February 28, 2018

2017 Asset Manager Transaction Review & 2018 Forecast

Asset Management Investment Banking Group

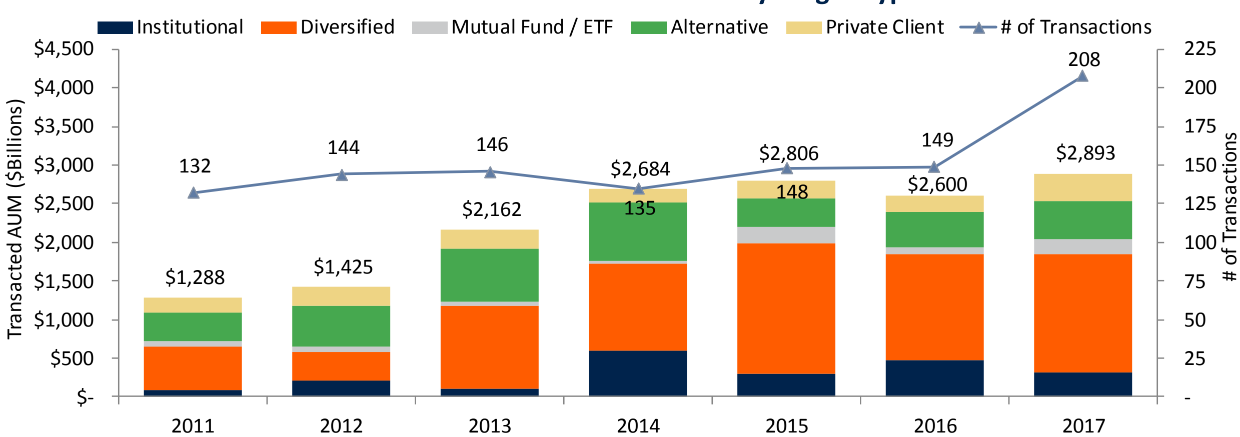
Aaron H. Dorr	Christopher J. Browne	Jason D. Greco
Principal, AM IB Group Head	Managing Director	Director
(212) 466-7734	(212) 466-7735	(212) 466-7967
adorr@sandleroneill.com	cbrowne@sandleroneill.com	jgreco@sandleroneill.com

OVERVIEW

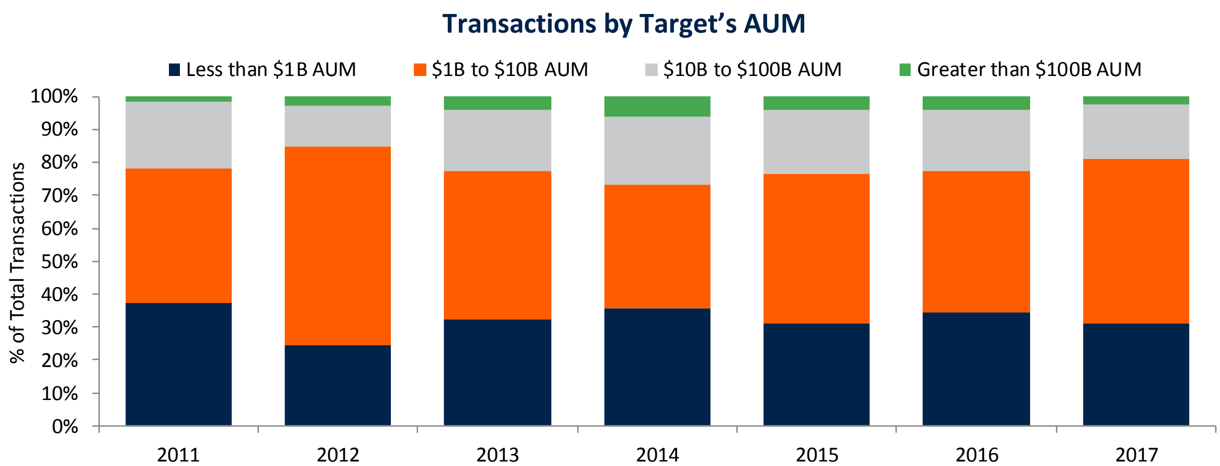
Asset management transaction activity in 2017 reached its highest level since the Global Financial Crisis, with 208 announced transactions compared to 149 in 2016 and 148 in 2015. Accelerated global economic performance drove strong equity markets, translating to robust M&A activity. Most notably, European deal activity posted a strong showing in 2017, supported by strong economic growth across the continent. Disclosed deal value globally increased 23% from 2016, reaching $21.0 billion. Overall, M&A activity represented $2.9 trillion in transacted assets under management, up 11% and 3% respectively from 2016 and 2015. The five largest transactions, as measured by AUM, were:

- Standard Life's merger with Aberdeen Asset Management ($342 billion at Standard Life; $372 billion at Aberdeen)
- HNA Capital Group's two-step purchase of a 24.95% stake from Old Mutual plc in OMAM ($240 billion)
- Nippon Life's purchase of a 24.75% stake from The Carlyle Group in The TCW Group ($192 billion)
- Stone Point Capital and KKR's acquisition from existing financial sponsor owners of Focus Financial Partners (estimated $100 billion)
- SoftBank's acquisition of Fortress Investment Group ($70 billion)

Number of Transactions and AUM by Target Type



Coupled with a significant increase in acquisitions of private wealth managers, asset management M&A activity continued to be driven by buyers seeking in-demand, specialist capabilities to push top-line organic growth via the acquisition of small- and mid-sized managers. A consistent theme among buyers in 2017 was a focus on building out capabilities in real assets, including real estate and infrastructure. The acquisition of businesses with AUM between $1 billion and $10 billion represented 50% of transactions, the highest proportion of deals since 2012. Large, transformational deal activity continued to be sporadic, with only 4 deals involving more than $100 billion in transacted AUM. For large targets, the attraction of consolidation synergies presents greater execution challenges, commercially and culturally.



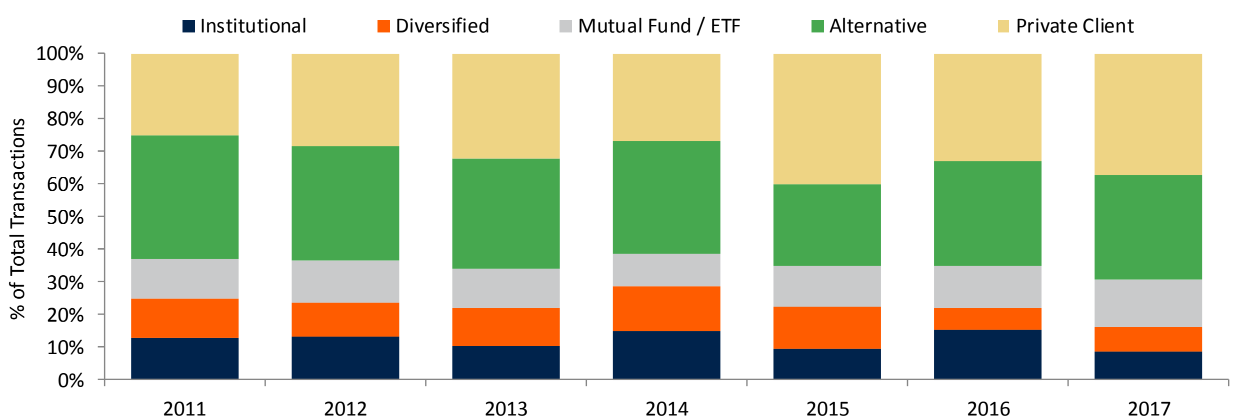
SELLERS

Sales of traditional managers increased to 64 transactions in 2017 following 52 transactions in both 2015 and 2016. An uptick in the sale of mutual fund and ETF managers was the primary driver, increasing from 19 transactions in both 2015 and 2016 to 30 this past year. Generally, retail asset managers continued to attract scale-seeking buyers given the opportunity to consolidate. Additionally, managers with existing ETF capabilities sought targets that offered product differentiation to distinguish themselves from the largest ETF behemoths of the industry, primarily BlackRock, Vanguard, and State Street. As a result, acquisitions of ETF managers increased from 6 in 2016 to 10 in 2017. Of note, Invesco bolstered its traditional and smart beta ETF offering through acquisitions of **Guggenheim Investments**' $37 billion ETF business and European ETF provider, **Source**, with $25 billion in AUM. **ETF Securities** took advantage of buyer interest to sell its $3 billion European ETF platform, **Canvas**, to Legal & General and its $18 billion European exchange-traded commodity, currency, and short-and-leveraged business to WisdomTree.

After a down year in 2016 with only 10 transactions, deal activity among diversified active managers increased to 16 transactions in 2017, in line with historical norms. Small- and mid-sized sellers offering both institutional and retail products attracted buyers in search of consolidation and scale opportunities. UMB Financial Corp sold $27 billion manager **Scout Investments**, including its fixed income-focused **Reams Asset Management** division, to Carillon Tower Advisers, the multi-boutique subsidiary of Raymond James for $173 million. This transaction maximized UMB's proceeds by offering Raymond James both the financial benefits of material cost savings and the strategic benefits of new investment capabilities for the Carillon Tower platform.

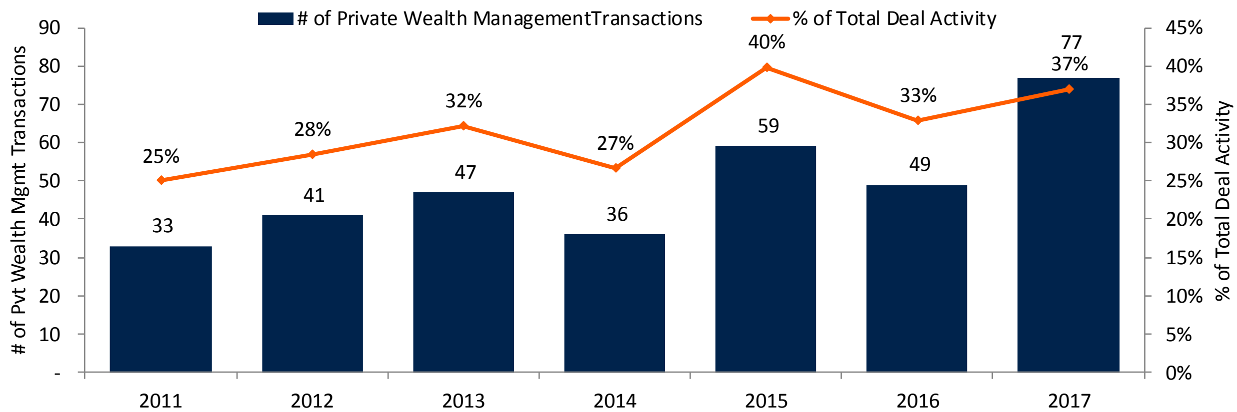
Acquisitions of active institutional managers declined from 23 in 2016 to 18 in 2017. Unlike retail and diversified managers, institutional managers offer fewer opportunities for cost synergies. Broader interest in the institutional space has decreased in light of industry headwinds facing active managers, but sellers offering specialized or differentiated solutions continue to draw interest. Notably, Denmark-based **Global Evolution**, a specialist manager with $7 billion in emerging and frontier markets debt, sold a 45% stake to Conning to enhance Global Evolution's distribution and expand Conning's investment offerings. Also, **Shapiro Capital Management**, a $4 billion value-oriented manager, sold a majority interest to Resolute Investment Managers, the recently rebranded parent company of American Beacon Advisors, expanding Resolute's portfolio of affiliates.

Transactions by Target Type



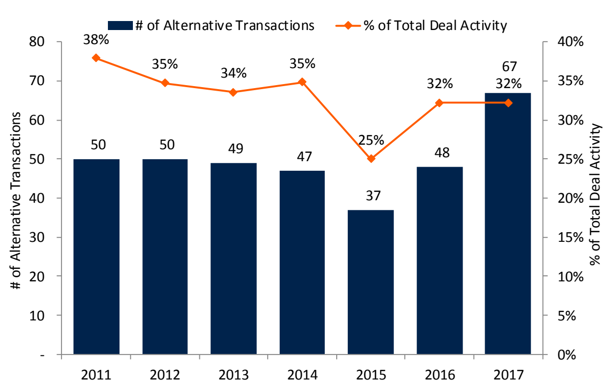
Private wealth management activity grew sharply last year with 77 transactions, a 57% increase over 2016 and a 31% increase over 2015. Median transacted AUM was $850 million in 2017, in line with historical trends as the industry continues to be highly fragmented despite significant transaction activity. Aggressive activity from aggregators continued to push M&A activity in the space. To fund their activity, aggregators continued to seek backing from private equity firms, which remain interested in the favorable client demographics and strong AUM retention characteristics of the industry. The largest of the sponsor transactions in the sector were Stone Point Capital and KKR's purchase of a majority stake in **Focus Financial**, with an estimated $100 billion in assets, and Thomas H. Lee Partners' acquisition of a majority stake in $50 billion **HighTower Advisors**. With replenished coffers from their new financial sponsor partners, Focus and its subsidiaries acquired 12 firms, and HighTower made its largest acquisition ever with the purchase of **WealthTrust**, a holding company of 10 wealth management affiliates.

Number of Private Wealth Management Transactions

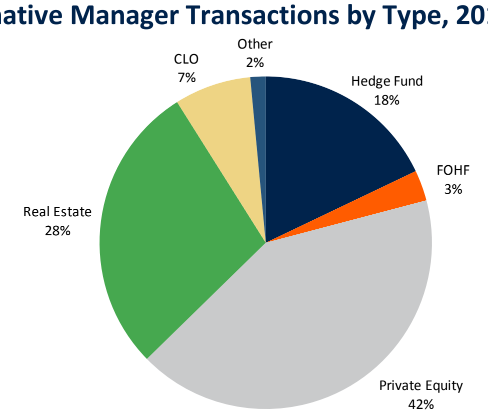


Alternative asset management deal activity jumped to its highest level since 2008 with 67 deals in 2017, a 40% increase from 48 transactions in 2016. The most notable trend was the significant increase in acquisitions of private equity managers, which doubled from 2016 to 2017 with 28 transactions. Historically, sellers seeking liquidity from minority stake buyers drove M&A activity in the private equity space, but a majority of the acquisitions of private equity managers this past year were control transactions. Buyers looked not only to more generalist private equity firms as acquisition targets, but also to specialist managers to expand existing private equity capabilities. Notable deals included Canadian pension fund British Columbia Investment Management Corporation's acquisition of a majority stake in the U.K.-based $9 billion European private debt manager **Hayfin Capital Management** and BlackRock's purchase of the **First Reserve** energy infrastructure funds with $4 billion in AUM.

Number of Alternative Manager Transactions

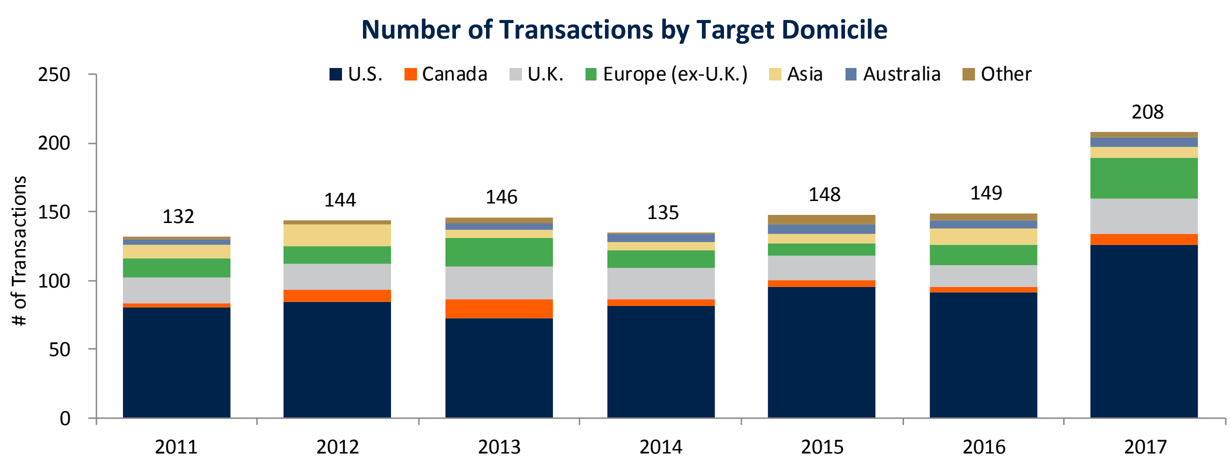


Alternative Manager Transactions by Type, 2017



Acquisitions of managers of "real assets" was another big trend in the alternatives sector as activity increased from 15 in 2016 to 28 in 2017. Real estate managers took advantage of strong demand from buyers keen on expanding their portfolio of real assets. For example, Japanese conglomerate Mitsui & Co. acquired a 20% stake in the **CIM Group**, a $19 billion U.S.-based real estate manager, and committed to invest in several CIM-managed funds for a total investment of approximately $500 million. In another busy sector, three MLP manager acquisitions highlighted investor demand for energy-related assets: Blackstone acquired $10 billion **Harvest Fund Advisors**; Brookfield acquired $4 billion **Center Coast Capital**; and Lovell Minnick acquired a majority stake in $16 billion **Tortoise Investments**.

U.S. targets represented 61% of deal activity in 2017, generally consistent with previous years. However, there was a significant increase in the acquisition of U.K.- and European-domiciled managers. Deals involving U.K. targets increased from 16 to 26 and European (ex-U.K.) targets doubled from 15 to 30 between 2016 and 2017, respectively. Interest in Europe from both U.S. buyers and in-market buyers grew as the European economy joined the global economic upswing, spurred on by central bank quantitative easing. U.S. private equity firm TA Associates acquired **Old Mutual Wealth's** $34 billion **Single Strategy asset management business** for approximately $800 million as part of Old Mutual's broader managed separation strategy. In Italy, Banco BPM sold its $22 billion **Aletti Gestielle** asset management subsidiary to Anima Holding for $830 million.



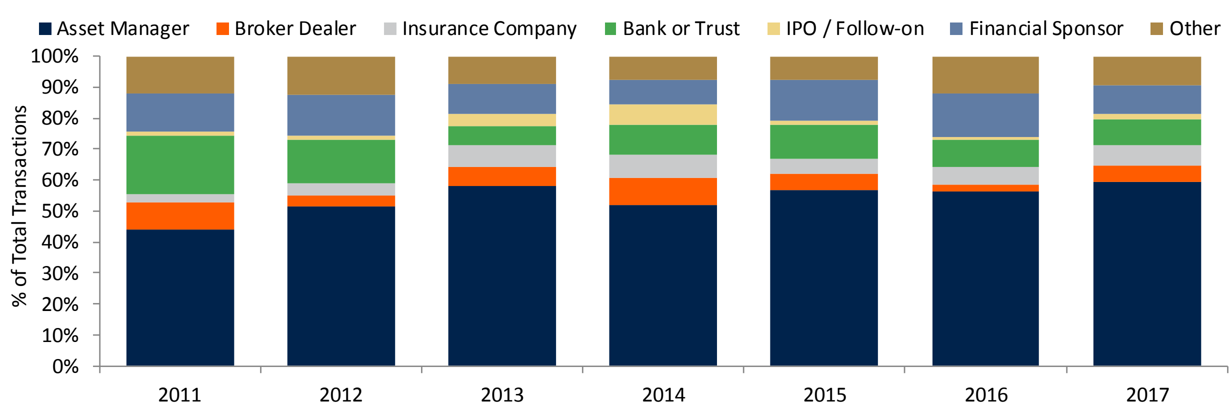
BUYERS

Asset management companies were the largest buyer group in 2017, accounting for 60% of deal activity. Asset management companies have consistently been the largest buyer group post-Crisis primarily due to commonality of culture, no regulatory or capital overhang, and consistency of core business. Financial sponsors were the second largest buyer group despite a slight decrease from 21 acquisitions in 2016 to 20 in 2017. Sponsors continued to be highly selective in the space as they look for differentiated managers or roll-up opportunities with a growth strategy. At the same time, sellers have tempered interest in private equity buyers, as most sellers are more frequently seeking buyers that can bring tangible strategic synergies rather than simply a liquidity event. A significant share of sponsor activity this last year was among special purpose vehicles such as Goldman Sachs Petershill and Dyal Capital Partners, which have funds dedicated exclusively to acquiring minority interest in alternative managers. Interestingly, while sponsor acquisitions remained relatively steady, harvest activity by sponsors decreased to only 3 transactions in 2017 after posting an annual average of 10 portfolio companies between 2014 and 2016.

M&A activity among broker dealer buyers jumped markedly from only 3 transactions in 2016 to 11 deals last year, two-thirds of which involved U.S. broker dealer buyers. Broker dealer buyers increased activity as they looked to acquire private wealth managers to diversify their revenue streams, as shown by Stifel's acquisition of **Ziegler Wealth Management** with $5 billion in assets. ETF managers were also a priority for broker dealers, as shown by Cantor Fitzgerald's acquisition of $1 billion ETF manager **Efficient Market Advisors** for Cantor's investment management subsidiary.

Activity among bank buyers continued its relatively muted post-Crisis level with 18 transactions in 2017. More than half of these deals involved non-U.S. buyers. Private wealth managers continued to be the primary target for banks, representing 72% of deals. In the largest deal involving a bank buyer, CIBC strengthened its wealth management business and North American platform by acquiring the U.S.-based wealth manager **Geneva Advisors** with $8 billion in assets.

Transactions by Acquirer Type

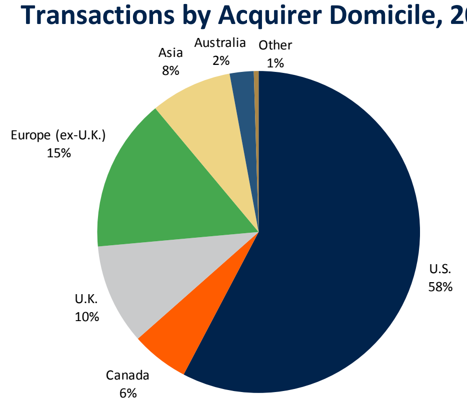


Insurance company buyers were more active in 2017 with 13 acquisitions, the most since 2008. Non-U.S. insurance companies were particularly active, representing more than half of deal activity. Insurance companies have revamped their acquisition efforts in recent years as asset management, particularly fixed income and credit strategies, has remained synergistic with their broader business. These capabilities allow insurance companies both to expand their third-party asset management offerings and to diversify general account investments. Notable acquisitions by insurance companies included MetLife's purchase of **Logan Circle**, Fortress' $33 billion fixed income business, for $250 million and Principal Financial Group's acquisition of **MetLife Afore**, MetLife's Mexican pension fund management business, with $4 billion in assets.

Transactions involving management teams buying back their businesses increased slightly in 2017 with 6 transactions. A management buyout is the usual outcome when parent and subsidiary mutually agree that a given business is no longer strategic and that management has the financial resources, sometimes with financial sponsor backing, and management capacity to purchase and run the business. In the largest such transaction of 2017, the management of **TorreyCove Capital Partners**, a $21 billion private equity consulting firm, bought out the 80% stake held by the Japanese conglomerate Mitsubishi. **Anchor Capital Advisors**' management bought out Boston Private's majority stake in the $9 billion asset manager with backing from Lincoln Peak Capital Management.

U.S. asset managers continued to be the majority of buyers in 2017, reflecting the continued prominence of the U.S. within the global asset management industry. Among European buyers, activity increased from 43 transactions in 2016 to 53 transactions in 2017, a 23% increase. Under improved economic conditions, European buyers are now reactivating their inorganic growth strategies to build out their capabilities and reach new markets. To expand its presence in the Asia-Pacific region, Natixis acquired a 52% stake in $7 billion Australian equities manager **Investors Mutual Limited** for $121 million. Despite the broader increase in global transaction activity, the number of Asian buyers remained consistent with 2016.

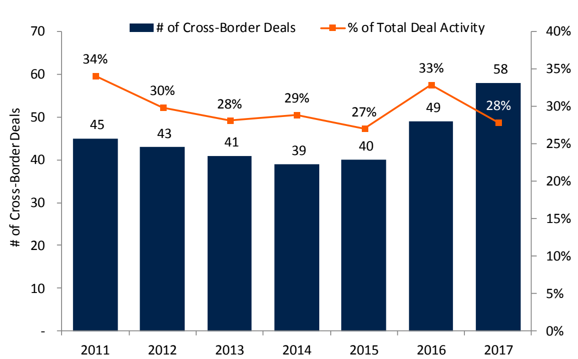
Transactions by Acquirer Domicile, 2017



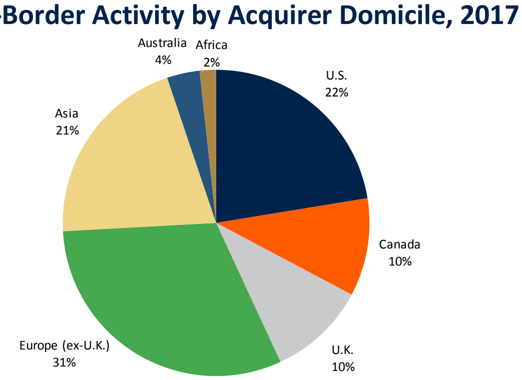
Cross-border transactions represented 28% of deal activity in 2017, down slightly from 2016 but in line with historical trends. As discussed earlier, European and U.K.-based targets were a key focus for buyers last year, representing nearly 50% of the 58 cross-border deals. Cross-border acquisitions of North American targets, which in prior years have been the top source of cross-border M&A activity, rose from 18 transactions in 2016 to 23 transactions in 2017. 3 of the 5 largest deals involved cross-border acquisitions of U.S. targets by Asian buyers. In March, Chinese conglomerate HNA Capital Group announced a two-step purchase of a 24.95% stake in $240 billion multi-boutique manager **OMAM** from Old Mutual plc for $446 million. In December, Nippon Life announced it would buy a 24.75% stake in the $192 billion **TCW Group** from The Carlyle Group to strengthen Nippon Life's asset management business and enhance the investment capabilities of its life insurance business.

The most notable cross-border M&A transaction of 2017 was SoftBank's announced $3.3 billion acquisition of U.S. alternative asset manager **Fortress Investment Group**. The Fortress acquisition provides SoftBank a strong foundation to build a much larger third-party asset management business. The company is reportedly seeking additional targets to build a $300 billion asset management business in the next 4-5 years, including SoftBank's existing $100 billion Vision Fund for technology investments.

Cross-Border Transaction Activity

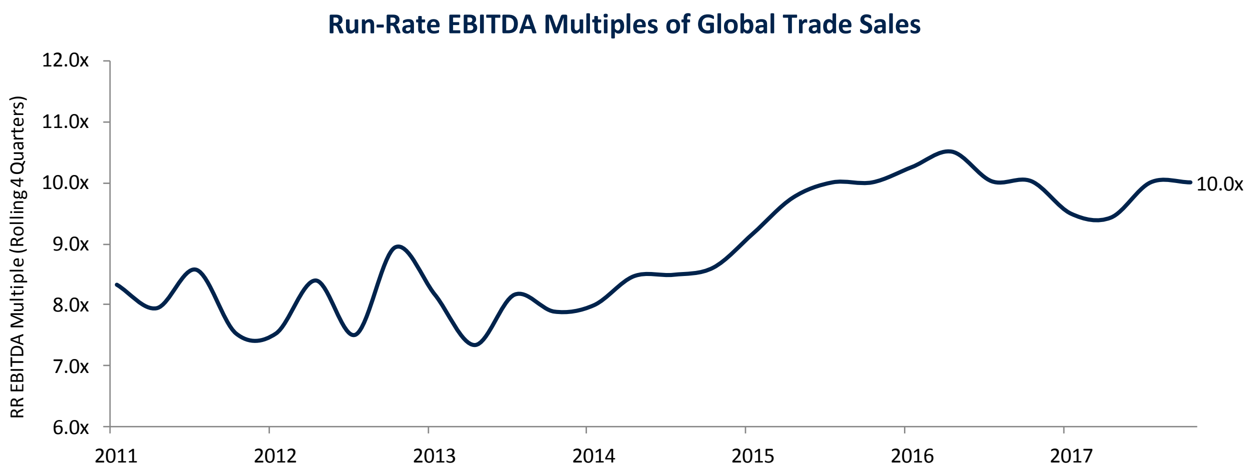


Cross-Border Activity by Acquirer Domicile, 2017



PRICING

Asset manager valuations in 2017 remained in line with recent years at 10.0x median run-rate EBITDA. Valuation dispersion among targets continues to be prevalent across all industry sub-sectors. Buyers are paying premiums for differentiated businesses offering specialist, in-demand strategies and a clear growth trajectory. Conversely, businesses with low demand strategies are not selling at all, given a dearth of interested buyers or lack of compelling valuations to sellers, or are selling at discounted valuations. In fact, a number of asset managers closed last year when a strategic alternative could not be found. Active equity managers Herndon Capital Management and Holland Capital Management announced they would close. Both firms reached peak AUM levels of $10 billion and $5 billion respectively at the end of 2013, only to fall to $1 billion and $2.5 billion in assets at the time of closing. For the third consecutive year, hedge fund liquidations exceeded launches. Notable hedge fund closures this year included Blue Ridge, Eton Park, and Hutchin Hill as the sector remains particularly vulnerable to performance-related client redemptions and fee sensitivity.



THE YEAR AHEAD

The equity market's continued strength on the back of global economic alignment in 2017 is encouraging sellers to transact in 2018 using peak earnings. However, equity market volatility has re-entered the picture at the start of 2018. If it persists, we expect to see a renewed sense of caution among buyers. Geopolitical and inflationary risks will be the key factors impacting markets which will determine whether 2018 maintains the record high level of asset management transactions that we witnessed in 2017 or reverts to more a normal level. Our key themes and expectations for 2018 are as follows:

- *Further Market Volatility Driving M&A:* The steady increase in equity markets in recent years has masked the underlying problem of net redemptions among a majority of retail and institutional asset managers. If market volatility remains prevalent this year, weaker firms will need strategic partners to remain viable for the long-term, as they will not be able to lean on rising markets to offset outflows.
- *Buyers Seeking Differentiation:* Buyers will continue to look to acquire in-demand, specialist capabilities less likely to be cannibalized by passive strategies. While the owners of independent asset managers nearing retirement or seeking new distribution channels will continue to look for a partner, many will struggle to draw interest from buyers. Without specialized investment

capabilities, strong performance track records, and a clear growth trajectory, sellers will have difficulty finding buyers at attractive valuations.

- *Traditional Manager Consolidation:* Buyers will continue to pursue transactions that offer scale and meaningful cost savings through consolidation, particularly for traditional asset managers under threat from passive investment solutions. To generate organic growth, traditional managers will look to find buyers offering distribution capabilities, potentially conceding to be consolidated into buyers' broader businesses.
- *Continued Interest in Alternatives, Focus in Real Assets:* Alternative asset management deal flow will remain robust in 2018, driven by a host of interests among buyers and sellers alike. In particular, real asset strategies less correlated to the broader market, such as real estate and infrastructure, will be at the top of buyers' target lists.
- *Private Wealth Deal Activity Will Remain Strong:* Private wealth management deal activity will remain high relative to historical levels, as the sector remains the most fragmented part of the industry. Financial sponsors, often in partnership with aggregators, will continue to be active, as industry dynamics, including organic growth and client retention rates, remain favorable.
- *Premium Targets Will Garner Premium Pricing:* Buyers should be prepared to pay a higher price for sellers offering unique capabilities, but less differentiated sellers may need to settle for a lower valuation if they want to transact at all. The recent tax reform will also affect pricing by changing both tax rates and potential tax benefits. We estimate that the U.S. tax legislation will positively impact pricing by approximately 10%.

2017 by the Numbers	2017	vs. 2016
Asset Management Transactions	208	↑
Aggregate Disclosed Deal Value	$21.0 billion	↑
Aggregate AUM Transacted	$2.9 trillion	↑
Divestitures (% of Total Transactions)	34%	↑
MBOs & PE Sponsored Transactions	26	↑
Minority Stake Transactions	43	↑
Cross-Border Transactions	58	↑
Private Wealth Manager Sales	77	↑
Alternative Manager Sales	67	↑
Median Forward P/E Multiple - Publicly Traded Managers (U.S.)	13.2x	↓
Median Run-Rate EBITDA Multiple - Private Transactions (Globally)	10.0x	↔

Sandler O'Neill + Partners, L.P. is a full service investment banking firm dedicated to providing comprehensive, innovative advisory and transaction execution services to the financial industry. The firm specializes in strategic business planning, mergers and acquisitions, capital markets, mutual to stock conversions, investment portfolio and interest rate risk management, fixed income securities transactions, and mortgage finance restructurings.

Sandler O'Neill also is a market maker in hundreds of financial stocks and publishes equity research focused on selected banks, thrifts and insurance companies, investment banks, asset managers, specialty finance companies, e-finance companies, real estate investment trusts, and financial technology companies.

In 2017, Sandler O'Neill was the top financial services M&A advisor by number of deals for the 7th consecutive year, advising on 55 transactions with an aggregate deal value over $18 billion.[1]

[1] Source: S&P Global Market Intelligence, includes all U.S. financial services transactions announced from 1/1/17 – 12/31/17 with disclosed deal value. Rankings exclude terminated transactions and self-advisory roles. Does not combine the results of advisors which have merged until the date such merger was completed.

Sandler O'Neill is proud to have advised on and raised capital for the following asset management companies and businesses serving the asset management industry since the start of 2017:

M&A Advisory

February 2018
VIRTUS INVESTMENT PARTNERS
has agreed to acquire a majority stake in
SGA Sustainable Growth Advisers
$129,500,000
Financial Advisor to Virtus Investment Partners

February 2018
AlliancePartners
has sold to
CongressionalBank
Financial Advisor to Alliance Partners LLC

December 2017
THE CARLYLE GROUP
has sold a 24.75% stake in
TCW
to
Nippon Life Insurance Company
Financial Advisor to The Carlyle Group

October 2017
CENTER COAST CAPITAL
has sold to
Brookfield
Financial Advisor to Center Coast Capital

July 2017
ARCHWAY
has merged with
SEI
$80,000,000
Financial Advisor to Archway Technology Partners

May 2017
ALTX
has merged with
ADDEPAR
Financial Advisor to AltX

April 2017
VIRTU FINANCIAL
has acquired
KCG
$1,400,000,000
Financial Advisor to Virtu Financial

March 2017
HNA
has acquired a 24.95% stake in
OMAM
from Old Mutual plc
~$446,000,000
Financial Advisor to HNA Capital US

Capital Raising

February 2018
VictoryCapital
Initial Public Offering
$152,100,000
Co-Manager

January 2017
VIRTUS INVESTMENT PARTNERS
Follow-on Offering
$100,100,000
Co-Manager