

2023 Financial Services Industry Review

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As markets darken, a baseball card shines

In 1952, a 20-year-old baseball prospect from Oklahoma entered his first full season with the New York Yankees and began a storied career that led him to the Hall of Fame and a place among the pantheon of Yankee legends. Last August, a mint 1952 baseball card for that player, Mickey Mantle, sold for \$12.6 million dollars. The winning bid was almost double the previous record for a rare baseball card — and 12 times what Mantle earned during his 18-year career.

Just prior to that auction, the “Hand of God” jersey worn by soccer legend Diego Maradona in the 1986 World Cup sold for \$9.3 million while the 1974 heavyweight title belt belonging to Muhammed Ali fetched \$6.2 million. “In a nutshell, the world of modern sports cards has been going bonkers,” Stephen Fishler, founder of ComicConnect, told the *Associated Press* in referencing the Mantle sale, but his comment could have wrapped in the entire sports memorabilia market.

Cards and jerseys weren’t the only collectibles “going bonkers.” Watches, diamonds, wine, sound systems, Nike sneakers and skateboards, and even “CryptoPunk” non-fungible tokens (NFTs) generated plenty of enthusiasm from investors and collectors. In Asia, one collector paid HK\$153 million (US\$19.5 million) for a soap stone seal used by 18th-century Chinese emperor Qianlong. Andy Warhol’s portrait of Marilyn Monroe sold for \$195 million, setting a new record for an American artwork at auction.

These days, buyers aren’t just wealthy individuals. “Hedge funds and professional investors are carving out pieces of the pie to put their money into collectibles,” Julien Auction house founder Darren Julien told the *Financial Times* last August. Investment firms account for one-third of collectible buyers, Julien told the newspaper, with the trend accelerating as they seek a hedge against inflation.

While the collectibles market proved profitable if not downright frothy, investors in the traditional areas for making money — stocks and bonds — could have used some of the rare wines and spirits from the “historic cellars” of England’s King’s College to drown their sorrows. That batch sold for £2.7 million (\$3.1 million) last June.

After decades of calm following the inflationary storm of the 1970s and early 1980s, inflation returned with a vengeance last year in North America and Europe, combining with war in Ukraine and soaring energy prices and shortages to pummel markets. Traditional investors were left with few hiding places. Saying that the Federal Reserve “misjudged inflation” and was reversing course by withdrawing liquidity, noted bond

investor Mohamed El-Erian told *New York* magazine last October that investors were enduring “the worst correlation, because your government bonds no longer offset the risk on your equities — they all go down together.” The only good news, he continued, “is we started to get the distortions out of the system. I call this a very bumpy journey to a better destination.”

Second-Half Slide

MERGERS & ACQUISITIONS 2022, ALL INDUSTRIES

Value of Announced Deals by Half-Year

Jan. - June: \$2.2 trillion (vs. 1H 2021: -21%)

July - Dec.: \$1.4 trillion (vs. 2H 2021: -37%)

Value of Announced Deals (\$ billions)	2022	(vs. 2021+/-)
Worldwide	\$3,609	(-37%)*
U.S.	\$1,540	(-38%)
Europe	\$851	(-39%)
Asia-Pacific (ex-Japan)	\$831	(-32%)

OF WHICH (BY \$ VALUE 2022, WORLDWIDE)

Cross Border	31%
Private Equity-Backed	20%**
Financials	11%
Megadeals (\$5b+)	22%

* Largest YoY pct. decline since 2001

** Record pct. of total but YoY \$ decline of 36%

Source: Refinitiv

Bumpy indeed. All three major U.S. indexes were in the red last year, with the Nasdaq particularly hard hit (off 33%). **Morningstar** called the performance of U.S. bonds the “worst year in modern history,” with the firm’s U.S. Core Bond index off nearly 13%. Investors in a traditional diversified 60/40 stock-bond portfolio endured losses of 16%. Outside the U.S., investors fared no better: The European Stoxx 600, Nikkei 225 and MSCI Emerging Markets indexes lost 13%, 9% and 20%, respectively.

Investment Management Transactions

	2018	2019	2020	2021	2022
Majority Equity	211	183	195	277	251
Minority Equity	51	41	37	48	47
Management Buyout	13	10	9	4	7
Total	275	234	241	329	305
Total Transaction Value (\$B)	\$40.8	\$21.4	\$35.4	\$53.7	\$41.6
Total AUM Changing Hands (\$B)	\$2,422	\$1,050	\$3,006	\$3,751	\$1,683

Source: Berkshire Global Advisors LP

Value managers were one beneficiary of the shifting currents during the year, enjoying strong relative outperformance after lagging significantly behind growth managers for more than a decade. U.S. value funds dropped less than 1% in 2022 compared with a 37% decline for growth funds, according to Morningstar. Part of the reversal relates to the rich valuations growth stocks gained in the aftermath of

the financial crisis, another to investors' focus on current rather than future earnings in an inflationary environment. Fund flows provided evidence of the shift: In 2022, U.S.-listed large value ETFs drew \$79 billion in inflows, nearly three times the amount for their growth peers. That

was the widest disparity between the two categories in Morningstar's database dating to 1983.

Many analysts and managers were quick to declare that the long-awaited comeback by active managers is at hand. "The formula that worked over the past decade was passive, U.S., growth, megacap," Lisa Shalett, chief investment officer at **Morgan Stanley Wealth Management**, told *Barron's* last October. "That formula will fail over the next decade." In the short term, however, the record of active managers showed the importance of selectivity: Only 43% of the 8,300 active U.S. funds tracked by Morningstar beat their passive competitors last year, down four points from 2021.

Investment Management Transactions

WHO'S BUYING

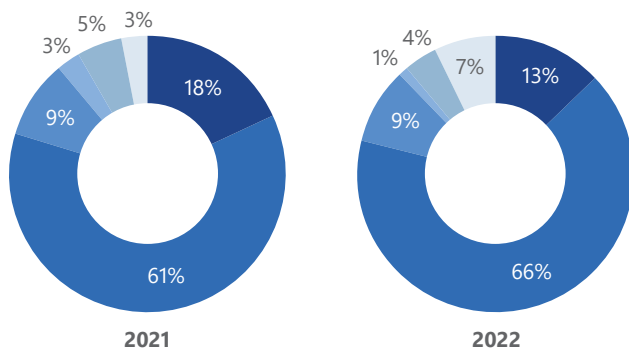
	2018	2019	2020	2021	2022
Wealth Manager	58	76	84	125	137
Financial Buyer	42	38	31	32	36
Alternatives Manager	17	17	23	46	30
Insurance	23	17	15	22	30
Traditional Investment Manager	49	33	45	54	25
Securities Firm	10	8	7	13	13
Real Asset Manager	14	10	7	10	11
Bank	35	17	7	16	8
Management Buyout	14	9	9	4	6
Other	13	9	13	7	9
Total	275	234	241	329	305

Source: Berkshire Global Advisors LP

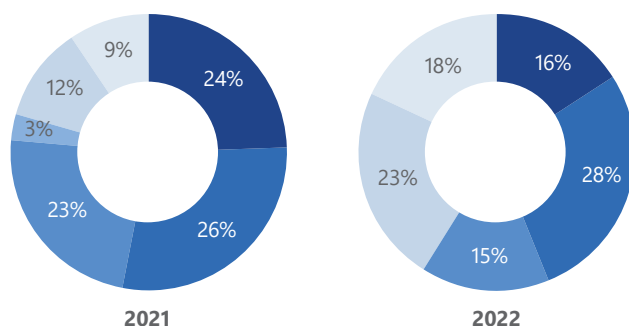
Investment Management

WHO'S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



■ Institutional / Mutual Fund
■ Wealth Management
■ Real Assets
■ Hedge Fund / Fund of Funds
■ Private Equity
■ Credit

Source: Berkshire Global Advisors LP
Data may not add up to 100%

Following a banner year in 2021 and the second-half rebound in 2020, asset managers were hunkering down last year. By the second quarter, asset managers were showing the impact of the sharp downturn in markets: Only eight of the largest 27 publicly traded U.S. managers tracked by *Pensions & Investments* delivered increases in AUM compared with the year-earlier period, and all but one (**Goldman Sachs**) was an alternative manager. Casey Quirk said the 18 listed North American asset managers it reviewed (total AUM: \$17 trillion) saw AUM and revenue declines of 12% and 8% in aggregate, respectively, in the second quarter.

Although alternative managers maintained a premium valuation to traditional ones (12.4 times forward earnings vs. 9.3 times), the gap had narrowed considerably from the year-earlier period (22.2 times vs. 11.9 times), according to Casey Quirk. The asset management consultant attributed the change to investors "viewing forward earnings with heightened scrutiny amidst volatile markets and uncertainty on private market valuations." On *MFWire.com's* screen of 17 U.S. firms, the median share price was down 32% by the third quarter, with just one stock showing a gain. That distinction belonged to fund manager **Manning & Napier**, the result of the premium offered by **Callodine Group** in a public-to-private transaction.

Deal-making in the industry remained active, however, with the wealth sector once more in the vanguard but

the range of alternative sectors showing considerable strength for another year. In **Affiliated Manager Group's** (AMG) second-quarter earnings call, CEO Jay Horgen described the overall M&A environment as "favorable," saying the needs of independent firms have become "acute" as they seek a partner to "support their business goals, whether it be growth capital, distribution, strategic advice or just a strong, reliable partner." He also called the climate "more constructive for pricing and structure," adding that the various factors "will increase our success rate with high-quality firms and structures that are attractive to our shareholders." AMG made just one acquisition last year, adding to a minority stake in hedge fund **Systematica Investments**.

In traditional investment management, the consolidation transactions that have defined the sector in the U.S. and to a lesser extent Europe were nonexistent last year. That reflects, in part, the number of large and willing targets that have already been acquired and a pause among buyers with the scale to make such deals. Two of the major transactions took place in Asia's two largest markets, China and India, involving buyers **Mackenzie Financial** of Canada and a fund managed by **Blackstone**. But Australia led the sector with **Perpetual's** A\$2.5 billion (US\$1.7 billion) acquisition of **Pendal**. The all-Australia deal created a diversified and more competitive global multi-boutique with some A\$200 billion in assets, half in the U.S.

Two South Korean firms, **Mirae Asset Global Investments** and **Samsung Asset Management**, were notable buyers of ETF companies as the smaller and generally more specialized providers remain the primary targets in an industry dominated by three giants. Mirae, with a significant global ETF business, gained entry to the nascent Australian ETF market with the acquisition of **ETF Securities Australia**, a thematic manager. Samsung bought a minority stake in U.S. thematic manager **Amplify Holding Co.**, aiming to distribute the company's products in Asia and assist with new product development and marketing.

In a comprehensive survey last year of retail investors, **Charles Schwab** found that 80% of ETF investors considered those products to be their "vehicle of choice," up nine percentage points from 2020, while the ETF investments in their portfolios had climbed to an average of 33% of the total from 27% in 2017. The ETF juggernaut continued to roll on last year, registering \$856 billion in net inflows worldwide, according to ETFGI, although assets declined 10% from the end of 2021 to \$9.2 trillion.

Securities & Investment Banking Transactions

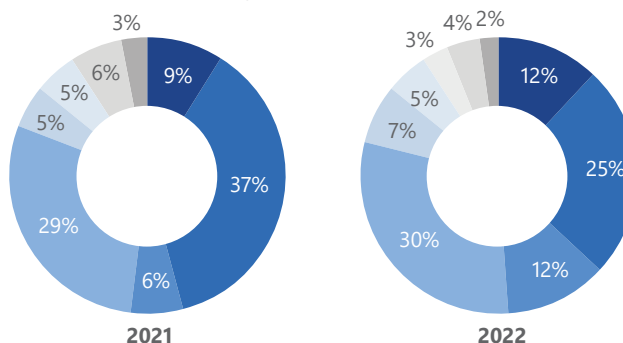
	2018	2019	2020	2021	2022
Majority Equity	62	62	48	50	39
Minority Equity	14	3	11	13	18
Total	76	65	59	63	57
Total Transaction Value (\$B)	\$9.9	\$39.6	\$25.2	\$5.9	\$4.7

Source: Berkshire Global Advisors LP

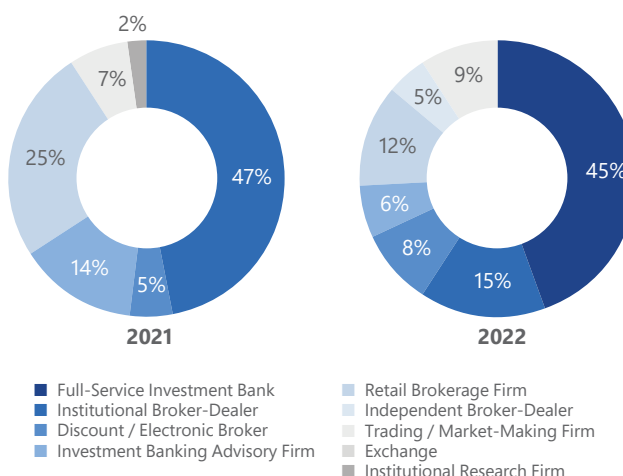
Securities & Investment Banking

WHO'S SELLING

Number of Transactions by Sector as % of Total



Value of Transactions by Sector as % of Total



Source: Berkshire Global Advisors LP

Securities Industry & Investment Banking Transactions

WHO'S BUYING

	2018	2019	2020	2021	2022
Diversified Financial Services Company	17	10	4	3	12
Private Equity Firm	3	4	6	3	12
Full-Service Investment Bank	4	16	11	10	7
Investment Banking Advisory Firm	3	1	4	3	5
Commercial Bank	5	5	8	5	3
Independent Broker-Dealer	6	4	3	5	5
Discount/Electronic Broker	5	8	2	3	3
Institutional Broker-Dealer	4	4	7	10	2
Retail Brokerage Firm	1	0	2	0	2
Exchange	6	7	7	5	1
Insurance Company	1	1	0	0	0
Trading/Market-Making Firm	5	2	1	0	0
Other	16	3	4	18	5
Total	76	65	59	65	57

Source: Berkshire Global Advisors LP

Perhaps appropriately, the largest asset management deal involved an alternative manager, also based in Asia: **EQT's** €6.8 billion (\$7.2 billion) acquisition of **Baring Private Equity Asia**, one of the three largest private markets managers in that region. Sweden's EQT said it aims to "execute on the structural growth opportunity in Asian private markets," which Preqin projects will grow at nearly twice the global rate in the five years through 2025. "It's a transformational deal, but more importantly it's representative of where our industry is going," said Jean Eric Salata, CEO and founder of BPEA. "You need to have global reach and scale." AMG sold its minority interest in BPEA as part of the deal.

EQT-BPEA marked the second consecutive year an alternative transaction led the industry: In 2021, **T. Rowe Price** paid \$4.2 billion for credit manager **Oak Hill Advisors**. Traditional managers such as T. Rowe Price were significant players in the alternative space once more last year, as the largest ones build out those businesses to meet client demand. Alternatives can also

be more lucrative: In its latest asset management report, BCG points out that while alternatives made up 17% of industry AUM globally in 2021, they accounted for 44% of revenue, levels the consultant expects to reach 19% and 51%, respectively, by 2026. "Traditional large asset managers with strong distribution networks are paying close attention and have made strategic moves to the bring these products to their clients," writes BCG. The consultant suggests an increase in M&A activity and partnerships in the years ahead and "stiff competition to elevate alternatives to mainstream asset status" and retail acceptance.

Among the traditional managers tapping the alternative market last year were **AllianceBernstein**, **First Eagle Investments**, **Franklin Resources** and **Neuberger Berman**. *Citywire* research

last year showed that the 25 largest traditional fund managers worldwide had nearly \$3 trillion in private assets and other alternatives, or 22% of the total. Franklin, for one, has 16% of its \$1.4 trillion in AUM in alternatives, or double the level in 2020. Last year, it added to that total by acquiring a leading European credit manager, **BNY Alcentra Group Holdings**, for which it could pay up to \$700 million. President and CEO Jennifer Johnson said she is eyeing the retail market for those products. "Three-quarters of a century ago, we brought mutual funds to individual investors," she wrote, "and our moves in alternatives are aligned with that continuing mission: democratizing access."

There was a notable uptick in deals in the infrastructure sector, as institutions increasingly target those investments and the arena has expanded to incorporate hot areas such as clean energy and technology. In a tech-related deal, **DigitalBridge Group** paid \$800 million for **Wafra's** 31.5% ownership of its digital infrastructure asset

manager, **DigitalBridge Investment Management**. A transaction between two sustainable infrastructure managers saw **Foresight Group Holdings** of London acquire Australia's **Infrastructure Capital Holdings**, whose assets include hydropower stations, wind farms, solar projects, and a water treatment plant.

"Transforming the world's energy infrastructure is both the greatest challenge and the biggest investment opportunity of our generation," Daniel Wong, head of Europe for infrastructure asset manager **Stonepeak**, told the *Times* of London last year. New York-based Stonepeak closed a \$14 billion infrastructure fund last February, double the size of its previous fund.

Cross Border Investment Management Transactions

	2018	2019	2020	2021	2022
U.S. - INTERNATIONAL					
Number of Deals	43	31	34	48	39
Value (\$B)	\$7.4	\$7.4	\$6.2	\$12.8	\$9.6
INTERNATIONAL - INTERNATIONAL					
Number of Deals	79	57	64	83	62
Value (\$B)	\$9.6	\$4.4	\$5.7	15.1	\$15.9
TOTAL					
Number of Deals	122	88	98	131	101
Value (\$B)	\$17.0	\$11.8	\$11.9	27.8	\$25.5

Source: Berkshire Global Advisors LP

Prequin projects infrastructure will overtake real estate by 2026 to become the largest real asset class, with AUM of \$1.9 trillion. The data provider noted that by end of last June infrastructure funds had raised \$122 billion, or “a year’s worth of capital in just six months as investors flock to the asset class.”

Colliers was another participant in the sector as it continues to aggressively build its alternatives portfolio. The Toronto firm, whose dominant business involves professional services, acquired a 75% stake in **Basalt Infrastructure Partners**, one of three alternatives deals it made in 2022. Basalt is a mid-market equity investor in utilities, transportation, energy/renewables and communications in Europe and North America. Colliers also added to its real estate advisory capabilities by acquiring a majority of **Rockwood Capital**, an established equity and credit investor across a range of property asset classes in North America.

Dyal Capital Partners of New York joined EQT in tapping Asia’s private markets by acquiring a minority stake in an established and major South Korean private equity player, **MBK Partners**. MBK focuses on China, Japan and South Korea and targets the financial services, consumer, and telecommunications and media industries. South Korea’s private equity market registered a record \$30 billion in deals in 2021, higher than the total in Japan, according to Bain & Co. Over the past decade, Asia-focused private equity AUM grew more than twice as fast as in North America and Europe.

Kudu Investment Management cut three deals in the busy credit sector, the largest involving an emerging markets specialist based in Connecticut, **Gramercy Funds Management**. A permanent capital provider majority-owned by **White Mountains Insurance Group**, Kudu has a portfolio of more than 20 asset managers, primarily focused on alternatives, and makes an average investment of \$35 million. Kudu also welcomed **Masachusetts Mutual Life Insurance Co.** as a new minority investor last year. Franklin Resources, **Nuveen** and **Oaktree** all tapped the European market for credit deals. Oaktree entered the fledgling net asset value (NAV) financing market via London’s **17Capital** while its parent, **Brookfield Asset Management**, paid A\$1.5 billion (US\$1 billion) for a fast-growing Australian credit firm, **La Trobe Financial**.

Consolidators continued to lead the hyperactive wealth sector. For example, private equity-backed **Creative Planning** and **Mercer Advisors** each made 10 deals in the first half alone. “Our view is that M&A in the RIA sector is still in the early innings, and there is much more to come,” Max Rakhlin, managing director for RIA investor **Lightyear Capital**, told *Gravity Exists* last year. “Major secular changes driving consolidation in the long term are independent of rising interest rates and financial market volatility. In fact, we’ve seen M&A accelerate during market dislocations.”

Cross Border Transactions by Domicile and Type

2022	BUYER: SELLER:	U.S. INT’L	INT’L U.S.	INT’L INT’L	TOTAL
Wealth Management		8	5	28	41
Institutional/Mutual Fund		3	5	14	22
Other		11	7	20	38
Total		22	17	62	101
2021	BUYER: SELLER:	U.S. INT’L	INT’L U.S.	INT’L INT’L	TOTAL
Wealth Management		7	15	34	56
Institutional/Mutual Fund		6	5	24	35
Other		6	9	25	40
Total		19	29	83	131

Source: Berkshire Global Advisors LP

The consolidators were joined by a couple of significant deals involving independent managers: **Cresset Asset Management’s** acquisition of **Meristem Family Wealth**; and **Laird Norton Wealth Management’s** merger with **Wetherby Asset Management**. The Cresset-Meristem deal involved the teaming of two Midwest firms to build a multi-family office with \$27 billion in AUM. In an interview with *Forbes*, Avy Stein, co-founder and co-chairman of Cresset, noted that greater size also provides leverage with investment managers. “If you’re investing money with someone, you’re going to be able to drive better terms or get a better opportunity to co-invest in unique things they may drive, and that’s true on both the public and private side,” he said.

The largest wealth deal last year took place outside the U.S.: **Royal Bank of Canada’s** C\$2.6 billion (US\$1.9 billion) purchase of London’s **Brewin Dolphin Holdings**. The Brewin deal gives RBC significant scale in the UK, adding 30 offices and around £52 billion (\$62 billion) in AUM. The UK, as well as Switzerland, remained the two primary markets for wealth deals outside the U.S., with the UK in particular providing a large and fragmented market that is drawing attention from private equity firms. There are some 30 private equity-backed consolidators in the UK market, with **Crestline Investors**, **HPS Investment Partners** and **Lovell Minnick Partners** among the U.S. private equity firms entering the market last year.

The wealthtech sector continued to draw traditional financial services firms, among them **Bank of America**, Goldman Sachs and **JPMorgan Chase**. They were joined by such pure wealthtech players as **AssetMark Financial Holdings**, **Investnet**, **iCapital** and **Orion Advisor Solutions**. iCapital made several deals, including for **Simon Markets**, a platform for structured products, annuities and other risk-managed products. “There are a handful of black hole TAMPs that are drawing other TAMPs and fintech firms toward them and swallowing them up in order to gain scale and grow assets,” Scott MacKillop, CEO of wealthtech **First Ascent Asset Management**, told *RIABiz* last June. “These firms are under tremendous pressure to grow quickly and win the hearts, minds and desktops of the advisor community.”

Some of the partners at **Berkshire Global Advisors** are seasoned enough to recall the very end of Mickey Mantle's career. In that era, when buying baseball cards was commonplace among youngsters, the cards were cavalierly tossed out after each season. Would that we had kept a few, as we observe the prices for some of the rarer ones.

It would appear that some investors value collectibles as better hedges against inflation than stocks and bonds, both of which disappointed last year, although traditional fixed income beckoned with yields not seen in 15 years. By November, short-term Treasuries of up to two years were yielding more than 4%, a level that still lagged inflation by several points.

Public defined pension (DB) plans, which last fiscal year endured their worst annual performance since 2009, gained a small measure of relief from higher rates, as higher bond yields lower future liabilities (although public plans are also on the hook for cost of living increases). For corporate DB plans, the current environment and the more attractive funding ratios make passing on those liabilities to insurance companies an easier lift.

While corporate plan investment managers tend to keep their portfolios simple, public plans remain enthusiastic buyers of alternatives as diversifiers and solid long-term investments. Public plans in total had 29% of their assets in alternatives as of 2021, up nearly two percentage points over five years, according to the Center for Retirement Research at Boston College. In New York, for example, the various pension funds received approval in 2022 to hike their alternative allocations from 25% to 35%.

Last year, we were pleased to once again take part in multiple alternatives deals that included a diverse group of buyers, among them **Bonaccord Capital Partners**, Colliers, Dyal Capital Partners and Foresight. We note some of those deals briefly in this Summary, with additional commentary in the sections covering alternatives.

We also took part in transactions involving traditional and wealth managers, including **CI Financial's** acquisition of Houston multifamily office **Galapagos Partners**. In the Wealth section, we make note in some detail of CI's plan to float its large and acquisitive U.S. wealth business. Our successful wealthtech practice was engaged with **First Trust Advisors'** acquisition of **Veriti Management**, a participant in the fast-growing direct-indexing market. You can read about that in the Fintech section. In 2021, we were honored to be involved in **Vanguard's** first-ever acquisition, of direct indexer Just Invest. A \$360 billion asset market in 2021, Cerulli projects that direct indexing will grow by 12% annually in the five years through 2026.

As deals continue to be concluded amid markets placid and turbulent, the factors that drive the activity remain in place. One is the imperative of scale, which feeds on itself with consolidation. A second and related one are the non-investment/non-client imperatives that independent managers find so tedious and costly. A third: shifting product demand, seen most prominently these days in

the alternatives space, where traditional managers have been teaming with alternative managers to expand those portfolios. Then there's generational turnover, as baby boomer owners seek to monetize their businesses and either retire or transition to a larger parent's embrace.

Whatever your situation may demand, whether as a buyer or seller, the Berkshire team is ready to assist, drawing on five decades of experience within the industry and its universe of diverse firms and participants.

Traditional Investment Management

In October 2007, **Pzena Investment Management** went public after 12 years in private hands. Riding a value wave after the dot-com collapse, the New York firm enjoyed a strong track record for performance and inflows: AUM jumped tenfold between 2002 and the time of the IPO to \$29 billion. But the timing was inauspicious: The debut on the NYSE coincided with the emerging financial crisis, and following the market crash in 2008 investors ushered in a bull run in growth stocks that left value players like Pzena at the starting line.

Pzena's stock price reflected those market dynamics, dropping sharply after the IPO and remaining depressed in the years after. Last July, Pzena announced plans to go private, offering shareholders a 49% premium. The deal implied a valuation for Pzena of \$795 million, or 8.3 times projected 2022 EBITDA.

Referring to "this new chapter for our firm," CEO Richard Pzena said the offer is in shareholders' best interests and "will enhance our ability to achieve investment excellent on behalf of our clients." Pzena's portfolio includes more than a dozen subadvised funds that account for the majority of its \$47 billion in AUM. Last August, Pzena added another such mandate when **Vanguard** selected it as a subadvisor for 25% of the Vanguard Global Equity fund (AUM: \$7 billion).

Pzena, which completed the transaction last October, wasn't alone among smaller publicly traded active managers going private. For **Manning & Napier**, the exit came via an acquisition from **Callodine Group**, which paid a 41% premium to Manning's share price last April that valued the firm at \$293 million, or 8.3 times projected 2022 EBITDA (similar to the Pzena sale). As with Pzena, Manning had a strong track record for growth when it went public in November 2011: AUM of \$39 billion, built on a mix of blended and equity vehicles, had more than doubled since 2008.

But by the time of the Callodine announcement, AUM had halved to \$21 billion and the share price was 25% below the IPO float. In its SEC filing, Manning explained that the deal will allow it to pursue "strategic initiatives without the impact of market fluctuations and continued focus on public company listing requirements."

In an additional such offer, **Deerhaven Capital** and **Echo Lake Capital** made a \$79 million bid for **U.S. Global Investors**, citing the challenges the firm faces in "creating value

for shareholders as a public, micro-cap.... [that] suffers from a lack of sell-side analyst coverage, limited trading volume and limited demand from institutional investors." The San Antonio firm has \$4 billion in AUM, and while most of the funds are actively managed the lion's share of assets are in an ETF tracking the global airline industry. U.S. Global, whose voting shares are controlled by CEO Frank Holmes, rejected the bid, which placed a 20% premium (\$5.30) on the share price last June. The company's share price peaked in 2006 at around \$33.

The stories of Manning and Pzena are to a large degree the story of a traditional investment management industry that since the financial crisis has been disrupted by the passive revolution and fee compression. In a public marketplace dominated by giants such as **BlackRock** and **Franklin Resources**, the experiences of Pzena and Manning also call into question the viability of smaller asset managers as publicly traded entities. (Last year, publicly traded traditional asset managers of all sizes saw their shares tumble, along with the larger market, although prices and valuations rebounded in the fourth quarter, including for BlackRock and Franklin.)

Mid-size **Victory Capital Holdings** may offer a blueprint for a more successful run on the public markets. The San Antonio-based company pursues a multi-boutique strategy and has made multiple acquisitions since its 2018 IPO, including a transformative one for USAA Asset Management in 2019. In 2021, Victory closed three diverse deals that added asset allocation, clean energy, and socially responsible small- and mid-cap strategies, bringing to 12 the number of firms in its portfolio. Victory, which took an M&A break last year, expects to expand the reach of those small managers via its "multiple, well-established distribution channels." The company's AUM has tripled since the IPO to \$155 billion while revenue has more than doubled. Between the IPO and the end of 2022, the stock doubled, although the share price dropped 27% last year.

Their various fortunes notwithstanding, Manning & Napier, Pzena, Victory Capital and even the industry heavyweights are all facing similar pressures, the most notable ones revolving around fees and products. The latest data from the Investment Company Institute shows that the asset-weighted average expense ratio for funds continued to fall in 2021, to 0.47%, 16 basis points below the 2016 number. Among active equity funds, 70% of assets are with funds having expense ratios in the lowest quartile, and even among index equity funds that number is 84%.

The 20th annual review of the global asset management industry released last year by BCG underlines these trends: The consultant reports that equity market performance has been "a major force driving the industry's fortunes," contributing an astonishing 90% of the \$120 billion growth

in revenues between 2005 and 2021. "During the same period, revenues from net inflows have been almost fully offset by revenue pressures as investors change their asset-class mix toward lower priced products and fee pressure continues," BCG writes.

Significantly, BCG found that the majority of assets in mutual funds and ETFs reside in legacy products. "Innovation has not always paid off in this environment," the consultant notes, as evidenced by the failure rate: 80% of ETFs and 60% of funds launched in 2018 had closed by 2021, ratios that have "climbed steadily over the last decade." Fund and ETF legacy products combined have seen their overall global share climb 10 percentage points since 2012 to 74%.

Institutional/Mutual Fund Transactions

	2018	2019	2020	2021	2022
Number of Transactions	66	47	42	60	39
Combined Value (\$B)	\$17.2	\$2.8	\$18.5	\$13.1	\$6.8
Total Seller AUM (\$B)	\$1,183	\$328	\$1,686	\$1,863	\$502
Average Deal Size (\$M)	\$260	\$59	\$441	\$219	\$175
Average Seller AUM (\$B)	\$17.9	\$7.0	\$40.1	\$31.1	\$13.0

Source: Berkshire Global Advisors LP

Its various challenges notwithstanding, the industry as a whole remains highly profitable, sporting an operating margin of 38% in 2021 that rose two points from 2020, although it has remained in the mid-30% range since 2010. There's also some good news for active managers: BCG points out that the space is "notably more fragmented" than is passive, with only one-quarter of net inflows reaching the top-10 players over the last five- and 10-year periods through 2021. Passive inflows show the opposite trend, with three-quarters of inflows going to the largest players. "Premium performers and affordable alpha products have shown systematically positive flows over time," BCG writes, adding: "The flight of investor capital to passively managed products poses a threat only to lower-quality active products."

On the M&A front, the sector was noteworthy last year for the lull in consolidation or similar large deals in Europe or the U.S., with three of the major ones occurring in Asia-Pacific, including a domestic Australian one involving **Perpetual's** A\$2.5 billion (US\$1.7 billion) acquisition of **Pendal**. The ETF space remained an area for ongoing activity, as it has since 2014, with smaller companies the natural targets and two South Korean firms the headline buyers. Specialized active managers in areas such as small-cap investment also remained in demand.

In one of the more significant U.S. deals, **Voya Financial** acquired most of the U.S. business of **Allianz Global Investors** as part of its drive to go "capital light." The deal adds \$120 billion in AUM to bring Voya's total to \$370 billion. In return, Allianz gains a 24% stake in

Voya's asset management unit. Importantly, Allianz will also provide distribution support for Voya products in Europe and Asia-Pacific. The transaction followed Allianz's agreement with the SEC acknowledging securities fraud in the U.S. business; it received a 10-year ban on U.S. fund management.

Allianz adds a retail and international presence to Voya's largely institutional and U.S. business. The Allianz business also has a larger equity footprint, at 48% of AUM vs. 23% at Voya, where fixed income accounted for 69%. On the

"We think that Manning and Callodine together can kind of be the new 60/40 blend. We can start to bring products to their market that are income replacement products, but also generate returns for folks that are really attractive."

financial side, Voya said the business will add 6% to 8% to adjusted cash EPS and four to six points to its asset manager's operating margin this year. In a second smaller deal, Voya acquired credit firm **Czech Asset Management** (see *Credit/Private Equity*). The largest part of Voya's business involves wealth and health-related employee benefits, with asset management accounting for 16% of adjusted operating earnings in 2021.

Callodine's purchase of Manning & Napier was another of the larger U.S. transactions. For Callodine, Manning delivers considerable scale, adding \$21 billion in AUM to the \$2 billion it already managed. Launched in 2018 by veteran **Fidelity Investments** portfolio manager James Morrow, Callodine pursues "yield-oriented" strategies in multiple asset classes, a portfolio that Manning described "as complementary to [our] existing core competencies." Two-thirds of Manning's assets are in blended vehicles while Callodine's investments include income-generating publicly traded vehicles such as BDCs, REITs, MLPs and dividend-paying stocks. The company also has commercial and real estate finance businesses.

"We think that Manning and Callodine together can kind of be the new 60/40 blend," Morrow told *Citywire* last September. "We can start to bring products to their market that are income replacement products, but also generate returns for folks that are really attractive." Callodine cut the deal "in partnership" with **East Asset Management**, which holds a stake in Callodine. East Asset, which contributed \$149 million in equity, according to *MutualFundWire.com*, is the family office of the billionaire Pegula family, most notable for owning the Buffalo Bills football team. Several banks also provided financing for the deal. In December 2021, Callodine acquired a majority stake in real estate credit firm **Thorofare Capital**, which had \$1 billion in AUM at the time.

There were multiple transactions for small ETF providers, including a transpacific deal that saw **Samsung Asset Management** acquire a 20% stake in **Amplify Holding Co.**, cementing a "strategic business alliance in the ETF space." As part of the deal, Samsung will distribute Amplify products in Asia while working on new product development and marketing. Based in the Chicago area, Amplify had more than \$4 billion in AUM in a variety of thematic ETFs at the time of the deal last March. One of the larger ETFs, Amplify Transformational Data Sharing, invests in companies involved in the development and utilization of blockchain technologies.

A second major South Korean firm with an existing ETF portfolio, **Mirae Asset Global Investments**, acquired **ETF Securities Australia**, adding a complementary thematic ETF manager. In 2021, Mirae sold its shareholding in another Australian ETF provider, **BetaShares**. ETF Securities adds A\$4.7 billion (US\$3.1 billion) to the US\$81 billion in ETFs Mirae already manages worldwide. But importantly, the firm provides Mirae with a presence in Australia, where Mirae's **Global X** unit was seeking approval to introduce ETFs.

Luis Berruga, CEO of Global X, told *ETF.com* that acquiring "an established, fully operational business that has a phenomenal lineup and a strong local management team will allow us to start launching more and more products" in Australia. ETF Securities was one of the early entrants in Australia's ETF industry, which has been growing rapidly in recent years. Still, with only A\$130 billion in assets, ETFs account for a fraction of the nation's overall asset management industry.

Within the U.S., **SS&C Technologies Holdings** sought to strengthen its ETF offerings with the acquisition of **O'Shares Investments'** ETF business. O'Shares, with \$1.5 billion in ETF assets, will license and provide marketing support for its ETFs to SS&C. Kevin O'Leary, chairman of O'Shares and best known as one of the panelists in the popular business TV show "Shark Tank," said the deal "provides important scale and enhanced distribution." SS&C, a services and software provider for the financial services and healthcare industries, has \$18 billion in AUM through an asset management subsidiary, **SS&C Alps Advisors**.

AXS Investments cut two deals to expand its portfolio of alternative ETFs, including the purchase of multiple funds with a total of more than \$400 million in AUM from **Tuttle Capital Management**. The largest of the funds, Tuttle Capital Short Innovation, is a unique instrument seeking returns inverse to the performance of Kathy Wood's prominent ARK Innovation ETF. In a second deal, the firm acquired the industry's first certified carbon-neutral ETF from **Change Finance**, with \$120 million in AUM. Greg Bassuk, CEO of two-year-old AXS, told *ETF Express* that he is targeting firms that allow his company to "build out a platform that is aggressively bringing differentiated strategies to investors."

In two simultaneous and related buyouts of note, management at **LMCG Investments** acquired the majority share held indirectly by **Royal Bank of Canada** via subsidiary **City National Corp.**, the Los Angeles bank and wealth manager.

Boston-based LMC (AUM: \$4 billion) manages equity, fixed income and structured credit products for institutions and private clients. In the second transaction, LMC's team of veteran value managers acquired the company's value business and subsequently began operating as a separate firm, **Leeward Investments**.

Leeward has \$2.8 billion in AUM and a subadvisory role for **Touchstone Investments'** small and mid-cap value funds. The far larger mid-cap fund, which commenced in 2009 and has more than \$900 million in AUM, is diversified by

Vitruvian cited the small-cap universe as providing "greater opportunities for active managers to add value through stock selection and sector positioning," given the large number of small companies that operate off analysts' radar screens.

sector and includes some 70 securities with a weighted average market capitalization of \$20 billion. In another deal, management at U.S. equity manager **Argent Capital Management** acquired the minority share held by investors. The St. Louis firm has \$3.3 billion in AUM, two-thirds in a concentrated large-cap growth strategy.

A second independent St. Louis firm, **Kennedy Capital Management**, sold a 35% stake to Italy's **Azimut Group**, a partnership in which KCM "will lead the growth of Azimut's public equities" U.S. asset management business. Azimut's commitment will help KCM "solidify [its] intense research focus" and retain and recruit "top talent." An active small- and mid-cap manager that has also managed socially responsible investments for 20 years, KCM (AUM: \$3.6 billion) was founded in 1980. Azimut has been building a significant presence in the U.S., which accounts for 30% of its €86 billion (\$90 billion) in AUM, making the U.S. the second-largest market after Italy. In another U.S. deal last year, Azimut bought a minority stake in private equity firm **BroadLight Holdings** (see *Credit/Private Equity*).

Multi-strategy manager **Shelton Capital Management** (AUM: \$4 billion) of Denver zeroed in on another small-cap equity specialist, San Francisco's **Vitruvian Capital Management**, as it remained active in the M&A marketplace. Vitruvian, which manages an established U.S. fund and a newer international strategy, is also a registered RIA. As part of the deal, Shelton made Vitruvian's managing partner its chief investment officer and co-manager of two existing Shelton funds. In a 2021 commentary, Vitruvian cited the small-cap universe as providing "greater opportunities for active managers to add value through stock selection and sector positioning," given the large number of small companies that operate off analysts' radar screens.

For **Loop Capital** of Chicago, the target was a fixed-income manager, **Taplin, Canida & Habacht**, which manages more than \$6 billion for institutions and was part of **BMO Global**

Asset Management. Loop Capital is an investment bank and broker whose asset management business prior to the deal consisted of infrastructure investments. The two firms "share a decades-long working relationship." In 2021, **CIBC** made a "strategic investment" in Loop as part of its expansion in the U.S. in capital markets and wealth management (see *Capital Markets for more on Loop*).

MetLife Investment Management sought out a small fixed-income manager of a different sort: global ESG specialist **Affirmative Investment Management** (AUM: \$1 billion). Founded in 2014, AIM is based in London and manages "fixed-income portfolios that generate positive environmental and social impact without compromising financial returns." In the firm's Global Impact Bond fund, for example, 53% of assets are in infrastructure and 30% in clean energy and water and wastewater management. Prior to the deal last August, MIM provided \$200 million in financing to phase out the last two coal-fired plants in New Jersey, saying the investment "reinforces MIM's long-term commitment to energy transition initiatives that drive environmental sustainability and decarbonization."

There were a couple of transatlantic deals featuring U.S. firms buying minority stakes in UK managers. In one, Pennsylvania multi-boutique **Spouting Rock Asset Management** targeted a small but established responsible investment specialist focused on emerging markets, **Alquity**. Spouting Rock, noting the difficulty of finding such "top-quality pure-play" managers, said a new joint venture the firms created will also provide a U.S. distribution platform for Alquity. The company's Future World fund, established in 2015 and one of several the firm manages, has nearly half its assets in China and Taiwan but is broadly diversified by industry. The fund tracks such metrics as water usage, waste, emissions and board independence.

In the second transaction, Little Rock, Ark.-based investment firm **Stephens** acquired 20% of **Crux Asset Management**, an active equity manager with £1.7 billion (\$2.1 billion) in AUM. Crux said the deal provides capital to fuel expansion. Prior to the transaction, Crux formed a "strategic partnership" with **UBP** to provide advice for the Swiss firm's Asian equity funds and mandates. UBP will also provide its Asian clients with access to Crux strategies.

Within the UK, **AssetCo** cut several deals, the largest an all-shares transaction valued at £99 million (\$120 million) for a fund manager in which it already held a minority share, **River and Mercantile**. RM has £4.2 billion in AUM in European and global active equities strategies, as well as a fledgling sustainable infrastructure business that AssetCo Chairman Martin Gilbert said will provide the "foundation stone" for a private markets business.

Gilbert was a storied deal-maker at Aberdeen Asset Management, acquired by Standard Life in 2017 and later rebranded as **abrdn**. After leaving abrdn in 2020, Gilbert acquired a stake in AssetCo, a provider of fire services that became a vehicle for him to build an asset manager via acquisitions, including three such deals in 2021. Last year, AssetCo cut two other small deals for Edinburgh-based

equity managers focused on the UK and continental Europe: **Revera Asset Management** and **SVM Asset Management**. In an interview with *FT Adviser* last April, Gilbert said AssetCo is targeting boutiques that deliver performance but lack distribution, with a model that allows the firms to retain equity. "There is a perception out there that [active] funds are on the way out, but we think good fund managers still add a lot of value," he said.

Global financial services firms continue to show confidence in the long-term prospects of India, where mutual fund AUM is just 11% of GDP. Although many individual investors favor traditional vehicles, analysts expect AUM to grow by an average of 14% between 2022 and 2027.

In the major deal by a Canadian firm — effectively an internal affair — Mackenzie Financial doubled its ownership stake in publicly traded **China Asset Management** to nearly 28%, paying C\$1.2 billion (US\$880 million). Mackenzie acquired the shares from **Power Corporation of Canada**, which controls Mackenzie parent **IGM Financial**. CAM, established in 1998, is China's No. 2 asset manager, with \$235 billion in AUM. The company delivered 40% annual average growth in AUM in the three years through 2021, with two-thirds from net sales. Mackenzie praised the firm's "strong leadership team, brand and multi-channel distribution business model."

India hosted a second deal of note in Asia-Pacific, as global financial services firms continue to show confidence in the nation's long-term prospects. With strong economic growth, a high savings rate, and mutual fund AUM at just 11% of GDP, analysts see plenty of opportunity for growth. Although many individual investors tend to favor traditional vehicles such as savings accounts, gold and real estate, millions have been flocking to online trading sites and mutual funds in recent years. Systematic investment plans that automatically funnel money into funds have also been growing rapidly.

Analysts expect AUM to grow by an annual average of 14% between 2022 and 2027, following a sixfold increase in the dominant mutual fund industry in the 10 years through March 2022, according to the Association of Mutual Funds in India. In 2021, the fund industry added a record amount of assets, which grew another 14% year over year in the second quarter of 2022 to reach \$475 billion.

In the largest deal, Blackstone acquired a majority stake in an established and fast-growing asset and wealth management firm, **ASK Investment Managers** (AUM: \$10.6 billion). Blackstone made the investment, which reportedly valued the Mumbai-based firm at \$1 billion, through one of its private equity funds. Explaining to India's *Financial Express* that "Blackstone is a global manager whereas ASK is a[n]

Indian asset manager," ASK CEO Sunil Rohokale said, "They can introduce us to global investors, mentor us and help us attract money to India."

BNP Paribas' asset management unit teamed up with **Bank of Baroda** of Mumbai in a mutual fund joint venture for retail and institutional investors, with BNP taking a 49.9% stake. Baroda is one of India's largest public sector banks. The combined firm will have AUM of \$3 billion and offer more than two dozen diverse funds. In the closing days of 2021, **HSBC** paid \$425 million for **L&T Investment Management**, then the 12th-largest mutual fund company in India.

The largest deal in Asia-Pacific — and within the traditional investment sector last year — involved Perpetual's A\$2.5 billion (US\$1.7 billion) cash-and-share acquisition of Pental. The all-Australian transaction created a diversified global multi-boutique with more than A\$200 billion in assets, about evenly split between the two firms. The deal, announced last August, raised questions among some analysts and was complicated in November by a bid solely for Perpetual from Australian alternatives manager **Regal Partners** in concert with a **BPEA EQT** private equity fund (see *Credit/Private Equity* for more on **BPEA EQT**).

Perpetual rejected the offer and soon after the firm and Pental reaffirmed their commitment to the transaction, although Perpetual altered the terms to incorporate less cash (originally one-third of the price) and more shares. As the rumor mill churned, a state supreme court weighed in, saying Perpetual could be liable for more than just a breakup fee if it voided the transaction.

In its initial August announcement, Perpetual said the combination with Pental will "materially accelerate" both companies' "global growth ambitions" while providing for the continued autonomy of the investment managers in their respective boutiques. Perpetual placed the valuation at 8.3 times EV/EBITDA and 6.7 times with expected synergies. But in an interview with the *Australian Financial Review*, Pental CEO Nick Good emphasized "that this isn't a cost-driven merger, but actually is about creating a global asset manager that has real growth potential into the future."

Perpetual-Pental has 54% of its AUM in the U.S., by client geography, followed by Australia (31%) and Europe (15%). The portfolio is heavily tilted toward equities, accounting for more than three-quarters of assets. Combined, the firms have seven boutiques, including **Barrow Hanley Global Investors**, a global value equities and fixed-income investor; **J O Hambro**, a global equities specialist; and **TSW**, a value investor across multiple asset classes.

On Pental's corporate website, Crispin Murray, head of equities, noted that consolidation is "fundamentally changing" the industry, writing, "This is an inevitable trend to which we must respond in the most effective way." The multi-boutique model Pental pursued "has stood the test of time" and been copied by others, he continued. "But we now need greater scale and diversity to build a stronger organisation through which to deliver the best possible services."

Credit/Private Equity

CREDIT

The private credit market set an enviable record in 2021 by marking the 10th consecutive year of fundraising growth, according to the latest study from McKinsey, but ultimately the headwinds posed by inflation conspired against an 11th year, by PitchBook's reckoning. Although fundraising "remained resilient" last year at \$200 billion, it did decline 20% from 2021.

In its midyear assessment, PitchBook called the macro-economic environment a "double-edged sword" for the industry. "On the one hand, the floating-rate nature of many of these instruments makes existing loans more lucrative, as coupon rates will rise in step with central bank rate hikes," the private capital markets data firm wrote. "On the other, rising rates could make more traditional fixed-income investments relatively more attractive to allocators."

The challenges posed by higher rates notwithstanding, McKinsey attributes private debt's growth to its position as senior to equity in the capital stack "and therefore less susceptible to moderate changes in the valuation environment," as well as the diverse strategies private debt affords investors. "Some, such as distressed and special situations strategies, have countercyclical qualities, while others, such as direct lending, are more expansionary," McKinsey writes.

Direct lending has by far been the fastest grower in recent years, driven by demand from the private equity industry, a trend that picked up steam last year as market volatility impacted the more prickly leveraged loan market. Mega-funds are also becoming common: Five funds of \$10 billion or more were raised in 2020-21 compared with just one the previous decade, according to McKinsey. As elsewhere in asset management, the big are getting bigger: McKinsey says the top-10 funds captured 40% of total fundraising in 2021 compared with 27% five years earlier, a trend that accelerated in the first three quarters of 2022, when the top-10 took in half, according to Preqin.

Following growth that averaged 13.5% annually in the decade through 2021, Preqin is projecting that private debt assets will double by 2026 to \$2.7 trillion, surpassing real estate as the second-largest private capital asset class. In a December 2021 survey of U.S. investors by asset management data firm With Intelligence, 57% of public pensions and 50% of family offices said they planned to increase their allocations to private credit. Family offices appeared to be particularly adventurous, with 44% indicating an interest in distressed situations compared with 30% for public pensions.

The seeming insatiable demand among investors for private debt is benefitting smaller firms such as lower-middle-market lender **Tree Line Capital Partners** (AUM: \$2.4 billion), which has raised several funds, as well as large players like **Crescent Capital Group** (AUM: \$39 billion). Crescent closed its third direct-lending fund last February with \$6 billion in capital, including targeted leverage and separately managed accounts, exceeding its goal by \$1 billion. In its midyear commentary, the Los Angeles firm said it expects "most borrowers to exhibit revenue and cash flow growth in 2022, resulting in declining leverage ratios and a continuation of default rates near record lows." **Carlyle Group**, whose credit platform grew fourfold in the five years through 2022 to \$146 billion, also exceeded its target in closing a second credit opportunities fund last April with \$4.6 billion.

The robust product demand drove numerous major deals last year and drew a large number of prominent buyers, including a mix of alternative and traditional firms. Like many of the buyers, **Guardian Life Insurance Company of America** was seeking to extend its private credit investment

Credit Transactions

	2018	2019	2020	2021	2022
Number of Transactions	22	16	13	11	21
Combined Value (\$M)	\$4,501	\$6,932	\$1,324	\$4,870	\$7,338
Total Seller AUM (\$B)	\$228	\$215	\$68	\$81	\$276
Average Deal Size (\$M)	\$205	\$433	\$102	\$443	\$349
Average Seller AUM (\$B)	\$10.4	\$13.4	\$5.3	\$7.4	\$13.2

Source: Berkshire Global Advisors LP

capabilities in cutting a deal for a minority stake in **HPS Investment Partners**. One of the largest private credit firms, HPS has \$80 billion in AUM across a broad portfolio, 70% in private credit. In September 2021, for example, HPS closed its fifth Specialty Loan fund with \$11.7 billion in equity capital and \$15.4 billion in investible capital, a strategy in which it had deployed \$55 billion in the prior 11 years.

The two companies said the transaction includes a "strategic partnership" through which they will share "best practices and investment insights." Guardian, a mutual life insurer that had record operating income in 2021 (\$1.9 billion), had 17% of its assets in private debt that year, with 59% in public fixed income, levels that have remained stable over the years. **Blue Owl Capital**, another credit buyer last year, is also a shareholder in HPS.

The deal underlines the partnerships occurring between insurers and private debt/alternatives firms, relationships that provide insurers with access to alternative investments and asset managers with permanent capital and new assets. **Apollo Global Management's** 2021 merger with annuities provider **Athene Holdings** is one high-profile example. Another notable deal that same year saw **Blackstone** acquire a minority stake

Hedge Fund / Hedge Fund of Funds Transactions

	2018	2019	2020	2021	2022
Number of Transactions	13	10	13	9	4
Combined Value (\$M)	\$1,938	\$446	\$1,591	\$1,816	\$196
Total Seller AUM (\$B)	\$67	\$18	\$91	\$32	\$16
Average Deal Size (\$M)	\$149	\$45	\$122	\$202	\$49
Average Seller AUM (\$B)	\$5.1	\$1.8	\$7.0	\$3.5	\$3.9

Source: Berkshire Global Advisors LP

in **American International Group's** life insurance and retirement business as part of a larger transaction that included management of AIG assets.

In Blackstone's latest annual report, Chairman and CEO Stephen Schwarzman called 2021 a "watershed year for our business" in referencing the AIG deal, as well as another for **Allstate's** life insurance and annuity company. This "capital light" strategy involves attracting "contracts with high-quality insurance clients" minus the liabilities, he pointed out. "Insurers' need for better returns, combined with our direct-credit origination capabilities, create a strong foundation for further growth in this channel," Schwarzman wrote.

In a second transaction last year that included an insurance element, **AllianceBernstein** paid \$750 million for **CarVal Investors**, a diversified opportunistic and distressed global credit manager with more than \$14 billion in AUM. AB, which placed the valuation at a "low-teens" EBITDA multiple, could pay up to \$650 million more in a performance-based multiyear earnout. AB majority owner, insurer **Equitable Holdings**, will also commit \$750 million to CarVal strategies from its general account.

AB said CarVal extends its private markets business "as clients increasingly look" to those assets for "return and yield enhancement, as well as diversification." CarVal also invests in renewable energy infrastructure. The addition of CarVal brings AB's private markets AUM to more than \$50 billion. In 2019, CarVal management bought out the firm from agricultural giant Cargill, which formed the asset manager in 1987.

Voya Financial, whose financial services businesses includes group life insurance, also added a credit manager, **Czech Asset Management**. Based in Connecticut and founded in 2011, Czech has raised \$5 billion in committed capital across four funds, the most recent of which was launched in 2020. The company focuses on the U.S. middle market with first- and second-lien floating rate senior secured loans. Voya, which made a transformational deal last year for the U.S. asset management business of **Allianz Global Investors** (see *Traditional Investment Management*), said Czech extends its portfolio of "innovative, private markets and alternative capabilities." Czech cited its new parent's global distribution capabilities, "enhanced" by the Allianz deal, and "intellectual capital."

Franklin Resources was among the traditional investment managers tapping the credit marketplace as part of an ongoing effort to expand its alternatives capabilities, agreeing to pay \$350 million upfront for **BNY Alcentra Group Holdings**. BNY Alcentra is a leading European credit and private debt manager with \$38 billion in AUM. Franklin, which cut the deal with **BNY Mellon**, could pay another \$350 million in contingency payments over four years and will purchase all of BNY Mellon's related seed capital investments, valued

at some \$305 million. Founded in 2002, Alcentra is a value investor serving more than 500 institutional investors. In combination with U.S. credit specialist **Benefit Street Partners**, acquired in 2018, Franklin will have \$77 billion in alternative credit AUM (30% of its alternative AUM).

Nuveen also set its sights on Europe, acquiring a "controlling interest" in **Arcmont Asset Management**, a pan-European investor with \$21 billion in AUM. Nuveen plans to wrap the London-based firm into the newly formed **Nuveen Private Capital** unit with its existing private credit holding, **Churchill Asset Management**. Combined, the two firms will form one of the world's largest private debt managers with \$60 billion in AUM. Last September, Arcmont closed an €800 million (\$850 million) fund providing flexible capital to companies with "market or company-specific challenges."

Nuveen, owned by **TIAA**, has \$178 billion in alternative credit AUM, or 16% of its total AUM. The company said the addition of Arcmont expands its European capabilities as it seeks to "meet the increasingly complex capital needs of clients globally." In an interview with the *Financial Times*, which placed the undisclosed purchase price above \$1 billion, Arcmont CEO Anthony Fobel said his firm has "more deals than we can handle. Access to TIAA's balance sheet and Nuveen's global capabilities will really propel our business." Since the financial crisis, non-bank lenders have grabbed an increasing share of the European credit market, with private debt assets growing at an average annual rate of 21% since 2010 to reach \$360 billion by mid-2022, according to Preqin.

Publicly traded alternatives managers joined their traditional peers, including Carlyle Group, which acquired \$15 billion in assets from **CBAM Partners** in a cash and share deal valued at around \$790 million. CBAM was owned by diversified private investment firm **Eldridge**. The majority of the acquired assets are collateralized loan obligations and made Carlyle the largest CLO manager in the world with \$48 billion in AUM.

Carlyle said the deal adds scale to its CLO business while delivering a "substantial" increase to fee-related earnings. In 2022, Carlyle issued nine new CLOs, while the company's overall credit platform represents nearly 40% of total AUM. Carlyle also formed a joint venture with Sydney-based **amicaa** to invest in and manage a diversified portfolio of opportunistic private debt investments in Australia and

New Zealand to “capitalize on the growing private credit opportunities” in the two markets.

Blue Owl Capital entered the CLO space by acquiring **Wellfleet Credit Partners** from affiliates of private investment firm **Littlejohn & Co.** Wellfleet (AUM: \$6.5 billion) was wrapped into Blue Owl’s **Owl Rock** credit division, which has some \$45 billion in direct-lending AUM but lacked a CLO platform. Blue Owl said Wellfleet’s “expertise in the public markets will both complement and further expand our credit capabilities.” Launched in 2015, Wellfleet closed its first CLO of \$360 million that year. By 2018, it had issued nine CLOs and was managing \$3.9 billion in AUM. At the time of the Owl Rock deal, the company was managing 16 CLOs.

First Eagle Investments: Private equity deal flow “appears unlikely to remain subdued,” providing “ample opportunity for direct lenders to put money to work.” First Eagle put its own money to work acquiring credit manager Napier Park Global Capital.

First Eagle Investments added to its credit platform with the acquisition of **Napier Park Global Capital**, which has \$19 billion in AUM in U.S. and European CLOs, credit funds and real assets. First Eagle said Napier “significantly broadens” its capabilities in alternative credit while Napier said it would “leverage” its new parent’s “established global institutional distribution structure.” Napier’s AUM has nearly doubled since 2018, but CEO Jim O’Brien told *Bloomberg* his firm needed to “broaden our distribution and product base to remain competitive. It became clear in our two- to -three-year view that we were going to have to borrow to grow or be part of an acquisition that made sense.”

Prior to the deal, First Eagle had three-quarters of its \$110 billion in AUM in equity strategies but also ran an alternative credit business that it said will remain independent of Napier. In a first-quarter 2022 commentary, when the deal took place, First Eagle took note of the decline in direct lending and related M&A activity. But referencing the private equity industry’s \$1.8 trillion in global dry powder, the company said deal flow “appears unlikely to remain subdued,” providing “ample opportunity for direct lenders to put money to work.” First Eagle, which is backed by funds managed by Blackstone and **Corsair Capital**, also sold its business development company to Crescent Capital Group.

Ares Management enhanced its large U.S. direct-lending business by paying \$2.4 billion for the middle-market loan portfolio and lending platform of **Annaly Capital Management**. The acquired assets include U.S. senior secured loans to more than 40 private equity-backed companies. In the first-quarter earnings call, Ares Credit Group Co-Head Mitchell Goldstein said the company was familiar with a “significant percentage” of Annaly’s investments through overlapping portfolio companies and “historical review”

of the companies, allowing for a “diligent underwrite of each loan in the portfolio.” Credit accounts for 60% of Ares’ \$352 billion in AUM, led by the U.S. direct-lending platform. Annaly has been shedding assets of late as it focuses on its core housing finance strategy.

Credit manager **Oaktree** bought a majority stake in London’s **17Capital**, providing it with entry to the growing net asset value (NAV) financing market via a pioneer in that arena. The non-dilutive loans provide private equity general partners with greater flexibility than traditional subscription line financing by allowing them to borrow against the NAV of their portfolio assets. Founded in 2008, 17Capital closed an inaugural £2.6 billion (\$3.2 billion) credit fund last year to provide NAV loans to “high-performing” private equity managers in Europe and North America.

Oaktree praised 17Capital’s “emphasis on risk control” as “completely aligned” with its own investment philosophy. Calling his firm’s presence in the U.S. “very marginal,” 17Capital co-founder and Managing Partner Pierre-Antoine de Selancy told *Private Equity News* that “being able to associate ourselves with Oaktree and benefit from all the relationships they have with sponsors in the U.S. is key for us to ramp up the deal flow.”

Oaktree parent **Brookfield Asset Management** also crossed borders, paying A\$1.5 billion (US\$1 billion) for an established and fast-growing Australian credit firm majority-owned by Blackstone since 2017, **La Trobe Financial** (AUM: A\$13 billion). The price includes a performance-based contingency payment. Brookfield cut the deal through a private equity vehicle and was joined by institutional partners. Established in 1952, La Trobe manages funds for qualified retail investors, primarily in residential property-backed loans.

Non-banking players in Australia’s housing credit market have been drawing the attention of investors. In 2021, a record A\$2 billion non-bank residential mortgage-backed security was issued by **Firstmac**, reflecting the demand for such paper. “You have all these investors looking for yield,” a Firstmac executive told *Mortgage Professional Australia* at the time, noting the participation of first-time investors. La Trobe has been a beneficiary of the healthy marketplace, with AUM climbing fourfold in recent years. Brookfield said La Trobe’s distribution and “recurring investor inflows provide opportunities to further scale and diversify its product platform.” In the Brookfield deal, La Trobe’s retiring CEO was also a seller.

Kudu Investment Management cut several credit-related deals, the largest involving a minority interest in **Gramercy Funds Management** (AUM: \$5.4 billion), an established emerging markets specialist based in Connecticut. The institutional manager pursues several strategies, including public and private credit, special situations and multi-asset. Mohamed El-Erian, **Pimco**’s former CEO and co-chief investment officer, serves as Gramercy’s chairman. Gramercy praised Kudu as a “supportive and steadfast permanent capital partner.” The credit transactions were among a series of investments Kudu made last year, bringing to some two dozen the number of asset and wealth managers in which

it holds minority stakes. Separately, **Massachusetts Mutual Life Insurance Co.** bought a minority shareholding in Kudu, joining majority owner **White Mountains Insurance Group**.

Private equity firm **General Atlantic** added public and private credit firm **Iron Park Capital Partners** to its large and diversified financial services portfolio. GA will wrap Iron Park into a new unit, **General Atlantic Credit**. Tripp Smith, CEO and founder of Iron Park — and also a co-founder of GSO Capital Partners sold to Blackstone in 2008 — will be appointed CEO of GA Credit. The deal builds off a joint venture the two firms formed in 2020, **Atlantic Park**, to address the financing needs of companies impacted by Covid. Atlantic Park raised \$2.2 billion for its first fund and has committed the capital to 13 companies, including one of England’s largest private home builders, Morris Homes. Founded in 2019, Iron Park has \$4 billion in investible assets.

Goldman Sachs cut two credit deals through its asset management unit and **Petershill** permanent capital vehicle. For **Goldman Sachs Asset Management**, the target was middle-market direct lender **Varagon Capital Partners**, in which it made a preferred equity investment. Goldman,

Blackstone’s performance mirrored the mixed environment for private equity last year. Fundraising among the industry’s giants remained strong in the first half, but mega-funds (\$5 billion or more) accounted for the majority of the \$176 billion gathered by U.S. firms, according to PitchBook. This included the \$25 billion **Advent International** raised in just six months for its 10th flagship fund.

For the overall industry, Preqin found that fundraising had dropped 51% in the second quarter from the year-earlier period, and by the third quarter the data firm was predicting a 22% drop for the full year compared with 2021. PitchBook also highlighted the woes of first-time managers confronting more standoffish investment committees. “As we enter an even more uncertain economic environment, and with less capital available for first-time managers, newcomers with more pedigreed backgrounds or those targeting niches are most likely to receive funding,” the data provider wrote.

Although M&A activity slowed from the record pace in 2021— and rising interest rates are impacting leveraged buyouts — PitchBook said the industry “remains on pace for a healthy year by historical standards.” By year end, Refinitiv counted \$785 billion in global private equity deals, which represented 20% of all M&A activity but a 36% drop in value from 2021. Bain & Co., whose “crystal ball remains as cloudy as anybody else’s,” said in a 2022 midyear assessment that the the next 18 months are likely to be “considerably more challenging” for private equity than the “recording-breaking performance” the industry enjoyed in the previous 18 months.

Private Equity Fund Transactions

	2018	2019	2020	2021	2022
Number of Transactions	18	19	12	16	12
Combined Value (\$M)	\$2,567	\$2,468	\$1,863	\$6,229	\$9,504
Total Seller AUM (\$B)	\$118	\$98	\$192	\$130	\$70
Average Deal Size (\$M)	\$143	\$130	\$155	\$389	\$792
Average Seller AUM (\$B)	\$6.6	\$5.2	\$16.0	\$8.2	\$5.8

Source: Berkshire Global Advisors LP

which had a prior relationship with Varagon (AUM: \$15 billion), made the deal through funds it manages. In an interview with *Mergers & Acquisitions* in 2021, Varagon CEO Walter Owens explained that the sort of unitranche loans in which his firm specializes “have greater certainty around terms and can typically close more quickly” than syndicated loans, offering an advantage to private equity firms “trying to make a strong bid for a company to beat out other sponsors.” In the second deal, Petershill joined **Hunter Point Capital** in making a minority investment in another middle-market direct lender, **SLR Capital Partners**. SLR has invested more than \$16 billion across 1,500 companies since its founding in 2006.

PRIVATE EQUITY

As the largest private equity firm in the world, Blackstone can serve as a barometer of sorts for the fortunes of the industry, allowing for the advantages conferred by its size. In 2022, the company’s private equity AUM rose impressively (10%), including inflows for a ninth corporate fund targeting \$26 billion, but fee-related earnings were flat and realized performance revenues and compensation dropped sharply (47% and 42%, respectively) along with distributable earnings (31%).

In particular, Bain said that if the industry isn’t “running inflation and recession scenarios against the companies they own or are looking to buy, they’re courting trouble,” while allowing that the “long-term outlook for private equity remains as strong as ever.” For its part, Blackstone Chairman and CEO Stephen Schwarzman told analysts in the third-quarter conference call that its corporate portfolio companies delivered “stunning” 17% revenue growth over the third quarter of 2021 in the face of a slowing global economy.

The private equity sector itself accounted for the largest asset management deal of 2022, a cross border affair between two formidable players: **EQT’s** €6.8 billion (\$7.2 billion) acquisition of **Baring Private Equity Asia**. EQT is paying for the acquisition with new shares and €1.5 billion in cash. For EQT, the deal adds some €18 billion in AUM, bringing its total to €95 billion when the deal was announced last March, and positions the Swedish firm to “execute on the structural growth opportunity in Asian private markets.” Preqin projects Asian private markets will grow at nearly twice the global rate in the five years through 2025. EQT’s focus has been on Europe and the U.S. with only a minor presence in Asia prior to the deal.

Established in 1997, BPEA is one of the three largest private markets managers in Asia. The company has 10 offices in the region and an active and value orientation in the mid- to large-cap space. The Hong Kong-based company has also been growing rapidly: Revenue, AUM and EBITDA registered annual average growth between 20% and 33% from 2019 to 2021. In January 2020, the firm closed its seventh fund at \$6.5 billion and is raising \$8.5 billion for its eighth fund. Referencing the EQT deal in a corporate video, BPEA CEO and founder Jean Eric Salata said, "It's a transformational deal, but more importantly it's representative of where our industry is going. You need to have global reach and scale."

South Korea's private equity market registered a record \$30 billion in deals in 2021, double the level in 2020 and higher than the total in Japan. Asia-Pacific also set a record with \$296 billion in deals, 82% above the previous five-year average.

A diverse set of firms made strategic minority investments in private equity companies. One was **Bonaccord Capital Partners**, whose target was **Trivest Partners**, a Florida company with a niche among growing, lower-middle-market founder- and family-owned businesses. Trivest targets a range of industries in North America, including healthcare, technology and niche manufacturing. Trivest closed two funds last year with a total of more than \$1.5 billion in capital, bringing its AUM to \$4 billion. In 2021, Trivest had the most active year since its founding in 1981, investing in 52 founder-owned business and deploying \$275 million in capital.

Bonaccord, which buys minority stakes in mid-size private manager sponsors, was acquired in 2021 by publicly traded **P10**, a Dallas-based multi-asset private investment firm. Bonaccord also acquired a minority share last year in a London-based private debt manager, **Park Square Capital** (AUM: \$10 billion). Park Square provides credit solutions to "high-quality and stable companies" in the U.S. and Europe. Park Square said the deal "marks a further step forward in [its] institutionalization by aligning the team as substantial equity holders" and strengthening the balance sheet to support growth. In 2021, the company closed its fourth subordinated debt fund, having raised €1.8 billion.

Dyal Capital Partners of New York acquired a minority stake in South Korea's largest independent private equity firm, **MBK Partners**. Dyal is part of publicly traded permanent capital provider Blue Owl Capital. MBK, with some \$26 billion in capital under management, focuses on China, Japan and South Korea and targets the financial services, consumer, and telecommunications and media industries. The investment from Dyal will allow MBK to expand within and beyond its traditional markets in East Asia and outside private equity.

In the middle of the Covid pandemic in 2020, MBK was able to close its fifth and largest-ever buyout fund of \$6.5 billion, following that with a \$1.8 billion special situations fund in 2021, its second such fund. Last year, one investment MBK made from its fifth fund was in Dongjin Textile, a major South Korean supplier of synthetic textiles to athletic footwear manufacturers. MBK was founded in 2005 by several partners, including former Carlyle Asia chief Michael Kim, one of South Korea's wealthiest individuals. In a 2021 interview with *Korean Economic Daily*, Kim emphasized the importance of due diligence in building a successful private equity firm. "You must dig deep, much deeper than your initial thoughts," he said. "That's how you can see both the strength and the weaknesses of the firms you would like to acquire."

The deal underlines the growth of South Korea's private equity market, which registered a record \$30 billion in deals in 2021, double the level in 2020 and higher than the total in Japan, according to Bain & Co. The larger Asia-Pacific region also set a record for private equity deals at \$296 billion, 82% above the previous five-year average; China and India accounted for 63% of value. Dry powder in Asian-focused funds reached \$650 billion, "a level that will fuel investment activities in the region for years to come," the consultant writes, while deal multiples climbed over the two previous years to 13.2 times enterprise value to EBITDA. Over the past decade, AUM focused on the region grew 2.4 and three times faster than in North America and Europe, respectively.

In another cross border deal, Italy's **Azimut Group** cut its fourth U.S. transaction since 2020, buying a 10% stake in **BroadLight Holdings** of Los Angeles. Azimut, which will also provide permanent capital, made the deal through its U.S. alternatives subsidiary. Founded in 2021, BroadLight focuses on "high-growth, innovative" technology, consumer and entertainment companies. The Los Angeles company's founders include two notable Hollywood players and a former **Macquarie Group** banker.

"Broadlight brings a fantastic pipeline of compelling deals from a sizable roster of A-list stars who will invest alongside Azimut's clients, as well as help accelerate the growth of portfolio companies," Jeff Brown, CEO of **Azimut Alternative Capital Partners**, told the *Financial Times*. Azimut also acquired minority shares in a U.S. equity manager (see *Traditional Investment Management*) and a European asset-backed special opportunities investor, **RoundShield Partners** (AUM: €2.9 billion). RoundShield targets the real estate and infrastructure sectors, among others.

Within the U.S., **Capital Constellation** made a "strategic investment" in **Broad Sky Partners**, a middle-market investor focused on North American business services and consumer companies. Broad Sky was relaunched in 2021 following a brief run in 2014-2015. Capital Constellation added a minority investment in **Post Road Group**, a middle-market private equity and real estate credit investor founded in 2015. Prior to Capital Constellation's investment, Post Road closed a \$300 million Special Opportunity fund, its second such fund. Capital Constellation comprises more than a

half a dozen U.S. and international institutional investors that provide capital and advice and counsel to alternative managers.

Wafra Group, which provides asset management services for Capital Constellation, acquired a minority stake in another middle-market focused firm, **Oak Hill Capital Partners**, buying the stake owned by a **Jeffries Financial Group** affiliate. Founded in 1986 as the family office of billionaire investor Robert Bass, Oak Hill's portfolio includes two wealth managers: consolidator **Mercer Advisors**, an investment made in 2019; and **Kestra Holdings**, a wealth management platform in which it invested last year. In 2021, Oak Hill closed its largest-ever fund, of \$3.8 billion. Wafra, which praised Oak Hill's "thematic approach" to investing, has formed 25 "strategic partnerships" with emerging and established alternative managers.

Real Assets

PROPERTY

With the exception of the period surrounding the outbreak of Covid, real estate enjoyed a decade of calm as well as generous returns through 2021. But last year, inflation and rising interest rates upended that era of good feelings, at least in the short term. Capital didn't appear to be an issue, between dry powder of \$384 billion and liquidity in the equity and debt markets worldwide. But deployment "remains a focus and challenge as a result of a widened bid-to-ask gap and increased investor selectivity," wrote **JLL** in its 2022 midyear report.

JLL also noted that the inflationary environment was starting to bite, "impacting underwriting, yields and returns around the world." In Europe, for example, borrowing costs in some prime office markets began to exceed expected returns. Although global direct investment of \$566 billion in the first half was up a healthy 19% over the same period in 2021, the gains decelerated in the second quarter to 2% and dropped 24% by the third quarter, with pockets of growth in retail and hotels.

Fundraising also took a hit, dropping by one-third between the first and second quarters to \$26 billion worldwide, according to Preqin — the lowest level since the third quarter of 2020, during the height of the Covid pandemic. Investors were also avoiding higher-risk strategies in the quarter. "Many investors remain cautious and are delaying decision-making," said Sean Coghlan, global head of capital markets research and strategy at JLL. "In most markets across the globe, repricing of transactions is now common, and a prolonged period of price discovery is impacting investment conditions."

U.S. REITs showed a similar trend, with secondary debt and equity offerings in the second quarter off 50% from the year-earlier period to \$13.6 billion, according to Nareit. Secondary debt offerings of just \$320 million reached the lowest quarterly level since 2011. Issuance in the U.S. of commercial mortgage-backed securities rose slightly from

the first half of 2021. But credit data provider Trepp projected that CMBS issues would likely end the year below the 2021 total, "given the rapid escalation of interest rates as of late, softening volumes of property sales transactions, and widening credit spreads." Still, JLL opines that the "depth and diversity of lenders and investors is expected to mitigate the risk of a deeper, prolonged impact on capital flows in real estate."

Among the various sectors, U.S. office occupancy rates improved to a post-pandemic high of 47% in the third quarter, with JLL projecting that would climb to 65% by the first quarter of this year. Still, the sector confronts the challenge of remote work: A comprehensive survey released last year by JLL showed that 53% of organizations will make remote work permanent while 77% agreed that offering that benefit "will be critical" to attracting and retaining employees. As a result, while many employers want to add flexible work space and upgrade the quality of office space — a plus for newer buildings in particular — they plan to cut back on permanent space. Residential conversions are among the options property owners are mulling to address excess capacity, although that poses both economic and executional challenges. Converting offices into other business uses such as life sciences labs is another.

In a November report, JLL noted that urban gateway markets in the U.S. multifamily sector were enjoying a reversal of the out-migration that occurred during the Covid pandemic, but also warned that "fundamentals showed signs of moderation" in the overall market. Similarly, property data firm CoStar Group reported that by November the U.S. multifamily sector had recorded four straight months of rent declines. In more evidence of a slowing trend, **CBRE** said multifamily investment in the U.S. declined 19% in the third quarter vs. the same

U.S. office occupancy rates improved to a post-pandemic high, but the sector remains challenged by remote work. Supply in the hottest sector during the pandemic, industrial, remained tight.

period in 2021, although it remained by far the top sector for investment (\$69 billion). Globally, JLL characterized the residential market as "resilient," but said "wide bid-ask spreads," higher interest rates and "general caution" were making deals "increasingly difficult."

Supply in the hottest sector during the pandemic, industrial, remained tight, with **Cushman & Wakefield** citing a 3.2% vacancy rate in the third quarter and the *Wall Street Journal* reporting that deep-pocketed large retailers are squeezing out smaller firms. "I'm getting calls daily from smaller companies being displaced from larger warehouses," the president of a Chicago-area warehouse operator told the newspaper. Indeed, by the second quarter, year-over-year rent growth of 21% drove industrial rents to a new record, according to JLL.

Coming off a banner year for the real estate advisory sector in 2021, when there were several megadeals and a total of some \$13 billion worth of transactions, deal-makers took a breather in 2022, returning to more traditional activity. There were several notable transactions involving diversified asset managers and others acquiring minority stakes in U.S. targets. But the sector was led by **Colliers**, which has been aggressively building its alternative asset management business in recent years.

The Toronto-based firm, whose dominant business involves professional services, cut two deals involving real estate investment managers (*also see Infrastructure section that follows for one other Colliers deal*). One involved the purchase of 65% of **Rockwood Capital** (AUM: \$12 billion); Rockwood management retained the rest. New York-based Rockwood is an established equity and credit investor across a range of property asset classes in North America. Colliers said the deal expands its U.S. operations and adds capabilities in real estate credit. In 2021, Colliers purchased a majority stake in pan-European real estate advisory firm Antirion and in a major 2018 deal acquired a majority of **Harrison Street Real Estate Capital** of the U.S. Harrison's AUM has grown nearly fourfold since then to \$53 billion.

In a second transaction, Colliers acquired 75% of **Versus Capital** (AUM: \$6 billion), which manages two perpetual-life funds distributed through a network of RIAs. The Denver-based firm focuses on property and real assets, including farmland and timberland, as well as infrastructure. "Real assets are critical to the functioning of the modern economy, and that, we believe, will drive consistent demand for them over the long term," Jake Mortell, national director of advisory services for Versus, explained in a corporate video.

Mortell noted that such portfolios have historically generated higher risk-adjusted returns than a 60/40 strategy while providing low correlations to that traditional stock-bond portfolio. As in Colliers' other deals, Versus management retained a minority shareholding under its new parent's "perpetual partnership model." With the closing of the several deals, Colliers said its AUM will exceed \$83 billion, including \$70 billion in perpetual or long-dated strategies providing recurring revenues.

The deal also highlights the effort by alternative managers to extend their products to retail investors: Versus delivers a network of RIAs, including some of the nation's largest, that distribute its products. Colliers referenced that pipeline in calling the transaction an "important first step in accelerating" a global private wealth distribution capability alongside its institutional limited partner relationships. In the second-quarter earnings call, Chairman and CEO Jay Hennick expanded on that theme, calling Versus' RIA distribution channel "second to none" and saying Colliers

can extend that "to include originating capital for our other investment management arms.... This gives us a whole new area of growth, and one that we can leverage across many different platforms."

There were a number of real estate advisory deals involving the purchase of minority shareholdings, with **Neuberger Berman's** private real estate investment unit, **Almanac Realty Investors**, taking part in two. The larger deal by assets involved real estate investor and operator **Waterton**, a value-add investor with a portfolio exceeding \$9 billion in assets. Founded in 1995, Almanac targets U.S. multifamily, senior living and hospitality properties. In one deal last year, the company purchased a 736-unit apartment complex

Real Assets Transactions

	2018	2019	2020	2021	2022
Number of Transactions	44	23	17	31	28
Combined Value (\$B)	\$5.5	\$3.2	\$1.7	\$12.6	\$6.1
Total Seller AUM (\$B)	\$228	\$107	\$78	\$237	\$199
Average Deal Size (\$M)	\$125	\$139	\$99	\$406	\$218
Average Seller AUM (\$B)	\$5.2	\$4.7	\$4.6	\$7.6	\$7.1

Source: Berkshire Global Advisors LP

east of Los Angeles, noting that it planned to implement its "signature value-add program ... to bring the community in line with competing product in the region."

Waterton said it will "leverage the capital partnership for continued investment in new business initiatives" in a variety of strategies. In an interview with *PERE*, Waterton Chairman and CEO David Schwartz said the connection with Almanac will allow him to invest in larger deals, provide for talent retention and succession planning, and expand his network of investors. "There's very significant capital out there that could diversify Waterton's institutional capital base," said Schwartz. In the second deal, Almanac's target was **Virtus Real Estate Capital**, an established investor in "cycle-resilient" property sectors such as healthcare, self-storage and workforce housing. Virtus cited Almanac's real estate expertise and permanent capital base, as well as the "range of global resources through Neuberger Berman."

CNO Financial Group bought a minority interest in **Rialto Capital** while agreeing to invest in several Rialto-managed investment vehicles. Based in Miami, Rialto has more than \$14 billion in AUM, focusing on commercial real estate across the capital structure. CNO said the deal extends its investment capabilities and enables it to "opportunistically benefit from increased exposure to commercial real estate, as market conditions allow." In 2021, Rialto raised \$2.6 billion for its fourth flagship fund focused on value-add properties. **Stone Point Capital** has owned Rialto since 2018, when it paid \$340 million to buy the company from homebuilder **Lennar Corp.** Rialto management joined Stone Point in acquiring a stake in the company.

There were a couple of cross border deals involving Australian targets, including **Barings'** acquisition of **Altis Property Partners** of Sydney, a value-add manager with A\$6 billion (US\$4 billion) in real estate assets. Barings, which has 14% of its \$350 billion in AUM in real estate debt and equity, said the deal strengthens its existing investment capabilities in Australia while expanding its footprint in a region "expected to be a key growth driver for us." Founded in 2008, Altis' portfolio covers the range of real estate sectors "across the risk spectrum." In 2021, Australian commercial real estate attracted A\$82 billion in proposed investment by foreign investors, more than double the number in 2020.

In a second deal, **Nomura Holdings** purchased 41% of Australian forestry asset manager **New Forests Pty**, joined by existing shareholder **Mitsui & Co.**, which boosted its equity from 23% to 49%. New Forests is the second-largest unlisted forestry asset manager in the world and the largest in Asia-Pacific, with some A\$8 billion in AUM. Last March, prior to the deal, the company announced the first close of its second Tropical Asia Forest fund, with US\$120 million in capital. The fund is targeting sustainable forest plantation assets in Southeast Asia.

For Nomura, the deal tracks a strategy of expanding "its client base and product offering through alliances" and acquisitions. Referencing the support of New Forests' Japanese partners, Chairman and CEO David Brand said the "need to substantially increase investment in sustainable land use, along with increasing investor interest, is creating an opportunity to accelerate" the company's growth. New Forests has set a goal of tripling AUM by 2030.

INFRASTRUCTURE

Infrastructure has come into its own. For many years the wallflower at an alternatives party filled with glamorous actors from the hedge fund, private equity and real estate worlds, the sector is on its way to stardom. In the first half of 2022, infrastructure funds raised \$122 billion, securing "a year's worth of capital in just six months as investors flock to the asset class," wrote Preqin. Moreover, the data provider projects that infrastructure will overtake real estate by 2026 to become the largest real asset class, with AUM of \$1.9 trillion.

As it expands, the sector is changing, as McKinsey points out in a report last year, particularly in areas undergoing transformation such as energy, digital connectivity and transportation. "The infrastructure shake-up and the unpredictable pace at which the energy transition is unfolding require investors to scrutinize their existing portfolios and ensure that assets are correctly rated for risk/return," McKinsey writes.

Many of those investments, including clean energy and transportation, meet the institutional demand for socially responsible investments. "Transforming the world's energy infrastructure is both the greatest challenge and the biggest investment opportunity of our generation," Daniel Wong, head of Europe for infrastructure asset manager **Stonepeak**, told the *Times* of London last year.

The New York firm, whose assets have tripled to more than \$50 billion since 2020, closed its fourth infrastructure fund last February with \$14 billion in capital from 150 global investors, double the third fund that closed in 2018. The fund will target investments in North America in communications, transportation and logistics, and energy transition. Subsequently, Stonepeak announced what it called "industry-leading ESG commitments," including linking performance compensation into a new core infrastructure strategy "tied to tangible sustainability outcomes."

KKR & Co. joined Stonepeak in closing its largest-ever fourth global infrastructure fund with \$17 billion in capital — twice the size of its previous fund. The fund will focus on digital communications and energy transition, among other sectors, in North America and Europe. Investors include the state pension funds of Michigan, Minnesota and New York. KKR's infrastructure business has been growing rapidly, with AUM more than tripling since 2020 to pass \$50 billion and related management fees expected to double to \$300 million in 2022.

Infrastructure has come into its own. For many years the wallflower at an alternatives party filled with glamorous actors from the hedge fund, private equity and real estate worlds, the sector is on its way to stardom.

Asset managers are naturally taking notice of both the growth and the opportunity to burnish ESG credentials and capitalize on demand for such investments, with a resultant uptick in deals. In addition to its two real estate advisory transactions, Colliers added a significant infrastructure deal by acquiring a 75% stake in **Basalt Infrastructure Partners**, a London and New York firm with more than \$8.5 billion in AUM. Launched in 2011, Basalt specializes in mid-market infrastructure equity investments in utilities, transportation, energy/renewables and communications in Europe and North America. Basalt management retained 25% of the firm.

In 2021, Basalt closed its third and largest-ever fund, "significantly oversubscribed" at \$2.8 billion. One example of an investment Basalt made after the Colliers deal was for Skyway, a U.S. telecommunications infrastructure developer with a portfolio of 400 towers in 30 states. In Colliers' latest shareholder letter, Chairman and CEO Jay Hennick said Basalt offers "our investors another group of highly differentiated investment products." Basalt co-founder and Managing Partner Rob Gregor said its new parent provides a source of permanent capital and "stability and increased alignment over the long term" for its management and investors.

DigitalBridge Group cut two deals, in the first paying \$800 million in cash and shares for **Wafra's** 31.5% ownership of its digital infrastructure asset manager, **DigitalBridge Investment Management**. Wafra could also gain up to \$125 million in a performance-based earnout. Wafra, an alternatives manager based in New York, made its original

investment in 2020, saying at the time its total commitment could reach \$400 million, including capital for investment products. Florida-based DigitalBridge said the deal “will drive an immediate and substantial increase in earnings” and “demonstrates our commitment” to deploying capital to its fast-growing digital investment management platform. In December 2021, DIM closed its second flagship digital infrastructure fund, with \$8.3 billion in capital.

In a second deal, DigitalBridge paid around \$330 million for the global infrastructure asset management business of Australia’s **AMP Capital**, comprising four funds with US\$5.5 billion in AUM. The majority of the assets are in AMP’s second fund, which closed in 2020 with a focus on transportation, communications, and infrastructure health and energy. DigitalBridge could pay an additional \$129 million in an earnout based on future fundraising. Last year, the company transitioned from a REIT to a C corporation structure to enhance “strategic flexibility,” including the use of capital.

In a second divestiture, AMP Capital sold its domestic real estate and infrastructure asset management business to Australian property asset manager **Dexus** for an upfront payment of A\$250 million (US\$170 million). Dexus also paid approximately A\$450 million to buy out existing and committed sponsor stakes and could pay up to A\$300 million in an earnout. Dexus (AUM: A\$45 billion), one of Australia’s largest fully integrated property firms, gains A\$31 billion in AUM, about two-thirds in domestic real estate and the rest in infrastructure. The company called the deal the “logical next step for Dexus’ funds management business, underpinned by compelling sector fundamentals and a positive growth outlook.” For AMP, the divestitures are part of an effort to simplify the business around banking and wealth management.

In a third deal involving an Australian target and two sustainable managers, **Foresight Group Holdings** of London acquired **Infrastructure Capital Holdings** for a price that could reach A\$165 million, with the upfront payment accounting for two-thirds. For Foresight, which went public in 2021, ICH adds A\$3.2 billion (£1.8 billion) to the £9.4 billion (US\$11.4 billion) it already managed. Among ICH’s assets are hydropower stations, wind farms, solar projects, and a water treatment plant.

Prior to the deal, infrastructure accounted for nearly three-quarters of Foresight’s AUM, with energy-generating investments comprising 66% of that total. One of Australia’s largest private renewable generators (44% of AUM), ICH strengthens Foresight’s existing presence in Australia and provides a gateway to the larger Asia-Pacific region. Foresight called the region “a compelling opportunity for real asset investors, especially in the energy infrastructure sector, where the combined group is better positioned to successfully raise and deploy capital over time.” Foresight’s primary market by number of assets is the UK followed by Italy.

Wealth Management

In late 2019, Canadian fund manager **CI Financial** entered the wealth industry’s radar screen when it acquired two RIAs in the U.S., calling the deals the start of an aggressive initiative across the border. The company’s new and youthful CEO, Kurt MacAlpine, spelled out his vision a few months later in the company’s annual report. “We believe the U.S. market provides the most attractive opportunity for global expansion,” he wrote, listing several benefits. “Our intention is to create the industry’s leading RIA platform by selectively pursuing acquisitions of fast-growing firms in strategically attractive markets and market segments, and leveraging economies of scale.”

Building off those initial transactions, CI began a frenetic pace of deal-making that included more than two dozen geographically diverse transactions in the U.S. in 2020-2021. The company quickly emerged among the largest non-bank wealth managers in the U.S., with around \$120 billion in AUM. The business itself became the largest by assets among CI’s various units.

Last year, however, CI took a breather, concluding just a handful of deals. Instead, the company turned its attention to integrating its platform of U.S. companies — and planning an IPO of that business. “We are taking this step because we believe the value we have created in our U.S. wealth management business is not being reflected in our share price today,” MacAlpine wrote in referencing the IPO in his latest shareholders’ letter.

Wealth Management Transactions

	2018	2019	2020	2021	2022
Number of Transactions	112	119	144	201	201
Combined Value (\$B)	\$9.7	\$5.6	\$10.5	\$14.0	\$11.6
Total Seller AUM (\$B)	\$598	\$284	\$891	\$1,389	\$621
Average Deal Size (\$M)	\$87	\$47	\$73	\$76	\$58
Average Seller AUM (\$B)	\$5.3	\$2.4	\$6.2	\$6.9	\$3.1

Source: Berkshire Global Advisors LP

For all of its success in building a formidable wealth business, CI has faced an obstacle afflicting many small- and mid-cap stocks in particular: A lack of investor coverage or enthusiasm that impacts valuation. As of the last quarter of 2022, CI’s shares — which trade on both sides of the border — were valued at around six times earnings, what MacAlpine has referred to as a “criminal disconnect in the value of our stock price relative to what we think it’s worth.”

When CI executes the partial spinoff of the business this year (floating 20% or more of equity), it will be the most significant IPO for a U.S.-based wealth manager since **Focus Financial Partners** went public in 2018. A second notable U.S. listing involving the merger of two wealth managers far smaller than CI and minus the aggressive acquisition

Retail Brokerage Firm Transactions

	2018	2019	2020	2021	2022
Number of Transactions	12	5	5	3	4
Combined Value (\$M)	\$633	\$1,839	NA	\$1,490	\$552
Average Deal Size (\$M)	\$127	\$613	NA	\$1,490	\$552

Source: Berkshire Global Advisors LP

strategy — **Tiedemann Group** of the U.S. and the UK's **Alvarium Investments** — will occur this year via a SPAC.

Focus' experience on the public markets may be a cautionary tale for CI, however. The company's stock has seesawed considerably, but four years after its July 2018 IPO, the shares had climbed just 18%, or less than half of the S&P 500's return. That performance, which continued to lag in the last half of 2022, has occurred even as Focus' revenues and assets have soared in tandem with its acquisitions. In the first 10 months of last year, Focus closed 23 deals involving either direct acquisitions or those done by partner companies.

Investor concern regarding Focus' debt has been one check on the shares, a sentiment that also trails CI. Citing the company's leverage and other factors, last March S&P Global Ratings lowered CI's credit a notch but maintained its investment grade rating at BBB. CI's plan to use the IPO proceeds to pay down debt could soften those concerns while the U.S. firm will benefit from a clean balance sheet when it goes public. (Although the U.S. firm will enter the market debt-free, its parent will no longer fund acquisitions.) In CI's August earnings call, MacAlpine expressed confidence in the company's strategy and the wisdom of an IPO. "If you look at the U.S. business, what it's done for our earnings and growth as a company, it's been transformative," he said. "We're just beginning to scratch the surface and really in the first inning of capturing our true potential. So we're 100% committed to the pathway that we're on."

One group will be watching CI's spinoff and subsequent performance with great interest: the private equity firms weighing exit strategies for their investments in wealth consolidators. Focus' former majority owners, **KKR & Co.** and **Stone Point Capital**, opted for the public market, but private secondary sales have been the norm. One last year saw **Genstar Capital** acquire a majority interest in **Cerity Partners**, buying most of the stake owned by **Lightyear Capital**. New York-based Cerity has \$50 billion in assets. In 2019, Genstar sold part of its holding in consolidator **Mercer Advisors** to **Oak Hill Capital**, having acquired a minority interest in Mercer in 2015 from **Lovell Minnick Partners**.

In 2020, **Parthenon Capital Partners** sold its stake in California's **Allworth Financial** to Lightyear, having held the investment for three years. During that time Allworth made a dozen acquisitions and saw its assets grow fourfold to \$10 billion. (Last year, Parthenon also acquired the RIA unit of accounting firm **RSM US**, rebranding it as

Choreo, with about \$10 billion in assets. Choreo subsequently made its first acquisition, of **Enso Wealth Management**, a California firm with \$1.8 billion in AUM.) In 2019, **TA Associates** acquired a majority stake in **Wealth Enhancement Group** from Lightyear. Two years later, Toronto-based **Onex Corp.** joined TA as an equal capital partner in WEG. Since 2015, TA has also held an investment in wealthtech firm **Orion**.

Their various plans aside, private equity firms continue to view the industry as profitable, growing and fragmented — and therefore ripe for ongoing consolidation. "Our view is that M&A in the RIA sector is still in the early innings, and there is much more to come," Max Rakhlin, managing director for Lightyear, told *Gravity Exists* last year. "Major secular changes driving consolidation in the long term are independent of rising interest rates and financial market volatility. In fact, we've seen M&A accelerate during market dislocations."

Indeed, in the face of last year's turmoil the private equity-backed consolidators remained both aggressive and dominant, accounting for the majority of RIA deals. Last year, there were 201 transactions for wealth managers, in line with the 2021 total, but the average deal size by AUM dropped by more than half to \$3.1 billion, reflecting the smaller size of targets.

CI, for one, tapped that smaller marketplace to acquire an established Houston multi-family office with \$900 million in AUM, **Galapagos Partners**. In its more usual mid-size market, one of CI's targets included California's **Corient Capital Partners** (AUM: \$5 billion), a deal that involved a secondary sale by **Merchant Investment Management**. Merchant invests in wealth managers but rejects the private equity label, considering itself a buy-and-hold investor (although its investment in Corient lasted only two years). At the time Merchant made that minority investment, Corient had \$3.1 billion in AUM.

Merchant, which generally assumes a shareholding in the 20% to 25% range, was an active participant again last year, making investments in more than 10 firms, including in **Southwestern Investment Group**, a Nashville-area firm with \$5.8 billion in assets. "This market is fast, it is moving, there are more capital entrants coming it feels like every day if not two a day, and in fairness I think that's all good for the market," Tim Bello, co-founder and managing partner at Merchant, said in the Derek Bruton podcast last April. "I don't think Merchant looks at that as anything but good for financial advisors and the clients that those advisors serve."

Middle-market investor **Vistria Group** entered the wealth space by acquiring a majority of **Mather Group**, a fast-growing Chicago firm with \$8 billion in AUM and a nationwide presence. Vistria, also based in Chicago, said it will commit "significant capital" to support Mather's growth, including via acquisitions and larger deals. Between 2020 and the Vistria announcement last April, Mather had

completed 10 transactions. Subsequently, Mather cut multiple deals, among them three in August that included one of its more ambitious transactions, for a San Francisco Bay Area firm with \$480 million in AUM, **HC Financial Advisors**. In 2021, Vistria closed a “substantially oversubscribed” \$2.7 billion fourth fund.

Another middle-market investor, **LNC Partners**, re-entered the sector with a “strategic” investment in **GCG Advisory Partners**, a Charlotte, N.C., firm with \$1.8 billion in AUM. The capital will be used to “accelerate GCG’s acquisition pace.” An established firm, GCG began making acquisitions in 2018, concluding eight prior to LNC’s investment last July. GCG targets firms with less than \$500 million in AUM. “We can monetize or buy their practice and either keep the advisor on and continue to provide a payout so they can sell and stay, or formulate a succession plan,” GCG Managing Partner Joel Burris explained to *Financial Advisor* in 2021. “We can also buy the business and transition it to their junior partner if that partner can’t afford to buy it themselves.” LNC, which had two previous investments in RIAs, typically invests between \$5 million and \$35 million.

Valeas Capital Partners acquired a minority interest in Ohio’s **Sequoia Financial Group**, committing more than \$200 million to “help accelerate [Sequoia’s] existing expansion strategy” as part of the deal. **Kudu Investment Management** is also a minority investor in Sequoia, which is majority-owned by employees (see *Credit/Private Equity for more on Kudu*). Founded in 1991, Sequoia has \$10 billion in assets and several offices in Ohio, plus Florida, Michigan and South Carolina. The firm has made eight acquisitions over the years, including two significant ones in 2021 for Ohio firms that added \$3 billion in assets. In an interview with *WealthManagement.com*, Sequoia founder and CEO Tom Haught said he expects M&A to add 25% to revenues annually, adding, “It’s no secret there is going to be a lot of succession over the next decade or two.”

Among the large private equity-backed consolidators, David Barton, vice chairman of Mercer, told *Citywire* last September that he expected the firm to close a minimum of 14 deals and add more than \$10 billion in assets in 2022; it began the year with around \$39 billion. Referencing the robust marketplace, Barton said RIAs “fear a gathering storm is headed our way” and want to capitalize on the “current seller’s market ... before it turns.” One of Mercer’s key deals was for a San Francisco Bay Area firm, **Regis Management Company** (AUM: \$5 billion). In addition to adding an established wealth management firm and multi-family office serving the ultra-HNW market, the deal enhances Mercer’s presence in California.

Bob Burlinson, Regis co-founder and managing partner, describes the company’s mission as serving “the complex multigenerational goals and needs” of its clients, who generally have a minimum account size of \$25 million. “By definition, their wealth will exceed many lifetimes, including my own and those of my partners,” Burlinson said, explain-

Independent Broker-Dealer Transactions

	2018	2019	2020	2021	2022
Number of Transactions	4	7	1	3	3
Combined Value (\$M)	\$68	\$1,364	NA	NA	\$245
Average Deal Size (\$M)	\$68	\$682	NA	NA	\$123

Source: Berkshire Global Advisors LPx

ing that the firm “searched for the best partner” to ensure its “boutique, white glove approach to client care is continued for generations to come.” The company’s investment offering spans marketable securities, concentrated equity positions and alternatives, including private investments.

Creative Planning, which counts **General Atlantic** as a minority investor, kept pace with Mercer, making 13 deals in the first 11 months en route to what CEO Peter Mallouk told *Barron’s Advisor* last January could be “our most active year ever from both an organic growth and acquisition perspective.” The firm’s lineup of acquisitions included one of its largest ever, for **Wipfli Financial Advisors** (AUM: \$5 billion). Creative Planning cut the deal with Milwaukee-based accounting and advisory firm Wipfli, which retained a “significant” minority stake and entered a referral relationship with its new partner. Creative Planning noted that Wipfli’s business, including a retirement plan services group, complements the large retirement business it acquired from insurance broker **Lockton** in 2021.

In an interview with *RIA Biz*, Mallouk said the market has experienced a “flood of firms” seeking buyers, but his firm is being selective and financially prudent. “We are not using anywhere near what our dry powder will allow, and keeping our bar high [on targets] will likely keep it that way,” he said. General Atlantic acquired a minority stake in Mallouk’s firm in 2020, around the same time Creative Planning had embarked on an acquisition strategy. Since then, the company’s assets under management and advisement have climbed sharply to \$235 billion.

Wealth Enhancement Group maintained its hyperactive pace last year with 11 deals through November, most involving firms with less than \$1 billion in assets. The largest was for **Kings Point Capital Management**, with \$1.7 billion in assets. **Beacon Pointe Advisors** and **Mariner Wealth Advisors** made nine and eight deals, respectively, through the first 11 months. For Mariner, the transaction for **Heber Fuger Wendin Investment Advisors** of suburban Detroit adds a large and venerable firm (AUM: \$8.6 billion) that provides wealth services to Midwestern and Southern community banks and credit unions, an untapped market for Mariner. At the beginning of the year, Mariner raised \$75 million for acquisitions and general corporate purposes from Canadian middle-market credit manager **Penfund**, which said it had been “looking for opportunities” in the “attractive” RIA industry for more than 18 months. **Leonard Green & Partners** acquired a minority stake in Mariner in 2021.

In an interview with *Barron's Advisor* last March, Beacon Pointe CEO Shannon Eusey said she expects the firm — with \$26 billion in assets at the time — to grow by five to 10 times within five years. With every acquisition, Eusey said the company is finding “value-added services that we can offer these firms. Either they’re running up against capacity constraints in the office or they’re running up against the ability to grow because they’re doing so many other things within their office. So there continue to be opportunities to add value, lots of opportunities for us to be in major metropolitan areas and surrounding areas.” In 2021, KKR acquired a significant minority stake in Beacon Pointe, with **Abry Partners** exiting the investment it made the previous year.

While the RBC and Aviva deals were the headliners, the UK market continued to be driven by the growing number of aggregators. As in the U.S., the UK industry is large and fragmented.

Cerity and **Captrust** were also active buyers, each announcing multiple deals. For Cerity, a major one involved **Covington Capital Management**, a Los Angeles firm with \$4.2 billion in assets. Other deals by the New York-based firm covered a diverse set of markets, including Boston, Houston and Philadelphia. North Carolina’s Captrust expanded its Midwest presence by adding **Frontier Wealth Management**, a Kansas City-based firm with \$4 billion in assets. Frontier CEO Nick Blasi said Captrust provides the cybersecurity, marketing and investment services that would have involved “significant time, energy and capital” for his firm to “build out.” **GTCR** has been a minority investor in Captrust since 2020.

While the consolidators provide an attractive and tempting option for independent RIAs, with the capital to back up their offers, many firms remain determined to stay independent while adding scale by teaming up with like-minded partners. There were two such notable deals last year involving mid-size firms. **Laird Norton Wealth Management’s** merger with **Wetherby Asset Management** (AUM: \$6.5 billion) was one, creating a firm with \$15 billion in AUM and a dominant West Coast presence as well an office in New York. It marked the second such deal for Laird Norton, which in 2020 merged with a firm in its Seattle backyard, **Filament**, adding \$2 billion in AUM to the \$4 billion it managed at the time. Laird and Wetherby, which retain their individual branding, said the larger firm will expand the network of in-house experts and create an “expanded platform from which to source high-quality investment opportunities.”

The second deal took place between two Midwest-based firms: **Cresset Asset Management’s** acquisition of **Meristem Family Wealth** (AUM: \$5.4 billion). The combination builds a multi-family office with \$27 billion in AUM and adds Meristem’s South Dakota-based trust company and an

insurance review capability to Cresset’s platform. Avy Stein, co-founder and co-chairman of Cresset, pointed to another key benefit from the deal, telling *Forbes* that size confers clout with investment managers: “If you’re investing money with someone, you’re going to be able to drive better terms or get a better opportunity to co-invest in unique things they may drive, and that’s true on both the public and private side.”

In the press release, Stein also mentioned the “strong cultural fit” between the firms, noting that both started as shared family offices serving a limited number of clients but “quickly grew into leading multi-family offices.” Cresset, whose AUM nearly doubled in 2021, embarked on a steady acquisition plan in 2019, two years after its founding. But those deals account for only one-third of the company’s growth since its founding — a ratio Stein told *RIA Intel* the company aims to maintain. Stein and his co-founder are private equity veterans, but the firm has no backing from the industry.

Outside the U.S., the leading deal — and the largest in the sector last year — was a cross border transaction in which **Royal Bank of Canada** paid C\$2.6 billion in cash (US\$1.9 billion) for London’s **Brewin Dolphin Holdings**. Early in the year, CEO Dave McKay had tipped a potential acquisition, telling investors at a banking conference that in its “inorganic capital deployment” the bank was looking “for opportunities that provide accretive growth,” including deals “to enhance our European and global wealth franchise.” The Brewin deal makes RBC a significant player in what it called “a key growth market,” adding a network of 30 offices and around £52 billion in AUM (\$62 billion) to the £5 billion it already managed in the UK. RBC’s major wealth businesses are in Canada — where it is the leader by market share in the high net worth and ultra-HNW markets — and the U.S. RBC ended 2022 with C\$523 billion in AUM in its global asset management business.

RBC, which projects a double-digit internal rate of return on the deal (not including synergies), paid around 21 times current earnings and 2.8% of assets. Those attractive valuations underline the lure of the UK wealth market and the scale that Brewin Dolphin provides. Brewin Dolphin also has a solid track record: In the five years through fiscal 2021, AUM and revenue averaged 10% and 8% growth, respectively. For its part, Brewin Dolphin CEO Robin Beer said the deal will allow his company “to provide our clients with a broader range of products and services, and expand our distribution channels through leveraging RBC’s global presence.” Brewin Dolphin will operate as a standalone subsidiary of RBC with the same management team.

In a second major UK deal featuring a domestic buyer, **Aviva** paid £385 million for **Succession Wealth**, saying the addition will expand its “ability to offer high-quality financial advice to millions of our customers.” Aviva has four million workplace pension clients and £96 billion in assets, making it the leading player in that market. Additionally, it has two million clients and £139 billion in assets in individual pension and savings plans. Succession Wealth, which will retain its branding, has 200 planners serving

19,000 clients and managing £9.5 billion in assets.

Founded in 2009, Succession was an early and aggressive consolidator, having completed 60 acquisitions by the time of the announcement last March. Aviva said Succession can “accelerate” its growth via acquisitions with “the support and substantial benefits of being part of Aviva.” Aviva cut the deal with London middle-market investor **Inflexion**, which held its investment in Succession for eight years.

While the RBC and Aviva deals were the headliners, the UK market continued to be driven by the growing number of aggregators. As in the U.S., the UK industry is large and fragmented with some 5,000 advisory firms. And similar to the U.S., the industry has drawn increasing numbers of private equity firms, including from outside the UK. Mike Dennis, co-head of European credit at **Ares Management**, told *Citywire* the UK industry has several tailwinds, including a population that is “significantly underserved from a financial advice perspective.”

There are more than 30 private equity-backed consolidators in the UK, most of which have entered the market in the last several years, and the deal numbers and valuations have climbed sharply with their presence. An analysis last year by *Citywire* of the private equity/private capital-backed consolidators indicates they control more than £200 billion in assets, or one-fifth of the advice and wealth management market.

In 2022, **Crestline Investors**, **HPS Investment Partners** and Lovell Minnick Partners were among the U.S. firms joining previous American investors in the UK wealth market such as **Carlyle Group**, **Flexpoint Ford** and TA Associates. Crestline of Texas made an investment that could reach £100 million in **Foster Denovo**, which said the capital will fuel acquisitions “as it looks to cement its foothold as a major national advice brand.” Subsequently, Foster engaged in a series of advisor practice buyouts and said a number of others are in the pipeline. Foster has 80 advisors in total and nine offices across the UK.

Sweden’s **Nordic Capital** joined the Americans to buy one of the UK’s largest independent firms, **Ascot Lloyd**, cutting the deal with two U.S. firms, **Oaktree Capital Management** and Ares Management, the latter of which has made multiple investments in the sector. Ascot Lloyd has £10 billion in assets on behalf of 20,000 clients. Oaktree first invested in Ascot Lloyd in 2013 before acquiring the firm in 2017. Since that acquisition, Ascot Lloyd’s assets have tripled and revenues quadrupled as the firm made more than 30 acquisitions. “Nordic is a very well-funded, very well-capitalized private equity house, slightly larger than Oaktree in Europe,” Ascot Lloyd CEO Nigel Stockton told *FT Adviser*. He added that his firm planned to do seven to 10 acquisitions annually and double pretax earnings in the next three to four years. Nordic has investments in five other financial services firms, including Swedish financial advisor **Max Matthiessen**.

Discount / Electronic Broker Transactions

	2018	2019	2020	2021	2022
Number of Transactions	10	3	6	4	7
Combined Value (\$M)	\$5,627	\$29,265	\$13,350	\$300	\$402
Average Deal Size (\$M)	\$1,125	\$9,755	\$4,450	\$300	\$67

Source: Berkshire Global Advisors LP

New entrants seeded by private capital continue to expand the field of consolidators. One last year was **Solomon Capital Holdings**, backed by another U.S. private equity firm, **J.C. Flowers**. Established by executives from prominent UK wealth firm **Quilter**, Solomon kicked off its national ambitions last June with the acquisition of **Beaufort Group**, a financial planner and asset manager. Another acquisition followed in September that added £1.4 billion in assets and 3,500 clients. Solomon ultimately hopes to serve 50,000 clients.

The more established consolidators remained active last year, among them publicly traded **Mattioli Woods**, whose subsidiary, **Ludlow Wealth Management Group**, made its first acquisition. In 2021, Mattioli cut its largest-ever wealth deal for Ludlow, one of the largest independent advisors in North West England. In the year ending last May, Mattioli’s revenues rose 70% over the previous year, driven by acquisitions and organic revenue growth of 10%, while assets were £15 billion.

The second active European market is Switzerland, far more compact than the UK’s but experiencing a steady consolidation and concentration trend that has seen the largest eight private banks control 80% of industry AUM, according to KPMG. Small firms, which represented half of Swiss private banks in 2021, control just 2% of AUM. The industry enjoyed a banner year in 2021, when the 76 private banks analyzed by KPMG experienced 13% growth in AUM to a record CHF 3.3 trillion (US\$3.4 trillion) and a 53% jump in gross profit. By the second quarter of 2022, however, the banks had run into the headwinds of war, inflation and rising interest rates.

Julius Baer, whose AUM and operating income in the first half dropped 11% and 6%, respectively, sold two of its Swiss wealth boutiques in management buyouts as part of an effort to “reduce complexity.” Combined, the two had CHF 2.7 billion in assets. Additionally, Julius Baer sold its majority stake in Mexican wealth manager **NSC Asesores** (AUM: \$4 billion) to Ohio-based **Stratos Wealth Partners** while retaining 19.9%. **UBP** also engaged in a minor divestiture, selling its Swiss offshore U.S. client business to Zurich’s **Ameliora Wealth Management**, which serves that market. The deal adds CHF 1 billion, bringing Ameliora’s assets to CHF 1.4 billion.

There were multiple deals involving boutiques teaming up for scale, including **Decisive Capital Management**’s acquisition of the Swiss business of the UK’s **Artorius Wealth**. Founded in 2016, Geneva-based Decisive has grown rapidly in the years since, gaining CHF 6 billion in assets. The firm,

which describes itself as a “next generation wealth advisor,” specializes in providing its ultra-HNW clients with the opportunity to invest directly in “disruptive industries.” In an interview last year with *WealthBriefing*, Decisive partner Loic Bondiguel said the firm does not seek to play a traditional “brokerage role,” instead opting to be an “actively involved asset allocator, investing alongside our clients and aligned with them.” The deal marks Decisive’s first acquisition and strengthens its existing presence in Zurich.

In a second cross border deal, **Gonet & Cie** acquired the Swiss subsidiary of **Banque Degroof Petercam**, a Belgian private bank and asset manager. The deal gives Gonet & Cie a total of CHF 5.5 billion in AUM, with the Swiss bank calling it the “next milestone in our selective growth story and presses our claim to rank among those actively shaping Geneva as a financial center.” In a domestic Swiss deal, **Woodman Asset Management** merged with **Pentagram Wealth Management** to create a firm with CHF 3.5 billion in AUM and a presence in Switzerland’s three main financial centers. Woodman said the deal “unlocks substantial value and growth opportunities driven by greater scale, diversity and balance across investment strategies and geographies.”

Capital Markets

Robust M&A and IPO activity helped drive investment banking revenues and profits to record levels in 2021, but the pullback in markets last year put a lid on performance at banks both large and small. While the M&A market remained strong on a relative basis, with two trillion-dollar quarters in the first half, the \$1.4 trillion in announced deals in the second half drove a full-year decline of 37%, according to Refinitiv.

Deal-makers began the year in high spirits, with half of global respondents to Refinitiv’s Deal Makers Sentiment Survey expecting growth in 2022 to average 10%. North Americans were the most bullish: More than half expected growth to top 13%. By the end of the first quarter, a different reality had set in: Investment banking fees worldwide dropped by 31% from 2021 to a two-year first-quarter low, according to Refinitiv.

As the year wore on, conditions remained challenging. Global debt market activity was down 17% in the first three quarters compared with the year-earlier period, to \$6.7 trillion. The high-yield market suffered the most, hitting a 13-year low of \$112 billion, down 80%, while investment grade declined by 9% to \$3.3 trillion. Equity capital markets dropped 62% to a 13-year low of \$369 billion. The IPO market worldwide suffered a 63% decrease, raising just \$115 billion, the slowest first nine months since 2019. Secondary offerings declined 60%, also the slowest nine-month period for capital raising since 2003.

For the 12 largest investment banks worldwide, revenues were off by 11% in the first quarter, according to Coalition Greenwich. By the first half, one of those 12 banks, **Goldman Sachs**, had recorded a 38% drop in investment banking revenue from the year-earlier

period, with equity and debt underwriting revenues off 86% and 34%, respectively. At boutiques such as **Lazard**, financial advisory revenue began to experience the impact of a slowing market in the second quarter, dropping 14% from the year-earlier period. **Perella Weinberg Partners** reported a 41% drop in overall revenue in the second quarter.

For many banks, the action turned to the trading desks, which benefitted from market volatility. At **JPMorgan Chase**, investment banking revenue was down 61% in the second quarter, but fixed income and equity markets

By the third quarter, the average drop in revenue among the 12 largest global investment banks was 49% vs. the year-earlier period. For many banks, the action turned to trading desks.

revenues rose 15%, including “strong performance in derivatives.” At **Citigroup**, where investment banking revenue dropped 46% in the second quarter, markets revenue rose 25%. “The market volatility that we saw in the first quarter continued into the second, driving corporate clients in particular to be more active in risk management,” Citigroup CEO Jane Fraser told analysts.

For Goldman, fixed income, currency and commodity trading rose 34% in the half-year and 55% in the second quarter. “Our macro franchise remained incredibly active as we help clients navigate rising rates, tightening monetary policies and continued volatility across commodities,” Chief Financial Officer Denis Coleman told investors during the earnings call.

For investment bankers, the news by the third quarter remained grim, however: The average drop in revenue among the 12 largest global investment banks was 49% vs. the year-earlier period, according to Coalition Greenwich. **Bank of America**, Citigroup, Goldman Sachs, JPMorgan and **Morgan Stanley** all reported sharp revenue declines in their investment banking units. Morgan Stanley reported a year-over-year 55% drop in such revenue that was similar to competitors’ results. In the third-quarter conference call, Chairman and CEO James Gorman assured analysts that “advisory and underwriting activity has not gone away — it has simply been deferred.” Meanwhile, Goldman made news with a reorganization that included merging its trading and investment banking businesses, as well as its asset management and wealth units.

Within the industry itself, deal activity remained in line with past years, as companies of varying sizes continue to add scale and/or sector expertise and expand their footprint internationally. The headline investment banking deal last year was a North American affair that saw **TD Bank Group** acquire **Cowen**, expanding the Toronto bank’s U.S. and global presence and its investment banking capabilities. TD Bank paid US\$1.3 billion, with the price representing 1.7 times Cowen’s tangible book value and 8.1 times estimated 2023

earnings. To cover the cash deal, TD Bank sold a small part of its 13.4% shareholding in **Charles Schwab**. TD Bank also engaged in a major commercial bank deal last year to bolster its U.S. presence: The all-cash US\$13.4 billion agreement to buy **First Horizon**, a Memphis-based regional bank.

With the addition of Cowen, revenue in the **TD Securities** unit will climb by about 40% to C\$6.8 billion (US\$5.3 billion), with U.S. revenue more than doubling. Within the U.S., Cowen bolsters TD Securities' equities sales, trading and research business, as well as its capital markets and advisory capabilities. TD Securities, which said there is little overlap between the two businesses, noted that Cowen's research business — covering nearly half of S&P 500 firms — includes "considerable expertise" in the ESG area. Cowen covers some 1,000 companies in total, or three times as many as TD Securities.

Cowen also delivers a fast-growing business: Revenue and operating income grew by annual averages of 23% and 44%, respectively, in the 10 years through March 2022. Investment banking accounted for half and brokerage for around 30% of the \$2 billion in revenue in 2021. The Canadian bank said it expected to achieve annual revenue synergies of US\$300 million to US\$350 million by year three. In a conference call, Cowen Chairman and CEO Jeffrey Solomon said the combination "will allow us to better serve our existing clients by providing access to an expanded range of products and services, and by leveraging TD Securities' strong balance sheet and transaction banking capabilities." TD Bank Group President and CEO Bharat Masrani said the deal positions the firm as "a North American dealer with global reach and a full suite of cross-border capabilities."

Stifel Financial Corp. also crossed borders to acquire Germany's **ACXIT Capital Partners**, an independent firm serving European middle-market clients and entrepreneurs. Established in 1999, ACXIT has completed some 500 transactions involving M&A, capital markets, and debt advisory and restructuring. As one example last year, ACXIT acted as advisor to German e-commerce software firm Gambio for its acquisition by Ecommerce One, owned by pan-European private equity firm **Oakley Capital**.

The addition of ACXIT extends Stifel's European presence into Germany, as well as other markets on the continent, while providing ACXIT with a "powerful international platform," including the "vast U.S. investor base for growth capital." Stifel, which made three U.S. acquisitions between 2019 and 2021, had record investment banking revenue in 2021 of \$1.5 billion (one-third of total revenue), a pace that decelerated in the first three quarters of 2022.

In another deal in Europe, **Alantra** of Spain acquired a "significant" minority stake in technology boutique **Avolta**

Investment Banking Advisory Firm Transactions

	2018	2019	2020	2021	2022
Number of Transactions	19	21	17	19	17
Combined Value (\$M)	\$128	\$2,003	\$4,338	\$806	\$279
Average Deal Size (\$M)	\$43	\$1,002	\$868	\$161	\$93

Source: Berkshire Global Advisors LP

Partners, a Parisian firm that has completed more than 80 deals since starting up in 2014. Alantra, which focuses on the middle market and also has an asset management arm, said the deal strengthens its existing investment banking technology practice. In 2021, technology was the leading sector in Alantra's investment banking business, accounting for 27% of activity. Separately, Alantra added to its minority stake in **Access Capital Partners**, an established European private markets manager. Last year, Access completed the first closing of its ninth buyout fund for smaller European growth companies, having secured nearly half of the €800 million (\$850 million) target.

Within the U.S., **Piper Sandler Companies** remained an active buyer, cutting two deals to strengthen existing industry practices. One was for an independent technology-focused firm, **DBO Partners**, in a cash, stock and earnout deal, the value of which was not disclosed. Based in San Francisco and founded in 2012, DBO provides M&A and capital raising services in the range of technology sectors and has significant private equity relationships. Piper Sander, which enjoyed a record year in its technology group in 2021, called the deal a "significant step towards building a durable technology investment banking group similar in scale to our other industry groups." The second deal involved a European consumer goods M&A boutique, **Stamford Partners**. The London firm said its new parent "can accelerate our growth and broaden our offering to clients." M&A and equity private placements account for the majority of Piper Sandler's revenue.

Institutional Broker-Dealer Transactions

	2018	2019	2020	2021	2022
Number of Transactions	17	14	15	24	14
Combined Value (\$M)	\$1,787	\$261	\$818	\$2,763	\$691
Average Deal Size (\$M)	\$199	\$37	\$273	\$251	\$173

Source: Berkshire Global Advisors LP

Another serial acquirer, **Raymond James**, tapped the market to enhance its investment banking arm, striking a deal for **SumRidge Partners**, a fixed-income market-maker specializing in investment grade, high-yield and municipal bonds, as well as institutional preferred securities. Raymond James said SumRidge provides "an innovative institutional market-making operation with sophisticated trading technologies and risk management tools."

Full-Service Investment Bank Transactions

	2018	2019	2020	2021	2022
Number of Transactions	4	6	4	6	7
Combined Value (\$M)	\$422	\$765	\$36	\$35	\$2,104
Average Deal Size (\$M)	\$211	\$191	\$36	\$35	\$701

Source: Berkshire Global Advisors LP

SumRidge was started after the financial crisis in a bid to capitalize on liquidity issues in fixed-income trading.

Ohio-based regional bank **Huntington Bancshares** strengthened its position in the middle market by acquiring a leading such investment bank, **Capstone Partners**. Huntington said the deal will increase capital markets revenues by 50%, enhance the services it can offer clients, and add capabilities in sectors such as financial technology, energy, and aerospace and defense. In 2021, capital markets fees accounted for just 8% of the bank's noninterest income, but those fees have been growing 16% a year. Paul Janson, Capstone's chief operating officer, referred to the transaction as an "acceleration deal, not an exit" that will allow his firm to "add depth in current geographies and sectors and expand coverage into new industries and products." The two firms had been collaborating for a year prior to the deal on a fee-share arrangement for referrals.

KKR & Co. announced a "strategic alliance" with **Loop Capital Markets** under which the Chicago firm will provide investment banking and equity research services to KKR's equity capital markets clients. KKR said the deal will enhance its ability to serve as a full-service underwriter for IPOs for its portfolio companies and others. Since 2011, Loop Capital has served as an underwriter on 16 KKR capital market transactions; it provides investment banking, brokerage and advisory services. Last year, Loop Capital acquired fixed-income manager **Taplin, Canida & Habacht** as part of the expansion of its asset management business (see *Traditional Investment Management*). In 2021, **CIBC** bought a minority stake in the company.

Fintech

In 2021, **Vanguard** entered the wealthtech sector to make the first acquisition in its lengthy history, for JustInvest, a customizable direct-indexing platform. Vanguard was joined that year in the wealthtech space by other marquee investors such as **Abrdn**, **BlackRock**, **Franklin Resources**, **JPMorgan Chase**, **Morningstar** and **State Street**. In 2020, BlackRock made the headline-grabbing \$1 billion purchase of **Aperio**, a specialist in tax-optimized, index-equity separately managed accounts for wealth managers.

In 2022, the giants were back, underlining the deepening ties between the established financial services firms and the wealthtech industry. The list of investors last year included returnees Franklin Resources and JPMorgan, along with **Apollo Global Management**, **Bank of Amer-**

ica and **Goldman Sachs**. Tokyo-based technology investor **SoftBank Group** made its presence felt with a \$146 million investment in South Korea's **Qraft Technologies**, which employs artificial intelligence systems for its ETF platform and other products for institutions. Softbank praised Qraft's technology for "revolutioniz[ing] the way financial institutions manage public equity assets."

UBS joined the group, temporarily, by announcing the \$1.4 billion acquisition of established roboadvisor **Wealthfront** last January before terminating the deal in September. Wealthfront would have been a veritable rounding error for UBS, adding just \$27 billion in assets, but the deal would have delivered a base of younger clients in the U.S. and complemented UBS' digital strategy. Wealthfront explained that the two firms will "explore ways to work together" while UBS will purchase a \$70 million note convertible into shares at the \$1.4 billion valuation.

The collapse of the deal aside, the fact that a blue-chip wealth manager had sought an online firm whose client accounts average only \$60,000 is an indicator of the generational and digital transformation confronting the industry. "A changing of the guard is underway within wealth management, with a younger cohort of millennial and Gen Z investors forcing firms to rethink their product offerings and client services model," Alistair Shipp, executive director of tech consultant Capco, told *Fintech* last June. "Driven by evolving client demographics, demand for customized investment solutions, enhanced technology and industry consolidation, firms that serve the younger generation will be well-position to capture asset growth."

While the fintech industry in general saw a 17% drop in the number of fundraising deals between the first and second quarters of 2022 to the lowest level since 2020, according to CB Insights, wealthtech was the only sector among six to deliver an increase (36%). The third quarter brought more sober news, however, as wealthtech funding dropped 69% compared with the second quarter while the larger fintech industry saw a 38% decline. The number of mega-round fintech deals (\$100 million or more) reached the lowest level since 2018.

Three-year-old **Farther** was among the fledgling wealthtechs in the capital markets, raising \$15 million in a Series A round last August led by **Bessemer Venture Partners** and including **MassMutual Ventures**. The deal valued the New York firm at \$50 million. Farther, which recorded a fourfold jump in assets to \$250 million in the first half of 2022, provides platforms for both advisors and clients. Writing in *Financial Advisor* after the fundraise, co-founders Brad Genser and Taylor Matthews said "personalization" in wealth management "too frequently means losing access to an expert.... human expertise must blend seamlessly with technology to truly provide a worthwhile personalized experience."

Goldman Sachs zeroed in on a more established firm in the retirement market in buying Chicago's **NextCapital Group**, a digital provider that "will accelerate" Goldman's services to the defined contribution (DC) market. In a survey last year by insurance broker and consulting firm **WTW**, 44% of employees ranked retirement among their top three employer-related issues. Three-quarters said their employer's retirement plan was their primary vehicle for such savings. "Employees want help with saving for retirement," a WTW managing director noted. "So it's imperative for employers to ensure their Total Rewards programs provide not only benefits that meet employees' needs but also the employee engagement resources, tools and technology to make informed decisions about saving for retirement."

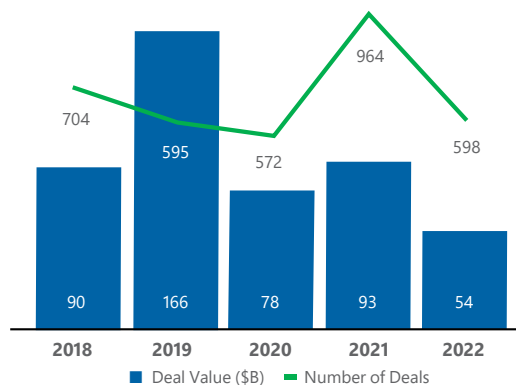
Goldman, with \$350 billion in assets under supervision in DC and defined benefit plans, did not disclose the price it paid for NextCapital but said the deal was one of its five largest asset management acquisitions. "This is a company that we've known and admired for a long time," Luke Sarsfield, global co-head of **Goldman Sachs Asset Management**, told the *Financial Times*, noting that the two companies had previously worked together. Through its subsidiary **Ayco**, Goldman provides retirement planning and other services to 475 companies, in addition to its other wealth management businesses. In 2021, NextCapital added a couple of significant clients: Retirement plan advisor **Resources Investment Advisors** and **Prudential Financial** both introduced planning platforms powered by NextCapital, with Prudential noting the platform would cover 3.2 million DC clients.

After cutting two fintech deals in 2021, JPMorgan Chase last year added **Global Shares**, a software provider for employee share-plan management. The Irish company, founded in 2005, serves more than 600 corporations ranging from startups to multinationals and has \$200 billion in assets under administration. JPMorgan reviewed two dozen such companies over the course of two years before acquiring Global Shares.

In an interview with *Yahoo Finance*, Ben Hesse, chief operating officer for **J.P. Morgan Asset and Wealth Management**, explained the complementary nature of the deal. "We have a lot of corporate clients, obviously, across the [corporate and investment] and commercial bank. Taking [Global Shares'] capability to them is really exciting. For the hundreds of thousands of current and future plan participants on the Global Shares platform, offering them access to best-in-class wealth management services from our 7,000 advisors across the global private bank and U.S. wealth management is exciting as well." *Barron's* placed the price tag at \$750 million, quoting a source "familiar with the situation." Financial technology investor **Motive**, which paid \$25 million for a 40% stake in Global Shares in 2018, was among the sellers, suggesting an extraordinary return if *Barron's* information is correct.

Motive, which closed its second flagship fund last July of \$2.5 billion, was on the other side of a fintech transaction

Global FinTech M&A Activity



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

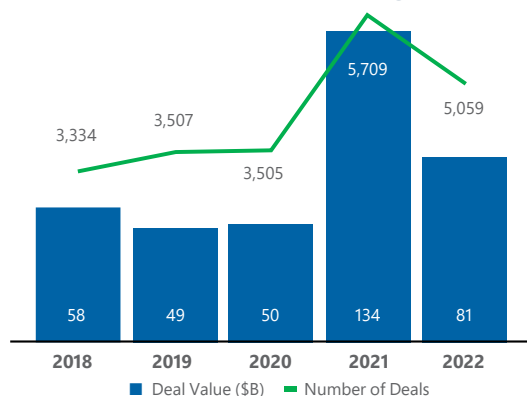
last year, joining Apollo Global Management and Franklin Resources to lead a \$225 million round of financing for **CAIS**, an established alternatives platform for financial advisors. The deal valued CAIS at more than \$1 billion. (In 2021, Apollo acquired a minority stake in Motive.) Subsequently, **Hamilton Lane** made an investment in CAIS, saying "significant macroeconomic tailwinds ... highlight the urgency for improved access to alternative investments, especially for the independent wealth and non-institutional channels."

Illinois-based venture capital firm **First Trust Capital Partners** tapped the direct-indexing market by acquiring **Veriti Management**, one of multiple deals last year in that hot sector. For First Trust, the deal adds a direct-indexing capability and another fintech to its portfolio, which includes 16 investments in financial services and fintech firms. Based in Boston and founded in 2018, Veriti offers wealthy individuals and institutions personalized strategies that "align with the values of contemporary investors" while also capturing "substantial tax benefits." The firm has around \$1 billion in assets on its platform.

In an interview with *Barron's*, First Trust Senior Vice President and ETF strategist Ryan Issakainen said his firm had been considering direct indexers "for some time," but finding the "mindset that fits well with what we do" was a challenge. Veriti, whose executives have backgrounds as "financial professionals," met that criteria, he said, adding, "It's a for-advisors built-by-advisors sort of platform." At the same time, Veriti was attracted by First Trust's advisor orientation. First Trust has assets under management and supervision of more than \$200 billion.

Bank of America made an undisclosed investment in a major alternatives fintech that counts Apollo Global Management among its investors, **iCapital Network**. The deal — the first for BoA in an alternatives platform — valued iCapital at \$6 billion, in line with a previous round of financing at the end of 2021. In 2019, iCapital acquired BoA's alternatives feeder fund business. At the time of the deal last June, iCapital's platform had nearly doubled in less than two years to \$130 billion in assets via acquisitions and organic growth.

Global FinTech Capital Raising



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

iCapital was itself among the pure-play fintech buyers last year. “There are a handful of black hole TAMPs that are drawing other TAMPs and fintech firms toward them and swallowing them up in order to gain scale and grow assets,” Scott MacKillop, CEO of wealthtech **First Ascent Asset Management**, told *RIABiz* last June. “These firms are under tremendous pressure to grow quickly and win the hearts, minds and desktops of the advisor community.” iCapital cut multiple deals, including for **Simon Markets**, a platform for structured products, annuities and other risk-managed products. Sold by majority shareholder Goldman Sachs in 2018, Simon then received backing from a consortium of prominent financial services firms; it counts 100,000 financial professionals among its clients.

iCapital said the deal “provides our advisors with a much more robust platform and suite of tools,” tracking its strategy of creating a comprehensive digital alternatives platform. In 2021, Simon partnered with **+Subscribe**, an order management and document platform for alternatives transactions, to provide an end-to-end alternatives platform for advisors.

In a second transaction, iCapital acquired **Stifel Financial Corp.**’s feeder hedge fund platform as the two firms expanded an existing partnership. iCapital will employ its technology to update the platform, which supports Stifel’s advisors. In a deal with shareholder UBS, iCapital acquired the Swiss firm’s U.S. alternatives feeder fund platform (\$7 billion in assets) and also expanded its relationship with **Bank of Singapore** by acquiring the private bank’s private markets feeder fund platform. iCapital will handle management and operation of the platform while BoS manages client servicing. BoS is part of Singaporean regional banking giant **OCBC Bank**. iCapital also teamed with Italy’s **Mediobanca Private Banking**, which will leverage iCapital’s platform to provide its clients with access to a broad range of alternatives.

Other large fintechs remained in the market last year to round out their platforms. Publicly traded **Envestnet** cut several diverse deals as it delivered a double-digit gain in

revenue in the first six months amidst the market downturn while lowering its full-year projection for revenue by about 6%. During the first-quarter earnings call, Envestnet CEO Bill Crager noted that he spent much of the early part of the year with clients, saying, “Every company I spoke with is accelerating digital transformation. There is no mistaking the transformation that is coming.”

The company’s first deal was for a minority stake in **Ellevest**, an eight-year-old roboadvisor started by prominent wealth manager Sallie Krawcheck. **Bank of Montreal** joined Envestnet as a minority investor. Ellevest bills itself as a firm “Built by women, for women,” with investment algorithms that account for related characteristics such as career gaps and longer life spans. In a second transaction, the target was six-year-old **401kplans.com**, a deal Envestnet made to bolster its retirement business.

401kplans.com technology provides advisors with a documented due diligence process as they consider plan providers. In an interview with *RIA Intel*, Sean Murray, Envestnet head of retirement, said the acquired platform can help advisors “democratize” and “maintain” a retirement business “directly within their practice.” In a third deal, Envestnet acquired **Redi2 Technologies**, a provider of wealth and investment management revenue management and billing software.

Orion Advisor Solutions added a couple of firms last year, including **TownSquare Capital**, an investment and trading platform “with an institutional mindset toward portfolio construction.” The four-year-old Utah firm, with \$6 billion in AUM, employs institutional money managers on its platform. Orion, whose assets climbed to \$60 billion on the deal, said TownSquare strengthens its wealth capabilities “for our growth-focused independent advisor clients.” TownSquare said the capital provided by Orion will fuel its expansion, including the buildout of an outsourced chief investment officer (CIO) function. In a second deal, Orion added an established and complementary client relationship management software provider, **Redtail Technologies**. Orion and Redtail had an existing relationship, and one-third of Orion’s clients already employ Redtail software.

AssetMark Financial Holdings continued to enhance its wealth lineup with acquisitions, last year for **Adhesion Wealth**, whose platform includes overlay trading services, client engagement technology, and managed account programs. Adhesion, which was owned by wealthtech **Vestmark**, serves 180 RIAs and adds \$9.5 billion in assets to the \$90 billion AssetMark had on its platform at the time of the deal last June. Adhesion markets itself as the second-largest model marketplace, with more than 400 asset managers and strategists. AssetMark said Adhesion delivers “value-added services and solutions” such as personal and direct indexing, tax transition and portfolio administration. Adhesion said the link with AssetMark will allow it to “impact a broader group of advisors.” 🌐

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