



## **PagnatoKarp learns going it alone has its limits, jumps into the arms of another serial buyer, Cresset, after declaring its independence from HighTower only four years ago**

Cresset makes largest acquisition yet with \$2.5 billion PagnatoKarp, lifting its assets to \$9.5 billion, nearly triple just two years ago.

By Lisa Shidler for RIABiz

**Brooke's Note: Principals of RIAs don't always want independence. Individualism can be a rugged existence, after all. Or, they want it in the right dosage. Sometimes that split-mindedness and breeze-swaying plays out on a big stage where firms come in and out of entities -- lurching big then small then big then small -- then larger one more time. It all changes over time as continuity becomes a bigger issue and the excitement of ruggedness fades. A bigger firm like Cresset can make that career-pathing seem easier. In this case, Cresset is also more purpose-built for UHNW investors, like a latter-day [GenSpring](#) and it's knocking on the door of \$10 billion of AUM, with this PagnatoKarp deal and its \$4.8 billion of AUA a giant one-signature advance toward critical mass.**

Advisors Paul A. Pagnato and David W. Karp have figured out independence isn't all it's cracked up to be, especially when it comes to succession and tapping into the capabilities of a larger firm.

The \$2.2 billion Reston, Va., RIA has just jumped into the arms of Chicago-based Cresset Asset Management after fleeing Merrill Lynch in 2011 for HighTower Advisors LLC -- also a Chicago-based roll-up -- and then going it alone as [PagnatoKarp](#) in 2016. See: [Fearless Merrill Lynch team breaks away with \\$1 billion in broad daylight](#)

A leading recruiter in the industry says the latest move by PagnatoKarp is "ironic."

"They leave a big firm to go independent, and then have to sell to a bigger institution, presumably similar to the one that they left in the first place, in order to unleash the value they created by being independent," says Danny Sarch, president of Leitner Sarch Consultants.

But Eric Becker, Cresset's co-founder and chairman, sees it differently.

"I think it's the evolution from Merrill to HighTower to being their own firm and innovators. I like that evolution. Now, their next step is to partner with us and we're so excited," he says.

"Once they finally got to fully build their multi-family office they wanted to take it to the next level." See: [Cresset cracks the family office market with a unique proposition; a suite of touchy-feely services that go beyond money management and help clients manage their lives](#)

## Asset growth

At the time of the departure from HighTower, PagnatoKarp reported its assets were \$2.5 billion. The latest ADV shows its assets at \$2.2 billion. See: [After chats with Phyllis Borzi, a flagship HighTower team executes a 'deliberate' breakaway to form a \\$2.5-billion RIA](#)

The company points out that the 2016 figure was AUM and AUA combined together. The current \$2.2 billion figure is just AUM. PagnatoKarp's website lists its AUM and AUA total as \$4.8 billion.

"They've grown a lot in the past few years," Becker says.

Private-equity entrepreneurs Becker and Avy Stein founded Cresset in 2017 with a vision to reinvent wealth management and with a firm belief that clients deserve better. Cresset's assets are now at \$9.5 billion, nearly triple just two years ago.

Neither Pagnato nor Karp were made available for comment and did not respond to LinkedIn requests. Details of the transaction also were not released.

Becker declined to comment on the price of the deal or whether there were earn-outs involved. But he did state that all 30 of PagnatoKarp's staff including Pagnato and Karp would gain ownership in the firm. Both firms were employee-owned.

## Plugging in

Succession planning was a factor in this deal for Pagnato, 56, and Karp, 50, Becker says.

"They were considering succession. I think the reason they selected Cresset from among their choices is the culture is so compatible. Our cultures are very similar and aligned and our business is very similar. I think this is a powerful alignment between the two firms."

The deal improves PagnatoKarp's ability to win and retain ultra-high net worth clients -- namely investors with \$50 million or more, says John Furey, principal of Advisor Growth Strategies in Phoenix, Ariz.

"PagnatoKarp is very successful and significant as a stand-alone entity. Combining with Cresset allows that team to plug into a platform with significant family office capabilities and a breadth of expertise to service the UHNW space."

"Certainly this transaction also helps Pagnato with business continuity and the opportunity to provide its team with enhanced career pathing within Cresset," he adds.

Cresset's acquisition was finalized on Tuesday (June 16), but the news was embargoed until today (June 17).

The union creates a \$9.5 billion RIA and family office with 150 staffers (including PagnatoKarp's 30 employees), with offices in Chicago, Reston, Atlanta, West Palm, Fla., Seattle, San Francisco, Minneapolis, and Denver. See: [In historic UHNW talent grab,](#)

[Cresset Capital Management makes three more head-turning poaches -- with Deloitte, Wells Fargo and Abbott Downing pedigrees -- in its bid to create a national family office](#)

### **Impressive family office vision**

For Cresset, this is the firm's biggest deal since it was founded in 2017 as a giant family office with the idea that a large multi-family office will win long-term against the challenges of small MFOs, never mind ever-popular single family offices. SFO economics are truly challenged, says Thomas R. Livergood, founder and CEO of Family Wealth Alliance.

"Akin to a private jet, SFOs have the look and feel of something a business owner or top exec – once they transition out of that world – can control and step into the cabin of their own craft, piloted by a crew at their beacon call, if you will," he says. "Having said that, private jets rarely make any economic sense, and the same is true for SFOs. SFOs cost 2x to 3x what a private family can experience at a top-flight MFO. And here's betting that the services of best-in-class MFO will meet or likely surpass that of many SFOs, just based on pure scalability and access to better talent."

It intends to maintain the PagnatoKarp brand for at least a year, though Becker concedes that could change.

"Our plan is to transition PagnatoKarp to Cresset. It could be a year. They've done a nice job building their brand," Becker says.

The two firms are similar, and PagnatoKarp has grown a great deal on its own since it left HighTower, Becker says.

**But now it'll make a quantum advance, Furey says.**

**"Cresset has aspirations to build a significant national family office and is a big positive step forward."**

The timing in 2020 may be right for an all-in MFO venture to resonate with suddenly ultra-wealthy entrepreneurs who don't need conspicuous consumption to feel complete, Livergood says.

"I believe multi-family offices are finally being taken seriously by newly-minted billionaires, whereas before, the default was always the private jet, i.e. single family office."

Both founders are remaining with the firm. Karp will focus on advising clients. Pagnato will be part of the corporate team with a focus on innovation, digital technology and marketing.

Becker says his interest in the firm was sparked two years ago when he heard Pagnato speak at a conference. He says he realized Pagnato was the kind of advisor that he would have liked to have been able to hire.

"I was so impressed with his vision and what he's doing and how his firm was serving clients," Becker says.

"Our desire was to create a new paradigm for wealth management by democratizing the family office," said Pagnato in a statement.

"In Cresset, we have found a partner that shares that vision and has the scale and depth of capabilities to greatly expand the services we offer to a broader segment of individuals and families."

Cresset doesn't have account minimums, but the average client has \$15 million in assets.

Both firms hold assets at Fidelity and Schwab. Both firms also use Salesforce, Redblack, and Addepar. So, integration should be a breeze for for CRM, rebalancing and performance reporting, Becker says.