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Going to market

Against the backdrop of volatile financial markets, two distinct asset managers came to market in the first quarter on both sides of the Atlantic, each offering minority shareholdings that may have been one factor in lower-than-expected pricing. The smaller of the two IPOs involved **Victory Capital Holdings** (NASDAQ: VCTR), an independent multi-boutique with $62 billion in AUM that floated around 18% of equity and raised $152 million, with proceeds earmarked for paying down debt. The $13 per-share price represented a climb down from the $17 to $19 range the company projected in its prospectus and assigned a valuation of $869 million, or 1.4% of AUM.

Acquired by **Crestview Partner**s and management for $246 million from **KeyCorp** in 2013, Victory has in the years since tripled its AUM on the backs of three acquisitions that added $36 billion at the times of closing. Victory is an active manager of U.S. small- and mid-cap equities, accounting for two-thirds of assets — a niche that may give the firm an edge with investors more willing to place bets on such managers than on large-cap managers. Crestview, which has owned numerous financial services firms over the years, retains majority voting power in the dual-class structure.

In the second IPO, **Deutsche Bank** (NYSE: DB) floated more than 22% of equity in its diverse asset management business, on the Frankfurt Stock Exchange. The IPO of the rebranded **DWS Group** (FWB: DWS) — which valued the firm at some €6.5 billion ($8 billion) against AUM of €700 billion — delivered €1.4 billion into Deutsche Bank's coffers as it seeks to bolster its balance sheet, although pricing was lower than the German bank had anticipated. "Being listed will help us open up new opportunities, to be more attractive to new talent, and to develop the business." DWS CEO Nicolas Moreau told Bloomberg TV following the IPO, noting that the firm has an aggressive target of 3% to 5% growth in annual net inflows.

As part of the process, **Nippon Life Insurance** assumed a 5% stake and agreed to expand DWS' business in Asia, transfer assets to DWS for management, and jointly develop products. Nippon Life, a longtime shareholder in Deutsche Bank, has been expanding its asset management footprint globally, last year acquiring a minority stake in U.S. fixed income manager **TCW Group**.

As they were joined by the newcomers, existing publicly traded asset managers mirrored market gyrations in the first five months of 2018, with some of the larger ones generally trailing a slightly positive Standard & Poor's 500 index. In the U.S., **Affiliated Managers Group** (NYSE: AMG), **Carlyle Group** (NASDAQ: CG) and **Invesco** (NYSE: IVZ) all trailed the index while **BlackRock** (NYSE: BLK) was beating the index. In the UK, **Standard Life Aberdeen** (LON: SLA) trailed the FTSE 100 while **Legal & General Group** (LON: LGEN) outpaced the slightly positive index by a small margin. In France, **Amundi** (PAR: AMUN) lagged significantly behind the CAC 40 index, which was up around 5%.

On the transaction side, traditional investment managers took a breather in the first half from the transformational consolidation deals

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that have defined the sector in recent years. At the same time, the larger industry registered a $3 billion-plus deal for the third year in a row: **Hellman & Friedman**'s all-cash acquisition of **Financial Engines** (NASDAQ: FNGN), a retirement-focused robo advisor. H&F will merge Financial Engines with its majority-owned mass affluent advisor, **Edelman Financial Services**, to create a more formidable combination that can serve clients with their financial and retirement planning online and in offices. The transaction marked the second $1 billion-plus wealth management acquisition by a private equity firm in as many years: In 2017, **KKR & Co.** (NYSE: KKR) and **Stone Point Capital** paid an estimated $1 billion-plus for a majority stake in aggregator **Focus Financial Partners**. (In May, Focus filed for an IPO designed to raise around $100 million.)

More generally, the tax repatriation holiday passed by the U.S. Congress last December could spur some dealmaking, although most of the benefits will accrue to select technology companies with hundreds of billions of dollars parked overseas. **Franklin Resources** (NYSE: BEN) Chairman and CEO Gregory Johnson discussed the change during the company's fiscal year 2018 first-quarter earnings call, saying his firm "would look openly to opportunities as much here in the U.S. as abroad.... In the past, if it was captive offshore cash and before any tax reform, you may have had a bias to try to do something outside the U.S. Today, it's all fungible cash around the world." Franklin has about 80% of its cash outside the U.S. The lower corporate rates that are part of Congress' tax package could also provide European firms with an added incentive to consider U.S. asset managers.

That new 21% corporate rate led two U.S. publicly traded private equity firms, **Ares Management** (NYSE: ARES) and KKR, to announce in the first half that they are converting from what had been tax-advantaged partnerships to corporations. Ares' change took effect in March and KKR's took place in July. The change opens the stocks to larger pools of investors, including passives, previously put off by the complexity of the partnership structure. Since the major private equity firms began going public in 2007, executives have chafed under valuations that often trail other public asset managers and the market as a whole.

In the first half, Franklin Resources went trawling overseas to acquire a Scottish value investor, **Edinburgh Partners**, as buyers continue to seek out specialized firms. **Macquarie Investment Management** (ASX:MQG) also tapped what for many years has been an out-of-favor value arena, with the acquisition of **ValueInvest Asset Management**, an established firm in Luxembourg. In another cross border deal, and one of the larger first-half transactions, **Federated Investors** (NYSE: FII) paid £246 million ($350 million) for 60% of the UK's **Hermes Fund Managers**, a "high active" manager of equities, credit and alternatives. Boutique manager **Virtus Investment Partners** (NASDAQ: VRTS) set its sights on a high conviction U.S. and global growth manager, **Sustainable Growth Advisers**, which holds only 25 to 35 positions in each of its primary portfolios. In one of the largest asset management deals, **Scotiabank** (TSX: BNS) paid C$950 million ($740 million) for **Jarislowsky Fraser** to become No. 3 among active managers in Canada while expanding its institutional client base.

The ETF marketplace was active for the fifth year in a row, registering three cross border deals of note. Buyers included **Aberdeen Standard Investments** (LON: SLA), **Mirae Asset Global Investments** and **Van Eck Associates**, with targets managing assets ranging from $1.9 billion to $10 billion. For New York's Van Eck, the target was a Dutch firm, **Think ETF Asset Management**, that extends its footprint in Europe.

Two other private equity firms joined Hellman & Friedman in cutting direct deals for U.S. wealth managers, underlining the key role that industry is playing in the wealth and broker-dealer arenas. **Lightyear Capital** acquired around 50% of **HPM Partners** from **Emigrant Bank** of New York while **Temperance Partners** acquired the minority stake in **Westmount Asset Management** owned by **Rosemont Investment Partners**. Separately, private equity-backed wealth aggregators continued to scoop up competitors, including Focus Financial Partners' purchase of a large and established Cincinnati firm, **Bartlett & Co**. Two Focus affiliates, **Buckingham Strategic Wealth** of St. Louis and **Colony Group** of Boston, also made deals for wealth managers. **Thomas H. Lee Equity Partner**s-backed **HighTower** acquired an established Houston firm, **Salient Private Client**.

Demand for alternatives across the range of specialties remained strong, with deals cemented throughout the world. Some of the recurring and marquee buyers in this arena included BlackRock, **Blackstone** (NYSE: BX), **Brookfield Asset Management** (TSX: BAM.A), and **Neuberger Berman**'s **Dyal Capital Partners** unit. Blackstone made multiple deals, directly and through its Strategic Capital Holdings fund, including for a minority stake in **PAG**, an Asian-focused investor based in Hong Kong with $20 billion in AUM in private equity, absolute return and real estate strategies. The slow consolidation trend in the fund of hedge funds sector continued as **Lighthouse Investment Partners** acquired **Mesirow Advanced Strategies**, creating a firm with $19 billion in AUM.

In a busy real estate advisory sector, the largest announced deal took place in North America: **Colliers International Group**'s (TSX: CIGI) $550 million deal for 75% of **Harrison Street Real Estate Capital** (AUM: $14.6 billion), including up to $100 million payable by 2022 based on performance targets. In Europe, **New York Life Insurance**-owned **Candriam Investors Group** bought a minority share in **Tristan Capital Partners**, a London-based firm that invests throughout the region.

The U.S. broker-dealer sector continued on its consolidation path, as independent firms or small units within larger financial services companies seek to pair up with peers that can provide the capital and infrastructure for expansion, new technology and regulatory compliance. **E*Trade Financial Corp.** (NASDAQ: ETFC), which in 2016 paid $725 million for online derivatives firm Aperture New Holdings, paid $170 million in the first half for one million online retail brokerage accounts of **Capital One Financial Corp** (NYSE: COF), which has been shedding non-core assets. There were two broker-dealer transactions involving private equity-backed buyers: **Woodbury Financial Services**' acquisition of Capital

One's in-branch asset management and brokerage unit; and startup aggregator **Atria Wealth Solutions**' acquisition of an independent broker-dealer based in Syracuse, N.Y., **Cadaret, Grant & Co.**

In addition to going public, Victory Capital Holdings was engaged in another intriguing part of first-half deal-making: enhancing its connection to artificial intelligence (AI) by adding to a minority stake in **Cerebellum Capital**, a San Francisco-based hedge fund that leverages machine learning "to continuously design, execute and improve investment programs." Franklin Resources purchased another San Francisco AI firm, **Random Forest Capital**, a credit investor that applies machine learning and statistical algorithms to "massive amounts of unstructured data." **S&P Global** (NYSE: SPGI) paid $550 million for Cambridge, Mass.-based **Kensho Technologies**, which provides AI and related systems to banks and investment firms. In 2017, asset managers spent $373 million related to "alternative data sets," or the mining of vast amounts of data to help inform investment decisions. AlternativeData.org projects that number will reach $1 billion by 2020.

Investment Management

The exchange traded fund deals that since 2014 have been a central feature in the investment management sector continued to generate activity in the first half of this year, with three notable cross border transactions. Two took place in the first quarter, when the industry endured a rare two-month period of outflows totaling $7.1 billion in February and March, according to ETF.com, with U.S. equity products generating the red ink.

In the first transaction, **Van Eck Associates** purchased a majority of **Think ETF Asset Management**, a 10-year-old Dutch company. For New York-based Van Eck, the addition of Think's €1.5 billion ($1.9 billion) in assets adds to its existing ETF business, which includes more than 70 varied funds. Think also extends Van Eck's expansion in Europe, where the company said it expects "an even greater migration of assets" to ETFs. Europe lagged the U.S. in ETF acceptance, but the market has been growing rapidly in recent years, climbing 23% last year to €631 billion, according to Thomson Reuters, including net sales estimated above €90 billion.

The other two deals included South Korea's **Mirae Asset Global Investments**' acquisition of **Global X**, a fast-growing and established New York manager with $10 billion in a variety of ETF assets; and **Aberdeen Standard Investments**' (LON: SLA) purchase of the U.S. business of New York's **ETF Securities**, a commodity specialist that manages $2.8 billion in assets in the U.S. In the Mirae-Global X deal, the Korean business press placed the price tag at $488 million. Prior to the transaction, Mirae had $20 billion in ETF assets in Asia-Pacific and Canada, or around 5% of its total AUM.

In the active management space, buyers continued to seek out specialized firms and in some deals to simultaneously expand their client bases. **Virtus Investment Partners** (NASDAQ: VRTS) was one, adding to its boutique structure with the $130 million purchase of 70% of **Sustainable Growth Advisers**, a high-conviction U.S. and global growth manager. Based in Connecticut, SGA (AUM: $11.6 billion) expands Virtus' product line and adds an institutional and international clientele. SGA holds only 25 to 35 positions in each of its four primary portfolios, two of which are non-U.S. The company's AUM has nearly doubled in the past three years, including net inflows of $2.4 billion in 2017.

In Canada, **Scotiabank**'s C$950 million ($740 million) acquisition of **Jarislowsky Fraser** expands the bank's institutional client base while bumping Scotiabank (TSX: BNS) to the No. 3 position among active manager in the market, with C$166 billion in AUM. Scotiabank, which will pay primarily via shares, could make an additional earnout payment of up to C$56 million in shares. Montreal-based Jarislowsky (AUM: C$40 billion) is an established brand in Canada, having been founded in 1955. Institutions account for 77% of AUM, complementing Scotiabank's retail orientation. Scotiabank has been an aggressive buyer since late 2017, making two other deals for financial services firms in Latin America.

Just before the new year, **Rosemont Investment Partners** took a 20% stake in **Martingale Asset Management** (AUM: $8 billion), an established Boston firm specializing in low-volatility equity strategies, with the majority of assets in small and large-cap products, including long/short. Rosemont said Martingale's "investment capabilities are well-suited to meet the needs of sophisticated institutional investors." Rosemont, which has made 30 asset management-related investments since its founding in 2000, in the first half switched from a private equity to a "permanent capital solutions" structure. The newly formed **Rosemont Investment Group** involves a partnership with insurer **Markel Corp.**, which will be majority owner.

In one of the larger deals between between two small- to mid-size independent U.S. firms seeking greater scale, **Segall Bryant & Hamill** acquired **Denver Investments** to create a manager with $20 billion in assets, two-thirds from Chicago-based SBH. The deal also expands SBH's footprint into the Rocky Mountain states. In addition to managing mutual funds and serving institutions, the two established companies have wealth management units. Cindy Knowlton, head of distribution at Denver Investments, told WealthManagement.com the "deep institutional-quality research and portfolio management" at the two companies "can be leveraged within the wealth management portfolios." SBH runs several all-cap, small-cap and emerging markets funds, while Denver Investments manages a range of equity and fixed income funds under the Westcore brand name. Private equity firm **Thoma Bravo** is an investor in SBH.

In a cross border deal involving a unique target, **Kuramo Capital Management** of New York expanded its sub-Saharan focus by acquiring a 73% stake in an established Kenyan firm, **GenAfrica Asset Managers** (AUM: $1.4 billion). Kuramo, which specializes in alternative investments for institutions and wealthy individuals, acquired the shares from Kenya's **Centum Investment Company** (NSE: ICDC). Kenya has generated consistently solid GDP growth between

4.5% and 8.4% since 2010, and is generally praised for an improving if still challenging business climate. In a 2015 interview with the CFA Institute, Kuramo founding partner and Chief Investment Officer Wale Adeoson said the firm's goal is to "make returns similar to most frontier markets," or three times return on capital.

Wealth Management

Private equity firms continued to exercise an outsized presence in the wealth market in the first half, either directly or through the activity of aggregators in which they hold interests. For the second year in a row that included a megadeal: **Hellman & Friedman**'s all-cash $3 billion acquisition of robo advisor **Financial Engines** (NASDAQ: FNGN). The pricing represented a 41% premium to Financial Engines' trailing 90-day average. H&F will merge Financial Engines with its majority-owned wealth advisor, **Edelman Financial Services**.

Co-founded in 1996 by Nobel Prize economics laureate William Sharpe (who also created the "Sharpe Ratio"), Financial Engines primarily assists businesses with their retirement accounts. Last year, it had $1.2 trillion in defined contribution (DC) assets under contract from some 750 plan sponsors, including $156 billion in AUM. Clients include more than 140 companies on the Fortune 500. The company has another $13 billion in retail and taxable assets. Edelman, a nationwide firm in which H&F took a majority share in 2015, has $22 billion in client assets and serves individual investors, both mass affluent and high net worth.

The tie-up provides the marketing-driven Edelman with a new distribution network, including the potential for managing a portion of its new partner's corporate DC assets as employees roll them over into more profitable individual advisory accounts. For Financial Engines with its tech-driven business model, Edelman adds to the brick-and-mortar presence it gained three years ago when it acquired the Mutual Fund Store. H&F said it will "bring these companies together into a unique business with an unparalleled mission to bring better financial help to millions of investors."

Benefitting from the support of new majority owners **KKR & Co.** (NYSE: KKR) and **Stone Point Capital**, New York's **Focus Financial Partners** added to its large stable of independent firms directly and via partners, with the most notable investment involving **Bartlett & Co.**, a venerable Cincinnati firm with $4 billion in assets. The company subsequently rebranded as **Bartlett Wealth Management** and expanded its management team to incorporate "next-generation" principals. Bartlett said the association with Focus provides access to "value-added resources and capital," including for acquisitions, while offering a "smooth path of succession for our company." In 2017, KKR and Stone Point paid an estimated $1 billion-plus for their stake in Focus, which in May filed for an IPO designed to raise around $100 million.

One of Focus' largest affiliates, **Buckingham Strategic Wealth** of St. Louis, cut deals for wealth managers in Colorado, Illinois and Virginia, adding a total of more than $1 billion in assets to the $12.6 billion it already managed or administered. Another Focus affiliate, the **Colony Group** of Boston, added $1.4 billion to its $6 billion in assets by acquiring wealth managers in Maryland and New York as it continues to extend its footprint. Colony has made seven deals since joining Focus in 2011.

Building off last year's investment from **Parthenon Capital Partners, Hanson McClain Advisors** merged with **Simply Money Advisors** (AUM: $780 million) to create a firm with $3.3 billion in assets and a presence in the Midwest, the Rocky Mountain states and the West Coast. Both firms are also aggressive marketers, employing various media outlets to pitch their services. Hanson McClain noted that with Parthenon's support, it will seek out "mergers and acquisitions to expand its business model in new and existing markets."

HighTower, which last year sold a significant stake to **Thomas H. Lee Equity Partners** and received a pledge of $100 million in additional growth capital, acquired **Salient Private Client**, an established Houston firm that was part of diversified asset manager **Salient Partners**. Salient Private Client, with $4.5 billion in assets, called HighTower the "right partner to extend our footprint and resources across Texas and the rest of the U.S." For Chicago-based HighTower, the deal marks its entry into Texas and comes on top of its largest-ever acquisition last year of **WealthTrust**. The company has a presence in 32 states.

Genstar Capital-backed **Mercer Advisors**, which has made more than a dozen acquisitions since 2016, cut multiple deals in the first half, two of which expanded the California-based firm's presence in the Northeast. These included Mercer's largest acquisition to date, for **Traust Sollus Wealth Management**, which has offices in New Jersey and New York and $420 million in AUM. The various deals pushed Mercer's assets above $12 billion. Mercer said it planned to go "deeper in markets where we already are, particularly in strategic locations like New York." The firm has 29 offices nationwide.

In a large direct private equity deal, **Lightyear Capital** acquired around 50% of **HPM Partners** from **Emigrant Bank** of New York. HPM has more than $9 billion in AUM and six offices throughout the U.S. In a second direct transaction, **Temperance Partners**, a financial services investor, acquired the minority stake in Westmount Asset Management held by **Rosemont Investment Partners** (Rosemont also acquired a stake in Martingale Asset Management; *see Investment Management*). Westmount, based in Los Angeles and founded in 1990, has doubled it AUM to $2.8 billion since Rosemont's 2011 investment.

In a small deal noteworthy for the geography involved, a Bay Area firm, **Private Ocean**, tapped another fast-growing technology wealth hub by acquiring Seattle's **Lakeview Financial Group** (AUM: $380 million) to create a larger independent firm with $1.6 billion in AUM. The two firms stressed the "values and culture" they both share. In Atlanta, **Homrich Berg** climbed over the $5 billion mark in AUM by acquiring local competitor **Compass Financial Consulting** (AUM: $240 million), which said the deal provided "the best fit for our team to allow us to continue to grow while serving our clients." A couple of mid-size accounting firms, **HBK CPAs & Consultants** and **K-Coe Isom**, cut a deal involving their wealth subsidiaries in which **HBKS Wealth Advisors** acquired a minority stake in **K-Coe Wealth Management**, creating a combined firm with $3 billion in AUM. K-Coe Wealth cited the opportunity to "collaborate with another CPA-centric wealth management firm to address client needs and develop solutions."

In Canada, **Fiera Capital Corp.** (TXS: FSZ) paid C$114 million ($90 million) in cash and shares for **CGOV Asset Management**, which manages C$5.3 billion for wealthy individuals as well as institutions from its base in Ontario. CGOV, founded in 1995, said its new parent will provide clients with "robust investment solutions, including access to enhanced fixed income and private alternative strategies." Fiera, which last year announced a goal of reaching C$200 billion in AUM by 2020, had C$131 billion by March 2018 compared with C$91 billion during the same period in 2015. Fiera also acquired an Asian private credit manager in the first half (*see* ***Alternative Private Market Managers***).

Outside North America, **Julius Baer** (SWX: BAER) took three actions to strengthen its wealth management business in three different parts of the world. In Europe, the company paid €96 million ($115 million) for the 20% of Italy's **Kairos Investment Management** that it did not already own, with two previous equity stakes having been acquired in 2013 and 2016. Since the initial investment by Julius Baer, Kairos' AUM has climbed nearly threefold to €11 billion. In Brazil, the target was Sao Paulo-based **Reliance Group**, one of the largest independent wealth managers in the market with $5 billion in assets. The deal "significantly strengthens" Julius Baer's existing presence in Brazil. Speaking to Bloomberg TV after the Reliance deal, Julius Baer CEO Bernhard Hodler called Latin America a "region where I see a lot of potential" and more generally called the deal "a very nice size" for entry or consolidation purposes in emerging markets. In Asia, Julius Baer reached agreement on a joint venture with Thailand's **Siam Commercial Bank** to offer wealth services to Thai customers. Julius Baer will hold a 40% share in the venture, with the option to raise that to 49% over time.

Alternative Private Market Managers

In 2016, U.S. public pension plans in aggregate had 24% of their assets in alternative investments, including real estate, on par with their fixed income and cash allocation and double the level prior to the financial crisis, according to Public Plans Database. During the same period between 2007 and 2016, the share of public equities has dropped from 60% to 49%. In the UK, the average allocation to alternatives in pension funds has climbed from 4% in 2008 to 22% last year, according to **Mercer**.

That growing institutional demand for alternatives continues to be mirrored in an active M&A marketplace spread fairly evenly among firms focused on hedge funds, private equity, credit managers and real estate, among others. Within real estate, a traditional allocation among institutions, there were multiple deals in the first half for advisory firms on both sides of the Atlantic. In Europe, **Candriam Investors Group** acquired 40% of London's **Tristan Capital Partners**, with the option to increase that stake in the future. Employee-owned TCP has €9.1 billion ($11 billion) in AUM in a variety of pan-European property funds. The company, which defines its philosophy as assuming "as little risk as possible in the pursuit of targeted returns," said the partnership provides it with a "leading global investment platform." Brussels-based Candriam, with a diversified portfolio and owned by **New York Life Insurance**, gains entry to the European real estate advisory business.

ActivumSG Capital Management of Jersey acquired **fairvesta Group**, a German-based property fund platform for retail investors with €800 million in AUM. The German manager has 14 domestic funds mainly focused on office and retail buildings in smaller towns and cities. ActivumSG, a real estate turnaround specialist targeting the German and Spanish markets, said it would take fairvesta to the "next level" by applying its expertise in larger and more complex transactions. Activum cut the deal through its latest fund, which closed in January after raising €489 million.

In a major North American deal, Toronto's **Colliers International Group** (TSX: CIGI) acquired **Harrison Street Real Estate Capital** (AUM: $14.6 billion) of Chicago, a leading real estate advisory group in the education, healthcare and storage sectors. Colliers, a real estate services firm that operates in 69 markets, is paying $450 million upfront to Harrison's founders for 75% of equity, with up to another $100 million payable by 2022 based on certain "accelerated performance targets." Senior management at Harrison will hold the remaining 25% of equity. Colliers called the deal "transformational," saying it establishes the firm "as one of the major players in global real estate investment management." The company expects Harrison to generate between $100 million and $115 million in annual run rate management fees. "The key point here is that the strategy is not changing," Harrison co-founder and CEO Christopher Merrill told Crain's Chicago Business. "We really just wanted to bring in a long-term capital partner to help us think about the next generation [of employees] and shore up the business."

In the U.S., **StepStone Real Estate** acquired **Courtland Partners**, describing the combined firm as "one of the world's largest and most active real estate solutions providers." The enlarged firm will manage more than $100 billion in capital allocations worldwide from institutions, including $2 billion in AUM, and deploy $10 billion to real estate investments annually through a variety of structures, from funds to recapitalizations. Last year, StepStone Real Estate closed on a $700 million real estate fund targeting special situations in the U.S. and Europe, exceeding the original $500 million goal. The company is part of private markets firm **StepStone Group**.

In a multiparty deal, **BNY Mellon**'s (NYSE: BK) asset management unit swapped its majority interest in U.S.

real estate advisor **Amherst Capital Management** for a minority stake in **Amherst Holdings** while **Texas Treasury Safekeeping Trust** swapped its interest in Amherst Capital for an undisclosed stake in Amherst Holdings. Amherst Capital was established in 2014 as a majority-owned subsidiary of **BNY Mellon Investment Management**, with Amherst Holdings a minority shareholder and Texas Treasury a seed investor. Amherst Capital, with $6 billion in AUM as of 2017, invests in real estate-related private debt, private equity and public equities. Based in Austin, Texas, Amherst Holdings provides a range of institutional services for U.S real estate, mortgage and securitized product markets. BNY Mellon, which has been paring back its boutique structure, said the restructuring will create more business opportunities for Amherst Capital.

Blackstone (NYSE: BX) assumed a minority stake in **Rockpoint Group**, an advisory firm with which Blackstone's real estate unit has had prior business dealings. Based in Boston and founded in 1994, Rockpoint has raised $19 billion over the years and invested in more than 400 transactions. The company defines itself as a value investor that primarily focuses on opportunities in coastal markets in the U.S. That includes the $905 million purchase in 2017 of a large federally subsidized apartment complex in Brooklyn, with another partner. Blackstone cut the deal through its Strategic Capital Holdings alternative investment fund — the first such real estate advisory transaction for the four-year-old, $3.3 billion fund.

Blackstone was also active in a REIT market that has been lagging the S&P 500 index since 2016, announcing three deals to take the publicly traded investment vehicles private. All of the transactions involved premiums ranging from 21% to 35% based on varying time periods for the share prices. In the largest, the company paid $7.6 billion for **Gramercy Property Trust** (NYSE: GPT), primarily an investor in single-tenant industrial properties. Blackstone also announced the $4.8 billion acquisition of **LaSalle Hotel Properties** (NYSE: LHO) and the C$3.8 billion ($3.0 billion) purchase with Canadian real estate investor **Ivanhoe Cambridge** of **Pure Industrial Real Estate Trust** (TSX: AAR.UN), an investor in Canadian warehouses. In the first quarter, Blackstone also announced that John Gray, global head of real estate, was taking over the day-to-day management of the company from President and Chief Operating Officer Tony James. Gray has overseen the real estate unit since 2005 as it grew into the largest such business in the world, with $120 billion in AUM.

In addition to its real estate deals, Blackstone made two other investments through the Strategic Capital Holdings fund. The first involved a minority stake in middle-market private equity firm **Kohlberg & Co.** Blackstone cited Kohlberg's "strong track record of investing over three decades" and "clear" leadership position in its middle-market niche. In the second deal, Blackstone bought a minority interest in Hong Kong's **PAG**, an independent firm with $20 billion in AUM across private equity, absolute return and real estate strategies in Asia. In one deal last year, PAG acquired a majority interest in China's largest online dating site. Blackstone's investment came as PAG is reportedly seeking to raise up to $6 billion for a new Asia fund.

Neuberger Berman's **Dyal Capital Partners** unit cut two private equity deals, including a three-way transaction in which it joined **Goldman Sachs Asset Management**'s **Petershill** fund and **Landmark Partners** in a collective minority investment in **Clearlake Capital Group**. Based in California and established in 2006, Clearlake's sector focus includes industrials, energy, software and technology-enabled services, and consumer; it has managed $7 billion of capital since its founding. Clearlake, which in the first quarter closed its largest fund to date at $3.6 billion, said the "partnership will broaden the resources and support available to Clearlake as we pursue strategic initiatives and continue to build a market-leading franchise." Dyal also bought a minority stake in a San Francisco firm, **Vector Capital** (AUM: $3.8 billion), which makes "transformational investments" in established technology companies. Vector, which has a longstanding relationship with Neuberger, said Dyal provides permanent capital to expand its business. In 2017, Vector closed its fifth fund, for $1.4 billion. Dyal, which makes minority investments in alternative managers, has a portfolio of 27 private equity and hedge fund managers.

Three geographically diverse institutions — the **Alaska Permanent Fund**, the **Public Institution for Social Security of Kuwait**, and **RPMI Railpen** of London — formed a joint venture capitalized at $700 million to invest in "next generation" alternative investment firms. The venture, dubbed **Capital Constellation**, will be advised by private equity and alternatives investor **Wafra Group** of New York, which is owned by Social Security of Kuwait and has $20 billion in AUM and commitments. Subsequently, Constellation made its first investment, of $100 million, in four-year-old **Astra Capital Management**, a Washington, D.C.-based private equity specialist in the communications and technology services industries. Wafra had previously provided financing for an Astra acquisition.

There were several transactions in the U.S. involving hedge funds or fund of hedge funds. In 2017, fund of funds assets grew by 2% to $646 billion, but net outflows were more than $21 billion, according to HFR, as many investors continue to balk at paying the additional layer of fees charged by such firms. In response, the industry has been consolidating, with another notable U.S. transaction taking place in the first half: **Lighthouse Investment Partners**' acquisition of **Mesirow Advanced Strategies**. For Lighthouse, the deal adds $8 billion in AUM to the $11 billion it already managed, along with a complementary business: Mesirow focuses on illiquid credit investments while Lighthouse specializes in liquid strategies. In discussing Mesirow's strategy in 2015 with InvestHedge, CEO Thomas Macina said, "We think just structurally there will be a lot more interesting things to do if you can look out at two-, three- or four-year investment horizons rather than going the other way." Mesirow Advanced is part of Chicago-based financial services company **Mesirow Financial**, which will serve as a distribution partner for Lighthouse.

Among hedge funds, **White Oak Equity Partners** acquired a minority interest in startup **Blueshift Asset Management**, a quantitative firm focused on statistical arbitrage and high-frequency trading strategies. Following the investment from White Oak and others, Blueshift executives acquired the trading-related intellectual property at **Tradeworx** that they had developed while employed there. White Oaks said Blueshift's "thought leadership" and experience "give(s) them a strategic advantage at an increasingly competitive time in quantitative investing." New York-based White Oak assumes minority stakes in alternative managers with less than $2 billion in AUM. In a second deal, White Oak invested in **FCO Advisors**, an alternatives manager in the municipal credit market with $1 billion in AUM.

Investcorp (NYSE: IVZ) announced a "strategic partnership" with **Shoals Capital Management** (AUM: $160 million), a Virginia-based multi-strategy credit and equities manager. Investcorp made the investment through its established hedge fund partnership platform, which provides seed and "acceleration" capital and distribution to emerging managers. Alternatives comprised 16% of Investcorp's total assets ($934 billion) as of the 2018 first quarter, up from 12% five years earlier. A transpacific deal saw asset management consultant **Mercer** acquire Tokyo's **BFC Asset Management**, a multi-manager hedge fund that had been a client of its new parent. Mercer said the deal addresses the growing demand for alternatives among institutions in Japan, where Mercer has been operating for nearly 40 years. BGFC, founded in 2006, offers customized solutions that "deliver positive absolute returns" while reducing volatility and risk.

The credit marketplace rang up multiple deals, though the play for firms specializing in collateralized loan obligations ebbed after an aggressive consolidation trend in recent years. At the same time, CLO issuance in the dominant U.S. market set a first-quarter record for the post-financial crisis era, of $31.7 billion, according to Thomson Reuters. In an interesting deal due to an artificial intelligence angle, **Franklin Resources** (NYSE: BEN) acquired a San Francisco firm, **Random Forest Capital**, which informs its investment decisions by applying machine learning and statistical algorithms to "massive amounts of unstructured data." Random Forest uses that tech approach to "source and analyze private lending investment opportunities, both secured and unsecured," from non-bank loan originators, including Web-based ones. The firm was started up in 2016 and completed a $1.8 million seeding investment the following year. Franklin, which will wrap Random Forest into its fixed income group, said the company "brings an expanded tool set that enables us to further enhance our investment expertise and adapt to the ever-changing investment landscape."

Hunt Companies paid $57 million for several businesses from **MMA Capital Management** (NASDAQ: MMAC), including a diversified platform focused on a low-income housing tax credit business and renewable energy underwriting, as well as an international asset management business. MMA invests for its own account and co-invests with institutions. As part of the deal, Hunt assumed the role of external manager of MMA, which retains credit and investment businesses in affordable housing and clean energy, and also took an equity interest in the company via a private placement of shares. Privately held Hunt manages a variety of roles in real estate and infrastructure, including asset management and direct lending.

BlackRock (NYSE: BLK) expanded its credit business with the acquisition of California's **Tennenbaum Capital Partners**, a specialist in middle-market performing and special situation credit with $9 billion in committed capital. In the company's first-quarter earnings call, BlackRock Chairman and CEO Laurence Fink called illiquid alternatives "a strategic growth priority," noting that the company has a total of $49 billion in such managed assets and another $18 billion in dry powder. In a small real estate credit deal, real estate advisory firm **Clarion Partners** acquired **AlumCreek Holdings**, adding $200 million in special situation real estate assets held in a variety of mortgages acquired from third parties.

Two Canadian asset managers shopped overseas for credit firms. **Fiera Capital** (TSX: FSZ) paid $21 million for an established and diversified Asian private credit manager, **Clearwater Capital Partners** (AUM: $1.4 billion), giving the acquisitive firm a presence in the Asia-Pacific region and "a rare opportunity to gain entry to the Asian private credit market." Clearwater touted the opportunity to "leverage the strength of a global network." Fiera also acquired a Canadian wealth manager in the first half (*see Wealth*). **Brookfield Asset Management** (TSX: BAM.A) acquired a 25% stake in London's **Link Financial Group**, the parent of **LCM Partners**, a European credit manager focused on consumer-related debt and loans to small and medium-sized enterprises (SMEs). Brookfield, which has the option to buy another 24.9% of Link "over time," said the "strategic" investment is aimed at "jointly growing LCM's leading asset management and credit servicing business globally." As one example of an LCM investment, last October the company bought some €6 billion of Spanish non-performing and re-performing consumer and SME loans. Link manages €25 billion ($30 billion) in assets and has 10 offices across Europe.

Altegris merged with **Artivest** in a teaming in the U.S. of an alternative investment manager and a technology-driven alternatives platform. Altegris, which will transfer $1 billion in its assets and over 20 funds to Artivest's digital platform, said the deal will extend its capabilities to a broader range of clients, from broker-dealers to family offices. "The idea behind this deal is we have two businesses with the same mission of creating an access point for the buying and selling of alternative investments in this channel," Artivest founder and CEO James Waldinger told InvestmentNews. "Artivest has the technology and the integration systems, and Altegris has the product suite."

Europe

As in the U.S., buyers in Europe in traditional asset management sought out specialized firms as opposed to enhancing scale by adding assets. One such transatlantic deal featured **Franklin Resources** (NYSE: BEN) acquiring a Scottish global value manager, **Edinburgh Partners** (AUM: $10 billion). The deal reunites Edinburgh CEO Sandy Nairn, who founded the company in 2003, with his former employer, where he was an executive in the 1990s. Nairn will become chairman of the global equity group at Templeton.

In the 2018 fiscal year first-quarter earnings call, Franklin Chairman and CEO Gregory Johnson cited the attractiveness of Edinburgh's value orientation at a time when that style has been "out of favor. And as value investors, we think it's a good time to add to our portfolio of value." He also praised Nairn as "a real thought leader [who] can increase the profile overall of value and global equities for us."

Macquarie Investment Management (ASX:MQG) also scooped up a value investor, **ValueInvest Asset Management** of Luxembourg. ValueInvest, with €4 billion ($4.9 billion) in AUM, specializes in global and Japanese equities; it will become part of Macquarie's multi-boutique platform. Macquarie called the 20-year-old firm "an excellent complement to our existing high-conviction equity strategies." In an interview with MutualFundWire.com, Shawn Lytle, deputy global head of Macquarie, said the firm is "on the lookout" for active managers in equities and fixed income and is "location agnostic in terms of where those talented investors sit."

In a third deal involving a value investor, **Quaero Capital** of Switzerland and **Tiburon Partners** of the UK agreed to a merger that will create a larger independent fund manager with $2.3 billion in AUM. Both firms pursue concentrated strategies, with Tiburon specializing in Asian and Japanese equities and Quaero in European equities. In a December 2016 interview with *Wall Street Transcript*, Quaero small-cap fund manager Marc Saint John Webb said he focuses on "smaller companies where there is less sell-side research and where larger investors are increasingly absent, leading to a less efficient market."

Federated Investors (NYSE: FII) continued to expand beyond its core money market business by paying £246 million ($350 million) for 60% of the UK's **Hermes Fund Managers**, with the option to add to that stake in the years ahead. Hermes owner **BT Pension Scheme**, one of the UK's largest defined benefit plans, retains a minority shareholding. Hermes manages 16 diverse strategies in "high active" equities, credit and alternatives and has £33 billion in AUM and another £336 billion under advice. Pittsburgh-based Federated also touted Hermes' environmental, social and governance (ESG) capabilities. In an interview with *Financial News*, Federated Vice Chairman Gordon Ceresino said the firm was "seeking a European platform of quality" to extend its presence in the region. Federated has around $12 billion in AUM in Europe.

In the wealth management sector, **UBS** (NYSE: UBS) acquired "part" of the Luxembourg-based private banking business of Swedish bank **Nordea** (ST: NDA), which is centering its wealth activities in the Nordic region. UBS said the deal will allow it to "move our business of serving Nordic wealth management clients to a leading position in Luxembourg and in Europe." Nordea's Luxembourg business has €13 billion in AUM. Nordea's overall AUM has grown more than 50% since 2012 to €330 billion while its asset management business vies with personal banking as the most lucrative division, accounting for 29% of operating profit in 2017. Management and employees of French wealth manager **Cyrus Group** bought out the minority stake held in their firm by a European private equity specialist in financial services, **BlackFin Capital Partners**. Financing for the buyout was provided by Parisian private equity firm **Ardian**. Cyrus is one of the larger independent wealth managers in France, with €3.4 billion in AUM.

Securities

While the market volatility that struck in the first half provided a welcome relief to the previously subdued trading desks of investment banks, brokerages also enjoyed a bounce from their client's more robust activity. Take **E*Trade Financial Corp.** (NASDAQ: ETFC), for example. In the first quarter, it delivered record quarterly revenue on the back of daily average revenue trades (DARTs) that were 49% higher than the year-earlier period. The company also registered seven of its top-10 trading days ever during the period. At **Interactive Brokers Group** (NASDAQ: IBKR), DARTs climbed 43% in the first quarter from the year-earlier period, while **Raymond James Financial**'s (NYSE: RJF) securities commissions and fees rose 13% in the fiscal second quarter through March.

E*Trade also continued its recent spate of acquisitions in the consolidating brokerage space, paying $170 million to **Capital One Financial Corp.** (NYSE: COF) for one million of its online retail brokerage accounts amounting to $18 billion in assets. "Opportunities like this in which we can efficiently add a large number of customers to our highly scalable platform do not come along often," E*Trade CEO Karl Roessner told investors during the January conference call. Although the acquired customers trade far less than existing E*Trade customers, they do hold $1.9 billion in cash balances from which the company can generate income. Roessner said "we revel in the opportunity to meaningfully deepen our engagement" with the new clients as E*Trade introduces them to its "broader product suite, a greater service experience, and significantly expanded resources." E*Trade said the deal will be accretive to earnings by 2019.

In a second deal involving Capital One, **Woodbury Financial Services** acquired the bank's in-branch asset management and brokerage unit with $10 billion in assets. Woodbury is part of the **Advisor Group**, a network of four independent broker-dealers owned by **Lightyear Capital** and **PSP Investments**, a Canadian pension manager. Prior to the deal, Minnesota-based Woodbury had some 1,200 advisors and $39 billion in assets, while the Advisor Group as a whole has 5,000 advisors and $190 billion in assets. For Capital One, the two deals involve a broader retreat from businesses outside its core banking and credit card operations.

In a third deal involving a mid-size target, broker-dealer aggregator **Atria Wealth Solutions** acquired **Cadaret, Grant & Co.**, an established Syracuse, N.Y., firm that supports more than 900 financial advisors nationwide with over $23 billion in assets. Cadaret founder and CEO Art Grant told *Financial Advisor* he had been seeking a next-generation solution for his company for "a number of years" and was impressed with Atria's "terrific management team." Referring to the acquisition, Atria said it will invest in the technology, products and services required "to meet the growing demands of both advisors and their clients." Started up in 2017 with backing from **Lee Equity Partners**, Atria has two other companies in its portfolio.

There was another consolidation deal in the shrinking high frequency trading (HFT) arena, with **Hudson River Trading** acquiring **Sun Holdings**, which had placed itself on the sale block last year. Hudson River said the combined firm merges its own on-exchange trading with Sun's expertise in off-exchange trading to create a "stronger, more diverse firm" than can provide "meaningful liquidity to our trading partners" in the U.S. and Europe. In 2017, there were two high-profile deals involving HFTs, including **Virtu Financial**'s (NASDAQ: VIRT) $1.4 billion acquisition of KCG Holdings.

In China, **JPMorgan Chase & Co.** (NYSE: JPM), **Nomura Holdings** (NYSE: NMR) and **UBS** (NYSE: UBS) have all submitted applications to regulators to acquire 51% stakes in local securities firms. The actions followed new rules issued by Beijing in April that give non-Chinese financial firms the opportunity to hold 51% shares in joint ventures, with the government pledging to raise that to 100% in three years. Previously, firms had been restricted to 49% ownership. Of the three, UBS is the only one seeking to add to an existing and established joint venture, Beijing-based **UBS Securities**. "A lot of joint ventures are hard to govern, badly run, not very successful [and] don't set the highest standards," JPMorgan Chase Chairman and CEO Jamie Dimon told Bloomberg TV in explaining that the bank's ultimate goal is 100% ownership. As part of a more aggressive push in China, JPMorgan also said it will seek majority ownership of its asset management joint venture, **China International Fund Management**.

A transatlantic deal focused on market infrastructure saw **New York Stock Exchange** owner **Intercontinental Exchange** (NYSE: ICE) double its stake to around 10% in Brussels-based **Euroclear**, which settles a total of €733 trillion ($870 trillion) in securities transactions per year. Last October, ICE paid €275 million for a 4.7% stake as part of an effort to extend its European presence. Separately, ICE reached agreement to buy the **Chicago Stock Exchange**, which primarily offers ICE the benefit of another valuable exchange license. The CSE, which handles less than 1% of U.S. equity trades, is the last independent regional exchange.

The same bid for tack-on specialists that is apparent in the asset management industry is also at play in many of the deals involving smaller to mid-size investment bankers. For example, **Fifth Third Bancorp** (NASDAQ: FITB) acquired an advisory firm focused on middle-market healthcare companies, **Coker Capital Advisors**. The deal strengthens Fifth Third's existing middle-market healthcare platform by adding an M&A capability while more generally extending its fee-based business. Coker, founded in 2009, said Fifth Third will enable it "to extend our reach and introduce enhanced capabilities to our clients." Fifth Third also paid $4.7 billion (primarily in stock) for Chicago's **MB Financial** (NASDAQ: MBFI), whose community banking business includes a wealth and asset management unit with $8 billion in assets.

Janney Montgomery Scott also made a play for a middle-market specialist in the first half, **HighBank Advisors**. HighBank expands Janney's middle-market M&A capabilities along the Eastern Seaboard, where both firms are headquartered, adding coverage in business services and complementing Janney's existing capabilities in the industrial and software sectors. "The expansion of our M&A business aligns with the interests of many of our private wealth clients who are business owners in need of services related to selling their business or raising capital," said Janney.

A third middle-market deal saw **Capstone Partners** acquire **Headwaters MB**, a union of Boston- and Denver-based firms with complementary industry specialties that creates one of the largest independent U.S. investment banks. The combined firm will cover 16 industry groups and have 20 offices in the U.S, the UK and Brazil. Referring to the challenge of finding skilled bankers in its industries, Headwaters founder Philip Seefried told the *Denver Post*: "We were seeing our growth flatten out because the market was good. There weren't as many free bodies around that fit our profile." ▲