# From Private to Public:

# Why Do Alternative Asset Managers Go Public?

By

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**ABSTRACT**

The global alternative asset management industry has witnessed a significant trend of firms going public since the IPO of Blackstone in 2007, and the trend has come back recently. Since 2022, firms like PAG, Tiantu Capital, and CVC Capital Partners have announced or completed their plans to go public. This study summarizes the post-2000 waves of alternative asset managers going public, including their different pathways and post-IPO developments.

Utilizing a multi-case analysis method with public information, this study examines the motives, benefits, and costs associated with alternative asset managers' decisions to go public. Four primary motives and benefits of alternative asset managers going public are identified: (1) enabling founders and strategic investors to liquidate their holdings, (2) incentivizing employees through equity-based compensation, (3) providing permanent capital to fund organic growth and external acquisitions, and (4) enhancing brand and reputation. Although this study acknowledges the costs and potential disadvantages associated with going public, they are deemed less significant compared to the benefits.

**Thesis Supervisor:** Nathaniel Gregory

**Title:** Senior Lecturer, Finance

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## Table of Contents

**I. Background ... 7**

1.1 The IPO of Tiantu Capital ... 7

1.2 Scope of Work and Methodology ... 7

1.3 Introduction to Alternative Assets ... 8

1.4 Introduction to Alternative Asset Management Business ... 9

1.4.1 Business Model ... 9

1.4.2 AUM and FAUM ... 10

1.4.3 Sources of Revenue ... 11

**II. Overview of Alternative Asset Managers Going Public ... 12**

2.1 Alternative Asset Management Industry ... 12

2.2 The Post-2000 Waves of Alternative Asset Managers Going Public ... 14

2.3 Case Firm Pool and Analysis ... 23

2.3.1 Introduction ... 23

2.3.2 Overview of Businesses of the Case Firms ... 24

**III. Motives and Benefits for Alternative Asset Managers Going Public ... 26**

3.1 Enabling Founders and Strategic Investors to Liquidate Their Interests ... 27

3.1.1 Blackstone Case ... 28

3.1.2 TPG Case ... 35

3.2 Incentivizing Employees with Equity-based Compensation ... 36

3.3 Funding the Growth ... 41

3.3.1 Organic Growth: The Blackstone Growth Circle ... 43

3.3.2 External Acquisition: TPG Acquisition of Angelo Gordon ... 46

3.4 Enhancing Brand and Reputation ... 49

3.5 Integrated Case Analysis: EQT AB ... 50

3.5.1 Background ... 50

3.5.2 Post-IPO Growth ... 51

3.5.2.1 Geographic Expansion in Asia ... 51

3.5.2.2 Product and Strategy Expansion ... 56

3.5.2.3 Summary of EQT Development after IPO ... 62

**IV. Costs and Disadvantages for Alternative Asset Managers Going Public ... 64**

4.1 Loss of Secrecy ... 64

4.2 Regulatory Compliance Costs ... 65

4.3 Short-term Focus on Performance ........ 66

**V. Conclusion ........ 67**

**Bibliography ........ 69**

## List of Figures

Figure 1. Characteristics of Different Alternative Asset Classes ........ 9
Figure 2. Sources of Revenue for Alternative Asset Managers ........ 12
Figure 3. Global Alternative AUM by Asset Classes - Absolute Value ........ 13
Figure 4. Global Alternative AUM by Asset Classes - Percentage ........ 14
Figure 5. Ownership and Organizational Structure Upon the Listing of KKR ........ 21
Figure 6. KKR Holdings of Principal Activities Business Line by Asset Class as of December 31, 2023 ........ 22
Figure 7. Total AUM ($B) for Case Companies as of December 31, 2023 ........ 25
Figure 8. AUM Breakdown for Case Companies as of December 31, 2023 ........ 25
Figure 9. AUM ($B) of Key Businesses for Case Companies as of December 31, 2023 ........ 26
Figure 10. Typical Up-C IPO Structure ........ 29
Figure 11. Exchange of Operating Partnership Units ........ 29
Figure 12. Blackstone IPO Organizational Structure and IPO Fund Flow ........ 32
Figure 13. AUM Development Since the IPO Year ........ 42
Figure 14. AUM Growth since IPO, as of December 31, 2023 ........ 42
Figure 15. The Blackstone Growth Circle ........ 44
Figure 16. Comparison of Blackstone's AUM at IPO and June 30, 2018 ........ 46
Figure 17. TPG AUM Development ........ 48
Figure 18. Business History of EQT AB ........ 51
Figure 19. The Geographic Split of EQT Funds' Investments Before IPO ........ 52
Figure 20. EQT Post-acquisition Office Map in Asia ........ 54
Figure 21. Average Number of EQT Employees in Asia ........ 55
Figure 22. EQT Strategic Developments Since IPO ........ 57
Figure 23. EQT Private Equity Business Before IPO ........ 58
Figure 24. Development of EQT's Real Estate Business ........ 60
Figure 25. EQT Flagship Funds Committed Capital as of December 31, 2023 ........ 61
Figure 26. Breakdown of EQT Post-IPO FAUM Development ........ 63
Figure 27. Count of Blackstone SEC Fillings ........ 66

## List of Tables

Table 1. Major Global Alternative Asset Managers Going Public Since 2006 ........ 14
Table 2. Case Study Pool of Alternative Asset Managers ........ 23
Table 3. Cash and Blackstone Holdings Partnership Units to Predecessor Owners ........ 34
Table 4. Blackstone IPO Date Equity Rewards under the 2007 Equity Incentive Plan ........ 40
Table 5. Expenses of Blackstone Equity-based Awards ........ 41
Table 6. Performance of Blackstone Key Strategy at the end of 2018 Q2 ........ 45
Table 7. Blackstone's Innovation of Strategies after IPO ........ 45
Table 8. EQT's Acquisition of BPEA ........ 55
Table 9. EQT Key Business Indicators ........ 64

# I. Background

## 1.1 The IPO of Tiantu Capital

On October 6, 2023, Tiantu Capital (SEHK:1973) ("Tiantu"), a leading Chinese private equity fund manager committed to driving the growth of Chinese consumer brands and companies, went public in Hong Kong Stock Exchange with HK$ 1.009 billion raised globally (25% new shares issued). This is the first time for a China mainland-based private equity firm to go public in a major global stock exchange.

As of March 31, 2023, Tiantu managed 8 Renminbi-denominated funds and 3 U.S. dollar-denominated funds, with total AUM of RMB 25.5 billion. As indicated in its prospectus, Tiantu estimated to use (1) 65% of the proceeds from IPO for further expanding its private equity fund management business; (2) 25% of the proceeds for further developing and strengthening its direct investment business; and (3) 10% of the proceeds for general corporate purposes.

Tiantu Capital's successful IPO has created waves in China's private equity market. Since 2022, the Asian private equity market has experienced a period of hardship for new fundraising. Going public would bring the firm with a significant amount of permanent capital to expand its business. However, the strict information disclosure requirement for a public company doesn't always fit with the "private" characteristics in this industry. Why does Tiantu choose IPO in Hong Kong at this time? What benefits can going public bring to the firm? What costs does the firm take to go public? Those are the questions I would like to ask.

## 1.2 Scope of Work and Methodology

Tiantu Capital focuses on VC and growth stage private equity investments. Compared to global pioneers like Blackstone, KKR, or Carlyle in alternative asset management industry with diversified businesses, Tiantu is much younger and smaller.

This study aims to investigate motives, benefits, and post-listing challenges of major global alternative asset managers going public. As there are not many cases or standardized data to perform large data analysis, this study would be conducted through case studies.

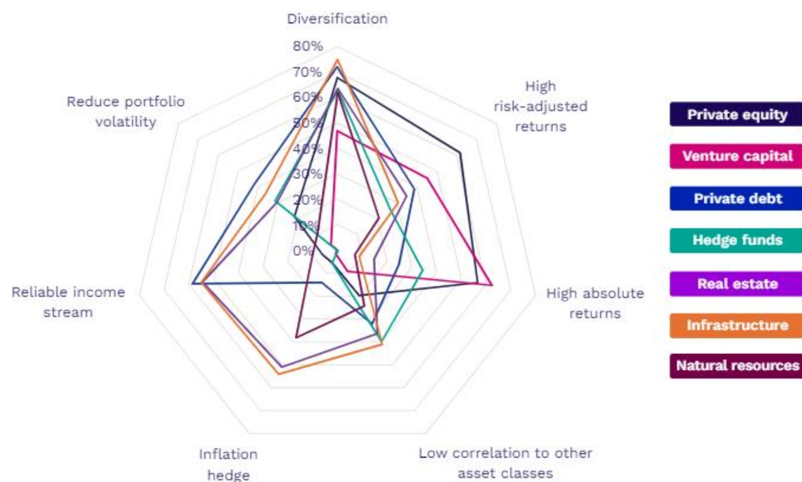
Before starting the research, I made the following hypotheses. I believe going public will (1) enable founders and strategic investors to liquidate their interests, (2) help the firms to better incentivize their employees, (3) fund the growth of the firms, and (4) enhance the brand and reputation. I select representative cases to examine these points. My overall conclusion is that these hypotheses are true. Moreover, I examine the costs of being a public alternative asset manager. I find that although costs and disadvantages do exist, they are less significant compared to the huge benefits from being public.

### 1.3 Introduction to Alternative Assets

Alternative assets typically refer to investments that fall outside of the traditional asset classes commonly accessed by most investors, such as stocks, bonds, or cash investments. Broadly speaking, alternative assets include private equity and venture capital, private credit, real estate, infrastructure, natural resources, hedge funds, and other asset classes. Today, the rise of cryptocurrency has also made it a target for alternative asset managers to allocate to their portfolios to meet investors' specific risk and return preferences.

Compared to traditional exchange-traded assets, alternative assets have lower correlation to more traditional asset classes thus provide an opportunity for portfolio diversification. Alternative assets have the potential to offer enhanced returns no matter in absolute or relative way. These are somewhat derived from the characteristics of alternative assets – they are traded in private markets, and thus are typically less liquid, less regulated, and more complex. Due to their alternative nature, these investments require a longer investment period before any material value is realized.

**Figure 1.** Characteristics of Different Alternative Asset Classes




Source: Preqin

In the past decade, global alternative asset management industry has undergone a rapid growth. According to Preqin, global alternative investment AUM reached $12.06 trillion[1] as of December 31, 2022, representing 12.3% of $98 trillion global managed assets[2]. As of December 31, 2010, global alternative investment AUM was only $2.7 trillion, accounting for 5.8% of global AUM $47 trillion.

With the emerging client needs for access to alternative assets behind the rapid development of the industry, several leading asset management firms have come up in the industry. Blackstone (NYSE: BX), the world's largest alternative asset manager nowadays, manages alternative assets of over $1 trillion AUM with around 12,500 real estate assets and 230+ portfolio companies under management as of December 31, 2023.

## 1.4 Introduction to Alternative Asset Management Business

### 1.4.1 Business Model

Similar to that of traditional asset management business, the business model of alternative asset management firms revolves around generating returns for their investors while earning fees, including management fees and performance fees, for providing investment management

[1] This number includes private equity, real estate, infrastructure, private credit, and natural resources.
[2] BCG. The Tide Has Turned: Global Asset Management Report 2023. May 15, 2023.

and other services to various investment vehicles, such as funds, CLOs, managed accounts, and portfolio companies.

Alternative asset managers also generate income by investing its own capital alongside investors in its investment vehicles or sometimes through transaction fees from capital markets transactions.

Key components of alternative asset management business are as follows:

- **Fundraising:** To attract capital from investors, alternative asset managers engage in fundraising activities. They present their investment strategies, track records, and market insights to potential clients. Once a fund is raised, the manager invests the capital according to the agreed-upon strategy.
- **Investment strategies:** Alternative asset managers employ various investment strategies to generate returns. These strategies may include leveraged buyouts, distressed debt investing, merger arbitrage, credit strategy, real assets strategy, among others. The choice of strategy depends on the firm's expertise and market conditions.
- **Value creation:** Alternative asset managers actively work to increase the value of their investments. For example, in private equity, they may restructure a company's operations, improve its management team, or expand its market presence to boost its value before selling it at a profit.
- **Exit strategies:** Alternative asset managers seek to realize profits for their investors by executing exit strategies. This may involve selling a private company to a strategic buyer, taking it public through an initial public offering (IPO), or selling a real estate property when market conditions are favorable.

### 1.4.2 AUM and FAUM

In alternative asset management industry, Asset under Management (“AUM”) is an important metric for asset managers, as it directly impacts their revenue through management fees. Larger AUM generally indicates the success and reputation of a fund manager, as investors trust them with more capital. Asset managers aim to grow their AUM over time by attracting new investors and generating strong returns, which in turn leads to higher revenue

for the firm.

Fee-generating asset under Management ("FAUM") represents only the AUM from which alternative asset managers are entitled to receive management fees. FAUM is the sum of all the individual fee bases that are used to calculate management fees and differs from AUM in the following respects:

(1) assets and commitments from which firms are not entitled to receive a management fee are excluded. For example, with some assets and commitments, managers are entitled to receive only performance allocations or are otherwise not currently entitled to receive a management fee.

(2) certain assets, primarily in private equity funds, are reflected based on capital commitments and invested capital as opposed to fair value because fees are generally not impacted by changes in the fair value of underlying investments.

### 1.4.3 Sources of Revenue

Alternative asset managers generate revenue from 3 type of businesses.

(1) Asset management

Asset management business is usually conducted via vehicles of investment funds. Alternative asset managers derive revenues from:

- **Management fees**, which usually are based on AUM or FAUM of the funds. This fee covers the firm's operational expenses and employee salaries. Management fee rate usually ranges from 1% to 2% per year.
- **Performance fees**, which are based on the performance of the funds, also known as incentive fees or carried interest. These fees are a percentage of the profits generated by the investments, typically around 20%. Performance fees are designed to align the interests of the fund managers with those of the investors.
- **Investment income** from the investments as general partner in the funds.

(2) Direct investment

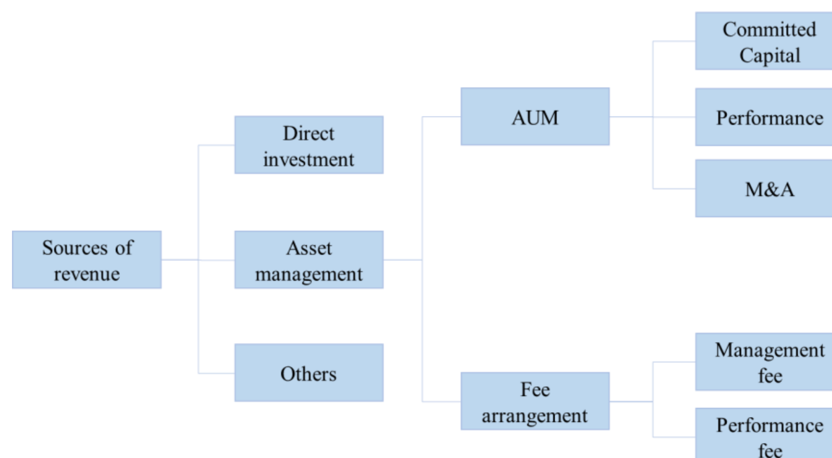
When a target company doesn't meet the mandate of a private equity fund managed by

the alternative asset manager yet is potentially a good investment, the manager could use its wholly controlled vehicle to directly invest in a company or project, without involving the private equity fund. Direct investment allows the manager to have more control over the investment and potentially earn higher returns, but it also carries higher risks and require more resources to manage, and potentially could have conflict of interest issues.

(3) Other businesses

Different alternative asset managers provide additional diversified services to meet their customers' specified needs and earn revenue accordingly. For example, TPG's broker-dealer business received compensation for various capital markets services provided.

**Figure 2.** Sources of Revenue for Alternative Asset Managers




Source: CICC, summarized by Author

## II. Overview of Alternative Asset Managers Going Public

### 2.1 Alternative Asset Management Industry

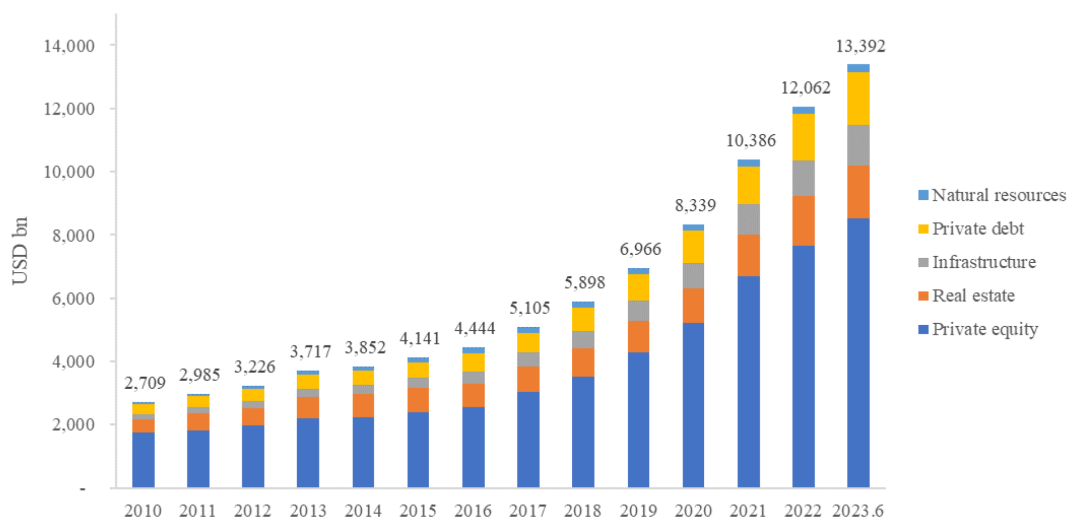
The global alternative asset management industry has continued to grow in recent years and is now a mainstay of the modern investment landscape. Industry AUM are now at record highs, and investor and fund manager interest in alternatives has increased steadily over time. As of June 30, 2023, global alternative AUM reached $13.39 billion an increase of 11.0% compared to the end of 2022. The CAGR of alternative AUM since 2010 is 13.6%.

After the global financial crisis, the rapid development of the industry benefited from the gradual recovery and later steady growth of the world economy, with global stock markets showing an upward trend and overall liquidity being relatively loose. For institutions and individuals, wealth accumulation intensified the demand for asset management. Prolonged low interest rates have made traditional fixed-income investments less attractive, pushing investors to seek higher yields in alternative assets.

Horizontally, alternative asset managers have expanded into new markets, particularly in Asia and other emerging economies. This has allowed them to tap into new sources of capital and investment opportunities, driving growth in the industry.

While private equity dominates the alternative assets landscape (64% of AUM, at the end of June 2023), other asset classes have also seen significant growth. Real estate (12% of AUM), infrastructure (10%), private debt (13%), and natural resources (2%) have all attracted increasing investor interest, as they offer unique risk-return profiles and potential for long-term, stable cash flows.

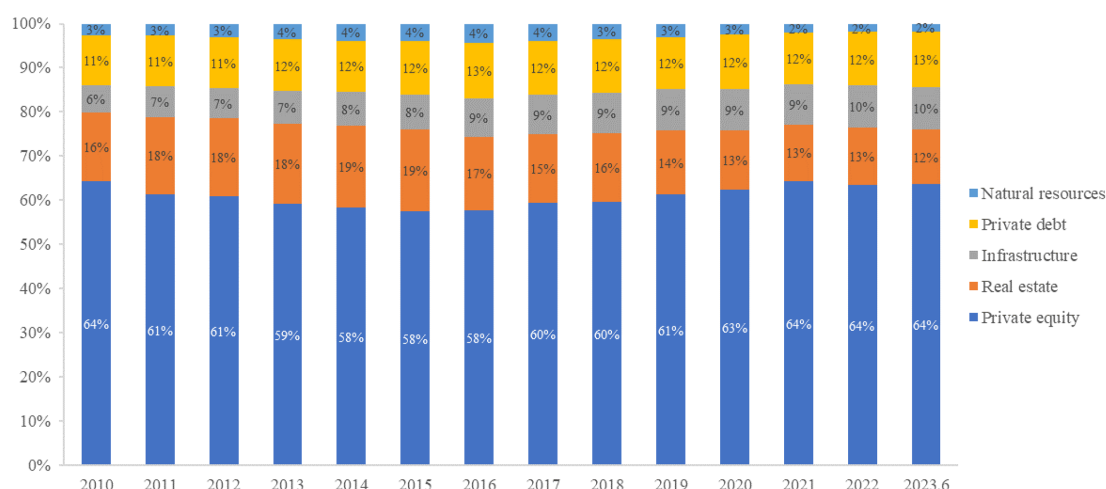
**Figure 3.** Global Alternative AUM by Asset Classes - Absolute Value




Source: Preqin[3]

[3] To avoid double counting, fund of funds and secondaries are excluded.

**Figure 4.** Global Alternative AUM by Asset Classes - Percentage




Source: Preqin

## 2.2 The Post-2000 Waves of Alternative Asset Managers Going Public

Looking back into history, since the year of 2006, many global leading alternative investment managers have decided to go public in major global stock exchanges, most of whom achieve this through initial public offering ("IPO").

**Table 1.** Major Global Alternative Asset Managers Going Public Since 2006

| | | | | | | | As of December 31, 2023 | |
|---|---|---|---|---|---|---|---|---|
| **S/N** | **Firm Name** | **Country** | **Year Founded** | **Listed Date** | **IPO Size ($M)** | **IPO Price** | **Market Cap ($M)** | **Alternative AUM ($M)** |
| 1 | Partners Group Holding AG (SWX:PGHN) | Switzerland | 1996 | 2006/3/24 | 383 | CHF 63 | 35,013 | 137,677 |
| 2 | Blackstone Inc. (NYSE:BX) | United States | 1985 | 2007/6/22 | 4,753 | $31 | 93,025 | 1,040,192 |
| 3 | KKR & Co. Inc. (NYSE:KKR) | United States | 1976 | 2010/7/15 | N.A. | N.A. | 73,323 | 552,801 |
| 4 | GLP Pte. Ltd. (1) | Singapore | 2007 | 2010/10/18 | 2,961 | S$1.96 | N.A. | Undisclosed |
| 5 | Apollo Global Management, Inc. (NYSE:APO) | United States | 1990 | 2011/3/30 | 565 | $19 | 52,891 | 650,776 |
| 6 | Oaktree Capital Group LLC (2) | United States | 1995 | 2012/4/12 | 380 | $43 | N.A. | 169,000 |
| 7 | The Carlyle Group Inc. (NasdaqGS:CG) | United States | 1987 | 2012/5/3 | 671 | $22 | 14,681 | 425,994 |
| 8 | Ares Management Corporation (NYSE:ARES) | United States | 1997 | 2014/5/2 | 220 | $19 | 22,485 | 418,846 |
| 9 | Tikehau Capital (ENXTPA:TKO) | France | 2004 | 2017/3/7 | N.A. | N.A. | 3,821 | 46,698 |
| 10 | EQT AB (publ) (OM:EQT) | Sweden | 1994 | 2019/9/24 | 1,371 | SEK 67 | 31,581 | 250,297 |
| 11 | Blue Owl Capital Inc. (NYSE:OWL) | United States | 2009 | 2020/10/23 | 275 | $10 | 6,791 | 165,700 |
| 12 | Patria Investments Limited (NasdaqGS:PAX) | Cayman Islands | 1994 | 2021/1/22 | 588 | $17 | 2,294 | 31,843 |
| 13 | Bridgepoint Group plc (LSE:BPT) | United Kingdom | 1985 | 2021/7/21 | 1,250 | £3.5 | 2,800 | 51,151 |
| 14 | Antin Infrastructure Partners SAS (ENXTPA:ANTIN) | France | 2007 | 2021/9/24 | 747 | $24 | 2,663 | 33,553 |
| 15 | Petershill Partners PLC (LSE:PHLL) (3) | United Kingdom | 2007 | 2021/9/28 | 1,415 | $350 | 2,404 | N.A. |
| 16 | TPG Inc. (NasdaqGS:TPG) | United States | 1992 | 2022/1/13 | 1,100 | £3.5 | 3,479 | 221,623 |
| 17 | Tian Tu Capital Co., Ltd. (SEHK:1973) | China | 2002 | 2023/10/6 | 144 | HK$ 6.5 | 582 | 3,472 |

Source: Bloomberg, Capital IQ, Company Websites

**Note to Table 1**

(1) **GLP Pte. Ltd.** is a modern logistics provider that invests in, develops, constructs, manages, operates, and leases logistics real estate properties, data centers, renewable energy facilities, and related technologies. The firm completed its IPO on Singapore Stock Exchange in 2010 and was privatized by Chinese consortium including Vanke Real Estate (Hong Kong) Co. Ltd., Hopu Capital, Hillhouse Capital, SMG Eastern Ltd. and Bank of China Investment Ltd. through a S$16 deal in 2018 and delisted from the stock exchange.[4]

(2) **Oaktree Capital Group LLC**, a leading global alternative asset manager headquartered in Los Angeles, California known for its expertise in credit markets and its ability to generate attractive returns for its investors, completed its IPO in April 2012. In 2019, Brookfield Asset Management acquired a majority stake (approximately 62%) in the firm. Following the acquisition, the firm was delisted from the NYSE and became a privately held company once again. With the acquisition, Brookfield added to its business Oaktree's $120 billion AUM, of which private credit accounted for around 70%.[5]

(3) **Petershill Partners PLC (LSE:PHLL)** was formerly known as Delta Epsilon plc and changed its name to Petershill Partners PLC in September 2, 2021. The company was founded in 2007 and is based in London, the United Kingdom. The firm has economic interests in more than 20 partner-firms and provide investors with exposure to the growth and profitability of the alternative asset management industry. The company was admitted to the London Stock Exchange in September October 2021. Petershill Partners is operated by Goldman Sachs Asset Management and is governed by a diverse and fully independent Board of Directors (the "Board"). At the year end of 2023, total AUM of Partner-firms reached $304 billion.

[4] S&P. GLP adopts new identity as S$16B privatization wraps up. Jan 21, 2018. https://www.spglobal.com/marketintelligence/en/news-insights/trending/ZJBStNh41173zL5ZFYzcmw2

[5] PEI. Story of the year: Brookfield's Oaktree acquisition. December 19, 2019. https://www.privateequityinternational.com/story-of-the-year-brookfields-oaktree-acquisition/

Different firms choose different paths to go public.

***(a) Going Public via Initial public offering (IPO)***

The most direct way to go public is to pursue an IPO. The earliest pioneer in this area who is still active in today's market is Partners Group Holding AG (SWX: PGHN, $138 billion in AUM as at year end of 2023), a Switzerland-based private equity firm specializing in private equity, private credit, and real assets. The firm listed its shares on the SIX Swiss Exchange in an initial public offering (IPO) on 24 March 2006 and raised CHF 504.63 million ($383 million equivalent). Today, Partners Group's employees remain the firm's largest investor group.[6]

The world's largest alternative asset manager, The Blackstone Group L.P. (NYSE:BX, later converted to Blackstone Inc. in 2019; $1.04 trillion in AUM as of December 31, 2023) completed its IPO in NYSE in 2007, being the largest alternative asset manager to become publicly traded. The unprecedent $4.75 billion proceeds raised were to adjust the shareholding structure of the firm, to repay debts, to develop the asset management and financial advisory business, and to expand into new businesses.

From 2010 to 2012, GLP Pte. Ltd., Apollo Global Management, Inc. (NYSE:APO), and Oaktree Capital Group LLC respectively completed their IPOs in Singapore and United States.

The Carlyle Group L.P. (NasdaqGS:CG, later converted to The Carlyle Group Inc. on January 1, 2020), a global alternative asset manager with approximately $147 billion of AUM across 89 active funds and 52 fund of fund vehicles as of December 31, 2011, completed its IPO of 30.5 million of its common units at $22 per unit on May 3, 2012. Carlyle intended to use the net proceeds from the offering to repay indebtedness and for general corporate purposes, including general operational needs, growth initiatives, acquisition and strategic investments and to fund capital commitments to, and other investments in and alongside of, its funds. Since then, Carlyle has grown to be a giant in the industry with market capitalization of $14.7 billion and AUM of $426 billion as of December 31, 2023.

Fast forward to 2019, EQT AB (OM:EQT, $250.8 billion in total AUM as of December 31, 2023), one of the leading European private equity firms, went public on Nasdaq Stockholm.

[6] Partners Group company website.

The company then expanded its business quickly through both internal growth and external acquisitions. To expand within both North-America and Asia-Pacific, EQT AB acquired Exeter Property Group ("Exeter") in 2021 with consideration of $1.56 million, Life Sciences Partners ("LSP") in 2022 with consideration of EUR 475 million and Baring Private Equity Asia ("BPEA") in 2022 with consideration of EUR 5.05 billion. All these three transactions involve consideration of both share and cash.

From 2020 to 2021, there was another IPO wave of alternative asset managers, including Blue Owl Capital Inc. (NYSE:OWL), Patria Investments Limited (NasdaqGS:PAX), Antin Infrastructure Partners SAS (ENXTPA:ANTIN), and Petershill Partners PLC (LSE:PHLL).

On January 12, 2022, TPG Inc. (NasdaqGS: TPG, $221.6 billion in AUM as of December 31, 2023), a Texas-based alternative asset manager, announced the pricing of its initial public offering of 33,900,000 shares of its Class A common stock at a price of $29.50 per share. Of the offered shares, 28,310,194 shares are being offered by the Company and 5,589,806 shares are being offered by an existing strategic investor pursuant to a registration statement filed on Form S-1 with the Securities and Exchange Commission (the "SEC"). According to the prospectus, the firm intended to use approximately 40% of the net proceeds to purchase partnership interests in the TPG operating entity from other existing strategic investors, and the remaining net proceeds it receives to pay offering and reorganization expenses and for general corporate purposes, which may include facilitating the growth of TPG's existing business and/or expanding into complementary new lines of business or geographic markets.

Who else is on the way? In Asia, PAG, a leading alternative investment firm focused on APAC with $50 billion in AUM (December 31, 2023), filed for Hong Kong IPO in March 2022, seeking to raise funds to issue new products and build new investment platforms[7], although it delayed its planned IPO amid market volatility.[8]

[7] PAG 2022.3 Prospectus.
[8] Bloomberg. Blackstone-Backed PAG Weighs Delaying $2 Billion Hong Kong IPO, Sources Say. August 16, 2022. https://www.bloomberg.com/news/articles/2022-08-17/blackstone-backed-pag-said-to-weigh-delaying-2-billion-h-k-ipo?embedded-checkout=true

### *(b) Going Public via M&A transaction: Tikehau Capital*

Except for IPO, M&A transaction could also help alternative asset managers achieve the purpose of going public.

Salvepar was a French private equity firm specializing in growth capital financing, middle market, emerging growth, buyouts in small and medium sized enterprises. The firm was founded in 1929 and was listed on Euronext Paris in 1998.

In 2012, Tikehau Capital, a European alternative asset manager, began acquiring shares in Salvepar. Over the following years, Tikehau Capital gradually increased its stake in the company. By December 31, 2016, Tikehau Capital held 58.85% of Salvepar's share capital.

On January 9, 2017, the firm filed a proposal for a stock-for-stock takeover bid on a primary basis and a cash takeover bid on a subsidiary basis for the ordinary shares and ORNANE (bonds redeemable in cash and/or new and/or existing shares) of its subsidiary Salvepar that were not yet held by Tikehau Capital.

Upon completion of the takeover bid, Tikehau Capital held 99.14% of Salvepar's share capital, representing 99.19% of the voting rights, and 99.84% of the Salvepar ORNANE in circulation. As a result, a mandatory delisting procedure for Salvepar's shares and ORNANE was implemented on March 6, 2017, allowing Tikehau Capital to hold 100% of Salvepar's capital and voting rights.

In connection with the settlement of the takeover bid, Tikehau Capital's shares and ORNANE (including new shares and ORNANE issued in exchange for those tendered in the takeover bid) were listed on the regulated market of Euronext Paris on March 7, 2017. This transaction resulted in a capital increase of approximately €151 million for Tikehau Capital, including €64.7 million in share premium.[9]

Through the strategic reorganization and consolidation of its business lines, Tikehau Capital successfully transitioned from a privately-held company to a publicly-listed entity on the Euronext Paris stock exchange. The firm’s market capitalization on the day of listing was

[9] Tikehau Capital 2017 Interim Report

about €1.5 billion.[10]

Since 2017, the assets managed by Tikehau Capital have increased from $14.9 billion to $46.7 billion at the year end of 2023.

***(c) Going public without public offerings: KKR***

KKR & Co. L.P. (later converted to KKR & Co. Inc. in 2018, with $553 billion in AUM as of December 31, 2023), the global pioneer in leveraged buyout transactions who launched the alternatives industry, had come a long way before landing on the NYSE in July 2010.

On July 3, 2007, two weeks after Blackstone's IPO on NYSE, KRR filed its form S-1 to SEC and planned to raise as much as $1.25 billion for its growth of business.[11] Due to the bad market environment of U.S. mortgage crisis and the later global financial crisis, the firm was unable to complete the deal. On June 24, 2009, KKR withdrew its IPO proposal.[12]

However, KKR never gave up its intention of going public.

From July 28, 2008 to June 1, 2009, the firm made a series of SEC filings of "certain prospectuses and communications in connection with business combination transactions". The firm aimed to combine the asset management business of KKR with the assets and liabilities of KKR Private Equity Investors, L.P. ("KPE")[13], a Guernsey limited partnership that traded publicly on Euronext Amsterdam under the symbol "KPE" prior to October 1, 2009. Formed in April 2006 to provide complementary capital for KKR-sponsored private equity funds, KPE enabled certain non-U.S. public market investors and certain other qualified investors to invest in select KKR-sponsored investments.[14]

On October 1, 2009, KKR completed the acquisition of all the assets and liabilities of KPE,

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[10] Tikehau Capital Press Release. Tikehau Capital Celebrates Successful Listing on Euronext Paris. March 7, 2017.
[11] KKR SEC filing, June 24, 2009. https://ir.kkr.com/sec-filings-annual-letters/sec-filings/?attchment=1&secFilingId=49328514-d2d0-4776-b33a-e5fa58e1b81c&format=convpdf
[12] Stacy-Marie Ishmael. Party like it's 2007: KKR finally files for a NYSE listing. Financial Times, March 12, 2010. https://www.ft.com/content/6c9f7258-0899-3d2f-aab5-5eb479ded215
[13] KKR historically sponsored the investment vehicle KPE, which was a Guernsey limited partnership that traded publicly on Euronext Amsterdam under the symbol "KPE" prior to October 1, 2009. KPE was controlled by Senior Principals through their general partner interest.
[14] KKR Press Release. August 14, 2006. https://media.kkr.com/news-details/?news_id=3696745f-b643-4815-bbe9-e39881f61e8e&type=1

which was then renamed as KKR & Co. (Guernsey) L.P. The combination transaction involved the contribution of all of KPE's assets and liabilities to the KKR Group Partnerships, i.e. (i) KKR Management Holdings L.P. and (ii) KKR Fund Holdings L.P., in exchange for ultimately a 30% interest in the KKR Group Partnerships, which are the holding partnerships for the KKR business.[15]

This transaction allowed KKR to integrate its asset management business, increasing its ownership in its private equity portfolio, enabling KKR to commit more capital to its future investments, and providing a new capital base from which KKR can continue to grow, an important tool to attract and retain talent and fund acquisitions.

In connection with such acquisition, KKR completed a series of transactions pursuant to which the business of KKR was reorganized into a holding company structure.

Finally, with the new holding company structure and the combined asset management business, KKR & Co. L.P. became listed on the New York Stock Exchange ("NYSE") on July 15, 2010. 204,902,226 common units (30% economic interests of the Group) representing limited partner interests in KKR & Co. L.P.'s business were distributed to holders of common units of KKR & Co. (Guernsey) L.P (short for "KKR Guernsey"). In connection with the NYSE listing, KKR Guernsey dissolved and delisted its units from the Euronext Amsterdam.[16]

Except for going public itself, KKR also wanted to raise funds via public offerings alongside with the listing transaction. On May 10, 2010, KKR filed a Form S-1, planning to sell common units in a public offering following the above U.S. Listing. Assuming an aggregate offering amount of $500 million at an offering price of $9.30 per common unit, which is the last reported sale price of KKR Guernsey units on Euronext Amsterdam on July 5, 2010, KKR would issue 53,763,441 common units in the Public Offering resulting in an aggregate of 736,770,861 common units outstanding on a fully diluted basis. The firm mentioned that none of the principals was selling any common units or would otherwise receive any of the net proceeds from the public offering.

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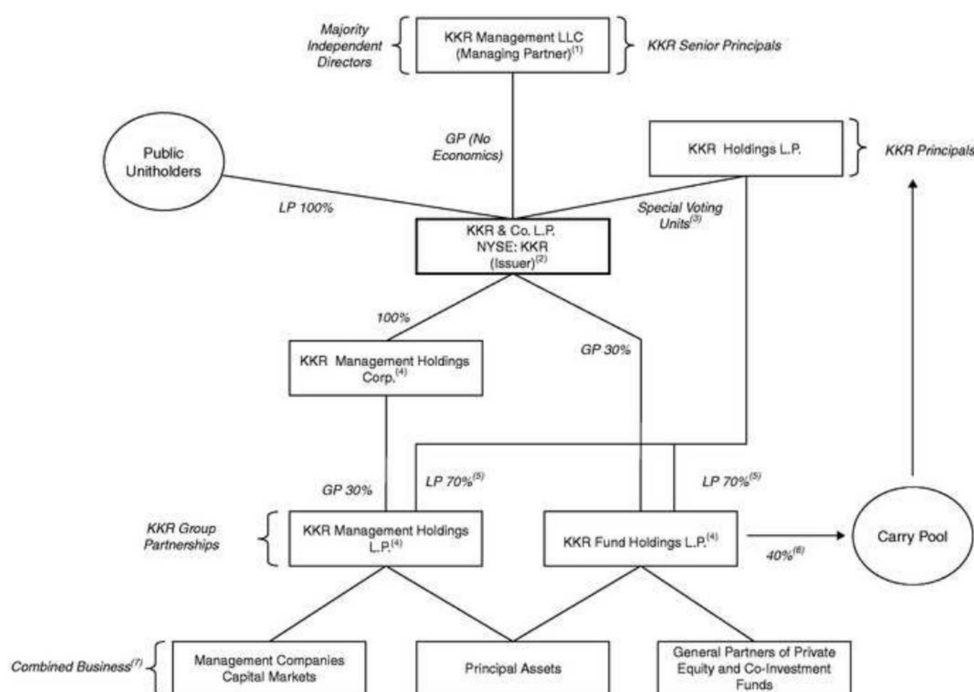
[15] KKR Press Release. KKR Private Equity Investors and KKR Complete Business Combination. October 1, 2009.

[16] KKR Prospectus filed pursuant to Rule 424(b)(3), July 7, 2010.

However, KKR elected not to proceed with the public offering on August 9, 2010[17], perhaps because they wanted to maintain the volatile stock price due to investors' worries about the potential public offering.[18]

**Figure 5.** Ownership and Organizational Structure Upon the Listing of KKR




Source: KKR 2010 Prospectus

**Note to Figure 5:** As of July 15, 2010, after the listing, KKR & Co. L.P. indirectly controlled the KKR Group Partnerships and indirectly held KKR Group Partnership units representing at that time a 30% economic interest in KKR's business. The remaining 70% of KKR Group Partnership units were held by KKR's principals through KKR Holdings L.P.. Over time, the percentage ownership in the KKR Group Partnerships may change as KKR Holdings L.P. and/or KKR's principals exchange KKR Group Partnership units for common units of KKR & Co. L.P.

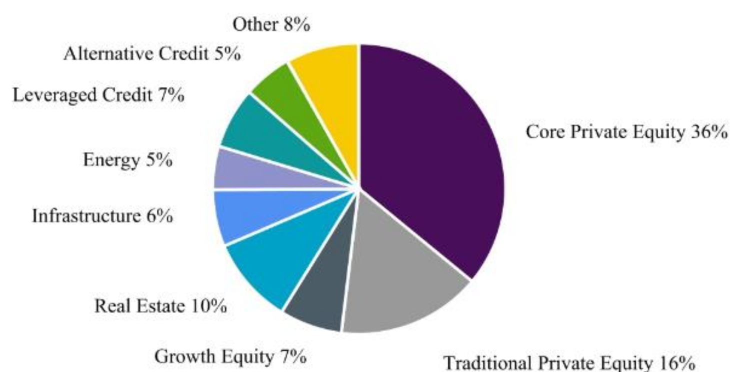
[17] KKR Company Filing. https://ir.kkr.com/sec-filings-annual-letters/sec-filings/?attchment=1&secFilingId=5ae1a2a7-039b-47bf-bf2f-22a81c8de58f&format=convpdf
[18] Reuters. KKR cancels plans for $500 million offering. August 9, 2017. https://www.reuters.com/article/us-kkr-idUSTRE67857N20100809/

Why did KKR wanted so much to go public, although faced with so many challenges? As described in its communication documents to investors[19], KKR believed "going public would benefit the firm and its stakeholders by enabling KKR to grow and strengthen their businesses—as well as those they invest in—over the long term." Specifically, they thought "going public would allow them an opportunity to do what they have always done best – grow companies around the world and produce solid returns for their investors — from a larger platform and a deeper capital base."

Moreover, going public at the low point in the market showed their commitment to the long-term future of KKR. They believed that they were anticipating and meeting a growing need at a time when so many institutional investors were turning to alternative investments to balance their portfolios.

The decision turned out to be correct. After the listing on NYSE, the firm expanded quickly and diversified into investments in almost every major asset classes. From 2010 to 2023, AUM of KKR has grown from $60.9 billion to $552.8 billion, with 59% concentration in private equity business.

**Figure 6.** KKR Holdings of Principal Activities Business Line by Asset Class as of December 31, 2023




Source: KKR 2023 Annual Report

[19] KKR SEC Filing of Form 425, July 28, 2008. https://ir.kkr.com/sec-filings-annual-letters/sec-filings/?attchment=1&secFilingId=f22e8508-d805-4f92-9cbe-e779a3cf9000&format=convpdf

## 2.3 Case Firm Pool and Analysis

### 2.3.1 Introduction

After reviewing the recent history of major alternative asset managers going public, this study examines the reasons why alternative asset managers seek to go public and the trade-offs they make for being public.

The following research would primarily be completed by case studies. Case companies would be chosen from the companies listed in Table 1, subject to adjustments.

Firstly, I exclude 2 firms that have already delisted and focus on companies that are still publicly traded, of which I can have access to latest operating data. Furthermore, the selected companies need to have a substantial private equity business. As is concluded in 2.1, private equity is the most significant alternative asset class. When alternative asset managers who focus on private equity seek to expand their business, they usually seek to partner with those who specializes in other asset classes, such as private credit, real estate, and infrastructure.

Based on these rules, 6 firms would be excluded from the pool from Table 1. Only the 11 firms in Table 2 would be included in my case study pool.

**Table 2.** Case Study Pool of Alternative Asset Managers

| | | | | | | As of December 31, 2023 | |
|---|---|---|---|---|---|---|---|
| **S/N** | **Firm Name** | **Country** | **Year Founded** | **Listed Date** | **IPO Size ($M)** | **Market Cap ($M)** | **Alternative AUM ($M)** |
| 1 | Partners Group Holding AG (SWX:PGHN) | Switzerland | 1996 | 2006/3/24 | 383 | 35,013 | 137,677 |
| 2 | Blackstone Inc. (NYSE:BX) | United States | 1985 | 2007/6/22 | 4,753 | 93,025 | 1,040,192 |
| 3 | KKR & Co. Inc. (NYSE:KKR) | United States | 1976 | 2010/7/15 | N.A. | 73,323 | 552,801 |
| 4 | Apollo Global Management, Inc. (NYSE:APO) | United States | 1990 | 2011/3/30 | 565 | 52,891 | 650,776 |
| 5 | The Carlyle Group Inc. (NasdaqGS:CG) | United States | 1987 | 2012/5/3 | 671 | 14,681 | 425,994 |
| 6 | Ares Management Corporation (NYSE:ARES) | United States | 1997 | 2014/5/2 | 220 | 22,485 | 418,846 |
| 7 | Tikehau Capital (ENXTPA:TKO) | France | 2004 | 2017/3/7 | N.A. | 3,821 | 46,698 |
| 8 | EQT AB (publ) (OM:EQT) | Sweden | 1994 | 2019/9/24 | 1,371 | 31,581 | 250,297 |
| 9 | Patria Investments Limited (NasdaqGS:PAX) | Cayman Islands | 1994 | 2021/1/22 | 588 | 2,294 | 31,843 |
| 10 | Bridgepoint Group plc (LSE:BPT) | United Kingdom | 1985 | 2021/7/21 | 1,250 | 2,800 | 51,151 |
| 11 | TPG Inc. (NasdaqGS:TPG) | United States | 1992 | 2022/1/13 | 1,100 | 3,479 | 221,623 |

Source: Bloomberg, Capital IQ, Company Websites

Here are the specific reasons for scoping out the following firms.

**(1)** **GLP Pte. Ltd.** and **Oaktree Capital Group LLC:** as of December 31, 2023, they are delisted.

**(2)** **Blue Owl Capital Inc. (NYSE:OWL):** As of December 31, 2023, the AUM distribution of Blue Owl's business is (a) Private Credit 51%, (b) GP Strategic Capital 33%, (c) Real Estate 16%. The strategy under GP Strategic Capital business is to invest in alternative asset firms minority stakes and in loans issued by these firms. As such, Blue owl does not directly invest in private equity business.

**(3)** **Antin Infrastructure Partners SAS (ENXTPA:ANTIN):** The firm specializes in infrastructure investments.

**(4)** **Petershill Partners PLC (LSE:PHLL):** The firm invests mainly in partner-firms and does not have private equity business.

**(5)** **Tian Tu Capital Co., Ltd. (SEHK:1973):** The firm has just landed on HKSE in October 2023.

### 2.3.2 Overview of Businesses of the Case Firms

I collected total AUM, breakdown of businesses, and business structure for the 11 alternative asset managers and put the data in

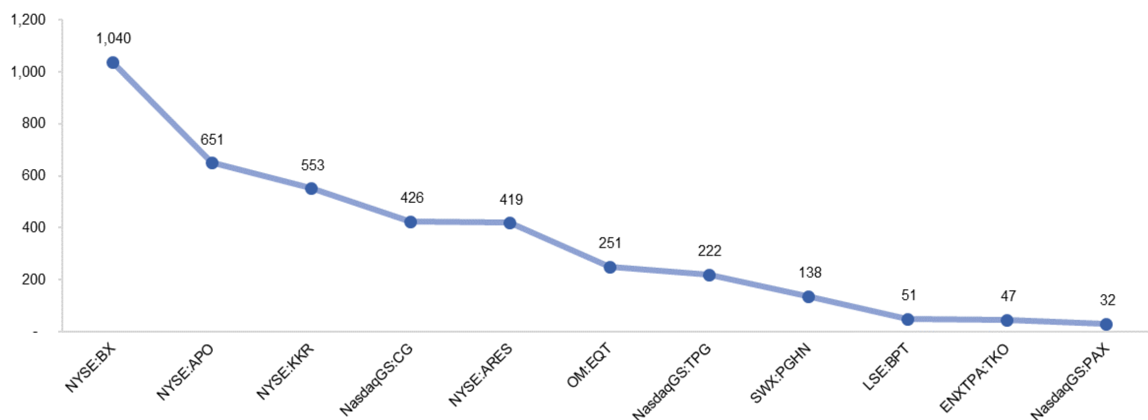
Figure 7, Figure 8, and Figure 9 in descending order based on their total AUM as of December 31, 2023.

The top 5 firms who has total AUM over $400 billion are all US-headquartered, with Blackstone leading at $1,040 billion, followed by Apollo at $651 billion, KKR at $553 billion, Carlyle at $426 billion, and Ares at $419 billion. The remaining 6 firms have lower AUM, ranging from $251 billion for EQT to $32 billion for Patria Investments Limited.

In terms of investment asset classes, all the managers have private equity businesses as one

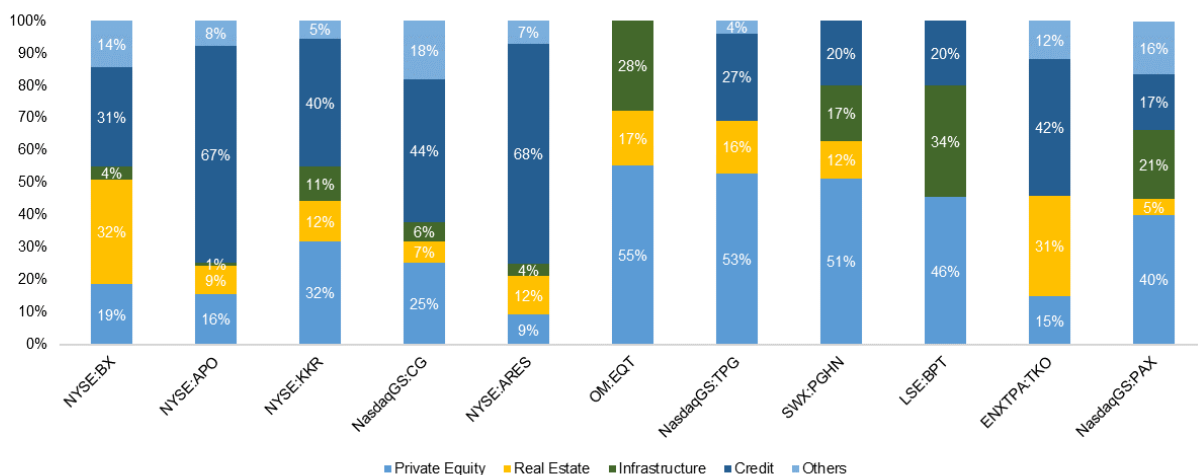
of their key strategies. However, for the firms with AUM over $400 billion, private equity accounts for a smaller portion of 9%-32%. At the meantime, credit strategy accounts for a significant portion of their business, especially for Apollo (67%) and Ares (69%). Firms with AUM lower than $400 billion have a higher concentration (40%-55%, except for Tikehau Capital) in private equity.

**Figure 7.** Total AUM ($B) for Case Companies as of December 31, 2023




Source: Company Annual Reports, Company websites

**Figure 8.** AUM Breakdown for Case Companies as of December 31, 2023




Source: Company Annual Reports, Company websites

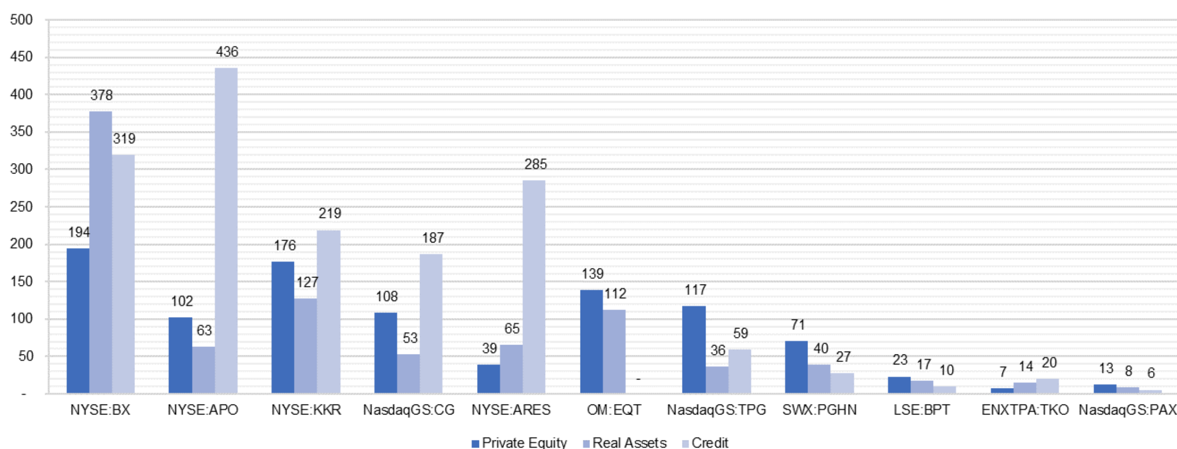
**Note to Figure 8**

(1) Others include: hedge fund solutions (Blackstone, KKR), secondary funds (Blackstone, Carlyle, Ares), Fund of Funds (Carlyle), and other investment and advisory businesses.

(2) The data were manually collected, categorized, and aggregated by the Author based on each firm's public disclosed data. Due to differences in disclosure calibers among firms, inaccurate classification may exist.

In terms of private equity businesses, Blackstone, KKR, and EQT are the top 3 players in absolute dollar amounts. For Real Assets (real estate and infrastructure), Blackstone is the absolute leader in the sector with its famous comprehensive real estate strategies. Apollo and Ares are the well-known leaders focusing on credit strategy.

**Figure 9.** AUM ($B) of Key Businesses for Case Companies as of December 31, 2023




Source: Company Annual Reports, Company websites

## III. Motives and Benefits for Alternative Asset Managers Going Public

The above horizontal comparison helps us generally understand the distribution of diversified businesses of different managers. In this section, I will examine the 4 motives and benefits of alternative asset managers going public. Rather than expanding on each manager's story. I select the most representative cases to discuss in detail.

### 3.1 Enabling Founders and Strategic Investors to Liquidate Their Interests

One of the key reasons why owners take their firms public is to gain the ability to easily liquidate their holdings in the future. Going public allows founders to sell their holdings with low transaction costs, an option not feasibly available for private firms. (Lowry *et al.* 2017). It is the same when we talk about alternative asset managers.

Going public can also help founders extricate themselves from being tied to the company. When founders have spent decades building a successful alternative asset management firm, their personal brand and reputation become linked to that of the firm. This strong association gives investors confidence in the firm's ability to generate excess returns and manage risk effectively. However, it can also make it difficult for founders to step away from the business when they are ready to retire or pursue other interests.

By taking a firm public, founders can gradually reduce their influence and involvement in day-to-day operations. The process of going public requires the firm to establish a more robust corporate governance structure, with a board of directors, independent committees, and a clear separation of ownership and management. This transition helps to institutionalize the firm's processes and decision-making. It can also facilitate a smoother transition and provide a clear path for the next generation of leadership.

I analyzed two representative cases to illustrate how going public helped founders and strategic investors achieve exit. In 3.1.1, I analyzed the Blackstone Case, where the firm built the Up-C structure and went public in 2007. The two founders, Mr. Stephen A. Schwarzman and Mr. Peter G. Peterson, obtained $2.6 billion in cash through the IPO and equity interests valued at $6.2 billion at the end of 2017, which they could divest and exit from the stock market after meeting certain conditions. In 3.1.2, I analyzed TPG Inc., which went public in January 2022. China Life, one of the strategic investors of TPG, finally achieved partial exit after investing in TPG for 7 years. After TPG's IPO, Temasek and GIC, another two strategic investors from Singapore, also successively achieved partial exits in 2023.

### 3.1.1 Blackstone Case

(a) The Up-C Structure

Umbrella partnership-C-Corporation (or Up-C Structure) is often used when pass-through entities like partnerships, LLCs, or others, go public. In an Up-C structure, the pre-IPO owners, predecessor owners, or legacy partners under our alternative asset management context, continue to own their interests in the operating partnership, while the public investors own shares in a newly created public entity (partnership or company) that holds an interest in the operating partnership, as Blackstone did.

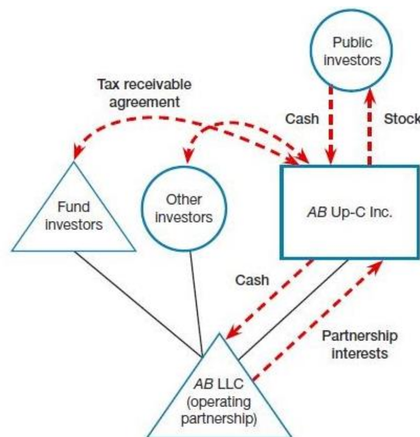
The public entity then contributes the IPO-generated capital to the existing operating partnership in exchange for interests in the latter. This structure allows the public entity to serve as the publicly traded vehicle while investing in the operating partnership. As a result, the public entity becomes a holding entity, owning an interest in the operating partnership alongside the pre-IPO legacy partners, and typically assumes the role of managing member of the operating partnership.

The Up-C structure offers several benefits to the legacy partners. The legacy partners gain liquidity through an exchange mechanism that allows them to convert their partnership units into public entity stock or common units, which can be sold for cash in the public market. In some cases, the public entity may have the right to purchase the legacy partners' interests for cash instead of issuing stock.

Moreover, for legacy partners, by maintaining their ownership interest in the operating partnership, they continue to enjoy the flowthrough treatment of income, avoiding the double taxation that typically applies to corporations and their shareholders. Additionally, the legacy partners can increase their outside tax basis in their operating partnership units over time by their share of the operating partnership's taxable income each year, further mitigating double taxation upon the eventual disposition of their units. When combined with a Tax Receivable Agreement (TRA), the Up-C structure becomes a powerful tax planning tool that can significantly increase the legacy partners' ultimate proceeds when exiting their investment in the operating partnership.

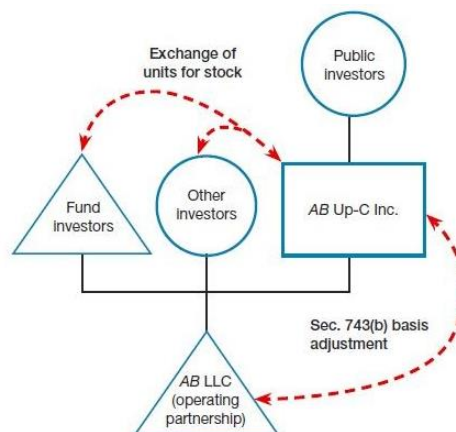
A Tax Receivable Agreement (TRA) is a contract between an entity and its pre-IPO owners that requires the company to pay a portion of its tax savings (realized due to tax basis step-ups) to the pre-IPO owners. The TRA is put in place because the pre-IPO owners may sell their units in operating partnership to public entity in exchange for the latter's shares or cash, which triggers a tax basis step-up for the public entity. This step-up allows the public entity to reduce its future tax liabilities by taking higher depreciation and amortization deductions.

**Figure 10.** Typical Up-C IPO Structure




Source: The Tax Adviser

**Figure 11.** Exchange of Operating Partnership Units




Source: The Tax Adviser

(b) The Up-C Partnership Structure of Blackstone

Blackstone business was historically owned by the two founders, Mr. Stephen A. Schwarzman and Mr. Peter G. Peterson, other senior managing directors, selected other individuals engaged in some of the businesses, and American International Group (“AIG”) (collectively as the "existing owners”). The firm’ s business was historically conducted through a large number of entities as to which there was no single holding entity but which were separately owned by the existing owners.

For its IPO in 2007, the firm underwent a series of reorganizations to form an Up-C structure with a holding partnership, i.e., The Blackstone Group L.P. Here is a high-level simplification of the whole process.

*1) Blackstone Holdings Formation*

Prior to the IPO, the existing owners contributed to Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. or Blackstone Holdings V L.P. (collectively as "Blackstone Holdings") or sold to wholly-owned subsidiaries of The Blackstone Group L.P. (which in turn contributed them to Blackstone Holdings).

By arrangements, the income of Blackstone Holdings (including management fees, transaction fees, incentive fees and other fees, as well as carried interest) would benefit The Blackstone Group L.P. to the extent of its equity interest in Blackstone Holdings.

In exchange for the contribution and sale of the contributed businesses described above, the existing owners received an aggregate amount of cash, the final amount of which was $4.57 billion (payable with a portion of the proceeds of the IPO and the sale of non-voting common units to Beijing Wonderful Investments) and 827,516,625 of Blackstone Holdings partnership units, of which 387,805,088 was vested and 439,711,537 unvested.[20]

*2) Deconsolidation of Blackstone Funds*

Blackstone historically consolidated a number of its investment funds into its combined financial statements. In preparation for its IPO, Blackstone took steps to grant rights to third-party investors in most of its consolidated funds to remove the general partner or accelerate the

[20] These vested and unvested share numbers are extracted from 2007 Annual Report. In 2007 Q2 Quarterly Report, the numbers are 387,651,827 and 439,864,817.

liquidation date of the fund with a simple majority vote. This change, along with the exclusion of certain legacy Blackstone funds from the Blackstone Holdings Formation, resulted in the deconsolidation of these investment funds from Blackstone's consolidated financial statements following the IPO.

*3) The Blackstone Group L.P.*

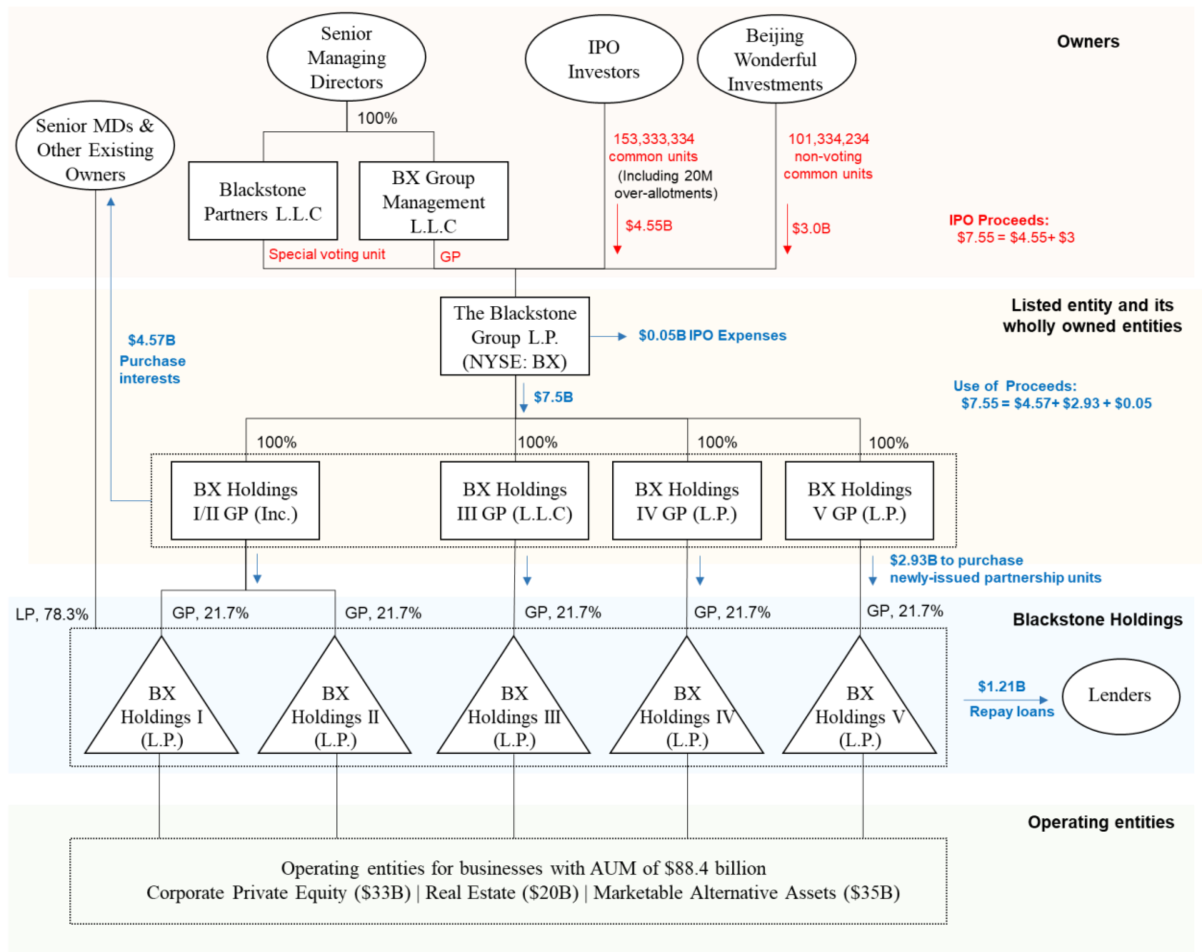
The Blackstone Group L.P. was formed as a Delaware limited partnership on March 12, 2007. The Blackstone Group L.P. did not engage in any business or other activities. The Blackstone Group L.P. was managed and operated by its general partner, Blackstone Group Management L.L.C., which was in turn wholly-owned by the senior managing directors and controlled by the founders.

Prior to IPO, The Blackstone Group L.P. entered into an *exchange agreement* with holders, i.e. senior managing directors and other existing owners, of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly-owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year exchange their Blackstone Holdings partnership units for The Blackstone Group L.P. common units on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the five Blackstone Holdings partnerships to effect an exchange for a common unit.

The exchange agreement gives the senior managing directors and other existing owners the chance to exchange their interests in Blackstone Holdings with common units of the listed entity, which they can liquidate in the public market.

Figure 12 shows Blackstone’s Organizational Structure immediately after IPO.

**Figure 12.** Blackstone IPO Organizational Structure and IPO Fund Flow




Source: Blackstone Prospectus, 10-Q for June 30, 2007, summarized by Author

(c) Blackstone IPO fundraising

On June 27, 2007, The Blackstone Group L.P. successfully completed its initial public offering (IPO) of common units representing limited partner interests. Total of 153,333,334 common units were sold, including 20,000,000 common units sold pursuant to the underwriters' option to purchase additional common units. The firm raised net proceeds of $4.55 billion after the underwriting discounts. Following the IPO, public investors held approximately 14.1% of Blackstone's equity.

Concurrently with the initial public offering of common units, The Blackstone Group L.P. sold 101,334,234 non-voting common units, accounting for roughly 9.3% of Blackstone's equity, to Beijing Wonderful Investments, an investment vehicle established by the People's

Republic of China with respect to its foreign exchange reserve for $3 billion at a purchase price $29.605 per common unit, at 95.5% of the initial public offering price per common unit of $31.00.[21]

Blackstone raised $7.55 billion in total from the above transactions.

(d) Use of proceeds

As shown in Figure 12, after paying IPO expenses of $50 million, The Blackstone Group L.P. contributed the $7.5 billion proceeds to its wholly-owned subsidiaries, which in turn (1) used approximately $4.57 billion to purchase interests in the contributed businesses from the predecessor owners (and contribute these interests to Blackstone Holdings in exchange for a number of newly-issued Blackstone Holdings Partnership Units), and (2) used the remaining $2.93 billion to purchase a number of additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

The $2.93 billion net proceeds retained by Blackstone were used to repay $1.21 billion of indebtedness outstanding under Blackstone's revolving credit agreement, with the balance being invested and/or committed as general partner investments in Blackstone sponsored funds, including its corporate private equity funds, real estate funds, mezzanine funds, funds of hedge funds and proprietary hedge funds, invested in temporary interest bearing investments, and for other general corporate purposes.

(e) Consideration to predecessor owners

According to 2007 Annual Report, the breakdown of the $4.57 billion cash consideration and partnership units to its existing owners are as follows. $2.83 billion cash were paid to the five executive officers, including Mr. Stephen A. Schwarzman and Mr. Peter G. Peterson, the two founders of the business. The two founders obtained $684 million and 1.92 billion cash respectively from the transaction.

At the IPO date, the predecessor owners also received 827,516,625 Blackstone Holdings

[21] According to Blackstone, the sale of the non-voting common units was made to Beijing Wonderful Investments without a registration statement under the Securities Act because the sale was effected outside of the United States and was offered and sold in a transaction exempt from registration under Section 4(2) of the Securities Act.

Partnership Units, of which 387,805,088 were vested and 439,711,537 are to vest over a period of up to 8 years. As of December 31, 2007, the fair value of the above Partnership Units was about $18.3 billion.

**Table 3.** Cash and Blackstone Holdings Partnership Units to Predecessor Owners

| | | Blackstone Holdings Partnership Units | | | | | |
|---|---|---|---|---|---|---|---|
| **Predecessor owners** | **Cash $ mn** | **Vested (mn)** | **Unvested (mn)** | **Total (mn)** | **Fair Value $ mn Dec 31, 2017** | **Age** | **Position** |
| Mr. Stephen A. Schwarzman | 684 | 80 | 154 | 234 | 5,178 | 60 | Co-Founder, Chairman, CEO, Director |
| Mr. Peter G. Peterson | 1,920 | 45 | - | 45 | 1,003 | 81 | Co-Founder, Senior Chairman, Director |
| Mr. Hamilton E. James | 191 | 72 | 48 | 120 | 2,663 | 56 | President, COO, Director |
| Mr. J. Tomilson Hill | 23 | 20 | 33 | 53 | 1,164 | 59 | Vice Chairman, Director |
| Mr. Michael A. Puglisi | 14 | 7 | 11 | 18 | 397 | 56 | CFO |
| Other exisintg owners | 1,738 | 163 | 194 | 357 | 7,908 | | |
| **Total** | **4,570** | **388** | **440** | **828** | **18,313** | | |

Source: Blackstone 2007 Annual Report

**Note to Table 3**

(1) The CEO, CFO, and three other highest paid executive officers during the fiscal year ended December 31, 2006 were referred to as the "named executive officers" in Blackstone Prospectus and 2007 SEC Filings.

(2) Fair Value of Partnership Units are calculated based on the closing market price of $22.13 per Blackstone common unit.

Mr. Schwarzman's 154 million unvested Blackstone Holdings Partnership Units represented 75% of the Blackstone Holdings Partnership Units received by him in the reorganization in exchange for the contribution of his equity interests in Blackstone's operating subsidiaries. They would be vested, subject to Mr. Schwarzman's continued employment, in equal installments on each anniversary of the IPO (June 21, 2007) during the next four years. All the Blackstone Holdings Partnership Units received by Mr. Schwarzman in the reorganization in exchange for his interests in carried interest relating to investments made by the carry funds prior to the date of the contribution were fully vested.

For Mr. Peter G. Peterson, all his 45 million Blackstone Holdings Partnership Units were vested. Considering he was 81 years old at that time, it's not difficult to understand the

arrangement.

For each of Blackstone's other 3named executive officers, the unvested 75% of the Blackstone Holdings Partnership Units received in the reorganization in exchange for the contribution of his equity interests in Blackstone's operating subsidiaries would be vested, subject to the named executive officer's continued employment, in installments on each anniversary of IPO over up to eight years. All of the Blackstone Holdings Partnership Units received by these named executive officers in the reorganization in exchange for their interests in carried interest relating to investments made by the carry funds prior to the date of the contribution were fully vested.

In summary, going public gave the founders, executives, and original investors (AIG in Blackstone's case) the opportunity to obtain some of the cash from the successful business that was founded years ago. At the same time, the Blackstone Holdings Partnership Units held by the existing owners now has a market-recognized fair value, which the owners could pledge or exchange to common units of the listed entity after vesting and sell in the public market.

### 3.1.2 TPG Case

TPG Inc. (Nasdaq: TPG) is a leading global alternative asset management firm based in Fort Worth, Texas, United States. Founded in 1992 by David Bonderman and Jim Coulter, TPG has grown to become one of the largest private equity firms in the world, with investment strategies spanning private equity, growth equity, impact investing, real estate, credit, and market solutions.

On January 13, 2022, TPG completed its IPO, raising approximately $1 billion in gross proceeds and valuing the firm at around $10 billion. The company offered 33.9 million Class A common stock shares at $29.50 per share, consisting of 28.3 million shares sold by TPG and 5.6 million shares (not considering underwriters' option to purchase additional shares) sold by one of its existing stockholder, China Life Trustees Limited ("CLTL"), whose ultimate shareholder was China Life Insurance (Group) Company, a state owned enterprise incorporated in China.

Before TPG's offering, China Life held 9,005,495 Class A ordinary stocks, representing 3.23% of total existing Class A ordinary stocks. The stocks valued at $266 million at the IPO price of $29.50 per share, of which around $165 million value of shares were liquidated and sold to IPO investors.

According to Wall Street Journal[22], it was speculated that China Life paid $250 million as a strategic investor for the ownership stake in TPG of between 2% and 5% in 2014. If the speculation was true and if this was the whole story, China Life held this investment for around 7 years, with IRR of around 1%. IPO gave China Life the chance to sell its investments partially to recover some cash. For the remaining 3,415,689 shares, it could wait for potential appreciation and sell them after the lock-up period. After all, the annual stock turnover rate of TPG in 2022 was around 45%, China Life had a lot of chance to liquidate its remaining interests.

Singapore government and its sovereign fund also had significant interests in TPG. At the time of TPG' IPO, Temasek Holdings (Private) Limited and its related entities ("Temasek") and GIC Private Limited and its related entities ("GIC") respectively held 4,250,000 shares (6.16%) and 6,529,710 shares (9.46%) of TPG. As of December 31, 2023, their shareholdings decreased to 3,981,179 (5.5%) and 3,609,239 (4.99%) respectively.[23]

### 3.2 Incentivizing Employees with Equity-based Compensation

Stock-based compensation is a good way to incentivize employees, aligning their interests with those of shareholders and motivating them to drive the firm's long-term success in traditional companies. It helps attract and retain top talent by providing competitive compensation packages that include equity ownership. When it comes to the alternative asset management industry, it is the same.

Being public makes it easier for alternative asset managers to grant equity-based compensation to incentivize employees. Employees who receive equity grants or stock options in a public company can more easily sell their shares in the open market once vested, providing

[22] WSJ. China Life Buying Small Stake in TPG for $250 Million. August 5, 2014. https://www.wsj.com/articles/BL-MBB-25159
[23] TPG SEC Filings: SC 13G (2022, 2023, 2024).

them with liquidity and the ability to realize the value of their equity compensation. Equity compensation in a public company aligns the interests of employees with those of public shareholders, as both groups benefit from the company's long-term success and stock price appreciation. The ability to offer liquid, publicly-traded equity compensation can be a powerful tool for attracting and retaining top talent, as it allows employees to share in the firm's success and growth.

Some may argue that in the asset management industry, managers have already incentivized employees with bonus at the firm level and carried interests at the investment fund level, thus it’s not necessary to further grant stock-based compensation. This is not correct.

For alternative asset managers, carried interest is typically only awarded to investment professionals who are directly involved in sourcing, executing, and managing investments, i.e. the investment-related professionals in the so-called front desk and middle-office. Carried interest is largely dependent on the realization of investments, which can be influenced by market conditions and the timing of exits. It is typically paid out when a fund successfully exits an investment, which may take several years. During the process, it is not readily convertible into cash. This long-term horizon may not align with the shorter-term financial needs or expectations of some investment professionals, especially junior staff.

Typically, after the return of the fund's investment, the GP and LP share the proceeds in a 20% vs. 80% split. Within the 20% portion, the GP (or the manager, in most situations the same party), the investment professionals responsible for the project, and the post-investment management team responsible for the operation and exit of the project share based on an agreed-upon ratio.

In most cases, staff in mid-office or back-office roles, such as finance, fund operations, or IT, do not receive carried interest. Even if the GP / asset manager can share the amount it receives with the company's mid- and back-office staff in the form of bonuses, the incentive effect may not be useful due to the long time frame and indirect nature, and it may also cause dissatisfaction among the investment teams directly responsible for the project investment. In their eyes, these non-investment-related roles, even though critical to the firm's operation, are

not directly involved in the investment decision-making process or the management of the investments themselves.

Therefore, stock-based compensation has become an important means for public asset management firms to align the interests of their employees and the firm in the long run, in addition to carried interests and bonuses. Specifically, I examined Blackstone's Equity-based Incentives at IPO in 3.2.1.

***Case study: Blackstone's Equity-based Incentives***

Blackstone has always taken it as one of the fundamental philosophies to align the firm's interests, and those of its senior managing directors and other professionals, with the interests of the investors in the funds. Since inception and prior to IPO, Blackstone, its senior managing directors and other professionals had committed over $2.7 billion of their own capital to the carry funds. Also, as of May 1, 2007, Blackstone hedge funds managed an additional $2.1 billion of Blackstone's senior managing director and employee capital.

After going public, the firm needed further to achieve the alignment of interests between the common unitholders and senior managing directors and other employees through their significant and long-term ownership of the firm's equity. The senior managing directors and other existing owners who were Blackstone employees owned almost 75% of the equity in the business immediately after the IPO.

In addition, Blackstone made equity awards to all the employees at the time of IPO and to use appropriate equity-based compensation to motivate and retain the professionals in the future.

*(1) The 2007 Equity Incentive Plan*

Prior to IPO, Blackstone adopted the 2007 The Blackstone Group L.P. Equity Incentive Plan ("the Plan"). The Plan was a source of new equity-based awards permitting the firm to grant to the senior managing directors, other employees, directors of general partner and consultants non-qualified options, unit appreciation rights, restricted common units, deferred

restricted common units, phantom restricted common units and other awards based on Blackstone Group L.P. common units and Blackstone Holdings partnership units.

The total number of Blackstone Group L.P. common units and Blackstone Holdings partnership units which were initially covered by the Plan was 163,000,000. Beginning in 2008 the aggregate number of common units and Blackstone Holdings partnership units covered by the Plan would be increased to 15% of the aggregate number of common units and Blackstone Holdings partnership units.

*(2) IPO Date Equity Rewards*

At the time of the IPO and under the Plan, Blackstone made equity awards to all the non-senior managing director employees in 2 ways.

- **Common Unit-Settled Awards:** Subject to a Non-SMD Professional's continued employment with the firm, the unvested deferred restricted common units granted to the Non-SMD Professional as part of the IPO Date Award would vest, and the underlying The Blackstone Group L.P. common units would be delivered, in one or more installments over a period of up to eight years following the IPO. Holders of deferred restricted common units will not be entitled to any voting rights with respect to such deferred restricted common units.
- **Cash-Settled Awards:** Non-SMD Employees who receive phantom deferred restricted common units as part of the IPO Date Award will have their units vest over a three-year period, provided they remain employed with the company. The units will vest in equal parts on each of the first, second, and third anniversaries of the offering. For certain term analysts, the units will vest in a single installment on the date they complete their current contract period with the company. On each vesting date, the company will pay the Non-SMD Employees a cash amount equal to the number of vested phantom deferred restricted common units multiplied by the current fair market value of the common units on that date.

**Table 4.** Blackstone IPO Date Equity Rewards under the 2007 Equity Incentive Plan

| S/N | Equity Incentive Type | Unvested | Vested Immediately upon IPO | Target | Settlement |
|---|---|---|---|---|---|
| 1 | Deferred restricted common units | 32,660,962 | 5,504,109 | Non-SMD Professionals | The Blackstone Group L.P. common units |
| 2 | Phantom deferred restricted common units | 951,948 | 16,661 | Non-SMD Employees | Cash |

Source: Blackstone 2007 Quarterly Report (Q2)

**Note to Table 4**

(a) Non-SMD Professionals refer to 1) non-senior managing director professionals, 2) analysts, and 3) senior finance and administrative personnel.

(b) Non-SMD Employees refer to other non-senior managing director employees.

Blackstone made several changes to the Plan later, yet the Amended and Restated 2007 Equity Incentive Plan still works today. As of December 31, 2023, there was $2.3 billion of estimated unrecognized compensation expense related to unvested awards, including compensation with performance conditions where it is probable that the performance condition will be met. This cost is expected to be recognized over a weighted-average period of 3.4 years.

Total vested and unvested outstanding shares, including common stock, Blackstone Holdings Partnership Units and deferred restricted shares of common stock, were 1,216,569,512 as of December 31, 2023. Total outstanding phantom shares were 91,648 as of December 31, 2023.[24]

Talents are the most important assets in the alternative asset management industry. As a critical component of Blackstone's long-term incentive mechanism, equity-based incentives, along with performance-related bonuses, Personal Investment Obligations, and the Bonus Deferral Plan, help the firm attract and retain talent, bringing long-term investment returns.

During the challenging market environment of 2023, the firm’s performance-related

[24] Blackstone 2023 Annual Report

compensation declined a lot. Blackstone motivated employees by granting equity-based awards, with these awards accounting for 30% of the total compensation expenses in 2023.

**Table 5.** Expenses of Blackstone Equity-based Awards

| **In $ million** | **2019** | **2020** | **2021** | **2022** | **2023** |
|---|---|---|---|---|---|
| Compensation | 1,820 | 1,856 | 2,162 | 2,570 | 2,785 |
| Incentive Fee Compensation | 44 | 44 | 98 | 208 | 281 |
| Performance Allocations Compensation | 1,203 | 689 | 6,090 | 755 | 246 |
| **Total Compensation and Benefits** | **3,068** | **2,589** | **8,350** | **3,532** | **3,313** |
| *Of which:* | | | | | |
| Compensation expense: equity-based awards | 417 | 438 | 637 | 846 | 988 |
| Percentage % | 14% | 17% | 8% | 24% | 30% |
| Average number of employees (ppl.) | 2,760 | 3,035 | 3,480 | 4,245 | 4,715 |
| Average equity-based awards expenses ($ thousand) | 151 | 144 | 183 | 199 | 209 |

Source: Blackstone Annual Reports

## 3.3 Funding the Growth

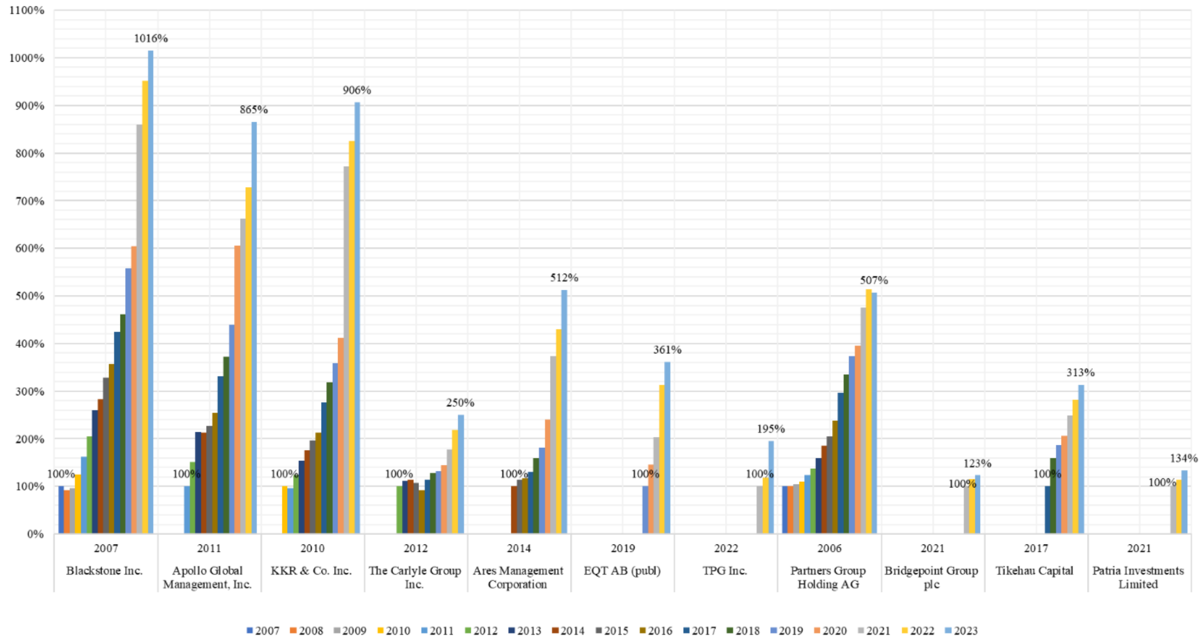
IPOs provide alternative asset managers with the opportunity to raise substantial amounts of permanent capital. Even for firms like KKR that went public on the NYSE without raising funds, they can still consider conducting secondary offerings in the future. Moreover, issuing debt instruments like bonds would also be easier for a public firm. Managers can utilize these capital to strengthen their balance sheets, supporting business growth and expansion. Besides, publicly traded equity is also a good currency used for M&A transactions.

Under the business model of the asset management industry, the most important indicator for measuring business growth is AUM, especially FAUM, based on which management fees are calculated. Continuously growing AUM is an important basis for firms to grow their revenue and EBITDA, and thus to grow equity value for public alternative asset managers.

I collected the development of year-end AUM data for the of the 11 case companies after listing (Figure 13). We can see that the AUMs of these firms grew rapidly within 3-5 years after listing. Blackstone, the earliest to be public in the list, has achieved GAGR of 16% for its AUM during the past 16 years, with accumulative growth of 916%. Among them, TPG Inc. has the highest AUM CAGR of 40%. Since its listing in January 2022, the firm's AUM has grown by 95% (Figure 14), primarily due to the acquisition of Angelo Gordon, a $74 billion diversified

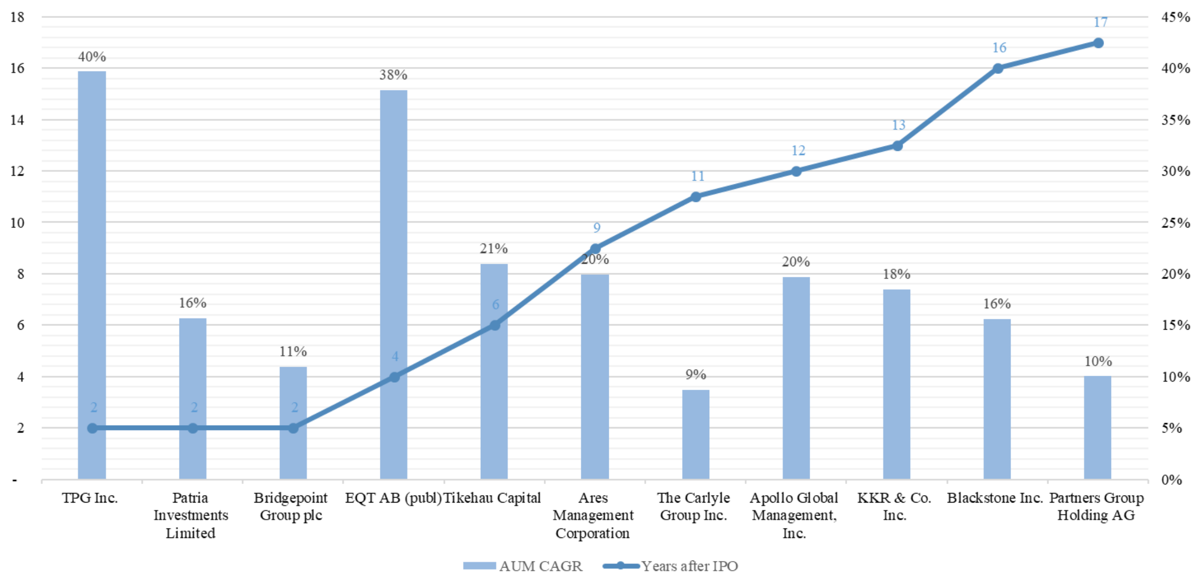
credit and real estate investing platform, in November 2023. For firms being public for over 10 years, the compound growth rate is between 9% and 20%.

**Figure 13.** AUM Development Since the IPO Year




Source: Capital IQ, Company Annual Reports, Company websites

**Figure 14.** AUM Growth since IPO, as of December 31, 2023




Source: Capital IQ, Company Annual Reports, Company websites

There are two methods to grow AUM. One is by organic growth. Alternative asset managers develop new investment strategies, open new offices, and enter new markets. Internally, managers recruit and keep talents, build investment analysis system, keep relationships with a team of industry experts, and enhance their effect of brands. In a word, managers need to build their competitive advantage and to prove it through its investment performance, thereby attracting Limited Partners (LPs) to subscribe for funding when raising a new fund. That's what track record means in this industry.

The other method is to acquire other alternative asset managers to enter new geographies, cover new asset classes, and obtain new clients. This method would be quicker for the managers. No matter which method is used to grow the business, the permanent equity capital raised from IPO becomes an important source of fund for strategy execution.

I examine these two paths separately. In 3.3.1, I summarized and analyzed Blackstone's organic growth since IPO. In 3.3.2, I went through TPG's Acquisition of Angelo Gordon in 2023 to showcase how the external partnership has helped TPG increase its business diversity and international exposure.

Later in 3.5, I comprehensively analyzed EQT AB's diverse growth paths after its 2019 IPO to deeply analyze how going public has helped the firm to grow to be one of the largest alternative asset managers globally.

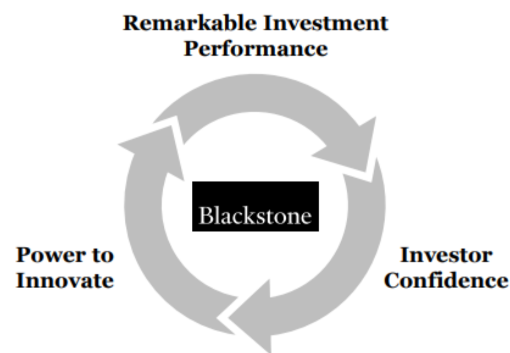
### 3.3.1 Organic Growth: The Blackstone Growth Circle

After the IPO, with high-quality talents, prudent investment process and advanced investment philosophy, Blackstone has achieved its organic growth through a virtuous circle of "Remarkable Investment Performance - Investor Confidence – Power to Innovate".

Blackstone leverages the outstanding investment performance of its funds to boost investor confidence and attract capital inflows (especially permanent capital inflows). With the capital raised and long-term nature, Blackstone continues to create products and establish a cross-sector, multi-strategy investment product matrix. A diversified product matrix can attract investors' further capital inflows while enhancing the company's performance through the scale

effect and synergies and enhance performance stability through a variety of strategies and diversification of underlying products, thus further enhancing investor confidence and ease of use in fundraising.

**Figure 15.** The Blackstone Growth Circle




Source: Blackstone 2018 Investor Day Presentation

Since inception, the firm has a long record of investment performance for each of its key strategies. As of June 30, 2018[25], the Opportunistic Real Estate strategy had net annual return of 16% since inception, more than doubling the NCREIF-ODCE Core index. Corporate Private Equity, the firm's oldest strategy, had net annual return of 15% since its inception in 1987.

Blackstone attribute the marvelous investment performance to its top talent with deep domain expertise, rigorous investment committees, its large asset management scale, high level of integration globally, value creation abilities, and entrepreneurial spirit. All these factors distinguish Blackstone from its global competitors. The LPs recognize the uniqueness of Blackstone and subscribe to its new funds.

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[25] On September 21, 2018, Blackstone organized its 5th Investor Day. The firm disclosed a lot of operation data since its 2007 IPO. The analysis in this section uses the data disclosed in Blackstone 2018 Blackstone Investor Day Presentation Material, which can be found on Blackstone website.

**Table 6.** Performance of Blackstone Key Strategy at the end of 2018 Q2

| Blackstone Strategy vs. Relevant Index | Inception | Net Returns from Inception | LTM Appreciation / Gross Returns |
|---|---|---|---|
| **Opportunistic Real Estate** | 1991 | **16%** | **16%** |
| *NCREIF-ODCE Core* | | *7%* | *8%* |
| **Corporate Private Equity** | 1987 | **15%** | **26%** |
| *S&P 500 TR* | | *9%* | *14%* |
| **GSO Mezzanine** | 2007 | **15%** | **21%** |
| *CS High Yield* | | *8%* | *3%* |
| **Hedge Fund Solutions** | 2000 | **6%** | **7%** |
| *HFRI FoF Diversified* | | *3%* | *5%* |

Source: Blackstone 2018 Investor Day Presentation

Since IPO, Blackstone has continuously driven business innovation, with new businesses contributing the majority of AUM growth and attracting retail and insurance capital inflows. The number of strategic investment products offered by Blackstone to its top 25 LPs increased from an average of 4 in Q2 2014 ($4^{th}$ Investor Day) to an average of 9 in Q2 2018 ($5^{th}$ Investor Day), forming a diverse product line. Table 7 shows the business innovations made by Blackstone since its IPO. Each strategy quickly reached a globally leading position within a short period of time.

**Table 7.** Blackstone's Innovation of Strategies after IPO

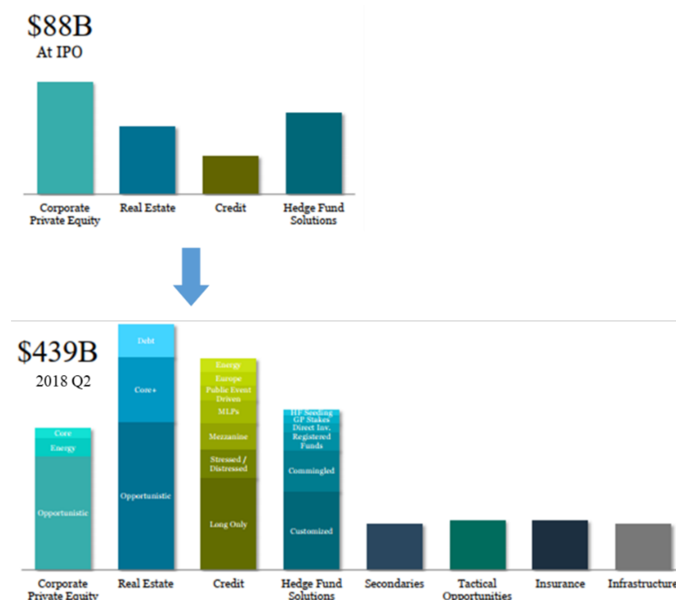
| | Year Started | 2018 Q2 |
|---|---|---|
| Hedge Fund seeding | 2007 | Largest |
| Private Real Estate debt | 2008 | Largest |
| BDCs | 2008 | Largest (sold in 2018) |
| Private Equity energy | 2011 | Top 3 |
| Tactical Opportunities | 2012 | Invented category, largest |
| Hedge Fund stakes | 2013 | Top 2 |
| Secondaries | 2013 | Top 5 |
| Real Estate Core+ | 2013 | Largest |
| Core Private Equity | 2017 | Invented category, largest |
| Non-traded REIT | 2017 | Largest |

Source: Blackstone 2018 Investor Day Presentation

Blackstone Group's AUM increased from $88 billion at the time of its IPO to $439 billion

in Q2 2018, a nearly 400% increase. The majority of the AUM growth was contributed by new businesses such as Real Estate Core+, Blackstone Real Estate Debt Strategies (“BREDS”), and Strategic Partners (Secondaries). Moreover, Blackstone's product innovation also attracted inflows from new categories of investors. The Blackstone Total Alternatives Solution (“BTAS”) fund, launched in 2014 for retail high-net-worth clients, drove retail client AUM from ~$10 billion in 2007 to ~$58 billion in Q2 2018, which was beneficial for Blackstone's future expansion into the wealth management market. In 2017, Blackstone launched the Blackstone Insurance Solutions ("BIS") business to provide comprehensive alternative asset allocation for insurance companies and attract capital inflows from insurance institutions. As of December 31, 2023, AUM from insurance institutions reached $192 billion.

**Figure 16.** Comparison of Blackstone’s AUM at IPO and June 30, 2018




Source: Blackstone 2018 Investor Day Presentation

### 3.3.2 External Acquisition: TPG Acquisition of Angelo Gordon

Except for the permanent capital raised from IPO, firms can also benefit from being public by issuing new shares to pay consideration and by conducting secondary offerings to pay cash consideration in the external acquisition.

As of January 13, 2022, when TPG landed Nasdaq exchange, the firm had 91 billion AUM

in its private equity businesses, representing 80% of its total AUM.

Compared to other leading global alternative asset managers like KKR, Carlyle, and EQT, the firm didn't have credit strategy business and was not as diversified in asset classes. Real estate (AUM 13 billion) and market solutions accounted for 11% and 9% respectively in TPG's total AUM. The firm established its real estate investing practice in 2009. The platform had invested over $6 billion and created nearly $3 billion in value since inception. TPG invested in real estate through three primary products.

- TPG Real Estate Partners (TREP) was established in 2009, focuses on acquiring and building platforms rather than investing on a property-by-property basis. TREP utilizes a theme-based strategy for sourcing and executing proprietary investments, often aligning with TPG's broader thematic sector expertise in healthcare and technology.
- TPG Real Estate Thematic Advantage Core-Plus (TAC+) was formed in early 2021 as an extension of the opportunistic real estate investment program, targeted investments in stabilized or near-stabilized high-quality real estate, particularly in thematic sectors where TPG had gained significant experience and conviction.
- TPG RE Finance Trust, Inc. (NYSE: TRTX) was established in late 2014 and taken public in 2017. It directly originated, acquired, and managed commercial mortgage loans and other commercial real estate-related debt instruments in North America.

In November 2023, the firm acquired Angelo Gordon, a $73 billion alternative investment firm focused on credit and real estate investing. Founded in 1988, Angelo Gordon was a fully integrated and scaled multi-strategy platform with more than 650 employees across 12 offices in the U.S., Europe, and Asia.

Angelo Gordon's $55 billion credit platform offered scaled and diversified capabilities across the credit investing spectrum, including corporate credit, direct lending, and structured credit, and its $18 billion real estate platform managed dedicated value-add real estate strategies with significant reach in the U.S., Europe, and Asia, as well as a net lease strategy.

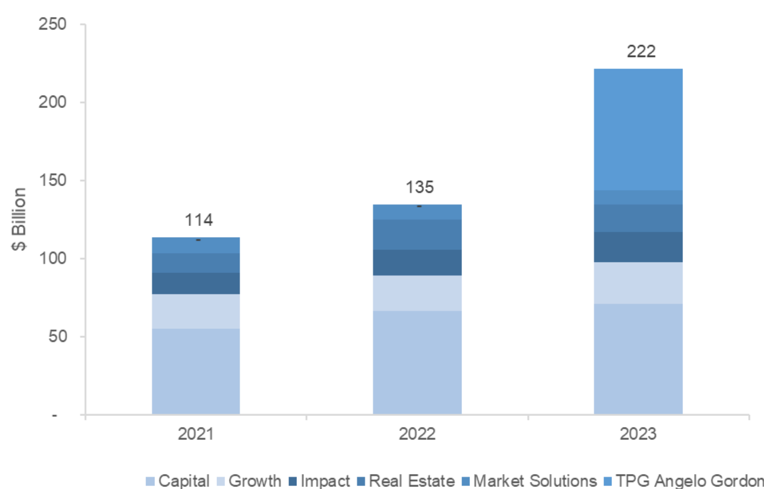
The addition of Angelo Gordon marked a significant expansion into credit investing for TPG, establishing additional levers to drive organic growth and further expanding the breadth,

diversification, and reach of the TPG platform. The deal also offered real estate capabilities that were complementary to TPG's strategies. It helped further expand TPG's geographic reach in Europe and Asia, broadened its sourcing capabilities, and added additional strategies such as net lease strategy.

After the deal, the combined entity offers a broader spectrum of alternative solutions to its clients, solidifying its position as a compelling partner for the global limited partners. The acquisition also brought more than 350 attractive and complementary institutional LP relationships to TPG's client base. Furthermore, the integration of Angelo Gordon unlocks opportunities for revenue growth, optimization, and scalability, supported by shared intellectual capital and a robust global infrastructure. Lastly, the transaction enhanced TPG's capital formation capabilities, positioning the firm for continued success in the dynamic alternative asset management industry.

At the year end of 2023, TPG's AUM reached an impressive $222 billion, indicating a two-year CAGR of 39.7%. The newly acquired credit and real estate investing platform contributing 35.2%.

**Figure 17.** TPG AUM Development




Source: TPG 2022 Prospectus, Annual Reports

### 3.4 Enhancing Brand and Reputation

Going public can also benefit alternative asset managers by enhancing their brands and facilitating fundraising efforts.

When a firm goes public, it gains increased visibility and credibility in the market, as it is subject to greater scrutiny and must adhere to higher standards of transparency and regulatory compliance. Prior to IPO, alternative asset managers often adjust their organizational structure, rearrange of some of their businesses, improve the effectiveness of corporate governance, and align the interests of partners, executives, and employees to solve potential issues of conflict of interests.

This heightened profile can help establish the firm as a reputable and trustworthy player in the industry, attracting the attention of existing LPs, potential clients and partners. Moreover, institutional investors such as endowments, sovereign wealth funds, and insurance companies tend to care more about corporate governance. If two alternative asset managers have similar historical performance and investment strategies, choosing a listed alternative asset manager provides more assurance for these investors.

Being public can also serve as a powerful marketing tool, providing a platform for the firm to showcase its investment strategies, performance track record, and management expertise to a wider audience. This increased exposure can help the firm differentiate itself from competitors and build a stronger brand identity, which is crucial in the highly competitive alternative asset management landscape.

Ares Management Corporation, a Los Angeles-based alternative asset manager with AUM of $419 billion as of December 31, 2023, was founded in 1997 at a Credit Manager. The firm expanded into Direct Lending & Private Equity during 2002-2004. When it went public on May 2, 2014 on NYSE, the firm was well known for its expertise in Credit Strategy in the industry, the AUM of which was $55 billion (74% of its total AUM), including $28 billion of Tradable Credit and $27 billion of Direct Lending. The firm also had $10 billion of Private Equity (14%) and $9 billion of Real Estate business (12%).[26]

[26] Ares 2014 Prospectus

At that time, Ares was a leading participant in the tradable, non-investment grade corporate credit markets, with investment track records of over 15 years in both bank loans and high yield bonds. It was also one of the largest self-originating direct lenders to the U.S. and European middle markets. Compared to other alternative asset managers, Ares was not as well-known by the public as those focusing on Private Equity business. Its IPO in 2014 made more people know about the firm, especially when it was the first IPO of a major global leading alternative asset manager after the 2010-2012 going public wave (KKR/Apollo/Oaktree/Carlyle).

## 3.5 Integrated Case Analysis: EQT AB

In this section, I analyzed EQT AB's growth path after its 2019 IPO to deeply analyze how going public has helped the firm to grow in diverse businesses. I examined its (1) geographic expansion in Asia, and (2) Product/Investment Strategy expansion.

### 3.5.1 Background

EQT AB is a leading global alternative asset manager based in Stockholm, Sweden. Founded in 1994 by Investor AB, Conni Jonsson, and certain institutional investors, the firm has established itself as a prominent player in the alternative asset management industry.

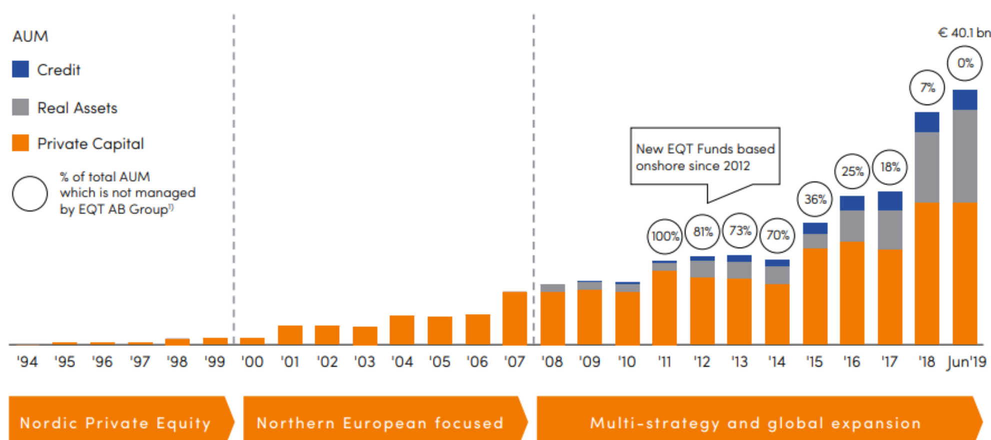
From 1994 to June 2019, the firm developed from focusing on Nordic private equity to diversifying globally with multi-strategies. Since establishment, EQT has raised EUR 62 billion of capital with AUM CAGR of 23% per annum, and EQT Funds have invested in more than 240 portfolio companies through 32 separate funds. As of 30 June 2019, the firm has AUM of EUR 40.1 billion spanning in private equity (EUR 22 billion), real assets (EUR 15 billion), and credit (EUR 3 billion).

EQT AB completed its initial public offering (IPO) on the Nasdaq Stockholm stock exchange on September 24, 2019. The company raised approximately €1.2 billion ($1.3 billion) through the sale of 190.6 million shares at a price of SEK 67 ($7.10) per share. Following the IPO, the company's market capitalization stood at around €6 billion ($6.4 billion)

The proceeds were expected to be used to support selected new investment strategies and funds in the early stages of development. EQT AB planned to deploy the capital over the medium term to scale its Real Estate platform, move into Venture Growth strategies, expand in the Asia-Pacific region, and selectively expand the niche strategy within Credit.

Additionally, EQT AB intended to set up separate investment structures (SPVs) to make investments outside its fund structures, potentially inviting other investors to invest alongside the company in exchange for management fees and/or carried interest. The company expected to invest between EUR 50 million and EUR 250 million per initiative over the medium term, with the amount varying depending on the specific strategy.

**Figure 18.** Business History of EQT AB




Source: EQT AB IPO Prospectus

### 3.5.2 Post-IPO Growth

#### 3.5.2.1 Geographic Expansion in Asia

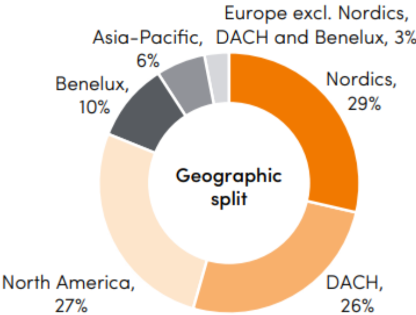
(1) Organic Growth and the Acquisition of Bear Logi

Prior to IPO, Asia-Pacific investments only accounted for 6% of EQT's global business. EQT had 22 out 259 global investment advisory professionals in Asia. EQT's Mid Market Asia business line included the *EQT Mid Market Asia III* fund with $744 million of committed capital (68% invested at the time of IPO) advised by approximately 20 investment advisory

professionals working in Hong Kong, Shanghai and Singapore. Historically, EQT entered the APAC market by launching its first Asia-Pacific fund in 2006 and EQT is currently investing its third-generation fund in the Mid Market Asia business line.

In its IPO Prospectus, EQT believed that it was well-positioned to accelerate growth in the Asia-Pacific (APAC) region, a large and fast-growing market and the home of a large number of fund investors. Furthermore, EQT intended to expand the funds' geographical scope in Asia-Pacific to new countries including Australia and Japan.

**Figure 19.** The Geographic Split of EQT Funds' Investments Before IPO




Source: EQT 2019 Prospectus

In 2020, Simon Griffiths re-joined EQT as Head of the Private Equity Asia-Pacific Advisory Team to formulate EQT's new APAC strategy. In January 2021, EQT announced the establishment of a local office in Japan and would collaborate with a local leading private equity firm, Japan Industrial Partners ("JIP"). EQT also opened an office in Sydney in 2020. In addition, EQT's Real Estate footprint in APAC was expanded with EQT Exeter having local teams in Shanghai and Seoul.

As of 27 January 2022, EQT completed the acquisition of Bear Logi. Founded in Tokyo, Japan in 2009, Bear Logi is a value-add logistics investment manager with around 25 employees focused on acquisitions, development, construction and leasing, with extensive knowledge of the Japanese and Korean logistics markets.

In 2023 after the acquisition of Baring Private Equity Asia ("BPEA"), EQT introduced the

BPEA Mid-Market Growth strategy, which has fully transitioned into EQT's global platform and is latter known as EQT Private Capital Asia. EQT became one of few alternative asset managers with a global approach and local teams in every major Asian region.

(2) Acquisition of BPEA in 2022

On 18 October 2022, EQT completed the acquisition of BPEA with total consideration of EUR 5,052.5 million.

Founded in 1997 and headquartered in Hong Kong, BPEA was a leading private markets investment manager in pan-Asian area with €18 billion AUM, 10 offices in Asia, and 236 full-time employees at year end of 2021. BPEA built a platform with deep sector-based expertise and a value-driven active ownership approach, investing in mid to large-cap companies in Asia, mainly focused on Private Equity, but also Real Estate and more recently Growth. BPEA made 100+ Private Equity investments since its inception and had a track-record of generating strong returns for its over 300 clients. BPEA demonstrated strong performance, with its AUM growing at a 25% CAGR between 2019 and 2021 and achieving an impressive 2.6x realized gross MOIC since inception.

The acquisition of BPEA by EQT was a transformative move that significantly enhanced EQT's presence in Asia, which was one of its key strategic objectives set at its IPO. The combination of the two firms created a global leader in active ownership strategies, with EQT becoming a top 3 player in this space and gaining a truly global reach through BPEA's scaled Asian platform. The two firms also shared a cultural fit, with aligned core values and a focus on high performance, respect, entrepreneurship, informality, and transparency. Both companies grew through a local-with-locals approach and decentralized decision-making.

The acquisition also turbo-charged EQT’s Real Estate growth in Asia, as BPEA Real Estate extended EQT Exeter’s on-the-ground footprint in the region, positioning the platform for continued scalability. The combined entity leveraged its strengths and brands to rapidly scale Private Equity and, over time, launched EQT’s other Private Capital strategies in Asia.

Furthermore, BPEA brought a wide range of high-quality client relationships to the EQT

platform, with over 300 existing clients, of which more than 100 were new to EQT, broadening the combined firm's client access.[27]

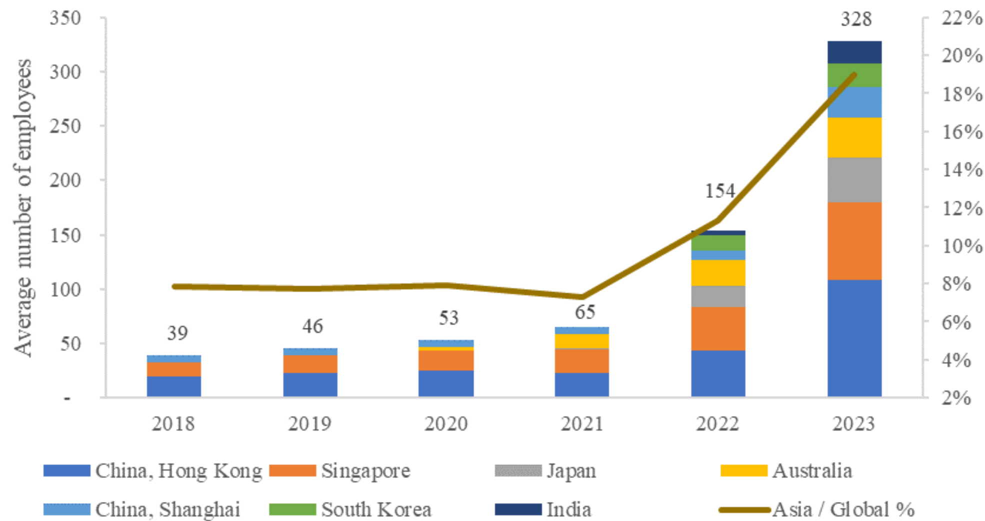
**Figure 20.** EQT Post-acquisition Office Map in Asia

Source: EQT 2021 Annual Report

In summary, with the IPO proceeds in 2019, EQT AB Group was able to strengthen its balance sheet to facilitate the acceleration of the group's expansion in Asia – opening offices, hiring employees, acquiring new clients, and making acquisitions. In 2023, EQT had average of 328 employees in Asia, representing 19% of the number of global employees, as compared to only 46 employees in Asia (7.7%) in 2019.

[27] EQT Press Release. EQT takes the next step on its strategic journey – joins forces with Baring Private Equity Asia, creating a scaled active ownership platform in Asia. March 16, 2022.

**Figure 21.** Average Number of EQT Employees in Asia




Source: EQT Annual Reports, summarized by Author

Being public also provided EQT with publicly traded equity that could be used as consideration for acquisition. The EUR 5,052.5 million transaction consideration of acquiring BPEA consisted of (1) share consideration of EUR 3,603.0 million (191.2 million new EQT ordinary shares, corresponding to a dilution of approximately 16%), and (2) cash consideration of EUR 1,449.5 million. Share consideration accounted for 71.3% of the transaction consideration.

**Table 8.** EQT's Acquisition of BPEA

| **Business Combination** | **October 18, 2022 EUR million** |
|---|---|
| Share issued, at fair value | 3,603 |
| Cash consideration | 1,450 |
| **Total consideration** | **5,053** |
| Employment linked consideration (shares issued) | -766 |
| **Purchase consideration** | **4,287** |
| The fair values of the identifiable assets and liabilities of BPEA | -3,209 |
| **Goodwill** | **1,078** |

Source: EQT 2022 Annual Report

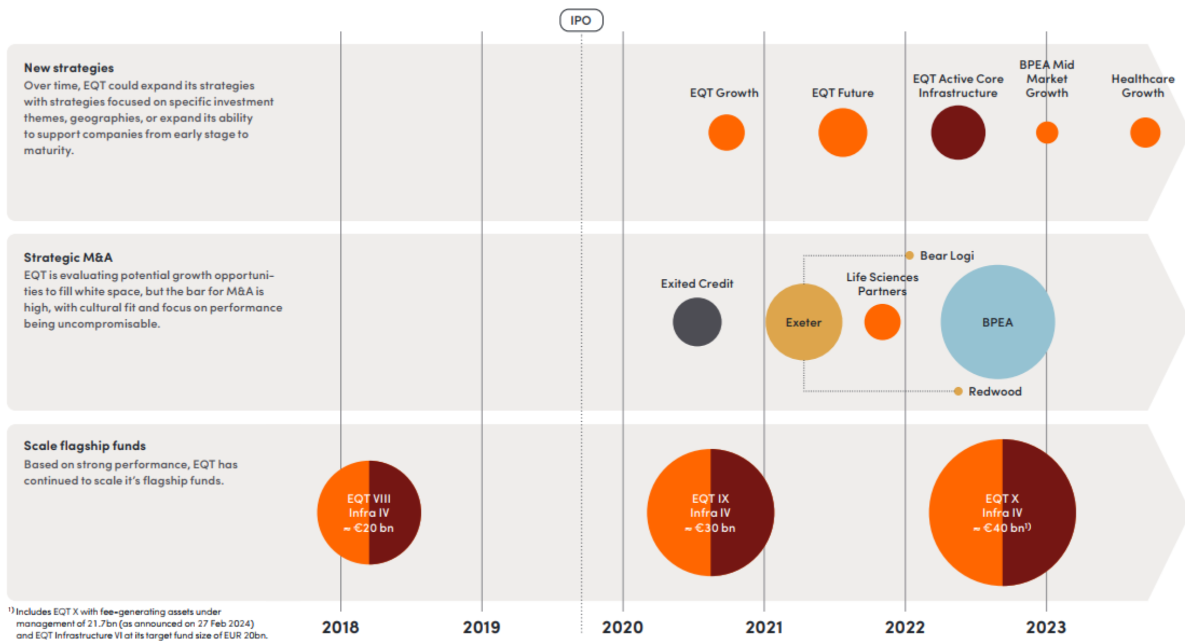
Besides, share consideration for Mr. Jean Salata, the founder of BPEA, and other key BPEA management members were subject to customary lock-up provisions, consistent with those of senior EQT partners, including a share forfeiture mechanism. This arrangement aligned the interests of EQT partners and BPEA founder and management, establishing the basis for long-term collaboration between the two parties after the acquisition.

The shareholders of BPEA benefit from this deal in several ways. First, they cash out form their business with around EUR 1.45 billion cash, a reward for their 20 years' diligence in this area. They also have 16% shares of EQT, which can be held for appreciation in the future. Mr. Jean Salata led the BPEA team to join EQT and acted as the Chairperson of EQT Asia and Head of Private Capital Asia. The BPEA team would be able to leverage the resources of EQT, the leading global alternative asset manager who valued Asia market, as they continued to develop their career in the Asian private equity market.

#### 3.5.2.2 Product and Strategy Expansion

Except for geographical expansion, EQT also developed new product and strategies to drive growth after IPO. Figure 21 summarizes EQT's strategic developments since IPO through 3 main avenues.

**Figure 22.** EQT Strategic Developments Since IPO




Source: EQT 2023 Annual Report

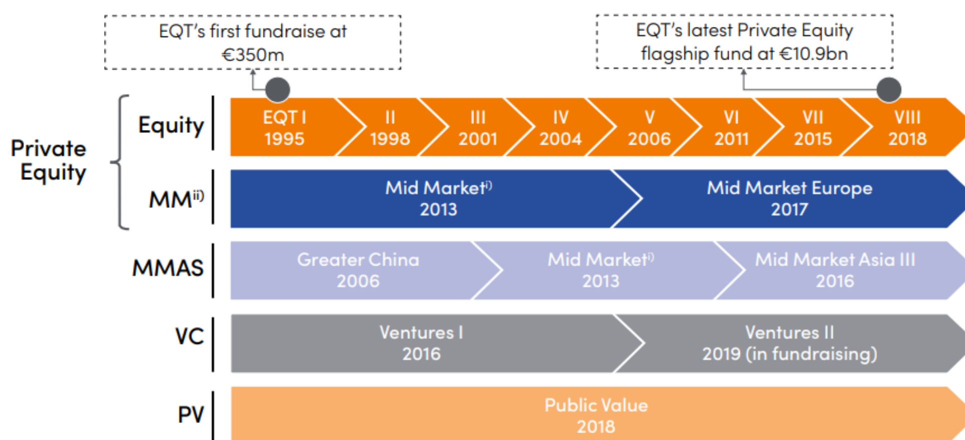
## (a) Launching new strategies

After IPO, EQT launched new strategies in diverse business lines.

*Private Equity Business Line*

Before IPO, the EQT Private Equity business line was the second largest in Europe based on raised capital over the last 10 years and 7th globally based on capital raised over the last five years, according to the 2018 PEI survey. EQT Private Capital comprised of four business sectors: Private Equity, Mid Market Asia, Ventures and Public Value.

**Figure 23.** EQT Private Equity Business Before IPO




Source: EQT Prospectus

In 2021, the Group launched ***EQT Growth*** *strategy*. EQT Growth seeks minority, control and/or co-control investments in high-growth companies and investments typically ranges between EUR 50 million and EUR 200 million. The mission is to unleash growth in Europe's technology champions, while being the most reputable investor and partner to founders and management teams. EQT does this by exploring growth opportunities at the point where companies are scaling, investing in a range of technology-enabled businesses across Europe. EQT Growth takes a thematic approach to identifying winners, broadly focusing on companies in 4 sectors: Enterprise Tech, Consumer / Prosumer Tech, Health Tech and Climate Tech.

EQT also launched in 2021 the ***EQT Future*** *strategy*, a lighthouse, impact-driven strategy that focuses on mature companies with market-shaping impact potential. EQT Future combines EQT's private equity expertise with rigorous impact measurement and management tools, including impact-linked incentives and impact acceleration plans to drive performance and transform industries for the better. Investments are made in line with three key objectives (i) Planet – to safeguard resources and protect the climate, (ii) People – to improve mental and physical health, and (iii) Prosperity - to create equality of opportunity.

The group also decided to focus on ***Life Science*** sector. In November 2021, EQT signed an agreement to acquire Life Sciences Partners ("LSP"), a leading European life sciences venture capital firm. Now part of the Private Capital business segment, EQT Life Sciences enhanced

EQT's ability to drive positive social impact in the healthcare industry and future-proof companies that can advance life science research through cutting edge technology.

In January 2024, EQT introduced the new ***Healthcare Growth*** Strategy, a dedicated healthcare buyout strategy that aims to invest in innovative, fast-growing, and proven healthcare companies predominantly based in Europe. The strategy is launched to capitalize on the growing need for better, more efficient, and accessible healthcare, driven by long-term trends such as aging populations, unmet medical needs, and rising healthcare costs. EQT will apply its active ownership approach and leverage its global network to help these companies expand their commercial capabilities and global reach, seeking to generate attractive risk-adjusted returns for clients while scaling positive outcomes across the healthcare value chain.

*Real Assets Business Line*

On March 2, 2022, EQT launched ***EQT Active Core Infrastructure***, a longer-hold fund with a focus on downside protection, applying EQT's active ownership playbook to core infrastructure companies.

Primarily focused on Europe and North America, the fund targeted core infrastructure companies that provide essential services to society and offer a distinct and attractive risk-return proposition based on stable cash yield generation, inflation protection, low volatility, and pursuit of longer-term value creation opportunities. The fund's longer-hold ownership horizon of 15 to 25 years and focus on core infrastructure companies at the lower end of the risk-return spectrum aim to unlock investment opportunities that historically have fallen outside of the investment scope of EQT's existing infrastructure strategy.

**(b) Conducting strategic M&A**

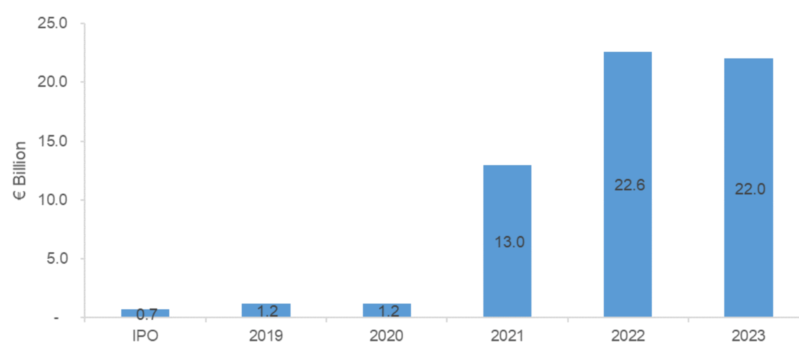
Strategic M&A also played an important role in EQT's strategic map. Except for the acquisition of BPEA and LSP in its private equity business, EQT acquired Exeter Property Group ("Exeter") in April 2021. The total consideration was EUR 1,560.4 million, comprising

new EQT AB shares worth EUR 927.0 million (corresponding to 33 million shares, a dilution of 3.3% for EQT shareholders) and cash of EUR 633.4 million.

Founded in 2006, Exeter was a leading global real estate investment manager that was focused on acquiring, developing and managing logistics/industrial, life science/office and residential properties mainly across the US and Europe. Exeter had more than $10 billion of assets under management at the time of acquisition.

The acquisition of Exeter by EQT was strategically important as it helped EQT quickly scaled up its real estate business. It transformed EQT's Real Estate platform into a scaled, global leader by adding one of the largest and best-performing value-add real estate investment managers in the world. Exeter's thematic investment approach, established track record, complementary client relationships, strong financial results further strengthened the combined entity.

**Figure 24.** Development of EQT's Real Estate Business




Source: EQT Annual Reports

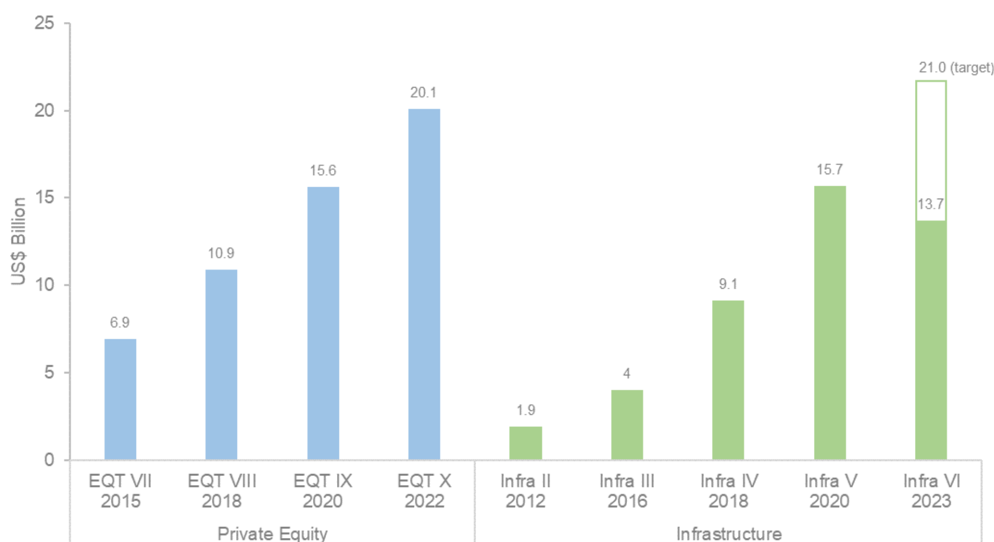
### (c) Scaling flagship funds

For alternative asset managers, flagship funds are the main investment vehicles through which managers deploy capital and execute their investment strategies. Flagship funds are a significant source of management fees, which provide a stable income stream to cover operating expenses and retain top talents. Successful flagship funds can further help managers

grow their AUM and expand their investment strategies. The performance of these flagship funds is important for firms' overall track record and can be leveraged to raise new funds, source top deals in the market, and negotiate favorable terms with LPs and LBO lenders.

EQT's Private Equity fund and Infrastructure fund are its flagship funds. Due to strong performance of previous funds and the reputation and enhanced brand of its listed status, EQT has been continuously scaling its flagship funds.

**Figure 25.** EQT Flagship Funds Committed Capital as of December 31, 2023




Source: EQT 2023 Annual Report

Launched in September 2017, **EQT VIII** held a first and final close at its hard cap of EUR 10.9 billion in February 2018. The fund targeted primarily control equity investments as well as significant influence investments in companies with strong market positions, significant potential for revenue and earnings growth, strong cash flows and a solid platform that can retain and attract high-quality management. EQT VIII sought to make equity investments typically ranging between EUR 150 million and EUR 1,000 million.[28]

[28] EQT Press Release, February 23, 2018. https://eqtgroup.com/news/2018/eqt-strengthens-position-as-a-leading-investor-and-owner-closes-eighth-equity-fund-at-eur-10-75-billion/

**EQT IX** was launched in January 2020 after the EQT IPO. The fund made its first investment in July 2021. EQT IX held its final close at EUR 15.6 billion in fee-generating assets under management, marking EQT's first key fund closing since EQT AB's public listing in 2019.

On February 2024, EQT announced that **EQT X**, the latest flagship private equity fund, held its final close, having raised EUR 22 billion (USD 24 billion) in total commitments, of which EUR 21.7 billion were fee-generating assets under management. The fundraise exceeded the target size of EUR 20 billion and represented a near 40 percent increase on EQT IX.

On November 2, 2021, **EQT Infrastructure V** fund held its final close at EUR 15.7 billion in fee-generating assets under management. The fundraising achieved a 99% re-up rate[29] from the predecessor fund based on committed capital and a 68% re-up rate based on the number of investors. The strong demand reflected investors' ongoing support for EQT Infrastructure's thematic investment approach, which focused on companies within the energy, transport & logistics, environmental, digital, and social infrastructure sectors.[30]

In 2023, EQT started its latest infrastructure flagship fund, **EQT Infrastructure VI**. The fund targeted to close at EUR 21 billion. As of December 31, 2023, the fund had EUR 13.7 billion of fee-generating commitments.

#### 3.5.2.3 Summary of EQT Development after IPO

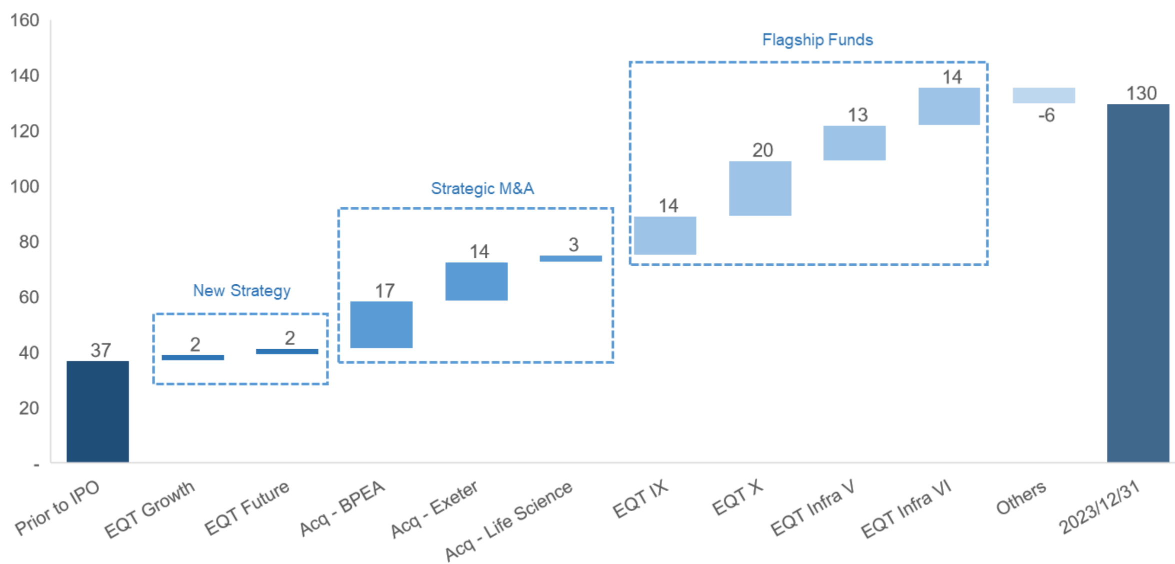
From 2019 to March 2022, the global economy experienced a low-interest rate monetary cycle, significantly increasing global investors' demand for alternative asset investments. The IPO in 2019 allowed EQT AB Group to strengthen its balance sheet, facilitating the acceleration of the Group's growth. EQT seized this opportunity to accelerate business growth by combining organic growth (through the launch of new strategies and scaling up flagship funds) with strategic acquisitions. The enhanced brand value and reputation helped EQT speed

[29] "Re-up" is a term commonly used in the private equity and venture capital industry to refer to the process of an investor committing capital to a new fund raised by a manager with whom they have previously invested.
[30] EQT Press Release, November 2, 2021. https://eqtgroup.com/news/2021/eqt-infrastructure-v-holds-final-close-reaches-hard-cap-with-continued-strong-investor-support/

up its business expansion.

As a result, EQT has transformed into a global firm focused on active ownership strategies, diversified across investment sectors, investment themes, and geographies, with €130 billion FAUM as of December 31, 2023. Figure 26 reveals that developing new investment strategies, strategic M&As, and expanding flagship funds contributed $4 billion, $34 billion, and $61 billion, respectively, to the growth of EQT's assets under management.

**Figure 26.** Breakdown of EQT Post-IPO FAUM Development




Source: EQT Annual Reports, summarized by Author

The growth of FAUM drives the growth of management fees, supporting the annual operating results of EQT. EQT's ratio of Year-end FAUM / management fees fluctuating between 1.1% and 1.6%. This includes the effects of acquisitions in the middle of financial years.

Except for 2020 and 2021, when the firm's stock was trading in a bullish external environment, the market capitalization / management fees ratio traded between 15-18x.

**Table 9.** EQT Key Business Indicators

| In EUR million | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| FAUM, year end | 36,000 | 52,500 | 73,000 | 113,000 | 130,000 |
| Total revenue | 599 | 709 | 1,596 | 1,497 | 2,084 |
| Management fees | 574 | 609 | 1,086 | 1,329 | 1,966 |
| Carried interest and investment income | 25 | 100 | 510 | 169 | 118 |
| **FAUM / Management fees** | **1.59%** | **1.16%** | **1.49%** | **1.18%** | **1.51%** |
| Market Cap at Year End (SEK million) | 105,116 | 263,328 | 490,507 | 263,328 | 337,675 |
| *Exchange rate (SEK/EUR)* | *10.44* | *10.10* | *10.29* | *11.16* | *11.13* |
| Market Cap at Year End (EUR million) | 10,069 | 26,079 | 47,657 | 23,595 | 30,336 |
| **Market Cap / Management fees** | **17.54** | **42.83** | **43.89** | **17.76** | **15.43** |

Source: Annual Reports, Yahoo Finance

# IV. Costs and Disadvantages for Alternative Asset Managers Going Public

## 4.1 Loss of Secrecy

Alternative asset management is an industry where information asymmetry pervasively exists. Sometimes competitive advantage of managers comes from their ability to have access to private information. The founders started their exciting businesses a long time ago leveraging their knowledge of the market, unique investment strategies, deal sourcing capabilities, and fundraising abilities.

Going public requires alternative asset managers to disclose a significant amount of information about their strategies, operations, and performance. This increased transparency can be a double-edged sword, as it may lead to a loss of secrecy and competitive advantage. Competitors and other market participants can gain insights into the firm's inner workings, potentially allowing them to replicate successful strategies or exploit perceived weaknesses. Moreover, the public disclosure of sensitive information, such as the details of proprietary investment methodologies, can erode a firm's ability to generate alpha and maintain an edge in the market.

Moreover, alternative asset managers also need to reveal the compensation of their founders and top executives. This can be a sensitive issue, as the high levels of compensation may draw public scrutiny and criticism. The disclosure of compensation details can lead to increased pressure from public shareholders, media, and the general public to justify pay packages,

potentially leading to negative publicity and reputational risks.

### 4.2 Regulatory Compliance Costs

When these asset managers in private markets go public, they often use a complex organizational structure and perform several rounds reorganization transactions for business arrangement, compliance, tax, and other reasons. This makes it difficult for firms' accounting and legal teams.

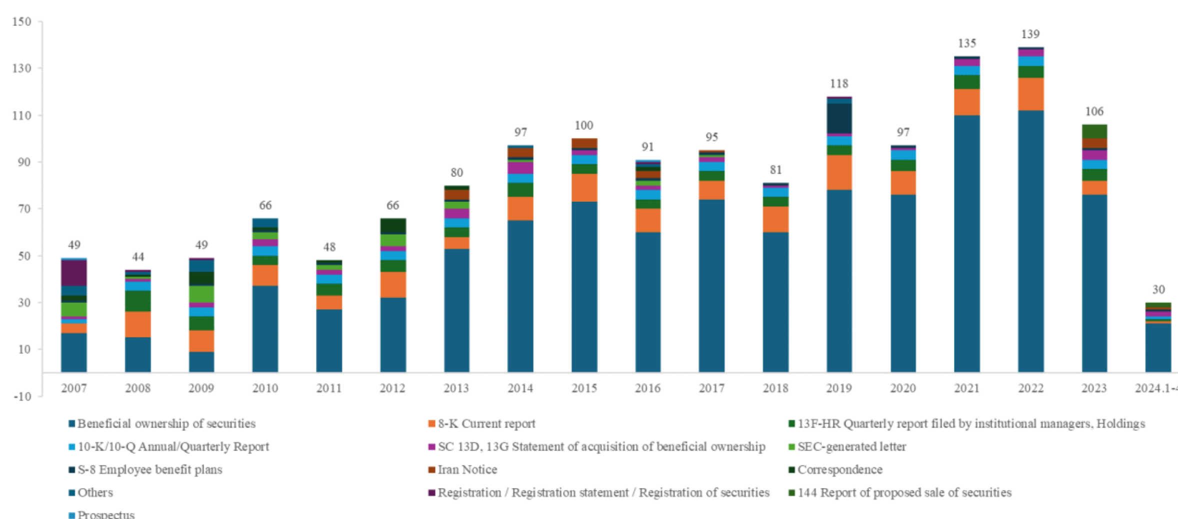
Under the Up-C Strcuture of Blackstone and the exchange agreement with holders of partnership units in Blackstone Holdings (other than The Blackstone Group L.P.'s wholly-owned subsidiaries), these holders may exchange their Blackstone Holdings partnership units for The Blackstone Group L.P. common units on a one-for-one basis. However, at the time of Blackstone IPO, as disclosed in its Prospectus, the firm "had not yet determined how any such future exchanges would be accounted" in its consolidated financial statements.[31]

Besides, as public entities, alternative asset managers are subject to a wide range of regulatory requirements and oversight. Compliance with these regulations can be costly and time-consuming, requiring significant investments in legal, accounting, reporting infrastructure, and IT platform.

Publicly listed alternative asset managers have the obligation to disclose a wide range of information that investors may require to make decisions. Firms must also disclose any significant risks, uncertainties, or legal proceedings that could impact their operations or financial performance. In addition, alternative asset managers are required to file regular reports, such as annual reports (Form 10-K), quarterly reports (Form 10-Q), and current reports (Form 8-K), to keep investors and the public informed about their ongoing activities and any material changes in their business. Complying with these extensive disclosure requirements can be a significant burden for alternative asset managers, requiring substantial time, resources, and expertise to ensure accuracy, completeness, and timeliness.

[31] Blackstone 2007 IPO Prospectus, p.73

**Figure 27.** Count of Blackstone SEC Fillings




Source: SEC [32]

## 4.3 Short-term Focus on Performance

Alternative asset managers like to emphasize their long-terism in the business. A typical private equity buyout fund has a term of 10 years, consisting of a 5-year investment period and a 5-year exit period. Investments in real assets, such as real estate and infrastructure, require a longer period for asset construction, operation, value creation, and exit. Low liquidity of alternative assets brings the extra returns to alternative asset investors. This is a consensus reached between alternative asset managers and their investors.

However, once alternative asset managers go public, they may face pressure from public market investors who are more focused on short-term results. Quarterly earnings releases and the expectations of public shareholders can lead to a shift in priorities, potentially compromising the long-term investment philosophy that has been a hallmark of the alternative asset management industry. This short-term focus may encourage managers to use aggressive ways to develop new businesses, to conduct M&As, and thus to grow their AUMs. They could also make investment decisions that prioritize near-term gains over long-term value creation, which could ultimately undermine the long-term performance of the firm.

[32] Note: The data in Figure 27 are up to April 16, 2024.

To mitigate this risk, publicly listed alternative asset managers must strike a delicate balance between meeting the demands of public market investors and maintaining their commitment to long-term investing. This may involve communicating their investment philosophy and strategy clearly to shareholders, setting realistic expectations for short-term performance, and consistently demonstrating the value of their long-term approach through strong returns and successful exits.

## V. Conclusion

This study finds that there are mainly four motives for alternative asset firms to go public. First, the public market provides a mechanism for founders and other pre-IPO investors to liquidate their ownership stakes over time, allowing them to diversify their wealth and pursue other interests. It can also facilitate a smoother transition and provide a clear path for the next generation of leadership.

Second, for firms, after going public, the public stock price provides an anchor for the fair value of stock-based compensation, which can better incentivize their employees and align the interests of partners, employees, the firm, and public investors.

Third, the permanent capital brought by IPO can help an alternative asset manager optimize its balance sheet, support the development of new businesses and acquisitions, and accelerate business expansion at the investment strategy, asset class, and geography levels. Maintaining a listed status allows the firm to conduct secondary offerings when further financing is needed and pay stock consideration when conducting acquisitions.

Finally, listing can enhance the brand and reputation of the firm, helping the firm build their competitive advantage.

Of course, going public also has costs and disadvantages, such as loss of secrecy, increased regulatory compliance costs, and a short-term focus on performance. Companies need to be well-prepared to face these challenges. However, compared to the advantages, the disadvantages don’t seem to be significant.

These motives are the same for alternative asset managers in Asia, even though Asia has a

very young market for alternative assets, and thus founders are not so motivated to liquidate their interests now. Since 2022, as the U.S. dollar entered an interest rate hike cycle, economic growth of Asian countries has slowed down. The overall performance of Asia-Pacific financial markets has been sluggish, which pervasively affect the valuation of alternative assets. In this economic cycle, fundraising has been a hard thing for Asian alternative asset managers.

On April 30, 2024, Tiantu Capital released its 2023 annual report. The firm surprisingly recorded a fair value loss of RMB 814 million due to the poor performance of its portfolio companies primarily because of the continued downturn in the capital markets, resulting in a net loss of RMB 876 million for the year of 2023. However, the permanent capital of HK$ 1.009 billion raised through the firm's initial public offering (IPO) in October 2023 has positioned Tiantu to strengthen its balance sheet, realign its business portfolio, and prepare for future growth once market conditions improve.

On April 15, 2024, CVC Capital Partners ("CVC"), Europe's leading private equity firm with €186 billion in AUM announced its intention for IPO and get listed on Euronext Amsterdam. The transaction was completed on April 26, 2024, consisting of (1) 17,779,276 new shares issued by the firm at the price of €14 per share and (2) 126,635,594 existing shares offered by several selling shareholders. The firm raised €250 million for the issue of new shares, and selling shareholders realized gross proceeds of approximately €1.77 billion.

Selling shareholders including strategic investors like GIC, Kuwait Investment Authority, Hong Kong Government, and retired employees of CVC. Mr. Rolly van Rappard, Mr. Donald Mackenzie, Mr. Steve Koltes and other co-founders founded the CVC business as an arm of Citigroup more than 40 years ago. Except for Mr. Rolly van Rappard, all other founders have retired. They are waiting to liquidate some of their interests in the firm.

CVC believed the contemplated IPO would provide an enduring long-term institutional structure to support the growth, provide access to the public capital markets, supporting long-term growth and increasing the Group's profile with existing and prospective clients, and enable the firm to continue to invest in its people and to attract and retain exceptional talent. Let's see what value can going public eventually bring to CVC.

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