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SunStar Strategic 2020 Conference
Understanding M&A and Current Valuations

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BERKSHIRE
GLOBAL ADVISORS

Outlook – What is Driving M&A Activity?

Despite global uncertainty brought on by COVID-19, we believe M&A activity in investment management is likely to continue at a robust pace for the following reasons

i Need for Scale

- Medium and smaller-sized businesses without adequate scale or sufficient differentiation (product niches or investment performance) are finding it harder to compete / differentiate themselves
- Brand and access to diversified global distribution is becoming increasingly important
- Investors consolidating stable of managers drive need to offer multiple products to retain existing and attract new relationships
- Ability to attract and retain best people driven in part by growth and diversity of business

ii Demand for Alternatives

- Appetite for private capital strategies is likely to continue driven by strong investor demand; groups are looking to build a private capital solutions platform across private equity, private debt, real estate and infrastructure
- Needed by traditional managers to augment historically core traditional active business facing strong headwinds from passive providers
- Generally, investors expect to commit the same or more capital to private capital strategies in the next 12 months compared to the previous 12 months

iii Global Presence

- Diversified asset managers (in particular multi-boutiques) will continue to show an interest in quality investment management opportunities globally
- US and larger European groups are looking to build out global presence while Asian groups are looking to partner with firms to expand access to investment capabilities
- Distribution reach in multiple channels is important to tap investment dollars

iv Technology Evolution

- Use of AI and other quantitative techniques becoming more relevant for investment processes
- Ability to deliver products in a tech enabled format critical for retail and retirement markets
- Technology based efficiency in systems, operations and marketing essential to combat fee pressures and to maintain profitability
- Largest players increasingly use technology stack as a point of differentiation to the mid-tier

Macro Trends Fuelling M&A Activity at Robust Pricing Levels

M&A driven by consolidation pressure and specialist/cross-border

The asset management market has gone through a number of different phases driven by the GFC and European sovereign debt crisis, which have had a profound impact on financial service companies' strategies and the types of assets available

	Year	# of Deals	Aggregate Seller AUM ($B)	Median EV/EBITDA	Select Transactions Buyer / Entity Sold (AUM)
Pre-Crisis	2007	204	1,155	12.5x	▪ Wachovia / European Credit Management ($26bn) ▪ Merrill Lynch / First Republic ($17bn)
Global Financial Crisis	2008	199	1,148	11.9x	▪ NBSH Acquisition / Neuberger Investment ($160bn) ▪ Scotiabank / CI Financial Income Fund ($89bn)
	2009	135	3,300	9.7x	▪ Blackrock / Barclays Global Investors ($1,495bn) ▪ Invesco / Van Kampen ($267bn)
Product / Geographic Expansion	2010	154	1,362	8.8x	▪ Chuo Mitsui / Sumitomo ($423bn) ▪ RBC / Bluebay ($40bn)
	2011	155	1,047	9.3x	▪ CIBC / American Century ($112bn) ▪ CB Richard Ellis / ING Real Estate ($60bn)
EU Crisis	2012	182	4,571	8.6x	▪ Dai-ichi Life / Janus Capital ($152bn) ▪ Carlyle / TCW Group ($130bn)
	2013	172	1,830	8.6x	▪ ORIX / Robeco ($249bn) ▪ Warburg Pincus / Santander Asset Management ($198bn)
Consolidation	2014	145	2,124	9.0	▪ LSE Group / Frank Russell ($260bn) ▪ TIAA-CREF / Nuveen ($221bn)
	2015	169	1,906	9.5x	▪ TA & Reverence Capital / Frank Russell ($266bn) ▪ Santander, Warburg Pincus & GA / Pioneer ($243bn)
	2016	191	2,422	10.8x	▪ Credit Agricole / Pioneer ($234bn) ▪ Henderson / Janus Capital ($195bn)
	2017	220	2,078	11.0x	▪ Standard Life / Aberdeen ($373bn) ▪ Softbank / Fortress ($70bn) ▪ KKR & Stone Point / Focus Financial ($50bn)
	2018	277	2,464	10.2x	▪ Invesco / OppenheimerFunds ($246bn) ▪ Victory Capital / USAA ($70bn)
	2019	234	1,050	10.1x	▪ Brookfield / Oaktree ($120bn)
COVID 19 Impact	2020	53	1,128	12.6x	▪ Franklin Resources / Legg Mason ($804 bn) ▪ Morgan Stanley / Eaton Vance ($530 bn)

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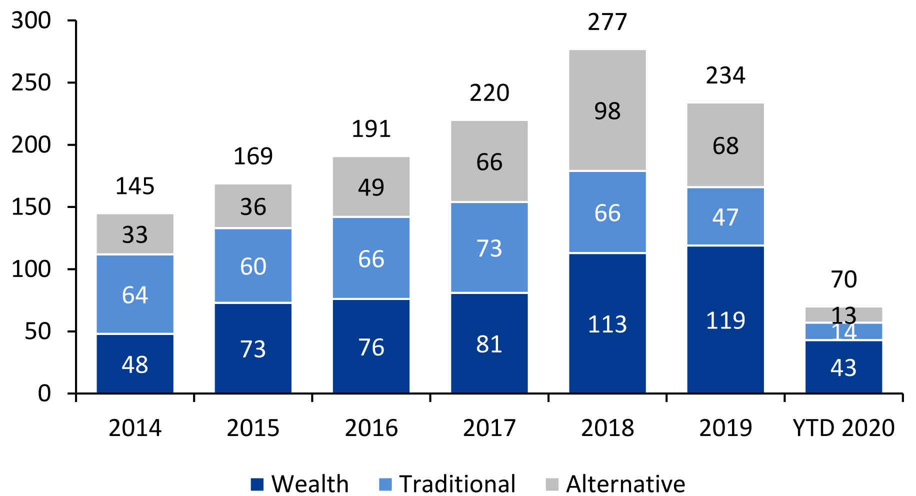
Sources: Berkshire Global Advisors Investment Management Transaction Database

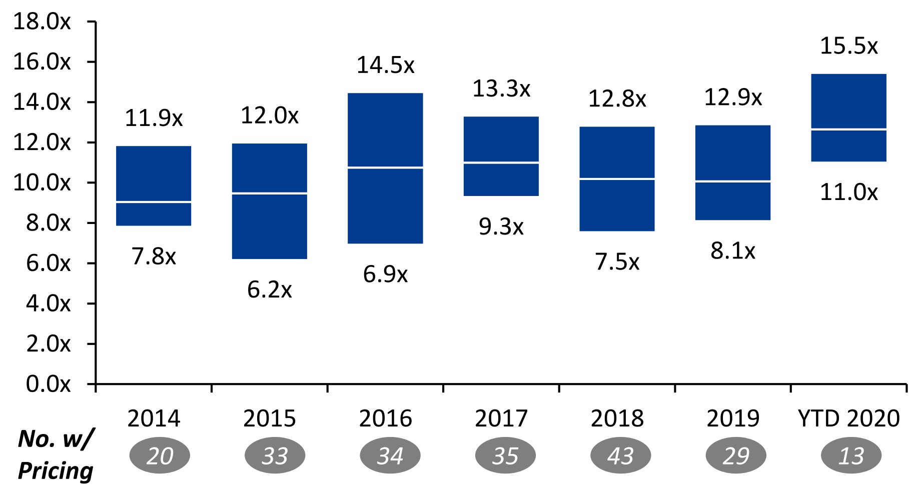
Global Investment Management M&A Trends

Global investment manager M&A has become increasingly active since 2013 while valuations have generally increased over the same period, although activity in 2020 has slowed as a result of COVID-19

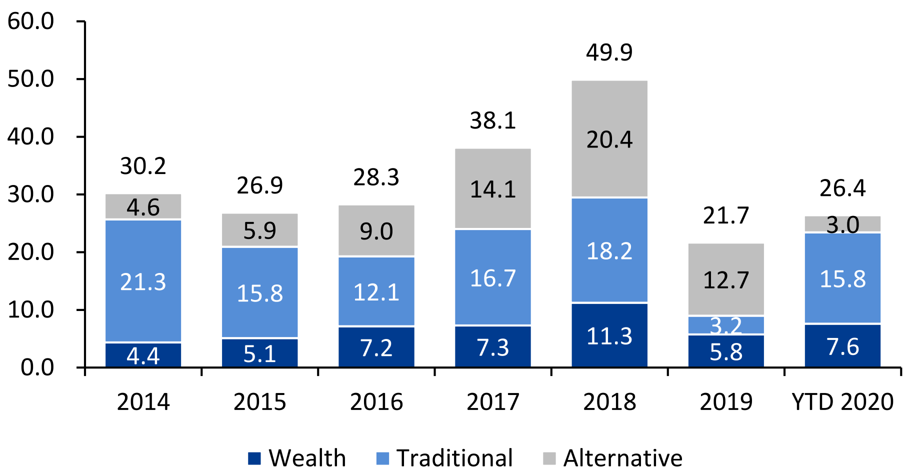
Historical Number of Transactions (#)



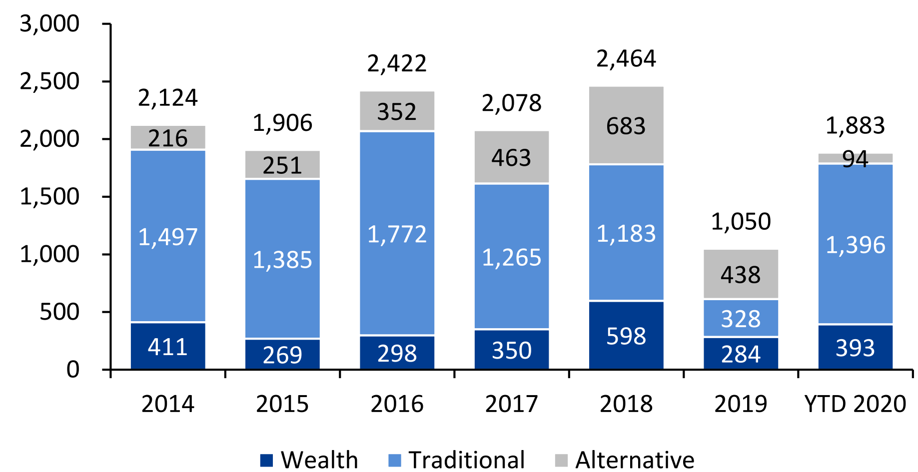
Historical EV / EBITDA Multiples (1)(2)



Historical Transaction Value ($B)(2)



Historical AUM Transferred ($B)



Notes:

(1) 25th percentile to 75th percentile. White line denotes median multiple. Reflects investment management transactions with pricing statistics available, regardless of sector. Excludes multiples >25.0x or <0.0x

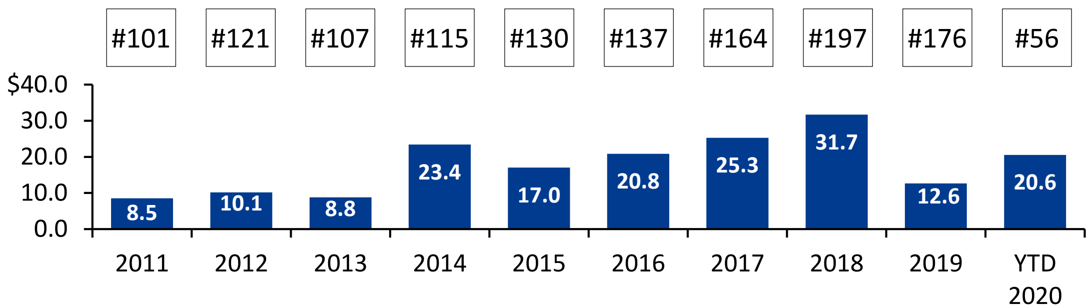
(2) For transactions in which transaction value was not disclosed, estimates transaction value as a % of AUM: Wealth Management – 1.9%; Traditional Management – 1.7%; Alternative Management – 3.1%

Source: Berkshire Global Advisors Investment Management Transaction Database as of 5/31/2020. Includes selected transactions as of 10/12/2020, including the Morgan Stanley / Eaton Vance transaction

Consolidation Trends are Continuing

Consolidation Activity (1) (2)

Deal Value ($B) & Number of Deals



Consolidation Valuation Trends

2010-2015	**EV/AUM**	**EV/Rev.**	**EV/EBITDA**
75^{th} Percentile	2.84%	4.1x	11.7x
Median	1.77%	2.8x	9.0x
25^{th} Percentile	1.01%	1.7x	7.1x
Observations	231	114	101

2016-2020	**EV/AUM**	**EV/Rev.**	**EV/EBITDA**
75^{th} Percentile	3.96%	4.5x	12.9x
Median	2.06%	3.7x	10.9x
25^{th} Percentile	1.20%	2.3x	8.0x
Observations	237	105	112

Key Trends

- ***Net New Flows*** – Traditional active platforms struggle to generate positive flows in light of passive strategies and disappointing longer-term average investment performance
- ***Fee Compression*** – Revenue margin compression in particular for traditional less differentiated products requires greater scale and platform benefits
- ***Cost Increases*** – Continued demand for top talent and competitive compensation together with higher institutional quality platform standards is increasing the cost base and reducing profitability
- ***Regulatory*** – Regulations, oversight and compliance create administrative burden and additional costs
- ***Access to Distribution*** – Winners have the ability to access multiple distribution channels domestically/internationally and retail/institutional; access to retail clients is costly and creates high barriers to entry (challenging for smaller players to access this client segment)
- ***Robo-Advisors / Technology*** – Technology innovation is changing the way distributors interact with retail customers, in particular the younger generations; as the rate of technology growth compounds, firms with the capacity to utilize big data are better able to enhance the investment process and serve customers

Recent Examples

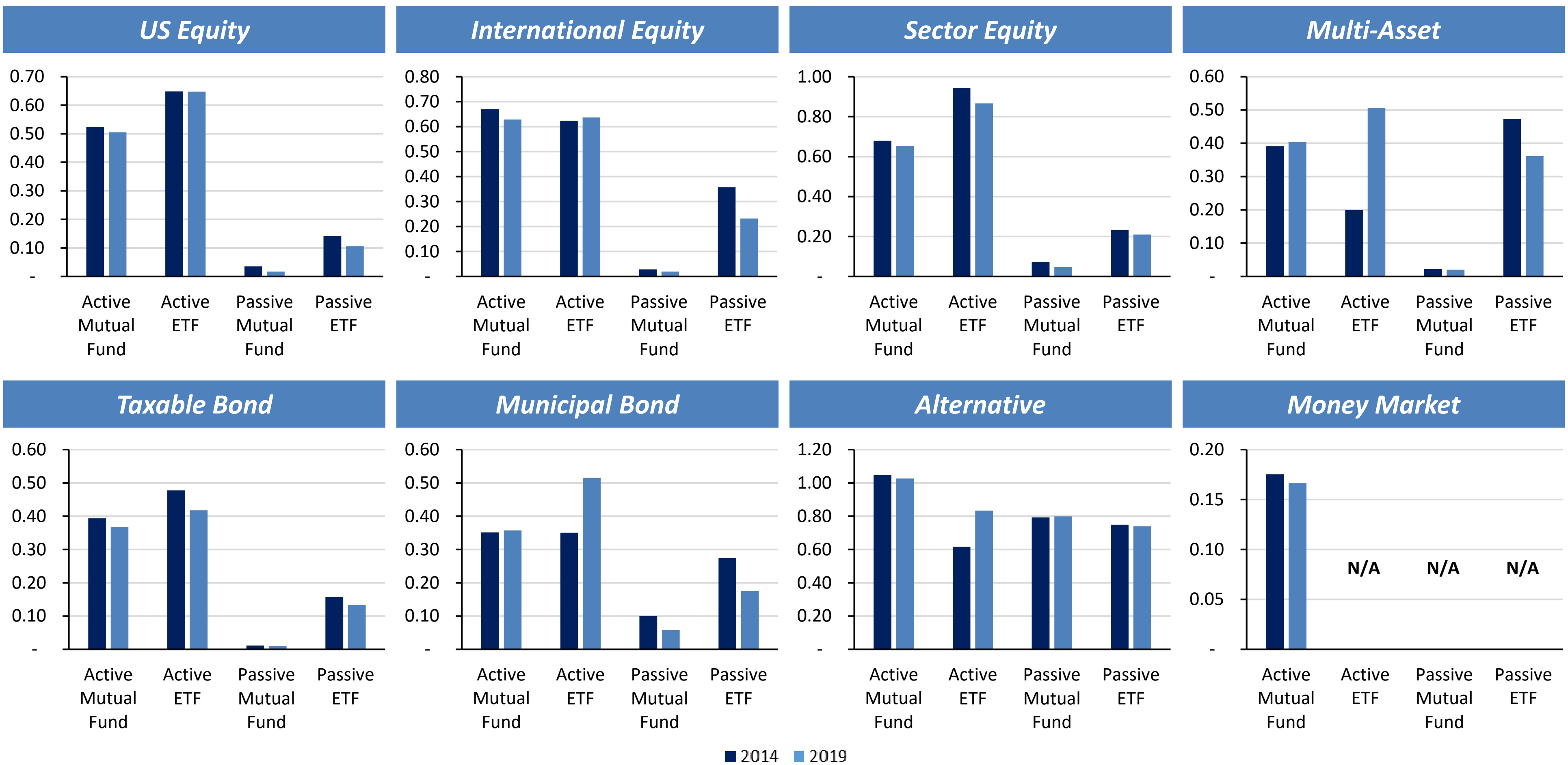
Morgan Stanley	*Acquired*	Eaton Vance
Franklin Templeton Investments	*Acquired*	Legg Mason Global Asset Management
Brookfield	*Acquired*	Oaktree
MUFG	*Acquired*	Colonial First State Global Asset Management
Invesco	*Acquired*	OppenheimerFunds
Standard Life	*Merged with*	Aberdeen
Amundi Asset Management	*Acquired*	Pioneer Investments
Janus	*Merged with*	Henderson Group PLC
Virtus Investment Partners	*Acquired*	RidgeWorth Investments
State Street	*Acquired*	GE Asset Management

Notes:
(1) *Excludes transactions involving financial buyers, recapitalizations and management buyouts*
(2) *For transactions in which transaction value was not disclosed, estimates transaction value as a % of AUM: Wealth Management – 1.9%; Traditional Management – 1.7%; Alternative Management – 3.1%*
Total AUM/Multiples includes AUA, minority tractions and is adjusted for outliers.
Source: Berkshire Global Advisors Investment Management Transaction Database as of 5/31/2020. Includes selected transactions as of 10/12/2020, including the Morgan Stanley / Eaton Vance transaction

Fee Compression

- Recent years have shown a strong trend towards fee compression across US mutual funds and ETFs as passive products put fee pressure on active products and managers compete with one another to be the lowest cost provider
- From 2014 to 2019, weighted average gross management fee bases have fallen across nearly all asset classes and vehicle type
  - Certain actively managed niche products, such as liquid alternatives and municipal bonds, have been able to fight these pressures due to the specialization and relative scarcity of these products
- Fee bases for passive products have fallen across all asset classes and vehicle types between 2014 and 2019

Historical Weighted Average Fee Basis by Asset Class (%)

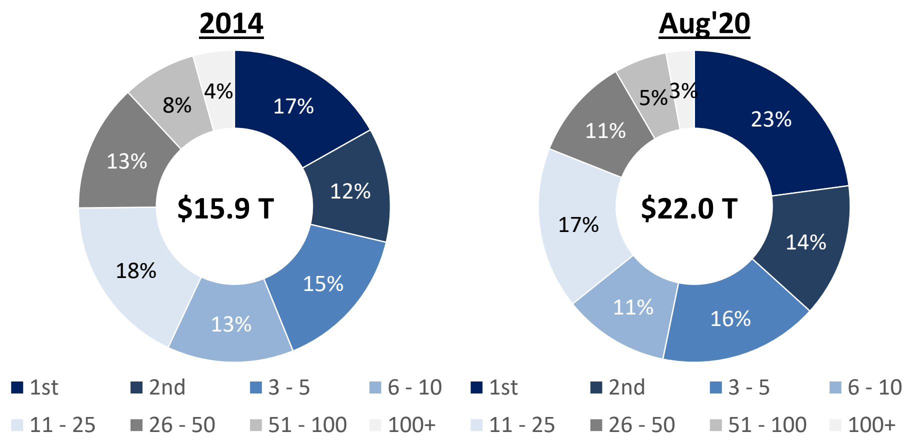


Sources: Simfund

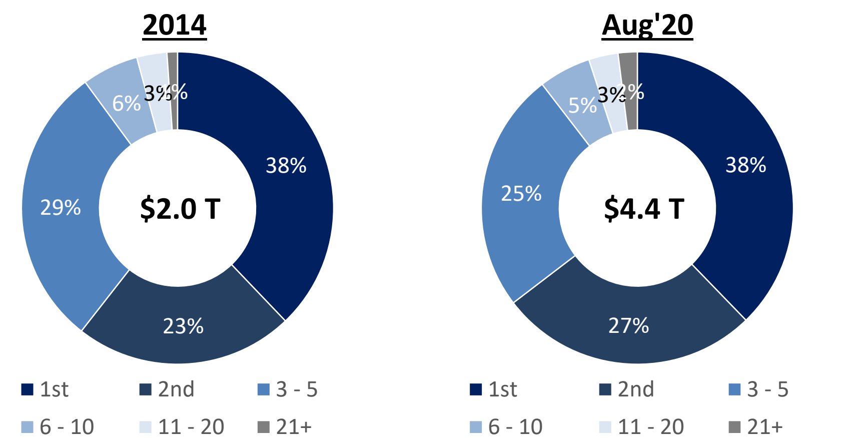
Manager Concentration

The US mutual fund and ETF space has become increasingly concentrated in recent years, with the top 20 managers capturing the majority of net flows since 2014. The largest 25 mutual fund managers account for over 80% of industry assets (up from 75% in 2014) while the largest 5 ETF managers account for nearly 90% of industry assets (about the same as in 2014)

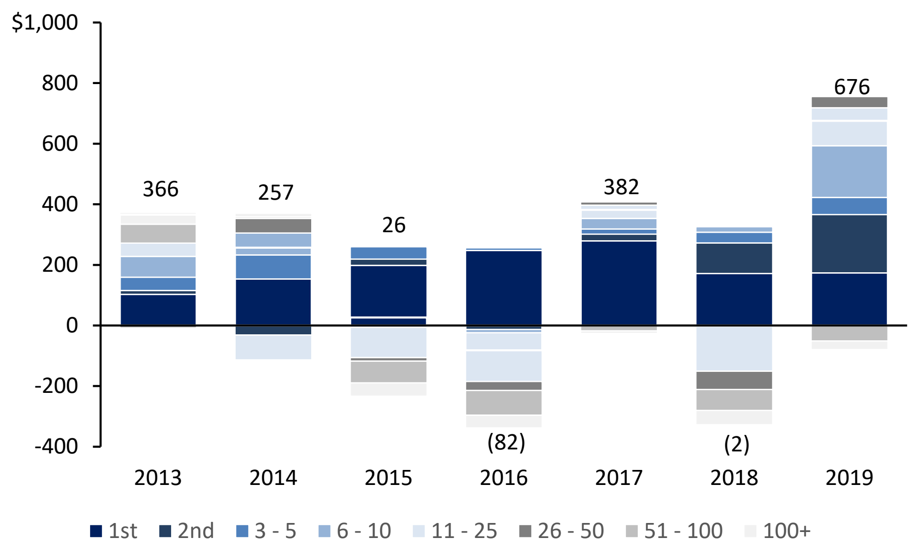
Historical US Mutual Fund Manager Concentration (%)



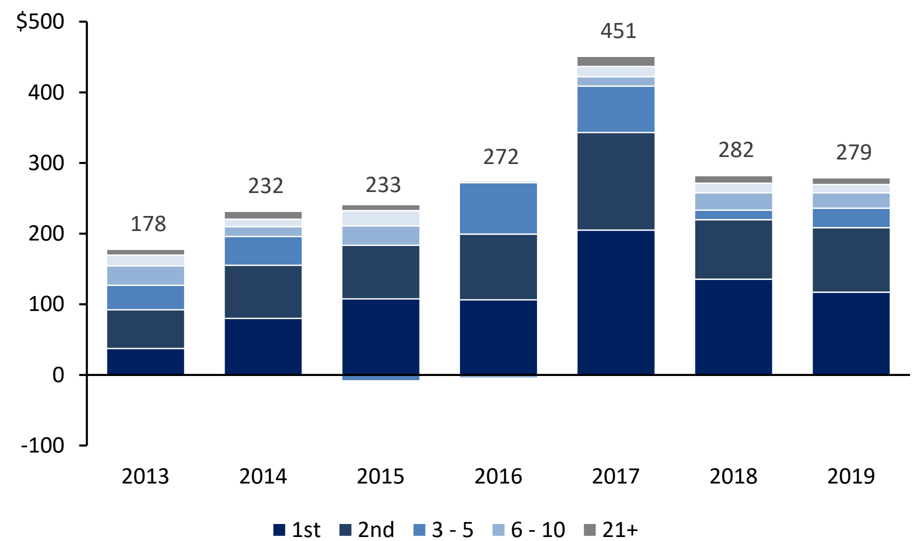
Historical US ETF Manager Concentration (%)



Historical US Mutual Fund Net Flows ($MM)



Historical US ETF Net Flows ($MM)



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Sources: Simfund as of 8/31/2020

M&A Activity in 2017 – 2020

Transaction activity across the industry slowed in 1H 2020, but strategic acquisitions are expected to continue due to industry demographics

Consolidation among active managers in search of synergies, greater scale and global expansion

- **Morgan Stanley's** $530 billion acquisition of **Eaton Vance**
- **Franklin Resource's** $6.5 billion acquisition of **Legg Mason** established one of the world's largest investment managers with $1.5 trillion in AUM
- **Brookfield** acquired 62% of **Oaktree** to become one of the largest alternative asset managers in the world with $475 billion in AUM
- **Invesco** and **OppenheimerFunds** combined to form a manager with $1.2 trillion in AUM
- **Standard Life**'s £3.8 billion ($4.7 billion) acquisition of **Aberdeen Asset Management** was the largest asset management transaction of 2017

Strategic investments in search of greater product access

- **Virtus Investment Partners**, added to its boutique structure with the $130 million purchase of 70% of **Sustainable Growth Advisers**, a high-conviction U.S. and global growth manager
- **Victory Capital** acquired **USAA Asset Management** to grow its AUM to ~$145 billion and diversify its client base and increase its product offering

Capacity constrained strategies such as **small cap equity** have been in demand as larger managers seek to fill gaps in their product offerings through platform and team acquisitions

- **Driehaus Capital Management** acquired the small cap value team of **Opus Capital Management**
- **Madison Investments** acquired the small cap team of former **Broadview Advisors** which managed $430 million at the time of the sale
- **Calamos Investments** acquired the $588 million small and smid cap growth investor, **Timpani Capital Management**
- **Silvercrest Asset Management Group** paid $59 million in cash and stock for small cap growth specialist, **Cortina Asset Management**
- **Alger Associates** bought Boston-based **Weatherbie Capital**, a specialized growth equity manager with over $800 million in assets under management

Buyer demand for targets with **yield-oriented liquid strategies**, such as MLPs and REITs, with the arena drawing high-profile players like **Blackstone Group**, **Brookfield Asset Management** and **Lovell Minnick Partners**

- Blackstone's / **Harvest Fund Advisors**, an institutional firm with more than $10 billion in AUM focused on midstream MLPs
- Lovell Minnick led a group of investors in acquiring two-thirds of energy specialist **Tortoise Investments**, with employees assuming the rest of equity. Tortoise was part of asset and wealth manager **Mariner Holdings**
- Brookfield acquired MLP investor **Center Coast Capital Holdings**, which has more than $4 billion in AUM in funds and separately managed accounts

Traditional fixed income managers were also in demand, matching the strong, ongoing demand among retail and institutional investors for a variety of bonds

- **Charles Schwab** announced an agreement to acquire **Wasmer, Schroder & Company**, a $10.5 billion manager focused on fixed income separately managed accounts
- **Resolute Investment Managers** acquired the $8.6 billion fixed-income and alternatives manager **National Investment Services**
- **PIMCO** acquired **Gurtin Municipal Bond Management**, a specialist municipal bond manager with $14 billion in assets under management
- **Raymond James Financial** paid $173 million in cash for Kansas City-based **Scout Investments** and its **Reams Asset Management** division, adding $27 billion in assets under management and advisement, more than 80% in Reams' diverse fixed income strategies

Summary

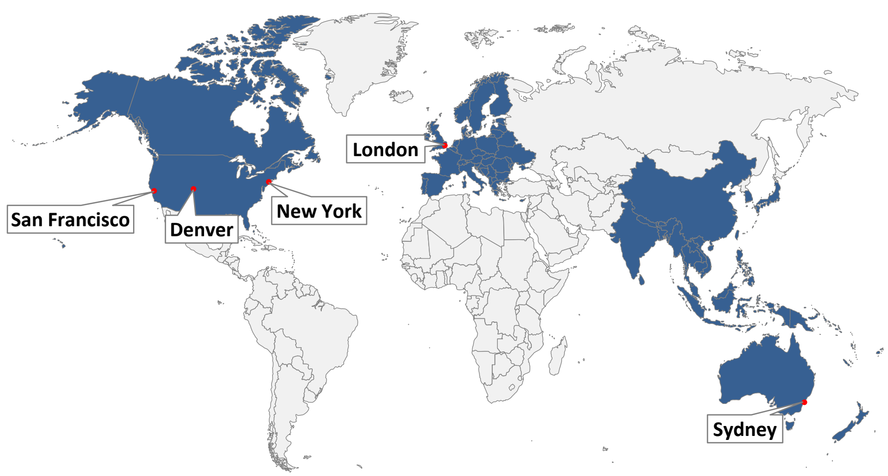
- Size and distribution reach remain as fundamental competitive weapons
  - Ability to withstand market changes
  - Ability to attract and retain the best people
  - Negotiating leverage with third parties
- Performance is critical with respect to valuation
  - It is very delicate to pursue a sale of funds with 1 or 2 star rankings for fear of “waking up the clients” who may just move their assets rather than approve a transaction
  - While many speak of acquiring smaller managers, the all in costs generally make this unrealistic
- Valuation metrics have increasingly been driven by pro-forma EBITDA including efficiencies
  - Occasionally a premium is based on growth opportunities but more often premiums derive from cost savings and operating efficiencies
- Still no bright line that will force firms to merge, but the pressure continues on both large and small to differentiate and to grow

Berkshire at a Glance

About Us

- Founded in 1983
- Independent, employee-owned investment bank
- Headquartered in New York City with offices in London, Sydney, San Francisco, Denver and Philadelphia
- Focused on M&A in the investment management and securities industries
- Completed more than 385 transactions and more than 300 independent valuations
- Our partners have an average of 20 years of industry experience; many developed successful careers at firms including Goldman Sachs, Merrill Lynch, UBS, Bear Stearns and PaineWebber prior to joining Berkshire
- Our independence and private ownership are key competitive strengths and differentiate us from competitors

Global Presence



Perennial Leader in Investment Management & Securities M&A

Rank	Firm	Total	2020	2019	2018	2017	2016
		Announced Deals					
1	**Berkshire Global Advisors**	**50**	**4**	**8**	**12**	**11**	**15**
2	Raymond James & Associates	42	6	10	9	6	11
3	J.P. Morgan Securities	31	4	4	8	10	5
4	BofA Securities	28	2	2	7	10	7
5	Morgan Stanley	27	3	3	3	8	10
5	Houlihan Lokey	27	1	4	8	4	10
7	Piper Sandler	26	1	6	12	5	2
8	Goldman Sachs	24	NA	9	3	5	7
9	Barclays Capital	19	1	3	8	3	4
9	Lazard Freres	19	1	3	7	3	5
9	Colchester Partners	19	NA	4	2	5	8
12	Rothschild & Co	18	1	4	4	4	5
13	Credit Suisse (USA)	17	1	3	3	3	7
13	RBC Capital Markets	17	1	4	5	2	5
13	Moelis & Company	17	1	5	2	6	3
16	UBS Investment Bank	15	1	2	5	4	3
16	Evercore	15	NA	2	5	4	4
16	Keefe, Bruyette & Woods	15	1	3	3	5	3
19	Park Sutton Securities	14	NA	7	2	3	2
20	Broadhaven Capital Partners	11	2	1	4	2	2
20	KPMG	11	NA	1	4	1	5

Source: S&P Financial; omits certain deals that do not meet S&P's stated criteria