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As global economy slows, central banks reverse course

As concerns about a slowing global economy carried over from the last quarter of 2018 into 2019, Europe became exhibit A in March when the European Central Bank cut its forecast for eurozone economic growth this year from 1.7% to 1.1%. Accordingly, just three months after saying it would end its four-year-old quantitative easing program, the ECB reversed course and embarked on a new program of monetary stimulus while maintaining interest rates at their historically low levels. "The risks surrounding the euro area growth are still tilted to the downside," said ECB President Mario Draghi.

The ECB wasn't alone in easing the monetary reins. At its January meeting, the Federal Reserve adopted a more dovish stance, saying it "will be patient as it determines what future adjustments" to make to its target range for rates. Four months later, amid the trade standoff between the U.S. and China, Fed Chairman Jerome Powell hinted at a potential rate cut in a bid to reassure markets and businesses. For its part, China continued a stimulative program of deficit spending, easy money and tax cuts following the slowest annual GDP growth (6.6% in 2018) since 1990.

In the face of a downturn in economic sentiment but an easing by central banks, stock markets rebounded sharply in the first quarter from their late 2018 nosedive: The S&P 500 index registered its strongest quarterly return (13.1%) since 2009 while Europe's major indexes logged solid returns and China led robust Asian markets. Strong financial markets and fund inflows helped the stocks of publicly traded U.S. asset managers bounce back in the first quarter from a negative 2018: The Dow Jones U.S. Asset Managers Total Stock Market Index was up 12% in the first quarter.

Although trade tensions dampened conviction and fund flows for a time in the second quarter, the soothing remarks from central banks helped drive a comeback in June. "I would define this environment, year to date, as fascinatingly counterintuitive," Michael Arone, **State Street Global Advisors** chief investment strategist, told *Barron's* in March. "Stocks are rallying, but bond yields are reflecting much lower growth."

Following several years in which consolidation mega-deals among traditional equity managers led industry M&A activity, the one mega-deal in the first half involved publicly traded players outside the equity space: **Brookfield Asset Management's** (TSX: BAM.A) \$4.7 billion acquisition of 62% of New York credit manager **Oaktree Capital** (NYSE: OAK). Other high-profile buyers joining BAM in targeting alternatives firms included **AXA Investment Managers**, **Blackstone Group** (NYSE: BX), **Dyal Capital Partners** and **Standard Life Aberdeen** (LSE: SLA), while the range of targets included an investment by Australia's **Pacific Current Group** (ASX: PAC) in a Luxembourg-based life insurance settlements manager, **Carlisle Management**.

The ongoing deal-making in the alternatives sector reflects the seemingly insatiable institutional demand for such investments, underlined by the \$2.1 trillion in private capital dry powder available in

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June 2018, according to Preqin data released at the beginning of this year. In his annual shareholder letter released in February, **Berkshire Hathaway** (NYSE: BRK.A) Chairman and CEO Warren Buffet bemoaned the rich valuations in the broad M&A marketplace, noting his company held \$112 billion in Treasury bills and other cash equivalents as well \$20 billion in various fixed-income instruments. "In the years ahead, we hope to move much of our excess liquidity into businesses that Berkshire will permanently own," he wrote. "The immediate prospects for that, however, are not good: Prices are sky-high for businesses possessing decent long-term prospects."

In traditional investment management, a potential mega-deal involving **DWS Group** (FWB: DWS), **Deutsche Bank's** (NYSE: DB) majority-owned asset manager, and **UBS'** (SWX: UBSG) asset management unit broke down as the two sides reportedly tussled over control of the enlarged firm. Deutsche Bank CEO Christian Sewing emphasized in a first-quarter earnings call that "we expect DWS to remain a core part of our strategy going forward." Minus that deal, smaller, focused transactions defined first-half activity. Multi-boutique **Resolute Investment Managers** is one example. The Texas company purchased a majority stake in **SSI Investment Management**, a specialist in risk-mitigation strategies, and a minority of **RSW Investments**, a municipal bond separate account manager that seeks to maximize after-tax, risk-adjusted returns.

Calamos Investments was indicative of the hunt for attractive small or mid-cap active managers that can still draw capital from investors who otherwise shun large-cap managers in favor of index funds. In January, Calamos acquired **Timpani Capital Management**, which combines traditional research in the small- and mid-cap spaces with "behavioral finance concepts." **Goldman Sachs** (NYSE: GS) sought to capitalize on both the ETF marketplace and the growing model portfolio market by acquiring **Standard & Poor's Investment Advisory Services**, a model portfolio strategist for institutional clients that employs ETFs and funds. Goldman introduced its own ETFs in 2015, some of which are used in S&P Investment's open architecture pool.

Private equity-backed consolidators remain a key story in the U.S. wealth industry, but the largest deal saw Goldman Sachs pay \$750 million to acquire **United Capital Financial Partners**, an established consolidator with \$25 billion in assets. The deal reflects Goldman's shift since the financial crisis into more mainstream businesses, with United Capital providing access to a network of clients with assets well below Goldman's traditional \$10 million threshold. Among the consolidators, **Focus Financial Partners** (NASDAQ: FOCS), **HighTower Partners**, **Mercer Advisors** and **Wealth Enhancement Group** made numerous acquisitions in the first half. But independent wealth managers are also active, including **Mariner Wealth Advisors**, which continued an aggressive national expansion via acquisition.

The UK wealth industry is similarly marked by ongoing consolidation, with sellers driven by the same regulatory, cost and technological pressures impacting their colleagues in the U.S. "In 23 years we've managed to build up a medium-sized business, but the industry has changed in that time," **Hayburn**

Rock Group co-founder Stephen Perks told FTAdvisor earlier this year. "Medium-sized businesses just don't make sense anymore." In the first half, ambitious consolidator **AFH Financial Group** (AIM: AFHP) acquired the West Midlands firm, which has 1,500 clients and £100 million (\$133 million) in AUM. AFH was joined by numerous other firms, including **Canaccord Genuity Group** (TSX: CF) and **1825**, part of Standard Life Aberdeen, and **Quilter** (LSE: QLT).

The influence of private equity is also apparent in the U.S. securities industry, where several such firms were active either through industry players they support or directly. There were two major direct deals for independent broker-dealers. In one, **Reverence Capital Partners** acquired a 75% stake in **Advisor Group** for an estimated \$2 billion, with sellers **Lightyear Capital** and **PSP Investments** expected to retain 25%. The second saw **Warburg Pincus** acquire **Kestra Financial** from **Stone Point Capital**, which retains a minority shareholding.

Three significant first-half deals underline the symbiosis between asset managers and related technology firms. **BlackRock** (NYSE: BLK) led the buyers with the \$1.3 billion acquisition of France's **eFront**, a software provider for alternative investment management that covers such areas as due diligence and portfolio planning. BlackRock said eFront, combined with its own Aladdin system, "will set a new standard in investment and risk management technology." **Morgan Stanley** (NYSE: MS) paid \$900 million for Canada's **Solium Capital** (TSX: SUM), whose equity plan technology is used by 3,000 companies and one million participants in Canada, the U.S. and elsewhere. In a third such deal, wealth management platform **Evestnet** (NYSE: ENV) paid about \$500 million for **PIEtech**, whose MoneyGuide financial planning software is used by tens of thousands of advisors.

Traditional Investment Management

The spate of annual large consolidation deals among active managers took a breather in the first half as a potential all-European deal involving **Deutsche Bank's** (NYSE: DB) majority-owned asset manager, **DWS Group** (FWB: DWS), and **UBS'** (SWX: UBSG) asset management unit broke down over control issues. Instead, the sector fell back upon low-profile, tack-on deals for specialist firms and added a couple of ETF-related transactions.

For **Calamos Investments**, making its first acquisition since going private again in 2017, that meant targeting a small- and mid-cap growth manager with \$600 million in AUM to expand its growth equity portfolio. The company, **Timpani Capital Management**, was founded in 2008 and is based in Milwaukee, near its new parent in the Chicago area. The firm combines traditional research with "behavioral finance concepts" involving what it views as either overly pessimistic or optimistic perceptions regarding the growth of individual companies. In its Small Cap Growth fund, Timpani holds around 100 diversified companies in the U.S., with the top-10 holdings

accounting for 28% of assets as of December 2018. **Silvercrest Asset Management** (NASDAQ: SAMG) also acquired an established Milwaukee-based small-cap growth equity specialist with \$1.7 billion in AUM, **Cortina Asset Management**. Silvercrest will pay \$45 million, with another \$26 million possible over four years.

Two U.S. companies that pursue multi-boutique structures cut domestic deals last year, led by **Resolute Investment Managers**, which did three deals. The first two involved a majority stake in **SSI Investment Management** and a minority of **RSW Investments**. Founded in 1973, SSI specializes in risk-mitigation strategies employing convertibles and equities for its institutional and high-net-worth clients. RSW, founded in 2005, manages municipal bond separate accounts for high net worth clients seeking to maximize after-tax, risk-adjusted returns. The two firms have combined AUM of more than \$4 billion, split about evenly.

In the third deal, Resolute acquired a minority stake in **Green Harvest Asset Management**, a specialist focused on tax-efficient strategies employing ETF equity and fixed income model portfolios. Founded two years ago, Green Harvest has \$156 million in assets under management and advisement. "We're always looking to diversify our lineup, and what we're looking for is what I would describe as under-appreciated investment excellence," Resolute Chairman and CEO Gene Needles told Citywire. Based in Texas, Resolute has more than 40 affiliated and independent asset manager partnerships.

The second multi-boutique in the market was **Carillon Tower Advisers** of Florida, which acquired sole ownership of **ClariVest Asset Management**, extending the minority stake it took in 2012. ClariVest is an institutional equity investor with \$7.3 billion in AUM. The San Diego-based company will become a subsidiary of **Eagle Asset Management**, one of four companies in Carillon's portfolio. ClariVest CEO Stacey Nutt said the deal "will ensure that the next generation of leadership continues ClariVest's longstanding investment process [and] culture." Carillon is part of **Raymond James Financial** (NYSE: RJF).

Goldman Sachs (NYSE: GS) acquired **Standard & Poor's Investment Advisory Services**, a rules-based model portfolio strategist for institutional clients. A unit of **Standard & Poor's Global** (NYSE: SPGI), S&P Investment employs ETFs and funds in advising on \$33 billion in assets in multi-asset, equity and fixed income strategies. For example, S&P 4 is a value-oriented large-cap equity model that combines four strategies, including identifying companies with strong earnings and credit quality and attractive sector-based dividends. *Barron's* reported that Goldman plans to expand the product line by using its own ETFs to create model portfolios.

Federated Investors (NYSE: FII) bulked up on money market assets in paying \$52 million for part of **PNC Financial Services Group's** (NYSE: PNC) asset management business. In addition to \$9 billion in money market funds, the acquisition includes a total of \$3.4 billion in equity and fixed income funds. Federated plans to wrap the assets into existing or new Federated funds. Federated also said the two firms will "encourage" PNC clients in

separately managed and other accounts to move \$1.5 billion in assets to Federated.

There were a couple of notable cross border deals involving Canadian sellers. In one, **Macquarie Investment Management**, part of **Macquarie Group** (ASX: MQG), acquired the U.S. mutual fund business of Toronto's **Foresters Financial**, amounting to \$12.3 billion in AUM. (Foresters also sold its U.S. independent broker-dealer; see *Securities & Investment Banking*.) The assets will be wrapped into Macquarie's **Delaware Funds** business in the U.S. Shawn Lytle, global head of MIM, called the acquired assets complementary to its existing portfolio. "It will give us more size and scale in some funds and more market share, as well as some new funds we don't have," he told MutualFundWire.com.

In the second deal, **Natixis** (EPA: KN) paid C\$128 million (\$95 million) for an 11% stake in **Fiera Capital Corp.** (TSX: FSZ), the diversified Montreal-based asset manager. As part of the deal, Fiera will become Natixis' preferred Canadian distributor and acquire Natixis' Canadian business while Natixis will offer its clients complementary Fiera strategies. Fiera said the deal furthers its ambition to become "one of the top 100 asset managers in the world."

Wealth Management

In the first half, the wealth sector in the U.S. continued the steady maturation process that has been characterized by consolidation on several fronts. The first involves deals between independent mid-size wealth firms. On the second front, diversified financial services firms are buying large independents to complement their core businesses. The third involves the consolidation of smaller independent managers by a core group of aggressive firms backed by private capital.

In the first-half of 2019, the largest transaction involved a major bank expanding its wealth business: **Goldman Sachs'** (NYSE: GS) \$750 million acquisition of **United Capital Financial Partners**. The strategic deal extends Goldman's tony wealth business into a lower high net worth and mass affluent clientele, and furthers the bank's shift toward mainstream businesses. Goldman said United Capital, with \$25 billion in AUM and 22,000 clients, will allow "more clients to access the intellectual capital and investment capabilities of Goldman Sachs."

A smaller diversified financial services firm, **NFP Corp.**, accounted for another of the key first-half U.S. deals, acquiring **Bronfman Rothschild** (AUM: \$6 billion) to expand its wealth unit. The deal is also an example of a marriage between mid-size wealth firms. An insurance broker and employee benefits consultant, NFP owns New York wealth manager **Sontag Advisory**, which will merge with Bronfman to create a more formidable entity with \$10 billion in AUM and some 1,300 clients. Based in Maryland and founded six years ago, Bronfman has a presence on the East Coast and in the Midwest. Sontag has offices in California, Connecticut and Florida, in

addition to New York, and clients in more than 30 states. In an interview with InvestmentNews, Sontag Chairman Eric Sontag indicated that NFP will remain a buyer, saying, “We’re not setting a goal to make a set number of acquisitions, but we are interested in growth through acquisitions.” NFP is majority-owned since 2013 by **Madison Dearborn Partners** with a minority stake since 2016 from credit investor **HPS Investment Partners**.

There were two all-California deals of note, both involving independent firms in Los Angeles and San Diego. In the larger one, **LourdMurray** acquired **Delphi Private Advisors**, creating a firm with nearly \$5 billion in assets that will carry the LourdMurray name. The deal was facilitated by **HighTower Partners’** minority investment in LourdMurray, which said it will “leverage” its new partner’s capital and back-office infrastructure to fuel growth. The second transaction saw fast-growing **Lido Advisors** acquire **Ken Stern & Associates** to create an entity with \$3.7 billion in assets. Lido, founded in 1999, accounts for the vast majority of assets. Lido, whose clients can range from those with \$1 million to \$100 million in assets, was notable in steering those clients toward investing in distressed properties in Las Vegas after the financial crisis before selling those holdings in 2017.

Kansas City-based independent **Creative Planning**, which over 36 years has amassed \$39 billion in assets via organic growth, signaled a shift in strategy by concluding its first-ever deal, for **Johnston Group** of Minneapolis. “In the past we have grown organically,” said Creative Planning President Peter Mallouk. “It’s clear there are like-minded firms that can fit right into our model.” Johnston, founded in 1994 and with \$500 million in assets, handles clients in Minnesota and the Dakotas. A two-year-old independent, Chicago’s **Cresset Asset Management**, also cut its first deal, for **Evanston Advisors** of suburban Chicago, and added a second for San Francisco’s **Cypress Wealth Advisors**. The two firms combined have more than \$1 billion in assets, bringing Cresset’s total to \$4.6 billion. Although started by two veterans of the private equity industry, Cresset is capitalized solely by its founders and employees, as well as outside individual investors.

In a second deal between Chicago-area independents, **Mather Group** acquired multifamily office **Astraeus Advisors** (AUM: \$1 billion), representing its second transaction for a multifamily office since the fourth quarter of 2018. Mather subsequently combined Astraeus and its previous acquisition, San Francisco’s Berman Investment Advisors (AUM: \$1 billion), to form **TMG Family Office**, serving 18 families. Mather, founded in 2011 and with no plans to seek private equity funding, has offices in five major U.S. cities and \$7 billion in assets.

Wealth Partners Capital Group, capitalized by private investors when it launched in 2017, continued to support the growth of the three wealth managers comprising its portfolio. These include California-based **EP Wealth Advisors**, which expanded into Seattle with the purchase of **Conlon Dart**, marking its fifth and largest deal since Wealth Partners’ 2017 investment. Conlon Dart has \$500 million in assets. **MAI Capital**

Management, based in Cleveland, cut one deal in its Ohio backyard and another that extended its footprint into the Washington, D.C., area. The third Wealth Partners affiliate, **Forbes Family Trust**, acquired a hedge fund of funds, **Optima Fund Management**, with \$2 billion in AUM. The deal was done by Forbes parent **FWM Holdings**.

Mariner Wealth Advisors, an aggressive buyer backed by its founding Bucknell family, continued its national expansion with numerous small deals, including two firms in varying geographies: **Authent Advisors** of the San Francisco area and **Martin Financial Group**, located in Indiana near Louisville. The firms add more than \$500 million in combined assets, split about evenly, to the \$23 billion Kansas-based Mariner already managed. In describing a common rationale among small firms for selling to a large parent, Martin Financial pointed to the ability to focus solely on clients “while also gaining exceptional investment and back-office support.”

The private equity-backed consolidators in the marketplace in the first half included **Focus Financial** (NASDAQ: FOCS), HighTower Partners, **Mercer Advisors** and **Wealth Enhancement Group**, among others. One such private equity firm and Mercer Advisors investor, **Lovell Minnick**, remains bullish on the industry. “I absolutely do see more private equity investment in wealth management,” Lovell partner Brad Armstrong told Financial Planning in February. “Private equity has seen success in similar industries like insurance brokerage, where you also have recurring revenue, scalable infrastructure, high margins and low capital expenditures.” Armstrong said he expects EBITDA valuations to remain in the double digits for firms with strong platforms.

In the first half, Denver-based Mercer added to its national presence, which includes some 40 offices, by acquiring firms in California, Colorado and Michigan with a total of \$700 million in assets. The deals expand Mercer’s existing footprint in those states. One of those transactions was for **Arbor Asset Management**, an established Ann Arbor, Mich., firm that serves clients in the Midwest. Arbor founder and President Neil Paoletta said the deal allows him to “offload back office responsibilities” while providing “career path opportunities” for his employees.

Wealth Enhancement Group continued its steady buying, targeting **Summit Planning Group** of Wisconsin to add \$500 million in assets and push total assets above the \$10 billion mark. For WEG, based in Minneapolis and backed by **Lightyear Capital**, it marked the second deal in less than a year in Wisconsin and bolsters the firm’s position in the Upper Midwest. Larry Lindsley, one of four partners at 19-year-old Summit, emphasized the team was seeking “the support we need to ... accelerate our growth and strengthen the client experience” rather than a “short-term exit strategy.”

Among the larger consolidators, Focus Financial completed numerous deals either directly or through partner firms, including expanding its presence in Australia and Canada. One direct deal involved a Boston firm, **Foster Dykema Cabot & Co.**, established in 1967 and with \$1.4 billion in assets. FDC

President Elizabeth Braudis said the transaction allows her firm to “retain operational autonomy and begin a long-term succession plan” that will provide clients with the resources required “in an ever-changing financial landscape.” In February, Focus also released its first full-year results as a public company: revenues rose 37% while adjusted net income was up 45% on a non-GAAP basis. **KKR & Co.** (NYSE: KKR) and **Stone Point Capital**, which jointly acquired Focus in 2017, retained majority control after the IPO.

In addition to its investment in LourdMurray, HighTower Partners acquired an established and newly branded ultra high net worth advisor and family office in Memphis, **Green Square Wealth Management**. Green Square, with \$2.6 billion in assets, was founded by a former Goldman Sachs executive. The companies said the deal will provide Green Square with operational support and technology to “enhance its services for new and existing clients.” HighTower, majority owned by **Thomas H. Lee Partners** and with a presence in more than 30 states, had \$68 billion in assets prior to the deal. Green Square marked the first transaction done under new HighTower CEO Bob Oros, who told Citywire the company plans to be “an active” M&A participant, particularly with targets focused on succession planning.

California’s rebranded **Allworth Financial** (formerly Hanson McClain Advisors) has stepped up its acquisition activity since middle market specialist **Parthenon Capital Partners** took a majority stake in 2017. In the first quarter, Allworth made its third deal since 2018, buying Northern California’s **HBP Retirement Group** to expand its reach in that part of the state. The deal adds \$235 million in assets to the \$3.6 billion Allworth already managed, with the firm aiming to reach \$10 billion in four years. In explaining the sale, HBP founder Hugh Phillips told Financial Planning that his firm faced more challenges as it “approached that \$300 million dollar range,” explaining that clients “start losing the message. You’re not branding yourself as well.”

Within Canada, private equity firm **Onex Corp.** (TSX: ONEX) paid C\$445 million (\$335 million) for **Gluskin Sheff + Associates**, representing a 28% premium to the closing share price on the day of the agreement. Gluskin Sheff, which was delisted from the Toronto Stock Exchange after the deal closed in June, is one of the largest independent wealth managers in the nation with C\$9 billion in AUM, including assets for institutional clients.

In a cross border deal in Asia, which was generally quiet on the M&A front, the wealth arm of **Schroders** (LSE: SDR) acquired Singapore wealth firm **Thirdrock** (AUM; \$2.2 billion). Schroders will wrap Thirdrock into its existing Schroders business in Singapore while Thirdrock founder and CEO Jason Lai will become Schroders’ head of wealth management in Asia. The deal comes on the heels of a fourth-quarter 2018 transaction in which Schroders cemented a “long-term strategic partnership” with **Maybank Asset Management Group** in neighboring Malaysia.

As in the U.S., the UK wealth industry is in active consolidation mode, with generally small deals driven by aggregators with

national aspirations and sellers under pressure to gain the benefits of a larger partner. By year-end 2018, assets in the UK’s wealth industry were approaching £1 trillion (\$1.3 trillion), according to consultant Compeer, but costs were also climbing and margins dropping. “If you are servicing clients with £200,000 to £500,000 portfolios, you need to do it cheaper and more efficiently, and you need to use technology,” an analyst at brokerage **FinnCap** (AIM: FCAP) told the *Financial Times* last year.

The largest deal saw **Quilter** (LSE: QLT) pay £46 million for **Lighthouse**, a national firm with 400 advisors serving retail and corporate clients. Quilter paid a 25% premium to Lighthouse’s share price on the day prior to the announcement. Quilter will merge the group with its subsidiary **Intrinsic**, the second-largest financial advice network in the UK with 3,500 advisors and 1,600 “restricted” financial planners (who offer a more limited menu of products). Quilter called the deal “a key component” in its “overall strategy to become the UK’s leading wealth manager.” Quilter also acquired financial advisor **Charles Derby**, which has 200 restricted financial planners and had been part of its new parent’s advice network.

Through its UK- and Europe-based wealth manager, Canada’s **Canaccord Genuity Group** (TSX: CF) made two acquisitions in the UK to strengthen its top-10 position in the market. In the larger deal, it paid £18.5 million for the London- and Isle of Man-based wealth businesses of **Thomas Miller Group**, with another £9.5 million in contingent payments possible over three years. Thomas Miller has £1 billion in AUM. In the second deal, CGG expanded its presence in the Midlands region by acquiring **McCarthy Taylor** (AUM: £171 million), creating a “regional financial planning center of excellence, which will be fully supported by our broader UK team.” CCG’s UK business has £24 billion in assets.

Standard Life Aberdeen’s (LSE: SLA) wholly owned wealth business, **1825**, extended its presence into Northern Ireland with the purchase of the wealth business of accounting and advisory firm **BDO Northern Ireland**. The deal adds an established firm with £230 million in assets to the £4 billion 1825 already manages. Formed four years ago (with the name a reference to Standard Life’s founding year), 1825 has made seven acquisitions in the years since, including the BDO deal. In a non-wealth deal, Standard Life bought a 5% stake in London alternatives manager **Gresham House** (LSE: GHE) and formed a joint fund venture with an eye on investing in small-caps, which have seen a decline in analyst coverage since Europe’s introduction of MiFID II regulations.

Progency Group, a London-based manager that passed the £1 billion mark in assets last year, made multiple deals, including one for Edinburgh’s **Innovate Financial Services** that extends its presence into Scotland. Neil Moles, Progency managing director, told the *Scotsman* that Edinburgh is a “burgeoning commercial and financial center and serves clients all over Scotland and northern England.” Progency, formed in 2016 from the merger of wealth and legal firms, said the company could build off these deals to make further acquisitions and double its assets in the near future.

Following 16 completed deals during its 2018 financial year, **AFH Financial Group** (AIM: AFHP) added to its portfolio by acquiring a small West Midlands firm, **Hayburn Rock Group**. AFH could pay up to £3.5 million for the firm based on performance. With 1,500 clients and £100 million in AUM, Hayburn is representative of the firms AFH targets as well as deal size. “In 23 years we’ve managed to build up a medium-sized business, but the industry has changed in that time,” Hayburn co-founder Stephen Perks told FTAdvisor. “Medium-sized businesses just don’t make sense anymore.” In the 2018 financial year ending October 2018, AFH’s AUM climbed 58% to £4.4 billion, including double-digit gains in organic growth, while revenues rose 51% to £51 million. AFH aims to more than double AUM within three to five years.

Elsewhere in Europe, as part of an overall restructuring driven by Chairwoman Ariane de Rothschild, **Edmond de Rothschild (Suisse) Group** will acquire the small percentage of shares it does not already own in its publicly traded Swiss private bank. Rothschild Group will also wrap its French business into the newly private and family-owned Edmond de Rothschild (Suisse), which will become the holding company for the group. Rothschild said the action — which followed the settlement of an intrafamily legal dispute regarding corporate use of the family name — demonstrates “our commitment to our banking group and our ambitions for growth, both organic and through acquisitions.” Rothschild has CHF 170 billion (\$170 billion) in AUM.

Through its European private equity fund, **KKR & Co.** (NYSE: KKR) acquired a “substantial minority” share of Sweden’s **Soderberg & Partners**, a major corporate pension and insurance services provider and wealth manager in the Nordics and the Netherlands. KKR bought out the interests of **TA Associates** and others shareholders, but the deal leaves the founders as “long-term shareholders.” Soderberg said it will work with KKR to enhance its asset management capabilities and extend its platform in the Nordics and internationally. Additionally, Soderberg CEO and co-founder Gustaf Rentzhog told the Financial Times that KKR “has a lot of firepower, and that’s important for acquisitions,” while noting that “most markets are under-developed when it comes to helping individuals on how to invest.”

Private Markets

The first half’s largest deal saw Toronto’s **Brookfield Asset Management** (TSX: BAM.A) pay \$4.7 billion in cash and shares for 62% of New York credit manager **Oaktree Capital Group** (NYSE: OAK) in a pairing of two complementary alternatives firms. Oaktree adds \$120 billion in AUM to the \$355 billion BAM already managed, merging a credit business (76% of AUM) with BAM’s real estate, renewables, infrastructure and private equity focus. “This transaction enables us to broaden our product offering to include one of the finest credit platforms in the world, which has a value-driven, contrarian investment style, consistent with ours,” said BAM CEO Bruce Flatt. Combined, the firms will have \$2.5 billion in annual fee-related revenues.

When the deal closes, the two firms will maintain their existing management teams and Oaktree management and employees will retain a 38% stake. Oaktree went public in 2012, but its share price has barely moved since, a reflection in part of the firm’s fluctuating revenue stream and its reliance on the sort of distressed debt investments that percolate during economic downturns. “Because we’re so countercyclical, we weren’t adding assets,” Oaktree Co-Chairman Howard Marks told the Wall Street Journal. “With public ownership, if you can’t produce a steady stream of assets and growth, it’s not an interesting story.”

There were a number of deals in the robust U.S. credit market. **Atalaya Capital Management** enhanced its credit business by acquiring **Telos Asset Management**, adding \$1.7 billion in collateralized loan obligations. Atalaya (AUM: \$5.5 billion), an opportunistic credit and special situations investor, cut the deal with Telos’ parent, insurer **Tiptree** (NASDAQ: TIPT). Alternatives investor **Dyal Capital Partners** has held a minority stake in Atalaya since 2017. In a second credit deal in the U.S., **Eldridge Industries** increased its investment in middle-market private credit specialist **Maranon Capital** to assume majority control. Maranon has invested \$3.6 billion in 147 transactions since Eldridge’s original 2015 investment. Eldridge was formed in 2015 by the former president of **Guggenheim Partners**, Todd Boehly, and invests in a variety of industries, including financial services.

In Canada, **Fiera Capital Corp.** (TSX:FSZ) strengthened and diversified its private lending platform with the C\$74 million (\$55 million) cash-and-shares acquisition of **Integrated Asset Management** (TSX: IAM), a private debt, infrastructure debt and real estate advisory manager with C\$3.1 billion in AUM and committed capital. Fiera plans to wrap IAM’s private debt team into its own private lending and industrial real estate business. Fiera has C\$10.6 billion in alternatives AUM, or 8% of total assets. (**Natixis** also acquired a minority shareholding in Fiera; see *Traditional Investment Management*.)

In Europe, a credit- and private equity deal saw **AXA Investment Managers** and **AXA France** increase their holding in Paris-based **Capzantine** to 46%, expanding a relationship that began in 2005. Capzantine said the transaction will allow it to grant equity to a larger number of managers while providing “significant resources for its pan-European development.” As part of the deal, AXA IM will establish a private debt distribution partnership with Capzantine. The company, with €2.5 billion (\$2.9 billion) in AUM, provides long-term financing solutions for small and medium-sized enterprises, investing either as a shareholder or private debt provider.

In U.S. private equity, affiliates of **Wafra** and **Landmark Partners** both made minority investments in **Siris Capital Group**, which focuses on investments in data, telecommunications, technology and technology-enabled business service companies, primarily in North America. Siris said the two firms will “provide capital to support Siris’ strategic initiatives,” including buying out an original minority stake. Based in New York, Siris has raised some \$6 billion in

committed capital since its founding in 2011. Siris had closed its latest buyout fund, of \$3.5 billion, prior to the April deal.

Through its Strategic Capital Group, **Blackstone Group** (NYSE: BX) made a couple of minority investments in California firms focused on technology and healthcare. The first involved **GI Partners**, which invests in real estate in addition to its middle market private equity targets. Founded in 2001, GI Partners has raised more than \$17 billion in capital. The second deal was for **Marlin Equity Partners**, a 14-year-old global investor with \$6.7 billion in capital under management. Marlin said it would leverage Blackstone's "expertise and extensive breadth of resources." Dyal, **Neuberger Berman's** alternatives investor, acquired a minority stake in an established private equity firm focused on the technology industry, **HGGC**, with \$4.3 billion in cumulative capital commitments.

In Latin America, where asset management M&A activity has been quiet for several years, **Colony Capital** (NYSE: CLNY) acquired **Abraj Group's** private equity business in the region. A leading emerging markets private equity investor, Dubai-based Abraj entered liquidation last year amid allegations that it mismanaged investor funds. The business, with \$500 million in AUM, was rebranded **Colony Latam Partners**, with existing senior management remaining in place as shareholders. The *Wall Street Journal* reported that the business sold for less than \$10 million. Between 2015 and 2017, Latin America-focused private equity raised a total of \$8.5 billion, according to Preqin.

There were a couple of cross border real estate advisory deals involving European targets, including **Clarion Partners'** purchase of a majority stake in **Gramercy Europe**, a London-based firm with \$16 billion in AUM and a specialty in pan-European logistics and industrial assets. For Clarion's large U.S.-centric business, the deal provides entry into Europe. Gramercy Europe will be rebranded as **Clarion Gramercy**. In a smaller deal, **Schroders** (LSE: SDR) acquired Germany's **Blue Asset Management**, which has €1.2 billion in AUM (\$1.3 billion) in commercial and residential real estate. Founded in 2009, Blue Asset focuses on several core markets in managing money for European investors. Schroder, with €17 billion in real estate AUM, said the deal provides it with expertise and an additional office in Germany.

A cross border real estate advisory deal in Asia saw **Standard Life Aberdeen** (LSE: SLA) acquire **Orion Partners** of Hong Kong to bolster its real estate capabilities in the region. Aberdeen's multi-manager business has invested with Orion — a direct real estate investor with \$900 million in AUM and a focus on Northern Asia — for more than a decade. Aberdeen said the deal signals its "ambition to develop and distribute a wider range of Asia-Pacific products" in line with demand. Prior to the deal, Aberdeen had £44 billion (\$55 billion) in real estate AUM in Europe and Asia-Pacific.

An Australian multi-boutique, **Pacific Current Group** (ASX: PAC), invested \$34 million in **Carlisle Management** of Luxembourg, a highly specialized firm managing life insurance settlements through its Luxembourg Long-Term Growth fund (AUM: \$1.4 billion). The fund had recorded 90 straight months of

positive returns at the time of the January deal announcement. For its investment, PAC will gain a 16% share of Carlisle's gross revenues and a 40% share of proceeds in a liquidity event. PAC said the investment "further diversifies" its portfolio into "growing companies with revenues not directly linked to equity markets." Combined, PAC's 14 other boutiques have A\$44 billion (\$32 billion) in AUM.

Securities & Investment Banking

Private equity firms remained a primary force in the securities industry in the first half, acquiring independent firms either directly or via industry-backed players. The primary factors driving deals in this space include gaining access to capital and technology, increasing scale to manage regulatory costs, and strengthening recruitment/retention. "Years ago, you could take software off the shelf and be competitive with anybody," **NEXT Financial Group** Chairman Jeffrey Saline told Financial Planning in January, noting that industry giants are spending \$100 million annually on technology. "As a small independent broker-dealer, you just don't have those resources."

Saline pointed out that **Atria Wealth Management** "does have those resources" in explaining the established broker-dealer's decision to sell to the **Lee Equity Partners**-backed consolidator. For Atria, the acquisition of 100% of NEXTE marks its fourth such deal for an independent broker-dealer since launching in 2017. Houston-based NEXTE serves more than 500 independent advisors with \$13 billion in assets, bringing the total in Atria's portfolio of companies to 2,000 and \$65 billion, respectively. Last year, Atria acquired Syracuse-based **Cadaret, Grant & Co.**, which supports more than 900 financial advisors nationwide. **Cetera Financial Group**, fresh off **Genstar Capital's** purchase of a majority stake last year, acquired the U.S. independent broker-dealer and advisory business of Canada's **Foresters Financial**. Foresters also sold its U.S. mutual fund business (see *Traditional Investment Management*) to focus on its core life insurance business. As part of the agreement, Cetera will extend an offer to Foresters' 500 independent advisors (\$12 billion in assets) to join its network of 7,500 advisors.

But the largest securities deal involved a direct investment by **Reverence Capital Partners** in independent broker-dealer **Advisor Group**. Reverence reportedly paid around \$2 billion for its 75% stake, with sellers **Lightyear Capital** and **PSP Investment** expected to maintain up to a 25% stake. Through four subsidiaries, Advisor Group supports 7,000 financial advisors with \$268 billion in assets. Reverence said its investment, wealth management expertise and "industry relationships" will help Advisor Group "identify and tackle growth opportunities across the business." In 2018, Advisor Group acquired **Manulife's** (TSX: MFC) U.S. broker-dealer. Reverence has several other financial services investments in its portfolio, including stakes in asset managers **Russell Investments** and **Victory Capital Holdings** (NASDAQ: VCTR).

In a second major direct private equity deal, **Warburg Pincus** continued to expand its large financial services portfolio by acquiring a majority stake in independent broker-dealer **Kestra Financial** from **Stone Point Capital**, which bought its original stake in 2016 and will retain a minority share. Based in Austin, Texas, Kestra supports more than 2,000 independent financial advisors in the U.S. A recent addition to that advisor roster was **Gardner Wallace Financial Solutions**, a Texas firm with \$235 million in assets that said Kestra will “provide our firm with the technological tools needed to create a custom client experience, as well as the resources to expand our financial planning practice.” Warburg has 21 other financial services-related investments, including Chinese online payments firm **Ant Financial** and consumer lender **Mariner Finance** of the U.S.

Blucora (NASDAQ: BCOR) paid \$180 million for independent broker-dealer **1st Global**, enhancing the tax-focused orientation of its existing such subsidiary, **HD Vest**, and its business as a whole. Based in Dallas, 1st Global serves 850 independent advisors with \$18 billion in client assets, specializing in multi-partner accounting firms. With the addition, HD Vest will serve 4,500 advisors with \$60 billion in assets. Blucora said it paid an “attractive” multiple of 7.5 times run-rate EBITDA, based on year-end results. Blucora, which owns TaxAXT tax preparation software, acquired HD Vest in 2015 from its private equity owners, **Fisher Lynch Capital**, **Lovell Minnick** and **Parthenon Capital Partners**.

Within investment banking, **Janney Montgomery Scott** was active for the second time in a year, acquiring **FIG Partners**, an Atlanta boutique specializing in the community banking sector. FIG covers 125 small and mid-size banks and makes markets in community bank stocks. Janney called community banking “an attractive area for M&A and capital raising, and a sector of interest” to its financial advisors. In 2018, Janney acquired **HighBank Advisors**, a middle-market specialist. **Stifel Financial Corp.** (NYSE: SF) enhanced its technology practice by acquiring **Mooreland Partners**, an established independent investment bank that has completed 250 M&A and capital raising transactions for European and North American middle-market firms in the “technology ecosystem.” Stifel has engaged in 300 M&A transactions in the tech sector.

Citizens Financial Group (NYSE: CFG) bought Atlanta’s **Bowstring Advisors**, a 10-year-old M&A firm covering such industries as business services, healthcare and technology. The deal extends Citizens’ M&A capabilities and is in line with a

strategic goal of increasing fee income via acquisitions. In 2017, Providence, R.I.-based Citizens acquired middle-market M&A specialist **Western Reserve Partners** and last year bought wealth manager **Clarfeld Financial Advisors**. In the four years through 2018, Citizens Financial’s global and capital markets business delivered 17% average annual growth in fee income to reach \$289 million.

In a unique deal, **Investcorp** acquired **Mercury Capital Advisors Group**, an institutional capital raising and investment advisory firm that has closed over \$170 billion in fund commitments since 2003 and has relationships with 2,500 institutional investors worldwide. (The fundraising data include Mercury founders’ six years at **Merrill Lynch** prior to launching their firm in 2009.) Investcorp, a Bahrain-based alternative investor, said the acquisition matches its “mission to serve investors worldwide with an array of attractive opportunities in alternative investments.” Given Investcorp’s ambitious goal of doubling AUM to \$50 billion “over the medium term,” analysts view the Mercury connection as providing a new conduit for raising institutional funds.

There were two significant developments in the exchange industry involving proposed trading venues seeking to compete with lower fees against the industry’s giants. In one, nine financial heavyweights announced that they plan to launch the Members Exchange, dubbed MEMX, to serve retail and institutional investors. Owners will include **Bank of America Merrill Lynch**, **Charles Schwab** (NYSE: SCHW), **Fidelity Investments** and **Virtu Financial** (NASDAQ: VIRT). “Participants in today’s equity markets deserve an innovative alternative that is aligned with their interests,” said Vlad Khandros, managing director and global head of market structure and liquidity strategy at **UBS** (SWX: UBSG), another of the investors. The process of applying and gaining approval from the SEC for the new exchange is expected to take at least a year.

In the second, options exchange owner **Miami International Holdings** joined with several high-profile equities traders to announce the launch of a new cash equities exchange, **MIAX Pearl Equities**. MIH, the parent of three options exchanges, is being joined by such firms as **CTC Trading**, **Hudson River Trading** and **Two Sigma Securities** and hopes to launch the exchange by the second quarter of next year, subject to SEC approval. In return for their equity stakes, investors agreed to prepay certain transaction fees and reach liquidity volume thresholds. ▲

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