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Asset Manager Transaction Review & Forecast

2016 Transaction Activity Keeps Pace with 2015

Asset Management Investment Banking Group

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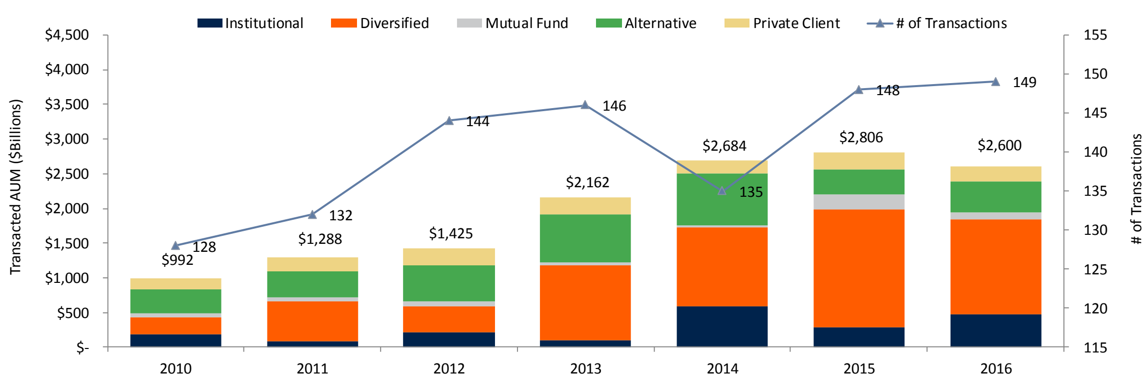
OVERVIEW

In 2016, there were 149 asset manager transactions announced globally, up from 148 and 135 announced deals in 2015 and 2014, respectively. Assets under management transacted totaled $2.6 trillion, down 7% from 2015 and 3% from 2014. Disclosed deal value for M&A transactions totaled $17.1 billion, up a whopping 82% year-over-year. This increase was led by four marquee deals that were all valued at more than $1 billion. These included UniCredit's sale of Pioneer Investments to Amundi Group ($3.7 billion), the merger of equals between Henderson Group and Janus Capital Group ($2.6 billion value ascribed to Janus), Banco BTG Pactual's sale of BSI to EFG International ($1.3 billion) and a group of investors' purchase of ARA Asset Management ($1.3 billion).

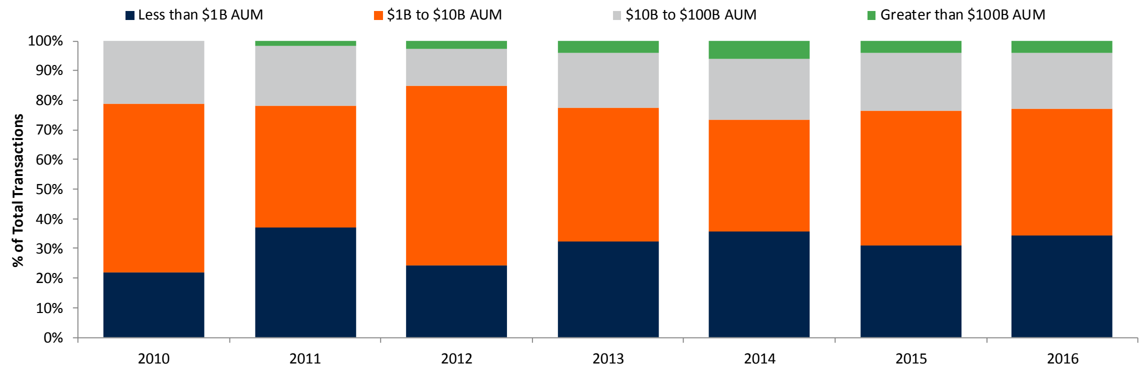
Number of Transactions and AUM by Target Type



Tactical deal making continued to outpace larger transformational deals. There were 64 acquisitions of businesses with AUM between $1 billion and $10 billion, which represented nearly half of deal activity for the second consecutive year. Mid-sized managers with specialist capabilities were most favored as buyers looked to address specific holes in their product line-ups. The most in-demand capabilities included traditional global/international equities and fixed income strategies, which have faced fewer headwinds than domestic strategies in recent years from the reallocation to passive strategies.

Highlighting this buyer demand was Paris-based Amundi Group's majority acquisition of ~$9 billion Dublin-based KBI Global Investors from Oddo & Cie. Certain alternative investment strategies, mostly centered on less liquid strategies such as real estate and credit, were also highly sought after prizes.

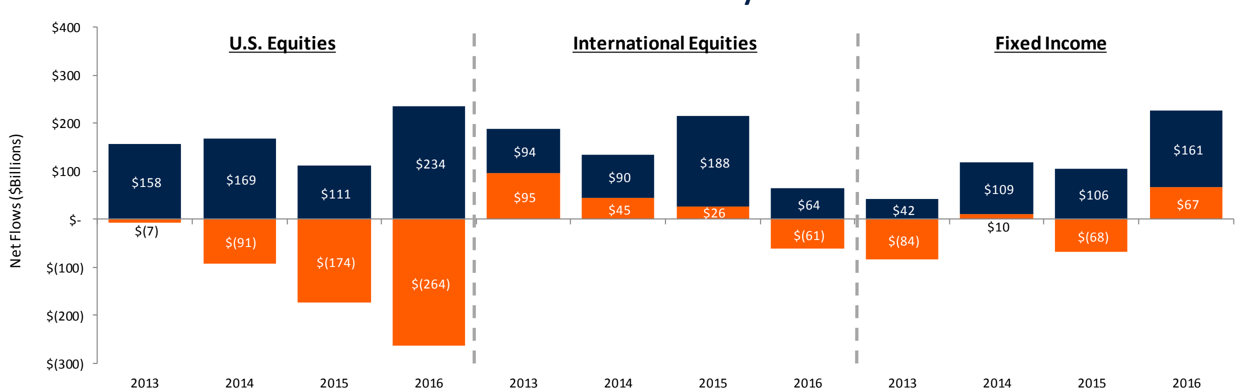
Transactions by Target's AUM



SELLERS

Sales of traditional asset managers, consisting of mutual fund and ETF managers, institutional managers, and diversified managers, equaled the prior two years, totaling 52 transactions, or 35% of last year's total transaction volume. Mutual fund and ETF management companies represented a little over one-third of traditional asset manager sales, posting 19 transactions. Sellers attracted buyers with the carrot of saleable products and/or consolidation opportunities in order to achieve greater scale and to combat asset outflows among actively managed funds, which have plagued the market in recent years. There were a number of sales of small ETF managers in 2016. Despite their modest AUM size, this group of sellers benefitted from strategic buyers' determination that an acquisition was the faster route to growth versus accelerating an ETF build strategy.

Mutual Fund & ETF Net Flows by Asset Class

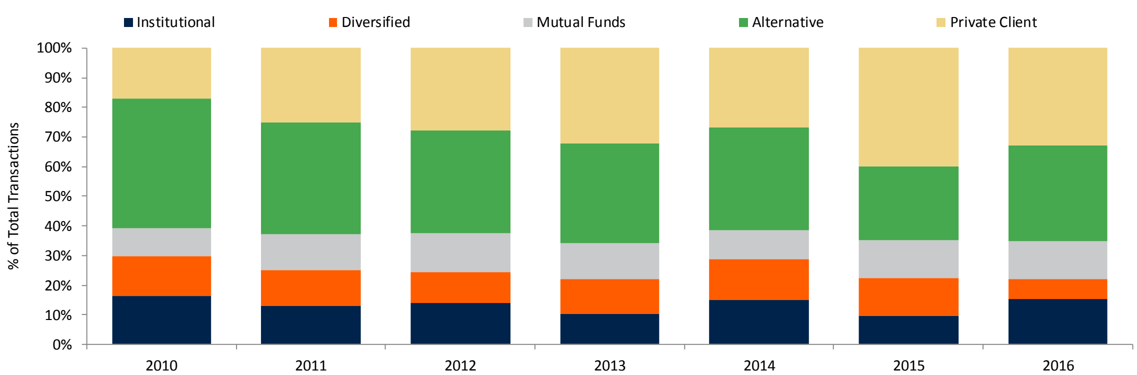


Source: Morningstar Direct

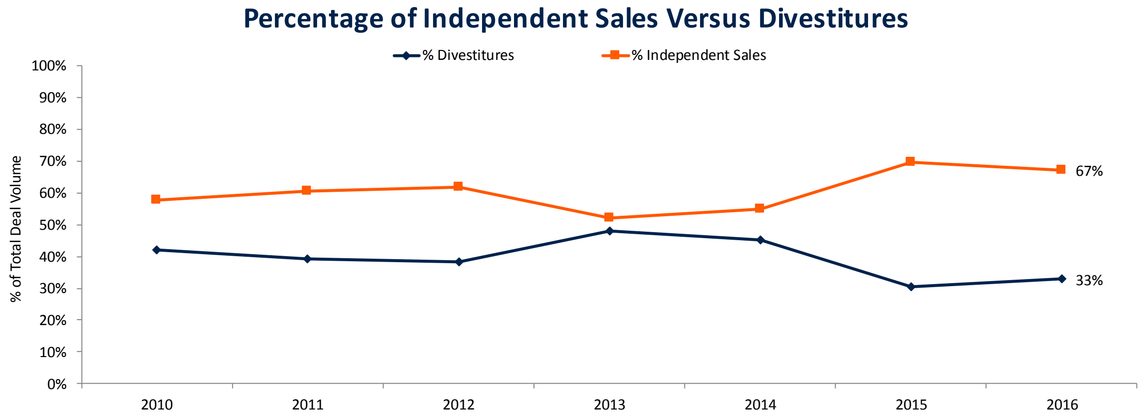
Sales of institutional managers reached the highest level in seven years, totaling 23 transactions. Trends similar to the retail market drove activity in the institutional sector as larger managers were seeking in-demand investment capabilities with saleable track records. Were it not for the challenge of merging or replacing investment teams in the institutional market, significantly more deals in the institutional sector would likely have occurred. The largest institutional manager transaction in 2016 by transacted AUM was General Electric's sale of GE Asset Management, with $110 billion in AUM, to State Street Corporation.

Diversified traditional asset manager deal activity fell to the lowest level in over a decade with only 10 announced transactions. With fewer new buyers entering the asset management industry, most deals were driven by consolidation and scale, with pricing justified by the realization of cost synergies. For example, financial sponsor Lightyear Capital sold $40.2 billion multi-affiliate manager RidgeWorth Investments to Virtus Investment Partners in a transaction that further diversified Virtus' investment strategies and client base, particularly with institutions, while offering substantial savings by consolidating sales and marketing teams, as well as middle and back offices. The headline purchase price of $472 million represented a 9.9x trailing EBITDA multiple, but just 6.5x once cost-synergies were fully accounted for.

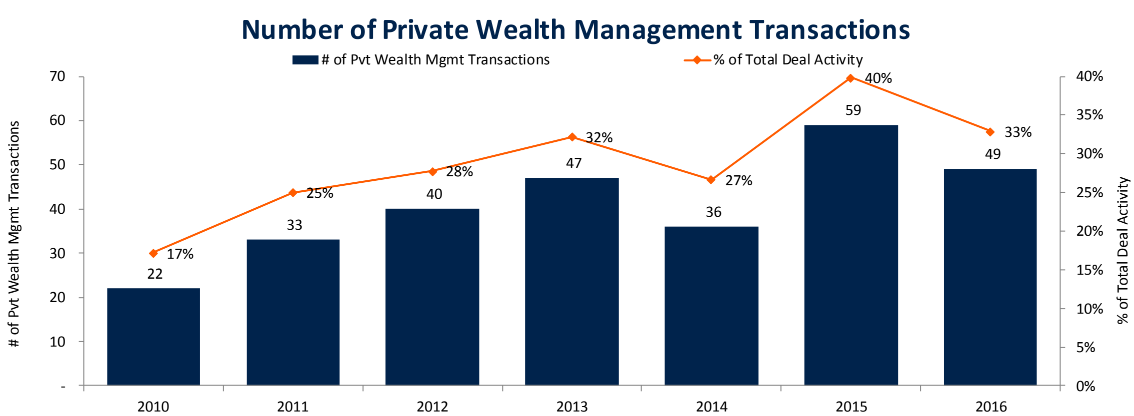
Transactions by Target Type



Transaction activity involving independent sellers resembled that of the prior year, representing 67% of overall deal volume. Independent owners' motivations to sell continue to be driven by the need to transition ownership as operating founders move closer to retirement. Also evident was sellers' desire to partner with strategic buyers in order to provide additional sales and marketing muscle, as inflows are harder to come by and distribution costs are increasing. On the other side, divestitures represented 33% of announced transactions, yet accounted for 77% of transacted AUM and 68% of disclosed deal value. This inverse correlation is because large financial institutions with relatively sizeable asset management businesses continued their trend of divesting non-core asset management businesses, including two of the five largest deals announced in 2016.



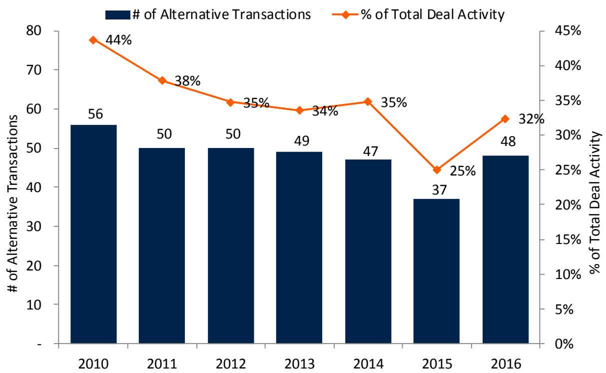
Private wealth management activity softened in 2016 after setting a record in the prior year. In total, 49 deals were announced, which was a 17% decrease over 2015 but a 36% increase over 2014. The median AUM transacted for private wealth management deals was only $700 million, reflecting the highly fragmented and regional characteristics of the sector. Aggregators, such as Focus Financial, accounted for nearly half of the activity, reflecting a preference among sellers to seek a liquidity event while maintaining a meaningful degree of independence. A number of private wealth managers either combined with one another or acquired a smaller counterpart in an effort to expand private client offerings and geographic footprint, many of which were backed by financial sponsors. Sponsors have been attracted to the space in recent years owing to favorable client demographics and strong AUM retention characteristics versus the retail and institutional markets.



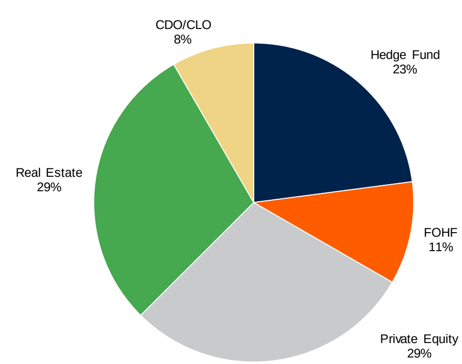
After taking a step back in 2015, alternative asset management activity roared back to historical levels in 2016. There were 48 acquisitions of alternative asset management businesses announced, which was a 30% increase over 2015 and equal to the annual average, post-crisis. Transaction activity involving real estate investment management targets increased by nearly three times to 14 transactions in 2016, as large asset management companies sought to meet demand for "real asset" strategies among their investor base. Legg Mason's acquisition of Clarion Partners, a leading diversified real estate investment firm with $40 billion in AUM, was among the largest in this sector.

Transaction activity involving private equity firms ticked up to 14 transactions in 2016, as more private equity firms sought to sell minority stakes to generate cash for expansion initiatives or to allow existing owners to achieve a degree of liquidity. These sellers were met with demand created by a number of recently launched special purpose funds whose strategy is to acquire passive interests in private equity management companies, similar to previously created funds, which had a specific mandate to acquire stakes in hedge fund managers. Most notable among the buyers was Dyal Capital Partners, which acquired passive minority interests in KPS Capital Partners, H.I.G. Capital and Silver Lake Management, while in the midst of raising a $5.3 billion fund dedicated to acquiring stakes in private equity firms. Hedge fund managers realized a slow-down in activity, driven by greater concerns about challenging sector trends, including investment performance, fee pressure and fund flows, despite the sector achieving a new AUM high water mark of $3 trillion at year-end. These potential headwinds have been impacting the largest hedge fund managers where the greatest concentration of M&A activity has taken place in recent years.

Number of Alternative Manager Transactions



Alternative Manager Transactions by Type, 2016



BUYERS

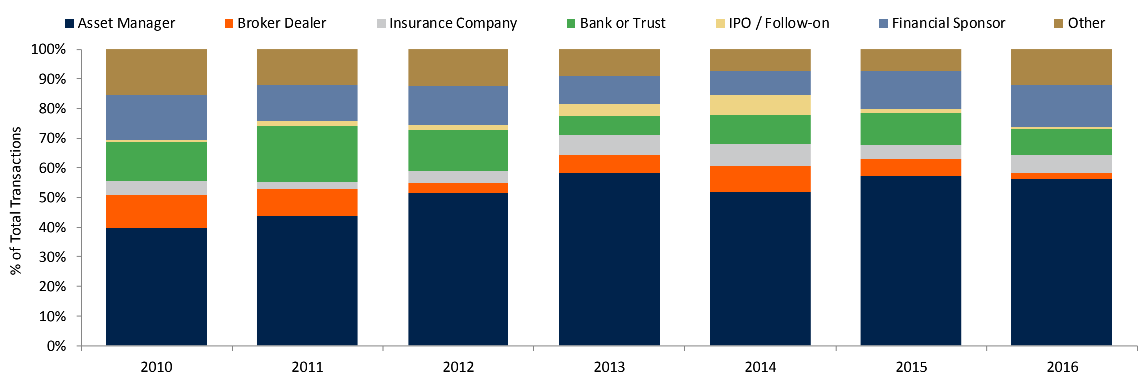
Among buyers, pure-play asset management companies continued to dominate 2016 M&A activity, representing 56% of all deals. This trend has continued post-financial crisis as asset managers have focused on their core businesses and other financial service companies have opted to deploy resources and capital away from asset management. Financial sponsors were the second-largest group of acquirers, driven largely by a meaningful step up in their acquisitions of alternative asset managers. Financial sponsors continued to be net-buyers as they acquired 21 asset managers, the most in nearly ten years. During the course of the year, sponsors sold only eight positions in asset management businesses.

Banks and broker dealers were generally quiet in all respects. The targets most sought after by banks were private wealth managers, where they acquired seven firms. Pricing continues to be a challenge for banks in light of the punitive impact of goodwill on book value.

Insurance companies ticked up their spending, albeit slightly, focusing on institutional and alternative managers with strategies in areas where they can put general account monies to work, as well as distribute to their third party client bases. Of note, CNO Financial Group acquired a strategic minority interest in Tennenbaum Capital Partners, an alternative manager focused on middle-market direct lending and special situations with $6 billion in committed capital under management. In addition, CNO agreed to make general account investments over a period of time of approximately $250 million across Tennenbaum's strategies.

Transactions involving management teams either buying their businesses back or acquiring material stakes in their businesses stood at five transactions in 2016, consistent with the previous two years. The highest profile transaction was the privatization of Calamos Asset Management by founder John Calamos and CEO John Koudounis. The company, which had been publicly traded since 2004, had come under pressure in recent years due to investor outflows brought on by investment performance challenges in its largest products and resulting asset outflows.

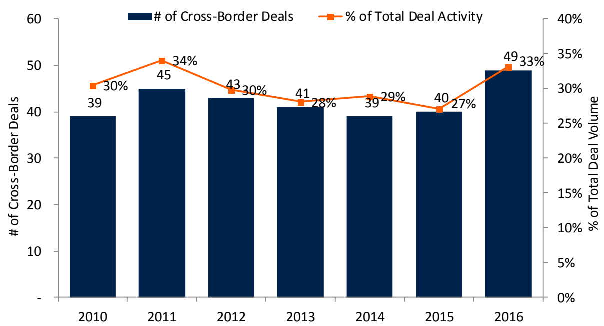
Transactions by Acquirer Type



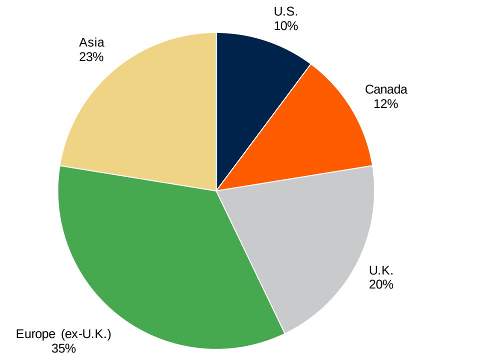
In total, 49 cross-border transactions were announced in 2016, up 23% from the previous year. At 33% of the overall deal volume, cross-border deals were at the highest level since 2011, as buyers sought to further globalize their products and footprints. The most favored geography for foreign buyers was North America with 17 transactions, largely for investment capabilities and, to a lesser extent, distribution outlets for the buyers' existing product sets. Europe followed closely with 16 transactions. Given the scarcity of opportunities in Asia, cross-border deals involving an Asian seller were few and far between. Despite the high volume of cross-border transactions, U.S. buyers largely sat on the sidelines and focused domestically, only accounting for 5 cross-border acquisitions.

The most notable global cross-border transaction involved the announced merger between Henderson Group and Janus Capital Group, which created a top 50 global asset manager with a combined $322 billion in AUM. The deal highlights each firm's need for breadth and scale to compete on a global basis. Prior to the transaction, each had modest operations, largely distribution focused, outside of their core markets. The deal is expected to generate annual run-rate net cost synergies of $110 million, representing 16% of the combined underlying EBITDA.

Cross-Border Transaction Activity

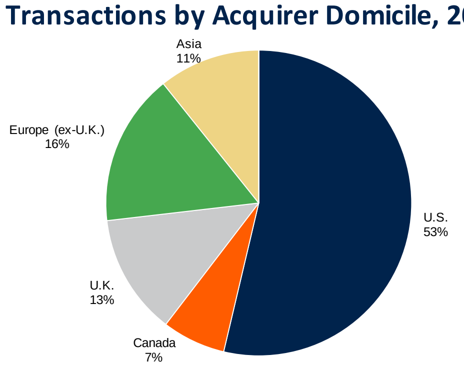


Cross-Border Activity by Acquirer Domicile, 2016



U.S. firms remained the most active acquirers of asset management businesses in 2016, representing 53% of deal volume. Transactions involving European (ex-U.K.) buyers skyrocketed 71% from the previous year, reflecting 16% of deal volume, as firms took advantage of divestiture activity. In-line with the prior year, U.K. buyers accounted for 13% of transactions. Asian buyers notably represented 11% of deal activity during 2016, a steep increase from 6% in 2015. While the activity of Japanese buyers was comparable to 2015, Chinese and Singaporean buyers stepped up meaningfully with 8 acquisitions in 2016, after none in 2015. These buyers have increasingly deployed capital overseas, with heightened interest in asset management, which is not as "regulatory-heavy" as other sectors of financial services.

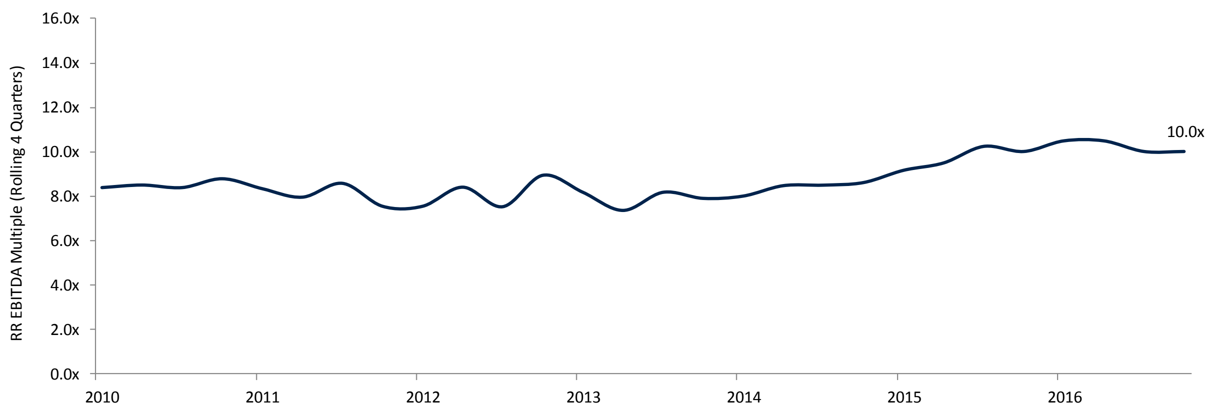
Transactions by Acquirer Domicile, 2016



PRICING

Acquisition multiples in the global asset management sector have generally held steady throughout the last two years. The median acquisition multiple for 2016 of 10.0x run-rate EBITDA reflected the preponderance of strategic acquisitions. Pricing dispersion continues to be evident. Businesses with in-demand capabilities and solid organic growth traded in excess of 10.0x run-rate EBITDA, particularly independently owned managers where the seller was particularly sensitive to valuation. Transactions where the seller was less sensitive to valuation, commonly the case involving divestitures, as well as businesses with low demand strategies and limited growth prospects, generally traded at or below 8.5x run-rate EBITDA.

Run-Rate EBITDA Multiples of Global Trade Sales



THE YEAR AHEAD

The equity market's strength globally following the U.S. presidential election will likely push in-process deals across the goal line. That said, we expect buyers and sellers will proceed cautiously in the new year as they look for greater clarity on the Trump administration's impact on financial regulation, taxation and the global economy. In addition, they will assess potential changes in Europe brought on by the unfolding impact of Brexit and upcoming major political elections in several key markets. Our key themes and expectations for 2017 are as follows:

- *Retail Consolidation:* Buyers will actively seek transaction opportunities that offer scale and known cost savings given the uncertainty of asset flows, particularly in the traditional asset management sector. The retail mutual fund industry will be the primary target for such activities.
- *Distribution, a Key Driver for Sellers:* Sellers will have an acute focus on potential buyers that can deliver the most meaningful growth opportunities. This will hold true across channels of distribution as "manufacturing led" sellers place a higher value on distribution, more than ever before given recent years' challenges among most managers to generate organic growth.

- *Quality Focus Among Buyers:* Despite the ever-present need among owners of independent asset management companies for liquidity as they approach retirement, not every seller will find a buyer. In the absence of market-relevant products, attractive and saleable investment track records and meaningful growth potential, sellers may struggle to find strategic buyers at compelling valuations.
- *Continued Interest in Alternatives, Focusing on Less Liquid Strategies:* Sales of alternative asset management companies will continue to represent a substantial portion of deal flow in 2017, driven by a host of interests among buyers and sellers alike. Most notable will be traditional asset managers seeking investment strategies in longer-locked investment vehicles that offer stability of AUM to offset net outflows in traditional active management strategies.
- *Private Wealth Deal Activity Will Remain Steady:* Private wealth management will remain a substantial portion of M&A activity. Greater stability of AUM, scale benefits and favorable organic growth dynamics continue to be factors in buyers' strong interest in this sector. Banks and financial sponsors, often in partnership with private client businesses, will drive volume.
- *Better Businesses Will See Better Pricing:* Pricing dispersion between premium businesses and run-of-the-mill opportunities will continue to be above historical norms. Bid-ask spreads will be bridged by highly tailored deal terms including longer earn-outs, more contingent consideration and metrics that tie to both buyers' and sellers' business performance.

2016 by the Numbers	2016	*vs. 2015*
Asset Management Transactions	149	↑
Aggregate Disclosed Deal Value	$17.1 billion	↑
Aggregate AUM Transacted	$2.6 trillion	↓
Divestitures (% of Total Transactions)	33%	↑
MBOs & PE Sponsored Transactions	25	↑
Minority Stake Transactions	34	↑
Cross-Border Transactions	49	↑
Private Wealth Manager Sales	49	↓
Alternative Manager Sales	48	↑
Median Forward P/E Multiple - Publicly Traded Managers (U.S.)	13.6x	↔
Median Run-Rate EBITDA Multiple - Private Transactions (Globally)	10.0x	↔

Measured by AUM, the largest global asset management transactions announced in 2016 were:

- The sale of Trian Fund's 10% stake in Legg Mason to the Shanda Group ($670 billion AUM); Shanda Group subsequently acquired an additional 5% and agreed to invest at least $500 million in investment products with Legg Mason's affiliates
- The sale of Pioneer Investments by UniCredit to Amundi Group ($234 billion AUM)
- OM Asset Management's follow-on equity offering and partial private repurchase from Old Mutual plc ($234 billion AUM)
- Warburg Pincus and General Atlantic's sale of its 50% interest in Santander Asset Management back to Banco Santander ($183 billion AUM)
- The merger between Henderson Group and Janus Capital Group ($130 billion AUM at Henderson; $195 billion AUM at Janus)

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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 2016, Sandler O'Neill was the top financial services M&A advisor by number of deals for the 6th consecutive year, advising on 50 transactions with an aggregate deal value over $17 billion.[1]

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[1] Source: SNL Financial, includes all U.S. financial services transactions announced from 1/1/16 – 12/31/16 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.