

New twist on private equity in RIA space: Silent minority ownership

Upstart Kudu Investment Management acquires piece of a second advisory firm

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Kudu Investment Management acquired a minority stake in First Long Island Investors in a deal that highlights a new twist on [private-equity capital finding its way into the advisory space](#).

The stake in the \$1.6 billion RIA marks Kudu's seventh minority investment and its second investment in a registered investment adviser.

Unlike [traditional private-equity investors](#), which often take majority ownership stakes and operate under strict liquidity guidelines that could mean selling the stake in seven years, four-year-old Kudu claims to be a long-term investor that is buying risk and reaping yield directly from an RIA's income stream.

"The difference between us and private equity is our capital is permanent," said Charlie Ruffel, managing partner at Kudu.

"Private equity gets returns through follow-on transactions within a certain period of time, but we don't have that obligation," Mr. Ruffel said. "We're always the minority investor, which means when we make these investments, we back the management of the firm. What we're trying to do is solve for capital problems, but the day after the deal they are in as much control as they were the day before."

Mr. Ruffel declined to say how much Kudu invests in firms or what kind of yield it earns in return, but Kudu and its partners collectively manage \$19 billion for institutional and individual investors, according to a press release.

Kudu was founded in 2015 and is [backed by capital partner White Mountains Insurance Group.](#)

In addition to owning stakes in five asset management firms, Kudu has also purchased a minority share of [Bingham Osborn & Scarborough](#), a \$3.3 billion RIA based in the San Francisco area.

David DeVoe, managing director at the investment bank DeVoe & Co., said he is not surprised to see more creative forms of capital entering the RIA space.

"A growing number of advisers are realizing that the value of their RIAs has outstripped the buying power of next-generation advisers," Mr. DeVoe said. "It's a good problem to have, until it becomes a really big problem."

For Jericho, N.Y.-based First Long Island, taking on a silent minority partner that adds some capital to the firm was the perfect strategy.

"The Kudu team really understood our service culture and entrepreneurial DNA," said Robert Rosenthal, First Long Island's chairman, chief executive and chief investment officer.

"We were attracted to their philosophy of only investing in firms that continue to be managed and controlled entirely by their existing owners," Mr. Rosenthal said. "Kudu also brings us a top-tier and growing network of partner firms and relationships we hope to leverage as we enter our next phase of growth."

(More: [Private equity loves IBDs, but will that last?](#))