition of **Aperio Group** (AUM: \$36 billion), a fast-growing specialist in tax-optimized, index-equity separately managed accounts for wealth managers. The premium paid by BlackRock underlines the appeal of firms providing personalized portfolios and brings BlackRock’s SMA assets to \$160 billion. BlackRock highlighted the boost Aperio will provide to “the breadth of personalization capabilities available to wealth managers from BlackRock via tax-managed strategies across factors, broad market indexing, and investor ESG preferences.” Founded in 1999 and based outside San Francisco, Aperio will operate as a separately branded unit within BlackRock’s wealth advisory business.

In a second transaction with a hefty price tag, **Empower Retirement** paid around \$1 billion for digital advice provider **Personal Capital**, including up to \$175 million for “planned growth.” The deal adds Personal Capital’s digital platform to Empower’s large retirement plan services business (No. 2 behind **Fidelity Investments**), creating an “integrated platform to deliver personalized advice, financial wellness and comprehensive financial planning.” Part of **Great-West Life & Annuity Insurance**, Empower administers \$660 billion in assets on behalf of 9.7 million workers in 40,000 workplace plans. Personal Capital has some 2.5 million users on its platform and \$12 billion in AUM.

In the third deal, **Brookstone Capital Management** acquired **FormulaFolios** to create a “leading provider” of advisory services to the retirement industry. Brookstone said the combination, with \$6.5 billion in assets, will “leverage the best of its combined resources” to support advisors with financial planning, investment selection, digital marketing and training. “We’re really in a parallel path, very similar businesses, very similar niche within the independent advisor community,” Brookstone founder and CEO Dean Zayed told *WealthManagement.com*. “The scalability of the businesses together was a special opportunity.” In 2019, life and health insurer **AmeriLife** acquired a majority stake in Brookstone with an eye on expansion via its large network of insurance agents. Last year, prior to the deal for FormulaFolios, **Thomas H. Lee Partners** acquired a majority stake in AmeriLife. ❖

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