BERKSHIRE
GLOBAL ADVISORS

NEW YORK | LONDON | SYDNEY | SAN FRANCISCO | DENVER

For 40 years, Berkshire Global Advisors has been a leading provider of trusted M&A and strategic advice to the financial services industry. As a global specialist investment bank, our deep market knowledge and relationships enable us to deliver results for our clients.

Across borders, market cycles and industry sub-sectors, Berkshire Global Advisors provides effective, conflict-free advisory services to CEOs and their executive teams, business owners and financial sponsors. www.berkshireglobal.com

Berkshire Global Advisors LP

527 Madison Avenue, 3rd Floor
New York, NY 10022
+1 212 207 1000

50 California Street, Suite 1500
San Francisco, CA 94111
+1 415 293 8426

999 Eighteenth Street, Suite 3000
Denver, CO 80202
+1 303 893 2899

Berkshire Global Advisors Ltd

11 Haymarket, 2nd Floor
London, SW1Y 4BP
+44 20 7828 2828

Berkshire Global Advisors Pty Ltd

29 Margaret Street, Level 9, Suite 2
Sydney, Australia, NSW, 2000
+61 402 336 228

Berkshire Global Advisors LP Member, FINRA / SIPC

Berkshire Global Advisors Ltd is Authorised and Regulated by the Financial Conduct Authority (Registration Number 188637)

Berkshire Global Advisors Pty Ltd ACN 619 895 920 AFS Licence no 504088

Some information presented in this publication may be obtained from third-party sources considered to be reliable. Sources are not required to make representations as to the accuracy of the information, however, and consequently, Berkshire Global Advisors cannot guarantee its accuracy.

© 2023 Berkshire Global Advisors. All rights reserved.

Markets climb amidst banking, interest rate woes

Following the double-digit losses of 2022, U.S. equity investors began the new year on a hopeful note, bolstered by a postwar history of just two periods where the S&P 500 and Nasdaq indexes suffered negative returns over two or more consecutive years (1973-74 and 2000-2002). The Dow Jones Industrial Average mirrors those records but includes a third period in 1977-78.

A strong opening month reinforced the bullish historical case while the four months that followed were generally positive, if uneven. Although the Dow was a laggard — barely in the green by the start of June — the S&P 500 and Nasdaq turned in robust performances driven by a small group of technology stocks. The major European equity markets were also in the plus column while the Nikkei 225 index reached a 33-year high in May, although the index remains well below the stratospheric level reached in December 1989.

The U.S. bond market rebounded from the carnage of 2022, when virtually every sector endured double-digit losses. The broad-based **Vanguard** Total Bond Market (U.S.) ETF returned 2.4% through early June while the **iShares** iBoxx $ High Yield Corporate Bond ETF returned 3.5%. At the same time, the bond market faced competition from dowdy money markets and CDs sporting interest rates of 4% to 5%.

Even as U.S. markets recovered, the introduction of banking woes in March added to nagging investor concerns about inflation, recession and war. While that crisis du jour led some bulls to wager on a more dovish Federal Reserve, many others sought safety: In mid-March, the two-year Treasury recorded its biggest rally since the 1987 stock market crash as the yield dropped nearly one percent to 4.03% over the course of just several days. (In the first quarter, the yield curve became the most inverted since 1981, according to **Morningstar**.)

U.S. money markets also benefited, drawing $286 billion in inflows in the two weeks through March 22, according to EPFR, the biggest surge since the Covid crisis in 2020. By mid-May, those assets hit a record $5.3 trillion, according to the Investment Company Institute. “We are seeing shifts into money market funds by every segment of investor,” **Goldman Sachs Asset Management**’s chief investment officer for public investing told the *Financial Times* in March, adding: “Every investor has to ask themselves, ‘Does my cash risk profile match [my overall risk profile].’”

Gold was another winner: The price of an ounce topped $2,000 in March for the first time since Russia’s February 2022 invasion of Ukraine, with related mutual funds and ETFs enjoying a spike in demand.

At its first meeting after the banking crisis, the Fed reacted as many investors anticipated by tightening but slowing the pace with a quarter-point rate increase. “Fighting inflation was really the only goal of the Fed” in recent months, **Horizon Investments** portfolio manager Zach Hill told the *Wall Street Journal* in March. “Now we’ve introduced this idea of financial instability. How the Fed balances that is not really clear.” The Fed responded with another quarter-point increase at its May meeting while indicating it could pause going forward.

A decade of slower growth?

Throughout the first half, risk remained top of mind for many investors. **Bank of America**'s April survey of global fund managers showed a net 29% underweight equities relative to bonds, the widest gap since the financial crisis. A net 63% expect weaker global growth. In *Barron's* "Big Money" poll that same month, only 36% of the professional investors surveyed described themselves as bullish. The American Association of Individual Investors sentiment survey at the same time showed the bears prevailing, but a growing percentage of bulls.

Lisa Shalett, chief investment officer for wealth management at **Morgan Stanley**, worried in an April newsletter that many investors were still ignoring "genuine risks to the economy and corporate earnings" as well as "stresses" in asset classes "vulnerable to higher rates and tightening lending standards" while focusing "single-mindedly … on a potential decline in long-term interest rates back to pre-Covid levels."

First-quarter GDP growth in the U.S. of just 1.3% underlined the caution of veterans like Shalett. Estimated earnings for S&P 500 companies also declined for the second straight quarter, by 2.1%, according to FactSet. But bulls took solace from the three-quarters of S&P 500 companies that reported positive earnings and revenues surprises in the first quarter. Additionally, during April and May, analysts lowered earnings estimates for the second quarter by a smaller margin than average.

Globally, the International Monetary Fund projects GDP growth this year of 2.8%, down from 3.4% in 2022. Projected growth in the advanced economies of just 1.3% is the primary drag, with the U.S. and eurozone expected to grow 1.6% and 0.8%, respectively. "Recent banking instability reminds us, however, that the situation remains fragile," wrote the IMF in April. "Once again, downside risks dominate and the fog around the world economic outlook has thickened."

Longer term, the World Bank warned in a report released just prior to the banking crisis that declines in productivity and investment, combined with an aging workforce, could conspire to sink global annual GDP growth to a three-decade low of 2.2% through the rest of the decade. "An extraordinary series of setbacks has brought the world to another crossroads," wrote David Malpass, World Bank president. "It will take an exceptional mix of focused policies and effective international cooperation to revive growth."

The overall M&A market reflected the economic challenges, as well as higher interest rates: In the first quarter, deal value dropped 44% from the year-earlier period to $580 billion — the largest year-over-year percentage decline since 2001 and the lowest first-quarter total since 2014, according to Refinitiv. The value of megadeals over $10 billion fell 50%, explaining in part the steep value decline. The drop in the number of deals was less stark at 17%.

Investment bankers felt the sting: Aggregate fees worldwide dropped 22% in the first quarter to a seven-year low, according to Refinitiv, continuing the sharp decline that began in the second half of 2022. At **Goldman Sachs**, investment banking fees dipped 26% from the year-ago quarter, with the other major commercial banks showing similar results. At boutique **Lazard**, financial advisory operating revenue declined 29%. But in Goldman's earnings call, Chairman and CEO David Solomon struck an optimistic note, saying "strategic dialogues are quite active" among companies as they continue to pursue the "scale and strength" they require to remain competitive.

Private equity firms were sitting on nearly $2 trillion in dry powder as the year began, by Preqin's estimates, but the industry remains cautious: *Bloomberg* tabulated a 59% decline in the value of first-quarter private equity deals compared with the year-earlier period. In particular, buyers must assess whether potential targets can generate the cash flow needed to manage post-deal leverage, along with the valuations that make sense in such an environment.

"Debt for new leveraged buyouts has become less available and more expensive, meaning PE firms need to be very picky in doing deals in this environment," Alan Gauld, lead investment manager of **abrdn**'s Europe-focused Private Equity Opportunities Trust, told *Investment Week* (UK). "In this market, [general partners] have been more focused on doing add-on acquisitions for their existing portfolio companies."

In a report on the M&A market released at the start of the year, consulting firm Bain & Co. advises firms to keep the faith, saying acquisitions proved a "winning response" during the turbulent 2008-2009 period. It found that companies executing at least one deal a year during those two years earned 120 basis points more than inactive companies in total shareholder returns in the 10 years through 2017. Two-thirds of the companies that responded to Bain's questionnaire reported that acquisitions made in the previous three years "have met or exceeded expectations."

New year, some easing for asset managers

For publicly traded U.S. traditional asset managers, the challenges of 2022 eased in the early part of the year. In 2022, those managers in aggregate saw their median revenue and AUM decline by 9% and 17%, respectively, according to a report released in April by Casey Quirk. By contrast, alternative managers recorded median revenue and AUM growth of 20% and 11%.

"The bifurcation between traditional and alternatives firms became even more stark in 2022," said a Casey Quirk executive, explaining that alternative firms enjoyed "strong flows from both the retail and insurance channels as investors sought yield and excess returns." For all public asset managers, margins "remained healthy" at 34%.

Although asset managers generally saw their results decline between the first quarters of 2022 and 2023, there were gains between the 2022 fourth quarter and the first three months of this year, in line with improving markets. **BlackRock**'s AUM dropped 5% compared with the year-earlier period (to $9.1 trillion), but climbed by around the same amount from year-

end 2022. Net inflows were strong at $110 billion, the majority from institutions and into active fixed-income and multi-asset funds. **Affiliated Managers Group**, with its diverse portfolio of asset managers, saw AUM decline 14% to $668 billion year-over-year, but climb 3% from year-end 2022. Since the second quarter of 2022, alternatives (AUM: $224 billion) have constituted the largest single asset class for AMG, surpassing global equities.

Federated Hermes was one manager that grew significantly from the year-earlier period, thanks to its large money-market business, which hit a record $506 billion in AUM in the first quarter, up 20%. That drove the Pittsburgh-based firm's total AUM to a record $701 billion (up 11% year-over-year). "As interest rates continued their rise and as investors considered regional banking issues, many withdrew deposits from small and medium-sized banks and continued to embrace the benefits of money market funds," said J. Christopher Donahue, president and CEO.

Blackstone delivered the best performance among the largest alternatives firms, registering a year-over-year 8% gain in AUM to nearly $1 trillion, with fee-earning AUM increasing by the same percent. The company also had an industry-record $200 billion in dry powder, positioning it "ahead of what we believe will be an attractive environment for deployment," said Chairman and CEO Stephen Schwarzman. Blackstone, the largest manager of leveraged loans, also launched a U.S. direct-lending fund in the first quarter aiming to raise $10 billion.

Carlyle Group recorded declines in revenue, net income and distributable earnings from the year-earlier period, but AUM reached a new high of $381 billion. Similarly, **KKR & Co.** saw fee-related earnings and distributable earnings decline but AUM increase 6% to $510 billion. KKR Co-Chief Executive Scott Nuttall told analysts that fundraising among "some" U.S. and European institutions has paused "as they get their bearings" and will "likely slow down capital formation" in some areas. But he also touted the addition of insurers and wealthy investors as significant investors. Noting that 95% of capital raised in the past year was for non-private-equity strategies, Nuttall added, "So we are diversifying KKR, not just in how we invest but in how we access capital."

The story among traditional European managers was similar to that of their U.S. counterparts. **Amundi**'s AUM, adjusted net income and revenue in the first quarter were down single digits from the year-earlier period, but AUM rose 2% from the end of 2022 and retail inflows were up slightly. At **Schroders**, AUM was down only marginally from the first three months of 2022 and up slightly from the end of 2022. **DWS Group**, the asset manager majority owned by **Deutsche Bank**, recorded a 7% year-over-year decline in AUM, but AUM and inflows were positive in the first quarter.

As in the larger world, deal-makers in the asset management industry slowed their pace of activity, but there were significant transactions across all sectors, once more led by the wealth industry. In Affiliated Managers Group's first-quarter earnings call, President and CEO Jay Horgan called the transaction environment "constructive," with "reasonable expectations and reasonable valuations, at least within our ability to structure and risk-share with our affiliates, because we come to partner with them for the long term." Horgan said the firm — with a focus on "long-term secular" growth areas such as liquid alternatives, private markets and sustainable strategies — advanced discussions with several prospective affiliates, although it did not announce any deals in the first five months of the year.

The first-half deal that included the most significant asset management component was the all-stock $3.2 billion shotgun wedding between **UBS** and **Credit Suisse**. The combined firm will have $5 trillion in assets and become the second-largest wealth manager worldwide. The enlarged UBS will also become the No. 3 player in Europe's asset management industry with $1.5 trillion in AUM, including €89 billion ($95 billion) in ETFs, placing it No. 4 in that European market ahead of **Vanguard** (based on year-end 2022 data).

Within wealth, Credit Suisse enhances UBS' leading position in Switzerland while adding strength in Southeast Asia and "a very good franchise in Latin America." However, the deal may not be accretive to earnings until 2027, largely due to positions in Credit Suisse's investment banking portfolio that UBS will need to run down over several years.

In the first of the two major U.S. distress sales, **First Citizens BancShares**' acquisition of **Silicon Valley Bank** gave the North Carolina-based regional bank control over a wealth management business that SVB had largely acquired from **Boston Private Financial Holdings** in 2021. First Citizens said that business will add wealth capabilities in the Northeast while providing a "natural fit" for its existing high-net-worth unit. SVB's wealth business, which includes New York's **KLS Professional Advisors Group**, had more than $17 billion in assets at the end of 2022, but the bank's problems drove a significant loss of advisors and clients.

In the second sale, **JPMorgan Chase**'s acquisition of **First Republic Bank** was to a large extent driven by the bank's attractive wealth business: In the first quarter, First Republic reported total wealth assets of $289 billion, 41% in investment management assets, and that business accounted for 18% of the bank's $1.2 billion of revenues. The deal extends JPM's wealth footprint in Los Angeles and San Francisco, as well as New York.

In the analyst call on the transaction, CFO Jeremy Barnum said JPM had received inquiries from First Republic wealth advisors prior to the deal and noted that some 150 remained with the firm. "We believe our brand, the investment platform, the banking capabilities and our research can make us the firm of choice for many of these advisors," he said. In its first-quarter release of April 24, a week before the deal, First Republic said advisors representing 20% of wealth assets had left the firm.

The alternative classes recorded a number of significant transactions in North America and Europe spanning credit, private equity and real estate advisory. The leading deal saw **TPG** add credit and real estate advisory businesses to its alternatives portfolio with the acquisition of **Angelo Gordon**

for $2.7 billion in cash and shares. TPG's primary business is private equity, but the company also has a sizable real estate advisory unit. The deal underlines the steady flow of major transactions involving tie-ups between alternative firms themselves or traditional asset managers acquiring such firms to build out their portfolios.

The effort by large firms to increase AUM "is putting pressure on [general partners] to find new ways to grow, encouraging more firms to give M&A a fresh look," writes Bain & Co. in a May report. "It's also true that smaller firms are facing higher hurdles to growth as fund-raising becomes more difficult. That is prompting many to consider hitching on to a larger platform." Publicly traded alternatives managers have dominated activity, accounting for 84% of such deals since 2012, "largely because they have firepower in the form of balance sheets and liquid currency that private partnerships lack."

One of the more active players in the alternative space on a smaller scale was three-year-old **Hunter Point Capital**, which made three minority investments in private equity managers to bring its transaction total to six since 2022. **Focus Financial Partners** tapped into the demand among wealth managers and their clients for alternatives by acquiring real estate fund manager **Origin Holding Co.**

In a report released in March, Preqin wrote that greater numbers of alternative managers are "pivoting towards the private wealth industry, as capital raising from institutional clients becomes more challenging." The data company projects that institutional private capital fundraising worldwide will slow to a 3.6% compound annual growth rate between 2022 and 2027, one-third the rate between 2015 and 2021.

Secondaries investor **Coller Capital** is one of the managers making the pivot: In February, the London-based firm created a global Private Wealth Secondaries Solution business to expand its individual investor base. "Secondaries are a natural place for high-net-worth investors to invest, given they provide the ability to gain exposure to a diversified portfolio and target attractive absolute and risk-adjusted returns," said Jake Elmhirst, head of Coller's new unit.

Brookfield Oaktree Wealth Solutions was launched by **Brookfield Asset Management** in 2021 to provide "institutional caliber" alternatives to retail investors. In February, Brookfield added another real assets sector for those investors by introducing a $1 billion infrastructure strategy in Europe and Asia-Pacific. Last year, Blackstone raised $48 billion from the wealth channel while **Apollo Global Management** aims to raise $50 billion from retail investors in the five years through 2026. "Most fund managers are so far only scratching the surface compared with the potential that the private wealth space offers," said Preqin's deputy head of research insights.

ETFs celebrate an anniversary

The traditional investment management sector in the U.S. added its first major consolidation deal in three years: **Franklin Resources**' acquisition of **Putnam Investments** (AUM: $136 billion). The deal involves an upfront $925 million payment, primarily in shares, plus a contingency payment of up to $375 million based upon revenue growth. Franklin called the transaction part of a larger "strategic partnership" with Putnam owner **Power Corporation of Canada** and its asset management and insurance subsidiaries.

The deal and partnership add retirement plan and insurance assets, including a "long-term" $25 billion asset allocation to Franklin's specialist managers from Power Corp. subsidiary **Great-West Lifeco**. Paul Mahon, president and CEO of Great-West, said the transaction furthers its "strategy of building strategic partnerships with best-in-class asset managers to support our clients' retirement, insurance and wealth management needs." Franklin accounted for another consolidation deal in 2020: the acquisition of Legg Mason.

Within the sector, the year began with a notable event correlated with the various consolidation deals: The 30th anniversary of the first U.S. ETF, the SPDR S&P 500 ETF Trust. Since its launch in January 1993, the security has gathered $385 billion in assets, making it both the largest ETF and most heavily traded security in the world. That ETF alone would place **State Street Global Advisors** among the top-50 U.S. asset managers (State Street is No. 4 in the U.S.). Sue Thompson, head of SPDR Americas Distribution at State Street, noted that the S&P 500 ETF "disrupted the asset management industry and benefitted investors in ways that exceeded even the most ambitious expectations."

Indeed, last year the ETF industry recorded a stunning $856 billion in net inflows worldwide, the second-highest total ever after 2021, according to ETGFI. That helped staunch some of the red ink driven by market losses, which reduced total ETF assets by 10% to $9.2 trillion. The U.S. accounted for 70% of inflows and assets. Although net inflows remained solid in the first quarter of this year at $145 billion worldwide, they dropped by half from the 2022 first quarter. Notably, equity ETFs gathered a net $34 billion compared with the $211 billion in the first three months of 2022. Fixed-income net inflows nearly doubled from the previous year to $70 billion.

Meanwhile, in February, Chicago's **Harbor Capital Advisors** folded its High-Yield Bond fund into a similar ETF it manages, representing the industry's first such mutual fund-to-existing-ETF merger, according to Bloomberg Intelligence. The Harbor Capital Scientific Alpha High-Yield ETF, subadvised by **BlueCove**, had $140 million in AUM following the merger. The change provides the mutual fund holders with a 17 basis-point drop in the gross expense ratio to 48 basis points.

In that first quarter, London-based BlueCove drew a minority investment from **Ares Management**, which has the option to assume a majority stake over a multi-year term. BlueCove (AUM: $1.8 billion) is a systematic manager aiming to play a "leading role" in mainstreaming its "scientific" approach to fixed-income markets. "To run a scientific process you need data, a sophisticated market structure, efficient market

breadth and research innovation," Alex Khein, CEO and co-founder of BlueCove, told *International Financing Review* in 2022. "We've seen all these key inputs become evident in fixed income over the past few decades."

Spouting Rock Asset Management, a small but acquisitive multi-boutique, cut two diverse deals in the first half. Both involved active managers pursuing value strategies, one for U.S.-focused **Reinhart Partners** (AUM: $2.5 billion) and the second for **Altan Asset Management**, which seeks "overlooked opportunities in the global equity markets." Based in the Philadelphia area, Spouting Rock has eight managers in its portfolio. Another small manager with a history of deal-making, **Shelton Capital Management**, acquired **Rockwood Capital Advisors**, a bond manager for institutions. Denver-based Shelton is a multi-strategy firm with $3.4 billion in AUM, including $1 billion in covered-call income strategies.

The ETF sector added one more deal to some 20 that took place in the five years through 2022: The acquisition of **Vident Advisory** by entrepreneur Casey Crawford, the CEO and co-founder of retail mortgage lender **Movement Mortgage**. Crawford, who called the ETF market one of the "most dynamic areas of asset management," will own Vident through a separate holding company. Crawford also pledged to make a "significant equity investment" as part of the transaction. Vident has $6.9 billion in proprietary and subadvised ETFs and separately managed accounts.

In a cross border deal in Europe, **Liontrust** of the UK made a £96 million ($120 million) offer for Switzerland's **GAM Holding** to create a global asset manager with £53 billion in AUM (around 40% from GAM). One major investment group quickly opposed the takeover, challenging both the valuation and the all-shares offer, while a counter-offer for GAM from Swiss investment firm **Taure** was rejected. In explaining the deal rationale, Liontrust said GAM broadens its fund portfolio in such asset classes as fixed income, thematic equities and alternatives while expanding distribution in continental Europe. Liontrust has made several acquisitions in recent years, including a deal for a UK institutional fund manager that added £5.8 billion in assets and was completed last year.

There were a number of significant developments in China's fund market, as the country follows through on related reforms. In the first half, **J.P. Morgan Asset Management** (JPAM) and Morgan Stanley both assumed full ownership of their longstanding joint ventures, with JPAM subsequently rebranding the business under it own name. **HSBC**, with its long history in China and Hong Kong, reportedly reached agreement to buy out the domestic partner in its fund management JV.

Schroders was also given approval to set up a wholly owned fund management company while **Fidelity International** introduced its first mutual fund for Chinese investors, a domestic equity vehicle that will be distributed via major platforms such as those run by **Ant Fortune**, **Bank of China** and **Citic Securities**. **Neuberger Berman** raised the equivalent of nearly $600 million for its first domestic Chinese fund, primarily comprising domestic government bonds and notes.

In an interview with *Barron's* in March, Mary Callahan Erdoes, chief executive of JPAM, said the importance of the Chinese venture transcends serving the nation's domestic market. "It is irresponsible to be an investor of any kind or in any asset class in today's world if you don't understand China," she said. Last December, China rolled out to 36 cities the nation's first private pension scheme, following a pilot run that began in 2021. The plan is designed to address the nation's porous safety net and graying population.

Wealth saga: Private to public to private

Less than five years after KKR & Co. and **Stone Point Capital** floated Focus Financial Partners on Nasdaq, the acquisitive wealth manager agreed to be taken private by **Clayton, Dubilier & Rice**. The all-cash deal, which gave Focus an enterprise value of $7 billion, saw CD&R offer a 36% premium to Focus' 60-day volume-weighted average share price, or 61% above the IPO price. Stone Point Capital, which remained a minority shareholder after the IPO, agreed to retain "a portion" of that investment while providing new equity financing.

The deal, announced in February and expected to close in the third quarter, did raise some hackles. "If [Clayton] works its magic and decides to re-IPO at a much higher valuation in five years, Stone Point will be able to participate in that," one portfolio manager told *WealthManagement.com*. "For the rest of us it's $53 and you're out." For its part, CD&R said the take-private deal will provide Focus with "greater financial and operating flexibility" to support its "entrepreneurial partners."

During its period on the public markets, Focus' share price has seesawed even as the company added considerably to its size via acquisitions. But alongside that growth came debt, which spooked some investors. In 2020, the stock dropped 50% below the 2018 IPO price before doubling from that IPO price in 2021 and then sinking again in 2022. Chairman and CEO Rudy Adolf called the deal "an important evolution in the resources we will have to invest, enabling us to increase the value we deliver to our partners and their clients."

Alvarium Tiedemann Holdings went in the other direction, commencing trading on Nasdaq in January. ATH is the combination of wealth managers Tiedemann Group of New York and Alvarium Investments of London, facilitated via a SPAC, **Cartesian Growth**. In May, ATH cut its first deal, acquiring **AL Wealth Partners** (AUM: $1.1 billion) of Singapore to extend its Asian footprint beyond Hong Kong. **CI Financial**, which had planned an IPO of its U.S. wealth unit this year, did an about-face, selling a 20% stake in convertible preferred equity to a group of institutions and asset managers, including Ares Management and **Bain Capital**. The transaction incorporates a payment-in-kind interest stipulation that drew criticism from some investors.

The C$1.3 billion (US$1 billion) deal gives the U.S. business an equity value of C$6.7 billion (US$5 billion) — three times the Canadian firm's market capitalization at the time of

the announcement (late May) — or a multiple of 26 times annualized U.S. first-quarter EBITDA. CI said it will use the proceeds to pay down part of the debt accumulated during its multi-year U.S. acquisition spree. Kurt MacAlpine, CEO of CI, said the deal meets the "value creation" objective of its planned IPO, including an infusion of capital "to materially deleverage," while "preserving flexibility to proceed with an IPO in the future."

Prior to the announcement, CI sold a minority interest in **Congress Wealth Management** of Boston to **Audax Private Equity**, saying the ownership structure precluded it from fully integrating the firm. Audax PE is part of larger alternatives manager **Audax Group**. Additionally, CI Financial launched a South Dakota-based trust company to provide "a flexible, advice-centered model in which tailored trust solutions are integrated into a client's overall wealth plan."

Fidelity Investments counted 83 deals among wealth managers in the first four months, with consolidators such as **Beacon Pointe Advisors**, **Hightower Advisors** and **Mariner Wealth Advisors** naturally in the lead and accounting for some three-quarters of the total. As in the larger M&A universe, higher interest rates, along with the related adjustments buyers and sellers must make, are acting as a brake on some activity, although the four-month M&A total was on par with the same period last year. In the higher rate environment, determined parties are also crafting creative structures to close deals.

In a continuation of the pattern last year, smaller deals were the norm. In February, for example, Fidelity said 82% of deals involved targets with less than $1 billion in AUM, but nearly all were for firms with $500 million or less, an indicator of ongoing competitive pressures on such firms. For example, McKinsey reported in January that frontline and technology-related costs in the wealth industry contributed 82% and 9% of overall cost growth, respectively, in the five years through 2021.

"In the face of the market downturn, some of the larger firms don't want to come to the market because their trailing 12-months revenues are lower," David Barton, vice chairman at **Mercer Advisors**, told PitchBook in March. "But smaller firms don't have the luxury. They have to find a partner now because they need to compete on services." In April, Denver-based Mercer extended its Northeast footprint by acquiring **Andesa Financial Management**, an established Pennsylvania firm with $330 million in AUM and 260 clients. Andesa said it was "looking for ways to add additional services to our clients while offloading onerous back-office responsibilities."

Another consolidator, **Wealth Enhancement Group**, went trawling in similar waters by cutting a few deals for targets such as **Legacy Financial Planning**, an established upstate New York and Florida firm with $370 million in assets. As with Andesa and virtually all of the deals involving such firms, Legacy cited its new owner's ability to provide the "resources we are looking for to take our services to the next level." For Minneapolis-based WEG, the deal continues its expansion on the East Coast, where it has more than one dozen offices. WEG also added a 12th office in Northern California through the acquisition of a San Francisco-area firm with $1 billion in assets, **Equius Partners**.

New consolidators continue to be minted with seeding from private equity firms. In a significant example, **Crestview Partners** provided $200 million in capital to two co-founders of the former United Capital to launch **Modern Wealth Management** in April. Modern, based in California, aims to "acquire select RIAs in strategic locations" throughout the U.S. Crestview, which cited the co-founders' experience building United Capital and the "secular tailwinds" supporting the industry, is majority shareholder. Modern quickly acquired **Barber Financial**, a Midwest firm with $1.5 billion in AUM. In 2019, Goldman Sachs acquired United Capital for $750 million.

While small deals predominated in the first half, some mid-size to larger targets were on the selling block. **Savant Wealth Management** accounted for one of those transactions, acquiring an Atlanta firm with $3.3 billion in AUM, **Capital Directions**. The deal was the largest in the company's history and expands the Illinois-based firm's footprint in the Southeast. Savant has been a steady buyer over the years, but last year accelerated the pace with five deals while adding four more (including Capital Directions) in the first five months of this year to bring its AUM to nearly $20 billion. The deal-making has followed a 2021 recapitalization from **Kelso & Co.** In the first quarter, the firm underlined that more aggressive stance when it hired the head of M&A at Chicago-based **Mather Group** "to lead the firm's inorganic growth efforts." Savant is aiming to grow by three to five times over the next five years.

In one of the marquee transactions in the first half, Canada's **IGM Financial** paid $622 million for a 20% stake in **Rockefeller Capital Management**, calling the deal "a strategic opportunity" to enter the U.S. wealth market via a "truly iconic brand with a proven growth model." IGM Financial is controlled by one of Canada's wealthiest families, the Desmarais, via their majority ownership in IGM's parent, Power Corporation of Canada. The Desmarais and Rockefeller families have had a longstanding relationship.

IGM placed the price at a rich 21 times enterprise value to projected 2023 EBITDA and 13.5 times 2024, with the sharp drop in the latter number reflecting what IGM President and CEO James O' Sullivan called RCM's "strong trajectory of growth over the past five years." RCM's assets have grown more than fivefold to $100 billion since its formation in 2018.

Similar to the U.S., the UK has a large and diverse wealth management industry and a growing number of consolidators, many underwritten by European and U.S. private equity firms. Those active buyers in the first half included **Fairstone**, **Mattioli Woods** and **Perspective Financial Group**, but the headline deal involved the merger between **Rathbones** and the wealth management unit of **Investec**. The £839 million ($1.1 billion) deal will create the UK's leading discretionary wealth manager with £100 billion in assets (60% from Rathbones) and 23 UK locations. Investec will gain a 41% share of the enlarged firm, with the transaction currency involving new Rathbones shares.

Rathbones said the deal will "unlock significant scale benefits" by expanding distribution, helping it attract and retain talent, and leveraging its investment in technology. The company said the deal is expected to be accretive to underlying

earnings per share in its first full year, including annual run-rate cash synergies of "at least" £60 million. "All of us are facing inflationary pressure and need to provide continual value to our clients," said Rathbones CEO Paul Stockton, noting that the firm needed be "much more efficient" while continuing to invest in the business. Rathbones has been an aggressive buyer during the past 10 years, but on a far smaller scale.

Credit M&A remains active

Following another successful year for private debt fundraising in 2022, with more than $200 billion collected, according to PitchBook, the industry faced a more challenging environment in the new year. Still, first-quarter credit fundraising remained on par with the year-earlier period at $43 billion, with the top-10 funds accounting for the "overwhelming majority" of capital, said PitchBook.

Deerpath Capital Management of New York closed two private credit funds in the first quarter, including a $1.5 billion senior debt financing vehicle focused on its niche market of lower-middle-market companies. But in an interview with *Bloomberg*, Derek Dubois, managing director and treasurer, acknowledged that many institutions are "evaluating their entire investment mandate right now, which trickles down to private credit. And yes, fundraising has slowed down across the [credit] industry as a result."

In a corporate communication in March, **Macquarie Capital** noted that "increases in interest rates naturally dampens the desire for higher-leverage deals as borrowers face a less benign environment for servicing their interest. In particular, private debt typically uses floating interest rate structures." Added Patrick Ottersbach, head of Macquarie Capital Private Credit in Europe: "Capital structures are becoming less aggressive as lenders and borrowers focus on interest coverage." Still, Macquarie calls the "mood" in the industry "positive," as it sees "an increase" in private credit "financing requests that had traditionally been funded elsewhere."

According to the International Monetary Fund's Global Financial Stability Report released in April, pension funds and foundations and endowments make up half the investors in U.S. private credit funds. In the year through September 2022, the private credit assets of the 200 largest U.S. retirement plans rose 12.5% to $98 billion, according to a *Pensions & Investments* report published in February, even as credit assets at such major pension funds as **Calpers** and **New York State Common** declined during that period.

But family offices and wealth managers, comprising 19% of investors, are becoming an increasingly significant part of the market. PitchBook estimates that capital raised from the wealth market rose 47% between 2021 and 2022 to $40 billion. In April, Ares Management launched a senior-secured floating-rate loan fund for the wealth market with $1.5 billion in initial capital.

The Ares Strategic Income fund, targeting U.S. middle-market companies, will be distributed through Ares' wealth management arm for RIAs and financial advisors. "The individual investor has been interested in uncorrelated yield for some time now," Raj Dhanda, Ares global head of wealth management, told *Bloomberg*. "What makes this particularly timely was in the last year there was a sharp move in interest rates." Ares has also begun pitching to institutions a senior direct-lending fund with a $10 billion target.

Transactions for private credit specialists spiked last year to total 21, and the sector remained a hub of activity in the first half. Deerpath Capital was itself among the targets, acquired by **PGIM** in May. PGIM, with $237 billion in alternative AUM (20% of total AUM), said Deerpath complements its middle-market direct-lending capabilities by adding expertise among lower-middle-market sponsors.

An established player, **Monroe Capital**, was notable for making its first acquisition, of **Horizon Technology Finance Management**, a credit manager serving venture-capital-backed companies. HTFM, which has deployed more than $3 billion in loan commitments since its founding in 2004, is the investment manager for publicly traded **Horizon Technology Finance Corp.** Monroe said the deal continues its strategy of "providing differentiated niche-focused investment solutions" for its investors. Monroe, with $16 billion in AUM, had an active 2022, closing $6 billion in financing commitments across 115 transactions, 80% in direct lending.

MetLife Investment Management cut its first-ever deal for a private credit firm, **Raven Capital Management**. The transaction came on the heels of MIM's 2022 acquisition of a small fixed-income ESG specialist based in London, **Affirmative Investment Management**. Raven, established in 2008, has $2.1 billion in AUM across the credit spectrum, offering direct lending to middle-market businesses with no private equity affiliation. MIM said the deal will "advance" its capabilities in "higher yielding private credit offerings as well as its overall origination in the asset classes and sectors in which Raven specializes."

But the key deal involved TPG's $2.7 billion cash-and-shares acquisition of Angelo Gordon, creating a major alternatives player with a total of $208 billion in AUM and 900 institutional clients. While TPG's primary business is private equity, AG's is credit, accounting for three-quarters of its $73 billion in AUM. That business is diversified across four major strategies, including special situations and direct lending.

The two firms also have complementary real estate advisory businesses with a total of $38 billion in AUM. "This is a transaction that will strongly deliver benefits of scale, diversification and opportunity for both firms," Adam Schwartz, co-CEO of AG, told analysts. Just prior to the May deal, AG closed a $1.3 billion credit fund seeking "to capitalize on situational market volatility and stress" in the public debt market.

Having acquired Australian real estate advisory firm **Altis Property Partners** last August, **Barings** returned to that market in March to buy another alternatives player, structured finance investor **Gryphon Capital Partners**. The deal adds A$2.6

billion (US$1.7 billion) in AUM to the $8.2 billion Barings already managed in such products. North Carolina-based Barings said the deal will expand that platform in Asia-Pacific while "accelerating" its entry into the Australian wealth market. In addition to its institutional assets, Gryphon manages a retail vehicle primarily comprising residential mortgage-backed securities.

In another cross border deal, Australia's **First Sentier Investors** acquired a majority stake in **AlbaCore Capital Group**, a European credit manager based in London; management retained a minority shareholding. Founded, in 2016, AlbaCore has $9.5 billion in AUM across the credit spectrum. In December 2022, AlbaCore, which focuses on mid-to-large-cap "performing" companies, closed its third flagship fund, with €$2.2 billion ($2.4 billion) in commitments and a re-up rate from its second fund of 96%. FSI (AUM: $146 billion) said it identified alternative credit "as a strategically important space for us to consider" and cited AlbaCore's "unique position in the European market, its growth trajectory and strong investment performance." FSI is part of **Mitsubishi UFJ Financial Group**.

Back to the office … or not

Citing data from **JLL**, the *Wall Street Journal* reported in February that U.S. office workers were significantly lagging their Asian, European and Middle Eastern counterparts in returning to the office. U.S. office occupancy rates ranged between 40% and 60% of pre-pandemic levels (depending upon the city and month) compared with between 70% and 110% in the other regions.

Differing commuting times and residential elbow room are among the multiple reasons cited for the lower U.S. numbers, which continue to place considerable pressure on the commercial property sector. **Cushman & Wakefield**, among others, doesn't see any relief in sight, suggesting an overall vacancy rate of around 20% by the end of decade. "The relationship between job growth and office demand has fractured," the company writes in a recent report, saying office worker density will decline from a pre-pandemic level of 190 square feet to 165 square feet per employee. In the first quarter, JLL said vacancy rates hit a record 20%, although net absorption in offices built since 2015 rose and national asking rates increased slightly.

In Europe, **Savill** expects a slowdown this year after a positive 2022, when leasing activity climbed 14% over 2021 and surpassed the pre-Covid average for office take-up. On the flip side, between 2021 and 2022 average prime office all-in debt costs rose from 150 basis points to 450 basis points. In the first quarter, investment was estimated at just €36 billion ($40 billion), the lowest quarterly total since the financial crisis. While Savill expects investment to pick up in the second half in sync with the European economy, for the full year the property advisor projects a decline of 17% to 20%.

The fundraising environment has become more challenging as well, with McKinsey tabulating a total of $166 billion in closed-end real estate funds in 2022, a 23% drop from the record-setting year of 2021. Pitchbook pointed out that 79% of the capital allocated in 2022 went to established firms and funds over $1 billion captured 81%. In the first quarter, fundraising dropped to less than $21 billion, the lowest quarterly total over the past five years.

In April, however, Blackstone closed the industry's largest-ever real estate fund of $30.4 billion, providing the firm with $50 billion in capital across its global opportunistic strategies. "We have made some of our best investments in periods characterized by the market volatility and dislocation we see today," said Ken Caplan, global co-head of **Blackstone Real Estate**, adding that "sector selection has never been more critical as we witness the bifurcation of performance."

Some of its current roadblocks notwithstanding, real estate remains a core investment for institutions. The annual sentiment survey by Cornell University and **Hodes Weill & Associates** showed U.S. institutions plan to increase their allocation to real estate this year by 30 basis points to 11.1%, the largest such annual increase since 2018. Among the largest pension funds, the **Teacher Retirement System of Texas** (AUM: $196 billion) has a target asset allocation of 15% for real estate, which it exceeded in fiscal 2022. At **Massachusetts PRIM** (AUM: $98 billion), real estate accounts for 11% of the portfolio, toward the top end of its target.

But high-net-worth investors are also important players in the property sector. Focus Financial Partners tapped into that market in the first half by acquiring real estate fund manager Origin Holding Co. and wrapping the company into one of its partner firms, **Kovitz Investment Group Partners** (AUM: $7 billion). Origin (AUM: $1.8 billion) specializes in multifamily property and offers three private real estate funds with minimum investments from $50,000 to $100,000. Focus CEO Rudy Adolf noted that the deal will "facilitate the ability of Origin to offer alternative solutions to our partner firms." Focus has a portfolio of some 90 firms.

In a cross border transaction, **GFH Financial Group** of Bahrain cut its second deal for a real estate advisory firm, assuming a majority stake in an established California-based firm, **Big Sky Asset Management**. The deal was completed in September 2022 but not announced until early this year. Big Sky is a specialist in the healthcare segment. An Islamic investment bank, in 2022 GFH launched its U.S. operation by acquiring a majority stake in **SQ Asset Management**, which focuses on student housing.

In Europe, **Candriam Group** bought an additional 31% stake in pan-European real estate advisory firm **Tristan Capital Partners** to bring its shareholding to 80%. Candriam made its original minority investment in 2018. Tristan's AUM has since doubled to €15 billion. The company closed its most recent value-add/opportunistic fund last January with €2 billion in capital, focused on such areas as high-grade office, logistics and life sciences in Western and Central Europe. Candriam is the European-based boutique of **New York Life Investments**.

PE looks to rebound

In its latest report on the global private equity industry, Bain & Co. data show sharp declines between 2021 and 2022 in private equity deal value (down 35% to $654 billion), exits (42% to $565 billion) and fundraising (16% to $347 billion). The consultant attributes those drops to one major source: "As extraordinary and resilient as the post-Covid rally in global private equity proved to be, it was ultimately no match for the Fed."

While allowing that the activity last year remained "respectable in a historical context," Bain highlighted the roadblocks the industry faced with war in Ukraine, high energy prices and supply chain issues. But overlaying those challenges was inflation and a reversal in the downward trend in interest rates "that has defined investment markets for as long as anyone can remember." The result, writes Bain, "is the dreaded 'U word' — uncertainty, a deal killer if ever there was one."

In its assessment of the industry after this year's first quarter, PitchBook wrote that private equity firms "have had to adjust to make deals happen." This includes doing transactions that are "more digestible and easier to finance" and targeting "add-ons" that can deliver incremental revenue and EBITDA growth "to cover the escalation in interest costs."

At the same time, the data firm notes that the decline in stock prices last year allowed megafunds ($5 billion and more in capital) to "buy up public companies at discounts to their recent high-water marks, while deal multiples for private companies refused to budge." In the first quarter, PitchBook said the median multiple on deals dropped to 1.7 times revenue from 2.4 times in 2022, with half of deals involving companies in the sub-$100-million segment.

In BlackRock's latest survey of global institutions, 43% said they plan "substantial" increases to their private equity allocations this year while another 29% plan "small" increases. Interestingly, 82% said income generation was the primary factor driving their private market investments, with capital appreciation No. 2 at 58%. BlackRock's survey covers institutions with private market assets totaling $3.2 trillion.

The M&A marketplace for private equity firms remained busy, including a couple of notable deals for secondary specialists. One saw **Bridge Investment Group** pay $320 million for "substantially all" of the secondary private equity business of **Newberry Partners** (AUM: $5 billion). The deal allows Bridge to expand beyond its real estate advisory business and increases its fee-based earnings by 25%. Newberry closed its fifth and largest fund in 2021, of $2 billion, and was preparing to launch a sixth one at the time of the deal. In the second such deal, Brookfield Asset Management acquired the secondaries business of DWS Group.

In a large deal in the U.S., **FS Investments** and **Portfolio Advisors** merged, creating a diversified alternatives firm with $73 billion in AUM, about evenly split between the two. The combined firm will manage private equity, private and liquid credit, private real estate and liquid alternatives for institutional and wealthy investors worldwide. The deal brings together the retail-oriented FS, with an extensive distribution platform across the U.S. wealth channel, and the institutional-focused PA with a more global footprint.

Three-year-old Hunter Point Capital was particularly active in the first half, adding three minority investments in private equity managers to the three alternatives managers in which it invested in 2022. The first was for a consumer-oriented firm, **L Catterton** (AUM: $33 billion), which last year invested $3 billion in 19 consumer businesses worldwide while raising a record $6.4 billion. In two transatlantic deals, Hunter Point targeted **Inflexion Private Equity Partners**, a European middle-market investor, and secondaries investor Coller Capital. In April, Coller had the first close of an RMB-denominated secondaries fund in China with a target size equivalent to $220 million.

In another transatlantic deal involving a minority investment from a permanent capital vehicle, **Dyal Capital** acquired a stake in **PAI Partners**, a Paris-based investor in Europe and North America with €26 billion ($29 billion) in AUM. PAI said the capital will strengthen its balance sheet and "alignment" with limited partners. Part of New York's **Blue Owl Capital**, Dyal closed a $12.9 billion fund in January, its fifth and largest ever. ◆

www.berkshireglobal.com

Berkshire Global Advisors LP
527 Madison Avenue, 3rd Floor
New York, New York 10022
United States
Tel: +1 212 207 1000

Berkshire Global Advisors Ltd.
11 Haymarket, 2nd Floor
London, SW1Y 4BP
United Kingdom
Tel: +44 20 7828 2828

Berkshire Global Advisors Pty Ltd.
29 Margaret Street, Level 9, Suite 2
Sydney, NSW 2000
Australia
Tel: +61 402 336 228