

2020 Financial Services Industry Review



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The public vanishing act

For the last decade, the investment world has with little fanfare played host to a vanishing species. In 2019, there were numerous examples of these disappearing entities in the U.S., including cloud-based human resources firm Ultimate Software. In Europe, British defense and aerospace company Cobham was another.

The declining entity to which both belonged is the public company, the divorces coming via private equity buyouts of \$11 billion and £4 billion (\$5 billion), respectively. Indeed, private equity firms, with \$2.5 trillion in dry powder, have been a major force behind the decline in the number of public companies. Record M&A activity by public companies themselves is another factor. Many emerging private firms that historically replenished the herd are simply bypassing the public markets altogether.

Two decades into the 21st century, the investment landscape is shaping up far differently from the 20th. In the U.S., the number of listed companies has nearly halved to about 4,000 over the last 20 years, according to the Milken Institute, while the number of private equity-held companies passed public ones a decade ago. The gap between the two gauged by number of firms has been widening sharply ever since as private equity-owned companies approach the 8,000 mark — the high point for public companies in the mid-1990s. The UK has experienced a similar long-term trend, with about half the number of companies now trading on the **London Stock Exchange's** (LSE: LSE) main board as during the 1990s, and the small-cap AIM market in sharp decline since 2007.

Although public companies in aggregate remain far more valuable than their private peers, there is a wealth of cash chasing opportunity in the private sphere. In the U.S., private equity firms provide five times more capital than is raised via initial public offerings, according to Milken. McKinsey says private markets raised \$778 billion of new capital worldwide in 2018, with private equity accounting for half. The consultant says the industry is also offering more ways for investors to “customize their exposure,” such as capital call lines of credit, long-duration funds and secondaries. “Stock markets are not competitive places to raise capital or sell companies right now,” Robert Buckland, chief global equity strategist at **Citibank** (NYSE: C), told the *Financial Times* last June. “Public equity markets are shrinking because companies can find cheaper capital elsewhere.”

The retreat from public markets has merged with aggressive stock buyback programs among public companies in the U.S. and to a lesser extent Europe to lower the number of shares available for trading. In 2018, U.S. companies spent

a record \$806 billion on buybacks, bringing the five-year total to \$3 trillion while adding another \$371 billion in the first six months of 2019. For one of the most widely held stocks, Apple, the number of common shares declined by 18% between the end of 2015 and June 2019. At **JPMorgan Chase** (NYSE: JPM), the decrease was 12% during the same period. Separate analyses by **Fidelity Investments** and **Yardeni Research** indicate that the aggregate share count among S&P 500 companies dropped 8% between its high point in 2011 and early 2019.

Deals Take a Dip

MERGERS & ACQUISITIONS, ALL INDUSTRIES

Number of Announced Deals	2019	(vs. 2018 +/-)
Worldwide	48,094	(- 6%)
U.S.	11,093	(- 13%)
Europe	15,317	(- 5%)
Asia-Pacific (ex-Japan)	14,181	(- 2%)

Value of Announced Deals (\$B)	2019	(vs. 2018 +/-)
Worldwide	\$3,851	(- 3%)
U.S.	1,819	(+ 6%)
Europe	742	(- 25%)
Asia-Pacific (ex-Japan)	757	(- 15%)

Of Which (by \$ value 2019, worldwide)

Cross Border	30%
Mega-Deals (\$10B-plus)	26%
Emerging Markets	25%
Private Equity-Backed	12%
Financials	12%
Real Estate	10%

Source: Refinitiv

The tilt toward private markets was reflected in numerous deals in the asset management industry last year, and in the strategic calculations of executives. Commenting on this trend in **Schroders'** (LSE: SDR) latest annual report, Group Chief Executive Peter Harrison cited “Increased regulation, growing public scrutiny and a diminishing need for growth capital” for the decline in the number of public companies while noting that Schroders continues to “focus on further diversifying our product offering by expanding our capabilities in private assets and alterna-

Investment Management Transactions

	2015	2016	2017	2018	2019
Majority Equity	139	160	176	211	183
Minority Equity	21	22	32	51	41
Management Buyout	6	9	12	13	10
Total	166	191	220	275	234
Total Transaction Value (\$B)	\$21.2	\$24.0	\$28.9	\$41.3	\$21.4
Total AUM Changing Hands (\$B)	\$1,839	\$2,443	\$2,086	\$2,422	\$1,049.8

Source: Berkshire Global Advisors LP

Securities & Investment Banking Transactions

	2015	2016	2017	2018	2019
Majority Equity	67	63	54	62	62
Minority Equity	12	6	15	14	3
Total	79	69	69	76	65
Total Transaction Value (\$B)	\$13.2	\$14.2	\$10.4	\$9.9	\$39.6

Source: Berkshire Global Advisors LP

tives.” Last year, that included the acquisition of German real estate advisory firm **Blue Asset Management**, in line with Schroders’ goal of doubling net operating revenues from private markets and alternatives to 20% of the total “over the long term.”

In **Brookfield Asset Management’s** (TSX: BAM.A) 2018 shareholder letter, CEO Bruce Flatt projected that institutional investment in private investments will double “over the coming decades,” driving “vast sums of capital” to such areas as infrastructure, private equity and real estate. He attributed the shift among institutions to the low yields offered by traditional fixed income and “the desire to shed the historic volatility” in public markets. “In summary, alternative assets have been and will increasingly become the new fixed income component in most institutional portfolios,” Flatt wrote.

BAM accounted for the largest asset management deal of 2019, in the process taking a public company off the market: The \$4.7 billion purchase of 62% of Los Angeles-based **Oaktree Capital Group**. A value-oriented credit manager that traded on the **New York Stock Exchange** for seven years, Oaktree’s focus complements BAM’s large portfolio of real estate and infrastructure investments, among others. (Oaktree’s preferred shares continue to trade on the NYSE.) In discussing the transaction with employees, Oaktree co-founder Howard Marks lamented “the public market’s lack of enthusiasm for an asset manager that’s more concerned with its clients’ interests than with growing AUM and profits when it thinks growing would be a mistake.” The deal creates a firm with \$475 billion in AUM and \$2.5 billion in annual fee-related revenue that can “deliver returns for investors across all market cycles.”

Charles Schwab (NYSE: SCHW) accounted for two other billion-dollar deals in a year in which the asset management industry registered total transaction value of \$21.4 billion and broker-dealers and investment banks \$39.6 billion. Most notably, Schwab agreed to pay \$26 billion for **TD Ameritrade** (NASDAQ: AMTD) in a merger of the two leading U.S. discount brokers. If the deal passes regulatory muster, the combined firm will have \$5 trillion in client assets and 24 million client accounts, as well as a dominant position in the custodial market for registered investment advisors. In a second deal, Schwab paid \$1.8 billion for the managed portfolio and brokerage accounts of **USAA Investment Management**. That transaction expands Schwab’s existing footprint in the mass affluent market with one million new accounts and \$90 billion in assets.

Additionally, Schwab gains a long-term referral agreement involving USAA’s 13 million clients.

Goldman Sachs (NYSE: GS) was a second major publicly traded buyer in the wealth/broker-dealer spaces, paying \$750 million for **United Capital Financial Partners**.

The deal adds a mass affluent and high net worth consolidator to Goldman’s portfolio, furthering its expansion into

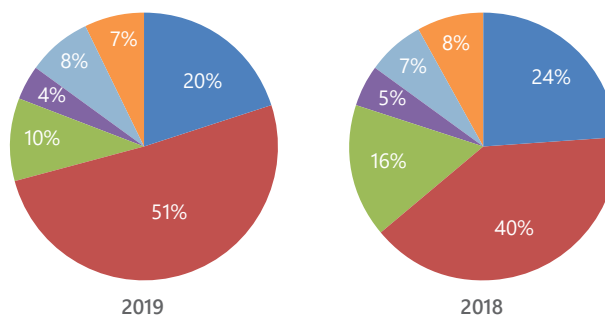
mainstream financial services. But private equity firms remain the key deal-makers in the wealth industry, either directly or through the aggregators in their investment portfolios. **Focus Financial Partners** (NASDAQ: FOCS) led the pack with more than two dozen diverse transactions, including a large and established New York firm, **Williams, Jones & Associates**. But the company was also forced to address investor concerns regarding accrued debt, with Chairman and CEO Rudy Adolph arguing in an earnings call that the opportunities provided by larger acquisitions such as Williams, Jones “represent substantial growth potential” and “outweigh the drawbacks of increasing our leverage.”

Private equity firms also engaged in two major secondary sales of wealth aggregators: **Oak Hill Capital** acquired a

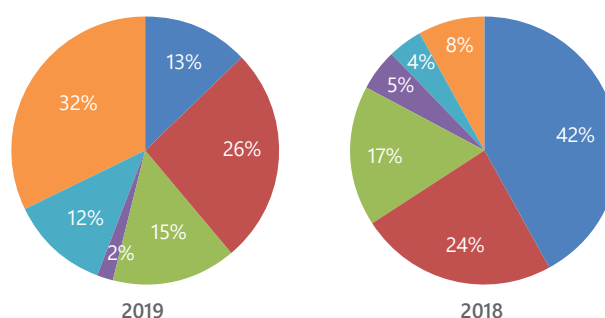
Investment Management

WHO’S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of total



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

Source: Berkshire Global Advisors LP

“significant” stake in **Mercer Advisors** from **Genstar Capital** and **Lovell Minnick Partners**; and **TA Associates** bought out **Lightyear Capital**’s majority stake in **Wealth Enhancement Group**. The UK is experiencing a similar consolidation trend driven by aggregators such as the West Midlands firm **AFH Financial Group** (AIM: AFHP), which has made nearly 50 deals since its 2014 IPO. These included several last year for firms such as **AE Garment Independent Financial Services** and **Mulberry Independent Financial Advisors**, with a combined £215 million in assets. The UK also hosted one major deal among independents: **Tilney**’s £625 million (\$765 million) acquisition of **Smith & Williamson**, creating a firm with £45 billion in AUM and more than 500 investment managers and financial planners. Canada weighed in with its own

Investment Management Transactions

WHO’S BUYING

	2015	2016	2017	2018	2019
Wealth Manager	20	32	38	58	76
Financial Buyer	21	26	25	42	38
Traditional Investment Manager	45	46	44	49	33
Alternatives Manager	9	14	15	17	17
Bank	19	19	22	35	17
Insurance	13	20	27	23	17
Real Asset Manager	7	5	15	14	10
Management Buyout	6	9	10	14	9
Securities Firm	16	6	15	10	8
Other	10	14	9	13	9
Total	166	191	220	275	234

Source: Berkshire Global Advisors LP

large domestic deal between two publicly traded firms: **Onex Corp.**’s (TSX: ONEX) C\$445 million (\$335 million) acquisition of **Gluskin Sheff + Associates**.

During the three years through 2018, the traditional investment management sector led the asset management industry with a series of four major consolidation deals, as active managers responded to the challenge from passive investments by bulking up. These included the \$5.7 billion acquisition by **Invesco** (NYSE: IVZ) of **OppenheimerFunds** in 2018. But last year the large deal-makers took a breather, with the sector characterized instead by smaller, niche plays. There was a similar slowdown in the recent flurry of transactions involving exchange traded fund targets, with only one small deal last year involving proprietary ETFs: **CI Financial**’s (TSX: CIX) acquisition of the Canadian ETF business of New York’s **WisdomTree Investments** (NASDAQ: WETF).

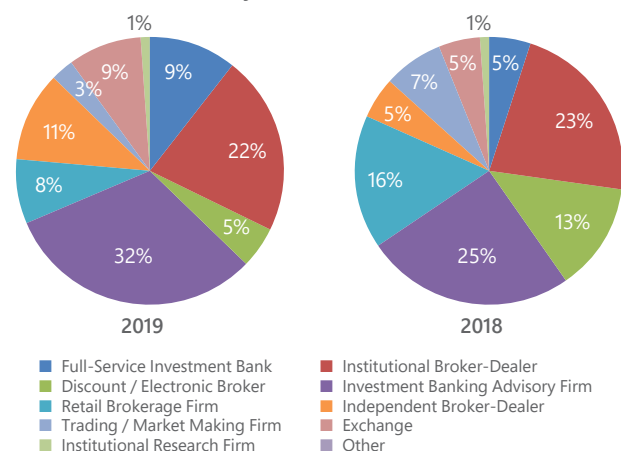
Resolute Investment Managers, a private-equity-backed multi-boutique based in Texas, was the most active player within traditional investment management, cutting deals involving four different managers and an additional one for an international value fund. The largest was for **National Investment Services**, an established firm with \$8.6 billion in AUM whose strategies include “dynamic fixed income,” which incorporates absolute return, high yield and preferred stock, as well as core fixed income. Buyers also targeted active small-cap managers, still favored by investors for their ability to capitalize on market inefficiencies largely absent in the large-cap universe. There were multiple such deals last year, including **Silvercrest Asset Management**’s (NASDAQ: SAMG) purchase of growth-oriented **Cortina Asset Management** (AUM: \$1.7 billion), with a price tag that could reach \$71 million.

Socially responsible investors have also been targets in recent years, and 2019 added two more deals to that growing list, including **Schroders**’ acquisition of a majority stake in an established emerging markets microfinance specialist, **BlueOrchard Finance**. “Rather than entering the asset

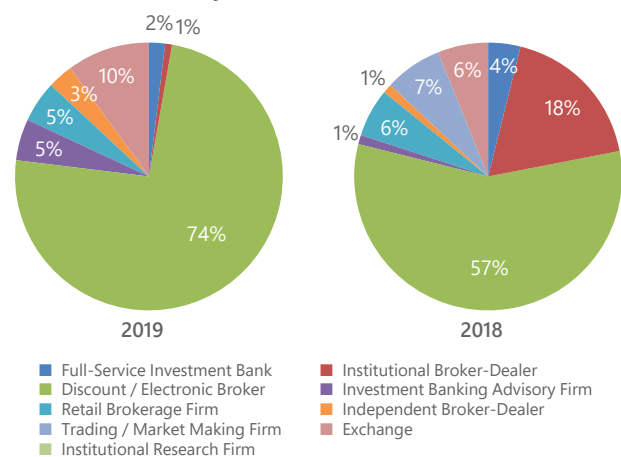
Securities & Investment Banking

WHO’S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of total



Source: Berkshire Global Advisors LP

Securities Industry & Investment Banking Transactions

WHO'S BUYING

	2015	2016	2017	2018	2019
Full-Service Investment Bank	12	12	2	4	16
Diversified Financial Services Company	11	7	15	17	10
Discount/Electronic Broker	5	4	3	5	8
Exchange	3	6	5	6	7
Commercial Bank	1	4	3	5	5
Independent Broker-Dealer	0	2	2	6	4
Institutional Broker-Dealer	10	4	2	4	4
Private Equity Firm	6	4	4	3	4
Trading/Market Making Firm	6	6	5	5	2
Insurance Company	1	3	0	1	1
Investment Banking Advisory Firm	7	7	8	3	1
Institutional Research Firm	0	1	0	0	0
Retail Brokerage Firm	1	1	0	1	0
Other	16	8	20	16	3
Total	79	69	69	76	65

Source: Berkshire Global Advisors LP

class organically," **Fitch Ratings** wrote in a report on SRIs last year, "traditional IMs are increasingly targeting impact investing boutiques with expertise in the illiquid sector."

In addition to the Oaktree deal, there were several other transactions for private credit firms involving smaller players that tend to drive the M&A market. These included two more deals for managers of collateralized loan obligations — one of the hottest parts of the deal marketplace in the aftermath of the financial crisis. One such deal saw private credit manager **Atalaya Capital Management** add \$1.7 billion in CLO assets by acquiring **Telos Asset Management**. In a second, **Eldridge Industries** acquired a majority stake in **Maranon Capital**, adding \$1 billion in CLOs to those already managed by subsidiary **CBAM**, a top-20 U.S. CLO manager. Meanwhile, at the lower end of the CLO market, bonds rated double-B were showing signs of stress by the last quarter of 2019, having given up almost all the 10% return they enjoyed in the first half of the year, according to a *Wall Street Journal* report. Spreads between those securities and similar high-yield bonds had climbed to 5.4 percentage points.

Real estate debt specialists have drawn interest in recent years as an alternative to direct real estate investment. "Investors continue to find that [real estate debt] provides a good relative value compared to fixed income," **Principal Real Estate Investors** CEO Todd Everett told *Pensions & Investments* last September. "The yields we are still finding compare favorably to core [real estate] equity." In the primary such deal last year, **CenterSquare Investment Management** acquired **RCG Longview**

to complement its listed and private equity real estate investments. Over a 20-year-old history, RCG has completed 550 transactions capitalized at \$4 billion in more than 10 commingled and co-investment vehicles.

Real estate advisors remain a steady target for deal-makers expanding their private market capabilities. A transatlantic deal saw New York's **Clarion Partners** acquire a majority of London's **Gramercy Europe**, gaining entry both to the European market and a hot logistics and industrial assets sector driven by demand from e-commerce companies. In a cross border deal in North America, Goldman Sachs acquired a minority stake in Canada's **Slate Asset Management**, a value-oriented manager in private and public real estate vehicles. Goldman cut the deal through its **Petershill** alternative investment vehicle.

The private equity industry continued to exert a significant influence upon consolidation among independent broker-dealers (IBDs), driving three major deals last year. In the largest, with an estimated price tag of \$2 billion, **Reverence Capital Partners** acquired 75% of **Advisor Group** in a secondary transaction involving sellers Lightyear Capital and Canadian pension fund manager **PSP Investments**. Advisor Group has four subsidiaries with 7,000 financial advisors and \$268 billion in assets. Subsequently, Advisor Group agreed to pay \$1.3 billion (including debt and preferred equity) for **Ladenburg Thalmann Financial Services** (NYSE American: LTS), which has five IBDs and \$181 billion in assets.

In the third major IBD deal, **Warburg Pincus** acquired a majority stake in **Kestra Financial**, with the primary seller again a private equity firm, **Stone Point Capital**. Kestra supports more than 2,000 independent financial advisors

Cross Border Investment Management Transactions

	2015	2016	2017	2018	2019
U.S. - INTERNATIONAL					
Number of Deals	26	20	32	43	31
Value (\$B)	\$2.7	\$6.3	\$7.9	\$8.1	\$7.4
INTERNATIONAL - INTERNATIONAL					
Number of Deals	27	32	30	79	57
Value (\$B)	\$4.6	\$6.6	\$3.6	\$10.6	\$4.4
TOTAL					
Number of Deals	53	52	62	122	88
Value (\$B)	\$7.2	\$12.8	\$11.5	\$18.7	\$11.8

Source: Berkshire Global Advisors LP

in the U.S. The three major deals and others came amid a new price war among online brokers driven by Charles Schwab's announcement last October that it will eliminate online trading commissions for stocks, exchange traded funds and options listed in North America.

In investment banking, deal numbers kept pace with past years and targets remained smaller to mid-size firms serving defined markets. For the industry as a whole, 2019 proved challenging, with a 13% year-over-year decline in revenues in the first eight months of 2019, according to Dealogic. **Stifel Financial Corp.** (NYSE: SF) was the key player, making three diverse acquisitions in the U.S. that enhanced existing areas of its middle-market business. One involved **George K. Baum & Co.**, an established municipal securities firm offering underwriting and financial advisory services. Stifel said the deal "strengthens" its ability to "provide top-tier service to municipal issuer clients and nonprofit borrowers." In the other two deals, Stifel acquired **B&F Capital Markets**, which provides regional and community banks with extensive interest rate swap capabilities for their commercial borrowers, and **Mooreland Partners**, which offers M&A and capital advisory services for the technology industry.

* * *

When **Berkshire Global Advisors** was launched in 1983, the public markets had only just begun their nearly two-decade-long bull run. The bulls in turn fueled a torrid IPO market that reached its feverish pitch in the dot-com era. In the U.S., there were nearly 4,500 IPOs between 1990 and 2000 on top of 2,000-plus in the prior decade, according to data compiled by Jay Ritter, a finance professor at the University of Florida. By the mid-1990s, the number of public companies in the U.S. had reached 8,000, as we note in the introduction.

In the 20 years since, the public markets have gone in reverse. Since 2000, the number of U.S. IPOs has dropped by more than half from the 1990 through 2000 period, along with the number of public companies. In the first three quarters of 2019, the value of U.S. IPOs was just \$42 billion while the worldwide total was the lowest since 2016 at \$106 billion, according to Refinitiv. With capital from institutions and family offices plentiful and patient, regulations guiding public companies cumbersome and expensive, and public equity investors often impatient and quick to punish, many firms have decided the private marketplace provides a more nourishing environment.

In an acknowledgment of these changes, the U.S. Securities and Exchange Commission in June opened a three-month period of public comments regarding private investment exemptions, asking whether current accredited investor limitations "provide an appropriate level of investor protection or pose an undue obstacle to capital formation or investor access to investment opportunities."

Cross Border Transactions by Domicile and Type

2019	BUYER: SELLER:	U.S. INT'L	INT'L U.S.	INT'L INT'L	TOTAL
Wealth Management		4	3	21	28
Traditional Investment Management		2	4	17	23
Other		9	9	19	37
Total		15	16	57	88
2018	BUYER: SELLER:	U.S. INT'L	INT'L U.S.	INT'L INT'L	TOTAL
Wealth Management		1	4	28	33
Traditional Investment Management		7	8	24	39
Other		14	9	27	50
Total		22	21	79	122

Source: Berkshire Global Advisors LP

In an op-ed article in the *Financial Times* last August, Hal Scott, director of the nonprofit Committee on Capital Markets Regulation and professor emeritus at Harvard Law School, argued in favor of expanding the investor pool, including via 401(k) funds. Scott suggested a public closed-end fund structure comprising private equity or venture capital funds, saying closed-end funds are registered with the SEC, publicly listed and therefore liquid, and subject to disclosure requirements regarding investments and fees. "It is time," he wrote, "to give middle-class Americans the same investment opportunities as institutions and the wealthiest 2 percent."

During the life of our business, the investment industry has undergone a significant democratization in areas ranging from advice, education and transparency to products and fees. Accordingly, we would expect this discussion of private market access to gain some momentum in the years ahead, assuming a rational public square with limited anti-business vitriol. In a 2018 report on the subject, the Milken Institute framed the debate in quasi-populist terms, saying "social policy questions about the fairness of maintaining an unequal distribution of investment opportunities need to be addressed." Milken added that the pressure on public companies to adhere to "more social and wealth distribution objectives" is likely to "incentivize even more delistings from stock exchanges and exits into private ownership."

The growing interest in the private markets and alternatives is reflected in our own business: Between 2017 and 2019, we advised on 25 successful transactions in the U.S. and Europe involving managers of private market investments, including credit and real estate managers. Our experience in this arena considerably pre-dates our recent track record, but previous deals primarily involved our experienced real estate advisory practice. The additional deals we've done in credit markets, for example, are a function of shifting buyer preferences since the financial crisis.

As is the case with our asset management clients, our own business is a work in progress that — in addition to our expanding private markets portfolio — now includes

securities and investment banking practices, as well as financial technology. But amid the changing marketplace, the corporate culture that has guided us over 36 years remains steadfast, marked by the utmost commitment to professionalism, exceptional service and ethical behavior, underpinned by the intellectual curiosity and firepower of our people. We look forward to serving you, our clients, in the year ahead as you determine your own path forward in a business environment that requires both a steady hand and the wherewithal to adjust to changing realities.

Traditional Investment Management

The passive revolution that has transformed the traditional investment management industry celebrated two milestones in the U.S. in 2019. Last August, passive equity funds passed their active competitors for the first time with nearly \$4.3 trillion in assets, according to **Morningstar** (NASDAQ: MORN), having reached parity in April. In the second related event, **BlackRock** (NYSE: BLK) celebrated the 10th anniversary of its acquisition of **Barclays'** (LSE: BARC) **iShares** exchange traded fund business, which made the New York firm the world's largest passive — and overall — asset manager.

Traditional Investment Management Transactions

	2015	2016	2017	2018	2019
Number of Transactions	58	66	74	66	47
Combined Value (\$B)	\$13.7	\$11.3	\$13.3	\$17.2	\$2.8
Total Seller AUM (\$B)	\$1,380	\$1,772	\$1,281	\$1,183	\$328
Average Deal Size (\$M)	\$235	\$172	\$180	\$260	\$59
Average Seller AUM (\$B)	\$23.8	\$26.8	\$17.3	\$17.9	\$7.0

Source: Berkshire Global Advisors LP

Commenting on the leveling of passives and actives last April, Morningstar noted that in 2009 active equity funds accounted for three-quarters of the market, adding, "And at that point we were just entering one of the longest bull markets in U.S. history. If you had known this, would you have guessed that active U.S. equity funds were on track to lose \$1.26 trillion in outflows?" At the same time, total equity fund inflows remained relatively flat during the 10-year time period, as passive funds took in only \$86 billion more than active funds hemorrhaged. During the same period, passive and active taxable bond funds gained nearly \$2 trillion. "Many attribute these flow trends to demographics as aging baby boomers cut their equity holdings in favor of more conservative bond funds," Morningstar writes.

In Europe, where banks dominate fund distribution and emphasize their own active products, **Moody's Investors Service** (NYSE: MCO) projects that passives will gain between a 22% and 27% market share by 2025, compared

with 14% in 2017. In Europe's ETF market — with €809 billion (\$875 billion) in assets as of last October, according to Refinitiv — retail investors account for just 10% to 15% of assets compared with more than 40% in the U.S. But Moody's expects greater adoption of passive products by individuals due to MiFid II rules that boost transparency — and thereby cost comparisons between active and passive funds — and ban advisor commissions in favor of flat fees.

For BlackRock Chairman and CEO Laurence Fink, a review of the 10 years since the iShares acquisition was clearly gratifying. In the company's 2019 shareholder letter, he took the opportunity to chide critics "who said it couldn't or shouldn't be done," saying the deal "transformed BlackRock's ability to deliver for clients and shareholders." In 2009, some observers questioned the size of the deal (\$15.2 billion), the strategic value (low-margin business), and the possibility that BlackRock would become unwieldy. But time has borne out Fink's wisdom: Between late 2009 and mid-2019, BlackRock's passive AUM nearly tripled to \$4.5 trillion, with ETF assets jumping fourfold to \$2 trillion — double the amount held by No. 2 **Vanguard**. Total assets have doubled to \$6.8 trillion and annual adjusted operating income climbed from \$1.6 billion in 2009 to \$5.5 billion in 2018.

Having transformed itself into a one-stop destination for all manner of investments, BlackRock has also been making an aggressive push into another industry disruptor — technology. Last year, that included the \$1.3 billion acquisition of France's **eFront**, which provides software in such areas as due diligence and portfolio planning for alternative investments. BlackRock already runs its in-house Aladdin system, which combines risk analytics with portfolio construction, trading and operations tools. The combination of Aladdin and eFront "will

set a new standard in investment and risk management technology," BlackRock said. BlackRock was among several asset managers across sectors that made acquisitions of industry-related tech companies.

Blockbuster deals such as BlackRock-iShares were notably absent last year, following a three-year period through 2018 that featured four major consolidation deals, including **Invesco's** (NYSE: IVZ) \$5.7 billion acquisition in 2018 of **OppenheimerFunds**. One possible mega-deal involving the merger of the asset management units of **Deutsche Bank** (NYSE: DB) and **UBS** (SWX: UBSG) broke down as the two sides tussled over control of the larger entity.

Among the deals being concluded, buyers remain generally cautious in pricing given the competitive threat from passives and valuations on publicly traded traditional managers that lagged significantly behind the S&P 500 average. For example, as of last September, **Artisan Partners Asset Management** (NYSE: APAM) traded at a price-earnings

ratio of 11 times trailing earnings while **Franklin Resources** (NYSE: BEN) traded at 10 times. At the same time, pricing can climb when buyers factor in synergies that lower the post-acquisition valuation.

Buyers last year targeted smaller, niche firms, ranging from value managers to socially responsible investors. A CoreData Research survey last year indicated that institutions worldwide overwhelmingly view smaller asset managers as more likely to deliver alpha than larger ones. Respondents cited bureaucracy and risk aversion as the two primary culprits stifling returns at large firms. More than half of respondents cited specialization as a key characteristic in selecting firms, but a similar percentage indicated they are attracted by firms with multi-asset products. Only one-quarter said they seek out brands when allocating funds.

Active small-cap managers have been a particular focus in recent years, as acquirers bet investors will tap skilled managers with a track record for capitalizing on market inefficiencies largely absent in the crowded large-cap arena. Of late, some U.S. investors have also been positive on small caps as a domestic-oriented haven from global trade and economic challenges. Small-cap growth and value funds had \$325 billion in assets as of 2018, or one-quarter the level of similar large caps, according to the Investment Company Institute. The attractiveness of select managers notwithstanding, small-cap funds as a whole endured negative net new flows in the five years through 2018.

There were four deals for independent small-cap managers last year, the targets established firms based in the middle of the country, three in Milwaukee. The largest transaction involved **Silvercrest Asset Management's** (NASDAQ: SAMG) acquisition of **Cortina Asset Management**, a growth-oriented manager with \$1.7 billion in AUM. Silvercrest, which could pay up to \$71 million based on performance (\$45 million upfront), said the deal adds a "high-caliber growth equity capability" and will "contribute meaningful accretion" to cash flow and earnings per share. Cortina, established in 2004 and based in Milwaukee, said it will benefit from its new parent's "deeper research resources and greater scale." Prior to the deal, Silvercrest had \$19 billion in AUM.

A similar-sized buyer, **Calamos Investments**, also tapped a Milwaukee-based growth manager with \$600 million in AUM, **Timpani Capital Management**. Timpani subadvised the Frontier Timpani Small Cap Growth fund (AUM: \$81 million), subsequently rebranded under the Calamos name, and runs institutional separately managed accounts. Brandon Nelson, who co-founded Timpani in 2008, says the least understood aspect of small-cap investing is that "buy-and-hold" doesn't work, exposing index funds to "dead weight." "You can't buy, leave the scene for five years, return and expect everything to be on track," he explained last year on Calamos' website. "Things can go south fast, stories change, fundamentals change, and investors can get blindsided.... you need someone bird-dogging at all times to make sure the companies are executing." For Calamos (AUM: \$22 billion), the deal marked its first acquisition since

going private in 2017.

In a third deal involving a Milwaukee target, **Madison Investment Holdings** acquired **Broadview Advisors** (AUM: \$430 million), saying the deal "deepen[s] our investment talent and broaden[s] our investment offerings." With the addition of Broadview, Madison has \$5 billion in U.S. equity strategies and a total of \$17 billion in AUM. Established in 2001, Broadview said its new parent's operational and distribution strength will "greatly enhance our ability to focus on investment performance." Subsequently, Broadview's largest fund was reorganized into the much smaller Madison Small Cap fund. The fourth deal involved the lift out by **Driehaus Capital Management** (AUM: \$8.1 billion) of the small-cap value portfolio team from Cincinnati's **Opus Capital Management**, which has total AUM of around \$700 million. Driehaus, which manages both traditional and alternative assets, said the deal "further diversif[ies]" its growth-oriented lineup with a complementary value strategy.

Multi-boutique managers remained significant industry consolidators, and were similarly focused on specialized firms. The CoreData survey showed that institutions believe large firms face "a very real risk of losing focus," but countered that by saying that larger firms can "leverage their resources to adopt a multi-boutique structure that takes [a] more specialist, niche approach to a wider investor audience." One of the larger U.S. multi-boutiques, **Resolute Investment Managers**, is a Texas-based firm with a portfolio of nine affiliated managers (total AUM: \$84 billion), along with a significant network of subadvisors. Resolute is majority-owned by **Kelso & Co.**, a middle-market private equity firm with six other investments in financial services firms. In a 2017 interview, Resolute Chairman and CEO Gene Needles told Citywire that his company seeks "firms we believe can grow significantly. That is hard to do, especially in an environment where active managers are suffering outflows." Needles pointed out that the strategy "requires patience but once you build momentum it can be spectacular."

Last year, Resolute added four diverse and specialized U.S. affiliates either directly or via its **American Beacon** affiliate, with two deals involving majority stakes. The largest deal was for **National Investment Services**, an independent firm with \$8.6 billion in AUM that was founded in 1993. NIS manages a variety of strategies, the primary one being traditional fixed income (51% of AUM). That strategy is complemented by alternatives and "dynamic fixed income," the latter of which accounts for 42% of AUM and includes absolute return, high yield and preferred stock, in addition to core fixed income. In a letter to clients, NIS CEO Robert Brooks said the deal solves succession planning issues and allows "new ownership opportunities for our key people" while maintaining autonomy. Brooks said NIS will also "focus on product expansion through new distribution channels." Since 2014, AUM at NIS has more than doubled.

In the second deal involving a majority stake the target was **SSI Investment Management** (AUM: \$2 billion), which combines fundamental and quantitative research “for investors seeking growth while limiting downside risk.” In several of its funds, the 46-year-old firm employs convertibles, including two hedged strategies. In a report last year, SSI said these funds “are benefitting from the evolution of the convertible market,” with active issuance from “rapidly growing companies in dynamic sectors like Technology and Health Care” that sport “strong financial profile[s].”

Resolute’s two other deals involved minority stakes, the larger for **RSW Investments** (AUM: \$2.2 billion), a municipal bond separate account manager that aims to maximize after-tax, risk-adjusted returns. The muni-bond fund arena is one where passive investments have failed to make a dent: Active managers control 95% of the market, according to Morningstar. The second such deal was for **Green Harvest Asset Management**, an ETF equity and fixed income manager focused on tax-efficient strategies; it has \$156 million in assets under management and advisement.

In a fifth deal, Resolute acquired the Tocqueville International Value fund (AUM: \$800 million) owned by **Tocqueville Asset Management**, calling it a “perfect complement to our existing family of value funds.” Tocqueville will continue as subadvisor of the fund, which was reorganized with the addition of the American Beacon name. Tocqueville said the deal offers the fund an “impressive distribution network.” Launched in 1994, the fund manages risk in a range of stocks based on cash flow and balance sheet and business strength. As of June 2019, the fund’s largest single country position was Japan (23%), with Europe comprising the largest regional component by far. In a June 2018 interview, longtime portfolio manager James Hunt told Citywire, “It’s essential as a contrarian that you are able to articulate a reason why the reality is better than what the market is perceiving.”

Resolute was joined by **Raymond James Financial** (NYSE: RJF) boutique **Carillon Tower Advisers**, which extended to 100% the minority interest in institutional investor **ClariVest Asset Management** that affiliate **Eagle Asset Management** had held since 2012. ClariVest’s AUM has more than doubled since then to \$7.3 billion. Based in San Diego, ClariVest said the transaction, coinciding with a longstanding management succession plan, will provide an “even stronger connection” with Carillon’s distribution capabilities. With the addition of ClariVest, Carillon has five affiliates with total AUM of \$65 billion. Raymond James established Carillon in 2016 to provide “greater flexibility” in adding new affiliates to its asset management business, where assets grew by 86% to \$143 billion between 2015 and June 2019.

Although assets in passive equity funds surpassed active equity funds last year, the deal front for such companies was calmer in 2019 following a rush of two dozen transactions for ETF managers in the five years through 2018. There were two direct deals, including Resolute Investment

Managers’ acquisition of Green Harvest, founded in 2017. That firm runs separately managed accounts using brand name ETFs, aiming to reduce the impact of investment taxes for its high net worth clientele. In a second transaction, **CI Financial** (TSX: CIX) of Toronto acquired the Canadian ETF business of New York’s **WisdomTree Investments** (NASDAQ: WETF), adding C\$958 million (\$710 million) in ETF assets to bring its ETF total AUM to C\$9 billion. CI Financial will pay between C\$7 million and C\$13 million over three years based on asset growth targets. CI Financial said WisdomTree’s “fundamentally weighted approach to indexing” complements its own ETF strategies.

CI Financial cut a second deal buying **National Australia Bank’s** (ASX: NAB) 49% stake in local quantitative equities manager **Redpoint Investment Management** (management retained the rest). The transaction reflects the divestitures Australia’s major banks are making in the wake of a series of client-related scandals that have shaken the nation’s banking industry in recent years. Redpoint, founded in 2011, manages A\$10 billion (\$6.7 billion) in funds focused on Australian industrials and global infrastructure and other strategies. The transaction adds to CI Financial’s existing footprint in Australia via subsidiary **GSFM**, which operates as a marketer and distributor for seven other diverse asset managers and provides Redpoint with an expanded distribution network.

The largest deal with an ETF angle saw **Goldman Sachs** (NYSE: GS) acquire **Standard & Poor’s Investment Advisory Services**. Part of **Standard & Poor’s Global** (NYSE: SPGI), S&P Investment uses non-proprietary ETFs as well as funds in providing non-discretionary advice on \$33 billion in assets in a variety of model portfolios. For Goldman, which launched its own ETFs in 2015, the deal provides an opportunity to expand its small model portfolio business and use its own ETFs in new model portfolios. Last year, *Barron’s* placed the model portfolio market at \$360 billion and quoted Michael Crinieri, Goldman’s head of ETF strategy, as saying the market could double by 2022.

“Many advisors really appreciate the open architecture structure and are willing to pay a fee for that,” Crinieri noted in describing Goldman’s strategy. “And then some advisors prefer a zero-cost proprietary approach, where we’ll use our own ETFs.” Early last year, Goldman introduced five ETFs focused on innovation that track indexes created with artificial intelligence and machine learning. The ETF themes, which cross sectors and market capitalization, include Data-Driven World and Human Evolution and were created by **Motif Investing**.

In addition to selling its International Value fund, Tocqueville Asset Management divested its gold strategies business. The buyer, **Sprott Asset Management**, gains a specialized unit with \$1.9 billion in AUM along with the three-person investment team, including veteran gold investor John Hathaway. Sprott, a Toronto-based alternative asset manager with several precious metals strategies, could pay up to \$50 million with contingent

payments. The deal builds off a joint venture the two firms cemented earlier in the year involving co-management of a new strategy designed to capitalize on an expected M&A wave in the precious metals sector. With gold mining stocks in a bear market since 2011, Hathaway told Institutional Investor last June they represented a “counter-cyclical” play on stretched equity markets. “For me as a generalist, having gold experience is interesting, but it’s where we are in the business cycle for this industry that’s really interesting.”

The trickle of deals for socially responsible investors continued into another year, with two of note targeting established Swiss firms. In a report last year, **Fitch Ratings** said large traditional managers are turning to impact investing to diversify their product lines and increase exposure to asset classes “less exposed to competition from low-cost passive strategies.” The ratings agency placed the market at \$250 billion in AUM as of 2018, or five times the level in 2013. “Rather than entering the asset class organically,” Fitch wrote, “traditional IMs are increasingly targeting impact investing boutiques with expertise in the illiquid sector.” For the boutiques, the benefit involves “access to and ... leverag[ing of] the distribution channels and brand strength” of buyers.

Both of the deals last year involved illiquid specialists. In one transaction, **Schroders** (LSE: SDR) entered the SRI arena by taking a majority stake in **BlueOrchard Finance**, a microfinance specialist with \$3.5 billion in AUM. The company’s 20-year-old BlueOrchard Microfinance fund passed \$2 billion in AUM in the first half of 2019. “Impact investing is going to be the biggest thing in our sector over the next two decades,” Schroders Group Chief Executive Peter Harrison told FTfm. “I call it a mega trend.” The deal reportedly valued Blue Orchard at more than £100 million (\$120 million). (Schroders also acquired real estate advisory firm **Blue Asset Management**; see *Real Assets*.)

In the second, Australian superannuation fund **Christian Super**, with A\$1.5 billion (\$1 billion) in AUM and a focus on investing “in line with Christian values,” acquired a “significant” minority stake in **responsAbility Investments** (AUM: \$3 billion). ResponsAbility has a particular focus on emerging markets through private debt and private equity investment vehicles. Last year, for example, the firm sold a \$175 million microfinance collateralized loan obligation, with the capital disbursed through financial intermediaries in 17 nations.

There were few basic asset-gathering deals at play, but one of the larger ones saw **Federated Investors** (NYSE: FII) add to its formidable money market funds business by paying \$52 million for \$9 billion in such funds from **PNC Financial Services Group** (NYSE: PNC). The deal also included \$3.4 billion in equity and fixed income funds, half in an international equity fund. PNC said it will focus on its “core strength” of providing outsourced chief investment officer services and custom investment solutions. In the second quarter of 2018, Federated topped the \$500 billion mark in AUM, 32% higher than the year-earlier period,

primarily driven by a sharp increase in money market assets to \$333 billion. In the earnings call, Federated President and CEO Christopher Donahue said his firm will continue to seek roll-ups and “other areas that we are lacking in.” He included in that list managers of separately managed municipal bond accounts, saying, “That’s one of the areas that we would have an interest in finding somebody who is a significant player.”

In a second such deal, **Macquarie Investment Management** acquired the U.S. mutual funds business of Toronto-based **Foresters Financial**, wrapping \$12.3 billion in AUM into its U.S. **Delaware Funds** unit, including First Investors funds. In an interview with Bloomberg, Shawn Lytle, global head of MIM, said the deal “shows our commitment to build market share in the U.S.” by expanding existing funds and making acquisitions within the active space. Foresters said it “expects” Macquarie to manage segments of its general insurance account. MIM is part of **Macquarie Asset Management** and the larger **Macquarie Group** (ASX: MQG). The U.S. accounts for half of MAM’s \$375 billion in AUM.

As part of the shift to its dominant insurance operation, Foresters also sold its Canadian asset management business to acquisitive **Fiera Capital Corp.** (TSX: FSZ) of Montreal. Fiera gains C\$10.5 billion (\$8 billion) in liability-driven investment AUM, bringing that specialized part of its business to C\$25 billion in assets. Fiera said the deal enhances its institutional fixed income and LDI capabilities while creating the “opportunity to broaden its relationships with Foresters Financial and its clients.” Fiera noted that it brings a multi-asset approach to LDI that “extends beyond fixed income alone.” (Forester also sold its independent broker-dealer and advisory business in the U.S.; see *Securities & Investment Banking*.)

In a second deal involving Fiera but this time focused on cross border distribution, **Natixis** (PA: KN) acquired an 11% stake in the firm, paying C\$128 million for shares owned by a **National Bank of Canada** (TSX: NA) subsidiary and an entity controlled by Fiera Chairman and CEO Jean-Guy Desjardins. Fiera, which engaged in talks with Natixis for more than a year, also acquired Natixis’ Canadian business (AUM: C\$1.8 billion). In the ensuing partnership, Fiera became the preferred Canadian distributor for complementary Natixis’ products. “So it is very additive, as opposed to cannibalizing any of the strategies that we already have,” Fiera Global President and Chief Operating Officer Vincent Duhamel told investors in an earnings call.

For its part, Natixis will offer select Fiera products — in particular private markets strategies — through its Dynamic Solutions business, formed in 2018 to capitalize on the capabilities of its various affiliates. Fiera also acquired **Integrated Asset Management** (TSX: IAM), an alternative asset manager (see *Credit/Private Equity*). Since 2016, Fiera has lowered its dependence on Canada from 75% to 57% measured by AUM, with the U.S. climbing seven points to 32% and Europe going from zero to 11%.

American managers seek to capitalize on Chinese reforms

Amid a deepening bilateral trade dispute, U.S. firms engaged in several transactions last year strengthening their presence in China's fast-growing asset management industry. Consultant Oliver Wyman places total AUM in China's industry at \$5.3 trillion, with average annual growth of 15% to 20% over the past five years. Of that total, \$3.8 trillion is managed onshore, where non-Chinese asset managers hold less than a 5% share (including joint ventures).

But aided by reforms, changes in distribution and a demand for foreign manager "know-how," Oliver Wyman projects non-Chinese managers could boost their share to 10% to 15% by 2023 as the onshore market approaches \$7 trillion. "[Asset management] Executives expressed confidence that the Chinese government is committed to opening its financial services industry, regardless of trade tensions with the US," wrote Oliver Wyman. Indeed, last October, China's securities regulator said it will allow 100% ownership of fund managers by non-Chinese firms as of April 2020 (securities firms will follow in December 2020).

The most significant deal last year was the result of earlier regulatory changes: **J.P. Morgan Asset Management's** acquisition of an additional 2% interest from partner **Shanghai International Trust** to assume 51% of their **China International Fund Management** (AUM: \$18 billion) joint venture. JPAM capitalized on reforms initiated by Beijing in 2018 to become the first non-Chinese firm to take majority control of an asset management joint venture. The deal valued CIFM — which the *Financial Times* reported has generated average annualized returns of 33% since 2005 — at \$1.8 billion. "We know now that acquiring control of a mainland JV won't come cheap to anyone," Peter Alexander, managing director of Chinese asset management analytics firm Z-Ben Advisors, told the newspaper. "But the valuations are justified given the outlook for growth and the expected returns of these businesses over the next 10 years."

In a second deal, **Morgan Stanley** (NYSE: MS) raised by more than 5% its stake in **Morgan Stanley Huaxin Fund Management**, making it the largest shareholder with 43%. Interestingly, the shares were purchased via auction on an Alibaba-owned Chinese e-commerce website, with a winning bid of nearly \$4 million. Reuters reported that Morgan Stanley was also likely to gain approval before year-end for a majority of its Chinese securities joint venture.

A third deal saw **Vanguard** assume a 49% stake in a newly formed JV with fintech giant **Ant Financial**, with initial investment capital of around \$3 million. Vanguard, which cut the deal through its Shanghai subsidiary, gains a link through Ant to potentially hundreds of millions of Chinese clients. Vanguard CEO Tim Buckley said the JV will merge his company's "time-tested investment philosophy" with Ant's digital platform to "fundamentally change for the better how individuals in China invest." In addition to its dominant online payment platform, Ant also manages a money market fund and offers third-party mutual funds on its platform. Ant is a subsidiary of Alibaba.

In mid-2018, **Invesco** (NYSE: IVZ) announced it had reached an "agreement in principle" to buy a majority share in its longstanding JV, **Invesco Great Wall Fund Management**. Although Invesco has yet to act on that agreement, the company includes 100% of the JV's fund flows and AUM in its financial reporting. For Invesco Great Wall, the 2018 year was significant for another reason: its money market fund was incorporated into Ant Financial's money market program, helping to quadruple the JV's AUM in the year through June 2019 to \$35 billion.

Meanwhile, in his shareholder letter last year, **BlackRock** (NYSE: BLK) Chairman and CEO Laurence Fink outlined his firm's ambition to become a top player in China, "where there is increasing demand for more diversified and long-term investment solutions." The company has a minority stake in **Bank of China Investment Management**, but analysts doubt Bank of China (HK: 3988) would sell its majority stake to **BlackRock**. The New York firm has been seeking other partners and avenues for expanding in China, including creating a majority-owned JV, according to news reports.

Last year, BlackRock also named Tony Tang to a newly created position as head of China operations. Tang is an experienced Chinese asset management industry executive and former financial regulator. "Through his deep regulatory expertise and significant commercial experience, [Tang] has a strong command of China's evolving business and regulatory landscape," BlackRock said. In 2018, the company introduced its first Chinese onshore equity fund for qualified institutional and wealthy investors.

Credit / Private Equity

By the third quarter of 2019, some \$17 trillion in bonds, much of it in Japanese and European sovereign debt, had negative yields. While U.S. Treasuries were more attractive, a 2% or lower yield on 10- or 30-year paper held to maturity doesn't go far in matching long-term liabilities for institutions such as pension funds and insurance companies. The result: Credit and private equity investments that can deliver superior long-term returns remain firmly on the radar screens of institutions as well as high net worth individuals.

On the credit side, demand remained strong as the 2019 year began, with fundraising for dominant direct-lending funds alone topping \$19 billion in the first four months of the year, according to Preqin, ahead of the pace in 2017 when private debt fundraising as a whole reached a record \$70 billion. Last April,

Neuberger Berman closed its third private debt fund, with the \$1.7 billion raised exceeding the target by \$200 million. Three months later, **Carlyle Group** (NASDAQ: CG) closed a \$2.4 billion Credit Opportunities fund that exceeded the target by \$400 million. Between 2017 and mid-2019, AUM on Carlyle's credit platform grew 42% to \$47 billion, or 21% of total assets.

Carlyle also followed the lead of several publicly traded private equity peers by announcing it will convert from a partnership to a corporation this year.

Last year, **Apollo Global Management** (NYSE: APO) and **Blackstone Group** (NYSE: BX) became the latest such firms to complete a conversion.

Many observers have raised concerns about late-cycle risks in the U.S. leveraged loan market, which has grown to \$1.2 trillion. Skeptics also fret about the increased use of covenant-lite loans — now around 80% of total leveraged loans. But **Fitch Ratings** projects just a 1.5% default rate for leveraged loans in 2019 and possibly 2% this year. Those rates compare with the non-recessionary par-weighted average of 1.8% and 10.5% during the crisis year of 2009. **Bain Capital** argued last year that the preponderance of covenant-heavy agreements before the financial crisis may have actually driven more defaults through "multiple near-term triggers that could push a company into a restructuring."

Given the growth of the market and ongoing demand, it's not surprising that a credit target accounted for the largest asset management transaction of 2019: **Brookfield Asset Management's** (TSX: BAM.A) \$4.7 billion purchase of 62% of Los Angeles-based credit manager **Oaktree Capital Group**. The cash-and-shares deal included all of Oaktree's publicly traded common stock as well as privately held shares. Oaktree management and employ-

ees retained 38% of the private shares with the option to sell over time and will continue to operate the company.

Formed in 1995 and a public company for seven years prior to the deal, Oaktree has \$120 billion in AUM, three quarters in credit products with the rest in other alternatives and some listed equities. Oaktree co-founder Howard Marks is a widely quoted value investor who started the firm with several colleagues from **TCW Group** using \$10 million of their own capital. The company made its name on profitable bets in distressed debt and high-yield bonds, but in the years after the financial crisis the firm's value orientation smacked up against robust equity markets and the economic recovery. Between 2014 and 2018, AUM rose just 15% while adjusted revenues seesawed but ended flat, along with the share price.

In a nod to the challenges Oaktree faced, Marks wrote to employees after the deal announcement about "the public market's lack of enthusiasm for an asset manager

Credit Transactions

	2015	2016	2017	2018	2019
Number of Transactions	6	10	13	22	16
Combined Value (\$M)	\$252	\$741	\$1,727	\$3,396	\$6,932
Total Seller AUM (\$B)	\$29	\$55	\$98	\$228	\$215
Average Deal Size (\$M)	\$42	\$74	\$133	\$154	\$433
Average Seller AUM (\$B)	\$4.9	\$5.5	\$7.5	\$10.4	\$13.4

Source: Berkshire Global Advisors LP

that's more concerned with its clients' interests than with growing AUM and profits when it thinks growing would be a mistake." Marks praised BAM's "long-term, value-oriented" culture and said Oaktree will have a "much better capacity" to meet investor demand "for multi-strategy partnerships" and benefit from the "expertise and insights" offered by BAM's global presence and "large-scale operating team."

For its part, Toronto-based BAM (AUM: \$355 billion) saw Oaktree as an opportunity to extend an alternatives platform led by real estate but with significant renewables, infrastructure and private equity businesses. Accordingly, the deal is indicative of the larger effort by asset managers to broaden their product portfolios as many of their institutional clients consolidate allocations among fewer firms. BAM said the combined companies will generate \$2.5 billion in annual fee-related revenue and can "deliver returns for investors across all market cycles." In a first-quarter letter to shareholders, CEO Bruce Flatt said Oaktree's credit business "should bolster our resources" when the "inevitable downturn in markets and credit" occurs. In other areas such as private equity and real estate where both firms are active, Flatt said Brookfield can operate as the "mega-transaction brand" and Oaktree as the "boutique brand."

The other credit transactions drew a range of buyers, from insurers to alternative and diversified asset managers, continuing a steady post-crisis interest among deal-makers that began to accelerate in 2016. The U.S. — which accounts for around 70% of the top 100 private debt fund managers, according to Preqin — hosted several deals in addition to Oaktree. (The top 100 also represented 72% of all capital raised in the 10 years through June 2018.)

In an all-New York transaction, **Atalaya Capital Management** added \$1.7 billion in collateralized loan obligations by acquiring **Telos Asset Management**, an established corporate credit manager. Insurer **Tiptree** (NASDAQ: TIPT) sold Telos “as part of our continued repositioning of

tain with \$90 million in working capital and invest \$500 million from its insurance subsidiaries’ portfolios in the company’s funds.

The private investment industry was represented on the buy side via **Eldridge Industries**, which assumed majority control of middle-market private credit specialist **Maranon Capital**, extending its original 2015 minority investment. Maranon, which provides flexible capital to North American firms generating a minimum of \$3 million in annual EBITDA, said the “expanded partnership” will strengthen its business. Soon after the deal, Maranon closed its fourth CLO, for \$400 million, bringing its total CLO AUM to more than \$1 billion. Eldridge also owns **CBAM**, a top-20 U.S.

CLO manager with more than \$9 billion in AUM. Eldridge is led by Chairman and CEO Todd Boehly, the former president of **Guggenheim Partners**, and invests in a variety of businesses, including a core holding in life insurer **Security Benefit**.

Permanent capital vehicles are also partnering with credit managers seeking funding and strategic support for growth initiatives. Dyal Capital Partners was a notable example last year, making two such minority investments on both sides of the Atlantic. In the U.S., the target was **Owl**

Rock Capital Group (AUM: \$14.6 billion), a three-year-old firm that serves a diverse middle-market clientele with direct lending and other forms of capital. Owl Rock plans to use the capital (Dyal reportedly paid \$500 million for a 20% stake) to “continue growing our platform,” a plan that includes a business development company. In Europe, Dyal backed the separation of London-based **Arcmont Asset Management** from parent **BlueBay Asset Management**, which said Arcmont’s private debt business, with €13 billion (\$14.3 billion) in AUM, had grown into a large stand-alone business. A Dyal spokesperson told Private Debt Investor that the investment “is a major step for us in [the] increasingly important” European market.

In another deal in Europe, **AXA Investment Managers** and **AXA France** increased to 46% their stake in Capzanine, a debt and equity investor for small and medium-sized businesses. AXA acquired most of the stake from Paris-based private equity firm **Eurazeo** (PA: RF) for €82 million. AXA France and Eurazeo each bought 22% stakes in 2015 while committing to a joint investment of €380 million in two Capzanine funds. With a boost from the two firms, including their network of relationships, Capzanine’s AUM more than doubled to €2.5 billion by 2018. Following AXA’s investment last year, Capzanine subsequently rebranded as **Capza**; it has had a relationship with AXA since 2005. AXA IM, with €38 billion in structured finance assets, said the investment “strengthens our access to innovative, diversifying products and stable, attractive returns.” Capza, which aims to add €5 billion in assets within five years, will establish a private debt distribution agreement with AXA IM.

Hedge Fund / Hedge Fund of Funds Transactions

	2015	2016	2017	2018	2019
Number of Transactions	10	11	10	13	10
Combined Value (\$M)	\$986	\$1,874	\$1,011	\$1,939	\$446
Total Seller AUM (\$B)	\$98	\$89	\$71	\$67	\$18
Average Deal Size (\$M)	\$99	\$170	\$101	\$149	\$45
Average Seller AUM (\$B)	\$9.8	\$8.1	\$7.1	\$5.1	\$1.8

Source: Berkshire Global Advisors LP

capital allocation and a desired reduction in our exposure to corporate loans,” as Executive Chairman Michael Barnes explained in an earnings call. Prior to the deal, Atalaya had \$5.5 billion in AUM in corporate, real estate and specialty finance. In May 2018, Atalaya closed its fourth Asset Income fund with \$900 million in funding. That same year, the company provided \$315 million in construction financing for a new Ritz-Carlton hotel in New York and a \$100 million credit facility to finance patients for a fertility care group. In 2017, Neuberger Berman’s **Dyal Capital Partners** unit bought a minority stake in Atalaya, which at the time had \$2.5 billion in AUM.

In one of the larger credit deals, another insurer, Bermuda’s **Assured Guaranty** (NYSE: AGO), took a different approach, adding a credit platform with the \$160 million acquisition of New York’s **BlueMountain Capital Management** (AUM: \$19.3 billion). The deal included \$91 million for the 54% stake owned by **Affiliated Managers Group** (NYSE: AMG). BlueMountain is the 16th-largest CLO manager in the world with \$12 billion in AUM, and also manages credit-related long-duration opportunity funds and relative-value hedge funds. The company, which was pursued by numerous suitors, said it was drawn to Assured in part by the “strong commitment to building a successful alternative asset management platform.” Assured President and CEO Dominic Frederico said BlueMountain will “diversify our revenue sources with fee-based income and provide an additional engine for growth in profits and free cash flow.” The insurer used some of its “trapped excess capital” to make the acquisition, Frederico said, and over time will provide BlueMoun-

In Canada, the acquisitive and diversified **Fiera Capital Corp.** (TSX:FSZ) added to its alternatives platform by paying C\$74 million (\$55 million) for **Integrated Asset Management**. Founded in Toronto in 1998 and publicly traded prior to the deal, IAM manages private and infrastructure debt, as well as real estate assets, and has C\$3.1 billion in AUM. In the first quarter of 2019, the company closed its sixth and largest-ever private debt fund with C\$843 million in capital. Since 2015, Fiera's alternatives AUM has more than doubled to C\$11.8 billion (8% of total assets), with credit accounting for around one-quarter of the total. The company said the addition of IAM creates one of Canada's leading non-bank lending platforms. In 2018, Fiera acquired an Asian-focused credit manager with \$1.4 billion in AUM, **Clearwater Capital Partners** of Hong Kong. (**Natixis** also acquired a minority shareholding in Fiera; see *Traditional Investment Management*.)

In private equity, Blackstone Group and Neuberger Berman remained serial acquirers through their dedicated alternative investment units and were joined by such notable players as **Landmark Partners** and **Wafra**. **Goldman Sachs'** (NYSE: GS) investment vehicle, **Petershill**, bought a minority stake in a real assets firm (see *Real Assets*) but was inactive in private equity. At the same time, Petershill was reportedly raising a new \$4 billion fund primarily designed to purchase stakes in private equity firms.

In the first half of 2019, the private equity industry itself continued to collect more capital (\$177 billion) and registered its second-highest first-half total in leveraged buyouts (\$256 billion), but was still struggling to find suitable investments (nearly \$2.5 trillion in dry powder). One result: Secondary transactions worldwide rose 32% in the first half of the year to \$55 billion compared with the year-earlier period, according to Nyppe, which projects the full-year total will top \$100 billion for the first time. "Potential buyers outnumber sellers," wrote Preqin in assessing the secondary market, "and the opportunities coming to market are increasingly diversifying from buyout strategies into other areas of the private capital market."

Blackstone's Strategic Capital Group made three minority investments last year, the largest involving London-based **BC Partners**, a buyout firm that invests across a range of sectors. Media reports placed the undisclosed price at €500 million for a 10% to 15% stake. BC Partners has €22 billion in AUM in private equity, private credit and real estate. The company said the investment will provide capital for further investment and allow it to leverage Blackstone's "best-in-class resources and exceptional talent" and expand its fledgling credit and real estate businesses. Two other deals in the U.S. targeted firms active in the technology and healthcare sectors:

GI Partners, a middle-market investor that has raised more than \$17 billion in capital since its founding in 2001; and **Marlin Equity Partners**, a 14-year-old global investor with \$6.7 billion in capital under management.

In addition to its investments in credit firms, Dyal Capital Partners made one private equity deal after cutting three such transactions in 2018, taking a minority stake in **HGGC**, a middle-market investor with \$4.3 billion in cumulative capital commitments and a focus on technology. Based in Silicon Valley, HGGC said the Dyal investment provides it "with balance sheet capital to continue to develop our strong platform while increasing commitments to our own funds." Last August, HGGC called the period since 2017 "the busiest"

Private Equity Fund Transactions

	2015	2016	2017	2018	2019
Number of Transactions	6	10	13	18	19
Combined Value (\$M)	\$910	\$638	\$4,223	\$1,831	\$2,468
Total Seller AUM (\$B)	\$36	\$78	\$118	\$118	\$98
Average Deal Size (\$M)	\$152	\$64	\$325	\$102	\$130
Average Seller AUM (\$B)	\$6.0	\$7.8	\$9.1	\$6.6	\$5.2

Source: Berkshire Global Advisors LP

in its 12-year history with the completion of 10 platform and 50 add-on investments and over \$1 billion in distributions from 10 liquidity events. Dyal has completed more than 40 investments in alternatives firms since starting up in 2011.

In a dual investment, affiliates of Landmark Partners and Wafra made minority investments in **Siris Capital Group**, a New York firm that invests in a range of technology and related firms in North America. As in similar transactions involving minority investments, the two buyers will provide capital "to support Siris' strategic initiatives" but their stakes are passive in nature. Just prior to the deal, Siris had raised \$3.5 billion in a tech buyout fund — its fourth fund since starting up in 2011. The total was nearly twice the amount raised by Siris' third fund in 2015. In commenting on the fund close last year, Siris acknowledged the increasing competition for "high growth" tech assets, but expressed confidence in its ability to acquire mature companies and drive "value creation." One deal completed in 2019 involved the \$1.7 billion purchase of Electronics For Imaging, a 30-year-old Silicon Valley firm engaged in the global transformation of analog to digital imaging. Wafra is an investment arm of Kuwait's pension fund while Landmark is a leading secondaries investor in the U.S.

Dyal Capital Partners, Petershill and Strategic Capital Group were joined last year by two new competitors supported by large parents: **Bonaccord Capital Partners**, a unit of **Standard Life Aberdeen** (LSE: SLA); and **Stonyrock Partners**, backed by **Leucadia Asset Management**, which is part of **Jefferies Financial Group** (NYSE: JEF). Both new firms are based in the U.S. and are led by experienced teams from

Guggenheim Partners (Bonaccord) and Blackstone and Carlyle (Stonyrock). Stonyrock made its first deal last October, taking a minority stake in **Oak Hill Capital Partners**, an established middle-market private equity firm. Bonaccord cut deals for minority stakes in two U.S. private equity firms, **AE Industrial Partners** and **MSouth Equity Partners**. Wafra joined Bonaccord in making a minority investment in AE Industrial, which specializes in such industries as aerospace and defense and government services.

Real Assets

Demand for global real estate assets remained strong in 2019, but with a measure of caution that has attached itself of late to the sector's robust post-financial-crisis run. On the bullish side, **Blackstone Group** (NYSE: BX) and **Brookfield Asset Management** (TSX: BAM.A) both closed the largest property funds in their histories last year, of \$20.5 billion and \$15 billion, respectively. "Despite the challenging investment environment, we continue to see compelling opportunities around our highest conviction investment themes," said Blackstone.

In another positive sign, the S&P U.S. REIT index returned 21% in the first three quarters of 2019, beating the stellar S&P 500 performance up to that point, while the S&P

Real Assets Transactions

	2015	2016	2017	2018	2019
Number of Transactions	15	18	30	44	23
Combined Value (\$B)	\$1.5	\$2.9	\$3.3	\$7.2	\$3.2
Total Seller AUM (\$B)	\$90	\$151	\$184	\$228	\$107
Average Deal Size (\$M)	\$102	\$161	\$109	\$164	\$139
Average Seller AUM (\$B)	\$6.0	\$8.4	\$6.1	\$5.2	\$4.7

Source: Berkshire Global Advisors LP

Global REIT index returned 18%. REIT valuations also closed much of the gap with underlying net asset value that had widened in 2018 as investors fretted about interest rate hikes.

A 2019 survey by the Pension Real Estate Association showed no slowdown in institutional interest: respondents on average said they had raised their real estate allocations last year to 10% from 8.9% in 2018. Looking out two years, half the respondents said they will increase their allocations against just 9% that indicated a decrease.

But there were also some signs of a softening in sentiment. **CBRE's** (NYSE: CBRE) first-half review of global commercial real estate investment showed that volume had declined 11% from the same period in 2018 to \$428 million (including entity-level deals), "in part due to fewer ultra-large transactions and a lack of quality assets for sale." The chal-

lenge of unearthing attractive deals is underlined by the accumulation of dry powder in private equity's real estate coffers, which reached \$335 billion by the third quarter of 2019, according to Preqin. In a Preqin survey of investors in the first half, 82% called "asset pricing the biggest challenge to performance in the next 12 months."

At the same time, investment in global gateway office markets rose 50% in the second quarter compared with the year-earlier period, according to CBRE, as investors sought "stable trophy assets to secure cash flows and for potential downturn protection." In the third quarter, for example, investors including the Kuwaiti pension fund **Wafra** paid more than \$909 million for a Fifth Avenue Manhattan office building, only to flip it two months later for \$955 million.

With institutional demand for real estate expected to continue in an era of low interest rates and accelerating pension plan bills, deal-makers remained active in the real estate advisory sector last year expanding their product portfolios and footprint. Europe was again a center for several cross border deals of note while activity in the U.S. was restrained following a number of significant transactions in 2018.

In a U.S. deal with a cross border element, **Kudu Investment Management** of New York and Australia's **Pacific Current Group** (ASX: PAC) made co-equal minority

investments in **Pennybacker Capital Management**, a Texas-based private equity real estate investor with \$1.9 billion in AUM. Founded in 2006, Pennybacker employs data analysis, predictive analytics and artificial intelligence to "target mismanaged, undercapitalized or undervalued properties and debt positions." The company said it will use the investment capital to strengthen its balance sheet and fund various growth initiatives. Pacific Current, a multi-boutique with investments in 16 firms globally, praised Pennybacker's

record of successfully applying "advanced technology to private real estate investing." Over the course of its history, Pennybacker has invested in and/or operated more than 170 commercial and multi-family properties in the U.S.

Kudu also acquired a minority interest in **Versus Capital Advisors**, a Colorado firm that manages a combined \$4 billion in a multi-manager real estate fund and a real assets fund, both branded under its name. The institutional-style funds are used by advisors, private banks and regional consulting firms. Versus' AUM has more than doubled since 2017. Part of **White Mountain Insurance Group** (NYSE: WTM), Kudu provides permanent capital solutions for asset and wealth managers.

In a North American cross border deal, **Goldman Sachs** (NYSE: GS) made a minority investment in Canada's **Slate Asset Management**, a value-oriented manager with \$6.2

billion in AUM in private and public real estate vehicles focused on Europe and North America. Goldman cut the deal through its **Petershill** alternative investment vehicle. Goldman said the investment provides capital for Slate “to enhance its platform and increase its [general partner] investments in current and future businesses and investment vehicles.” The 14-year-old firm made three separate acquisitions last year of grocery property portfolios in Germany, adding to a string of 10 similar acquisitions it made in that market in the three years through 2018.

In a fully valued commercial real estate market, real estate debt specialists continued to draw interest as an alternative to investments involving equity. From a low of \$5.1 billion in 2010, fundraising by such funds has rebounded sharply, totaling \$62 billion worldwide in 2017-2018, according to Preqin. The key such U.S. deal last year saw **CenterSquare Investment Management** buy **RCG Longview**, a 20-year-old firm that has completed 550 transactions capitalized at \$4 billion in more than 10 commingled and co-investment vehicles. As of year-end 2018, RCG had \$1.8 billion in real estate debt and equity AUM. For CenterSquare, with \$11 billion in real assets AUM, RCG adds a complementary business to its listed and private equity real estate investments. RCG cited the gain of “additional resources that will better serve our clients.”

There were several deals targeting European managers, including a transatlantic one in which **Clarion Partners** of New York acquired a majority stake in London’s **Gramercy Europe**, gaining entry both to the European market and one of the region’s hottest property sectors — logistics and industrial assets. Majority-owned by **Legg Mason** (NYSE: LM) since 2016, Clarion Partners has \$16 billion of logistics assets in the U.S., or one-third of its AUM. “We had been discussing internally a variety of avenues of growth for Clarion,” CEO David Gilbert told PERE. “One way was to expand the success of our logistics platform in the U.S. One method of doing that was to find a management group so that we could leverage their expertise in Europe.” Management at Gramercy Europe, which will be rebranded as **Clarion Gramercy**, concluded a buyout from Blackstone in 2018 and subsequently launched a €1 billion (\$1.1 billion) fund.

Within Europe, **Schroders** (LSE: SDR) expanded its real assets portfolio by acquiring **Blue Asset Management** of Germany. The deal tracks several acquisitions Schroders has made in recent years to expand its private assets and alternatives capabilities, “a key strategic priority.” Founded in 2009, BAM has €1.2 billion in AUM in commercial and residential property in such core European markets as Austria, Germany and Switzerland. In a first-half earnings call, Schroders Group Chief Executive Peter Harrison called the deal “a classic acquisition of bringing the [German] team with the capability and then scale it over time.”

With €17 billion in AUM, real estate is the largest component in Schroders’ private markets and alternatives business, which accounts for around 9% of AUM and 11% of net operating revenue. Schroders is aiming to increase that

business to 20% of net operating revenue “over the long term.” (Schroders also acquired impact investor **Blue-Orchard Finance**; see *Traditional Investment Management*.)

Corestate Capital Holding (SDAX: CCAP) of Luxembourg expanded its European real estate platform by paying an undisclosed amount of cash and shares for **STAM Europe** of France. Founded in 1997, STAM has €2 billion in AUM in France, primarily in office and logistics with some residential. In line with its goal of becoming a leading European real estate asset manager, Corestate (AUM: €26 billion) said the addition extends its presence into France with an established team while adding new international clients.

Asia-Pacific remains an attractive real estate market, but as in the West the region is dogged by concerns regarding valuations after a robust performance since the financial crisis. Additionally, investors in the region have trade and geopolitical issues to assess, primarily related to China. Still, asset managers remained on the lookout for selective acquisitions. Last year, **Standard Life Aberdeen** (LSE: SLA) extended its regional real estate platform with the acquisition of Hong Kong’s **Orion Partners**. The two firms have a longstanding relationship involving SLA investments with Orion via its multi-manager real estate business.

Orion, with \$900 million in direct real estate AUM and a focus on commercial real estate in Japan, South Korea and Greater China, will be wrapped into SLA’s Asia-Pacific platform. “At a time when global investors’ allocation to alternatives and real assets [is] growing, being able to offer a truly one-stop real estate solution is an integral part of our growth strategy,” said SLA. Prior to the deal, SLA had £44 billion (\$55 billion) in real estate AUM in Europe and Asia-Pacific. SLA also formed a joint venture with alternatives firm **Investcorp** to invest in infrastructure projects in the oil-rich Gulf countries, where Investcorp has a long track record. The Abu Dhabi sovereign wealth fund is a significant minority investor in Investcorp.

In a significant and emerging trend within real estate and the broader real assets marketplace, buyers are sniffing out deals in the digital infrastructure space, which includes assets such as cellphone towers and data centers. Institutional investors are driving much of the demand as they search for nontraditional property sectors that could provide some protection during slower economic cycles, with technology-related assets on that list. Accordingly, cell tower REITs have outperformed the larger real estate market for several years, with one of the largest such global REITs, **American Tower Corp.** (NYSE: AMT), returning 58% in the year through early October 2019.

On the related deal front last year, **Colony Capital** (NYSE: CLNY) paid \$325 million for **Digital Bridge Holdings**, with \$14 billion in AUM of digital infrastructure globally, including through the **Digital Colony Management** joint venture formed in 2018. The deal followed the closing by Colony and Digital of a \$4 billion dedicated digital infrastructure fund via that venture. Colony, with \$43 billion in AUM prior to the acquisition, said a “data-driven

world” will transform real estate from “its current form with long-dated contractual revenue streams from traditional tenants,” saying “location, location, location is giving way to connect, connect, connect.” Subsequently, Blackstone paid \$5.9 billion (including debt) for Colony’s portfolio of U.S. industrial warehouses. Colony said last September that it plans to sell most of its commercial property portfolio as part of the shift to digital infrastructure.

Wealth Management

The pace of acquisitions in the U.S. wealth industry last year remained red hot, with a veritable daily supply of news about yet another deal driven by established aggregators, emerging aggregators, financial services firms, private equity players and other private investors. “There’s a lot of dry powder from capital sources,” **Bronfman Rothschild** General Counsel Hoyt Stastney told Financial Planning last September. “And when there’s a fear of being left out, it’s tempting to buy for buying’s sake.”

Wealth Management Transactions

	2015	2016	2017	2018	2019
Number of Transactions	71	76	80	112	119
Combined Value (\$B)	\$3.9	\$6.5	\$5.3	\$9.7	\$5.6
Total Seller AUM (\$B)	\$206	\$298	\$334	\$598	\$284
Average Deal Size (\$M)	\$54	\$86	\$66	\$87	\$47
Average Seller AUM (\$B)	\$2.9	\$3.9	\$4.2	\$5.3	\$2.4

Source: Berkshire Global Advisors LP

While Stastney’s comment highlights a general sense that abundant capital may be generating some frothiness in the marketplace — and Bronfman Rothschild was itself among the sellers — investors haven’t necessarily lapsed into “irrational exuberance”: With solid margins and favorable growth characteristics, wealth management is an attractive investment. The number of potential targets at all levels is enormous, too. There are 13,000 investment advisors registered with the SEC, the majority insignificant for deal-makers, but leading aggregator **Focus Financial Partners** (NASDAQ: FOCS) estimates there are still 5,000 firms that could be “suitable targets” for its partner firms.

Within that RIA roster, the subset of substantial players has grown considerably, driven by consolidation, asset appreciation, and the growing number of mass affluent and high net worth individuals (the latter of whom Capgemini pegs in the U.S. at 5.3 million). *Investment-News* reports that the number of registered investment advisors with \$1 billion or more in assets has jumped 54% to 338 since 2014, based on SEC data. **Fidelity Clearing & Custody Solutions** places the number far higher, at 700.

Firms with \$5 billion or more have nearly doubled to 52, according to the *InvestmentNews* analysis.

Another bullish sign for the U.S. industry and its suitors: Wealth managers’ reputations have bounced back strongly following a rough patch after the financial crisis. North American HNWI’s showed the most trust and confidence in their wealth management firms (91%) compared with other regions, according to the 2019 Capgemini wealth report, while Japan lags at just 64%.

Capgemini suggests the strong support in North America “may be the result of a series of wealth manager and firm pilot initiatives and efforts over the last few years to enhance HNW client experience and decoupling trust/confidence from investment performance.” Along those lines, in a profile last September of **Allworth Financial’s** Scott Hanson, *Barron’s* wrote, “At times [he] sounds more like a life coach than the co-founder and senior partner” of a \$4.5 billion firm. Hanson told the newspaper that he advises clients “that money is just a tool” to help them “accomplish what’s important to them. Sometimes, people are still trying to get clarity on what’s important” beyond “sit[ting] on some yacht drinking a cocktail.”

Allworth, which counts **Parthenon Capital Partners** as an investor since 2017, was one of many private equity-backed buyers last year, adding two small firms in its home state of California and one in Michigan while making its largest acquisition to date for **RAA**. Based in Dallas, RAA has \$2.8 billion in AUM and a niche among airline industry employees. Parthenon has staked a niche among “middle-class millionaire(s) ... who worked hard and saved hard,” as Hanson explained to *Barron’s*. “Most of our clients are more concerned about not going broke than becoming wealthier.”

Other relative newcomers in the M&A arena were also busy. One of the most ambitious is **Rockefeller Capital Management**, which made its second deal since starting up in 2017 with investments from **Viking Global Investors** and the Rockefeller family. RCM, with a powerful brand name and a goal of reaching \$100 billion in assets, expanded into Northern California by acquiring a Silicon Valley multi-family office with \$2.3 billion in assets, **Financial Clarity**. “We’re going to continue to look throughout the money centers as you think about the U.S., and areas where it could make sense for us to have offices,” **Rockefeller Global Family Office** President Timothy O’Hara told Bloomberg.

Diversified financial services firm **NFP Corp.**, owned by **Madison Dearborn Partners** and **HPS Investment Partners**, cut one of the key deals last year for Bronfman Rothschild (AUM: \$6 billion), its first since buying **Sontag Advisory** over a multi-year period ending in 2014. The merger of Bronfman and Sontag creates a firm with some \$12 billion in assets and highlights the pressures

on already-large managers to bulk up. "Size and scale matter, and there was a strong cultural fit with Sontag," Bronfman CEO Mike LaMena told Financial Planning. Fresh off the deal, LaMena was pursuing new partners in a continuation of Bronfman's acquisitive history, telling Citywire, "I don't see any reason to wait" as the two firms worked through the merger. "If there's attractive opportunities for us to talk to talented financial advisors and team members that we think are a good fit for us, we're having those conversations right now."

Several independent firms not affiliated with private equity partners entered the M&A space for the first time. Kansas City-based **Creative Planning** was a notable example, cutting its first deals after building a \$39-billion asset firm over 36 years of organic growth. One target was an established company, **Johnston Group** of Minneapolis, with \$500 million in assets. Creative President Peter Mallouk said his firm is now in acquisition mode and "has the opportunity, with the right partners, to set the standard for independent wealth management across the country." Chicago's **Cresset**

Goldman targets mass affluent with United Capital acquisition

Goldman Sachs (NYSE: GS) took another step toward the mainstream by acquiring a mass affluent wealth manager, **United Capital Financial Partners**, in one of largest asset management deals last year. United Capital's market contrasts sharply with Goldman's niche in the ultra high net worth segment comprising the lion's share of its \$500 billion in wealth assets.

The \$750 million cash deal also represents a departure from many of the high-profile U.S. wealth transactions in recent years, which have involved private equity buyers, either directly or through aggregators in their portfolios (although a private equity bidder was among the finalists for United). United had four major outside shareholders, including Australian financial services firm **AMP** (ASX: AMP) and **Bessemer Venture Partners** of California. Some analysts pegged the undisclosed EBITDA multiple in the mid-to-upper teens, an attractive valuation that would be warranted given the handful of independent targets with United Capital's scale and the opportunities for synergies.

Formed in 2005, United's aggressive rollup of scores of wealth managers created a national firm with \$25 billion in assets, 22,000 clients and 220 advisors. While Goldman's Private Wealth Management unit caters to a more affluent clientele, Chairman and CEO David Solomon called United a "powerful complement" to the company's high net worth **Ayco** unit serving executives and other employees at 400-plus corporations. During the midyear earnings call, Solomon said the combination, with \$80 billion in assets, "represents a key step forward toward our long-term strategic goal of providing comprehensive wealth management services to individuals across the wealth spectrum."

United founder and CEO Joe Duran, who emigrated to the U.S. at age 18 "with nothing," told *Barron's* that he considered a private equity recapitalization, but the "growth opportunities" offered by Goldman for the firm's various stakeholders "were so compelling that it wasn't to be ignored." In a column for *InvestmentNews*, Duran said that a "fully integrated financial experience will be vital to thriving if you serve the affluent market," an experience that he said would've required significant time and investment as an independent firm. "We realized that joining Goldman would accelerate that effort overnight." Goldman can provide "multiple [investment] solutions for our clients that we could never build.... Just as importantly, they would bring an instant boost to our organic growth efforts by spreading our wealth management services across their platform."

In the interview with *Barron's*, Duran emphasized that United's footprint and advisor network will also give Ayco the ability to offer enhanced personal service. "This is the first and most obvious growth opportunity for our collective firms. We are going to expand into even more markets to serve these corporate executives all over the globe, candidly, but most especially here in the U.S." He also sees an opportunity to extend United's FinLife digital platform to Goldman's growing **Marcus** online retail bank as it adds advisory services to savings and loans.

At the height of the financial crisis in 2008, Goldman converted to a bank holding company to gain access to government funds, including the Federal Reserve's emergency discount window. In the years since, the company has seen its traditionally lucrative trading business diminish on one end while on the other it launched Marcus bank, acquired a finance firm for house flippers, and introduced a co-branded credit card with Apple. "We are on an evolutionary path," Solomon told analysts last April. "Our new investments will generate results over time, and will be complementary to our longstanding core business.... Ultimately, we believe this strategy will allow us to serve more clients ... [and] increase the durability and predictability of our earnings profile."

Asset Management, started in 2017 and capitalized by its founders and other private investors, made its first deals for wealth managers (in suburban Chicago and San Francisco), adding a total of more than \$1 billion in assets to create a firm approaching \$5 billion in assets.

Regional and community banks have been active participants in recent years as they seek to build out their fee-based, capital-light businesses, and several were back in the marketplace last year. One example is **Peapack-Gladstone Financial** (NASDAQ: PGC), which added to its growing wealth business by acquiring a fellow New Jersey firm, **Point View Wealth Management** (AUM: \$300 million). Peapack made four wealth acquisitions between 2015 and 2018 that added \$2.2 billion in assets, or more than one-third of Peapack's total. During that same period, Peapack's wealth management fee revenues doubled to \$33 million and as a percent of total revenues climbed five points to 21%. In an interview with *American Banker* last September, John Babcock, president of **Peapack Private Wealth Management**, said the consolidation of smaller banks has left many wealth clients adrift. "They're looking for a wealth management firm where they can have a real relationship ... where they're not in a model portfolio ... where they don't have an 800 number to call if they have a question or issue."

But the largest publicly disclosed deals in the U.S. last year were done by two publicly traded giants: **Goldman Sachs** (NYSE: GS), which paid \$750 million for **United Capital Financial Partners** (see sidebar); and **Charles Schwab** (NYSE: SCHW), which agreed to pay \$26 billion for **TD Ameritrade** (NASDAQ: AMTD) and \$1.8 billion for the managed portfolio and brokerage accounts of **USAA Investment Management**. The two deals significantly expand Schwab's already-large wealth management and brokerage businesses (for more on Schwab, see sidebar in *Securities & Investment Banking*)

The Goldman Sachs and Schwab deals notwithstanding, the private equity industry continued to exert the greatest impact on M&A activity. This includes secondary sales of wealth managers among private equity firms that speaks to the attractive pricing for sellers but also tracks a more general industry trend. In the first half of 2019, private equity secondary transactions rose 32% to \$55 billion from the year-earlier period, according to Nyppe, which projects the full-year total will top \$100 billion for the first time.

There were two such major wealth transactions last year involving buyers **Oak Hill Capital** and **TA Associates**. Oak Hill concluded a deal for a "significant" stake in **Mercer Advisors** with sellers **Lovell Minnick Partners** and majority owner **Genstar Capital**, which retains a shareholding. Based in Denver, Mercer is one of the largest independent wealth managers in the U.S., serving mass affluent and HNWI clients. Since Genstar's 2015 investment, Mercer's AUM has nearly tripled to \$16.5 billion as it extended its footprint to 44 offices nationwide, fueled by some two dozen acquisitions. This includes numerous deals last year in such markets as California, Colorado, Connecticut and Michigan.

In an interview with AdvisorHub, Mercer CEO Dave Welling noted that the firm restructured its debt prior to the Oak Hill deal and that the recapitalization "gives us a very long runway" for continued growth. Given Mercer's scale, analysts figure the EBITDA valuation on the undisclosed price was in the mid-to-upper teens, a rich price similar to what Goldman Sachs is believed to have paid for United Capital (see sidebar). Oak Hill, which generally targets investments between \$100 million and \$300 million, has six other financial services firms in its portfolio.

TA Associates bought out the majority stake in **Wealth Enhancement Group** held by **Lightyear Capital** since 2015. WEG, with \$12 billion in assets, said it "expects" TA to "support an acceleration of its ongoing growth plans" to become a "leading national" wealth management firm. In the six years before the July deal, WEG made 13 acquisitions and also generated \$1 billion in organic growth in 2017 and 2018. As part of an expansion on the East Coast, WEG's acquisitions last year included firms in Baltimore and New Jersey with a combined \$2.3 billion in assets. TA pointed to robust financial markets, demographics and the "overall accumulation of wealth" as positive factors for independent wealth managers, praising WEG's "consistent growth and strong customer retention rates." TA has a large portfolio of financial services firms, including several wealth and asset managers.

The established and high-profile private equity-backed firms remained active last year, led by Focus Financial, which in the first three quarters announced more than two dozen geographically diverse deals either directly or via affiliates. These included managers of varying sizes, from **TMD & Associates** of Arizona with more than \$400 million in AUM to New York's **Williams, Jones & Associates** with \$7 billion. Focus also expanded its existing footprints in Australia, Canada and the UK with new affiliates.

But Focus' share price since its July 2018 IPO was not faring well, having dropped 47% in the year through mid-October, in part due to the significant leverage the company has assumed (four times EBITDA) to grow. In the company's second-quarter earnings call, Chairman and CEO Rudy Adolph addressed that issue, emphasizing the opportunities provided by larger acquisitions such as Williams, Jones that "represent substantial growth potential" and "outweigh the drawbacks of increasing our leverage." The particulars of Focus' balance sheet notwithstanding, the fate of the company's share price will weigh on other private equity-backed aggregators considering a public flotation.

HighTower Partners, backed by **Thomas H. Lee Partners** and with \$71 billion in assets, was also active with several deals. Of particular note, the company facilitated **Lourd-Murray's** acquisition of **Delphi Private Advisors** via a minority investment in the enlarged firm. With LourdMurray in Beverly Hills and Delphi in San Diego, the transaction creates a significant ultra-HNWI player (AUM: \$5 billion) based in California but with national aspirations. In describing the deal during a September podcast, HighTower CEO

Bob Oros said LourdMurray was seeking “access to capital” for that expansion, as well as M&A expertise.

Two of HighTower’s additional transactions were for **Green Square Wealth Management** in Memphis and **Lexington Wealth Management** in Massachusetts, with \$2.6 billion and \$1 billion in assets, respectively. Referring to the billion-dollar-plus sizes of the three targets — above HighTower’s average of \$500 million — Oros said in the podcast that “conventional wisdom” would hold that all three firms had the scale to remain independent. “This isn’t a story of small selling to big. This is big recognizing they need to get bigger. They need access to better experts, broader resources and, frankly, they need time.... Advisors who are spending their time worrying about HR [and] ... billing are not spending their time with their clients or finding new clients.”

Capital-rich investors outside the private equity industry such as family offices and financial institutions were also active last year. In general, these groups can provide wealth managers with more patient and often passive capital. **Cynosure Group**, formed in 2014 for the Eccles family of Utah as well as other investors, is one example of a family office that has made several investments in wealth managers, including **Savant Capital** of Illinois. Last year, Cynosure made a minority investment in **Steward Partners Global Advisory**, a Washington, D.C.-based broker and wealth manager with 20 other offices around the country. In 2019, Steward was ranked among Inc. 5000’s fastest-growing private companies, with three-year revenue growth of 300%. Cynosure pointed to that “incredible pace,” but said “what’s impressed us has been the team’s ability to effectively manage that growth.” Steward is using the capital, reportedly \$50 million, to provide existing partners with liquidity and for growth initiatives.

Kudu Investment Management, which is part of **White Mountains Insurance Group** (NYSE: WTM) and provides permanent, passive capital for asset managers, made its second wealth investment. The target, **First Long Island Investors**, is a 36-year-old firm with \$1.6 billion in assets and a minimum client commitment of \$5 million. “Kudu brings us a top-tier and growing network of partner firms and relationships we hope to leverage as we enter our next phase of growth,” said First Long Island. Prior to the deal, White Mountain raised its commitment to Kudu to \$250 million, buying out the interest of **Oaktree Capital Management** to become sole owner. In its 2018 annual report, White Mountain said it expected Kudu to deploy all of the capital by the end of 2019, having invested more than half in five other transactions at the time the report was issued in March 2019. (Kudu also acquired stakes in two real estate investors; see *Real Assets*.)

In Europe, wealth consolidation is centered in the region’s two largest such markets, Switzerland and the UK. While Switzerland was quiet last year after a hyperactive 2018, deal-makers in the UK maintained a vigorous pace with several significant transactions joining the legion of small

deals driven by consolidators. New regulations have been a key factor behind the activity, including European-wide rules embodied in MiFID II. Citing those “enormous” regulatory burdens “both in terms of cost and of time,” one advisor at an independent UK wealth manager told FTAdviser, “If you are an advisor at an average age, which is somewhere in the 60s, then you would be a fool if one of these consolidators comes knocking at the door with a big cheque to turn them away.”

One of the largest consolidators, **Succession Wealth**, predicted in a report last year that the number of financial advisors and wealth managers in the UK could decline by 7% within three years. The Financial Conduct Authority counts more than 5,000 such firms, 89% of which have just one to five advisors. Succession said 51% of the firms it surveyed cited regulations as a “very important” factor in weighing a sale while another 36% pointed to costs. New rules are also squeezing fees and profitability at many smaller firms. These various challenges are occurring as the nation mints larger numbers of mass affluent and HNW individuals who say they need financial advice. Still, 96% of financial advisory firms reported a profit in 2018, according to FCA, while the industry as a whole registered a 25% increase in pretax profits between 2017 and 2018 to £872 million (\$1.1 billion).

In the largest deal in the UK last year, **Tilney** paid £625 million (\$765 million) in cash and shares for **Smith & Williamson** in a merger of two independent wealth managers that values the combination at £1.8 billion. The rebranded **Tilney Smith & Williamson** will have £45 billion in AUM, revenues of £500 million, EBITDA of £150 million, and more than 500 investment managers and financial planners. Prior to the deal, Tilney had more than £24 billion in AUM. Tilney, which is backed by European private equity firm **Permira**, said the combined firm will “support clients from across the wealth spectrum with a comprehensive range of services for both their personal wealth management and business needs.”

In a smaller but notable transaction, **Quilter** (LSE: QLT) paid £42 million for **Lighthouse** to consolidate its position as the second-largest retail advisory business in the UK. Lighthouse adds 400 advisors to Quilter’s existing external network of 3,500 advisors and 1,600 “restricted” financial planners, the latter of whom offer a more limited menu of products, including proprietary ones. (In 2018, Quilter loaned nearly £11 million to external advisors for their own acquisitions.) In 2018, Quilter separated from the **Old Mutual** (LSE: OMU) group of companies to become a separately traded company. Quilter has £118 billion in assets under management and administration.

Among the numerous consolidators, two diverse players were in the market last year: **AFH Financial Group** (AIM: AFHP), an independent firm; and **1825**, wholly owned by **Standard Life Aberdeen** (LSE: SLA). 1825, formed in 2015, cut two deals, including its largest to date for the wealth business of accounting firm **Grant Thornton**. 1825 said the deal “accelerates” its drive to create “a national financial

planning and advice business in the UK” by adding 34 financial planners and £1.7 billion in assets, bringing its total to £5.8 billion. 1825 has made eight acquisitions since its founding, building a total of 80 financial planners in 14 locations and 9,000 clients.

AFH, based in a small city in West Midlands, provides services to 20,000 mass affluent and HNW clients via 850 advisors and support staff. Through nearly 50 acquisitions since its IPO in 2014, AFH has amassed more than £5.6 billion in assets with the goal of £10 billion within three to five years. Two deals AFH made last year are typical: **AE Garment Independent Financial Services** and **Mulberry Independent Financial Advisors** are both located in regions outside London with small staffs and a combined £215 million in assets. Last July, the company raised £15 million via convertible shares for acquisitions, although two months later it indicated it would consolidate its holdings before seeking additional funding.

In addition to the flurry of deals in the U.S. and UK, Canada recorded an important one of its own: **Onex Corp.’s** (TSX: ONEX) C\$445 million (\$335 million) acquisition of **Gluskin Sheff + Associates**. Gluskin, which traded on the **Toronto Stock Exchange** prior to the deal, is one of Canada’s largest independent wealth managers. The company, with C\$8.1 billion in AUM, also serves institutional clients (11% of AUM). Onex (AUM: US\$31 billion) said Gluskin’s public equity focus complements its own private equity and debt businesses, offering a broader portfolio of products to clients of both firms. Following the close of the deal, Onex provided Gluskin clients access to its credit strategies and a private equity co-investment opportunity that was “extremely well received.”

Securities & Investment Banking

In 2019, private equity firms played either direct or indirect roles in several major acquisitions of independent broker-dealers (IBDs) in the U.S. in a continuance of a recent trend that is mirrored in the related wealth management industry. With \$2.5 trillion in dry powder, the firms are under pressure to put capital to work in a variety of industries, and IBDs offer an attractive if competitive business model that should benefit from secular tailwinds and ongoing consolidation. “Independent broker-dealers remain a favorable segment for private equity buyers who capitalize on greater leverage with product suppliers and recruiting ability by combining firms, whether through

stock or asset purchases,” wrote risk management consulting firm Gallagher last March.

In 2018, revenue for the top-25 IBDs rose 15% on top of 13% growth in 2017, according to an *InvestmentNews* survey released last year. In the first half of 2019, the largest IBD, **LPL Financial** (NASDAQ: LPLA), delivered similarly solid results: revenues were up 9% to \$2.8 billion. Commission and advisory revenues split evenly and accounted for 68% of the total while asset-based transactions and fees accounted for another 21%. Total brokerage and advisory assets passed \$700 billion for the first time.

On top of attractive growth, a federal court’s dismissal in 2018 of the Obama administration’s controversial fiduciary rule removed a significant federal regulatory issue that the Trump administration has approached on a more cooperative basis. Last June, the Securities and Exchange Commission sought a middle ground when it approved “Regulation Best Interest,” although some states are muddying the waters as they weigh their own more exacting standards. The SEC rule, covering broker-dealers and advisors, enhances transparency and protections for clients while providing flexibility on relationships and products.

In the online brokerage industry, **Charles Schwab** (NYSE: SCHW) delivered a thunderbolt in October by announcing it will eliminate online trading commissions for stocks, exchange traded funds and options listed in North America. “This is our price,” said CEO and President Walt Bettinger. “Not a promotion. No catches. Period. Price should never be a barrier to investing for anyone.” The announcement, and quick implementation, came on top of declining interest rates that were already threatening the income brokers earn on their customers’ cash accounts.

Numerous competitors matched Charles Schwab’s initiative, including **E*Trade Financial Corp.** (NASDAQ: ETFC) and **TD Ameritrade** (NASDAQ: AMTD), both more dependent on commission fees than Schwab. Investors responded immediately by wiping billions of dollars from the three companies’ valuations, though the stocks recovered in varying degrees in the weeks that followed. Calling the actions a “credit negative,” **Moody’s** (NYSE: MCO) said the three firms would lose a collective \$1.6 billion in annual trading commission revenue. “There is no way to sugarcoat this development,” **Wells Fargo** (NYSE: WFC) wrote in a research note quoted in the *Wall Street Journal*. “We were hoping the challenging macro environment (i.e., declining interest rates) would prevent the industry from competing on price like this, but that is clearly not what is happening.”

A month after eliminating those fees, Schwab delivered a second stunning announcement by entering an agreement to acquire TD Ameritrade for \$26 billion, setting up a merger of the

Investment Banking Advisory Firm Transactions

	2015	2016	2017	2018	2019
Number of Transactions	17	18	17	19	21
Combined Value (\$M)	\$3,915.9	\$201.9	\$1,828.1	\$127.7	\$2,003.2
Average Deal Size (\$M)	\$559.4	\$40.4	\$609.4	\$42.6	\$1,001.6

Source: Berkshire Global Advisors LP

two leading U.S. discount brokers. This followed Schwab's \$1.8 billion purchase last July of the managed portfolio and brokerage accounts of **USAA**

Investment Management. Aside from Schwab's mega-deals (see sidebar), there were three major transactions within the IBD space driven by private equity firms, two of them related. The largest saw **Reverence Capital Partners** take a 75% stake in **Advisor Group**, reportedly for around \$2 billion as it bested several other private equity suitors. In an example of the secondary transactions that are increasingly taking place between private equity firms, Reverence cut the deal with **Lightyear Capital**, as well as Canadian pension fund manager **PSP Investments**, which are "expected" to maintain up to a 25% shareholding.

The two sellers acquired their stake in Advisor Group from **AIG** (NYSE: AIG) in 2016 and have helped drive strong growth in the years since, including via several acquisitions. Advisor Group has four subsidiaries with 7,000 financial advisors, \$268 billion in assets, and \$1.7 billion in revenue (in 2018), led by **Royal Alliance Associates**. Reverence said its "investment, wealth management expertise and industry relationships" make it "uniquely positioned to identify and tackle growth opportunities across the business." Formed in 2013, Reverence specializes in financial services investments.

A half-year later in November, Advisor Group agreed to acquire a significant competitor, **Ladenburg Thalmann Financial Services** (NYSE American: LTS), for \$1.3 billion including debt and preferred equity. Ladenburg adds five IBDs, the largest of which is Nebraska-based **Securities America**, which accounted for nearly 60% of its parent's \$1.4 billion in revenue in 2018. The five IBDs will retain their independence, "reflecting both companies' commitment to a multi-brand network model," but the combined firm will incorporate nine IBDs, 11,500 advisors and \$450 billion in assets.

"We believe that the investments necessary for competitively differentiated technology, practice management, products and service excellence require a greater level of scale than either of our companies can achieve on a stand-alone basis," said Advisor Group President and CEO Jamie Price. The companies said they expect the transaction to close in the first half of this year. In the first three quarters of 2019, Ladenburg's revenues rose 4% to \$1.1 billion compared with the same period in 2018, following a 10% gain in the 2018 full year.

The third major private equity IBD deal saw **Warburg Pincus** acquire a majority stake in **Kestra Financial**. Once more, the primary seller was a private equity firm, **Stone Point Capital**, which retained a minority share.

Retail Brokerage Firm Transactions

	2015	2016	2017	2018	2019
Number of Transactions	7	10	4	12	5
Disclosed Value (\$M)	\$1,125.7	\$3,070.8	\$3,599.0	\$632.8	\$1,839.2
Average Deal Size (\$M)	\$562.8	\$511.8	\$1,799.5	\$126.6	\$613.1

Source: Berkshire Global Advisors LP

NFP Corp. and **Securian Financial** also sold their stakes, with NFP having sold a majority stake to Stone Point in 2016. Formed in 1997, Kestra supports more than 2,000 independent financial advisors in the U.S. One established firm that joined Kestra's network after the Warburg deal is Ohio's **Merkel Financial**, which cited typical goals of such firms when switching broker-dealers. "Our objective was to find a partner that would be able to deliver the support, platform and technology solutions that enable and enhance our ability to provide top service to our clients," the 27-year-old wealth manager said. Kestra, based in the tech hub of Austin, Texas, last year touted numerous enhancements on its platform, including a redesign, more customization, improved security, and a compliant client texting application.

In two additional IBD deals with a private equity connection, **Atria Wealth Solutions** acquired Houston's **NEXT Financial Group** and **Western International Securities** of California, bringing to five the total number of IBD acquisitions Atria has made since its founding in 2017.

Institutional Broker-Dealer Transactions

	2015	2016	2017	2018	2019
Number of Transactions	26	12	13	17	14
Disclosed Value (\$M)	\$4,204.8	\$286.1	\$1,542.9	\$1,786.6	\$261.3
Average Deal Size (\$M)	\$382.3	\$95.4	\$171.4	\$198.5	\$37.3

Source: Berkshire Global Advisors LP

Atria is backed by **Lee Equity Partners**. The two deals add 900 advisors and \$26 billion in assets, about evenly split between the targets. When the Western International deal closes this year, Atria's companies will serve 2,500 advisors with \$80 billion in assets. "We are seeing a greater number of advisors who want independence, but at the same time they don't want to spend time on the array of decisions that come with this choice like finding an office, selecting technology and hiring support staff," said Atria CEO Doug Ketterer. Atria also acquired a Pennsylvania wealth management firm with \$1 billion in assets, **Schorn Wealth Management**.

Blucora (NASDAQ: BCOR) paid \$180 million for **1st Global** to create a more formidable tax-oriented broker-dealer in combination with its own leading **HD Vest** unit

Full-Service Investment Bank Transactions

	2015	2016	2017	2018	2019
Number of Transactions	5	6	8	4	6
Disclosed Value (\$M)	\$1,760.0	\$3,314.7	\$698.3	\$421.6	\$765.4
Average Deal Size (\$M)	\$440.0	\$1,657.4	\$116.4	\$210.8	\$191.4

Source: Berkshire Global Advisors LP

(acquired in 2015). Blucora subsequently rebranded the combination as **Avantax Wealth Management**, serving 4,200 advisors and with \$67 billion in assets. Avantax was projected to generate \$500 million in revenue last year, around one-quarter from 1st Global based on an eight-month contribution. "This is a classic consolidating acquisition that adds significant scale to our wealth management business with a nationwide community of tax-focused financial advisors," Blucora President and CEO John Clendening told analysts. Last year, Blucora also introduced a new investing software program that aims to help its advisors "systematically capture tax-alpha for clients."

Cetera Financial Group, fresh off **Genstar Capital's** purchase of a majority stake in 2018, acquired the U.S. IBD and advisory business of Canada's **Foresters Financial**. Foresters also sold its U.S. mutual fund business (see

Independent Broker-Dealer Transactions

	2015	2016	2017	2018	2019
Number of Transactions	3	6	5	4	7
Disclosed Value (\$M)	\$25.0	\$102.6	\$375.6	\$67.7	\$1,364.3
Average Deal Size (\$M)	\$25.0	\$34.2	\$375.6	\$67.7	\$682.2

Source: Berkshire Global Advisors LP

Traditional Investment Management) to focus on its core life insurance business. As part of the agreement, Cetera will extend an offer to Foresters' 500 independent advisors (\$12 billion in assets) to join its network of 7,500 advisors.

The number of investment banking deals kept pace with past years and remained focused on a natural marketplace of smaller to mid-size targets serving defined markets. The transactions occurred amid a challenging year for the industry worldwide, with a 13% year-over-year decline in revenues in the first eight months of 2019, according to Dealogic. M&A and equity capital markets revenues were sharply lower while debt capital markets showed relative strength (down just 1%); high yield bonds were a bright spot with 18% growth, driven by U.S. activity. In its report on the 12 largest investment banks in Europe and the U.S., researcher Coalition delivered similar news, saying revenues declined 11% in the first half of 2019 compared with the year-earlier period, representing the slowest first half for the group since 2006. The largest

decline occurred in equity revenues, down 17% with weaker derivatives and prime brokerage services.

Stifel Financial Corp. (NYSE: SF) was the most active buyer as it continued to build out its investment banking business via three diverse acquisitions in the U.S. The St. Louis-based firm acquired **George K. Baum & Co.**'s established municipal securities business involving underwriting and financial advisory services. Since 2000, GKB has provided those services for nearly 7,800 muni-bond issues totaling more than \$320 billion. The transaction builds on Stifel's leading public finance business, which ranked No. 1 in 2018 on the number of negotiated issues; it was sole or senior manager for 536 transactions with a par value of \$10.2 billion. Stifel said the deal "strengthens" its ability to "provide top-tier service to municipal issuer clients and nonprofit borrowers."

In a second deal, Stifel acquired **B&F Capital Markets**, which provides regional and community banks with extensive interest rate swap capabilities for their commercial borrowers. B&F said the connection to Stifel will allow it to gain "access to a broad network of banking clients" while extending its own suite of services "to our current client base." Stifel also acquired **Mooreland Partners**, which provides M&A and capital advisory services for the technology industry. Since launching in 2003, Mooreland has advised on more than 250 M&A and capital raising transactions for middle-market firms, primarily in North America and Europe. The addition of Mooreland doubles Stifel's large and established tech practice and enhances its presence in Europe and Silicon Valley. In 2018, Stifel's investment banking revenues — 22% of total revenues of \$3.2 billion — were about evenly split between capital raising and advisory services.

Janney Montgomery Scott has been another active participant of late, tapping the investment banking market for the second year in a row by acquiring **FIG Partners**. Founded in 2003 and based in Atlanta, FIG adds a community banking specialty that complements Janney's focus in financial services on business development companies, insurers and specialty finance. In addition to M&A advisory services, FIG handles equity and debt issues. On the research side, FIG covers 125 small to mid-size banks and also makes markets in 800 community bank stocks. Janney said the transaction reflects its "goal to be a leader in comprehensive financial advisory services and provides FIG Partners with access to an enhanced platform and geographic reach to continue their growth."

Citizens Financial Group (NYSE: CFG) acquired a second Atlanta firm, **Bowstring Advisors**, which targets the middle market across multiple industries, including

healthcare and technology. “The acquisition will enable us to provide a broader set of solutions to our clients, and allow us to leverage additional senior talent, capacity and scale,” Bowstring CEO Jim Childs wrote in a letter to clients. The purchase is in line with the Rhode Island bank’s strategy of adding fee-based income via diverse acquisitions. In CFG’s 2019 second quarter, non-interest income rose 19% over the previous year’s period to \$462 million (28% of the total), with record results in such areas as capital markets and wealth management. In 2018, CFG’s fees for M&A and related work jumped 56%.

Toronto-based wealth manager and investment bank **Canaccord Genuity Group** (TSX: CF) crossed borders to

acquire New York’s **Petsky Prunier**, an established M&A advisory firm focused on middle-market companies in the healthcare, media and technology industries, including in the internet marketing space. Canaccord, which also targets the middle market, said the deal “underscores” its “commitment to adding scale to its fixed cost base in the U.S. and diversifying its revenue streams.” Canaccord paid C\$60 million (\$45 million) in cash and shares with a potential contingent payment of C\$53 million over four years based on revenue targets. In 2018, Petsky generated revenue of \$43 million. In fiscal 2018, Canada and the U.S. accounted for more than 70% of Canaccord’s capital markets revenues of C\$637 million.

Schwab challenges competitors with two deals and free trades

Charles Schwab (NYSE: SCHW), which began disrupting the brokerage industry in the 1970s with a ground-breaking discount model, showed last year that it can still make waves two decades into the 21st century. The firm set off a new price war last October by eliminating online trading commissions for stocks, exchange traded funds and options listed in North America while cutting two major deals, including for leading discount broker **TD Ameritrade** (NASDAQ: AMTD).

The \$26 billion deal for TD Ameritrade amounted to a virtual carrot after the stick, occurring just one month after Schwab had challenged its competitor’s more fee-reliant business. TD Ameritrade was forced to respond to Schwab’s initiative by eliminating trading fees. If the deal is approved by regulators — a process that is expected to take at least six months — the combined firm would have \$5 trillion in client assets, 24 million client accounts, and pro forma annual revenue and pretax profits of \$17 billion and \$8 billion, respectively.

Schwab said the combination will yield up to \$2 billion in run-rate annual expense synergies — or 18% to 20% of the combined cost base — and be 10% to 15% accretive to earnings per share three years after the close. **Toronto-Dominion Bank** (TSX: TD), which holds a 43% stake in TD Ameritrade, would end up with a 13% stake in Schwab.

Although TD Ameritrade’s retail business was the primary attraction for Schwab, the company also adds \$600 billion in custodial assets to bring Schwab’s total to about \$2.1 trillion, or an estimated 40% to 50% of the market. That scale gave some registered investment advisors pause. “All of us out there are questioning whether you can maintain service quality at that size,” Brice Carter of Michigan’s **Financial Strategies Group** told the *Wall Street Journal*. “I’m concerned that, with this merger, they may carve out smaller advisors like myself,” one solo advisor told Financial Planning.

Fidelity Investments weighed in with its own competitive jab, telling WealthManagement.com that “many” advisors will be forced to “decide whether to remain with a firm distracted by a long and complex integration.” For its part, Schwab said the combined firm “will be uniquely positioned to serve the investment, trading and wealth management needs of investors across every phase of their financial journeys.”

Last July, Schwab made another major if less monumental deal when it paid \$1.8 billion for the managed portfolio and brokerage accounts of **USAA Investment Management**. With the USAA deal, Schwab adds one million new accounts and \$90 billion in assets (around one-quarter managed). Just as importantly, USAA will make Schwab the exclusive wealth manager and broker for its remaining clients via a long-term referral agreement. USAA, which retains insurance and banking businesses, serves 13 million current and former members of the U.S. military and their families, leaving plenty of room for client flow to Schwab. Half of USAA’s clients have more than \$100,000 in investible assets.

Schwab, which paid a high single-digit multiple based on current financials, said it expects synergies will be primarily driven by “the migration of client cash to the Schwab balance sheet.” The deal followed on the heels of USAA’s closing of the 2018 sale of its asset management unit to **Victory Capital Holdings** (NASDAQ: VCTR) for \$850 million (plus contingent payments).

There were numerous developments among exchanges, led by the **London Stock Exchange's** (LSE: LSE) proposed \$14.5 billion acquisition of financial data company **Refinitiv**. In addition to the equity price, LSE will assume \$12.5 billion of Refinitiv's debt, bringing the total enterprise value to \$27 billion. **Blackstone Group** (NYSE: BX) led a consortium of sellers that will retain a 37% share in LSE in the all-stock transaction. The deal underlines the ongoing efforts by exchanges to diversify their businesses into related areas such as data, but includes Refinitiv's ownership of currency trading platform **FXall** and its stake in **Tradeweb**, a bond trading platform.

Refinitiv's data business includes financial data terminals, where it is No. 2 behind Bloomberg with a 22% share. "As the trading and decision-making process becomes more automated, the need for data to feed those models has become paramount," one London-based analyst told the

Discount / Electronic Broker Transactions

	2015	2016	2017	2018	2019
Number of Transactions	9	5	8	10	3
Disclosed Value (\$M)	\$66.1	\$2,521.9	\$243.6	\$5,627.1	\$29,265.1
Average Deal Size (\$M)	\$22.0	\$1,261.0	\$81.2	\$1,125.4	\$9,755.0

Source: Berkshire Global Advisors LP

Wall Street Journal. The deal triples LSE's revenues to £6.4 billion (\$7 billion) and adds scale in North America and emerging markets. Separately, last October, **Hong Kong Exchange and Clearing** (HK: 388) dropped its short-lived and politically fraught bid to acquire LSE, which had been contingent on LSE dropping its purchase of Refinitiv.

Europe factored into a second potential exchange-related deal in late November, as Swiss stock exchange owner **SIX Group** offered €2.8 billion (\$3.1 billion) for **BME** (MC: BME), owner of the Madrid exchange. The bid represented a 35% premium to BME's share price on the day of the announcement. BME — one of the smallest and last independent stock exchange operators in Europe — would provide SIX with additional scale and a presence inside the European Union. BME generated €213 million in revenue in the first nine months of 2019. As SIX made its offer, pan-European stock market operator **Euronext** (PA: ENX) was also talking to BME about a potential takeover, setting up a possible bidding war. Earlier in the year, Euronext completed the acquisition of **Oslo Bors**, the Norwegian stock market operator.

MarketAxess Holdings (NASDAQ: MKTX), the leading electronic trading platform for corporate bonds, expanded into the U.S. Treasury market by paying \$150 million in cash and shares for **LiquidityEdge**. Established in 2015, LiquidityEdge had gained a 5% share of the electronic trading market for U.S. Treasuries by last July. The company runs "relationship-based execution models" that allow clients to select between one-to-one or multiple-partner trading options. Through its new parent, the company will gain access to an expanded network of clients: More than 1,600 firms trade on MarketAxess' platform. In the 2019 third quarter, MarketAxess reported record revenues, operating income and trading volume, all up between 30% and 42% over the prior-year period.

Last September, **IEX Group** shuttered its fledgling corporate listings business, which had drawn just one company during its one-year existence, **Interactive Brokers**

Group (NASDAQ: IBKR). Interactive's announcement that same month that it would switch its listing to **NASDAQ** signaled the end for IEX's business. IEX said it will "focus more resources on its trading product pipeline," as well as new technology-driven data services. Earlier in the year, the *Wall Street Journal* reported that **Pershing Square Capital Management, Senator Investment Group** and **Third Point** sold their stakes in IEX in transactions that valued the firm at \$700 million. At the same time,

Georgian Partners of Toronto invested in IEX while other notable investors increased their shareholdings.

Fees drove a Who's Who of financial services firms to announce that they will launch the Members Exchange to serve retail and institutional investors with lower-cost trading. **Bank of America Merrill Lynch, Fidelity Investments, UBS** (SWX: UBSG) and **Virtu Financial** (NASDAQ: VIRT) are among nine owners of the new exchange, which hopes to gain SEC approval this year. In a second announcement, options exchange owner **Miami International Holdings** teamed with several equity traders to launch a new cash equities exchange, **MIAX Pearl Equities**. MIH, the parent of three options exchanges, also hopes to gain SEC approval this year.

In China, a new exchange for tech companies opened under the umbrella of the **Shanghai Stock Exchange**. The **Science and Technology Innovation Board** launched last July with 25 listed companies and another five times that number having applied for a listing. The exchange aims to be China's answer to NASDAQ, serving as a magnet for capital and to encourage domestic startups to list in China rather than external markets. ❖

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