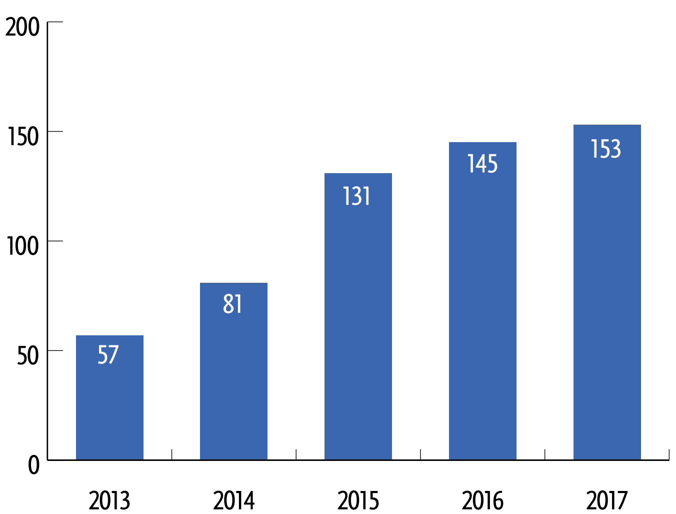
2017 RIA M&A Activity Slows But Sets a New Record

The RIA industry experienced its fourth successive record year of merger and acquisition activity in 2017, according to research performed by DeVoe & Company. A record of 153 transactions was tracked during the year, a 6% increase over last year's high-water mark of 145. 2017 started strong but ended weak. Q3 and Q4 were the weakest quarters that the industry has seen for nearly two years, and were 26% below the first two quarters of 2017.

RIA M&A Activity Posts Fourth Successive Record Year

Number of transactions executed per year



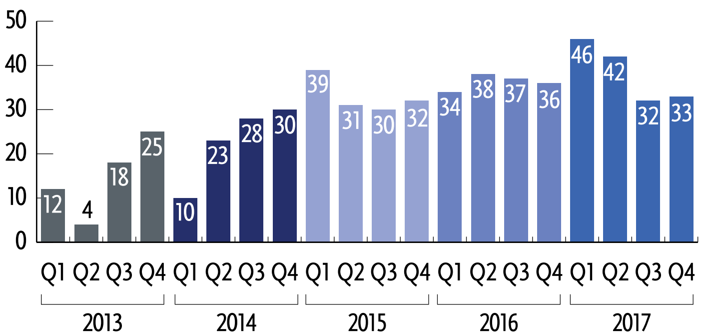
"RIA M&A activity continued its momentum, but the pace of acquisitions slowed from a sprint to a light jog," said David DeVoe, Managing Partner at DeVoe & Company. "Although the *Breakaway Advisor* activity has and will be whipsawed by external drivers, the underpinnings of *Established RIA* sales essentially remain unchanged."

Of the 153 transactions, 44% were teams and individuals who left Wirehouses, IBDs or RIAs to join RIAs. Despite this percentage being in line with historic averages, the *Breakaway Advisor* activity was a roller coaster throughout the year and affected by anticipated regulations related to the DOL Rule and anticipated legal implications related to the Broker Protocol. Seeking to free themselves from their employers' new administrative burdens, *Breakaway Advisors* left wirehouses, IBDs and other companies to join less regulatory-laden RIAs, creating a short-term surge in early-year activity. However, this wave stopped abruptly when the Trump administration delayed the Fiduciary Rule's implementation and left its future in question. As a result, the movement of breakaways joining RIAs dropped more than 50% in last two quarters, helping drag down the second half of the year. We have only begun to see the impact of wirehouses withdrawing from the Broker Protocol, which is covered in more detail below.

A total of 86 *Established RIAs* sold during 2017, exceeding the 79 sales in 2016. Although the final quarter of the year was surprisingly weak (only 15 *Established RIA* transactions versus a trailing 24-month average of 22 transactions), there isn't an obvious culprit or structural change that leads to an extrapolation of this single quarter datapoint.

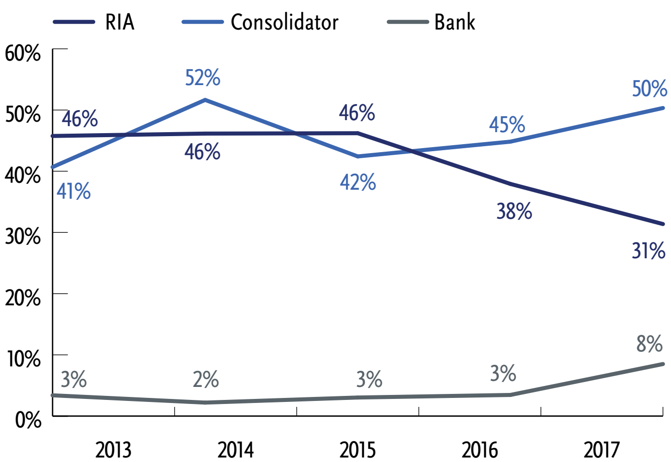
Quarterly RIA M&A Slowing

Number of transactions executed each quarter



Buyer Activity: Consolidators Dominating Total Transactions

Percentage of total acquisitions by Buyer category each year



Buyer category 'Other' comprised 10%, 0%, 8%, 14%, 8%

Banks Reengage in Acquisitions

Banks reentered the RIA market in 2017, acquiring at more than twice their usual pace (8% in 2017 versus their historic ~3% of the total transactions). First Republic snapped up five teams, Peapack Gladstone scored two, and six *Banks* acquired a firm each. The 13 acquisitions executed by *Banks* in the year were nearly three times 2016's five deals.

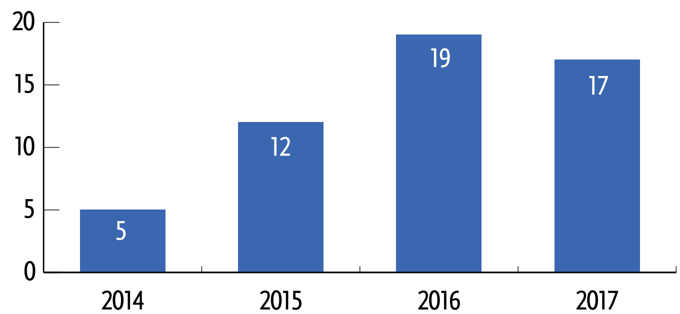
Consolidators and RIAs Arm Wrestle for Dominance

Consolidators and *RIAs* continued to battle for the lion's share of transactions. Although *Consolidators* have been dominating the overall transaction volume for three of the last five years and executed half of all 2017 deals, the bulk of their recent transactions have been *Breakaway Advisors* joining their platform. The buyer category of *RIAs*, by contrast, is acquiring a greater percentage of *Established RIAs*. In 2017, *RIAs* acquired 43% of *Established RIA* sellers, versus Consolidators who acquired 33%.

Sub-Acquisitions by *Consolidator* affiliates continued to demonstrate strong activity, albeit the 17 sub-acquisitions were slightly lower than the 19 executed in 2016. Overall, this category (defined as when an RIA that was previously acquired by a Consolidator acquires another firm) has grown at a 50% compound annual growth rate since 2014 and is likely to maintain momentum in the future.

Sub-Acquisitions Maintain Strength

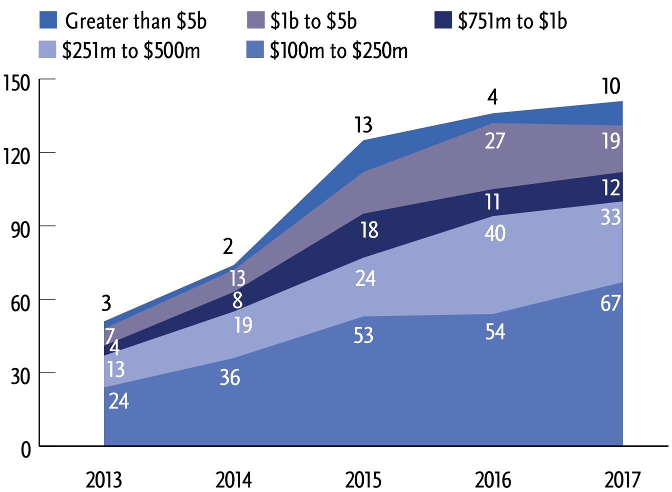
Number of sub-acquisitions executed per year



Most (Seller) Boats Rising with the Tide

The number of sellers in nearly all segments (based on size) increased during the year. In particular, the $100MM to $250MM segment grew at a high clip. Driven by *Breakaway Advisors* joining RIAs to avoid the Fiduciary Rule and *Established RIAs* merging into larger firms and *Consolidators* to gain scale, this segment grew by over 20%. By contrast, firms with $250MM to $500MM and firms with $1B to $5B saw a decline in activity. This is likely a *return to normal* statistical outcome related to a very strong 2016 in these segments, as opposed to a specific driver.

Number of All RIAs Sales Segmented by Size

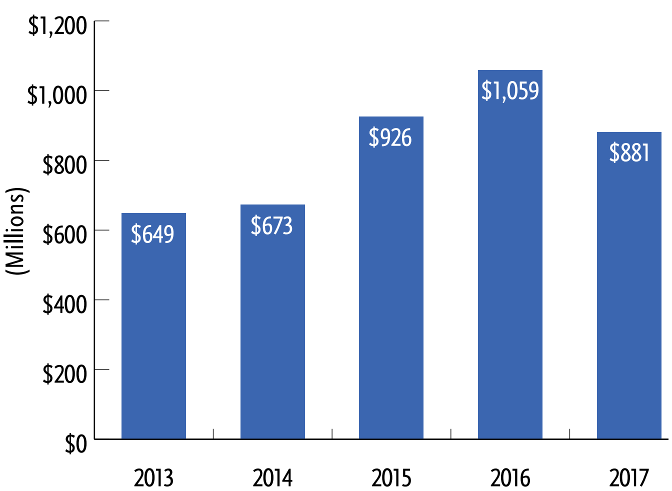


Not all firm sales are represented - RIA firms with unverifiable or unreported AUM are excluded from chart.

The dynamics of smaller firm sales surging while larger firm sales declined conspired to drive down the average AUM of an Established RIA. During the period, the average sank to $881MM from its steady increase to over $1B in 2016 (excluding firms with over $5B in AUM).

Average AUM of Established RIA Sellers

(with over $100mm and less than $5b)



Potential Implications of New Tax Code on RIA M&A

The new tax code that President Trump signed on December 22, 2017 will impact advisors in a number of ways – but is unlikely to have a significant impact on RIA M&A volume. As always, the tax code is complex and each situation has a unique set of characteristics and trade-offs, so please consult closely with a seasoned tax expert.

The new tax treatment affects both income and sale proceeds, thereby creating a double-edged sword on the trade-offs between "continuing to run the business" versus a "sales." Consequently, there isn't a clear dominant tax incentive for one decision over the other.

Owners of RIAs will receive neither the lower 21% tax rate afforded to many C-Corps, nor the 29.6% tax provided to many other LLCs and S-Corporations, which frankly, doesn't seem fair. Because of a carve-out in the law for pass-through businesses that fall into a "specified service business" category (specifically, "financial services") RIA owners will pay a maximum of 37% personal income tax.

The impact of this tax treatment, combined with the elimination of State and Local Tax and mortgage interest deductions, has the greatest impact on owners of RIAs who live in high State and Local Tax and expensive housing markets (e.g. California and New York): These individuals are the biggest losers in this new tax world. These elements also affect both after-tax income and the proceeds from a sale, so there isn't a clear decision driver from the tax change on this component of a "run it" or "sell it" decision.

Another tax component is related to the decreased tax on corporations (C-Corps, specifically), which is intended to free up their after-tax cash flow. Although the administration hopes that these businesses will reinvest these dollars in machinery and hiring more people, many corporations will choose to acquire instead. With swollen coffers, banks and large financial services corporations may determine that acquiring RIAs is a good way to deploy this capital.

Interestingly, this corporate tax rate may also create an arbitrage opportunity that makes RIAs an even more attractive M&A play: Corporations will now have a tax rate of 21%, while your typical RIA is taxed at a maximum marginal rate of 37%. Consequently, if a low-taxed corporation acquires a high-taxed pass-through RIA, the post-acquisition after-tax cash flows could now be higher if they convert the acquired RIA to their corporation status. This could indirectly lead to some acquirers paying higher valuations than other acquirers.

Overall, the conflicting aspects of many elements seem to undermine a profound shift on the RIA merger and acquisition market, but the indirect result could draw new acquirers into the RIA market, change the potential attractiveness of certain buyers, and even put upward pressure on valuations.

Effect of Exits from the Broker Protocol

During the last several months, several wirehouses terminated their participation in the Broker Protocol. The exits of Morgan Stanley, UBS and Citigroup have set the stage for a potential exodus of wirehouses and other corporations from the Protocol. As a result, a number of captive advisors and brokers are accelerating their exits and engaging with experts to explore leaving ahead of additional Protocol defections. The number of *Breakaway Advisors* joining RIAs will likely spike during the first several months of 2018, as advisors move quickly to exit before their employer potentially withdraws from the accord and creates greater risk associated with taking clients to a new organization. If additional firms continue to withdraw from the pact, as anticipated, the industry will likely experience a decrease in breakaway activity over the mid-term.

Looking Forward

Given the demographics of the industry and the power of scale in today's competitive environment, we expect M&A activity to maintain its upward momentum over the mid-term and long-term. Overall, valuations are above their historical average, the economy is stable and growing, and there are a large number of qualified buyers. Conversely, many believe that the stock market is due for a correction, which would likely compress valuations, as well as affect the timing of sales. The event-driven nature of *Breakaway Advisors* joining RIAs will likely maintain continued volatility for some time to come, and the actual impact of taxes on buyers and seller behavior remains to be seen. Overall, the structural changes that are driving the sales of RIAs and the natural consolidation of the industry have not changed. So, RIA M&A is likely to continue its steady increase for the mid-term.

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 an 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.

Follow us on Twitter
@DavidDeVoe1

From Nuveen

Opportunity Amid Risk: Global Outlook for 2018

Attractive opportunities are likely across asset classes in 2018 but gains are likely to be more limited – so selectivity, taking additional risk, and maintaining an information edge will be important. We encourage you to read our asset class outlooks in Risk On: The Search for Return Grows Harder.

We also know you're likely interested in the effects of Tax Reform. Some of Nuveen's thoughts follow:

- We estimate tax reform will provide a 0.5% contribution to real GDP growth in 2018.
- Longer-term effects depend on whether the incentives for business investment in the bill add to worker productivity.
- Equity markets have rallied on expectations for lower individual and corporate tax rates and tax reform provides a clear tailwind for stock prices.
- We expect a modest increase in Treasury yields and a slight tightening in corporate credit spreads.
- Tax reform should benefit high quality corporate bonds.
- Despite earlier fears to the contrary, tax reform is unlikely to have a negative effect on municipal bonds, and currently issued municipal bonds are not affected by any changes.

If you'd like additional insights, please contact your Nuveen Advisor Consultant.

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** 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