FA News
BREAKING NEWS

Hurley's Fiduciary Network Buys Stakes in RegentAtlantic and Evensky& Katz

February 26, 2007

Fiduciary Network, a holding company created by former Undiscovered Managers CEO Mark Hurley and New York investor Howard Milstein, has agreed to acquire minority stakes in two leading wealth management firms, RegentAtlantic Capital LLC of Chatham, N.J., and Evensky & Katz of Coral Gables, Fla. Terms of the transactions were not disclosed.

Funded to the tune of $600 million, Fiduciary Network currently is engaged in active negotiations with several other large advisory firms.

According to Hurley, his Dallas-based company is looking to make "passive long-term intergenerational investments" in about 15 advisory shops through Milstein's wholly owned Emigrant Savings Bank.

Fiduciary Network's deals are being structured with two classes of equity in a manner similar to the structure at Dow Jones & Co. and the New York Times.

This will leave the advisor-owners in control, and will only give Hurley and Milstein "certain veto rights" if the owners "try to re-cut the deal" in a way that hurts the outside investors. In this aspect Fiduciary Network's strategy illustrates an emerging trend in private equity, a willingness to buy "strips," or percentages of a business's cash flow rather than outright control.

As Hurley describes it, owners of RIA firms face very few attractive succession alternatives. "They can sell it to the next generation at only a de minimis price like an 80% discount because that's all the next generation can afford to pay. That gives the next generation a huge incentive to flip the business very quickly."

The other alternative facing RIA firm owners is to swap their shares for those of roll-up firms and wait for an IPO. The problem is, if there is no IPO in five to ten years, the roll-up operation probably would be sold to another private equity firm at a discount, diluting the original RIA firm's shares.

Fiduciary Network's raison d'etre is to bridge the gap between what the next generation can afford to pay and the true value that the first generation has created. All transactions will involve cash, not equity in a private entity, and there will be no interlocking ownership among the different advisory firms.

In what seems a departure from other private investments, Hurley claims that Milstein wants no exit strategy, just a sound long-term investment. Fiduciary Network also will provide loans for junior partners who need to buy into their own businesses.

Given the extended time horizons of these investments, shareholders in some of the bigger firms that Fiduciary Network buys could see payouts that reach into the nine figures over several decades. Since most of the payouts are stretched out for a long time, their values hinge upon growth rates.

The Fiduciary Network model isn't about cashing out. “Whether we own 1 percent or 99 percent of a firm, we don't want to step in,” Hurley declares. “If we think we might have to get involved, we won't do it [with running the company].”

Fiduciary Network takes a dogmatic stance in that it will only consider investing in fee-only firms. Hurley says that he and Milstein agree that it is “best for the client” and the best business model.

“I am personally honored that these two firms were the first two firms to agree to these investments,” Hurley says. “Both firms that we are buying into I've recommended to friends and in some cases family members."