

VALUE FOCUS

Investment Management

First Quarter 2024 | Segment Focus: Asset Managers

In This Issue

Segment Focus: Asset Managers	1
Market Update Performance of Publicly Traded Asset / Wealth Management Firms	3
RIA M&A Update	6
Investment Manager Multiples by Sector	8
About Mercer Capital	9

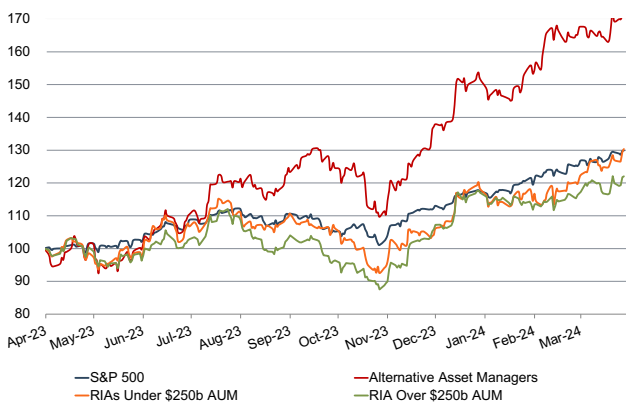
This quarter we take an in-depth look at the trends affecting asset managers and the broader RIA industry, including the performance of publicly traded investment management firms and deal activity across the sector. In the public markets, alternative asset managers outperformed other investment managers in the most recent quarter, continuing a trend we have followed over the past year. In the private market, deal count has declined since the end of 2021, although total transaction value has remained steady over the last year as average deal size has increased while multiples have stabilized.

For weekly insights, Subscribe to
Mercer Capital's RIA Valuation Insights Blog

Segment Focus: Asset Managers

Despite persistent inflation, elevated interest rates, and heightened geopolitical tensions, the asset management industry and the stock market as a whole saw a resurgence during 2023. Our index of publicly traded asset management firms generally tracked the movement in the broader market, with stock prices for smaller asset managers (AUM under \$250 billion) up 30.3% and large asset managers (AUM over \$250 billion) up 22.0% over the year ended March 31, 2024, while the broader market (S&P 500) increased 29.9%.

Investment Manager Performance by Sector Twelve Months Ended March 31, 2024



Source: S&P Market Intelligence

Fund Flows

While market movement is often the dominant contributor to AUM changes over a particular period, it's a variable that's largely outside a manager's control. On the other hand, organic growth can be influenced by the quality of a firm's marketing and distribution efforts and can be a real differentiator between asset management firms over longer periods.

Many asset managers have struggled with organic growth in recent years, partly due to rising fee sensitivity and the influence of passively managed investment products. This year proved no different, with our index of publicly traded asset/wealth management companies seeing \$103 billion in aggregate net outflows, compared to aggregate net outflows of \$62 billion in 2022.

As expected, considering the performance of the stock and bond markets over the past year, market movement was the primary driver of the change in AUM, accounting for \$551 billion additional AUM for the index during 2023. During the challenging market conditions of 2022, the index saw an aggregate \$922 billion decrease in AUM due to market movement.

Aggregate Asset Flows for Index of Publicly Traded Asset/Wealth Managers (\$Billion)⁽¹⁾



Source: Mercer Capital

(1) Index includes DIHL, GAMI, HNNA, SAMG, WHG, VRTS, FHI, BEN, IVZ, and TROW.

Outflows from Active Funds Accelerate

While asset managers saw net outflows over the past twelve months, there were significant variances between actively and passively managed funds. Fund flow data from Morningstar (table below) shows that total outflows across active funds for the year ended March 31, 2024, were approximately \$377 billion. The aggregate outflows over the past year were most severe for U.S. equity, allocation, and international equity, with these asset classes shedding a combined \$427 billion in assets. All categories of actively managed funds except alternative investments, taxable bonds, alternatives, and nontraditional equities saw net outflows over the past year.

On the other hand, passively managed funds continued to outpace active funds in terms of net new assets over the past twelve months. The Morningstar data shows that total inflows across passively managed funds for the year ended March 31, 2024, were approximately \$621 billion, with all asset classes except commodities and miscellaneous assets reporting positive net inflows.

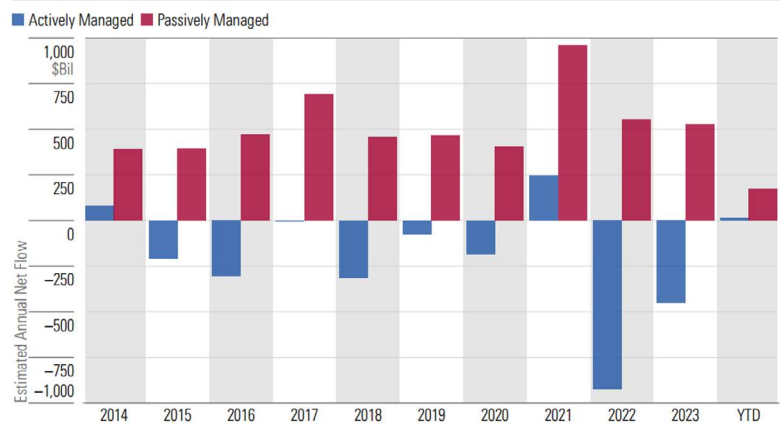
As you can see in the charts on the right, there has been a trend over the past ten years of investors moving from active to passive funds, and this trend accelerated with the market downturn in 2022. The relative underperformance of active managers, when compared to their benchmarks over the past ten years, has driven investors to low-fee passive funds. This trend will likely continue to pose a challenge for many types of active asset managers in attracting new assets.

Outlook

The outlook for asset managers depends on several factors. Investor demand for a particular manager's asset class, recent relative performance, fee pressure, rising costs, and regulatory overhang can all impact RIA valuations to varying extents. Alternative asset managers tend to be more idiosyncratic but are still influenced by investor sentiment regarding their hard-to-value assets.

US Category Group	Active 1-Mo (\$Mil)	Active TTM (\$Mil)	Active Assets (\$Bil)	Passive 1-Mo (\$Mil)	Passive TTM (\$Mil)	Passive Assets (\$Bil)
US Equity	(13,737)	(276,689)	5,842	45,894	323,167	8,843
Sector Equity	(2,403)	(37,076)	454	7,557	101	909
International Equity	(8,004)	(64,036)	2,192	6,948	76,036	1,921
Allocation	(6,639)	(86,402)	1,414	111	318	6
Taxable Bond	21,453	77,376	3,053	22,745	217,128	2,279
Municipal Bond	2,673	(11,656)	767	1,054	11,829	109
Alternative	5,431	11,334	199	1,195	88	57
Commodities	138	(13,650)	123	(42)	(3,498)	39
Nontraditional Equity	2,193	20,474	91	276	3,245	16
Miscellaneous	1,504	3,414	7	1,102	(7,636)	107
All Long Term	2,609	(376,910)	14,141	86,841	620,778	14,286

Source: Morningstar Direct Asset Flows. Data as of March 31, 2024. TTM is trailing 12 months.



Source: Morningstar Direct Asset Flows. Data as of March 31, 2024.

With inflation starting the year **higher** than expected, it remains to be seen if the Fed will be able to implement the rate cuts that many investors expect to come during 2024. With the prospect of interest rates remaining higher for longer, persistent inflation, and geopolitical tensions, there is much uncertainty in the market heading into 2024. Despite these challenges, the industry enters 2024 with higher starting AUM levels, offering a potential boost to revenues and earnings. Navigating these uncertain times requires a proactive approach to capitalize on emerging opportunities and mitigate risks effectively.

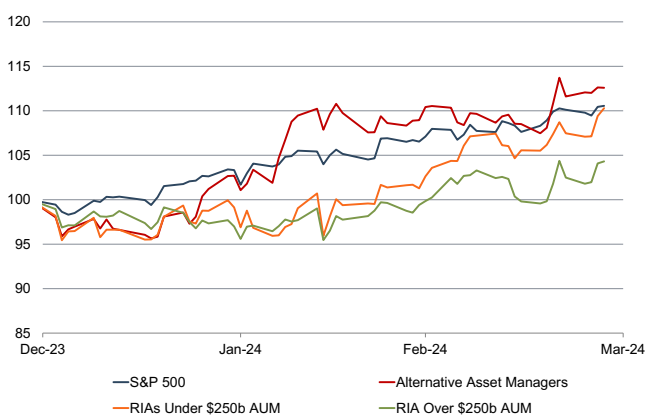
Performance of Publicly Traded Asset / Wealth Management Firms

Share prices for most publicly traded asset and wealth management firms trended upward with the broader market during the first quarter of 2024. Alternative asset managers continued to outperform the market and other RIAs, ending the quarter up about 12.6%. On a year-over-year basis, all sectors of RIAs experienced growth as the markets rebounded from the 2022 slump. RIAs directly benefit from improving market conditions as they result in a stronger asset base on which to collect fees.

Performance by Sector

The market uptick in Q1 translated to increased share prices for most public RIAs. Prices for alternative investment managers experienced a stronger increase than the S&P 500, gaining 12.6% compared to the S&P's 10.6%. Both larger RIAs (AUM over \$250 billion) and smaller RIAs (AUM under \$250 billion) lagged the S&P 500, seeing price increases of 4.3% and 10.3%, respectively, during the quarter.

Investment Manager Performance by Sector Q1 2024

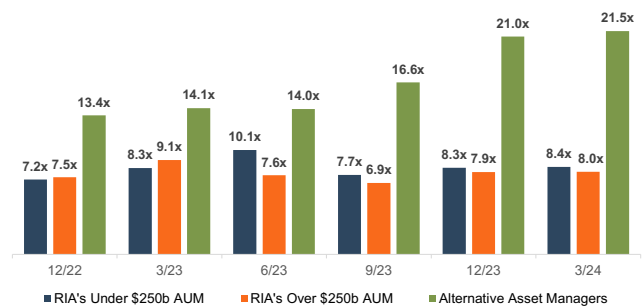


Source: S&P Market Intelligence

Pricing Trends

The median Enterprise Value to LTM EBITDA multiples for public RIAs increased modestly during Q1. RIA multiples hit a peak in Q1 2023, then trended downward for the next two quarters, before reversing course and increasing through Q1 2024. Alternative asset managers, however, plateaued during Q2 2023 and grew thereafter.

Enterprise Value to LTM EBITDA

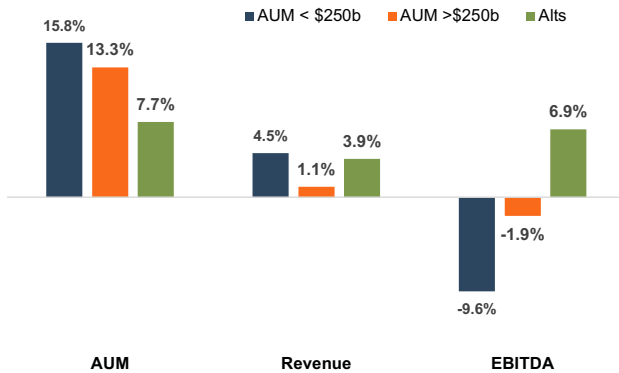


Source: S&P Capital IQ Pro

Growth Trends

On a year-over-year basis, all sectors of RIAs experienced growth in AUM as the markets rebounded from the 2022 slump. The largest increase came from larger RIAs, which had a median increase in AUM of 13.3% over the past year. The second largest increase in AUM came from smaller RIAs which had a median increase in AUM of 10.8%. This was followed by alternative asset managers, which had a 7.7% increase in AUM over the past year. Revenue growth lagged AUM growth for all groups, reflecting lower effective realized fee levels. Both the larger (>\$250B AUM) and smaller (<\$250B AUM) groups of traditional asset managers reported decline in profitability over the last year.

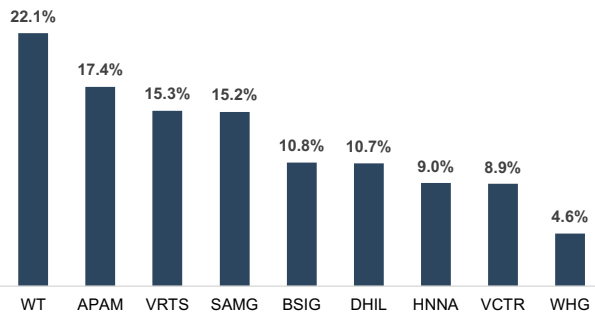
Year-Over-Year Growth Rates (3/31/23-3/31/24)



Source: S&P Capital IQ Pro

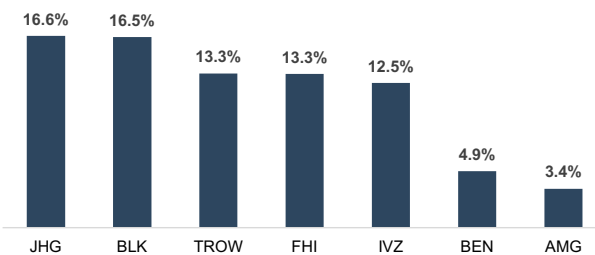
Growth in AUM for the smaller RIA group ranged between 4.6% (Westwood Holdings Group) and 22.1% (Wisdom Tree). For the larger RIA group, AUM growth was between 3.4% (Affiliated Managers Group) and 16.6% (Janus Henderson Group).

YoY AUM Growth (Under \$250B AUM)



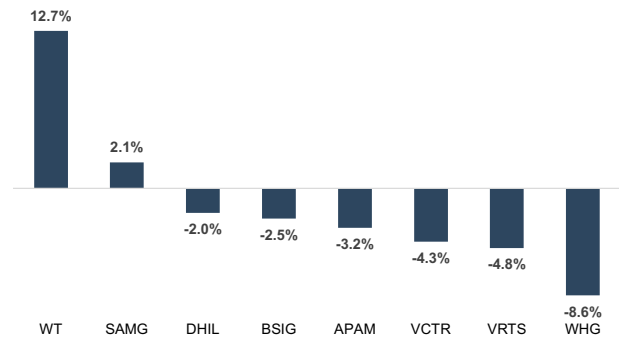
Source: S&P Capital IQ Pro

YoY AUM Growth (Over \$250B AUM)



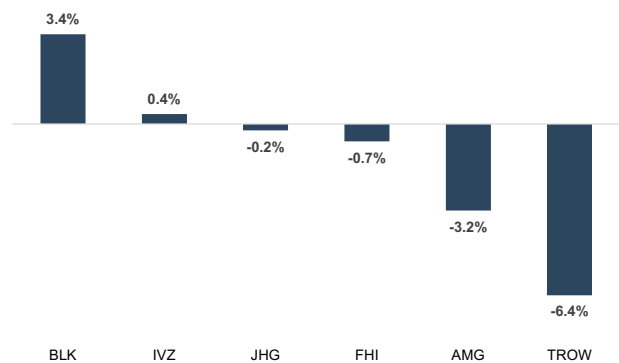
Source: S&P Capital IQ Pro

Organic AUM Growth (Under \$250B AUM)



Source: S&P Capital IQ Pro

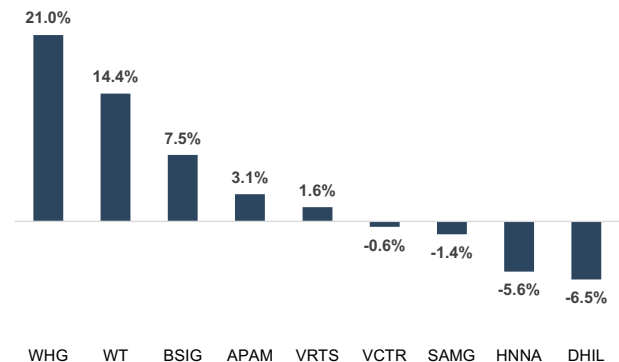
Organic AUM Growth (Over \$250B AUM)



Source: S&P Capital IQ Pro

Most RIAs experienced organic AUM outflows during the twelve months ending March 31, 2024. These organic outflows were offset by market growth, which led to a net AUM increase for all RIAs we measured.

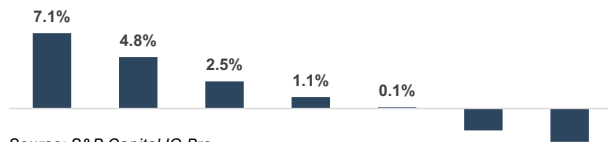
YoY Revenue Growth (Under \$250B AUM)



Source: S&P Capital IQ Pro

For the smaller RIA group, revenue growth ranged from negative 6.5% (Diamond Hill) to 21.0% (Westwood Holdings). Revenue growth for larger RIAs was between negative 8.1% (Affiliated Managers Group) to 7.1% (Federated Hermes).

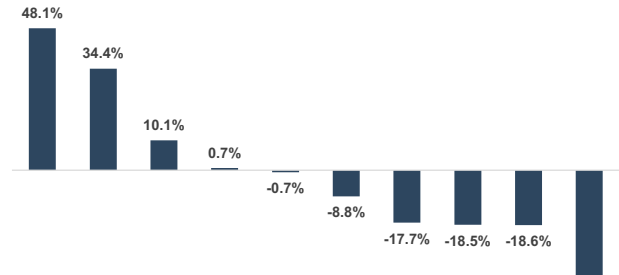
YoY Revenue Growth (Over \$250B AUM)



Source: S&P Capital IQ Pro

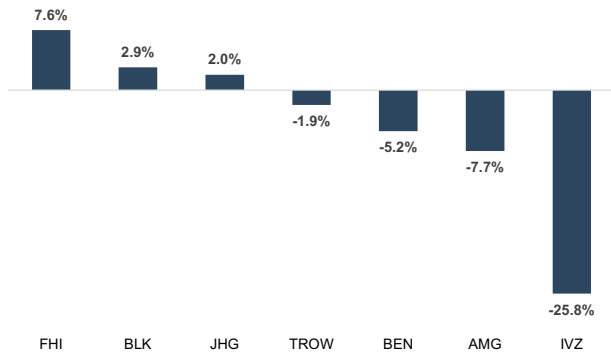
For the smaller RIA group, EBITDA growth ranged from negative 36.1% (Diamond Hill) to 48.1% (WisdomTree). EBITDA growth for larger RIAs was between negative 25.8% (Invesco) to 7.6% (Federated Hermes).

YoY EBITDA Growth (Under \$250B AUM)



Source: S&P Capital IQ Pro

YoY EBITDA Growth (Over \$250B AUM)

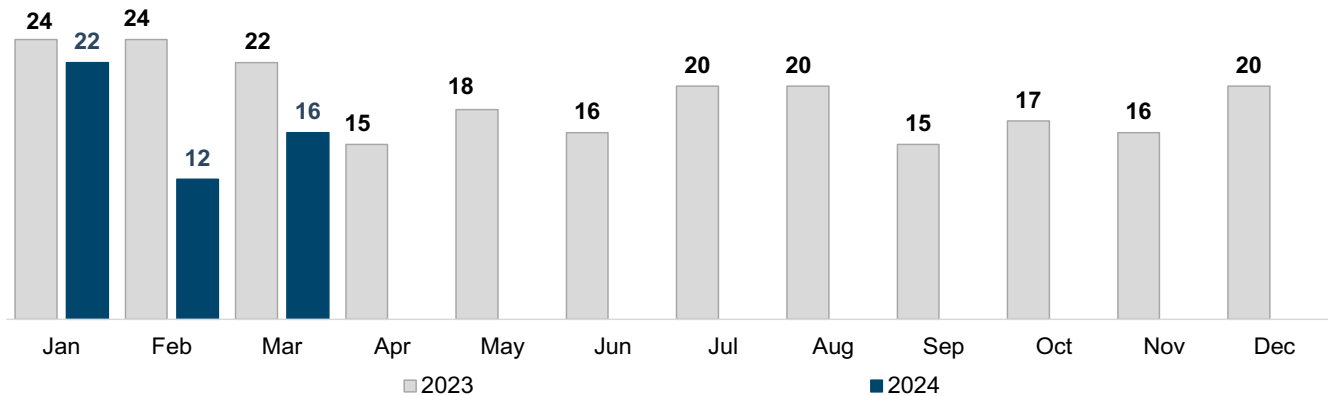


Source: S&P Capital IQ Pro

RIA M&A

First Quarter 2024

Number of RIA M&A Transactions, 2023 vs 2024



Source: Fidelity

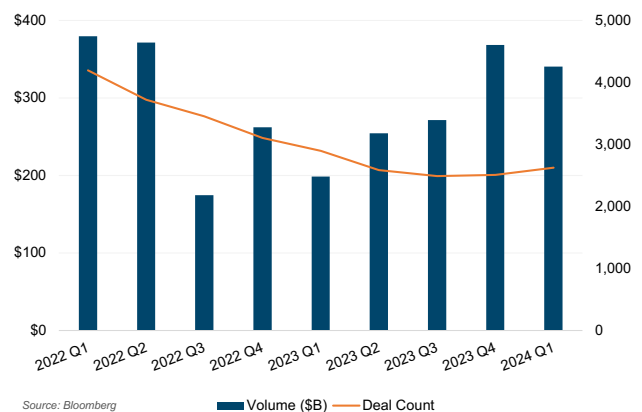
Following a year where deal volume in the RIA industry nearly matched the all-time high of 2022, RIA M&A activity cooled in the first quarter of 2024. Fidelity’s March 2024 Wealth Management M&A Transaction Report listed 50 deals through March 2024, down 29% from the 70 deals executed during the same period in 2023.

RIA deal activity experienced a greater decline than the broader M&A market. The number of M&A transactions for all industries (excluding the RIA industry) decreased 9% year-over-year through the first quarter of 2024 (per Bloomberg), compared to a decline of 29% in the RIA industry.

Despite the decline in the total number of deals, there was a significant uptick in total transacted AUM during the first quarter of 2024. Total transacted AUM through March 2024 was \$139.2 billion—a 63% increase from the same period in 2023. The average AUM per transaction during the first quarter of 2024 was \$2.8 billion, a 128% increase over the prior year. The increase in deal size has been an encouraging sign, given the rise in the cost of capital over the past two years. The growth in deal size resulted from the completion of several large transactions during the first quarter of 2024, coupled with the overall increase in AUM levels

due to market performance. Per Echelon’s **RIA M&A Deal Report**, “This elevated number of larger transactions, in light of buyers facing a higher cost of capital and economic uncertainty, demonstrates buyer resilience and likely indicates that \$1BN+ deal activity will increase to 2021 levels or higher once macroeconomic headwinds, namely higher interest rates, subside.”

Global M&A Activity (Excluding RIA Industry)



Source: Bloomberg

Another contributor to the increase in deal size has been RIAs partnering with private equity firms. According to Fidelity's March 2024 Wealth Management M&A Transaction Report, private equity backing was involved in 88% of the transactions in March. Per Echelon's **RIA M&A Deal Report**, "Another driver of deal size was the heightened creativity in deal structures, adopted by private equity firms seeking to get deals across the finish line in the face of higher borrowing costs. Structured minority investments, with features such as paid-in-kind and preferred distribution rights, have become more popular in the largest transactions, especially those involving sellers with more than \$10 billion in assets." Noteworthy transactions backed by private equity include **Caprock's** acquisition of Grey Street Capital, **Mariner Wealth Advisor's** purchase of Fourth Street Performance Partners, and **Hightower's** acquisition of Capital Management Group of New York.

The prevalence of serial acquirers and aggregators has continued in the RIA M&A market. In recent years, the professionalization of the buyer market and the entrance of outside capital have driven demand and increased competition for deals. Serial acquirers and aggregators have increasingly contributed to deal volume, supported by dedicated deal teams and access to capital. Such firms accounted for approximately 70% of transactions during the first quarter of 2024. Mercer Advisors, Miracle Mile Advisors, and Allworth Financial completed multiple deals during the fourth quarter.

Deal activity has also been supported by the supply side of the M&A equation, as the impetus to sell is often based on more than market timing. Sellers are often looking to solve succession issues, improve quality of life, and access organic growth strategies. Such deal rationales are not sensitive to the market environment and will likely continue to fuel the M&A pipeline even during market downturns.

What Does This Mean for Your RIA?

For RIAs planning to grow through strategic acquisitions: Pricing for RIAs has trended upwards in recent years, leaving you more exposed to underperformance. Structural developments in the industry and the proliferation of capital availability and acquirer models will likely continue to support higher multiples than the industry has seen. That said, a long-term investment horizon is the greatest hedge against

valuation risks. Short-term volatility aside, RIAs continue to be the ultimate growth and yield strategy for strategic buyers looking to grow their practice or investors capable of long-term holding periods. RIAs will likely continue to benefit from higher profitability and growth than their broker-dealer counterparts and other diversified financial institutions.

For RIAs considering internal transactions: We're often engaged to address valuation issues in internal transaction scenarios, where valuation considerations are top of mind. Internal transactions don't occur in a vacuum, and the same factors driving consolidation and M&A activity have influenced valuations in internal transactions as well. As valuations have increased, financing in internal transactions has become a crucial secondary consideration where buyers (usually next-gen management) lack the ability or willingness to purchase a substantial portion of the business outright. As the RIA industry has grown, so too has the number of external capital providers who will finance internal transactions. A seller-financed note has traditionally been one of the primary ways to transition ownership to the next generation of owners (and, in some instances, may still be the best option). Still, an increasing amount of bank financing and other external capital options can provide selling partners with more immediate liquidity and potentially offer the next-gen cheaper financing costs.

If you are an RIA considering selling: Whatever the market conditions are when you go to sell, it is essential to have a clear vision of your firm, its value, and what kind of partner you want before you go to market. As the RIA industry has grown, a broad spectrum of buyer profiles has emerged to accommodate different seller motivations and allow for varying levels of autonomy post-transaction. A strategic buyer will likely be interested in acquiring a controlling position in your firm and integrating a significant portion of the business to create scale. At the other end of the spectrum, a sale to a patient capital provider can allow your firm to retain its independence and continue operating with minimal outside interference. Given the wide range of buyer models out there, picking the right buyer type to align with your goals and motivations is a critical decision that can significantly impact personal and career satisfaction after the transaction closes.

Investment Manager Multiples by Sector

	Ticker	3/31/2024 Stock Price	% of 52 Week High	Pricing as of March 31, 2024			
				Price / Trailing EPS	Price / Forward EPS	Enterprise Value / AUM (%)	Enterprise Value / EBITDA
TRADITIONAL ASSET / WEALTH MANAGERS (AUM UNDER \$250B)							
AITI Global, Inc.	ALTI	5.66	44.2%	nm	17.4x	2.58%	nm
Artisan Partners Asset Management Inc.	APAM	45.77	99.3%	14.2x	14.6x	2.96%	14.2x
BrightSphere Investment Group Inc.	BSIG	22.84	95.2%	13.3x	nm	0.98%	7.7x
Diamond Hill Investment Group, Inc.	DHIL	154.17	81.9%	10.4x	nm	1.46%	10.9x
Hennessy Advisors, Inc.	HNNA	6.90	87.0%	10.9x	nm	0.99%	5.1x
Silvercrest Asset Management Group Inc.	SAMG	15.81	68.1%	16.5x	13.9x	0.55%	8.0x
Victory Capital Holdings, Inc.	VCTR	42.43	99.5%	12.8x	10.4x	2.16%	9.0x
Virtus Investment Partners, Inc.	VRTS	247.98	94.1%	13.5x	nm	1.05%	8.4x
Westwood Holdings Group, Inc.	WHG	12.32	86.8%	10.6x	nm	0.38%	7.1x
WisdomTree, Inc.	WT	9.19	99.6%	13.2x	16.2x	1.57%	17.9x
Group Median			90.6%	13.2x	14.6x	1.26%	8.4x
TRADITIONAL ASSET / WEALTH MANAGERS (AUM OVER \$250B)							
Affiliated Managers Group, Inc.	AMG	167.47	99.7%	8.2x	10.1x	1.21%	7.9x
Franklin Resources, Inc.	BEN	28.11	92.7%	15.3x	12.4x	1.12%	8.0x
BlackRock, Inc.	BLK	833.70	98.7%	22.6x	20.6x	1.25%	18.5x
Federated Hermes, Inc.	FHI	36.12	79.3%	9.7x	9.7x	0.36%	6.6x
Invesco Ltd.	IVZ	16.59	88.7%	nm	9.8x	0.81%	11.8x
Janus Henderson Group plc	JHG	32.89	99.0%	13.5x	12.5x	1.21%	8.0x
T. Rowe Price Group, Inc.	TROW	121.92	91.8%	15.2x	15.6x	1.81%	10.3x
Group Median			92.7%	14.4x	12.4x	1.21%	8.0x
ALTERNATIVE ASSET MANAGERS							
Apollo Global Management, Inc.	APO	112.45	96.5%	12.7x	13.9x	11.31%	nm
Ares Management Corporation	ARES	132.98	95.3%	54.2x	27.9x	10.21%	37.1x
Associated Capital Group, Inc.	AC	32.71	80.7%	18.8x	nm	19.01%	nm
Blackstone Inc.	BX	131.37	98.4%	67.5x	14.5x	10.96%	nm
The Carlyle Group Inc.	CG	46.91	96.7%	nm	12.1x	5.75%	nm
Cohen & Steers, Inc.	CNS	76.89	97.8%	29.5x	24.7x	4.40%	21.5x
Hamilton Lane Incorporated	HLNE	112.76	92.5%	36.9x	23.8x	3.97%	18.9x
KKR & Co. Inc.	KKR	100.58	97.2%	23.8x	23.5x	24.33%	nm
Group Median			96.6%	29.5x	23.5x	10.59%	21.5x
OVERALL MEDIAN			95.2%	13.9x	14.5x	1.57%	9.0x

Mercer Capital's Investment Management Industry Expertise

Mercer Capital provides RIAs, independent trust companies, and alternative asset managers with business valuation and financial advisory services related to corporate disputes, litigated matters, tax compliance, and financial reporting requirements. Mercer Capital also provides transaction advisory and consulting-related services.

Mercer Capital provides a comprehensive suite of valuation and financial advisory services to meet your needs. Experience includes:

- Corporate valuation services for clients ranging from startup managers with as little as \$50 million in assets under management to established industry leaders managing over \$400 billion
- Litigation support services and expert witness testimony in matters involving economic damages, shareholder disputes, and marital dissolution
- Transaction advisory services involving investment managers from sell-side, buy-side, and mutually retained perspectives
- Providing financial statement reporting services related to purchase price allocation and goodwill impairment testing
- Assisting RIAs and other investment managers with annual ESOP valuations, fairness opinions, and appraisals for gift and estate tax compliance

Sectors Served

- Registered Investment Advisors
- Money Managers
- Wealth Management Firms
- Mutual Fund Companies
- Independent Trust Companies
- Investment Consultants
- Hedge Fund Managers
- Real Estate Investment Companies
- Private Equity & Venture Capital Firms
- Bank Trust Departments
- Broker-Dealers / Hybrid RIAs

Services

- Corporate Valuation
- Fairness Opinions
- M&A Representation & Consulting
- Buy-Sell Agreement Valuation & Consulting
- Financial Reporting Valuation
- Tax Compliance Valuation
- Litigation & Dispute Resolution Consulting/Testimony
- ERISA Valuation

Mercer Capital's Investment Management Industry Team



Matthew R. Crow, ASA, CFA
901.322.9728
crowm@mercercapital.com



Brooks K. Hamner, CFA, ASA
901.322.9714
hamnerb@mercercapital.com



Zachary W. Milam, CFA
901.322.9705
milamz@mercercapital.com



Mercer Capital

www.mercercapital.com