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ASSET MANAGEMENT INDUSTRY SPOTLIGHT

VALUATION, DEALMAKING, AND MARKET TRENDS

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Executive Summary

- ▶ 2022 has seen ongoing volatility in economies and markets worldwide. Contradicting macroeconomic and market indicators are resulting in a complex environment for businesses and investors to navigate. Some of the current challenges are due to decades-long macroeconomic trends; others are driven by more recent events such as upticks in geopolitical conflict and instability.
- ▶ Asset management has experienced firsthand the impact of roiling financial markets in the year to date, though this has not necessarily resulted in a significant decline in dealmaking. As of September's end, the \$18.8 billion in aggregate completed transactional value across 112 deals compares favorably with nearly all prior years.
- ▶ Beyond general mergers & acquisitions, different types of investments and deals also increased, driven by a historic shift in allocations and demand for access to alternative investments, efforts to consolidate and expand into new geog-

raphies and markets, improvement of technical capabilities, and more. In addition, asset managers are looking to further differentiate their offerings across new asset types, such as private credit, either via acquisition or launch of their own product offerings.

- ▶ In an example of alternatives' growing popularity, general partner stakes dealmaking is growing increasingly sophisticated, with single- to multi-asset sales or listings offering a greater variety of liquidity options, while demand for exposure to top-performing private equity entities, especially as their AUM grows, remains steady. As inflation remains high, access to real estate funds may grow more popular as a hedging opportunity.
- ▶ In such a complicated market, accurate approaches to valuations, especially for the unique traits of asset managers' business models, are critical. Traditional approaches such as trading multiples or dividend discount models are still used, but, ultimately, bespoke adjustments are required, given extant risks and the evolution of factors at play in valuations.

The full extent of bespoke adjustments possible for funds' ages, risk profiles, shifts in incentive fees given competition, and more must all be considered as the stakes for assessing fair multiples in deals rise even higher.

- ▶ If the proposed SEC rules for retail investor exchanges and marketplaces do occur, then there will likely be further consolidation and buying opportunities amid the recently high-flying, often venture-backed exchanges, as they would need to internalize clearing and execution of trades to reduce potential conflicts of interest, among other factors.
- ▶ In some instances, transaction multiples for fintech companies ranged to the high end, but especially given the spate of markdowns in private market valuations, buying opportunities for traditional asset managers could emerge in the coming months. Driven largely by demographic transitions, asset managers are looking to position themselves for generational wealth transfers. Ensuring that their offerings are aligned with consumer preferences should encourage investment in "acqui-hires," or talent acquisitions, and product-driven M&A.

Market Trends

The Macroeconomic Backdrop: The Impact of Volatility in a Contradictory Environment

The global economic and market environment remains complex. Traditional indicators are proving contradictory, due to both the unique circumstances wrought by the COVID-19 pandemic and the long-awaited impact of slow-moving macroeconomic trends such as aging demographics. For example, in the most recent US jobs report, August 2022 saw the number of job openings decrease to 10.1 million, yet hires and total separations were little changed at 6.3 million and 6.0 million, respectively.¹ However, inflation remains high, leading to ramifications for consumer sentiment and supply chain segments, with more impacts likely to come. Inventories continue to choke storage supply, thereby skewing indexes of manufacturing activity and inventory ratios. Geopolitical sentiment is worsening, as conflict and delicate diplomatic overtures around areas of contention exacerbate tensions worldwide. Central banks and economic agencies are increasingly voicing concerns

around the onset of impending recessions in multiple nations as economic growth seems to stall or even turn negative.

There are myriad factors at play, but chief among the current volatile landscape are some of the longer-term factors that market participants have discussed for decades. Labor force participation in the US is still low, for example, because multiple occupations saw many workers retire early during the past few years as median ages crept ever higher. Reshoring production of key products is either an extremely difficult, protracted process or politically nonviable due to national security issues. Supply chains cannot be easily retooled after decades of increasingly globalized product and workflows, while the recent trend toward “just-in-time” cycles must be reformed, given the lessons learned during the pandemic.

That handful of macroeconomic drivers explains many of the oddities of the current economic milieu. In turn, the volatility and risk level that complex, contradictory economic indicators suggest have significantly roiled global financial markets.

After declines in early 2022, many market indexes have made slow but steady gains, albeit with considerable choppiness. As public market comparables declined, so, too, did private valuations, with many notable and rapidly growing companies seeing their valuations written down by multiple percentage points. Although the capital overhang pledged to private fund managers has propped up financing metrics and dealmaking in pockets, there still has been a general slowdown.

In such an environment, the accuracy and thoroughness of valuation processes during dealmaking is even more important. Private valuations are difficult enough in the best of times, and processes can and should be modified across sectors to align with specific, unique traits and business models. Especially given the challenges that define the current market environment, asset management businesses that are either undergoing or striking deals face significant hurdles. However, as discussed in the next section of this report, dealmaking trends thus far in the year intrigue, posing both positive and negative potential findings.

The Dealmaking Landscape: Asset Management Dealmaking Trends

FIGURE 1 // ASSET MANAGEMENT M&A DEAL FLOW

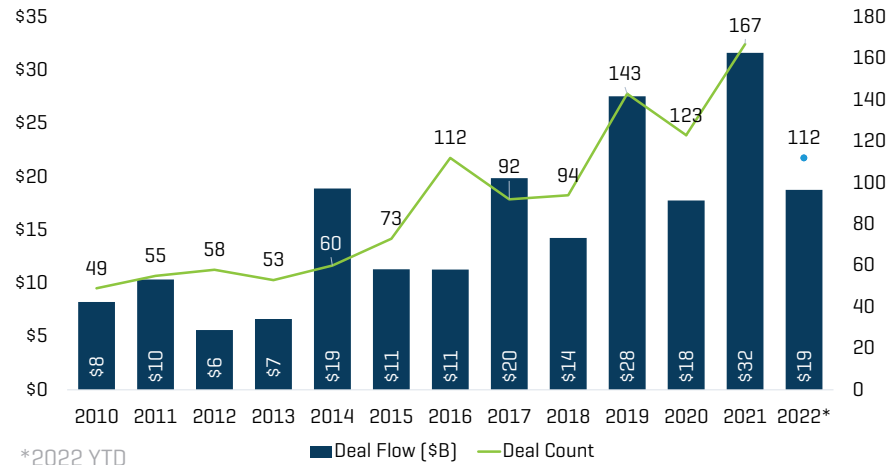


FIGURE 3 // PE DEAL FLOW

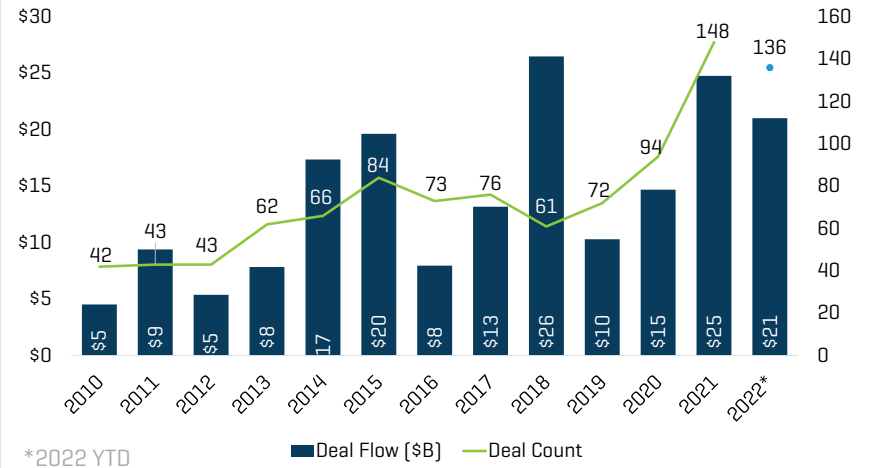
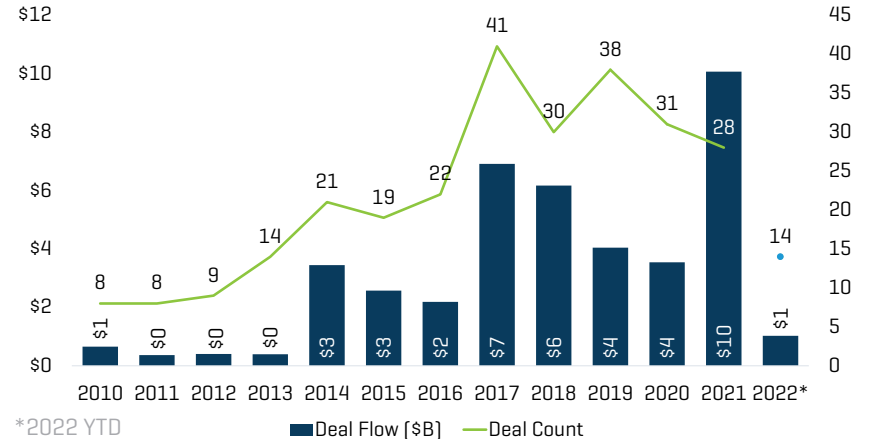


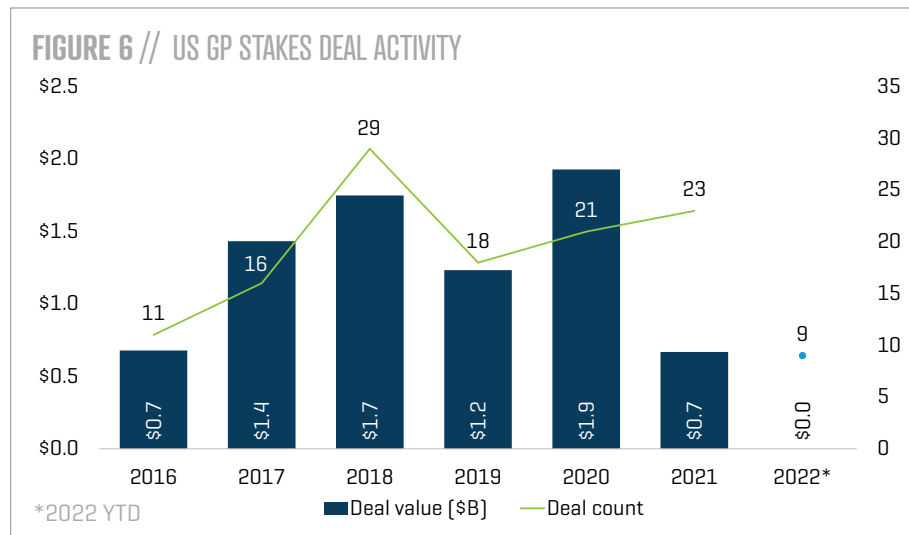
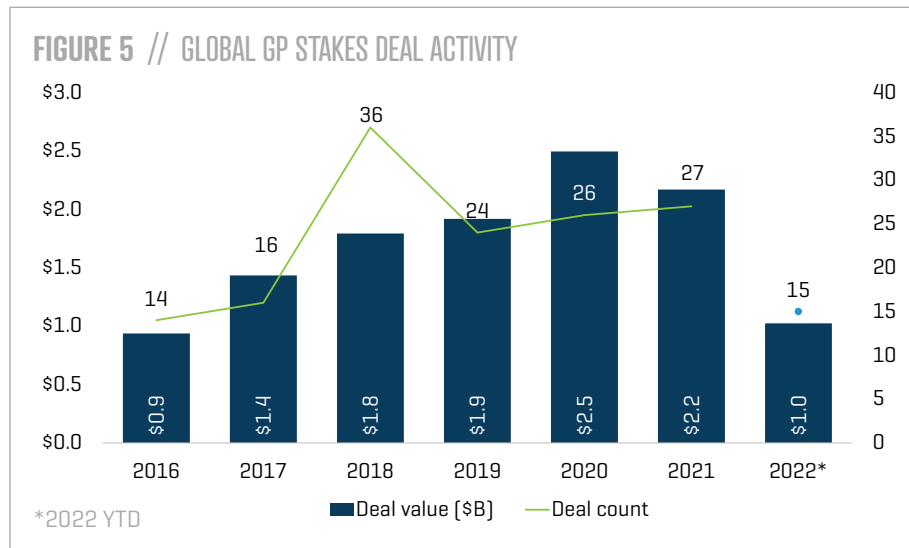
FIGURE 2 // CAPITAL MARKETS M&A DEALFLOW



FIGURE 4 // PIPE DEAL FLOW



The Dealmaking Landscape: Asset Management Dealmaking Trends, cont.



Overview

Throughout the second half of the 2010s, mergers & acquisitions (M&A) activity across asset management worldwide steadily ramped up. Although aggregate deal value remained variable, volume fluctuated much less overall, varying between approximately 80 to 110 completed transactions per year—barring the two most active years on record, 2019 and 2021, with 143 and 167 deals, respectively. Blockbuster transactions in those years, such as the \$8.7 billion acquisition of Eaton Vance by Morgan Stanley in March 2021 or the \$5.7 billion purchase of OppenheimerFunds by Invesco in May 2019, also skewed aggregate deal values. Thus far in 2022, although dealmaking is off the record pace set in 2021, M&A levels have remained healthier than expected, especially considering the economic and market volatility. As of the end of September, the \$18.8 billion in aggregate completed transactional value across 112 deals compares favorably with nearly all prior years.

Drivers: Consolidation & Expansion

Such a rate of growth suggests that the primary driver of dealmaking in the second half of the decade was the push toward consolidation, closely tied to and influenced by efforts to differentiate via new products and services. Expansion of technical capabilities and easing customer experience also were motivators. Analyzing M&A activity by size further reinforces that finding, as the bulk of M&A volume occurred among transactions smaller than \$100 million in the middle of the past decade. However, since then, volume in that market size segment has declined, although M&A volume in other, larger size segments has held steady. This suggests that smaller asset managers were absorbed at a faster clip as M&A heated up; then, in the final years of the 2010s, larger deals became more commonplace as the largest asset managers, willing to pay significant sums to concentrate market share and acquire additional capabilities and scope, acquired large counterparts. In addition, companies seeking to differentiate as the competition and consolidation heated up also fueled

“Thus far in 2022, although dealmaking is off the record pace set in 2021, M&A levels have remained healthier than expected, especially considering the economic and market volatility.”

acquisitions of relevant financial technology (fintech) companies, specialists, and more.

That impetus for consolidation is due largely to how attractive the returns on equity for asset management can be for banks, which have been aiming to scale their capabilities in this arena as capital requirements for their core activities could grow and thereby threaten margins and overall financial performance. Beyond banks' re-entering the space with vigorous dealmaking, private equity (PE) players are also ramping up activity in several ways. A record 148 transactions were completed in 2021 for an aggregate of \$24.8 billion in deal value. Despite the volatile environ-

ment thus far this year, 136 deals have been completed as of the end of September for an aggregate of \$21.0 billion.

However, private players' desire for exposure to asset management firms transcends traditional PE activity. Private investment in public equity (PIPE) activity has also ramped up in the second half of the 2010s to culminate in a record \$10.1 billion in total investment value in 2021 across 28 deals, with just over \$1 billion in deal value in 14 transactions completed in 2022 through the end of Q3. Although activity has slowed thus far in 2022 due to market volatility in publicly listed equities, a handful of PE and other firms clearly desired exposure to asset management players via other means, whether by obtaining majority or minority shares.

Drivers: Access to Alternatives

Beyond the consolidation and growing demand for asset management exposure, it is also worth analyzing general partner (GP) stakes activity as an example of how a decade-long historic shift in allocations to alternatives is reshaping traditional asset management offerings.

While relatively nascent in terms of overall volume, GP stakes transactions have grown more prevalent in the past several years due to their ability to offer exposure to various firms and multiple routes to liquidity, across many segments of fund levels, portfolios, and secondary assets. In short, they proffer innovative ways to

“As private markets continue to mature...public market managers may see consolidation if fees get increasingly pressured, which could layer atop GP stakes dealmaking via M&A to further propel activity.”

purchase potential income streams and assets from top-performing portfolios in private markets. They also represent potentially innovative methods for asset managers to create and structure new products tailored to their own needs, beyond the primary hedge and PE funds' universe that currently comprises most

of GP stakes dealmaking. Granted, unique arrangements will be needed depending on the types of portfolio and holdings across asset manager types. For example, depending on total assets under management (AUM), exposure and weighting to certain sector-focused PE funds could be an overweighting risk.

However, despite the complexity inherent in GP stakes' acquisitions and liquidity, asset managers of all kinds are looking to remain open to such deals. As noted in [previous PitchBook research](#), as private markets continue to mature (especially on the PE side), public market managers may see consolidation if fees get increasingly pressured, which could layer atop GP stakes dealmaking via M&A to further propel activity. Upon reviewing the current GP stakes dealmaking landscape in light of current market volatility, the primary driver remains the allure of access to higher returns in private markets, despite concerns over levels of competition—especially as public equities' performance continues to be muted to erratic. Due to demographic shifts, change of control and liquidity are factors; GP stakes deals

and succession planning are increasingly going hand in hand, as noted in a [recent PitchBook article](#). But asset managers and institutional investors' demand for access, plus the growth of mature GP stakes players such as Petershill, Blackstone, and Blue Owl, remains paramount.

The actual purchase of a relatively mature GP stakes fund, especially if multi-asset, accounts for the usually high-yield cash flows generated by the vehicle, which then depresses the asking price. Although management and portfolio company fee income is a key factor in valuation, given that competition for fees has steadily ramped up and has thereby introduced some future variability in major PE firms, and given that carried interest repeatedly comes under regulatory crosshairs, valuing GP stakes also requires multiple scenario plans. As pressure on the PE industry economics is likely to ratchet up as record levels of dry powder and economic troubles collide, GP stakes in middle-market firms may prove to be even more alluring as fund managers look to offer them at a discount in order to gain liquidity in a still-competitive market. For privately held

PE firms, the concentration of revenues generated via buyout strategies renders valuations easier than for publicly traded firms that boast income from both carry and management fee-generating credit, real estate, and more. That said, assessing portfolio company concentration in a GP stakes vehicle, especially in the current climate, will require careful due diligence to assess how economic downturns could affect the earnings of the portfolio companies associated with the fund. Inflation-resistant and more secure holdings such as senior-secured debt will help steady the metric of annualized fee-related earnings used to gauge publicly traded GP stakes or PE players. For example, Blue Owl may produce more resilient outcomes in the coming quarters because of its focus on private credit, which has more stability than income generated by batches of companies' performance.

In all, the silver lining for GP stakes activity is that more accurate valuations for PE firms—taking into account a blend of metrics based on both actual income and AUM levels relative to publicly traded firms' market capitalizations and privately held

portfolio companies' aggregate enterprise values—seem to be contributing to greater transparency in the space. This should lead to greater market efficiency in pricing, which could keep dealmaking levels relatively healthy.

Looking Forward

Considering these dealmaking trends, the amount that the economic and market turbulence may encourage even more dealmaking as some firms experience increasing pressure and look to be bought, or others grow even more cautious, remains to be seen. With current volatility, confidence levels in valuations make dealmaking across asset management even more challenging, as particular difficulties exist to establishing proper enterprise values for asset managers given their business models. As 2022 winds down with no end in sight to an unpredictable array of market challenges, accurate and appropriate valuation methods to ensure successful transaction closure will prove vital.

Valuation Considerations for Asset Management Firms

Given the increasing complexity and diversity of fee structures employed in the asset management industry, valuations of stakes in alternative asset management firms require a commensurate level of discretion in determining the appropriate valuation methodology. In practice, this often requires practitioners to bifurcate the value of the different earnings streams of the business. Delineating the value attributable to incentive fees and management fees is the recommended approach for typical independent valuation engagements such as estate planning and corporate financial reporting. Additionally, this framework is beneficial for pricing and evaluating market transactions, as it provides a more flexible and robust analysis that enables comparisons across different alternative asset management platforms.

Alternative asset managers have two primary sources of revenue and earnings: 1) revenue and earnings attributable to man-

agement fees generated on fee-paying AUM, and 2) incentive fees resulting from the performance of the assets managed by the enterprise. We use the term “incentive fees” as a general term for carried interest, incentive allocations, promote structures, or other performance-based payments made to asset managers, and we use the term “fund” as a generalization for any legal entity or investment vehicle that pays fees to the manager. Because the risk-return profiles of management fee and incentive fee earnings can be dramatically different—as incentive fee cash flows are inherently riskier—it is often crucial to determine the relative value contribution separately to derive the value of the asset management enterprise.

Framework for Analyzing Management and Incentive Fee Income

The starting point for the valuation of an alternative asset manager usually relates to analyzing current and projected revenue streams in the form of management and incentive fees for each underlying fund managed by the enterprise. The strategy, product, and stage of an alternative asset manager’s underlying funds

are the primary determinant of the relevant approach. In many cases, expected incentive fees from a fund managed by the asset manager will be either deeply in or out of the money. For example, a fund at the beginning of its life in the case of a private equity vehicle or a hedge fund with negative historical returns would have out-of-the-money incentive fees. In contrast, a private equity fund that’s already achieved a significant internal rate of return (IRR) over its life or a hedge fund with high annual returns would have in-the-money incentive fees. The “moneyness” of incentive fees is often a key consideration in terms of the appropriate valuation framework. Similarly, the term to liquidation and expected capital outlay of a fund managed by the enterprise directly influences expected management and incentive fees.

For operating alternative investment vehicles with no explicit term to liquidation, or those in early stages, the most appropriate valuation methodology is the discounted cash flow method (DCF Method) whereby the expected cash flows of the fund are projected either determin-

FIGURE 6 // VALUATION METHODOLOGY FRAMEWORKS BY FUND TYPE, STAGE, AND PRODUCTION

Strategy	Private Equity, Private Credit, and Venture Capital Funds				Hedge Funds	
	Equity		Debt		Equity	Debt
Product	Equity		Debt		Equity	
Incentive Fee Moneyiness and Fund Stage	Considerably ITM, Late Stage	Early-Mid Stage or OTM	Considerably ITM, Late Stage	Early-Mid Stage or OTM	Any Moneyiness and Stage [a]	
Incentive Fee Projection Methodology	<ul style="list-style-type: none"> Often not necessary if term to liquidation is very short Discrete projection of remaining expected management and incentive fees 	<ul style="list-style-type: none"> Monte Carlo simulation of current/anticipated fund holdings Simulation framework captures optionality of incentive fee structure 	<ul style="list-style-type: none"> Often not necessary if term to liquidation is very short Discrete projection of remaining expected management and incentive fees 	<ul style="list-style-type: none"> Vectorized asset-level cash flow projections with deterministic framework Fixed-income cash flows can be simulated, but static income approaches are more often given capped returns 	<ul style="list-style-type: none"> Monte Carlo simulation of fund returns, with correlated redemptions and subscriptions driving fund AUM Simulation framework captures upside potential for equity returns 	<ul style="list-style-type: none"> Vectorized asset-level cash flow projections with deterministic framework Fixed income cash flows can be simulated, but static income approaches are more often given capped returns
Management Fee Value	<ul style="list-style-type: none"> Often de minimis in comparison to incentive fee value Small remaining cash flow stream DCF Method most applicable 	<ul style="list-style-type: none"> Driven by assumed capital deployment and fund expense load DCF Method or application of market multiple 	<ul style="list-style-type: none"> Often de minimis in comparison to incentive fee value Small remaining cash flow stream DCF Method most applicable 	<ul style="list-style-type: none"> Driven by assumed capital deployment and fund expense load DCF Method or application of market multiple 	<ul style="list-style-type: none"> Driven by assumed capital deployment and fund expense load DCF Method or application of market multiple 	<ul style="list-style-type: none"> Driven by assumed capital deployment and fund expense load DCF Method or application of market multiple
Incentive Fee Value	<ul style="list-style-type: none"> NAV analysis most applicable 	<ul style="list-style-type: none"> Driven by average returns of holdings of the fund DCF Method or application of market multiple 	<ul style="list-style-type: none"> NAV analysis most applicable DCF Method also appropriate depending on circumstance 	<ul style="list-style-type: none"> Driven by average returns of holdings of the fund DCF Method or application of market multiple 	<ul style="list-style-type: none"> Driven by average returns of holdings of the fund DCF Method or application of market multiple 	<ul style="list-style-type: none"> Driven by average returns of holdings of the fund DCF Method or application of market multiple

ITM = In-the-Money; OTM = Out-of-the-Money; MFO = Management Fee-Only

[a] With the exception of a known liquidation of the fund in question, moneyiness of the incentive fees of a fund does not typically change the applied valuation methodology of a hedge fund strategy.

istically or stochastically. The discounted cash flow model inputs are derived from a forecast of performance of the underlying managed funds. This forecast includes assumptions for seasoned funds, early-stage funds, and potentially funds that are reasonably expected to close or be raised by the asset management platform in future periods. Conversely, a known liquidation horizon in the near-term future may be most appropriately contemplated by an assessment of the net asset value—particularly in the case of accrued incentive fees—attributable to the asset management company.

The table, *Valuation Methodology Frameworks by Fund Type, Stage, and Production*, [p.11] summarizes the approaches for preparing revenue projections for each underlying fund type managed by an asset management enterprise. For each of the scenarios, we also comment on how each approach may impact the value of the management firm.

Sources of Value

As with most going-concern enterprises, it is necessary to analyze the earnings potential of an alternative asset manager

FIGURE 7 // SOURCES OF VALUE

Management Fee Revenue	+	Incentive Fee Revenue	=	Total Revenues
Drivers				
<ul style="list-style-type: none"> Fund count and type Fee-paying AUM Ability to raise new fund vehicles 		<ul style="list-style-type: none"> Profit-sharing structure Fund performance Asset liquidation / exit 		
Expenses Attributable to Management Fees	+	Expenses Attributable to Incentive Fees	=	Total Expenses
<ul style="list-style-type: none"> Base compensation and non-incentive bonuses Variable costs (e.g., trading expenses, deal fees) Other overhead 		<ul style="list-style-type: none"> Incentive fees allocated to firm employees Often 40-70% of fee income, but heavily facts and circumstances 		
Net Management Fee Earnings	+	Net Incentive Fee Earnings	=	Total Net Earnings (EBITDA)
<ul style="list-style-type: none"> Earnings allocable to the asset manager's equity holders Typically less profitable than blended firm margin 		<ul style="list-style-type: none"> Earnings allocable to the asset manager's equity holders Typically more profitable than blended firm margin 		<ul style="list-style-type: none"> Blended profitability typically ranging from 20-40%
Mgt. Fee EV Determination	+	Incentive Fee EV Determination	=	Total EV
<ul style="list-style-type: none"> Lower applicable discount rate, higher applicable EV / EBITDA multiple Multiple usually applied to LTM [or run-rate] EBITDA 		<ul style="list-style-type: none"> Higher applicable discount rate, lower applicable EV / EBITDA multiple Multiple usually applied to normalized EBITDA or historical average to control for varying returns 		

EV = Enterprise Value. Since asset managers are often unlevered and maintain minimal fixed assets, EV and the market value of equity ["MVE"] are often equal and EV / EBITDA and MVE / EBT multiples are often similar.

to derive the present value of future cash flows allocable to the equity holders of the business. In general, the separate earnings streams of the business in question can be analyzed by allocating certain expense items to management fee income and incentive fee income separately. In the case of asset managers with multiple fund products, or those expecting to launch new fund products to grow AUM, it may be necessary to make assumptions regarding the timing and the nature of growth of AUM (prospects for raising and managing new funds).

The *Sources of Value* chart [p. 12] provides a general approach for allocating cash flow and business value between the management fee and incentive fee components of an alternative asset manager.

Assessment of Rates of Return and Pricing Multiples

After determining the expected earnings streams attributable to incentive fees and management fees, these future cash flows should be discounted separately at rates of return commensurate with their risk. In the case of management fees, it is conventional to determine a weighted

average cost of capital (WACC) applicable to only the risk of earnings associated with the management fees, utilizing observable inputs for guideline public companies. In this case, the most comparable companies tend to be traditional asset managers that derive most of their revenue from fixed fees as a percentage of AUM. In selecting comparable companies, additional consideration is given to:

- Whether the funds managed by the company are open ended or closed ended (i.e., potential for AUM growth) structures
- Whether the AUM of the company is subject to market fluctuations (e.g., susceptibility to declines in AUM resulting from poor hedge fund performance)
- Diversity of investor base (e.g., limited partner concentration risks)
- Other company-specific factors that increase or decrease risk relative to management fee-only peers

Due to the inherently riskier nature of incentive fee structures for alternative asset managers, utilizing a traditional WACC build-up is rarely applicable in discounting incentive fee cash flows. For

a new fund, incentive fees are typically structured so that the manager must achieve better-than-average or better-than-expected asset returns in order to receive significant performance-based payouts. Incentive fee rates of return are almost always at a premium to the management fee rate of return, as well as the expected return on the underlying assets managed by the company, as they are a derivative on the underlying fund assets. Of particular importance is to make sure that a discount rate applied to

“Due to the inherently riskier nature of incentive fee structures for alternative asset managers, utilizing a traditional WACC build-up is rarely applicable in discounting incentive fee cash flows.”

incentive fee income is at least as great as the expected asset level returns that are driving the projected revenue. In no case should the discount rate be lower than the risk of the assets themselves. Appropriately structured incentive fees are therefore similar to out-of-the-money options at initiation, and the management firm is incentivized to deliver returns that are higher than the base case or expected return. Accordingly, the discount rates applied to incentive fees can be expressed as the sum of 1) asset level expected return and 2) an applicable premium to account for subordination, or relative moneyness, of incentive fees.

In the context of the market approach to value, the applicable market pricing multiples, such as EV/EBITDA, for management fee versus incentive fee income streams also differ due to the applicable risk profiles, with net incentive fee income having a lower multiple due to higher risk. Further, while net management fee income multiples are typically applied to trailing or run-rate results, net incentive fee income multiples may need to be applied to a normalized estimate [e.g., based on a normalized expected rate of return] or a historical

average result to account for year-to-year fluctuations. Lastly, there are many situations wherein incentive fee pricing multiples may not be directly applicable at all, particularly in cases wherein an alternative asset manager is less diversified and may only manage closed-end funds or legacy run-off portfolios. In these cases [typically smaller private equity, private credit, or venture capital managers], the value of net incentive fees is best captured via a discrete income approach that does not ascribe value to the ability to continually raise new funds and maintain AUM fees and performance-based income.

Case Studies of Key Transactions in the Asset Management Industry

1. True Potential: The PE push into fintech continues into subsegments, while empowering traditional financial advisers remains a robust theme—as opposed to relying solely on automation.

In January 2022, PE buyout shop Cinven purchased True Potential, an integrated

investment and wealth management platform, for £1.8 billion. That deal size represented a 13.1x valuation/EBITDA multiple [based on financials as of the end of 2021], supported by a debt package sized at £675 million. Per the latest statistics on the company's website, True Potential is used by or partners with close to 20% of UK financial advisers. The company possesses a swath of technology instruments for investment management while also offering tools for wealth management. As a result, the sizable multiple seems predicated on additive growth to Cinven's fintech/financial services portfolio, as opposed to any predication on AUM or the like. This transaction illustrates two concurrent trends shaping the asset management space, though in disparate ways. First, the push by PE fund managers into the fintech space over the past several years has now reached a competitive pitch to the degree that buyout shops are delving into fintech subsegments, hoping to gain exposure to the dynamic and evolving asset management space. Second, the forefront of digitization across the asset management space still is characterized by augmenting the human element of

financial advisers' existing relationships and networks via expanding and improving technical capabilities. In addition, providing more integrated tool suites that can serve as one-stop shops for advisers and investors is proving increasingly alluring.

2. MBK Partners: GP stakes activity slows during volatility in markets, but illustrates complexifying, diversifying, and deepening private capital markets.

In mid-January 2022, Blue Owl Capital, one of the more prominent GP stakes players, acquired a 13% stake in MBK Partners for KRW1.2 trillion, or nearly \$1 billion, valuing MBK Partners at well over KRW9.15 trillion. GP stakes deals and valuations are complex, predicated on financial metrics beyond traditional multiples and necessitating diligence on fee-related income, AUM, portfolio company exposures, and more. This deal illustrates how heated—at least until recently—the GP stakes dealmaking environment has become. Requiring bespoke expertise and in-depth understanding of secondary markets and second-order effects, GP staking enables economic exposure to high-quality PE fund managers, with a

different risk-reward profile than direct portfolio performance. In addition, staking in firms' funds that span different strategies could also prove beneficial in hedging against inflation, usually by garnering exposure to real estate or private credit strategies that are less correlated with inflation or economic growth than portfolio companies in a buyout fund often are.

3. AllianzGI divestiture: Cross-border consolidation is still driving significant levels of dealmaking.

The recently signed agreement by Allianz Global Investors to divest its US business to Voya Financial in exchange for a long-term strategic distribution partnership to distribute Voya's investment strategies beyond North America signifies how consolidation is spurring M&A across the asset management space. This transaction showcases classic features stemming from consolidation, including a minority stake still retained in the merged firm by Allianz Global Investors and growth potential for Voya in different global regions. In addition, forward-looking statements indicate business and financial hallmarks of such deals, with non-US clients' portion of

AUM [trebling for Voya](#) and retail expanding to approximately 40% of AUM. With generational wealth transfers portended thanks to demographics, positioning for greater capture of retail investors' business is also a goal for many asset managers.

4. CarVal Investors: The historic tilt toward alternative investments continues.

Although not quite as blockbuster of a transaction as others' recent asset management transactions, the \$750 million acquisition of CarVal by AllianceBernstein exemplifies broader themes across the sector. Rather than consolidation driven by increased customer base acquisition and cross-border market access as discussed above, the CarVal absorption is driven more by gaining greater exposure and larger client bases in new asset classes, particularly private credit. A historic expansion of allocations to alternative investments occurred in the past decade; given volatility in public equities and pressure to increase returns, it seems set to continue. In turn, asset managers have sought to increase their exposure to alternatives, as well as capabilities across

the space in terms of direct investment opportunities. Private credit remains challenging in some respects for newer entrants, but experienced asset managers will cut deals to acquire greater and more experienced capabilities within the space to gain exposure to its higher yields, while also looking to negate risk via investment in talent with track records and established portfolios.

5. CBAM Partners: Incumbency has an impact as asset management consolidates amid efforts for differentiation.

In March 2022, The Carlyle Group, one of the truly global flagship PE firms, acquired credit investment manager CBAM Partners for \$787 million. This transaction expanded Carlyle's exposure to collateralized loan obligations (CLOs), likely making it the largest manager of such CLOs in the world. Unifying many themes that are shaping both competition among top incumbents in the PE landscape and asset management, this transaction hearkens to the expansion of the private credit universe over the past few decades, as it fills in more for junk bond issuance in leveraged

buyouts (LBOs). In addition, the deal marks how consolidation in sectors such as asset management is being driven by the twofold desire to compete with peers and gain access to faster-growing, newer asset classes. Even amid consolidation by best-placed competitors, the acquisition demonstrates how asset managers are trying to differentiate their suite of products and services on top of portfolio, expand into new client bases, and also revamp tech stacks and offer exposure to new asset types. Publicly traded PE firms in particular are looking to add new types of assets to their portfolios to diversify and grow revenue.

6. Kudu Investment Management: Boutique capital solutions are becoming increasingly popular for deployment in bespoke deals.

In May 2022, White Mountains Insurance Group sold a 10% stake in Kudu Investment Management to MassMutual Financial Group. That deal was the latest in a series of GP stakes, acquisition, and debt plays by Kudu since 2018. The firm offers tailored capital solutions specifically to asset and wealth management com-

panies in an effort to gain minority exposure while the target businesses retain majority control and receive financing for growth opportunities. Hence, this firm's transaction history showcases not only the evolution in innovative approaches of gaining exposure to outperforming alternative asset manager fee income streams, but also the shift in asset management toward ever-more-bespoke and boutique solutions as tech players pushed the envelope of personalization and instant access throughout the past decade.

7. Access Capital Partners: Private asset allocations maintain interest as global market conditions grow more challenging.

In August 2022, Alantra Partners acquired a 24.5% GP stake in Access Capital Partners for €24.5 million. While not the largest sum in GP stakes investing, this transaction does represent an instance similar to CarVal Partners in that any exposure to private asset classes remains popular. Access Capital Partners aims to offer exposure to smaller buyouts, infrastructure, and private debt via multiple methods, including co-investment funds

and fully customizable options. Such flexibility is prized by institutions that may not have the overall AUM to invest in larger private players but still want to diversify their returns and benefit from better performance in relatively riskier private financial markets. Although performance margins are likely to shrink in private asset classes relative to public equities, given rising levels of competition, current global volatility can also render private funds a bit more alluring due to their deliberately long-term focus and nature. Of course, that doesn't make them immune to challenging economic and market conditions, but stability is increasingly prized nowadays as geopolitical turmoil and economic contractions roil markets.

Conclusion

The asset management landscape is as complex and dynamic as it has ever been. Capital allocation theory-based trends, such as the significant growth in allocations to alternative investments over the past decade, have combined with macrofinancial shifts, such as unprecedented monetary policies, to produce a

unique environment for asset managers to navigate. In response, both consolidation and differentiation drove significant levels of dealmaking, although this year has seen a slowdown due to sheer market volatility. As the environment has grown more complicated, the stakes for proper valuations in asset management deals have grown, particularly with regard to alternative asset-managing firms. Complexity in alternative asset managers' valuations is significant given the variability and necessary assumptions in discount rates to incentive-fee income streams, potential AUM growth, variety of fund types and their ages and strategies, and more. However, such due diligence will be necessary as the industry continues to consolidate for efficiency and margin gains while also investing and acquiring additional technical capabilities as much as possible. Economic and market volatility remains high, which entails additional risk considerations and lends nuances to each individual transaction. Yet as in any period of tumult, opportunities remain for outperformance, so long as there is assiduous preparation and legwork in constructing favorable transactions and fair

compromises with conservatism between all parties involved, taking into account multiple pathways forward.

Methodology

PitchBook utilized its dedicated primary industry code of asset management for this report; unless otherwise indicated, all underlying data is based on companies with that primary industry code tagged. Only completed transactions were included. Extrapolation was used for calculating aggregate deal values. PitchBook's standard reports methodology for PE and M&A was utilized in all cases. To see the full methodology in detail, [click here](#). The geography was US unless otherwise noted.

Appendix

FIGURE 8 // M&A DEALS COMPLETED (BY DEAL SIZE)

Company Name	Investors	Close Date	Deal size (millions)	Post Value	Location
Eaton Vance	Morgan Stanley	3/1/2021	\$8,700.00	\$8,700.00	Boston
Legg Mason	Franklin Templeton	7/31/2020	\$4,500.00	\$4,500.00	Baltimore
Oak Hill Advisors	T. Rowe Price		\$3,754.20	\$3,754.20	New York
Resource Real Estate	Blackstone Real Estate Income Trust	5/19/2022	\$3,700.00	\$3,700.00	Philadelphia
Wilkinson O'Grady & Co.	Wilkinson Global Capital Partners LLC		\$2,107.15	\$2,107.15	New York
Allspring Global Investments	GTCR, Reverence Capital Partners	11/1/2021	\$2,100.00	\$2,330.74	San Francisco
Exeter Property Group	EQT	4/1/2021	\$1,870.00	\$1,870.00	Conshohocken
Oasis Mid-stream Partners	Crestwood Equity Partners	2/1/2022	\$1,800.00	\$1,800.00	Houston
Oakbridge Partners	Homrich Berg	4/4/2022	\$1,500.00		Atlanta
Aperio Group	BlackRock	2/1/2021	\$1,062.00	\$1,062.00	Sausalito
Landmark Dividend	DigitalBridge Group	6/2/2021	\$972.00		El Segundo
CBAM Partners	The Carlyle Group	3/21/2022	\$812.90	\$812.90	New York
Tegra118	Cannae Holdings, Motive Partners	2/10/2020	\$775.00	\$1,291.67	Warren
AB CarVal	AllianceBernstein	7/1/2022	\$750.00	\$750.00	Minneapolis
WestEnd Advisors	Victory Capital Management		\$716.06	\$716.06	Charlotte
Sierra Income BDC	Barings BDC	2/25/2022	\$623.70	\$623.70	Kansas City
Retirement Wealth Specialists	Bluespring Wealth Partners	1/30/2020	\$400.00	\$400.00	Saint Augustine
Surevest	CI Financial	1/24/2020	\$369.00		Phoenix
Concert Golf Partners	Centroid Investment Partners, Clearlake Capital Group	9/19/2022	\$361.00		Lake Mary
Barrow, Hanley, Mewhinney & Strauss	Perpetual		\$319.00	\$425.33	Dallas
Waddell & Reed Financial (Wealth Management Business)	LPL Financial	4/30/2021	\$300.00	\$300.00	Shawnee
Next Horizon Advisors	Fortis Capital Advisors	4/13/2022	\$200.00	\$200.00	Princeton
JMP Group	Citizens Bank		\$149.00	\$149.00	San Francisco
Alcentra Capital BDC	Crescent Capital BDC	1/31/2020	\$142.00		New York

*As of 09/30/2022

FIGURE 8 // M&A DEALS COMPLETED (BY DEAL SIZE), CONT.

Company Name	Investors	Close Date	Deal size (millions)	Post Value	Location
HK Financial Services	Blucora	7/1/2020	\$131.49	\$131.49	Bismarck
Onex Falcon	Onex		\$131.00	\$131.00	Boston
Garrison Capital BDC	Portman Ridge Finance Corp. BDC		\$105.70	\$105.70	New York
New Energy Capital	Victory Capital Management	11/1/2021	\$98.10	\$98.10	Hanover
Karpus Investment Management	City of London Investment Group	6/12/2020	\$97.02		Pittsford
Bel Air Investment Advisors	Hightower Advisors	1/4/2021	\$81.00	\$81.00	Los Angeles
Trillium Asset Management	Perpetual Equity Investment	6/30/2020	\$63.80		Boston

*As of 09/30/2022

FIGURE 9 // PE DEALS COMPLETED (BY DEAL SIZE)

Company Name	Investors	Close Date	Deal size (millions)	Post Value	Location
Goodman UK Partnership	APG Group, Canada Pension Plan Investment Board, Goldman		\$1,168.43		London
AccorInvest	Amundi, Crédit Agricole Assurances, DigitalBridge Group, GIC (Singapore), Saudi Arabia's Public Investment Fund		\$1,143.29		Luxembourg
Altus Power	Blackstone Credit		\$850.00		Stamford
GLIL Infrastructure	Greater Manchester Pension Fund, Lancashire County Council Pension Fund, London Pensions Fund Authority, Merseyside Pension Fund, The Royal County of Berkshire Pension Fund, West Yorkshire Pension Fund	1/7/2021	\$672.86		London
Vanho Securities	Kunpeng Capital, Shenzhen Expressway, Shenzhen Futian Investment, Shenzhen Investment		\$573.65		Shenzhen
Security Benefit			\$425.00		Topeka
CleanCapital	Ground Squirrel Ventures, Manulife Investment Management		\$325.00		New York
Hargreave Hale		2/3/2021	\$286.44		Blackpool
Musicow	STIC Investments		\$167.83	\$671.31	Seoul
Mount Auburn Multifamily	Ivanhoé Cambridge		\$150.00		Los Angeles
Insigneo Financial Group	Bain Capital Credit, J.C. Flowers & Co.		\$100.00		Miami
AgDevCo	British International Investment, Norfund		\$90.00		London
Russell Investments Group	Hamilton Lane		\$90.00		Seattle
Virescent Infrastructure Investment Manager			\$62.58		Mumbai
MoneyFarm	Fondazione di Sardegna, M&G, Poste Italiane		\$61.24	\$503.04	London

*As of 09/30/2022

FIGURE 10 // GP STAKES WITH KNOWN DEAL SIZES (2020-2022)

Companies	Deal Type	Deal Date	Deal Size	Post Valuation	Investors	Location
CVC Capital Partners	GP Stakes	01-Sep-2021	\$1,500.00	\$15,000.00	Blue Owl Capital [NYS: OWL]	Luxembourg, Luxembourg
MBK Partners	GP Stakes	12-Jan-2022	\$998.79	\$7,682.97	Blue Owl Capital [NYS: OWL]	Seoul, South Korea
Veritas Capital	GP Stakes	10-Oct-2020	\$925.00		Blue Owl Capital [NYS: OWL]	New York, NY
Permira	GP Stakes	14-Jul-2020	\$566.72	\$5,700.00	The Goldman Sachs Group [NYS: GS]	London, United Kingdom
Quantum Energy Partners	GP Stakes	24-Feb-2020	\$520.00	\$4,000.00	Blue Owl Capital [NYS: OWL]	Houston, TX
DigitalBridge IM	GP Stakes	17-Jul-2020	\$283.50	\$900.00	Wafra[Adel Alderbas]	Boca Raton, FL
Motive Partners	GP Stakes	01-Jul-2021	\$249.00	\$1,000.00	Apollo Global Management [NYS: APO]	New York, NY
Arsenal Capital Partners	GP Stakes	01-Nov-2021	\$230.00		Petershill Partners [LON: PHLL]	New York, NY
NewSpring Capital	GP Stakes	14-Jun-2021	\$120.00		Northleaf Capital Partners[Emil Fajersson]	Radnor, PA
Carnelian Energy Capital	GP Stakes	08-Jan-2020	\$100.00	\$670.00	Blue Owl Capital [NYS: OWL]	Houston, TX
Pretium [Asset Management]	GP Stakes	29-Oct-2020	\$100.00		American Equity Investment Life Holding [NYS: AEL][Anant Bhalla]	New York, NY
STG Partners	GP Stakes	22-Nov-2021	\$60.00		Goldman Sachs Asset Management	Menlo Park, CA

*As of 09/30/2022

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