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Asset Manager Transaction Review – 1H 2014
Deal Activity Slows, but Headline Transactions Lead the Way

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Transaction activity in the asset manager sector in the first half of 2014 slipped behind last year's strong pace, though a handful of large deals pushed overall deal value higher than in recent periods. There were 66 transactions announced in the first six months of 2014, down 12% from the first half of 2013. However, 37 of the 66 were announced in the second quarter, a pickup that may indicate renewed strength in the second half.

The most pronounced trend thus far in 2014 has been a decline in tactical deals involving mid-sized asset managers. There were 24 deals involving asset managers of \$1 billion to \$10 billion in the first half of 2014, down from 37 deals in the same period a year earlier and 29 in the last six months of 2013. In addition, banks slowed their rate of asset manager divestitures, with only six sales in the first six months of 2014, compared to 16 in the same period a year earlier and 13 in the second half of 2013.

Despite the decreased deal volume, total disclosed deal value for both M&A and public equity capital markets transactions has increased thus far in 2014 as buyers and sellers alike upsized their ambitions on the back of continued strong equity market performance. Disclosed deal value for M&A transactions totaled \$12.9 billion in the first half of 2014 versus \$7.7 billion in the same period of 2013. This trend was marked by three large deals, each at more than \$1 billion – **Nuveen Investments'** acquisition by **TIAA-CREF** (\$6.25 billion), **F&C Investment Management Plc's** purchase by **Bank of Montreal** (\$1.2 billion), and **Northwestern Mutual's** sale of **Frank Russell Company** to **London Stock Exchange Group** (\$2.7 billion).

There were six equity follow-on offerings, plus a single initial public offering, bringing the equity capital raising total in the sector to \$4.4 billion in the first half of 2014, versus \$1.8 billion in the first six months of 2013. As with M&A activity, capital markets deal making was

top-heavy. Over half of the total was accounted for by a single deal: Bank of Nova Scotia's sale of its 29% ownership position in TSX-listed CI Financial Corp.

Alternative asset managers remained steady and meaningful participants in transaction activity in the first half of 2014, continuing to represent over one-third of announced transactions. The mix of target types continues to evolve in this group, with acquisitions of hedge fund managers leading the way thus far in 2014. There were 10 hedge fund manager M&A deals in the first six months of 2014, up from five in the same period in 2013. There was a decrease in fund of hedge fund M&A deals, three in the first half of 2014, compared to six in the same period a year ago. These trends reflect the attractive growth prospects of the direct hedge fund space relative to the muted environment for hedge funds of funds.

Divestitures continued to be a key driver of overall transaction asset management activity, again accounting for more than 80% of deal value and nearly half of transaction volume, with 32 deals. That is down from 40 in the same period a year ago, but up slightly from 30 in the second half of 2013.

With positive organic industry growth trends coupled with low financing costs and strong trading multiples across the buyer community, we expect steady deal flow for the remainder of the year. While buyers continue to be more aggressive, they also remain selective thus we do not expect a frothy M&A market. However, we see a positive fact set for strong deal activity through the remainder of the year and into 2015. A material market correction and/or destabilizing geopolitical factors have posed no overhang in the last 12 months but could stymie deal flow in the coming months in light of their effects on investor behavior and flows. The favored areas for acquisition among buyers remain international and global strategies, liquid alternatives and differentiated traditional investment strategies.

The largest global asset management transactions in the first half of 2014 were:

- Northwestern Mutual's sale of Frank Russell Company to London Stock Exchange Group (\$256 billion AUM);
- Madison Dearborn Partners' sale of Nuveen Investments to TIAA-CREF (\$221 billion AUM);
- The Carlyle Group's follow-on equity offering (\$189 billion AUM);
- F&C Asset Management's sale to BMO Financial Group (\$136 billion AUM); and
- Artisan Partners Asset Management's follow-on equity offering (\$109 billion AUM).

Sandler O'Neill is proud to have advised on or managed the following asset management transactions in the last 12 months:

<p>June 2014</p> <p>Henderson GLOBAL INVESTORS</p> <p><i>has acquired</i></p> <p> Geneva Capital Management Ltd.</p> <p>Up to \$200,000,000</p> <p>Financial Advisor to Henderson Global Investors</p>	<p>June 2014</p> <p> The PFM Group Public Financial Management, Inc. PFM Asset Management LLC PFM Advisors</p> <p><i>Private Placement of Debt</i></p> <p>Sole Placement Agent</p>	<p>April 2014</p> <p> The PFM Group Public Financial Management, Inc. PFM Asset Management LLC PFM Advisors</p> <p><i>Employees' acquisition of outside ownership interests</i></p> <p>Financial Advisor to The PFM Group</p>
<p>April 2014</p> <p> MUNDER</p> <p><i>has been acquired by</i></p> <p> VICTORY CAPITAL MANAGEMENT®</p> <p>Provided Fairness Opinion to Munder Capital Management</p>	<p>March 2014</p> <p> ARTISAN PARTNERS ASSET MANAGEMENT</p> <p><i>Follow-on Offering</i></p> <p>\$575,628,894</p> <p>Co-Manager</p>	<p>March 2014</p> <p>THE CARLYLE GROUP</p> <p><i>Follow-on Offering</i></p> <p>\$462,300,000</p> <p>Co-Manager</p>
<p>February 2014</p> <p>Delaware Investments® A member of Macquarie Group</p> <p> MACQUARIE</p> <p><i>has announced a joint venture with</i></p> <p>Jackson Square Partners</p> <p>Financial Advisor to Delaware Investments</p>	<p>December 2013</p> <p>KKR KKR Financial Holdings LLC</p> <p><i>has been acquired by</i></p> <p>KKR</p> <p>\$2,600,000,000</p> <p>Financial Advisor to KKR Financial Holdings</p>	<p>November 2013</p> <p>SNOWDEN</p> <p><i>has received a strategic growth capital investment from</i></p> <p> ESTANCIA CAPITAL PARTNERS</p> <p>Placement Agent and Financial Advisor to Snowden Capital Advisors</p>
<p>October 2013</p> <p> ARTISAN PARTNERS ASSET MANAGEMENT</p> <p><i>Follow-on Offering</i></p> <p>\$309,120,000</p> <p>Co-Manager</p>	<p>September 2013</p> <p>VIRTUS INVESTMENT PARTNERS</p> <p><i>Follow-on Offering</i></p> <p>\$201,249,830</p> <p>Co-Manager</p>	

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