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# Powering Through

## *2020 Asset Manager Transaction Review and 2021 Forecast*

### Asset Management Investment Banking Group

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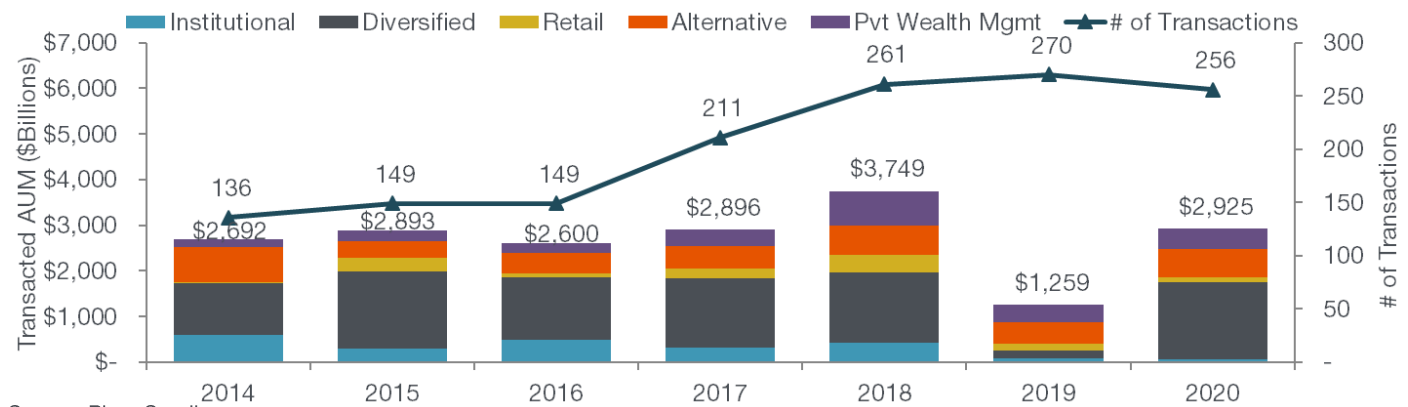
## Overview

Despite the global pandemic and the ensuing transition to a highly virtual dealmaking setting, the asset management industry remained a fertile environment for M&A activity in 2020. The number of asset management transactions clocked in at 256 deals in 2020, a 5% decrease from 2019, but a continuation of the elevated level of annual deal activity of the past 4 years. Between 2017 and 2020, there were an average of 250 transactions annually, 72% higher than the average of the prior 4-year period.

For the second straight year, private wealth management transactions represented the majority of deal activity with 60% of all transactions in 2020 versus 56% in 2019 and well above historical norms of approximately 40%. As Piper Sandler's August 2020 whitepaper [Wealth Management: The Deal Magnet](#) describes, the sector's dynamics have created a new normal of strong M&A activity. New serial private wealth acquirers continue to enter the market alongside existing buyers, who are often backed by meaningful private equity capital. Beyond private wealth management, the pace of alternative asset management deal activity has moderated after three years of record dealmaking, though buyer interest remains strong. Asset managers in both the traditional and alternative space face a rapidly changing competitive landscape, which Piper Sandler detailed in the November 2020 whitepaper [Asset Management: A Constant Evolution](#). In response to these trends, buyers continue to try to leverage the scale of their platforms through M&A by seeking specialized managers or consolidation opportunities to generate revenue and/or expense synergies. Despite traditional asset management M&A being highlighted by a few significantly large transactions, the number of transactions declined from prior years.

These large deals drove 2020 transacted assets under management ("AUM") to \$2.9 trillion, more than double 2019's historic low of \$1.3 trillion, and more in-line with the preceding 5-year annual average of \$3.0 trillion. Disclosed deal value nearly tripled to \$38.9 billion, a level not seen since the Global Financial Crisis. As in 2007, 2020 included several large M&A transactions as well as PNC's \$14 billion secondary offering of its stake in BlackRock.

### NUMBER OF TRANSACTIONS AND AUM BY TARGET TYPE



Source: Piper Sandler

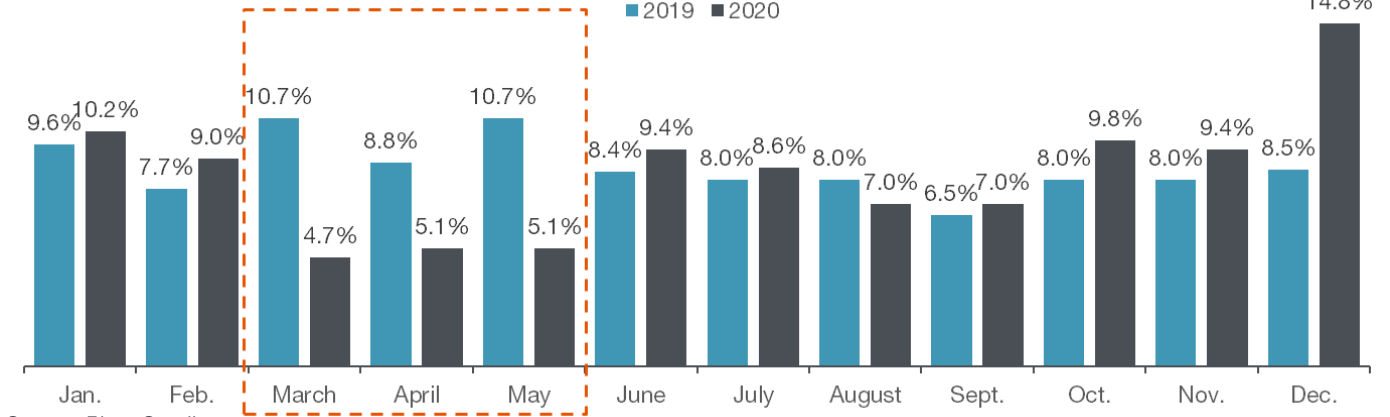
There were nine 2020 M&A deals with \$1.0 billion or greater in transaction value after only two 2019 deals of such size. The five largest 2020 M&A transactions by deal value were:

- Morgan Stanley's acquisition of Eaton Vance (\$7.0 billion)
- Franklin Templeton's acquisition of Legg Mason (\$4.5 billion)
- Owl Rock Capital Group and Dyal Capital Partners merger to form Blue Owl Capital and public listing via a merger with Altimar Acquisition Corporation (\$1.8 billion)

- Macquarie Group’s acquisition of Waddell & Reed Financial and subsequent planned sale of Waddell & Reed’s wealth management platform to LPL Financial (\$1.7 billion)
- KKR’s acquisition of a 55% stake in Colonial First State (\$1.1 billion)

COVID and the related market volatility paused deal activity in the spring of 2020. Whereas in 2019 transaction activity showed only modest variation on a month-to-month basis, fewer than 15% of 2020 transactions occurred in the three months of March, April, and May. As markets rebounded, buyers and sellers resumed M&A discussions and pent-up demand drove increased monthly deal activity over the summer of 2020 before a tremendous surge at the end of 2020.

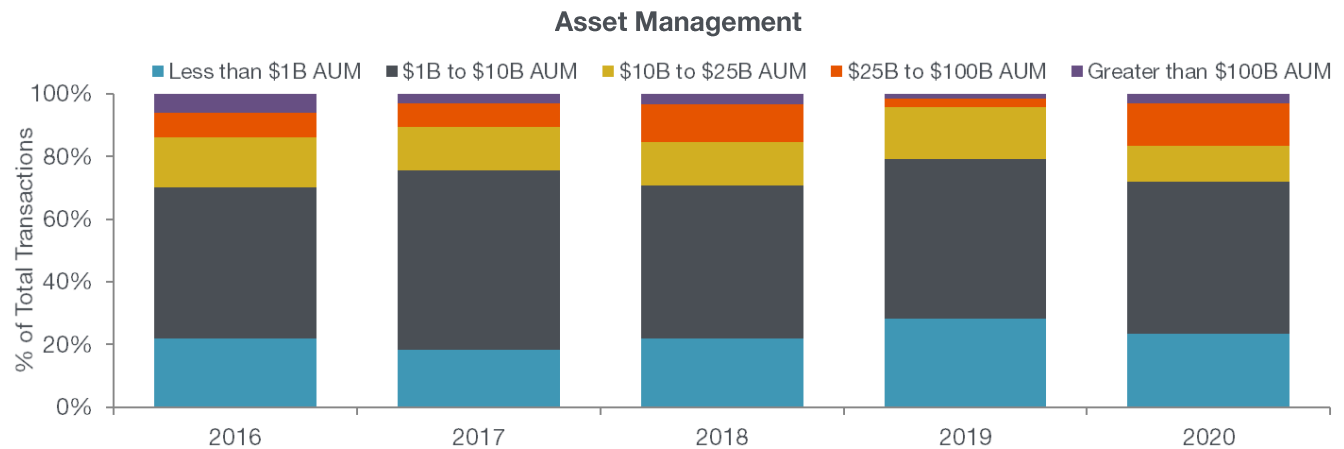
### MONTHLY TRANSACTIONS AS % OF TOTAL YEAR TRANSACTIONS, 2019 VS. 2020



Source: Piper Sandler

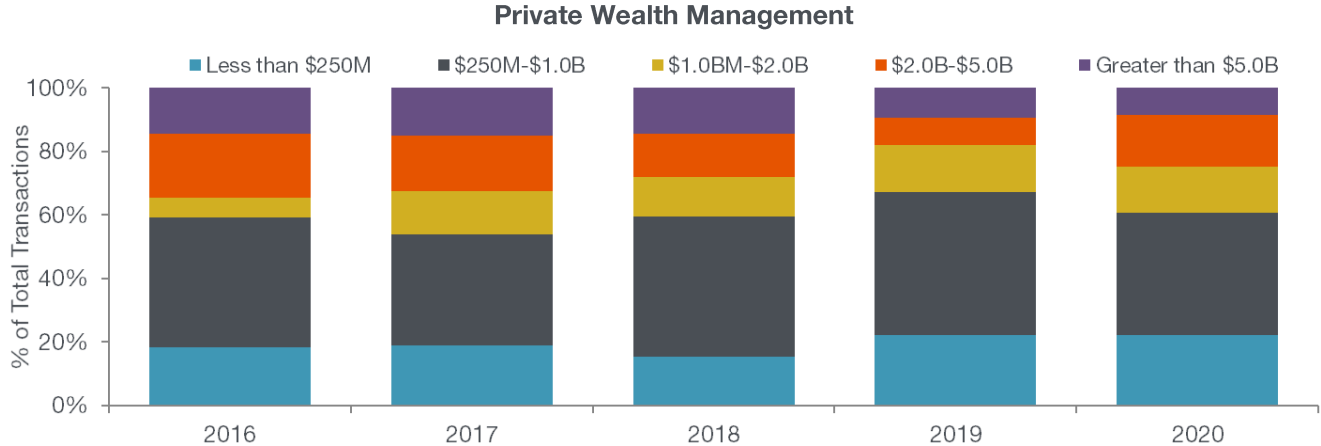
The record-setting level of private wealth management M&A activity continues to drive deal activity at the lower end of the AUM spectrum. The median AUM of acquired managers increased from just under \$1.0 billion in 2019 to \$1.2 billion in 2020, but still remained well below recent historical norms of just over \$2 billion. Excluding private wealth management, the median transacted AUM in 2020 asset management deals was \$3.4 billion, driven by 17 transactions involving targets with more than \$25 billion of AUM compared to 5 in 2019. As several large publicly-traded traditional managers were acquired, a few large alternative managers entered the public markets.

### TRANSACTIONS BY TARGET’S AUM



Source: Piper Sandler

Focusing just on private wealth management, the number of acquisitions of managers with under \$1 billion in AUM decreased 8% year-over-year to 93 deals, though still dramatically higher than 66 similarly small deals in 2018 and 43 in 2017. While smaller transactions are the norm in the wealth management space given the highly fragmented nature of the sector, acquirers eagerly pursue larger targets where possible to more quickly add scale to their platforms. As a result, transactions involving \$1 billion to \$5 billion in AUM increased from 35 deals to 47 deals year-over-year.

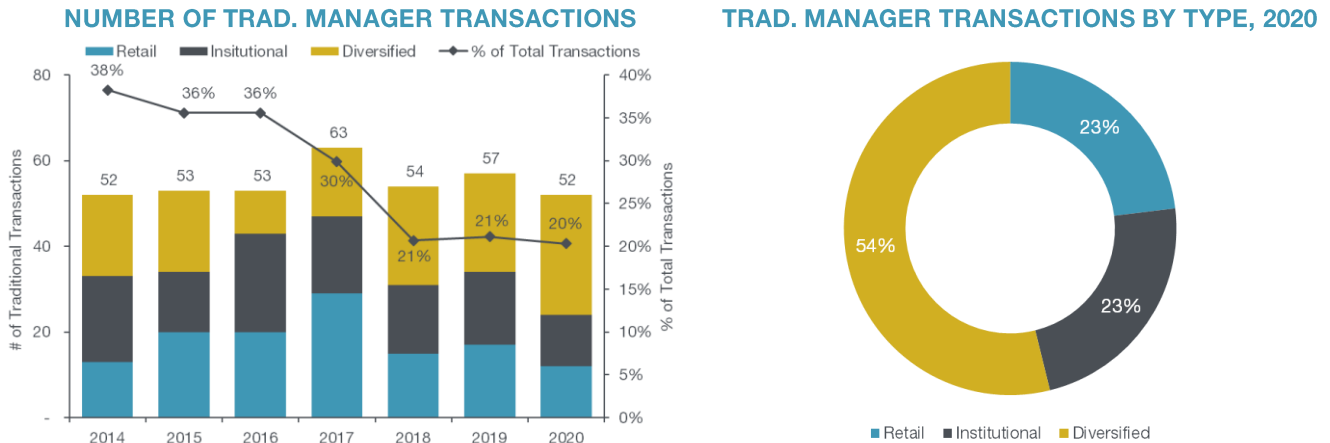


Source: Piper Sandler

# Sellers

## Traditional Asset Managers

In the traditional asset management space, deal activity reflected the discerning nature of the buyer universe – seeking targets offering truly differentiated capabilities and/or attractive consolidation opportunities. In 2020, acquisitions of traditional asset managers decreased to 52 transactions, the lowest level since 2014. We stratify the universe of traditional asset managers into, i) diversified managers, which include generally larger firms servicing clients in multiple distribution channels, ii) institutional managers, and iii) retail managers, including mutual fund complexes owned by larger firms and ETF managers.



Source: Piper Sandler

### DIVERSIFIED

Diversified managers typically offer a greater breadth of both revenue and expense synergies to a potential acquirer, given the ability to potentially bring on additive product capabilities and distribution channels while consolidating duplicative ones. As larger buyers have focused their hunt on more consolidating opportunities, particularly among larger targets, diversified managers most easily allow for greater immediate strategic and financial impact. Consequently, acquisitions of diversified managers increased materially from 23 to 28 transactions between 2019 and 2020, including several notable acquisitions of large asset managers that have been long-tenured publicly-traded firms in the space.

The largest such transaction, as well as the largest asset management M&A deal of 2020, was **Morgan Stanley's** acquisition of **Eaton Vance** for \$7.0 billion. The over \$500 billion in AUM from Eaton Vance brings Morgan Stanley into the select group of managers with more than \$1 trillion in AUM. More importantly from a strategic perspective, Eaton Vance fills many gaps for Morgan Stanley, particularly in the U.S. The target also gives Morgan Stanley additional fixed income capabilities, customized investment solutions through its Parametric affiliate, and ESG capabilities via its Calvert affiliate.

### INSTITUTIONAL

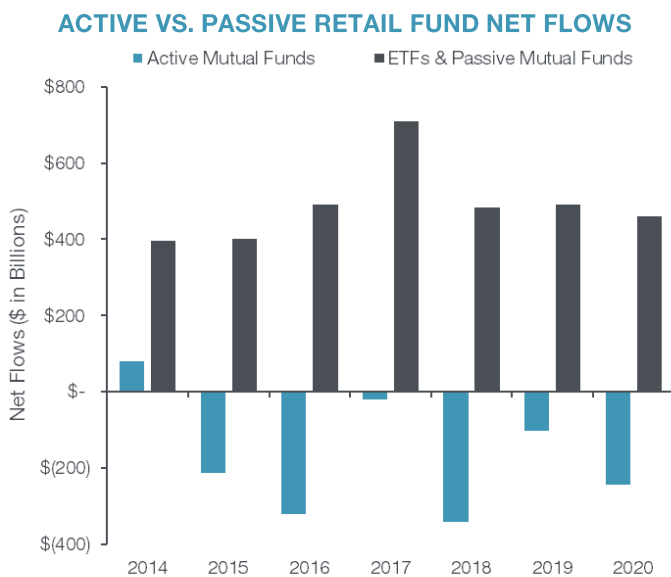
Whereas revenue and expense synergies remain a primary consideration in M&A involving diversified asset managers, strategic considerations continue to be the primary driver in acquisitions of managers focused on institutional clients. For many sellers, most of whom are product specialists, a transaction with a strategic buyer brings access to a larger platform and distribution capabilities, given a seller's investment capabilities often fill a product gap for the buyers. **Wasmer Schroeder's** sale to **Charles Schwab** in early 2020, for example, provided the seller with access to a significant potential client base while expanding

Schwab’s proprietary fixed income capabilities, particularly in municipal strategies and separately managed accounts.

Given the tremendous uncertainty during the mid-year market upheaval, many buyers pressed pause on any acquisitions of product specialists until they could have a better sense for how these strategies would handle a post-COVID market and how investors would rebalance their portfolios after the turmoil. With this mid-year freeze, there were just 12 acquisitions of institutional managers in 2020 compared to an average of 17 acquisitions annually between 2017 and 2019. Once institutional M&A activity picked up again, buyers resumed their focus on specialized managers. For instance, **DCI**, an \$8 billion AUM manager applying technology-driven, quantitative tools to credit investing, sold to **Blackstone**.

## RETAIL

Mutual fund managers in active strategies continue to struggle with the significant headwinds confronting the sector for years. Long-term investment underperformance has driven investor skepticism of active mutual funds, as few managers have been able to consistently beat their benchmarks, particularly among value and blend strategies. For the sixth consecutive year, active mutual funds experienced net outflows while ETFs and passive mutual funds experienced strong inflows. At the same time, key distribution platforms such as wirehouses and independent broker-dealers are streamlining their offerings and cutting down on the number of third-party funds they offer. If a manager’s funds are not of sufficient size and/or have poor performance, they will struggle to maintain the key access points that the largest distribution platforms offer.



**% OF ACTIVE U.S. EQUITY FUNDS BEATING BENCHMARK ON 3-YEAR BASIS (AS OF 12/31/20)**  
Equity Style

		Value	Blend	Growth
Capitalization	Large	30%	22%	61%
	Mid	29%	32%	58%
	Small	24%	26%	79%

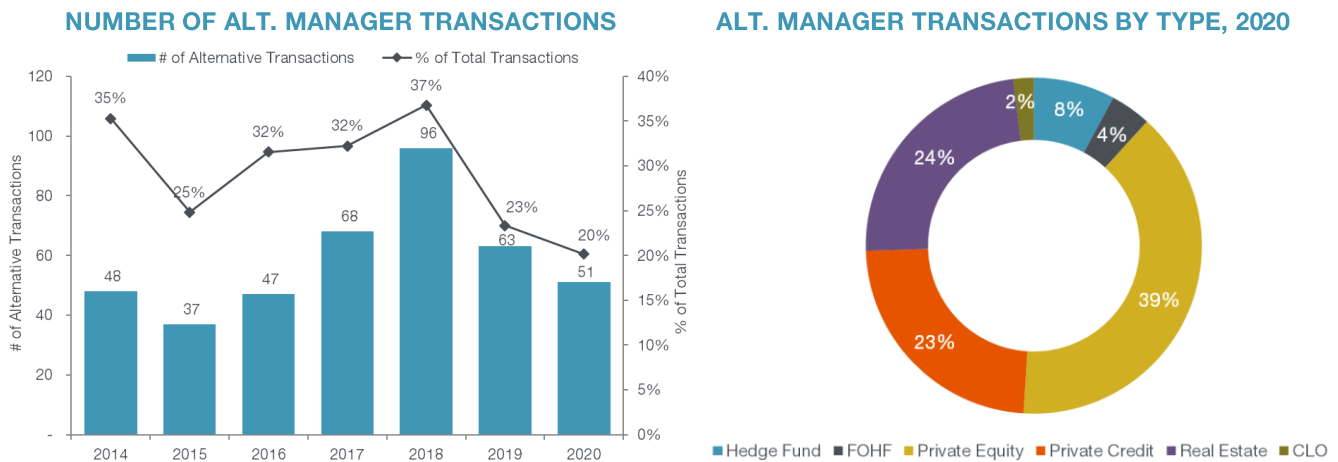
Source: Morningstar Direct, Piper Sandler Analysis

In the face of such flow and performance challenges, many diversified firms with mutual fund complexes are looking to divest and optimize value for their franchises by finding buyers who are able to consolidate the business into their existing operations. Of the 12 retail M&A transactions in 2020, 9 were divestitures. In these divestitures, buyers and sellers often seek to use the transaction as a path to a broader strategic partnership. One of the largest 2020 retail deals was the announced partnership between **Allianz Global Investors** and **Virtus Investment Partners**. Virtus will become the investment adviser, distributor, and/or

administrator for approximately \$23 billion of AllianzGI's retail assets. While AllianzGI will be able to leverage Virtus' distribution platform, Virtus will continue to have AllianzGI investment teams manage the strategies in a sub-advisory capacity. Additionally, the firms intend to partner for future joint product development in the retail channel. Of the remaining 3 transactions in 2020, 2 were of ETF managers, whose capabilities remain in high demand, including the \$120 million sale of a minority stake in the \$12 billion AUM U.S.-based manager **Global X** to Japan-based **Daiwa Securities**.

## Alternative Asset Managers

Acquisitions of alternative managers returned to more historically normal levels in 2020 with 51 transactions. Investor appetite for private credit and real estate investment strategies drove a record-level average of 58 transactions annually over the prior 3 years.



Source: Piper Sandler

While minority stake acquisitions have historically been very common in the alternative asset management space, this trend became particularly prominent in 2020. Minority stake acquisitions represented 63% of alternative transactions, up from 41% in the prior 3-year period. Specialized financial sponsors have driven this increase as they seek out investment opportunities with robust capital backing from recent fundraising. After the December 2019 final close of its fourth fund at over \$9 billion, **Dyal Capital Partners** made 6 investments in 2020 versus just 4 in 2019. **Goldman Sachs Petershill** made 3 investments in 2020 versus just 1 in 2019. With multiple potential buyers and investors offering sellers post-transaction independence, majority stake acquisitions have become less compelling as sellers are able to meet their liquidity needs with only a minority stake sale.

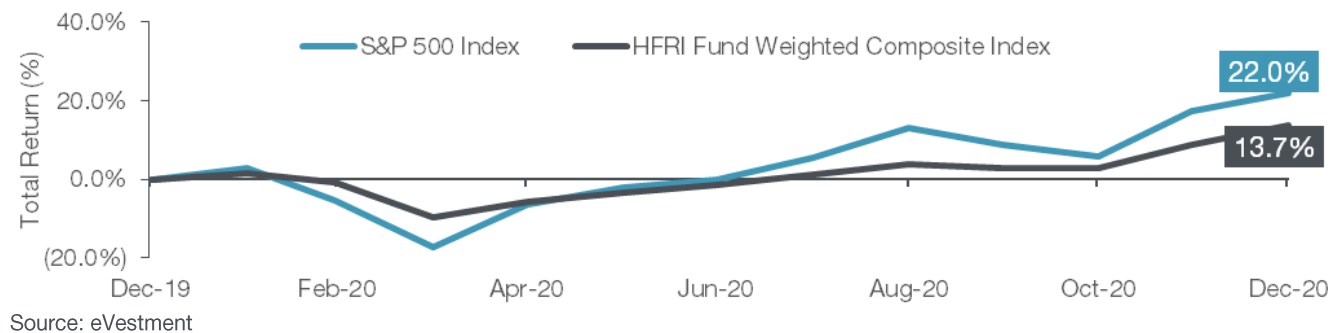
Acquirers looking for a majority acquisition often must deliver a fulsome valuation, material strategic benefits, often in the form of material capital commitments to investment strategies, and retained equity / upside to attract a potential target to the table. After closing its majority acquisition of U.K.-based infrastructure and real estate manager **InfraRed Capital Partners** in mid-2020, Canada-based **Sun Life Financial** acquired a 51% stake in \$28 billion AUM credit manager **Crescent Capital Group** for up to \$338 million. Crescent owners will retain their independence and carried interests in existing funds with put / call options to sell their remaining interests five years from closing. Importantly, Sun Life committed to co-invest up to \$750 million in Crescent's investment strategies.

Transaction activity in hedge funds and fund of hedge funds nearly evaporated in 2020 with only 6 transactions, roughly one-third of 2019 activity. Half of these transactions were management buyouts, as strategic buyers shy away from the hedge fund space. Hedge funds continue to suffer from net outflows and relatively poor investment performance compared to broader equity indices. The historic volatility in 2020 provided many hedge funds a unique opportunity to demonstrate their value-add. While the HFRI Fund Weighted Composite Index declined less sharply than the S&P 500 during the March 2020 downturn, the HFRI index still underperformed the S&P 500 by more than 700 basis points for all of 2020, largely due



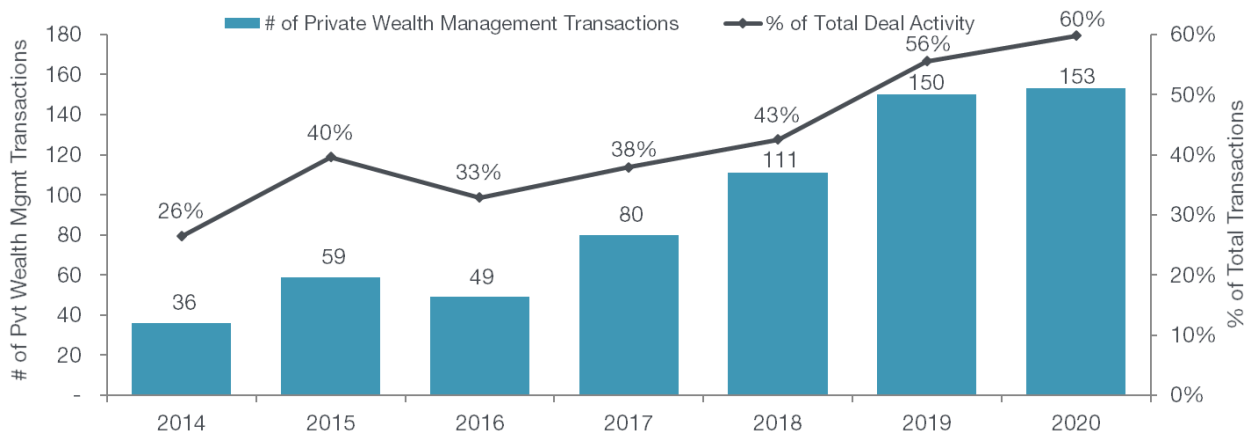
to the significant run in equities leading into year-end. At this stage, the bar for hedge funds to attract strategic buyers is extremely high, as the seller's strategies must be highly differentiated with the buyer uniquely positioned to support growth. Of note, **TIG Advisors**, which provides growth capital, comprehensive infrastructure support, and management services to investment teams, acquired a minority stake in U.K.-based **Zebedee Capital Partners**.

### CUMULATIVE RETURN: S&P 500 INDEX VS. HFRI FUND WEIGHTED COMPOSITE INDEX, 2020



## Private Wealth Managers

### NUMBER OF PRIVATE WEALTH MANAGEMENT TRANSACTIONS



Source: Piper Sandler

Private wealth management maintained its record pace of deal activity in 2020. The 153 transactions represented just 3 more deals than 2019 but triple the annual average during the 5-year period leading up to the burst of transaction activity that began in 2018. Even after several years of strong M&A activity, the private wealth management space continues to offer significant consolidation opportunities. Competition amongst an ever-growing group of buyers, several of which are backed by private equity sponsors, has pushed valuations to new heights and created a virtuous circle of M&A activity. The combination of the aging demographics of advisors, significant pool of potential sellers, and increased resource demands on managers of all sizes represent powerful M&A catalysts.

Transacted AUM rose 20% year-over-year to \$448 billion in 2020, as financial sponsors continue to drive frenzied deal activity as they look to invest in larger, at-scale platforms. **General Atlantic** and **GTCR** acquired minority stakes in \$50 billion AUM **Creative Planning** and \$48 billion AUM **CAPTRUST** respectively. After selling its stake in **Wealth Enhancement Group** to **TA Associates** in 2019, **Lightyear Capital** quickly re-entered the space by partnering with **Ontario Teachers' Pension Plan** to acquire the \$10 billion AUM **Allworth Financial** platform from **Parthenon Capital**. Many of the historically active consolidators maintained their presence in the M&A space. **Focus Financial Partners** made 16 acquisitions of wealth managers, while **Mercer Advisors** made 7 acquisitions. **EP Wealth Advisors** and **Wealth Enhancement Group** made 5 acquisitions each.

### FIVE MOST ACTIVE PRIVATE WEALTH MANAGEMENT ACQUIRERS, 2020

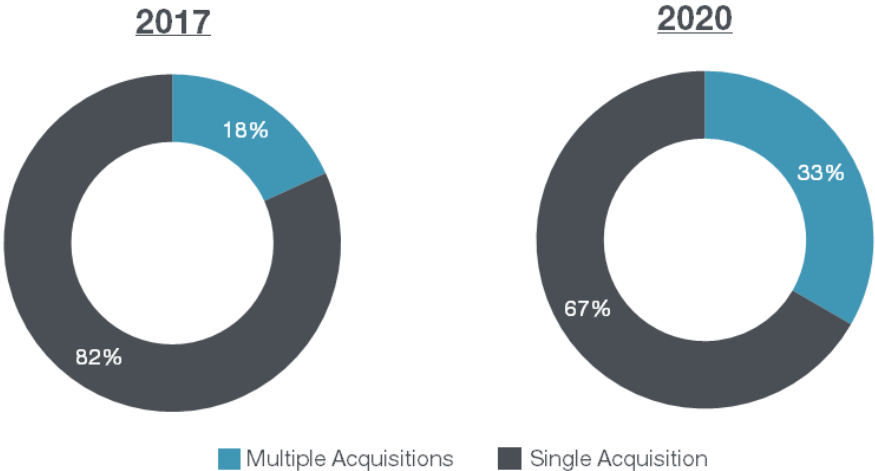
(\$ in millions)

Name	Private Equity Support	# of 2020 PWM Acquisitions	Average 2020 Acquired AUM
Focus Financial Partners	Stone Point Capital, KKR	16	\$ 602
CI Financial	n/a	9	1,984
Hightower Advisors	THL Partners	9	1,220
Creative Planning	General Atlantic, GTCR	8	616
Mercer Advisors	Oak Hill Capital, Genstar Capital	7	360

Source: Piper Sandler

Joining these firms, several new acquirers significantly increased their wealth management M&A activity in 2020. While only 10 firms made multiple wealth management acquisitions in 2017, this number more than doubled to 23 acquirers in 2020. **CI Financial** made 9 wealth management acquisitions in 2020 versus only 2 in 2019 as the Canadian firm seeks to both globalize its presence and expand its CI Private Wealth platform into the U.S. market. **Hightower** made 9 wealth management investments in 2020, the same number they made between 2015 and 2019 combined. With its fresh backing from General Atlantic, **Creative Planning** made 8 acquisitions of wealth managers in 2020 after making 3 inaugural acquisitions in 2019.

**SINGLE VS. MULTIPLE ACQUISITION PRIVATE WEALTH MANAGEMENT BUYERS, 2017 VS. 2020**

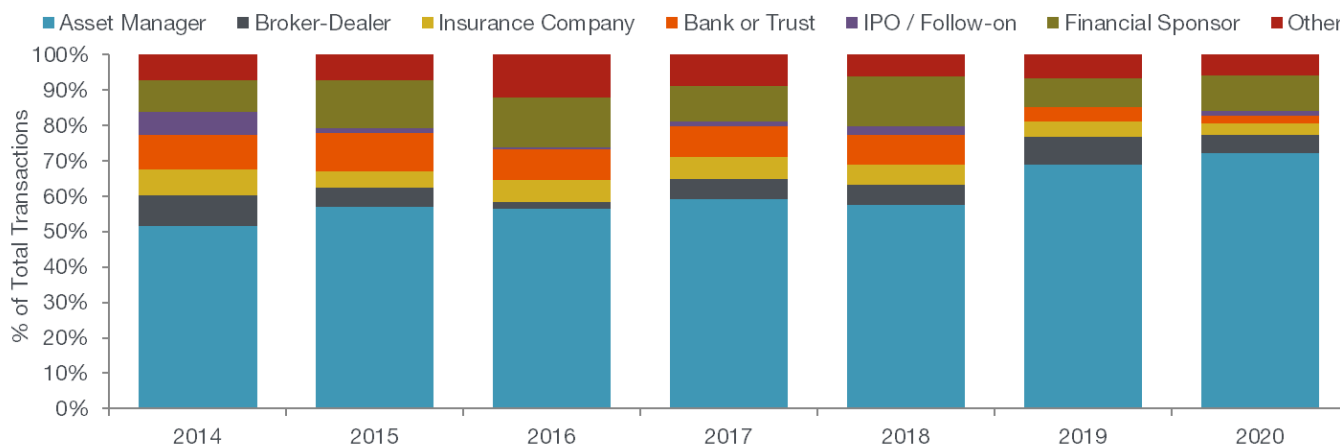


Source: Piper Sandler

Beyond direct acquisitions of private wealth managers, strategic buyers are also looking to take advantage of the sector’s favorable growth dynamics to serve advisors in the difficult-to-reach, fragmented RIA channel. **BlackRock** acquired \$36 billion AUM **Aperio** for \$1.1 billion to incorporate the target’s customized indexing capabilities into BlackRock’s separately managed account services. In a similar vein, **J.P. Morgan Asset Management** acquired **55ip** and its tax-smart investment strategy engine to offer financial advisors scalable solutions for tax transition and management. By building out their suites of sophisticated tools for advisors, both firms hope to more effectively drive advisors into their broader asset management businesses.

# Buyers

## TRANSACTIONS BY ACQUIRER TYPE



Source: Piper Sandler

### ASSET MANAGERS

Asset managers, including private wealth managers, continue to be the most frequent acquirers within the industry, transacting 72% of deals in 2020. While this proportion is in-line with 2019, asset managers have increased their already significant presence as buyers in the space in recent years, up from 56% just 5 years ago, largely driven by private wealth deal activity. Excluding private wealth management transactions, acquisitions of asset management firms by other asset managers declined from 66 to 59 deals.

Fellow asset managers continue to be best-positioned to unlock the strongest strategic and financial synergies in acquisitions. These buyers can provide targets offering differentiated investment strategies with more than just liquidity, unlocking new client bases, new geographies, and seed capital for new products. Such a mutually beneficial partnership allows the buyer to fully leverage the scale embedded in the platforms they have built. These fully built platforms also offer substantial cost savings when available in consolidating transactions. **Franklin Templeton's** \$4.5 billion (excluding debt) acquisition of \$800B+ AUM **Legg Mason** added significant scale to Franklin's platform with additional fixed income capabilities, a stronger alternative asset management presence, a more robust SMA business, and a more diversified client base. On top of these strategic benefits, Franklin also expects to realize \$200 million in run-rate cost savings, the majority achieved within the first year of closing.

### FINANCIAL SPONSORS

Private equity funds are focusing their energy in the space on private wealth management, primarily by backing aggregators, and alternative asset managers, primarily as minority stake investors, as discussed earlier. In the traditional asset management space, private equity firms have become much less active owing to industry headwinds and the minimal synergies that they can offer. After 9 investments by financial sponsors in traditional asset managers in 2018, there were only 3 in 2019 and 2 in 2020.

Outside of private wealth management, the only sizable private equity investment in 2020 was **KKR's** \$1.1 billion acquisition of a 55% stake in **Colonial First State**, the \$88 billion asset superannuation and investments platform of the **Commonwealth Bank of Australia**. As part of the transaction, KKR and the

bank intend to undertake a significant investment program in Colonial First State to simplify product offerings, improve client service across channels, and modernize technology systems.

Certain specialized firms employing a holding company structure remain active by providing targets liquidity and/or financing solutions similar to financial sponsors, but with the long-term benefit of permanent capital. These firms can also offer owners certain strategic benefits, such as enhanced distribution and operational resources. For those asset managers not looking for a full sale in the near-to-medium-term, such firms offer a compelling alternative. After **1251 Capital Group** partnered with management to acquire **Ziegler Capital Management**, the \$12 billion AUM asset management subsidiary of **Stifel**, the firm acquired a minority stake in **GIA Partners**, a \$2 billion AUM credit asset manager, as a tuck-in investment. **Kudu Investment Management** made minority investments in impact private equity firm **Creation Investments** and wealth manager **Sequoia Financial Group**, as well as supporting two management buyouts.

#### BROKER-DEALERS

The majority of broker-dealer acquisitions in the sector were of private wealth managers for the second consecutive year given the synergies with their core businesses. Outside of private wealth management, broker-dealers find little strategic benefit to owning asset management businesses unless they already have an existing asset management unit, given their core businesses offer little opportunity to deliver synergies. Overall, broker-dealers made 13 asset and wealth manager acquisitions in 2020, a 38% decrease from 2019 but comparable to prior years. Of these 13 deals, 54% involved private wealth management targets. The most notable was **LPL's** partnership with **Macquarie Group** to jointly acquire **Waddell & Reed** for a combined \$1.7 billion. LPL is acquiring the \$63B wealth management business to add scale to its platform.

#### BANKS

COVID-related market uncertainty and low interest rates heavily impacted share prices across the banking sector, forcing many banks to turn inward rather than focus on M&A. Acquisitions of asset managers by banks were nearly cut in half for the second consecutive year. After banks made 22 asset and wealth management acquisitions in 2018, there were 11 deals in 2019 and 6 in 2020. As in previous years, banks continue to focus their attention on private wealth managers, representing 5 of the 6 deals in 2020. However, with so many potential acquirers now targeting wealth managers, banks have struggled to compete both culturally and financially with more active acquirers. Those banks that are able to succeed often have existing wealth management platforms or a firm commitment to invest in the sector. Of the 6 bank acquisitions in 2020, 4 were minority stake investments in private wealth managers by **Emigrant Partners**, a subsidiary of **New York Private Bank & Trust**. No U.S. bank acquired a controlling stake in a private wealth manager in 2020.

#### INSURANCE COMPANIES

As in recent years, the majority of insurance company acquisitions in the asset management space in 2020 were of alternative managers. In-line with the decrease in alternative asset management deal activity, insurance companies made 8 asset management acquisitions in 2020, a 33% decline from 2019. The completed 2020 transactions largely involve acquisitions of minority stakes by insurance companies looking to access the investment strategies of the target, either for the general account or to add to the investment capabilities of their own asset management affiliates. **Aflac** acquired a minority stake in middle market direct lender **Varagon Capital Partners** and made a new multi-year commitment of up to \$3 billion

in Varagon's strategies. Post-transaction, Varagon continues to operate independently. In a similar transaction, **New York Life Investments Alternatives** and **Candriam**, its European asset management affiliate, entered the European direct corporate lending market by becoming anchor investors via a minority stake acquisition in \$3 billion AUM manager **Kartesia**.

#### IPOs AND FOLLOW-ON OFFERINGS

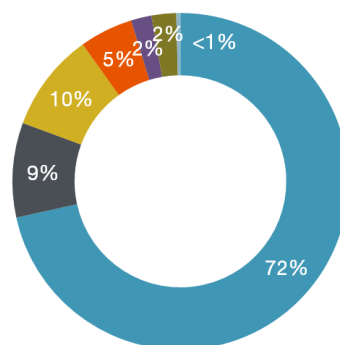
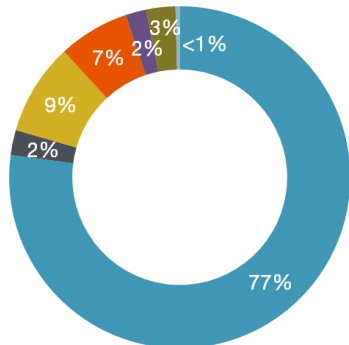
Several asset managers accessed the public markets in 2020 after no initial public offerings ("IPOs") in 2019, taking advantage of the market recovery post the COVID-related market lows in March. **Ninety One Asset Management**, a U.K.-based \$148 billion AUM traditional manager formerly known as Investec Asset Management, was spun out of **Investec** as the parent looks to focus on its banking and wealth businesses. **StepStone Group**, a \$66 billion AUM private markets advisor, held a \$350 million public offering for a minority stake in the firm. In the largest 2020 deal by transaction value, **PNC** sold its long-held 22% stake in **BlackRock** for \$14 billion to add to its war chest for future acquisitions.

Alternative asset managers took their turn entering the public markets, largely via the wave of SPAC activity. A SPAC backed by **Cantor Fitzgerald** merged with \$57 billion AUM alternatives advisor **GCM Grosvenor** to bring GCM to the public markets and allow its previous private equity owner, **Hellman & Friedman**, to exit its investment. In a more complex transaction, \$23 billion AUM **Dyal Capital Partners** merged with its affiliate **Owl Rock Capital Group**, a \$24 billion AUM direct lender, to form **Blue Owl Capital**. Blue Owl is subsequently merging with a SPAC backed by Dyal affiliate **HPS Investment Partners** to form a publicly-traded company with an expected market capitalization of nearly \$13 billion.

# M&A Activity by Geography

TRANSACTIONS BY TARGET DOMICILE, 2020

TRANSACTIONS BY ACQUIRER DOMICILE, 2020



■ U.S. ■ Canada ■ U.K. ■ Europe (ex-U.K.) ■ Asia ■ Australia ■ Other

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Source: Piper Sandler

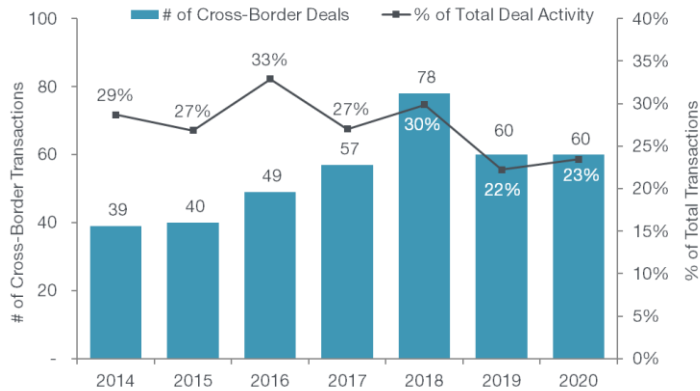
While the U.S. has historically been the sector’s center for M&A activity, this has become particularly pronounced in recent years with consolidation activity in the U.S. private wealth management market. As private wealth is generally a geographic-centric business, the small private wealth management targets that dominate deal activity sell to firms within their own country. Targets based in the U.S. represented 77% of global transaction activity in 2020, higher than the comparable figures of 70% in 2019 and 61% between 2016 and 2018. Outside of the U.S., transactions involving U.K. targets decreased 26% year-over-year to 23 transactions, while deal activity in the rest of Europe declined by 26% to 17 acquisitions. In one of the largest European deals in 2020, **Jupiter Fund Management** acquired **Merian Global Investors**, a \$29 billion AUM asset manager with strength in U.K. and global systematic equities. The \$480 million upfront consideration in Jupiter shares allows Merian’s private equity owner, **TA Associates**, to participate in the upside of the combined organization and benefit from potential synergies.

The same trends drove similar patterns when evaluating the home countries of buyers in 2020. The number of acquisitions by U.S.-based buyers remained consistent from 2019 with 184 deals. Acquisitions by U.K. buyers dropped slightly from 27 to 24, while deals involving continental European buyers were nearly cut in half to 13. Asian buyer activity similarly declined by 50% with 5 deals in 2020. After several large deals among Asian and Australian buyers and sellers in the past few years, Asian buyers made all of their deals in the U.S. and U.K. in 2020. Gulf-based **Investcorp** acquired a minority stake in \$2 billion AUM **Centre Lane Partners** to support the firm’s debt and equity investing in North American middle market companies. In a larger deal with a Gulf-based buyer, UAE sovereign wealth fund **Mubadala** acquired a minority stake in **Silver Lake**, a \$60 billion AUM technology investment firm. As part of the partnership, Mubadala committed \$2 billion to a new long-term investment strategy with a 25-year deployment lifecycle.

Cross-border transactions represented 23% of overall deal activity in 2020, in-line with 2019 but lower than prior years. 22% of the 60 cross-border deals were represented by two buyers – Focus Financial’s expansion into Australia and Canada-based CI Financial’s acquisitions of U.S.-based wealth managers. For most buyers, COVID made significant cross-border transaction activity challenging. Many of the 2020 cross-border deals were a combination of minority stake deals, financial sponsor investments, or aggregator acquisitions. For deals with more of a strategic angle, the bar was very high in 2020. Starting

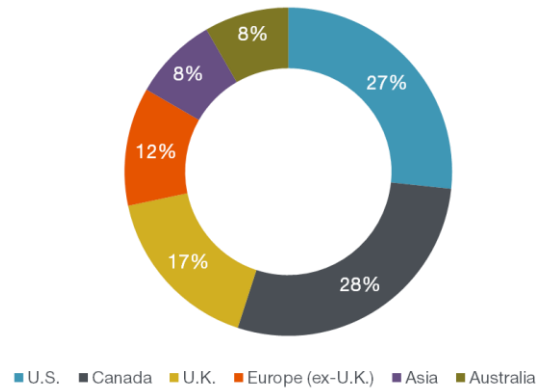
in April 2020, the Chinese government began allowing foreign firms to establish their own asset management firms or acquire full ownership from their China-based joint venture partners. Shortly thereafter, **JP Morgan** paid \$1 billion to buy out the 49% stake held by its local joint venture partner **Shanghai International Trust Company** to gain full control of **China International Fund Management**, a \$21 billion AUM mutual fund manager.

### CROSS-BORDER TRANSACTION ACTIVITY



Source: Piper Sandler

### CROSS-BORDER ACTIVITY BY ACQUIRER DOMICILE, 2020





## Pricing

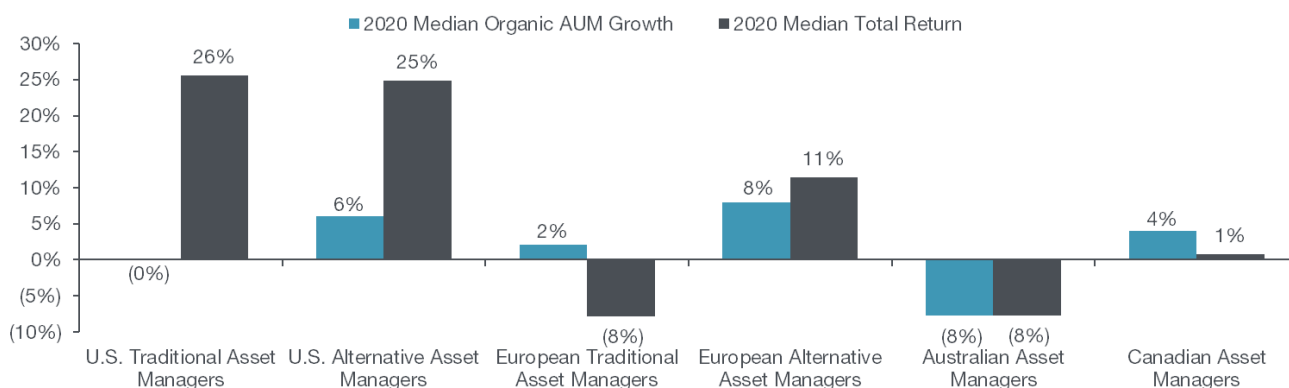
The median asset and wealth manager M&A valuation remained in-line with historical levels at 10.2x run-rate enterprise value (“EV”) / EBITDA, but decreased from the high of 11.1x in 2019. However, this masks several notable pricing trends within the sector.

In private wealth management, scaled firms able to serve as platforms for future acquisitions are attracting the strongest pricing, trading well above a 12.0x multiple of EBITDA. Smaller RIA acquisition targets for these platforms have also experienced robust growth in valuation multiples. Several years ago, a small acquisition target may have found a partner at a 6.0x-7.0x EBITDA multiple if they checked the right boxes for a specific acquirer. Today, valuations for smaller wealth managers across the board are approaching 8.0-9.0x EBITDA as the breadth of the potential buyer universe expands.

In the asset management space, buyers continue to offer premium pricing for highly differentiated strategies, particularly in alternative asset management where double-digit EBITDA multiples are the norm. For traditional asset managers, pricing is usually below 10.0x EBITDA unless a seller can offer distinctive investment capabilities with a proven track record of organic growth. Without proven unique capabilities or consolidation opportunities, traditional sellers generally struggle to find a partner at any valuation.

Publicly-traded asset managers delivered a second consecutive year of positive returns in the U.S. despite historic levels of market volatility, driving valuation multiples closer to recent historical norms. Traditional asset managers delivered a median dividend-adjusted stock price return of 26% in the U.S. and (8%) in Europe in 2020. Many of these firms were able to slow down persistent net outflows. Several managers of traditional strategies even saw net inflows for the first time in several years. Alternative managers continue their strong performance with a 20% median return in the U.S. and 11% in Europe in 2020 as the alternative sector continues to draw the most public investor interest in the space.

### 2020 MEDIAN ORGANIC AUM GROWTH AND TOTAL RETURN OF PUBLICLY-TRADED ASSET MANAGERS



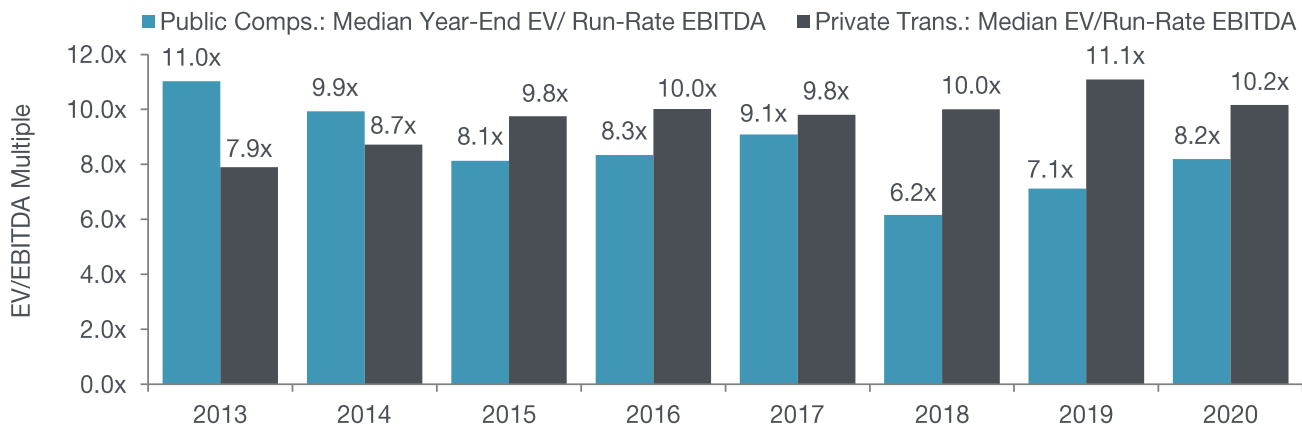
Note: Organic AUM growth rates represent figures for 2020 or most recently available LTM flow information

Source: Company Filings, FactSet, Piper Sandler Analysis

Public market valuation for traditional managers (8.2x median year-end EV / run-rate EBITDA) continues to improve but still trails private transaction pricing. Strategic buyers remain best placed to offer sellers strategic benefits or the ability to leverage expense synergies to pay a higher multiple than a consolidation

target could achieve in the public markets. Many active acquirers and financial investors also offer partial liquidity options without the scrutiny of public investors. As discussed earlier, those firms that have chosen to recently enter the public markets, including via SPAC, are focused in the more sought-after alternative asset management space.

### ANNUAL MEDIAN EV / RUN-RATE EBITDA MULTIPLES



Source: Piper Sandler

## The Year Ahead

Though markets ended 2020 in positive territory, the COVID-related market volatility in spring 2020 caused many asset and private wealth managers to re-assess their strategic direction. Firms that had been riding the bull market for almost a decade to drive growth had a very different future flash before their eyes as markets temporarily plummeted. While low interest rates and government stimulus may continue to drive markets forward in the near-term, owners need to start re-positioning their firms now for long-term success. M&A will continue to play a critical role in this process, as many sellers look to maximize value for their firms by finding a partner seeking scale or the unique capabilities that the seller brings to the table. Our key themes and expectations for 2021 are as follows:

- *Search for Scale Drives Consolidating Transactions:* The largest asset managers will continue to seek acquisition opportunities that allow them to leverage their scale to generate both revenue and expense synergies. As some small-to-medium-sized players decide they cannot compete against the scaled behemoths, they will open up the door to more consolidating M&A.
- *Specialization Remains Primary Path to Drawing Buyer Interest:* While large consolidating transactions may grab headlines, the main avenue for most asset managers seeking an M&A partner will be to deliver specialized investment strategies less susceptible to passive competition. Buyers will continue to seek differentiated sellers with a specialty, as there are only so many targets large enough to offer meaningful expense synergy opportunities.
- *Continued Interest in Alternative Asset Management:* A wide variety of strategic buyers and minority stake investors will continue to seek to partner with alternative asset managers through M&A. Majority stake buyers seeking to expand their alternative capabilities must offer sellers a combination of strategic benefits, a strong valuation, and/or an attractive transaction structure to prevail.
- *Larger Universe of Private Wealth Management Buyers Accelerates M&A Activity:* Increasingly more private wealth management acquirers are implementing a consolidating acquisition strategy to leverage their existing platforms. Many of the most active buyers from recent years have fresh private equity backing to continue their inorganic growth. While not every buyer will be as active as the leading acquirers, the combined effect will drive private wealth management M&A activity to new heights.
- *Transaction Pricing Stays Strong for Premium Opportunities:* Valuation multiples will continue to be robust for asset managers offering differentiated investment strategies as well as private wealth managers that can serve as roll-up platforms. After several years of elevated M&A activity, targets that have remained independent can command premium pricing if they choose to pursue M&A.
- *COVID Experience Drives Increased M&A Activity:* The pandemic and related market volatility forced many owners to re-evaluate the strategic direction of their firms as well as their own personal objectives. Potential sellers of attractive businesses will likely now consider M&A more seriously. For potential buyers, the strong equity market rebound instilled a new sense of confidence in the long bull market. As more and more companies begin returning to the office, more firms will re-enter the M&A landscape in force.

<b>2020 by the Numbers</b>	<b>2020</b>	<b>vs. 2019</b>
Asset Management Transactions	256	
Aggregate Disclosed Deal Value	\$38.9 billion	
Aggregate AUM Transacted	\$2.9 trillion	
Traditional Asset Manager Sales	52	
Alternative Asset Manager Sales	51	
Private Wealth Manager Sales	153	
Minority Stake Transactions	64	
Financial Sponsor Acquisitions	26	
Initial Public Offerings	2	
Cross-Border Transactions	60	
Median Forward P/E Multiple - Publicly Traded Managers (U.S.)	11.6x	
Median Run-Rate EBITDA Multiple - Private Transactions (Globally)	10.2x	

Source: Piper Sandler, FactSet, Company Filings

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In 2019-2020, Piper Sandler was the top financial services M&A advisor by number of deals with a disclosed deal value, advising on 78 transactions with an aggregate disclosed deal value of \$51 billion. Piper Sandler was also the second leading M&A advisor in the U.S. asset management, investment bank, brokerage, and capital markets sector by disclosed deal value with \$33 billion.<sup>1</sup>

(1) Source: S&P Global Market Intelligence. Excludes terminated transactions and self-advisory roles

Piper Sandler is proud to have advised the following asset management companies and businesses serving the asset management industry since the start of 2020.

 <p>has agreed to sell certain Retail Mutual Fund business assets of AIG Life &amp; Retirement to</p>  <p><b>Touchstone Investments*</b> Financial Advisor to AIG</p>	 <p><b>Westchester Capital MANAGEMENT</b> has agreed to be acquired by</p>  <p><b>VIRTUS INVESTMENT PARTNERS</b> Financial Advisor to Westchester Capital Management</p>	<p><b>361 CAPITAL</b></p> <p>has agreed to be acquired by</p>  <p><b>Hamilton Lane</b> Financial Advisor to 361 Capital</p>	<p><b>55ip</b></p> <p>has been acquired by</p> <p><b>J.P.Morgan</b> Asset Management Financial Advisor to 55ip</p>
<p>\$26,000,000,000</p>  <p>has been acquired by</p>  <p><i>Financial Advisor to the Strategic Development Committee of the Board of Directors of TD Ameritrade</i></p>	<p>\$450,000,000</p>  <p><b>ENVESTNET*</b> Convertible Senior Notes Co-Manager</p>	<p>\$13,284,000,000</p> <p><b>BlackRock</b></p> <p>Follow-On Offering Co-Manager</p>	<p><b>Geneva</b> <b>ESTANCIA</b> <small>- JANUS HENDERSON - CAPITAL PARTNERS</small></p> <p>has completed a management buyout from <b>Janus Henderson</b> INVESTORS</p> <p><i>Financial Advisor to Geneva Capital Management and Estancia Capital Partners</i></p>
 <p><b>NORTH SQUARE INVESTMENTS</b> has acquired a majority interest in</p>  <p><b>CS McKee INVESTMENT MANAGERS</b> <i>Financial Advisor to North Square Investments</i></p>	 <p>has been acquired by</p>  <p><b>FIRST EAGLE INVESTMENT MANAGEMENT</b> <i>Financial Advisor to THL Credit Advisors</i></p>	<p>\$80,000,000</p>  <p><b>TRINITAS CAPITAL MANAGEMENT</b> Senior Unsecured Note Offering Lead Placement Agent</p>	 <p>has sold a majority stake to</p>  <p><b>FIS</b> <i>Financial Advisor to Virtus Partners Board of Directors</i></p>

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