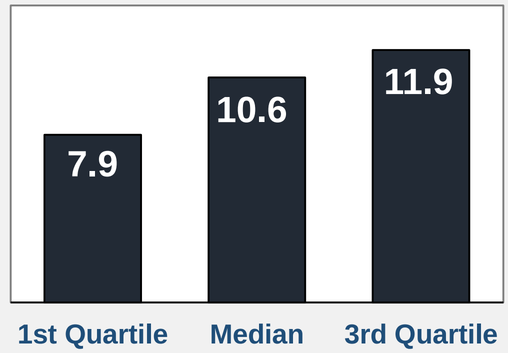
# Asset Management Industry Update

***Public Insights for Privately Held Managers | As of June 30, 2017***

Edelstein & Company's valuation team is pleased to present you with our first ever asset management industry update, with public insights geared towards privately held managers. This piece, intended to be part of an ongoing series of semi-annual updates, is inspired by our frequent work with privately held managers engaging in repurchase transactions, litigation /arbitration, management planning and compensation issues.

The insights provided in this document were sourced from the transparency of public market disclosures and related media of asset management firms reporting annual revenues ranging from approximately $7 million to $360 million. These firms represent a somewhat diverse set of players, but in reality, function in similar economic space, which may yield relevant valuation insights when examined in combination with other factors. Some privately held managers reading this might also consider some of these public firms to be quite large. Please refer to our expanded discussion on usefulness of this data, appended to the end of this document.

## EBITDA Multiples




**Median Adjusted EBITDA Margin** **32%**

| Symbol | Company Name | ($ Millions) AUM[1] | Revenue[2] | MVIC /[3] AUM | MVIC /[3] Revenue | MVIC /[3] EBITDA |
|---|---|---|---|---|---|---|
| GROW | US Global Investors, Inc. | $ 697 | $ 6.9 | 1.0% | 1.0 | NM/NR |
| ZAIS | ZAIS Group Holdings, Inc. | $ 3,360 | $ 31.9 | 1.9% | 2.0 | NM/NR |
| HNNA | Hennessy Advisors, Inc. | $ 6,636 | $ 52.6 | 2.2% | 2.8 | 5.8 |
| AINC | Ashford, Inc. | $ 6,000 | $ 67.2 | 1.7% | 1.6 | NM/NR |
| MDLY | Medley Management, Inc. | $ 5,452 | $ 72.5 | 3.0% | 2.2 | 6.9 |
| FSAM | Fifth Street Asset Management, Inc. | $ 4,536 | $ 79.1 | 6.0% | 3.4 | 9.3 |
| SAMG | Silvercrest Asset Management Group, Inc. | $ 19,300 | $ 83.0 | 1.0% | 2.4 | 10.6 |
| PZN | Pzena Investment Management, Inc. | $ 32,000 | $ 114.5 | 2.5% | 6.9 | 15.5 |
| WHG | Westwood Holdings Group, Inc. | $ 22,073 | $ 126.5 | 2.1% | 3.6 | 11.8 |
| DHIL | Diamond Hill Investment Group, Inc. | $ 20,333 | $ 140.8 | 2.9% | 4.2 | 8.9 |
| WETF | WisdomTree Investments, Inc. | $ 43,364 | $ 213.2 | 3.0% | 6.1 | 20.0 |
| VRTS | Virtus Investment Partners, Inc. | $ 48,020 | $ 322.0 | 1.4% | 2.1 | 11.6 |
| CNS | Cohen & Steers, Inc. | $ 58,514 | $ 359.9 | 3.1% | 5.0 | 12.0 |
| GBL | Gamco Investors, Inc. | $ 41,369 | $ 357.5 | 2.6% | 3.0 | 5.6 |
| | **Low** | $ 697 | $ 6.9 | 1.0% | 1.0 | 5.6 |
| | **Median** | $ 19,817 | $ 98.7 | 2.4% | 2.9 | 10.6 |
| | **Average** | $ 22,261 | $ 144.8 | 2.5% | 3.3 | 10.7 |
| | **High** | $ 58,514 | $ 359.9 | 6.0% | 6.9 | 20.0 |

**Definitions and Notes:**

"NM/NR" stands for not meaningful or not reportable.

[1] AUM as per the end of last reported quarter available at time of this publication.

[2] Revenue is calculated as the trailing twelve months as of the last reported quarter available at time of publication.

[3] MVIC stands for market value of invested capital. We have computed this as an operating valuation metric, stripping out the assumed value of any investments not specifically driven by the company revenue stream or EBITDA.

In the course of our research, we have reviewed 10-Ks, 10-Qs, earnings releases, and presentations; listened to conference call replays, and consulted other publicly available resources where possible. We have also consulted with contacts within the industry. Various insights have been summarized below.

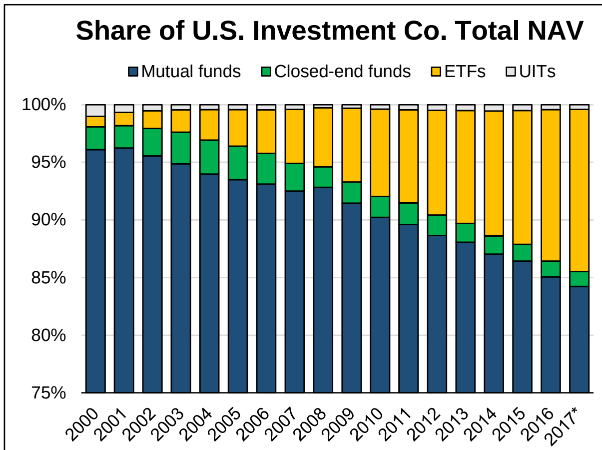
***Pressures Persist***

Managers continue to use phrases like *industry headwinds,* focusing on fee pressures and managing costs. One mutual fund manager cited a recent change to a fund in which it dropped its fees by nearly 20% and agreed to expense limitations. Another more diversified manager also noted fee pressure, and further cited pressure regarding the cost to run the business. Nevertheless, we noted a recurring theme of firms investing – for example: in their teams, technology, infrastructure, brand awareness, and pursuing growth opportunities such as product expansions, among others.

Competition runs high, particularly with respect to classic styles and strategies, but one manager nevertheless cited regularly analyzing its price points across all offerings, not just in the "classic" or "core" areas. This is perfectly rational behavior, as managers cited gains in ETF assets, outflows on account of active to passive mandates – or even one particular manager, noting that even in its more specialized areas, seeing flows to ETFs versus traditional mutual funds. For more color on these issues, just check out WisdomTree Investments CEO's significant commentary in the firm's April 28th earnings conference call, highlighted separately in the sidebar of this page (emphasis supplied).[1]

***Politics, Geography, etc…***

The last round of earnings calls also included multiple firms' commentary on the U.S. political environment – and by extension, investment in the U.S. – citing a pro-business (or pro-growth) policy focus of the new administration and potential tax reform. While there were some hints of optimism in the discussion, other observations were less optimistic about the U.S. One manager noted negative institutional net flows, most attributed to U.S. equity products. This manager cited that the largest institutional outflow was from a single European client which believed the U.S. market and U.S. dollar to be overvalued, resulting in the client selling most of its U.S. positions. Although there may be no direct link to the foregoing observation, we believe outside views on the U.S. are changing rapidly in response to the current political environment. Another U.S. verse Non-U.S. observation here – a value focused manager noted a pipeline skewed heavily towards non-US products. Active management was proffered to offer much on the global side, with one manager expecting an increasing demand for global mandates.



Sources: Investment Company Institute and Strategic Insight Simfund

* Interim 2017 based on data available up to June 30th.

## *Industry Commentary*

"The revolution[,] maybe even revolution of the asset management and wealth management industries ***is accelerating***. Several trends and market forces are converging."

"More broadly technology is changing the industry up and down the value chain. ***Historical business models and value propositions are collapsing***."

"Based on the recent pace, ***ETF flows in 2017 should exceed $500 billion***, which would be almost double last year's performance, which was our best year ever. And if the new administration is successful with tax reform and other pro-growth policies flows in 2018 should be even stronger. If the policies fall into ***place I think we should start to expect our first $1 trillion flow year all within the next few years***. This is the opportunity WisdomTree has invested against for years."

- Jonathan Steinberg
WisdomTree CEO

[1] "WisdomTree Investments' (WETF) CEO Jonathan Steinberg on Q1 2017 Results - Earnings Call Transcript." April 28, 2017. As transcribed by Seeking Alpha. www.SeekingAlpha.com .

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### Providing Valuations For

- Repurchase Transactions
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- Executive Compensation
- Management Planning
- Transaction Financing
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- Family Law Matters

***Pipeline and Search Commentary***

We noted multiple firms observing growing interest in value strategies, including a cited increase in small cap value searches, and another firm noting small cap asset inflows. A diversified global manager observed plenty of opportunity in its emerging market strategies, with multiple onsite due diligence visits and intending to increase marketing efforts going forward. The same manager saw a growing pipeline across its trust businesses. Another manager observed that institutional search activity continued to grow for all of its strategies, but particularly in infrastructure, real estate, multi-strategy real assets, and preferred securities. It was further noted that listed infrastructure was experiencing exceptionally strong institutional demand. An alternative asset manager mentioned trends and opportunities related to private credit investment opportunities on both the institutional and retail side.

Not all news was positive. Another alternative manager noted the competitive advantage of its larger competitors with respect to the origination side of private credit investment. Also, an RIA serving families and institutional clients noted a soft institutional pipeline in a low search environment.

***Transaction Highlights***

During the first half of the year, Zais Group Holdings, Inc. (ZAIS) created a committee to investigate strategic alternatives to enhance shareholder value. The Company has disclosed preliminary discussions and sharing of materials

Other managers have already completed transactions. Hennessy Advisors, Inc. (HNNA) completed a late 2016 asset purchase of certain management assets of The Westport Funds. HNNA added $435 million of AUM in the approximately $11.3 million purchase (2.6% of AUM). The acquired AUM was reorganized to a pre-existing HNNA mid cap fund.

More recently, Virtus Investment Partners, Inc. (VRTS) closed a transaction with RidgeWorth Investments on June 1, 2017, expecting to increase scale, diversify strategies, distribution, and client service. Significant financing via common and preferred equity offerings was completed during the first quarter, and additionally, VRTS lined up a term loan to close with the transaction. When announced back in late 2016, the transaction appeared to be valued at approximately 1.2% of AUM, or approximately 11.9x annualized historical EBITDA. We will be curious to update these metrics, assuming additional relevant information is disclosed in the near future.

*Appendix: A Discussion on Data Usefulness*

The guideline public company group identified on the first page of this document is generally on the smaller end of the spectrum of publicly traded asset managers. We feel the size range presented may provide useful information for privately held clients and perspective clients. Nevertheless, based on the revenue and AUM figures presented on the first page, the size of the companies identified is quite wide ranging and, to some readers, may even be viewed as much larger than the reader's firm, depending on which public company you look at. We also recognize the diversity of this set of companies, as they range from traditional mutual fund managers, to ETF managers, and even some alternative asset managers. Please allow us to bridge any potential gaps between the readers' perceptions of the presented public company group and the group's usefulness.

Business valuation is not an exact science. There are three main approaches that we generally use, and various methods that fall under these approaches. Often for valuing operating companies, the income and market approaches to valuation can provided reasonable indications of value as they yield the cumulative result of both tangible (e.g., receivables, fixed assets, etc.) and intangible (e.g., trademarks, goodwill, etc.) elements of value. A very high-level overview of the three main approaches, and the drivers of value for those approaches, is presented below:

| Income | Market | Asset |
|---|---|---|
| Performance Indications | Performance Indications | Generally, considers asset and liability values |
| Growth Profile | Growth Profile | |
| Risk Profile | Risk Profile | |

As the reader can see, the income and market approaches have conceptual overlap as to what drives value. It is because we can examine differences in performance indicators, growth, and risk profiles between groups of public companies (i.e., a subset of market approach data) and a valuation subject company, that we can often use a set of data such as the one presented above, to support a meaningful analysis.

As a hypothetical example, one may note differences between the market data and the subject company and conclude that the subject company's value indication should be based off a 10% discount off the median public company data point from the dataset. Perhaps this is driven by observations that the public company set is generally larger, more diversified (read: less risky) and have better expected growth prospects. Again, this is strictly one hypothetical example.

In summary, if you feel some of the public companies presented are relatively large by comparison to your firm, the data presented on the first page of this document can still provide meaningful data points in valuing your firm. Nevertheless, we will conclude this discussion with a caveat: the usefulness of the data will depend on the specific facts and circumstances of your firm's valuation matter, and such data should not be substituted for separate independently obtained data, professional advice, and judgment.