

# Fund, Trust and Corporate Services

H2 2023 Sector Update



# Introduction

Despite the sector having been in the spotlight for both private and public market investors over the last decade, there continues to be strong appetite for investment which shows little sign of abating. In fact, we see a number of fresh reasons why the sector will continue to see future consolidation and attract new investment.

In our latest update on the sector we cover:

- **Why investors are taking a fresh look at the sector** – latest developments which we believe will drive future corporate activity across the alternative assets and trust administration sectors;
- **Why the US remains a highly important market for the sector** – the majority of global private capital AuM is held in the US and AuM growth for the region is expected to outpace that of global AuM;
- **The impact on the US private fund industry from the largest suite of regulatory changes since the GFC** – a greater level of compliance requirements will impact how asset managers do business, with further changes on the horizon expected to increase scrutiny over outsourced providers;
- **Continued M&A activity in the US market** – 30+ transactions over the last three years, and an increasing number of US providers looking to Europe for acquisitions; and
- **The JTC success story** – consistently strong organic growth performance, coupled with highly strategic M&A.

**Please reach out to anyone in the Investec team if you would like to discuss anything in this report or if there is a way 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

# Investec's international M&A business

## UK & Europe



>130

M&A professionals

9

European offices



Edward Thomas  
Managing Director



Jan Willem Jonkman  
Managing Director



Thomas Ellenberger  
Managing Director

## US



>160

M&A professionals

8

US offices



John Rakowski  
Managing Director



Justin Loeb  
Head of Sponsor Coverage

## Australia



Ze Min Hu  
Managing Director

## South Africa



Marc Ackerman  
Head of Corporate Finance

## India



Paras Berawala  
Managing Director

>€25bn

In M&A transactions  
(last 5 years)

65%

Sell-side transactions

>280

Transactions  
(last 5 years)

60%

of transactions involved  
financial sponsors

>375

M&A professionals  
worldwide

45%

Cross-border transactions

# Fresh reasons to focus on the sector

A number of current market developments are driving renewed interest in the sector from investors

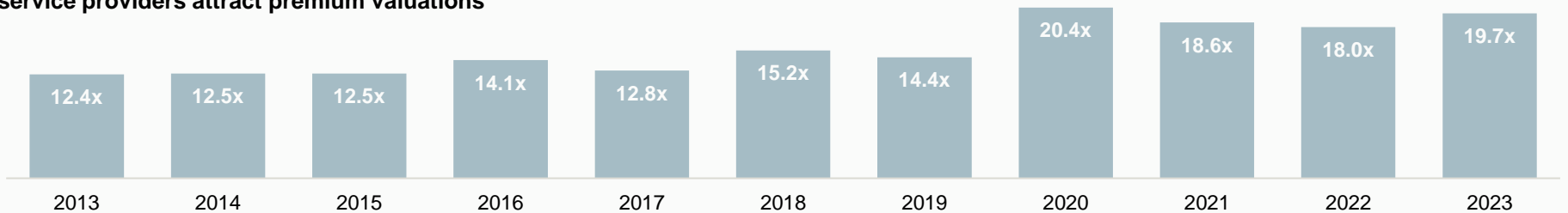
## Alternatives

- 1 Valuations have remained extremely robust, with an upward trend evident over the last ten years
- 2 Increased compliance requirements in the US will drive further outsourcing and market growth
- 3 US service providers are increasingly looking to Europe for acquisition targets to add further scale and compliance expertise

## Private Client

- 1 JTC's recent interim results, with c.19% organic growth in Private Client Services, has demonstrated the growth potential in the sector
- 2 The US has become an increasingly attractive market for the sector given its share of global wealth and growth of domestic private client providers
- 3 Recent removal of key territories from the FATF 'Grey List' (such as Cayman Islands) will continue to drive market growth

Average valuations across the sector have continued to grow over the past ten years, driven partly by increased M&A activity in the US where service providers attract premium valuations






Average valuation by year across the Fund, Trust and Corporate Services sector according to Investec's proprietary transaction database

# Spotlight on the US market



# Key themes in the US market

The US continues to be a highly attractive and important market for the sector, and will require further support from service providers in light of the changing regulatory landscape

 <p><b>Continued structural growth in alternatives</b></p>	<ul style="list-style-type: none"> <li>North America continues to dominate the global market for Private Capital, with AuM having grown at an annualised rate of 15.3% from 2015 to 2021, and is forecast to continue outpacing the growth of global AuM</li> <li>However, the current macro environment is impacting fund managers, with a sharp drop-off in both fundraising and deal activity in 2023</li> </ul>	<p><b>12.7%</b> Annualised growth rate of Private Capital AuM forecast from 2021 to 2027 in North America<sup>1</sup></p> <hr/> <p><b>c.62%</b> Of total forecast Global Alternatives AuM will be managed in North America by the end of 2027<sup>1</sup></p>
 <p><b>Increased regulation</b></p>	<ul style="list-style-type: none"> <li>A suite of new regulations adopted by the SEC for the private capital industry is placing compliance at the heart of decision-making for asset managers regarding resource requirements and future outsourcing of functions</li> <li>Further pending SEC proposals have been announced that would introduce new compliance requirements for the outsourcing of functions to independent service providers, such as fund administration</li> </ul>	<p><b>\$1.9bn</b> Estimated annual cost to fund managers of meeting the new SEC regulations already in place<sup>2</sup></p> <hr/> <p><b>33%</b> Of fund managers rank better risk and compliance oversight as the number one motivation for outsourcing<sup>3</sup></p>
 <p><b>Demand for onshore Private Client services</b></p>	<ul style="list-style-type: none"> <li>The US is home to the largest proportion of global wealth, with c.36% of dollar millionaires globally<sup>4</sup>, which is driving increased domestic demand for trust administration and private client services</li> <li>Deregulation and favourable tax environments across certain US states, such as South Dakota and Delaware, are fuelling the demand for US domiciled personal trust structures</li> </ul>	<p><b>\$1.2tn</b> Estimated AuA in US trusts which is addressable for trust administration providers<sup>5</sup></p> <hr/> <p><b>8.2%</b> Forecast annual growth rate of the US personal trust sector from 2023 - 2028<sup>5</sup></p>

Source: <sup>1</sup>Preqin; <sup>2</sup>SEC estimate for new requirements regarding audit statements, quarterly performance reports, unequal treatment of investors and additional disclosures; <sup>3</sup>S&P Global: Optimising Outsourcing report Q2 2023; <sup>4</sup>Henley & Partners USA Wealth Report 2023; <sup>5</sup>JTC announcement on acquisition of SDTC

# US M&A over the last three years

The US has remained a highly active region for M&A across the sector, with the majority of deals driven by domestic consolidation or European consolidators seeking entrance to the market



**Key**  
Target → Acquirer

Source: Investec intelligence; Mergermarket; Company announcements

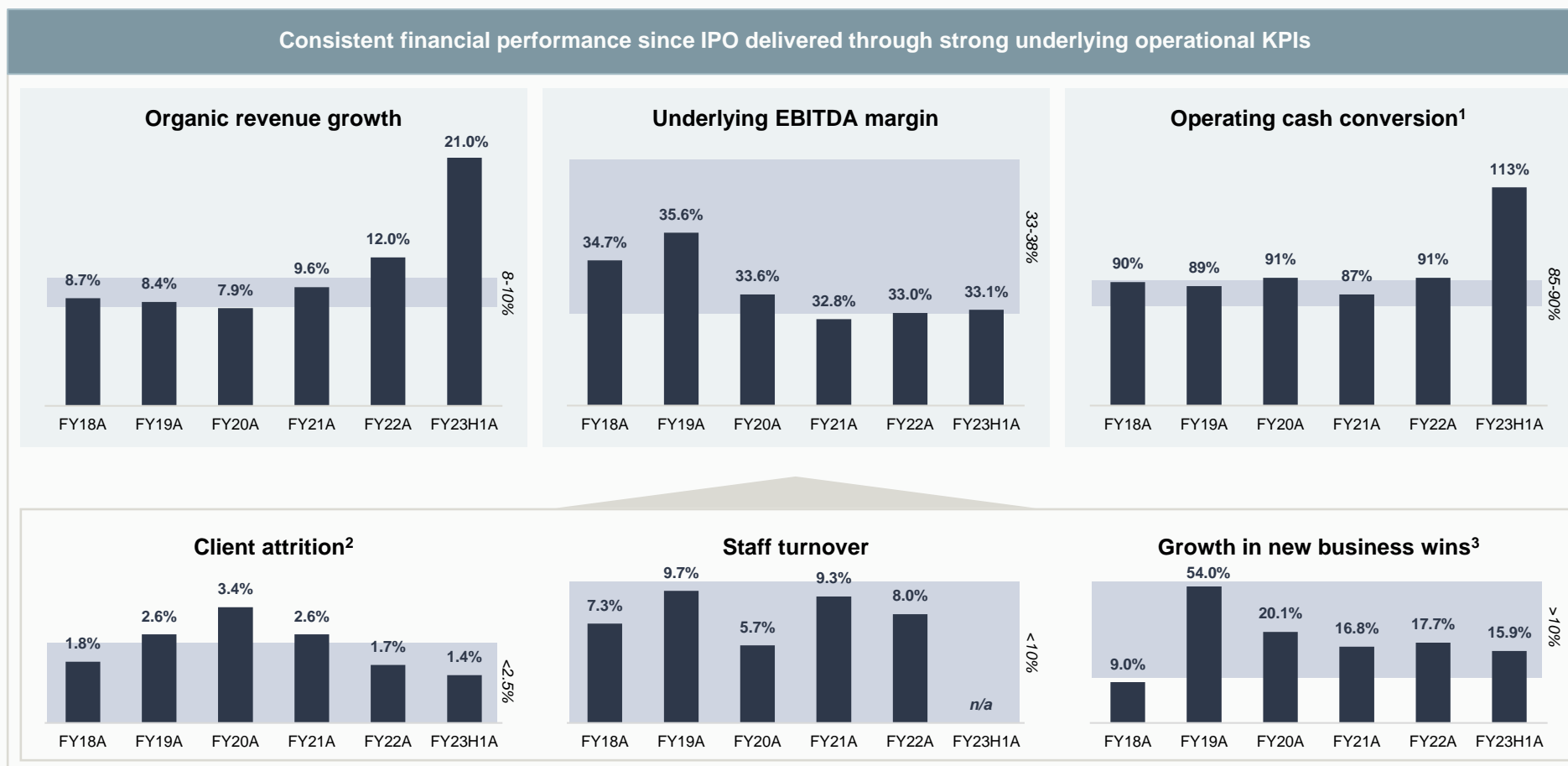
# JTC: A case study for success





# Consistent performance underpinned by KPIs

Metronomic performance against guidance across all key performance indicators



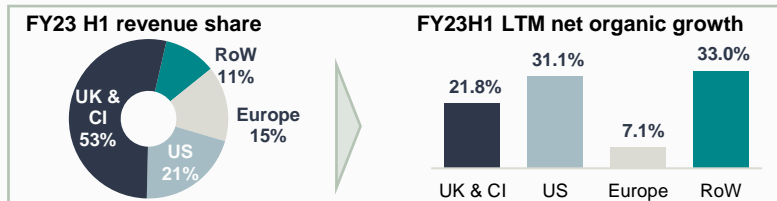
Source: Company annual accounts and announcements. Notes: <sup>1</sup>Net cash generated from underlying activities as % of underlying EBITDA; <sup>2</sup>percentage of non end-of-life revenue lost year-on-year; <sup>3</sup>Annualised value of new work won from clients where a contract has been signed

# Growth driven by a clear and consistent equity story

## Key qualitative factors underpinning JTC's success

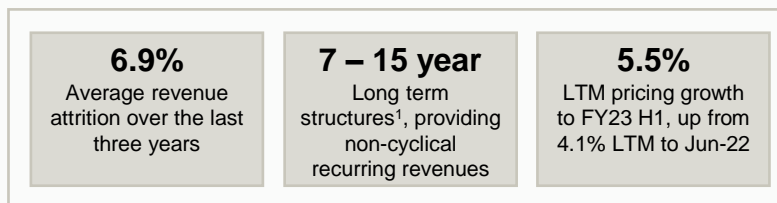
1

Strategic focus on high growth regions such as the US and APAC



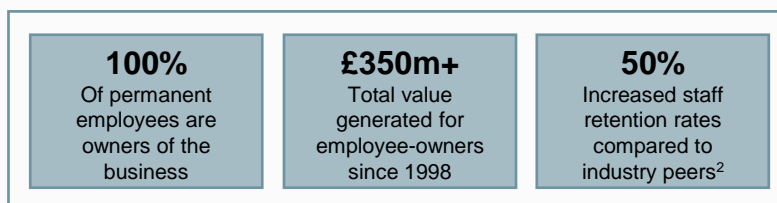
2

Focus on service quality drives high client retention, strong revenue visibility and the ability to put through consistent price increases



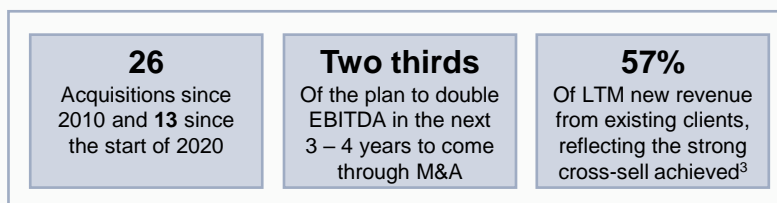
3

Shared ownership structure creates strong alignment across the group to drive the right behaviours and generates consistency of service for clients



4

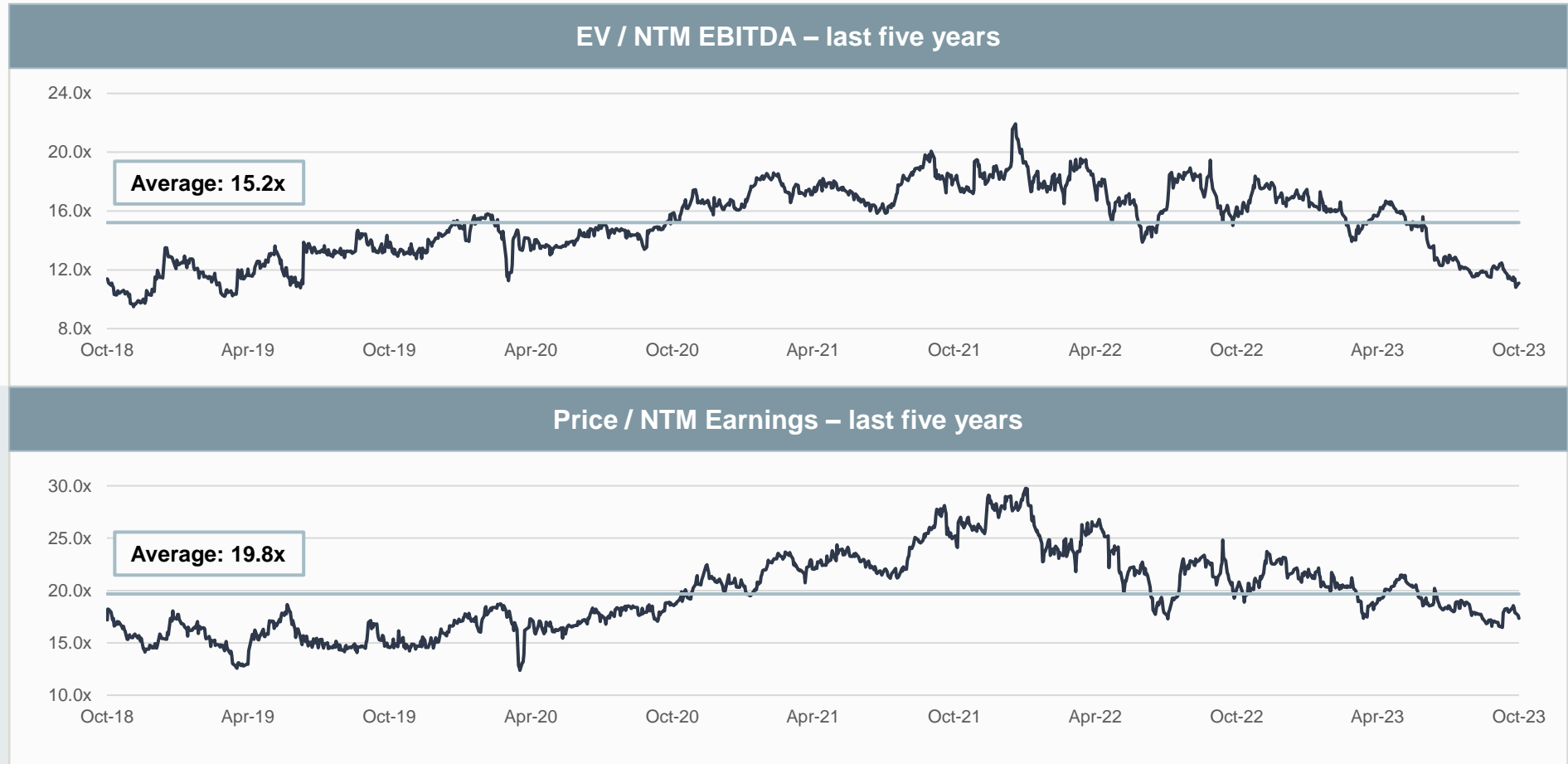
Highly acquisitive with a focussed M&A and integration strategy centred on cross-sell, driven by a dedicated Group Commercial Office



Source: Company annual accounts and announcements. Notes: <sup>1</sup>Excluding impact of SALI acquisition which gives JTC exposure to long-dated Insurance Dedicated Funds with avg. contract length c.2x pre-acquisition length; <sup>2</sup>Per Investec initiation note July 2022; <sup>3</sup>On a constant currency basis using H1 2023 average rates

# JTC's value evolution

Prevailing market valuation has dropped below the long-term average during the year, despite strong performance



Source: FactSet

# 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

## Global M&A team

We have >375 M&A bankers globally, located across Europe, US, Asia and Africa, providing us with a true international offering to our clients and access to investors and strategic acquirors globally

 <p>Advised PE under bidder</p> <p>Buy side adviser</p> <p><b>August 2023</b></p>	 <p>Provider of debt to ICG</p> <p>Senior facilities</p> <p><b>January 2023</b></p>	 <p>Acquisition financing for M&amp;A</p> <p>Senior facilities</p> <p><b>March 2022</b></p>	 <p>Advised PE under bidder</p> <p>Buy side adviser</p> <p><b>July 2021</b></p>	 <p>Advised strategic under bidder</p> <p>Buy side adviser</p> <p><b>March 2021</b></p>	 <p>Advised PE under bidder</p> <p>Buy side adviser</p> <p><b>October 2020</b></p>
 <p>Merger of Ocorian and Estera</p> <p>Super senior facilities</p> <p><b>February 2020</b></p>	 <p>Disposal of Microgen to Silverfleet</p> <p>Sell side adviser</p> <p><b>June 2019</b></p>	 <p>Provider of debt to Varde</p> <p>Super senior facilities</p> <p><b>December 2018</b></p>	 <p>Acquisition of LIS</p> <p>Financial adviser</p> <p><b>September 2017</b></p>	 <p>Acquisition of IFS &amp; £102m fundraise</p> <p>Sole financial adviser &amp; broker</p> <p><b>January 2017</b></p>	 <p>Refinance of shareholder loan notes</p> <p>Sole arranger &amp; provider</p> <p><b>January 2017</b></p>
 <p>Refinance of shareholder loan notes</p> <p>Sole arranger &amp; provider</p> <p><b>December 2016</b></p>	 <p>Minority investment by Permira</p> <p>Senior secured debt</p> <p><b>November 2016</b></p>	 <p>Acquisition of FLSV</p> <p>Sole financial adviser, bookrunner &amp; broker</p> <p><b>November 2016</b></p>	 <p>Acquisition of IDS Fund Services</p> <p>Financial adviser</p> <p><b>March 2016</b></p>	 <p>Acquisition of SFM Europe</p> <p>Senior lender</p> <p><b>September 2015</b></p>	 <p>£232m Main Market IPO</p> <p>Sponsor, sole bookrunner &amp; broker</p> <p><b>March 2015</b></p>

# A full-service bank for the sector

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



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