

FIRST REPUBLIC BUYS AN EIGHT-YEAR-OLD RIA FOR \$115 MILLION

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First Republic Bank is acquiring Constellation Wealth Advisors LLC for approximately \$115 million.

The San Francisco-based bank is making the deal through its subsidiary, First Republic Investment Management Inc., for the eight year-old New York and Menlo Park, Calif. RIA giant.

First Republic Investment Management, which managed \$35.3 billion of assets as of March 31, also has offices in San Francisco, Palo Alto, Calif.; Los Angeles; Santa Barbara, Calif.; Newport Beach Calif.; San Diego; Portland, Ore.; Boston; Palm Beach, Fla.; Greenwich, Conn.; and New York.

It was a case of like meeting like.

"Constellation Wealth Advisors is an opportunity to work with a highly successful wealth management firm with the same philosophy and commitment to extraordinary client service as First Republic," said Jim Herbert, chairman and chief executive of First Republic, in a statement. "They align with and complement our existing wealth management capabilities."

First Republic declined to comment for this article. As of March 31, Constellation Wealth Advisors, founded in 2007, had wealth management assets of \$6.1 billion.

"Shining Example"

First Republic made a nearly carbon copy deal for Los Angeles-based Luminous Capital LLC in December 2012. This sort of liquidity event exerts its pull on existing wirehouse teams who are looking at the benefits of forming their own RIA, according to Shirl Penney, president and chief executive of New York-based Dynasty Financial Partners.

"To me this represents furtherance of the opportunities that exist for high quality advisors to go independent, create great businesses, and monetize in a way that never would have been possible in a big firm environment. I would expect you will see more of this type of large team movement going forward for this and other reasons."

David DeVoe, managing partner of DeVoe & Co., agrees. "This is another shining example of the potential power of 'going independent.' Like Luminous and Baker Street, the firm was founded by advisors leaving wirehouses to start their own company, and less than ten years later the company has experienced a \$100 million liquidity event. It's an amazing story."

Still, **Dan Seivert**, chief executive of **ECHELON Partners**, an investment bank to RIAs in Manhattan Beach, Calif., says that it appears — based on what little information that First Republic discloses — that the deal was not as rich as the Luminous Capital purchase. Constellation has not been a fast grower. It was at about \$4 billion of AUM in 2010. Seivert says it appears that the \$115 million represents 2.9 times revenue. This gives First Republic, which trades at 7.9 times revenues, a big arbitrage.

Constellation Wealth Advisors co-chiefs Paul Tramontano and Jon Goldstein issued a statement: "We were founded to serve clients from an independent platform, and First Republic's client-centric focus fits perfectly with our values. First Republic is one of the premier private banks in the U.S., and we look forward to working together."

West Coast talent

In retrospect, First Republic has been laying the groundwork for such a move by adding big-time managerial talent and installing a new Addepar software system, according to sources.

A veteran Merrill Lynch executive, Brian Riley, who oversaw a portion of its ultra-wealthy client group on the West Coast, has departed to join First Republic Bank's wealth-management division, according to people familiar with the matter. The division currently has 328 employees, according to the First Republic ADV.

Riley joined First Republic in April after running Merrill Lynch's private banking and investment group operations in the Pacific West. He had been with Merrill since 1996, first in Phoenix, before heading to a Los Angeles-area complex.

Merrill Lynch's PBIG is also the unit from which principals David Hou and Mark Sear broke away in 2009 to form Luminous Capital.

UHNW battleground

Merrill's private-banking group services clients with at least \$10 million to invest. That ultra-wealthy client segment has become a key battleground among the big brokerages, which often offer lavish signing bonuses to advisors who specialize in that level of clientele.

The six partners of the firm, including Tramontano, 54, and Goldstein, 55, have signed long-term employment contracts as part of the transaction, which is expected to close in the third quarter of 2015.

Seivert says this deal is likely to strengthen First Republic's hand in the wealth management game — both by extending its reach in New York and proving it can get around its bank heritage. RIAs in general are leery of banks and a second big RIA deal shows that the bank's culture is compatible, he explains First Republic frequently takes out big advertisements featuring entrepreneurs who use its bank. Seivert says that he also notices that a lot of the VC and private equity firms he receives checks from use First Republic for their accounts.
