

2018: A Record Quarter Caps Another Record Year

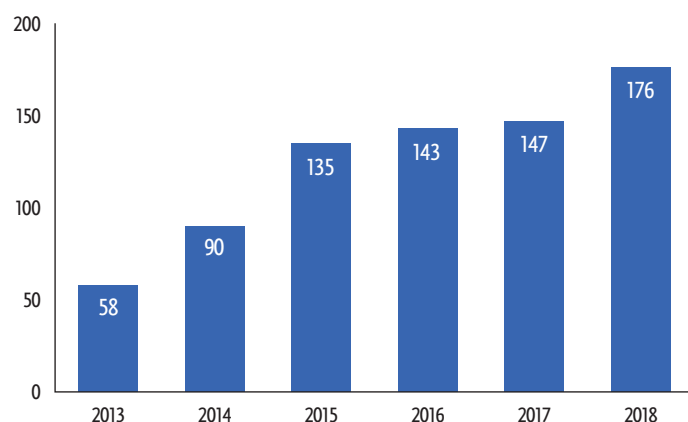
With an epic final quarter, 2018 became the RIA industry's fifth successive record year of merger and acquisition activity, according to research performed by DeVoe & Company.

The calendar year 2018 posted 176 transactions, a steep 20% increase over last year's high-water mark of 147. In the midst of a volatile, then sharply declining stock market, the blockbuster fourth quarter yielded double the transactions of the same period a year ago. A total of 54 transactions was in sharp contrast to the tepid 27 transactions of Q4 2017.

"After eighteen months of rollercoaster M&A activity, the industry is now in the midst of an inclining trajectory," said Francine Miltenberger, Managing Director at DeVoe & Company. "The stock market drama creates a new plot twist, potentially impacting valuations and driving many owners to take a hard look at their path to a potential sale."

2018 – Another Record Year for RIA M&A Activity

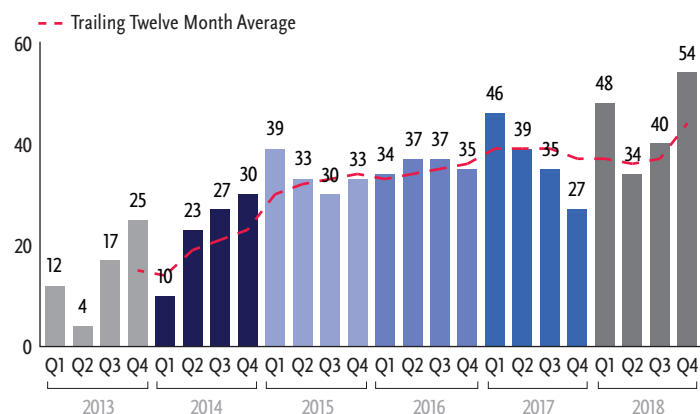
Number of transactions executed per year — All Deals



The record-breaking first and final quarters of the year created solid bookends for a mediocre middle of the year. The middle quarters saw a slight decline with quarterly transactions of 34 and 40 for Q2 and Q3, respectively. Although the desire to gain scale continued as the major driver of M&A, there was an uptick in transactions centered around owner succession, as well as some interesting strategic moves. The overall average deal size of *Established RIAs* under \$5B remained fairly consistent, and while all size segments saw an increase of activity, the mega-deal segment expanded significantly.

RIA M&A Activity Hits a Record Quarter

Number of transactions executed by quarter — All Deals

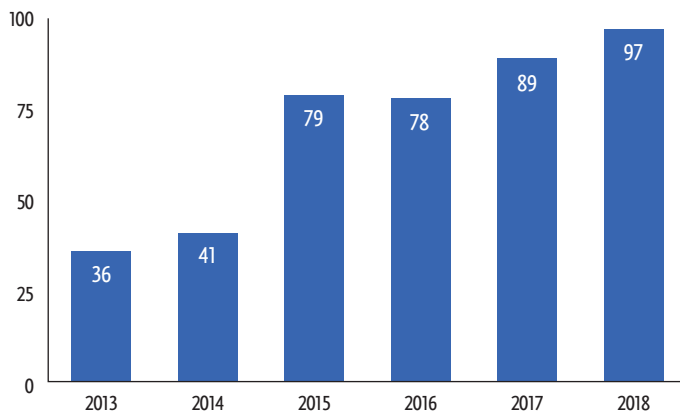


RIAs continued to seek scale and succession plans through M&A in growing numbers. More than half of the 176 transactions during the year were *Established RIAs* selling or merging into another firm. Although the industry is just shy of a record 100 *Established RIAs* with over \$100MM in AUM selling in a calendar year, it is still well below what a hyper-fragmented industry like the RIA space should experience on an annual basis. “With over 5,000 RIAs with \$100MM+ in AUM, the industry should be yielding two to three times the number of transactions,” said David DeVoe, Managing Director at DeVoe & Company. “Each year that the industry is below ~250 transactions, it simply means that more supply is building – and this supply of sellers will eventually come to market.” The 97 *Established RIA* transactions in 2018 was an increase of 9% over 2017, yet a down draft from the 14% increase year-over-year from 2016 to 2017.

The remaining 45% of total deals were *Breakaway Advisors*, advisors/teams at wirehouses, IBDs and RIAs with over \$100MM in AUM that leave their employer to join an RIA. This stream of exits grew in velocity during the year and accounted for the bulk of the overall increase in RIA M&A activity.

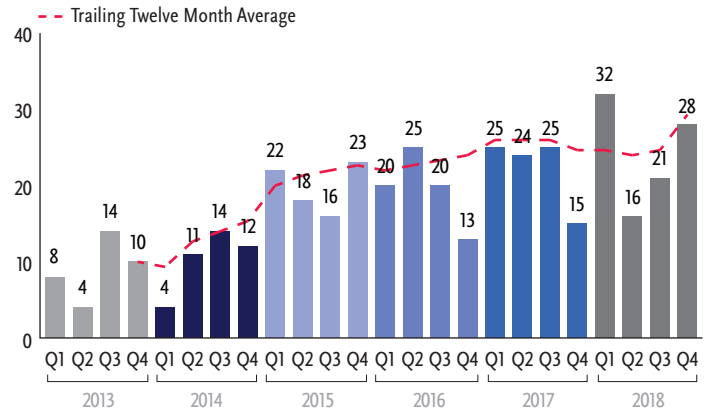
Established RIA Activity Continues Its Steady Increase

Number of *Established RIA* transactions executed per year



Established RIA Transactions – Strong Q4 to End Record Year

Quarterly M&A Activity – Established RIAs



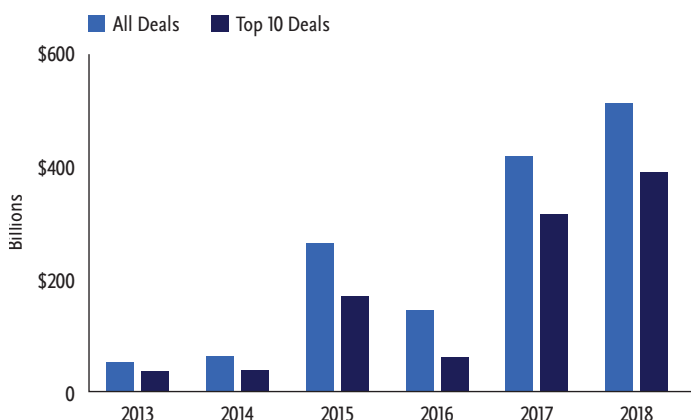
Scale Matters: Mega-Deals are Changing the RIA Landscape

A staggering \$513B in Assets Under Management changed hands in 2018, primarily driven by some of the largest transactions in recent history. The top 10 transactions in 2018 constituted \$391B in AUM, nearly 24% more than the \$316B of the previous year and over five times the paltry \$69B in 2016. Deep pocketed players made bold moves, contributing to continued consolidation at the top of the industry.

Many of these mega-deals were strategic transactions that will shape sub-markets of the industry. Hellman & Friedman demonstrated the power of private equity with their acquisition/merger of Financial Engines with Edelman. The combination of the two technology-savvy advisors expands their geographic footprint, while delivering a broader service offering to the mass affluent and retirement markets. BAM transformed *competitive friction* into *collaborative power* with the acquisition of Loring Ward. This powerhouse TAMP is now positioned to further accelerate growth and provide a more competitive offering and broader geography.

2018 Total AUM Hits Record High

Total AUM of Sellers



Top 10 Deals of 2018

Seller	Reported AUM (MM)	Acquiror
Financial Engines	\$169,000	Hellman & Friedman
Hilliard Lyons	\$50,000	Baird
Signator Investors	\$50,000	Advisor Group
Fiduciary Network	\$40,000	Emigrant Bank
Edelman*	\$22,000	Financial Engines
Loring Ward	\$17,200	Buckingham
Gurti Municipal Bond Management	\$14,000	PIMCO
Capital One	\$10,000	Woodbury Financial
FTJ Fund Choice	\$10,000	Northstar Financial
HPM Partners	\$9,000	Lightyear Capital

*merger

Consolidator and RIA Buyer Categories Maintain Momentum

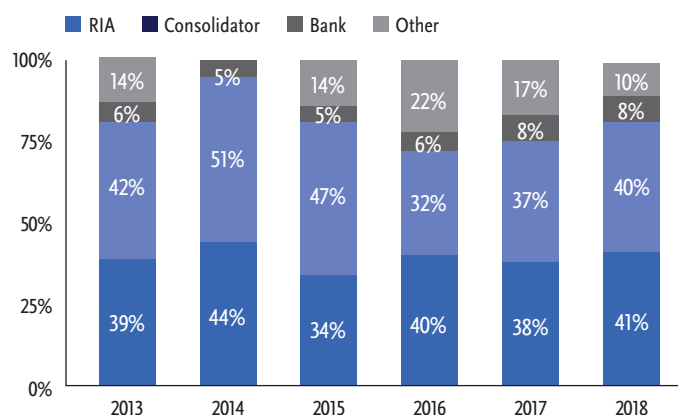
Consolidators and *RIAs* continue to be the major acquirers in the RIA industry. Acquiring a combined 81% of all *Established* RIA sellers in 2018, these two buyer categories' stories continue to resonate with a growing number of RIAs contemplating a sale. At the extremes, the value propositions contrast sharply with one another, but each year the lines become blurrier. While some *Consolidators* simply want to buy

a 'hands-off' sliver of cash flow, most are selling the benefits of their scale. Sellers that join gain a breadth of services, technology capabilities, cost benefits, institutional knowledge and ability to off-load administrative and non-core functions. Many RIA acquirers, however, also offer the power of a multi-billion dollar AUM platform. And the concept of selling to 'someone like me' – specifically, an owner/practitioner who built his or her own RIA from scratch – both resonates with advisors and is a ding to the consolidator story.

Banks slightly increased their deal activity in 2018. While acquiring the same 8% of the *Established* RIA sellers in 2018 and 2017, *Banks* acquired one more *Established* RIA in 2018 than 2017. The *Other* category, which consists of all others buyer outside of the categories above, shrank from 17% to 10% of the *Established* RIA seller pool. However, with private equity firms and IBDs as part of that group, this category accounted for 60% of total AUM acquired in the year. Standouts like Hellman & Friedman investing private equity in Financial Engines and IBDs like Baird and Advisor Group making bold moves are examples of how this smaller category can have a big impact on the numbers.

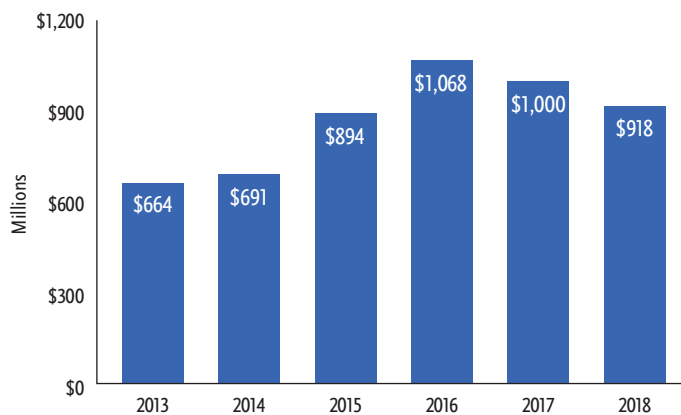
Consolidators and RIAs Continue to Acquire

Percentage of total acquisitions of *Established* RIAs by Buyer Category

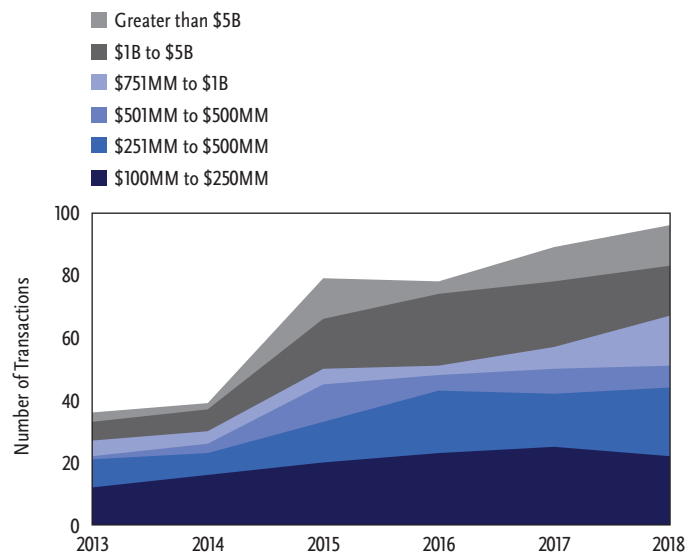


The year-to-date average acquisition size for *Established RIAs* (excluding deals above \$5B for statistical consistency) continues to hover near the \$1B mark, as it has for the last several years. In an interesting mathematical twist, despite the average deal size in nearly every size segment increasing, the overall average declined from \$1B to \$918MM. The compression was created by a lower average in the \$1B to \$5B segment, which dragged down the entire overall median.

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



Increasing Activity Among Larger Firms Percentage of *Established RIAs* by Seller AUM



Case Study: A Sale Can — and Should — Create Better Career Paths for G2

An attractive characteristic of RIA owners is that they typically have a genuine interest in taking care of their employees. Most owners prefer to sell internally, primarily as a way to offer their next gen the valuable opportunity to experience a worn path to success and reward them for their support in building the business. So, it is never a surprise when an owner starts thinking about and asking if a given deal will be good for their next gen.

What is surprising is the common assumption that most deals may not be good for their next gen. It's surprising because, upon reflection, there is so much evidence to the contrary.

Norm Boone, former President of \$620MM Mosaic Financial Partners now Principal at Private Ocean, wanted to ensure a career path for the next generation, as he contemplated his sale to Private Ocean, a \$1.6B RIA. "The buy-in from the employees and Gen2 was paramount," he said. "What started as the desire to get their acceptance, evolved into their realization that merging into a bigger firm — and Private Ocean in particular — was actually going to create much better career tracks over the long run."

Merging a company into a bigger firm gives employees more options and opportunities. In an organization several times the size, employees are more likely to have administrative tasks taken off their plate, but much more importantly, have 'more space' for their careers to unfold. The likelihood of 'outgrowing a role' or having no upward mobility is much lower in a bigger organization. And the combined organization is ideally going to be growing faster. Faster growth equals greater career options.

In the case of Private Ocean, many of the Mosaic employees also had the ability to become shareholders. "Norm had built a great team," said Greg Friedman, CEO of Private Ocean. "We were excited to bring them on board and give many the opportunity to have a seat at the table."

Perhaps because the rationale of a typical Wall Street merger is rooted in growing profitability through reducing costs and eliminating headcount, we have become attuned to equating M&A with a negative impact on employees. However, in RIA transactions this is rarely the case. Very few deals are predicated on reducing costs or eliminating headcount. Ultimately, RIA M&A should be good for the seller's staff. The combined company will be bigger, grow faster and have more infrastructure in place. All of which should lead to better career paths.

Expectations for the Future

Stepping back from the quarterly data, a steady, upward trend of annual M&A activity emerges. When you strip out the less important and more volatile *Breakaway Advisor Joins* activity, the trend line declines to a lumbering increase. Intense descriptors like *blockbuster*, *epic* and *steep* no longer apply, and a more mundane chart appears. A chart that should be alarming. A somewhat flat M&A chart for a hyper-fragmented industry with the characteristics of the RIA space should be alarming to us all.

We know: The average owner is over 60 years old.

We know: Only 30% of advisors have written succession plans.

We know: Many advisors have waited too long and the internal option is now out of reach.

We know: We should be seeing more deals each year. A lot more.

So, each year that we see a steady, plodding increase in deal volume, we should become more concerned. Each year that we see roughly 100 *Established* RIA transactions, we should know there are another 100 transactions that should have occurred. And those transactions will occur. The question is *when*. And the question is *what will the impact be*. If the industry experienced 200 or 300 transactions in a given year — a plausible event — DeVoe & Company does not believe the current pool of buyers could absorb them all. These deals take time, energy and money to get done, and time, energy and risk to integrate. And if the supply of sellers outstrips the capacity of buyers, then valuations will decrease and some sellers may find themselves without a buyer, at least for an extended period of time. Ultimately, this scenario is good for buyers, but not particularly healthy for the industry overall.

To help mitigate this, we encourage the following for RIA owners and principals:

- If you don't have a written succession plan, put one in place immediately.
- If you plan to sell internally, then ensure that the math works. Model the sales of shares over time, calculating an increasing valuation each year, and determine if it's feasible for the next gen to afford the firm.
- If you plan to sell externally, don't try to time the market, but be thoughtful about the timing of your sale. Realize that if there is another '2008', valuations will be compressed for 3-5 years. Or if we see 200 — 300 firms sell in a given year, your sale may be delayed for years — by your decision or by lack of buyers.
- If you are curious about acquiring firms, then make the commitment to become a buyer — or don't. Ultimately, additional buyers will be healthy for the industry. But acquiring an RIA — and even preparing to become a serious buyer candidate — is an intensive undertaking. In many cases, RIAs are better off allocating their energy to other initiatives. So, make a decision with conviction.

DeVoe & Company expects that M&A will increase at an accelerating pace over the next five to seven years. If more firms implement the strategies above, then there is a better chance that we will avoid the potential surge of hundreds of sellers overwhelming the buyers in a given year. If not, we expect that one or more surges of sellers will occur during the next decade, potentially creating an unhealthy dynamic.

The ancillary trend that DeVoe & Company foresees is *consolidation at the top*. We don't expect a consolidation of 10,000 RIAs down to 1,000 or even 5,000 or 8,000. The barriers to entry are low and a micro-sized firm can still deliver a solid value proposition. Instead, we expect a few dozen mega-firms to rise to the top, partially due to mega-firm acquisition expertise. These companies will grow faster and perform better than the rest of the industry.

Ending on a positive note, the industry will likely continue to have places for firms of all shapes and sizes. It may become harder to compete than in the past, but there will continue to be room for firms, both large and small.

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 160 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:

Business Consulting
Investment Banking
Valuations

Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to ten professionals with 160 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 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 350
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.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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From Nuveen

2019 Outlook: Slower growth. Rising rates. More volatility

You already know that 2019 could well prove challenging. Despite the uncertainties, Nuveen's Global Investment Committee sees select opportunities across markets, as we discuss in our [2019 outlook: Expect a tougher climb](#).

Highlights of our Outlook:

- Why valuations for some risk assets are more attractive now
- The value of staying actively invested as the world gets tougher
- “Defensive growth” and other best ideas for all asset classes, including taxable and municipal fixed income through real estate, ESG and alternatives

In addition to our regular quarterly and annual outlooks, you gain current market insights by receiving investment intelligence from our experts weekly.

[Learn more.](#)

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