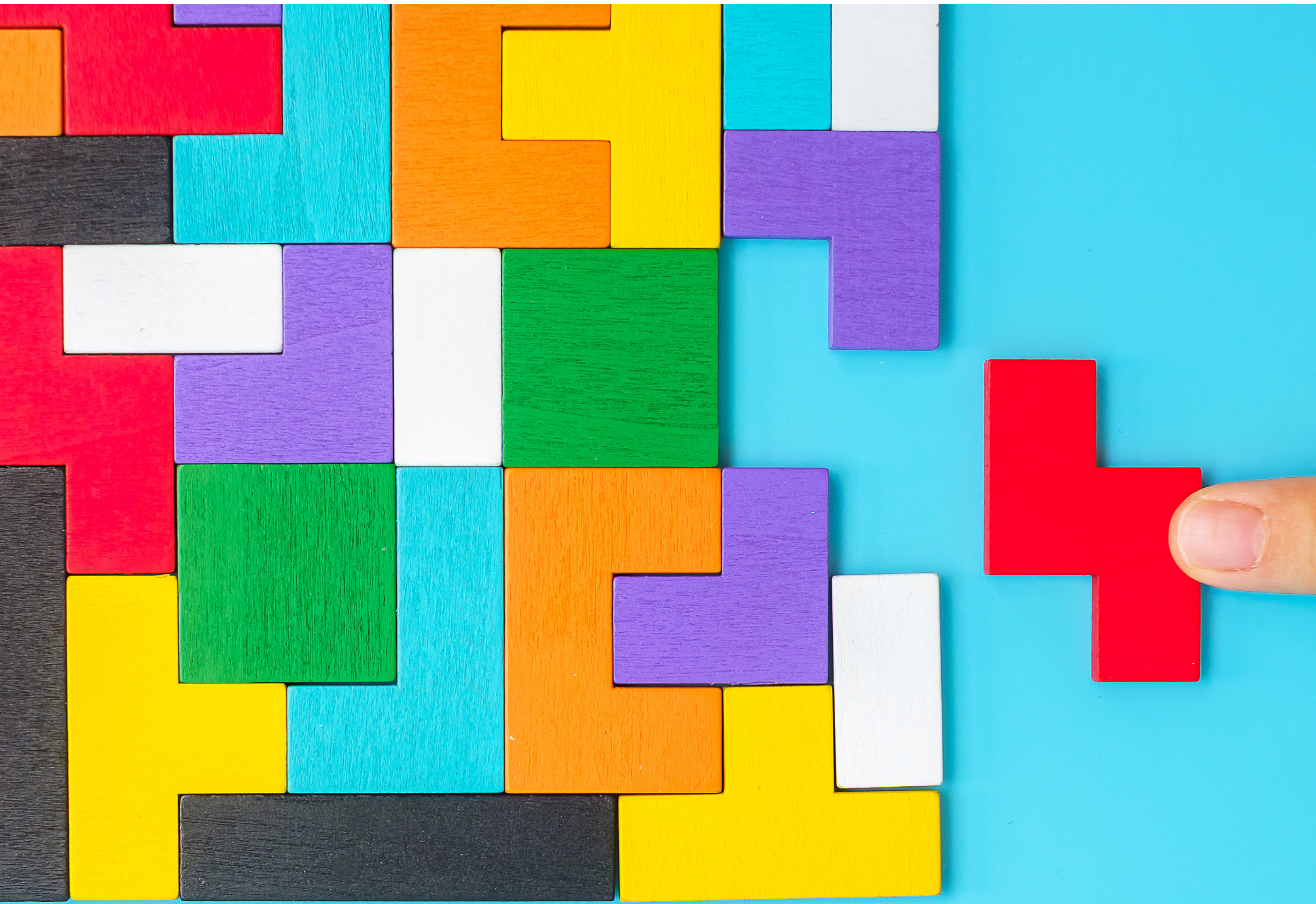
Consolidation in Wealth Management

Can prudent consolidation balance synergies for wealth managers with positive consumer outcomes?



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A foreword of thanks

Conducting this research has been an interesting and informative process, which several parties have made possible.

We wholeheartedly thank SEI, the research sponsors, without whom we would have not been able to produce such insight. SEI has supported the process with ideas, publishing, engagement and logistics for events, while letting us be truly independent in designing the approach and output of this paper.

We also thank Owen James for supporting the surveys and roundtables, and making connections.

Not least, we sincerely thank all of you who have spent time with us, kindly and openly sharing your thoughts and insights. We hope this report proves a valuable and insightful read.

A note from the research sponsor, SEI®

In recent years, consolidation has become one of the most significant forces reshaping wealth management. As a strategic partner to wealth managers and advisers globally, SEI understands the complex decisions facing C-suite leaders in a fast-changing industry.

We've supported clients on both sides of transactions, helping them navigate acquisitions, integrations, and post-deal optimisation through our technology, operations and asset management services. These experiences led us to commission this second report in our research series, following Maximising Productivity (2024), to deepen our understanding of how effective consolidation can drive long-term value.

We would like to thank FoxRed Insight and Solve Partners for their expert research. Their work presents a clear, practical framework for managing consolidation while maintaining a sharp focus on customer outcomes. This report captures the perspectives of senior leaders and offers actionable insight into both the opportunities and risks involved. While consolidation will look different for every firm, the underlying lessons are clear: success depends on vision, execution, and the ability to align strategic intent with operational delivery.

We hope this research supports your decision-making as you shape the future of your organisation; positioning your firm, your people, and your customers for long-term success.

Jim London
CEO, SEI Investments (Europe) Ltd

Context of our research

Mergers and acquisitions in UK wealth management is hot right now.

Whether this is larger firms acquiring to scale up or expand their propositions or consolidators gathering up smaller firms to amass assets, buying and selling activity has reached unprecedented levels - and does not seem to be slowing.

What does this mean for the UK wealth management landscape and – in response to the FCA's focus on "prudent" consolidation – how might this benefit the consumer?

Our research sets out to understand the nuances of this consolidation trend and agree whether it is good for the consumer.

Within this report, we address six key points:

- Where we are today
- The shape of the transactions and the process of acquisitions
- Key challenges and mistakes
- What good looks like
- The actions we need to take
- What the future might hold

Our research approach

Our multi-faceted research has focused predominantly on UK wealth management and was conducted between October 2024 and March 2025.

2 Roundtables

The research began in October 2024. We held a roundtable discussion with 20+ C-suite and Heads of M&A from UK wealth firms.

We held another roundtable discussion for 30 participants in February 2025 to share and test our early findings.

75 Quantitative survey responses

We conducted a quantitative survey across the full breadth of types and sizes of firm - including 44 CEOs, 3 CFOs and 18 COOs took part.

42 Face-to-face meetings

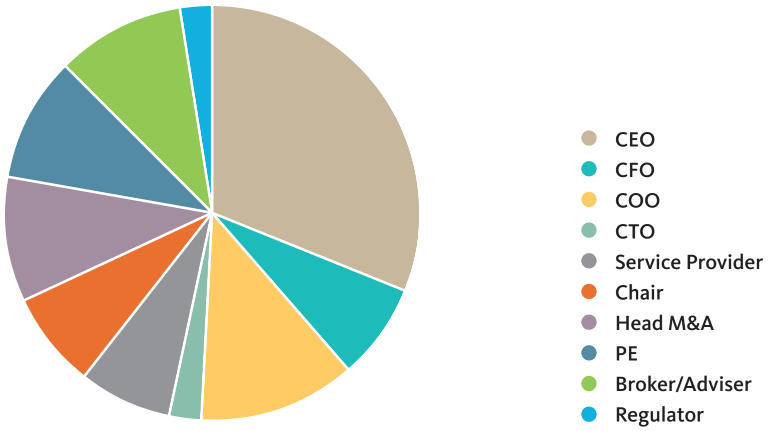
We conducted qualitative interviews with C-suite individuals from firms that had been acquired and those actively acquiring. The interviewees were mainly CEOs of medium to large firms, plus a few board members and Heads of M&A to get a cross-section of views. We also included a small number of PE firms, corporate advisors and the FCA.

Desk research & information requests

Our desk research used multiple sources, including specialist databases, multiple industry press and Freedom of Information requests, and our own network of contacts. We validated and interpreted the research results to produce some of the highest quality data in this field.

Our report is further enhanced with our real experiences and insights from the industry. We are observers, who also have privileged inside knowledge of the challenges faced by wealth managers, and individuals who have had senior responsibility for due diligence, deal negotiation and post-deal integration programmes.

Interview participants



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"Quotes from research participants are from representatives of advisory or wealth firms unless otherwise stated."

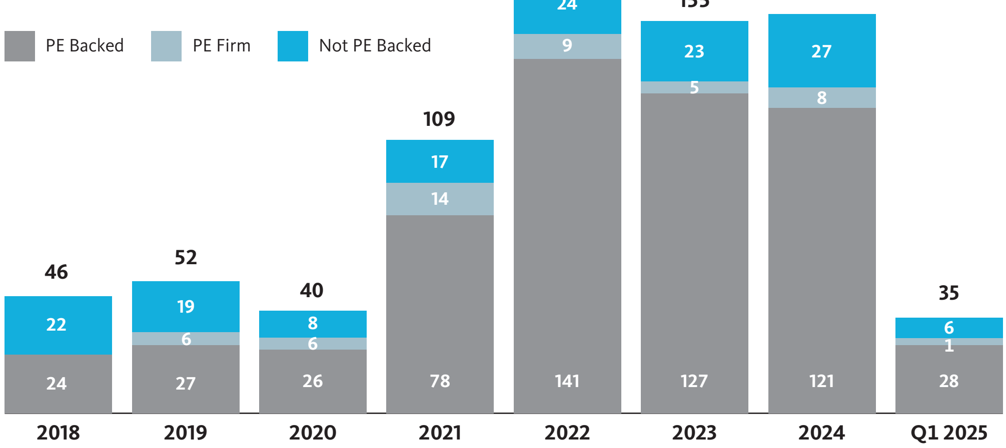
Executive summary

Consolidation delivers benefits and synergies for wealth managers, and good consumer outcomes, provided there is strong end-to-end execution - from due diligence through to full integration.

Consolidation has been turbocharged by Private Equity (PE) investment, which started in the early 2000s and has surged since 2021. All the signs are this will continue: the UK market remains heavily fragmented and the dynamics driving the investment case are strong.

Existing PE investors - generally running a 5–7-year cycle - will want to realise value for investors so we expect exits and consolidation of the consolidators. One-fifth of firms are already under their second PE owners.

Number of deals
(Includes minority stake deals)

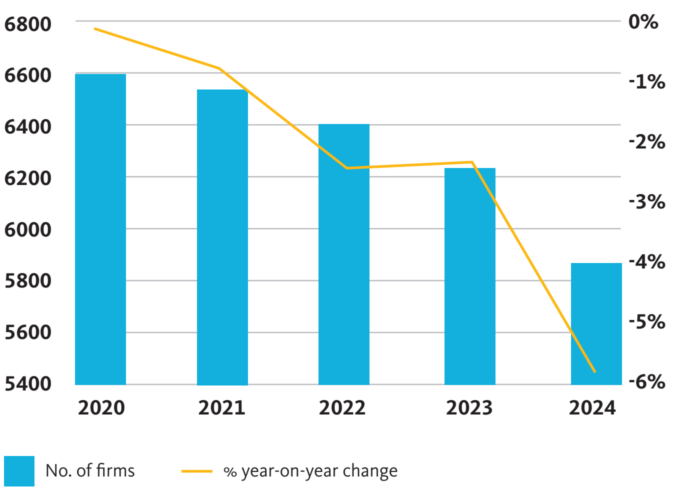


Our assessment uses multiple sources, including PitchBook, company reports, industry news, our research interviews and industry networking. This data refers to SPAs and excludes asset (book) purchases – data as at end of March 2025.

Consolidation IS happening

Despite anecdotal comments to the contrary, the number of authorised adviser firms is steadily reducing.

Number of firms authorised to give investment advice



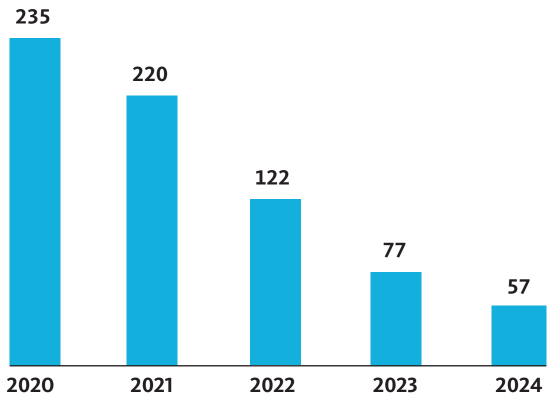
Between 2023 and 2024 there was a 5.6% reduction in the number of firms authorised to provide retail advice. This drop most likely reflects the peak in deals made in 2021/2022 as it takes time to get firms closed post-acquisition (or complete on legal entity rationalisation).

The overall number has dropped 11.3% since 2020.

Source: FCA information request

> *“The number one source of new start-ups is from consolidator breakaways in the last two years.”*

New authorisations



However, 711 new firms were authorised in that time.

2020-2022 has been referred to as the ‘Wild West’ and the number of new firms most likely reflects adviser attrition from early consolidators getting it wrong.

Source: FCA information request

The ‘Wild West’ is over

Bad practices seen in some firms 3-4 years ago - such as aggregating rather than consolidating, poor due diligence, lack of clarity on future proposition and operating model and overpaying have led some firms to pause acquisitions to restructure and change leadership, before re-starting consolidation.

Most firms have learned lessons, though some still face integration challenges through lack of sufficient planning, resources and expertise.

The debt mountain

Growth through acquisition is only sustainable by delivering on cost and revenue synergies and therefore, strong cashflows to service the debt, fund the repayment schedule and meet banking covenants.

Where deals go wrong, debt levels become misaligned with the size of the consolidator. If the ability to service the debt diminishes this can lead to restructure or a stressed sale. This has already been evident and we expect further examples in the future.

Financial synergies and integration

Achieving the best financial outcomes for all acquirers is dependent on:

- Well-defined client segmentation, business proposition, fee structures and target operating model;
- A clear integration strategy with defined business outcomes, realistic timescales and properly resourced project streams; and
- Good governance – reporting against desired outcomes; having the right financial metrics and appropriate challenge at executive and board level.

Consolidators are increasingly focused on **revenue growth from vertical integration** with investment product and ownership of platform. However, they also need to recognise **potential dis-synergies** around compliance and risk, compensation alignment, technology licence sharing and property upgrades.

Larger firm mergers benefit both from **material cost synergies**, through overlap of resources, support capability and providers, and **revenue uplift**, from introducing financial planning to investment management clients.

> *“Cost synergies, being the focus a few years ago, are now giving way to revenue synergies via vertically integrated models.”*

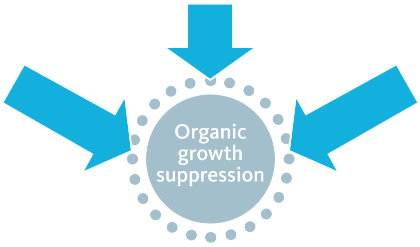
Organic growth suppression

A challenge for many consolidators is how to balance focus on acquisitions and still generate organic growth. Achieving both builds a premium on enterprise value - few, by their own admission, are achieving this.

M&A and integration have a three-fold impact on growth:

Management focus of **both** buyer and seller is on integration and not on growth

Incoming relationship managers are more worried about new processes, incentive structures and transferring clients than finding new business



Referrals from transitioning clients go down - they are unlikely to recommend until they have experience of the new proposition and service

Doing M&A on repeat means **organic growth becomes an almost impossible feat.** Firms need to accept that this is the case, adjust forecasts and soften relationship managers' new business targets for 1-2 years post deal. Speed of integration is, therefore, important.

"There is a dip in our own business's organic growth when management focus is on acquisitions."

Relationship manager attrition

Relationship Managers (whether Advisers or Investment Managers) don't like change. Unhappy Relationship Managers leave and take clients with them. Significant attrition can undermine financial rationale for the deal.

Regretted attrition should, ideally, be less than 5% within two years of the deal. The key cause of regretted attrition is a lack of clarity prior to signing of the business model on what the deal means for Relationship Managers. Early senior stakeholder engagement and clear communication supporting advisors through the end-to-end process of integration and client migration is essential to mitigate this.

Challenges remain on how key Relationship Managers are retained - firms that can, leverage long-term share incentive plans.

Consumer outcomes

There is strong evidence that consolidation leads to better consumer outcomes.

Outcomes take time to realise and depend on the pace of execution by the integration team. Benefits to clients include stronger investment propositions underpinned by global research capability likely leading to better performance; more regular communication from investment relationship teams; potentially lower fees; better portal access and functionality; and better service for lower value clients.

Eye to the future

As firms consolidate and vertical integration becomes the norm; 'Independent' advice status will lose importance as more firms become 'Restricted'.

Consolidation will increase outsourcing of the value chain where this does not fit with a firm's core competence. Not only around dealing and custody, some firms are also moving to a co-CIO model to leverage the investment process of specialist asset managers.

There may be unintended consequences in a bear market. One outcome of the race to the bottom on investment fees is a drive to passive investing. While this may benefit clients initially, future investment performance may be challenging if there is a sustained bear market. There is consensus that equities are likely to deliver lower performance over the next 10-15 years compared to the bull market of the last 15. This will lead to increased focus on investment performance and active management, possibly resulting in a return to higher fees.

State of the nation

The traditional cycle of start-up, grow and sell, and the fragmentation across advice and financial planning services, has been disrupted with a more active force than previously seen.

Drivers of consolidation

Acquisitions have always been a key feature of the wealth management industry. In the past, individuals reaching a certain stage of their careers broke away from larger firms to start up their own business, often taking clients with them. The ease of creating a start-up and the annuity nature of the business meant few barriers to success.

This resulted in a cycle of selling when those firms reached a certain size creating numerous medium-sized firms with between £5-10bn assets under management (AUM). There were few super-sized firms beyond the banks at that time.

Fast-forward to today and the cycle has changed. Accelerated activity means firms of any size are up for acquisition and there is a thirst for asset growth beyond anything seen before.

Key market drivers

Regulation

Since the advent of the Retail Distribution Review in 2012, the extent and cost of regulation has escalated, particularly for the provision of financial advice.

With principles-based regulation and significant initiatives (MiFID, Capital Adequacy, Operational Resilience and now Consumer Duty), the costs and complexity of regulation has become a significant burden.

A market that supported thousands of individual advisers is no longer sustainable.

The critical mass for a wealth management firm has become much larger, some stating £0.5bn and others saying even a firm of £2bn AUM is sub-scale.

Attractiveness of advice

UK wealth management is one of the most significant sectors for financial services with investible wealth estimated at about £3.5trn.

The continued growth of the wealth market opportunity, coupled with strong annuity revenues, client “stickiness”, and fragmentation - particularly for financial planning - makes wealth manager firms an attractive proposition for investors.

Increasing pressure on pricing for discretionary investment management has also driven interest from investment-led firms to expand propositions into holistic and vertically integrated services.

Many are moving to focus on being advice-led for new business.

Advice gap

In the UK, our need for advice has increased following the complexity of pension freedoms and tax efficient wrappers. A lack of financial awareness education in schools means individuals find themselves ill-equipped to make decisions than those in many other nations.

The need for advice at lower levels of wealth has grown, along with the costs of providing it. This means firms must invest in productivity and technology to support demand from these client segments efficiently.

In addition, the aging population of advisers means people are retiring from the industry as quickly as they can be replaced - 20% of Advisers are over 60, and 30% over 50.

Owner-Adviser retirement is a key driver for the sale of smaller firms.

Economic pressure

High interest rates have put many advice firms under pressure, as they lose assets under advice/management to annuities and mortgage pay-offs.

Recent changes to the treatment of pensions under inheritance tax rules may also put advisers under pressure if clients drawdown pension pots to gift to descendants.

Advisers need to drive 5-10% new business per annum just to compensate for these outflows of AUM.

Market volatility is increasing and with high inflation, driving a focus is on investment performance.

Some acquisitions have been specifically to enhance investment capabilities, or an IFA who wanted to use a larger firm with better access to a skilled investment team.

“Organic growth is really hard at the moment.”

A frenzy of activity

Our research indicates that nearly all firms will consider acquisition should the right opportunity arise.

Three out of four of firms are proactively looking and have funding in place, making it unlikely that organisations that are just “waiting on the right opportunity” will get a look in.

The most prevalent acquirers in the current market are:

77%

of our survey respondents intend to acquire in 2025

Consolidators	Medium/large-sized firm mergers
Consolidators often start small but acquire aggressively to build AUM, targeting smaller firms and one-man bands. Deals can be an asset purchase or legal entity, and advisers become employees of the consolidator. Generally, businesses are migrated onto the consolidator’s existing operating model and service proposition, potentially moving assets into the consolidator’s investment products based on suitability. **Examples: *Perspective, Ascot Lloyd*** ‘Networks’ are also consolidators. They attract small IFA firms and these become Appointed Representatives. They are self-employed but migrate to their Network’s business model, coming under a common compliance and risk framework. Some of these firms are hybrids with the employee model. **Examples: *Quilter, Benchmark, True Potential***	Firms that acquire another firm of a similar or slightly smaller size are generally more complex. They require a full merger and alignment of the business activities and propositions, rather than a straight migration of an acquired business onto an existing model. Parties in this category acquire with less frequency. **Examples: *London & Capital, Rathbones, Brooks Macdonald***

The PE Supercharge

Since 2021, M&A activity has accelerated, driven by the trends described. Private equity (PE) investment has, however provided a real power boost.

PE firms have been owners of wealth managers in the UK for several years. Palamon Capital acquired John Scott & Partners in 2003 and Bridgepoint acquired Tilney in 2005. PE involvement has since become a frenzy. Attracted by the significant annuity revenues, PE firms from all over the world have started to compete for the opportunities available.

The PE supercharge has enabled wealth managers to leverage debt and drive forward their acquisition strategies more quickly and with greater ambition.

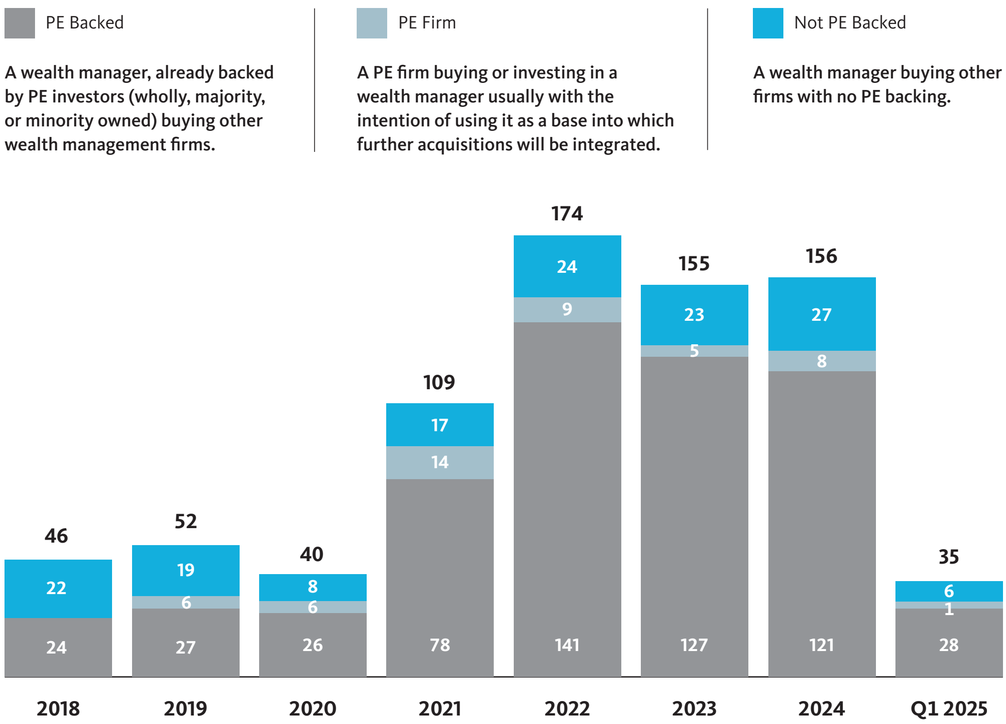
> *“Market Dynamics are attractive - advice gap; growth of wealth in UK; recurring revenue and sticky clients.” - PE firm*

> *"Fragmented market so lots of opportunities to consider." - PE firm*

Over 88% of known deals have been boosted by PE money since 2021, and we have tracked 140-160 deals per year that are backed by PE. Nearly 50% of the firms we spoke to were PE-funded.

Number of M&A deals in UK Wealth Management

(Includes minority stake deals)



Our assessment uses multiple sources, including PitchBook, company reports, industry news, our research interviews and industry networking. This data refers to SPAs and excludes asset (book) purchases – data as at end of March 2025.

> *"Wealth management is a people business with nice revenues." - PE firm*

Some CEOs referred to 2021 and 2022 as the 'Wild West' - a fight to buy anything and everything. Our research shows that this resulted in a lack of integration with acquirers moving too fast and with no defined model, Adviser attrition also making it difficult to realise the financial objectives of the acquisition strategy.

> *"Aggressive consolidation is no longer favoured - firms bought anything at any cost."*

Based on the level of 2025 Q1 activity it looks like the number of deals will remain at this level. However, at least four significant consolidators are "on a pause for breath" – see later commentary on integration – so we expect them to re-start in 2026. Additionally, there are a number of PE firm deals (7) from last year building on first/baseline business.

"2023/24 markets have been tougher - businesses are either too good to be attractive, or too messy." - PE firm

Why firms are acquiring

There is a dire need for critical mass and better productivity in the wealth management industry, yet organic growth is challenging. Hence, many firms' acquisition strategies are attuned to more rapid, inorganic growth and the hope of achieving scale.

AUM growth

The Consolidators are the most prevalent acquirers in our statistics. These are generally PE-backed, and their strategy is to buy and integrate a multitude of smaller firms - such as IFAs and small advisers – focusing on asset-grab. The most active firms have each done 60-100 deals in the last 4-5 years. Perspective, for example, near tripled AUM from £2.8bn in 2020 to £8bn today.

"Organic growth is hard - lucky to get 5% in the current market. Inorganic growth is an important pillar that gives many multiples of that."

Proposition gap

The larger and inherently more complex acquisitions, tend to cite proposition as a driver for their activities. Prime examples are Rathbones/Saunderson House, London & Capital/Waverton, and Charles Stanley/Raymond James. These focused on building a hybrid of investment management and advice capability.

For these firms, growth is still a key consideration illustrated by Rathbones' subsequent deal for Investec, which was a pure scale play.

"It's easier to buy (through acquisition) the right permissions from the regulator, rather than apply."

Geography

With advice-led firms, geography is a key consideration where acquirers want to deliver face-to-face and local services.

One or two firms were targeting acquisitions based on location, though growth remains the primary focus.

Infrastructure gaps

Sometimes, a ready-implemented platform or operating model is a faster way to solve infrastructure gaps. Incoming PE investors tend to look for firms with existing infrastructure in place, which makes wealth managers with a well-defined operating model particularly attractive.

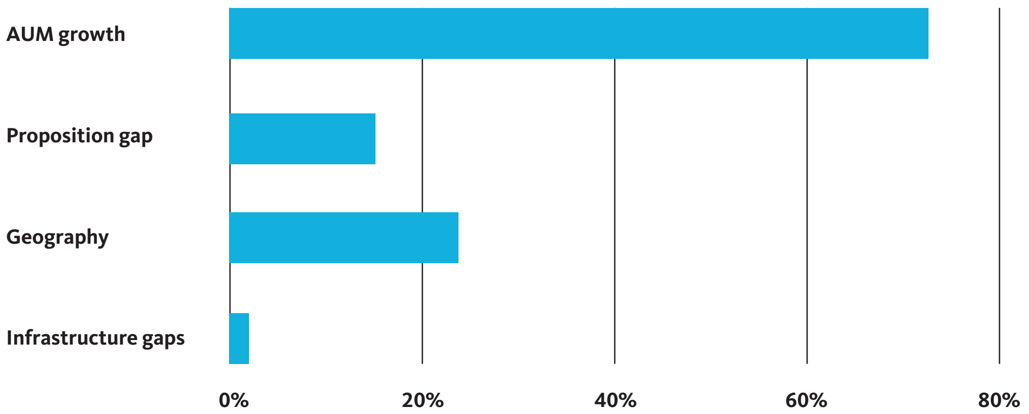
Meanwhile, some target firms with similar infrastructures on the assumption that integration will be easier.

Acquisitions may also be driven by an opportunity to fill a service gap with infrastructure that already works, thereby avoiding the full selection and implementation effort of using a new supplier. In our research, one firm cited infrastructure as a driver, primarily to fulfil a need for technology capable of moving smaller clients into a more efficient service model.

New robo players that have delivered a proven technology capability but have struggled to scale are seen as attractive targets for larger firms that want ready-made technology, which is faster to market and lower risk than building from scratch.

Examples include: *Quilter/NuWealth, JP Morgan/Nutmeg, Aviva/Wealthify*

Reasons for acquiring



Source: Research interviewees

Which firms are selling

No one will openly admit they are for sale (although a few did confidentially during the inteviews).

PE firm flips

PE firms admit that their ideal timeline for investment is 5-7 years, though some flip faster or hold for longer. CBPE (Perspective) was held for four years and Permira (Evelyn) is currently over 10 years.

PE firms focus on acquisitions where they can move the dial, fixing challenges or supercharging growth. When they reach a plateau of margin/growth, they are prime for an exit and who is next in line to acquire is an interesting question. If something has been “fixed”, does it become a less attractive proposition for other PE investors with the same strategy?

PE firms are also attracted by strong leadership teams who have demonstrated an ability to acquire and integrate successfully. Funding from PE ownership can turbo-charge further growth.

With 36 PE firm deals (as opposed to PE-backed) between 2021 and 2024, we expect to see some exits during the next three years.

Retiring advisers

20% of the UK's registered advisers are over 60, around 6,800 individuals. Plus, over 2000 firms are a single adviser, another 2000 have only 2-5 advisers. Owners of these firms are likely to be over age 55, the average age of an adviser in the UK.

Retirement means realising some value from the individual's firm. Life events such as divorce or loss of a partner, which are more likely in later life can also drive this.

Selling is a viable opportunity, and consolidators will consider anything from £20m AUM upwards for a firm/book of this type. Most retiring individuals care deeply about finding their clients an appropriate home before selling up.

> *"Advisers plan their whole lives to retire at 55."*

Small advisers

Organic growth is hard, particularly when firms are sub-scale. Step-changes require investment, and compliance and technology costs are ever increasing. Though not impossible, small firms (<£2bn) will struggle more than others to maintain margin without outside investment.

> *"Many firms are up for sale due to IFA retirements and Consumer Duty challenges making it unprofitable to service clients."*

Advice-led firms needing investment capability

We estimate that 20-25% of smaller firms have individual advisers who are delivering investment management advice to their clients. The trend for consolidation, price pressure, a need for consistency and better talent has driven some firms to sell to a partner able to provide capability.

A new approach is to 'outsource' investment by taking a Co-CIO approach – a close relationship where activities are shared between an asset manager (building blocks) and the adviser firm (for portfolio configuration). The investment solution is still tailored to the adviser firm's requirements, yet leverages the global capability of an institutional asset manager.

Firms in "distress"

These need not be bad businesses. Sometimes firms sell as a disposal from a larger group due to conflicts or strategic focus: Close Brothers Asset Management and challenges with Close Group and car finance; a need for significant investment in infrastructure (Hargreaves Lansdown); or are generally in trouble. Given market conditions, continued challenges of compliance and staff departures, there will be more of these.

Large players

There is always speculation that some of the largest players in the market are ripe for acquisition. Who, however, would be in a position to acquire them?

"Quilter and Evelyn are too big for many PE firms." – PE firm

PE firms have different targets for investment. CVC, for example, operate at the higher end, in terms of investment size, while Coniston Capital and Rockpool are at the lower end. PE firms also roughly divide into two strategies: those looking to maximise value for investors and those looking to partner with the management team to grow the business.

However, buyers of these firms could be a consortium of PE investors, as happened to Hargreaves Lansdown with Nordic, CVC and Abu Dhabi Investment Authority - a market cap of £5.2bn, showing that large acquisitions are still possible. There are opportunities for material synergies in bringing larger firms together, particularly if there is commonality on operating model, which then makes for an easier integration.

Based on our knowledge of individual firms, PE ownership and the industry in general, we estimate that around 28% of the firms we engaged in this research will be selling or changing hands in the next five years.

Summary

The unprecedented level of M&A activity in has been supercharged by Private Equity interest.

The Wild West of 2021/22 may be over the aggressive activity of some has led to a need to pause further deals until better integration and synergies are realised.

The market is still full of opportunity. The advice gap and aging adviser population will drive multiple small firms to look for new homes; larger firms are still looking for expanded proposition and/or scale and efficiency.

The deal

The asset grab of the "Wild West" years of 2021/22 - where firms bought anything and everything for any price - are over.

Strategy for acquisitions

Three years ago, firms were acquiring anything and everything, today there is more focus. 30-80% of presented deals are rejected after desk research.

Every firm participating in our research had a clear idea of their targets. While some businesses' criteria are broad, others follow specific strategies, e.g. a single county or firms with young advisers.

> *"Firms we bought three to four years ago, we would probably not buy now."*

However, there are still a few consolidators that will mop up rejections and most sellers get another deal quickly.

Today, particularly at the smaller end of the market, deals are focused on revenue synergies through implementation of a vertically integrated operating model. This works, provided the in-house investment solution demonstrably meets Consumer Duty in terms of value and long-term investment performance (see also section on Eye to the Future).

For larger deals, while synergies are found in support functions and operations, these can take a long time to implement and assimilation into a single operating model is costly. Supplier contracts often need to be exited or amended. Investing in the right skilled resources can make a difference through shortened timescales and effective change management. One off integration costs to achieve synergies need to be clearly defined in the business case rationale for the deal.

Even for these larger firms, the benefits of an acquisition are becoming focused on revenue and margin growth through scale and cross-sell, rather than cost savings.

> *"We like to target businesses that are not well run as they have opportunities to improve them" - PE firm*

Target firms

Our interviews showed that some firms are highly attractive to buyers:

Appointed representatives

Not strictly an acquisition. Self-employed advisers utilise a network's infrastructure and investment propositions

- 'Acquirer' synergies focus on boosting revenue from investment management
- Start-ups, or advisers moving from another network
- Can be used as a path to acquisition, where the adviser sells 2 years later, once the business proposition has already been adopted (and with a get out if not)
- Can run alongside the inhouse advice proposition acquisition strategy

Benchmark, Quilter, Fairstone, True Potential

Retiring single advisers

Desirable to a host of the consolidator firms

- Opportunity for an asset purchase, leaving entity closedown and liabilities off the books
- Less chance of the adviser taking clients (though some do end up re-starting)
- Adviser buy-in is important to the extent that they are happy with the "home" for their clients - then they will not challenge migration into the investment proposition later
- Integration is focused on client relationship handover and migration of data

"There are lots of them, and easier to digest quickly."

Developing/smaller IFA firms

Typically with 2-5 advisers

- Integration activities are wider than for a single retiring adviser, but still simpler than for larger firms
- Tends to be transfer of business onto acquirer's business infrastructure
- Addition of multiple platform relationships becomes a growing problem

Larger IFAs

Firms with 8+ advisers

- May have more infrastructure to be integrated
- Integration becomes ever more complex with alignment of incentives, functional overlaps, and people-related challenges
- Advisers who are not recipients of the deal proceeds and may not have chosen to be part of the buyer firm need incentives
- Retention of client service teams, who may not want to be part of a large firm, can be a problem

"More advisers = more difficult as less % of advisers have beach money."

Baseline firms

A firm upon which to build and to add further acquisitions

- Investors (largely PE) who are new entrants to the market or starting a new portfolio
- Firms may still be small (£1bn)
- No integration required
- Firms with an established platform upon which to consolidate are most desirable
- Given short timeline for PE investors, management will be pushed to acquire swiftly

CBPE/Clifton

Opportunities to fix or change
PE investors target firms that can be re-shaped to generate better margin
Target Firms may: • be out of kilter with market trends with their proposition (e.g. bespoke portfolio management at low values) • have areas of inefficiency and need investment in infrastructure • need better focus on the business by exiting a broader financial business
Oaktree/CBAM

Mid-size wealth manager mergers
More traditional M&A where the seller also has an established operating model
• Common where an advice-led firm wants to acquire investment capability or visa versa • Also used where a significant uptick in assets is the aim • Highly complex to integrate, with two management teams, two sets of CRM, two operations platforms and possibly multiple outsource contracts to rationalise • People issues are even more prevalent where changing reporting lines and/or incentives are unsettling • Retention of staff can be problematic • Integration is expensive and takes time (18+ months)
Ascot Lloyd/Whitechurch, L&C/Waverton, Rathbones/Saunderson House, HPG/Hawksmoor, Rathbones/Investec

Finding suitable targets

Brokers are often appointed by the seller and are helpful in preparing a firm for sale, however sellers often start the process too late. One broker told us that engaging 2-3 years before sale is optimum.

While buyers are critical of brokers who "massage the issues and the price", most brokers are diligent and guide their clients on realistic pricing, and firms see value in the help brokers give to sellers. Buyers with an aggressive acquisition strategy have a small number of favoured brokers with whom they build relationships, although most firms will consider any opportunity.

> *"Businesses will command higher prices if packaged ready to go."*

> *"Brokers often throw mud at the wall to see what sticks; can't rely on a broker for due diligence process."*

Several consolidator firms use internal M&A teams to identify potential targets and supplement broker introductions. Network providers also tap their networks of external advisers for introductions and market intelligence for potential sellers.

One firm stated that *"we specifically look for firms that are not for sale"*, while another firm stated *"we don't play in the 'sell now' market"*.

The reasons for this approach are:

- It's very competitive
- Brokers often push on timescales – which adds risk
- Broker-managed often means that issues have been massaged for sale
- It's less expensive without intermediaries

It's common for larger mergers to be broker-led. However, we know of at least two recent deals where the seller went off-market and directly approached firms with whom it thought it had synergies.

One of these demonstrated the best deal process we have seen, mainly because of the extent and quality of the discussion and the level of planning pre-deal.

Due diligence

In the last couple of years, the due diligence (DD) process has become more robust, moving beyond the heavy emphasis on historic and projected financials of the target firm.

Data

DD now has a laser focus on compliance and the data that proves adherence. This is driven by Consumer Duty, the review of advice on defined benefit pension transfers and focus on whether charges for ongoing advice are justified.

Providing this data is one of the most challenging parts of DD for the seller, since it needs to be clean and accessible. Extended times to respond to questions during DD will be a red/amber flag to the seller.

> *"Documentation of compliance matters/suitability? - No firm has this in detail for the last 7 years."*

The second data challenge is for the buyer - does the data mean what you think?

Firms told us that KPIs for earn-out are often based on the data seen during due diligence. However, when data migrates into their own systems it's not accurate or meaningful. This is not just a challenge for small IFA purchases, larger entities with legacy technology have masses of data that is often inaccurate or difficult to extract (for example empty, not closed accounts).

> *"We take care with seller data and our understanding - does it say what it should say?"*

The best approach is to migrate client data into the chosen customer relationship management (CRM) as quickly as possible post deal and ensure it is fully understood at the beginning of the earn-out, re-setting KPIs if needed.

> *"Data is the biggest challenge, unequivocally."*

Client segmentation

There is always more work to do on client data post deal. However, understanding this data at an early stage of DD is increasingly important. When client profiles compare badly to the buyer's Consumer Duty segmentation it should be a red flag, except for where it is a deliberate, targeted move to expand into a new client segment.

A mismatch on segmentation can lead to a deal failing. One firm tried to bring together an advice-led business focused on mass affluent clients with a wealth manager with ultra-high net worth clients. It failed because the styles of the client-facing teams and culture of the firms were different.

Operational due diligence

Aside from the financials and compliance, operational aspects, which inform integration strategy, receive less attention than they should.

Considerations should include:

- **CRM:** what systems are used, how is the data held, how quickly can integration be achieved and onto what model
- **Platform strategy and SIPP providers:** what AUM is sitting on what platform and in which wrappers, are there opportunities to focus on a smaller number and negotiate better terms
- **Fee structures:** standard charges, basis and frequency of collection and one-off event driven charges; what has been the level of fee discounting, and how are they authorised. This could highlight Consumer Duty issues and future difficult conversations with relationship owners.
- **Property:** particularly relevant for IFA consolidators where property is sometimes held within the SIPP of the selling IFA.

In addition, for larger deals where firms are running their own investment management:

- **Instrument coverage:** how does that compare against what is currently supported by the outsource provider or in-house custody.
- **Third-party provider spend:** what are the areas of overlap; what are the opportunities for rationalisation; some will be sensitive (e.g. data providers) as there could be a strong preference for 'no change' from investment managers, but also potential for material synergies.
- **Asset migration:** where assets are to be migrated between custodians, what are the 'migration windows' (material books are likely to be month-end). To what extent could discussions take place on a no names basis as part of the DD process, so that plans are formalised and ready to execute post completion.

"You need to have the awkward conversations while not on your books, (otherwise) it will come back and bite 20 times over later."

Seller beware

The success of any acquisition is, in part, on the seller's due diligence performed on the buyer. The seller should be aware of exactly what will happen post completion and the expectations of its team.

"Sellers fail to do enough reverse due diligence (but are improving)" - Corporate broker

The importance of a clear destination business model

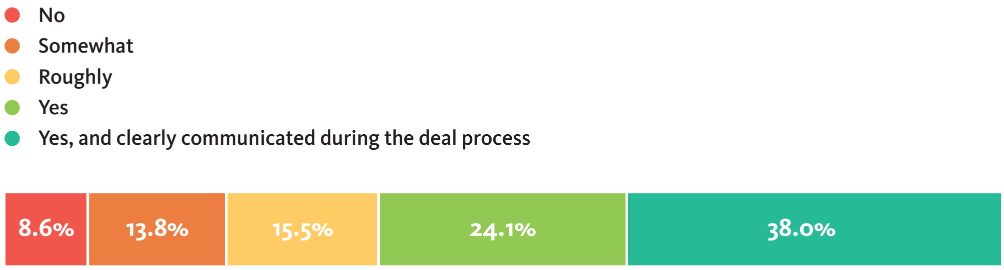
Most firms that are consolidating at pace have a defined destination business model. Just over half of responses in our survey thought they had a well-defined model.

However, there are still a large number of firms that are active in acquiring, while still formulating the consolidation strategy or lacking a clear model. Some have a policy to "leave things are they are".

These aggregators - as opposed to consolidators - experienced greater challenges in adviser retention, synergy realisation, and delivery of the agreed acquisition strategy (see section 6-Outcomes).

Having a clearly defined model is important. Communicating it and **ensuring it is understood** by the seller are often where firms fall down. Adviser attrition levels post-deal have a **direct correlation** with how this is done pre-deal. The seller's senior team also needs to ensure this is communicated downstream to all other advisers who are not owners as they need to buy-in to the proposition.

Do you have a clear destination business model?



Source: Research interviewees

"Message delivery was poorly done - cultural psychology is important - advisers felt it wasn't a choice."

"What was said versus what was heard are not always the same."

Getting the right deal

It is easy for sellers be blinded by the highest offer. However, some firms will go in high and chip away at the price during due diligence once they are in an exclusivity period. In addition, sellers need to achieve the targets and required performance expectations to get the full payout.

If going with a PE investor, understanding the PE firm's motivation and strategy are crucial, as well as testing the experience and market understanding of the prospective board members. Good PE firms will add value with their challenge and focus for growth; with others it may feel like being held to ransom over the financial figures from day one.

"Our new PE owner has good experience in the market. We like the management team. It was not the highest offer."

Understanding buyer motivation and what they will ask of you and your team is important, in particular how they align to the services and proposition they are promoting:

- Are they centralised regarding client service? This may mean your team has to reshape or move.
- What is their relationship management model? If you are investment-led, does this mean the primary relationship will move to an adviser?
- Smaller clients might be moved into a centralised proposition and advisers will need to buy into giving them up.
- How do your incentives align as a model and overall compensation?
- Do not expect to remain Independent if they are a Restricted proposition firm.

Other pre-deal activities

Once the deal is agreed, **prior to signing**, no matter what size acquisition it is, there should be an agreed action plan.

Early alignment on culture and how to work collaboratively is paramount. This holds true for any firm being acquired, no matter its size.

Where consolidation is between larger firms, the due diligence should have cleared any red flags. In addition, there needs to be broad alignment on the following topics in advance of any deal signing:

Board and executive structure

Both what this could look like to run the combined business and the process to get there.

Client segmentation

Ensuring alignment of client sizes and appropriateness of cross-selling services.

How will the tail-end or smaller clients be serviced?

Client relationship model

Whether the investment manager or financial planner leads, or a team solution.

Whether relationships move, or whether this is left to a natural osmosis/ client preference.

Whether relationship managers will be encouraged to dual qualify.

Proposition and pricing

Consider industry trends on financial planning and investment charges.

How will this affect the overall charges and value to the customer?

Investment process

Where two firms both have investment capability, one house view is important soon after acquisition.

Operating model

Target systems infrastructure front-to-back (CRM, financial planning, portfolio management, trading, custody & settlement), including leverage of any outsourced suppliers, and which will be preferred if more than one.

Compensation models

Overall, a differential between pay levels will have a direct impact on EBITDA as they will need to be aligned.

Incentives and alignment to desired behaviours are a complex and sensitive issue and need to be understood prior to the deal

Target synergies

Agreed between both parties (costs, revenue, and projected one off costs) and shared between principals, including projected timing.

Cultural alignment

Culture is the biggest cause of failure of acquisitions.

Getting to know the other party can only be done by spending time together. Merely comparing stated values is not enough.

A further note on pre-deal activities: if you can, involve your material outsource provider(s) pre-deal. Firms invariably underestimate integration and taking a “model office” approach - overlaying the target operating model proposals (80% demo vs. 20% Target Operating Model review) - helps to get buy-in for the preferred solution as well as identify where change is needed to accommodate the incoming business.

> *“Clients should give us a heads up, no matter how high level - if there is an indication of direction of travel, intent, and timeframe, this is really helpful and means we can be ready to act with the appropriate resources." - Outsource provider.*

There are five key areas that can be evaluated quickly and make all the difference:

- Share client reporting of both sides – it tells a comprehensive story
- Get portfolio managers to see the solution, even test a portfolio with which they are familiar
- Assess fee calculations to ensure the model is supported
- CRM – what data is held and how is it used?
- Instrument coverage

Having the above factors covered makes a significant difference to success.

> *“The perfect deal marriage involves cultural alignment, chemistry, mutual respect, good integration processes and not moving the goal posts.”*

Deal structures

Firms are using multiple deal strategies, all of which have merits and risks:

1. Legal entity purchase

The acquirer purchases shares of the legal entity. This could also be a majority or minority stake.

Considerations:

The quality and extent of due diligence is key to ensure any known potential liabilities are surfaced and then covered through indemnities/warranties by the seller in the Share Purchase Agreement (SPA). Challenges are often under assessed, resulting in legal entity proliferation and delays before full integration can be achieved.

Benefits:

- The purchaser has control (if not a minority stake).

Challenges:

- There are costs (regulatory, statutory, audit) associated with proliferation of legal entities post-acquisition.
- There needs to be clear focus on actions to revoke regulatory permissions and then wind the legal entity down, which will depend upon:
  - Quality of client static data to enable rapid advice to novate and move to the target legal entity/proposition
  - Approach for potentially vulnerable clients
  - Illiquid / stranded assets (e.g. securities in administration / liquidation)
  - Number of 'gone aways' where there is no current client contact information
  - Timescales to prepare request for 'forbearance' from the FCA to move on a one-way notification.

2. Initial minority stake, followed by downstream acquisition

Small IFA firms join the network and leverage central compliance and access in-house investment product. Option to acquire a majority stake at some point in the future (2-3 years or open-ended).

Considerations:

Adviser firms are usually Appointed Representatives (self-employed) of the 'network' firm, utilising the central compliance, technology and/or investment product. Attractive proposition for 'breakaway advisers' who have become disaffected by other deals done badly.

Benefits:

- "Try before you buy" – both firms get to know each other to develop a working relationship, increasing the chance of success of the subsequent deal.
- Appeals to advisers who are looking to set up a new one-person practice. It offers a rapid route to market.
- Get benefits of consolidation through a larger firm's investment in compliance and technology.
- Onboarding firms get capital to invest in growth.
- Can matchmake firms to merge with each other prior to the downstream deal to save later costs for the consolidator.

Challenges:

- Adviser firms can leave relatively easily to another network or platform.

"We have recently taken 23 advisors from 30 out of one consolidator... the barriers to do their own thing are as low as it has ever been."

"We often matchmake between firms (on the platform) - it is cheaper to get them to merge then acquire them individually later."

3. Asset (book) purchase

The purchaser buys the "client book" and migrates assets into its existing business. Often used when the buying firm has identified concerns as part of the due diligence process.

Considerations:

Increasingly attractive where there are liabilities associated with historic advice on defined benefit transfers, or other non-standard advice. Book deals still need to be notified to FCA, but are rarely publicly announced. Aside from a few outliers, DB advice is largely known and potential liabilities provided for so is likely to become less of a concern.

Benefits:

- Liabilities remain with the old entity.
- A simpler process and useful to assimilate one-man band retiring advisers.

Challenges:

- Seller may have no alternative and is left with a potentially long process of shutting the entity down.
- Risk of orphaned clients who are unresponsive or vulnerable so cannot consent to a move.

"Under the right circumstances defined benefit pensions transfers are appropriate - not all advice is 'bad'."

4. Team hires

- Hiring groups of individuals from another firm.
- Can be disaffected advisers involved in a recent acquisition.
- Often a whole location.

Considerations:

- The length of time and proportion of target assets that are transferred in is generally lower than plan, and certainly lower than experience of similar deals from 10-20 years ago.
- The premise upon which the acquiring firm is promoted to the individuals can change, which can leave teams feeling disengaged and likely to move again.

Benefits:

- Easier to reverse if individuals are not performing.

Challenges:

- Tightening of employment covenants is making it harder for individuals to effect client transfers.
- Individuals nearly always under-deliver what they say they will bring in.
- Takes a long time to see the benefit of increased revenue vs immediate costs related to hiring.
- Different standards of AML and KYC may apply at the hiring firm, which can create perception amongst the joining team that the firm is 'being awkward' as they need to request information not previously collected from long-standing clients.
- As the relationship model evolves, firms are trying to spread the client relationship amongst teams or specialists to build client loyalty to brand not individual.

"50% client transfers for an Adviser over 18 months is not unreasonable to plan for... Often it starts later than expected, then there is a bubble, then it dries off to a slow trickle of tricky cases."

Deal terms

High prices and fierce competition were prevalent during the 'Wild West' days up to 2022. However, acquirers are more discerning about the right targets and better due diligence. Anecdotal evidence indicates that prices paid have come down.

The benchmark for larger deals for fully integrated businesses used to be a multiple of around 12X EBITDA, or about 3% of AUM.

Although we are aware of deals in the last year as high as 15X EBITDA for wealth manager firms, justification for these higher multiples tends to be where the synergy case is strong with material cost savings.

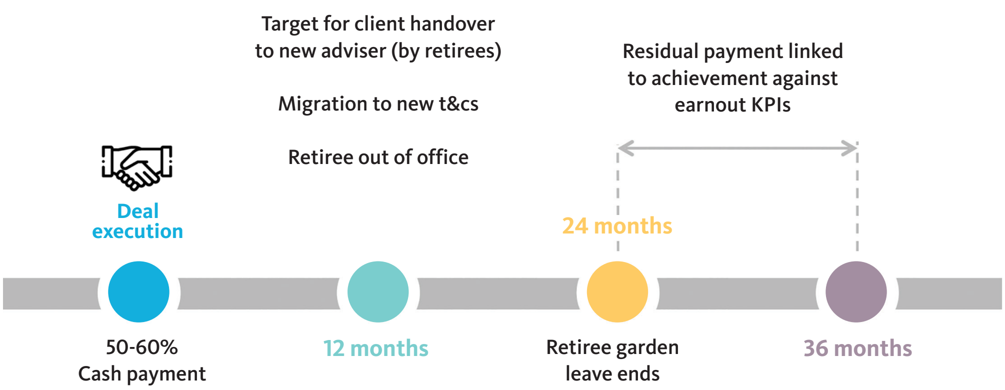
For standalone IFA businesses a multiple closer to six to 9X EBITDA is the norm, or three to five times recurring revenue, rather than an AUM factor.

"Valuations have come off a little in recent years, though not substantively... What has changed is the risk appetite for certain consolidations; a few years ago it was open ended."

Earnouts/deferred payments

Earnouts are generally paid out at fixed points 12, 24 or 36 months post completion, usually based on recurring revenue targets. In a small number of recent deals, earnout timeframes have sometimes extended to 36 months, and covenant restrictions have also tightened.

Regular tracking of progress to earnout payments is important to ensure there are no surprises and there is alignment between buyer and seller.



"Vendors are not in the same space as buyers; sales price is coming down, and criteria getting tighter."

"Horrified with some of the prices being paid."

Example KPIs used as criteria to determine earnout payments:

- Recurring revenue (most used and simple to measure)
- Profit (challenging regarding cost allocations)
- All clients signed up to new terms of business
- Transfer clients to a new adviser (important for retiring IFAs)
- Compliance – quality and timeliness of annual suitability reviews
- Client retention
- Organic growth
- Actually retiring*

** Retiring advisers sometimes regret a sale and re-establish, either in person or through other family members after the earnout period.*

The earnout should depend on transferring the client relationship to the new adviser within 6-12 months and then compulsory garden leave for 12 months.

More complexity leads to greater debate on the numbers. For example, one firm had clawbacks when clients leave, which then opens the debate as to the reasons for clients leaving. Another example is where there are changes of CEO or CFO who then change criteria or definitions.

> *"SPAs are all different and exotic... We had urgency just to get volume of assets."*

Firms that keep the earnout criteria simple face fewer challenges on the amounts to be paid and better retention as a result. In addition, keeping consistency across earn-out structures and measures is important for buyers who embark upon multiple deals to avoid creating a whole industry around measurement and tracking progress.

> *"Earnout KPI's would be more robust if I did this again."*

Inducement

We identified a small number of instances where earnouts are based on transferring assets into in-house investment solutions, or an earnout is based on a proportion of increased fees.

Clearly, both examples would need to be run carefully against compliance with Consumer Duty to ensure that clients are not being disadvantaged against the adviser earnout. On the most part, firms are aware of inducements and held to account by their compliance teams.

> *"We wanted to make the deal 6X revenue if assets migrated onto our platform and 3X if not. The FCA didn't like it."*

Change of Control

Legal entity acquisitions require a Change of Control application (FSMA section 178 notice) to be submitted to the FCA for approval. The application is normally submitted shortly after the date of the announcement to acquire, though those for larger, more complex acquisitions can take longer.

The FCA then has 60 working days to consider the application, which only starts once the regulator has confirmed that a complete application has been submitted. If the firm is authorised by other regulators, then Change of Control requirements specific to that authority will also apply.

The timeframes for approval of a Change of Control request vary depending on size and complexity. Smaller firms can be approved in a matter of weeks - the shortest we heard was three days - while the FCA requires more time to confirm a 'complete application' for larger transactions which dictates the start of the 60-day countdown.

Applications for Change of Control include financials, how the deal will be funded, business rationale, and impact on clients. Deal timelines and the extent of information available in a data room will vary between deals. There are, however, common themes:

- The approval process is largely mechanical, although the detail and extent of questions on the application can be difficult for firms to relate to.
- Poor quality applications attract more scrutiny, particularly when incomplete.
- The UK regulatory framework requires local expertise. Don't assume it's a box-ticking exercise that may work in other jurisdictions; don't leave the process with a non-UK buyer to manage.
- Firms with strong, internal CRO capability, that know what the FCA's change of control team is looking for, usually see a smoother and faster process.
- Firms that use professional advisers to support applications are more likely to find the process straightforward. However, sometimes what is drafted by a professional adviser may not reflect the thinking of the internal executive team. Never outsource this fully. Own the process internally.
- Clarity regarding the benefits of the transaction for clients is sometimes weak.
- The FCA has an increasing focus on debt and the ability of the firm to repay and service the debt.
- Focus on anti-money laundering controls and source of wealth information. We have examples where the FCA's challenges resulted in full reviews on the existing books of business, as well as those of the seller.

In summary, there's an increased level of challenge on Change of Control from the FCA, but this is justified. Where firms find the process challenging, it's usually a result of a poor submission in the first instance, or where the right level of internal ownership is lacking.

> *"Invest in Change of Control.... Buyer did not understand the framework in the UK."*

Summary

Mistakes have been made where firms acquired anything and everything in the past.

There is evidence that the market has changed since the peak in 2022. This is reflected in more robust due diligence and an increased likelihood that deals could get rejected.

Interest rates and better scrutiny of sellers has meant a slight weakening on prices paid.

More work pre-deal will result in higher employee retention, faster integration and ultimately better financial outcomes.

Service and proposition

The drive for holistic services across advice and investment has led to consolidators developing or acquiring investment capabilities and the merger of advice-led with investment-led firms.

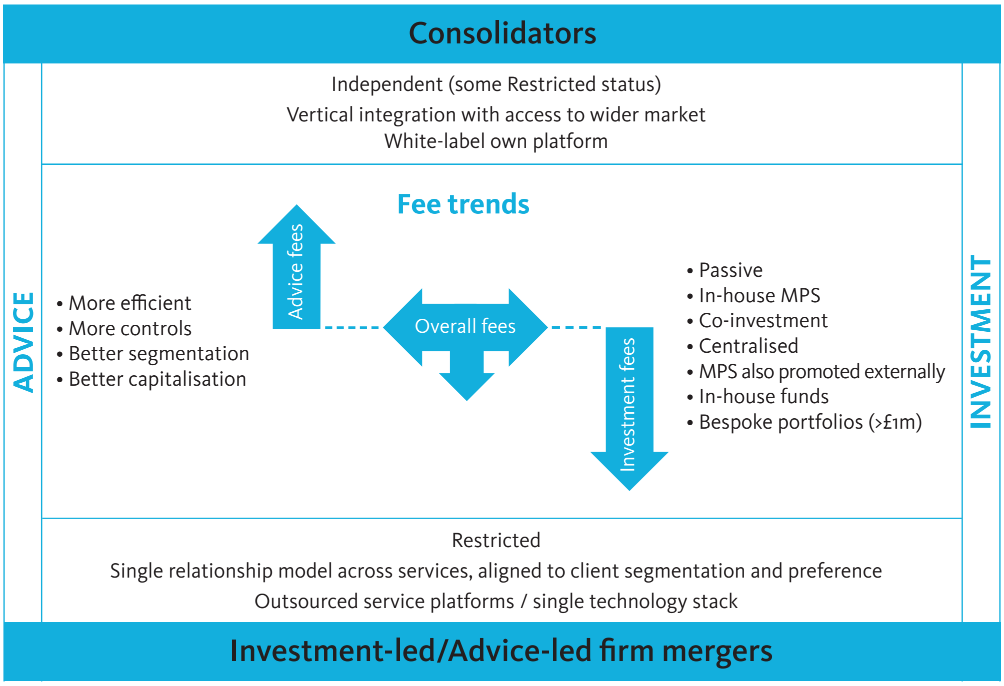
The synergies for consolidators that can grow advice services and, at the same time, drive assets into investment products and services are compelling.

Larger firms merging may well get financial benefits by combining support functions and infrastructure, but the key driver for these firms is increased revenue from a combined advice and investment proposition.

The focus is, therefore, on how these services can be integrated and leveraged, to supplement the growth business case.

"We realised that vertical integration is a good opportunity one of our firms doubled revenue from 70bps to 150bps." – PE firm

The key changes this activity is bringing to the industry:



Whether it's a consolidator or a merger of two larger firms, those who have not defined and communicated their proposition are struggling to realise their targeted outcomes.

Not getting buy-in on proposition is a key failure point for many deals. Relationship managers (adviser or investment managers) who don't like the proposition leave, take clients with them, and financial synergies are lost. We address this issue in greater detail in the next section (Integration).

Advice services

There's no doubt that consolidation is bringing more **robust risk and compliance practices**, better technology to support MI and improved efficiency through centralisation of client operations.

There are likely to be further efficiency gains through effective segmentation and alignment of value proposition to clients' needs and size – digital or telephone-based services for smaller clients being just one example.

With a common platform and technology stack (CRM in particular), firms that have integrated are in a better position for further developments using AI tools. However, PE backing is primarily focused on acquisitions and sometimes securing investment on the changes needed to support efficiency improvement can be a challenge. This may become an imperative as these firms grow.

> *"As we scale we get additional step-changes in costs."*

Smaller clients

Advice is costly to deliver and not easily scalable in the current model of relationship management.

Even where client segmentation is done carefully, most consolidators are inheriting a tail of smaller clients with each acquisition. It becomes an imperative to have an efficient solution. Most of the consolidators have a strong digital capability through their platforms or service providers and/or an investor enquiry portal. This is, however, often focused on providing a service to advisers and is not geared to D2C self-serve capabilities. We have seen firms acquire capability (e.g. Quilter/NuWealth), to support this need, while others are working with their own white-label platform providers to extend their functionality.

Alternative solutions include telephone or VC only services, junior FPs jointly handling larger numbers of accounts and a defined (rigid) service level for client contact. Ironically, these clients tend to receive a better and more rigorous service from being part of a smaller client proposition, than from being at the bottom end of an adviser's book where they get minimal, ad-hoc attention.

This will be an increasing problem for acquirers as they grow and need to step-up efficiency.

Independent vs Restricted

Investment-led firms acquiring advice-led firms are likely to grow their advice services across their existing book, as well as vice versa. These firms usually move the advisers to a Restricted advice offering on the basis that they already have a depth of investment capability.

> *"We went from Independent to Restricted – not an issue with clients."*

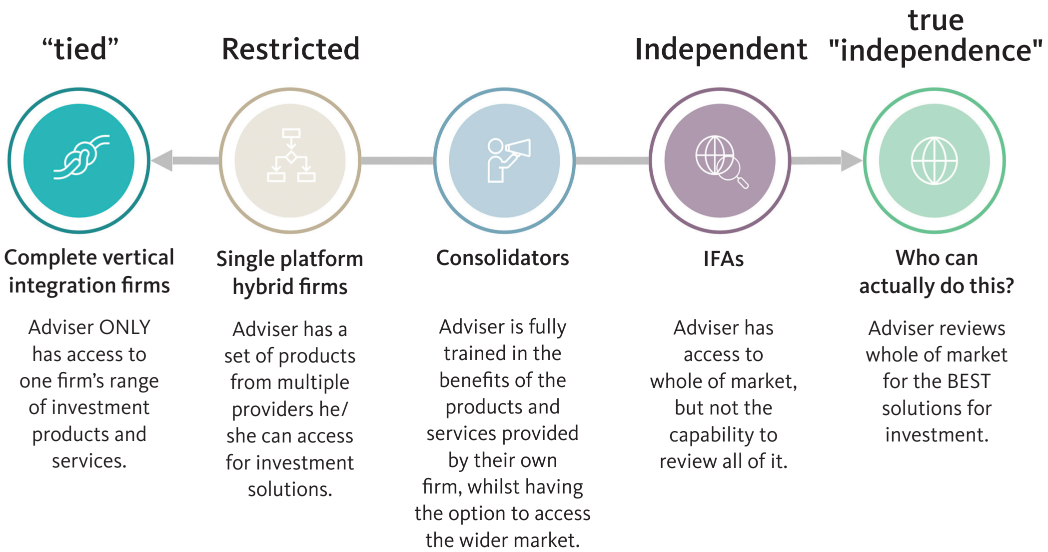
Consolidators are more challenged in their decision whether to move to restricted advice or not:

- Advisers perceive being Independent as a high status.
- IFA firms tell their clients that Independence is a differentiator....
- ...but clients don't really understand it.
- Leading advisers to believe that you will retain Independent status when doing the deal is ill-advised!

Independent and Restricted are regulatory definitions. Advisers, are by their nature 'independent'. They provide expert advice on how to reach financial goals and act in the best interest of the client. The definition of "Independent" however, refers only to what **access** they have to products and services, not what they do.

"Is Independent a valid thing anymore?"

The Independent vs Restricted label is confusing to clients. Clients like it because IFAs tell them it's good. In fact, access to services and products has always been a grey scale and not a binary definition:

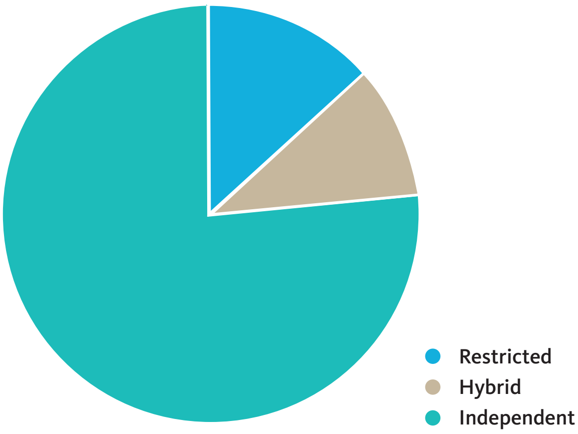


Given that no IFA (or even larger firms) can really trawl and compare the whole of market with the proliferation of providers and products that exist today, the fact that they are 'allowed to' really has no meaning. In fact, you can argue that IFAs are restricted by their own "favourites" and by the platforms that they use, since no platform gives access to every single product or service on the market. The level of independence is constrained as much by capacity as by choice.

"The Independence label has grown out of proportion."

'Independent' is, however, a label that has a strong emotional attachment - convincing internal advisers is the main task in effecting change. It is better to have buy-in.

Current status of firms



77% of our interviewees said they maintained an independent status, despite wanting flows into their own investment propositions.

A further 10% were hybrid – Restricted for their employed advisers, but keeping Independence for those who were self-employed, Appointed Representatives.

Those with Restricted offerings, were mainly wealth manager firms offering hybrid services. One other firm in this category told us they intend to move to Restricted shortly.

Source: Research interviewees

> *"Two years down the line we have a massive culture shift regarding conflict between Restricted and Independent."*

The costs in demonstrating that reviews address 'whole of market' are potentially high (if doing it properly). Over time, firms are more likely to adopt a Restricted approach, particularly where they have in-house ownership of the investment solution.

If more firms do this, Independent status will become even less relevant over time.

Driving assets into investment solutions and conflicts of interest

Most consolidators have an in-house managed investment solution that is 'low cost'. It's a key target business outcome for consolidators to drive assets under advice into these products. However, advisers can be reluctant to use an in-house solution at the risk of appearing 'restricted', even if performance is good.

> *"Our transfers to the MPS proposition have been a tiny trickle, despite ambitious targets."*

Many of the consolidators are seeing less migration to in-house products than they planned – often less than 50% of expectations, and sometimes only a small fraction of expectations.

Advisers need to be convinced that the in-house solutions are suitable and better than other solutions. Firms that are clear and consistent with their proposition "sell" to their advisers by articulating its target market, suitability and value to clients, get better buy-in and results.

> *"For vertically-integrated groups the value to client and regulator needs to be very clear."*

Conversely, advisers who are uncertain of, or unhappy at, the consolidator firm are also **likely to NOT choose in-house products**. If the adviser recommends a third-party investment solution, held on an independent platform, it protects his/her interests in the event they leave their existing firm by minimising disruption for clients and avoiding potential re-papering.

"Restricted versus Independent is problematic because of perceived status (for the adviser), whereas it pays to align as much as possible on investment approach."

Acquirers need to be mindful that criteria for earnouts or deferred payments should not be linked to targets to drive assets to in-house investment products, tempting though it is. Similarly, on-going bonus payments cannot be considered as 'a tool to drive transfers' as these are all deemed to be inducements and a conflict of interest.

However, we have heard anecdotal evidence from certain platforms that deal terms may have been used as a means to drive assets into product – e.g. achieve a higher multiple on sale if 'X' can be achieved.

Investment proposition

The challenge for advice-led consolidators is whether and how they provide an investment solution.

Build

- Building an investment proposition from scratch is possible but requires new permissions and additional capital requirements.
- A new entity will add cost and time (and separate governance). If developed within the same entity it will also bring the adviser business under the scope of MIFIDPRU, increasing capital further.
- It also requires capital spend on infrastructure / systems build, new investment talent and compliance personnel.
- Additionally, there will be no performance history or brand credibility in selecting and managing investments for new products or model portfolios, which is essential to build trust with acquired advisers before they will recommend them. This is a high-risk option and takes time.

"We put the quest for financial planning off in favour of acquisition - you can't build it easily. We bought capability to bolt onto our small start."

Acquire

- Acquiring a firm with permissions is a good option.
- Integration is more complex than acquiring small IFAs. Some consolidators have under-estimated the complexity of integrating larger acquisitions – often driven by cultural differences of IMs where expectations are not aligned pre-deal.
- It's possible to keep the investment firm as a separate company to avoid the greater capital requirements of the Investment Management business. However, there will be costs associated with extra governance and less ability to centralise support services.
- A further risk in acquiring a ready-made investment firm is that value can be destroyed by a difference in advice and investment beliefs between the parties and by compromising on philosophy and process to align them.

Partner

- Some IFA consolidators are starting to work with an asset manager on the basis of a Co-CIO approach. These can vary in execution. The principle is that the asset manager provides building-blocks (which can be bespoke) from which the adviser firm is able to construct portfolios aligned to client goals.
- The firm's investment committee includes representation from the asset manager.
- This model can reduce initial and on-going capital costs. Margin will be shared with the asset manager.
- Those we spoke to with this model had good long-term performance and found the approach flexible.
- They said they benefited from access to the deep specialism of an institutional asset manager. It is also well received by their acquired advisers.

"Co-CIO is a partnership between the IFA and the asset manager, but where the IFA is still able to differentiate."

A benefit of building holistic propositions is that advisers can access a much greater depth of expertise and talent in investment management.

Around 20-25% of IFA firms are currently running investment portfolios for their clients on an investment advice basis, positioning themselves as investment experts. However they really have the tools, skills and experience to do this effectively - in some cases performance has been poor.

"Small advisers are like corner shops for investment decisions - part of the job is professionalising them."

Investment products

Investment products, or how firms deliver an investment proposition can be:

- **Bespoke Portfolio Management**

  In theory, this is where an investment professional (who is often also the relationship manager) manages assets at client level, around a specific mandate.

  In practice, most firms have centralised their investment processes. The manager may pick from buy/sell lists, but many firms overlay a model on the client's portfolio according to their risk profile and capacity for loss (which may be more than one account). While this may allow accounts to be separated from the model to manage against a particular client need, it still delivers the improved efficiency of a centralised approach.

  One UHNW firm argues that their "best ideas" are included across their models and funds so that "bespoke for a single client" does not exist.

- **Model Portfolio Services (MPS)**

  MPS has grown significantly in the last few years. Using a model portfolio, a single decision can be implemented across an unlimited number of portfolios.

  This can be used for internal clients' discretionary portfolios or distributed through third-party channels (multiple external platforms), where the manager is paid on what assets are placed under the service by advisers.

  Models usually invest in funds, not direct instruments, to ensure that it is viable for smaller investors. This is highly scalable, though having a proliferation of platforms to update at the same time can be problematic.

  These are low cost to manage and with the use of passive ETFs, underlying costs to the client can be reduced further.

- **In-house funds**

  Some firms (usually investment-led wealth managers) have a range of in-house funds. These can be a set of risk-profiled funds – either self-contained, or themed to be used in combination, to create an asset allocation. Funds can be fund of funds or invest in direct holdings, since the unitisation facilitates diversification for smaller investors.

  These offer protection from CGT if in unwrapped portfolios. In-house funds will be more costly to create and administer, but many of the costs will be borne by the fund, not the manager. However, the total cost to the client will be higher than for MPS.

- **Wholesale**

  Investment-led wealth firms may also have a wholesale investment product – where one discretionary management firm outsources investment management to another (often for a specific specialist market). This is most commonly within a fund, and might only be for one part of the asset allocation within it.

One of the key trends across MPS and funds is a drive to passive investment, using market tracker funds, ETFs or aligning the models to benchmarks. Alpha returns have been hard to find over a passive approach in the last 10-15 years. In a bull market passive tracking has returned good performance and is cheap to do.

> *"We have been asked to deliver a hybrid MPS solution with a higher level of passive instruments, specifically for the IFA business development team."*

Fees

There is pressure on fees across the industry. This pressure is enhanced by Consumer Duty as to what constitutes "Value" and jitters resulting from the FCA's ongoing advice fees review.

In fact, the balance of fees has for some time been tilted towards investment management fees, rather than advice, yet advice can add equal (if not more) value to a client on tax efficiency as well as aligning to goals and life events. It is also more expensive to deliver.

M&A and consolidation has driven some benefits by redressing this balance of advice and investment and with a trend to slightly reduce fees overall.

Advice fee

- Advice fees have been largely protected. Overall, there seems to have been small reductions to align acquired businesses into a common charge across the consolidator's model.
- Merging adviser-led and investment-led firms are either balancing holistic pricing, or moving adviser fees up, balanced against a lower investment fee.
- There are, of course, some upward adjustments where small advisers have been out of kilter with market.
- On-going advice fees are generally charged on a tiered basis, as a percentage of assets under advice/management. Firms told us they charged between 0.5% and 1% and the average is currently 0.9% for clients up to £250,000.
- Initial advice fees vary. Some firms do not charge them at all, others charge a flat fee and some a percentage of assets (average 1%), or both. Fees can range widely depending upon complexity.
- Even fewer firms charge on a time and material basis – these tend to be outside the mass affluent space.

"We are fastidious about guarding the advice fee. We have driven down manufacturing fees through product choice."

Investment management

- Bespoke Portfolio Management is expensive to deliver. It requires a direct relationship with every client and can be difficult to control as it is out of kilter with the trends of 'commoditisation' and centralisation of investment management teams.

  As a result, firms are raising the minimum investment level for bespoke management to >£1m and many are raising fees to ensure revenues support the cost.

  Demonstrating value for higher charges is hard if investment is focused on low-cost trackers or ETFs. This supports a need for a more active approach to differentiate bespoke portfolio management services.

- Investment management fees for all other types of products are reducing rapidly. In our view, these are possibly getting too cheap (see above and section 7 – Eye to the Future)

"Can get passive for zero - so do we just bounce off the bottom?"

Platform fees

- As consolidators get larger they are able to drive better deals with external platforms with larger AUM and through platform rationalisation.
- Where consolidators are setting up their own white-label platforms, there is potentially additional revenue through administration fees as well as cost savings for the end-client in comparison to platform fees.
- Merging firms can realise better terms from their outsource service providers and savings through systems rationalisation.

Other points to note on acquisitions

- Fees should be aligned across the business. It gets expensive and risky very quickly to manage multiple fee models.
- Incoming relationship managers may need to have difficult conversations with clients. Most firms say clients usually understand these changes, but relationship managers need to be supported with the right script to ensure consistency.
- Where fees have been discounted across any services, these need to be re-aligned with standard fee models. In any case, under Consumer Duty, discounting could be considered unfair since certain client segments (vulnerable and women) are less like to negotiate than others. There are few justifiable exceptions. This will, however, not go down well with relationship managers in situations where there has been loose control over historic discounting.

Summary

Quality of advice, controls and service levels should improve with the investment of larger firms in compliance support, controls and technology tools.

Small-client propositions often deliver better service than an adviser with a book of mixed clients.

Holistic advice with investment services can benefit firms with significant additional revenues, although it is challenging to drive assets into own investment propositions if advisers are not fully on board.

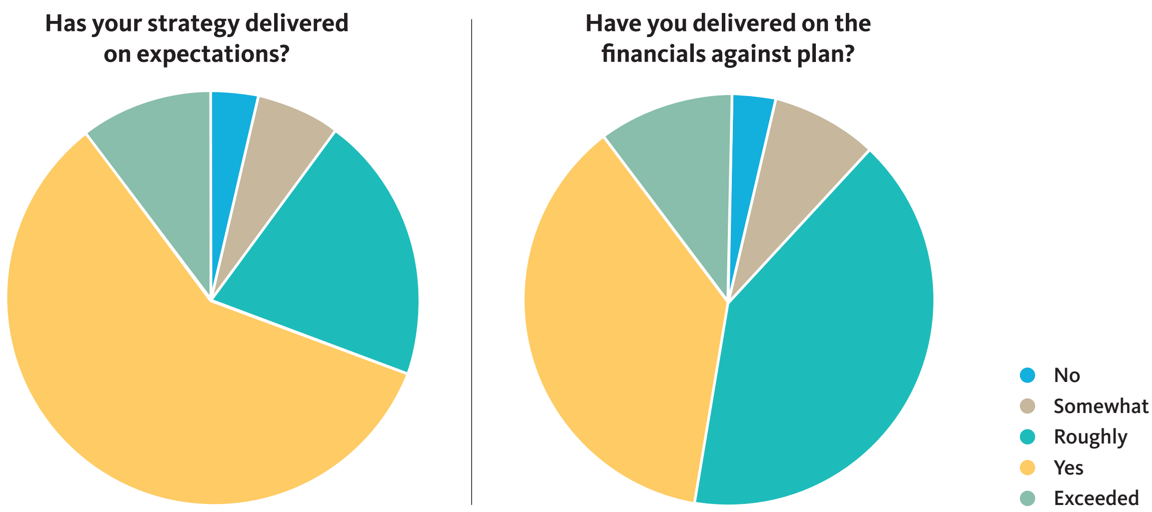
Clients are benefitting from reductions in price.

Independence, even in an optional vertically integrated model, is arguable.

Integration

Some firms are still slow to move from ‘aggregating’ acquisitions to ‘consolidating’ under one brand, proposition, and operating model.

Our survey indicates that most executives think their M&A strategies are working. More than two-thirds (68%) of respondents said they had achieved or exceeded what they wanted to do, and only 10% implied they have not. However, when asked about specific financial achievements just less than half of firms had delivered against their plans.



Source: Quantitative survey

This scoring, however, should be taken with a pinch of salt. 52% of our respondents are CEOs, and scores on success are notably higher from those who have a personal responsibility for the acquisitions. In our interviews, CEOs further qualified that scores would be lower if assessed against acquisitions made more than three years ago.

While this implies that the industry has got better at delivering value from the deals done, some of these early, more troublesome acquisitions are still not fully integrated.

Integration is a wide subject. Not doing it well (or at all) results in reduced financial benefits, regretted attrition, lower productivity and culture clashes. Doing it swiftly and efficiently is vitally important and **few firms are doing it well.**

19%

of our interviewees have paused acquisitions in order to integrate previous deals

> *“The acquisition engine is only as good as the integration engine that follows.”*

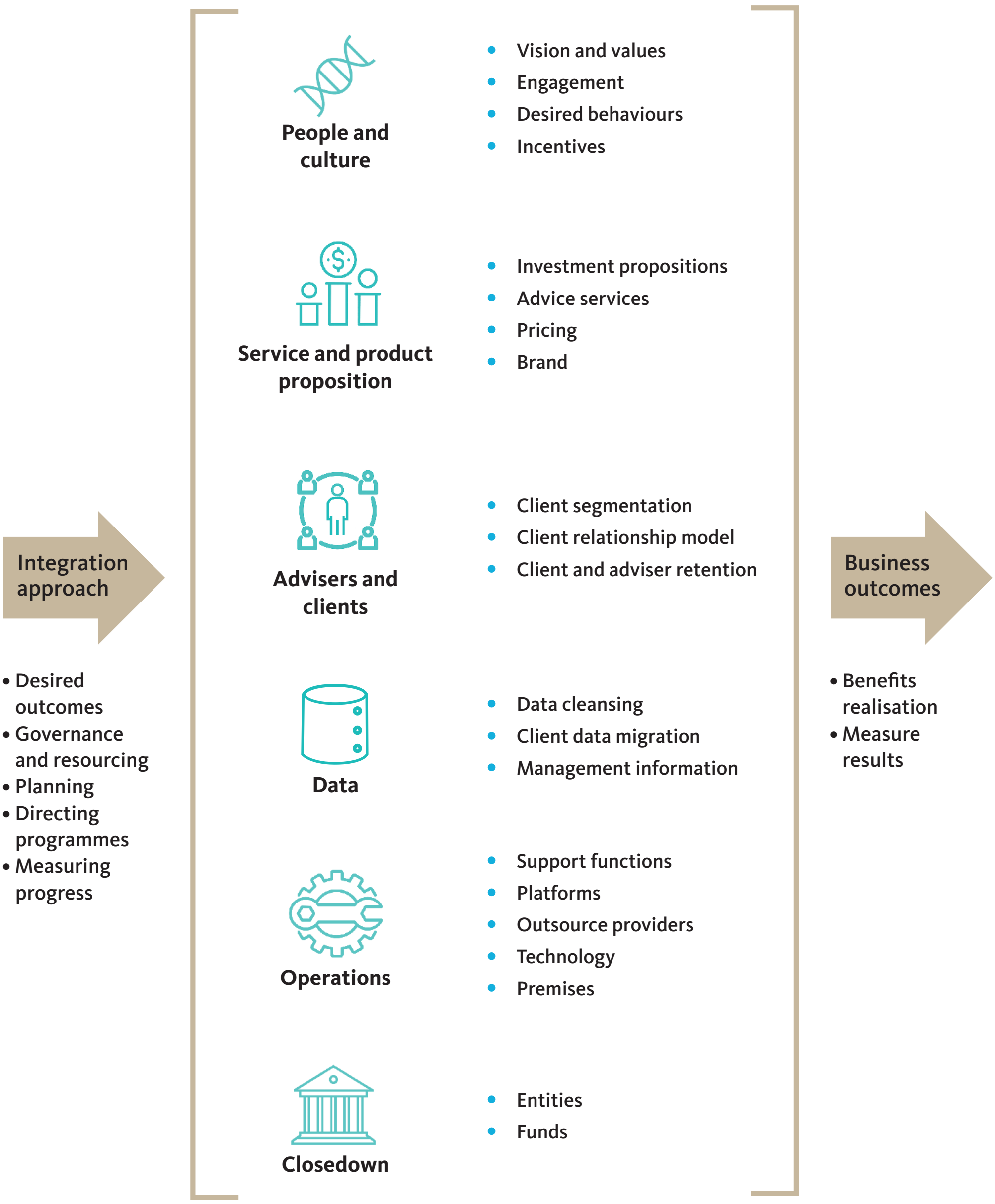
Integration hierarchy

Significant thought needs to be given to integration before the deal is signed. At this point, board engagement is high and it is an opportunity to gain familiarity with even the implications for, and timing of, the financial benefits.

Even with smaller, simpler deals there are scenarios where larger firms have acquired in short succession, before the previous acquisition has been fully integrated. Market timing of acquisitions cannot be controlled - having a playbook that can be leveraged quickly is helpful.

"The Board thinks that once the deal is signed it's all over."

The integration hierarchy shows the key considerations for integration:



Integration approach

A plan should be in place for a 'minimum day one position' immediately post deal. Regardless of the size and simplicity of the target, the quicker you can communicate a plan of actions and a target destination, the better the chance of keeping incoming individuals and teams positive.

Key success criteria for any programme delivery are:

- Clearly articulated and measurable desired outcomes aligned to the business case
- Effective communication and collaboration
- Target vision – the route map for what needs to happen (plan) and where you need to get to (operating model)

Reporting should **track progress against desired outcomes as a primary measure,** with time and cost as secondary measures. You can run to time and cost but still not achieve what you need.

The nature and extent of the governance wrapped around the integration process should be relevant to the scale and nature of the acquisition and overall strategy. The board should set direction and the relevant Executive team members should own the business outcomes.

Good governance over an integration is key regardless of whether it involves a merger of larger firms or a strategy for consolidating several smaller IFA business and book deals.

> *"Integration has been difficult.... Finance decided integration could be managed within business as usual."*

Resources

Only 58% of the survey respondents who are actively acquiring said they had dedicated integration resources.

Dedicated integration resources?

YES **92%**

NO **32%**

Delivered on financial synergies

92% of firms that have dedicated resources scored themselves as delivering against strategy and financial expectations at least "roughly" and 75% of these scored much better.

It makes sense that being more professional about integration will give better results quicker.

Conversely, only one-third of those without dedicated resources said they delivered on their financial expectations.

> *"We need to step change our process into a more planned process with dedicated resources."*

However, there is a lack of talented and experienced integration resources to support demand and, while firms say they have dedicated personnel, some of these have only a single programme manager or an inexperienced resource, leaving most of the tasks and workstream management to the heads of business as usual teams.

"Making the office manager the programme manager is like bringing a peashooter to the gunfight."

As a one-off merger, this is challenging and subject to grave mistakes. When acquisitions are thick and fast, this is an unsustainable model no matter how simple the target firms. Integration needs to be a key competence of the firm, or get experienced, skilled help.

"Our integration head is also COO, HR and Marketing."

"Project management and integration... Industry is short of talent; it sounds easy but it isn't."

People and culture

The top of our hierarchy reflects that wealth management is a people business. Communication, respect, training and engagement need to run throughout an integration.

Few firms get this right first time and many have lapses with future integrations even having learned lessons. It takes hard work and repeated restatement of the firm's positioning until the messages are understood. While it may not be possible to define all details up front – particularly for larger mergers - avoid making statements that may not be fulfilled - "there will be no redundancies" or "we'll keep you as-is". It is better to **act quickly and decisively** on all people issues.

Acquisitions that over-deliver on expectations have a playbook covering how they will embed culture and secure engagement from incoming staff during due diligence.

Post-deal:

- Have clear stakeholder engagement. Over-invest in regular communication at all levels.
- Sell the benefits of being part of the firm.
- Clearly communicate rationale for all aspects of the business: proposition; pricing; changes to systems.
- Standardise employee contracts quickly after deal completion.
- Make it clear what authority the seller's leadership team have going forward.
- Define the organisational model as a matter of priority then implement roles and drive synergies quickly (some take up to 2 years with 'death by 1000 cuts').
- Give appropriate scripts to managers and advisers to help communications to staff and clients on the proposition, and on key integration activities.
- Focus on quick inclusion of the incoming teams – co-locating, holding group or regional events, regular visits to all locations. (In one case, the buyer gives younger advisers some of their clients from their own retirees to help them feel needed and rewarded.)
- Move to a common network and tools (e.g. Sharepoint) as close to completion as possible to support, ease of communication and access to company information.

Inconsistency in compensation and benefits and competition for position creates tension between individuals performing the same role. Without enough information, people may leave, or be distracted, at a time when all hands are needed on deck.

"Employment contracts have not been standardised; we're running on 30 different contracts for Advisors."

Support and Operations teams should not be forgotten. Roles may need to change location or be made redundant if functions are centralised, and often, client support resources are overwhelmed by change. Some of these people may also be key knowledge sources and need a retention plan for the duration of the integration.

"We often have attrition of support teams – they often find a larger firm less attractive, and they get the brunt of the change of systems."

For larger integrations, consider supplementing internal capability with specialist HR restructuring resource to ensure consultations are managed to the letter of the law, and as swiftly as possible.

Compensation and incentives

Aligning compensation is possibly one of the most complex and sensitive tasks for integration.

Some firms we spoke to have had 'wage inflation' across the business after aligning compensation for employees across equivalent roles. Due diligence should have flushed out the risks and ensured that wage alignment is included in the financial case. There may be some room for negotiation at deal stage with founders and senior teams, but this is a complex process.

Total compensation (base, bonus, pension, other benefits) needs to be considered in-the-round. In principle, it is best to have all employees on a consistent scheme. However, this may need to be implemented over time, particularly with regard to pension arrangements, consequently many firms are now struggling with myriad models after multiple, rapid acquisitions.

Driving behaviours

Firms need to recognise that incentives drive behaviours. Culture can be a victim of getting these wrong. These are the reasons why the industry is 'held to ransom' by investment managers and senior advisers who essentially 'own' the clients.

Even across the senior management team there will be disagreement on the right approach (discretionary bonus versus percentage of book, for instance). Where acquired firms have very different structures there may need to be a phased change to get to alignment, or grandfathering of a few key individuals' reward schemes until they retire.

Specific considerations for incentives during integration:

- Ensure that the approach to compensation does not specifically incentivise advisers to move clients into an in-house investment proposition, this could be seen as an inducement by FCA.
- Be aware that relationship managers will be distracted by worry over changing roles, compensation terms, cleansing data, migrating clients and re-training on new processes and systems. In addition, it will be hard to expand the client wallet when clients are getting used to the new business model. This will affect their ability to grow new business for a time and therefore growth targets need to reflect this.
- Incentives should support decisions that are right for the client, for example, a move from a bespoke portfolio into a new MPS model or fund. This could mean less reward for an individual investment manager if they receive a percentage of revenue of his/her book.
- Where there is a dual relationship model between the adviser and investment manager, incentives should not prevent a change of relationship lead, nor referrals to each other.

The subject of incentives could be a book by itself – we recommend, if you have the chance, to go back to the first principles of the behaviours you want to drive. However, few firms get to start from scratch, so buyers will continue to react to the circumstances they find.

Service and product proposition

Service and product proposition feature high in the hierarchy because they **need to be articulated at an early stage.** From a Consumer Duty perspective, it defines the value proposition for clients, and from an integration perspective it is the Purpose **and blueprint** for what needs to be supported.

It is essential the proposition is well-defined and communicated to sellers, or worked through as buyer and seller before signing.

For consolidators

There should be a well-defined proposition into which the incoming firm will transfer.

Service proposition
Training should be given on the consolidator's (already) defined service tiers, procedures and ways of working - there should be no changes to the target proposition.

An enhanced level of compliance is likely. Incoming advisers benefit from contact with the buyer's team to see that this works well in practice. If the seller is bringing additional capabilities, then this becomes more like a merger. (See right).

The challenge for integration is to move clients onto the new service model as efficiently as possible. (See Advisers and Clients section below). This should not be negotiable since the seller's firm will be closed.

Investment proposition
Most consolidators have a vertically integrated model, where they provide an investment product set alongside the advice service.

Training and familiarisation of the advisers on the value to clients is key. The adviser needs to truly believe, without inducements, that products are suitable for the client in order to recommend them.

Brand
Pre-deal, there needs to be clarity on the brand. While consolidators may be clear that they will absorb the firm, founders who are emotionally tied may find it hard to lose control or relinquish the brand name.

A proliferation of multiple, legacy brands without any coherent strategy, creates uncertainty and confusion.

For more complex mergers

There may be overlaps of capability and service to resolve, or a need to align complementary services. The principles and key features should have been decided pre-deal.

Service proposition
T&Cs will need to be aligned or changed to reflect a wider service scope, new custodian and/or new pricing. Re-papering clients may be required on both sides. Cross-training all client-facing staff early on both sides' products and services will build confidence and knowledge about the client benefits of each.

Investment proposition
There may be a need to rationalise funds or MPS offerings where there are overlaps. This can be complex and takes time to execute. Early decisions are needed on which products will become legacy or merge with others. New business should be directed only to the strategic solutions from this point with no exceptions.

Investment process
If both firms are investment-led, then merging investment processes can be challenging. Investment managers are particular about what they do and how they do it. Unless agreed that there will be a complete adoption of one firm's approach by another, then it is best to workshop this process to determine approach.

Someone, however, will need to call the shots at some point. Respect and clear communication is key. There is a risk of attrition, so retention bonuses of key employees may be necessary, with the intention of settling them into the new approach over time.

Brand
There must be brand clarity pre-deal. Where a subsequent re-brand is being considered, this needs the right stakeholders and to run as a separate project within the integration programme.

"Legal entities have been closed down but clients are still on the old paperwork and have not been re-papered."

"Seller has to buy in to the investment proposition."

"Clients may be unaware of the acquisition."

Advisers and clients

The integration programme needs to address the impact on clients at an early stage, and this is largely dependent upon having a defined proposition. Where there are changes to brand, proposition, pricing or nominated adviser, these need to be communicated with care, clearly explaining the rationale and benefits and checking understanding along the way.

Client migration should be swift, but not rushed. It works best when well prepared and the following activities are done carefully.

Client segmentation

Early assessment of the transferring client base is essential.

A good DD process will have broadly assessed client segmentation and set principles for assigning clients to services.

Detailed assessment at client level with engagement of the relationship owners will increase their buy-in and knowledge of the destination services and products available.

Client data migration

Migrating data onto a common CRM system early can help to drive process adoption as well as having cleaner data.

A single CRM system across services will also improve the effectiveness of cross-selling.

The CRM system can be a key source of MI. Early migration will ensure consistency of measures for the earnout.

Client relationship model

Where firms are adopting a dual service model (IM and advice), it's good practice to let this evolve naturally according to how the client wants to engage.

Where an adviser is retiring, he/she should facilitate introductions to the client with the new adviser. It should start immediately and should complete within 6-12 months.

At this time the retiree should be completely hands-off.

Align services

Careful communication with clients is needed as fees and service levels are often re-framed.

Smaller clients may be swept to a small client proposition.

Give incoming advisers detailed training and a good script with value points to build consistency of messaging and confidence in engaging clients.

Align process

Where there is a desire to move clients into a new investment proposition, or onto an in-house platform, this may be an advice event.

This process may be best aligned with the annual review schedule.

Changes need to demonstrate value andsuitability for the customer, keeping in line with the company's segmentation and practises under Consumer Duty.

Advisers/Relationship managers

Like it or not, Relationship Managers are a proxy for clients and they must be convinced to get onboard. If they don't, they will not embrace the services or investment proposition, leaving clients as-is. Worse, they could leave and take clients with them.

> *"We have to influence change not drive change - if we change the teabags there's a riot."*

Relationship Manager attrition is a major reason deals do not achieve financial benefits (see Outcomes section).

We saw some good practice where firms supported their people during integration and improved the buy-in and subsequent retention of relationship managers:

- Clear communication of the service and product proposition, including articulation of value and specific talking points for clients.
- Train, train and train again on procedures, proposition and tools – then handhold. Don't assume that the message is heard first time.
- Where firms were moving to a holistic proposition, IMs were given an opportunity to dual-qualify if they wished to.
- Merger of client data as quickly as possible ensuring all relationship managers are on the same system which enabled rolls to share relationships across service propositions.
- Know when to cut loose bad actors.

> *"We did a deal some time ago where the personalities involved would not relinquish control – we let them go."*

Client experience

Managing client experience is mostly in the hands of the relationship manager. Buy-in is imperative to ensure they sell the benefit and value of the buyer's proposition to clients, key considerations for best practice include:

- Sweeping smaller clients into a specific proposition can often result in a better service experience for them. Instead of being at the bottom of an adviser's priority list with one review a year, a digital, hybrid or telephone-only service may provide more regular engagement.
- A new adviser can re-invigorate the relationship - a fresh approach often opens new opportunities to increase share of wallet.
- Where there is an expansion of the services, across investment and advice, engagement should be driven by client need. The relationship manager needs to be open to the additional relationship that the firm has with their client, and sensitive to how the client would prefer to engage.
- Consolidators should have a consistent playbook for client communications across all their deals.
- Firms rarely consider measuring client satisfaction at the start of the integration and compared to later measures. This is essential to monitor value to clients and help justify that transitioned accounts, service segmentation, relationship adjustments and investment changes have been beneficial.

Data

Quality data is a critical determinant in deal success, and should be part of the playbook.

Key considerations include:

- Data strategy – ensure that the destination target operating model is clear, e.g.:
  - Golden source of data is defined and understood.
  - Input once and once only.
  - Downstream dependencies are documented – data gaps in the migrating data may need to be filled.
- Data integrity checks are automated – mandatory data for downstream processing is enforced. One firm ended up with a fulltime employee whose role was to complete a single data field in operations that should have been added by advisers at the time of client set up.

> *"Sometimes firms pass data that is a 'heap of garbage'."*

- All data categories need to be considered:
  - Client data – taking time to clean data before migration is helpful. If not, it tends to remain an issue for a lengthy period. Moving sub-sets or phases of data may be required, for example, zero balance, open accounts or non-contact clients do not come across initially.
  - Investment holdings – while these may be managed as individual transfers-in from a platform for a consolidation, for larger mergers there may be a full migration from in-house platforms or outsource service providers. This may be a significant exercise - a workstream in itself - with significant testing, rehearsals and a need for a weekend migration.
  - Third party products – there may be some products that remain where they are such as structured products proprietary to the platform provider. Mirroring them on systems as external assets may be of value, allowing clients to see assets in one place and to track their full wealth for the purposes of holistic advice.
  - Static data needs to be aligned across systems – the destination system may need additional configuration for new instruments, third party providers including SIPP trustees and other data entities
  - Policy data and controls – while most integrations will adopt the policies of the buyer, alignment may be needed on trade limits for individuals, approval criteria and workflows to cater for enhanced propositions and new products.
  - Accounting data – acquired firms will have different accounting periods, possibly on different systems. While the entity is still open, reports and accounts need to be processed. Complete closure can take a long time so merging data into group systems is necessary.
  - Archiving – in bringing across data, will this cover a full history or is there a need for an archiving solution? There are tools where data can be archived into a separate database during the act of migration and yet still held accessible for MI purposes.
- Consider solutions that will deliver timely enhanced MI/KPI reporting such as a data lake.

> *"Data from most target firms is horrific."*

Operations

Acquisitions can create significant inefficiencies for operational support in the absence of a coherent strategy around:

1. Central support functions
2. Platforms – for consolidators
3. Outsource providers – for wealth managers merging their operating models
4. CRM solutions – both consolidators and merging wealth management firms

Central support functions

For small firms, moving from a local model of functional support, which is sometimes outsourced, to being part of a larger group with a centralised approach can represent a material cultural shift.

Decisions and processes once defined locally within the seller's business, are removed and taken centrally. This change should be clear to all parties through the due diligence process, but still needs to be communicated and handled carefully during implementation.

> *"Some advisors refer to the firm as 'they'; need to win hearts and minds with the model for central support."*

For larger firm acquisitions, the integration of support functions - Finance, HR, Ops, Technology, Compliance, Risk – can bring financial synergies across systems and resources. This can be implemented immediately after deal completion if planned whilst approval of the Change in Control application is pending.

Although it can be moved to a centralised team, Application Technology Support resource may need to be aligned to the sunsetting of systems to retain specialist knowledge while systems are still in use.

Platforms

All consolidators have a challenge with platform proliferation when acquiring independent firms.

Advisers tend to have a strong allegiance to specific platforms, which is driven by familiarity, ease of use, functionality and cost to their clients. Consequently, it is not uncommon for consolidators to be using more than 30 different platforms.

> *"We have 50 platform relationships; they behave differently; some talk a good roadmap to integration, some won't give data and are pretty much telling us to get lost."*

As discussed, in our research paper last year (Maximising productivity – How wealth managers can turn challenge into opportunity) – proliferation is a significant drag on scalability and on the financial case for consolidation.

Some firms are launching an internal platform under a white-label – supported by an outsourced service provider. Others are negotiating preferred terms with a small number of strategic platform partners, or a combination of both.

This means that pricing can be removed as a barrier to transferring client assets, as these options become cheaper. However, this is considered an advice event so many firms still go through a client-by-client justification and transfer process, which:

- Takes a long time
- Means working with multiple operating models for a long period of time, with the higher costs and risk of error that brings.

> *"Advisers are passionate about investment selection, but more agnostic on platform."*

A number of firms do not have a strategy to manage down the number of platforms and do not see this as a priority. This could be short-sighted, given the potential constraints on future opportunities to leverage AI, or to centralise a support model to improve productivity.

> *"Platform strategy is a key challenge – currently we have 36 platforms we use. Preferred platform is completely meaningless; we hope to rationalise to 4."*

Conversely, moving to an internal platform still can be problematic:

- Some assets are tied to a platform (some SIPPs and offshore bonds, in particular)
- Platform knowledge needs to be retained until the moves are complete
- Some platforms will only transfer in cash - clients will be out of the market short-term
- In-specie transfers paperwork can become stuck/delayed
- Being an advice event, transferring platforms can be slow, which has a negative impact on morale for advisers

Outsource and technology providers

Wealth managers that have an investment management capability use different solutions to support portfolio management, dealing, settlement and custody:

- Investment management - bespoke, MPS, or in-house funds - is generally run in-house, supported by third-party applications, or sometimes in-house built systems;
- Dealing, custody and settlement can also be run in-house, but these functions are increasingly outsourced to an expert provider that may also provide the investment management systems as a ready-integrated offering.

Firms should consider the desired target operating model during the due diligence process – including who the preferred supplier(s)/stack will be. There are potential cost synergies by merging onto one solution, to take advantage of tiered fees for larger AUM.

Outsourcing takes time and cost, and most firms underestimate:

- Data issues – compatibility and cleanliness.
- Development to fill gaps – ensure any development is necessary.
- That 80% might be good enough for go-live.
- Not merging operational models will mean inefficiencies risk of errors; and extra supplier management and operational resilience costs.

The industry is hampered servicing clients better and more cheaply because moving assets from one booking platform to another is considered an 'advice' event - requiring suitability reviews and a re-papering exercise.

Custody and administration is a commodity that, unless error ridden, does not add obvious value from a client perspective. Although usability of one platform may better than another, clients do not go out to select a platform beyond the Adviser's recommendation.

The client will have signed up to both platform and adviser T&Cs separately. Which adds further complexity.

Change will need collaboration across platform providers and engagement with the regulator.

"We haven't integrated our back office outsource platforms from previous acquisitions."

What does best practice look like:

- **Contracts** should set expectations of your supplier in the event of a subsequent acquisition by, or even a sale of, your business. This includes how they help with migrations, the cost of doing so, which should be discounted as they increase ongoing assets under administration fees, and what is needed for contracts novation to keep favoured negotiated terms. Determine who is paying for gaps to be filled. Contracts for solutions you will be sunsetting, need to be managed against project timescales to align with deadlines for rollovers and notice periods.
- **Engage** early with outsource providers. Notwithstanding the secretive nature of a deal, they should be treated like a trusted partner if they are part of the future model. Migration tasks onto/off platforms need to be planned with the supplier and resources reserved – don't assume they will not be busy on other things.
- **Review** requirements across the two businesses to identify gaps and ensure the proposition of the acquired business and the strategy for growth is supported. This secures a deeper DD process.
- **Proposition** – additional capability may be needed to support the target proposition of the combined firms. For example, servicing US clients, more complex instrument coverage, different fee structures and MPS rebalancing automation. These may not be gaps in the supplier capability, they may need changes to configurations, additional securities data, or alterations to processes.

Additional considerations may be commercial – if clients move from bespoke portfolios to funds, the supplier will need to ensure no double-counting of AUM charges.

CRM solutions

CRM solutions bring particular challenges. Different configurations of the same system are common, so make early decisions on what will be used.

CRM is also the key system for client-facing staff. A poorly executed migration or lack of data integrity will quickly impede client service and key management information reporting to the board - including Consumer Duty KPIs - at a critical time.

CRM solutions are more like a toolkit – highly configurable. Even if the same system is used, there can still be significant differences in data fields, workflows and interfaces. This also means difference in procedures and user training, which cannot be assumed transferable.

One firm took an early decision on one version, then used the 'superusers' from the acquired entity to adapt it to cover some of the key workflows that had been developed at the seller, taking a best of both approach and executing it well.

"We have 20 versions of the same CRM system - no training, no documentation, users make it up as they go along."

Premises

Share purchase agreement (SPA) acquisitions often include premises. This may be beneficial as part of a geographical expansion strategy, but they can create problems if they are unfit or unwanted.

Where firms have made small acquisitions, we uncovered examples where the office premises are held in the personal pension of the adviser. Unwinding needs to be handled sensitively during integration.

Due diligence will have covered some of the challenges associated with premises but specific considerations during integration are:

- Co-locating teams soon after the deal is done supports employee engagement and building a 'one firm' culture. This could include functional areas across more than one office if no single location is big enough.
- The strategy for expansion may be influenced by current lease terms, size and condition of the office. When merging two offices in the same location it may be that neither is fit for purpose for the combined teams.
- Be mindful of the impact on employees regarding their journey to work. In a hot market for skills in financial planning, this could be a reason to leave.
- If a refurbishment is needed, doing it soon will boost morale.
- Consider implications where advisers have existing premises in their SIPPs.
- Move to common branding, look and feel to help employees feel part of the bigger firm.

> ***"Most difficult conversation was around property, which was included in personal pensions."***

Closedown

Wind down activities - such as legal entity rationalisation, systems decommissioning and fund rationalisation - often get de-prioritised. They can create significant cost and legacy issues for the next generation teams to address.

Legal entities

Where deals have been done on an SPA basis, the legacy entity has often stayed open for too long.

Some firms have kept entities for advice and investment separate to avoid larger capital requirements under MIFIDPRU, but this can create inefficiencies:

- Separate exco and board
- Additional set of accounts and financial reporting
- Cross group cost allocations
- Intra group service level agreements drive behaviours
- Potentially two sets of T&Cs for clients
- Less integration of teams and possibly a silo mentality

More difficult to centralise some support functions. Most firms wind down entities once the business is fully integrated, but not all. Firms that acquire through an SPA at pace, often underestimate the time and cost to rationalise legal entities. Challenges in re-papering or where there has been insufficient focus on data cleansing can cause complications and delays.

“If we had bitten the bullet on one corporate entity it might have helped our integration.”

Systems decommissioning

It takes time to decommission unrequired systems, particularly if there has been little focus on reviewing and cleansing data. Decommissioning is dependent on moving all clients and assets to the target system, which may sound straightforward, but firms face challenges around:

- Potentially vulnerable clients
- Residual cash balances arising from corporate action distributions which have not previously been paid away to clients who have moved to new providers
- Orphaned assets, where firms have gone into administration or liquidation, where future payments may still materialise
- Probate cases, where clients have died and probate has not been applied for, or the probate case takes time to wind down.

Fund and MPS rationalisation

Rationalisation of central investment propositions is challenging.

Funds need to be assessed for compatibility and overlap, ensuring that clients are transferred into equivalent products. The FCA and HMRC must provide permissions to transfer client assets to avoid creating a CGT liability and firms need management of third-party contract terminations, before the legal entity can be deregulated and closed.

This is less of a problem for consolidators. Merging firms take a long time to get to this point and find it difficult to prioritise investment to fund the cost of closure.

Business outcomes

During and after integration, firms need to track against the desired outcomes for the overall strategy and for each acquisition to measure success.

In our interviews, it was clear that measurement was often done at only the highest level, and that detailed metrics on the integration costs, cost and revenue synergies and dis-synergies are not as robust as they could be. This was better in very large firms.

Nearly half of firms said that overall synergy targets were ‘broadly’ achieved, but where several deals had been done, this was more challenging. Time and cost to integrate were the key measures and there was often an overrun on both. In some cases, aside from the top-level figures on the board covering revenue and margin, it was unclear how merging or consolidating was justified, or even if firms know where they can improve.

Reporting on the desired business outcomes defined at the start of the programme is the only way to ensure that integration gets done.

While the integration project team and COO is accountable for delivery of the integrated operating model, this does not drive benefits. They are the foundation for building success, not the success itself. Giving accountability for the business outcomes to executive owners of each functional area ensures that outcomes are achieved.

“message is "steady as she goes" - no changes for 3 years, which brings more pain as retention periods are ending”

Summary

Many firms are not integrating or not integrating well.

Speed, though not haste, is important.

Not integrating is not an option if firms wish to realise the benefits of acquiring. At best, firms will have to manage multiple smaller businesses. At worst, these are not scalable, have no employee or client buy-in and will result in attrition of assets.

Some consolidators are ‘accumulators’. They are heading down a path of increasing cost and lost revenue.

Firms need to invest in dedicated programme management talent and change expertise to effectively.

A playbook is needed to ensure consistency across multiple integrations.

More complex mergers are likely to realise synergies from centralising support functions, and systems infrastructure and extracting better terms from suppliers.

Consolidator synergies are dependent on migrating clients to a common service proposition, reducing platform proliferation and driving up assets in their investment products.

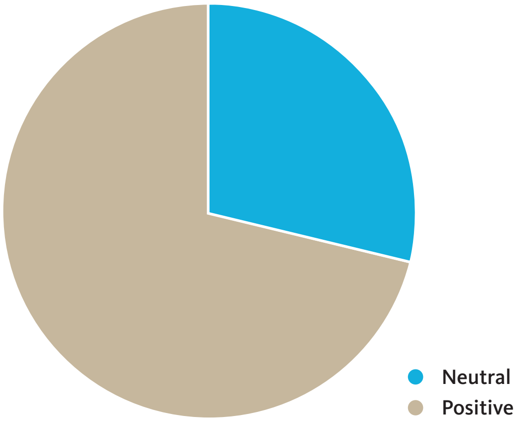
Retention of advisers and investment managers is a significant concern during integration, hence regular and relevant communication is key.

Client outcomes

Recent rapid consolidation has not always achieved optimum outcomes for wealth management firms, but what does this mean for their clients?

None of our respondents said their acquisitions had created a worse outcome for clients of the acquired business post-deal.

Impact on client outcomes



Source: Research interviewees

Given the FCA focus on consumer outcomes, few would admit to anything else. Our interviewees, however, did articulate a commitment to good outcomes as a key dependency for their acquisitions strategy.

One CEO did say that client disruption can give a temporary negative outcome - largely because change is uncomfortable. He was confident the impact on clients was neutral over time, once they got used to the new services and propositions.

In our analysis we found no evidence that clients were in a worse position overall and likely most did have improved outcomes:

- Total fees are largely the same or better overall for consumers post integration.
- Services become consistent, while better segmentation can align client needs with appropriate service levels.
- Clients are protected through compliant processes, better controls and improved cyber security.
- Technology presents clients with a consolidated view of their portfolios regardless of platform and the functionality to communicate securely with relationship managers.
- Regular and high-quality communication on market performance and investment insights are particularly valuable during market volatility.
- Access to better investment capability should be an improved outcome, given that advisers in small IFA firms are not necessarily investment experts.
- Smaller clients are likely to get better engagement in a small-client service proposition.
- Where relationships do change, such as retiring advisers or lead relationship manager changes, these are generally done carefully and with a suitable handover.

One concern, for firms who were integrating less well, was that the clients were not sufficiently engaged with communication on the acquisition. In one case, they had not been re-papered, despite the original firm having been closed.

> *"FCA is pleased that a consolidator with deeper pockets can professionalise the processes – 'prudent consolidation."*

Restricted vs Independent

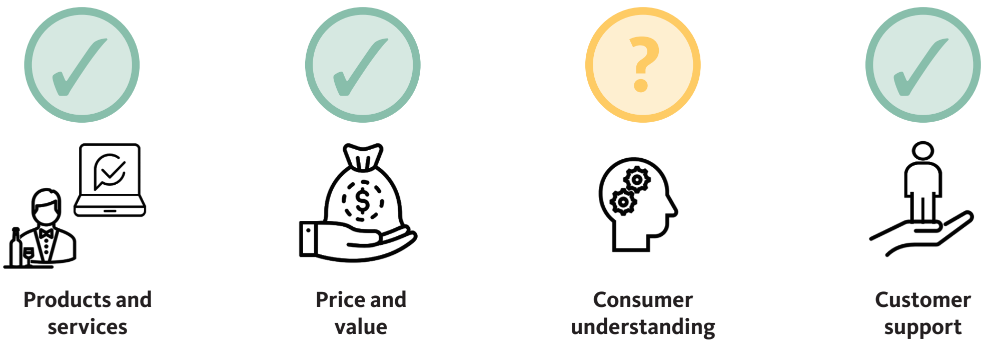
Most merging wealth manager firms and a few consolidators (employed advisers) are moving to a **Restricted** offering as they adopt a vertically integrated or holistic service. Advisers have a choice - no one has a completely tied model with no access to other providers - so the impact upon clients is neutral. And given clients do not typically understand the Restricted or Independent terms, it is more about ensuring they understand the change.

Measurement of consumer outcomes

Where firms do measure client satisfaction, this is rarely done with a comparison of before and after deal or integration. Additionally, where the model is an Appointed Representative, the adviser is a proxy for the underlying client's view.

Therefore it's difficult to judge from a client's perspective whether all Consumer Duty requirements are improved. Of those who have integrated well, we think that anecdotal evidence shows clients are better off.

Successful integration delivers better client outcomes



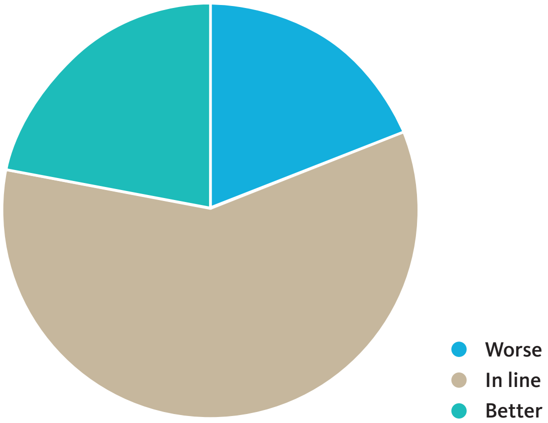
> *"We have very high Net Promoter Scores from customers, however the associate model is problematic to gauge feedback - it is the voice of the associate not the client."*

Adviser attrition

Regretted attrition of the lead relationship manager creates unintended consequences for the consumer. Badly done acquisitions result in advisers moving. This is highly correlated with how the acquirer's proposition was communicated pre- and post-deal and whether messages remained consistent.

> *"Happy clients help grow businesses (therefore need happy advisors)."*

Regretted relationship manager losses



Nearly 20% of the firms we interviewed had significant adviser attrition, worse than expected.

Those that lost advisers, lost a lot of them. Most firms will have targets for relationship manager retention. Our interviewees had targets between 75-95% - a wide range. In our view, 95% is a good result.

Source: Research interviewees

> *"Acquisition X went from 12 to 3 advisors, due to a clash of culture and relationship managers who didn't want to do the merger."*

It's easy for advisers to move - the advice gap means that 50% of firms that offer financial planning are looking for new advisers. In addition, starting a new advice firm is easy, especially as an Appointed Representative for a network. If the network has a hybrid model, it can mean an easy sale to the consolidator. It is an attractive plan.

> *"The number one source of new start-ups is from consolidator breakaways in the last two years."*

> *"The barriers to do their own thing as low as it has ever been." (re setting up as a new AR)*

Relationship managers are most often incentivised on the size of their book. They expect to take clients with them. This process of moving clients is primarily for the benefit of the relationship manager. The manager's reason for leaving is not relevant to the client. They may not like their new boss, or be peeved about a Restricted proposition, or simply not like being with a larger firm. Clients are persuaded to move assets (again) to a new proposition or to a one-person start-up, on the basis of better outcomes.

Summary

Client outcomes are generally positive as a result of M&A and consolidation.

Consolidators have deeper pockets than IFA firms and can professionalise processes and controls.

Access to investment professionals is an advantage.

Clients benefit from wider services.

Smaller clients potentially get more attention and lower fees.

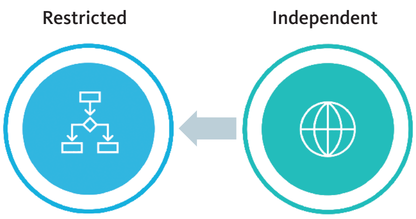
Eye to the future

Our research highlights the challenges for an industry rapidly converging through acquisitions. In this new world of holistic services from larger players, what might the future hold?

The pace of consolidation will continue

- Consolidation of small firms will continue.
- There will be PE exits as investors reach their desired timescales. 20% of PE-backed firms today are on their second PE investor, some on their third.
- There will be consolidation of the consolidators - PE exits are likely to drive this.
- Further 'mega' deals will be seen, possibly through PE consortiums.
- Firms that have not integrated will struggle to deliver financial synergies and may pause acquisition activity.
- Management teams that build integration as a key competence will be the most successful in achieving margin growth.

The end of 'Independent'

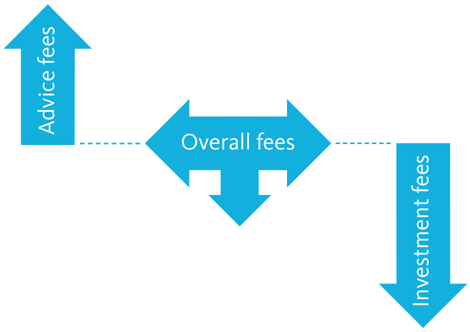


- Consolidators will continue to pursue 'vertical integration'.
- More firms will move to Restricted advice.
- The 'Independent' label will lose meaning as the market consolidates and the benefit to consumers will become opaque.
- Small IFA firms will continue to promote Independence. In practice, they may be unable to prove a whole of market review and clients will receive suitable over most suitable.
- Further in the future, the Independent label may disappear entirely.

Overall, cost to consumer will drop slightly

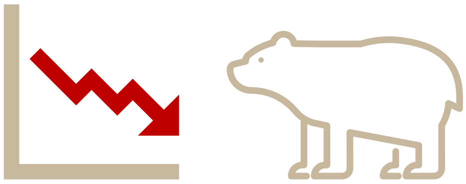
- Platform and custody fees will fall as firms rationalise platforms and outsource service providers to leverage scale and technology to reduce unit costs.
- Consolidators will need to reduce the retail platforms they use. This will be justified by low pricing with internal platforms or in-house settlement/custody capabilities that are in their control.
- There will be an increasing propensity to outsource services to leverage providers' scale and ongoing investment in technology. This will drive down unit costs further.
- Advice fees will increase/rebalance, reflecting cost to deliver and the perceived value of financial planning as a lead service. Investment fees will drop in favour of balancing the advice fee to clients receiving holistic services.
- Firms will provide lighter-touch services to smaller clients with different pricing models, e.g. a shift from basis points to fixed fees.

- Minimum investment levels for bespoke investment management will increase to well in excess of £1m.
- The 'race to the bottom' on MPS pricing will continue. There have been several new launches in early 2025 at a fee of 10bps or less.
- Fee pressure will continue to drive firms to lower the costs of providing investment solutions, including a drive to advanced passive strategies and exchange-traded funds.



Possible unintended consequences in a bear market

- Many investment professionals predict lower returns from equities over the next 10 years.
- For the last 15 years we have been in a bull market. Few investment professionals today have worked through an extended bear market.



- The race to the bottom on investment cost through the use of passive management could become a significant issue for future investment returns.
- Performance returns from lower cost models may underperform a higher-cost active strategy.
- The importance of active management will increase and there is a risk that investment fees will be too low to sustain this.
- Clients are more likely to move wealth manager during a period of under-performance. During periods of sustained losses, clients will place far greater emphasis on returns than service. Good performers will win over lowest fee.

Key considerations for individuals

Board – Shareholder representatives and NEDs

- [ ] What is the capability and experience of the Executive team, particularly CEO and CFO, to deliver on the acquisition and/or organic growth strategy?
- [ ] How best to achieve the right balance between hires from outside the industry (with perspective of M&A), versus those steeped in Wealth experience to ensure the right level of challenge and informed debate at the Board?
- [ ] Is the Board getting the right information to challenge and make the right decisions on both potential acquisitions and integration progress? Consider Financial, Compliance & Risk, People, Proposition, acquired business KPIs against earnout criteria, and Operating model.
- [ ] Do you have dedicated, experienced resources for due diligence (DD) and Integrations to support the acquisition strategy?
- [ ] Are cost expectations including dis-synergies and timelines for integration realistic?

Executive Teams

- [ ] What is the deal rationale? - has there been sufficient DD - not just financial - from internal SME's and external support?
- [ ] Is there the right cultural alignment? Has the seller bought into the long-term strategy and do they understand it regarding brand, proposition, pricing, integration plan, compensation model, smaller clients?
- [ ] Is there the right engagement with the FCA on change of control / consolidation waiver? Include external support if needed but not as a substitute for internal ownership.
- [ ] Is the Integration programme resourced and structured for success? Is there a ringfenced team, experienced integration lead, nominated SMEs from each function and the right ownership from functional heads for realising the desired business outcomes?
- [ ] Are the Exec team getting appropriate updates on integration status, including progress by workstream; financial reporting on one-off costs and progress on desired business outcomes?
- [ ] What initiatives are in place to ensure clients relationship teams are positive and motivated? How is this tracked and compared from day 1 post-deal – e.g. surveys and feedback loops?
- [ ] What focus is there on organic growth versus acquisitions? Are relationship managers' targets appropriately mediated for a period post-deal?
- [ ] Do you have a well-thought through communications programme for employees and clients, and through what medium? Is it frequent enough?

Head of Integration

- [ ] Is the Sponsor experienced/trained in programme Sponsorship?
- [ ] Is accountability clear, with defined reporting lines and independent escalation processes?
- [ ] Are the desired business outcomes clear with defined measures (including financial synergies)? Is there a clear plan on how these will be achieved? Are the one-off costs realistic? Is there the right engagement from the Finance function?
- [ ] Is the integration programme resourced for success with dedicated workstream leads, nominated accountability and SMEs from each function?
- [ ] Is there a clearly defined governance model? With clarity on reporting to Executive vs. Board, appropriate governance in terms of number and frequency of Steering Committee/ workstream meetings? Do nominated representatives attend regularly as a priority?

About the authors

Gilly Green
Founder and Director

Gilly has more than 35 years in the wealth management industry. She runs her own business providing advice to wealth firms and mentoring senior individuals. Most recently Gilly spent 12 years as the Head of the Wealth Management & Private Banking practice at global management consultancy Sionic (now Davies), and in prior years has worked both as a practitioner and in technology firms. Gilly is also an NED for an advice-led wealth management firm and has a breadth of experience advising on M&A, client service improvement, digital, business efficiency and people performance enhancement.

FoxRed Insight

Donald Reid
Founder and Non-executive Director

Donald has more than 40 years experience in financial services and Wealth Management. He was one of the founders of Solve Partners, a specialist wealth and asset management consultancy that was launched in 2023, and prior to that was Group COO at Tilney Smith & Williamson (now Evelyn Partners) from 2010. There he led on the due diligence and integration of several large scale acquisitions, as well as significant transformational change. He previously worked in Finance and Operational roles at UBS Wealth Management, and Barclays.

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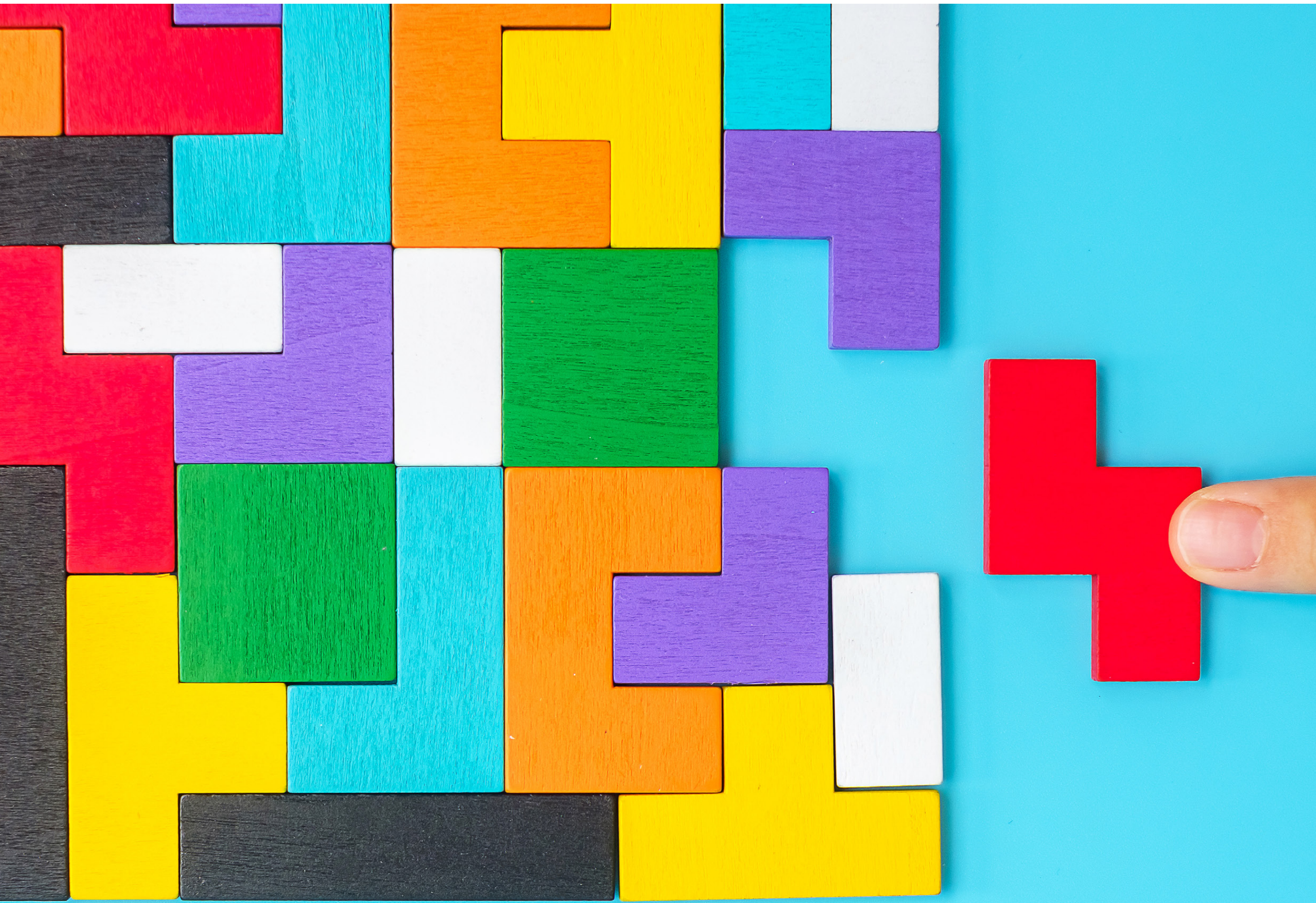

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