

VALUE FOCUS

Investment Management

Fourth Quarter 2024 | Segment Focus: Wealth Managers

In This Issue

Segment Focus: Wealth Managers	1
RIA M&A Update	4
Investment Manager Multiples by Sector	7
About Mercer Capital	8

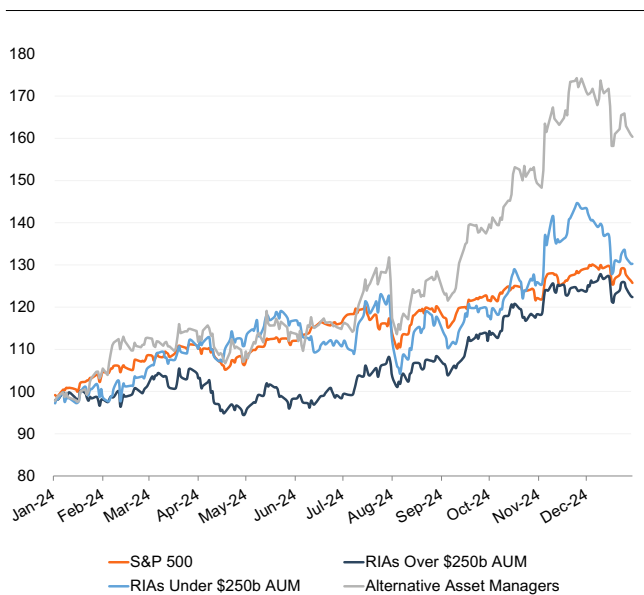
This quarter we take an in-depth look at the trends affecting wealth managers and the broader RIA industry, including the performance of publicly traded asset management firms and deal activity across the sector. In the public markets, most RIAs outperformed the *S&P 500*, with alternative asset managers seeing the largest increase in **share price over the quarter**. In the private market, there was more deal activity in 2024 than 2023, both in terms of number of deals and AUM transacted.

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

Segment Focus: Wealth Management Firms

The wealth management industry experienced remarkable growth in 2024, driven by robust market performance, inflation cooling, and shifts in monetary policy. Contrary to earlier concerns of economic instability, the year delivered substantial growth across the RIA sector, signaling resilience and adaptability in an ever-changing financial landscape.

Investment Manager Performance by Sector in 2024



Source: S&P Market Intelligence

Performance across the industry closely mirrored broader market trends, reflecting the inherent connection between market conditions and Assets Under Management (AUM) balances. Large publicly traded investment management firms (those with over \$250 billion in AUM) were up 22.4% year-over-year, underperforming the broader market (the S&P 500 was up 25.7%). In contrast, smaller publicly traded managers (those with AUM under \$250 billion) outperformed the market with a 30.3% increase, and alternative asset managers surged 60.4%. This reflects a continuation of the strong growth seen in 2023 when traditional asset managers and the broader market rebounded significantly from the challenges of 2022.

A key driver of 2024's market strength was the Federal Reserve's decisive pivot on monetary policy. With inflation receding steadily throughout the year, the Fed implemented three rate cuts: 50 basis points in September, followed by 25 basis points in both November and December. This easing cycle provided much-needed relief to the markets and reignited risk appetite among investors.

The Federal Reserve may continue to lower interest rates in 2025, especially if economic conditions remain stable and inflation stays within target ranges. Such actions could further support market performance and enhance capital availability for wealth management firms.

Looking forward to 2025 and beyond, one of the biggest opportunities in the wealth management industry is the Great Wealth Transfer, an unprecedented movement of over \$68 trillion in assets from Baby Boomers to younger generations. For advisors, this represents both a generational challenge and an unprecedented growth opportunity.

To prepare for this massive transfer, advisors are actively engaging older clients in discussions about estate planning and establishing partnerships with legal/estate planning professionals. Additionally, many firms are investing in multigenerational relationship management by involving heirs in early financial planning discussions and providing tailored resources to educate them on wealth management principles.

This trend was reflected in Charles Schwab's annual wealth management survey, which revealed that 75% of firms are engaging older clients in estate planning discussions, while 70% are involving more family members in financial planning. These efforts highlight the industry's commitment to fostering long-term relationships across generations (as shown in the chart on the next page).

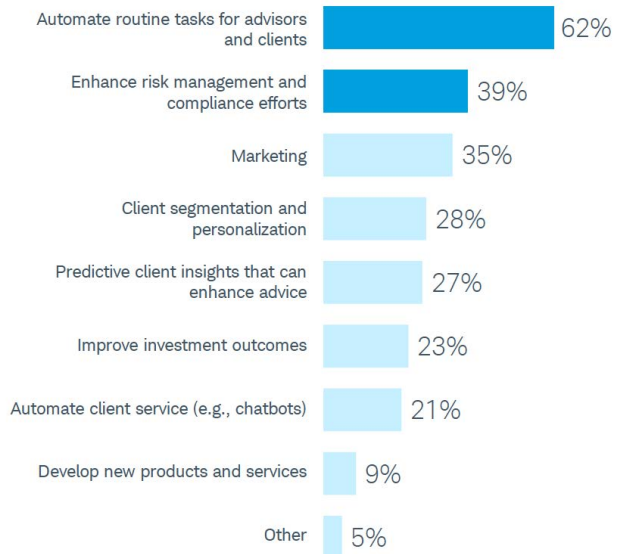
Another opportunity for growth in the wealth management industry comes in the form of AI. According to Schwab's survey, 54% of respondents expect that the implementation of AI will have the greatest impact on industry growth over the next three years. Firms are increasingly exploring how AI

can enhance both client-facing services and internal operations. AI-driven tools are being developed to automate routine tasks, improve risk management, and provide predictive insights to advisors.

While AI presents enormous potential, adoption remains in its early stages. Just 23% of firms have begun implementing AI into their business, and 30% said they are unsure of their firm's plan to implement AI in the future. The slow implementation of AI is primarily the result of caution from wealth management firms, with many firms saying that more work needs to be done before the full benefits of AI can be realized.

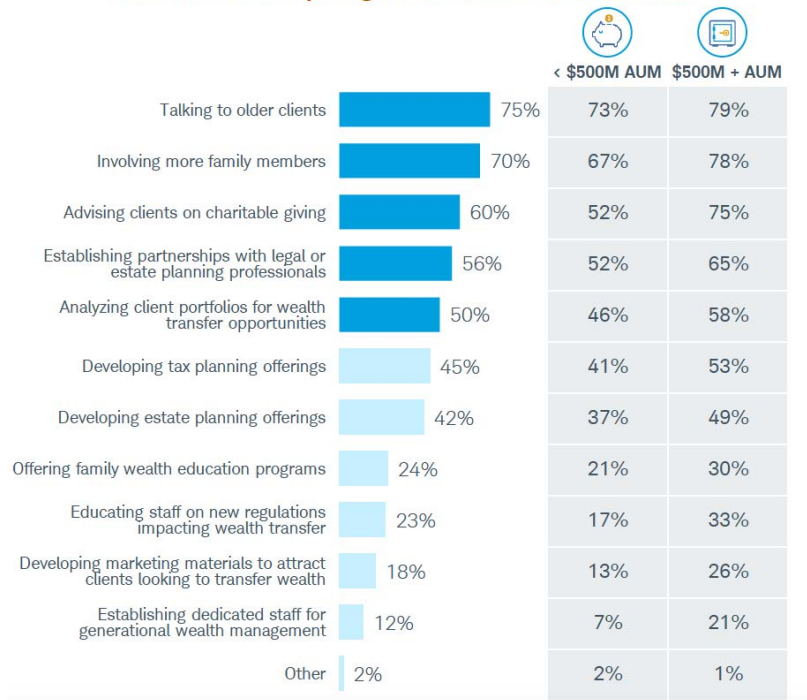
As the wealth management industry looks to 2025 and beyond, the dual drivers of demographic change and technological innovation will play a pivotal role in shaping its future. Firms that effectively embrace these trends—by deepening client relationships and harnessing cutting-edge technology—stand to emerge as leaders in an increasingly dynamic and competitive market.

How Firms Plan to Use AI



Source: October 2024 Schwab Advisor Services Independent Advisor Outlook Study

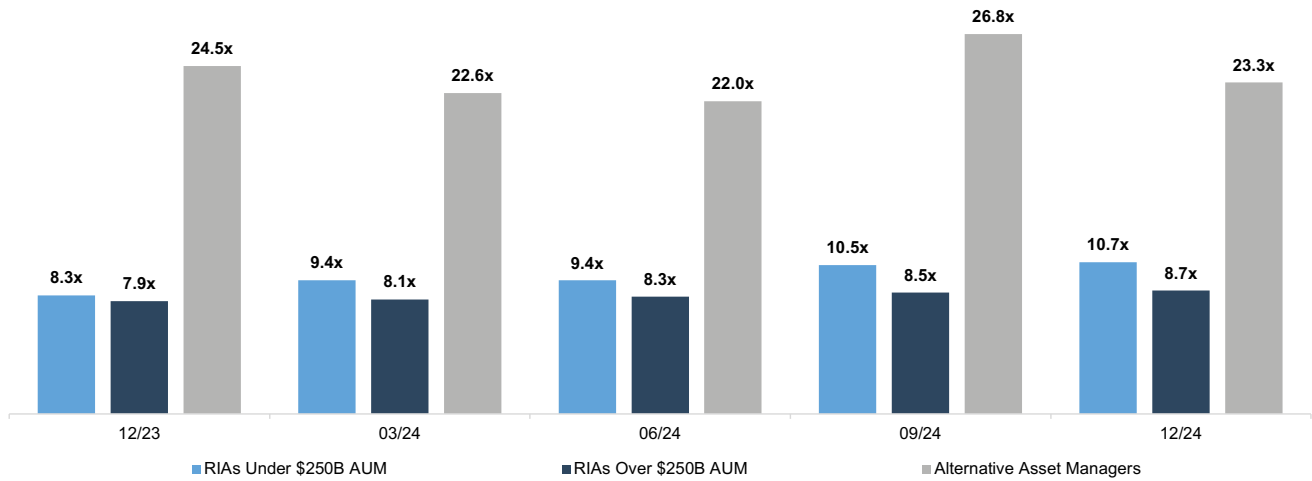
How Firms Are Preparing for the Great Wealth Transfer



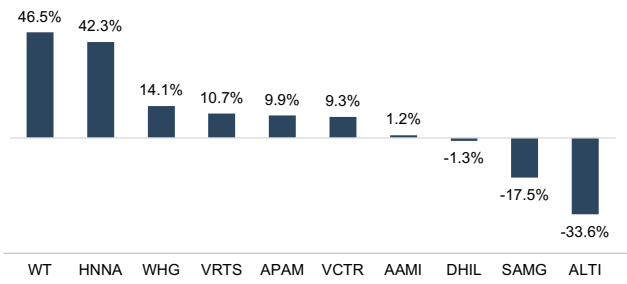
Source: October 2024 Schwab Advisor Services Independent Advisor Outlook Study

Winners and Losers

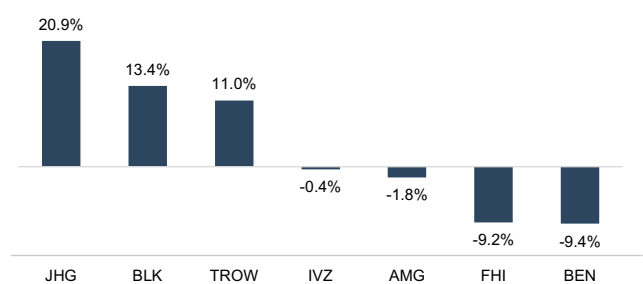
Enterprise Value to LTM EBITDA



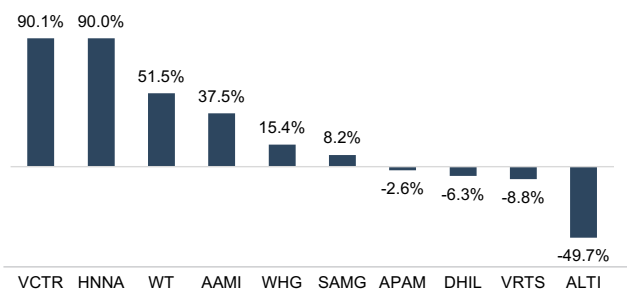
YoY EBITDA Growth (RIAs Under \$250B AUM)



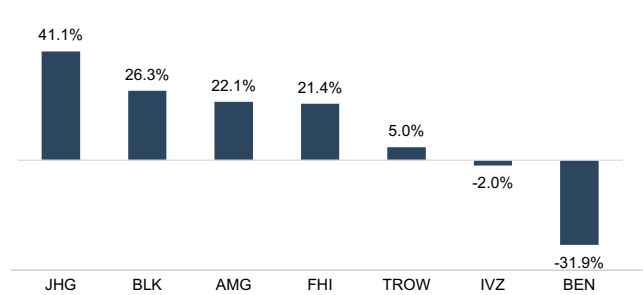
YoY EBITDA Growth (RIAs Over \$250B AUM)



YoY Price Growth (RIAs Under \$250B AUM)



YoY Price Growth (RIAs Over \$250B AUM)

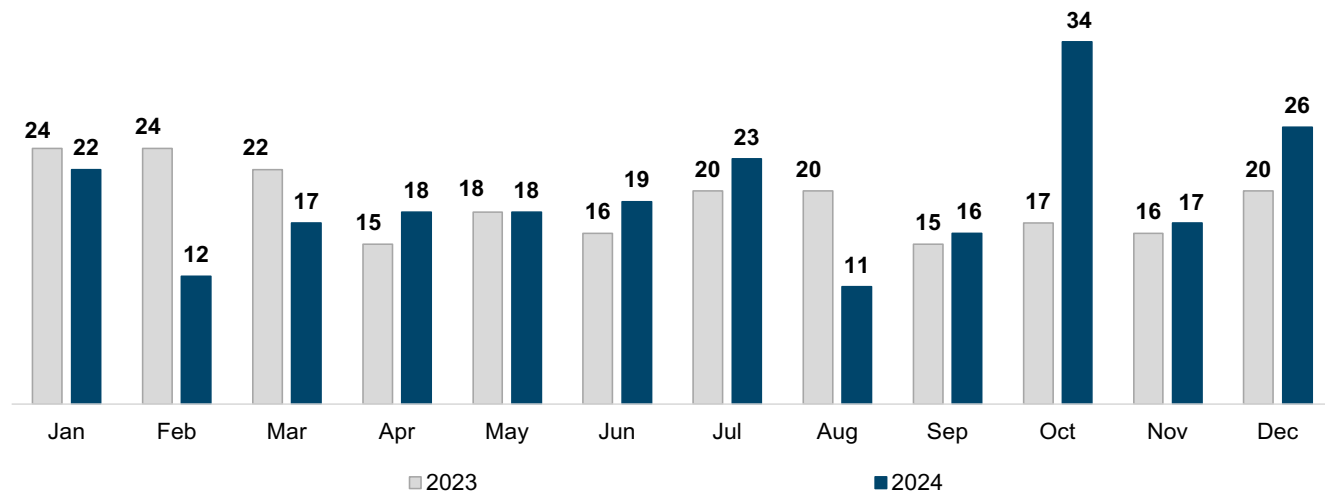


Source: S&P Capital IQ Pro

RIA M&A

Fourth Quarter 2024

Number of RIA M&A Transactions, 2023 vs 2024



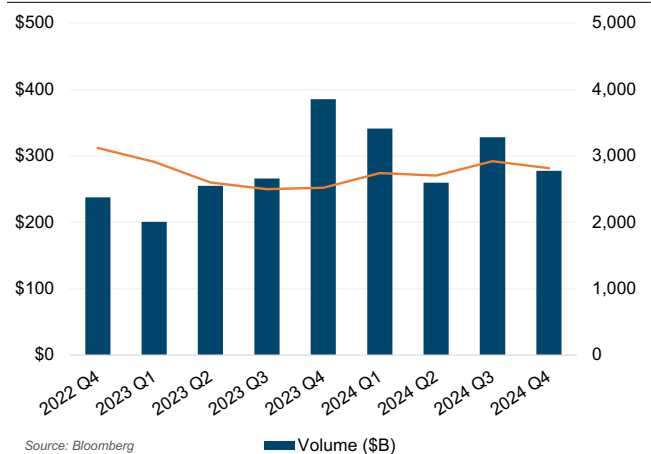
Source: Fidelity

M&A activity in the RIA industry, which had been trailing 2023 levels for much of 2024, experienced a dramatic surge in October. This spike set a new record for monthly deal volume and brought year-to-date transaction figures in line with 2023's pace. Fidelity's December 2024 Wealth Management M&A Transaction Report listed 233 deals in 2024, slightly higher than the 227 deals executed in 2023.

Recent analysis from **DeVoe & Company** highlights a convergence of factors driving a surge in M&A activity within the RIA industry: a rising stock market that has bolstered valuations combined with lower interest rates that has reduced borrowing costs have created a favorable environment for dealmaking.

Despite the resurgence in RIA transactions in the fourth quarter, the industry's overall deal activity still lags behind the broader M&A market. The number of M&A transactions for all industries (excluding the RIA industry) increased by 6% year-over-year (per Bloomberg), compared to the M&A activity in the RIA industry, which increased by 3% over the same period.

Global M&A Activity (Excluding RIA Industry)



Source: Bloomberg

Although a similar number of deals were completed in 2024 as in 2023, there was a significant uptick in total transacted AUM during 2024. In 2024, total transacted AUM reached \$675.8 billion—a 104% increase from 2023. The average AUM per transaction in 2024 was \$2.9 billion, a 99% 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 significant transactions during 2024, coupled with the overall increase in AUM levels due to market performance.

Another contributor to the increase in deal size has been RIAs partnering with private equity firms. According to Fidelity's December 2024 Wealth Management M&A Transaction Report, private equity backing was involved in all of the M&A transactions reported in November. Noteworthy transactions backed by private equity in the fourth quarter include **Pathstone's acquisition of Hall Capital Partners**. Hall Capital Partners is a leading independent investment and wealth management firm specializing in serving ultra-high-net-worth clients and has over \$45 billion in assets under management. Pathstone, backed by Kelso & Co. and Lovell Minnick Partners, secured additional capital from both firms to fund the Hall Capital acquisition.

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 69% of transactions in 2024. Focus Financial Partners, Beacon Pointe Advisors, Mercer Advisors, and Waverly Advisors all completed multiple deals in the fourth quarter of 2024.

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 often look 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.

Another potential catalyst for M&A activity is the Federal Reserve's decision to cut interest rates. In September, the Fed implemented a 50-basis-point rate cut, followed by two additional cuts of 25 basis points each in November and December. This marks a shift after two and a half years of rate increases, which contributed to a slowdown in deal volume during that period. With expectations of further rate cuts ahead, cheaper capital would likely encourage more

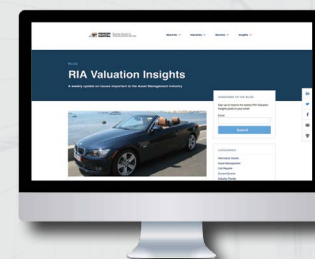
deal activity in the RIA M&A market. As capital becomes more accessible and consolidation trends continue, the RIA market could experience renewed momentum heading into 2025.

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 in the past. 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.

RIA Valuation Insights Blog

RIA Valuation Insights presents weekly updates on issues important to the investment management industry.



LEARN MORE

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 also influenced valuations in internal transactions. 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, increasing 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, 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	12/31/2024 Stock Price	% of 52 Week High	Pricing as of December 31, 2024			
				Price / Trailing EPS	Price / Forward EPS	Enterprise Value / AUM (%)	Enterprise Value / EBITDA
TRADITIONAL ASSET / WEALTH MANAGERS (AUM UNDER \$250B)							
Acadian Asset Management Inc.	AAMI	26.34	83.6%	15.1x	nm	1.06%	9.5x
AITI Global, Inc.	ALTI	4.41	48.4%	nm	nm	2.05%	nm
Artisan Partners Asset Management Inc.	APAM	43.05	86.9%	11.8x	11.8x	2.46%	12.0x
Diamond Hill Investment Group, Inc.	DHIL	155.10	89.5%	8.5x	nm	1.24%	10.7x
Hennessy Advisors, Inc.	HNNA	12.75	91.9%	14.0x	nm	1.61%	8.2x
Silvercrest Asset Management Group Inc.	SAMG	18.39	95.8%	23.2x	10.0x	0.65%	12.1x
Victory Capital Holdings, Inc.	VCTR	65.46	89.2%	15.9x	14.9x	2.87%	11.6x
Virtus Investment Partners, Inc.	VRTS	220.58	83.7%	13.0x	nm	1.03%	8.0x
Westwood Holdings Group, Inc.	WHG	14.51	80.5%	43.2x	nm	0.43%	7.6x
WisdomTree, Inc.	WT	10.50	84.3%	25.4x	22.2x	1.56%	13.7x
Group Median			85.6%	15.1x	13.3x	1.40%	10.7x
TRADITIONAL ASSET / WEALTH MANAGERS (AUM OVER \$250B)							
Affiliated Managers Group, Inc.	AMG	184.92	92.7%	10.2x	10.2x	1.17%	8.4x
Franklin Resources, Inc.	BEN	20.29	69.0%	22.9x	9.8x	0.72%	6.6x
BlackRock, Inc.	BLK	1,025.11	94.7%	26.1x	24.4x	1.39%	20.7x
Federated Hermes, Inc.	FHI	41.11	93.6%	12.1x	12.2x	0.38%	8.1x
Invesco Ltd.	IVZ	17.48	92.3%	nm	10.8x	0.72%	11.9x
Janus Henderson Group plc	JHG	42.53	93.0%	16.4x	17.7x	1.41%	8.8x
T. Rowe Price Group, Inc.	TROW	113.09	89.9%	12.0x	11.4x	1.41%	8.7x
Group Median			92.7%	14.2x	11.4x	1.17%	8.7x
ALTERNATIVE ASSET MANAGERS							
Associated Capital Group, Inc.	AC	34.26	78.1%	12.9x	nm	26.62%	nm
Apollo Global Management, Inc.	APO	165.16	87.2%	16.0x	21.3x	14.71%	nm
Ares Management Corporation	ARES	177.03	95.7%	77.6x	42.7x	11.16%	45.5x
Bridge Investment Group Holdings Inc.	BRDG	8.40	71.9%	11.8x	3.7x	2.37%	21.1x
Blackstone Inc.	BX	172.42	85.8%	59.5x	23.2x	13.91%	nm
The Carlyle Group Inc.	CG	50.49	91.6%	153.7x	13.3x	5.75%	nm
Cohen & Steers, Inc.	CNS	92.34	83.4%	34.5x	31.7x	4.79%	25.6x
GCM Grosvenor Inc.	GCMG	12.27	97.5%	38.4x	32.4x	1.03%	17.8x
Hamilton Lane Incorporated	HLNE	148.05	72.7%	34.0x	32.3x	4.87%	19.2x
KKR & Co. Inc.	KKR	147.91	90.4%	43.9x	44.4x	28.93%	nm
P10, Inc.	PX	12.61	88.3%	114.1x	80.9x	6.84%	26.0x
Group Median			87.2%	38.4x	32.0x	6.84%	23.3x
OVERALL MEDIAN			88.7%	19.6x	17.7x	1.58%	11.7x

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