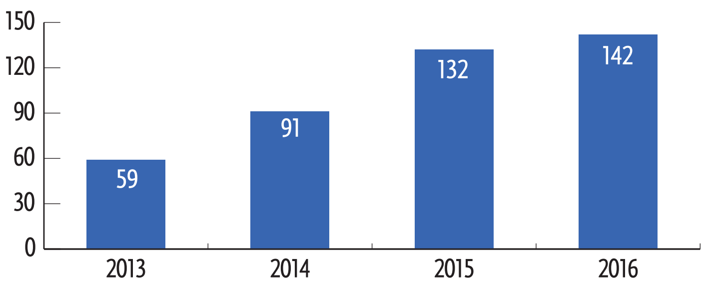
DeVoe & Company

2016: Another Record Year for RIA M&A Activity

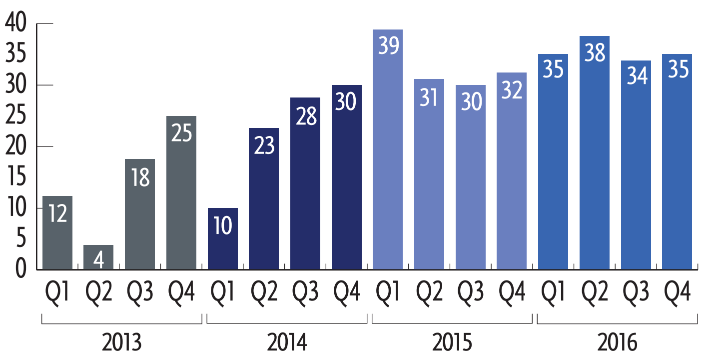
Merger and acquisition activity in the RIA industry hit a new all-time high of 142 transactions executed in a single year, according to research performed by DeVoe & Company. This third successive record year of M&A is an 8% increase above the previous record of 132 transactions. The fourth quarter was the ninth successive quarter of 30 or more transactions, demonstrating a sustained and consistent robust M&A market.

"RIA M&A activity continued at a record pace in 2016," said David DeVoe, Managing Partner at DeVoe & Company. "Advisors are selling, buying and merging primarily for strategic reasons, seeking to improve their offerings to clients, expand their services and capture the benefits of scale."

Total M&A Transactions by Year

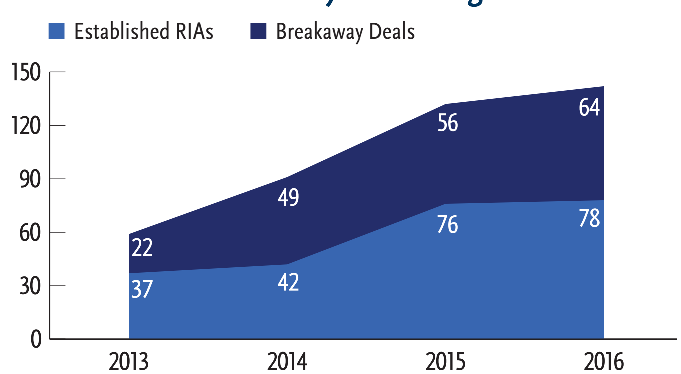


Total RIA M&A Activity by Quarter



A total of 78 *Established RIAs* sold during 2016, slightly exceeding the 76 sales in 2015 and twice the volume that the industry experienced just a few years ago. *Breakaway Advisors* continued their steady march to greener pastures. Nearly 65 teams and individuals left RIAs, Wirehouses or IBDs to join RIAs during the year, nearly triple the number of Breakaways in 2013. This surge is being driven by the expiration of the large number of forgivable loans that wirehouses signed to retain (or add) advisors during the market decline in 2008 and 2009. As these obligations become fulfilled, advisors are often voting for the independent model with their feet and joining established RIAs (advisors who start their own RIA or move to another wirehouse or IBD are not captured in this report). Initial indications suggest that the new Department of Labor rules will also drive an increase of breakaway activity, although this trend may be more pronounced on the broker-dealer side.

Established RIAs and *Breakaway Advisors* Transactions Are Steadily Increasing



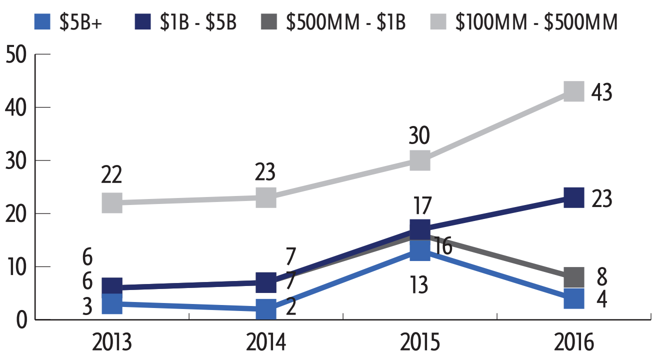
A Divergence Amongst *Established RIA* Sales

After several years of 'all boats rising with the tide,' 2016 experienced a divergence of seller activity by size. *Large RIAs* (established firms managing assets between $1B and $5B in AUM) further increased their upward trajectory in 2016, as did *Small RIAs* (firms managing between $100MM and $500MM in AUM). This momentum at the high end is being driven by the interest of a wide variety of deep-pocketed acquirers who seek to add several billion in AUM in a single transaction. The $100MM to $500MM firms gain the benefits of scale and strengthen their offering through sales to larger firms, enabling them to compete more effectively in an evolving marketplace. These firms are being courted aggressively and successfully by the affiliates of consolidators (see the Sub-Acquisition section below).

"*Large RIAs* continue to be in high demand as more well-financed buyers enter the marketplace," said Vic Esclamado, a DeVoe & Company Managing Director. "The increasing sales of these $1B to $5B AUM firms contributed to the average size of an *Established RIA* exceeding the $1 billion AUM mark in 2016."

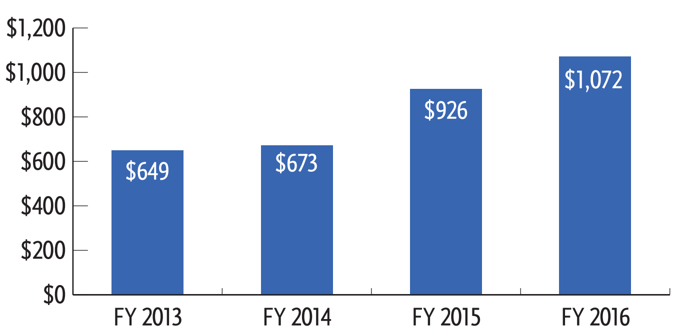
By contrast, some seller segments experienced a decline: The $5B+ Mega RIAs receded from their 2015 spike of 13 deals to their historical average of low single digits. And Mid-Sized RIAs, managing between $500MM and $1B, were caught in the middle, as some buyer categories were focused on larger firms and other buyer categories were focused on smaller firms.

After Years of Consistent Growth, Some Segments Decline



Average AUM of Established RIA Sellers

(with over $100MM and less than $5B)

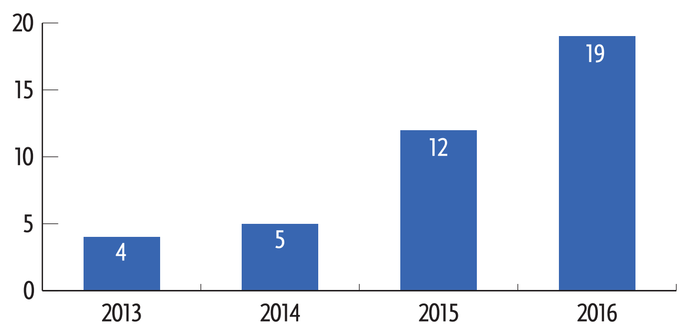


Sub-Acquisitions Driving Substantial Results for Consolidators

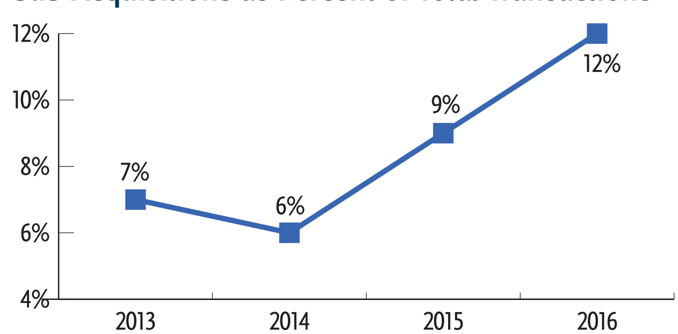
2016 was a breakout year for sub-acquisitions, which have nearly quadrupled since 2014 and now comprise 22% of all Established RIA transactions. These transactions, defined as a previously acquired firm (aka affiliate) making an acquisition, are emerging as a new accelerant for M&A activity. Like spinach and Popeye, the parent company's M&A expertise, capital and resources enable these acquisitive affiliates to flex their M&A muscle, acquiring more aggressively and negotiating better deals than a typical RIA. Clearly, smart sellers will contemplate hiring an expert before they arm-wrestle through negotiations with these powerful parties. But, when the deal is done, all parties benefit from methodical, time-tested processes to better ensure that the transition is fluid and successful.

Sub-acquisitions have become an important extension of many consolidators' M&A strategies, enabling the parent to accelerate growth while engaging a segment of the market that otherwise would not have been an efficient use of time. Consequently, these transactions have increased sharply from the 4 or 5 acquisitions a few years ago to the 12 and 19 deals executed in 2015 and 2016, respectively. Sub-acquisitions now comprise 12% of all RIA transactions documented in 2016, and an impressive 22% of all Established Firm transactions.

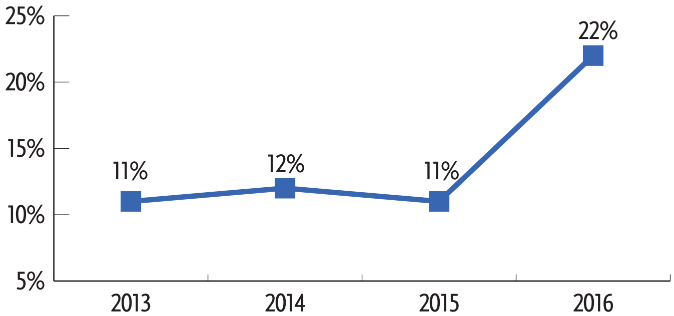
Total Sub-Acquisitions by Year



Sub-Acquisitions as Percent of Total Transactions



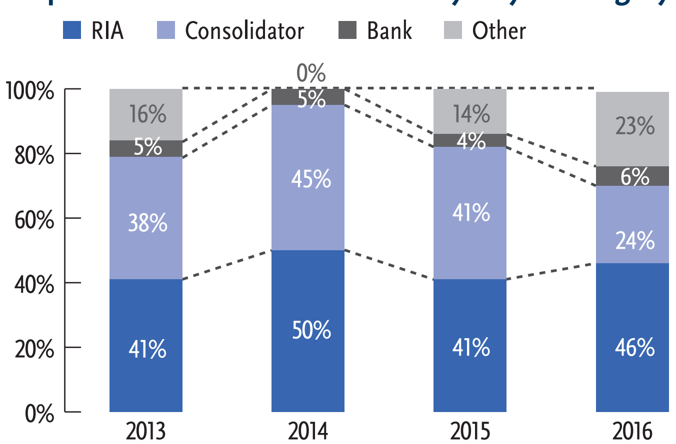
Sub-Acquisitions as Percent of *Established RIA* Transactions



RIA and Consolidators Dominate as the Industry's Buyers

RIAs dominated as the most active buyer category in 2016, acquiring nearly 50% of the *Established RIAs* sold. Consolidators acquired 24% of the *Established RIAs*, a significant decline from roughly 41% position in 2015 and 45% position in 2014. Banks acquired 6% of *Established RIAs* (which is right in line with recent years), while the industry experienced a spike in *Other* buyer category. A wide variety of atypical firms and players entered the RIA acquisition game under the *Other* category, including private equity firms, diversified financial services companies, broker-dealers, a technology company and even a bio-tech company. Perhaps this is indicative of the wide appeal of the independent model. As a result, 23% of *Established Buyers* chose to sell to a company that isn't an RIA, consolidator or bank.

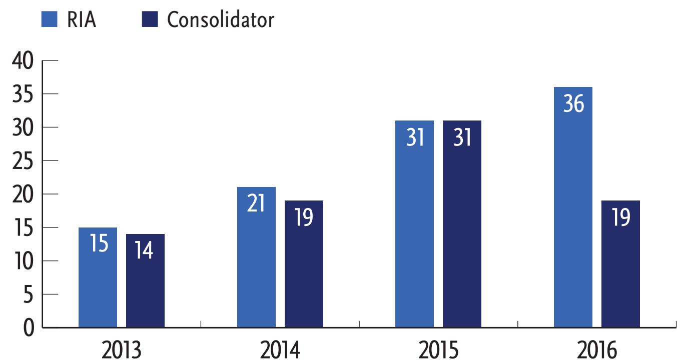
Acquisitions of Established RIAs by Buyer Category



One might observe that the *RIA* buyer category has increased the number of transactions steadily each year and has acquired the most RIAs by percentage each year for the last four years. This momentum is partially due to the successful acquisition strategies of national RIA firms like Wealth Enhancement Group, Aspiriant, and Mercer, each of which acquired two or more RIAs in 2016 alone.

Established RIA Acquisitions by RIAs versus Consolidators

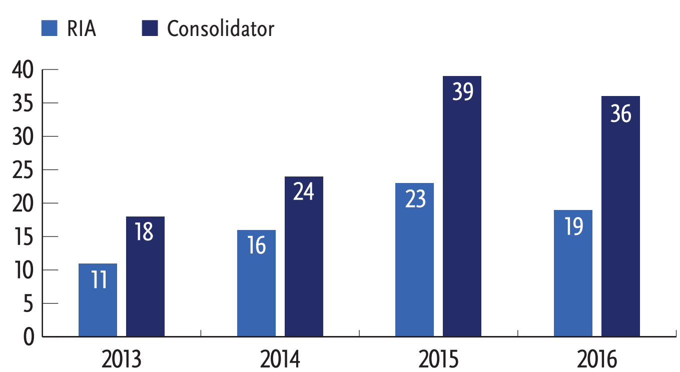
Side by Side annual Comparison of the two Categories



However, one could argue that the *Consolidators* are truly the dominant acquiring force in the industry. If you re-allocate the 'sub-acquisitions' executed by 'consolidator-owned RIAs' from the *RIA* buyer category to the *Consolidator* buyer category, the *Consolidator* category swells to be consistently greater than the *RIA* buyer category.

Established RIA Acquisitions by RIAs versus Consolidators

With Sub-Acquisitions Re-Categorized to Consolidators



Regardless of how you define the appropriate 'buyer' of an RIA, there is a clear horse race between *RIAs* and *Consolidators* for the most attractive acquirer in the industry – no other buyer category comes close.

Looking Forward

DeVoe & Company expects that RIA M&A activity will continue to increase and could potentially accelerate dramatically during the next five to seven years. The independent model continues to resonate with the investing public, creating incentives for firms to further improve through strategic transactions and making RIAs attractive acquisition targets for a wide breadth of buyer types.

On the seller side, RIA owners are being more open and strategic with their decisions to sell. Scale matters in today's more competitive marketplace, and scale can be achieved quickly through mergers. Advisors are using M&A to increase the breadth of services, expand geographic footprints, and decrease the risk and headaches related to compliance and technology.

On the buyer side, the momentum of Consolidators will be accelerated by their sub-acquisition activity. One can expect greater investments in this strategy as it continues to yield results. Private equity firms and many RIA principals continue to think creatively about the space, blurring the lines between RIA and Consolidator (e.g. Wealth Enhancement Group, Aspiriant, Mercer). The industry will likely continue to be dynamic, with multi-billion dollar firms vanishing in short order (Convergent, Lebenthal), while new entrants come in with unprecedented momentum (Steward Partners, Snowden Lane). The net increase in RIA buyers is ultimately good for the community, providing potential sellers with a greater number of business models in the marketplace and increasing the likelihood they will find their ideal fit.

And one cannot ignore the growing and aging elephant in the room: The demographics of owners. The continued procrastination of the RIA community to execute succession planning (70% still do not have written succession plans) will likely force a surge of unanticipated sales in the future. More and more owners will eventually find that the growth of their company has conspired against them: When they finally seek to put their successors in place, they will often realize that their companies are now too expensive for their next generation to afford.

From Nuveen

If 2016 could be said to be a year full of unexpected surprises, 2017 promises to be a year when we can expect a good deal of change and transition. And while 2016 taught us that even the best prognosticators sometimes miss the mark (Go Cubs Go!), we believe it's worth looking forward to identify potential trends, themes and constructs that shape our world and our work.

We encourage you to read our 2017 outlook Ups, Downs and Opportunities — What to Expect in the Year Ahead, where you'll gain insights and ideas on investment themes and trends as well as asset class outlooks from each of Nuveen's affiliates.

We've also included a brief review of Bob Doll's Ten Predictions for 2017.

If you'd like to discuss any of these investment outlooks further, or learn more about any Nuveen or TIAA-CREF products designed to help you build long-term portfolios, please contact your Nuveen Advisor Consultant at 800.558.4487

DeVoe & Company Overview

Providing business strategy and M&A consulting services to the wealth management and investment management community

About DeVoe and Company:

DeVoe & Company is a goal-based consulting firm and investment bank focused exclusively on guiding wealth management and investment management companies to a higher level of success. We provide comprehensive valuation, strategy and M&A advisory services to help you accelerate the achievement of your business goals. Leveraging our team's 75 years of combined experience in RIA business consulting and management, we develop solutions tailored to your unique goals, needs and situation.

The wealth and investment management industries are highly dynamic and evolving at a fast pace. DeVoe & Company can help you better understand your options, determine your optimal path, and craft a implementable plan for you to capitalize on the opportunities.

What We Do

Our mission is to help you achieve success on an accelerated basis. Our services fall into three broad categories:

Valuations

Business Consulting

Investment Banking

Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to five professionals with 75 years of combined experience. Our consulting approach is a reflection of the team's background: An ideal balance of analytically rigorous theory and real world experience. Half of our team are McKinsey-trained management consultants and the other half are former COO's of $1B+ RIAs. As a result, we are positioned like no other consulting firm to provide you advice on any strategic challenge you may face. Our breadth of experience enables us to be your complete partner.

How We Do It

DeVoe & Company executed more than 200 engagements in the last several years, supporting firms managing $50MM to over $8B in AUM

DeVoe & Company creates transformational change for our clients through a unique, highly focused approach. Most engagements begin with our proprietary strategic planning process: StrategicContext™. During the StrategicContext™ stage we gain a detailed understanding of your business, professional and personal goals. Through this methodical approach a strategic "North Star" for the engagement emerges. This North Star provides the management team with a consistent point of alignment for the myriad of the decisions throughout the process. As a result, the outcome will be deeply rooted in the company's core goals and integrated into a cohesive plan.

Our Insights

We regularly publish white papers, are quoted in financial publications and create other thought leadership pieces that we make available on our website at www.devoeandcompany.com.

A few of our most recent articles / white papers include:

- *DeVoe RIA Deal Book* – The industry's leading quarterly RIA M&A deal tracker and fact book
- *Succession Planning: Planning Your Future*
- *Putting Strategic Context Around Your Succession Plan*
- *M&A Surges: Why, and Will it Continue?*
- *Options, Options, Options*
- *Tailor-Made Successor*
- *True Value: Learn to Focus on the Things that Drive Up the Value of Your Practice*

Engaging DeVoe & Company

For more information or to engage our services call us at 415.813.5066 or send an email to info@devoe-co.com.

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