Brokers, Asset Managers & Exchanges

Our QUESTION Lists – Prepping for 4Q23 conferences and corporate meetings

Industry Overview

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Equity
United States
Brokers, Asset Managers and Exchanges

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Questions formed around most common buyside topics

Our question lists focus on the major buyside conversation topics and the key themes across diversified financials: (1) Fixed income/credit reallocation (AB, ARES, BLK, OWL, TW, ICE) – expect sizable flows into fixed income and private credit (from money market funds) and look for bond trading volumes to increase (expect this to benefit TW and ICE's fixed income business). (2) Cash sorting deceleration (SCHW, LPLA, AMP) – expect sorting to improve (RIA driven) but remain elevated (retail) over the next 12 months (limits deposit growth). IBKR & HOOD were seeing "reverse sorting" given higher cash sweep rates, which benefits their competitive positioning (Fidelity in RIA channel). (3) Default headlines (Alts) – corporate bankruptcies have doubled YTD but a better economic outlook reduces this risk.

Soft landing for US economy favors the asset managers

The BofA econ team forecasts slowing but positive GDP growth in 2024 (+0.7%), and recent data indicates diminishing inflation amid modestly rising unemployment. We still anticipate Fed cuts: 75bps/100bps in '24/'25. This macro view (declining interest rates, improving equity markets & low volatility/volumes) supports our view for outperformance in the Trads & Alts. Additionally, cash sorting is still lingering at the wealth managers which is weighing on their EPS growth. The upgraded economic outlook improves our view of APO (lower credit losses) and supports our Buy on KKR (asymmetrical upside potential in P&L). We believe defaults will rise in '24 but will still be manageable for our Alts coverage.

Remain LT bullish on Alts vs. mixed on other verticals

Over the NT, we anticipate a Fed "pause" followed by rate cuts by 2025. In our view, this serves as a positive catalyst for our asset manager coverage with Alts seeing stronger fundraising and Trads benefiting from fixed income reallocations. In contrast, we see this as a negative catalyst for the interest rate sensitive brokers (which are also seeing deposit pressures in parallel from cash sorting). Exchange volumes may not grow quickly after two strong growth years in '22/'23, but their non-exchange businesses will accelerate. Next year, we expect a recovering Alt realization backdrop, diminished headwinds from the denominator effect and increasing private wealth flows to drive higher valuations. The exchanges have outperformed the asset managers & brokers recently, but we expect this to reverse over the next 12 months (this is the precedent in recoveries or time periods after bear markets: 2009-10, 2020-21).

Glossary
NT/LT: Near-term/Long-term
FRE: Fee-related earnings
ETF: Exchange traded fund
AuM: Assets under management
RIA: Registered investment advisor

Refer to important disclosures on page 31 to 34. Analyst Certification on page 29. Price Objective Basis/Risk on page 23.
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Business mix

Exhibit 1: Traditional asset manager business mix

Assets under management mix by asset class in 3Q23; Favor fixed income given setup into 2024 versus cash and equities

	Equity	Fixed Income	Multi-Asset	Alternatives	Cash Management
AB	42%	39%	10%	9%	---
AMG	48%	8%*	8%*	36%	---
BEN	31%	35%	11%	19%	4%
BLK	52%	28%	9%	3%	8%
IVZ	49%	21%	4%	12%	14%
JHG	61%	21%	15%	3%	---
TROW	51%	10%*	33%	3%	3%*
VCTR	45%	15%	35%	2%	2%

Source: Company reports, BofA Global Research
*BofA Global Research Estimate

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Exhibit 2: Alternative asset manager business mix

Assets under management mix by asset class in 3Q23; Credit has momentum but lower rates may change the dynamic and benefit real estate

	Private Equity	Real Estate	Credit	Secondaries	Others
APO	17%	--	83%	--	--
ARES	9%	16%	69%	6%	1%
BAM	16%	31%	23%	--	30%
BX	30%	33%	30%	--	8%
CG	42%	--	39%	--	19%
KKR	33%	24%	43%	--	--
OWL	--	17%	51%	33%	--
PAX	39%	7%	18%	--	36%
TPG	67%	13%	--	--	20%

Source: Company reports, BofA Global Research
Note: Other includes hybrid strategies, public equities, SPACs, advisory/distribution AuM, GP stakes, and other miscellaneous vehicles

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Exhibit 3: Alternative asset manager business mix

Estimated assets under management mix by channel; Insurance channel has provided the most defensive source of growth in '22-'23

	Institutional	Retail	Insurance
APO	60%	5%	35%
ARES	80%	6%	14%
BX	59%	24%	17%
CG	60%	10%	30%
KKR	63%	14%	22%
OWL	57%	32%	11%
TPG	89%	7%	4%
PAX	75%	20%	5%

Source: Company reports, BofA Global Research Estimates

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Exhibit 4: Broker business mix

Revenue mix across rates, beta and trading volumes in 3Q23; Cash sweep has risks given potential for lower interest rates

	Cash Sweep	Beta	Trading	Other
SCHW	49%	31%	17%	4%
LPLA	40%	57%	3%	0%
IBKR	64%	0%	29%	7%
RJF	38%	41%	0%	21%
AMP	27%	65%	3%	5%

Exhibit 4: Broker business mix
Revenue mix across rates, beta and trading volumes in 3Q23; Cash sweep has risks given potential for lower interest rates

	Cash Sweep	Beta	Trading	Other
HOOD	54%	0%	40%	6%

Source: Company reports, BofA Global Research

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Exhibit 1: Exchange business mix
Trading vs non-trading revenue in 2023E

	Trading	Non-trading
NDAQ	26%	74%
ICE	44%	56%
CBOE	72%	28%
CME	82%	18%
TW	91%	9%

Source: Company reports, BofA Global Research

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Alternative Asset Managers

Industry

1. Can you discuss the current fundraising dynamics with the denominator effect and crowded backdrop? Which asset classes are seeing the strongest/weakest demand and which investor segments are displaying strength/weakness?

2. How has the higher interest rate backdrop (and inflation) impacted your ability to generate returns and grow the profits of your portfolio companies?

3. How has the realization backdrop changed in 2022/23 versus 2021? Which sectors and asset classes are the easiest/most difficult to monetize? When do you expect realization activity to rebound?

4. What is your perspective on the secular growth of individual investor allocations to alternative investments? Which of your products are best-positioned?

5. The traditional asset managers have been active with alternative asset manager M&A. Do you see this as a threat as they leverage their global distribution to sell alternative products?

Apollo Global Management (APO)

1. Can you give us an update on fundraising activity for all of your retail products (AAA, ARIS, ADS, ACRED)? What other white spaces still exist in the retail vertical?

2. How are surrenders trending versus your expectations in both fixed and fixed index annuities? Do you expect lapse rates to increase?

3. How is Athene fundraising trending in each of its four categories: retail, flow reinsurance, pension group annuities and funding agreements? How about Athora?

4. With the final close of Fund X, what other large drawdowns are you currently in market with?

5. In terms of spread related earnings, how should we think about the net spread as interest rates rise? Do you see any headwinds from a pick-up in surrenders/liability extension?

6. What products contribute to the Alts component within SRE (Spread Related Earnings)?

7. Can you discuss ADIP and how it benefits both APO (FRE) and ATH (SRE)? Who are the investors in ADIP and what are the economics for APO?

8. How much of Fund X has been invested? Are you leveraging the fund's flexible mandate to make debt investments (distressed change for control)?

9. What percentage of SRE (spread related earnings) can be distributed to the hold co from the insurance entities each year?

10. When do you expect APO to be added to the S&P 500 index? When will APO pass the GAAP net income test given negative GAAP results in 2022?

Ares Management (ARES)

1. How has the flagship fundraising cycle been trending? Remind us what are the 5 flagship funds that you are raising and their target sizes relative to the last vintages?

2. Do you expect to leverage ACOF's (private equity) flexible mandate to make debt/distressed investments? How have you used this flexibility in the past for distressed change of control transactions?

3. Can you remind us how the deferral mechanism works with incentive fee part 1 fees (ARCC)? When did you need to defer fees in the past?

4. How do you frame the risk to FRPR (fee-related performance revenues) for your two non-traded REITs? Is there a high water mark when returns miss the hurdle?

5. Given that banks and the capital markets have pulled back their lending activity, how has this impacted the Alt manager direct lending model?

6. What does your individual investor distribution effort look like today? What is your view of the long-term opportunity in retail?

7. How do you size the "European waterfall" opportunity with your private credit funds?

8. How do higher interest rates (and inflation) impact ARES's profitability, fundraising effort and fund returns?

9. How has the early and mid-stage credit quality been trending across your credit portfolios? (non-accruals, delinquencies, realized losses…)

10. Can you explain how ARES's insurance model is different from peers (APO, KKR, BX)? What is the level of AuM growth expected from this platform?

Brookfield Asset Management (BAM)

1. What are your expectations for when Infra VI might go to market? What would the timing for a first close potentially look like?

2. Can you remind us what the timing of fee holidays looks like for Renewables II and Flagship Fund IV?

3. You have communicated a fundraising run rate in the range of $70B-$100B for every year after 2023. Where do you expect most of these inflows to be coming from in 2024? And would expect them to be more concentrated in the first or second half of the year?

4. With about $3B of cash in your balance sheet currently, if you were to use that cash for M&A, what would you look for in a potential target?

5. You have guided towards a long term FRE margin goal of 55%-60%, what do you expect FRE margins to look like in 2024 and 2025? And when do you think you might be able to reach that target of 60%?

6. What's the biggest area of focus on the real estate business moving forward?

7. With the recent announcement of the new Frankfurt office opening, what do you see as the biggest opportunities in Germany? And what was the decision process in opening an office in the region?

8. How do you see the insurance business growing? Brookfield Reinsurance has announced the Argo and AEL transactions, but at this point do you expect any additional wins in 2024?

9. How is credit quality trending in both BAM's and Oaktree's credit portfolios?

10. How has BAM evaluated geopolitical risk amid rising conflicts around the world? Have any new procedures been implemented into the investment process as a result of some of these conflicts?

Blackstone (BX)

1. With 80% of your $150B flagship fundraising target already raised, which funds are still raising and when can we expect final closes?

2. Can you contrast the fundraising effort between real estate and private equity?

3. Can you remind us of the timing and fee dynamics for BCP IX and BREP X? When do fees turn-on (step-down)?

4. How has the bear market impacted your individual investor fundraising effort (retail)? How have redemptions been trending across the retail products?

5. Can you remind us how BREIT, BPP, BCRED and Infra contribute to FRPR (fee-related performance revenues)? What is the seasonality to the fee streams and is there a risk that a hurdle rate is not met given the bear market/recession?

6. How have higher rates (and inflation) impacted the returns and profit growth of assets in your real estate business? Could we see a slowdown in rental income in a recession?

7. How do you view the competitive landscape in retail? BX is clearly the biggest player, but do you expect the winners to hold a concentrated level of market share?

8. How has the deployment backdrop evolved as we approach the end of 2023 and where are you seeing the most attractive opportunities emerge?

9. Can you remind us how your insurance strategy is differentiated from APO and KKR? What inorganic opportunities exist for this business?

10. How has the macro backdrop impacted your ability to monetize investments in your private equity and real estate businesses?

Carlyle Group (CG)

1. Can you update us on the progress of your flagship fundraising cycle?

2. As flagship fundraising decelerates in 2023, how should we think about the sustainability of growth given the expansion of your credit and solutions businesses?

3. Over cycles we have viewed Carlyle as one of the more beta sensitive alts given its large private equity business and performance fee composition. Do you agree with this?

4. We have noticed that Carlyle has been building up cash on the balance sheet. What are your plans to use this for?

5. How is your insurance model (Fortitude) differentiated relative to APO, KKR and BX? How do you expect it to help grow profits over the next few years?

6. How has softer performance in recent vintage private equity funds impacted your current fundraising activity?

7. Can you update us on your progress to build Carlyle's credit platform? Which businesses possess the easiest scaling potential and what white spaces remain?

8. How has early and mid-stage credit quality migration trended within your credit franchise? Are there any triggers that could reduce your FRE (fee-related earnings) including within your CLO business?

9. Do you think your solutions business is underappreciated by the markets? Especially given the CG stock's valuation relative to PGHN, HLNE and STEP?

10. Can you update on us on your CEO transition? How will Harvey's strategic priorities differ from prior leadership? Has the executive turnover impacted fundraising or recruiting?

KKR & Co. (KKR)

1. With the next flagship fundraising super cycle expected to begin in 2024, what's your outlook on how quickly those funds could reach first & final closes in an improving but still challenging environment?

2. How is fundraising for retail products including KREST progressing given the bear market?

3. Can you update us on your progress to reinvest Global Atlantic's (GA) portfolio into KKR originated product and how this could impact your blended fee rate on GA's assets?

4. How has early and mid-stage credit quality trended across your insurance and credit portfolios?

5. How are surrenders trending versus your expectations? Do you expect annuity lapses to increase in 4Q23/2024?

6. Can you discuss the benefits of your big balance sheet model?

7. Capital markets transaction fees are depressed given muted activity. When could transaction fees return to 2021 levels? What is the long-term growth rate of this cyclical fee stream?

8. Given that you have one of the highest FRE margins in the peer group, how much incremental upside remains?

9. Can you provide an update on your industry leading Asia business following the Japanese REIT acquisition? How has China's decoupling with the West impacted your strategy?

10. How is Marshall Wace's investment performance and recent net flow trends? How does it contribute to profitability including through performance fees?

Blue Owl Capital (OWL)

1. What is the FRE operating margin opportunity given that you already have the highest margin in the peer group?

2. How has fundraising been tracking for ORENT (real estate) and OCIC (credit) funds? When can we expect the next Dyal fund to be in the market?

3. Can you update us on the potential to list (IPO) your private funds that you detailed at the May 2022 investor day? How much would this increase your management fees (ORTF, ORTF II and ORCC IV)?

4. Given that the Dyal funds are perpetual, how can investors in these funds monetize their investments?

5. How do you frame the risk to the incentive fee part 1 fees of your credit funds? How are these fees calculated?

6. What is your strategy for the growth of your private BDCs? Do you look to grow your public BDCs too?

7. What product gaps do you have currently that you would like to fill? Could you use M&A to fill in these white spaces?

8. How has increased competition impacted the growth and return potential within the private credit business? What defensive moats does OWL possess?

9. When will the partner/management team stock lock-ups expire? What is the appetite for liquidity across the partners?

10. You have had distribution costs in G&A for the last few quarters of varying amounts. Should we expect some base amount each quarter going forward?

TPG (TPG)

1. How is fundraising demand trending for growth capital, dedicated tech & healthcare PE and VC funds?

2. How much do you have left to raise for the current fundraising super cycle (11 funds across all 5 platforms)? Are there any risks to hitting targets or extending fundraising timelines for TPG IX and Healthcare Partners?

3. How does the composition of your private growth portfolios look different than the growth indexes in the public stock markets? What is the mix of early stage, minority growth and growth buyouts in your portfolios and how does this mix change across the cycle?

4. As your current private portfolios are revalued, do you see any differences or issues with how the public markets are valuing similar companies? What is the process for valuing private companies?

5. How has higher interest rates (and inflation) impacted your investment returns and portfolio company profit growth? Which industries were the most negatively/positively impacted?

6. What do you view as your largest white spaces (credit)? How could you use M&A to fill-in these product gaps?

7. What is your view of the secular migration to Alts in the retail channel? And what percentage of your recent fundraises did you garner from retail investors at wirehouses, IBDs and RIAs?

8. TPG currently has the highest level of dry powder relative to fee-generating AuM compared to peers. Where are you seeing the most attractive deployment opportunities today?

9. What realizations are on the horizon? Which funds are maturing and ready to harvest gains over the next 12 months?

10. Which indexes are you currently eligible for? (Russell 1000 Index in June)

Patria Investments (PAX)

1. How has Brazil's asset management industry been impacted in Lula's (Brazil's new president) first year as president? What do you expect the impact of his administration on the asset management industry and your investment return potential will be in the next few years?

2. Can you provide us an update on the organic growth trends at Moneda?

3. The denominator effect and crowded private equity backdrop are creating some challenges for US PE funds. In the EM PE vertical, how have they impacted fundraising?

4. With expectations of ending 2023 with $1.5B in your 7th private equity fund, how quickly or slowly would you expect to raise the remaining $400M-$900M to reach the target size of $2B-$2.5B?

5. How should we think about timing for when the management fees will turn on for PE 7 and is there a fee holiday or fee stepdown in the prior funds to think about?

6. On Infra, having already raised ~$1B in Fund V, do you continue to think Fund V will be larger than Fund IV, given the more challenging backdrop?

7. First on the strategic merits of VBI (recent RE deal), do you have an ability to repackage your real estate products and cross-sell to your international limited partners? Do you see international investors or domestic (Brazil) as the greater AuM opportunity for VBI/real estate?

8. With a TAM of R$230B Reals in real estate industry AuM in Brazil, how large is your proforma real estate business versus the industry AuM leaders?

9. Can you provide us an update on the Brazilian economy and how the conflict in Ukraine and higher interest rates in the West has impacted the regional economy?

10. What do you view as your product gaps? Can you update us on your M&A strategy after Moneda, VBI and Abrdn deals?

Traditional Asset Mangers

Industry

1. What is your perspective on the potential for client rebalancing into fixed income as rates and markets eventually stabilize and how are you positioned to capture potential large inflows back into fixed income?

2. How should we think about your targeted cash levels and financial leverage?

3. Have you seen positive or negative impacts from the UK pension market stress (liability driven investing) and has this created any opportunities?

4. Are you investing in Asia, private markets, solutions or passive/ETFs given their higher growth prospects?

5. How has the migration to both passive and the ETF vehicle impacted your business?

AllianceBernstein (AB)

1. How should we think about the potential for your muni bond flows to accelerate further given the SMA tailwind and once markets gain confidence that interest rates have peaked?

2. Can you update us on your Asia business and which segments you see the most demand for in APAC/expect to grow the fastest?

3. How should we think about the positive business mix shift and its impact on AB's blended fee rate?

4. Why did you decide to spin-out your research business into a JV with SocGen?

5. Can you update us on the private client channel and its ability to grow?

6. What product gaps exist in your private alternatives line-up and what funds will be raising over the short-term?

7. How much of your private alternative AuM is derived from EQH and your private client channel?

8. How can you leverage your relationship with EQH to win business from 3rd party insurance companies?

9. What are the growth opportunities presented from your recent CarVal acquisition?

10. Can you comment on the investment performance across your private Alts business including CarVal?

Affiliated Managers Group (AMG)

1. What does your new investment pipeline look like currently and how have the valuation multiples of targets trended over the last year?

2. How has the bear market impacted your ability to close acquisitions over the near-term?

3. How should we model share buybacks in 2024 and what could cause this level to flex up or down?

4. Of the $2.5B of debt/convertibles, what is the composition of fixed vs. floating? Does AMG use swaps/derivatives to hedge any rate exposure?

5. What is driving improved flows in your liquid Alts business and could you give an update on how that affects your outlook for 2024?

6. Can you provide us an update on the potential for private market realized performance fees and near-term fundraising?

7. On flow trends, can you update us on what areas of the business trended more positively/inflowed in 2023 and how it affects your outlook for 2024?

8. How is competition trending for new investments—especially in the Alts channel relative to the general partner staking models (Blue Owl, Blackstone, Goldman Sachs)?

9. How are your affiliates positioned for high retail investor adoption rates of Alts?

10. What is your contingent payment liability for prior deals and when will these liability outflows occur?

Franklin Resources (BEN)

1. For the Alcentra acquisition – any color on how investment performance, organic growth, and fundraising has been trending?

2. What do you see as the key strengths and competitive advantages for Alcentra?

3. Can you comment on Lexington Partners' recent investment performance and near-term fundraising pipeline?

4. Given the very active period for M&A—what does your pipeline of liabilities look like over the next five years given the potential for earnouts and contingent payments?

5. After an active period of M&A, what is your M&A appetite currently and which specific products/geographies are the most attractive?

6. Given the large fixed income franchise across Western, Brandywine, and Franklin—how is BEN positioned for potential large reallocations into fixed income in 2024?

7. After the integration of the O'Shaugnessy acquisition, can we get an update on your expanding SMA business between the different products (including direct indexing and other products/vehicles)?

8. What does the flow trajectory look like in your SMA business and which specific products are driving growth?

9. How is BEN positioned for rising retail adoption rates in Alternatives and what does your retail Alt penetration currently look like at the major wirehouses?

10. What are the synergy opportunities between your new European private credit business (Alcentra) and your US business (BSP)?

BlackRock (BLK)

1. Are you seeing a large potential for client rebalancing into fixed income after the Fed pauses? What is your outlook given higher yields and secular benefits of demographic themes (including retirement of baby boomers)?

2. Do you expect active fixed income or passive fixed income to be the primary beneficiary of higher rates and broad investor rebalancing trends?

3. You've suggested you're open to large transformational M&A, what areas are you focused on and what types of transactions would BLK consider?

4. Can you talk about the long-term growth opportunity of the ETF vehicle and also focus on the fixed income ETF segment?

5. After strong momentum in the outsourced CIO segment, what is the size of the opportunity in this business and who are BLK's toughest competitors?

6. Where has client demand been the strongest within your private Alts business? What product gaps still exist and how could you fill them?

7. How sensitive is the Aladdin annual contract value stream to economic conditions? What could cause this to dip under your 10-15% target range?

8. BLK's CEO has made comments publicly about an increased appetite for large scale, strategic M&A (similar to iShares in 2010). Can you articulate his comments?

9. How is BLK positioned for the transition in energy sources? How is BLK helping investors to invest within this secular theme?

10. BLK's active equity business generated strong base fee growth in recent years (before the 2022 bear market). Do you expect flows in active equity to rebound and return to positive territory in the next bull market?

Invesco (IVZ)

1. Can you provide us an update on China and your Great Wall JV? Do you expect positive flows to continue from this region?

2. Any update to your plans to increase equity ownership of Great Wall following 100% owned business launches by several competitors?

3. From a capital management perspective, where do you want your financial leverage to be long-term relative to the 0.7x leverage now? How does the preferred fit into this equation too?

4. Given the current high yield environment and your strength in fixed income, how is IVZ positioned for fixed income rebalancings in 2024 and which bond verticals are you most positive on?

5. If there are broad rebalancings into fixed income in 2024, which IVZ products could see outflows?

6. Could you provide some more color on the pressure you're seeing on your fee rate from asset mix-shift and declining equity markets (particularly the declines in emerging markets)?

7. How can you improve your operating margin and what factors are critical for progress on the expense management front?

8. Which of your small & mid-sized products have excellent performance and are in hot categories where you expect a large increase in flows over the next 12 months?

9. How do you think about future M&A potential and what do you view as your largest product gaps?

10. Does IVZ have enough "scale" today – especially in terms of retail distribution?

Janus Henderson Group (JHG)

1. Can you update us on your inorganic growth strategies – including both M&A and portfolio manager/team lift-outs?

2. What are your key product gaps and where could you use additional scale?

3. How should we think about capital return going forward? Especially if JHG is not active on the M&A front?

4. Which of your funds have strong investment performance and exist in hot categories where we could see an acceleration in net flows?

5. In JHG's history, the former CEO used to want a partnership with Diachi—could you give an update on the appetite to form a strategic relationship with an insurer like Daichi or others?

6. For the mismatch on timing between cost savings associated with expense reduction and spending – what does this mean for quarterly expense trends?

7. JHG is arguably overcapitalized with $1.1B in cash and only $300M in debt, how should we think about your long-term targets for cash and debt/financial leverage?

8. Should we expect additional announcements with leadership changes/hires and strategy plans? (given that the CEO recently joined JHG in mid-2022)

9. Do you currently have capabilities to scale and grow in higher growth vehicles like SMAs, CITs, and VITs?

10. Are you seeing any positive or negative impacts as pension funds are seeking liquidity or possibly to even move away from LDI now?

11. What's your perspective on areas that will allow you to extend your global reach and from a regional view—where can you see the most change?

T. Rowe Price (TROW)

1. Can you update us on the competitive landscape in the target date business, given the net flow migration to low cost passive products and the 401k unbundling trend?

2. How could TROW use passive products or Alt products in its target date strategies to make them more competitive?

3. With $2.6B of cash and discretionary investments, how should we think about the potential for future M&A and is M&A more likely now after Oak Hill or less likely?

4. Given very strong performance in most of your key equity flagship funds over the last 12 months, are you seeing this translate into a gradual improvement of flows?

5. How has TROW built its Asian franchise over the last 10 years and will this region be an important driver of growth over the next five years?

6. Does TROW need to add any vehicle options at this point and how has its SMA, SICAV and Trust vehicles been flowing relative to its mutual funds?

7. Can you give us an update on the OHA business in terms of how investment performance and fundraising has been trending?

8. What will Oak Hill leverage TROW's "center" for including global distribution?

9. How do you think about the opportunity to grow your Alts business in the retail and retirement channel?

10. Any further insight on how your strategic initiatives have been progressing in expanding distribution (Asia/Europe, broker-dealer, new partnership with Schwab)?

Victory Capital Management (VCTR)

1. Can we get your perspective on the potential for large industry reallocations to fixed income in 2024 after rates stabilize and how is your product offering positioned for this?

2. In the current M&A environment with targets being cheaper today (on both valuation and total price basis) but costs of financing rising, do you see the M&A backdrop as better or worse than last year?

3. Can you update us on your M&A priorities after the WestEnd deal and a shift to more strategic transaction versus more accretive deals?

4. What are your excess capital/financial leverage targets and how do you think about share buybacks?

5. How has WestEnd's performance and flows since the deal closed with the standard 60-40 portfolios struggling YTD?

6. What is your strategy to expand your VictoryShares ETF business and how do you compete with the scaled leaders like iShares and Vanguard?

7. What is driving the good flows in your mid-cap franchise and the slowdown in your alternatives business?

8. Besides beta, what are factors that have been weighing on your blended fee rate?

9. Can you update us on your retail SMA initiatives and also how flows have been trending into this vehicle?

10. Where do you think client interest and demand may rebound the most quickly when markets recover and what specific products are you focusing your global marketing efforts on?

Brokers

Industry

1. Cash sweep deposit betas have remained low in the current cycle. As client cash sorting picks up, how do you expect betas to trend?

2. Do you see opportunities to refocus or add products? For example, can you add additional banking products, cash management solutions and alternative investments?

3. Crypto has appeared to cycle out of popularity since the "crypto winter" began and FTX's bankruptcy filing will not help. How do you expect your crypto offering to evolve over the next decade?

4. Have you seen any signs that the breakaway broker theme is losing momentum? How has the bear market impacted your ability to recruit financial advisors?

5. Do you believe that you possess an underappreciated opportunity to expand the spread that you earn on your client deposits and reinvest assets?

Charles Schwab (SCHW)

1. How do you expect client cash sorting to trend over the next year?

2. How do you view the timing/cadence in paying down your supplemental funding (FHLB/CD/Repos ect.)

3. Once sorting returns to normalized levels and you are able to begin the reinvestment of your securities book, how should we think the duration and kinds of securities you expect to invest in and ultimately the new money yield?

4. The current duration for the securities portfolio is 4 years. How do you expect this to trend over the next year given high allocation to MBS securities?

5. How should we think about succession-planning? How much stock does senior management own and is stock/options a large percentage of their compensation?

6. Can you provide us an update on the Ameritrade integration and revenue/expense synergies?

7. How is SCHW's organic growth so resilient relative to other broker and asset manager peers?

8. How should we think about the cross-sell opportunity for securities lending and option trading?

9. How should we forecast share repurchases over the next few years?

10. What is the risk to Tier 1 Leverage from SCHW's eventual transition from a category 3 to 2 institution which would trigger an inclusion of AOCI?

Ameriprise Financial (AMP)

1. What kind of cadence should we expect regarding the migration of client cash into AMP bank? Will client sorting behavior interfere?

2. What are the limiting factors for the size of the AMP bank and the amount of client cash that it can hold?

3. In the wealth manager, what are current new money yields across securities and loans and how does this compare to the existing portfolio yields?

4. What is the current bank securities portfolio duration? Do you plan to extend or shrink this duration given that interest rates may stabilize in 2023?

5. What are your plans for the adoption of lending products by AMP clients in the wealth manager channel? They are still a small part of interest earnings assets ($1-$1.5B) but offer an attractive yield which benefits your NIM.

6. Given a tougher backdrop, how do you view your wealth management NNA resiliency relative to your asset manager business where the flows are more cyclical?

7. How large is your financial institution group channel (small banks, credit unions) and do you expect to announce large wins over the next 12 months which would boost your wealth manager organic growth?

8. AMP's institutional asset manager business has experienced more positive flows than the retail, what has driven the better flows?

9. AMP's retail asset manager continues to experience negative net flows. What do you see as the major drivers of the outflows?

10. How should we think about the sensitivity to interest rates in your insurance business?

11. How can you make us comfortable with your legacy long-term care exposure? Is it possible to de-risk this block through reinsurance or a sale?

Interactive Brokers Group (IBKR)

1. How has the onboarding of your 2 large introducing broker wins been coming along. What quarters should we expect results to show up and how should we think about the size and other qualities of the two relationships?

2. What is the pipeline for additional introducing broker wins beyond the 2 that were announced in mid-2022?

3. How competitive is your hedge fund prime business? Do you expect the growth of this business to accelerate now that you have built a large capital base?

4. What parts of your hedge fund prime business do you think are the most competitive and what advantages does IBKR have versus the established investment banks?

5. How has organic growth been impacted in your individual investor business given the volatile market and overall retail disengagement trends globally?

6. Margin loan balances have trended lower since early 2022. Are you seeing this trend across all client types (individuals, prop traders, hedge funds) and when can we expect a rebound?

7. 20-25% of client cash is not sensitive to interest rates, and this benefits your net interest revenues as rates rise. How do you see this mix trending into the future with more of your expected growth coming from smaller accounts in the introducing broker channel?

8. IBKR's operating margin is very high (high 60s/low 70's) relative to peers. How should we think about overall expense growth in the future?

9. How has the inflationary backdrop impacted your expenses – including employee wages, real estate and have your offshore operations held up better or worse?

10. You launched GlobalTrader, a simplified mobile app targeting your retail investor. How has adoption rates trended at this newer app?

LPL Financial Holdings (LPLA)

1. While client cash sorting has picked up across the brokerage space, how do you view current levels and what kind of floor do you expect?

2. With your long-term target allocation range 50-75% fixed, would you like to move the fixed allocation towards the higher or lower end of the range given that rates are expected to stabilize and even fall over the next 12-18 months?

3. What are your plans to cross-sell margin loans and improve adoption rates given that it's still a small contributor to interest income?

4. Have you considered pursuing a bank charter to help better monetize client cash, especially after having poor 3rd party bank demand in 2021?

5. You have continued to report strong net new asset growth despite a volatile market backdrop. What do you contribute to this success, and do you see this trend continuing if the bear market extends?

6. You have averaged two large bank (enterprise channel) wins per year. How does your pipeline look into 2024 and how large is this TAM?

7. As the leading 3rd party provider of outsourced bank wealth management services, what competitive advantages do you have in the space that make your offering particularly attractive for banks and credit unions?

8. What criteria are you looking at for potential deals when you were referring to “attractive M&A opportunities” that would cause you to operate temporarily above your target leverage range?

9. Where are you focused on investing organically across your business?

10. Your payout ratio has seen some growth the past few quarters as more large financial institutions are onboarded onto your platform. Outside of the institutional channel wins, are you seeing any other pressures that have been raising your payout to advisors?

Robinhood Markets (HOOD)

1. Monthly Active Users (MAU) stabilized this quarter. What is the expected trajectory of MAUs and what macro variables is it sensitive to?

2. HOOD’s organic growth rate (net deposits) has continued to be positive despite the volatile market. Can you talk about what is driving this?

3. How should we model share-based comp in 2024 given several moving pieces?

4. HOOD has been aggressively cutting expenses in recent quarters. In which areas have you been able to reduce costs and has this impacted your growth? Do you acknowledge any additional areas for cost improvement?

5. How should marketing expenses trend given a lower contribution from referrals but potentially a higher component from traditional advertising campaigns?

6. The acquisition of Ziglu was meant to kick off international expansion with a “crypto first” strategy before being dismissed. Can you provide us an update on your progress abroad and how you plan to monetize those clients? (PFOF banned in UK)

7. How has adoption of the non-custodial digital wallet been since its launch? What is your monetization strategy? (Separate app + no network fees)

8. Robinhood Retirement has bene launched. Given certain qualities (low trading activity & cash allocations), how should we think about the incremental revenue opportunity along with its current and expected adoption rates?

9. Robinhood Gold customers receive an industry leading interest rate. How do you weigh the benefits of growth versus the loss in revenues?

10. Securities lending has continued to be a strong revenue driver for HOOD’s revenues. Does the strength in securities lending have more to do with the availability of highly sought-after shares on your platform or because of increasing client adoption rates? What percentage of clients have signed up for fully paid securities lending?

Raymond James Financial (RJF)

1. Deposit costs have increased significantly the last few quarters since launching your Enhanced Savings Program (ESP), how do you view that trending going forward?

2. Client cash sorting as decelerated significantly the last few quarters, how are you thinking about a floor in cash levels?

3. The current interest rate backdrop is projecting rate cuts by late 2024-25’, what steps is RJF considering in hedging out its interest rate exposure?

4. While the Private Client Group (PCG) net new assets (NNA) growth has been relatively strong historically (+5-7%), it has been on the weaker side the last two quarters, any commentary?

5. Historically, RJF has benefitted significantly from the “breakaway broker” theme (advisors leaving wirehouses for more independence) – How strong on your viewing that channel today?

6. Capital Markets (CM) activity has been a drag on earnings over 2023, are you seeing any green shoots or a pickup in client activity?

7. The Asset Management (AM) segment generated $2.2B of net inflows for the fiscal year 23’ despite overall industry headwinds. In your view, what drove this?

8. What areas of the business or capabilities are you missing that you believe are the highest priority for building out?

9. How should we think about expense growth going forward and what areas are you looking at allocating more our pulling back from expenses in?

10. RJF purchased 8.35M shares / $788M of repurchase activity over the fiscal year, how should we think about the cadence of buyback activity vs. other methods of shareholder return?

Exchanges

Industry

1. What is the update on issuance activity? What needs to happen to get companies comfortable issuing debt/equity again?

2. What percent of operating income do you think will come from recurring revenue sources by 2025? Are you prioritizing growth in those areas?

3. How sensitive are contracts in your recurring revenue segments to inflation? Are there built-in adjustors?

4. How do you anticipate a Fed pause would impact volumes? How would the trajectory of volumes differ in a hard vs soft landing?

5. Has the lower volatility of the past six months been a headwind to volumes? If the VIX reverts back to the high-teens/twenties, what does that mean for volumes?

Nasdaq (NDAQ)

1. How is the Adenza integration going? How is the progress trending relative to your synergy targets? Has the cross-sell strategy proved effective?

2. What should we expect from the new CFO Sarah Youngwood? What will her priorities be? Should we expect any changes with regard to expenses, capital allocation, and M&A?

3. What is the progress on the remaining Verafin proof of concepts at Tier 1 banks? How have those conversations been different relative to the sales pitch for a fin-tech or regional bank? What will be the revenue impact of your first two Tier-1 bank signings, and when will that hit the bottom line?

4. What impact do you anticipate the new MEMX exchange (3Q23 launch) and the MIAX Sapphire exchange (1Q24 launch) will have on your options franchise? Will it put pressure on your revenue capture?

5. What timeline are you anticipating for SEC Chair Gensler's equity market structure overhaul, including the recent effort to eliminate agency pricing tiers? What will be the ramifications on your equities business? If Republicans take congress or the presidency in 2024, how much does that threaten its chances of passage?

6. Has there been an inflection in ESG services demand following the recent SEC rule proposal on disclosures? What is the revenue opportunity? Could you expand your footprint to more fully capitalize on the new reporting regime? Are strategic partnerships (e.g. accounting firms) possible?

7. I know you had some logistical snags in Marketplace Technology in 2022 and ended up replacing management. Can you give us an update on the changes that Roland Chi has made since taking over that business? After a couple years of stagnating revenue, what is the path for this business to hit your 3-5% growth target?

8. You completed the migration of Nasdaq MRX & GEMX to the cloud earlier this year. What has been the initial reaction from customers? What is the magnitude of the cost benefits? So far, has there been an incremental benefit on revenues too, or just costs?

9. What revenue impact do you anticipate from the Market Data Infrastructure rule? Could NDAQ be successful as one of the competing consolidators? What do you think the demand for proprietary market data looks like after the phase-in is complete?

10. What can NDAQ do to mitigate the impact of the secular migration to off-exchange trading? Longer term, what percent of trading do you think ultimately occurs on lit venues?

Intercontinental Exchange (ICE)

1. How much more downside is left for origination volumes? Do you think there is any risk to non-transactional Mortgage Tech revenue, or only on the transactional side?

2. How are clients responding to the prospect of an integrated MSP and Encompass? Has the cross-sell pitch been as compelling as you anticipated?

3. The legacy IDC business has persistently grown at the low-end of management's mid-single digit % guidance. What have been the obstacles in integrating this business?

4. The e-trading platforms (Tradeweb, MarketAxess, Bloomberg) have been growing their footprint in fixed income data. How big of a threat are they? How defensible is this business for you?

5. What's your criteria for M&A going forward? Do you have specific product gaps that you're looking to fill? Are there other markets that appear ripe for electronification?

6. Your e-trading platform is very strong in Munis, but what is the potential to try to build out a larger presence in other asset classes such as corporate bonds?

What are the synergies between your fixed income execution business and the rest of the enterprise?

7. You've mentioned that you're willing to leverage capital markets to ensure your subsidiaries are fairly valued by investors. Are there particular businesses that you feel like you aren't getting credit for?

8. Can you give us any color on the transition to SONIA in Europe? It looks like there has been some headwinds to open interest and that adoption is lagging compared to its US counterpart (SOFR). Are European investors more resistant to risk free rates?

9. What can be done to make the NYSE listings business more competitive? The win rate was basically 50/50 a decade ago, but in recent years, Nasdaq has been winning over 80% of listings. Can you lower listings standards? Could you tier pricing more effectively? Could you expand, either organically or inorganically, the services offered to newly-listed firms?

10. What should we be expecting in terms of pricing for 2024? Are the crude oil price hikes from earlier this year indicative of what's to come?

CME Group (CME)

1. Could you give us some color on the ramp of the event contracts? Given the relatively small open interest, what obstacles are you running into?

2. Since CME is innovating more in the retail space, is it worth exploring tweaking the market structure for these retail contracts in order to better incentivize retail brokers to drive flow? Would internalization mechanisms or rebates be possible in futures, and if so, would it be worthwhile to consider?

3. What proportion of trading in your crypto derivative contracts is attributable to futures-based ETFs? How big of a risk is the approval of spot crypto ETFs for that complex?

4. Could we have an update on your M&A priorities? What sort of assets would you find interesting? Any comment on the renewed speculation around a CME-CBOE merger?

5. Is there a succession plan in place for CEO Terry Duffy? How much gas does Terry have left in the tank? Who is in the wings?

6. What is the outlook for the base metals complex? What's your degree of confidence that CME will take share from LME in light of their operational mishaps a couple years back? When will this start to show up in the volume metrics?

7. How can CME capitalize on S&P Dow Jones Indices' (a CME joint-venture) acquisition of IHS Markit's credit indices (iBoxx, iTraxx and CDX)? Should we expect more product innovation in credit futures?

8. Will the new cross-margining agreement with the DTCC be meaningful for rates volume? What else can be done to reverse BrokerTec's share losses?

9. What can be done to kick start growth in the equity index complex? Can you claw back market share from the CBOE 0DTE options or boost growth internationally?

10. What should we be expecting in terms of pricing for 2024? Is 2023 a good guide for what's to come?

Tradeweb Markets (TW)

1. What is the ceiling for e-trading adoption in the US? How does it differ between high yield, investment grade, and government bonds?

2. What percent of TRACE can portfolio trading and session trading ultimately get to? How defensible is your leading position in both protocols?

3. Small tickets are very heavily electronified at this point (80%+). What's the strategy for making inroads with larger trades ($1M+)?

4. With no debt and plenty of cash on the balance sheet, you have a lot of capacity for M&A. Where do you think you have gaps in your product lineup? Which adjacencies look interesting?

5. Where is the electronification puck going next? Which asset classes or regions look primed for an electronic wave? How are you positioning TW to attack those opportunities?

6. What is the opportunity for further collaboration with LSEG (large shareholder)? Any update on the FXAll collaboration?

7. How does the SEC's proposal for more central clearing in treasuries impact your rates business? How much would it cost for TW to comply?

8. How serious of a threat are dealer-supported platforms such as Trumid?

9. What are the practical ramifications of the popularity of fixed income ETFs on credit trading? How much will this reduce trading in the underlying bonds? Could this be a tailwind for portfolio trading?

10. The SEC seems to be advocating for more transparency in fixed income markets. Chair Gensler has floated reducing the TRACE reporting time frame and requiring the disclosure of protocol/venue usage. What would be the ramifications of these proposals on e-trading?

CBOE Global Markets (CBOE)

1. CEO Fred Tomczyk has talked about wanting to get more aggressive on expense management. When should we expect to start seeing results? What areas look most ripe for cuts?

2. Fred has talked about the importance of succession planning. Does he have a timeline in mind? Who exactly is in the wings?

3. Who's driving 0DTE adoption? Given that 0DTE is already 48% of SPX volume, how much more runway is there?

4. Is it possible to replicate the spectacular growth of SPX in other index complexes (Russell, Dow, etc.)? Can CBOE become more than a two-trick pony with VIX and SPX?

5. How should we size the impact of the Robinhood index options onboarding in 1H24?

6. How is the options launch in Europe going? Historically, why haven't options taken off in Europe? Why will your efforts be different? Are there other regions that you think are well-suited for options?

7. Any comment on the renewed speculation around a CME-CBOE merger? Do you think CBOE would be a good fit under the umbrella of a larger exchange family?

8. What can CBOE do to mitigate the impact of the secular migration to off-exchange trading? Longer term, what percent of trading do you think ultimately occurs on lit venues?

9. What impact do you anticipate the new MEMX exchange (3Q23 launch) and the MIAX Sapphire exchange (1Q24 launch) will have on your options franchise? Will it put pressure on your revenue capture?

10. What timeline are you anticipating for SEC Chair Gensler's equity market structure overhaul, including the recent effort to eliminate agency pricing tiers? What will be the ramifications on your equities business? If Republicans take congress or the presidency in 2024, how much does that threaten its chances of passage?

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$ 130.56	B-2-8
AB	AB US	AllianceBernstein	US$ 26.08	B-1-7
AMP	AMP US	Ameriprise Fin.	US$ 335.13	B-1-7
APO	APO US	Apollo	US$ 85.72	B-2-8
ARES	ARES US	Ares Management Corp	US$ 108.58	B-1-7
BLK	BLK US	BlackRock, Inc.	US$ 661.45	B-1-7
BX	BX US	Blackstone	US$ 97.73	B-1-7
OWL	OWL US	Blue Owl Capital	US$ 13.59	B-1-7
BAM	BAM US	Brookfield AM	US$ 31.2	B-2-7
CBOE	CBOE US	Cboe Global Mark	US$ 178.48	B-1-7
SCHW	SCHW US	Charles Schwab	US$ 53.96	B-3-7
CME	CME US	CME Group Inc	US$ 217.08	B-2-7
BEN	BEN US	Franklin Resources	US$ 22.5	B-3-7
IBKR	IBKR US	Interactive Brokers	US$ 81.61	B-1-7
ICE	ICE US	Intercontinental	US$ 108.66	B-1-7
IVZ	IVZ US	Invesco	US$ 12.96	B-2-7
JHG	JHG US	Janus Henderson	US$ 24.23	B-2-7
JUHDY	JHG AU	Janus Henderson	A$ 37.81	B-2-7
KKR	KKR US	KKR & Co. Inc.	US$ 63.97	B-1-7
LPLA	LPLA US	LPL Financial	US$ 226.57	B-2-7
NDAQ	NDAQ US	Nasdaq	US$ 52.09	B-3-7
PAX	PAX US	Patria	US$ 13.85	B-2-7
RJF	RJF US	Raymond James	US$ 100.56	B-1-9
HOOD	HOOD US	Robinhood Markets	US$ 8.31	C-3-9
TROW	TROW US	T. Rowe Price	US$ 92.34	B-3-7
CG	CG US	The Carlyle Group	US$ 30.01	B-3-7
TPG	TPG US	TPG Inc	US$ 32.07	C-1-7
TW	TW US	Tradeweb	US$ 92.79	B-1-7
VCTR	VCTR US	Victory Capital	US$ 30.74	B-1-7

Source: BofA Global Research

Price objective basis & risk

Affiliated Managers Group (AMG)

Our price objective (PO) for AMG is $144 and is derived from a price to earnings method. We apply an 8.0x multiple to our 2025 estimates, 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 2025E EPS to obtain our $40 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 2023.

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 $391 PO is based on 10x EPS multiple on our 2025 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).

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 $94 price objective for Apollo is derived from an 11x multiple on APO's adjusted 2025E cash earnings. We estimate that APO will continue to trade below the industry mean (9-20x on corporate definition) given its high mix of insurance earnings. Our earnings definition is more conservative than the corporate's as it excludes stock-based compensation.

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 $111 price objective for Ares Management is derived from 22.5x 2025E 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 $877 is based on a 20x 2025E 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 of $115 is based on 22.5x 2025E cash earnings. 22.5x is consistent with BX's recent trading range and reflective of an improved fundamental outlook. 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 $17 price objective for Blue Owl is derived from 20x 2025E 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 $37 and is derived from 22.5x 2025E 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 (2025E). 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 2025E EPS to derive our $186 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).

Charles Schwab Corp. (SCHW)
Our price objective (PO) for SCHW is $54 and is derived from a price to earnings method. We apply a 12x multiple on our 2025E EPS to obtain our PO. We use 12x which is on the low end of its historical range (12.5-15x) driven by (1) elevated sorting will continue through mid-2023, (2) "bank" risks would weigh on SCHW's multiple and (3) forecast net new assets to slow over the near-term.

Risks to our PO are an extension of the Fed hiking cycle positively affecting SCHW's securities portfolio reinvestment opportunity and muted sorting activity.

CME Group Inc (CME)
Our primary valuation metric for US Exchanges is price to long-term earnings (2025E). 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 20.0x

multiple on our 2025E EPS to derive our $219 PO. Our multiple is based on the conservative assumption that CME trades in line with its peer group despite its lower growth prospects/earnings quality.

Downside risks are (1) depressed volumes, (2) lower earnings quality due to high transactional revenue composition, (3) mature markets and high market share stifling further growth, (4) trading at a premium to higher growth peers and (5) secular transition away from oil/fossil fuels where CME has high share.

Upside risks are (1) improving/elevated interest rate volumes due to quantitative tightening/inflation, (2) defensive qualities which drive stock outperformance in equity market drawdowns (e.g., 1Q22), (3) futures rollouts on additional retail brokerages, and (4) potential for share gains in select markets: base metals after the LME debacle and cash after the DTCC cross-margining proposal is implemented next year.

Franklin Resources (BEN)
Our price objective (PO) for BEN is $21 and is derived from a price to earnings method. We apply an 8x multiple to our 2025 EPS estimate to derive our PO. Our 8x multiple is in-line with the active/traditional peer group excluding BLK.

Upside risks to our PO are: (1) a future equity bull market and tighter credit spreads could improve BEN's investment performance, (2) its expanding Alts business could offset its traditional outflows and benefit its fee rate, (3) future M&A could provide EPS accretion, (4) although we view its excess capital as mostly depleted after its M&A spree, BEN's tax shield may be undervalued by markets.

Downside risks are: a deterioration in investment performance and net flows.

Interactive Brokers (IBKR)
Our price objective (PO) for IBKR is $128 and is derived from a price to earnings method. We apply a 17.5x multiple to our 2025E 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 (2025E). 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 2025E EPS to derive our $136 PO. Our multiple is equal to ICE's historical average and a small discount to peers despite ICE's superior growth prospects & earnings quality. 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).

Invesco (IVZ)
Our price objective (PO) for IVZ is $14 and is derived from a price to earnings method. We apply a 10x multiple minus a $1 capital adjustment (for elevated financial leverage) to 2025E EPS to obtain our PO. 10x is modestly above its five-year average (7.5x). It is also in line with its large cap traditional peer group (x-BLK).

Risks to our PO are (1) fee rate pressures, (2) sustainability of positive net flows, (3) dissynergy risk arising from future M&A transactions, (4) elevated financial leverage, and (5) soft investment performance in its traditional business.

Janus Henderson Group (JHG / JUHDY)

Our PO for JHG is US$31 (AU$49) and is derived from a price to earnings method. We apply a 10.0x multiple on our 2025E 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 $75, which is derived from 15x 2025E 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, which is private equity heavy, with this business experiencing multiple cyclical headwinds (returns - inflation & bear market, fundraising - crowded backdrop, denominator effect), insider selling potential, KKR's voting structure, which may prevent an S&P 500 Index add.

LPL Financial Holdings (LPLA)

Our price objective (PO) for LPLA is $259 and is derived from a price to earnings method. We apply a 12x multiple to our 2025E to obtain our PO. Its closest public comps currently trade at 8-11x consensus EPS. but we think that LPLA offers a higher growth trajectory and its business model is less capital intensive. We raised our multiple given a deceleration in client cash sorting movements.

Risks to our PO are sustainability of its long-term growth, revenue pressure from maturing fixed contracts, soft deposit demand from third party banks, risk of Fed rate cuts, and elevated financial leverage.

Nasdaq (NDAQ)

Our primary valuation metric for US Exchanges is price to long-term earnings (2025E). 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 2025E EPS to derive our $50 PO on NDAQ. Our multiple reflects a slight discount on NDAQ's recent historical average given the recent earnings quality reduction and our expectation for decelerating growth.

Upside risks are (1) a bull market could revive listings activity and drive revenue gains in indexing from beta, (2) a prolonged Democratic administration could enable SEC Chair Gensler to complete his equity market structure reforms and move volumes back onto exchanges, (3) the secular trend toward derivatives (vs. cash) could offset the downward normalization in options trading, and (4) NDAQ's new crypto custody business could enhance growth.

Downside risks are (1) NDAQ's premium valuation, (2) MEMX's entrance into the options market, (3) retail investor disengagement, (4) decelerating Market Tech sales, (5) SEC

Chair Gensler's inability to complete his market structure agenda during his administration, and (6) volume headwinds as we transition toward a bull market.

Patria (PAX)
Our price objective of $16 is 10x our 2025E 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.

Raymond James Financial (RJF)
Our $118 PO is based on 11x EPS multiple on our 2025 EPS estimate. Given that RJF operates four 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 wealth management (15x), traditional asset management (9x), capital markets (7x), and traditional banking (9x). This multiple is at the bottom of its 5Y historical range (11-20x), given a conservative stance on market conditions

Downside risks are (1) breakaway broker theme threatening organic growth (2) cash sorting (3) challenging market backdrop for active management and capital markets.

Robinhood Markets (HOOD)
Our price objective (PO) of $9 for Robinhood is derived from a market cap to revenue method: We apply a 4x multiple to forecasted 2025 revenues to obtain a valuation which we then discount back one year to obtain our PO. Our multiple is based on peers. We also no longer include excess cash as we are including net interest revenue generation from that cash and wish to avoid double counting.

Upside risks to our PO are: expansion of cryptocurrency offering, entrance into international markets, and new product launches.

Downside risks to our PO are: US regulatory risks regarding payment for order flow, continued reversal of pandemic related tailwinds, and decelerating growth potential given its high market share within its addressable market.

T. Rowe Price (TROW)
Our price objective (PO) for TROW is $79 and is derived from a price to earnings method. We apply a 10.0x multiple on our 2025 EPS estimate plus $11 for TROW's excess capital (and zero debt) to obtain our PO. 10.0x is lower than TROW's 5-year average multiple of 15.0x, which is due to our reduced forward growth estimate for EPS/AuM.

Upside risks to our PO are (1) strong fundraising activity at Oak Hill, which would improve TROW's future organic growth, (2) acceleration in international expansion which would help net flows, (3) improving margins following the new partnership with FIS, (4) reversal in the negative net flow trend following the formation of TRPIM.

Downside risks to our PO are (1) pricing pressure, (2) elevated net redemptions in its 401k business, (3) deterioration in investment performance, or (4) disruption to the company's investment culture.

The Carlyle Group (CG)

Our $26 price objective for the Carlyle Group is derived from a 9x multiple on our 2025E 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 $33 price objective for TPG is derived from 12.5x 2025E cash earnings. Our multiple is in-line with the industry range (9-20x corporate definition). 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 32.5x multiple on our 2025E EPS to derive our $99 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 $44 and is derived from a price to earnings method. We apply an 8.0x multiple on our 25E 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

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

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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
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
	Janus Henderson Group	JUHDY	JHG AU	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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

[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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