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After 34 years, a market reaches a new high

The 1980s were heady years for Japan, the nation's coffers overflowing from corporate profits and massive trade surpluses. Corporations took much of that capital and went on a global investment spree, whether building auto plants in Southeast Asia or buying trophy properties in Manhattan. The nation also recycled much of the surplus into U.S. Treasury bonds.

But predictably, the cash tsunami and an accommodative monetary policy fueled a speculative bubble in domestic stocks and property. Land prices doubled between 1985 and 1989, and the Nikkei 225 index climbed more than fivefold that decade. By 1987, the **Tokyo Stock Exchange** had surpassed the U.S. by market capitalization, and by 1989 the Nikkei 225 price-earnings ratio had reached some 60 times trailing earnings.

Recalling those years during a Reuters interview last February, a retired Japanese broker described how "groups" of retail investors would gather in front of digital boards to check stock prices, unable to restrain their "excitement." In 1990, the excitement died when the Nikkei 225 tanked 36%, along with a debt-fueled property market that in turn hammered the banking sector. The economy entered a lengthy period of deflation and economic stagnation. At its low point in 2009, the Nikkei 225 had dropped 81% from the high.

Following a robust performance in 2023, the index finally eclipsed the 1989 high in February, a 34-year time period that compares with the 25 years it took the Dow Jones Industrial Average to return to the high reached prior to the 1929 crash. Foreign investors, Warren Buffet among them, have helped fuel the surge, generating net inflows of $51 billion last year, according to the Tokyo Stock Exchange, the fourth-highest total since 1983.

With a trailing price-earnings ratio of 16 on the Nikkei 225 as the year began and strong corporate earnings, investors maintained their bet on the market in the first quarter, driving the index up nearly 21%. U.S. investors remained active, pumping $3.3 billion into U.S.-based Japanese equity ETFs in the first three months following a 2023 that was the best year for such inflows since 2013, according to **Morningstar**. The broad-based iShares MSCI Japan ETF (AUM: $17 billion) rose 11.2% during the quarter while the actively managed and concentrated **Matthews** Japan fund (AUM: $700 million) climbed 15.3%.

U.S. equity markets showed similar strength, driven by the expectation of earnings growth, a steady economy, and hoped-for interest rate cuts. The S&P 500 index enjoyed its best first-quarter performance since 2019, climbing 10%. The first-quarter gains broadened beyond the seven leading technology stocks that dominated in 2023: The number of S&P 500 stocks trading at 52-week highs reached 118, the highest total in three years, according to Dow Jones. In April, the S&P 500 turned down but recovered in May and the first weeks of June. Europe was also delivering for investors, with the Euro Stoxx index up nearly 10% in the first quarter before flatlining in April and May.

For many publicly traded traditional asset managers, strong markets meant a solid opening quarter. **BlackRock** reported year-over-year AUM

growth of 15% to $10.5 trillion, with long-term net inflows of $76 billion that were equivalent to 40% of total inflows in 2023. (BlackRock's long-term net inflows exclude $19 billion in seasonal-based outflows from institutional money market funds.) The company's operating income rose 17% to $1.8 billion.

Alliance Bernstein recorded a 12% year-over-year gain in AUM to $759 billion, with retail inflows offsetting institutional outflows, and a 12% increase in operating income to $242 million. At **Artisan Partners**, a mid-size active manager, AUM climbed 16% year-over-year to $160 billion, primarily due to market appreciation, while revenues rose 13% to $264 million. In Europe, **Amundi** recorded a 9% gain in AUM to a record €2.1 trillion ($2.2 trillion), with net inflows of €16.6 billion, including in active funds, and adjusted net income up 6% to €318 million.

Among alternatives firms, **Blackstone**'s fee-related earnings climbed 12% over the first quarter of 2023 to $1.2 billion, the highest level in six quarters, but distributable earnings rose only 1%, reflecting the decline in net realizations in private equity and credit. AUM increased 7% to $1.1 trillion, about evenly split between real estate, private equity, and credit and insurance. Dry powder reached $191 billion, 42% in private equity.

Alts lead M&A

BlackRock led asset management deal-makers with the purchase of **Global Infrastructure Partners**, a transaction valued at $12.6 billion, primarily in shares. **General Atlantic** and **Commerzbank** also cut deals for infrastructure managers, a previously sleepy part of the M&A marketplace that generated a half-dozen sizable transactions in 2022 and 2023. In this year's shareholder letter, Chairman and CEO Laurence Fink devoted a fair amount of ink to infrastructure, calling it "one of the fastest growing segments of the private markets" and driven by "undeniable macroeconomic trends." He cited increased demand for energy and transportation as well as "$2 trillion worth of deferred maintenance" in the U.S. alone.

BlackRock also agreed to acquire the remaining interest it did not already own in **SpiderRock Advisors**, a provider of customized option overlay strategies. In 2021, BlackRock made an initial minority investment in the firm, which enhanced BlackRock's separately managed accounts business.

The alternatives universe in general kept deal-makers busy in the first half, although the various sectors were coming off a challenging 2023 for fundraising. The credit and private equity arenas continued to mint deals, but buyers and sellers in the real estate advisory sector remained in wait-and-see mode. Post-Covid workplace changes and higher interest rates have impacted the commercial real estate market, but there are also solid sectors, such as industrial, and recovering ones like retail.

Among the buyers of private credit managers were permanent capital providers **Blue Owl Capital**, **Hunter Point Capital** and **Petershill**, all of New York. They were joined by Michael Dell's family office, which backed a credit startup, **5C Investment Partners**. In private equity, buyers included two Canadian firms, **AGF Management** and **Walter Global Asset Management**, as well as a familiar figure among alternatives investors, **Investcorp**.

In a report released in February, EY noted that publicly traded alternative asset managers have accounted for 84% of deals for private markets managers since 2012, benefitting from "robust balance sheets and liquid assets and the constant pressure to maximize their [AUM] across strategies, contrasting sharply with private firms' struggles with self-funded mergers and valuation challenges for debt financing." Publicly traded firms are also under pressure from shareholders to deliver 15% annual growth in fee-bearing AUM, the consultant writes.

As an example, EY cites Swedish alternatives manager **EQT**, which has made five acquisitions since going public in 2019. In the first quarter, EQT closed a €22 billion ($24 billion) private equity fund, 40% more than its previous flagship fund, underlining the drift by institutional investors in particular toward the largest alternatives managers. Bain & Company notes in a recent private equity report that the top-20 buyout funds in 2023 accounted for 51% of the capital raised for that strategy. Although the number of buyout funds closed in 2023 dropped to the lowest level (449) since 2014, the average size of the funds was the highest ($1.2 billion) in the past 11 years tracked by Bain.

ETFs take a bow, again

Last year, the ETF industry celebrated the 30th anniversary of the largest such vehicle in the world, the SPDR S&P 500 ETF Trust run by **Street Street Global Advisors**. At the time, the ETF had $385 billion in assets, a number that passed $500 billion in February. This year, it was **Invesco** QQQ Trust's turn to take a bow on the occasion of its 25th anniversary. The Atlanta-based asset manager touted the milestone with freestanding glossy ads in publications such as the *Wall Street Journal* that boasted, "Innovation that's easy to invest in? How innovative."

The tech-heavy fund (60% of assets), which tracks the Nasdaq-100 index, had the misfortune of being birthed at the end of the dot-com bubble. But in the years since it has mushroomed into a $250 billion vehicle that accounts for 40% of Invesco's passive AUM. It also has the distinction of being the only top-10 ETF by assets not managed by the industry's three giants (BlackRock and **Vanguard**, in addition to State Street).

QQQ Trust continued its successful run in the first quarter, gaining $10 billion in inflows to rank No. 4 among its U.S. competitors, according to Morningstar. The ETF market in the U.S. as whole had a successful first-quarter run, with net inflows of $195 billion, more than half in March. Equity ETFs accounted for 70% of the inflows while active ETFs accounted for one-third. The big three continued to dominate, accounting for three-quarters of inflows. Globally, ETFs gathered $398 billion in net inflows — the highest on record, according to ETFGI — while the total reached a new high of $12.7 trillion.

The M&A marketplace for ETF managers, which has delivered a steady stream of deals for small, specialized firms acquired by similar-sized or mid-size buyers, was subdued in the first half. And while the sector lacked the drama of a major consolidation deal — last year led by **Franklin Resources**' acquisition of **Putnam Investments** (completed in January) — the "strategic partnership" announced between Paris-based Amundi and **Victory Capital** of Texas was significant.

As part of the non-cash deal, Victory Capital gains Amundi's U.S. business while Amundi assumes a 26.1% interest in Victory and two board seats. The business adds $104 billion in AUM to the $175 billion Victory Capital already managed and gives a particular boost to its fixed-income portfolio. The two firms also signed a 15-year reciprocal and exclusive distribution agreement that provides the U.S.-centric Victory Capital with access to Amundi's global network. Victory Capital Chairman and CEO David Brown called the deal a "momentous day" in the company's history that would generate "significant value creation for our shareholders by way of enduring profitable growth."

There were a couple of notable if modest deals featuring private equity buyers. Within the U.S., **Lincoln Peak Capital** bought a minority stake in **Riverbridge Partners** (AUM: $11 billion), adding to a portfolio of asset managers with $100 billion in assets in aggregate. Riverbridge manages eight diverse equity funds and tends to be a long-term oriented investor. The second deal crossed the Atlantic: General Atlantic's acquisition of a minority stake in London's **Partners Capital Investment Group**. PCIG (AUM: $50 billion) is a global outsourced chief investment officer firm that follows the Yale endowment model. New York-based General Atlantic called the OCIO market, which Cerulli Associates projects will have $3 trillion in assets by 2026, "one of the most attractive segments in asset management."

A cross-border North American transaction saw **Guardian Capital Group** of Canada pay $70 million for multi-asset manager **Sterling Capital Management**. Sterling, based in North Carolina and owned by **Truist Financial Corp**., has $76 billion in assets under management and advisement for retail and institutional investors, primarily in fixed income and money markets. Guardian, a steady asset management buyer with C$56 billion (US$42 billion) in AUM prior to the deal, said SCM "significantly enhances our overall scale" and growth prospects.

In a cross-border European transaction, UK sustainability manager **Impax Asset Management** acquired the assets of Danish fixed-income manager **Absalon Corporate Credit**, which manages global high-yield and emerging markets strategies. In a cross-border deal involving an emerging markets buyer, diversified Chilean financial services firm **LarrainVial** acquired a 25% stake in UK fund manager **Aubrey Capital Management**, whose portfolio includes an emerging markets strategy with $560 million in AUM. In a second emerging markets-related deal, **J.P. Morgan Asset Management** formed a "strategic partnership" with **Kasikorn Asset Management**, part of the leading Thai bank of the same name. JPAM will help create products and services for the asset manager, which has $40 billion in AUM.

The cryptocurrency market delivered two deals involving those specialized fund managers. Within Hong Kong, diversified asset manager **Value Partners** joined with crypto manager **Venture Smart Financial Holdings** to create related funds for retail and institutional investors, including the launch of an ETF tracking spot prices of bitcoin. In the second deal, **CoinShares International** of the UK exercised an option to acquire **Valkyrie Funds**, a cryptocurrency ETF manager based in the U.S. The deal, which followed SEC approval of Valkyrie's spot bitcoin ETF, allows CoinShares to expand into the U.S. as it seeks to become "a global leader in the digital asset space."

The SEC in January approved trading in a total of 11 bitcoin ETFs, including one from BlackRock that amassed $20 billion in AUM by the first quarter, making it the fastest-growing ETF in history. BlackRock charged a fee of just 25 basis points during an initial promotional period. "It's been a persistent wave of demand," the head of research at VettaFi told the *Wall Street Journal* in March. "These products came out of the gates strong and they've remained strong."

Retail push into alts

Alternative asset managers continued their increasingly aggressive march into the retail market in the first part of the year. Blackstone was notable among them, raising $1.3 billion for its first-ever private equity fund for high-net-worth individuals. The company already manages real estate and credit strategies for the wealth channel, which accounted for $8 billion in sales in the first quarter. The fund will invest in a broad range of strategies, including buyout, secondaries and life sciences. Investors are limited to a 3% redemption of assets quarterly and pay 1.25% management and 12.5% performance fees.

London-based **Coller Capital**, which last year created a private wealth secondaries unit, joined Blackstone in launching a retail private equity fund for the U.S. Coller said the fund, targeting the secondaries market, is offering a lower minimum than "traditional" private market funds and more liquidity. The company also waived the first-year management fee and does not charge a performance fee.

For its part, investment consultant **Meketa Investment Group** introduced an infrastructure fund for individuals. Meketa is managing the fund through a new private markets solutions business, which received an investment from the family office of **Brinker Capital** founder Chuck Widger. The Boston firm called infrastructure "a relatively new asset class for the RIA marketplace" and is offering easier purchasing and daily pricing with redemptions of up to 5% of net asset value every quarter.

The effort isn't just happening in the U.S. Coller Capital is planning to open a Zurich office as part of its wealth drive, according to a report in Secondaries Investor. In the UK, a **Schroders**-supported poll this year by FT Adviser showed that half of the financial advisors surveyed are aiming to increase their allocation to private markets, with another 20% uncertain. In the first quarter, **Carlyle Group** introduced a "semi-liquid" credit fund for the European wealth market, calling the vehicle "a significant milestone" in providing individuals with access to private markets. The fund will invest directly in a range of strategies originated by the company's credit group.

A December 2022 Bain & Company survey of high-net-worth and "very" HNW ($5 million to $30 million in investible assets) individuals worldwide showed 38% and 53%, respectively, want to increase their allocations to private alternatives. The consulting firm estimates the wealth market has between $8 trillion and $12 trillion in funds available for private markets investments. Bain does cite structural barriers such as transparency, cost, liquidity and distribution the industry needs to tackle to capitalize on the opportunity.

"It tends to surprise people just how much some of these larger [general partners] are raising from [the wealth] channel," said the head of research insights at data firm Preqin during a January webinar. "There have been well-publicized statements from some of the larger listed GPs saying they're expecting up to 50% of their total flows to come from private wealth. That's a huge change, and I think it caught a few GPs off guard."

As individuals jump on board, institutions remain enthusiastic investors. A global survey by Coalition Greenwich released in the first quarter showed that 40% of such investors plan to increase allocations to private debt, 36% to private equity, and 29% to private infrastructure equity. Venture capital and real estate debt and equity lagged behind those asset classes. Within private debt and private equity, 30% expect to add new managers to their rosters.

A Thinking Ahead Institute survey of pension funds worldwide representing $56 trillion in assets underlines the shift by institutions toward alternatives. In the 20 years through 2023 that the firm has conduced its surveys, the share of such investments rose from 12% to 20%. Public equity allocations have shrunk from 51% to 42% while bond allocations have remained steady at 36%. The survey also shows the weight of individual retirement plans, along with the divergence among nations. In the U.S., such accounts make up two-thirds of pension assets and 88% in Australia, with its A$3.7 trillion (US$2.5 trillion) superannuation fund. By contrast, in the UK individual retirement plan accounts make up 26% and in Japan just 5%.

Property deals remain on pause

Real estate investment has long been available to retail investors through REITs, but private real estate funds have been the domain of institutions and ultra-HNW individuals and family offices. Increasingly, however, private funds are being pitched to individuals in the affluent category. In Europe last year, **Schroders Capital** introduced a Global Real Estate Total Return private fund to join its lineup of "semi-liquid [alternative] funds aiming to democratize private assets." The initial minimum investment is $50,000.

Chicago-based multi-family specialist **Origin Investments** (AUM:$2 billion) is one firm that has been serving the general HNW market with private funds for years, but since 2015 its client numbers have jumped from less than 100 to 3,500. Last year, **Focus Financial Partners** acquired and wrapped Origin into an affiliate with an eye on extending its reach to partner firms. "The world of the traditional 60/40 portfolio is over," former Focus CEO Rudy Adolf told *Barron's* at the time.

At Dallas-based **Velocis**, a Sun Belt real estate fund manager that has raised $1 billion during its 14-year history, the wealth channel now accounts for half the investor base. In an interview with PERE last December, Matt Weibring, investor relations director, credited the growth in part to the ability of local and regional RIAs to "outsource their private investment sourcing and due diligence" to platforms such as **iCapital** and **CAIS**. "These firms bring an institutional approach to finding quality managers across all private strategies and provide access to RIAs that otherwise would not have the resources," he said.

In the latest survey by **Fidelity Investments** of family offices with $432 billion in net worth, 36% said they plan to increase their investment in direct real estate while another 51% said they would maintain the same level. Only 13% said they would decrease investment in the asset class. **KKR**'s survey of family offices worldwide showed a similar drift, with the real estate allocation climbing three points to 10% between 2020 and 2023. But KKR noted that family offices were dedicating capital "towards select Real Estate sectors like data centers, logistics, and warehouses that capture important post-pandemic investing themes."

Industry participants hope the growing interest among wealthy investors will prove an important new source of capital given the lagging interest among institutions at the moment. In 2023, global private real estate fundraising suffered the sharpest year-over-year decline in 14 years of 33%, to $151 billion, according data firm Realfin. The number of vehicles reaching final close also dropped significantly, by 44% to 473. In the first quarter of this year, PERE counted $19.8 billion, the lowest total for the opening three months since 2011.

For their part, institutions are holding steady at the moment. According to the latest survey from Hodes Weill & Associates, institutional target allocations for real estate in 2023 were flat for the first time in 10 years, at 10.8%. "Institutions have chosen to spend 2023 focused on managing their existing portfolios in an environment in which investors are waiting for valuations to find a bottom," the global capital advisory firm wrote. At the same time, investors believe the next few years "will prove to be good vintage years to capitalize on expected dislocation and distress."

Although M&A for real estate advisory firms has been impacted by uncertainties in parts of the real estate market — including interest rates and concern among potential buyers about fund performance in recent vintages — the opportunities referenced by Hodes Weill could begin to draw buyers off the sidelines. Moreover, McKinsey points out in a recent report that "despite recent volatility" closed-end real estate fund returns have remained "relatively consistent" over time. As of September 2023, the consultant notes that every vintage from 2010 to 2020 delivered a pooled-net internal rate of return between 7.5% and 12.5%.

In the first half, just a handful transactions took place, but one that crossed the Pacific was significant: **Starwood Capital Group**'s acquisition, via an affiliate, of a 10.7% stake in Asian real estate advisory giant **ESR Group** (AUM: $156 billion). The deal provides Starwood with exposure to the Asia-Pacific property market through the region's largest such player, including in new economy assets (53% of ESR's fee-related AUM). This year, one such ESR initiative involved South Korea's first open-ended core logistics fund, with warehouse assets featuring such green initiatives as solar power. (Separately, in the face of significant redemptions from investors in its nontraded Income Trust property fund, Starwood announced in May it would limit such sales "to protect and maximize value" for shareholders.)

In a credit-oriented deal, Blue Owl Capital paid $170 million (primarily in equity) for **Prima Capital Advisors**, a lender in the commercial mortgage-backed securities market with $10 billion in AUM. Blue Owl, with $27 billion in real estate AUM, could pay up to $35 million more in an earnout. Prima diversifies Blue Owl's real estate portfolio with a "differentiated and high-quality real estate lending capability" while Blue Owl adds scale to Prima's "strong underwriting capabilities and track record." Alternatives investor Petershill acquired a minority stake in **Pennybacker Capital Management**, a Texas firm with $4 billion in AUM in real estate and infrastructure. Petershill, which took a pause from acquisitions last year, citing a lack of "attractive value creating propositions," is part of **Goldman Sachs Asset Management**.

In a possible hint at a revival, Blackstone announced two take-private REIT deals, the largest a $10 billion all-cash bid for **AIR Communities**, a high-end U.S. rental REIT concentrated in coastal communities. The transaction represents the alternative giant's largest acquisition of a multi-family firm. "[The deal] makes me wonder if we are through the worst shocks from the Covid crisis," the co-head of **MSCI**'s real assets research team told Multifamily Dive. "The crisis hit around March 13th of 2020 and we have still been dealing with the aftershocks until recently."

Blackstone also reported in the first quarter that redemptions in its retail-oriented real estate fund, BREIT, had slowed following the wave of withdrawals in 2023. In March, redemptions were 85% below the January 2023 peak and the lowest in 23 months. Blackstone told shareholders it believes commercial real estate is at an "inflection point" with "values bottoming and improvements in the debt and transaction markets." It added that "now is the moment in the cycle to increase exposure to the right sectors…. and not wait for the 'all-clear' signal to invest capital." BREIT's net asset value was $61 billion at the end of 2023, with half in industrial and multi-family.

Infrastructure on buyers' radar

Having closed a $30 billion global infrastructure fund in December 2023, by February **Brookfield Asset Management** announced the first closing of its second Global Transition green-energy fund with $10 billion in capital. BAM ended the 2023 year with $293 billion in AUM in infrastructure and renewable power and energy, about half fee-related.

KKR in February closed a $6.4 billion Asia-Pacific infrastructure fund, its second such dedicated fund and the largest-ever in the region. KKR was joined in Asia by New York's **Stonepeak**, which closed its first infrastructure fund in the region, with $3.3 billion in capital and a diversified investment focus. In KKR's February earnings call, co-CEO Scott Nuttall noted the growth of the Asian business from zero to $10 billion in just four years, saying the company is "leveraging our pan-Asia presence" via nine regional offices. "There's a significant amount of capital required to develop infrastructure all across Asia ….And, candidly, on the margin there's less competition in Asia because fewer firms have built the platform that we've built." KKR's total infrastructure AUM rose nearly five times between 2018 and 2023 to $59 billion.

Those closings and an expected rebound this year follow a slow fundraising period in 2023 of $88 billion, down 56% from 2022, according to Preqin, in part a reflection of interest rate shocks. "However, the imperative to decarbonize economies underpins infrastructure's long-term tailwinds for 2024 and beyond," the data firm wrote. Significantly, Preqin noted that 70% of investors and fund managers it surveyed reported that 2023 performance had met their expectations.

In its latest survey of the top-200 U.S. defined benefit plans, *Pensions & Investments* said infrastructure assets rose 30% to $94 billion in the year through September 2023 and 227% in the trailing five years. "You can achieve return, income stream, partial inflation hedge, and overall a good diversifier for the portfolio," explained Matthew Ritter, partner and head of real asset investments at consultant **NEPC**.

Three major financial services firms entered the M&A market in the first half to capitalize on the opportunity, adding to the two $1 billion-plus infrastructure deals that took place in 2023 and four other notable transactions in 2022. BlackRock was the largest such player, cutting a deal for New York's Global Infrastructure Partners. The largely share-based transaction, with a nominal value of $12.6 billion, adds more than $100 billion in AUM to triple BlackRock's infrastructure AUM to $150 billion.

While that is a relatively minor number considering the firm's total AUM of $10 trillion at the time, Chairman and CEO Laurence Fink opened the company's fourth-quarter earnings call in January by discussing the transaction, an indicator of investor excitement about the asset class. Describing the deal as "another truly transformational moment" in a corporate history driven by "a long-term view on what market forces will drive outsized growth for our clients and our firm," Fink said, "Growing public deficits, a modernizing digital world, advancing energy independence, and the energy transition are driving the mobilization of private capital to fund critical infrastructure."

In a transatlantic deal featuring another New York buyer, General Atlantic acquired London-based **Actis**, a sustainable infrastructure investor with $12.5 billion in AUM. Actis has raised $25 billion during its 20-year history in such areas as energy, digital and supply chain where it can deliver "measurable positive impact," with a tilt toward emerging markets. For example, in 2022, Actis acquired a majority stake in a renewable power provider in Southeast Asia.

In Germany, **Commerzbank** acquired a 75% stake in another sustainable manager, **Aquila Capital Investment**. Based in Hamburg, Aquila focuses on renewable energy and adds €15 billion ($16 billion) in AUM to bring Commerzbank's real assets portfolio to €40 billion. The German bank said the deal allows it to "take a leading role in offering sustainable projects to our customers" while Aquila cited the opportunity to expand its client base and international presence and more rapidly develop new products.

Credit deals continue

The red-hot private debt market cooled off in 2023, with fundraising of $186 billion representing the lowest level since 2018, according to PitchBook. A particularly weak second half weighed on the number, as large funds stayed open for

longer than usual. The top-10 funds that rolled into 2024 had three times the capital ($55 billion) as the top-10 did in 2023, providing "a strong pillar of support to fundraising totals" this year. In a survey of general partners by Preqin, 90% said private debt met or exceeded expectations last year, with 91% expecting the same for 2024.

But in the first quarter, fundraising remained soft: At just above $30 billion, it was down 14% from the average first-quarter number since 2017. This included the €10 billion ($10.9 billion) raised by London-based **Arcmont Asset Management** for its fourth direct-lending fund and associated vehicles — one of the largest-ever such European funds. (**Nuveen** closed last year on the controlling interest in Arcmont it acquired in 2022, wrapping the firm into the newly formed **Nuveen Capital**, along with its U.S. private credit firm, **Churchill Asset Management**.)

Bain Capital also closed a global private credit fund at the start of the year with $1 billion in commitments. The fund is targeting middle-market companies and will invest across the capital structure. "As the high interest rate environment has constrained traditional senior lenders, we are seeing more opportunities for thoughtful, tenured lenders that can provide differentiated solutions," the firm said. Last October, Bain formed a joint venture with real estate debt manager **Smith Hill Capital** to provide financing for companies in the hospitality sector.

In a February earnings call, **Apollo Global Management** CEO Marc Rowen said his company is focused on boosting its five-year annual private debt investment goal from $150 billion to around $250 billion, noting that the company is benefitting from regulators' decisions worldwide to expand the role of private investors in debt capital markets. Speaking more generally about private markets, Rowen said, "I believe we are going to see a substantial pivot from institutions where they begin to think about private not just in a traditional alternatives context, but they think about private as just another investments that has a little less liquidity. And the question they'll be asking is, 'Am I being compensated for slightly less liquidity.'"

The M&A market for private credit firms has tracked the growth of the asset class, averaging a strong 16 deals annually in the five years through 2023, making it one of the hottest alternative marketplaces. In the first half, buyers continued to invest in such firms. Blue Owl Capital cut two credit-related deals, including a $750 million cash-and-shares acquisition of **Kuvare Asset Management,** which provides the insurance industry with asset management services. (Blue Owl could pay another $250 million in an earnout.) KAM has $20 billion in assets in a range of private credit vehicles managed for former parent **Kuvare UK Holdings** and other insurance companies. Blue Owl also created a new insurance solutions unit. *(See Property for a second Blue Owl deal.)*

In a second insurance-related transaction in the U.S., **Aflac** acquired a 40% stake in **Tree Line Capital Partners**, cutting the deal through its asset management arm. A direct lender to lower-middle-market companies, Tree Line has $2.7 billion in AUM. As part of the deal, Aflac is "making a multi-year commitment" to provide additional investment capital to Tree Line. A cross-border insurance deal saw **Dai-ichi Life Holdings** pay $255 million for a 19.9% stake in **Canyon Partners** (AUM: $25 billion), an established global firm that pursues a deep-value strategy across a variety of credit vehicles. Dai-ichi also acquired a majority share in a Japanese private credit firm in 2023.

Hunter Point Capital, a permanent capital provider formed in 2020, cut its eighth deal by assuming a minority investment in **Pretium**, one of the largest investors in non-agency residential mortgage loans. Pretium's AUM has climbed more than three times since 2019 to $52 billion. In March, HPC raised $3.3 billion for its inaugural GP Stakes fund. Michael Dell's family office backed a credit firm started up two **Goldman Sachs** alumni with experience in the sector, according to various news reports. **DFO Management**, Dell's family office, will also invest in **5C Investment Partners**' first fund, a senior-secured loan vehicle for mid-size to large businesses.

Sagard of Canada continued the buildout via acquisition of its alternatives platform and global presence, buying a 40% interest in a collateralized loan obligations manager, **HalseyPoint**. The five-year-old California firm, which has raised seven CLOs with $3.2 billion in AUM, expands Sagard's credit business. HalseyPoint, with ambitions to grow into a more formidable player, cited Sagard's "impressive investor base and extensive network as a global multi-strategy alternative asset manager with a strong credit franchise." A second cross-border border deal saw Paris-based **Tikehau Capital** team with Singapore brokerage **UOB-Kay Hian** to launch an Asia-Pacific credit strategy. Both firms will join outside investors with $50 million commitments targeting mid-size companies in "resilient and defensive industries."

Private equity "green shoots"?

As with the private credit market and other alternatives, private equity experienced a more challenging environment in 2023. In its latest report covering that year, Bain & Company said it's "safe to say the private equity industry has never seen anything quite like what's happened over the last 24 months." Deal value, exit value and fundraising dropped between 37% and 44% compared with 2022, while just 20 funds accounted for more than half of all the capital raised for buyout funds. The culprit was of course the run-up in interest rates in the U.S. in particular, following the long period of accommodative monetary policy.

But the consulting firm does see some "green shoots of a recovery" as interest rates stabilize. Noting that buyout funds alone are sitting on $1.2 trillion in dry powder, with one-quarter of that total having languished for four years or more, the consultant writes, "That creates a heavier incentive than normal for [general partners] to get off the sidelines and start buying, even if conditions aren't ideal."

That massive stockpile notwithstanding, large funds continue to raise money, with Private Equity International noting that half the capital raised in the first quarter ($177 billion) came from the 10 largest funds. The largest of those was EQT's €22 billion ($24 billion) 10th flagship fund, which included participation from the wealth channel and 70% from investors in the previous fund. In the U.S., secondaries investor **Lexington Partners** closed a $23 billion fund, surpassing its target by 50%.

"We believe we're in the early stages of a generational secondary buying opportunity in private markets that will take multiple years to play out," Lexington said, noting the role of secondaries in providing liquidity "during times of economic uncertainty and slowing portfolio company exits." Lexington, acquired by Franklin Resources in 2021, also mined the wealth channel, which accounted for 20% of the capital.

M&A was active in the first half, and Canadian buyers accounted for two of the deals. A domestic one saw AGF Management's private markets business pay C$45 million (US$33 million) for a 51% stake in **Kensington Capital Partners**, with employees retaining the rest. Kensington, with C$2.6 billion in AUM, pursues mid-market buyout and growth strategies using a variety of structures such as fund of funds, co-investments and direct investment. Kensington said AGF can fuel growth by "open[ing] doors to new strategies, relationships and regions," including the U.S. AGF also made a minority investment in New York hedge fund **New Holland Capital**.

The second deal crossed the North American border: Walter Global Asset Management's purchase of a minority stake in specialist firm **Madryn Asset Management**. Based in New York, Madryn is a debt and equity investor in the healthcare sector targeting commercial-stage growth companies. Part of Montreal-based **Walter Group**, Walter GAM has 10 other boutiques in its portfolio, but Madryn represents its first U.S. investment.

In a second cross-border deal targeting a U.S. firm, the **Strategic Capital Group** unit of Bahrain's Investcorp made a growth investment in **Banner Ridge Partners**. For SCG, the deal represented its 12th minority investment in an alternatives manager and followed the closing of the BRP's $2.2 billion fifth secondary fund. Within the U.S., Apollo Global Management backed a new firm, **New Catalyst Strategic Partners**, an investor in "emerging, developing and diverse firms." New Catalyst said it will provide such firms with "day-one capital and support that is often difficult" for them to access.

Good times roll in wealth

Wealthy individuals came into the new year feeling flush, their portfolios driven higher by robust stock markets in the U.S. and selected international markets, a reasonably healthy U.S. and global economy, and strength in key investment sectors. The ultra-high-net-worth market (a minimum $30 million in net worth) tracked by Knight Frank showed a 4.2% increase in numbers last year to some 627,000, led by North America (up 7.2%) and the Middle East (up 6.2%). The ultra-HNW property consulting firm expects the overall number to rise another 28% in the five years through 2028, with particularly strong growth in Asia.

Although none of the major reports on the broader wealth market had been released as of May, the state of the markets is a key indicator that this group would've experienced a significant increase in its numbers and wealth as 2024 dawned. That growth would be in sharp contrast to 2022, when McKinsey tabulated that assets among mass affluent and HNW clients declined by $6.2 trillion in the U.S. alone. According to Federal Reserve data, last year the top-1% of households in the U.S. registered an 11% gain in overall wealth to $44.6 trillion, with equities and mutual funds comprising three-quarters of the gain and nearly half the total.

In the first quarter, several of the major U,S, broker-dealers and banks reported record assets. At **Charles Schwab**, assets rose 20% from the 2023 first quarter to $9.1 trillion, including $96 billion in net new assets. At **Bank of America**, wealth management assets increased 13% to $4 trillion, including $25 billion in AUM inflows. *Barron's* ranking of the 1,200 top U.S. advisory teams, released in March, provides a sense of the turnaround on the micro level: Average AUM for those teams rose 21% to $4.6 billion in the year through last September. "The best advisors succeeded during the Covid years because their teams were structured to adapt to unforeseen circumstances," the newspaper wrote. "That lesson has been absorbed, and teams continue to grow in size and sophistication." *Barron's* also noted that the average age of those advisors had climbed to 56, underlining the demographic challenge facing the industry.

Pointing out the correlation between contented clients and a "strong stock market," J.D. Power's latest survey shows a "significant" eight-point, year-over-year increase (to 735 on a 1,000-point scale) in client satisfaction with their investment advisors. Still, the research and data firm warns of weakness among younger investors "who show lower levels of client loyalty than investors in other generational groups." Among HNW millennials, for example, 36% say they "probably/definitely will" change firms in the next year. One factor for that generation — born between 1982 and 1994 — may be that 70% have a secondary investment firm.

To gain the trust and assets of millennials and others, the lineup of well-capitalized and aggressive consolidators continued on their acquisition-driven growth trajectory. The list in the first half included such familiar names as **Allworth**, **Hightower**, **Mercer Global Advisors** and **Mariner Wealth Advisors**. Fidelity's first-quarter review of M&A was a mixed picture: The number of transactions declined 29% to 50 from the previous year's quarter, but the value of assets acquired rose 63% to $139 billion. The median size of targets by assets was $500 million. Strategic aggregators accounted for two-thirds of buyers, with Fidelity counting two new private equity entrants on top of 12 in 2023. "PE firms continue to be attracted to RIA firm recurring revenue streams from loyal clients, growth potential, and the sheer fragmentation of our industry," Fidelity wrote.

If the Federal Reserve eases interest rates at some point this year, that may provide some additional fuel for deal-makers, but the primary factor driving transactions remains the push for scale among both buyers and sellers. As indicated by *Barron's* reference to the aging advisor workforce, next-generation issues are another element. That was one factor in **FirstWave Financial**'s (AUM: $440 million) decision to sell on the final day of 2023 to **Savant Wealth Management**, a transaction announced in January. Savant made a total of 11 deals in 2023. Indeed, FirstWave President Laura Chiesman, who became a member-owner of Savant, published a book about succession planning in 2021, "It's a Journey."

Wealth Enhancement Group, which made some 50 deals in the three years through 2023, targets firms that are cultivating the next generation of talent. "We really try to drill into where the firm has invested in talent and how ready is that second generation to take over," Meredith Schwarz, vice president of M&A, told RIA Intel in January. "Do they service their own clients? Are they operating independently with their clients? At the end of the day, M&A is all about acquiring talent so they can have long-term sustainable growth."

In the first quarter, WEG passed $80 billion in assets by adding two more RIAs, including an established Long Island, N.Y., firm with $220 million in assets, **Piermont Wealth Management**. **Cerity Partners**, majority-owned by **Genstar Capital**, also reached a milestone of some $100 billion in assets via the acquisition of outsourced chief investment officer (OCIO) **Agility**. Part of **Perella Weinberg Partners Capital Management**, Agility has $15 billion in assets. PWP Capital was spun out of **Perella Weinberg Partners** in 2019, ahead of the investment bank's IPO.

Having done a dozen deals last year, Mercer Global Advisors entered the new year with its sights on one of the most active wealth markets, Seattle, where it acquired **MDK Private Wealth Management**. Only four years old, MDK has accumulated $2.5 billion in assets among its ultra-HNW clientele. Their success notwithstanding, MDK's co-founders said that they were seeking a culturally compatible partner that could help them scale up.

Fresh off of an investment of up to $450 million from **Constellation Wealth Capital** and **Allianz X**, **AlTi Global** paid $76 million upfront for **East End Advisors**, an ultra-HNW firm in New York with a large OCIO business. Publicly traded AlTi, formed from the 2023 merger of Tiedemann Group of New York and Alvarium Investments of London, could make additional performance-based payments. East End has $5.6 billion in assets. In a second deal, AlTi acquired **Envoi**, a Minneapolis-based multi-family office with $3 billion in AUM. The two deals bring AlTi's total assets to around $80 billion.

An Idaho-based family office, **Caprock**, made the first acquisition in its 19-year history, purchasing Chicago's **Grey Street Capital**. Gray adds $2.2 billion in assets to bring Caprock's total assets above $11 billion and its client list close to 400. The two firms also have complementary footprints in a total of 10 states. **Miracle Mile Advisors** of Los Angeles made its first deals since a 2022 investment from **Corsair Capital**, adding $600 million in assets from two transactions to drive its total toward $6 billion.

The major U.S. deal in the first five months saw LPL Financial pay $805 million upfront for **Atria Wealth Solutions**, adding 2,400 advisors and $100 billion in assets (20% advisory). Backed by **Lee Equity Partners**, seven-year-old Atria has accumulated a portfolio of seven broker-dealers in the years since, including two that enhance LPL's position in the "enterprise" market comprising banks and credit unions. LPL could pay another $230 million based upon advisor retention.

In the second major market for wealth deals, the UK, FT Adviser reported that the number of wealth advisory firms declined by 7% to 5,805 between August 2022 and February 2024, based upon data from the regulatory Financial Conduct Authority. Several explanations are provided, including firms that folded because of Covid, but consolidation was a key factor. As in the U.S., deals are being driven by the need for scale, regulatory challenges, and aging owners. "It has become harder for small firms to keep up [indemnity premiums], compliance and tech spend which can put pressure on profitability," an executive at one of the UK's larger wealth firms, **Quilter**, told FT Adviser.

Private equity firms are a significant factor in the consolidation race. In the first quarter, that included London's **Pollen Street Capital**, which via a subsidiary made a £432 million ($545 million) offer for one of the early consolidators, **Mattioli Woods**. Mattioli, which has made three-dozen acquisitions since its 2005 IPO, said Pollen "brings significant financial and strategic resources to accelerate" its M&A strategy and organic growth. Pollen's offer, a 34% premium to Mattioli's share price the day before the announcement, valued Mattioli at 16.3 times trailing 12-month earnings. Mattioli has £15 billion in assets.

Pollen joins a lengthy list of private equity investors in the market, including such U.S. companies as **Carlyle Group**, **Lightyear Capital**, **Lovell Minnick Partners**, **Oaktree Capital Management** and **Parthenon Capital**. Wealth manager St. James Place counts more than 13.1 million individuals in the mass affluent market (between £50,000 and £5 million in investible assets) with liquid assets of £2.6 trillion, numbers projected to grow to 14.3 million and £3 trillion by 2026. ◆

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