

The bulls charge into the new year

The stock market rally in the U.S. that powered through the darkest period of the pandemic in 2020 continued into 2021 with a 14% first-half rise in the S&P 500, although investors turned a wary eye toward inflation following a 4.2% bump in April's consumer price index. The gains were propelled along by mass vaccinations that fueled optimism about a return to normalcy; Washington's aggressive fiscal and monetary stimulus efforts; and an economy that grew at a seasonally adjusted rate of 6.4% in the first quarter and is expected to exceed 6% for the full year.

Accordingly, a U.S. IPO market that revived last year remained red hot in what is normally a slow first quarter, with 99 deals raising \$41 billion — the highest first-quarter totals in more than 20 years, according to EY. The SPAC market was even more robust: 300 of the vehicles raised \$93 billion to top the total volume for all of 2020. Worldwide, 430 IPOs raised \$106 billion in the quarter, up 85% and 271%, respectively, over the prior-year period.

While stocks rose over optimism about the economy and corporate profits, the specter of inflation spooked bond investors months before their equity peers expressed concerns. In the first quarter, the yield on the 10-year U.S. Treasury nearly doubled to 1.74%, causing a negative 13.5% return for the Bloomberg Barclays U.S. Long Treasury index. The ICE BofA U.S. Corporate index, which tracks investment grade bonds, delivered a negative 4.5% return, its worst quarterly performance since 2008, while the broad Bloomberg Barclays U.S. Aggregate Bond index was off 3.4%.

In a testament to investors' stretch for yield, the lowest-rated bonds, triple-Cs, delivered the best fixed income return in the first quarter of 3.6%, as measured by Bloomberg Barclays data. Worldwide, high-yield debt reached a record \$205 billion in the quarter, 71% in the U.S., according to Refinitiv. By April, the spread between high-yield corporate bonds and U.S. Treasuries dipped below three percentage points for the first time since 2007.

Analysts weighing the risk of such investments took comfort as they considered the Federal Reserve's commitment to easy money and a rebounding economy. In a March report, **Fitch Ratings** reported that the trailing 12-month institutional leveraged loan default rate had declined from 4.5% at year-end 2020 to 3.9%, with half of year-to-date volume from just one company. While Fitch forecasts a rate of 4.5% by year end, the company noted that "if market access remains as open and issuer-friendly as it has been, the rate will probably finish even lower."

In Europe, **Moody's** in March lowered its 2021 forecast for default rates for high yield (from 5% to 2%) and leveraged loans (from 5.5% to 3.5%), reflecting "our expectations for a strong recovery from pent-up demand" as pandemic restrictions relax in the second half. European collateralized loan obligations had a record number of refinancings and resets in the first quarter of €20 billion (\$24 billion), according to Fitch, while the number of tranches on negative outlook fell by nearly two-thirds between November 2020 and March 2021.

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As in the U.S., Europe's improved projections were the result of stimulus measures and the anticipation of widespread vaccinations, although the eurozone fell into recession in the first quarter after two straight quarters of negative GDP growth. In its April report, the International Monetary Fund projected 4.4% GDP growth in the eurozone for the full year and 5.3% in the UK. In Asia, Japan is expected to grow 3.3% and China 8.4%, as China registered 18.3% growth in the first quarter, benefitting from strong exports and retail sales, as well as the comparison to the year-earlier contraction.

Overall, the IMF expects the global economy to grow 6% this year, up 0.8 of a percentage point from its October 2020 projections, while last year's contraction of 3.3% turned out to be 1.1 points lower than earlier IMF projections. Global trade in goods and services is projected to grow 8.4% following contraction of 8.5% last year, driven by merchandise while the cross border services trade in areas such as tourism and transportation "is expected to remain subdued until the pandemic is brought under control everywhere."

Deal-makers gathered confidence from the economic momentum to continue the rebound in activity that began during a record-setting second half of 2020: The M&A market across all industries broke first-quarter and first-half records for deal value, totaling \$2.8 trillion for the six-month period, or 131% over the same timeframe in 2020, according to Refinitiv. In the U.S., deal value more than tripled in the first half to \$1.3 trillion. "As the world emerges from the COVID-19 pandemic we are observing a new era of deal making, which is setting records across industries, regions and deal structures," wrote Refinitiv.

Bolstered by robust markets and rebounding economies, asset managers recorded strong first-quarter numbers that also benefitted from comparisons with the challenging year-earlier period. **BlackRock** generated record net inflows of \$172 billion as AUM climbed over \$9 trillion, 39% above the 2020 first quarter; net income rose 16% to \$1.2 billion. **Blackstone** set records for quarterly net income (\$1.8 billion) while AUM rose 21% vs. the year-earlier period to \$649 billion. Blackstone retained \$148 billion in dry powder, half in private equity funds.

At **Pzena Investment Management**, one of the smaller public asset managers, AUM (\$49 billion) and operating income (\$23 million) doubled over the previous year. **Affiliated Managers Group**, with its portfolio of boutiques, saw AUM and adjusted EBITDA both climb 23%. In Europe, **Amundi's** AUM jumped 15% over the previous year's quarter to €1.8 trillion (\$2.2 trillion) and net income rose 50% while **Schroders** recorded a 43% increase in AUM to £672 billion (\$930 billion).

Deal-making was brisk in the first half of 2021, building off the momentum of the last half of 2020 that mirrored the larger M&A picture. The traditional investment management industry continued its makeover with three major deals coming on the heels of the **Franklin Resources-Legg Mason** and **Morgan Stanley-Eaton Vance** transactions last year. In the U.S., private equity firms **GTCR** and **Reverence Capital Partners** paid \$2.1 billion for **Wells Fargo Asset Management**, assuming control of a business with \$600 billion in AUM in equity, fixed income and money market funds but minus a strong alternatives platform.

The other two deals targeted Europe: **Ameriprise Financial's** £615 million agreement to acquire **BMO Financial Group's** EMEA asset management business, with \$124 billion in AUM; and Amundi's agreement to pay €825 million for Europe's third-largest ETF provider, **Lyxor**. In March, **Credit Suisse** separated its asset management and wealth businesses, spurring speculation about a sale of that large unit. Reuters reported that **BlackRock**, **DWS** and **State Street Corp.** were among those considering a bid for the asset manager, which has CHF 440 billion (\$480 billion) in AUM.

The wealth sector remained the hottest arena, as consolidators continue to expand their reach. **Beacon Pointe Advisors**, Creative Planning, **Focus Financial Partners**, **Hightower Advisors** and **Mercer Advisors** were among the large number of U.S. consolidators active in the six-month period. In the UK, perennial buyers such as **Fairstone Group**, **Independent Wealth Planners** and **Mattioli Woods** continued their growth-via-acquisition strategies. U.S. private equity firm **TA Associates** entered the market by acquiring a majority stake in Fairstone while **Cortina Bidco**, controlled by U.S. private equity firm **Flexpoint Ford**, made a £232 million offer for an established consolidator, **AFH Financial Group**.

Companies focused on socially responsible investing are ongoing targets in line with demand for the products. In the first quarter, global net inflows for ESG funds were \$185 billion while the category approached \$2 trillion, with Europe accounting for 79% of the inflows, according to **Morningstar**. In April, BlackRock introduced the \$1.2 billion U.S. Carbon Transition Readiness fund, an institutional offering that is the largest-ever ETF launch.

Related deals in the first half crossed sectors, from fund and wealth managers to private markets. For Affiliated Managers Group, the transaction involved a minority stake in **Boston Common Asset Management**, an established equity manager with \$3.9 billion in AUM. Independent wealth manager **Abacus Wealth Partners** acquired a small ESG firm, **Robasciotti & Philipson**, along with a credit manager focused on carbon emissions reductions in the commercial property market, **Greenworks Lending**.

The alternatives space represented by firms such as Greenworks remains high on investors radar screens, as institutions and others seek long-term assets less correlated to public markets and/or capable of delivering income beyond the paltry yields available in Treasuries or investment-grade corporates. The latest McKinsey & Co. report on private markets showed that AUM rose 5.1% last year to \$7.4 trillion worldwide, although fundraising dropped 21% from 2019 to \$858 billion, 59% in the U.S.

But McKinsey noted that the fundraising number "belies the year's real story, which was one of pandemic shock and then rapid recovery." McKinsey says the number of active firms in private markets has grown by an average of 8% a year since 2015 to top 11,000, with private equity representing three-quarters. "Attractive economics and significant liquidity have continued to drive new entrants into the space," the consultant wrote.

The plethora of firms provides buyers with a rich universe of targets of varying sizes operating in sectors from private equity to infrastructure. In what was an active real estate advisory sector, Sweden's **EQT** accounted for one of the largest such acquisitions in years when it paid \$1.9 billion for **Exeter Property Group**, adding \$10 billion in assets and a solid position in the hot logistics/industrial properties market.

Canadian firms were particularly busy, with BentallGreenOak, **CI Financial**, **Ivanhoe Cambridge**, **Oxford Properties** and **Slate Asset Management** all cutting deals. For Oxford of Toronto, the target was London's **M7 Real Estate**, a pan-European investment firm with a portfolio tilted toward light industrial and urban logistics and €4 billion in AUM. The largest transaction by a Canadian firm involved **Brookfield Asset Management's** agreement to take publicly traded **Brookfield Property Partners** private for \$6.5 billion.

In private equity, **Ares Management** cut the major deal in the first half, reaching agreement to pay \$1.1 billion for **Landmark Partners**, a secondaries investor with about \$19 billion in AUM. In a second potential alternatives transaction, Ares "expressed interest" in acquiring 100% of the private markets business of Australia's **AMP**. Ares also acquired a U.S. real estate advisory firm focused on the industrial sector, **Black Creek Group**. **Goldman Sachs** assumed a minority stake in **Incline Equity Partners** via its **Petershill** alternatives investment unit, which has made more than 20 similar investments. Based in Pittsburgh, Incline focuses on the middle market in North America and raised its fifth and largest fund last year.

There were several deals in the credit space, in line with the steady activity that has defined the sector in the years since the 2008 financial crisis, with most of the transactions driven by non-U.S. firms. The latest survey of the largest 200 U.S. retirement plans by **Pensions & Investments** provides evidence of the institutional tilt toward private credit, as assets nearly doubled to \$50 billion in the year through September 2020 and are up more than 200% since 2018.

"While overcrowding in an investment strategy is always a concern, the growth in the private credit space is largely due to the pullback from commercial banks and other lending providers since the [financial crisis]," a spokesman for the New York State employees retirement fund told the publication. As of September 2020, private debt managers were sitting on \$127 billion in dry powder for direct lending, the largest private debt strategy, according to Preqin.

Bonaccord Capital Partners, the private markets unit of **Aberdeen Standard Investments**, led the deal-makers, acquiring a minority stake in middle-market credit manager **Monroe Capital** of Chicago (AUM: \$10 billion in AUM). Bonaccord has cut three private markets deals since 2020. **Fidelity International** lifted out **MeDirect Bank's** private credit team, which manages a €400 million collateralized loan obligations fund. Alternative investor **TIG Advisors** of New York and credit manager **Cairn Capital Group** of London were also among the buyers, targeting firms in Hong Kong and London, respectively.

Traditional Investment Management

The first half of the year added several major deals for traditional asset managers to the running tally since the 2008 financial crisis, including the two transactions in 2020 involving targets Legg Mason and **Eaton Vance**. But the largest of the three first-half deals was not the usual consolidation play: The purchase by private equity firms **GTCR** and **Reverence Capital Partners** of **Wells Fargo Asset Management**.

The \$2.1 billion deal for WFAM represents the most significant one for a fund manager by private equity players since 2015, when Reverence teamed with **TA Associates** to pay \$1.2 billion for **Russell Investments**, an investment both firms have retained since the transaction closed in 2016. The WFAM deal also adds to the list of major commercial banks that have quit fund management over the years, although **Wells Fargo** will retain a 9.9% stake in the new company and provide distribution support.

The two private equity firms gain a business with \$600 billion in AUM in equity and fixed income funds, as well as money market assets that climbed sharply last year to account for one-third of total AUM. Significantly, the portfolio lacks a strong alternative presence. The private equity partners pledged to realign compensation and incentive structures while making "substantial investments in technology and operational effectiveness, as well as distribution and client support." The two firms, which will rebrand WFAM, also indicated they will consider acquisitions to expand the business.

The other two deals involved European targets: **Ameriprise Financial's** £615 million (\$845 million) agreement to acquire **BMO Financial Group's** EMEA asset management business; and **Amundi's** agreement to pay €825 million (\$990 million) for ETF provider **Lyxor**. With its transaction, Ameriprise adds \$124 billion in AUM to bring the total in subsidiary **Columbia Threadneedle Investments** to \$671 billion while boosting the share of European AUM to 40%. The acquired assets span socially responsible investing, liability-driven investing and European real estate. The deal also incorporates a "strategic relationship" with BMO by providing its wealth clients with access to products from **Columbia Threadneedle**.

For Amundi, the prize is Europe's third-largest ETF businesses with €77 billion in AUM. The addition bumps the French asset manager from the No. 5 to the No. 2 position in Europe's ETF market, with a 14% share and €142 billion in AUM, behind **BlackRock** (44% share). Lyxor has another €47 billion in actively managed assets, 40% in alternatives. Amundi placed the valuation at 10 times forward earnings, including run-rate synergies.

In March, **Credit Suisse** separated its asset management and wealth businesses, creating a separate division for the former that led to speculation regarding the sale of that large unit. Reuters reported that **BlackRock**, **DWS** and **State Street Corp.** were among those considering a bid for the unit, which has CHF 440 billion (\$480 billion) in AUM. The separation, which executives had weighed for a while, followed the collapse of

Greensill Capital. Credit Suisse funds had significant exposure to Greensill's supply chain finance strategies. In another indicator of the consolidating tides in European asset management, *Bloomberg* reported in May that **Schroders** had entertained a bid for **M&G** before determining that the deal would be "too expensive." That tie-up would have vaulted Schroders above the £1 trillion (\$1.4 billion) mark in AUM.

Additional deals in the first half tracked the sort of niche plays that generally define the market, and included some familiar names on both sides of the negotiating table. **BrightSphere Investment Group** of Boston divested two traditional fund managers as it continued to pare back its multi-boutique structure. In a transpacific deal, Australia's **Pendal Group** paid \$320 million for **Thompson, Siegel & Walmsley**, a Virginia value manager (AUM: \$24 billion) majority owned by BrightSphere. Established in 1969, TSW doubles Pendal's AUM in the U.S. and brings "a solid base of institutional and subadvisory relationships."

BrightSphere also sold **Investment Counselors of Maryland**, an institutional firm with \$3.2 billion in AUM. The buyer, **William Blair Investment Management**, said the deal "underscores [its] mission to deliver high-quality investment management expertise and specialized value-added strategies to its global clients." ICM has nearly all its assets in a small-cap value equity fund. (BrightSphere also sold its interest in **Landmark Partners**; see *Private Markets & Credit*.)

A perennial buyer, **Touchstone Investments**, added \$7.8 billion in AUM when it acquired most of **American International Group's** retail fund business, bringing its total AUM to some \$30 billion. The acquired portfolio includes 18 equity and fixed income funds, most of which will be reorganized and merged into existing or new Touchstone funds. The largest of the acquired funds, AIG Focused Dividend Strategy, has \$4.4 billion in concentrated assets and was established in 1998.

There were a couple of deals of note for fixed income specialists, including **Madison Investments Holdings'** lift-out of such assets and the team from **Reinhart Partners**. The transaction marks the second niche deal Madison has made in three years, both within its home state of Wisconsin. Reinhart adds \$4 billion in AUM to bring Madison's fixed income assets to \$12.5 billion while boosting total AUM to \$23 billion. The Reinhart team pursues a conservative strategy that "does not take undue risks in pursuit of yield" but will assume "moderate risk exposures" when the risk-reward tradeoff "is favorable." Madison will retain the Reinhart branding on the acquired funds. In 2019, Madison acquired a small-cap manager.

In the second fixed income deal, **Franklin Resources** lifted out two funds with \$2.7 billion in AUM from **Diamond Hill Capital Management**. Franklin said the high yield and corporate credit funds complement the fixed income products offered by its **Brandywine Global Investment Management** unit (AUM: \$64 billion). Primarily a fixed income shop, Brandywine was among the managers that Franklin gained through the 2020 acquisition of Legg Mason. Diamond Hill (AUM: \$26 billion), based in Columbus, Ohio, said it sold the funds to focus on its equity and

investment-grade fixed income products.

Affiliated Managers Group became the latest major asset manager to tap the ESG (environmental, social and governance) market by buying a minority stake in **Boston Common Asset Management** (AUM: \$3.9 billion). Boston Common, established in 2003, said AMG's global distribution platform and relationships "will meaningfully enhance" its growth and "further diversify our client base." The company manages U.S. and international funds and separately managed accounts. Another serial buyer, multi-boutique **Virtus Investment Partners**, paid \$135 million (with potential future earnouts) for **Westchester Capital Management**, a specialist in global, event-driven strategies with \$4.3 billion in AUM, primarily in its flagship Merger fund. Westchester joins eight other Virtus affiliates with an aggregate AUM of \$130 billion.

As part of a strategic focus on its global insurance business, **Dai-ichi Life Holdings** sold its 17% stake in **Janus Henderson Group** for some \$900 million. The transaction was facilitated by a secondary public offering of Janus Henderson shares, with the company purchasing around \$230 million worth that it intends to retire. The Japanese insurer assumed its stake in the company following the 2017 merger of Henderson and Janus, where Dai-ichi had already been a shareholder. Dai-ichi and Janus Henderson will continue to co-operate in areas such as product development and distribution.

Outside the U.S., buyers followed a similar approach of targeting specialized managers and/or pursuing international expansion. For example, aggressive Canadian buyer **Fiera Capital** did a lift-out of a global equities fund and team based in Europe and Asia from **AMP Capital** of Australia. Fiera said the addition of the team, which manages \$500 million in the fund, meets its "global ambitions of building robust investment platforms in markets where we see opportunities for growth."

In a similar bid for continued expansion beyond a home market, **Azimut Group** of Italy acquired 51% of an independent Mexican institutional manager and advisory firm, **KAAN Capital**. Established in 2019, KAA specializes in Mexican equities and is a long-term and high-conviction investor. Azimut has operated in Mexico since 2014. Last year, Azimut extended its U.S. presence via three deals, including the purchase of a majority stake in **Sanctuary Wealth**, which has a network of more than 40 partner firms throughout the country.

There were two transactions in Asia-Pacific involving partial or full divestitures by large firms restructuring their businesses in overseas markets. Melbourne-based **Yarra Capital Management** acquired the Australian business of **Nikko Asset Management**, which gained a 20% interest in Yarra as part of the transaction. Yarra management and existing investor TA Associates will each hold a 40% share in Yarra. The acquisition more than doubles Yarra's AUM to A\$20 billion (\$15 billion) with fixed income and equity funds; it also makes the firm one of Australia's largest independent managers.

In India, **Sundaram Asset Management** acquired the local fund business of **Principal Financial Group**, reportedly paying \$47 million as it added about \$1 billion in assets to the \$5.5

billion it already managed. Sundaram is the 17th-largest fund manager in India, with AUM that has been growing annually by an average of 15%. The company said Principal's business adds large- and mid-cap equity funds to its small- and mid-cap portfolio.

Within Europe, **Natixis** reached agreement to sell its majority stake in **H2O Asset Management** to management. Based in London, H2O was wracked by controversy beginning in 2019 due to its large holdings of illiquid bonds tied to a German entrepreneur. In February, H2O hired **Perella Weinberg Partners** to assist it "on the strategy and execution of a plan" to dispose of the remaining illiquid assets. Following the divestiture, Natixis is left with a portfolio of 11 affiliated managers.

Wealth Management

In the U.S., wealth management remained the hottest asset management sector in the first half, as buyers continue to display an insatiable appetite for expansion and sellers embrace the logic and necessity of scale. In the first quarter, **Fidelity Investments** counted 46 deals for RIAs with an aggregate \$91 billion in assets, a quarterly AUM record and 17% above the final quarter of 2020. Just nine firms accounted for more than half of total deals while a record 20 transactions involved targets with \$1 billion or more in AUM.

Amid the aggressive M&A activity, the industry as whole finds itself in a solid position following what was arguably the most stressful and confounding year of the post-World War II era. The wealth held by the top 1% of U.S. households rose a stunning 11.6% to \$39 trillion in 2020, according to Federal Reserve data. The majority of the group's gains came from corporate equities and mutual funds, up 18% last year to \$17.8 trillion. Within the 90% to 99% percentile, equity and mutual fund assets rose 16% to nearly \$12 trillion while overall wealth rose 9.2% to \$50 trillion.

Worldwide, the wealth of nearly 2,200 billionaires topped \$10 trillion by last July, driven by the V-shaped rebound in asset prices, with technology and healthcare entrepreneurs notable beneficiaries, according to a **UBS** and PwC survey. "Those that are the innovators and the disruptors, the architects of creative destruction in the economy, are still increasing their wealth," the companies wrote. "Other billionaires on the wrong side of economic, technological, societal and environmental trends are becoming less wealthy."

UBS was one among many wealth managers of varying sizes that enjoyed the fruits of all that wealth accumulation: AUM in its global wealth business climbed 16.4% in the second half of 2020 while adding another 4% in the first quarter to \$3.5 trillion. At New York's **Silvercrest Asset Management**, AUM rose 35% to \$27.8 billion between the first and fourth quarters of 2020 and to \$29 billion in the first quarter.

LPL Financial saw advisory and brokerage assets climb 18% during 2020 to \$903 billion and added another \$55 billion in this year's first quarter. **Focus Financial Partners** registered 12%

growth last year in revenues to \$1.4 billion. "In many ways, the story of 2020 was that scale matters," said CEO and Chairman Rudy Adolf. "Our unique scale was instrumental in helping us not just weather the storm but move past it and thrive, positioning us for what we believe will be an even stronger year in 2021." In the first quarter, Focus' revenues rose another 4% over the last quarter of 2020.

Among deal-makers, the private equity-backed consolidators continued to lead the activity, joined by a few direct deals from private equity firms and independent players teaming up. In a partnership between two large private equity firms, **Warburg Pincus** made a minority investment in **Edelman Financial Engines**, joining majority owner **Hellman & Friedman**. Michael Martin, Warburg's head of financial services, told reporters the firm assumed a stake in the mid-to-high teens, with the deal valuing EFG at \$7.3 billion. In 2019, H&F paid \$3 billion for Financial Engines and merged it with then Edelman Financial Services. Since the merger, EFG has added \$100 billion in AUM to bring the total to \$260 billion on behalf of 1.3 million clients.

A second example of a private equity partnership saw **HGGC** and **Wealth Partners Capital Group** acquire a minority stake in **Merit Financial Group**, an established Georgia-based firm with \$4.8 billion in assets and a presence in several Southern states. Merit, which completed nine acquisitions in the nine years before the capital infusion, plans to accelerate that activity with up to nine deals this year. "Last year, we made it a mission to find a capital partner because we knew we needed to bring in some additional expertise as well as capital backing," Merit President Kay Lynn Mayhue told *InvestmentNews*.

TRIA Capital Partners, created last year to assume minority stakes in wealth managers that "require capital but wish to remain independent," closed its first investment, in **Moderia Wealth Management** of New Jersey. One day prior to that deal, Modera merged with **Independence Advisors** of suburban Philadelphia to form an RIA with \$4.4 billion in AUM and offices in six states along the Eastern Seaboard. Both deals, which took place in the last two days of 2020, were reported in January. TRIA is run by former executives at Fiduciary Network, an aggregator that was sold to **Emigrant Bank** in 2018.

In another direct deal in the Boston area, **Summit Partners** acquired a majority stake in **Adviser Investments**, with around \$7 billion in AUM. Management and employees retained a minority share. Adviser co-founder Dan Silver told *Barron's* the firm is "excited" to team up with Summit, "one of the top growth investors in the business." He noted that Adviser is "open to different deal structures," including acquisitions or partnerships. **Leonard Green & Partners** of Los Angeles bought a minority interest in **Mariner Wealth Advisors** in an effort to drive the Kansas City-area firm's national ambitions. Mariner, with \$35 billion in assets, has been an active buyer over the years but spent most of 2020 and the early part of this year on the sidelines.

Among the major aggregators, **Hightower Advisors**, backed by **Thomas H. Lee Partners**, made its largest deal to date by acquiring Los Angeles-based **Bel Air Investment Advisors**, an ultra-high-net-worth firm with \$8 billion in AUM. "I think

[the deal] shows we've got the capacity to continue to scale pretty significantly," Hightower CEO Bob Oros told *Citywire*. Hightower, which made several other smaller acquisitions in the first half, cut the deal with **Fiera Capital Corp.** Fiera said the divestiture was made after a "thorough strategic review of our private wealth operations in the U.S." Fiera also sold its New York institutional and wealth manager, **Wilkinson Global Asset Management**, with a combined sales price for both deals of C\$81 million (US\$64 million). Fiera will retain some subadvisory assets from both firms.

Creative Planning, which last year welcomed a minority investment from **General Atlantic**, cut two significant deals, including one for the retirement business of a fellow suburban Chicago firm, **Iron Financial**. The deal adds \$6 billion in AUM to the \$69 billion that Creative Planning already managed. Creative Planning also gains access to the public employee sector served by Iron Financial. Established in 1983, Creative Planning made its first acquisition in 2019 and added eight in 2020. Creative Planning also expanded equity ownership to a broader group of employees in the first quarter.

Wealth Enhancement Group, backed by **TA Associates**, entered the California market with the acquisition of **Pillar Pacific Capital Management**. Launched in 2007 from the merger of two firms, Pillar has offices in the northern and southern parts of the state and \$1.6 billion in assets, bringing WEG's total to \$32 billion. Previously, WEG focused on expansion in the Midwest and on the East Coast, leading to CEO Jeff Dekko to call the transaction "a big deal" in an interview with *Citywire*. "We wouldn't do this if it wasn't part of a strategy. And you'll see — not only will we come in here, but we'll have follow-on acquisitions in the not-too-distant future."

Another active buyer, **Mercer Advisors**, made multiple deals in the first half, including six in January that were diverse by location and size, with targets' AUMs ranging from \$215 million to \$850 million. Among them was **Atlanta Financial Associates**, representing the company's second deal in that market in two months. Founded in 1992, Atlanta Financial manages \$815 million for 570 clients. Mercer, with \$25 billion in assets as the year began, is majority owned by **Genstar Capital** and **Oak Hill Capital**.

In a significant cross border deal involving an asset manager with multiple backers, **iM Global Partner** of Paris purchased San Francisco's **Litman Gregory**. iM Global has built a presence on both sides of the Atlantic via minority stakes in six other partners. Litman Gregory, established in 1987, provides iM Global with a foothold in the U.S. wealth space while adding more than \$6 billion in assets under management and advice to the \$20 billion iM Global already managed. "We believe that Litman Gregory can be the foundational centerpiece for us in the U.S. to build around," Jeff Seeley, deputy CEO and U.S. head for iM Global, told *MutualFundWire.com*. Prior to the deal, **Eurazeo** sold part of its stake in iM Global to **IK Investment Partners** and Luxempart, both based in Europe; **Amundi** is also a shareholder.

Atria Wealth Solutions, **Beacon Pointe Advisors**, **Captrust Financial Advisors**, Focus Financial Partners, **MAI Capital**

Management, and **Sanctuary Wealth** were other serial acquirers active in the first half.

Among independent firms, insurance holding company **Sammons Financial Group** acquired **Beacon Capital Management**, an RIA and turnkey asset management program with \$3 billion in AUM. Beacon Capital, founded in 2000, offers investment solutions that aim to "capture gains while seeking to limit losses from market volatility." The Iowa company said the combination will facilitate "a comprehensive retirement strategy — from insurance through investment." Sammons, with more than \$114 in GAAP assets and a significant annuity business, also gains access to Beacon Capital's network of RIAs and broker-dealers.

In a deal between two California independents specializing in socially responsible investing, **Abacus Wealth Partners** acquired **Robasciotti & Philipson**, adding \$130 million in AUM to the \$3.6 billion it already managed. R&P's clients are primarily drawn from the gay community and are mostly women. In December 2020, R&P launched the Adasina Social Justice All Cap Global ETF, which invests in companies across asset classes "screened for social justice and designed to support progressive movements for change."

Canada's **CI Financial** continued to expand in the U.S. via acquisition with several deals, following a hyperactive 2020 that saw it cut 13 deals either directly or via affiliates. The largest involved **Segall Bryant & Hamill**, a Chicago RIA and institutional asset manager with \$23 billion in assets that at the time (January) doubled CI Financial's U.S. assets. SB&H has \$6 billion of those assets in its wealth business to give CI \$30 billion in U.S. wealth assets. CI Financial CEO Kurt MacAlpine told Bloomberg TV in Canada he expects the acquisition pace to remain "similar" to last year, "maybe a little faster just because we went from being an unknown entity to having the fastest-growing firm and that makes it easier for people to want to align with us."

Banks were sprinkled among the buyers, most notably **SVB Financial Group**, which agreed to pay \$900 million, or 17 times projected 2021 earnings per share, for **Boston Private Financial Holdings** in a deal between two public companies. For the Silicon Valley bank, Boston Private delivers significant RIA and trust businesses, adding \$16.3 billion in AUM to the \$1.4 billion it already managed. SVB said Boston Private's product suite and technology platform will allow it to expand its wealth solutions, including strategies for managing concentrated stock positions. In a smaller cross border deal, **Santander Bank** acquired the **Indosuez Wealth Management** business in Miami. The deal enhances the Spanish bank's existing presence in Florida by adding \$4.3 billion in assets.

Outside the U.S., the UK remained the center of deal-making, with the familiar list of consolidators active. These included **Fairstone Group**, **Independent Wealth Planners** and **Mattioli Woods**. The private equity industry was also busy on the buy side, underlining both the attractiveness and fragmentation of the UK market. In the first quarter, **Cortina Bidco**, a newly incorporated company controlled by U.S. private equity firm **Flexpoint Ford**, made a £232 million (\$320 million) offer for an

established consolidator, **AFH Financial Group**. Founded in 1990 and publicly traded since 2014, AFH has more than £6 billion in AUM. The company said its status as a public company has left it at a competitive disadvantage for the financing needed to fuel growth. The deal received shareholder and regulatory approval, but awaited a final sign-off from the High Court.

Another U.S. private equity firm, TA Associates, entered the UK wealth market by acquiring a majority stake in Fairstone, which was founded in 2008 and has £10.6 billion in AUM. TA acquired the stake from London-based **Synova**, which said it generated a 4.5 times return on its original 2016 investment. Simultaneously, Synova made an additional minority investment from a 2019 fund while London investor **Alcentra** increased its funding for acquisitions. **Ares Management** of Los Angeles invested from one its credit funds in **Ascot Lloyd**, increasing the capital the firm has available for acquisitions to more than £100 million. Ascot Lloyd, a part of **Oaktree Capital Management's** private equity portfolio, has £10 billion in assets and made 12 acquisitions in 2020.

There were a couple of other noteworthy private equity deals for smaller firms seeking capital for expansion. **Sovereign Capital Partners** of the UK made a £55 million investment in **Skerritts Consultants**, an established firm with £1 billion in assets that has made eight acquisitions over time. Sovereign said it looked forward to expanding Skerritts' "offering and geographic footprint through strategic acquisition." In a second deal, **Beech Tree Private Equity** of the UK invested in **Advanta Solutions**, a London and Glasgow firm with £500 million in assets, up from £200 million three years ago. Beech Tree did not disclose the amount but generally invests between £10 million and £40 million in its targets. Advanta said the capital provides "ample firepower to transact multiple acquisitions every year."

The largest UK deal saw **Utmost Group** agree to pay £483 million for **Quilter International**, the international wealth business of **Quilter**. Quilter said the divestiture will allow it to focus on its "higher growth" UK wealth business, which accounts for the majority of its £118 billion in assets under management and administration. For London-based life insurer Utmost, Quilter International adds £22 billion in assets to the £30 billion it already administered in its international operation and a complementary business and distribution network.

In Asia, **JPMorgan Chase** agreed to pay \$410 million for a 10% interest in the wealth business of **China Merchants Bank**, continuing the steady efforts by American banks and asset managers to take part in the development of China's wealth and asset management industries. The two banks had an existing partnership around product development and investor education. There were two additional wealth transactions in China: **Goldman Sachs** commenced a joint venture with **Industrial & Commercial Bank of China** in which it will be majority owner; and **BlackRock** received regulatory approval for a wealth joint venture with **China Construction Bank** and Singaporean sovereign wealth fund **Temasek Holdings**.

Outside mainland China, **J. Safra Sarasin Group** acquired **Bank of Montreal's** private banking business in Hong Kong and Singapore. The Swiss private bank called the acquired business

"an excellent fit" with its existing business in those two markets and "another step in the implementation of the Group's international growth strategy." J. Safra, which made multiple acquisitions in Europe between 2015 and 2019, has 9% of its CHF 192 billion (\$207 billion) in AUM in Asia.

Real Assets, Private Markets & Credit

Real Assets

Pandemic-sensitive real estate sectors that were hammered by investors last year rebounded in the first quarter, with mall- and lodging-related REITs in the U.S. climbing 32% and 18%, respectively. By contrast, the once-hot industrial sector tied to online retail distribution rose just 3%, although the sector remains an investor focus. Overall, REITs in the U.S. rose 9% in the first quarter, beating the S&P 500 index by three percentage points. Funds from operations continued to improve, rising to 85% of the level in the fourth quarter of 2019, prior to the pandemic, according to the National Association of REITs. "Performance was uneven across property sectors, reflecting the different pace of reopening among parts of the U.S. economy," wrote Nareit.

The disruption posed by the pandemic notwithstanding, distress sales have been restrained, with Real Capital Analytics data pointing to the hotel sector as the one exception: 8% of hotel sales between March 2020 and February 2021 involved a distressed asset, although overall sales activity was significantly lower than the year-earlier period. Still, the firm's data from year-end 2020 showed the majority of the \$146 billion in commercial real estate assets that were in or near distress involved retail and hotels.

In the first half, there were two high-profile deals involving those sectors. **Goldman Sachs**, **JPMorgan Chase** and other investors acquired a minority stake in the largest U.S. mall, Mall of America, following a default by the owner on a separate troubled mall project. Goldman and JPMorgan were both lenders to the owner. The property arm of Koch Industries took control of a major, and long troubled, hotel and casino project in Las Vegas.

In commercial real estate, Cushman & Wakefield in a March report positioned the year as "sorting out the work from home impact on occupancy needs." The company expects "a more agile approach requiring a smaller footprint," though it does see a pickup in leasing activity in the second half. Still, C&W projects office vacancy rates will remain elevated this year at around 15% to 20% in North America and Asia-Pacific and 10% in Europe.

Deal-makers in the real estate advisory sector itself were active in the first half and delivered one of the largest acquisitions in recent years: **EQT's** \$1.9 billion cash-and-shares purchase of **Exeter Property Group**. The acquisition strengthens the Swedish alternative firm's real estate advisory business, adding more than \$10 billion in assets — 75% in the U.S. and 25% in

Europe — while bringing total assets to €61 billion (\$73 billion). EQT said the deal is expected to be accretive to earnings this year.

Exeter, with offices in suburban Philadelphia and London, has a “significant majority” of its assets in logistics/industrial properties, where it is the fourth-largest manager of such assets globally. The company has delivered a 21% net internal rate of return since its founding in 2006. In a conference call with analysts, EQT CEO and Managing Partner Christian Sinding called the deal “that rare opportunity to bring in a top-performing team that’s truly focused on thematic and value-added investment.”

In a second transatlantic deal, **Oxford Properties Group** of Toronto acquired London’s **M7 Real Estate** (AUM: €4 billion), a pan-European investment firm with a portfolio tilted toward light industrial and urban logistics. Oxford said the deal will be “transformational” in providing a platform through which to “accelerate its deployment of capital into multi-let industrial and urban logistics across Europe.” Prior to the deal, Oxford had already announced its intention to invest £3 billion (\$4.2 billion) in the European logistics sector. Oxford and its portfolio companies have C\$80 billion (\$64 billion) in assets, with a third in logistics, warehousing and digital commerce strategies.

Five other Canadian firms cut property-related deals. **CI Financial**, which has been most notable for its aggressive move into wealth management in the U.S. (see *Wealth Management*), formed a 50-50 joint venture, **Axia Real Assets**, focused on global real estate and infrastructure. The venture was formed with four veterans of the real estate advisory and REIT industries. In a second joint venture, **Ivanhoe Cambridge**, the real estate unit of **Caisse de depot et placement du Quebec**, teamed with Hong Kong’s **PAG** to target logistics assets in Japan, with \$400 million in investment capacity. “E-commerce keeps driving demand for logistics facilities and remains in expansionary mode in Japan,” said Ivanhoe Cambridge.

The largest transaction saw **Brookfield Asset Management** reach agreement to acquire publicly traded **Brookfield Property Partners** for \$6.5 billion. BAM, which offered a mix of cash, shares and preferred units, is majority owner of BPP. The offer, approved by BPP’s board in April, represented an improvement over an initial \$5.9 billion bid in January. With a portfolio focused on office space and malls, BPP has endured significant challenges since the pandemic began, including a net loss of \$2 billion last year. The share price, which dropped nearly two-thirds during the initial phase of the pandemic, made up more than half of the loss by year-end. BAM said the deal will provide for “greater optionality in how we manage our portfolio of high-quality real estate assets.”

Slate Asset Management of Toronto agreed to pay \$2.3 billion to acquire the commercial real estate assets of New York’s **Annaly Capital Management**. The assets include a mix of equity interests, loans and commercial mortgage-backed securities. Among the assets is a \$400 million portfolio of grocery-anchored real estate that will be purchased by the Slate Grocery REIT. A value-oriented real estate advisory firm, Slate had \$6.5 billion in AUM prior to the deal. Annaly said

the divestiture will “provide additional capacity” to expand its “leadership and operational capabilities” in the residential mortgage finance market.

In another Toronto-New York deal, the **BentallGreenOak** real estate advisory business of **Sun Life Financial** acquired **Metropolitan Real Estate Equity Management**, adding \$2.4 billion in AUM to the \$53 billion it already managed. Founded in 2002 and owned by **Carlyle Group** since 2013, Metropolitan runs a multi-manager platform focused on the secondaries market, along with primary and co-investment strategies. BentallGreenOak said Metropolitan’s business is complementary to its existing strategies. In 2019, Metropolitan closed a \$1.2 billion secondaries real estate fund.

Within the U.S., **Ares Management** acquired **Black Creek Group**, which manages \$11.6 billion in U.S. assets in core and core-plus strategies across two non-traded REITs and institutional funds. The deal gives Ares, which did not disclose the transaction value, a total of \$29 billion in real estate AUM. Black Creek has 84% of its AUM in industrial properties and in the first quarter recorded its strongest-ever leasing period for that sector. Ares also acquired a private equity firm (see *next section*). There was a notable REIT deal between two grocery-anchored and mixed-use shopping center firms: **Kimco Realty**’s \$3.9 billion agreement to acquire **Weingarten Realty Investors**. The cash-and-stock deal merges two firms in a sector of the real estate market that has proved resilient during the pandemic. Kimco said the transaction reflects its conviction about grocery-anchored centers that also provide “last-mile locations that are more valuable than ever due to their hybrid role as both shopping destinations and omnichannel fulfillment centers.”

Private Markets & Credit

Following a disruptive 2020, the private equity industry accounted for \$251 billion in global deal value in the first quarter, according to Refinitiv, marking a first-quarter record and accounting for 19% of all transactions. The industry also raised \$188 billion across 452 funds in the quarter, according to Preqin, compared with \$163 billion and 431 funds in the year-earlier period. Private equity managers remain awash in cash, with \$1.6 trillion in dry powder “putting increasing pressure on deal makers to identify investment opportunities quickly as the recovery picks up,” Preqin wrote.

The momentum for the first three months of this year began in the last half of 2020, when fund-raising, buyouts and exits all rose sharply from the second-quarter downturn. In its latest report on the private equity industry, Bain & Co. attributes the V-shaped rebound to general partners “bursting” with capital and “as eager as they’ve ever been to put money to work.” The industry’s “mood flipped” from cautious to aggressive “when central banks in the US and Europe aggressively pumped trillions into the financial economy, easing liquidity concerns for firms and their portfolio companies. That shifted attention from portfolio triage back to making deals.”

Ares Management was the dominant player in the sector in the first half as it reached agreement to pay \$1.1 billion for

Landmark Partners, an established and leading player in the secondaries market with \$18.7 billion in AUM. Ares cut the deal with management and majority shareholder **BrightSphere Investment Group**, which has divested several affiliates since 2020 (see *Traditional Investment Management*). Private equity is Ares' second-largest business with \$27 billion in AUM, well behind its credit business (\$146 billion in AUM). In April, the company closed an oversubscribed €11 billion (\$13.2 billion) European direct lending fund, its largest-ever such fund. A second possible Ares deal in Australia involving the purchase of 100% of **AMP Capital's** private markets business ended last April, when AMP opted to spin off the business. (Ares also acquired a real estate advisory firm; see *Real Assets*.)

Through its **Petershill** permanent capital vehicle, **Goldman Sachs** made several investments in private equity firms, including one transaction involving a Pittsburgh company focused on the North American middle market, **Incline Equity Partners**. Last year, Incline closed a fund with \$1.2 billion in commitments, nearly twice as much capital as it raised in its previous fund. The latest fund is aiming for controlling stakes in companies with enterprise values between \$100 million and \$450 million. Petershill has investments in more than 20 alternative managers.

Hamilton Lane and **Russell Investments** announced a "strategic partnership" designed to extend Hamilton Lane's private markets investment solutions, data-driven research and technology to Russell's middle-market institutional investors, as well as wealth managers. As part of the deal, Hamilton will make a \$90 million investment in Russell. Hamilton said the agreement combines its investment capabilities with Russell's large outsourced CIO business. Additionally, Hamilton Lane acquired **361 Capital**, a long-short equity fund manager with \$770 million in AUM. Hamilton Lane said the deal meets a strategic goal of "supporting private wealth investors."

In a transPacific deal, **Manulife Investment Management** and **Samsung Asset Management** signed a memorandum of understanding to collaborate on private market investments, including infrastructure, as well as social responsible investing. The firms' insurance arms will be initial investors in the strategies, but the two companies plan to add South Korean institutional clients over time. **Manulife Financial Corp.** has a significant business in Asia while Samsung is the largest asset manager in South Korea. MIM also created a new executive position in charge of private markets strategy for high net worth investors.

Nuveen acquired **Glenmount Partners**, one of Europe's largest renewable energy fund managers. Glenmount, which in 2019 raised more than \$1 billion for a clean energy fund, adds €2 billion (\$2.4 billion) in AUM to the \$3.7 billion that Nuveen already manages in its private infrastructure platform. London-based Glenmount said that Nuveen and TIAA will provide seed capital for new products to accelerate its growth. With the addition of Glenmount, Nuveen (part of **TIAA**) has more than \$150 billion in private real assets.

In a second green-related deal, this time in the credit sector, Nuveen acquired Connecticut-based **Greenworks Lending**, the largest provider of financing to property owners for carbon emissions reduction via the Commercial Property Assessed Clean Energy market. Nuveen, which has provided capital to Greenworks in the past, said the company offers investors "attractive yields" and borrowers a "net reduction in operating costs through utility savings" while delivering environmental benefits.

Deal-makers in the credit market maintained a steady pace in the first half while the market itself continued to rebound from the year-ago scare. Collateralized loan obligation issuance in the U.S. totaled \$39 billion across 81 deals in the first quarter, more than double the year-earlier totals, according to **Doubleline**. The 12-month leveraged loan default rate ended March just above 3%, well below projections last year that ran double that level. For its part, **Barclays** projects that U.S. leveraged loan issuance this year could reach \$430 billion to \$450 billion to top high-yield bond issues.

In the first quarter, private debt funds got off to an average start by value (\$25 billion), although the number of funds that closed (32) was the lowest in five years. This constituted "a continuation of the trend towards fewer, larger funds," Preqin wrote. Distressed debt was high on investors' screens, with 51% telling Preqin they plan to commit fresh capital to such strategies over the next 12 months while 49% cited special situations. During the 2020 first quarter, the numbers were 42% and 30%, respectively. Amid the fundraising, managers were sitting on \$127 billion in dry powder (as of September 2020) for direct lending, the largest private debt strategy.

Bonaccord Capital Partners, the private markets unit of **Aberdeen Standard Investments**, joined Nuveen in the credit market by acquiring a minority stake in middle-market private credit manager **Monroe Capital**. Based in Chicago and founded in 2004, the firm has \$10 billion in AUM and a focus on North American clients across multiple strategies; it is one of the largest dedicated senior secured private credit investors in the U.S. The two companies said the deal provides Monroe with "additional resources to pursue strategic initiatives." In 2020, Bonaccord cut two deals to expand its private markets business.

Fidelity International lifted out the private credit team from **MeDirect Bank**, a digital pan-European bank owned by **AnaCap**, a London private equity firm. The team manages a €400 million CLO fund comprising senior secured obligations that was launched in 2019. Fidelity International, privately held and independent of **Fidelity Investments** in the U.S., said the deal is part of a larger effort to expand its alternatives platform. "Private credit can provide an attractive means to diversify within a portfolio and achieve enhanced long-term return and income potential," the company said.

There were two other deals involving non-U.S. targets. One, spanning the Pacific, saw **TIG Advisors** of New York buy a minority revenue share interest in a Hong Kong-based credit

and special situations investor with \$1 billion in AUM, **Arkkan Capital**. TIG, whose CEO Michael Tiedemann also serves as CEO at wealth manager **Tiedemann Advisors**, praised Arkkan's "ability to navigate Asia's dynamic and growing credit markets." In a deal between two London-based credit managers, **Cairn Capital Group** acquired **Bybrook Capital** (AUM: \$2.5 billion) to create a more formidable credit manager with \$8 billion in AUM across public, private, performing and distressed assets. Cairn is majority owned by Italian investment bank **Mediobanca**, which said the deal furthers its ambitions in alternative assets and meets "strong investor demand [for distressed debt] chasing few capable managers." ♦

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