Brokers, Asset Managers & Exchanges

# Takeaways from 34 Diversified Fins @ 32nd Annual BofA Financials Conference

**Industry Overview**

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Equity
United States
Brokers, Asset Managers and Exchanges

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## 32nd Annual BofA Financial Services Conference

Last week on February 20-22, the BofA financials team hosted 300 investors and 130 companies at the 32nd Annual BofA Financial Services Conference at the 1 Hotel in Miami. The conference included 60+ presentations/panels with senior leaders across financial services including many of the largest banks and insurers, live CNBC interviews onsite and a special keynote from Bank of America's CEO Brian Moynihan. We hosted 22 fireside chats with CEOs and thought leaders from our diversified financials coverage.

**SAVE THE DATE:** Next year, our US conference will be held at the 1 Hotel, Miami (same venue) on February 10-12, 2025. Our European Financials Conference will be at the Landmark Hotel in London on September 24-26, 2025.

## Deep bench of 34 asset managers, brokers & exchanges

Affiliated Managers Group, AllianceBernstein, Ameriprise Financial, Apollo, Ares Management, Artisan Partners, BGC Group, BlackRock, Blackstone, Blue Owl, Brookfield Asset Management, Carlyle Group, Cboe Global Markets, Deutsche Boerse, Digital Bridge Group, Euronext, EQT, Franklin Resources, Galaxy Digital, GCM Grosvenor, Interactive Brokers, Intercontinental Exchange, Invesco, Janus Henderson, KKR & Co, Patria, StepStone, TMX Group, TPG, Tradeweb Markets, Victory Capital, Vinci Partners, Virtus Investment Partners and WisdomTree. Most attendees were CEO level.

## Agree with Alt CEO bullishness; Still positive after run

Large cap Alts are winning through institutional client consolidations and expanding in both the private wealth and insurance channels while partnering more closely with banks. They are also benefiting from bank retrenchment, which is encouraging them to expand their private credit origination capabilities up/down the capital stack. However, this expansion may lead to some conflicts with their legacy institutional clients and banking relationships. All in all, we agree with the CEOs' bullishness and maintain our positive long-term outlook for the Alts and reiterate our Buys (Blue Owl Capital, KKR, Ares, Blackstone, TPG).

## Select "green shoots" for brokers & exchanges

A continuation of this new bull market should encourage an acceleration in retail engagement and organic growth at the online brokers, wealth managers and market makers. We also see this macro setup benefiting non-exchange businesses within our market structure coverage (fixed income execution, index, data/analytics, listings, software), and the fixed income businesses of the traditional asset managers through bond reallocations. While the Trads are facing secular headwinds in their equity businesses, they have two stealth profit levers: (1) beta which offsets outflows and (2) share buybacks at low P/E multiples.


**Refer to important disclosures on page 19 to 22. Analyst Certification on page 17. Price Objective Basis/Risk on page 13.** **12663687**

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# Perspective from 34 company meetings

## 4 key takeaways from the conference

- **Multiple high conviction themes benefiting the Alts:** KKR's CFO Rob Lewin talked about why KKR is best positioned for the recovery. Ares's CEO Michael Arougheti and Blue Owl's co-CEO Marc Lipschultz discussed how they are well-positioned for the expansion of private credit and bank retrenchment. Blackstone's CFO Michael Chae talked about how BX is prepared for most of the secular themes, but especially private wealth where BX is the leader. APO remains the leader in the insurance vertical and is increasingly leveraging its broad asset origination platforms to produce investment grade private/structured credit for third parties (fixed income replacement).

- **Fixed income reallocation is coming for the Trads:** The fixed income reallocation theme was in focus in our meetings with BlackRock President Rob Goldstein and AllianceBernstein CEO Seth Bernstein while the second-derivative impacts (ETF/bond flows) were discussed during our meetings with Tradeweb CEO Billy Hult and Intercontinental Exchange CFO Warren Gardiner. We look for money market to fixed income flows to accelerate this summer with the first Fed rate hike and steepening of the yield curve.

- **Several hedges will soften the blow from Fed cuts on the Brokers:** While Fed cuts will hit broker EPS, both Interactive Brokers Chairman Thomas Peterffy and Ameriprise CEO Jim Cracchiolo discussed their natural hedges (asset manager business, commissions, margin loans, net new assets). IBKR remains one of the fastest growing financial services companies, and we believe its deeply under-owned and under-valued given its unique qualities (small float, liquidity, control).

- **Fortress CME Group is being attacked on multiple fronts:** CBOE's new CEO Fred Tomczyk discussed 0DTE SPX adoption, and IBKR's Chairman Thomas Peterffy concurred that 0DTE is here to stay. CBOE's index options have been taking equity derivative share from CME's e-mini futures. BGC's CEO Howard Lutnick walked us through his plan to roll-out rates futures and disrupt CME. ICE has also been leveraging its global energy futures business to take share from CME.

## Industry positioning - Long asset managers (prefer Alts), Near-term cautious on Brokers and mixed on Exchanges:

We are the most bullish on the Alts given their secular growth trajectory (bank retrenchment, private wealth, insurance), improving cyclical backdrop (benefit from lower interest rates) and underappreciated defensive qualities (never-forced sellers, record dry-powder, FRE rich profits) although valuations are higher. Despite improving beta, we are slightly less positive on Trads (vs Alts) given the sharp increase in their share prices/valuations in 2023 and challenged base fee organic growth trends. We remain near-term cautious on the interest rate sensitive brokers due to lower interest rates and lingering cash sorting, but we are bullish on IBKR's robust account growth trajectory. We are mixed on the Exchanges. We expect derivative/equity volumes to come in soft if the market recovery continues, but their non-exchange and fixed income businesses are heating-up, which drives our preference for ICE and TW.

# Alternative Asset Managers

## Alt CEOs were bullish on the near and long term

Alt CEOs were optimistic about the significant growth opportunities from both the banking industry (deployments) and from the insurance industry (fundraising). The largest Alts can leverage banks' lower yielding, investment grade origination platforms to feed their growing insurance liability bases. This is an emerging opportunity that only the largest Alt models can exploit, and it is driving the Alts to significantly expand their capabilities across private credit (including corporate, real estate, infrastructure and asset-backed finance), both up (investment grade) and down (non-investment grade) the capital structure. As the Alts are now expanding quickly into the insurance, private wealth and bank channels, they also need to protect their existing institutional limited partner relationships (pension plan, sovereign wealth funds, endowments, foundations) by avoiding new conflicts and making sure their bank relationships remain mutually beneficial. For example, the Alts' efforts to build their own capital markets operations has been shifting the economics of transactions from external investment banks to their own income statement (shrinking the commission pie for investment banks).

## Apollo (APO, Neutral)

- **No issues with surrenders despite sharp rise in interest rates:** Athene's sharp increase in surrenders in 2023 were driven by the large volume of three-year annuities that were sold in 2020 (covid). When they exited their surrender charge period in 1Q23-3Q23, they surrendered while Athene expected this as we did not monitor any issues with asset-liability matching with its spread-related margin trend remained positive. 80%+ of Athene's liability portfolio is not surrenderable without charge. The surrenders that APO has experienced have all been mostly predictable and consist of policies with contractual maturities, policies coming out of surrender protection and unplanned uneconomic surrenders by people who need to access their policy.

- **Growing private wealth pipeline; looking to catch-up with leaders:** APO has a growing product innovation pipeline in private wealth. Currently, their offerings consist of two flagships led by AAA (Apollo Aligned Alternatives), which has a flexible investment mandate across alternative asset classes and private markets, and ADS, APO's private credit BDC. In total, APO currently has seven products in market today, and expects to bring one new product to market every quarter moving forward.

## Ares (ARES, Buy)

- **Best positioned for the secular growth of private credit (private credit is not in a bubble):** In our view, ARES has the best and largest private credit business in the world. It spans across illiquid/non-investment grade segments including corporate, infrastructure, real estate and asset-backed finance. ARES is also the largest lender in Europe where the market is 10 years behind the US and is also large in Asia where the market is estimated to be 20 years behind the US in terms of maturity and bank market share. This business is supported by ARES's very strong investment performance over 20 years. We agree with ARES's view that the lending system in the US is so much stronger today under the asset manager model than before the global financial crisis with interconnected banks running at 20x+ leverage.

- **View ARES as an emerging #2 in private wealth to challenge BX:** Ares's private wealth product offerings currently include two non-traded REITs (AREIT, AIREIT), a diversified credit interval fund, a private equity vehicle, a non-traded BDC, and a European BDC equivalent, with new products under development. ARES is especially interested in new opportunities in Europe and APAC regions as they continue to grow these private wealth offerings. In January, ARES raised $600M in the retail channel and there is a potential for this to grow as new products continue to ramp.

- **Asset lite insurance business:** Since giving out original guidance in 2021, ARES continues to aim for $25B of its targeted $500B of total AUM in 2025 to come from the insurance channel. ARES is focused on continuing to be an asset lite asset manager, especially as it continues to build its insurance platform. It hopes to achieve this by continuing to use third party capital to grow this business.

## Blackstone (BX, Buy)

- **Private wealth flows expected to accelerate significantly by 2025**
Blackstone's private wealth flows have grown tremendously over the past 10 years, and retail AUM now comprises almost 25% of BX's total AUM. BREIT and BCRED were the headline products for the past few years, but we expect BXPE, its private equity vehicle, to be the next category leader ($1.3B raised to date). 92% of the financial advisors with a client who invested in BXPE, had invested in BREIT or BCRED before, highlighting BX's cross-sell potential and strong brand. Private wealth is an $80Tn market where only 2% of assets are currently invested in Alts. One buyside topic that emerged at the conference is decelerating fundamentals in the multi-family vertical which could weigh on BREIT's near-term returns while we expect BREIT's redemption limits to end shortly and for its flows to improve significantly.

- **Infrastructure segment expanding from demand and supply side:** BX believes infrastructure credit continues to be an underserved area of the market. The senior secured investment grade and long-duration qualities that infrastructure credit offers makes it especially attractive to insurance companies. On the infrastructure equity side, BX's permanent capital infrastructure vehicle has over $40B of AUM and owns the largest toll-road operator in Europe, the largest port operator in the US, and the fastest growing data center globally.

## Brookfield Asset Management (BAM, Neutral)

- **BAM is #1 globally in infrastructure and renewables:** BAM benefits from scale and a first-mover advantage in Infrastructure which has some of the strongest fundraising and investing tailwinds across all of the Alts categories. Within infrastructure, digitalization and decarbonization continue to have strong secular themes with extremely high TAM potential driven by the need for more data centers, towers and fiber optics which require specialty knowledge to build.

- **BAM is targeting retail through new funds with attractive qualities:**
Currently, BAM offers 4 semi-liquid funds targeted at private wealth which includes 2 offered from Brookfield and 2 from Oaktree. Management views the retail channel as a new avenue for growth and are expecting to be added to more platforms over the next couple years. Mgmt has noticed that retail does not mind giving up a little extra return for more liquidity making the retail funds highly attractive wrappers which should help with adoption.

## Carlyle Group (CG, Underperform)

- **Management shakes up compensation structure to align interests:** Investors reacted positively to CG's expense reallocation announcement during its 4Q23 earnings call which sought to optimize the model for both employees and shareholders. Shareholders will now be earning more FRE while GP's compensation will mostly be paid from performance. This should be a "win-win" for both parties as investors value the steadiness of FRE while simultaneously better incentivizing and rewarding GP's for their performance.

- **CG reminds investors that they want to be a growth not expense story:** Management noted that they are focused on businesses with scalability and growth targeting high-demand areas such as secondaries and direct-investment as they shed their traditional private equity reputation. CG is also targeting private wealth with new and innovating products such as CTAC, viewing private wealth as a massive opportunity that will play out over time and believing that their brand reputation sets them up for success in the channel.

## Digital Bridge (DBRG, Not Rated)

- **DBRG is focused on a digital infrastructure:** Per the company, most LPs are under allocated to infrastructure, especially digital infrastructure and they prefer to be invested with "the best" which is apparent when you look at fundraising across BX/ARES/KKR or any of the big players. DBRG feels good about its position, sizing the total future digital infrastructure capex up to $15T. The company recently reorganized from a REIT, so its investor base is in a transition phase.

- **Digital Infrastructure funds' terms:** Digital infrastructure is composed mostly of long-term contracts with investment grade counterparties aiming for high teens through twenty percent IRRs. The majority of contracts are either fixed escalators between +3-5% or tied to a CPI index. Despite their inflation protection, most clients are renewing contracts every 3-5 years and relationships tend to be sticky given the complicated nature of the segment and long lead times to building which require a lot of trust.

## Blue Owl (OWL, Buy)

- **High growth and on-track for 2025 targets:** OWL boasts an all fee-based model with 92% of their revenues coming from permanent capital which has helped earnings remain steady despite volatility in markets. While hitting their $1.00 2025 dividend target is important and OWL is on track to do so, management is also focused on 2026 and beyond.

- **OWL is focused on a few high growth segments where they have scale/advantages:** While many large Alt managers today aim to enter multiple Alt verticals, OWL is more focuses on a few very large, concentrated areas where they see significant growth and significant advantages including private credit, GP Strategic Capital and Real Estate. An example of this is triple net lease where OWL is the largest participant closing its most recent fund at just over $5B making them the corporate partner of choice.

## GCM Grosvenor (GCMG, Not Rated)

- **Misperceptions around client base and stickiness:** GCMG's client base is largely institutional investors that are mostly blue chip such as sovereign wealth funds and pension plans. They use GCMG and peers as a "base of the pyramid" by helping them allocate capital to Alts, but GCMG says end up becoming an indispensable source of knowledge for their clients. While CEOs/allocators might change at a given institution, GCMG is a constant and knows its overall strategy and goals which creates an sticky client base despite investors' perception that clients take their knowledge and then invest directly themselves. GCMG might be handling 10-15% of their capital in a certain space on average.

- **Private wealth in the US has only allocated 2% to Alts = opportunity:** To put the opportunity size of private wealth in perspective, the private wealth space is worth +$100T per GCMG, so doubling clients' allocations from 2% to 4% has huge implications. GCMG is targeting and investing in its own distribution to take advantage of the opportunity. It is a priority for 2024 and something mgmt has alluded that it will be giving many more updates on in the near future.

## KKR (KKR, Buy)

- **Japan is providing KKR multiple opportunities for expansion:** KKR benefits from its leading presence in Asia across all of its major businesses. For example, Japan is the second largest insurance market in the world with high demand for reinsurance capital. KKR will benefit from this as it currently has a much larger presence than any competitors in terms of invested capital in Japan and will be able to take advantage of this as it grows its insurance business in the region.

- **Differentiated capital allocation strategy focuses on growth accelerations and compounding (Berkshire Hathaway):** KKR has continued to reiterate its capital management plan focusing on using excess free cash flow in core private equity, insurance, strategic M&A, and share buybacks. KKR believes each of these uses of cash generates recurring and durable EPS growth over time or will help grow KKR's businesses. Over the past five years, KKR has used 100% of its net deployment in these four areas and plans to continue this for the following five years.

## Patria (PAX, Neutral)

- **Steady inflows expected throughout 2024 for Infra V and PE VII:** PAX is currently raising its Infrastructure V & Private Equity VII funds. Infrastructure V raised ~$1B in 2023 and has a $2.5B target. Private Equity VII has raised $1.2B ($2.5B target) and management expects steady fundraising throughout 2024, with a final close for both late in the year. While the target for Private Equity VII has been lowered from its original $3B target, management has guided to similar-sized deployments as originally announced. This likely means that the investing period will be quicker for Private Equity 7, and that they may begin fundraising again for fund 8 sooner than their typical 3 to 4 years between vintages.

- **Abrdn and Credit Suisse Real Estate acquisitions should close soon:** 2023 was another big year of acquisitions for PAX. The company had acquisition-related inflows of $1.3B in 4Q23, primarily due to the Bancolombia deal closing. In 2024, the company will begin to integrate the more recent acquisitions with its platform and will benefit from the additive management fees being captured for a full calendar year. Looking ahead, we expect PAX to close the Abrdn Private Equity Solutions Business in 1H24, which will bring $9B of AUM, $7.8B of FEAUM and ~$15M in FRE. Additionally, in 2H24, we expect PAX to close on the Credit Suisse Brazil Real Estate deal bringing in an additional $2.4B of FEAUM and $8M in FRE.

## TPG (TPG, Buy)

- **Angelo Gordon acquisition helps TPG to partner with banks moving forward:** TPG has partnered with banks in the past with banks acting as lenders in the buyout business and as M&A advisors. Looking ahead, TPG will be able to provide capital to banks as banks need to offload assets, and TPG will also replace banks as lenders in certain situations. AG's platform has multiple strategies, and this diversity in the credit business allows TPG to interact with and without banks across more investment opportunities.

- **The asset-based lending opportunity set is growing:** With the struggles regional banks have had, the structured credit and asset-based lending opportunity has grown. About 2 years ago, TPG raised ABC 1, its first asset-based credit dedicated closed end fund, which it fully deployed in 18 months, highlighting the need for this capital. Additionally, there is a significant opportunity to scale this business due to insurance needs that come out of this business.

# Brokers & Exchanges

## Brokers & Exchanges optimistic on organic growth

The brokers are enjoying consistently solid-to-strong organic growth. A continuation of this new bull market (in parallel with lower interest rates) could encourage an acceleration in retail engagement and organic growth (especially in the individual investor segment). This would benefit the online brokers, wealth managers, and market makers. We also look for the record money market balances to start to flow back out into longer duration fixed income strategies and also re-risk into alternative investments which offer fixed income like qualities with more upside. We see this macro setup benefiting the non-exchange businesses within our market structure coverage (fixed income execution, index, data/analytics, listings, software).

## Interactive Brokers (IBKR, Buy)

- **Account growth leads to nice algorithm for EPS growth and rates mitigation** IBKR has been targeting account growth of between +25-30% subsequent +40-60% growth in prior years from by COVID tailwinds. We view account growth as an attractive input into IBKR's earnings growth algorithm as they are able to effectively monetize new clients' driven by automation leading to +70% operating margins. We view IBKR's robust organic growth as a strong offset to its interest-rate exposure in conjunction with greater margin loan usage and higher trading volumes amongst others.

- **High insider ownership is an issue management is aware of and addressing:** Management currently owns ~74% of outstanding shares and are working to lower their ownership stake in an effort to boost liquidity and float leading to better long-duration investor ownership. Thomas has paused his selling program in recent months as share prices haven't reflected his view on intrinsic value but expects to restart the program given the recent run and is open to potential new avenues such as private block trades.

## TMX Group (X, Not Rated)

- **Prioritizing recurring revenue opportunities:** 53% of TMX's revenues are from recurring sources today versus just 49% in 2022, and management expects that share to drift higher over time. Additionally, the recent VettaFi acquisition is 80% recurring and will boost the composition of recurring revenues by ~300 bps. Going forward, TMX sees further opportunities to cross-sell value-added services into its large issuer base. Recurring revenue businesses are defensive with high earnings visibility and historically can be supportive of a multiple rerating.

- **Eyeing further expansion in the United States:** TMX is diversifying away from Canada with the United States being a key focus area. Management intends to increase its international revenue contribution to over 50% (from 41% in 2023), and in particular, it is prioritizing growth in the United States. It already owns half of the BOX Options Exchange, which hit record market share of 8% in 4Q23. Additionally, it has designs on US cash equities. It hired a Head of US Trading in October and are building out a US alternative trading system (ATS).

## BGC Group (BGC, Not Rated)

- **Ambitious management outlook for FMX:** With its FMX futures exchange recently receiving a green light from the CFTC, management remains confident in its ability to take share away from CME Group (CME) in interest rate futures. CEO Howard Lutnick noted that it will be announcing its strategic partners in the coming months and intimated that the list will include many of the largest rates brokers and market makers. Furthermore, he laid out his vision for the new exchange in more detail, stating that FMX will: (1) have finer tick increments, (2) allow users to blacklist counterparties, (3) feature faster and more deterministic technology, and (4) be less expensive due to lower venue fees and a cross-margining agreement with the LCH.

- **Potential for more accretive divestments:** Management noted that there are electronic businesses within Fenics that are separable and that could feasibly be sold for 10x revenue. While its rates business is core to BGC's strategy, we note that Fenics also has a footprint in FX, credit, market data, post trade and networking. BGC has a long history of lucrative divestments including Newmark, eSpeed and Trayport.

## CBOE Global Markets (CBOE, Buy)

- **CBOE announces three new MSCI Index Options on stage:** CBOE's current product pipeline should help diversify its revenue base beyond its flagship VIX and SPX suite. In 2023, these two contracts accounted for nearly two-thirds of group trading revenue. However, CBOE is positioning itself for growth in other indices and geographies. In December, it created daily contracts for the Russell 2000 index. In the last six months, they have also launched several new indices including the S&P 500 Dispersion Index, the Credit VIX, the Cboe MSCI EAFE Volatility Index, and the Cboe MSCI Emerging Markets Volatility Index. If positively received by the marketplace, these products will presumably be used as the basis for index options at some point. Lastly, CBOE unveiled three new index options on stage at our conference: Cboe MSCI World Index Options (MXWLD), Cboe MSCI ACWI Index Options (MXACW), and the Cboe MSCI USA Index Options (MXUSA). Pending regulatory approval, the three new index options will begin trading on Monday, March 18.
- **Margin guide likely conservative:** Despite management's 2024 outlook implying negative operating leverage, management emphasized its objective to stabilize margins y/y in 2024. Earlier in February, management initiated 2024 revenue growth guidance of 5-7% and expense growth guidance of 6-8%. During its fireside, management hinted at the conservatism of these projections. It reiterated its focus on stabilizing margins in 2024 and noted that 1QTD revenue growth has been strong, which could potentially merit a positive guidance revision if the momentum holds.

## Tradeweb (TW, Buy)

- **An aptitude for innovation will be critical for future growth:** Reflecting on its success in US Credit, management believes that its ability to innovate has been a pivotal growth driver and that new ideas will be required to electronify large trades. Its credit market share reached an inflection point after it invented net spotting, and its introduction of creative protocols (portfolio trading, session trading) has helped it take share from incumbent MarketAxess (MKTX). With the vast majority of small tickets already electronified in US Credit, further innovations will be critical to electronify block trades. It might be possible to leverage new technologies (artificial intelligence, the cloud) to help penetrate these larger-sized trades. Automation is an important theme at TW too via its AiEX offering which is improving the efficiency of trade execution.
- **Emerging markets are a focus area for growth:** We believe emerging markets (EM) growth is a top priority and that the strategy will involve both organic and inorganic growth. Having already made significant progress in EM

rates derivatives, we believe EM cash rates is the next logical international growth target. There is over $25T of EM sovereign debt outstanding, amounting to many trillions of dollars of volume annually. Tradeweb has no debt and plenty of capacity for M&A to help accelerate its push into emerging markets. It can potentially also leverage the strong EM relationships of the London Stock Exchange Group (LSEG), which is Tradeweb's controlling shareholder. Additionally, its RFM (request-for-market) protocol, FX hedging capabilities and connectivity with leading global rates participants should be supportive of its organic growth in EM.

## Intercontinental Exchange (ICE, Buy)

- **Expect tailwinds from fixed income reallocations:** Management has a positive 2024 outlook for its fixed income business, noting that elevated retail fixed income flows will help its index and data products. As we exit a three-year bond bear market, fixed income flows have accelerated in recent months with the iShares 20-Year Treasury Bond ETF (the largest treasury ETF and ICE's largest index client) recording record net inflows in 4Q23. Since two-fifths of index revenue is directly tied to the amount of benchmarked AUM, we believe that fixed income index revenues will likely inflect upward first. Strong flows will then support the formation of additional fixed income mutual funds and ETFs, which will be beneficial for ICE's fixed income data products. Retail funds are by far the largest end market for ICE's fixed income data business.
- **Not ruling out further M&A over the near-term:** Despite having only recently closed the Black Knight acquisition in September, CFO Warren Gardiner did not rule out the possibility of doing additional bolt-on deals over the near-term. ICE currently has 4.1x gross leverage and is targeting 3.25x leverage before restarting share buybacks. Notwithstanding the elevated leverage, Gardiner noted that ICE is always evaluating inorganic opportunities and that their cash flow profile is robust enough to support further acquisitions, suggesting that smaller bolt-on deals are certainly possible.

# Traditional Asset Managers

## The Trads two stealth levers and bond reallocations

We look for bond flows to accelerate with the first Fed rate cut and the steepening yield curve by this summer. This will benefit the fixed income businesses inside of the traditional asset managers. While the Trads are facing secular headwinds from passive/privates in their equity businesses, they have two stealth profit levers including bull market beta (which offsets net outflows most years) and share buybacks (enhanced by their low stock valuations). We also think stronger bond flows will benefit most of our Trad coverage with a rising tide lifting all boats, even the bond managers with softer long-term performance.

## AllianceBernstein (AB, Buy)

- **Best positioned for fixed income rebalancings wave in 2024-25:** AB's retail fixed income growth was very strong in 2023 with its municipal bond SMA platform generating +$5B of net inflows. While institutional investors will likely take longer than retail to reallocate, we continue to expect for bond rebalancings to accelerate in '24-25 after the first Fed cut and view AB as best-positioned given the strong performance in their fixed income business and lack of money market fund business (only ~2.5% of AuM).

- **Robust operating margin trajectory through 2025-26:** After AB deconsolidates its Equity Research business (expected to close in 1H24) into the JV with SocGen and its expensive NYC office lease expires in December 2024, the company expects a 350-500bps lift to its operating margin by 2027 (vs 2023) which is a conservative target as this assumes flat markets. The tangible expense saves through 2025 will provide a huge EPS accelerator and drive positive operating leverage through 2024/25.

## BlackRock (BLK, Buy)

- **Leading platform for investing & tech solutions:** BLK's scale advantage and positioning as the leading platform globally for investment & technology solutions has helped the firm take profitable market share. We expect BLK will continue to benefit from their scale especially as institutions and retail intermediaries increasingly consolidate their asset manager relationships. BLK is the only firm that can provide clients differentiated offerings on one single platform including: ETFs, institutional outsourcing, model portfolios, and Aladdin. The firm targets a 5Y forward base fee organic growth of 5% which is in-line with our estimate, and we also expect BLK's organic growth to be above trend in 2H24-2025 from significant fixed income reallocations.

- **Update on Aladdin growth outlook & expansion:** BLK continues to invest and create new businesses within Aladdin and expects for Aladdin revenues (currently ~$1.5B) to double in the future. Whole Portfolio has helped expand the Aladdin pipeline and we think BLK will further integrate eFront with Aladdin as more clients leverage eFront and its alternative capabilities. Additionally, BLK's focus on expanding Aladdin and further developing and integrating technology (cloud, genAI) within the BLK ecosystem supports its ability to continue taking market share.

## Janus Henderson Group (JHG, Neutral)

- **Positive progress in correcting net flow trajectory:** JHG's 2023 net flows improved by +$30B y/y and are an indication of early progress with the new leadership team's strategy. While the company reiterates it doesn't expect to return to positive flow territory in the near-term, we do expect JHG's net flow trajectory to continue normalizing and improving especially as fixed income inflows help offset outflows in its large active equity business. JHG's active bond ETF business also generated +$6B in 2023 and more-than-doubled its AuM making JHG the 4th largest active fixed income ETF provider in the US—we expect the bond reallocation theme of 2024/25 to further support this trend.

- **Capital allocation prioritizes M&A:** JHG has a strong excess capital position and its fortress balance sheet enables the company to be flexible in returning capital and opportunistic with strategic acquisitions. The company stated that it prioritizes inorganic growth before buybacks, but we look for JHG's buyback activity to remain consistent ($100-150M per year) with another M&A transaction also being possible in 2024.

## Victory Capital (VCTR, Buy)

- **Efficient capital deployment + M&A:** VCTR's capital allocation strategy prioritizes balance sheet flexibility, and the company also has a strong history of share buybacks ($158M in 2023). We expect consistent buyback activity to continue through 2024 and another M&A transaction also likely this year. VCTR's strong track record in M&A having done highly accretive and strategic/growth-oriented deals have helped it to diversify its business and support an improving organic growth outlook.

- **Strong fixed income performance support flow rebound in 2024:** We estimate for VCTR's flow trajectory will continue improving and inflect positive by 2H24 driven by fixed income flows (very strong investment performance + our industry rebalancings thesis) combined with better flows across the business (small/mid-cap equities, Alts, solutions).

**Glossary**

ETF: Exchange traded fund

0DTE: Zero days till expiration

CFTC: Commodity Futures Trading Commission

CPI: Consumer Price Index

JV: Joint venture

AUM: Assets under management

LP/GP: Limited Partner/General Partner

NT/MT/LT: Near-term/Medium-term/Long-term

**Exhibit 1: Stocks mentioned**
Prices and ratings for stocks mentioned in this report

| BofA Ticker | Bloomberg ticker | Company name | Price | Rating |
|---|---|---|---|---|
| AMG | AMG US | Affiliated Managers | US$ 157.66 | B-2-8 |
| AB | AB US | AllianceBernstein | US$ 33.95 | B-1-7 |
| AMP | AMP US | Ameriprise Fin. | US$ 407.12 | B-1-7 |
| APO | APO US | Apollo | US$ 111.61 | B-2-8 |
| ARES | ARES US | Ares Management Corp | US$ 131.9 | B-1-7 |
| BLK | BLK US | BlackRock, Inc. | US$ 813.59 | B-1-7 |
| BX | BX US | Blackstone | US$ 125.11 | B-1-7 |
| OWL | OWL US | Blue Owl Capital | US$ 18 | B-1-7 |
| BAM | BAM US | Brookfield AM | US$ 41.17 | B-2-7 |
| CBOE | CBOE US | Cboe Global Mark | US$ 197.15 | B-1-7 |
| IBKR | IBKR US | Interactive Brokers | US$ 106.72 | B-1-7 |
| ICE | ICE US | Intercontinental | US$ 138.38 | B-1-7 |
| JHG | JHG US | Janus Henderson | US$ 31.33 | B-2-7 |
| KKR | KKR US | KKR & Co. Inc. | US$ 95.8 | B-1-7 |
| PAX | PAX US | Patria | US$ 14.89 | B-2-7 |
| CG | CG US | The Carlyle Group | US$ 44.64 | B-3-7 |
| TPG | TPG US | TPG Inc | US$ 42.82 | C-1-7 |
| TW | TW US | Tradeweb | US$ 105.09 | B-1-7 |
| VCTR | VCTR US | Victory Capital | US$ 38 | B-1-7 |

**Source:** BofA Global Research

BofA GLOBAL RESEARCH

# Price objective basis & risk

### Affiliated Managers Group (AMG)

Our price objective (PO) for AMG is $188 and is derived from a price to earnings method. We apply an 8.0x multiple to our 2026 estimate, less $29 due to AMG's elevated financial leverage relative to peers to obtain our PO. We apply an 8.0x multiple which is a discount to the peer group average of 10x given prospects for lower revenue organic growth which will translate into below average EPS growth.

Risks to our PO are (1) continued elevated net redemptions from AMG's quant businesses which would weigh on the company's organic growth trajectory and (2) inability to find acquisition candidates at attractive valuations especially in private markets.

### AllianceBernstein (AB)

Our price objective (PO) is derived from a price to earnings method. We apply a 12.5x multiple on our 2026E EPS to obtain our $50 PO. 12.5x is in line with the company's five-year average but represents a premium to its traditional/active peer group excluding BlackRock. We think that AB's improving business mix/organic growth trajectory could support a higher valuation in the future if AB's total net flows rebound in 2024.

Downside risks to AB: (1) active to passive rotation + industry fee pressure, (2) AB's business model is procyclical and is impacted from market prices, (3) Bernstein's research business faces secular pressures relating to industry consolidation, (4) AB has soft investment performance in its active equity business, (5) its large APAC franchise faces risks related to a potential US-China decoupling and a China-Taiwan conflict.

Upside risks: (1) improving net flows, (2) investment performance (improving since June 16), and (3) favorable markets.

### Ameriprise Financial (AMP)

Our $452 PO is based on 10x EPS multiple on our 2026 EPS estimate. Given that AMP operates three different business lines that offer different qualities (growth, volatility, capital), we derive our price objective using a sum-of-the-parts framework accounting for peers in life insurance (7-10x), traditional asset management (8-16x, excluding BlackRock) and wealth managers (11-17x).We use SOTP and take the % of pretax profit from each operating division and weight against the average forward-earnings multiple for peers in those three groups.

Downside risks are (1) equity markets on assets under management (AuM), assets under authorization (AuA), and variable insurance products/guarantees, (2) lower interest rates in 2024 (impact on net interest margin), (3) credit risks, including investment portfolio and reinsurance counterparties.

**Apollo Global Management (APO)**

Our $114 price objective for Apollo is derived from a 12.5x multiple on APO's adjusted 26E cash earnings. We estimate APO will continue to trade below the industry mean (7-25x) given its high mix of insurance earnings.

Upside risks are S&P 500 index addition (estimate 2023), inorganic growth announcements for Athene, rate sensitivity of Athene's variable rate assets, and defensive organic growth.

Downside risks are credit risk at Athene and a pick-up in annuity surrenders with higher long-term interest rates.

**Ares Management Corp (ARES)**

Our $146 price objective for Ares Management is derived from 22.5x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. Our multiple is in-line with the stock's current valuation and at the higher end of the range of Alt peers (9-20x on corporate definition). However, it is higher than ARES's historical range (5Y average = 18x) as the stock was undervalued before 2020, partly due to its partnership structure (pre C-Corp conversion) and lack of long-only/passive ownership. Risks to our PO: investing backdrop more challenging, adverse macroeconomic scenarios, US and international tax reform and succession planning.

**BlackRock, Inc. (BLK)**

Our PO of $1025 is based on a 20x 2026E EPS multiple. This is slightly lower than the mid-point of where the stock has traded over the last 12-18 months (17 to 24x range on next 12 month EPS). The asset manager stocks are currently trading at a wide range (5-42x) with an average of 15x EPS and our PO assumes BLK maintains its historical premium (especially relative to the traditional asset managers given BLK's higher growth prospects).

Risks to our PO are (1) capacity and regulatory issues created by size, (2) negative markets or market-driven mix shift (divergent beta), (3) fee pressure (pricing cuts).

**Blackstone (BX)**

Our price objective (PO) for Blackstone is $146 and is derived from 22.5x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp expense. Risks to our PO are a weaker macro and capital markets backdrop, legal and political risk, increased regulation and tax reform, key person risk and a unique corporate structure.

**Blue Owl Capital (OWL)**

Our $23 price objective for Blue Owl is derived from 20x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. Our multiple is in line with the mid-point of the industry range (7-25x). We view OWL's earnings quality as higher than peers given its very high mix of fee-related earnings, permanent capital AuM composition and higher growth trajectory.

Risks to our PO: investing backdrop more challenging (intensifying competition in private debt), lending to technology companies, Part 1 fees included in FRE, variable dividend payout, tax receivable agreement, secondary sale risks from large owners (Neuberger Berman), corporate structure (voting rights), merger integration (Oak Street), adverse macroeconomic scenarios and US and international tax reform.

**Brookfield Asset Management (BAM)**
Our price objective (PO) for BAM is $49 and is derived from 22.5x 2026E cash earnings. This multiple is a premium to Alt peers given BAM's FRE-rich EPS. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp expense.

Risks to our PO are a weaker macro and capital markets backdrop, legal and political risk, increased regulation and tax reform, key person risk, and its unique corporate structure.

**Cboe Global Markets (CBOE)**
Our primary valuation metric for US Exchanges is price to long-term earnings (2026E). We focus on long-term EPS because we prefer to normalize for any near-term factors, and it also provides credit for an additional two years of growth. We apply a 17.5x multiple on our 2026E EPS to derive our $200 PO. Our multiple is based on the assumption that CBOE trades in line with its peer group despite its higher growth trajectory.

Downside risks are (1) migration to dark venues and negative growth in cash equities, (2) credit & liquidity risks via its clearinghouse, (3) reliance on third-party index providers (SPX contract with S&P renews in 2032, (4) Intensifying competition in multi-listed options market (including MEMX launch).

**Interactive Brokers (IBKR)**
Our price objective (PO) for IBKR is $139 and is derived from a price to earnings method. We apply a 17.5x multiple to our 2026E EPS to obtain our PO. Our multiple of 17.5x was chosen as we are valuing IBKR off of cyclically peak profits, and compares to the low end of IBKR's historical valuation range (17.5-30x).

Risks to our PO are: changing industry dynamics in China and US regulatory risks with regard to payment for order flow.

**Intercontinental Exchange (ICE)**
Our primary valuation metric for US Exchanges is price to long-term earnings (2026E). We focus on long-term EPS because we prefer to normalize for any near-term factors, and it also provides credit for an additional two years of growth. We apply a 20x multiple on our 2026E EPS to derive our $152 PO. Our multiple is equal to ICE's historical average and a small premium to peers in light of ICE's superior growth prospects. We look for ICE's valuation to re-rate higher from current levels as mortgage origination volumes bottom. Additionally, ICE's accelerating earnings growth and improve earnings quality support a higher valuation.

Risks are: (1) elevated financial leverage, (2) subdued listings activity, (3) contrarian capital allocation decisions (eBay, BKI).

**Janus Henderson Group (JHG)**
Our PO for JHG is $38 and is derived from a price to earnings method. We apply a 10.0x multiple on our 2026E EPS plus $2 (given JHG's excess capital position) to obtain our PO.

10.0x is consistent with the company's five year average and is in-line with its traditional/active peer group. However, we note that the JHG stock has a premium to other outflowing traditional firms due to the takeout potential and other positive factors relating to its activist shareholder.

Downside risks: (1) potential for net redemptions given traditional/active heavy business mix and cyclical headwinds, (2) lack of negative sentiment due to concerns related to the activist and (3) elevated valuation relative to other outflowing traditional asset managers. Upside risks: (1) takeout, (2) accretive M&A and (3) buybacks.

**KKR & Co. Inc. (KKR)**

Our price objective for KKR is $111 and is derived from 17.5x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. We apply the multiple on our normalized cash earnings forecast for KKR's asset management business.

Downside risks: Strong capital deployment activity in the frothy years (2020-21), valuation complexity with FRE, expense allocations, insurance business and capital intensive model, business model is private equity heavy and this business is experiencing multiple cyclical headwinds (returns - inflation & bear market, fundraising - crowded backdrop, denominator effect), insider-selling potential, KKR's voting structure may prevent an S&P 500 Index add.

**Patria (PAX)**

Our price objective of $17 is 10x our 2026E cash earnings estimate. Cash earnings is defined as distributable earnings after tax less equity-based comp. The 10x multiple is around the mid-point of where the alternative asset manager universe currently trades and is in-line with where the PAX stock has traded lately.

Downside risks to our PO: macroeconomic conditions and geopolitical factors, key person risk and corporate governance.

Upside risks to our PO: organic growth, M&A and a stronger realization backdrop.

**The Carlyle Group (CG)**

Our $37 price objective for the Carlyle Group is derived from a 10x multiple on our 2026E cash earnings estimate. Our cash earnings definition reduces stock-based comp from the company's distributable earnings definition. Our multiple is lower than peers due to an expected deceleration in growth and emerging fundraising challenges.

Upside risks to our PO include (1) $80B+ of dry-powder which CG can deploy into a cheaper asset backdrop, (2) earnings quality improvement (FRE was 50% of EPS in 1H22), (3) future acquisitions of FRE rich & scalable platforms, (4) visibility into near-term EPS given announced exits and record accrued carry, and (5) Fortitude's deployment of $4B in excess capital.

**TPG Inc (TPG)**

Our $47 price objective for TPG is derived from 15x 2026E cash earnings. Our multiple is in-line with the industry range (7-25x). Despite recent underperformance in the alternative asset manager stocks, we are attracted to the qualities of TPG's model (high growth, fee-related earnings rich, capital lite) and its opportunity to expand its model horizontally into new white spaces (credit, life sciences, infrastructure, retail vehicles).

Risks to our PO: (1) End of the growth, tech & healthcare bull markets, (2) Succession-planning, (3) Fund V and VI performance issues, (4) Valuation of the closest comp = CG, (5) Tax receivable agreement, (6) Lower permanent capital mix, (7) Lack of retail distribution, (8) Macroeconomic backdrop.

**Tradeweb Markets Inc. (TW)**
Our price objective (PO) for Tradeweb is derived from a price to earnings valuation method. We apply a 30x multiple on our 2026E EPS to derive our $111 PO. Our multiple is supported by TW's recent valuation range and assumes TW maintains a premium to the US exchanges due to higher visibility into its long-term growth trajectory combined with its defensive qualities.

Risks are (1) competitive pressures intensifying (MKTX, Bloomberg, ICE, Trumid), (2) a high mix of transactional revenues, (3) secular pressure to trading commissions (although TW's commissions are still a low % of bid-ask), and (4) a high valuation relative to slower-growth peers.

**Victory Capital Holdings, Inc. (VCTR)**
Our price objective (PO) for VCTR is $55 and is derived from a price to earnings method. We apply an 8.0x multiple on our 26E EPS to obtain our PO. 8.0x is in-line with VCTR's 5Y average and its traditional peer group (x-BlackRock).

Downside risks to our PO are (1) migration to passive, indexing and automated investing, (2) Declining fee rate due to organic mix shift (NEC acquisition will help), (3) Elevated financial leverage (due to M&A), (4) Secondary stock sales from two private equity owners (Crestview, Reverence), (5) Finding the next acquisition candidates given its refocus into more competitive verticals, (6) Key man risks.

## Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as the manager to the open offer by Pegasus Holdings III, LLC in connection with its acquisition of Federal-Mogul Goetze (India) Limited, which was announced on February 23, 2022.

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**US - Brokers, Asset Managers, & Exchanges Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | AllianceBernstein | AB | AB US | Craig Siegenthaler, CFA |
| | Ameriprise Financial | AMP | AMP US | Craig Siegenthaler, CFA |
| | Ares Management Corp | ARES | ARES US | Craig Siegenthaler, CFA |
| | BlackRock, Inc. | BLK | BLK US | Craig Siegenthaler, CFA |
| | Blackstone | BX | BX US | Craig Siegenthaler, CFA |
| | Blue Owl Capital | OWL | OWL US | Craig Siegenthaler, CFA |
| | Cboe Global Markets | CBOE | CBOE US | Craig Siegenthaler, CFA |
| | Interactive Brokers | IBKR | IBKR US | Craig Siegenthaler, CFA |
| | Intercontinental Exchange | ICE | ICE US | Craig Siegenthaler, CFA |
| | KKR & Co. Inc. | KKR | KKR US | Craig Siegenthaler, CFA |
| | Raymond James Financial | RJF | RJF US | Mark McLaughlin, CFA |
| | TPG Inc | TPG | TPG US | Craig Siegenthaler, CFA |
| | Tradeweb Markets Inc. | TW | TW US | Craig Siegenthaler, CFA |
| | Victory Capital Holdings, Inc. | VCTR | VCTR US | Craig Siegenthaler, CFA |
| | Virtu Financial | VIRT | VIRT US | Craig Siegenthaler, CFA |
| **NEUTRAL** | | | | |
| | Affiliated Managers Group | AMG | AMG US | Craig Siegenthaler, CFA |
| | Apollo Global Management | APO | APO US | Craig Siegenthaler, CFA |
| | Brookfield Asset Management | BAM | BAM US | Craig Siegenthaler, CFA |
| | CME Group Inc | CME | CME US | Craig Siegenthaler, CFA |
| | Invesco | IVZ | IVZ US | Craig Siegenthaler, CFA |
| | Janus Henderson Group | JHG | JHG US | Craig Siegenthaler, CFA |
| | LPL Financial Holdings | LPLA | LPLA US | Craig Siegenthaler, CFA |
| | Patria | PAX | PAX US | Craig Siegenthaler, CFA |
| **UNDERPERFORM** | | | | |
| | Charles Schwab Corp. | SCHW | SCHW US | Craig Siegenthaler, CFA |
| | Franklin Resources | BEN | BEN US | Craig Siegenthaler, CFA |
| | Nasdaq | NDAQ | NDAQ US | Craig Siegenthaler, CFA |
| | Robinhood Markets | HOOD | HOOD US | Craig Siegenthaler, CFA |
| | T. Rowe Price | TROW | TROW US | Craig Siegenthaler, CFA |
| | The Carlyle Group | CG | CG US | Craig Siegenthaler, CFA |

# Disclosures

## Important Disclosures

**Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships [R1] | Count | Percent |
|---|---|---|---|---|---|
| Buy | 156 | 53.79% | Buy | 94 | 60.26% |
| Hold | 72 | 24.83% | Hold | 48 | 66.67% |
| Sell | 62 | 21.38% | Sell | 35 | 56.45% |

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships [R1] | Count | Percent |
|---|---|---|---|---|---|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster[R2] |
|---|---|---|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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