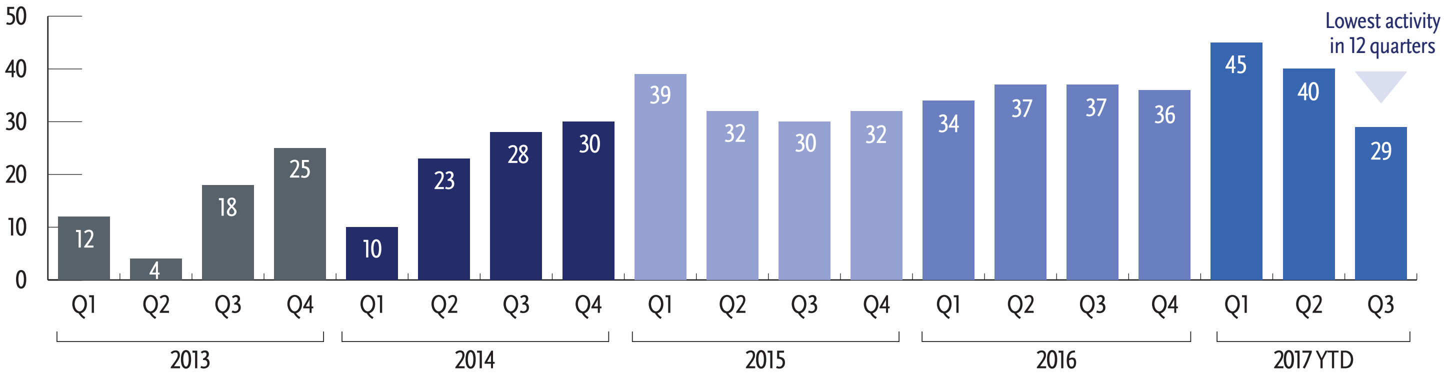
Q3 2017 RIA M&A Drops Sharply, Record Year Now in Doubt

RIA merger and acquisition activity encountered a precipitous drop in the third quarter of 2017. Posting just 29 transactions, the period was the weakest quarter the industry has experienced in nearly three years, according to research conducted by DeVoe & Company. The unexpected decrease raises the question of whether 2017 will be a record year of activity, which only a few months ago seemed like a fait accompli.

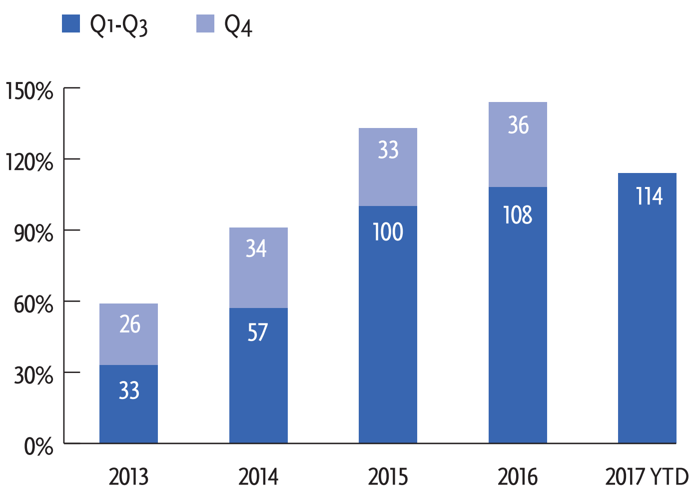
RIA M&A Activity Experiences the Weakest Quarter in Three Years



"Whether 2017 will be another record year of M&A for the RIA industry remains to be seen," said David DeVoe, Managing Director at DeVoe & Company. "However, as the underpinnings of overall M&A trend have not changed, we believe that RIA M&A will continue on its broader upward trajectory over the next five plus years."

Year to date, the industry has experienced 114 transactions versus 108 for the same period in 2016. If the Q3 slowdown is sustained in the final quarter, the year will fall short of the record.

RIA M&A Activity in 2017 Drafting off Strong First Half



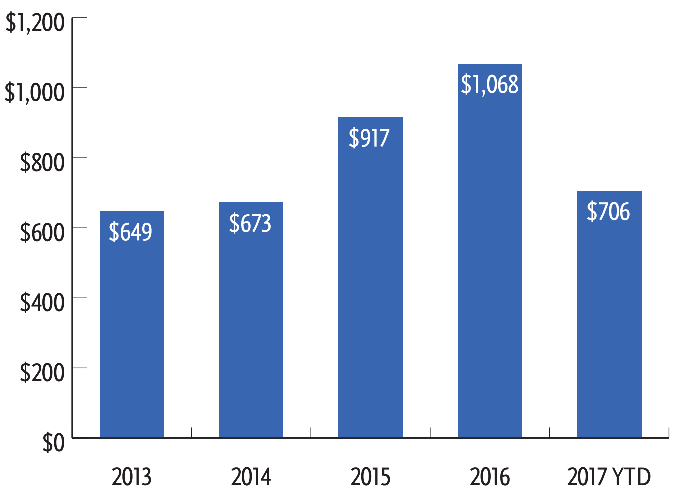
2017 Average Seller Size 30% Lower than 2016

The size of the average seller thus far in 2017 was a third lower than 2016, regardless of the type of transaction.

The average AUM of *Established RIA* sellers in the first three quarters of 2017 remained stuck at $700MM in AUM, more than 30% lower than the average for 2016. After a steady increase over the last four years from $649MM to over $1B, the average AUM deflated to $706MM in 2017. Similarly, the average *Breakaway* joining an RIA in 2017 declined to $312MM from $483MM in 2016. (DeVoe & Company methodology excludes firms with over $5B in this calculation to ensure that outlier transactions don't inappropriately skew the data).

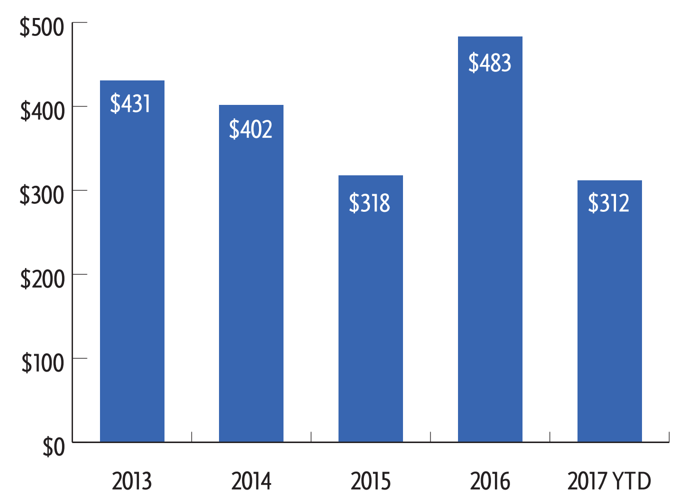
Average AUM of *Established RIA* Sellers Drops Steeply in 2017

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



Average AUM of *Breakaway* Sellers Hits a Recent Low

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



The Tale of Two Cities: *Breakaways* versus *Established Firms*

To understand the rationale for the dramatic decline in M&A volume, it is valuable to review the complexion of RIA M&A. DeVoe & Company seeks to track every transaction in the industry over $100MM in AUM. This includes not only SEC-registered RIAs that sell or merge (which we call *Established RIAs*), but also includes *Breakaway* teams that are leaving wirehouses or broker-dealers to join RIAs (which are categorized as *Breakaways*).

Breakaways: The third quarter deceleration of RIA M&A activity was driven nearly exclusively by a sharp decrease in *Breakaway* activity. In Q3 only 10 *Breakaways* joined RIAs, half of the average volume for a typical quarter.

Although the industry is experiencing a broader trend of advisors leaving wirehouses (and in the context of this report, joining RIAs), this segment has demonstrated a sensitivity to marketplace events. Over the last several years two key events have created surges of activity. The first was the expiration of forgivable loans, which impacted 2015 numbers; the second was strategic moves by advisors impacted by the recent Department of Justice Rule.

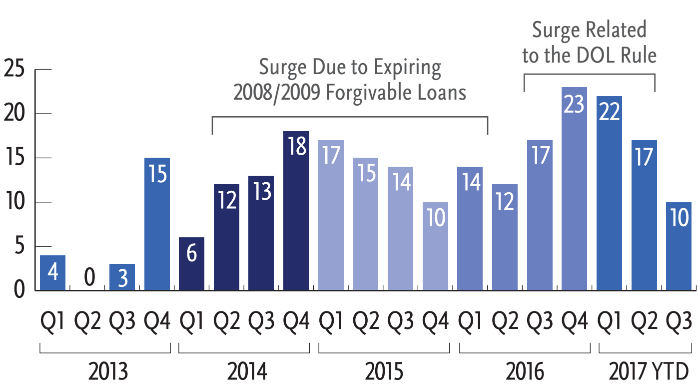
Following the 2008 market decline, wirehouses incented brokers/advisors to stay with their respective organizations by offering 'forgivable loan' packages. These packages have historically been used to entice advisors/brokers to jump from one wirehouse to another, but after the stock market crash these packages were used to incent advisors to stay with their employers. Typically programs are structured so that an advisor receives a large loan from the wirehouse, with the agreement that one-seventh of the principal and interest will be 'forgiven' each year until the loan was completely forgiven after seven years.

These packages were offered in record numbers in 2008 and early 2009, and consequently a sizable number of the packages began expiring seven years later in 2015 and early 2016. As these liabilities began their final year of erosion or to completely expire, a record number advisors left their wirehouse – and many of them chose a soft landing of joining an RIA. This surge of *Breakaway* advisors joining RIAs can be seen from 2014 (as advisors were approaching low balances) to early 2016, when the bulk of this *Breakaway* segment had made the decision to stay or go.

A similar spike in activity has occurred over the last year or so, as advisors employed by companies heavily impacted by the DOL Rule decided to avoid the new red tape by joining less-impacted RIAs. The surge in these *Breakaways* ramps up in mid 2016 after the Department of Labor proposed its new regulations. The activity increased aggressively as the Office of Management and Budget approved and started fast-tracking its implementation. But with a new administration in place, it wasn't long before the Rule's implementation was delayed for an initial 180 days in February of 2017, and then further delayed until July 1, 2019. With the Rule's future now in question, wirehouse and broker-dealer brokers have paused any transactions related to avoiding the Rule.

The industry will continue to see a migration of *Breakaways* to the RIA model, for a wide variety of factors. But this latest surge of activity is likely behind us.

Breakaway Event-Driver Surges of Selling Activity

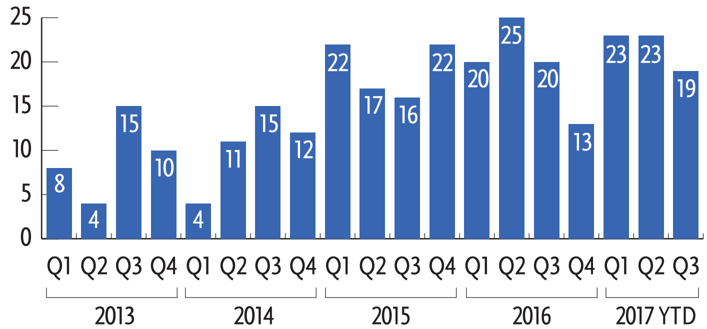


ESTABLISHED RIAs: The M&A activity of *Established RIAs* moves independently from *Breakaways* joining RIAs. The decision to sell is typically driven by the need for succession, liquidity, or – more recently – an appreciation of gaining scale.

The volume of *Established RIAs* selling in Q3 2017 slowed to 19 transactions after two impressive quarters of 23 deals. Overall the volume is in line with the historical average and in itself does not create an immediate concern.

Established RIA Transactions Slow in Q3 2017

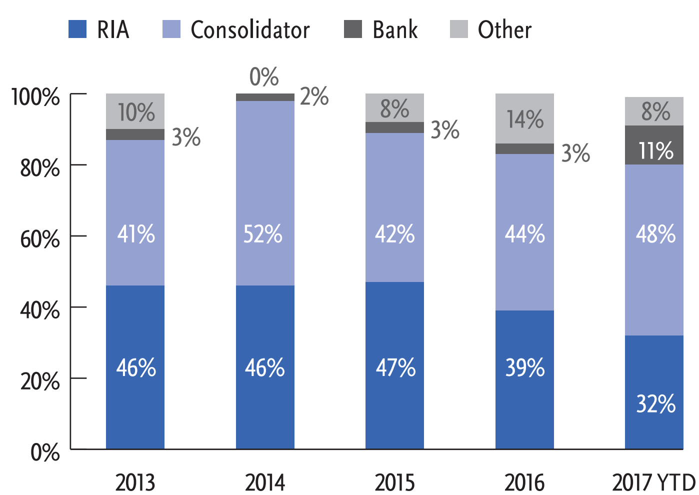
Quarterly M&A Activity



Small RIA sellers ($100MM to $250MM) have been unusually strong in 2017. Serial acquirers such as Mercer and United Capital capitalized on this trend, which yielded 22 transactions during the first three quarters – nearly matching the 23 deals executed during the entire year of 2016. The number of $1B to $5B sellers dropped during the same period, losing a full 10 percentage points of total volume. As a consequence, the average AUM of an *Established RIA* seller dropped from 2016's $1B to $706MM year-to-date 2017.

Consolidators Continue to Lead Acquisition Activity

Acquisitions by Buyer Category



Looking Forward

So, will 2017 be another record year? It is hard to predict what will happen in a given quarter. Anecdotally, DeVoe & Company is working on five transactions that are targeted for a 2017 close – which alone would comprise 25% of a typical *Established RIA* activity for a quarter, boding well for a strong Q4. However, transactions, much less the timing of transactions, are hard to predict.

Regardless of what the final total number is for the year, one can expect that *Established RIA* M&A activity will continue its upward momentum, and that *Breakaway* activity is likely to proceed at a slower-than-average pace for the near term.

Conclusion

With no recent developments that would likely dampen activity, RIA M&A seems positioned for continued strength or potential acceleration. Anecdotal data also points toward near-term increases: Consolidators and serial acquirers are upbeat as they discuss their pipelines, DeVoe & Company is currently representing more sellers than ever, and the industry's low number of succession plans has not increased in any significant way.

More broadly, one wonders if the swollen balance sheets of private equity, banks and consolidators, and their interest in the independent space, could unleash a string of mega-deals and large acquisitions. As long as the stock market holds steady and the economy continues its momentum, DeVoe & Company expects that M&A will continue its upward trajectory.

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 100 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 seven professionals with 100 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 our team is McKinsey-trained management consultants and the other half is 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@devoeandcompany.com.

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@DavidDeVoe1

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From Nuveen

The Markup Rule on Municipal Bonds

In 2016 the Securities and Exchange Commission approved a proposal by the Municipal Securities Rulemaking Board (MSRB) that would require dealers to post on the confirmations of non-institutional customers the amount of the dealer's markup or markdown on the municipal bond transactions for which it acted as principal (cases where the dealer owned the bond at some point in the transaction). The change, which becomes effective **May 14, 2018**, will require that the markup or markdown (hereafter called the markup) be expressed as a dollar amount and as a percentage of the price used in calculating the markup.

In addition to including the markup on certain trades, confirmations must also contain a citation of, or an electronic link to, the location on the MSRB's Electronic Municipal

Market Access System (EMMA) where the customer can find information on the price at which that particular security has traded. The reference to EMMA is mandated for all trades with retail customers, not just those that require publication of the markup.

Disclosure of the markup would be mandated in cases where:

- The dealer entered into a trade on the same side of the market as the retail customer on the same day as the trade with the customer.
- The aggregate amount of the dealer's other transaction equals or exceeds the amount of the trade with the customer. If the dealer engages in a transaction as agent rather than as principal (i.e. never owns the bond), the confirmation must show the amount of the commission.

Learn more about the Rule and its implications for advisors in Nuveen's whitepaper The Markup Rule on Municipal Bonds. The rule has added additional complexity to managing individual bond portfolios, already challenging in a market that has changed dramatically in the last 10 years. Read more about how Institutionally Managed Municipal Bond Portfolios may make a difference.

Nuveen RIA and Family Office Advisor Consultants

WEST	**Chad Givens** MD, Advisor Consultant	415.595.5720	chad.givens@nuveen.com
	Vincent Chiu AVP, Advisor Consultant	415.650.6780	vincent.chiu@nuveen.com
	Ed Rhee AVP, Internal Advisor Consultant	312.917.8209	edward.rhee@nuveen.com
CENTRAL/WEST	**Trey Anton** MD, Advisor Consultant	949.331.2881	trey.anton@nuveen.com
	Matt White, CAIA AVP, Internal Advisor Consultant	312.917.8163	matthew.white@nuveen.com
MIDWEST	**Dominick Trapasso, CPA** MD, Advisor Consultant	312.917.7755	dominick.trapasso@nuveen.com
	Doug Gowski AVP, Advisor Consultant	646.483.3032	douglas.gowski@nuveen.com
	Julie McGuire AVP, Internal Advisor Consultant	312.917.8095	julie.mcguire@nuveen.com
MID-ATLANTIC & SOUTH	**Fred McAuley, CFA, CFP®** MD, Advisor Consultant	404.343.1523	fred.mcauley@nuveen.com
	John Hennessey AVP, Advisor Consultant	312.917.7908	john.hennessey@nuveen.com
	Jason Culver, CFA, CAIA AVP, Internal Advisor Consultant	312.917.8362	jason.culver@nuveen.com
NORTHEAST	**John Hauck, CIMA®** MD, Advisor Consultant	617.512.8990	john.hauck@nuveen.com
	Joe McCaffrey AVP, Advisor Consultant	856.465.3115	joe.mccaffrey@nuveen.com
	Mark Johnston AVP, Internal Advisor Consultant	312.917.6966	mark.johnston@nuveen.com

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GFS-NWDEVOE-1017X 292949-ADV-AN-10/18