OUT OF THE ORDINARY

Spotlight: Asset Management

Sector Update

February 2024

Investec; an international M&A Advisory business

UK & Europe

>160

Private equity and M&A professionals

11

European offices

US

>150

Private equity and M&A professionals

15

US offices

Other geographies: South Africa · Australia · India

Selected M&A Transactions

Investec Wealth & Investment UK
IW&I UK's combination with Rathbones
RATHBONES
Sell-side financial advisor

novia
Sale of Novia Financial to AnaCap
ANACAP
Sell-side financial advisor

Selected Debt and Refinancings

verso Wealth Management
Financing to support Cairngorm Capital's investment in Verso
Senior debt facility
Cairngorm Capital

7iM
Support Caledonia Investments plc with the refinance of 7iM
Senior debt facility
Caledonia

Let's talk…

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Whether you are an entrepreneur looking to explore strategic options for your business, or an investor / strategic buyer looking for advice in evaluating and financing an acquisition, Investec can help by providing sell-side or buy-side advice, raising debt financing or exploring a potential IPO

2023 was a tough year for traditional asset managers and M&A volumes were muted. Deal activity was most prevalent in alternative asset management, a trend that has continued into Q1 2024

Key themes in 2023

Market performance and flows	• **Macro uncertainty** and volatile equity markets led to **large scale net outflows** in traditional asset management, with alternatives benefitting from more resilient business models • The continued shift from **active to passive funds** has driven flows and downward fee pressure
Focus on alternatives	• **Increasing demand** for alternative asset classes (infrastructure, private credit and private equity) • However, despite stronger fundamentals and limited exposure to equity markets, alternatives **traded in line with traditional managers**
Regulatory environment and ESG	• **Increased regulatory burden** and inflation-impacted cost pressures • The popularity of **ESG funds declined**
Technology	• Increased use of **artificial intelligence, data and analytics** in investment selection and management within the market • Adoption of technology to **streamline burdensome and expensive** risk management and reporting workflows
Consolidation	• **Less active M&A environment** compared to the adjacent wealth sector • Alternative asset managers continue to be **attractive targets for M&A**

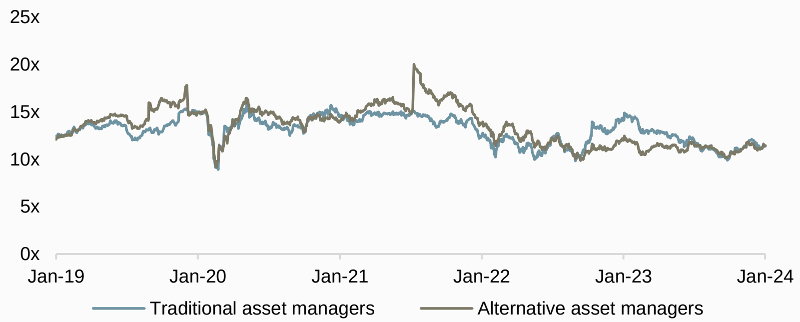
The current macro backdrop has impacted asset manager flows, with continued pressure on fees and the need for diversification reflective in deal activity and market performance

Public market performance

- Traditional asset managers valuations came under pressure in 2023 as structural challenges combined with weak equity market performance and a high interest rate environment
- More diversified managers have been able to better navigate the current pressures experienced by the sector, with alternative asset managers experiencing significant re-rating during 2023 (albeit from a lower base) as valuations have recovered from prior levels and are currently trading in line with traditional managers

5 year P/E[1] performance of selected public asset management cohorts

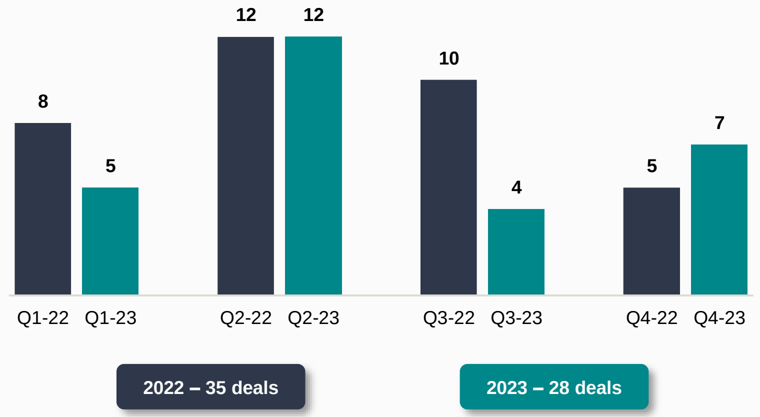
Wealth	Current Avg.	5 year Avg.
Traditional asset managers[2]	11.3x	13.0x
Alternative asset managers[3]	11.4x	13.5x



Private market conditions

- Deal activity in the UK asset management sector during 2023 was subdued, in line with broader M&A market dynamics, and remains behind the level of activity seen across the UK wealth management sector
- Private Equity and trade driven consolidation is expected to increase in 2024 due to a continued focus on alternative asset classes, diversification and operating margin enhancement through scale

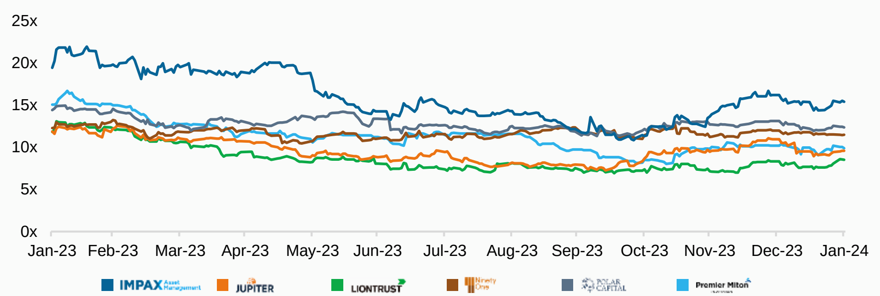
Announced asset management deals (2023 vs 2022)



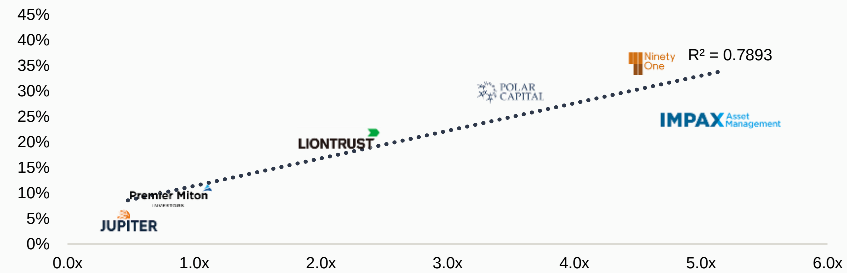
Source: Factset as at 31 January 2024
Note: (1) NTM PE multiple, (2) Impax, Jupiter, Liontrust, Ninety One, Polar, Premier Miton (3) Bridgepoint, Foresight, ICG, Man, Petershill, Pollen Street

Traditional asset managers faced structural headwinds and challenging markets in 2023

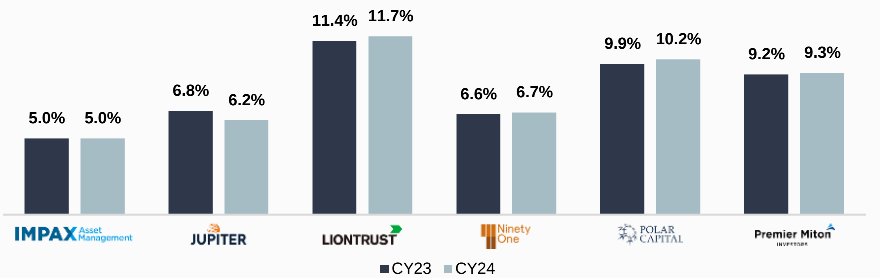
The sector has experienced slight PE multiple compression



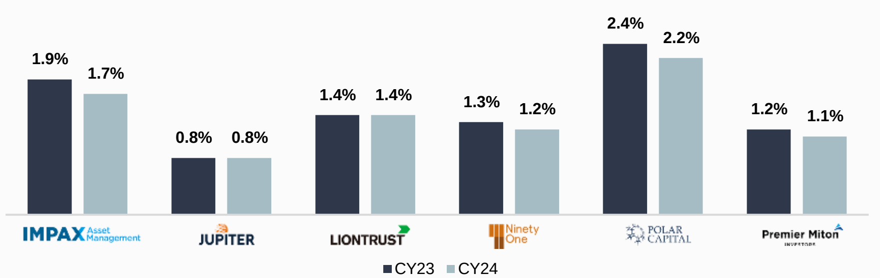
Positive correlation between ROE (%) and P/BV (x)



Dividend yields



P/AUA

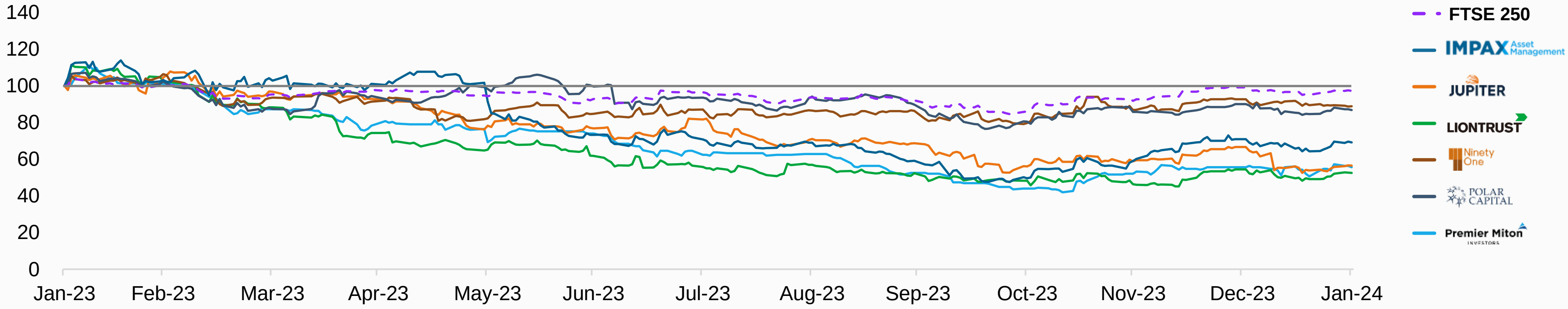


Despite the challenging equity market and record outflows, managers have experienced lower than expected PE multiple compression

Source: Investec research, Factset

Traditional asset managers' share price performance has underperformed over the past 12 months

1 year share price (Indexed)



IMPAX Asset Management

Market Cap: **£714m**

Hold

"We believe Impax provides an attractive combination of credibly differentiated product and a strong global distribution platform, albeit that we believe this is already reflected in the Group's premium rating compared to its peer group"

Key Metrics	23E	24E
AUA (£bn)	38.4	43.0
P/E (x)	15.9	15.7
P/AUA (%)	1.9	1.7
Div. yield (%)	5.0	5.0

JUPITER

Market Cap: **£434m**

Hold

"We are encouraged by the strong performance in fee generation during the period, but would expect the persistent net outflows from retail, as well as the expected impairment of goodwill, to adversely impact the Group's financial performance"

Key Metrics	23E	24E
AUA (£bn)	51.9	51.6
P/E (x)	7.3	9.6
P/AUA (%)	0.8	0.8
Div. yield (%)	6.8	6.2

LIONTRUST

Market Cap: **£393m**

BUY

"We revise our forecasts on the back of the 3Q24 trading update and, see AuM upgrades on the back of better investment returns. This drives EPS upgrades over the forecast period. We see the Group well positioned to benefit from any UK equity market recovery "

Key Metrics	23E	24E
AUA (£bn)	28.0	28.4
P/E (x)	8.0	8.7
P/AUA (%)	1.4	1.4
Div. yield (%)	11.4	11.7

Ninety One

Market Cap: **£1.6bn**

BUY

"Although flows in the 1H24 period were weaker than expected, we take heart from the strength of its client relationships and the platform. We therefore remain confident in the medium-term outlook for net flows and the group's ability to deliver top quartile organic growth"

Key Metrics	23E	24E
AUA (£bn)	124.2	129.0
P/E (x)	11.4	11.5
P/AUA (%)	1.3	1.2
Div. yield (%)	6.6	6.7

POLAR CAPITAL

Market Cap: **£462m**

Hold

"Given persistent market uncertainty and challenging demand dynamics, we maintain a more cautious view on near-term AuM growth. We see limited upside at current share price levels and initiate a Hold recommendation"

Key Metrics	23E	24E
AUA (£bn)	19.5	21.3
P/E (x)	11.6	12.3
P/AUA (%)	2.4	2.2
Div. yield (%)	9.9	10.2

Premier Miton INVESTORS

Market Cap: **£117m**

BUY

"Whilst the near-term challenges facing the industry remain, we believe the quality of the platform, combined with the delivery of sustained investment outperformance, should position it as a relative winner when flows and sentiment recover"

Key Metrics	23E	24E
AUA (£bn)	10.0	11.0
P/E (x)	8.4	10.0
P/AUA (%)	1.2	1.1
Div. yield (%)	9.2	9.3

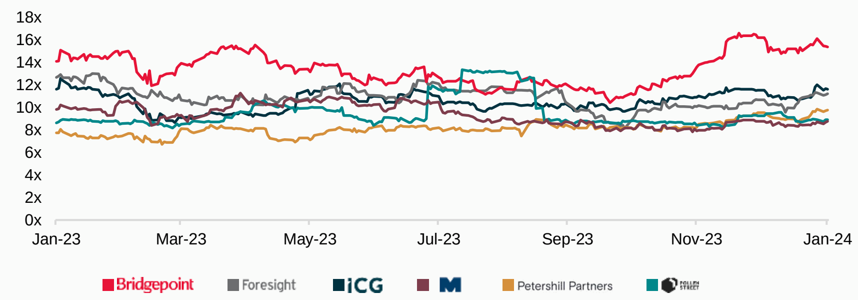
Source: Investec research, Factset

Investec

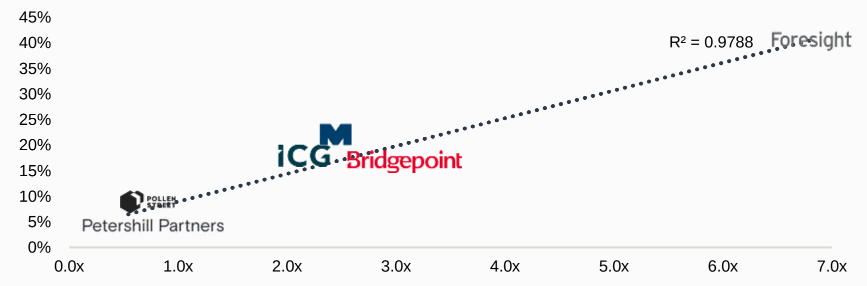
Equity Research

The alternative asset managers have benefitted from a more resilient business model as well as structural tailwinds throughout 2023

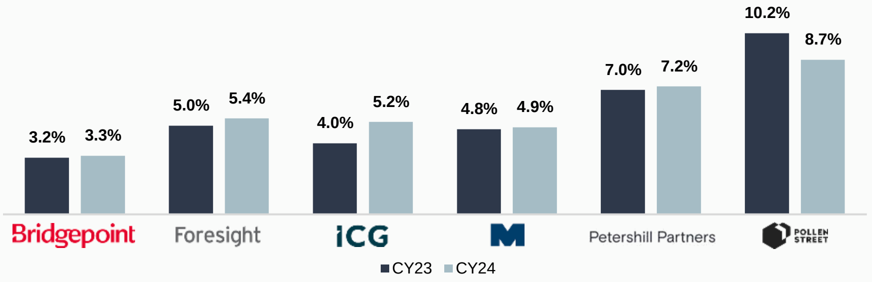
The sector has experienced slight PE multiple expansion



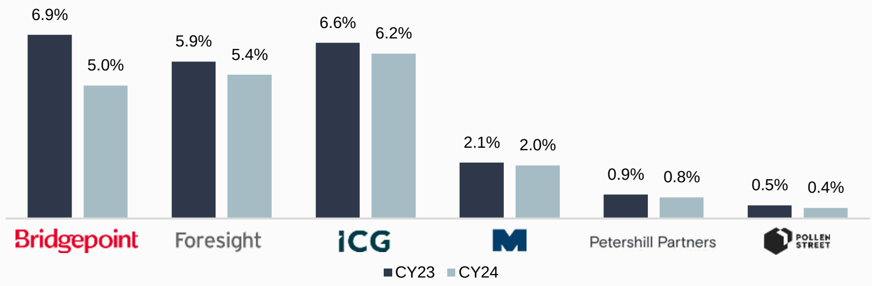
Strong correlation between ROE (%) and P/BV (x)



Dividend yields



P/AUA

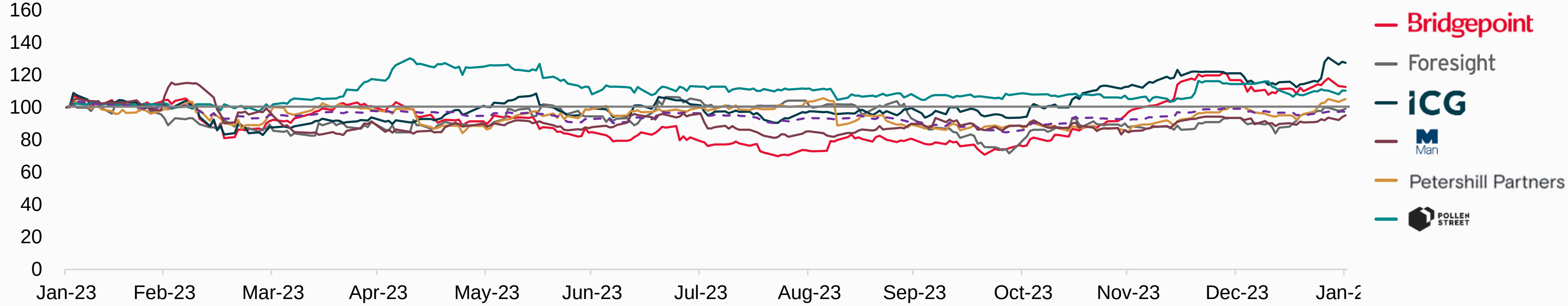


Considering the strong fundamentals of alternative managers, further growth across the peer group in 2024 could be expected

Source: Investec research, Factset

Alternative managers have proven more resilient to market pressures

1 year share price (Indexed)



Bridgepoint

Market Cap: **£2.1bn**

BUY

"We update our forecasts following Bridgepoint's announcement of the Energy Capital Partners ("ECP") acquisition. The combination US-based ECP brings fee-paying AuM to €34bn on a pro forma basis and the expansions into infrastructure and across the US and APAC come as particularly attractive"

Key Metrics	23E	24E
AUA (£bn)	31.2	43.4
P/E (x)	20.8	15.5
P/AUA (%)	6.9	5.0
Div. yield (%)	3.2	3.3

Foresight

Market Cap: **£535m**

BUY

"We update our forecasts following the 3Q24 trading update. We reflect a more cautious outlook around AuM growth but do not expect this to impact current year EBITDA expectations. We continue to see attractive upside potential as well as strong profitable growth"

Key Metrics	23E	24E
AUA (£bn)	9.0	9.9
P/E (x)	13.0	11.1
P/AUA (%)	5.9	5.4
Div. yield (%)	5.0	5.4

ICG

Market Cap: **£5.2bn**

BUY

"Better performances across both the FMC and the IC drive our Group PBT upgrades for the current year. We take a more cautious view on performance fees and the IC in the outer years. We continue to see significant upside based on our new TP and reiterate our Buy rating"

Key Metrics	23E	24E
AUA (£bn)	78.6	83.4
P/E (x)	13.8	11.9
P/AUA (%)	6.6	6.2
Div. yield (%)	4.8	4.9

Man

Market Cap: **£2.8bn**

BUY

"We remain encouraged by the positive net flows despite the more challenging market backdrop and believe the Group remains well positioned to continue its growth trajectory"

Key Metrics	23E	24E
AUA (£bn)	132.1	143.4
P/E (x)	14.0	9.0
P/AUA (%)	2.1	2.0
Div. yield (%)	5.5	5.7

Petershill Partners

Market Cap: **£2.0bn**

BUY

"The Group has seen FRE impacted by higher costs and PRE impacted by subdued exit activity. We reflect the Group's lower FRE and PRE guidance for the full year and remain relatively more cautious for FY24E as well, driving Adj. EBIT downgrades over our forecast period"

Key Metrics	23E	24E
AUA (£bn)	214.2	234.2
P/E (x)	13.8	9.9
P/AUA (%)	0.9	0.8
Div. yield (%)	7.0	7.2

Pollen Street

Market Cap: **£390m**

BUY

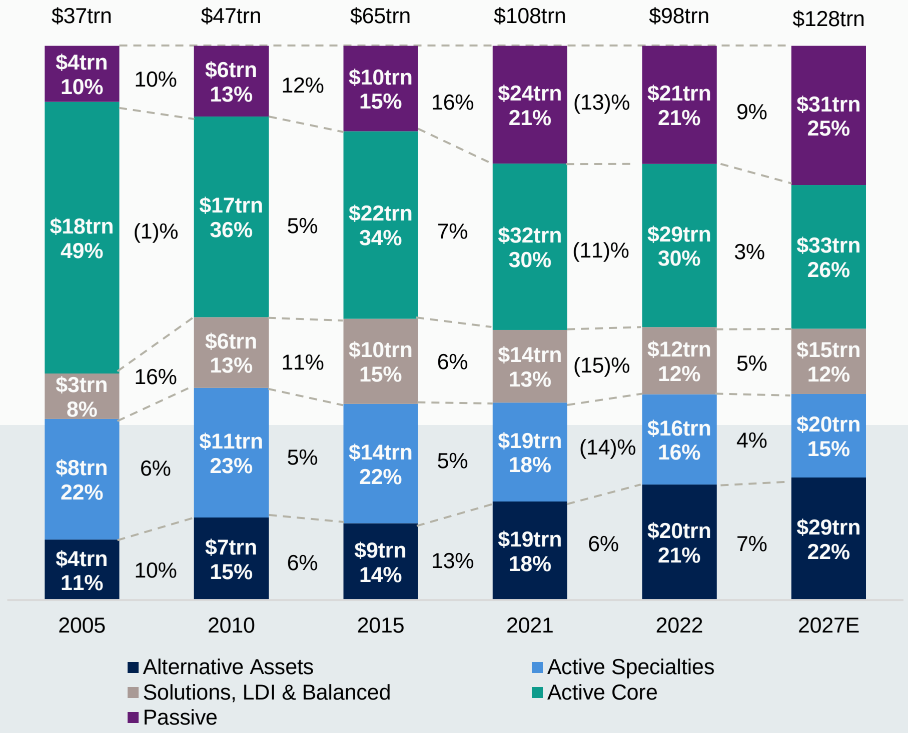
"The Group's AuM growth is well on track to meet our FY23 estimates. Performances in both Private Equity and Private Credit strategies remained resilient with a good pipeline of opportunities"

Key Metrics	23E	24E
AUA (£bn)	4.4	5.4
P/E (x)	10.5	8.9
P/AUA (%)	0.5	0.4
Div. yield (%)	10.2	8.7

Source: Investec research, Factset

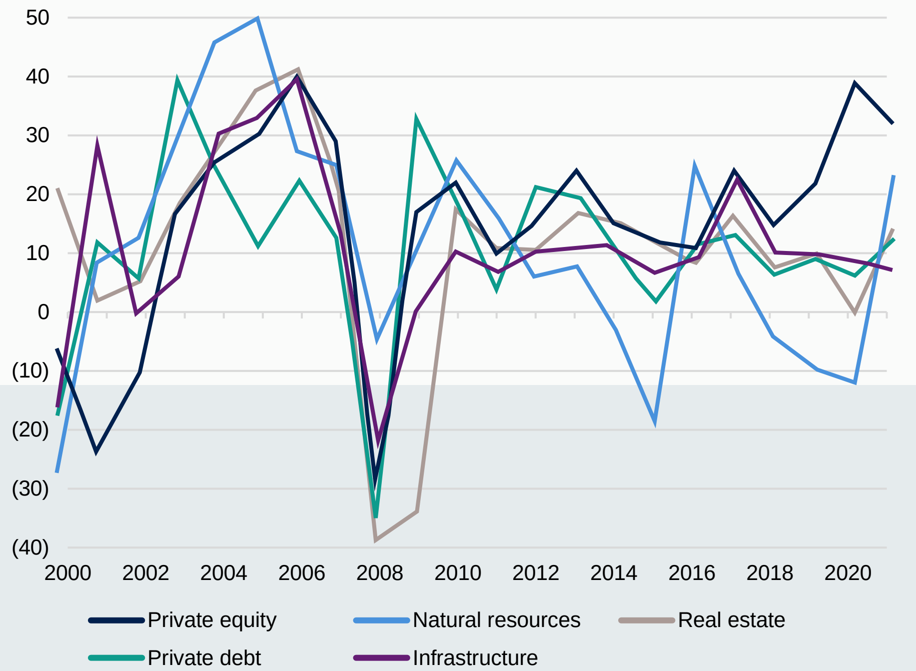
Alternative assets are growing and outperforming other asset classes

Alternative assets have been growing as a proportion of Global AuM…



…due to their outperformance versus other asset classes

Global fund performance by asset class, 2000-18 vintages[1] (%)



Source: BCG Global Asset Management 2023, Burgis, McKinsey Global Private Markets review 2022, Investec securities analysis

Note: (1) Fund performance assessed using IRR calculated by grouping performance of 2000–18 funds during 2000–21. Some data not available for certain periods. IRR for 2021 is for the first 9 months (YTD as of Q3 2021).

Our perspective on Asset Management sector trends in 2024

Investec
Perspective

1 **Macroeconomic uncertainty to moderate**
- Whilst the overall macroeconomic outlook remains volatile, we expect some degree of recovery throughout 2024 driven by falling inflation and the start of base rate cuts. However, upcoming US and UK elections may impact market performance and investor sentiment during 2H24

2 **Geopolitical uncertainty could lead to higher volatility**
- Following the Russian invasion of Ukraine in 2022, geopolitical tensions escalated further in 2023, notably in Israel and Palestine. These conflicts persist into 2024 and further escalation is likely to drive equity market volatility

3 **A return to positive flows**
- We expect to see some recovery in H2 2024 given the improving macro environment, particularly for managers with more resilient performance, as well as specialist strategies

4 **More attractive fundraising conditions for alternative asset managers**
- Fundraising timelines are expected to normalise after extended fundraising periods that led into 2024, with increased allocations into private capital asset classes

5 **Focus on fees**
- Traditional asset managers have experienced declining management fee margins over the past decade which we expect to remain under pressure. This is due in part to the growing demand for alternative and passive investment products, where fee margins are resilient and are expected to remain attractive

6 **Ever increasing regulation**
- Higher costs expected from ongoing implementation of Consumer Duty and the FCA's announced Sustainability Disclosure and Labelling Regime

7 **Consolidation to rebound**
- Consolidation is expected to rebound driven by a focus on alternative asset classes, the need for technology investment, higher operating and regulatory costs, and difficulties in providing competitive products across specialised distribution channels among smaller asset managers

Significant alternatives deal activity has been driven by private equity

Target	Acquirer
actis	General Atlantic
n.d.	$84bn AUM

Global investor in sustainable infrastructure

January 2024

Deal summary

The firms have entered into a definitive agreement in which General Atlantic will purchase Actis, resulting in the formation of a diversified, global investment platform with a total AuM of c. $96bn. The specific financial details of the deal are not being disclosed

Deal highlights

Highlights and strategic rationale include:

- Creates a more diversified investing platform, bolstering General Atlantic and Actis as strategic long-term partners to both investors and management teams
- Delivers immediate scale and creates a broader set of investment solutions for investors
- Brings together two global investors with a collective commitment to sustainability and supporting the energy transition

Valuation Metrics

n.d.	n.d.	n.d.
EV / AUM	EV / Sales	EV / EBITDA

Target	Acquirer
Global Infrastructure Partners	BlackRock
$12.5bn acquisition	$10tn AUM

Independent infrastructure fund manager

January 2024

Deal summary

BlackRock has agreed to buy private-equity firm Global Infrastructure Partners ("GIP) for roughly $12.5 billion in cash and stock. BlackRock will pay $3bn of cash and about 12m shares, worth c.$9.5bn, and the deal is expected to close in the third quarter

Deal highlights

Highlights and strategic rationale include:

- The deal will position BlackRock as the second-largest global manager of private infrastructure assets, and strengthen the leadership of its alternatives business
- BlackRock will merge its current $50bn infrastructure business with GIP, led by Adebayo Ogunlesi (GIP Chair) who will also become a member of BlackRock's global executive committee and board

Valuation Metrics

12.5%	n.d.	n.d.
EV / AUM	EV / Sales	EV / EBITDA

Target	Acquirer
DIF Capital Partners	CVC
€1bn acquisition	€177bn AUM

Dutch infrastructure manager

September 2023

Deal summary

CVC has agreed to acquire a majority stake in Dutch infrastructure investor DIF Capital Partners in a deal worth around €1bn in cash and shares, with a commitment to acquire the remaining shares "over time"

Deal highlights

Highlights and strategic rationale include:

- Provides CVC with a leading infrastructure platform, directly adjacent and highly complementary to its existing private equity, secondary and credit strategies
- Accelerates the growth of DIF, which will continue to operate under the DIF brand and retain independence over its operations and investment decisions

Valuation Metrics

6.3%	n.d.	n.d.
EV / AUM	EV / Sales	EV / EBITDA

Significant alternatives deal activity has been driven by private equity (cont.)

Target	Acquirer
7iM	Ontario Teachers' Pension Plan
£380m acquisition	$250bn AUM

UK wealth and investment manager

September 2023

Deal summary

Ontario Teachers' Pension Plan ("OTPP") acquired a majority stake in 7IM from Caledonia Investments plc. After the transaction is completed, OTPP will have a 90% ownership stake in the business, while the remaining portion will be held by 7IM's management team.

Deal highlights

Highlights and strategic rationale include:

- UK wealth management a core focus sector for OTPP
- The acquisition will provide 7IM's management team with access to long-term capital and expertise to help execute its long-term growth plans, through organic growth and M&A
- OTPP is supporting the management team of 7IM and will maintain its existing strategy with the current CEO at the helm

Valuation Metrics

1.7%	5.4x(1)	16.5x
EV / AUM	EV / Sales	EV / EBITDA

Target	Acquirer
ECP	Bridgepoint
£835m acquisition	€57bn AUM(2)

North American infrastructure investor

September 2023

Deal summary

Bridgepoint has expanded in infrastructure with the acquisition of US-based ECP. ECP's upfront enterprise value of £835m comprised 235m newly issued Bridgepoint shares, £233m of cash and £179m of ECP's existing debt

Deal highlights

Highlights and strategic rationale include:

- Transaction furthers Bridgepoint's position as a global leader in mid-market private assets investing
- Accretive for Bridgepoint shareholders from day of closing across Fee related earnings, EBITDA and Net Income per share
- ECP's highly experienced management and investment team will continue to run the business under its current brand, focused on delivery against its growth strategy

Valuation Metrics

5.5%	n.d.	n.d.
EV / AUM	EV / Sales	EV / EBITDA

Target	Acquirer
Gresham House	Searchlight
£470m acquisition	$11bn AUM(1)

UK asset manager

July 2023

Deal summary

Searchlight Capital Partners acquired Gresham House in an all-cash deal

The deal values the entire share capital of Gresham House at c.£470m on a fully diluted basis and £441mn on an enterprise value basis

Deal highlights

Highlights and strategic rationale include:

- Searchlight intends to support Gresham House's strategic growth plans though leveraging its industry experience and providing capital to identify and execute successful acquisitions in the UK and internationally
- Gresham's growth is centred around its 'GH30' five-year plan, targeting £20bn in AUM – vs its current level of £8.5bn
- It also aims to grow its natural capital exposure, specifically by tapping into the US forestry market and UK affordable housing

Valuation Metrics

5.7%	5.2x(3)	15.9x
EV / AUM	EV / Sales	EV / EBITDA

Note: (1) Based on Sales per Dec-22 financial statements (2) Includes the $20bn AuM added with the acquisition of ECP (3) Annualised H123 results

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