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Published by: Private Equity Wire, 8 St James's Square, London SW1Y 4JU, UK
www.privateequitywire.co.uk

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EUROPEAN AWARDS 2021

Private equity GP outlook: A year of two halves

By A. Paris

Though the Covid-19 speedbump hit the private capital markets hard, as it did all other sectors, the industry witnessed a steady rise in investor appetite with large amounts of capital waiting to be deployed.

"The strength and speed of the rebound suggest resilience and continued momentum as investors increasingly look to private markets for higher potential returns in a sustained low-yield environment," outlines the McKinsey Global Private Markets Review 2021.

Alice Langley, partner, investor relations, IK Investment Partners comments: "Businesses and investors alike were faced with unprecedented challenges, with the private equity (PE) market experiencing a small degree of volatility and uncertainty in the first half of the year. However, mergers and acquisitions activity rebounded towards the second half of the year, leaving the PE market relatively unscathed." For IK, this year's winner of the Best Fundraising Firm – Mid-Cap Buyout, 2020 was a record-breaking year in its 31-year history. "Our firm was fortunate enough to remain resilient despite the significant headwinds, utilising opportunities for growth as new trends emerged," Langley explains.

Discussing the developments, Christian Böhler, Head of Secondaries at Best Secondaries Manager (fund size <$1bn) Unigestion notes: "In the last year, we have been raising our direct/co-investment fund (Unigestion Direct II) and our secondary fund (Unigestion Secondary V). Two trends have been driving the investment opportunity and thus the client demand for these products. At the small end of the market, we have seen a continuous rise in high quality deal flow from investment partners who want us to partner with them. These investment partners are existing GP relationships, new GP relationships and, increasingly, specialist investors who do not manage funds."

Michael Lindauer, co-CIO of Private Equity at Allianz Capital Partners (ACP), acknowledges the "increasing recognition of PE as a valid alternative to public markets, given its active ownership model driving long-term value creation. In an environment of low interest rates, the relative attractiveness of private market strategies has increased further." For ACP itself, this was also proven true during 2020, when despite the obvious disruption through Covid-19, the firm continued to increase its exposure to PE on an unchanged basis. "It further became manifest for ACP in the successful raise of two infrastructure-related new funds from internal and external clients, totalling EUR2 billion of commitments," Lindauer says. ACP won Best Fundraising Firm – Fund of Funds.

Considering the fortunes of the secondaries space, André Aubert, Partner at this year's Best Secondaries Manager (fund size >$1bn), LGT Capital Partners remarks: "The recovery came as US public markets posted strong performance and managers reported better-than-expected Q2 2020 and Q3 2020 NAVs alongside robust fund distributions. Although overall 2020 secondary transaction volume fell by nearly a third from the previous year's record of USD 88 billion, H2 2020 volume of USD 42 billion was only slightly lower than in H2 2019." Throughout 2020, the firm was in the market with its fifth dedicated secondaries fund, Crown Global Secondaries V and raised USD4.5 billion to capture investment opportunities in private equity secondaries, ranging from the acquisition of diversified portfolios of limited partnerships interests to GP-led fund solutions.

Michael Rees, managing director and head of Dyal Capital Partners, voted Best Growth Manager, says: "The trends both witnessed and experienced over the past year have not only reinforced our objective to partner with leading managers, but to be the solutions provider for the alternative industry and invest across the capital structure.

"The pandemic only accelerated trends that were already in motion, we anticipate that established firms will continue to raise an outsized share of capital, and we are pleased that we continue to be a preferred partner for them."

Mapping the outlook for the industry, Joana Rocha Scaff at NB Private Equity, notes: "Demand for private equity will remain high and the fundraising market strong. Access to top-quality funds will be critical and valuations for well-positioned and attractive companies will remain elevated. Asset selection and value-add post investment will be crucial for GPs to drive attractive long-term returns."

NB Private Equity, awarded the Best Fund of Funds Manager, manages over USD95 billion of investor commitments across primary funds, co-investments, secondary investments, private credit and specialty strategies, through both commingled funds and custom accounts for larger investors. ■

Non-flagship funds on the rise

Dyal Capital Partners: Best Growth Manager

Large private equity managers have seen their non-flagship funds represent a greater portion of their assets as they sought to expand their offerings to meet investor demands.

"When the pandemic hit and in-person fundraising came to a halt, established managers were able to continue their capital raising in a virtual environment by leveraging existing investor relationships," Michael Rees, managing director and head of Dyal Capital Partners, explains. "Investors' risk appetite for allocating capital to less established managers dwindled, ultimately leading the largest and well-established firms to gather a greater share of capital."



In this environment, large institutional managers have been broadening their range of strategies and launching non-flagship funds adjacent to their main funds. "As a result, non-flagship funds increasingly represent a more significant percentage of total capital raised. For the top 10 GPs, more than 50 percent of total fundraising is now coming from non-flagship funds. While these non-flagship strategies may differ from their flagship funds, established firms are utilising their long-standing client relationships and high quality infrastructures to capitalise on a complementary strategy within their respective market," Rees outlines.

Dyal experienced these trends first-hand. While the firm continues to be a leader in minority equity stakes, it aims to be the capital solutions provider for the alternatives industry. Rees underscores: "By leveraging our sector expertise of investing in established alternative managers, we've spent part of last year focused on our long-term financing solutions that complement our existing equity stakes business.

"Not only has this allowed us to be more creative in structuring long-term partnerships, but managers can work with a capital solutions provider they know and trust."

In view of these developments, GPs need a variety of capital solutions which allow them to grow their business. "While the influx of capital to private markets has been a boon for the industry, the demand by investors to maintain alignment has left PE managers unable to keep up with growing GP commitment amounts. Key to overcoming this challenge will be access to tailored capital solutions that provide efficient financing to align with business, structural, and tax objectives of the manager," Rees advises.

The industry has also seen a increasing awareness of how environmental, social, and governance issues impact on long-term performance. In light of the growing demand on behalf of LPs as well as Dyal's Partner Managers, the firm has spent the last year expanding its ESG focus during the underwriting phase. Rees elaborates: "ESG is now an integral part of our investment process. Alongside this, we've continued to expand the strategic support that our Business Services Platform provides in helping our partners design and implement their own ESG programme.

"By formalising our approach during the underwriting phase and expanding our efforts during the partnership phase, we have made ESG a reflex for our firm, not just an initiative."

The firm aims to keep on partnering with managers who want to add to their success and continue to be leaders in their space. "For us to do this, we're focused on continuing to find ways to better serve prospective and existing partner managers," Rees emphasises. ■

Michael Rees
Head of Dyal Capital Partners

Michael Rees is a Managing Director and Head of Dyal Capital Partners. In addition to his roles as Managing Director and Head of Dyal Capital Partners, Michael is also a member of the firm's Partnership Committee. Dyal, a unit of Neuberger Berman, manages four funds focused on establishing minority partnerships with leading alternative asset managers, and an additional fund focused on providing financing solutions to leading alternative asset management firms. Prior to founding Dyal, Michael was a founding employee and shareholder of Neuberger Berman Group, transitioning from Lehman Brothers as part of the management buyout transaction in May 2009 and was the first Chief Operating Officer of the NB Alternatives business following the founding. Michael was an employee of Lehman Brothers from April 2001 through May 2009. He had numerous roles at Lehman Brothers and was responsible for strategic acquisitions for the Investment Management Division at Lehman Brothers. From 2003 through 2006, he was Head of Asset Management Strategy. Prior to joining Lehman Brothers, he was an associate at Marakon Associates.

Disciplined managers critical to secondaries success

LGT Capital Partners: Best Secondaries Manager (fund size >$1bn)

Appetite for private capital has continued to grow and investors are seeking to broaden the scope of their investments in the space and introduce sub-strategies and allocations within their portfolios. As investors wrestle for access to the best deals, disciplined managers are critical to their success.

"Private equity investors recognise that they have more 'tools' at their disposal to more actively manage their exposure to the asset class. While we espouse the notion that investors should not 'time' the market, many investors have particular needs to either scale up or scale down exposure to the asset class due to M&A or strategic changes at their portfolio level," outlines André Aubert, Partner at LGT Capital Partners. "Secondaries – both buy-side and sell-side as well as co-investments and direct equity secondaries – can be an elegant and efficient means of more actively managing NAV within a portfolio."

Partner Martha Heitmann explains how the expanded scope of PE portfolios has led to a desire for differentiated sources of risk, return and duration within their portfolio. "By introducing secondaries, co-investments, direct equity secondaries, venture capital and growth equity to client portfolios, LGT Capital Partners has helped clients achieve complementary return streams and sources of alpha in their portfolios," Heitmann says.

This increased need for diversification is also resulting in investors looking to add new managers and ensure they have high potential talent in their portfolio. Ivan Vercoutère, Managing Partner comments: "LGT Capital Partners has a long history of investing in first-time funds – both on a primary basis as well as through our secondaries strategies, where we have a successful track record of sponsoring the spin-out of managers. This trend is countered by the fact that many investors are trying to 'do more with less' – trying to invest greater amounts with fewer managers. As such, LGT Capital Partners plays an important role as a strategic partner and multi-manager for investors to achieve both ends simultaneously."



André Aubert
Partner, LGT Capital Partners

André Aubert is a partner at LGT CP. He has an additional focus on infrastructure activities. André joined the firm in 2005. Prior to that, he was a principal at Index Ventures, a pan-European venture capital firm, which he joined in 1999. At Index André focused on investment opportunities in the communications, semiconductor and embedded software sectors.

Aubert discusses the evolution of the secondaries market: "Secondaries have evolved substantially since the early days of the market, when they were perceived as the last recourse for distressed sellers. Today, they present a highly attractive value proposition, not only as an active portfolio management tool for sellers, but also as a complement to most investors' private market portfolios on the investment side. They offer a smooth cash flow profile, quick build-up of NAV and early distributions, meaningful diversification, as well as the potential of counter-cyclical advantages.

"With the rising popularity of the asset class comes increased competition among investors to gain access to the best opportunities. This makes partnering with a disciplined secondary manager critical, especially in an increasingly competitive market."

Further, private equity reporting can be uneven and inconsistent among managers and strategies, and could lag by months or quarters. "Globally positioned buyers with integrated capabilities across the private market spectrum are preferred buyers of choice. Secondary buyers who have broad, deep knowledge of the underlying assets are often in the best position to price a transaction from the bottom up, a process that gives a true sense of the value of the transaction. This helps them initiate and execute a transaction quickly and efficiently, with favourable pricing dynamics," Aubert explains. ■



Ivan Vercoutère
Managing Partner, LGT Capital Partners

Ivan Vercoutère is a co-founder of LGT CP Ltd, and a managing partner and a member of the Executive Management Team. Prior to joining the firm in 1998, Ivan was vice president and member of the investment committee of Pacific Corporate Group, Inc (PCG), a California-based global private equity advisor and manager.



Martha Heitmann
Partner, LGT Capital Partners

Martha Heitmann is a partner on the secondaries team at LGT CP in Pfaeffikon, Switzerland. She is also the chair of the Diversity & Inclusion Committee. Martha joined the firm in 2007. Prior to that, she worked in business development for Telephia Inc in San Francisco. From 2001 to 2003 she was a corporate and investment banking analyst for Bank of America Securities in San Francisco.



Leading the way in alternative investing

LGT Capital Partners Ltd. is a leading alternative investment specialist with USD 75 billion in assets under management and more than 550 institutional clients in 41 countries. An international team of over 600 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives, and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Paris, Frankfurt, Vaduz, Dubai, Beijing, Hong Kong, Tokyo and Sydney.

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Change afoot as PE adapts to market environment

Neuberger Berman Private Equity: Best Fund of Funds Manager

Activity and interest in private equity has remained strong and though demand has been uneven following the Covid-19 outbreak, appetite for the asset class is set to remain high and the fundraising market strong. The industry also has the potential to play a leading role in bringing about more holistic change on the environmental and social front.

"In this environment, access to top-quality funds will be critical. Valuations for well-positioned and attractive companies will remain elevated and asset selection and value-add post investment will be crucial for general partners (GPs) to drive attractive long-term returns," explains Joana Rocha Scaff, Managing Director of Neuberger Berman, Head of Europe Private Equity. "PE returns will likely continue to outperform public markets in the long-term, with near-term GP valuations correlating with public markets, albeit with lower volatility. Cash calls and distributions will remain significant, given continued new investment and realisation volumes."

NB Private Equity manages over USD100 billion of investor commitments across primary funds, co-investments, secondary investments, private credit and specialty strategies, through both commingled funds and custom accounts for larger investors.

Rocha Scaff outlines how the competitive landscape is changing within PE: "LP demand has become more uneven throughout Covid, hastening a trend by LPs to focus the majority of their capital on a core set of GP relationships. This will present challenges for less established GPs, further accelerate competition among LPs for access to the most well-established funds, and present opportunities for LPs to identify and select emerging managers."

In Rocha Scaff view, today's GPs are much better positioned to face these and other challenges, notably as a result of prior crisis experiences. Today's strong PE firms have highly experienced and tested teams, deep investing, operating and capital markets resources and the mindset and pattern recognition to move urgently and decisively.

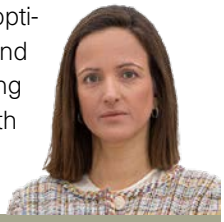
Fundamentally, PE has become more strategic to LPs over time, and strong demand for the asset class has been, and will be, underpinned by the asset class' continued attractive performance; its different profile to public markets allowing for active, long term value creation, and LPs' long-term approach to building attractive PE portfolios.

From its perspective, NB Private Equity aims to expand alternatives offerings to meet institutional needs within compelling pockets of market opportunity, including credit, growth capital and infrastructure. The firm also plans to develop new products and vehicles that allow non-institutional investors to access alternatives.

"We will also expand our client base, investment and support team presence globally, strengthening our presence even further in Europe and Asia, in particular," says Rocha Scaff. The firm's objectives also include continued investment in strategic client partnerships and its operating platforms and IT systems.

NB Private Equity is also committed to enhancing its ability to onboard teams with a range of complexity and diversity. The need to focus on such areas has been highlighted in the past year.

Rocha Scaff comments: "The crisis has exposed critical issues related to the handling of environmental and social aspects. ESG and diversity issues rose to the forefront and remain a key challenge, and opportunity, for both GPs and LPs to address. We are optimistic that progress is being made, and that PE will have a strong role in steering positive and long-lasting change in both these areas." ■



Joana Rocha Scaff
Managing Director, Neuberger Berman

Joana Rocha Scaff is a Managing Director of Neuberger Berman, Head of Europe Private Equity and a member of the Private Investment Portfolios, Co-Investment, and Secondary Investment Committees. She is also a member of Neuberger Berman's ESG Advisory Committee. Joana has over 20 years of experience in financial markets, the majority of which in private equity investing and prior to that in investment banking. She has been with the firm since 2005. Prior to NB Private Equity, Joana worked in the investment banking division of Lehman Brothers, and prior to that at Citigroup Global Markets and Espirito Santo Investment Bank. She advised on corporate transactions including M&A, financial restructurings and public equity and debt offerings in the US, Europe and Brazil. Joana received her MBA from Columbia Business School and her BA in Business Management and Administration from the Universidade Catolica of Lisbon. Joana is the current Vice Chair of the LP Committee of the BVCA – British Private Equity Association and a member of the Limited Partner Advisory Committee of multiple European private equity funds.



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Intense client contact helps retain trust

Allianz Capital Partners: Best Fundraising Firm – Fund of Funds

Close communication with clients has taken centre stage as general partners (GPs) continue searching for robust assets in an environment of high prices. In addition, limited partners (LPs) are becoming more discerning in their manager selection.

"In a crisis situation like the one we have been living since early 2020 the key for us as a trusted advisor to our clients is to communicate frequently and closely, putting developments into perspective and develop solutions for potential problems," explains Michael Lindauer, co-CIO of Private Equity at Allianz Capital Partners (ACP). "The ongoing commitment of our clients to PE and the further increase in exposure during 2020 speaks to the fact that this intense communication helps to retain trust in a manager and asset class even during difficult times."

Against a backdrop of ongoing quantitative easing and continued government support, the price of PE transactions has remained elevated. Within this context, Lindauer advises: "The key concern for GPs will be to find good assets that can support these high prices and be creative in sourcing transactions 'off the beaten track'. This can be achieved through (sub)sector coverage-based approaches in this regard."

He says LPs need to focus on having and gaining access to the best GPs, who in turn are able to navigate choppier waters, and selecting the right fund managers who stay disciplined despite a "hot" market. "This can be done through a consistent and long-term presence and engagement in the market and positioning the LP as a reliable partner for GPs. It also requires a structured and institutional selection process," Lindauer says.

Judging by the ACP portfolio, PE proved to be a responsible owner of assets, supporting companies through the Covid-19 crisis thus far and increasingly uncovering interesting opportunities for new investments which tend to emerge in turbulent times.

Over the past 25 years PE and other private markets has developed into an established and well-sought after asset class. This progress is based on an increasing recognition of the asset class as a valid alternative to public markets. Lindauer provides a snapshot of the past year: "Despite the obvious disruption through Covid-19, we continued to increase our exposure to PE on an unchanged basis. It further became manifest for ACP in the successful raise of two infrastructure-related new funds from internal and external clients, totalling ~EUR2 billion of commitments."



The firm launched the Allianz Private Equity Fund in early 2021, on the back of client demand. Lindauer outlines: "The strategy of the fund will mirror the approach of our ongoing investment programme under our 'Invest with Allianz' philosophy which has also been the basis for our successful infrastructure fund raises during 2019/2020."

Lindauer discusses his outlook: "The backdrop of Covid-19 will accelerate the implementation of sustainability initiatives and further drive efforts to increase diversity in the industry. We hope to continue participating in the further growth of the asset class and help shape its further development." ■

Michael Lindauer
Co-CIO of Private Equity, Allianz Capital Partners

Michael Lindauer is the co-CIO of Private Equity at Allianz Capital Partners (ACP). Since May 2020 he is a member of the board of management. He joined Allianz in 2003 from PwC Corporate Finance where he advised on venture capital and buyout transactions in Germany. Michael holds a master degree in business administration from Ludwig-Maximilians-Universität in Munich. Michael is a Fellow of the 2018 class of the Finance Leaders Fellowship and a member of the Aspen Global Leadership Network.



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Allianz Global Investors

Data and due diligence to help GPs thrive

IK Investment Partners: Best Fundraising Firm – Mid-Cap Buyout (fund size >$3bn)

Compiling disparate forms of data to provide a clear picture of fund performance and offer information of value to those who require it will be key to succeeding in the 2021 private equity (PE) market. Also, in an environment of remote working, general partners (GPs) need to facilitate comprehensive virtual due diligence exercises to help limited partners (LPs) navigate the uncertainty.

"The Coronavirus pandemic (Covid-19) highlighted the importance of GPs having deep sector knowledge, expertise and awareness in the sectors they invest in," Alice Langley, Partner, Investor Relations, IK Investment Partners comments. "With significant uncertainty around the long-term effects of the pandemic on the global economy and businesses alike, having a comprehensive understanding of what recovery might look like for businesses within a specific sector, will stand GPs in good stead.

"Having this level of data and insight enables firms to utilise any opportunities as well as mitigate risks by building this into their value creation plans. At IK, we invest across four main sectors; Business Services, Healthcare, Consumer and Industrials. Having deemed this as a sensible approach for many years, Covid-19 simply supported our thesis of investing in businesses within non-cyclical industries."

The pandemic also forced an acceleration of digitisation as the new normal saw GPs and LPs move to remote working and virtual due diligence. Langley notes: "I anticipate digitalisation to be high on the priority list for PE firms with the aim of harnessing technology to streamline operations for themselves and their portfolio companies. At IK, we adopted the use of platforms such as Microsoft Teams, Zoom and other video conferencing software to keep in contact with our employees, investors and portfolio companies. For the first time in IK's history, we held our Annual Investor Meeting and conducted fundraising virtually. We are also placing increased importance on digital marketing activities."

Conducting due diligence virtually has been one of the primary challenges for both GPs and LPs. Langley discusses the implications of this development: "Historically, conducting due diligence, for the most part, has been done face-to-face as it allows for more transparency, authenticity



and the increased ability for LPs to understand the dynamics of the team in which they are putting their trust. This determination is more difficult to do virtually.

"As GPs, we have seen a rise in existing investors making decisions to strengthen existing relationships by investing more and staying away from those they've not yet met. Despite the efficiency virtual due diligence brings, it still remains a challenge for new investors to become comfortable with a fund manager unless they are able to meet in-person or on-site at least once.

"To tackle this, it's important that GPs provide a safe way for LPs to carry out comprehensive due diligence whilst there is still significant uncertainty surrounding when we might return to some kind of normality that resembles the past. Being available to help and providing accurate information as well as detailed reporting will stand all GPs in good stead." ■

Alice Langley
Partner, Investor Relations

Alice Langley is a Partner within Investor Relations at IK Investment Partners. Prior to joining the firm in 2005, she worked for Deloitte as an Assistant Manager in the Financial Services Group – Audit & Risk Advisory Services. Alice is an ACA and holds a BA Hons degree in English Literature from the University of Bristol.



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Evolving opportunities in secondary market

Unigestion: Best Secondaries Manager (fund size <$1bn)

The secondary market has evolved significantly in the last decade, an evolution that has been accelerated by the Covid-19 pandemic. With 50 percent of today's deals by volume being led by general partners (GPs), this market is expected to have a record-breaking year.

"Growth in the secondary market is being largely driven by GP led deals," notes Christian Böhler, Head of Secondaries at Unigestion. "These are not coming from market distress but more from a dearth of liquidity given that overall exit activity has been down."

The firm's strategy is specifically to focus on smaller secondary transactions where the managers believe there is less competition and returns are driven by company growth and attractive pricing rather than leverage. "Our latest secondary fund began investing in H2 last year which means we are in a good position to take advantage of the current environment on behalf of our clients," Böhler says.

Over the coming year, Unigestion's main objective is to finalise the fundraising of its latest secondary fund and continue investing it in attractive, high return potential deals. Böhler outlines: "Our clients view the current opportunity for secondaries as particularly desirable. We have been very active in GP-led deals, where we are able to acquire tailored portfolios of high growth companies at attractive valuations.

"Such deals lead to immediate results for our clients – no J-curve in the short term and material return potential in the long term. GP-led deals represent an appealing way of solving the tension between investors' desire for liquidity and GPs' desire to continue owning their best performing assets."

Although the outlook for the secondary market is positive, challenges remain, primarily when it comes to continue delivering returns at a premium to public markets. Böhler comments: "On one hand, there is a wall of dry powder chasing deals in the PE market. On the other hand, there are pockets of the market which are still relatively untapped.

"Take the secondary market where a large amount has been raised in the last 12 months to invest in secondaries. Firstly, this has been driven by a handful of funds at the large end of the market with less capital going to smaller secondary funds. Secondly, the size of the overall



opportunity is vast. For example, GP-led deals hit a record high last year, but this is only the tip of the iceberg as only a small proportion of GPs have embarked on such deals so far."

Against this backdrop, clients continue to raise ESG concerns. From its perspective, Unigestion has included ESG as part of its investment process for over 12 years. In addition, the firm is fully compliant with the Sustainable Finance Disclosure Regulation and uses ESG as an important value creation tool.

According to Böhler, TER is another key issue clients are raising: "They are sensitive to TERs. This is why clients like our direct and secondary offerings, which provide exposure to private companies at a much lower TER than traditional fund of funds offerings." ■



Christian Böhler
Partner, Head of Secondaries, Unigestion

Dr Christian Böhler is Head of Secondaries at Unigestion. He joined Unigestion in 2017 with the integration of Akina into Unigestion's private equity unit, having joined Akina in 2005, where he was instrumental in setting up the secondary fund investment activity. He previously worked for SCM Strategic Capital Management (today Mercer) and PwC. Christian holds a Master's degree and a PhD in Economics and Business Administration with a major in Finance from the University of St Gallen (HSG), Switzerland.

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**Data as at 31 December 2020*

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As a private, independent, employee-owned investment manager, Neuberger Berman is structurally aligned with the long-term interests of our clients. We have no external parent or public shareholders to serve, nor other lines of business to distract us from our core mission. And with our employees and their families invested alongside our clients–plus 100% of employee deferred cash compensation directly linked to team and firm strategies–we are truly in this together.

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