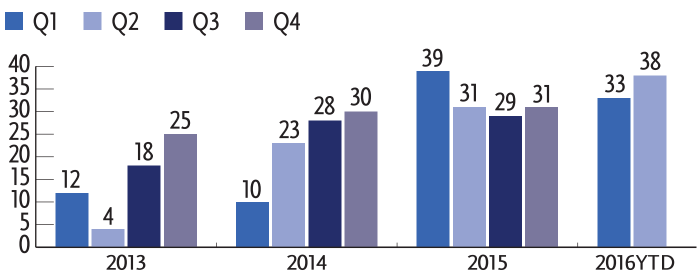
DeVoe & Company

RIA M&A Activity Maintains Pace through Mid-Year 2016

After a record-breaking 2015, RIA mergers and acquisitions maintained their swift pace through the first half of 2016. The industry saw 71 transactions during the two-quarter period, essentially on pace with the 70 transactions completed during the same period last year, according to research executed by DeVoe & Company.

Overall, transaction activity in the most recent quarter, with 38 transactions versus 31 in Q2 2015, demonstrated continued M&A strength in the RIA industry. "The record-breaking M&A activity level of 2015 has sustained itself through the first two quarters of 2016. Evolving acquisition models and new entrants suggest continued momentum in the future," said David DeVoe, Managing Partner at DeVoe & Company.

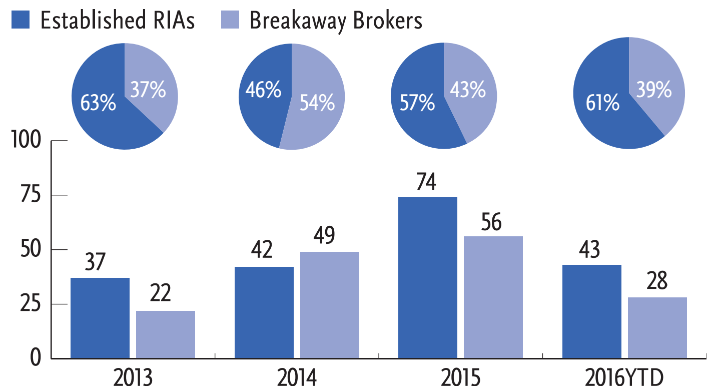
M&A Activity Continues Steady Pace



The type of sellers involved in transactions continues to evolve with trends in the industry. In past years, more transactions were Breakaway Brokers Joining RIAs – advisors leaving wirehouses or other broker/dealer models to join RIAs. In 2016, Established RIAs are selling in greater numbers. "The primary driver of RIA M&A transactions today is the value and power of scale. Size is becoming more important in this industry, as regulations and technology options become increasingly complex," said DeVoe.

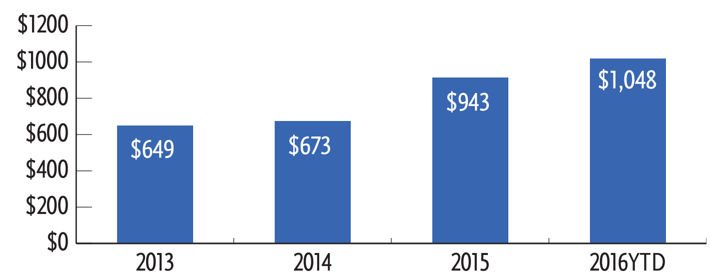
The shift is also driven by the expiration of the deluge of seven-year forgivable loans wirehouses made in 2008 and 2009 to retain or entice large broker/advisor teams. With the wave of these loans being 'forgiven' in 2015, a spike in the number of wirehouse advisors who became free agents, left their employers, and often joined established RIAs occurred last year.

Number of Transactions: Established RIAs vs Breakaway Brokers Joining RIAs



In the first two quarters of this year, 43 of the 71 transactions, or 61%, were Established RIAs, compared to 46% for the full year 2014. Not only are there more RIA deals, the deal size has also increased. The average size of an acquired Established RIA (excluding firms with over $5B) broke through the $1B AUM mark in 2016. This steady increase in the average size of seller is not only reflective of the growing size of RIAs in general, but more specifically of the appetite of deep-pocketed acquirers that are seeking greater scale in the transactions they execute.

Average AUM of Established RIA Sellers
(with over $100MM and less than $5B)

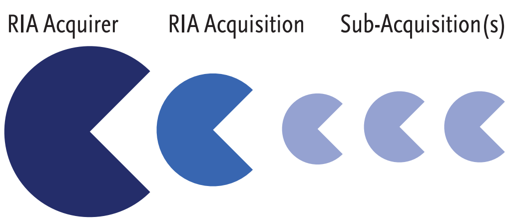


Sub-Acquisition Model Evolves and Accelerates Momentum

Sub-acquisition has been a growing trend in the RIA M&A space, but the industry is experiencing a new variation on the theme. Sub-acquisitions have peaked over the last two years, and there is evidence that this trend will accelerate in the future.

"Sub-acquisition" is the term used for a transaction executed by a firm that was a previously acquired RIA by a third party. To date, we've mostly seen consolidator-type firms in this space. Firms such as Focus Financial Partners, Fiduciary Network and others provide their acquired affiliates with the capabilities and/or capital to make sub-acquisitions, seeking to drive growth across the network. For example, Focus Financial purchased Buckingham in January 2007. Since then, Buckingham, with the support of Focus, has acquired 22 firms or teams (including three transactions in 2016 representing $700MM in AUM). Clearly, sub-acquisitions can be an effective accelerant to an acquisition strategy.

Acquirer- Acquisition-Sub Acquisitions



In the first half of 2016, eight sub-acquisitions were recorded across the industry.

In addition to consolidators, private equity firms are now getting into the act. PE firms are increasingly acquiring established large RIAs with the primary intention of increasing growth through future sub-acquisitions. In the past, we've seen private equity firms buying or funding holding companies (as opposed to true RIAs), whose core business strategy is to grow through acquisition. The recent trend has been for private equity firms to bypass the consolidator model and directly acquire multi-billion dollar RIAs as the acquisition (or sub-acquisition) machine.

Genstar Capital, LightYear Capital and Long Ridge Equity Partners are three recent examples of private equity firms that have invested in RIA mega-firms with the intention to add additional firms in the future. Genstar's ownership in Mercer, has helped fuel several transactions, as has LightYear's ownership in Wealth Enhancement Group. In addition, Long Ridge Equity Partners' announcement to acquire a $35MM stake in Carson Wealth Management in May of this year specifically stated that adding additional firms to the platform is part of the strategy.

"The evolution of the sub-acquisition strategy further blurs the lines between 'consolidator/roll-ups' and 'serial acquiring RIAs'," says Tim Forest, Managing Director, DeVoe & Company. "We expect to see the continued variations of M&A strategies, as smart investors continue to think creatively about solving RIA succession planning challenges and providing advisors with broader scale and capabilities."

Sub-Acquisition Activity

RIA Acquirer	Acquired RIA	Sub Acquisition	AUM ($MM)	Date
Focus Financial Partners	Buckingham Asset Management	Denver Money Management	$153	January 2016
		Solutions for Wealth Management	$175	March 2016
		Herbein Wealth Management	$360	July 2016
	Merriman Wealth Management	Summit Capital Management	$520	March 2016
	Bridgewater Wealth & Financial Management	Triton Wealth Management	$154	January 2016
Genstar Capital	Mercer Global Advisors	Kanaly Trust	$2,000	March 2016
		Spruce Hill Capital	$ 110	November 2015
LightYear Capital	Wealth Enhancement Group	HHG & Company	$1,100	March 2016
Long Ridge Equity Partners	Carson Wealth Management	Specific Intention to acquire RIAs		

HighTower Comes Out of the Gate Strong with Their M&A Strategy

HighTower, which made a name for itself by helping advisors leave wirehouses to join their independent platform, has demonstrated an impressive start for their new strategy to acquire RIAs. Since announcing their RIA acquisition strategy nine months ago, they have acquired four RIAs with nearly $2B in AUM. Acacia Wealth, a boutique multi-family office in Beverly Hills with more than $500 million in assets, was the most recent RIA to join HighTower.

What's driving HighTower's initial success? Our conversations around the industry and with principals of some of the acquired firms indicate that the company's investment in creating a very comprehensive and integrated technology platform that was required for the breakaways is a key selling point. Some advisors see HighTower's turnkey solution as superior to their current band-aid approach to technology. They also see joining the company as a way to reduce the manpower required to run and continuously improve their current solution. HighTower's methodical development of a brand of "doing the right thing for the client" – another key selling point for breakaways - also resonates with advisors.

With four transactions in nine months, the company has demonstrated a strong start in the RIA market. But clearly they have not taken their eye off their core business: Five breakaway teams with a combined $1.2B in AUM joined HighTower in the first two quarters of 2016 alone.

Starting Strong: HighTower's RIA Acquisition Activity

RIA Acquired	AUM	Location	Date
RDM Financial	$700	Westport, CT	December 2015
Archer Wealth	$400	St. Louis, MO	June 2016
JM Egan	$300	Madison, NJ	June 2016
Acacia Wealth	$500	Beverly Hills, CA	July 2016

Mid-Year Assessment

The early summer of 2016 has been marked by turbulent times in the US and global stock markets following the Brexit vote, along with turmoil in the economy, world and political arenas. Despite this backdrop, activity in RIA M&A didn't miss a beat and maintained the record pace set in 2015. As noted earlier, we only expect activity to accelerate in coming years.

With all the acquisition activity, the SEC's proposal to require succession plans for advisors along with more robust continuity planning provides a sound wake-up call for many in the industry. In our view, the SEC's proposal is much needed, given that firms are generally not engaging in this important planning. Study after study indicates that only 30% of advisors have a written succession plan. For an industry where the average advisor is a few years from the nation's typical retirement age, this is a disconcerting situation. The good news is planning for the future is a very good thing – and executed properly is an opportunity to engage client and staff more deeply. If your clients aren't asking you aloud 'what happens to me, if something happens to you,' you can rest assured they are wondering it quietly (and your staff is wondering the same thing regarding their careers). Creating and articulating this plan will help everyone sleep better at night and will surely yield value to all parties.

It is important to note that firms with over $500MM might have a different challenge: In many cases, the RIAs have simply become too expensive for their intended next generation of owners to acquire. Creating a written succession plan will provide you with clarity on whether 100% internal succession is an option. And, if so, becomes a springboard to determine different ways to creatively engineer a path for full internal ownership.

The outcome where next generation advisors simply can't afford to become the exclusive owners isn't necessarily negative or at odds with the concept of them being successors. But it certainly isn't what many advisors imagined. Creative structuring can yield ownership and leadership paths for the next generation to run the company and financially benefit from continued success. Often, this will be within a larger organization or with new financial partners. Next-gen advisors are critical assets who can and should be involved in the future of larger RIAs, it just might be in a model that is different from the first generation.

Regardless of the circumstance, starting the succession planning process today will yield more options - and higher valuations. In the fine words of Abraham Lincoln: "You cannot escape the responsibility of tomorrow by evading it today."

Research Methodology and Data Source:

The DeVoe RIA Deal Book seeks to track all mergers, sales and acquisitions of firms that are registered with the SEC as a Registered Investment Advisor. The report includes all transactions identified with over $100 million in Assets Under Management, based on a recent data source (e.g. SEC IARD website, a press release) in an effort to maintain consistency of data over time. The report includes advisors who leave other financial service institutions to join RIAs and are expected to bring over $100 million in AUM to the new company, as this transition would likely include consideration paid for said transition.

About DeVoe and Company:

DeVoe & Company is a leading management consulting and investment banking company serving the RIA industry. We have helped over 200 firms achieve their business goals since launching four years ago. Our team is comprised of former business strategy consultants and former presidents of RIAs.

Our services fall into three categories:

Valuation: We pride ourselves on providing the most analytically rigorous and actionable valuations in the industry.

Management Consulting: We support clients with Strategy, Succession Planning, Growth, and Human Capital engagements.

Investment Banking: We support RIA owners with their goals to sell, acquire or merge their companies.

We are a goal-based consulting company that is committed to helping our clients accelerate the achievement of their objectives.

Call us at 415.813.5066, email us at info@devoe-co.com or visit us at www.devoeandcompany.com

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From Nuveen

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Positive Trends Expected to Continue in the Municipal Markets

THE U.S. ECONOMY IMPROVED SLIGHTLY in the second quarter, but fixed income markets were increasingly influenced by events overseas. U.S. GDP growth increased to approximately 2.5%, driven by consumer spending and housing and hurt by weakness in exports and industrial activity. Labor market data was mixed, and inflation increased slightly. The U.S. economy appeared strong relative to the rest of the developed world, where growth was negative or barely positive with significant downside risk. Municipal market performance thrived, with low volatility, good liquidity and relatively strong total returns.

If rates remain low, as we expect, income will be the main source of performance. We seek to enhance income in a disciplined way through the yield curve and through credit selection. We believe this process may help provide investors the cushion that is increasingly difficult to find.

The municipal market has performed well overall with steady demand, despite absorbing significant supply and enduring disconcerting headline news out of Puerto Rico. We believe it would require a new and unexpected event to upset the current trends. In the absence of such an unpredictable shock, we expect this stable, yield-driven performance to continue. Want to learn more? Read the entire market commentary here.

Additional commentary of interest:
Puerto Rico Begins a Long Road to Fiscal Balance.
Why Preferreds Now?

Contact your Nuveen Advisor Consultant at 800.558.4487 or visit us at nuveen.com

SOURCES

Gross Domestic Product: U.S. Department of Commerce

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