

RIA M&A is Red Hot in 2019

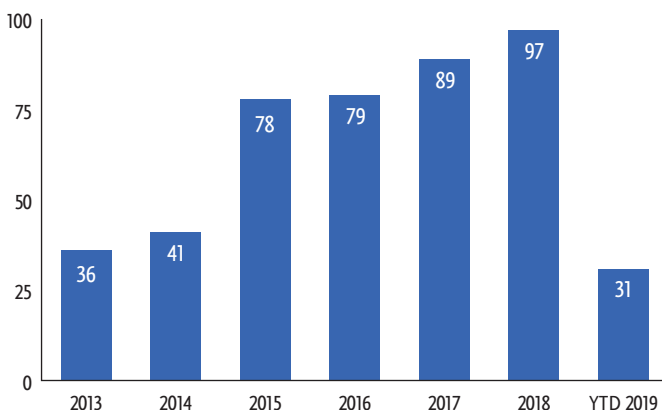
RIA M&A activity started 2019 with a bang.

The 31 sales of RIAs during the period soared far above the 12-month trailing average of 24 and were just one acquisition shy of an all-time record, according to research by DeVoe & Company. Drafting off a record year in 2018, the activity continued at a frenzied pace. The last six months have been the most active the industry has ever experienced; the 59 transactions executed by established RIAs exceeds the previous record by more than 20%.

“RIA owners are selling in record numbers as they seek the power of scale, plan for succession and capitalize on high valuations,” said Vic Esclamado, Managing Director at DeVoe & Company. “Advisors are being thoughtful and strategic while they explore their options but are not hesitating to make the move when they find the right fit.”

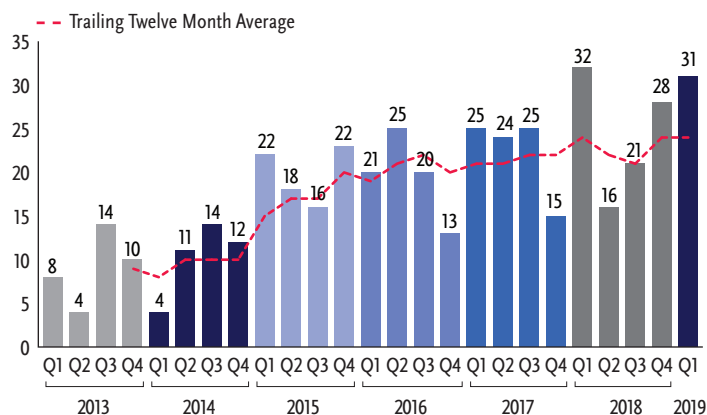
Q1 2019 — Near record pace for RIA M&A activity

Number of transactions executed per year



RIA M&A activity just shy of record quarter

Number of transactions executed per quarter



Although the deal volume was high, the average seller size was low. The average transaction size continued its decline for a third year. At just over \$600MM, it is the second lowest quarter in over three years and well below the \$1B+ apex in 2016 (all transactions over \$5B are removed in this analysis for comparative accuracy). The overall AUM of \$4.8B transacted during the quarter was also significantly lower than the three-year average \$8.4B.

Our methodology and the focus of the RIA Deal Book™

The DeVoe RIA M&A Deal Book™ seeks to track and analyze the trends of RIA mergers and acquisitions. Leveraging our founder's experience tracking RIA M&A for over 16 years — longer than anyone in the industry — DeVoe & Company continues to evolve our methods and focus to best serve our readers and clients.

To this end, we have refined the RIA Deal Book™ purview to focus primarily on the acquisitions and mergers of *true* RIAs. We seek to screen out the SEC-registered hedge funds, IBDs, mutual fund companies and other companies that aren't operating as traditional RIA firms. We are also removing the "advisors joining RIAs" category, which has created murkier reporting and an illusion of higher deal volume, from our core analysis. We will touch on this category, when appropriate, but these transactions will not be our focus.

Much of this data will seem familiar; the category named *Established RIAs* in our earlier issues of the RIA Deal Book™ was on this same segment.

As always, we continue to report on transactions of RIAs with \$100 million or more in AUM. Our reporting draws the line at \$100MM to optimize the statistical accuracy of our reporting: We are confident that we can consistently capture the vast majority of transactions executed within this pool of 5000+ advisors. Dropping below \$100MM AUM would expand the universe by another 7000+ firms, many of which would not report a sale or merger in the sources that we use to track deals, which, in turn, would erode the consistency and accuracy of our analysis. Yep, we are nerds.

So, *welcome* to our new and improved DeVoe RIA M&A Deal Book™! We aspire to make it the very best resource for the RIA community.

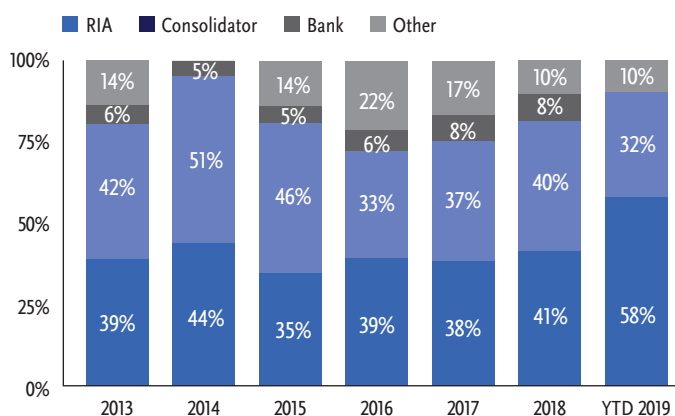
RIAs surge as a buyer category — yet consolidators still benefit

RIAs were the predominant buyer category in the quarter, absorbing nearly 60% of the transactions. Interestingly, a large portion of the RIA buyer activity actually benefitted the *Consolidators*. Five of the RIA buyers that helped drive up this number are owned by Consolidators (this sub-acquisition trend is highlighted in more detail below).

Consolidators saw a decrease in their market share for the quarter but posted 10 transactions, nonetheless. The power of private equity was on display as PE-backed growth companies like Mercer posted three deals, Focus Financial Partners (publicly traded, though private equity still retains equity) inked seven, NFP absorbed \$6B Bronfman Rothschild into Sontag, HighTower acquired \$2.6B Green Square, and Wealth Enhancement Group and Hansen McClain each put a point on the board.

RIAs take lead in RIA M&A activity

Percentage of Acquisitions by Buyer Category



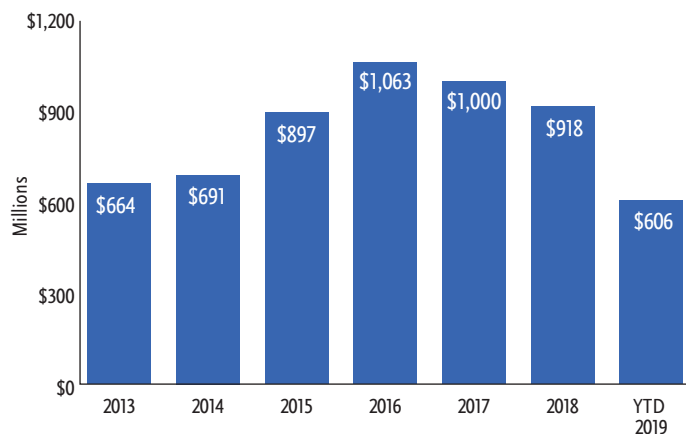
Average AUM of sellers drops like a rock

The average size of RIA sellers plummeted to \$606 million AUM in the first quarter. Continuing its decline from its 2016 high of \$1,068 million, the steep drop was driven by a variety of factors.

At one end of the scale, acquisitions of the largest firms have dropped well below their 2018 pace. Firms with \$1B to \$5B under management made up 10% of acquisitions in Q1, down from 17% in 2018; firms with \$5B or more were also 10% of acquisitions, down from 14% in 2018.

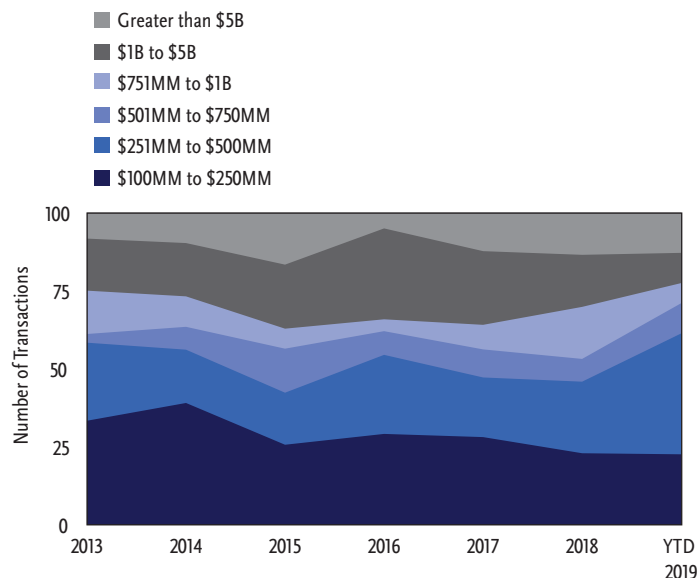
At the other end, smaller deals are surging. An all-time high of 19 RIAs with \$100-\$500MM sold during the quarter. The resulting 61% of transactions being sub-\$500 million in AUM naturally dragged the AUM to a low point for the industry. Smaller transactions are not necessarily a bad thing — and it is something to which we will likely grow more accustomed. The trend toward smaller transactions is the result of a growing sophistication of RIA acquirers in general, and sub-acquisitions, specifically. Both of these categories will continue to target and have success acquiring RIAs with less than \$500MM in AUM. This momentum will be further strengthened by the accelerating success of Mercer Advisors, Wealth Enhancement Group and United Capital, whose business models resonate with small advisors seeking scale.

Average AUM of sellers drops steeply (with over \$100MM and less than \$5B)



Increasing activity among smaller firms

Transaction size by seller AUM (percentage)



Sub-acquisitions fuel consolidator expansion

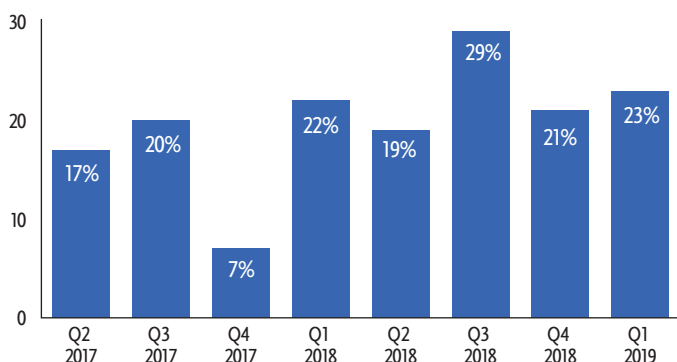
Sub-acquisitions — acquisitions made by firms that have themselves been acquired by an aggregating firm — are becoming a key force in RIA M&A. The aggregators are increasingly contributing capital, providing M&A expertise and sourcing acquisition opportunities to the firms in their network.

These transactions now comprise roughly 25% of M&A activity, and DeVoe & Company forecasts that their number will continue to increase. This “fifth wave” of M&A activity (see Q1 2017 / DeVoe RIA Deal Book™) will be a powerful way for *Consolidators* to accelerate their growth and an increasingly powerful component of their value proposition to acquisition targets. A benefit to the *Consolidators* — and a ‘good thing’ for the industry — is the ability to penetrate the smaller firm market in a scalable way. They are able to leverage their growing network of affiliates as a sort of national M&A machine.

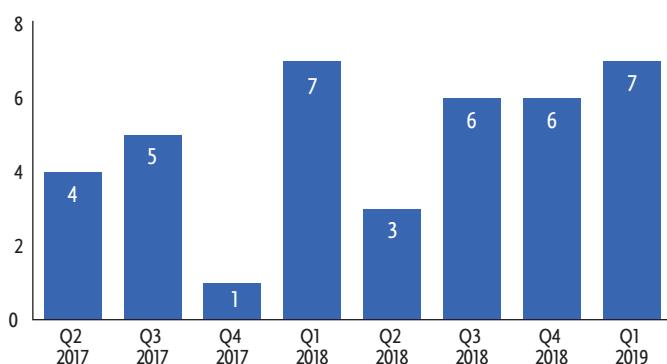
The ancillary impact of this trend is the downward pressure on average seller size. The typical sub-acquisition is roughly 50% of the size of a non-sub-acquisition. So, as this trend continues to gain momentum, the activity will have a compressing effect on the average seller size.

Sub-acquisitions key force in RIA M&A activity

Percentage of RIA transactions completed by sub-acquirers per quarter

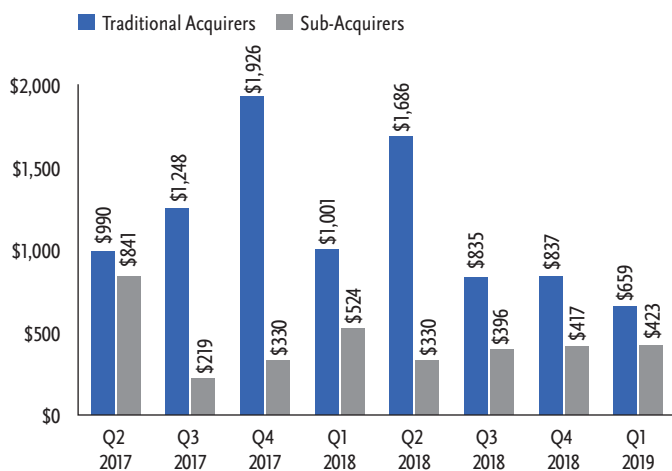


Number of transactions completed by sub-acquirers by quarter



Sub-acquisitions are significantly smaller than non-sub-acquisitions

Average AUM of transactions by traditional acquirers vs. sub-acquirers per quarter



Taking scale to the next level

There were several notable exceptions to the small-deal trend as a handful of very large firms, often backed by private equity, went elephant hunting this quarter. The Sontag Advisory-Bronfman Rothschild merger, put together by Sontag owner NFP (itself backed by private equity), melds a \$5B RIA and a \$6B RIA into a mega-firm. Cynosure, a private equity firm, bought a stake in \$11B Steward Partners, which is primarily an IBD model, but has significant RIA assets (Cynosure also owns stakes in \$5.6B Savant Capital and \$6.6B Avalon Advisors). Hub International, an insurance broker, acquired Sheridan Road Financial, a \$1.4B RIA specializing in retirement plans.

Conclusion

DeVoe & Company believes that 2019 is tracking toward another strong year for RIA M&A. Overall, the characteristics related to this robust M&A activity are positive indicators of the health of the industry. Owners are not selling from a position of weakness or irrational fear; they are primarily doing so to achieve strategic goals and objectives. And, although the buyers are paying very high valuations, they are doing so from an informed perspective of calculated risk and reward.

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.

This report is brought to you by Nuveen in conjunction with DeVoe and Company. All data is attributable to DeVoe and Company as of December 31, 2018.

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 contains no recommendations to buy or sell any specific securities and should not be

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@devoe-co.com.

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@DavidDeVoe1 and @Devoeco

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From Nuveen

Proxy season preview: Aspirational requests become accountability requirements

Heightened attention by institutional investors on companies' responsible business practices has led to increased calls for greater accountability on a variety of environmental, social and governance (ESG) issues. These issues, covered in our latest report, [2019 Proxy season preview](#) are listed below. These topics do not encompass the full scope of ESG issues expected to arise during the 2019 proxy season. They convey a high profile theme that most companies will consider in conducting engagements and preparing their proxy statements:

- Board refreshment
- Climate risk related proposals
- Diversity and inclusion proposals

Nuveen has spent over five decades championing responsible investing, has one of the industry's largest RI teams, and over \$20B in ESG-focused strategies.¹

To learn more, contact your Nuveen Advisor Consultant team or visit nuveen.com/responsible-investing.

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