Investec

OUT OF THE ORDINARY

Fund, Trust and Corporate Services

Q1 2023 Sector Update

Introduction

- In our latest update, we reflect on the key market dynamics that impacted 2022 as well as those that will shape the year ahead

- **Last year saw high volumes of M&A**, with marquee transactions such as Sanne / Apex, Waystone / KB Associates / Centaur and Intertrust / CSC demonstrating the appetite for scale and diversification

- **The sector experienced its fair share of challenges last year**. Talent retention has led to an escalation of people costs, whilst the invasion of Ukraine has resulted in a higher scrutiny of sources of wealth for private client businesses. This has tested operating models, with those demonstrating strong compliance processes, technology adoption and an efficient use of low-cost territories, proving themselves to be most resilient

- **We expect further consolidation in 2023, but with a greater focus on targets that enhance the value proposition.** This may be at the expense of acquisitions which add just scale/volume

- **Fundamental structural market growth drivers are all still very much in place** across both fund and trust administration which will continue to underpin the attractiveness of the sector to investment

- **Do please reach out to anyone in the Investec team if you would like to discuss anything in this report and whether there is a way in which we can help you achieve your growth ambitions**

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An overview of our offerings for the sector

- M&A Advisory
- Corporate Broking & PLC Advisory
- IPO Advisory
- Lending
- Corporate & Trust Banking

A look back at 2022

2022 was a strong year for M&A

With over 65 transactions in 2022, M&A continued at pace despite emerging macro-economic headwinds. The US and Europe saw the highest number of deals

US

13

transactions, including:

- JGM → IQEQ
- STP → Lovell Minnick Partners
- Stover → polysign

UK

14

transactions, including:

- TBFS → waystone
- TrustQuay → Hg
- Mainspring Fund Services → Apex

Ireland

5

transactions, including:

- KB Associates → waystone
- Centaur → waystone
- AMX → carne

Other EMEA

13

transactions, including:

- Universal Investment → montagu, CPP Investments
- MAS → Vistra
- AlleyBe → Zedra

Rest of World

7

transactions, including:

- Paraty Capital → TMF Group
- Prometa → Apex
- Genesis Trust → Highvern

Channel Islands

5

transactions, including:

- Noble → Highvern
- Nedgroup Trust → Suntera Global
- Altum → Tenzing

Luxembourg

5

transactions, including:

- EFA → Universal Investment
- Kneip → Deutsche Börse Group
- Maitland → Apex

APAC

5

transactions, including:

- ocra worldwide → Acclime
- MMC → Apex
- best → Apex

Source: Investec intelligence; MergerMarket; Company announcements

Challenges faced in 2022

Last year saw a number of market headwinds, largely driven by the economic backdrop

Heightened regulatory scrutiny

- Regulatory scrutiny across the sector has continued to grow, particularly in light of additional ESG reporting requirements coming into play
- Heightened focus on KYC and AML in light of the wave of sanctions put in place following the start of the war in Ukraine

Inflationary pressures

- Inflationary pressures, particularly around people costs, have impacted profitability
- Whilst inflationary price increases are able to be passed on to clients, this may not always cover employee costs

Talent retention

- The sector has experienced relatively high staff turnover fuelled by high demand and low supply, particularly in the Channel Islands
- Companies are needing to engage with the employee base regularly to enhance retention and better utilise technology to fill the labour gap

The denominator effect

- Market volatility and depressed listed equity prices have resulted in pension funds and underlying investors needing to adjust exposure to illiquid assets as they periodically review their portfolio
- Whilst demand for alternative illiquid assets is still strong, investors are more selective on asset classes and GPs

Fewer new fund launches

- New fund launches and transactional activity was lower than in prior years
- Preqin estimates a 21.5% decline in PE fundraising in 2022, with a further 2.7% decline forecast in 2023 before a return to annual growth

Outlook for 2023

Outlook for 2023

Significant growth opportunity remains, underpinned by market fundamentals, but players need to focus on operating model efficiency and selective M&A

Continued structural growth

- Growth in alternative asset AuM is expected to slow down slightly, although the medium and long term outlook is still positive
- Four alternative asset classes forecast to maintain strong double digit AuM growth from 2021 to 2027 (Private Equity, Private Debt, Venture Capital and Infrastructure)

11.9%	Annualised growth rate of Private Capital AuM forecast from 2021 to 2027[1]
c.$23tn	Total forecast Alternatives AuM by end of 2027, up from c.$14tn AuM at the end of 2021[1]

The Asia opportunity

- The rise in global wealth and the number of HNWIs are the biggest drivers of demand for private client and trust administration services, both of which are predicted to continue growing steadily over the next five years
- Asia is anticipated to be a key growth jurisdiction, driven by high growth in the number of Chinese billionaires. Jurisdictions such as Singapore are making themselves an attractive source for foreign investment and should be a key growth territory for administrators

6.4%	Annualised growth rate of global wealth from 2021 to 2026[2]
c.87m	Millionaires globally by 2026, a c.40% increase from the number as at December 2021[2]

Compliance-tech

- Heightened regulatory scrutiny is requiring more complex compliance functions, yet labour market dynamics prove challenging to find professionals with the right technical experience
- Companies are turning to technology to fill the labour gap through the implementation of automation and regtech solutions to make compliance more efficient in the longer term, although this is still at an early stage of adoption

75%	Of firms do not have a single global system for regulatory compliance[3]
87%	Of firms have not fully automated manual data inputs, data checks and key workflow processes[3]

Source: [1]Preqin; [2]Credit Suisse Global Wealth Report 2022; [3]TrustQuay – Future Focus Report 2023

Outlook for 2023 (continued)

Significant growth opportunity remains, underpinned by market fundamentals, but players need to focus on operating model efficiency and selective M&A

Renewed case for outsourcing

- Heightened regulatory complexity, increased costs and the related squeeze on margins, LP reporting demands for transparency and a digital revolution amongst third party providers are all driving a new wave of outsourcing
- Players with existing strong client relationships and scalable tech-enabled offerings are best placed to capitalise

70% Of alternative investment managers expect to increase their level of outsourcing in the next three years[1]

>40% Of US fund managers outsource an element of their back office or fund operations against >70% in Europe[2]

Data as a differentiator

- The role digital solutions play will expand. Companies are increasingly harnessing data and developing tools to help clients make better decisions. This is often a key differentiator for those who are willing to invest
- Levels of technological investment and implementation remain relatively low across the sector, particularly when compared with other financial services industries

Importance of integrating technology recognized…

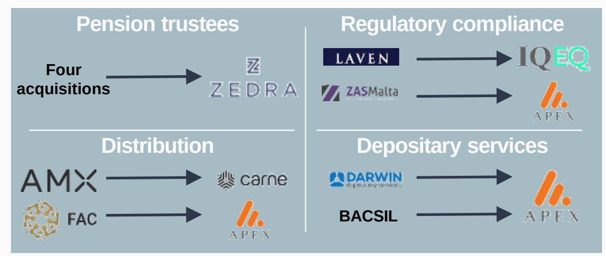
81% Of providers expect digital engagement with end clients will become much more commonplace[3]

…Despite lack of investment historically

84% Of providers do not have a client portal in place to differentiate their proposition[3]

Value, not volume M&A strategies

- We anticipate players will be selective when it comes to M&A in 2023, with a focus on targets that materially enhance the value proposition to clients and supports strong organic revenue growth
- Clients are increasingly expecting more from their service providers, so we foresee a greater emphasis on offering an integrated proposition which alongside data & analytics, will drive deal activity



Source: [1]Ocorian –Why outsource your fund administration?; [2]Aztec Group; [3]TrustQuay – Future Focus Report 2023

LPs remain positive on the outlook for alternatives

Investec hosted a panel discussion with LPs during the 2022 SuperInvestor conference in Amsterdam. The panel shared their thoughts on key trends

1

The "Denominator Effect" is impacting asset allocation

- LPs typically work towards an investment strategy that delivers a 60/40 split between liquid and illiquid assets
- As funds mark-to-market once a quarter, recent declines in public market valuations have left funds over allocated to the private markets
- Despite a time lag in rebalancing asset allocations, funds will likely look to focus efforts on liquid strategies

2

Illiquid investment strategies are still in favour

- Notwithstanding the Denominator Effect, LPs still need to look to the illiquid markets to find returns
- In current markets, however, LPs become more selective and will likely focus on managers with whom they are already invested

3

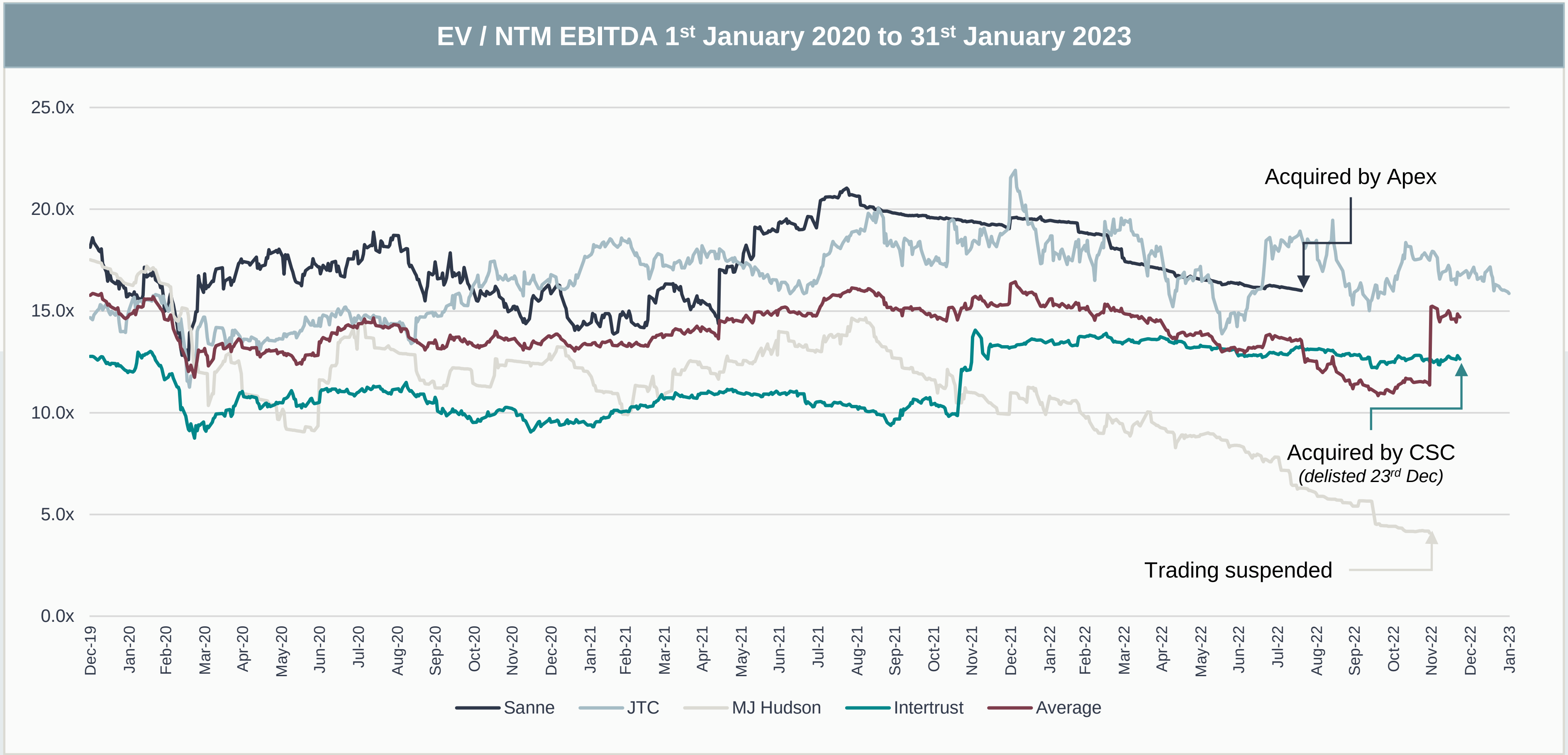
Direct lending and infrastructure the current asset classes of choice

- Given the shift to a relatively higher interest rate environment, direct lending is currently a highly attractive asset class
- Infrastructure investments are also highly attractive given the long term structural trends of the sector

How the listed players are performing

How the listed players are performing

A dwindling number of European listed players, creating opportunity for new IPO candidates to benefit from the strong institutional demand for the sector



Note: Detailed results and outlook not shown for Sanne in following pages
Source: FactSet

How the listed players are performing

	Trading and highlights	Outlook	2023 earnings valuation
JTC 2 February Pre-close Full Year Trading Update	• 2022 was a successful year for JTC, delivering double-digit net organic revenue growth. This exceeded medium term guidance of 8%-10% • New business wins of £24.6m was an increase of 17.7% on prior year (£20.9m) • JTC acquired NYPTC, a domestic US private client services business in Q4, following on from the 7 acquitions in 2021. M&A efforts have primarily focussed on integration	• The Group's EBITDA will be at the top end of expectations (£62m to £66m) with margins expected at the lower end of the range (33%-38%) • JTC are guiding that cash conversion will be at the top end of the range of 85%-90% • Following the acquisition of NYPTC, leverage remains at the lower end of the 1.5x-2.0x reported underlying EBITDA • Continue to see M&A opportunities across both Divisions • CEO Nigel Le Quesne is expecting JTC to reach its strategic objectives 2 years ahead of plan	**20.8x** PER **15.5x** EV / EBITDA
MJ HUDSON 17 October Changes to guidance 12 December Company update and suspension of trading 16 January Company and trading update	• In its announcement on 12th July 2022, MJ Hudson indicated that it expected Adjusted EBITDA to be modestly ahead of £8.3 million for the financial year ended 30 June 2022 • Following recent feedback from the auditors, EY, discussions are on-going in relation to the treatment of revenue recognition on one major contract and certain costs included in Adjusted EBITDA • Subsequently announced that the Board had become aware of additional issues and that trading was suspended indefinitely until the investigation has run its course	• MJ Hudson's shares remain suspended • The Company has appointed A&M to look at the potential sale of one or a number of business lines • Whilst trading in all divisions continues, MJ Hudson observed a slowing in fundraising activity and transactions, impacting the activity of related business units • The Company's focus remains on reducing costs and implementing measures to strengthen the Company's balance sheet • Broker estimates are currently unavailable	**n/a** **n/a**

Source: FactSet; all multiples calculated over a calendar year on an FY1 basis

How the listed players are performing

	Final results and offer	2023 earnings valuation
14 November Final results of the Offer	• Acquisition of Intertrust by US based CSC closed on 14 November 2022 • Delisting occurred on 23 December 2022 • The acquisition more than doubles the global workforce of CSC, a group which provides business, legal, tax, and digital brand services • Q3 2022 underlying revenue growth was 8.2% and Q3 2022 adjusted EBITA margin was 26.4% • Q3 2022 revenue was €159.0 million (+13.4% y-o-y). Underlying revenue growth was 8.2%, driven by double-digit growth in US Fund Services and Luxembourg, a return to growth in Cayman Islands and continued solid momentum in Rest of the World. This was only partly offset by lower revenues in the Netherlands • Cash flow from operating activities of €31.5m in the third quarter increased 41.0% compared to last year	**12.7x** PER (Dec 22) **11.2x** EV / EBITDA (Dec 22)

Source: FactSet; all multiples calculated over a calendar year on an FY1 basis

Investec

Our credentials in the space

Dedicated to the Fund & Trust Administration sector

Highly knowledgeable and relevant sector experience

Investec has a deep understanding and commitment to the sector across its entire banking platform

We have significant experience in the sector across both advisory and lending with a strong Channel Islands presence and offering

Highly relevant advisory experience

We have advised across multiple transactions in the sector over the last 8 years, with a deep understanding of value drivers, trade buyer strategies and valuation benchmarks

Leading multi-product, mid-market focused Investment Bank with a global reach

Investec is an international bank, and in combination with our colleagues in Europe and our US network we are able to offer a truly global offering

glas
Advised PE under bidder
Buy side adviser
July 2021

OCORIAN
Merger of Ocorian and Estera
Super senior facilities
February 2020

microgen Financial Systems
Disposal of Microgen to Silverfleet
Financial adviser
June 2019

Equiom VÄRDE
Provider of debt to Varde
Super senior facilities
December 2018

SANNE
Acquisition of LIS
Financial adviser
September 2017

SANNE
Acquisition of FIS & £102m fundraise
Sole financial adviser & broker
January 2017

ESTERA
Refinance of shareholder loan notes
Sole arranger & provider
January 2017

Equiom
Refinance of shareholder loan notes
Sole arranger & provider
December 2016

alterDomus
Minority investment by Permira
Senior secured debt
November 2016

SANNE
Acquisition of FLSV
Sole financial adviser, bookrunner & broker
November 2016

SANNE
Acquisition of IDS Fund Services
Financial adviser
March 2016

ELIAN
Acquisition of SFM Europe
Senior lender
September 2015

APPLEBY
Acquisition of Appleby Fiduciary
Buy side adviser
July 2015

Orangefield group
Acquisition of Orangefield
Buy side adviser
July 2015

SANNE
£232m Main Market IPO
Sponsor, sole bookrunner & broker
March 2015

A full-service bank for the sector

Our offering spans corporate banking & lending, growth & leveraged finance and M&A advisory

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