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THE CAMBRIDGE COMMENTARY

A Review of M&A Activity in the Investment Management Industry During 2016

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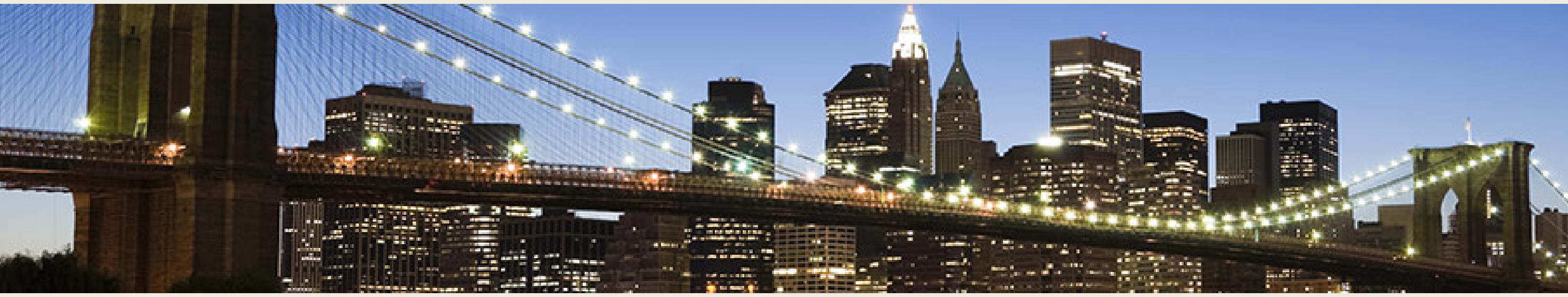

CAMBRIDGE INTERNATIONAL PARTNERS provides top-quality M&A advisory services to the global investment management industry. We use our two-plus decades of specialist experience and contacts to find, develop and structure lasting corporate relationships for our clients.

We have over 25 years of experience providing transactional and related advice to the investment management industry. While based in New York, a significant portion of our business is derived from cross-border or foreign transactions. Our extensive calling program keeps us current with managers and financial institutions globally.

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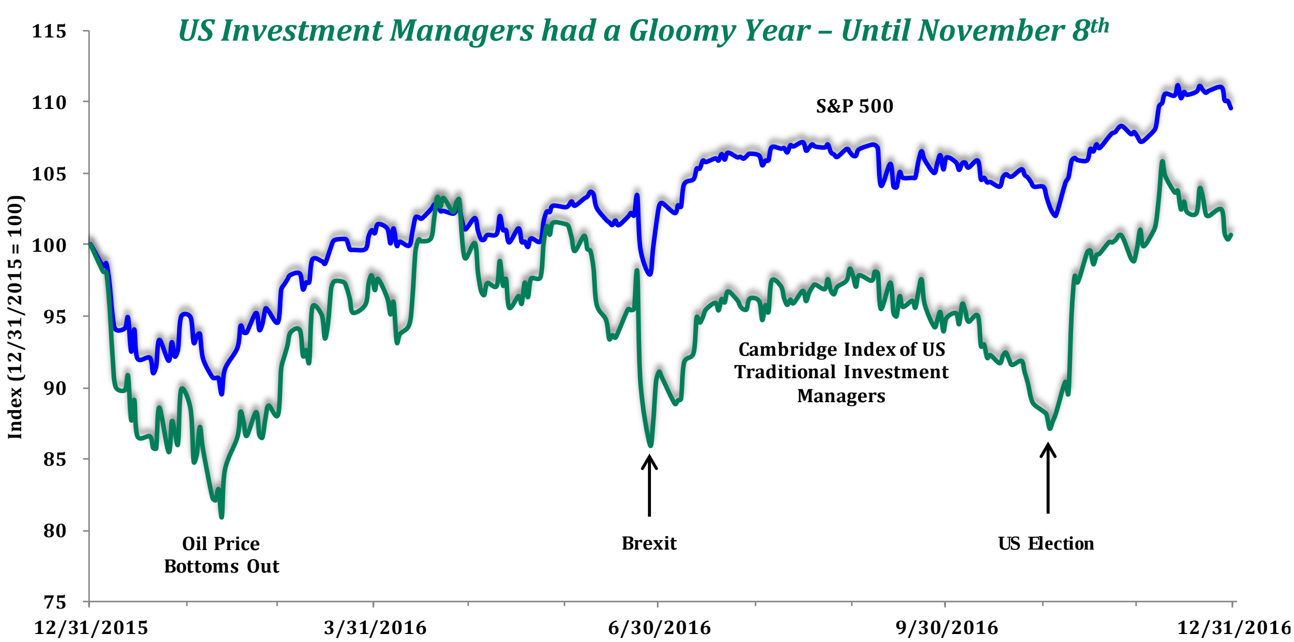
The investment management industry was forced to confront long-standing negative secular trends in 2016. The shift to passive management, rising fee pressure and increasing regulatory costs caused managers to have a gloomy first ten months of 2016, with stocks of traditional US publicly-traded asset managers down 9.6% through November 7th compared to a rise of 4.3% for the S&P 500. However, since the election, the US market has had an extraordinary bounce with the S&P 500 up 5.0% and US asset managers up a remarkable 11.4%. Post-election expectations of deregulation, lower taxes, infrastructure spending and a return to normal monetary conditions proved a powerful tonic, with some active managers even going so far as to forecast a reversal of the shift to passive management.

In contrast, transactional activity for the year was comparable to 2015, with the number of transactions down but the dollar volume up. This was despite a significant drop in all industry global transactional activity which fell from \$4.7 trillion in 2015 to \$3.7 trillion in 2016. As in the prior year, transactional activity was much more buoyant in private wealth than in the institutional and mutual fund sectors, but all had industry consolidation as the dominant theme. Underscoring the importance of this theme, five of the top ten transactions in the industry globally were consolidations, compared to, on average, just two out of the top ten over the last five years.



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Top Ten Investment Management Transactions of 2016

(All amounts in US$)

Target	AUM ($bn)	% Acq'd	Purchaser	Amount Paid ($mn)	Strategic Rationale
Pioneer Investments *Milan, Italy*	234.0	100%	Amundi	3,740	Assuming this latest iteration of UniCredit's six-year saga trying to sell Pioneer Investments succeeds, Amundi will become the eighth largest asset manager globally and cement its position as a European leader.
Janus Capital Group *Denver, CO*	195.0	100%	Henderson Global Investors	2,600	As pressure grows from low-fee passive investments, Janus and Henderson merge to form a global investment management firm with complementary distribution strengths and products.
Banca della Svizzera Italiana (BSI) *Lugano, Switzerland*	88.9	100%	EFG International	1,340	Consolidation of Swiss private banking takes a further step forward with the combination of EFG and BSI, which troubled Brazilian investment bank BTG Pactual was forced to sell after only a year of ownership.
Santander Asset Management *Madrid, Spain*	183.0	50%	Banco Santander	1,300e	Warburg Pincus and General Atlantic exercise early their 2018 option to sell back to Banco Santander the 50% of Santander Asset Management they had purchased in 2013.
Towry *London, United Kingdom*	12.8	100%	Tilney Bestinvest	855	Palamon Capital Partners exits its highly successful 13-year roll-up of UK private wealth firms by selling to Tilney Bestinvest, a similar roll-up backed by private equity investor Permira Funds.
Petershill Fund I interests *New York, NY*	55.0	Var.	Affiliated Managers Group	800	Underlining the difficulty of exiting minority equity positions in individual hedge fund managers, Goldman Sachs' Petershill Fund I sold in a package deal its remaining investments – Winton Capital Group, Capula Investment Management, Partner Fund Management, Mount Lucas Management and CapeView Capital.
AssetMark Financial Holdings *Concord, CA*	29.3	100%	Huatai Securities	780	China-based Huatai Securities makes its first US investment, buying a leading turnkey asset management program providing investment solutions to financial advisors. It also enabled private equity investors Genstar Capital and Aquiline Capital Partners to make a profitable exit.
H.I.G. Capital *Miami, FL*	20.0	15%e	Dyal Capital Partners III	675e	Structured as an evergreen fund so as to side-step the "exit" issue, Neuberger Berman's Dyal Capital Partners III, a $4+ billion fund expected to close at year end 2016, has already made five minority investments in private equity managers of which this is the largest.
EnTrust Capital *New York, NY*	12.0	100%	Legg Mason	675e	Legg Mason doubles down on its prior investments in Permal Group (2005) and Fauchier Partners (2013) by combining them with Gregg Hymowitz's EnTrust Capital forming the industry's fifth largest fund of hedge funds company. Mr. Hymowitz received $400 million and 35% of the combined EnTrustPermal.
Clarion Partners *New York, NY*	40.0	83%	Legg Mason	585	Legg Mason gets a premier US direct real estate investment platform while private equity investor, Lightyear Capital, exits its position after supporting management's $100 million buyout from ING Group in 2011.

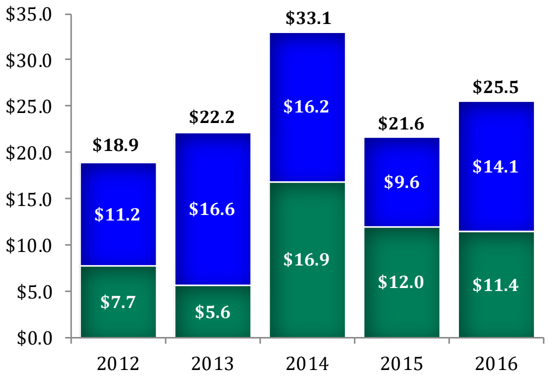
e: Indicates estimate

PIONEER LEADS THE WAY

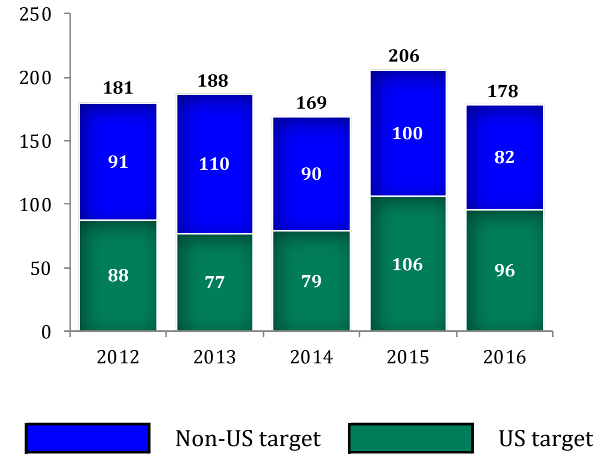
In the largest consolidation, and indeed the largest transaction in the industry, Amundi announced in December 2016 that it had at last won the hand of UniCredit's asset management subsidiary, Pioneer Investments, after an earlier bid was blocked by Italian regulators in 2011. Also blocked by regulatory complications, a merger between Pioneer Investments and Santander Asset Management announced in 2015 fell apart a year later. Assuming the Amundi - Pioneer transaction actually closes, UniCredit will breathe a huge sigh of relief as its regulatory capital shortfall has become more urgent since it first put Pioneer on the market in 2010 and, at a valuation of 11.4 times 2016 estimated EBITDA, the cash consideration of $3.7 billion gives the Italian bank a substantial capital gain.

Buoyed by a ten-year distribution agreement with UniCredit, cost savings estimated at $160 million per year, cross-selling synergies of $30 million per year and significant strengthening of Amundi's presence in Austria, Germany, Italy and the US, Amundi's bid outgunned its rivals, in particular an Italian consortium of Poste Italiano, Anima Holdings and CDP, and this time around the Italian authorities are not expected to object. Undoubtedly, resolving UniCredit's dire financial position is of paramount consideration but the fact that its new CEO had previously led the divestiture of Société Générale Asset Management and its combination with Crédit Agricole Asset Management to form Amundi could not have hurt Amundi's chances either.

Announced Transaction Volume
($ in billions)



Announced Transaction Count



1. *Excludes transactions below $200 million AUM*
2. *2015 has been adjusted to exclude the announced Pioneer-Santander Asset Management combination which subsequently failed*

While Pioneer Investments' combination with Amundi to form a $1.4 trillion European asset management leader was the largest consolidation transaction in the industry, its announcement after the twists and turns of a six-year sale saga can hardly be considered unanticipated.

Not so Henderson Group's bold acquisition of Janus Capital Group, whose announcement in October 2016 raised a flurry of speculation as to which other groups might enter into such "defensive" consolidations. Billed as a merger of equals using an exchange rate based on the average stock prices of the two companies over the prior 30 days, the two companies had a high degree of complementarity in products and geographical distribution -- Janus' strengths in US equities and fixed income in the US and Japan fitting neatly with Henderson's strengths in global and European equities, global fixed income and alternatives in the UK and Europe. The rationale for the transaction can be seen in the estimated $110 million annual cost synergies (equivalent to 15% of combined EBITDA) and an "ambition" to deliver two to three percentage points of additional net new money from cross-selling each other's products. Dai-ichi Life Insurance Company, Janus's 9% shareholder, clearly likes the transaction, promising to increase its ownership stake in the combined company to 15%.

In the long term, increased sales growth will have a more powerful impact on bottom line than one-off cost savings but, in the short term, Amundi and Henderson's anticipated savings of 11% and 7% of operating expenses, respectively, will be the focus of the market. However, this level of savings, while providing an attractive boost to margins, could easily be overwhelmed by client defections in a poorly executed combination. It is for this reason that we do not expect a tsunami of such consolidation transactions among large firms, as few large-firm combinations will have the complementarity of a Henderson-Janus tie-up or even of an Amundi-Pioneer combination. Nevertheless, combinations between mid-sized and smaller institutional and mutual fund managers will certainly increase as a defense against the industry's headwinds. Indeed, the impact of the US Department of Labor's Fiduciary Rule scheduled for implementation in April 2017 (if not delayed or cancelled by the Trump administration) has yet to be seen in terms of actual transactions although the alarming shrinkage in wirehouse mutual fund shelf space that will result is already becoming apparent.

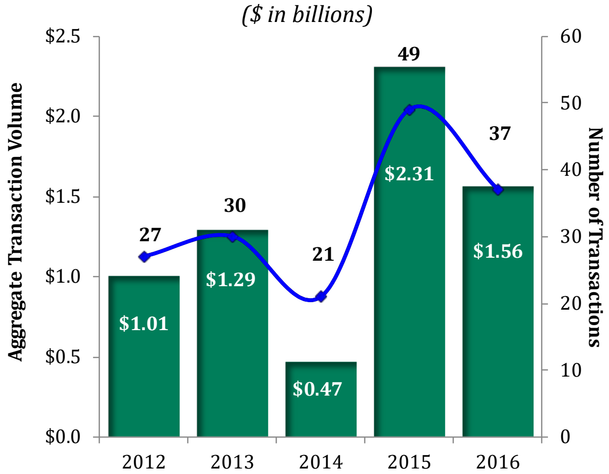
The purchase of RidgeWorth Investments by Virtus Investment Partners for $573 million announced in mid-December 2016 is just such a mid-sized combination. Anticipated cost synergies of $25 million per annum (equivalent to 6.5% of the combined cost base) reduce the 9.9 times EBITDA purchase price to 6.5 times EBITDA including cost synergies. With most of the purchase price borrowed, an additional $10.8 million in tax savings is expected annually and, as RidgeWorth is structured as a multi-boutique which Virtus does not intend to change, the risk of integration-driven client defections should be minimal.

CONSOLIDATION IN PRIVATE WEALTH MANAGEMENT

Two of the top ten transactions globally were consolidations in private wealth management. The largest, the purchase of Lugano-based private bank BSI by EFG International when troubled Brazilian investment bank BTG Pactual was forced to sell, fits into the pattern of a rapidly consolidating private banking industry in Switzerland. Savings of about $190 million, or 15% of the combined cost base, are targeted by 2019. Consolidation of private banking was also seen in France where Rothschild & Co. acquired Compagnie Financière Martin Maurel.

US Wealth Management Transactions

($ in billions)



The second largest transaction was the purchase in the UK of Towry by Tilney Bestinvest for $855 million marking the passing of the baton from one private-equity backed roll-up to another. Towry, led by Palamon Capital Partners, followed a buy-and-build strategy that grew an initial £250 million AUM wealth manager acquisition in 2003 to be one of the largest independents in the UK today with £9 billion of client assets. Private equity firm Permira acquired Bestinvest with £5 billion of client assets two years ago hoping to repeat Palamon's roll-up success and, given that a series of acquisitions including Towry will bring its client assets to £20 billion, it looks likely to succeed. Consolidation of private wealth management in the UK has accelerated in the last few years following the 2013 implementation of the Retail Distribution Review (RDR) forcing adoption of a fee-for-service model and abandonment of commissions. It will be interesting to see if the implementation of the DOL's Fiduciary Rule, assuming it goes ahead, causes a similar consolidation acceleration in the US.

The number of US private wealth management transactions, at 37, was down from 2015's unusually high 49, but still shows a steady consolidation of an industry sector that remains highly fragmented. Nearly all of the transactions were sales of independent firms to a diverse group of buyers -- including aggregators (especially Focus Financial with four purchases in the first four months of the year, ahead of an August filing to go public), banks (especially community banks), other registered investment advisors and private equity.

The largest private wealth management transaction, private equity's sale of AssetMark Financial to China-based Huatai Securities for $780 million, was not typical of these transactions as AssetMark is a turnkey asset management platform

(TAMP), selling its investment solutions to financial advisors rather than directly to private clients. The next two largest transactions were capital raises of $100 million and $75 million for robo-advisors Betterment and Personal Capital, respectively. With a couple of exceptions, all other transactions in this segment were under $50 million in transaction value.

BANKS BUY BACK IN

Asset management divestitures by banks have been a European fixture ever since the financial crisis and 2016 proved no exception. UniCredit's announced sale of Pioneer Investments for $3.7 billion was the largest bank divestiture of the year, followed by BTG Pactual's $1.3 billion sale of BSI, both continuing the "forced sale" theme of the last few years. Other significant sales included Barclays Wealth Management's business in Singapore and Hong Kong to the Bank of Singapore, Raiffesen's sale of its asset management subsidiary, Vescore, to the long-time manager of its mutual funds, Vontobel, and BNP Paribas' sale of Insinger de Beaufort to KBL European Private Bankers. Noticeably, with three small exceptions, all 14 bank divestitures were outside the US and in most cases saw banks also as the counterparty. 2017 is also expected to have its share of asset management divestitures by banks with the partial sale or IPO of Deutsche Asset Management likely to head the list.

In aggregate, however, banks purchased twice as many managers as they sold in 2016. Purchase of Pioneer Investments for $3.7 billion by Amundi falls into this bucket as Crédit Agricole is Amundi's majority owner. While the price of Banco Santander's buy-back of the 50% of Santander Asset Management that it had sold to private equity in 2013 was not announced, we are estimating that it was close to $1.3 billion, also the price paid by EFG International for BSI. In the US, banks purchased ten managers, led by State Street Corporation's acquisition of GE Asset Management for up to $485 million. With most of GEAM's $100 billion assets under management accounted for by GE benefit plans and employee accounts, State Street's asset management subsidiary SSgA gets to onboard a major client beefing up both its outsourced CIO and its active management capabilities, especially in alternative, fundamental equity and fixed income strategies. This may seem at first glance a surprising acquisition given SSgA's position as the third largest index fund manager, however SSgA saw net outflows of $150 billion in 2015 even as its competitors continue to grow. The importance of scale and competitive pricing amongst index managers was further underlined in October when $21.6 billion ETF manager, Source, was put on the market by its private equity backer Warburg Pincus, having struggled to achieve profitability in its three years of ownership and with net inflows slowing.

Wells Fargo was also a buyer in 2016, prior to being handcuffed by its regulatory issues, acquiring quantitative manager Analytic Investors. Analytic had grown to $15 billion in assets on the back of its successful line-up of low volatility products from $6 billion at the time of its 2012 buy-back from Old Mutual Asset Management (OMAM). No doubt Wells is hoping to emulate the success of AQR with the purchase. Most of the other purchases were by community banks acquiring within-footprint RIAs to increase private wealth management fee income. Underlining this renewed buying interest by US banks, BNY Mellon Private Wealth made its first acquisition in five years, purchasing Atherton Lane Advisers in Menlo Park.

IMMIGRANTS WELCOME

With the eyes of the world on the US election in 2016, the number and significance of foreign purchases by US buyers was trivial but purchases of US managers by foreign buyers were substantial, as they had been for the previous two years. In terms of number of transactions, Canadian buyers retained the top spot with Fiera Capital adding two more institutional asset management purchases and IGM Financial taking a 15% stake in robo-advisor Personal Capital. However, in dollar terms, British buyers took the lead with Henderson's $2.6 billion purchase of Janus dominating the list. Newly-formed multi-boutique iM Square, based in London but backed by French investors, made minority investments in an equity manager, Polen Capital Management, and in a fixed income manager, Dolan McEniry Capital Management. Two large inbound cross-border transactions were the previously-mentioned $780 million purchase of AssetMark Financial Holdings by Huatai Securities, and the $337 million purchase of just under 10% of Legg Mason by Singapore-based holding company, Shanda Group -- in both cases providing private equity with an exit. In Legg Mason's case, it was Nelson Peltz's activist firm, Trian Fund Management, that sold, having taken a board seat in 2009 and forcing a change in Legg Mason's leadership in 2012. At the end of 2016, Shanda Group announced its intention to increase its ownership to up to 15%, taking advantage of persistent weakness in Legg Mason's share price.

ALTERNATIVES REMAIN IN DEMAND

Despite another year of weak performance and asset outflows by hedge funds in general, acquisition interest in real estate, private equity and other alternative managers remained strong, with alternative managers in aggregate accounting for approximately one-quarter of the number and volume of investment management transactions globally. In the US, purchases of minority stakes in large well known hedge and private equity fund managers by private equity funds accounted for almost as many transactions as did strategic acquirers, with Neuberger Berman's Dyal Capital Partners making four such investments, Goldman Sachs's Petershill Fund II making two investments (even as its predecessor Petershill Fund I sold a package of five minority stakes to Affiliated Managers Group) and Blackstone's Strategic Capital Holdings making one investment. Also categorized as a financial transaction, F.A.B. Partners, an investment platform with financing from Qatar's royal family, acquired CIFC Asset Management, a $14 billion senior secured loan manager. However, from a strategic perspective, Legg Mason placed the biggest bets, buying fund of hedge funds manager, Entrust Capital, and combining it with its ailing Permal Group subsidiary, and acquiring 83% of real estate manager, Clarion Partners, from Lightyear Capital and management. In another real estate manager transaction, C-III Capital Partners, a property services company, acquired Resource America, a publicly-traded manager of REITs with $22.4 billion of gross assets under management. OMAM acquired a 60% stake in Landmark Partners, a $15.5 billion secondary private equity and real estate manager after Religare decided to refocus on its home market of India and sell its 55% ownership acquired in 2010. Religare also sold its other 2010 acquisition, Northgate Capital, a $4.8 billion venture capital investor, during the year.

In the UK, GAM Holdings acquired Cantab Capital Partners, a $4 billion systematic macro manager that had suffered through several years of weak performance and asset withdrawals earlier in the decade, while Investcorp expanded its focus by acquiring 3i's $12 billion AUM debt management business (3iDM). Investcorp was able to afford the $271 million purchase price having earlier in the year sold a 20% interest to Abu Dhabi-based investment company, Mubadala Development Company. Meanwhile, Carlyle Group headed in the opposite direction, exiting majority positions in hedge fund managers acquired in a 2010 to 2014 diversification spree. Only one of these, Emerging Sovereign Group, was successful, doubling its size by the time Carlyle sold its 55% stake back to management in 2016. By contrast, commodities-focused Vermillion was dismantled after losses, fund-of-funds business Diversified Global Asset Management was closed and credit manager Claren Road Asset Management, while still 55% owned by Carlyle, is a fraction of the size it once was.

PRIVATE EQUITY IN BALANCE

Private equity investments in, and exits from, the industry have become a significant part of transactional activity -- purchases and sales in 2016 accounted for 19% and 23%, respectively, of dollar volume globally. The level of purchases is down from 2015's 27% but this should not be a surprise in a year when strategic consolidations were an important theme. In terms of purchases, Permira, Dyal Capital Partners, Shanda Group, F.A.B. Partners, and Strategic Capital Holdings were the heavy hitters while, in terms of exits, the ranking was Warburg Pincus and General Atlantic, Palamon Capital Partners, Petershill Fund I, Genstar Capital and Aquiline Capital Partners, Lightyear Capital and Trian Fund Management. We believe most of these exits were profitable but Palamon's extraordinary success in rolling up UK wealth managers stands out as a transaction that will undoubtedly attract further private equity interest to the industry.

OUTLOOK FOR 2017

An interesting question for 2017 is whether a Trump administration, and the market's reaction to it, will fundamentally impact the negative secular trends facing the industry that became all too visible in 2016. The recent market rise supports a stronger growth narrative in the US although rising US interest rates and the resulting strength in the dollar brings its own set of risks to the world economy. Emerging markets in particular may well face headwinds, particularly if capital flight is exacerbated by protectionist policies in the US. At a more granular level, assets of passive US equity vehicles now exceed 40% of all US equity fund assets while passive bond funds are not far behind, already exceeding 25% of all US bond funds. In both cases, the percentages have more than doubled in the last ten years. It is difficult to see this trend reversing even if fee reductions and a turnaround in performance by active managers are able to slow the rate of substitution. Private wealth managers are able to embrace the shift by incorporating passive strategies in their advice but active institutional and mutual fund managers do not have that luxury. With few able to build the scale needed to offer passive strategies themselves, active managers will need to react by cutting fees in vulnerable strategies, investing in less vulnerable strategies and consolidating wherever they can to reduce costs. These last two activities ensure a robust transactional environment. Consolidation of the private wealth sector will also continue at a high level, partly as it is still a highly fragmented industry with an aging ownership base, but also because the rapid rate of technological and regulatory change is squeezing smaller competitors. Compounding these problems in investment management generally, net new flows into the industry, excluding China, are projected by CaseyQuirk to slow to under 1% by 2021 versus 3.5% prior to the financial crisis. China on the other hand is projected to see as much growth as the rest of the world combined. Not surprisingly, the median EBITDA multiple for US publicly-traded asset managers at 9.0 is the lowest it has been in five years. If, as is often suggested, the first 100 days of a new presidency is the only window in which change can be effected, we should know by May how the industry's outlook has changed. Whether it has or not, the prospects for mergers and acquisitions look promising. Our best wishes to you all for 2017.