# ALTitude™ Spring 2025

Your quarterly guide to the world of alternative investing

Featured Article: AlpInvest

## Path to exit: Inside a record-breaking private equity deal

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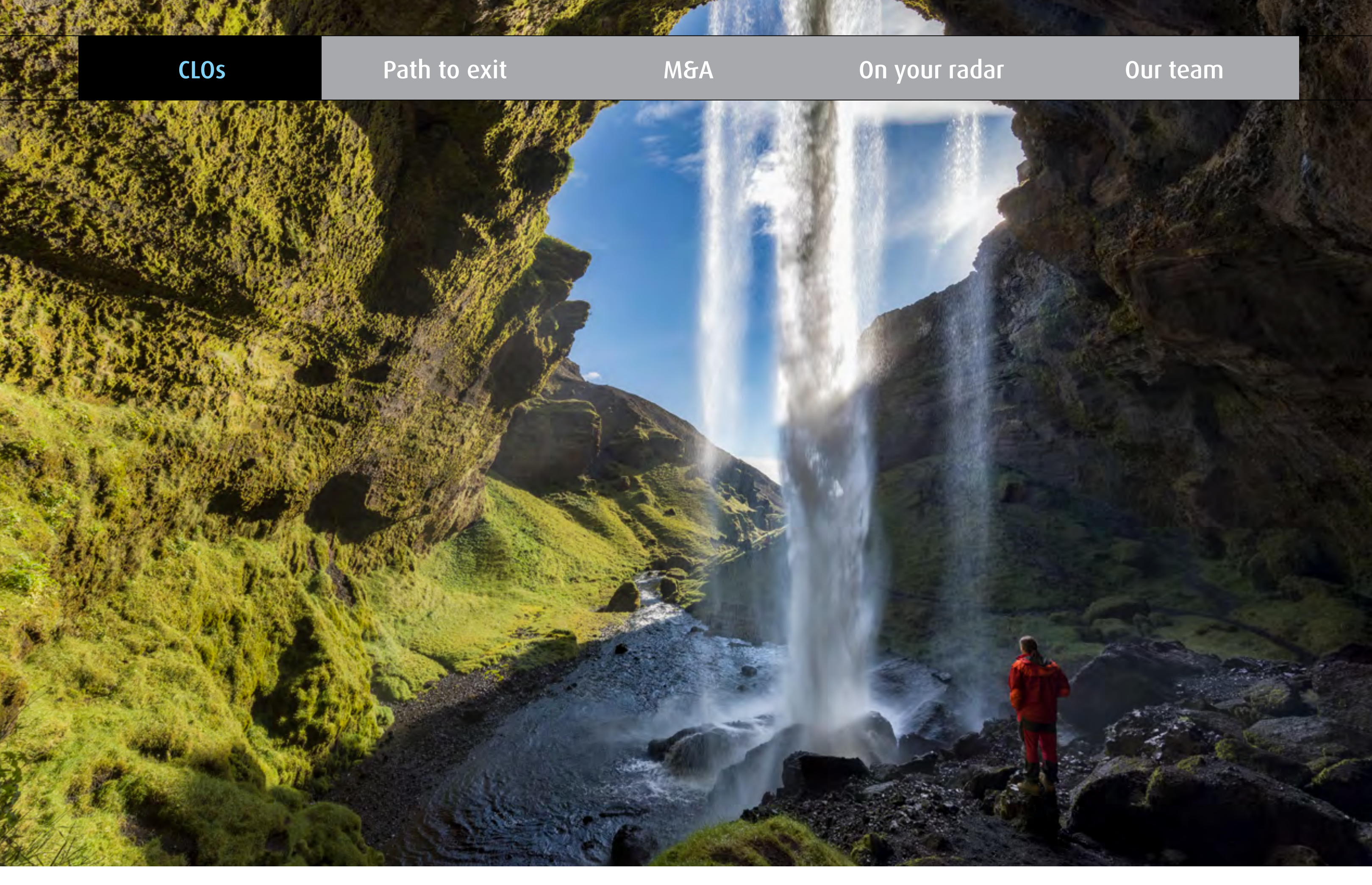


# **Inside the cash flow waterfall:** A brief introduction to CLOs

As demand for liquid credit investments grows, **Mark Jarosz, Head, Credit Alternatives**, details the evolution of CLOs and their structural enhancements over time.

**Author:** Mark Jarosz | Head, Credit Alternatives
BMO Global Asset Management

Although Collateralized Loan Obligations sound complex, they are relatively simple financing structures. At its most basic level, a CLO is a portfolio of senior secured loans, with a series of debt obligations issued against them. The cash flows generated from the portfolio of senior secured loans are used to pay principal and interest on the CLO's debt obligations. The debt obligations are "tranched" into various classes with different priorities in the CLO's cash flow distribution, or "waterfall." Residual cash flows are paid to the CLO equity investors, which is the lowest tranche.

Investor appetite continues to grow for CLOs. The present size of the market is US$1.5 trillion—a figure that is expected to rise by a third by 2027, surpassing US$2 trillion.[1] With approximately US$25 billion under management, AAA CLO exchange-traded funds (ETFs) are among the fastest growing components of the space.[2]

## What is a CLO?

CLOs are securitized products backed by a diverse portfolio of senior secured loans to businesses that are rated below investment grade.

The CLO portfolio is comprised primarily of first lien senior secured loans, although there may be small allowances for second lien loans and unsecured debt. CLOs are funded by layers of debt of varying seniority and equity.

The principal and interest received from the portfolio of senior secured loans is distributed according to a cash flow waterfall. The debt obligations have varying seniority in the cash flow waterfall, with residual cash flows being distributed to the CLO's equity holders. For the economics of a CLO transaction to work, the interest income from the loan portfolio must exceed the interest expense of the debt obligations, with the CLO's equity investors receiving the excess interest.

The resilience and stability of a CLO is enhanced by the features detailed below:

### Active portfolio management

CLOs are not index tracking funds; they are actively managed investment vehicles. Although CLOs have strict covenants regarding portfolio diversification, credit quality and other metrics by which managers must abide, there is substantial discretion to reinvest collateral proceeds. A manager can,

### How CLOs differ from CDOs

While Collateralized Debt Obligations (CDOs) and CLOs share similar nomenclature, they differ significantly in underlying assets, risk levels, and market reputation. CDOs, particularly those backed by subprime mortgages, played a central role in the 2008 financial crisis, whereas CLOs have continued to perform well due to their focus on corporate loans and active management.

| Attribute | CDOs | CLOs |
|---|---|---|
| **Asset** | Subprime mortgages | Senior secured first lien corporate loans |
| **Correlation** | High: Portfolio value driven by U.S. home prices and homeowner behaviour | Low: Portfolios include diverse borrowers across many different industries |
| **Active management** | No: Selected by investment banks, originators and mortgage specialists; asset pool unchanged after issuance | Yes: Selected and actively managed by asset managers with capital at risk; underperforming loans can be traded out |
| **Creditworthiness** | Underlying mortgages were often made to borrowers with low incomes and few assets | Loans made to well-known companies with financial statements evaluated by credit professionals |
| **Monitoring** | No: Information regarding credit quality only provided at time of borrowing | Yes: Detailed financial statements provided quarterly and annually |
| **Volatility** | High: Prices declined during the GC and never fully recovered | CLOs have remained resilient even during market downturns |
| **Losses** | All junior tranches of RMBS CDOs suffered significant impairments during the GFC | There have been zero defaults/losses on AAA tranches |

Source: BMO Global Asset Management. For Illustrative purposes only.

among other things, buy, sell and substitute loans in the underlying asset portfolio. A manager's ability to assess credit and quickly respond to changes in markets can significantly impact the performance of a CLO's portfolio.

### Diversification

Specific covenants are incorporated into the transaction documents to regulate the type of loans that managers may acquire, including the requirement for managers to construct a diversified portfolio. The typical CLO is diversified across a wide range of industries and borrowers. It is common to have more than 200 individual companies in a single CLO.  Generally, only a small percentage of the assets (typically 2%) may be invested in the loans of any individual borrower. These limitations on portfolio composition mitigate outsized exposure to any single borrower or industry and restrict the purchase of lower credit quality loans.

### No mark-to-market triggers

CLOs have no mark-to-market triggers or other similar provisions and have high hurdles to meet before a collateral liquidation is required, making them better equipped to withstand market volatility.

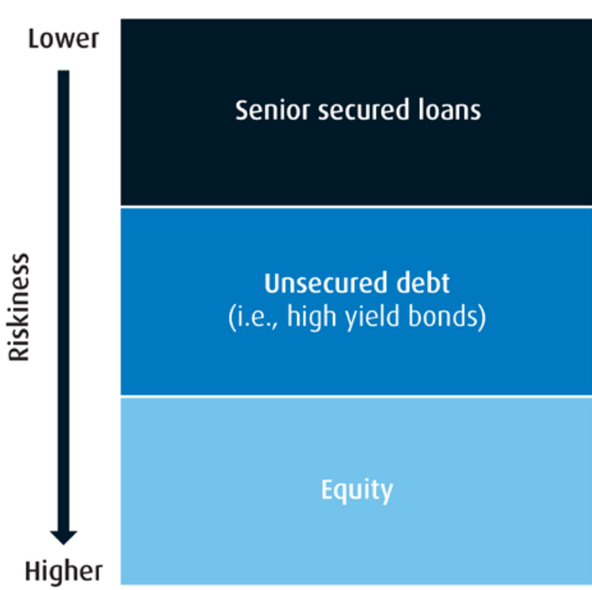
## What is a Senior secured loan?

As previously mentioned, CLOs are securitizations backed by a diverse portfolio of senior secured loans. Senior secured loans, also known as "leveraged loans," are loans to companies rated below investment grade. Senior secured loans are typically secured by a first-priority security interest in a borrower's assets, ahead of unsecured debt.

The typical loan in a CLO portfolio has the following characteristics:

- An issuer credit rating between Ba1/BB+ and B3/B-
- Status as a senior secured loan facility
- Original maturity of approximately five to seven years
- Generally floating-rate interest payments indexed to SOFR[3]

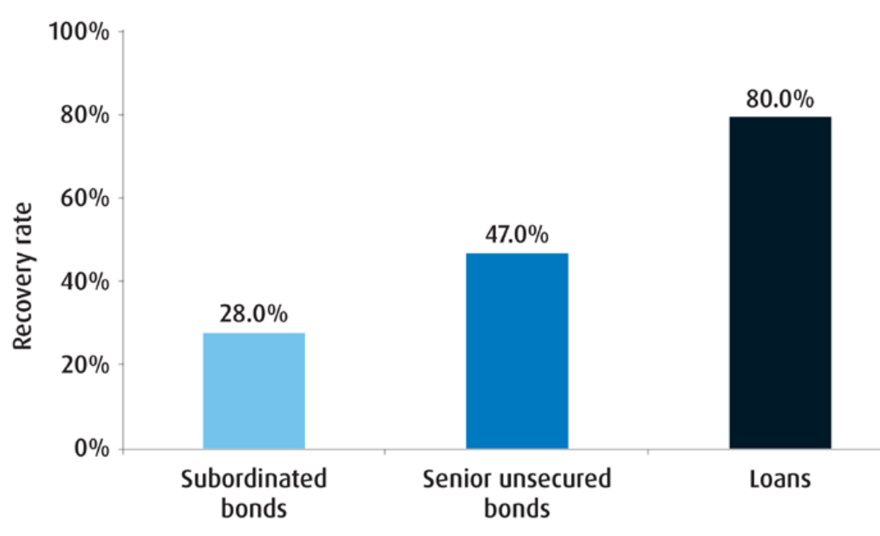
**Exhibit 1: Illustrative capital structure**




Source: BMO Global Asset Management. For Illustrative purposes only.

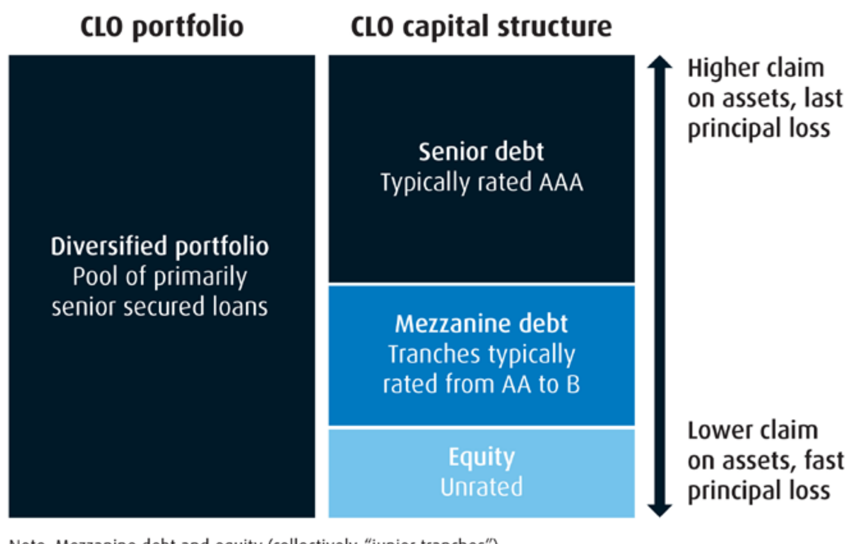
As the term "senior secured" implies, these loans have a first-priority security interest in virtually all of a borrower's assets in the event of a bankruptcy. Defaulted senior secured loans have historically had higher recovery rates than defaulted high yield bonds.

**Exhibit 2: Senior secured loans have historically higher recovery rates than other corporate credit instruments, 1987 to 2019**




Source: Moody's Investor Services.

**Exhibit 3: Illustrative CLO capital structure**




Source: BMO Global Asset Management. For illustrative purposes only.

## Understanding the typical CLO structure

As mentioned earlier, CLOs consist of different classes of debt obligations in the form of rated debt (often AAA, AA, A, BBB, BB and B) and a class of unrated equity. Each class of debt has a different priority on the cash flow distributions and exposure to risk of loss from the collateral pool. Cash flow distributions begin with the senior-most class of CLO debt and flow down to the equity.

**Senior debt:** Senior debt obligations are the least risky (most protected) debt obligations with the lowest interest rates. They are typically rated AAA or AA and make up the bulk of total CLO debt issued. They are usually not deferrable (meaning missing an interest payment would lead to default). In most transactions, the AAA-rated debt is the controlling class, meaning that its holders are given greater control over changes to the CLO indenture.

**Mezzanine debt:** Mezzanine debt obligations are riskier than senior debt. As a result, they offer higher rates of interest but may provide considerable protection against collateral defaults. They are typically rated from A to B.

**Equity:** The equity represents a claim on all excess cash flows once the obligations for each debt tranche have been met. The equity returns benefit from the contractual cash flows of the underlying portfolio and are not directly impacted by market fluctuations of the portfolio.

With debt obligations that match the tenor of the senior secured loans in which CLOs invest, the structures allow a manager to focus on the long-term creditworthiness of the

The structures allow a manager to focus on the long-term creditworthiness of the underlying portfolio, and **not short-term fluctuations in the market value of the portfolio.**

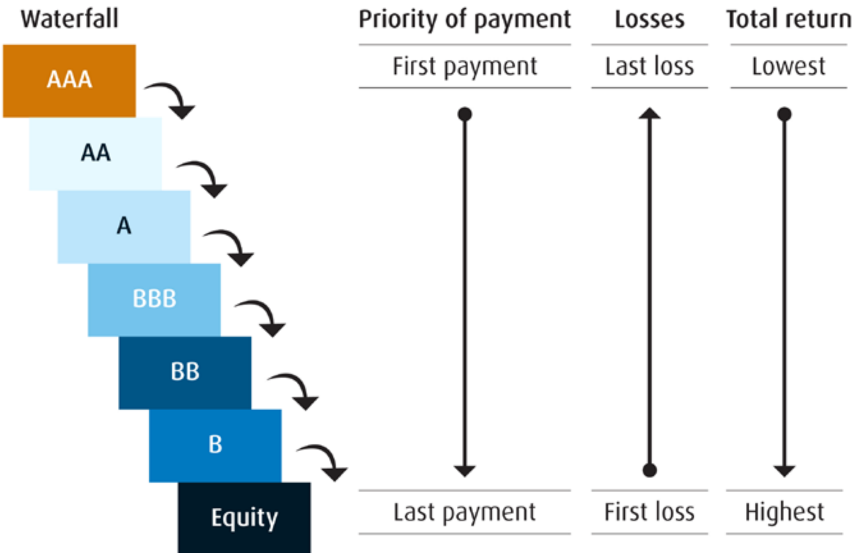
underlying portfolio, and not short-term fluctuations in the market value of the portfolio.

## Cash flow waterfall

The cash flows generated by a CLO's portfolio are used to make payments to the different classes of debt and equity, according to their seniority. The cash flow waterfall provides varying degrees of protection to the debt obligations in connection with performance tests. In general, cash flows from the portfolio are paid by seniority from the top-down and losses on the collateral accrue from the bottom up, creating the different risk profiles described above.

For principal and interest proceeds to flow down the structure, starting from the top, each debt obligation must be paid in full. The senior debt obligation must receive its full principal and interest due before any proceeds can flow down the waterfall and begin to repay the next debt obligation.

**Exhibit 4: Illustrative cash flow waterfall**




Source: BMO Global Asset Management. For illustrative purposes only.

## Historical performance showcases this product's resilience

### Pre-crisis CLOs (CLO 1.0)

CLOs performed well through the financial crisis of 2008–09, with low default rates and attractive risk-adjusted equity returns. Even through the credit market turmoil, defaults on pre-crisis CLOs were minimal across all rating categories, and no CLO debt that was initially rated AAA has ever defaulted.[4] This strong credit performance can be attributed to the resilient structure previously discussed. The following table provides details of defaults on CLO debt obligations across global CLOs and vintages rated by S&P.

**Exhibit 5: Only 0.4% of CLO tranches have defaulted since 1994**

| Original rating | CLO 1.0 (1994–2009) | | CLO 2.0 (2010–2019) | | Total | |
|---|---|---|---|---|---|---|
| | Tranches | Defaults | Tranches | Defaults | | |
| **AAA** | 2,012 | 0 | 2,040 | 0 | 4,052 | 0 |
| **AA** | 841 | 1 | 1,637 | 0 | 2,478 | 1 |
| **A** | 1,029 | 5 | 1,352 | 0 | 2,381 | 1 |
| **BBB** | 1,073 | 12 | 1,167 | 0 | 2,240 | 12 |
| **BB** | 770 | 36 | 1,050 | 0 | 1,820 | 36 |
| **B** | 39 | 4 | 420 | 0 | 459 | 4 |
| **Total** | **5,764** | **58** | **7,666** | **0** | **13,430** | **58** |

Note: CLO tranche defaults by original rating. Source: S&P Global Ratings, September 2019.

### Post-crisis CLOs (CLO 2.0)

Although pre-crisis CLO performance was strong through the financial crisis, post-crisis CLOs are characterized by even more robust structures. Structural improvements relative to their pre-crisis counterparts include: (i) substantially more credit enhancement for each rated debt tranche, resulting in lower leverage, (ii) stricter limits on the portfolio composition, and (iii) more restrictive covenants protecting investors.

- A possible benefit of stronger credit enhancement of CLO 2.0 may be more cushion on the overcollateralization tests (see Structural Protections of CLOs), so that CLO 2.0 equity has a lower likelihood of cash flows being redirected from junior tranches. In the event of such a diversion, the amount of loss that equity would need to offset to cure the overcollateralization tests would also be lower.
- Pre-crisis CLOs could invest in high yield bonds and structured products, while post-crisis CLOs are backed almost entirely by senior secured loans. The CLO 2.0 structural enhancements limit the risk profile of the loan portfolio, reducing volatility for both CLO debt and equity investors. The post-crisis performance is expected to be more consistent.

## Valuation assumptions and drivers

Financial models contain detailed information on the characteristics of a CLO, including recent information about assets and liabilities, and are used to project future cash flows to evaluate CLO debt and equity. Model inputs, among other assumptions, include future loan default rates, recovery rates, prepayment rates, reinvestment rates, and discount rates. From this list, the most impactful assumptions are:

- **Default rate:** A default occurs when (i) a principal or interest payment is missed, called a "payment default" or (ii) a borrower files for bankruptcy (or another type of insolvency proceeding). This is measured as an annual rate. The historical global loan default rate from 2001 to 2020 is 3.0% per annum.[5]
- **Recovery rate:** Upon default, the company undergoes a restructuring during which the loan may remain outstanding (with no impact to the principal amount) or may be partially repaid. This amount is known as the recovery rate.
- **Default-loss rate:** The annual default-loss rate is the amount of CLO portfolio principal that a CLO will lose per year due to the underlying CLO portfolio's defaults and losses. For example, an annual default rate of 3.0% and a recovery rate of 75%, will result in an annual default-loss rate of 75 bps on the underlying portfolio. A CLO with higher average recoveries can sustain more defaults because the total collateral pool loss will be lower. Performance generally declines as the default-loss rate increases.
- **Discount rate:** The discount rate is used to determine the present value of future expected cash flows to the equity. While the default-loss rate is a vital assumption for determining the profile of expected cash flows, for CLO equity valuations, the cash flows need to be discounted at an effective yield-to-maturity, called the discount rate. In March 2020, the discount rate for U.S. and European CLO equity published by Citi Velocity was 10%–14%.[6]

Although pre-crisis CLO performance was strong through the financial crisis, post-crisis CLOs are characterized by **even more robust structures.**

## Conclusion

### CLOs are beneficial to include in an investor's portfolio[7]

CLOs offer investors access to the senior secured loan market with tailored risk-adjusted return profiles. By purchasing CLOs, holders can obtain exposure to the senior secured loan market while benefitting from structural protections and favourable capital treatment. CLO equity affords the opportunity to own a senior secured loan portfolio with term financing and no mark-to-market triggers, offering the potential for strong absolute and risk-adjusted returns. CLOs additionally feature low-to-moderate correlation over the long-term with fixed income and equity. In his May 2019 speech, "Business Debt and Our Dynamic Financial System", Jerome Powell, Chairman of the U.S. Federal Reserve, highlighted the benefits of stable term financing provided by the CLO structure:

*"CLOs have stable funding given investors commit funds for lengthy periods, so they cannot, through withdrawals, force CLOs to sell assets at distressed prices."*

Pre-crisis CLOs proved to be resilient
The CLO structure was tested during the financial crisis and proved to be more resilient than corporate debt. In Mr. Powell's May 2019 speech referenced above, he stated that:

*"... CLO structures are much sounder than the structures that were in use during the mortgage credit bubble."*

### CLOs are essential for a well-functioning credit market

The Federal Reserve Bank of New York highlighted in its "FAQs: Term Asset-Backed Securities Loan Facility" publication that securitization markets provide a substantial portion of credit to corporations and consumers.[8] In this respect, CLOs are a crucial contributor to the non-investment grade corporate credit market, providing funding for over half of the US$1.41 trillion of outstanding institutional senior secured loans. They also contribute to liquidity in the active secondary market for senior secured loans.

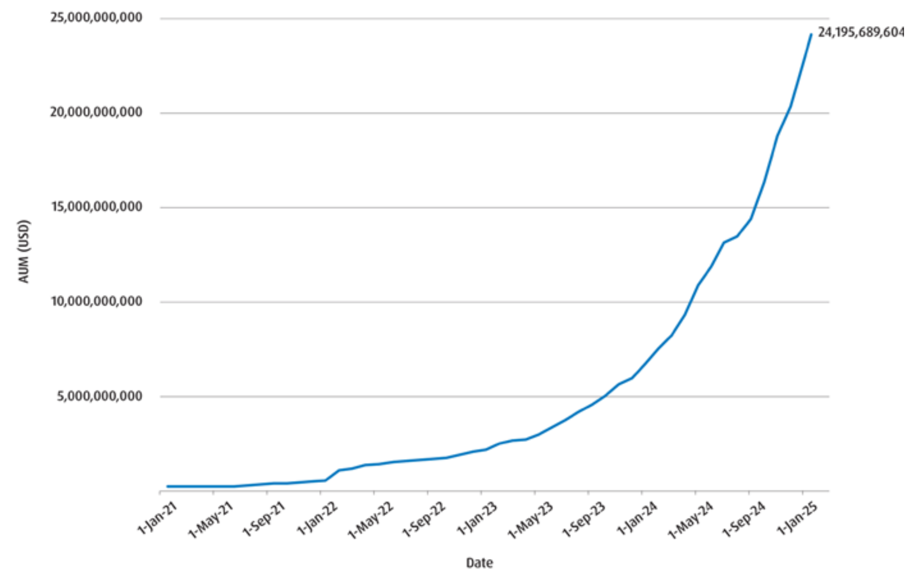
## CLO ETFs

The introduction of the CLO ETF arose as the demand for liquid credit investments has grown over time. The first listed CLO ETF launched in 2020,[9] marking a milestone in making CLO investments more accessible to a broader investor base.

## Advantages of CLO ETFs

- **Diversification:** CLO ETFs invest in a wide range of CLO tranches, reducing the risk of individual borrower defaults. They also offer sector diversification given the exposure to broad set of industries.

### Growth of the U.S. AAA CLO ETF market




Source: Bloomberg/Global Asset Management, as of January 30, 2025.

- **Higher yields:** CLOs typically offer higher yields compared to traditional bonds and investment grade corporate debt.
- **Floating rate exposure:** CLOs have floating interest rates, meaning their coupons adjust based on changes in interest rates.
- **Liquidity and transparency:** Unlike direct CLO investments, which can be illiquid and complex, CLO ETF's trade on major exchanges, offering investors daily liquidity. ETFs also provide transparency by disclosing holdings, allowing investors to see what assets are backing their investment.]
- **Accessibility for retail investors:** CLO ETFs have democratized access to retail investors.

**For more information, contact your Regional BMO Global Asset Management Representative or the BMO GAM Alternatives Team at bmogamalts@bmo.com.**

**Mark Jarosz**
Head, Credit Alternatives
BMO Global Asset Management

[1] JP Morgan.
[2] Bloomberg/BMO Global Asset Management, as of January 30, 2025.
[3] The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.
[4] S&P Global Ratings.
[5] Bloomberg/Global Asset Management.
[6] Citi Velocity (Citigroup), March 2020.
[7] Federal Reserve Bank of New York, "FAQs: Term Asset-Backed Securities Loan Facility," May 26, 2020.
[8] Janus Henderson AAA CLO ETF (JAAA), launched in October 2020.
[9] Provided they match the investors current risk profiles (ability to endure potential financial loss and willingness to accept risk), investment horizons and other important financial considerations.

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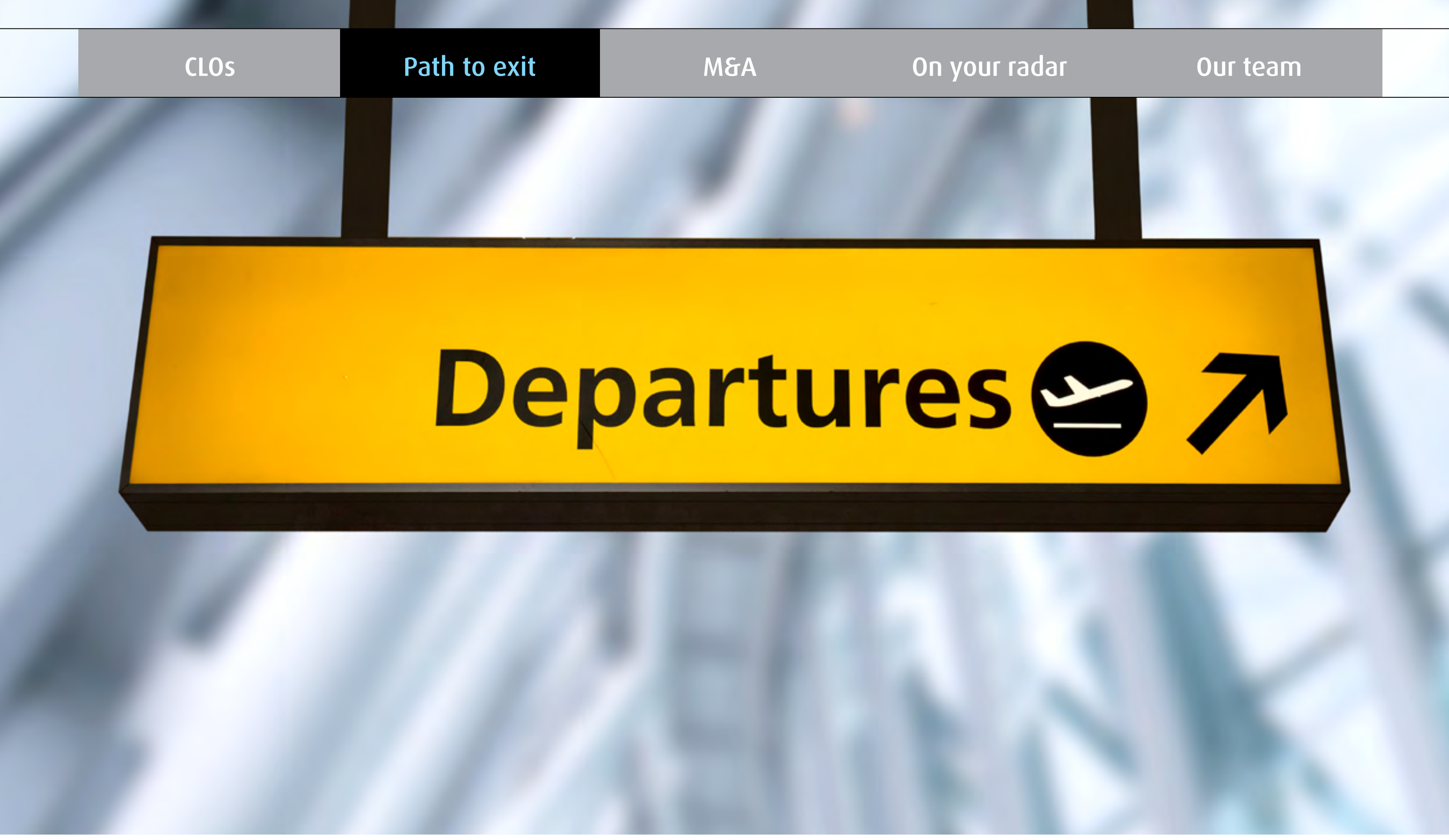


# Path to exit: Behind the scenes of a record-breaking private equity deal

An AlpInvest insider shares how their firm scored big by co-investing in Canada's leader in security services.

**Author:** Sid Murdeshwar | Managing Director – Partner, Co-Investments
AlpInvest Partners

## The who, what and why of co-investments

On the surface, private equity co-investments are simple: taking a minority stake in a buyout alongside a lead private equity firm (also referred to as the general partner or GP). But even experienced financial professionals may not be aware of the years of relationship-building that makes these deals possible.

When we at AlpInvest[1] enter into a co-investment for our funds, everything starts with a GP relationship. Since our founding in 2000, we've built strong ties with more than 200 GPs around the world. Through these relationships, we've developed finely-tuned instincts for each GP's particular strengths and areas of expertise, and we have a view into their pipeline of potential investments. It is through that process that we identify possible co-investment opportunities.

Co-investments are one of the three types of investments that drive AlpInvest's business, the others being primary investments and secondary investments. In primary fund investments, which represent the largest portion of our assets under management (AUM), the funds we manage make a blind pool commitment to a GP, often serving as an important limited partner (LP) and member of a fund's Limited Partner Advisory Board (LPAC). Historically, it is our primaries business that has driven our co-investments business, because the managers that we elect to support at the primary level are typically the same managers that become our partners on co-investment deals. In that sense, generally all of our business lines are highly correlated, and they generally all trace back to our longstanding relationships with GPs.

## Partnering with the right GP

When we evaluate a potential GP, a strong and demonstrated track record of performance is table stakes. Beyond that, transparency is key. GPs with an "open kimono"—meaning that they are clear and forthcoming about both the merits *and* risks of a deal—are preferable to GPs that only focus on the upside while downplaying the potential downside. We also look for GPs that are willing to incorporate our due diligence concerns into their plan and are responsive to any issues we may raise. Finally, from a portfolio management perspective, we like to partner with GPs that take a hands-on approach to value creation. In most cases, GPs tend to support companies' high-quality management teams. However, we also like to see them supplement those management teams by taking an active role in driving the value-creation thesis. In approximately a quarter of our co-investments, we have direct access to the portfolio company's management team via board-level representation and have a bird's eye view to the value creation initiatives being driven at the company level.

Some of the GPs we partner with may be considered competitors of AlpInvest's parent company, The Carlyle Group, Inc. (Carlyle). This potential complication has been addressed through a strict information barrier that was first erected between the two companies when Carlyle acquired AlpInvest more than a decade ago, and which still exists today. At the time of that transaction, it was fairly novel for a lead GP like Carlyle to operate an indirect business like AlpInvest. In the years since, however, that kind of arrangement has become much more commonplace, and our partners understand and accept the parameters in place that are designed to address potential conflicts of interest.

GPs with an "open kimono"—meaning that they are clear and forthcoming about both the merits and risks of a deal—are **preferable to GPs that only focus on the upside while downplaying the potential downside.**

## GP spotlight: BC Partners

BC Partners is a leading alternative investment manager with investments in over 100 countries across Europe and North America.[2] Our relationship with BC Partners goes back decades, and we've invested with them at the primary, secondary, and co-investment levels. That longstanding partnership has provided us valuable insights into how they operate in different economic environments, and where they excel in terms of value creation—the sectors and geographies where they have developed domain expertise.

One of the markets in which BC Partners has a strong track record is Canada. Over the past decade-plus, BC Partners has invested

in several Canadian companies, including the Vaughan, Ontario-based waste management firm GFL Environmental, as well as companies with a significant retail footprint in Canada, like PetSmart. This success in the Canadian marketplace became especially significant in 2019, when we pursued an opportunity to invest alongside BC Partners in Canada's undisputed leader in the security industry: GardaWorld.

## Co-investment case study: GardaWorld

### What is GardaWorld?

Founded in 1995, GardaWorld provides security services to clients across Canada and around the world, including operations in the United States, South America, Europe, Africa, the Middle East, and South Asia. Their services include security guards, mobile patrol, consulting and investigation, loss prevention, and more, and the company provides security screening services at 45 Canadian airports, including Toronto-Pearson (YYZ) and Montreal-Trudeau (YUL).[3] GardaWorld currently employs 132,000 security professionals worldwide.[4]

### A groundbreaking acquisition

AlpInvest-managed funds invested in GardaWorld in 2019 alongside BC Partners, which acquired a majority stake in the company. At the time, it was the largest private buyout in Canadian history.[5]

There were several aspects of the deal that made it an attractive opportunity. For one, GardaWorld's founder and CEO, Stephan Crétier, played a leading role in selecting BC Partners as an equity partner. (As part of the transaction, Crétier and select members of senior management retained substantial ownership of the company.) Crétier had cultivated a very close relationship with BC Partners prior to the deal. That kind of arrangement—a close partnership with a highly successful owner-operator of a company of GardaWorld's scale—is uncommon in the private equity buyout market.

In some cases, working alongside a company's founder from a position of majority ownership could create an uncomfortable situation. That was never the case with Crétier and BC Partners. From the start, both sides, including AlpInvest's funds as co-investors, were fully aligned on a shared vision for the company over the next five-to-10 years, and both we and BC Partners were eager to provide any support required to Crétier and his management team.

We were also intrigued by the brand equity GardaWorld had developed. We believe GardaWorld is a well-known franchise with a stellar reputation in the security industry, both in Canada and internationally. Crucially, we felt the company had also proven capable of creating value more than one way. When we first approach a potential investment, we often ask ourselves: what will happen if one of our core operating assumptions doesn't work out as planned? From organic growth to mergers and acquisitions (M&A), GardaWorld had done it all and done it well. That, along with the strong relationship between company leadership and BC Partners, gave us a high level of confidence in both our investment and the company's value-creation plan.

### COVID-19 and other challenges

Even in the most promising investment cases, things don't always go exactly according to plan. Prior to 2019, GardaWorld was already a marquee brand in Canada and had an enviable international footprint. As such, the company's growth thesis was focused on expanding that footprint in markets like the United States, the Middle East, and Africa. Only months after the co-investment alongside BC Partners, however, the company was faced with a significant disruption: COVID-19.

As a provider of security services at airports, transportation hubs, and live event venues, GardaWorld was directly affected by the shutdown of many public spaces. The health of GardaWorld's employees was always the company's top priority, but from an investment standpoint, an obvious concern was that the demand for the company's services could be negatively impacted. We believe any significant negative ramifications were averted, however, thanks to the excellent work done by BC Partners and GardaWorld's management team. In particular, the cultural leadership provided by CEO Stephan Crétier was vitally important. From maintaining open lines of communication with employees to monitoring financial metrics, his steady hand was critical to making sure the company remained on strong footing and emerged from the crisis on a growth trajectory.

COVID is not the only headwind GardaWorld has faced in recent years. Another change that has directly affected the company's business is the global shift away from the use of cash in favour of digital payment systems. For many years, one of GardaWorld's core services has been cash management, including secure transportation (e.g., armoured trucks), inventory management, and ATM support. If there's less cash being collected by businesses, then obviously there would be less need to move and manage that cash, which was a factor we had to consider at the time of our funds' initial underwriting. Over the course of the investment period, however, the company made a number of investments to smooth this transition. This included the acquisition in 2022 of the Gunnebo Group's cash management business and software, which turned a headwind into a growth engine for the company.

### Preparing for an exit

Whenever our funds underwrite a deal as a co-investor, we consider potential exit options, including whether the company might be attractive to strategic buyers or could be taken public, though we rarely have a specific outcome in mind. There are certain metrics that private equity firms typically use to define a successful exit, including underwritten returns. Our real focus, however, is on the longer term, with investment periods typically in the four-to-six-year range. There are certain situations where it takes longer to generate a liquidity event—an exit, in other words—but that's the kind of time horizon we're generally assuming.

Given that duration, our portfolio businesses, including GardaWorld, tend to be managed not necessarily with an eye toward an exit, but with a focus on sustainable growth. One of the benefits of private equity is that you don't need to manage a company to hit quarterly earnings for short-term purposes like you might with a publicly-traded company. Instead, you can concentrate on long-term value, which is the approach that was taken by BC Partners and the GardaWorld management team. The question was always, "what's the right thing to do for the business?," and that naturally set up the company for success, which in turn drove an eventual exit.

Whenever our funds underwrite a deal as a co-investor, we consider potential exit options, including whether the company might be attractive to strategic buyers or could be taken public, **though we rarely have a specific outcome in mind.**

### A successful outcome

In October 2024, BC Partners' majority interest in GardaWorld was sold to a group led by the company founder and CEO Stephan Crétier. The agreement valued GardaWorld at CAD $13.5 billion[6]—a substantial increase from the valuation of CAD $5.2 billion at the time of our funds' initial co-investment in 2019.

We continue to believe in GardaWorld and see ongoing opportunities for value creation under its new majority ownership. As such, our participating funds, along with BC Partners and the investor group, have retained a portion of our ownership position in order to participate in expected growth.

## Accessing opportunities in private equity

GardaWorld is an excellent example of the types of deals that Canadian accredited investors can access through the **BMO Carlyle Private Equity Strategies Fund**. The trajectory of our investment—from our partnership with a high-quality GP in BC Partners, to the strong leadership of GardaWorld's exceptional management team under often-challenging conditions, to execution on a well-defined value-creation thesis and our continuing engagement post-exit as a minority stakeholder—exemplifies the kinds of opportunities in private equity that would typically be difficult for most investors to access.

It goes back to relationships: the portfolio we're building with the BMO Carlyle Private Equity Strategies Fund is difficult to replicate because it is predicated on decades-long relationships with GPs. Over the course of years, partnerships lead to greater trust and co-operation, which we believe in turn open the door to even more attractive opportunities. Our view is that there is no shortcut to building the kind of GP network that AlpInvest has created—our primary investment team is constantly evaluating new managers, and as we bring in new pools of capital, new relationships are being developed every year. That, in short, is what we believe makes the BMO Carlyle Private Equity Strategies Fund such a compelling offering.

**For more information, contact your Regional BMO Global Asset Management Representative or the BMO GAM Alternatives Team at bmogamalts@bmo.com.**

**Sid Murdeshwar**
*Managing Director – Partner, Co-Investments*
AlpInvest Partners

[1] Any reference herein to "AlpInvest" means "AlpInvest Partners B.V."
[2] "BC Partners – Portfolio," BC Partners, accessed March 26, 2025.
[3] "GardaWorld Awarded $2.7 billion in Contracts with CATSA to Provide Security Screening at 45 Airports Across Canada," GardaWorld, November 24, 2023.
[4] "Security Solutions in Canada," GuardaWorld, accessed March 26, 2025.
[5] "Completion of GardaWorld Recapitalization for C$5.2 Billion," GardaWorld, October 30, 2019.
[6] "BC Partners agrees sale of majority stake in GardaWorld," GardaWorld, October 27, 2025.

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# What M&A can teach us about **private markets investing**

Natalie Camara sits down with Kevin Barnes for a revealing conversation on the parallels between corporate mergers and private markets investing.

**Author** Natalie Camara | Managing Director,
Strategic Relationship Management, BMO Global Asset Management

Interview with Kevin Barnes, Head, BMO Private Wealth, North America

*By now, most readers are aware of the many advantages of private markets investing. Asset classes like private equity, private debt and venture capital can raise the bar on return potential, offering investors access to unique opportunities, such as early-stage or high-growth businesses. Today, we present an interesting parallel in the corporate world: mergers and acquisitions (M&A).*

*Companies consolidate because they see the same opportunity to unlock potential value. For example, when Bank of Montreal (BMO) acquired Bank of the West (BOTW) for $16.3 billion USD in 2021, it was a strategic acquisition aimed to enhance BMO's presence in the U.S. Market. Kevin Barnes, Head, BMO Private Wealth, North America, has played a key role in the integration of the two Private Wealth businesses, and he joins us now to share his insights on the journey thus far.*

**Natalie Camara: Kevin, thank you for being here. From your perspective, what opportunities do you think BMO saw in Bank of the West, and what opportunities has the acquisition created for BMO Private Wealth North America?**

**Kevin Barnes:** Great question. Acquiring Bank of the West was a natural step in BMO's North American growth strategy.

When the deal was finalized on February 1, 2023, BMO gained nearly 1.8 million new customers and over 500 additional branches and offices across 24 states. We also inherited a robust business with great people, diverse client bases and access to key U.S. growth markets. This single purchase allowed BMO to simultaneously expand our offering in Retail Banking, Business Banking, Commercial Banking, and Wealth Management.

At BMO Private Wealth, we have had great success working collaboratively with our Retail, Business, and Commercial Banking partners— **and this acquisition opened the door for our professionals to expand those relationships in new markets.**

At BMO Private Wealth, we have had great success working collaboratively with our Retail, Business, and Commercial Banking partners—and this acquisition opened the door for our professionals to expand those relationships in new markets. As we integrated local experts, we increased our opportunities to introduce new clients to BMO Private Wealth and the services we provide.

The acquisition of BOTW enabled a highly-competitive, scaled entry into attractive markets, such as California, where we can grow exponentially. After the merger, we added offices in San Francisco and surrounding areas–Los Angeles, Orange County, San Diego, Palo Alto, Sacramento–with all of our services. This is in addition to the BMO Family Office presence we already had in the area. We also added more than 200 advisors on the West Coast, as well as Denver and New York, providing a clear demonstration of our commitment to invest in growth.

**NC Every company has its idiosyncrasies and absorbing another mature business means inheriting its people, processes and culture. How do you bring those factors into alignment with your own firm's practices?**

**KB** The key to our success was what we call an "impactful integration." Bringing together a complementary culture, with deep roots in communities, a collaborative approach and perspectives that were aligned with our purpose, to Boldly Grow the Good.

Since the transaction, BMO has focused on bolstering its U.S. Wealth Management services given its strong contributions to overall financial performance, with notable growth in assets under management (AUM) and client acquisition. On my team, specifically, we have concentrated on our U.S. talent—bringing in heavy hitters like Michele Havens to lead the U.S. Private Wealth business. Her experience leading respected U.S.-based financial services institutions and her extensive network as a corporate director will undoubtedly provide our local team with tremendous advantages as we seek to expand our footprint in California.

Ultimately, wealth management is a relationship business, and we must always create the best possible experience for both clients and professionals.

Client retention was—and, of course, is—key to our collective success, which means communicating regularly and proactively to our teams to help them navigate changes for themselves and with their clients.

A big culture emphasis for us is reminding teams that when we go to market, we are one bank. We call it One Client. During integration, we spoke about this continually with a focus on the benefits: clients have access to a combined team of talented professionals whose impact can be greater than the sum of their parts.

**NC You mentioned the importance of building a smooth user experience to help minimize client turnover. How do you effectively communicate changes of this magnitude to clients without disrupting the relationships?**

**KB** Communicating change to clients requires clarity, transparency, and reassurances to maintain trust and minimize disruption.

We know the relationships that wealth professionals build with their clients over generations is paramount. As such, it was incredibly important for us to foresee what client concerns may be—and then provide our professionals with key messages and objectives.

From a Private Wealth client perspective, it was essential that we continue to demonstrate high-touch, white-glove service to existing BOTW clients while maintaining the strength of our legacy BMO clients. We also asked our new and existing professionals to be transparent and proactive in their communication. They should anticipate and address concerns and monitor feedback.

The benefits of the deal also needed to be clear: with more than 1,000 branches in 32 states, clients have access to leading advice and services in more places through our One Client approach. Now our advisors can deliver more robust coverage, with a broader shelf of products, including access to additional partners and teams across BMO.

**NC With all of North America now open to you, the competition must be fierce. What, in your opinion, sets BMO Private Wealth apart in this evolving landscape?**

**KB** How we show up for clients is a powerful differentiator, and it's rooted in our Client Promise – a declaration of how we're going to best serve our clients, by bringing all our Wealth and BMO partners to the table every single time. Regardless of where they enter our ecosystem, it should be a seamless experience for anyone to access all services across BMO.

The Client Promise is, anchored on intergenerational wealth and financial planning for both current and next-generation clients. We help clients:

- Grow wealth with investment, banking, and borrowing solutions
- Protect what matters through insurance and wealth planning solutions
- Optimize taxes with strategies and cross-border solutions
- Manage legacies with trust and estate, and philanthropy services
- Manage milestones with a personalized wealth plan

At BMO, we have focused our growth strategy on our North American Model. By establishing a

strong foothold across the border, we are able to provide unique services for our clients as their needs evolve.

As we continue to expand our North American presence, our hope is to provide future opportunities alongside our partners in BMO. The benefits could be significant: such as diversification of assets, access to global investment opportunities, tax optimization and estate planning, enhanced banking and credit solutions, and innovative tools.

**NC We're now more than a year removed from closing. Can you share any great wins in the Private Wealth business that further demonstrates your momentum?**

**KB** The expansion of our footprint and service offering are good indicators of our progress. As we continue to focus on *Winning the West*, we must look to how we service our clients across the U.S.

Case in point: we recently brought onboard an extraordinary group of 18 professionals with decades of experience, who will exclusively provide holistic wealth solutions to U.S. law firms and lawyers. The team brings extensive experience in serving major U.S., U.K. and European law firms. This addition is expected to provide our clients with integrated banking, trust, deposits, treasury management and investment services. This expansion aligns with our broader growth strategy to deepen our presence in specialized markets and offer comprehensive financial solutions to professional clients.

**NC Listening to Kevin's experience reminds me why the parallels between M&A and private markets investing are so compelling. In both cases, success comes from identifying hidden value, navigating complexity, and aligning people, strategy and vision towards a common purpose. Whether integrating two institutions or selecting private market opportunities for clients, the objective is the same: to build something stronger, more resilient, and more valuable over time. That is the essence of thoughtful investing—and it's why private markets continue to play an increasingly important role in long-term wealth creation.**

**For more information, contact your Regional BMO Global Asset Management Representative or the BMO GAM Alternatives Team at bmogamalts@bmo.com.**

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# On Your **Radar**

## Resources for the alternative investor

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Introducing the BMO Partners Group Private Markets Fund ▶

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Client Aid A (Series F | Chinese)
Client Aid B (Series F)

#### LEGAL
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Subscription Agreement Tool (Smart Form)
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#### PRODUCT
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Common Due Diligence Questions (Client)

### BMO CARLYLE PRIVATE EQUITY STRATEGY PARTNERSHIP

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#### PRODUCT
Monthly Commentary (Series A | February 2025)
Monthly Commentary (Series F | February 2025)
Monthly Commentary (Series A | January 2025)
Monthly Commentary (Series F | January 2025)

## BMO GAM's Alternatives distribution team

**Guillaume Lagourgue**
Managing Director,
Alternatives Distribution
guillaume.lagourgue@bmo.com
416-779-7205

**Natalie Camara**
Managing Director,
Strategic Relationship Management
natalie.camara@bmo.com
604-616-5485

**Lillian Ferndriger**
Director,
Alternatives Distribution
lillian.ferndriger@bmo.com
437-332-0734

**Adam Abitbol**
Vice President,
Alternatives Distribution
adam.abitbol@bmo.com
514-242-1702

**Kylie Fung**
Head of Strategy,
Alternatives Distribution
kylie.fung@bmo.com
416-706-7357