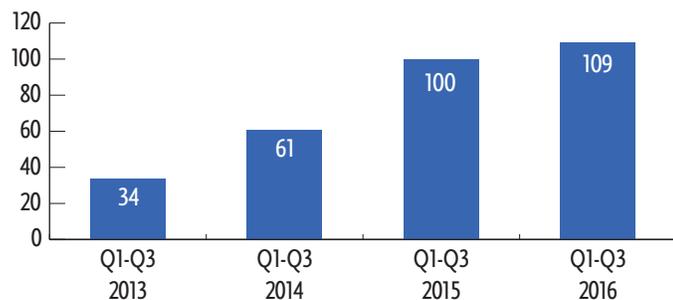


RIA M&A Activity on Track for Another Record Year

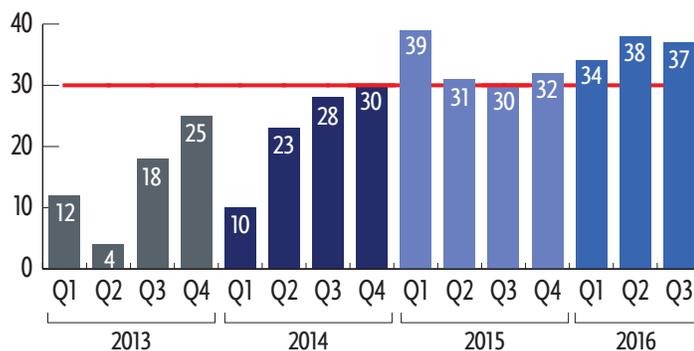
2016 is on track to be an all-time record year for RIA M&A activity. A total of 109 transactions were tracked through the first three quarters of this year versus 100 deals executed during the same period in 2015, according to research performed by DeVoe & Company. 2015 is the high-water mark for RIA acquisition activity in a single year, with a total of 132 deals executed during the 12-month period. It seems likely that 2016 will exceed this number.

2016 on Track for Record RIA M&A Activity



Quarterly M&A activity remained robust, with 37 transactions in the most recent quarter. “Q3 2016 is the eighth successive quarter of 30 or more transactions,” said David DeVoe, Managing Partner at DeVoe & Company. “What started as a potential spike in RIA sales, then sustained itself into a perceived surge, and has now evolved into an apparent ‘new normal’ of heightened M&A activity.”

Quarterly RIA M&A Activity is Showing Consistent Strength



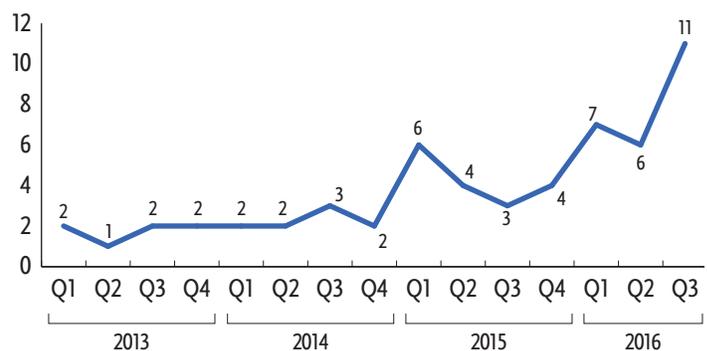
Large Sellers Surging in 2016

Large Sellers, firms managing assets between \$1B and \$5B in AUM, are selling in record numbers in 2016. This anticipated surge, predicted in the Nuveen / DeVoe Q1 2016 Deal Book, has come to pass and is bearing fruit for hungry acquirers. During the first three quarters of 2016, a total of 24 *Large Sellers* executed transactions, versus 17 in 2015 and only 9 in 2014. This increase in *Large Sellers* has also contributed to the average size of an *Established RIA* seller crossing the \$1B in AUM in 2016.

“These highly-prized firms are sought after by the widest breadth of acquirers, including consolidators, banks, RIAs and private equity firms,” said Tim Forest, a DeVoe & Company Managing Director. “The sellers generally are large enough to attract the attention of the deepest-pocketed acquirers, but are still within reach of buyers who can’t afford \$5B+ AUM acquisitions.”

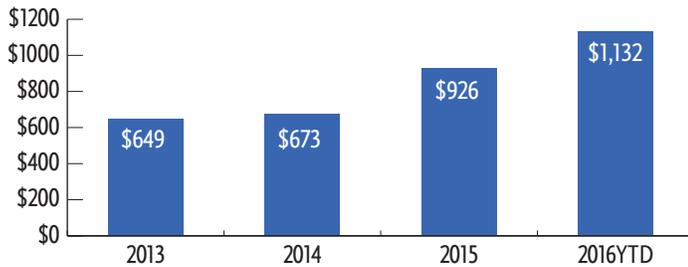
Large Sellers Exiting at Record Pace

(Quarterly sales of RIAs with \$1B-\$5B in AUM)



Average AUM of Established RIA Sellers Breaks \$1B

(Sellers with Over \$100MM and Less than \$5B)



Large RIAs are attractive targets because they have achieved scale, usually have attractive profit margins and generally have stronger management teams. However, a growing number of large RIAs are faced with shallow management benches behind the senior partners – or junior partner pools with limited capital resources. These firms can be worth \$12MM to \$50MM or more, which can be hard—and often impossible—for employees to afford.

If firms plan early and start migrating equity to junior partners when there is a decade or more before founding principals retire there can be a potential path for a pure internal transaction. Unfortunately, studies typically show that only 30% of RIAs have implemented a written succession plan, which is required to achieve this transition. Starting this process too late often eliminates the internal option and essentially requires an external sale. Not surprisingly, DeVoe & Company’s Capital Table Engineering services, where the company determines if and how a *Large Seller* can fully transition equity internally, is the company’s fastest growing service offering.

Sub-Acquisitions are Sublime for Consolidators

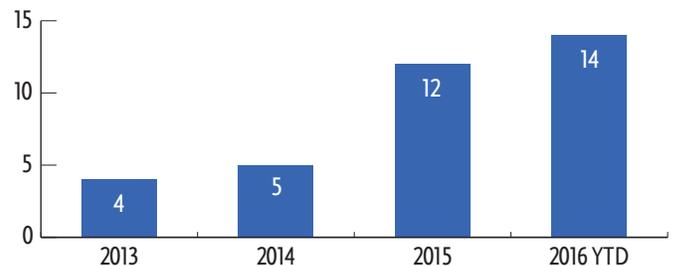
Sub-acquisitions continue to gain momentum and are on track in 2016 to triple the number of similar transactions in 2014, spiking from 5 transactions to 14 or more. During the first three quarters of this year, there have already been more sub-acquisitions than the full year of 2015.

‘Sub-acquisition’ is defined as an acquisition made by an affiliate of a consolidator; essentially the acquired firm becomes an acquirer. With the parent company’s capital backing and M&A expertise behind them, affiliates have the ability to acquire more aggressively and with greater success than a typical RIA.

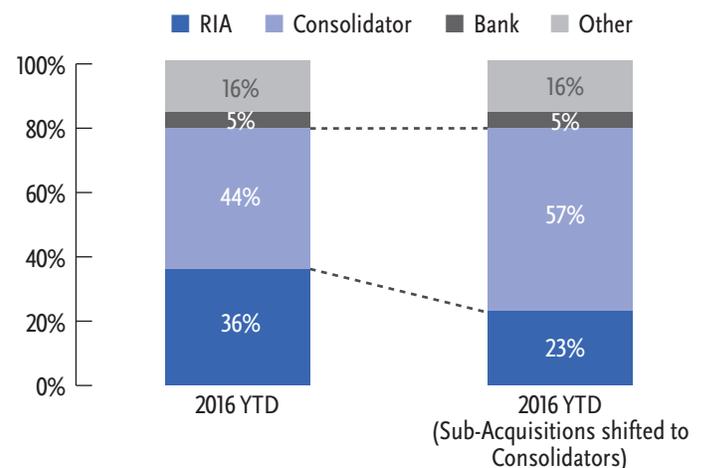
Affiliates and their sub-acquisitions are becoming an important extension to the consolidators’ M&A outreach and integration programs. And in some instances, affiliates have become “serial acquirers” themselves, developing their own internal M&A expertise. With consolidator affiliates now numbering at over 100 firms across the country, this could potentially have a profound effect on the RIA M&A landscape. Affiliates can ultimately enable consolidators to acquire at an exponential pace, which is starting to emerge in the M&A numbers.

Generally, “acquisitions by affiliates” are categorized as RIA Buyers, because technically an RIA is acquiring the seller. However, crediting these deals to the Consolidator buyer category helps demonstrate the acquisition horsepower of the consolidators. Doing so shifts Consolidators as the benefactor of 44% of the deals in 2016 to 57% during the first three quarters of this year. This intentional evolution of the consolidator model will likely accelerate M&A activity, especially in the sub-\$500MM AUM segment.

Sub-Acquisitions Increasing Sharply



Re-Categorizing Sub-Acquisitions Demonstrates the Power of the Consolidator Model



In conclusion, two years of quarterly transaction volume consistently exceeding 30 deals indicates that the industry has likely shifted to a *new normal* of M&A activity. Most industry observers are realizing that it isn't just the demographics of principals that will likely drive a continued increase in sellers, but also that the growing value of "scale". RIAs are demonstrating a heightened interest in outsourcing their compliance, technology and operational functions, and an increased openness to selling or merging to achieve a best-in-class solution.

From Nuveen

Preferred securities offer benefits for institutional portfolios, including:

- Predominantly investment grade securities with more yield potential
- Inherent market structure inefficiencies create alpha opportunities for active managers
- Low correlation to other fixed income and equity asset classes
- Solid market environment with strong fundamentals, improving technicals and historically attractive valuations

Multiple Structures Exist in the Preferred Market

Feature	Senior Notes	Trust Preferred	Traditional Preferred Stock	Additional Tier 1 (AT1) Securities	Common Stock
Character	Debt	Debt	Equity	Equity	Equity
Priority of Claims	Senior to trust preferred, hybrids, preferreds and common equity	Senior to hybrids, preferred and common equity; junior to senior and subordinate debt	Junior to all debt; senior to common equity and AT1	Junior to all debt; senior to common equity	Junior to debt and preferred
Nature of Payment	Interest	Interest	Dividend	Dividend	Dividend
U.S. Tax-Advantage	None	Typically none	DRD2/ QDI3	DRD2/ QDI3	DRD2/ QDI3
Term	Dated	Typically 30-40 years	Typically perpetual	Perpetual	Perpetual
Payment Deferral Option	None	Yes, typically 5-10 years	Yes, typically indefinite	Yes, indefinite	Yes, indefinite
Cumulative/Non-Cumulative	N/A	Typically cumulative	Mostly non-cumulative	Non-cumulative	Non-cumulative

In addition to the structures detailed above, the U.S. preferred securities market is primarily composed of two types of issues:

From DeVoe & Company's perspective, the trajectory of M&A activity is likely to increase for the next five to seven years.

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.

- \$25 par value securities that trade on the New York Stock Exchange and target retail investors.
- \$1000 par value securities that trade over-the-counter and target institutional investors.

Two markets means pricing discrepancies occur. For example, a company may issue both \$25 and \$1000 par value securities with the same credit and structural risk. A professional manager can compare the difference in economics for essentially the same security, selling what they believe to be the overpriced security and buying the underpriced security. In some cases, the difference in valuations between the two markets can be substantial.

This asset class often does not slot neatly into an existing asset allocation mix. Institutional investors may consider using preferred securities as:

- Fixed income alpha generators
- Alternative diversifiers
- Portfolio yield enhancers

[Read more about Preferred Securities in Institutional Portfolios.](#)

If you're interested in discussing Nuveen's preferred securities active management and expertise, please contact your Nuveen Advisor Consultant at 800.558.4487.

All investments carry a certain degree of risk, including possible loss of principal and there is no assurance that an investment will provide positive performance over any period of time. Investing in preferred securities entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-U.S. securities risk and concentration/non-diversification risk, among others. There are special risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. Also in certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. In addition, preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. **Credit risk** is that an issuer of a security will be unable to make dividend, interest and principal payments when due. **Interest rate risk** is the risk that interest rates will rise, causing fixed-income securities prices to fall. **Income risk** is the risk that the income will decline because of falling market interest rates. This can result when an account invests the proceeds from new share sales, or from matured or called fixed income securities, at market interest rates that are below the account's current earnings rate. An investment in **foreign securities** entails risks such as adverse economic, political, currency, social or regulatory developments in a country including government seizure of assets, lack of liquidity and differing legal or accounting standards (non-US securities risk). Preferred Security investments are generally invested in a high percentage of the securities of companies principally engaged in the financial services sector, which makes these investments more susceptible to adverse economic or regulatory occurrences affecting that sector concentration/nondiversification risk). It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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.

This report is brought to you by Nuveen in conjunction with DeVoe and Company. All data is attributable to DeVoe and Company.

This report is for informational and educational purposes only. Certain information contained herein is based upon the opinions of Nuveen, and the data available at the time of publication of this report, and there is no assurance that any predicted results will actually occur. Information and opinions discussed in this commentary may be superseded and we do not undertake to update such information. This information

How We Do It

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.

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

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.devoe-andcompany.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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