

# 2022 Financial Services Industry Review



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## After a long absence, inflation makes an appearance

Americans were reminded of an economic fact of life last year that many economists had quietly relegated to the history books: inflation. From last May forward, the U.S. Labor Department's monthly consumer-price index registered increases of at least 5% compared with the year-earlier period, rising to a high of 7% by December for the highest rate since 1982. For their part, consumers could be forgiven for assuming a higher number still as they shopped for food, ate out, filled up their cars, or sought to rent an apartment or buy a house.

As pundits, politicians and Federal Reserve officials initially debated whether inflation was transitory or durable — with most ultimately shedding the “transitory” label — they offered up multiple causes for the price spikes, from the economic rebound starting in the second half of 2020 to price increases driven by labor and supply shortages. One textbook cause was in ample supply, however: money. The U.S. is awash in it, between trillions in federal stimulus spending and the aggressive monetary policies of the Fed: Assets on the Fed's balance sheet more than doubled between January 2020 and October 2021 to \$8.5 trillion, two-thirds in Treasury securities and 30% in mortgage-backed securities.

Traditional economists who for some time have warned about the inflationary potential of easy money — fears their more liberal peers dismissed by citing long-term price stability or guilt-free theses such as Modern Monetary Theory — were having their “I told you so” moment. Writing in *The Hill* last October, Desmond Lachman, a senior fellow at the conservative American Enterprise Institute and former IMF official, chastised the Fed for “ignoring the fact that at a time that the U.S. economy has received as much as 25 percent of GDP in budget stimulus over the past two years, the Fed has maintained the most expansive monetary policy conditions in more than a decade.”

Hawkish Fed officials have expressed similar concerns about inflation, along with notable investors such as hedge fund giant Paul Tudor Jones, who told CNBC last October that inflation is “probably the single biggest threat to financial markets.” Citing a \$5.4 trillion increase in the M2 money supply since the pandemic began, Jones said, “We have a Federal Reserve Board that are inflation creators, not inflation fighters. That is a huge, huge deal.” In a similar vein, investor Carl Icahn told CNBC the same month that “the way we're printing money [and] the way we're going into inflation” will lead to a crisis “in the long term.”

In 2021, all that stimulus combined with a rebounding U.S. economy and a sharp increase in corporate profits to fuel equity markets while abundant capital drove investment

in virtually all sectors. By the end of the third quarter, the three major U.S. equity indices had delivered double-digit returns, building on the strong performances of 2020, with the broad-based S&P 500 index finishing the year up 27%. Although the investment-grade U.S. corporate bond market declined from the record-busting year of 2020, issuance remained an impressive \$1.5 trillion.

## Record-buster

### MERGERS & ACQUISITIONS 2021, ALL INDUSTRIES

Value of Announced Deals (\$ billions)	2021	(vs. 2020+/-)
Worldwide	\$5,857	(+ 64%)
U.S.	2,551	(+ 82%)
Europe	1,422	(+ 46%)
Asia-Pacific (ex-Japan)	1,260	(+ 48%)
<b>OF WHICH (BY \$ VALUE 2021)</b>		
Cross Border	36%	
Private Equity-Backed	20%	
Mega-Deals (\$10b-plus)	19%	
Financials	13%	
Real Estate	9%	

Source: Refinitiv

As investors continued to reach beyond the paltry yields offered by Treasuries and investment-grade bonds, the combined U.S. high-yield and leveraged loan market took only nine months to set an annual record, with issuance of close to \$800 billion, according to S&P Global Market Intelligence. Collateralized loan obligations set a new record in early October when issuance topped \$130 billion, finishing the year at \$187 billion. **Ares Management**, for one, raised \$5.1 billion for its second U.S. senior direct-lending fund, 70% more than for its first such fund closed in 2019.

Other alternative investments were also enjoying a banner year. Within the U.S., PitchBook calculated that private equity firms had raised \$238 billion in the first three quarters while dry powder stood at \$829 billion (up from \$574 at

## Investment Management Transactions

	2017	2018	2019	2020	2021
Majority Equity	176	211	183	195	<b>277</b>
Minority Equity	32	51	41	37	<b>48</b>
Management Buyout	12	13	10	9	<b>4</b>
<b>Total</b>	<b>220</b>	<b>275</b>	<b>234</b>	<b>241</b>	<b>329</b>
Total Transaction Value (\$B)	\$28.9	\$40.8	\$21.4	\$35.4	<b>\$55.0</b>
Total AUM Changing Hands (\$B)	\$2,086	\$2,422	\$1,050	\$3,006	<b>\$3,751</b>

Source: Berkshire Global Advisors LP

year-end 2017). In an indicator of the growing clout of the largest, established players, firms with at least six funds behind them represented 42% of the capital raised, the

highest proportion over the last 10 years. Among them, **Hellman & Friedman** closed its largest-ever and “significantly oversubscribed” 10th fund of \$24.4 billion, a total that eclipsed by more than \$8 billion its ninth fund.

As the M&A market tallied a stunning \$5.9 trillion in deals worldwide, private equity buyers accounted for a record \$1.2 trillion of that value, according to Refinitiv. The number of deals involving private equity buyers rose 56% from the year-earlier period to more than 14,500. “Deals

are being completed on shorter time lines, financings are being executed more quickly, opportunities for exits are presenting themselves sooner, funds are being raised faster than ever before, and the accelerating impact from disruptive technology and changes from the pandemic are powering an increased demand for private capital across sectors and regions,” **Carlyle** CEO Kewsong Lee told investors last July.

In the venture capital industry in the U.S., investors reaped a record \$583 billion in exit value in the first nine months of 2021, double the full-year record in 2020, according to PitchBook. VC firms also pumped a record \$239 billion into their targets, driven by \$100 million-plus “megadeals” and “healthy” activity across angel and seed, early and late-stage investments. “Returns generated from high exit values in recent quarters have enabled limited partners to put capital back to work via new VC allocations,” PitchBook wrote.

Yale University’s endowment, in which private equity and venture capital make up some 40% of assets (with other alternatives adding significantly to the total), provided a high-profile example of the robust performance of those two sectors. The \$42 billion fund enjoyed a 40% return in the year ending June 2021. Other endowments pursuing the Yale model delivered similarly eye-popping numbers, including small Bowdoin College (up 57% to \$2.7 billion), which was led for 21 years by a protege of Yale’s legendary and late chief investment officer, David Swensen.

Bubbly markets equalled good news for U.S. asset managers of various sizes. **BlackRock**’s third-quarter net income rose 23% vs. the year-earlier period with net inflows of \$75 billion as total AUM climbed 21% to \$9.5 trillion. **Blackstone**’s third-quarter net income rose 76% to nearly \$1.4 billion while fee-related and distributable earnings hit new records. AUM climbed 25% over the year-earlier period to \$731 billion. Smaller publicly traded asset managers joined in. At value manager **Pzena Investment Management**, net income

## Investment Management Transactions

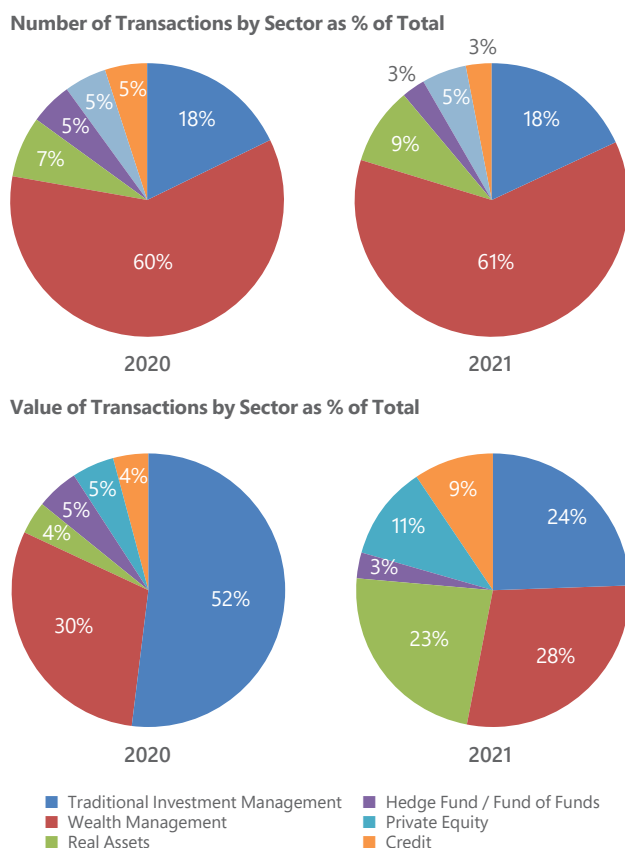
### WHO’S BUYING

	2017	2018	2019	2020	2021
Wealth Manager	38	58	76	84	125
Traditional Investment Manager	44	49	33	45	54
Alternatives Manager	15	17	17	23	46
Financial Buyer	25	42	38	31	32
Insurance	27	23	17	15	22
Bank	22	35	17	7	16
Securities Firm	15	10	8	7	13
Real Asset Manager	15	14	10	7	10
Management Buyout	10	14	9	9	4
Other	9	13	9	13	7
<b>Total</b>	<b>220</b>	<b>275</b>	<b>234</b>	<b>241</b>	<b>329</b>

Source: Berkshire Global Advisors LP

## Investment Management

### WHO’S SELLING



Source: Berkshire Global Advisors LP

Data may not add up to 100%

nearly doubled, revenue rose 52% and AUM climbed 58% to \$52 billion in the third quarter year over year. **Manning & Napier**, with two-thirds of its assets in blended vehicles, saw its AUM climb 14% to \$22 billion in the third quarter while revenue rose 17%.

These results came after a roaring 2020, the second-best year for AUM dollar growth for the global asset management industry since the financial crisis, according to the latest Mckinsey survey. In 2020, AUM climbed nearly \$11 trillion to \$115 trillion and registered an organic growth rate of 2.7% of AUM. North America's AUM grew by 13% to account for half the global total and 43% of inflows. However, operating profits (up 9%) lagged AUM growth in North America as costs continue to increase, the top two on a percentage basis being legal, risk and compliance and technology.

Fees also remain under pressure. In **Morningstar's** latest study, the asset-weighted average expense ratio for all U.S. funds in 2020 was 0.41%, three basis points lower than in 2019. Among active funds, the ratio also declined by three basis points to 0.62%, "driven mainly by large net outflows from expensive funds and share classes." Active alternative fund managers retain their ability to charge a premium (averaging 1.2%), but even those managers have been paring fees each year since 2016 by a total of 21 basis points.

The performance gap between top and bottom quartile North American firms continued to widen by a range of metrics, most decidedly for long-term net inflows and revenue growth, according to McKinsey. That gap naturally extends to valuations among publicly traded asset managers: Traditional asset managers in the top quartile traded at 20 times forward earnings, a 50 percent premium to the overall industry, as of last August.

Deal-making in the asset management industry maintained the frenetic pace that began in the second half of 2020, following the pullback that coincided in the first half of that year with the pandemic surge. A wealth industry that appeared to generate significant deal news by the week led the action, but transactions took place in impressive fashion across all

sectors. Numerous billion-dollar-plus deals also spanned sectors, with alternative managers among the notable targets and traditional asset managers the buyers in a bid to expand their portfolios.

In the traditional investment management sector, the megadeals were led by **GTCR** and **Reverence Capital Partners'** \$2.1 billion acquisition of **Wells Fargo Asset**

## Securities & Investment Banking Transactions

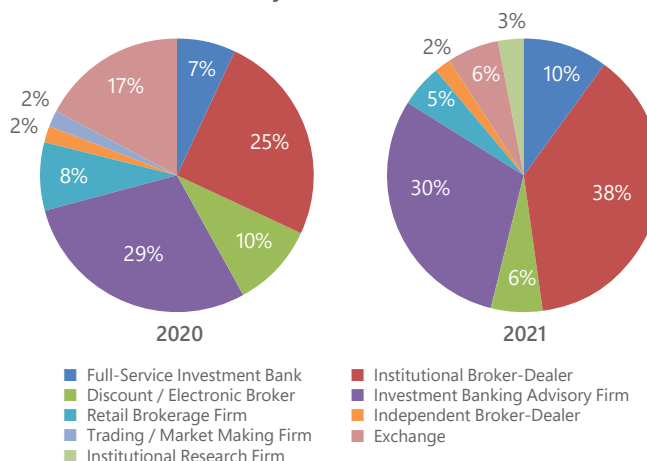
	2017	2018	2019	2020	2021
Majority Equity	54	62	62	48	<b>50</b>
Minority Equity	15	14	3	11	<b>13</b>
<b>Total</b>	<b>69</b>	<b>76</b>	<b>65</b>	<b>59</b>	<b>63</b>
Total Transaction Value (\$B)	\$10.4	\$9.9	\$39.6	\$25.2	<b>\$5.9</b>

Source: Berkshire Global Advisors LP

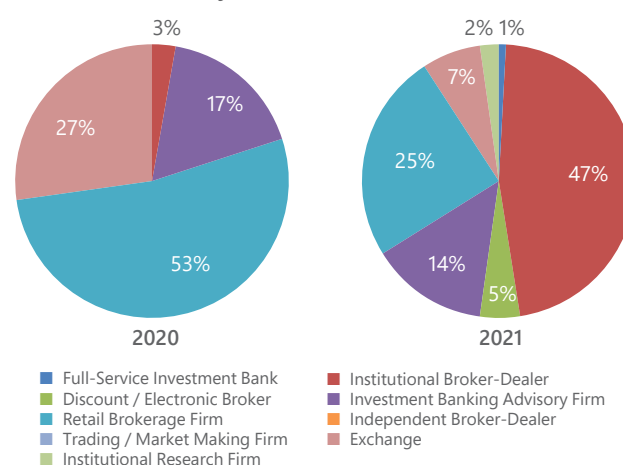
## Securities & Investment Banking

### WHO'S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



Source: Berkshire Global Advisors LP

Data may add up to more than 100%

## Securities Industry & Investment Banking Transactions

### WHO'S BUYING

	2017	2018	2019	2020	2021
Full-Service Investment Bank	2	4	16	11	10
Institutional Broker-Dealer	2	4	4	7	10
Commercial Bank	3	5	5	8	5
Exchange	5	6	7	7	5
Discount/Electronic Broker	3	5	8	2	4
Diversified Financial Services Company	15	17	10	4	4
Investment Banking Advisory Firm	8	3	1	4	4
Private Equity Firm	4	3	4	6	4
Independent Broker-Dealer	2	6	4	3	3
Insurance Company	0	1	1	0	0
Institutional Research Firm	0	0	0	0	0
Retail Brokerage Firm	0	1	0	2	0
Trading/Market Making Firm	5	5	2	1	0
Other	20	16	3	4	13
<b>Total</b>	<b>69</b>	<b>76</b>	<b>65</b>	<b>59</b>	<b>63*</b>

Source: Berkshire Global Advisors LP

\* Includes category not shown

**Management.** That transaction by two private equity firms was a departure from the usual consolidation deals among competitors. Two other U.S. asset managers, **Ameriprise Financial** and **Goldman Sachs**, crossed the Atlantic to add to their European footprint in significant ways. Goldman paid €1.6 billion (\$1.9 billion) for **NN Investment Partners**, a Dutch firm primarily managing fixed income products, while Ameriprise acquired the EMEA asset management business of **BMO Financial Group** for £615 million (\$845 million). Within Europe, **Amundi** agreed to pay €825 million for a major exchange traded fund provider, **Lyxor**, a deal that will make the French giant the region's No. 2 ETF player.

The wealth management sector continued to be driven by consolidators, whose appetite has grown for targets of ever-larger size. In 2021, **Fidelity Investments** tallied 215 transactions in the U.S. for RIAs with \$100 million to \$20 billion in clients assets, 85 of which involved sellers with \$1 billion or more. **Hightower Advisors** and **Wealth Enhancement Group** were among the major consolidators reaching new thresholds for the size of their targets. For

## Cross Border Investment Management Transactions

	2017	2018	2019	2020	2021
<b>U.S. - INTERNATIONAL</b>					
Number of Deals	32	43	31	34	48
Value (\$B)	\$7.9	\$7.4	\$7.4	\$6.2	\$13.0
<b>INTERNATIONAL - INTERNATIONAL</b>					
Number of Deals	30	79	57	64	83
Value (\$B)	\$3.6	\$9.6	\$4.4	\$5.7	\$15.3
<b>TOTAL</b>					
Number of Deals	62	122	88	98	131
Value (\$B)	\$11.5	\$17.0	\$11.8	\$11.9	\$28.3

Source: Berkshire Global Advisors LP

Minneapolis-based **WEG**, the deal involved **QCI Asset Management**, a firm with \$5.2 billion in AUM that extends **WEG's** footprint into Western New York. **WEG** cut more than a dozen deals last year to help push assets over \$50 billion.

One of the most active buyers of late, Canada's **CI Financial**, completed or announced six U.S. deals in the third quarter alone, all but one for firms with more than \$4 billion in assets. As a measure in part of its aggressive expansion, the company's gross debt increased by C\$1.4 billion (US\$1.1 billion) to C\$3.4 billion between the third quarter of 2020 and 2021. **Focus Financial Partners** closed 28 transactions in the first 10 months of the year. Last July, **Focus** also closed \$800 billion in financing for M&A. Last year, **Bain Capital**, **KKR & Co.**, **Leonard Green & Partners**, **Summit Partners** and **Warburg Pincus** were among the private equity firms making investments in acquisition-minded firms.

The fintech space was notable for the entry of **Vanguard**, which tapped the sector for the first acquisition in its lengthy history. The target, **Just Invest**, provides a customizable direct-indexing platform for wealth managers that serves **Vanguard's** financial intermediary business. Direct indexers were in demand last year, drawing other major buyers such as **Franklin Resources**, **JPMorgan Chase** and **PGIM Investments**. Other major traditional asset managers/financial services firms cutting deals for fintechs included **Abrdn** (formerly Aberdeen Standard Investments), **Allianz Group**, **BlackRock** and **State Street Corp.**

With ESG factoring into more decisions made by investment firms and their clients, specialists in that area have been in steady demand in recent years. Of the multiple acquisitions **Affiliated Managers Group** made last year, two involved ESG firms, including a majority stake in **Parnassus Investments** (AUM: \$47 billion), with **Barron's** placing the undisclosed price at \$600 million. The value of assets in ESG funds varies greatly depending upon the criteria employed, but Refinitiv Lipper places the U.S. total at around \$540 billion, 75% in actively managed funds. ETGFI reported record net inflows worldwide into such funds of \$130 billion through October, more than twice the total during the same period in 2020.

Real estate advisors had an extraordinary year with multiple mega-deals, among others, and the hot e-commerce-related industrial sector a factor in many transactions. Within the U.S., the industrial market absorbed the most space ever during a quarterly period in the 2021 third quarter, breaking the record set in the previous three months, according to **Cushman & Wakefield**. One of those three marquee deals saw **EQT** of Sweden

pay \$1.9 billion in cash and shares for **Exeter Property Group** of Philadelphia and London to create a “scaled, global real estate investment platform” with \$10 billion in AUM, the majority in logistics/industrial properties. Subsequently, the newly formed **EQT Exeter** real estate unit sold off the industrial portfolio to a consortium of buyers in one of the largest-ever such deals, with an agreement to continue managing the assets.

In an all-U.S. deal, **Blue Owl Capital** acquired **Oak Street Real Estate Capital** for a price that could reach \$1.6 billion. Oak Street (AUM: \$12 billion) offers the “industry’s preeminent net lease platform,” allowing corporate tenants to optimize their balance sheets, among other benefits, with a platform focused on North American industrial and retail properties. During the peak Covid period, Oak Street noted that rent collection was 100%. In Asia, Hong Kong-based **ESR Cayman** agreed to pay \$5.2 billion for Singapore’s **ARA Asset Management**, creating a regional giant and the No. 7 advisory firm globally. The combined firm will derive 80% of EBITDA from “new economy” properties. Canadian firms were particularly active last year, including **Oxford Properties Group**, which acquired **M7 Real Estate**, drawn by the London firm’s portfolio of industrial and urban logistics properties.

Other alternative sectors that drew buyers and sellers included credit and private equity. In the former area, there were numerous cross border deals in the U.S. and Asia-Pacific, but one major U.S. transaction led the sector: **T. Rowe Price’s** \$4.2 billion cash-and-shares acquisition of **Oak Hill Advisors**, a diversified alternative credit manager with \$53 billion in capital under management. In private equity, **Ares Management** and **Franklin Resources** both did \$1 billion-plus deals for major secondaries firms, tapping a market that doubled between 2016 and 2020 to \$300 billion, according to Preqin, with another \$30 billion raised in the first half of 2021. The major permanent capital vehicles also remained active, including the **Petershill** unit of **Goldman Sachs**, which cut multiple deals, among them a minority stake in **Incline Equity Partners**. The Pittsburgh private equity firm invests in North American companies handling value-added distribution, business services and specialized light manufacturing.

\* \* \*

The New Year’s bunting had barely been removed when the first asset management transactions of 2021 were announced, and the activity never let up as the year progressed. That robust deal-making mirrored the larger M&A picture: The value of transactions in all industries worldwide reached \$5.9 trillion, crushing the previous annual record, including \$1.5 trillion in the fourth quarter.

In our industry, several factors converged last year to account for the heightened level of activity. For one thing, many deals represented the completion of discussions that either resumed or began in the second half of 2020, when markets rebounded and buyers and sellers emerged from the initial pandemic lockdown. The pandemic itself

## Cross Border Transactions by Domicile and Type

2021	BUYER: SELLER:	U.S. INT’L	INT’L U.S.	INT’L INT’L	TOTAL
Wealth Management		7	15	34	56
Traditional Investment Management		6	5	24	35
Other		6	9	25	40
<b>Total</b>		<b>19</b>	<b>29</b>	<b>83</b>	<b>131</b>

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
<b>Total</b>		<b>6</b>	<b>28</b>	<b>64</b>	<b>98</b>

Source: Berkshire Global Advisors LP

also spurred some sellers to action as they considered their vulnerability in times of crisis.

During Affiliated Managers Group’s second-quarter conference call, President and CEO Jay Horgen cited another factor at play in recent years when he noted that his acquisitive firm “is seeing more demographically driven succession-oriented transactions come to us.... after a number of years where we’ve seen fewer succession-driven transactions.” Those opportunities Horgen references no doubt had some relationship to the pandemic for baby boomers, who determined the time was ripe for a sale in whole or part. There was an additional political factor at work in 2021 in the U.S. among independent firms, as sellers weighed the possibility of a hike in the capital gains tax this year.

With interest rates low and abundant capital, buyers were also able to continue tapping traditional and alternative lenders to fuel their growth plans. As just one example, **Kudu Investment Management**, which was engaged in one of our transactions last year involving wealth manager **Douglass Winthrop Advisors**, secured a \$300 million credit facility from **Massachusetts Mutual Life Insurance Co.** last March. For Kudu, 85% owned by **White Mountains Insurance Group**, DWA marked the 17th partner firm in its portfolio.

Finally, transactions were driven by the relentless pressure on firms both large and small to bulk up to remain competitive. As we noted in this Summary, two of the key cost imperatives involve technology and compliance. CaseyQuirk estimates that asset managers worldwide will spend \$84 billion annually on data and technology by 2023 compared with \$50 billion in 2019. Firms that allocate a larger proportion of their budget (12%) to technology — representing 25% of asset managers — generated five times the organic revenue growth as “late movers” in the three years through 2019, as well as better client retention and profit margins, according to the consultant.

In 2021, our firm engaged with clients pursuing acquisitions, sales and partnerships across every sector in the industry, some 40 transactions in total. We were also able to renew our industry relationships in-person while

continuing to operate remotely in the hybrid model that has become the new normal across so many businesses. This included work in our growing fintech practice, where it was a source of great pride to be involved in Vanguard's first-ever acquisition, of Just Invest, a deal noted earlier in this Summary and reviewed more fully in the Fintech section. We were involved in several other varied fintech transactions last year.

In the wealth sector, we were engaged in numerous midsize deals of consequence, including Wealth Enhancement Group's acquisition of QCI Asset Management, briefly noted in this Summary and more fully in the Wealth Management section. While the traditional investment management sector was headlined by the megadeals, we continued to work with boutiques such as **Madison Investments Holdings**, which concluded a lift-out of fixed income assets and the related fund team from **Reinhart Partners**. We also assisted municipal bond specialist **Asset Preservation Advisors** in concluding a deal with France's **iM Global Partner**. You can read more about those deals and others in the Traditional Investment Management section.

In alternatives, our work was spread among private equity, credit, infrastructure and real estate advisory firms, and we were pleased to have taken part in three of the year's largest such deals involving a diverse group of buyers: Blue Owl Capital, EQT and T. Rowe Price.

As we consider 2022, we anticipate the transaction marketplace will remain active based upon the multiple industry factors we have cited in our summation and in line with our expectation and hope that the U.S. and world will continue a return to normalcy, albeit with challenges such as new Covid variants. As you consider your opportunities as either a buyer or seller, we look forward to providing you with our unparalleled insight into the asset management industry across all sectors, gained over five decades as an independent investment bank fiercely protective of our clients' best interests.

## Traditional Investment Management

With a lineage that it traces back to 1879, **Principal Financial Group** is among a handful of large, venerable U.S. life insurers. But pressed by activist investor **Elliott Investment Management**, the Iowa-based firm announced last June that it will exit its retail U.S. insurance and fixed annuities businesses. The company instead emphasized a commitment to its more robust asset management and retirement businesses.

"Emerging from this process, Principal will be a more capital-efficient company poised to lead in higher growth spaces, expecting higher capital returns to shareholders," Dan Houston, chairman, president and CEO of Principal, told analysts. Mark Cicirelli, insurance head for Elliott, applauded the company's commitment to "build a less capital-intensive business and to focus on its higher-growth target markets."

**Principal Global Investors** has \$530 billion in AUM, 87% split evenly between fixed income and equity products

and the rest in alternatives, and is a top-10 target date fund manager. The business also sports a healthy 37% pre-tax margin — three times the level for U.S. life insurance. With a focus on higher-margin businesses, Principal Financial is targeting annual earnings per share growth of 9% to 12% through 2023 compared with 2.1% average growth in the five-year period through 2020; it also announced a new \$1.2 billion share buyback program.

Principal's action underscores the preeminent position of asset management within the larger financial services universe, even as the industry grapples with such challenges as fee compression and the digital and data revolution. Among diversified financial services companies, asset and wealth management generally ranks among the most efficient businesses as measured by return on equity.

As with commercial banks, the low interest rate environment that has prevailed since the 2008 financial crisis has pressured life insurance profitability. Younger consumers are also less likely to purchase policies: In the U.S., life insurance ownership has declined from 63% of adults in 2011 to 52% currently, according to industry group Limra. "Flat growth and elusive profitability," was the headline McKinsey wrote in a 2020 industry report assessing the previous decade.

Several large insurers have joined Principal in building their asset management arms, though not necessarily at the expense of their life insurance businesses. One is **Sun Life Financial**, Canada's largest asset manager. The company has made multiple acquisitions since 2015, including for a majority stake in a leading global credit manager, **Crescent Capital Group**, completed in early 2021. **New York Life Insurance**, which remains a traditional mutual company, has amassed more than \$600 billion in AUM over the years via organic growth and acquisitions done either directly or through its boutiques. In 2020, its European fund manager, **Candriam**, cut two deals for alternatives firms, including **Rothschild & Co.**'s European hedge fund business. **Prudential Financial** has emphasized its commitment to expanding asset management's piece of the earning pie at the expense of individual annuities.

Principal's announcement occurred as another solid year for financial markets drove another strong year for the traditional investment management industry, following a positively robust one that kicked off in the second quarter of 2020. Among traditional active assets, AUM for core products such as large-cap equity and domestic government debt rose 11% in 2020, or about twice the five-year annual average, according to the latest Boston Consulting Group study. Specialized active products such as emerging markets funds rose 9%, also double recent growth rates. In all asset management categories, AUM rose 11% worldwide to \$103 trillion in 2020, with net inflows of \$2.8 trillion. At the same time, growing costs in such areas as technology and compliance combined with fee pressure to keep global operating margins static at 34%.

In 2021, exchange traded funds remained the primary theme: U.S.-listed ETFs gathered a record \$900 billion in net inflows, according to *ETF.com*, easily eclipsing the re-



cord total of \$507 billion in 2020. **BlackRock** and **Vanguard** accounted for 59% of inflows, underlining the dominance of the two firms, which account for nearly two-thirds of the market. In Europe, ETF inflows were \$195 billion, according to Blackwater Search & Advisory, well above the record \$120 billion in 2020 that Bloomberg Intelligence tabulated.

In a bow to the trend, last June **Dimensional Fund Advisors** (AUM: \$640 billion) became a high-profile example of active managers converting such funds into ETFs. Dimensional swapped four active equity funds with asset of \$29 billion into ETFs, with plans to convert more and introduce new ones, immediately turning the company into one of the larger ETF providers. CEO Gerard O'Reilly indicated that the tax-advantaged status of ETFs was one factor in the decision. "Taxes are a very important consideration for investors right now because there is some uncertainty about what the overall tax picture will be in the future," he told *Bloomberg*, referencing the Biden administration's plan to raise capital gains taxes.

Deal-makers in the sector concluded a diverse range of transactions in 2021, from traditional equity and fixed income managers to specialized firms in such fast-growing areas as socially responsible investing (see sidebar). Several major deals for large to midsize active and passive managers also took place, adding to the running tally of such transactions over the past decade. The largest one was a departure from the usual consolidation plays, however: **GTCR** and **Reverence Capital Partners'** \$2.1 billion acquisition of **Wells Fargo Asset Management**.

The acquired business had \$603 billion in AUM as of year-end 2020, a number that rose 18% over 2019. But the majority of asset growth was in money market funds, comprising one-third of total AUM. The buyers said they are "committed to market-based compensation and incentive structures" as part of a growth plan, noting that "employees are expected to hold a significant share of the company's equity interests." Milton Berlinksi, co-founder and managing partner at Reverence, told *Institutional Investor* that the two firms are "allocating significant capital to build out technology, distribution, products, and as necessary, do acquisitions. This is not an exercise in cost savings."

**Wells Fargo**, which retains a 9.9% stake in the company and will provide distribution support, made the divestiture as part of a larger effort to shed non-strategic businesses. The buyers expect WFAM's new status as an independent firm, renamed **Allspring Global Investments**, to also expand distribution possibilities. Joseph Sullivan, former chairman and CEO of Legg Mason, assumed the CEO role at Allspring. In 2020, GTCR and Reverence closed \$7.5 billion and \$1.2 billion funds, respectively, both targeting financial services, among other industries. In 2015, Reverence teamed with **TA Associates** on the \$1.2 billion acquisition of **Russell Investments**, an investment both private equity

firms have retained. Four years later, Reverence paid around \$2 billion for a majority share in independent broker-dealer **Advisor Group**.

The next three major deals involved midsize European targets under increasing pressure to embrace the scale offered by larger partners. The largest transaction was a cross border affair: **Goldman Sachs'** agreement to pay €1.6 billion (\$1.9 billion) for **NN Investment Partners**, a Dutch firm primarily managing fixed income products. As with Principal Financial, Elliott Investment Management began buying shares of insurance parent **NN Group** in 2020 and pressed the firm to improve its performance and valuation, including the sale of businesses. The asset

## Traditional Investment Management Transactions

	2017	2018	2019	2020	2021
Number of Transactions	74	66	47	42	<b>60</b>
Combined Value (\$B)	\$13.3	\$17.2	\$2.8	\$18.5	<b>\$13.1</b>
Total Seller AUM (\$B)	\$1,281	\$1,183	\$328	\$1,686	<b>\$1,863</b>
Average Deal Size (\$M)	\$180	\$260	\$59	\$441	<b>\$219</b>
Average Seller AUM (\$B)	\$17.3	\$17.9	\$7.0	\$40.1	<b>\$31.1</b>

Source: Berkshire Global Advisors LP

management unit was a relatively minor contributor to NN Group's profits, accounting for 8% in 2020 and the first half of 2021.

NN Investment has €300 billion (\$410 billion) in AUM, three quarters of which is integrated with ESG (environmental, social and governance) criteria. Goldman said NN Investment will strengthen its European fund management and distribution platform across retail and institutional channels while adding a "compelling ESG product suite." Goldman also strengthened its insurance asset management business by entering a long-term agreement to manage \$190 billion in such assets for NN Group.

A second U.S. buyer, **Ameriprise Financial**, paid £615 million (\$845 million) for **BMO Financial Group's** EMEA asset management business, providing a significant expansion of Ameriprise's presence in that region. The acquired business adds \$124 billion in AUM to double the assets Ameriprise manages in the area through subsidiary **Columbia Threadneedle Investments**. As a result, Europe will account for 40% of Columbia's total AUM (increasing to \$670 billion), providing "a good balance to the U.S. business," Ameriprise Chairman and CEO James Cracchiolo told analysts.

The business adds complementary capabilities in areas such as socially responsible and liability-driven investing as well as European fixed income. Ameriprise said the deal will be accretive to earnings by 2023 and generate a 20% internal rate of return. Ameriprise and BMO also established a "strategic relationship" that gives the Canadian bank's wealth clients access to Columbia's products.

Within Europe, **Amundi** agreed to pay €825 million for the region's third-largest ETF provider, **Lyxor**, a deal expected to close early this year. With the addition of Lyxor's €77 billion in ETF assets, Amundi will gain instant scale to become the No. 2 provider in Europe's ETF market with €142 billion in AUM and a 14% share. Although that still leaves Amundi well behind **BlackRock** (44% share), the company's strong distribution network on the Continent could help facilitate growth. The European ETF market, which lagged the U.S., has been growing rapidly in recent years, doubling between 2018 and June 2021 to €1.4 trillion, according to *ETFGI.com*.

Amundi, Europe's largest asset manager (AUM: €1.8 trillion), will also gain a diverse group of active funds totaling €47 billion, including a large liquid alternatives platform. Amundi Chairman Yves Perrier, who stepped down as CEO last May, said the deal "will reinforce our expertise, namely in ETF and alternative asset management" while contributing "to the post-Brexit positioning of the Paris financial centre." Amundi placed the valuation at 10 times forward earnings, including expected run-rate annual cost synergies of €60 million, and expects upwards of a 10% return on investment by year three.

While commercial U.S. banks such as Wells Fargo have for years been divesting their fund management arms, **U.S. Bank** stepped into the marketplace in 2021 to buy **PFM Asset Management**. Based in Pennsylvania, PFM AM has a niche in the public sector, where it manages local government investment pools, along with a growing outsourced CIO business. In Illinois, for example, the company manages \$2.4 billion for more than 200 governmental entities. PFM AM adds \$123 billion in AUM and another \$41 billion under administration to the \$160 billion **U.S. Bancorp Asset Management** already manages, primarily in money market funds. "It fits very nicely into our government banking business, our treasury management, and particularly our corporate trust business," U.S. Bank Chairman, President and CEO Andrew Cecere explained during a second-quarter earnings call.

Other transactions in the U.S. also involved specialized firms. Serial buyer **Affiliated Managers Group** led the group by deal dollar size with the purchase of a majority stake in socially responsible investor **Parnassus Investments** (see sidebar). Other publicly traded asset managers joined AMG on a smaller scale. Having acquired Legg Mason in 2020, **Franklin Resources** added a total of \$10 billion in fixed income AUM via tack-on deals with **Aviva Investors** and **Diamond Hill Capital Management**. Franklin added another \$6.4 billion in AUM by acquiring **O'Shaunessy Asset Management**, an equity manager with a direct indexing platform that enhances Franklin's large separately managed account business (see *Fintech for more on direct-indexing deals*). Multi-boutique **Virtus Investment Partners** paid \$135 million (with potential future earnouts) for **Westchester Capital Management** (AUM: \$4.3 billion), a global, event-driven firm.

**Touchstone Investments**, an occasional buyer that has been out of the M&A market since 2017, made a significant

acquisition last year, adding \$7.8 billion in retail fund assets from **American International Group**. The deal increased Touchstone's AUM to \$30 billion, with the bulk of the acquired assets in equity funds, led by a U.S. large-cap dividend fund established in 1998 and rebranded as Touchstone Dividend Equity. Noting that 2020 was Touchstone's best-ever sales and growth year, President and CEO Blake Moore told *MutualFundWire.com* that while the company is "careful" about acquisitions it will pursue such deals "when the opportunities arise." The Cincinnati firm is part of **Western & Southern Financial Group**.

An employee-owned Wisconsin firm, **Madison Investments Holdings**, made its second in-state deal since 2019, doing a lift-out of \$4.6 billion in fixed income assets and the related fund team from **Reinhart Partners**. The deal gives Madison \$12.5 billion in fixed income AUM and increases total AUM to \$23 billion. Madison said the addition "will add depth, expertise and scale" to its fixed income unit while providing the Reinhart team with continued investment autonomy. Madison, whose previous acquisition involved a small-cap manager, was established in 1974 and serves institutional and retail clients. In a recent disclosure brochure, the company said it pursues a "risk-sensitive investment philosophy." Similarly, the Reinhart team maintains "a conservative discipline that does not take undue risks in pursuit of yield."

**Polen Capital** added a large high-yield and alternative credit specialist to its portfolio of diversified equity products with the acquisition of **DDJ Capital Management**. Polen (AUM: \$80 billion) said the deal "furthers" a strategic objective "of delivering superior active returns ... with offerings that meet the increased demand for sustainable income." Established in 1996 and based in Massachusetts, DDJ has \$8.2 billion in AUM, two-thirds in its Opportunistic High Yield strategy. Similar to Polen, DDJ is a high-conviction manager: The top-10 holdings in the Opportunistic portfolio, which includes a large proportion of senior loans (35%), accounted for 29% of assets as of last September. In reviewing the high-yield market last July, David Breazzano, president and chief investment officer at DDJ, noted that issuer fundamentals were "improving at an impressive pace" following a "very difficult" 2020, opining that the gains should "accelerate further" with the improving economy.

Publicly traded **BrightSphere Investment Group** of Boston, formerly Old Mutual Asset Management, has been a serial seller since 2020 as it pared back and ultimately eliminated its multi-boutique structure while focusing on paying down debt and returning capital to shareholders. Last year, it divested two traditional investment managers: value shop **Thompson, Siegel & Walmsley** (AUM: \$24 billion), acquired by Australia's **Pendal Group** for \$320 million (including the 25% interest of TSW management) in a cross border deal; and **Investment Counselors of Maryland** (AUM: \$3.2 billion), an institutional value manager acquired by **William Blair Investment Management**. BrightSphere also sold its interests in private equity firm **Landmark Partners** and timberland manager **Campbell Global** (see *Credit/Private Equity and Real Assets, respectively*). Following those deals, BrightSphere is left with one affiliate, **Acadian**, a factor-based quantitative manager with AUM of \$112 billion.

France's **iM Global Partner** continued its aggressive push into the U.S. by acquiring a 42% share of **Asset Preservation Advisors**, the fourth-largest independent municipal bond specialist in the country with \$4.8 billion in AUM. APA, which manages assets for RIAs, family offices and institutions, gains access to iM Global's "extensive global asset management and distribution network, while ensuring its independence for decades to come." APA was founded in 1989. In its 2021 first-half commentary, APA noted that muni fund inflows had been positive for all but one week, with issuance of \$221 billion during the period the highest since 2007. "The overarching story of the first half ... is the continued demand for tax-exempt paper," the firm wrote. iM Global has seven other partner firms in its portfolio, including two other U.S. firms in which it invested last year (see *Wealth*).

The ETF market registered one deal of note, occurring outside the U.S.: TA Associates' investment in one of Australia's leading such firms, **BetaShares**. The deal included the shareholding (reportedly 51%) held by South Korean asset manager **Mirae Asset Financial Group**. BetaShares, launched in 2010 and with A\$20 billion (\$14.5 billion) in AUM in a broad range of funds, said the capital will "fuel a major expansion of its business activities." BetaShares has been hiring sales staff and advertising aggressively as it seeks to compete with market leader **Vanguard Investments Australia**; it also expanded into New Zealand last May. In the 12 months through the middle of 2021, assets in Australian ETFs rose 76% to reach A\$116 billion, but the investment products still have a low penetration (3%) of the overall fund market.

## ESG firms draw inflows and deal-makers

Although analysts differ on the total assets in socially responsible funds, depending upon the criteria employed, there's no disputing the fact that the sector is one of the fastest-growing areas for fund managers. Individuals, institutions and family offices have for years been incorporating such investments into their portfolios, with an added intensity of late.

In 2020 in the U.S., socially responsible investment funds (also known as ESG or "impact" funds) drew a record \$51 billion of inflows, according to **Morningstar**, more than twice the record level in 2019 and 10 times the record 2018 flows. By Morningstar's reckoning, U.S. funds had \$236 billion in assets by 2020. In the UK, inflows shot up by 2 1/2 times in 2020 compared with 2019 while total assets reached £125 billion (\$170 billion), according to Refinitiv Lipper. For all of Europe, ESG funds attracted 52% of total regional net inflows in 2020 and accounted for 11% of locally domiciled assets, according to the Association of the Luxembourg Fund Industry.

The flow of investment dollars, which continued into 2021, has naturally drawn the interest of asset managers. They have responded by adding ESG funds, converting existing funds, and making acquisitions of specialists. **Affiliated Managers Group** was a notable buyer last year, cutting deals for two ESG firms: a majority stake in **Parnassus Investments** (AUM: \$47 billion); and a minority of **Boston Common Asset Management** (AUM: \$3.9 billion).

In the larger of the deals, AMG paid \$600 million for its stake in Parnassus, according to *Barron's* (the price was not publicly divulged), giving the firm a total of \$80 billion in ESG-dedicated AUM via its affiliates and \$600 billion in AUM "incorporating ESG factors." Parnassus, established in 1984 and in the midst of a generational transition, was an early adherent of responsible investing. Boston Common is another established firm, having started up in 2003 and positioned as a "leader in corporate shareowner engagement" that links improved corporate ESG practices to enhanced "company fundamentals." The company said AMG's distribution platform, corporate relationships and "collaborative partnership approach" will enhance its ESG capabilities and diversify its client base.

In the first-quarter earnings call, AMG President and CEO Jay Horgen told analysts his company has "concentrated our prospecting efforts on independent firms operating in areas of strong secular growth and client demand" such as ESG. Since 2020, AMG has also held a minority stake in **Inclusive Capital Partners**, which is "committed to promoting a low carbon economy." (For more on AMG, see *Credit/Private Equity and Real Assets*.)

As the last of the large independent ESG managers, Parnassus joins the ranks of related firms that have been gobbled up in recent years. **Eaton Vance** kickstarted deals for the leading firms, and its own entry into the sector, when it acquired **Calvert Research and Management** in 2016. When **Morgan Stanley** acquired Eaton Vance in 2020, Calvert was viewed as one of the stars in the portfolio, its AUM having doubled to \$25 billion since 2016. **BlackRock**, **Federated Investors**, **Impax Asset Management** of the UK, **Mackenzie Financial Corp.** of Canada, and **Perpetual Ltd.** of Australia are among other firms that have acquired dedicated ESG firms or targets with significant ESG portfolios.

Other deals outside the U.S. followed a familiar script of global expansion, though not necessarily by industry giants. Serial buyer **Fiera Capital** of Canada acquired a small global equities fund and team based in Europe and Asia from **AMP Capital** of Australia. The team pursues a concentrated, buy-and-hold strategy targeting 25 to 35 best-in-class global companies. Subsequently, Fiera provided C\$12.6 million (US\$10 million) in seed capital to the fund (AUM: US\$500 million). In its latest annual report, Fiera said the deal “reinforces our investment platform” and provides an “established and sought-after investment strategy to our clients globally.”

**Azimut Group** of Italy, an aggressive buyer in the U.S. in 2020, bought a 51% stake in Mexico’s **KAAN Capital**, an institutional and advisory firm focused on domestic equities. Azimut already had a presence in the market while the two firms had a prior relationship involving KAAN’s management of a local Azimut equity fund. The Mexican mutual fund industry has \$130 billion in assets, or just 10% of GDP, a lower percentage than in other leading Latin American economies. The money also tends to be invested conservatively in fixed income funds. Azimut, with around €75 billion (\$88 billion) in AUM (35% outside Italy), also operates in Brazil and Chile, in addition to markets in Asia-Pacific and Europe.

Within Asia-Pacific, Melbourne-based **Yarra Capital Management** acquired the Australian business of **Nikko Asset Management**, which gained a 20% interest in Yarra as part of the transaction. Yarra management and existing investor TA Associates will each hold a 40% share in Yarra. The acquisition more than doubles Yarra’s AUM to A\$20 billion with fixed income and equity funds; it also makes the firm one of Australia’s largest independent managers.

## Credit/Private Equity

Given the seminal events of 2020 and lingering uncertainty about Covid variants, the credit markets emerged last year in remarkable shape following the rebound that occurred in 2020 after the initial pandemic-related scare. As the first half of 2021 drew to a close, Fitch Ratings said U.S. institutional leveraged loan and high-yield bond default rates were on track to hit 10-year lows of 1.5% and 1% for the year, respectively.

In lowering each of those projections from earlier ones by one percentage point, Fitch cited lower volume in “top market concern loans and bonds.” Significantly, Fitch also pointed out that “accommodative monetary policy has supported access to capital ... and lowered borrowing costs for speculative-grade issuers.” By midyear, the U.S. leveraged loan market had topped \$1.5 trillion while high-yield issuance was racing well ahead of the record pace in 2020 over the same time period. Issuance from companies tapping the high-yield market for the first time was also poised to set a record.

The booming market in such debt is being driven by the liquidity Fitch described and the reach for yield among

investors, a familiar story since the financial crisis of 2008. But in 2021 that ongoing saga merged with the economic rebound to bolster investors’ confidence in riskier debt. With inflation emerging as a potential wild card, investors viewed corporate loans in particular as an attractive hedge, since they typically offer floating rates. “In an environment where 10-year Treasury rates are rising but short-term Libor is holding steady, leveraged loans may look attractive relative to longer-duration fixed-rate core bonds, which have greater exposure to interest rate risk,” wrote two leveraged loans specialists at New York’s **PineBridge Investments**. (The Libor benchmark for leveraged loans and collateralized loan obligations began a phaseout at the end of 2021.)

By midyear, new issuance in the related collateralized loan obligation market had reached \$104 billion, driven by \$84 billion in the U.S. — the highest-ever first-half total, according to S&P Global Market Intelligence. (By year-end, CLO issuance reached a record \$187 billion.) Europe added €15 billion (\$18 billion), 50% above the same period in 2020 but about in line with issuance in 2019. As one example of the activity, a leading structured credit manager, **Palmer Square Capital Management**, issued the largest CLO in its 12-year history in the second quarter: A \$1 billion short-duration CLO primarily made up of investment-grade loans. CEO Christopher Long told *GlobalCapital* the CLO met demand from “family office, high net worth and wealth management investors seeking high cash-on-cash returns.”

Data provider Preqin delivered further evidence of the vigorous marketplace when it reported last July that the number of private debt funds worldwide had more than doubled since 2017 while the funds were sitting on \$364 billion of dry powder. As of last July, managers were also targeting \$295 billion across 651 funds, more than double the 2017 numbers on both fronts. Direct lending accounts for more than half the number and value of funds. “The private debt asset class is increasingly competitive and private debt funds keep bringing attractive yields to portfolios,” Preqin wrote. “Any severe distress from the pandemic seems, at this point, to be in the rearview mirror with the help of central banks.”

Deal-making in the credit sector remained brisk last year, with a mix of specialized and diversified asset managers entering the market on the buy side and one transaction that ranked among the largest of 2021. The activity followed a slowing in 2020 from the robust years of 2018-2019, when a total of more than \$10 billion in deals was transacted. While alternatives buyers continue to sniff around the credit markets, as evidenced by last year’s deals, many have turned their focus toward real estate and private equity. Within the CLO market, a steady run of deals in the years after the financial crisis has resulted in fewer independent targets with enough scale to draw interest and a resulting slowdown in transactions.

The major deal took place in the U.S. and saw **T. Rowe Price** pay up to \$4.2 billion for **Oak Hill Advisors**, a diversified alternative credit manager with \$53 billion in AUM, including \$19 billion in capital raised since 2020. OHA manages

investments in private markets and liquid and structured strategies. The cash and shares deal includes \$900 million in cash based on performance beginning in 2025, and is the second \$4 billion-plus transaction for a credit manager in three years. In 2019, **Brookfield Asset Management** paid \$4.7 billion for a majority of **Oaktree Capital Management**. The deal also highlights the efforts by traditional asset managers to expand their alternative platforms, with T. Rowe Price noting that credit strategies “continue to be in demand from institutional and retail investors across the globe.”

Based in New York and in business for more than 30 years, OHA will operate as a standalone unit with investment autonomy and serve as T. Rowe Price’s private markets platform. As part of the deal, T. Rowe Price (AUM: \$1.6 trillion) will commit \$500 million for co-investment and seed capital alongside OHA management and investors. The two firms also said they plan to co-develop new products for T. Rowe Price’s wealth and retail channels, underlining the benefit OHA stands to gain from its new parent’s distribution muscle. “Scale has become increasingly important to our business,” Glenn August, founder and CEO of OHA, told analysts. “As a leading investor with a diversified platform across both strategies and investor base, OHA is in a great position to capture future growth, and joining with T. Rowe Price is an excellent next step for both our investors and our team.”

There were a couple of CLO-related deals between firms in the U.S., including the acquisition by **Aquarian Holdings** of **Gallatin Loan Management**, an established CLO manager with more than \$800 million in AUM. Aquarian then teamed with Gallatin to form **Aquarian Credit Partners**, a syndicated high-yield credit platform wrapping in Gallatin’s CLO business. Aquarian is a diversified holding company whose businesses include insurance, asset management, real estate and technology. Since 2000, Gallatin has raised, structured and managed 15 CLOs representing some \$6 billion in AUM; it was named U.S. Boutique CLO Manager of the Year in 2020 by Creditflux. Aquarian said the creation of its credit unit “leverages [our] recent growth in asset management and insurance.” **Aquarian Investments**, launched in 2018, manages more than \$2 billion in a range of alternative assets.

In the second such deal in the U.S., global private investment firm **York Capital Management** (AUM: \$13 billion) and opportunistic credit manager **Kennedy Lewis Investment Management** formed a dedicated CLO manager, **Generate Advisors**. The firm will wrap in York’s CLO business, comprising \$4 billion in AUM, and Kennedy Lewis will invest a minimum of \$200 million in future Generate CLOs managed by the York team. David Chene, co-founder of four-year-old Kennedy Lewis (AUM: \$3 billion), said the “opportunity to support and scale a top CLO manager” has been a corporate goal from the “early days.” He added that Generate can also count on the support of **Azimut Alternative Capital Partners**, which acquired a minority

stake in Kennedy Lewis in 2020. AACP is the U.S. subsidiary of Italian asset manager **Azimut Group**.

One of the larger CLO managers, **Sound Point Capital Management**, entered the market to diversify its credit portfolio, adding significantly to its small direct-lending business with the purchase of **CVC Credit’s** dedicated U.S. platform. The deal gives New York’s Sound Point \$1 billion in assets, bringing its direct-lending business to \$1.5 billion and total assets to \$26 billion, the majority in CLOs. Sound Point said the acquired business, which provides growth capital and acquisition financing to “proven” middle-market companies, complements its own bespoke financing business for companies in transition or turnaround mode. “Combining our team’s proven track record with Sound

## Credit Transactions

	2017	2018	2019	2020	2021
Number of Transactions	13	22	16	13	11
Combined Value (\$M)	\$1,727	\$4,501	\$6,932	\$1,324	\$4,870
Total Seller AUM (\$B)	\$98	\$228	\$215	\$68	\$81
Average Deal Size (\$M)	\$133	\$205	\$433	\$102	\$443
Average Seller AUM (\$B)	\$7.5	\$10.4	\$13.4	\$5.3	\$7.4

Source: Berkshire Global Advisors LP

Point’s deep connectivity amongst institutional investors sets up a powerful alliance,” said David DeSantis, head of U.S. private debt at CVC Credit. **Blue Owl Capital**, formed last year from the combination of **Dyal Capital Partners** and **Owl Rock Capital Partners**, owns a minority stake in Sound Point (see sidebar for more on Blue Owl).

In a second U.S.-centered deal, **Virtus Investment Partners** acquired an established emerging markets specialist, **Stone Harbor Investment Partners**. Stone Harbor, based in New York and with \$15.4 billion in AUM, manages traditional fixed income as well as alternative credit products, including multi-asset credit. Prior to the deal, leveraged finance accounted for one-third of Virtus’ fixed income assets of \$35 billion, with multi-sector another 25% (total AUM: \$179 billion). Stone Harbor is the ninth affiliate in Virtus’ portfolio, including two other credit firms. Virtus said the addition of Stone Harbor diversifies its investment and global distribution capabilities while increasing its non-U.S. institutional client base.

There were numerous cross border credit deals spanning Asia-Pacific, Europe and the U.S., including three by major publicly traded asset managers expanding their alternatives portfolios. Chicago-based middle-market private credit manager **Monroe Capital** was the target for a minority investment from **Bonaccord Capital Partners**, the private markets unit of the UK’s **abrdn** (formerly Aberdeen Standard Investments). Since its founding in 2004, Monroe (AUM: \$10 billion) has become one of the largest dedicated senior secured private credit investors in the U.S., where it pursues sector-specific strategies in such industries as

## Hedge Fund / Hedge Fund of Funds Transactions

	2017	2018	2019	2020	2021
Number of Transactions	10	13	10	13	9
Combined Value (\$M)	\$1,011	\$1,938	\$446	\$1,591	\$1,816
Total Seller AUM (\$B)	\$71	\$67	\$18	\$91	\$32
Average Deal Size (\$M)	\$101	\$149	\$45	\$122	\$202
Average Seller AUM (\$B)	\$7.1	\$5.1	\$1.8	\$7.0	\$3.5

Source: Berkshire Global Advisors LP

business services and technology. Monroe President and CEO Theodore Koenig told *Pensions & Investments* last July that his company was able to provide “increased liquidity and rescue capital to good companies” during the pandemic to generate “premium pricing and structures and, thus, a better overall risk-reward for our investors.”

Another UK firm, **Schroders**, acquired a 50.1% stake in an Australian commercial real estate lender to small and medium-sized enterprises, **RF Eclipse**. The company manages loan origination and loan and fund management across the range of property sectors; it subadvised \$300 million in assets for a Schroders’ real estate debt fund prior to the deal. RF Eclipse is part of **RF Group**, the asset management arm of an Australian family office, which retains the remaining minority share. Schroders said the rebranded **Schroders RF** will play “an important role in accelerating” its private assets business in Australia. Alternatives and private assets made up 7% of Schroders AUM (£700 billion/\$950 billion) in the first half of 2021, but accounted for 16% of net operating revenues.

In the third cross border transaction featuring a publicly traded buyer, **Affiliated Managers Group** acquired a minority stake in **OCP Asia** (AUM: \$3 billion), an established Hong Kong and Singapore firm that provides customized lending solutions in Asia-Pacific. OCP focuses on small and medium-size sponsor- and family-backed firms with EBITDA of \$25 million to \$125 million. AMG said the deal “further enhances” its participation in private markets and “exposure to growth markets across Asia.” At the time of the deal last April, OCP was fundraising for its fourth private debt fund and had surpassed the target of \$500 million. (For more on AMG, see *Traditional Investment Management and Real Assets*.)

Alternative investor **TIG Advisors** of New York acquired the minority revenue share interest owned by **Blackstone** in another Hong Kong-based credit firm, **Arkkan Capital** (AUM: \$1 billion). It marked the third minority investment TIG has made in an alternatives firm. TIG Advisors CEO Michael Tiedemann also serves as CEO of leading wealth manager **Tiedemann Advisors**, which last year agreed to combine with **Alvarium Investments** and go public via a SPAC early this year.

With traditional bank lending still dominant in Asia-Pacific, Asian private credit strategies account for only 7% of global private credit AUM — far below there region’s 34% share of global GDP — although the number doubled between

2014 and 2019 to \$57 billion, according to a 2020 report from law firm Simmons & Simmons. The lion’s share of investment capital (77%) is raised outside the region, underlining the untapped potential within the region itself. Family offices and high net worth individuals accounted for one-third of the capital raised.

In a purely domestic deal in Australia, alternatives manager **Navigator Global Investments** acquired a 32% share in **Longreach Alternatives**, which provides credit and other alternative products through a stable of four managers and has A\$1.6 billion (US\$1.2 billion) in assets. The five-year-old company has become a leader in lower-middle-market direct lending in Australia, a segment of the credit market that “has been acutely underserved by major banks” as a result of regulatory changes. Longreach also manages global quantitative equity investments, income-oriented energy assets, and sustainable agriculture. Navigator has US\$21 billion in AUM, two-thirds through Florida-based hedge fund **Lighthouse Investment Partners** and the rest via minority interests in six other diverse alternatives firms Navigator acquired in 2020. Navigator paid for Longreach through “existing financial resources” — its cash balance doubled in the 2021 fiscal year ended last June — and said it expected the deal to be immediately accretive to earnings.

As in the credit markets, investors continued to pour money into the private equity industry’s already stuffed coffers in 2021. The industry’s dry powder stood at \$3.3 trillion worldwide by midyear, by Bain & Co.’s reckoning, and fundraising enjoyed a record-setting pace of \$631 billion. (Preqin placed the dry powder total at a far lower \$1.6 trillion.) Nine buyout megafunds with more than \$5 billion in capital collected \$120 billion. Moreover, about 90% of limited partners surveyed told Bain they plan to commit as much or more capital in the next 12 months as they did in the previous 12.

Under pressure to put money to work — in particular as the global economy revived — private equity managers responded: The firms accounted for \$539 billion worth of deals in the first half of 2021, equivalent to the full-year average between 2016 and 2020, according to Bain. Average deal size climbed 48% over 2020 to \$1.1 billion. By Refinitiv’s first-half M&A data, private equity firms accounted for 18% of deals worldwide, but by year-end the number had climbed to 20% (or \$1.2 trillion in total).

The hot U.S. IPO market also helped the fortunes of private equity firms, which took over 100 of their portfolio companies public in the first half, more than the total for all of 2020 and three times the 2019 number, according to Dealogic. Publicly traded private equity firms were also benefitting: **Blackstone’s** shares nearly doubled in the first three quarters while the stocks of **Carlyle Group** and **KKR & Co.** rose 50%. Another major private equity firm, **TPG**, was set to go public in January 2022.

“Deals are being completed on shorter time lines, financings are being executed more quickly, opportunities

for exits are presenting themselves sooner, funds are being raised faster than ever before, and the accelerating impact from disruptive technology and changes from the pandemic are powering an increased demand for private capital across sectors and regions,” Carlyle CEO Kewsong Lee said during a second-quarter earnings call.

The private equity sector featured two megadeals last year for leading secondaries firms and multiple transactions driven by the permanent capital vehicles of asset management giants such as Blackstone and **Goldman Sachs** (see *sidebar*). Additionally, there were several deals for more general private markets firms. The leading transaction featured **Franklin Resources**, which paid \$1.75 billion in cash

## Permanent capital firms continue to add minority stakes

After permanent capital vehicle **Blue Owl Capital** went public last year via a SPAC following the merger of its two companies, **Dyal Capital Partners** and **Owl Rock Capital Partners**, executives laid out the investment thesis for their business, which targets private equity firms and other alternatives. (The IPO valued Blue Owl, with \$53 billion in AUM at the time, at \$12.5 billion.)

One is predictable, contractually fixed management fees, rather than the more volatile performance fees characterizing the private equity firms in which Blue Owl invests. Second is the indefinite duration of Blue Owl’s permanent capital funds, including investors’ capital. Then there’s the red-hot private markets universe itself, which by Preqin’s projections could climb from \$7 trillion in assets to \$13 trillion by 2025. (For information on Blue Owl’s acquisition of **Oak Street Real Estate Capital**, see *Real Assets*.)

That differentiated business model — involving the purchase of minority stakes in private equity and other alternative firms — has three dominant and established players. Dyal, previously part of **Neuberger Berman** and with a portfolio of more than 50 minority shareholdings, is one. (Owl Rock runs a complementary business as a direct lender to private equity portfolio companies.) The other two are **Blackstone** via its **Strategic Capital** arm and **Goldman Sachs** through its **Petershill** unit, which went public last September on the London Stock Exchange valued at £4 billion (\$5.5 billion).

The permanent capital model gained traction in the wake of the 2008 financial crisis and the rise of non-bank sources of capital. Focusing at first on investments in hedge fund managers, the three firms soon added private equity, real estate and private credit managers. The size of their funds also increased, in Dyal’s case from \$1.3 billion in Fund I in 2011 to \$9 billion in Fund IV in 2019. Over the past decade-plus, the firms have made some 100 investments collectively.

“As leading players in [private markets] seek to grow and expand their business, they will require capital to invest in their funds, to seed new strategies, and to grow their organizations,” Michael Rees, Blue Owl co-founder and co-president, told analysts last August. “We purpose built our organization to meet these capital needs from our funds.” Blue Owl and its peers also tout the strategic advice and counsel they can provide their partner firms.

The activity of Petershill, which last year took minority stakes in several private equity firms, provides an example of the sort of growing, mid-size companies the firms target. One Petershill deal was for **Incline Equity Partners**, a Pittsburgh firm that concentrates on North American companies handling value-added distribution, business services and specialized light manufacturing. Last June, for example, Incline acquired California’s Starwest Botanicals, a distributor of organic botanicals, herbs and spices.

Referring to the Petershill deal, Jack Glover, Incline managing partner, said, “This transaction marks the next phase in Incline’s growth. With additional capital and a world-class partner, we look forward to accelerating the execution of our strategy.” Incline has raised \$2.8 billion in capital since its founding in 2011, including a largest-ever \$1.2 billion fund closed in 2020, and targets companies with enterprise values of \$25 million to \$450 million. (By last summer, private equity firms had closed more than 1,700 deals for U.S. middle-market companies with a value of \$265 billion, a record-setting pace on both fronts, according to PitchBook.)

A second deal involved **Arlington Capital Partners**, a Washington, D.C., firm with “extensive experience investing in government-regulated sectors and adjacent verticals” that has managed \$4 billion of committed capital, including its current and fifth fund of \$1.7 billion. Goldman has been a limited partner in Arlington funds. In a third deal, Petershill invested in **Parthenon Capital**, which focuses on financial, healthcare and technology companies. Parthenon has managed funds with more than \$5.5 billion in capital. Petershill also invested in a venture capital firm, **Thrive Capital**, run by Joshua Kushner, the brother of real estate investor Jared Kushner, who also served in the Trump administration. (Goldman also acquired European asset manager **NN Investment Partners**; see *Traditional Investment Management*.)

for **Lexington Partners**, with \$750 million to be paid over three years. Established in 1994, Lexington has \$34 billion in AUM and manages co-investment funds in addition to its secondary vehicles.

With the addition of Lexington, Franklin said its alternatives AUM will “approach” the \$200 billion mark, or around 15% of total AUM, and generate more than \$1 billion in revenue, excluding performance fees. Franklin said it expects Lexington to generate \$350 million in revenue and \$150 million in EBITDA in 2022. Noting that Franklin already had capabilities in other alternative areas such as credit, real estate and hedge funds, Chief Financial Officer Matthew Nicholls told analysts that “having a specialist investment manager tied to [private equity] is a logical step in the diversification of our business.” Last year, Franklin Resources also cut deals for two fixed income managers and a direct indexing firm.

For **Ares Management**, the target was **Landmark Partners** (AUM: \$19 billion), in a \$1.1 billion mostly cash deal. The seller and majority shareholder, **BrightSphere Investment Group**, has been divesting affiliates since 2020 (see *Tradit*

## Private Equity Fund Transactions

	2017	2018	2019	2020	2021
Number of Transactions	13	18	19	12	16
Combined Value (\$M)	\$4,223	\$2,567	\$2,468	\$1,863	\$6,229
Total Seller AUM (\$B)	\$118	\$118	\$98	\$192	\$130
Average Deal Size (\$M)	\$325	\$143	\$130	\$155	\$389
Average Seller AUM (\$B)	\$9.1	\$6.6	\$5.2	\$16.0	\$8.2

Source: Berkshire Global Advisors LP

*tional Investment Management*). Landmark, which is aiming for \$6 billion in its latest private equity secondaries fund, provides Ares with entry to, and scale in, that market. The company has \$12 billion in private equity AUM and another \$7 billion in real estate and infrastructure secondaries.

The deal gives Ares a total of \$43 billion in private equity AUM, or around 17% of total AUM in a business dominated by credit assets. Landmark also delivers a network of more than 600 limited partners (LPs), bringing the combined institutional base to some 1,600 with little overlap. “We believe that the secondaries industry is at an inflection point,” Ares CEO and President Michael Arougheti said during the second-quarter earnings call. “And the combination of Landmark’s industry leadership and our global sponsor and investor relationships will provide us with meaningful growth opportunities.” (Ares also acquired a real estate advisory firm; see *Real Assets*.)

**PGIM**, the asset management arm of **Prudential Financial**, also tapped the private equity secondaries market with the acquisition of Switzerland’s **Montana Capital Partners**, with €2.7 billion (\$3.2 billion) in AUM and a focus on Europe’s small- and mid-cap markets. MCP, founded in 2011, said the connection with PGIM’s “global scale and investment expertise make it an ideal home for [MCP] to continue

to grow.” Prior to the deal last year, MCP closed its fifth secondaries fund, with €1.3 billion in capital and backed by 40 institutions. MCP joined PGIM’s multi-manager structure encompassing specialized firms. Prudential has \$253 billion in alternatives assets, or around 17% of total AUM. In a third such deal between two London-based firms, **CVC Capital** acquired **Glendower Capital**, an established secondaries investor with \$8 billion in capital commitments across several funds.

The private equity secondaries market doubled between 2016 and 2020 to \$300 billion, according to Preqin, with another \$30 billion raised in the first half of 2021. In secondary investor **Collier Capital**’s summer 2021 survey, 77% of global LPs said they have exposure to secondaries funds, with the largest proportion (50%) having between 1% and 10% of their total private equity assets in secondaries. One in five said they plan to increase their private equity secondaries allocation, while another 15% plan to increase their exposure to secondaries in other alternative asset classes. “[General partners] are increasingly utilizing the secondary market to optimize their portfolios and provide liquidity options to their LPs,” Matthew Sparks, managing director for private markets investor **Northleaf Capital Partners**, told Preqin last summer. “We expect these growth drivers to support the market for years to come.”

In the broader private markets arena, **Hamilton Lane** will provide **Russell Investments** with its private markets investment solutions as part of a “strategic partnership” aimed at Russell’s large outsourced CIO business. Hamilton also paid \$90 million for a minority share in Russell. In a corporate video, Russell Chairman and CEO Michelle Seitz said

her firm “already had very strong capabilities in private markets ... but this now becomes a market-leading capability around the world for the most sophisticated clients, as well as democratizing access to private markets for both middle-market institutional clients as well as wealth clients.” The partnership also includes access for Russell to Hamilton’s private markets risk and portfolio construction tools.

In another deal aimed at the universe of private market investments, **State Street Corp.** acquired Silicon Valley-based **Mercatus** in a bid to enhance its comprehensive digital platform for asset managers. State Street greatly expanded that platform in 2018 with the \$2.6 billion acquisition of **Charles River Development**, a provider of front-office tools and solutions for public markets. Mercatus, a front- and middle-office solutions and data management provider for private market managers, serves a global clientele and has more than \$1 trillion in assets under administration (also see *Fintech*). State Street also paid \$3.5 billion for the **Brown Brothers Harriman**’s asset servicing business. In a cross border deal, **Manulife Investment Management** of Canada and South Korea’s **Samsung Asset Management** agreed to collaborate on private market investments, with the firms’ insurance arms acting as initial investors before the asset managers aim their sights on other institutions in South Korea.



## Real Assets

As the real estate industry emerged from the depths of the pandemic, U.S. commercial real estate sales turned sharply higher in the second quarter of 2021, reaching \$145 billion, 14% above the average during the same quarter from 2015 to 2019, according to Real Capital Analytics.

"In a sign of market strength, it was the sale of individual assets rather than portfolio and entity-level deals which spurred growth," RCA wrote. Multiple reports indicate that investment is skewing toward the growing Sun Belt rather than densely populated urban centers such as New York that were coveted prior to pandemic.

The global story was also improving: **CBRE** placed investment volume in the first half at \$459 billion, up 15% from the same period in 2020, with second-quarter volume doubling. CBRE noted that second-quarter volumes in the Americas and Asia-Pacific returned to pre-Covid levels, and although Europe lagged due to lockdowns, CBRE anticipated a second-half rebound. "Capital continued to flow primarily to industrial and multifamily assets, while office investors remained focused on core assets," the firm wrote. For the full year, CBRE predicts global investment volume will grow by 20% to 25% over 2020.

Real estate fund managers worldwide were also busy: Deal value more than doubled to \$68 billion in the second quarter of 2021 over the 2020 period as deal volume rose 60%, according to Preqin. The number of real estate funds in the market increased 16% in the first half while the total of capital being targeted by all funds was up 15% to \$360 billion.

A multinational group of buyers joined the rebound in activity to register an unprecedented number of mega-deals in the real estate advisory sector, while several other large players joined in smaller deals. Targets with industrial and logistics portfolios remained hot properties as buyers focus on "new economy" assets. In an example of the perceived investor demand, a real estate startup with just one "last-mile" California warehouse leased to Amazon filed last June with the New York Stock Exchange for a REIT listing before withdrawing the request in August.

The largest transaction, taking place in North America, was an insider affair: **Brookfield Asset Management** paid \$6.5 billion to acquire the minority shares it did not already own in publicly traded **Brookfield Property Partners**. For BAM, the privatization represented a value play, as BPP's portfolio of office properties and malls weighed on its earnings and share price. In its final reporting quarter as a public company last May, BPP's net income turned positive after four straight quarters in the red.

In BAM's annual report, CEO Bruce Flatt said the "simple story" is that BPP's stock showed "no signs of trading" near the intrinsic value of its "exceptional" assets and is not "well-suited to the current public markets." Flatt said the privatization will provide more flexibility to create long-term value through a variety of strategies, from redeveloping assets to "using various assets to create or grow

perpetual, private, core real estate funds." BPP has \$88 billion in assets, including such trophy properties as Canary Wharf in London and Brookfield Place in Manhattan.

Within Asia, Hong Kong-based **ESR Cayman** agreed to pay \$5.2 billion to buy Singapore's **ARA Asset Management**.

The deal between the two publicly traded firms will create a regional real estate asset management powerhouse and the No. 7 player globally. ARA adds \$95 billion in AUM to the \$34 billion ESR already managed while the combined portfolio will include a variety of real estate strategies led by core and core-plus. ARA's portfolio also includes infrastructure/renewables and credit. Greater China and Japan will account for 45% of combined AUM, with Australia/New Zealand and Southeast Asia comprising 30%.

ESR emphasized that new economy properties will account for \$50 billion of combined AUM and 80% of EBITDA, including leading positions in logistics and data centers. "We are currently witnessing a once in a generation change in real estate," said ESR Chairman Jeffrey Perlman. "Leading global investors are seeking to rebalance their portfolios by divesting institutional-quality assets in order to redeploy capital back into the new economy real estate, where they have been meaningfully underweight."

The two firms noted that the enlarged group will also be "poised to capitalize" on investor efforts to consolidate relationships around a smaller number of large managers. On that score, ARA delivers 69 capital partnerships, of which 59 are new to ESR. Additionally, ESR said the combination will be "well-positioned to benefit from the financialization of real estate in APAC, which is set to take off and represents [a growth] opportunity of more than US\$2 trillion." ESR, backed by **Warburg Pincus** prior to its \$1.6 billion IPO on the Hong Kong Stock Exchange in 2019, is paying for the deal largely via a share placement.

In a transatlantic deal, alternatives manager **EQT** of Sweden paid \$1.9 billion in cash and shares for **Exeter Property Group** of Philadelphia and London, immediately creating a "scaled, global real estate investment platform." Exeter brought \$10 billion in real estate AUM split 75%-25% in the U.S. and Europe, the majority in logistics/industrial properties with a "growing presence" in the life science/suburban office and residential multi-family segments. The company's AUM grew by an annual average rate of 25% between 2018 and 2020. Exeter also delivers more than 60 new clients to EQT, many in North America.

Subsequently, a newly formed real estate unit, **EQT Exeter**, sold the industrial portfolio on behalf of its real estate funds and related investment vehicles. The \$6.8 billion transaction, one of the largest industrial property deals ever, was concluded with an undisclosed Asian sovereign wealth fund and other investors. The portfolio included 328 industrial facilities and 71 million square feet of space, which EQT Exeter will continue to operate and manage.

Between its IPO in September 2019 and midyear 2021, EQT's AUM climbed from €40 billion (\$47 billion) to €71 billion, including Exeter's assets. Prior to the Exeter deal, about 60% of EQT's AUM was in private equity followed by a sizable

infrastructure business; real estate accounted for just 2%. Christian Sinding, CEO and managing partner for EQT, said the acquisition also builds the company's presence in North America, a "market which is mature and thus tough to build a platform organically" but one with "very strong long-term returns and lots of investment opportunities." **TA Associates**, which owned 40% of Exeter, received cash and newly issued EQT shares as part of the deal.

In an all-U.S. deal, **Blue Owl Capital**, which went public last year, paid \$950 million in cash and shares for **Oak Street Real Estate Capital**, with performance-based earnouts that could add another \$650 million to the price tag. Oak Street (AUM: \$12 billion) offers the "industry's preeminent" net lease platform, allowing corporate tenants to optimize their balance sheets, among other benefits. The platform is focused on North American industrial, office and "essential" retail properties, "with a bias towards investment-grade and creditworthy tenants." During the peak Covid period, Oak Street noted that rent collection was 100%. The company also has a small seeding business investing in early-stage real estate advisory firms.

In a third-quarter earnings call, Blue Owl co-founder and CEO Doug Ostrover said Oak Street "fits the parameters we've been looking for" in deals, including a complementary and "strong industry-leading franchise" that Blue Owl can leverage through its scale and infrastructure. Additionally, Oak Street's products lend themselves to institutional and retail investors as well as long-dated and permanent capital structures, Ostrover said. Blue Owl was formed from the merger of permanent capital vehicle **Dyal Capital Partners** and direct lender **Owl Rock Capital Partners** (see sidebar in *Credit/Private Equity*).

In a fifth major deal for a range of assets, Toronto's **Slate Asset Management** paid \$2.3 billion for the commercial real estate portfolio of **Annaly Capital Management** of New York. The acquired assets include a diverse portfolio of real estate loans, debt securities and equity positions. Slate is a value-oriented investor focused on Europe and North America; it had \$6.5 billion in AUM prior to the deal. The company said the deal "expands [its] core capabilities across the real estate capital stack." Subsequently, Slate closed a \$600 million private credit fund.

Several other Canadian firms were active in the advisory sector. One was **Oxford Properties Group**, which acquired **M7 Real Estate** of London. As in other real estate deals, Oxford was drawn by a portfolio tilted toward industrial and urban logistics properties. Founded in 2009 as a specialist in such real estate, M7 has €4 billion in AUM spread across Europe. James Boadle, Oxford senior vice president for Europe, told PERE that "logistics is one of our highest conviction strategies globally, and it's a major focus on where we're trying to grow the business." Last August, the firm paid \$2.2 billion for a portfolio of industrial assets primarily based in the Sun Belt and owned by **KKR & Co.**

Oxford has one-third of its C\$80 billion (\$64 billion) in assets (including portfolio companies) in logistics, warehousing and digital commerce strategies. With three-quarters of Oxford's total assets in North America and 18%

in Europe, M7 also adds some weight in Europe. Oxford noted that it planned to deploy £3 billion (\$4.1 billion) in capital in European logistics, "and the acquisition gives [us] immediate scale to do so." Oxford is owned by **OMERS**, the public employee pension fund for the province of Ontario.

In another cross border deal, **Sun Life Financial** acquired **Metropolitan Real Estate Equity Management** of New York, cutting the deal through its large **BentallGreenOak** real estate advisory business. The seller, **Carlyle Group**, had owned Metropolitan since 2013. The deal adds \$2.4 billion in AUM to the \$53 billion BentallGreenOak already managed and a complementary commercial real estate secondaries platform. In 2019, Metropolitan closed a \$1.2 billion global secondaries fund. In a midyear review of the U.S. commercial real estate market, BentallGreenOak noted that bullish equity markets will force institutional investors to rebalance portfolios. "They also need to identify opportunities to generate yield," the firm wrote, "which favors commercial real estate and alternative asset classes broadly."

A couple of major Canadian asset managers formed real estate joint ventures, including **CI Financial**, which teamed up with several property asset management veterans to launch **Axia Real Assets**. The venture will also focus on infrastructure. In an interview with *Real Estate News Exchange*, Axia founding partner and former CI executive Joshua Varghese said Axia will leverage capital and its global expertise and relationships in real estate "to create what we think is going to be a very large real assets manager." In its first investment, Axia joined China- and Thailand-based multi-family office **Blueprint Forest** to acquire three Canadian single-tenant properties that supply "essential services on a daily basis" and offer an "outsized yield." (For more on CI Financial, see *Wealth*.)

In the second such deal, the real estate unit of **Caisse de depot et placement du Quebec, Ivanhoe Cambridge**, joined Hong Kong's **PAG** to launch a venture targeting Japan's logistics property market. The venture, focusing on major urban areas such as Tokyo and Osaka and last-mile locations, will have up to \$400 million in capital to deploy. Noting that logistic properties "have proved highly resilient during" the pandemic, Ivanhoe Cambridge said they "will remain a key focus in the coming years." PAG, which focuses on private equity, real estate and private debt in Asia, has been investing in Japan since 1997. In 2020, the company closed its most recent opportunistic real estate fund, with \$2.8 billion in capital.

In a cross border deal involving a U.S. target, alternative investor **Investcorp** bought a minority stake in **Artemis Real Estate Partners**, a debt and equity investor. Investcorp cut the deal through its **Strategic Capital Group**, which acquires minority interests in alternative managers, "particularly [general partners] who manage longer-duration private capital strategies." Established in 2009, Artemis has raised \$6 billion in capital in a variety of real estate strategies in the U.S., using joint ventures and direct investments. One such venture created last year involved **Box Equities**, a New York advisory firm focused on the consumer goods industrial sector, with Artemis

citing Box's "innate understanding of the interaction between retailers and logistics." In 2019, Artemis closed its largest-ever fund of \$1 billion.

In another cross border venture, **Savills Investment Management** of the UK formed a "strategic investment alliance" with the real estate asset management arm of South Korea's **Samsung Life**. As part of the deal, Samsung Life will commit \$1 billion in capital to SIM and pay £64 million (\$90 million) for an initial stake of 25% in the firm, which is part of global real estate services provider **Savills**. Samsung Life, which could increase that stake by 10%, is seeking investments in debt and equity products in Asia-Pacific and Europe. A longstanding client of SIM (AUM: €21 billion), Samsung Life is aiming to boost its alternatives allocation from 10% to 15% by 2025, along with its global exposure.

In a cross border credit-related deal, Danish real estate advisory firm **NREP** agreed to acquire a 49% interest in the real estate credit business of **M3 Capital Partners**, which has offices in the U.S., Asia and Europe. NREP will acquire the remaining equity by 2024. The deal diversifies NREP's investment portfolio and footprint: M3's credit business, with more than €1 billion in AUM, focuses on prime real estate assets in Germany's largest cities. NREP's business (AUM: €13 billion) is centered in the Nordic countries, where it is the leading real estate advisory firm. M3, which views the transaction as an opportunity to expand beyond Germany, is also launching a credit fund this year targeting green and sustainable investments, in sync with NREP's socially responsible investment philosophy and goal of becoming a carbon neutral investor by 2028. As one example of its green investments, NREP is developing apartments in Finland that employ wooden construction and geothermal heating.

There were a couple of domestic U.S. deals of note. In one, **Affiliated Managers Group** continued to expand its portfolio of alternative managers by acquiring a majority stake in **Abacus Capital Group** of New York. Founded in 2004, Abacus has \$2 billion in AUM and a focus on U.S. multifamily property. AMG praised Abacus for integrating "the best practices of operator and allocator platforms" as well as its track record for successful fundraising and "strong client retention and investment performance." In teaming with AMG, Abacus said it can implement "robust" incentive and succession plans.

Abacus has a geographically diverse portfolio and pursues core income, value-add and asset development strategies. In a property deal last September, Abacus paid \$125 million for an upscale apartment community in South Florida's hot multifamily market, marking its third property holding in the state. Noting that investors are increasing their allocations to illiquid alternatives, AMG Chief Financial Officer Tom Wojcik told analysts during a third-quarter earnings call that "performance fee potential across our private markets affiliates represents a

significant source of upside" for long-term earnings. (For more on AMG, see *Traditional Investment Management and Credit/Private Equity*.)

In a second deal, **Ares Management** acquired **Black Creek Group**, a 25-year-old firm with \$14 billion in AUM. Black Creek targets core and core-plus strategies in the U.S. across two non-traded REITs and institutional funds, a portfolio that Ares said is complementary to its own real estate debt and U.S. and European value-add and opportunistic funds. Additionally, Ares said Black Creek's focus on the industrial sector "is benefitting from long-term secular tailwinds" while its strong retail presence — the company

## Real Assets Transactions

	2017	2018	2019	2020	2021
Number of Transactions	30	44	23	17	31
Combined Value (\$B)	\$3.3	\$5.5	\$3.2	\$1.7	\$12.6
Total Seller AUM (\$B)	\$184	\$228	\$107	\$78	\$237
Average Deal Size (\$M)	\$109	\$125	\$139	\$99	\$406
Average Seller AUM (\$B)	\$6.1	\$5.2	\$4.7	\$4.6	\$7.6

Source: Berkshire Global Advisors LP

has the second-largest retail fundraising platform for non-traded REITs — is another plus. Referring to that, Ares CEO and President Michael Arougheti said in the second-quarter earnings call that "one of the biggest drivers of value is going to be pushing more Ares Management product through what we believe is a best-in-class retail platform." With the addition of Black Creek, Ares has more than \$29 billion in real estate AUM. (Ares also acquired a private equity firm; see *Credit/Private Equity*.)

The timberland sector drew a major investor in **J.P. Morgan Asset Management**, which acquired **Campbell Global** (AUM: \$5.3 billion). JPMAM, with \$2.5 trillion in AUM, said the deal is part of "an effort to directly impact the transition to a low-carbon economy" while also providing socially responsible investments. The portfolio provides JPMAM with a link to the developing carbon offset market, where the company said it "expects to become an active participant." The seller, **Brightsphere Investment Group**, has been divesting assets as it reorganizes around one affiliate (see also *Traditional Investment Management and Credit/Private Equity*). In a second deal, **BTG Pactual's** timberland group acquired the management of two private equity timberland funds from **Olympic Resource Management**, a subsidiary of timberland REIT **Rayonier**. Brazil-based BTG, one of the largest timberland managers in the world, paid \$36 million for the funds, which manage 110,000 acres in the Pacific Northwest.

Political wrangling over the size and definition of ambitious infrastructure bills in Washington, D.C., turned the spotlight on that investment sector last year, but the need for infrastructure is massive worldwide and broad, from bridges to telecommunications. In its latest report on the industry, Prequin places global infrastructure AUM at \$655

billion as of June 2020 while predicting a rise to \$795 billion by 2025. "As mega funds grow and government fiscal positions tighten, more opportunities will emerge for the kind of mega projects usually only financed by governments," the financial data firm wrote.

As in other alternative areas, there is "increasing capital consolidation," with the top-20 funds having secured three-quarters of capital in 2020 and the amount raised outside the top 50 at the lowest share since 2012, Preqin notes. By the second quarter of last year, the firm counted a record 328 unlisted infrastructure funds worldwide targeting \$238 billion of capital.

The world's largest infrastructure manager, **Macquarie Asset Management**, closed a \$6.9 billion fund last year, well above its \$5 billion goal (which was also the size of its previous fund, closed in 2019). **BlackRock** raised \$1.7 billion for an infrastructure debt fund, a total three times its initial target. The fund is aimed at sub-investment-grade developers and projects globally. In 2020, infrastructure debt funds raised \$20 billion worldwide.

There were two major infrastructure deals last year in an arena where activity is generally constrained by the limited number of dedicated targets. In an all-European deal announced at the close of 2021, **Schroders** agreed to acquire a 75% share of **Greencoat Capital Holdings** for an initial consideration of £358 million (\$470 million). Greencoat, established in 2009, is one of Europe's largest renewable infrastructure managers, with £6.7 billion in AUM. Schroders said the deal aligns with its strategy of strengthening its private assets platform and "leadership position in sustainability."

In the second deal, German real assets manager **Patrizia** paid €67 million (\$80 million) for an established Australia-based firm, **Whitehelm Capital**. Including earnouts, the price could reach into the "low" three digits. The deal, which followed a two-year-long search by Patrizia, triples the company's infrastructure AUM to €5 billion, partway toward its "mid-term" goal of reaching €15 billion to €20 billion. Whitehelm has €1.6 billion in dry powder in addition to the €3.2 billion it already manages while Patrizia had €48 billion in AUM prior to the deal, primarily in European real estate.

Whitehelm's assets are diversified by sector and geography, but lean toward Australia/New Zealand (53% of AUM) and Europe (35%). For Patrizia, the deal meets the strategic goals of building a real assets product portfolio, accelerating its sustainability targets, and broadening its global footprint. Whitehelm, with 80% of revenues derived from recurring management fees on long-duration assets, also enhances Patrizia's earnings quality. (Whitehelm has delivered a 12% internal rate of return on its global core investments since inception.) Calling the deal "transformational," Co-CEO Thomas Wels told analysts the merger of real estate and infrastructure will make Patrizia "a truly real assets manager with a strong global positioning in the alternatives sector." Whitehelm was founded in 1996 and is majority owned by employees.

In an infrastructure-related deal in the U.S., **Victory Capital Holdings** acquired **New Energy Capital Partners**, which invests across the capital structure of small and mid-size clean energy infrastructure projects and companies. New Energy is the first alternative investment manager in Victory's portfolio. (For more on deals for socially responsible firms, see the sidebar in *Traditional Investment Management*.)

## Wealth Management

Last summer, the large and growing fraternity of private equity firms whose portfolios include a wealth manager welcomed a new and high-profile member: **Bain Capital**. For the New York-based giant, the target was a similarly well-established company with \$17 billion in AUM, **Carson Group**. In a deal that valued Carson north of \$1 billion, Bain acquired the minority stake owned by another private equity firm, **Long Ridge Equity Partners**.

As indicated by Bain's significant investment, the private equity industry's ardor for wealth managers remains red hot. The wealth industry's attractive margins and growth prospects, along with the opportunity for aggressive consolidation, are among the drawing cards for investors. And then there's the sheer weight of private equity cash seeking a home: Dry powder stood at \$1.6 trillion as of last March, according to Preqin, and fundraising is strong. In its review of the first half of 2021, consultant Bain & Co. noted that total private equity deal value (\$539 billion) during that period was on par with the full-year average since 2016.

A lineup of some 20 firms met with Nebraska-based Carson before the company whittled down the list and selected Bain Capital. In an interview with *Barron's*, founder and CEO Ron Carson praised Bain's "out of the box thinking" and highlighted the firm's expertise in high-tech areas such as artificial intelligence and cloud computing that Carson views as key competitive advantages. Bain said it aims to provide the capital for "investments in technology, operations, sales and acquisitions" that drive growth.

Based on last year's valuation, seller Long Ridge appears to have profited handsomely, having led an original \$35 million investment in Carson in 2016 — highlighting both the growth of the major strategic aggregators and the premium buyers are willing to pay for entry. During its five-year holding period, Lone Ridge noted that Carson's AUM increased five times while it concluded 31 acquisitions either directly or via affiliates. At \$1 billion-plus, Carson's valuation was four times the market capitalization of **Silvercrest Asset Management** (AUM: \$22 billion), a similar-sized publicly traded wealth manager minus the ambitious acquisition strategy.

Bain was joined last year by numerous investors. Among them was **Warburg Pincus**, which made a minority investment in **Edelman Financial Engines** that valued the firm at \$7.3 billion. Toronto's **Onex Corp.** invested in **Wealth Enhancement Group** of Minneapolis "to help drive

WEG's next stage of organic growth and M&A expansion." **Leonard Green & Partners** acquired a minority stake in one of the Midwest's largest independent wealth managers, **Mariner Wealth Advisors**, with more than \$40 billion in assets under advisement at the time of the deal. Citing sources "with knowledge of the transaction," *Bloomberg* reported that LGP invested \$600 million, valuing Mariner at \$1.8 billion. Following that investment, Mariner completed 14 deals in the last half of the year, including expansion in California with acquisitions of **AdvicePeriod** (AUM: \$5.1 billion) of Los Angeles and **Savant Investment Group** (AUM: \$800 million) of the Bay Area.

Middle-market investor **Charlesbank Capital Partners** entered the wealth space as "a significant investor" in **Lido Advisors**, a Los Angeles-based RIA with \$9 billion in AUM and a national presence. As in other deals, Lido had expansion in mind in teaming with Charlesbank. "There's a lot of M&A opportunities out there," CEO Jason Ozur told *Citywire* in discussing the transaction. "We want to find partners that are growth-minded like us."

The **Pritzker Organization** closed a \$100 million minority investment in **Steward Partners**, a Washington, D.C., firm with \$23 billion in AUM and national ambitions. Steward CEO Jim Gold told *WealthManagement.com* that the Pritzker's family office structure "is a perfect fit for what we're doing ... they understand the entrepreneurial concept." He added, "When you think about family office money, and this is critical, [it] is not coming out of a fund. There is no shelf life." Steward's existing minority investor, **Cynosure Group**, a Salt Lake City-based private investment firm serving families and foundations, will remain fully invested.

Other private equity investors in the U.S. included: **Summit Partners**, which bought a majority stake in **Adviser Investments** (AUM: \$7 billion) of suburban Boston; and **HGGC** and **Wealth Partners Capital Group**, which jointly invested in Alabama's **Warren Averett Asset Management** (AUM: \$4 billion) and Georgia's **Merit Financial Group**, the latter a hybrid RIA with \$4.8 billion in client assets. Wealth Partners praised Warren Averett, an established RIA with offices across the Southeast, as a "strong regional brand" with "the potential to be a leading strategic RIA acquirer." Newly formed **TRIA Capital Partners** closed a minority investment in **WMS Partners**, a multi-family office in suburban Baltimore with \$5 billion in AUM. **New Mountain Capital** acquired a minority stake in **Homrich Berg**, an investment that allows the Atlanta firm to manage succession plans, maintain majority ownership, and drive expansion.

**Kudu Investment Management**, a permanent capital vehicle targeting boutique asset and wealth managers, acquired a minority interest in **Douglass Winthrop Advisors**, a New York-based firm with nearly \$5 billion in AUM. Founded in 2000, DWA is a value investor that typically manages concentrated equity portfolios while on the fixed income side it focuses on high-quality corporate and other bonds. The company said Kudu's investment "ensures DWA can

## Wealth Management Transactions

	2017	2018	2019	2020	2021
Number of Transactions	80	112	119	144	201
Combined Value (\$B)	\$5.3	\$9.7	\$5.6	\$10.5	\$15.3
Total Seller AUM (\$B)	\$334	\$598	\$284	\$891	\$1,389
Average Deal Size (\$M)	\$66	\$87	\$47	\$73	\$76
Average Seller AUM (\$B)	\$4.2	\$5.3	\$2.4	\$6.2	\$6.9

Source: Berkshire Global Advisors LP

remain independent, with access to growth capital and a strategy for long-term continuity in leadership." Kudu, with \$650 million in capital commitments and a portfolio of 16 other partner firms, is backed by **White Mountains Insurance Group**.

The enthusiasm among private sources of capital extends to the UK's wealth industry, which, as in the U.S., is large and fragmented. Last year, deal-makers included several U.S. private equity firms making plays for established consolidators. **TA Associates'** target was **Fairstone Group** (AUM: £10.6 billion/\$14.6 billion) while **Flexpoint Ford** cut a £232 million deal for publicly traded **AFH Financial** (AUM: £6.2 billion), secured through its **Cortina Bidco** holding. **Ares Management** pulled funds from one of its credit vehicles to invest in **Ascot Lloyd**, with £10 billion in client assets, boosting Ascot's acquisition capital to more than £100 million.

The private equity gold rush occurred after a 2020 in which the assets of the wealthy exploded, followed by a 2021 with a similarly bullish but less perilous investment environment. In 2020, the number of high net worth individuals (\$1 million or more in financial assets) worldwide rose 6.3% to 20.8 million while their financial wealth jumped 7.6% to \$80 trillion, according to the latest Capgemini World Wealth Report. Ultra-HNWIs (\$30 million and more), who make up 1% of the wealth universe, fared even better: The population and its financial wealth climbed 9.6% and 9.1%, respectively. Among HNWI's in total, North America led all regions with individual numbers up 10.7% to seven million and their financial wealth increasing 11.9% to \$24.3 trillion.

First-half results in 2021 underlined the ongoing gains for wealth managers between that period and the fourth quarter of 2020. At **UBS'** global wealth business, fee-generating assets rose by 11% to \$1.4 trillion during the six-month period while **Ameriprise's** advice and wealth management business enjoyed a 10% increase in assets. At **BNY Mellon**, wealth assets rose 7% while **Bank of America's Merrill Lynch Wealth Management** group saw AUM balances grow 9% to \$1.2 trillion.

Strategic aggregators had another busy year in 2021, and while those firms continue to acquire small independents they are increasingly active in the universe of midsize targets, with several concluding deals for their largest affiliates to date. By year-end, **Fidelity Investments** counted 215 M&A transactions in the U.S. for RIAs with \$100 million to \$20 billion in clients assets, 85 of which involved sellers

## Retail Brokerage Firm Transactions

	2017	2018	2019	2020	2021
Number of Transactions	4	12	5	5	3
Disclosed Value (\$M)	\$3,599	\$633	\$1,839	NA	1,490
Average Deal Size (\$M)	\$1,800	\$127	\$613	NA	1,490

Source: Berkshire Global Advisors LP

with \$1 billion or more in client assets. **Focus Financial Partners** and its partner firms accounted for 11 of those 85 deals while Focus continued to expand outside the U.S. via affiliates. The company also assumed another \$800 million in debt to facilitate transactions while **KKR & Co.** sold its remaining stake in the company in a secondary offering.

Several mid-sized Focus deals last year involved key wealth markets on both coasts. In one example on the East Coast, a Focus-affiliated RIA established in 2020, **Connectus Wealth Advisers**, acquired an RIA based in the affluent suburb of Greenwich, Conn., **NorthCoast Asset Management**, one of multiple deals Connectus made last year. NorthCoast has more than \$2 billion in AUM, but in an interview with *RIA Intel*, NorthCoast President and CEO Dan Kraninger said with Connectus' support he believes the firm can reach \$10 billion. As is the case with many owners joining affiliate structures, Kraninger was seeking a sale but not retirement. The firm, founded in 1988, manages a variety of active and passive strategies.

On the West Coast, Focus acquired Seattle's **Badgley Phelps Wealth Managers**, an established firm with \$3.8 billion in AUM, Badgley Phelps pointed to the "ability to preserve [our] legacy" and "the robust suite of new tools and services" Focus offers. In an interesting development, Focus launched a multi-family office with the **Hinduja Group**, a leading Indian conglomerate led by one of the UK's wealthiest families. The joint venture, **Beryllus Capital**, has offices in Geneva, London and Singapore. In the first-quarter earnings call, Focus Chairman and CEO Rudy Adolf said the venture extends the firm's presence in Asia and Europe in the ultra-HNWI segment, which "has been an increasing strategic focus for us."

Tech-driven wealth centers on the West Coast factored into numerous deals by private equity-backed national wealth managers. One involved **Cerity Partners'** strategic merger with **Bingham, Osborn & Scarborough**, an established San Francisco firm with more than \$5 billion in AUM that bumped Cerity's client assets above \$40 billion. Backed by **Lightyear Capital** and with more than 15 offices nationwide, Cerity said the transaction "significantly deepens our presence in, and commitment to, San Francisco and Silicon Valley." In an RIA Edge podcast, Claire O'Keefe, Cerity partner and head of corporate development, said the firm's clientele of executives leads to "an enhanced presence" in areas of corporate concentration such as San Francisco and Texas.

Wealth Enhancement Group of Minneapolis completed 17 transactions last year and met a long-term ambition

to expand into the West Coast by acquiring five California firms with a total of \$4.8 billion in AUM. WEG's first and largest California deal involved **Pillar Pacific Capital Management**, with \$1.6 billion in assets and offices in the suburbs of Los Angeles and San Francisco. "They're going to help us expand, and we are excited just to concentrate on portfolio management and client servicing," President and CEO

Mindy Ying told *Financial Planning*, echoing a common sentiment among sellers.

In its more established East Coast base, WEG made its largest-ever acquisition by AUM for **QCI Asset Management**. Based in Western New York and founded in 1975, QCI has \$5.2 billion in AUM and expands WEG's presence in the state beyond the New York City metropolitan area and Hudson Valley. QCI President and CEO Edward Shill said the connection to WEG will "give us the tools to improve our business and continue our growth while affording us more time to spend serving our clients." The deal pushed WEG's AUM over the \$50 billion mark, compared with \$12 billion in 2019 when TA Associates acquired an equity stake in the company.

**Hightower Advisors** completed its largest transaction to date by AUM with Los Angeles ultra-HNWI firm **Bel Air Investment Advisors**, one of 14 deals it made last year. Bel Air, founded in 1997 and sold by Canada's **Fiera Capital Corp.**, has \$8 billion in AUM. That deal and others — combined with organic growth the company said was tracking at a 9% annualized rate — drove Hightower's AUM above \$100 billion last summer. Fiera revealed a combined sales price of C\$81 million (US\$64 million) for Bel Air and another smaller New York manager sold in a separate deal, well below the \$125 million it paid for Bel Air in 2013, when the firm had \$7.3 billion in AUM. However, Fiera was retained as subadvisor for some of Bel Air's assets.

Hightower's second-largest transaction last year by AUM was a strategic investment in **6 Meridian** (AUM: \$2.1 billion) of Wichita, Kansas. "Hightower is investing in us to help with our long-term growth goals, and we welcome the collaborative support that allows us to serve our clients for decades to come," said Margaret Dechant, 6 Meridian's CEO, partner and co-founder. Separately, Hightower received conditional regulatory approval to create a national trust company, calling the effort "a key part of our strategy to leverage our size and scale to provide our [current and future advisors] with a broad range of holistic services for their clients." Hightower's lead investor is **Thomas H. Lee Partners**.

**Captrust Financial Advisors** of Raleigh, N.C., completed eight RIA deals last year, including five for firms with more than \$2 billion in AUM. Among the deals was Captrust's 50th since 2006 for South Carolina's **Nachman Norwood & Parrot Wealth Management** (AUM: \$2.1 billion). Although one of the largest RIAs in the state, Nachman said it needed "access to even greater tools and resources to continue to provide an outstanding client experience." In

2020, **GTCR** made a “growth investment” in Captrust amounting to a 25% share of the firm, which was valued at \$1.3 billion. Captrust has \$85 billion in AUM and \$660 billion in assets under advisement.

**Creative Planning**, which surpassed \$100 billion in AUM last November, was another active strategic consolidator and made two notable deals. The larger one involved the retirement business of **Iron Financial**, which has \$6 billion in AUM and a focus on public sector clients. “They work in a part of the 401(k) space that we don’t presently work in.... so it opened up a whole new avenue for us,” Peter Mallouk, CEO of Creative Planning, told *WealthManagement.com*. Started by two bond traders in 1994, Iron offers a variety of multi-asset funds along the risk spectrum, among other products. In the second deal, the target was a Virginia firm with \$5 billion in AUM and a clientele in the Washington, D.C., area, **Sullivan, Bruyette, Speros & Blayney**. In 2020, **General Atlantic** made a minority investment in Creative Planning.

**Sanctuary Wealth**, which provides a technology and operations platform to wealth managers seeking to break away from wirehouses and brokerage firms, acquired a minority stake in **InnoVise Family Wealth Advisors** (AUM: \$2 billion) of Los Angeles. An ultra-HNWI advisor that launched last year, InnoVise will continue to operate as a separate firm, but InnoVise co-founder Brian Weiner will lead the newly formed **Sanctuary Global Family Office** to provide family office services to Sanctuary’s partner firms. “There’s a suite of solutions that ultra high net worth families want and need,” Sanctuary CEO Jim Dickson told *Barron’s*. “We made the decision that rather than build it ourselves, we would partner with InnoVise to bring those solutions to our advisors more quickly.” Sanctuary’s partner firms, which operate in nearly two-dozen states and have a total of \$17 billion in client assets, benefit from services Sanctuary manages in areas such as regulatory and industry compliance, as well as the scale of a large network. Sanctuary also provides financing for partners seeking to make acquisitions. In 2020, Italy’s **Azimut Group** acquired a 55% stake in Sanctuary.

Although the private equity-backed buyers gather most of the headlines, independent firms continue to join hands to maintain their status, with a number of the deals involving firms in the tech-driven wealth centers that have been at the center of so many deals in recent years. A significant example involved the merger of two Seattle firms: **Coldstream Wealth Management** and **Paracle Advisors**. The transaction creates a more formidable firm approaching \$6 billion in AUM, two-thirds from Coldstream. Kevin Fitzwilson, managing shareholder of Coldstream, emphasized that the deal was done without outside capital, supporting both firms’ “commitment to independence in spirit, strategy and service to our clients.” Coldstream indicated that it will look for similar firms in the region to merge with or acquire.

There were numerous cross border deals involving targets in the U.S., as Canadian and European firms in particular

## Independent Broker-Dealer Transactions

	2017	2018	2019	2020	2021
Number of Transactions	5	4	7	1	1
Disclosed Value (\$M)	\$376	\$68	\$1,364	NA	NA
Average Deal Size (\$M)	\$376	\$68	\$682	NA	NA

Source: Berkshire Global Advisors LPx

expand into the world’s most lucrative and accessible market. **CI Financial** of Canada has been the most aggressive cross border buyer of late, having completed 15 wealth management deals in 2021 in the U.S., including 10 firms with more than \$3 billion in AUM. Last year, it added RIAs in Atlanta, Chicago, New York, San Diego, Seattle, Silicon Valley and suburban Philadelphia, among other locations, as it builds out a national presence. Several of the deals were among the largest to date for CI, including two in California that extended CI’s footprint in the state and added more than \$10 billion in total AUM. One of those deals was for Silicon Valley’s **Portola Partners Group**, which counts technology company founders and executives and venture capitalists among its clients. Kurt MacAlpine, CEO of CI, said Portola will be “valuable in fostering the development of our ultra high net worth offering” across the entire business.

The second California transaction was for San Diego’s **Dowling & Yahnke Wealth Advisors**, which more than doubled CI Financial’s client assets in the “key Southern California market” to some \$10 billion. CI also made a significant acquisition in the Seattle market for **Columbia Pacific Wealth Management** (AUM: \$6.4 billion), which has an additional office in San Francisco. CI added a minority stake in **Columbia Pacific Advisors**, a diversified alternatives manager with \$3.5 billion in AUM. Alex Washburn, co-founder and managing partner of Columbia Pacific’s two businesses, said the partnership with CI will “broaden the resources and support available” to his firm and its clients. In the largest deal by AUM, CI acquired **Segall Bryant & Hamill**, a Chicago-based RIA and institutional manager with \$23 billion in AUM, \$6 billion in the wealth business.

By the end of 2021, when the Columbia Pacific deal was announced, CI’s wealth management client assets in the U.S. had reached \$115 billion, including transactions that had not yet been completed, making U.S. wealth management the company’s largest business line by assets. In an interview with *BNN Bloomberg TV* last September, MacAlpine said the “role of the financial advisor is more important today than ever” for HNW and ultra-HNW clients, given the complexity of such issues as taxes, estates and retirement planning. “So we’re investing with conviction behind wealth management,” he added.

In another notable cross border deal, **iM Global Partner** of Paris acquired **Litman Gregory**. Established in 1987 and based in the San Francisco area, Litman Gregory has \$6.2 billion in AUM and assets under advisement across its wealth and asset management businesses, including a roster of alternative multi-manager mutual funds. iM Global called the deal “a major step forward” in its U.S. expansion.

With thousands of financial advisory firms and numerous active consolidators, the UK is the perennial center of European deal activity. The UK is also home to Europe's third-largest number of HNWIs, behind Germany and France, according to the latest Capgemini World Wealth Report, although the number of individuals declined by 3% in 2020 as the pandemic ravaged the economy. Still, the number of clients using advisors rose 6% to climb above 3.5 million. "This is despite the fact that the pandemic made it difficult to meet and advisors' new business efforts had to be rethought," Steven Cameron, pensions director for **Aegon**, told *Professional Advisor*.

As elsewhere, technology is driving a change in preferences, in particular since the pandemic. According to Boring Money's 2021 Advice Report, 40% of UK investors say they would accept digital advice in return for lower fees while

nearly half find video chats with their advisors acceptable. Predictably, the digital/traditional divide is generational: Some 40% of investors over 55 showed a preference for in-person advice even if it costs more vs. around 16% of those 25 to 44.

On the transaction front, EY counted a sharp rise in UK wealth and asset management deals to 62 in the first half of 2021, or more than triple the number from a year-earlier period deflated by the pandemic. As financial services firms in general address "the numerous challenges they have faced" during the pandemic, "in some cases M&A has been — and will continue to be — the answer," the accounting and consulting firm wrote.

The UK's wealth-oriented platform industry, a competitive arena experiencing ongoing consolidation, registered several deals of note last year. In the largest, **Lloyds Banking**

## Financial services firms maintain slow but steady buying pace

Smaller to midsize financial services companies, whether local and regional banks or insurers, have been steady if low-profile buyers of wealth managers. For these firms, wealth management is a natural extension of their customer-focused businesses, providing an additional service that delivers non-interest-related recurring fee income and relaxed capital requirements. In the case of community banks, Mike Kerins, CEO of wealth management back-office platform **RobustWealth**, said in a podcast last year that an additional rationale is defensive. "If [clients] don't manage their money with you, they're going to do it with someone else. And that other firm is probably asking them to move their banking [business]."

Among last year's deal-makers, insurer **Sammons Financial Group** was a notable buyer whose target, Ohio-based **Beacon Capital Management**, is an RIA with \$3.2 billion in AUM and a turnkey asset management program. The deal expands the variety of financial solutions Iowa-based Sammons can offer clients, "from life insurance and annuities through investments and retirement planning solutions." Beacon, with a risk management orientation, also extends Sammons' footprint in the RIA universe. "We need to meet the advisor where they do business today," Rob TeKolste, president of Sammons Independent Annuity Group, told *Financial Planning*. "RIAs do that exceptionally well. Insurance companies are well behind the curve." Beacon saw Sammons as a better fit than a private equity buyer likely to have a shorter investment horizon.

A second insurer, Chicago's **HUB International**, bought the operating subsidiaries of investment and consulting firm **Trusted Capital Group**, including its RIA, continuing a string of similar deals it has made in recent years. Based in Austin, Texas, TCG has \$4.6 billion in AUM and serves more than 750,000 individuals in plans that span education, government and small to medium-sized businesses. HUB, a leading insurance broker, said the addition strengthens its retirement and wealth capabilities with a partner that "has a deep understanding of the retirement landscape and regulatory issues." HUB is majority owned by **Hellman & Friedman** while **Atlas Partners** is a minority owner.

A major deal cut by a bank last year saw Silicon Valley's **SVB Financial Group** pay \$900 million for **Boston Private Financial Holdings**. Although SVB paid a healthy 17 times Boston Private's projected 2021 earnings per share, the deal significantly expands SVB's wealth capabilities, with AUM climbing from \$1.4 billion to \$18 billion. Referring to Silicon Valley's "wealth creation group of individuals that is like no other one," SVB President and CEO Greg Becker told analysts during the second-quarter earnings call that capturing this group "at a very early time in their wealth creation cycle" will "add a lot of deal flow" to the advisory teams in both companies.

Other smaller banks that cut deals included **Capital City Bank Group**, **First United Bank** and **United Community Banks** (UCB). In the case of South Carolina's growing UCB, the target was **Fintrust Capital Partners**, a 13-year-old employee-owned firm with \$2 billion in AUM and offices in South Carolina and Georgia. The acquisition nearly doubles UCB's total wealth assets to \$4.5 billion and came on top of a 2020 deal for Florida's Three Shores Bancorp that added \$860 million in wealth-related assets, more than half managed. UCB's wealth fee income doubled between 2017 and 2020. UCB Chairman and CEO Lynn Harton said the addition of Fintrust "gives us additional opportunities to provide a full range of financial services to our customers."



**Group** paid £390 million (\$540 million) for **Embark Group**, a platform with £35 billion in assets under administration on behalf of 410,000 individuals. Lloyds said the deal “enhances the Group’s capabilities to address the attractive mass market and self-directed wealth segment,” complementing its existing capabilities for the mass affluent and HNWI markets managed through partnerships. The business will be wrapped into Lloyds’ pension and insurance unit, **Scottish Widows**.

**Preservation Capital Partners** paid £102 million for **Parmenion**, with £8 billion in assets on behalf of 2,500 advisors and 68,000 individuals. Parmenion was owned by **abrdn** (formerly Standard Life Aberdeen). Wealth platform **James Hay** bulked up by paying £145 million for Nucleus to create a leading independent firm with £45 billion in assets (£17.4 billion from Nucleus) and “the scale to enable greater investment in technology, products and service to meet the needs of advisors and their clients.” James Hay is owned by London-based private equity firm **Epiris**.

The UK’s leading aggregators remained active last year, including Fairstone Group, which welcomed TA Associates as the new majority owner (there are two existing minority owners). Fairstone employs a “downstream buyout” program that begins with a minority stake and integration process leading to full ownership, generally over a two-year period. The company has fully acquired some 40 firms in this manner. One deal completed last year via this process involved a Glasgow firm with £200 million in assets, **Chartermarque**, which said Fairstone “provide[s] the financial strength and stability that a smaller firm like ours will benefit from, together with providing the technology that is vital in today’s marketplace.”

**Rathbone Brothers**, a non-aggregator that has made several acquisitions over the years, added a significant one last year for **Saunderson House**, a national financial planning firm with £4.7 billion in assets. Saunderson specializes in managing investments for HNWIs in the accounting and legal fields, which can involve more “complicated portfolio compliance requirements.” The deal more than doubles assets in Rathbone’s financial planning unit to £8.3 billion and triples the number of advisors to 80 (total wealth assets rose to £61 billion). Rathbone raised £50 million in new equity to help pay the £150 million price tag for Saunderson, which was owned by Epiris.

There were two notable cross border deals in Europe with a U.S. connection. In one, **Tiedemann Constantia** acquired an 11-year-old London multi-family office, **Holbein Partners**. Tiedemann Constantia is the Swiss-based joint venture of one of the largest independent wealth managers in the U.S., **Tiedemann Advisors**. The deal, which brings Tiedemann’s combined assets to \$30 billion, offers the firm experience working with a family office while providing clients with “additional expertise in European investment opportunities.” Last year, Tiedemann Advisors also agreed to combine with **Alvarium Investments** and go public via SPAC early this year.

## Discount / Electronic Broker Transactions

	2017	2018	2019	2020	2021
Number of Transactions	8	10	3	6	4
Disclosed Value (\$M)	\$244	\$5,627	\$29,265	\$13,350	300
Average Deal Size (\$M)	\$81	\$1,125	\$9,755	\$4,450	300

Source: Berkshire Global Advisors LP

In a second deal, **Raymond James Financial** paid £279 million in cash for **Charles Stanley Group**, a venerable London-based firm with £27 billion in assets and 200 advisors. The offer represented a 44% premium to Charles Stanley’s share price at the time, in late July. The deal adds considerably to Raymond James’ established presence in the UK, bringing total assets to £40 billion. The UK and Canada are the two non-U.S. wealth markets in which Raymond James operates. Charles Stanley, which will operate as a subsidiary of its new parent, said the deal will “accelerate the growth” of both firms’ UK wealth businesses, providing “the scale to support expansion and flourish in a highly competitive and consolidating UK marketplace.”

There were several deals involving Swiss firms as the domestic industry continues its transformation. According to the latest study from KPMG, consolidation has shrunk the number of Swiss private banks from 163 to 96 between 2010 and the first seven months of 2021. The largest ones (AUM greater than CHF 25 billion) now account for one in five private banks compared with one in eight in 2010. Nevertheless, cost to income ratios have generally been climbing during the same period while operating income margins have been dropping.

Among last year’s deal-makers, **Union Bancaire Privée** accounted for two transactions, the first involving the Swiss private bank of **Banco Comercial Portugues**, with CHF 4 billion (\$4.3 billion) in AUM. In the second deal, UBP acquired **Danske Bank**’s wealth business in another financial center, Luxembourg, where the Nordic region covered by Danske is one of UBP’s target areas. Luxembourg accounts for around 20% of UBP’s total AUM of CHF 161 billion, which has climbed by one-third since 2016.

**Reyl & Cie** acquired a 40% interest in **1875 Finance Holding**, an established Geneva-based multi-family office and asset manager with CHF 11 billion in AUM. Management at 1875 will retain 60% of the firm. As part of the transaction, Reyl will become a preferred 1875 partner for investment products and solutions. The deal followed regulatory approval for the 2020 agreement in which Reyl merged with the Swiss subsidiary of Italy’s **Fideuram-Intesa Sanpaolo Private Banking** to nearly double Reyl’s AUM to CHF 25 billion. As part of the transaction, Fideuram-ISPBA acquired a 69% stake in Reyl. In an interview with *Bloomberg TV* last February, **Intesa Sanpaolo** CEO Carlo Messina said the bank will avoid larger wealth deals, saying, “The price-to-book ... of wealth management companies is too high to justify synergies.”

In Asia, China remained the center of important wealth activity, with major U.S. firms taking the lead on deals

and other initiatives, even as tensions between the two countries remain elevated. One of the world's largest and fastest-growing wealth markets, China experienced 15% average annual growth in the number of HNWIs between 2018 and 2020, with a further 13% gain expected in 2021, according to the 2021 China Private Wealth Report from **China Merchants Bank (CMB)** and Bain & Co.

Forty years after the start of economic reforms, the market is also changing, with a lower proportion of first-generation entrepreneurs, an increasing number of executives and other professional managers, and growing numbers under the age of 40. The report says the needs of HNWIs are in turn growing more complex and their wealth manager choices "concentrated towards top institutions with mature service" as the industry enters "the stage of quality growth." In the "new era," managers will need "to build an innovation-driven wealth management ecosystem" and "strengthen customer centricity."

Among the U.S. firms active in the market last year, **JPMorgan Chase** built off an existing partnership with CMB involving product development and education to pay \$410 million for a 10% stake in the bank's large wealth management business. JPM also gained regulatory approval to assume full ownership of its recently formed Chinese securities joint venture; it already owns a futures business in China. Additionally, JPM is seeking full ownership of its Chinese fund management joint venture. Dan Watkins, head of Asia-Pacific asset management for JPM, told *Pensions & Investments* that CMB provides the opportunity to bring products "to another segment of domestic Chinese investors," adding, "We do not need to do that through a joint venture." (JPM also made acquisitions in the wealth fintech sector; see *Fintech*.)

**Goldman Sachs** gained regulatory approval for a wealth joint venture with **Industrial & Commercial Bank** of China, with Goldman assuming 51%. Goldman said the deal will "accelerate our objective of establishing a leadership position" in China's wealth industry. The joint venture will develop a variety of products, including "innovative solutions" in alternatives. In late 2020, Goldman reached agreement to buy out its Chinese partner in their securities joint venture.

**BlackRock** gained approval for a wealth joint venture with **China Construction Bank** and Singaporean sovereign wealth fund **Temasek Holdings**. BlackRock will own 50.1% of the joint venture. Simultaneously, BlackRock received approval to launch a wholly owned mutual fund company in China, the first non-Chinese firm to gain that distinction. During BlackRock's second-quarter earnings call, Chairman and CEO Larry Fink said the company is "now well-positioned to extend the breadth of our investment solutions and insights to all our client segments across China and help more people transition their savings to investments."

In Australia, **Fiducian Financial Services** acquired the financial planning business of **People's Choice Credit Union**, adding A\$1.1 billion (US\$790 million) in funds under advice to bring that total to A\$5 billion. The deal "significantly increases" FFS' financial planning network

in South Australia and the Northern Territory. In the year through June 2021, FFS' funds under advice rose 23% to A\$3.7 billion due to previous acquisitions, net inflows and asset appreciation. FFS is part of publicly traded **Fiducian Group**, which includes fund management, superannuation and financial planning software businesses.

## Capital Markets

Investment banks began 2021 in torrid fashion and never let up as the year progressed, driven by record levels of M&A, a booming IPO market (including SPACs), and solid equity and debt capital markets. For the 12 largest global investment banks tracked by the Coalition Index for Investment Banking, investment banking revenues in the first three months were the highest for that period in six years.

One of those banks, **Goldman Sachs**, had record investment banking quarterly net revenues, led by record equity underwriting that was four times the year-earlier level and "strong" financial advisory work and debt underwriting. In its global markets business, Goldman delivered the best performance since 2010, "with strength in FICC [fixed income, currencies and commodities] and equities driven by solid client activity," Chairman and CEO David Solomon said during the first-quarter earnings call.

The strong performance of investment banks continued into the second and third quarters, as first-half M&A activity worldwide reached a record \$2.8 trillion — 131% higher than the previous year's pandemic-stricken first half — and an astonishing \$5.9 trillion by the end of the year, according to Refinitiv. Global investment banking fees were also breaking records: \$80 billion by midyear and \$159 billion by year-end, with North American banks accounting for half.

**JPMorgan Chase** was among the banking giants enjoying the benefit of all the activity, as advisory work and debt underwriting generated record investment banking fees of \$3.6 billion in the second quarter. The publicly traded boutique investment banks were delivering similarly robust performances. At **Stifel Financial Corp.**, net revenues in its institutional group rose 41% in the first half over the previous year's period while advisory fees nearly doubled and capital raising jumped 73%. **Perella Weinberg Partners**, which went public last June via a SPAC, reported record revenues in the second quarter that were more than double the year-earlier numbers. At **Evercore**, first-half advisory revenues passed the \$1 billion mark for the first time, climbing 54% over the previous year's first six months and accounting for 81% of total revenues.

One area of investment banking that didn't materialize to the degree expected involved restructuring work, as the liquidity unleashed by central banks and a reviving economy gave firms some breathing room. Paul Taubman, chairman and CEO of leading restructuring firm **PJT Partners**, told analysts during the second-quarter earnings call

that “given today’s extraordinarily benign credit conditions” restructuring revenues were “unlikely to be much above 2019 levels,” following a 2020 in which that business reached a new plateau. Perella Weinberg CEO Peter Weinberg also made reference to that part of his firm’s business in the first-quarter earnings call, saying the moderation in restructuring work the company was seeing early in the year was likely to continue throughout 2021. Still, he said, the “restructuring opportunity remains significant when we consider the overall leverage in the system and some of the strategic pressures facing several industries.”

Amid the frenetic macro environment, investment banks continued to add capabilities, with numerous deals crossing borders. Two of note involved tie-ups between U.S. and Japanese firms. In the larger of those deals, New York’s **Houlihan Lokey** paid some \$600 million in cash for Tokyo’s **GCA** to create “one of the largest technology advisors in the world” and “significantly expand” its presence in Asia and Europe. (Last year, the troubled and high-profile Chinese property firm China Evergrande Group tapped Houlihan to assist with its financial restructuring.) Houlihan paid a 31% premium to GCA’s closing stock price at the time of the deal announcement last August. GCA provides M&A and capital markets advisory services in Asia, Europe and North America, with two-thirds of revenue derived from the technology and related sectors, filling an “important gap” in Houlihan’s business.

For 2021, GCA is expected to generate about \$355 million in revenues compared with its new parent’s \$1.5 billion. In Houlihan’s August earnings call, CEO Scott Beiser discussed the complementary nature of the two firms beyond industry coverage, saying his company’s more comprehensive restructuring, valuation and financial sponsor capabilities will “make both of the businesses stronger post-deal.” Although Houlihan has completed about a dozen acquisitions in the last decade, the GCA deal is by far the largest. In a second cross border deal, Houlihan acquired London boutique **Baylor Klein**, which provides M&A and financial advisory services to household, beauty and personal care businesses. The deal expands Houlihan’s global reach and expertise in its consumer, food and retail group.

**Jeffries Financial Group** accounted for the second U.S.-Japan deal, involving a strategic alliance with **Sumitomo Mitsui Financial Group** and its banking and securities subsidiaries to “collaborate on future corporate and investment banking business opportunities.” The two firms mentioned such areas as U.S. leveraged finance, cross border M&A involving Japanese companies, and a range of investment banking services in the U.S. healthcare sector. As part of the transaction, SMFG plans to buy about 5% of JFG shares at an expected cost of \$386 million and provide up to \$1.9 billion in capital to

## Investment Banking Advisory Firm Transactions

	2017	2018	2019	2020	2021
Number of Transactions	17	19	21	17	19
Combined Value (\$M)	\$1,828	\$128	\$2,003	\$4,338	806
Average Deal Size (\$M)	\$609	\$43	\$1,002	\$868	161

Source: Berkshire Global Advisors LP

JFG’s leveraged finance affiliate, primarily through a revolving credit facility. SMFG also cut banking deals in two of Asia’s developing markets last year as part of an overseas expansion plan designed to counter Japan’s economic stagnation and aging population.

Within the U.S., **Piper Sandler Companies** continued its aggressive expansion-via-acquisition with the purchase of **Cornerstone Macro**. An independent firm founded in 2013, Cornerstone focuses on macro research and equity derivatives trading for institutions. “The acquisition further strengthens our position as a top institutional equities platform and represents a significant step toward building a durable \$200 million institutional equities business,” Piper Sandler President Deb Schoneman told analysts during the third-quarter earnings call. Piper Sandler’s equity institutional business generated \$151 million in revenue in the 12 months through June 2021. Cornerstone, regularly ranked among the top research firms by *Institutional Investor*, has more than 50 professionals, including 21 research analysts. Nancy Lazar, co-founder of Cornerstone, said its new parent “will complement our existing business and provide our clients with an industry-leading trading desk and one of the largest and most experienced distribution teams on Wall Street.”

**Raymond James Financial** remained an aggressive buyer of investment banking boutiques, last year adding **Cebile Capital**, a London- and New York-based private fund placement agent and secondary market advisor to private equity firms. Raymond James gains “deep[er] relationships with the private equity community” while Cebile gets to tap into its new parent’s network of investment bankers and analysts “to further assist [Cebile] in providing strategic advice to private equity firms and their portfolio companies.” In one assignment last year, Cebile, which focuses on the middle market, partnered with Italian investment bank **Equita** to help raise €132 million (\$160 million) for a private debt fund. In the first three quarters of Raymond James’ 2021 fiscal year, investment banking revenue rose 82% over the previous year’s period to \$779 million to account for 11% of total revenue, four

## Institutional Broker-Dealer Transactions

	2017	2018	2019	2020	2021
Number of Transactions	13	17	14	15	24
Disclosed Value (\$M)	\$1,543	\$1,787	\$261	\$818	2,763
Average Deal Size (\$M)	\$171	\$199	\$37	\$273	251

Source: Berkshire Global Advisors LP

## Full-Service Investment Bank Transactions

	2017	2018	2019	2020	2021
Number of Transactions	8	4	6	4	6
Disclosed Value (\$M)	\$698	\$422	\$765	\$36	35
Average Deal Size (\$M)	\$116	\$211	\$191	\$36	35

Source: Berkshire Global Advisors LP

points higher than in 2020. Raymond James also closed the December 2020 acquisition of **Financo**, a boutique investment bank focused on the consumer goods industry; it has offices in London and New York.

In a North American deal, Toronto's **CIBC** continued its U.S. expansion by acquiring a minority share in Chicago investment bank **Loop Capital**, with which it had a previous relationship. Loop also provides brokerage, asset management and wealth services. In its investment banking business, Loop Capital has served as senior or co-manager on more than \$1 trillion in public debt issuance and participated in \$1.5 trillion in corporate debt and equity underwriting. In addition, the firm provides M&A advisory services. Loop said CIBC's investment will allow it "to take larger positions on our balance sheet, lead larger transactions ... and evaluate strategic acquisitions targets." CIBC has made several deals in the U.S. in recent years, including for investment and commercial banks and wealth managers.

**Capstone Partners** of Boston returned to the market for the first time since its major 2018 acquisition of another middle-market investment bank, **Headwaters**, to buy **Amherst Consulting**, a restructuring specialist based in suburban Detroit. Amherst, which had a prior relationship with Capstone, said its new parent's "platform will position us to continue to grow and expand our practice and move up market." **Fifth Third Bancorp** completed the acquisition of **Hammond Hanlon Camp**, a strategic advisory and investment banking firm focused on the healthcare industry. The Cincinnati bank made the deal in December 2020. Last year, Fifth Third added to its healthcare-related capabilities by acquiring a fintech that delivers an integrated suite of financial products for healthcare practices.

## Fintech

**Vanguard**, the world's second-largest asset manager, has been riding a veritable tsunami of growth driven by a comprehensive portfolio of passive investments and the low fees and solid performance of its actively managed funds. Between January 2017 and July 2021, Vanguard's AUM doubled to \$8 trillion, an extraordinary feat given the company's scale.

But unlike all of its largest competitors, Vanguard has relied solely on organic growth over the years, having never made an acquisition. That is, until 2021 rolled around. The fact that Vanguard chose **Just Invest** for its inaugural deal last July says much about the overlap

between traditional asset managers across all sectors and their fintech peers. A fast-growing five-year-old firm based in Oakland, Calif., **Just Invest** provides a customizable direct-indexing platform for wealth managers.

"Technology-driven solutions such as direct indexing continue to reshape our industry, driving better investment outcomes and lowering costs for clients," said Vanguard Chairman and CEO Tim Buckley in commenting about the deal. "Wise investments in technology are an important equalizer, enabling us to democratize valuable investment capabilities and products."

Vanguard wasn't alone among the established giants in tapping the asset management fintech market last year. **JPMorgan Chase** cut two deals and was joined by **Abrdn** (formerly Aberdeen Standard Investments), **Allianz**, **BlackRock** and **State Street**. **Franklin Resources** acquired **O'Shaughnessy Asset Management**, which has \$1.8 billion in AUM on its direct-indexing platform. Walmart is trying to get a piece of the action, too. Last year, the retail giant started a fintech with venture capital firm **Ribbit Capital** to bring a range of services to its customers. To oversee the venture, Walmart hired two **Goldman Sachs** executives who helped launch that firm's digital bank, **Marcus**.

A global survey last year by financial services software provider Temenos underlines the connections, with 56% of asset managers saying their investments in the next 12 months will focus on their technology and data infrastructure. Another 83% said they will "extend their strategic alliances with asset servicing and tech partners, enabling connection of middle- and back-office services straight to their front office tools and investment book of record," writes Temenos.

Accordingly, fundraising in the wealthtech sector remained robust, hitting a record \$13.6 billion in the first half of 2021 on the back of a sharp rise in \$50 million-plus deals, according to data and consulting firm FinTech Global. Investment value has been increasing by an annual average rate of 27% since 2017. The fundraising was led last year by **Robinhood's** \$2.4 billion IPO, as well as a pre-IPO capital raise of \$1 billion the trading app was forced to secure for clearinghouses following the feverish activity in stocks such as GameStop. That placed Robinhood in the lead position among the top-10 fintech deals across industries in the Americas in the first half.

In the overall fintech industry, KPMG placed half-year investment at \$98 billion on volume of close to 2,500 deals, up from \$87 billion during the rebound in the second half of 2020. "A wealth of dry powder, COVID-related digital acceleration, an increasingly diverse range of fintech hubs and subsectors, and robust activity in almost all regions of the world contributed to the strong start to 2021," the accounting and consulting firm wrote.

FinTech Global suggests the pandemic "rapidly accelerated the adoption rate" for fintechs by five to 10 years,

but also skewed investment “toward larger companies capable of disrupting the current landscape through the use of innovative technologies.” The result, the firm says, was a “paradigm shift” toward deals over \$100 million and away from smaller investments. KPMG also noted the more aggressive posture of the larger, traditional firms. “Corporates are also increasingly looking to seize new market opportunities or urgently address gaps by embracing partnering and M&A to achieve their strategic objectives,” KPMG wrote.

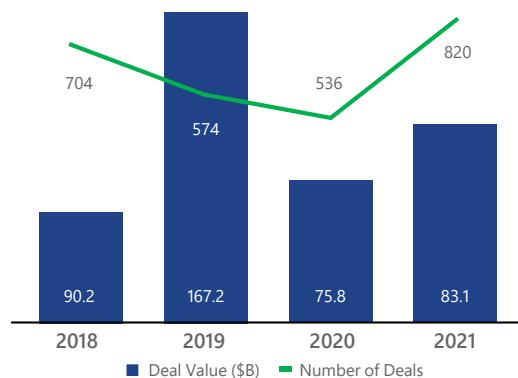
For Vanguard, Just Invest’s direct-indexing business complements its own passive investment orientation and fits neatly into its \$3 trillion financial intermediary business serving RIAs and bank and broker-dealer advisors. Between early 2020 and the deal announcement, Just Invest’s AUM nearly tripled to \$1 billion. In discussing the transaction, Vanguard touted five-year-old Just Invest’s “sophisticated portfolio management tools traditionally available only to institutional and ultra-high-net-worth investors.” Those tools allow an advisor to take a plain-vanilla index and add a layer of customization, often centered around a client’s environmental and social concerns and tax objectives.

The deal, which followed a direct-indexing pilot program for RIAs begun in 2020 by Vanguard and powered by Just Invest’s platform, takes the company into a growing arena within wealth management. Direct indexing is estimated to have around \$350 billion of AUM in the U.S., but in a report last year, Oliver Wyman and **Morgan Stanley** said assets could reach \$1.5 trillion by 2025 as direct indexing grabs share from mutual funds and ETFs. “New technology allows wealth managers to offer customization further down the wealth spectrum, at much lower cost through automation,” the companies wrote.

**PGIM Investments**, the asset management arm of **Prudential Financial**, joined Vanguard in adding a direct indexer, **Green Harvest Asset Management** of New York. PGIM praised Green Harvest’s “unique” tax-alpha strategy, which employs ETFs tracking U.S., global and custom indices. Stuart Parker, president and CEO of PGIM Investments, noted that potential tax changes and elevated markets make “implementing strategies focused on after-tax results critically important for investors.” In an interview with *ETF.com* in 2020, Green Harvest CEO Robert Holderith emphasized that a tax-oriented approach means being “ready all the time, every day” to capitalize on market volatility, as opposed to simply waiting for December to harvest tax advantages. “Our technology allows us to monitor every position in every client account, every minute of every market day,” he said.

JPMorgan Chase also gained a direct-indexing capability with the acquisition last June of San Francisco’s **OpenInvest**, which specializes in values-based investment customization and reporting. Founded in 2015 and backed by a range of investors, OpenInvest said the deal “combines leading ESG technologies with America’s largest bank and the ability to reach nearly half of all American households.” The same month, the bank

## Global FinTech M&A Activity



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

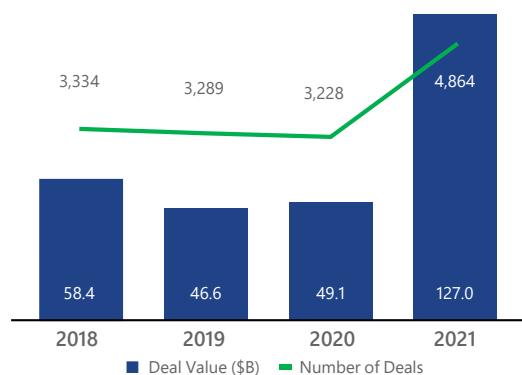
crossed the Atlantic to acquire London’s **Nutmeg**, an established robo advisor with more than 140,000 customers and £3.5 billion (\$4.8 billion) in AUM. The deal is part of JPM’s expansion in the UK and complemented the launch of its digital consumer bank. Although price was not disclosed, various media outlets placed it between \$700 million and \$1 billion.

Both deals came on the heels of JPM’s December 2020 acquisition of U.S. fintech **55ip**, which provides advisors with tax-efficient investment strategies. In his shareholder letter in the bank’s latest annual report, Chairman and CEO Jamie Dimon focused on the challenges of a digital world “rapidly and dramatically” changing the financial landscape and the “need to adopt AI [artificial intelligence] and cloud as fast as possible” to serve customers. He added that “acquisitions are in our future, and fintech is an area where some of [our] cash could be put to work — this could include payments, asset management, data, and relevant products and services.” (JPM also acquired a stake in a Chinese wealth manager; see *Wealth*.)

Within the UK, **Abrdn** acquired a London digital wealth manager, **Exo Investing**. Founded in 2017, Exo employs artificial intelligence to provide clients with various levels of customization based on risk tolerance and investment preferences. **Abrdn** said the acquisition will allow it to offer “24/7 digital wealth management” via an app. “There is downward pressure on fees, changing customer expectations and increasing regulatory requirements,” said **Abrdn** CEO Stephen Bird. “It’s important to address these issues by providing a highly-scalable, next-generation service to investors.”

In a transatlantic deal, **Allianz Group** paid €35 million (\$41 million) for a minority stake in Canada’s **Purpose Financial**, a digital platform with a total of C\$12 billion (US\$9.5 billion) in assets, primarily through its private client and institutional business. The investment, made through Allianz’s digital investment unit, was part of a financing round for the eight-year-old company. Purpose also serves financial advisors and has a digital lending platform for small and medium-sized enterprises. **Allianz X** also made investments in 2020 and 2021 in Canadian robo advisor **Wealthsimple**. The company, which pursues

## Global FinTech Capital Raising



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

“digital frontrunners that are strategically relevant for the Allianz Group,” has some two dozen investments worldwide in its portfolio. In 2019, Allianz Group increased Allianz X’s fund size to €1 billion.

Outside the wealth space, **State Street Corp.** extended its fintech platform with the acquisition of **Mercatus**, a front- and middle-office solutions and data management provider for private market managers. The deal adds to the public markets platform State Street gained with the \$2.6 billion acquisition in 2018 of **Charles River Development**, a provider of front-office tools and solutions. Based in Silicon Valley, Mercatus has more than \$1 trillion in assets under administration for a global clientele.

Subsequently, State Street launched a related front-to-back office solution, called State Street Alpha, for institutions “to fully manage the entire lifecycle” of private markets investments, from real estate to private equity. “We are positioning ourselves to capture more business from alternative investors and managers,” Paul Fleming, executive vice president and global head of State Street’s alternatives segment, told *Pensions & Investments*. “Private market strategies are complex and often very customized, and higher service fees will reflect that complexity.” (See also *Credit/Private Equity*.)

Following the closing last February of **Deutsche Borse’s** acquisition of 81% of proxy advisor **Institutional Shareholder Services**, the Maryland firm announced a series of acquisitions of data providers in Asia-Pacific, Europe and the U.S. In Asia-Pacific, ISS’ target was **Rainmaker Group**, an established Australian firm that provides data, research and other services to that country’s asset managers via an integrated platform. Within its investment management services, for example, Rainmaker delivers data on a range of metrics, including fund flows, performance, fees and risk-adjusted returns. Rainmaker also provides benchmarking and intelligence related to Australia’s A\$3.4 trillion (US\$2.4 trillion) superannuation program. “ISS’ global platform and established data capabilities provides significant opportunities to scale our solutions further — both domestically and across the region,” said Rainmaker founder Christopher Page.

Building on the 2020 \$1 billion acquisition of **Aperio Group**, a specialist in tax-optimized customization, BlackRock made a minority investment in a customized options firm, **SpiderRock Advisors** (AUM: \$2.5 billion). SpiderRock’s strategies focus on risk management and yield optimization “for diversified portfolios as well as concentrated stock positions.” In the second-quarter earnings call, BlackRock Chairman and CEO Larry Fink said the addition “will further enhance our ability to provide wealth managers and financial advisors with tax-efficient, personalized portfolios and risk management solutions.” BlackRock has \$200 billion in assets in separately managed accounts.

The major fintechs themselves were well-represented among the buyers as they continue to enhance existing capabilities or add new ones on their platforms. **Evestnet** made a couple of deals for its “financial wellness” platform, the first for the estate and cash flow planning technology of **Apprise Labs**. Evestnet subsequently wrapped the products inside its MoneyGuide platform. The second deal involved **Harvest Savings & Wealth Technologies**, whose software provides banks with a link between savings accounts and financial planning, including an emergency savings bucket. Harvest extends Evestnet’s reach among banks beyond investment accounts and to less affluent clients. During a first-quarter earnings call, CEO Bill Crager said Harvest “leverages our existing bank relationships and brings capabilities that opens all of [a] bank’s accounts to our addressable market.”

Active buyer **Orion Advisors Solutions** purchased **HiddenLevers**, an established risk management provider with \$600 billion in assets for wealth and other asset managers. Orion CEO Eric Clarke told *RIABiz* that HiddenLevers’ “pipeline and sales are on record pace right now. We’re seeing increased interest from all types of advisors, including new and existing risk tool users.” In 2020, Orion cut a major deal for **Brinker Capital**, the largest privately held turnkey asset management platform at the time.

**InvestCloud** acquired **Advicent**, a provider of financial planning software to 140,000 financial professionals across 3,000 firms globally through its NaviPlan platform. InvestCloud, which provides cloud-based financial digital solutions, said the deal “aims to create the world’s leading financial planning solution” by integrating the two firms’ capabilities and focusing on cloud development. The deal took place after **Clearlake Capital Group** and **Motive Partners** acquired an 80% stake in InvestCloud that valued the firm at \$1 billion. The two private equity firms then merged InvestCloud with two Motive-owned fintechs, **Finantix** and **Tegra 118**, with the goal of driving product innovation, private banking capabilities, and global expansion. The enlarged InvestCloud has more than \$4 trillion of assets on its platform. 🌐

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