

# Minority stake sales prop up investment management dealmaking activity

By Joe Mantone

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The number of asset and wealth management M&A deals fell in the second quarter, but companies in the space still found demand from suitors wanting to make minority investments.

Second-quarter deal announcements among asset and wealth managers fell to 28, a 32% drop from the first quarter, according to a report released Aug. 1 from PricewaterhouseCoopers. The total disclosed deal value dropped 38% during the same period to \$2.0 billion.

There were 19 transactions in the wealth management space in the second quarter, down from 24 deals a quarter earlier, according to the report. Deal activity in the second quarter among alternative asset managers also slowed with just one transaction announced in each of the hedge fund and private equity industries.

But demand was strong for strategic minority investments in the alternative asset management space. Minority investments of less than 20% of a company's equity or \$500 million are excluded from the M&A tally, but at least six such transactions involving hedge or private equity fund managers were announced in the second quarter, PwC found.

Samiye Yildirim, PwC's U.S. asset and wealth management M&A leader, said she expects to see more minority-stake transactions, especially in areas that have produced good investment performance, such as private equity and real estate. Other types of companies, including wealth managers, have also been attracting minority investments, Yildirim said.

These transactions can benefit both targets and investors because they align interests. "Growth and the future of the firm is shared, rather than the management team in a majority deal losing their equity stake in the company and becoming an employee," Yildirim said.

Dyal Capital Partners, a division of the investment manager Neuberger Berman Group LLC, sees an opportunity to invest in the space. In February, Dyal announced that it raised \$5.3 billion for a fund that will seek to make minority investments in private equity firms.

A number of funds and other strategic players are interested in taking minority stakes in investment management companies, said Gilbert Dychiao, a managing director for financial services-focused investment bank Freeman & Co. "There's been more of that happening in the sector," he said in an interview.

He noted that minority deals can provide some liquidity to sellers' shareholders. The transactions can also provide growth capital to help managers take such steps as seeding new products or making additional hires, Dychiao said.

Investors like the deals because they can provide exposure to businesses with steady revenue streams, said Seward & Kissel LLP Partner James Abbott, who works on deals in the investment management space. He noted that some minority investments are structured to give investors a portion of the topline revenue, as opposed to bottom-line profit equity.

One challenge for investors is finding enough appropriate targets. Abbott said investors have plenty of dry powder to use to take minority stakes, but there are a limited number of good-sized managers.

"There's a lot of money looking to go somewhere," he said.

Aside from merely providing financial backing, some investors also try to help targets strategically grow their business. For example, fixed-income asset manager Dolan McEniry Capital Management LLC sold a minority stake to iM Square, an investment company that includes European asset manager Amundi SA as one of its founding shareholders. As part of the deal, iM Square agreed to support Dolan McEniry's global marketing efforts and provide the company with greater access to institutional investors, according to a November 2016 news release.

In some stake deals, sellers can gain access to additional resources that can help them deal with regulation such as the Department of Labor's fiduciary standard rule, PwC's Yildirim said.

"There are so many independent wealth managers where they are more open to giving out a stake in order to inherit a platform to allow them to service their clients and stay within the regulatory requirements," Yildirim said.