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Exploring the surge of private equity activity in UK wealth management

What is driving private equity interest?

Christian Kent

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From an ageing population to stricter regulations, Christian Kent, shines a light on recent private equity activity in the wealth management sector...

Since 2011 the population in the UK has continued to age, with the number of over 65s rising rapidly each year. The country's ageing population is also living longer, which has created a growing pool of defined contribution (DC) pensions. Meanwhile, there has also been an explosion of interest in financial literacy.

Individuals are becoming more knowledgeable and invested in controlling and shaping their lifestyles post-retirement, or in the case of business owners, when they exit.

Together, these long-term structural tailwinds have led to the creation of a £2.7trn wealth management market comprised of shareholdings, investment funds, net cash, and private and occupational DC pension instruments. However, navigating the myriad of investment opportunities requires a thriving financial advice market, which is why it's no surprise that it's the largest segment in the wealth management landscape at £800bn in assets under administration.

With the wealth management and financial adviser sector proving particularly resilient, performing strongly during the pandemic and throughout interest rate increases, its growth has led to a very fragmented market, opening the doors for private equity-backed (PE) players to consolidate.

What is driving private equity interest

From advising Wren Sterling on its sale to Lightyear Capital to our most recent deal involving the sale of Perspective Financial Group to Charlesbank, our team has been at the forefront of the M&A market for wealth management and financial advisory firms. So, what are we hearing from PE players and why are we now seeing a rise in deals?

One of the key drivers of this trend has been the introduction of Consumer Duty in July 2023 from the Financial Conduct Authority. The new rules pressured a lot of smaller firms in the sector to sell their business to larger players due to the increased cost of compliance and oversight.

After the boom of dealmaking in 2022, PE firms shifted their focus away from high growth assets to ones able to demonstrate an ability to generate sustained profits instead. Part of this shift also saw a renewed focus from PE on backing strongly performing management teams. Furthermore, principals of firms have started to retire, and, when looking for new homes for their clients, having robust management teams in place ready for the transition is a key requirement to ensure any exit.

This scenario is particularly prevalent across the wealth management sector. Wealth management businesses are mainly people-based, which is why successful firms are those that have strong management teams running the organisation, and hence makes them a lucrative option for PE.

We saw this with our recent work with CBPE Capital, which sold its stake in Perspective Financial Group to Charlesbank Capital Partners (CBPE) in February 2024.

Having acquired a majority stake in Perspective in December 2019, CBPE invested alongside the firm's current management team. With a strong management team in place, CBPE was able to invest in central support functions and technology, along with completing more than 45 bolt-on acquisitions.

In just over four years, the firm had grown from having 15 UK offices, 180 staff and £2.8bn in assets under management, to a firm with 40 UK offices, more than 500 staff, and with £8bn in assets under management. The acquisition by Charlesbank represented a strong return for CBPE and moved Perspective further along the PE size spectrum.

Where PE steps in

PE firms aren't the only ones standing to gain from a transaction. A mutually beneficial relationship is usually created as PE firms arrive with extensive experience working with similar wealth management businesses, helping them grow even further by assisting in areas such as technology, digital marketing and growth, and even providing future capital to support further M&A. They will also have exited from other wealth management investments not just in the UK but in the USA as well, providing valuable insight into which strategies were successful.

When principals within the firm are looking to exit and retire, PE is also a fantastic option when it comes to helping with succession planning, such as providing the capital to buyout shareholders who are no longer in the business. This also involves creating strategies that provide incentives to exit, which also align with the interests of the management and PE teams in terms of delivering a value-creation plan.

Forward-looking

The increase in M&A activity is likely to follow us into the next few years as the sector continues to show strong signs of growth and resilience. There are two trends in particular that we expect to see in the coming years. The first is that well-performing wealth managers will begin moving up the PE size spectrum as they are acquired through their growth journey. The second is a consolidation amongst the mid-tier, which will provide opportunities for PE investors to provide capital to unlock opportunities.

Christian Kent is managing director at Houlihan Lokey

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