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M&A Activity - Q&A with Erika Cramer, Silver Lane Advisors

Erika Cramer is the managing director and partner at Silver Lane Advisors where she leads the firm's alternatives practice, and advises on transactions involving traditional institutional and wealth managers.

Infovest21: How would you describe the current pace of M&A activity?

Erika Cramer: Though the pace of M&A activity has slowed in 2013, the pipeline looks promising over the next few years...There are still a lot of deals to be done. Some quality firms are embedded in other types of organizations, such as multi-family offices, banks and other financial institutions.

Infovest21: What are the motivations for M&A in the funds of funds' space?

Erika Cramer: Buyers have varied motivations. Some hedge funds of funds are just trying to stay viable in the market place by acquiring funds of funds advisors in an attempt to stay above the critical mass threshold.

Founder dynamics are at play at some funds of funds where a succession plan is non-existent as next generation may not be ready or able to take on ownership.

There are also integrators in the market place seeking access to additional or complementary fund investors and talent. Others, such as Permal, have made strategic acquisitions where it is not about the "asset grab" but adding intellectual capital, geographic coverage, niche product/specialist strategy coverage, and/or track records to make for a stronger platform.

Dispositions are also part of the M&A landscape, including private equity firms that are bumping up against the end of their investment horizon. Will management buy it back? Will they sell to another strategic partner or recapitalize with another private equity firm?

Another factor driving activity is an interest in '40 Act funds and other commingled products marketed to high net worth investors and the mass wealth marketplace. It is still a challenging proposition to deliver broad exposure to hedge fund investments with less than $10 million of investible assets. Additionally, '40 Act funds may trade alpha for liquidity and access.

Traditional, long-only firms represent another buyer universe. Not only are these businesses trying to differentiate themselves from their peers, but they are also seeking higher fee product. Long/short equity is no longer viewed as an alternative only allocation; it is increasingly viewed as a sleeve of the long-only equity allocation. Traditional managers are increasingly attracted to hedge fund of funds to add more quivers in their cap on the product distribution front. Additionally, large hedge fund managers (Renaissance, Lone Pine, etc.) are beginning to offer long-only strategies as a complement to their existing offering and as an initial step toward offering '40 Act fund.

Infovest21: How is the transaction currently being priced?

Erika Cramer: There is still a wide range of pricing as a multiple of EBITDA. Pricing is dependent on the transaction structure and both of the quantitative and qualitative factors inherent in the seller's business. The market is not yet, and may never be again, at the levels attained pre-financial crisis.

As in any asset management business, those firms that have established an institutionalized and credible platform with a diversified client basis, broad product offering, repeatable investment process, succession plan and a strong track record, that ultimately deliver consistent profitability will always command premium pricing for their business.

The likely financial structure for firms that are out of steam, or in redemption mode, is a no-money-down, pure revenue sharing deal. Established funds of funds that have a growth trajectory, an institutionalized marketing platform and a repeatable investment process may have material franchise value and certainly don't transact on that basis. And the serious strugglers are likely to drift away.