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Recent Developments in Asset Management M&A Transactions

From buyers looking to add AUM or talent, to sponsors looking for third-party investors to fund growth initiatives, transaction volume for asset management M&A remains strong in 2024. In this edition of PErspectives, Ropes & Gray explores the strategic imperatives driving recent transaction activity, outlines the various deal structures and strategies that have been adopted and reflects on what these developments mean for participants in the asset management industry as a whole.

The asset management industry is in the middle of a radical period of transformation, with unprecedented levels of consolidation.

The groundwork for this shift has been building since 2023. According to *PitchBook*, publicly disclosed deal value for private equity sponsors executing consolidation transactions reached a record $9 billion in 2023, rising 38% year-over-year. Deal volume also reached a decade high, with 78 transactions announced or closed in 2023.[1] An improved dealmaking environment in 2024 paired with heightening competition in the asset management space could bolster near-term dealmaking activity.

That momentum has carried into 2024, with two industry-defining acquisitions announced within weeks of each other in January. The world's largest asset manager by assets under management ("AUM"), BlackRock, announced its US$12.5 billion acquisition of Global Infrastructure Partners (GIP), an infrastructure manager with more than US$100 billion of AUM,[2] in the second week of January. Just days later, U.S. private equity group General Atlantic (GA) acquired U.K.-based infrastructure manager Actis, adding US$12.5 billion to GA's US$83 billion of AUM.[3]

These two big-ticket transactions have followed a series of transformational consolidation deals over the past two years, including TPG acquiring credit and real estate manager Angelo Gordon for US$2.7 billion in 2023[4] and Sweden-based private markets manager EQT combining with Baring Private Equity in 2022.[5]

Industry maturity and long-term strategy drive transactions

The wave of consolidation across asset management reflects the transformation of firms from being organized as small partnerships of investment professionals who value independence and freedom into larger more institutionalized firms where the benefits of scale and diversity of products have become more appealing.

This has, in part, been driven by LP priorities. Fund investors have increasingly sought to consolidate their GP relationships, writing larger checks to bigger managers that offer multiple alternatives strategies across their platforms. In response, many alternatives managers have turned to acquisitions.

Acquisitions can help a manager build scale, accelerate AUM growth, expand geographic footprints and grow the number of investment strategies and teams on their platforms.

BlackRock's acquisition of GIP, for example, allows BlackRock to ramp up its position as a key player in the alternative assets space, adding private markets capabilities to its strong base in traditional asset management. The transaction also enabled expansion into infrastructure, an industry many managers are looking to enter given increased LP demand.[6]

In the case of TPG's deal with Angelo Gordon, the transaction enabled buyout-focused TPG to expand and diversify its platform into private credit and real estate,[7] while EQT's move for Baring Private Equity Asia formed part of its strategy to expand into the Asian market, which is expected to continue being a significant growth market.[8]

Asset managers eye IPOs

In addition to surging M&A activity, there has also been a rise in the number of private managers going public.

For large private markets franchises that have already built out multi-strategy platforms and large pools of AUM, a public listing is an attractive option for securing liquidity to facilitate succession, raising capital towards new business lines or funding GP commitments. Blue chip franchises that have undertaken public offerings within the last five years include Investcorp (ADX: ICAP)[9] EQT (NYSE: EQT),[10] and TPG (Nasdaq: TPG),[11] while Blue Owl Capital (NYSE: OWL) secured its public market listing via a SPAC business combination.[12]

Managers are also breaking into the ranks of established public companies, as seen when Blackstone became the first major alternative assets manager to be admitted to the prestigious S&P 500 in September 2023.[13] Analysts believe Apollo and KKR are also contenders to join the index.[14]

Still, the opportunity to go public remains limited to large, diversified private markets sponsors. It is important to recall the not-so-distant historical context, where the first managers that came to market struggled to gain acceptance because of the difficulty of valuing the carried interest component of revenues. More recently, managers planning an IPO have restructured their businesses ahead of the public offering to bifurcate economics between the publicly traded vehicle and vehicles held by management and other historic investors in the firm. This allows the carried interest income to be allocated to the non-public owners, while the public investors benefit from a stable base of management fee income.

Exploring the options: Financing for GPs

Transactional activity has not been limited to larger franchises pursuing big-ticket consolidation deals or high-profile public listings. Middle-market managers running single strategies or those with smaller AUM have also recognized the benefits that third-party investors can deliver and are increasingly taking on third-party capital through minority investments, including seeding arrangements, GP stakes deals, revenue share arrangements, or other structured finance solutions.

Minority Stakes

For middle-market managers in particular, a third-party investment can boost a manager's balance sheet to catalyze expansion into new strategies or geographies, hire new teams, or increase GP commitments to enhance LP alignment, all without giving up control of their firms. The ability to access capital for these growth initiatives has become even more important in today's challenging fundraising environment, and an investment by an established minority investor can differentiate firms from their peers.

The appetite for these deals is expected to continue to rise. In an interview with Buyouts, Michael Rees, the head of GP stakes investments at Blue Owl Capital, one of the largest GP stakes investment platforms, noted that the GP stakes segment had expanded at 10% per year and was on track to grow from a US$530 billion market in 2022 to around US$750 billion by 2025.[15] LP demand for the strategy has been robust, with a 2024 PEI investor survey showing that 49% of LPs had invested in a GP stakes fund or intended to do so, up from 36% in 2023.[16]

In addition to providing growth capital, stakes deals can also serve as a useful succession planning tool. The ownership structure of private equity firms has made succession structurally difficult. The rapid growth trajectory of these firms has resulted in a situation where young, productive partners have yet to acquire a meaningful amount of economics in the firm. Third-party investments are a helpful tool to facilitate leadership transition by allowing founders to monetize their stake in the firm and make room for the next generation.

Seed Deals

For emerging managers, meanwhile, minority investments in the form of seeding arrangements with one or more "anchor LPs" can catalyze growth. Seed investments in these types of firms enable investors to test the waters with new strategies, develop new teams at a lower cost than buying more established firms, and create opportunities for additional investments down the line. Seed investments can also serve to enhance the investor's long-term pipeline.

Seeding works especially well for first-time managers in need of working capital to launch their firms. In addition to putting money into the firm, the seed investor often makes a commitment to a manager's fund as an anchor investor, which provides invaluable momentum for a first-time fundraising. Seed investments are usually passive and are not designed to be permanent. Typically, a seed investor will be entitled to a fixed amount of economics and a percentage of the management fee and carried interest income until it has received an agreed return on its capital. Once satisfied, all or most fee income and carry revert back to the firm and become available to allocate to founders and other investment professionals.

Financing and Structured Products

Debt and preferred financing have been another source of capital for managers that are seeking capital but do not want to relinquish equity in their franchises. Providers of these types of financings have seen the opportunity to provide sponsors with the same options available to other operating businesses. This market has matured quickly, and GPs are now in a position to access everything from secured loans and cash-flow

loans based on a firm's underlying assets and cash flows, to quasi- debt, quasi-equity structured financing facilities.

Choosing the right solution

The growth and increasing sophistication of the financing choices available to sponsors has given managers unprecedented optionality for liquidity and growth. The range of available options will be determined based on the objectives of GPs. For firms that are considering a minority stake sale or other financing, it is important to match the manager's specific requirements to the appropriate ownership and capital structure for the firm.

Managers must also focus on the consequences to the firm of engaging in a third-party sale or financing—the core principles of internal and external alignment of interests should be at the heart of any decision. For example, sponsors should consider whether a liquidity transaction for founders removes or enhances the alignment of interest with the other investment professionals or, as discussed below, LPs.

The LP perspective

As private markets mature and managers take advantage of a broadening palette of investment and financing options, keeping LPs onside must remain top of mind for managers engaging in these transactions.

One of the private market industry's most valuable selling points has been the strong alignment of interest between investors and managers. Partner-led and -owned firms have always been deeply aligned with their LPs.

However, manager consolidation and third-party ownership of a GP—whether via a control transaction, minority investment, or IPO—have added a new dimension and complexity to the GP-LP relationship, with a heightened focus on the rationale for the transaction and use of proceeds. Does a transaction benefit LPs, or simply enable founders to cash out for their own benefit?

When proceeds from an investment or financing are used to support succession, finance growth initiatives or support future fund commitments, alignment with LPs can be strengthened and the third-party investment is viewed as evidence of a manager's quality. Acquirors, GP stake investors, and other financing sources undertake significant due diligence on a manager and the manager's prospects for raising successor funds. From an LP perspective, that can serve as a valuable affirmation of the capabilities and merits of a manager.

Communicating these advantages is key to maintaining alignment with investors and showing that these transactions are to the benefit of LPs as well as GPs.

Regulatory overlay

Regardless of whether a proposed deal is a minority, majority, or control transaction, an analysis should be undertaken to determine whether the deal will trigger a requirement to obtain client consent. If consent is necessary, the applicable consent requirement can vary based on how the relevant fund documentation is drafted and can entail either affirmative consent, or "negative consent," a process whereby LPs are given a fixed amount of time to object or are otherwise deemed to have consented to the transaction.

Firms should also be aware of the regulatory implications of the firm's post-deal structure. It is critical to understand whether the firms involved in the transaction will continue to operate independently or will be combined in a way that requires coordination of compliance programs and protocols for the allocation of investment opportunities or even LP commitments. Managers must also consider the licensing status of the firms involved, especially if managers are active across multiple jurisdictions.

Conclusion

As the private capital industry makes its way through a challenging period for fundraising and deploying capital, managers of all sizes and strategies will likely be considering how to grow their businesses in the next stage of the firm's evolution.

Outside the context of control transactions, there are more options available for providing capital than at any time in the industry's history, and managers have a variety of different structures and levers to pull to meet their objectives.

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Endnotes

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