Blockbuster Quarter Sets the Stage for a Record Year

With one quarter to go, 2019 M&A activity already exceeds full year 2018

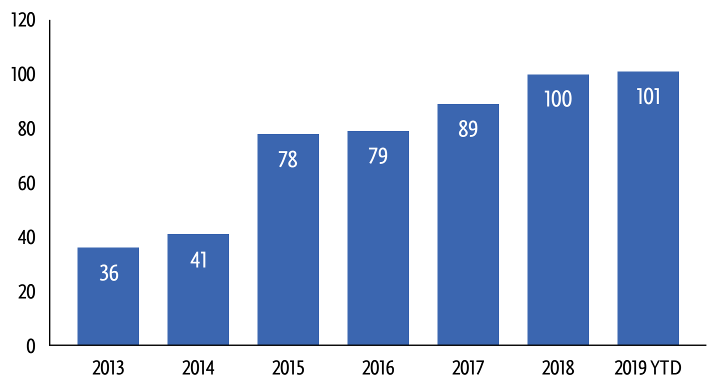
RIA M&A activity accelerated its record pace with the biggest quarter the industry has ever experienced. A three-quarter surge in activity pushed year-to-date numbers above the full year of 2018. High valuations, the lure of scale, and a strong stable of thoroughbred acquirers are driving unprecedented M&A activity.

With the 36 transactions posted during the period, the industry achieved a new high-water mark. The transaction volume exceeded the previous record of 33, which was set just the quarter before, and spiked 4 points over the surprisingly strong 12-month trailing average of 33, according to research by DeVoe & Company. With a quarter still to go, the 2019 transaction count already surpassed the full 2018 RIA M&A volume of 100.

"The current volume leaves no doubt that 2019 will be the industry's sixth successive record year of activity," said David DeVoe, Managing Director at DeVoe & Company. "This acceleration of activity is healthy for the industry. Even at 100 to 150 transactions per year, the M&A activity is less than half of what it should be for an industry with over 10,000 firms."

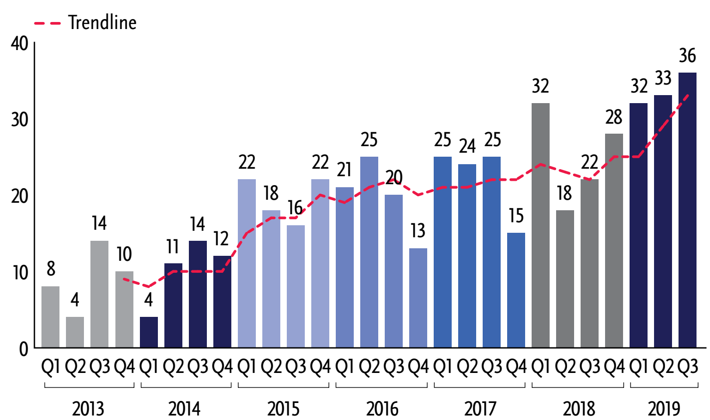
M&A Activity Already Surpassed 2018 Levels

Annual M&A activity



Another Record-Breaking Quarter for M&A Activity

Number of transactions executed per quarter



Bigger is Not Always Better

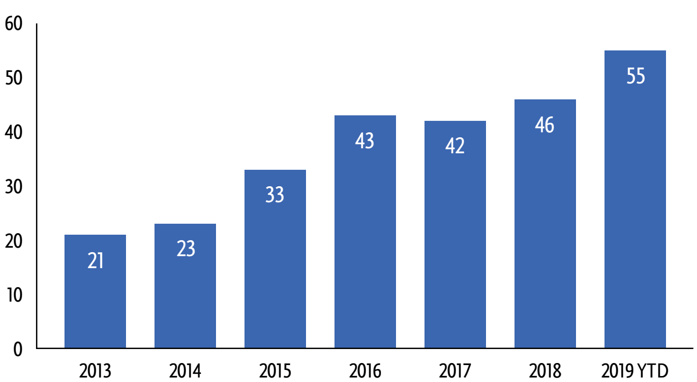
Sometimes smaller is better. This has definitely been the case in recent years for RIA acquirers: Many have focused their acquisition efforts on (and tailored their business models to) RIAs with less than half a billion in AUM. The sub-$500MM segment has ballooned year-to-date with 55 transactions, far above the entire year of 2018 and more than double the number just a few years ago.

Comprising more than half of the transactions executed year-to-date, RIAs in this size range are often using a sale to achieve strategic goals. "Succession is still a key decision driver in this segment, but scale has emerged as an equally important factor," said Francine Miltenberger, Managing Director at DeVoe & Company. "Advisors are thinking several steps ahead and often executing a transaction to solve succession, while also gaining access to additional services, valuable resources and better technology that a larger firm can provide."

In DeVoe & Company's recent ***M&A Outlook Study***, 51% of surveyed advisors indicated that if they sold to an external party, it would be for BOTH scale and succession, versus approximately 20% of firms that would sell for only one or the other.

Transactions <$500MM Surging in 2019

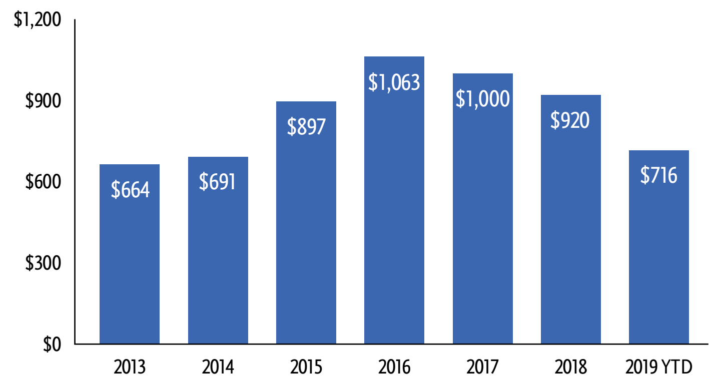
Number of transactions $100MM to $500MM



The growing number of transactions at the lower end of the scale has contributed to a declining average transaction size of sellers. The average seller AUM for RIAs is now $716MM for the year-to-date period. The average AUM has steadily declined since exceeding $1B in 2016. (Transactions included in this calculation include firms with more than $100MM and less than $5B, to exclude the data-skewing effect of outliers).

Average AUM of Sellers Continues to Decline

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

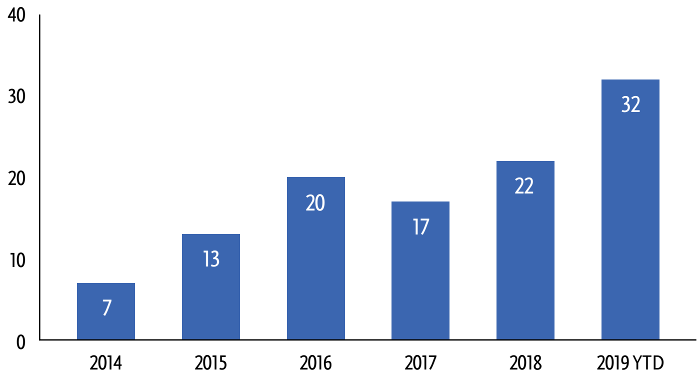


Taking an *RIA Business* to the Next Level

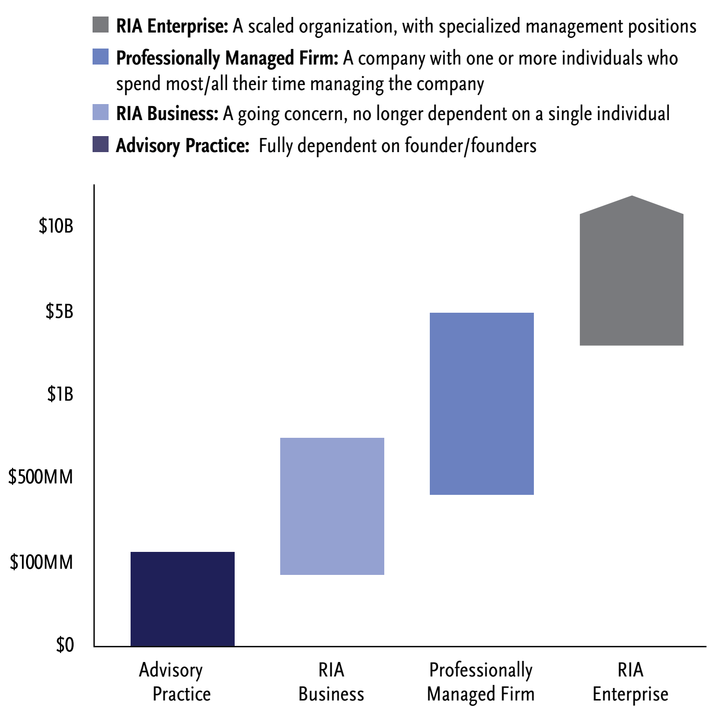
The $250MM-$500MM segment, in particular, is experiencing heightened transaction activity in 2019. With a steady 10 transactions per quarter, the pace of these deals in 2019 is running at a clip two times above the historic average. Firms of this size are typically at a unique stage in the lifecycle. They have usually moved beyond the *Advisory Practice*/sole-practitioner stage and have created an *RIA Business*–a true business which is no longer fully dependent on an individual/founder. However, to break through this phase, they are faced with a daunting next step: creating a *Professionally Managed Firm*. This is no small undertaking.

Volume Spikes for $250MM to $500MM Sales

Number of transactions: $250MM to $500MM



The Evolution of the Advisory Practice



Creating a *Professionally Managed Firm* requires a new way of doing business. These firms need to execute a new set of management activities, such as hiring executives, restructuring the organization, and migrating responsibilities. The owners of the companies must also have the appetite to accept near-term lower profits (as the company invests ahead of the profit curve) and give up control over a variety of responsibilities to a growing number of specialists and senior executives. It is a bold undertaking that requires hard work, comfort with a high degree of uncertainty and a new set of significant risks.

Advisors in the *RIA Business* phase have three options:

1) Continue on the current path and with the existing structure: make incremental improvements but remain in the *RIA Business* stage.

2) Engage with the complex and likely rewarding undertaking of developing the business into a faster growing *Professionally Managed Firm*.

3) Merge into a larger organization that has already evolved to a higher stage, such as Professionally Managed or Enterprise.

Advisors in the $250MM-$500MM segment are choosing the third option in greater numbers. They often decide to sell either to step into a *Professionally Managed Firm* or springboard past the third phase and land directly into an *RIA Enterprise*. Today's buyer pool has a large breadth of sophisticated enterprises that continually make this transaction–and consequently the decision–easier and easier.

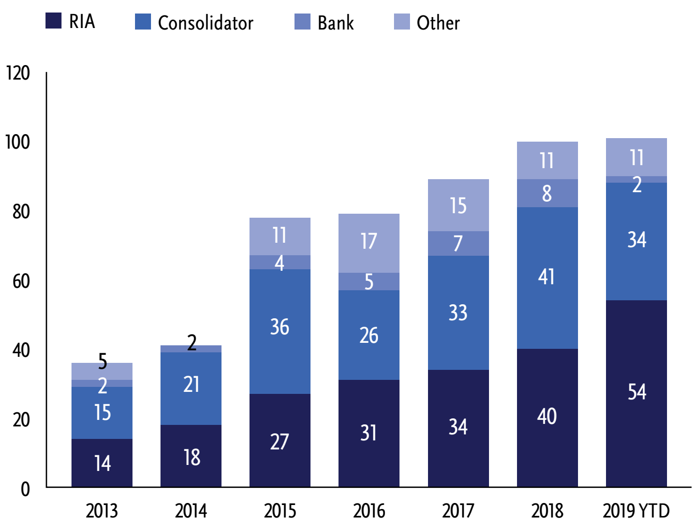
Enterprise Firms are Active Buyers

With respect to *RIA Enterprises,* activity in the period and in 2019 to date has enterprise serial acquirers behind it. By their very purpose, these firms are using M&A as a business strategy and pathway to growth. The group of serial acquirers continues to demonstrate their methodical execution of transactions.

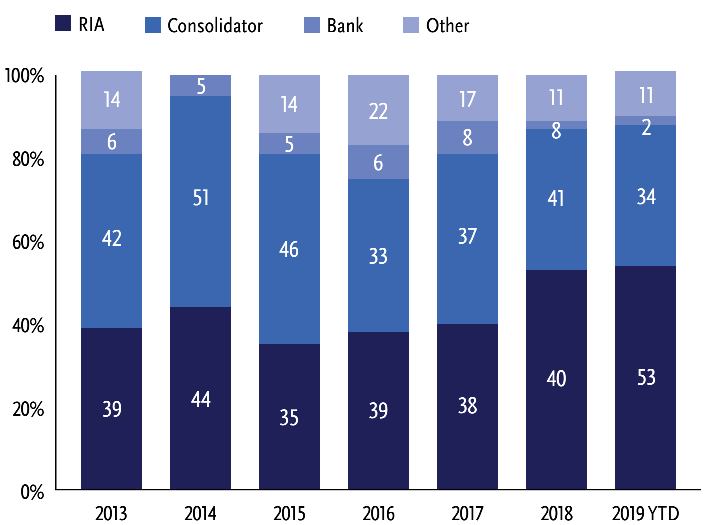
Year-to-date, *RIAs* as a buyer category generated 53% of the volume and *Consolidators,* another 34%. Together, at 87%, these two buyer categories continue to dominate the acquisition activity. Sub-acquisitions represent 25% of total transactions year to date, a record high and a transaction type that continues to increase over time. *Consolidators* use sub-acquisitions as a way to accelerate their growth across their networks of partners or affiliates. "It's an effective and scalable way for these companies with a distributed network of advisors to grow," said Miltenberger.

RIAs and *Consolidators* Make Up Majority of Volume

Number of acquisitions by buyer category



Acquisitions by buyer category (%)



Large and Notable Transactions

Recent mega-deals involving significant brand-name firms signal keen interest in the RIA space and additional consolidation on the horizon. Serial acquirers like United Capital, Mercer Advisors and Wealth Enhancement Group capitalized on the high valuations, while Charles Schwab took an opportunity to add scale to its wealth management enterprise.

Top Brand Name Transactions 2019

Date	Seller	Buyer	AUM (Millions)
5/16/19	United Capital	Goldman Sachs	$25,000
7/31/19	Wealth Enhancement Group	TA Associates	$11,800
8/16/19	USAA Investment Management	Charles Schwab	$90,000
9/17/19	Mercer Advisors	Oak Hill Capital	$16,500

United Capital's sale to Goldman Sachs was an important flashpoint in the industry and served as a second recent proof of concept for the private equity-backed consolidator model (Focus going public in 2018 was another key proof point). Drafting off this momentum, two more of the leading consolidators replenished their capital reserves.

In mid-September, $16.5B Mercer Advisors announced a recapitalization whereby Oak Hill Capital will acquire an equity stake in the company from private equity (PE) owners Genstar Capital and Lovell Minnick Partners. Supported by private equity partners for more than a decade, Mercer's impressive inorganic growth (23 acquisitions in the last 3½ years) and expansion of capabilities has been fueled by the capital of several PE firms.

Private equity typically brings more than capital to the table. Each PE firm has its own set of unique strengths and expertise. Some may provide capabilities for firms at the early stage, others may have expertise with leveraged debt or partnerships, while others may have a track record of taking their portfolio companies public. "Mercer is a textbook example of how to leverage the capabilities of various private equity firms, based on its stage in the business lifecycle and its current goals and needs," said DeVoe.

Wealth Enhancement Group ($12.8B AUM) also announced that TA Associates is acquiring the equity stake previously held by Lightyear Capital. This announcement came immediately after WEG announced its 13th deal of the year, $1B+ AEPG Wealth Strategies (which DeVoe & Company represented in the transaction). "Wealth Enhancement Group has a strong platform and intense focus on end-client needs," said DeVoe. "AEPG leadership, like many other WEG affiliates, saw a future where joining the organization would provide clients with a broader set of capabilities and their seasoned talent with enhanced career paths."

Additionally, the Charles Schwab Corporation announced its acquisition of USAA's Investment Management Company, adding one million new accounts and $90B in assets and cross-sell opportunity to its $1.9T Investor Services business. The mega-deal also had positive signs of synergy: Both USAA and Schwab are known for their service and client experience, powered by a combination of people and technology.

Proliferation of Capital Options to Support M&A

An accelerating proliferation of capital options has the potential to be a game-changing event for the industry. The infusion of capital and lending solutions will open up new deal structure options and enable more buyers–many of them next generation/internal buyers–to execute transactions that could not have been completed in the past.

Like many hyper-fragmented industries, RIAs historically used seller-financing for most succession plans. The founders loaned money to the next-generation owners to buy equity, a role that many owners reluctantly supported. More than one RIA principal has said, "I started this business to serve clients, not to be a bank."

Unfortunately, banks are generally averse to making loans to cash-flow companies—prospective borrowers that don't have hard assets as a secondary source of repayment. And banks resisted attempts to enter the RIA lending market.

While leading the M&A/Succession platform for a large RIA custodian earlier in the 2000s, David DeVoe tried on three occasions to convince lenders to make loans on a scaled basis to the RIA industry. Despite the high growth, stable client base and attractive cash flow of RIAs, major lenders declined to engage in the opportunity.

Fortunately, this all changed when Live Oak Bank entered the picture. With the government backing of all SBA loans, Live Oak does not have the same constraints of lending to firms that lack hard assets. And although not a household name, Live Oak Bank is the largest SBA lender in the US. They have achieved their success by focusing deeply on a small set of industries, which they could get to know well.

Live Oak's curiosity in the RIA space, buttressed by strategy consulting work from DeVoe & Company, led to the establishment of a new RIA focus for the company. Their success broke the seal for lending to the RIA industry. With a respected lender investing in the space, other lenders followed.

Conventional loans were soon offered by a new set of players, as private equity also increased their historic interest. Then, family offices made investments in a few firms, while new innovative solutions were developed to take annual shares of revenue or cash flow. More recently, passive and patient capital have emerged, while private equity investments have surged in the industry. "More capital and lending options have entered the RIA space in the last 10 months than in the last 10 years," said DeVoe.

In total, there are now more than 30 options in the marketplace, each with its own set of benefits, constraints, and characteristics. The good news is advisors now benefit from a rich and diverse abundance of options. The challenge for many advisors is how to determine which–or even know of which–option is best for them. "We identified over 25 decision points that an advisor must assess to determine which capital solution is best for them," said Brad Grubb, Managing Director at DeVoe & Company. To help advisors with this complex equation, DeVoe & Company offers a complimentary service to walk advisors through this decision tree ***(DeVoe CapitalWorks™)***.

The new capital and lending options is a significant positive development to the RIA space. More RIAs will be able to acquire firms, more creative deal structures will benefit parties, and, most importantly, more next-generation advisors will be able to become shareholders.

Conclusion

The industry's record transaction volume is being driven by a wide variety of influences. Record high valuations, the lack of succession planning and the availability of sophisticated, well-capitalized acquirers are contributing to the wave of activity. The new inflow of capital solutions and industry demographics will impact the near- and long-term activity, respectively.

Based on DeVoe & Company's assessment, the combination of these factors is expected to drive increasing merger and acquisition activity in the industry for the next five to eight years. And there is recent evidence that RIAs themselves whole-heartedly agree: 60% of respondents to our recent survey said they expect the momentum to continue to increase for five or more years.

Overall, it is a good news story for advisors reading this report. The options have never been so plentiful. Valuations have never been so high. The buyer pool has never had so many options that truly contribute to helping a seller run a better business. Our only advice is to evaluate your options and move forward with conviction. A broad set of options can often lead to a lack of decision. And lack of a decision in the near term will typically lead to fewer options over the mid-term, and ultimately a forced decision. For an industry that provides planning as a core component of many value propositions, advisors have the awareness of the importance of planning for the future. Cobblers: Go make your children some shoes.

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 reports on activities and analyzes the trends to bring you deeper insight.

The RIA Deal Book's purview is to focus primarily on the acquisitions and mergers of true RIAs, and only on transactions of $100 million or more in AUM. Our reporting draws the line at $100MM to optimize the statistical accuracy of our reporting. 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 also exclude the "advisors joining RIAs" category. We will touch on this category, when appropriate, but these transactions are not our focus.

There's a lot to cover with transaction events in the pool of 5,000+ RIAs managing $100MM+ or more. We hope you find valuable nuggets that drive your strategy.

About DeVoe & 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 consulting, M&A, and valuation services to help you accelerate the achievement of your business goals. Leveraging our team's 200 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 200 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 500 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:

- *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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From Nuveen

The rise of impact investing

Investors are looking for strategies that go beyond traditional environmental, social and governance principles. In response, many are embracing **impact investing**, which seeks to produce direct environmental, social and human benefits while generating market-rate returns. TIAA CREF Social Choice Bond Fund (TSBIX) invests across the investment grade, U.S.-dollar fixed income market in securities that demonstrate environmental, social and governance (ESG) leadership and/or direct and measurable environmental and social impact. Learn more in the Fund's most recent impact report Measuring impact in public fixed income.

Impact investing is growing rapidly, with rising demand for strategies that go beyond traditional risk reduction approaches to produce direct benefits for people and the planet. Institutional investors are among the largest sources of impact capital as the market's evolution has increased opportunities to earn market-rate returns in scalable investments.

The diversity of opportunities in alternative investments across sectors and asset classes in developed and emerging markets provides a range of risk-return profiles to meet the needs of mainstream investors. Potential risks—including exposure to less mature businesses, illiquidity and the wide variation of returns noted in recent studies—place a premium on due diligence in manager selection.

Learn more: Impact investing through alternatives

For questions about Nuveen's range of impact and responsible investments, please contact your Nuveen Advisor Consultant.

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A word on risk

Mutual fund investing involves risk; principal loss is possible. There is no guarantee the Fund's investment objectives will be achieved. The Fund will include only holdings deemed consistent with the applicable **Environmental Social Governance (ESG)** guidelines. As a result, the universe of investments available to the Fund will be more limited than other funds that do not apply such guidelines. ESG criteria risk is the risk that because the Fund's ESG criteria exclude securities of certain issuers for nonfinancial reasons, the Fund may forgo some market opportunities available to funds that don't use these criteria. **Credit risk** arises from an issuer's ability to make interest and principal payments when due, as well as the prices of bonds declining when an issuer's credit quality is expected to deteriorate. **Interest rate risk** occurs when interest rates rise causing bond prices to fall. The issuer of a debt security may be able to repay principal prior to the security's maturity, known as **prepayment (call) risk**, because of an improvement in its credit quality or falling interest rates. In this event, this principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income. **Non-U.S. investments** involve risks such as currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. Investments in below investment grade or **high yield securities** are subject to liquidity risk and heightened credit risk. These and other risk considerations, such as active management, extension, issuer, illiquid investments, income volatility, and derivatives risk, are described in detail in the Fund's prospectus.

Before investing, carefully consider fund investment objectives, risks, charges and expenses. For this and other information that should be read carefully, please request a prospectus or summary prospectus from your financial professional or Nuveen at 800.752.8700 or visit nuveen.com.

Nuveen Securities, LLC, member FINRA and SIPC.

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