

The Rise of Long Term (Permanent) Capital Providers in Asset & Wealth Management

Since the Global Financial Crisis (“GFC”), there has been an escalation of M&A activity and an increase in the amount of capital raised by a new breed of investor focused on asset and wealth management firms. These new type of investors commonly refer to themselves as Long Term or Permanent Capital Providers.

Traditionally, investors were classified as either financial or strategic. Financial investors, commonly private equity firms, typically provide capital for a combination of working capital, growth equity or acquisition capital, and occasionally for seeding new funds, but had limited ability to offer operating value. Strategic investors, on the other hand, offer capital with the intention of providing additional scale benefits, and business and operational support, such as technology, distribution, marketing and/or product development. Both these types of investor typically looked for control stakes.

Unlike private equity investors who typically seek to exit their investments in 5-10 years, Long Term Capital Providers are able to consider investments without planning an exit or operating to a set divestment horizon, as they fundraise via their balance sheet or through perpetual funds. To adjust for the commercialisation of the economics, given the absence of an exit window, Permanent Capital Providers will often seek yield through dividends or a revenue share. The revenue share formula has the benefit of permitting management to continue operating independently while ramping EBITDA by leveraging the new capital base. Additionally, this alignment of interest usually eliminates the need for representation at the board level, a distinction from traditional financiers.

Key features across the three classifications of buyers

Buyer Types	Pros	Cons
<p>Traditional Financial Investors</p> <p>Sale of a minority / majority stake including management company earnings and future performance fees, if applicable, for mainly secondary consideration</p> <p>Performance fees from existing vehicles may or may not be sold, but are generally excluded from any transaction</p>	<ul style="list-style-type: none"> ■ Potential for access to incremental capital to fund acquisitions / growth or short-term seed capital for new products 	<ul style="list-style-type: none"> ■ May cede control of the board ■ Two-step process requiring another transaction in 5-10 years
<p>Strategic Investors</p> <p>Sale of a majority stake including management company earnings and future performance fees, if applicable, for mainly secondary consideration</p> <p>Performance fees from existing vehicles may or may not be sold, but are generally excluded from any transaction</p>	<ul style="list-style-type: none"> ■ Typically provides enhanced distribution and operational support ■ Potential for access to seed capital for new products ■ Can provide a natural pathway to a full exit 	<ul style="list-style-type: none"> ■ Potential for integration into the investors existing platform ■ Ongoing employee ownership depends on organizational style
<p>Long Term Capital Providers</p> <p>Typically, a minority stake sale including management company earnings and future performance fees, if applicable, for a combination of primary and secondary consideration</p> <p>Revenue share arrangements are also common</p> <p>Performance fees from existing vehicles are usually sold or included in a transaction</p>	<ul style="list-style-type: none"> ■ Maintain control , particularly when it comes to employee incentives (succession planning) and timing of a full exit ■ Potential for highest nominal valuation when capitalizing existing performance fees ■ Possibility of seed capital and additional strategic support 	<ul style="list-style-type: none"> ■ No cost synergies due to lack of integration ■ Usually lack distribution support or leverage

Better Alignment for “People Business”

The permanency of this new style of capital has been well received globally for businesses with a fiduciary responsibility and where management is keen to remain and continue to build out the business under its existing culture and operating style. The long-term nature of the shareholder aligns well culturally with the long-term interest among management, clients and shareholders.

With the increasing regulatory constraints and distribution barriers in the asset and wealth management sectors, there is an increasing demand for boards to consider alignment between shareholders, management and clients in building a sustainable and enduring business model. For many founders, the ability to capitalize a minority stake facilitates further growth to assist with co-invest requirements and establishes a valuation discipline and metrics for ongoing sales to the next generation of the team.

Examples of long term capital providers activities in asset and wealth management market

Lincoln Peak Capital acquires a minority interest in RWC Partners

- On October 29, 2019, RWC Partners Ltd., a provider of traditional investment management services in the UK, announced that Lincoln Peak Capital had acquired 27% of the minority stake in RWC previously owned by Schroders
- The minority stake will provide capital to RWC to further develop its concentrated investing style, specifically within convertible bonds, emerging markets and international equities, with strategic support from a leading distributor and partner

Dyal Capital Partners, Goldman Sachs’ Petershill and Landmark Partners acquire a minority stake in Clearlake Capital

- On May 29, 2018, Clearlake Capital Group, L.P., a leading global private equity and alternative asset investment firm, announced that Dyal Capital Partners and Goldman Sachs Asset Management’s Petershill program, along with existing partner, Landmark Partners, made a strategic minority investment in Clearlake
- Under the terms of the transaction, the passive, non-voting minority stake will provide permanent capital to significantly increase the firm’s investments in its own funds and to support the development of initiatives that capitalize on the firm’s sector-focused approach coupled with its unique integration of private equity, special situations and credit capabilities

Rosemont Investment Group acquires a minority interest in 1607 Capital Partners

- On September 19, 2019, 1607 Capital Partners, a boutique investment management firm specializing in closed-end funds, announced that Rosemont Investment Group had acquired a minority equity interest
- Under the transaction, the minority investment will support the long-term transition of equity within the firm, while providing a valuable strategic and financial partner in the growth of the company

Refreshing solution for Businesses needing succession and growth capital

The rise of Permanent Capital Providers represents a refreshing approach to solving for succession problems in people-oriented businesses. Berkshire has domestically seen the rise of family offices investing more into the wealth and asset management sector, including team lift-outs and incubation of early-stage boutiques. In the Australian context, as this capital competes for opportunities against the more traditional multi-affiliate platforms and larger global strategic players, it will be interesting to see how support in distribution plays a role in seller’s decision making.

Increasingly, Berkshire is working with offshore Permanent Capital Providers that have the strategic objective to build a global and diversified portfolio and see the current weakness in the Australian dollar as an opportunity to increase their exposure to the Australian wealth and asset management market. ■



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Berkshire Partner Australia Advisory Experience

December 2019



has acquired a minority interest in



exclusive financial advisor to Pinnacle

October 2019



has sold a 49% interest in



to



exclusive financial advisor to Redpoint Investment Management

June 2019



has been acquired by



exclusive financial advisor to Ambassador Funds Management

July 2018



has sold a minority interest to



exclusive financial advisor to Omega Global Investors

December 2017



has announced a strategic partnership with



exclusive financial advisor to Revolution Asset Management

October 2017



has entered into an agreement to sell



to



exclusive financial advisor to Westpac

April 2017



has acquired an interest in



exclusive financial advisor to CITIC Capital

July 2011



has acquired a non-controlling interest in



exclusive financial advisor to National Australia Bank

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