

Brokers, Asset Managers & Exchanges

S&P 500 Additions: Expect KKR over NT followed by APO and then ARES

Industry Overview

Expect KKR S&P 500 Index add over next 3-6 months

We continue to believe that KKR will be the next Alt added to the S&P 500 Index following BX's September 2023 add. After KKR, we believe APO should be next among the Alts followed by ARES. However, KKR may not be next among all industries as there is one larger company – Workday (WDAY) – in a sector that is more underweight (Tech) within the S&P 500.

Next rebalancing announcement is March 1 @ 5:15pm ET

The next two rebalancings are in early March (announcement on 3/1/24 @ 5:15pm ET + rebalance at the close on 3/15/24) and again in early June. Also, there are two large mergers (Hess/Chevron, Pioneer/Exxon Mobil) that could open spots. When a large external name is added, it creates turnover which S&P tries to avoid versus migrations from the 400 (mid cap). Simply put, we think KKR is likely to enter before APO because its float-adjusted market cap is much higher.

Don't expect dark pool volume to impact KKR

Given KKR's high dark pool volume and large private ownership, some believe KKR's liquidity definition could be impacted by new language from S&P in 2022 around dark pool volumes. Specifically, if you exclude KKR's dark pool volumes, it would not be eligible for the S&P 500 Index (0.75 requirement vs. 0.53 excluding dark pools). However, S&P stated that its liquidity methodology is unchanged in February 2022, so we think there is a high, 75% probability that the dark pool volume is not an issue (0.85 ratio including dark pools vs. 0.75 requirement).

S&P 500 is underweight Fins but more underweight Tech

The S&P 500 is underweight tech and financials which makes WDAY and KKR likely candidates. There are also large S&P 400 names which could be migration candidates.

S&P 500 has the largest following in the world

The S&P 500 index is the most replicated index in the world and consists of the largest public companies in the US. The ETFs and index funds benchmarked to the S&P 500 currently own 17% of the float of its constituent companies on average (requires 12% net buying for KKR and APO when added as they are removed from other S&P indexes). Passive ETFs benchmarked to the S&P 500 are growing and getting inflows which will help support the share prices of the stocks in the index.

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Equity
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Timestamp: 05 February 2024 01:25PM EST

Additional Details

Exhibit 1: Index addition detail

We believe KKR will be added to the S&P 500 in the next 6 months

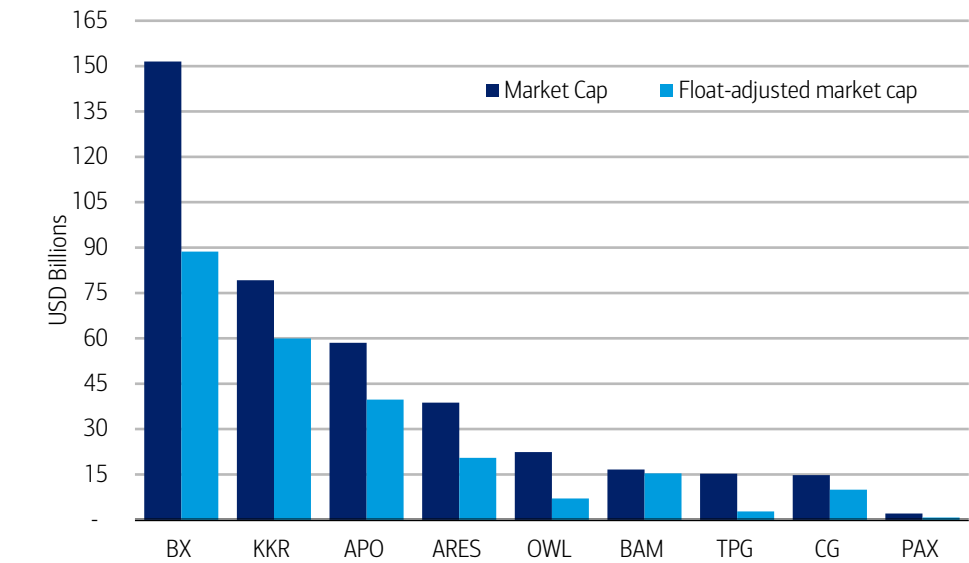
APO			
Index	Add Date	Est. % Float	Est. # Shares
CRSP (Vanguard)	September 18th-24th, 2019	7%	15
S&P Total Market (TMI)	December 20th, 2019	1%	2
Dow Jones TSM	December 20th, 2019	1%	2
MSCI Global Standard DM	May 29th, 2020	2%	4
Russell 1000	June 26th, 2020	3%	6
Russell 1000 Growth	June 26th, 2020	1%	2
S&P 500	TBD - eligible	17%	103
Future Passive Buying		17%	103
BX			
Index	Add Date	Est. % Float	Est. # Shares
CRSP (Vanguard)	September 18th-24th, 2019	4%	24
S&P Total Market (TMI)	September 20th, 2019	1%	7
DJ TSM	September 20th, 2019	1%	7
MSCI Global Standard DM	November 26th, 2019	2%	14
Russell 1000	June 25th, 2021	3%	17
S&P 500	September 18th, 2023	17%	125
Future Passive Buying		0%	0
CG			
Index	Add Date	Est. % Float	Est. # Shares
MSCI Global Standard DM	May 29th, 2020	2%	2
CRSP (Vanguard)	June 17th - 23rd, 2020	7%	8
S&P Total Market (TMI)	June 19th, 2020	1%	1
DJ TSM	June 19th, 2020	1%	1
Russell 1000	June 26th, 2020	3%	4
Russell 1000 Growth	June 26th, 2020	1%	1
S&P 400	November 30th, 2023	10.50%	38
Future Passive Buying		0%	0
KKR			
Index	Add Date	Est. % Float	Est. # Shares
DJ TSM	2018	1%	6
MSCI Global Standard DM	2018	2%	11
CRSP (Vanguard)	2018	7%	40
S&P Total Market (TMI)	2018	1%	6
Russell 1000	June 26th, 2020	3%	16
Russell 1000 Growth	June 26th, 2020	1%	5
S&P 500	TBD - eligible	17%	101
Future Passive Buying		17%	101

Source: BofA Global Research, Company data, estimates, CRSP-Index rebalance occurs over the course of Wednesday to Tuesday; S&P Index Rebalance date; MSCI Effective Date add

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Exhibit 2: Market cap vs. Float-adjusted market cap for Alternative Asset Managers

KKR and APO will likely be the next alternative asset managers added to the S&P 500 due to their size



BK: BNY Mellon; KKR: KKR & Co. Inc.; APO: Apollo; ARES: Ares Management Corp; OWL: Blue Owl Capital; BAM: Brookfield AM; TPG: TPG Inc; CG: The Carlyle Group; PAX: Patria
Source: BofA Global Research, Bloomberg, Company reports

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Exhibit 3: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
APO	APO US	Apollo	US\$ 103.13	B-2-8
ARES	ARES US	Ares Management Corp	US\$ 126.14	B-1-7
BX	BX US	Blackstone	US\$ 124.36	B-1-7
KKR	KKR US	KKR & Co. Inc.	US\$ 89.52	B-1-7
LPLA	LPLA US	LPL Financial	US\$ 251.21	B-2-7
CG	CG US	The Carlyle Group	US\$ 40.95	B-3-7

Source: BofA Global Research

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Price objective basis & risk**Apollo Global Management (APO)**

Our \$112 price objective for Apollo is derived from a 11x 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 \$141 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.

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.

KKR & Co. Inc. (KKR)

Our price objective for KKR is \$109 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.

LPL Financial Holdings (LPLA)

Our price objective (PO) for LPLA is \$285 and is derived from a price to earnings method. We apply a 11x multiple to our 2026E 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.

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.

The Carlyle Group (CG)

Our \$31 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.

Analyst Certification

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BofA Securities is currently acting as buy-side advisor to Frontier Tower Associates Philippines Inc, a regional telecom infrastructure platform backed by KKR to acquire a portion of telecoms towers from Smart Communications, a wholly owned subsidiary of PLDT Inc, which was announced on March 17, 2023.

BofA Securities is currently acting as Financial Advisor to Blackstone Inc in connection with its proposed arrangement agreement under which Blackstone Real Estate Partners X LP together with Blackstone Real Estate Income Trust Inc will acquire Tricon Residential Inc, which was announced on Jan 19, 2024. The proposed transaction is subject to approval by shareholders of Tricon Residential Inc. This research report is not intended to provide voting advice, serve as an endorsement of the proposed transaction, or result in the procurement, withholding or revocation of a proxy.

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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				
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	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

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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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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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