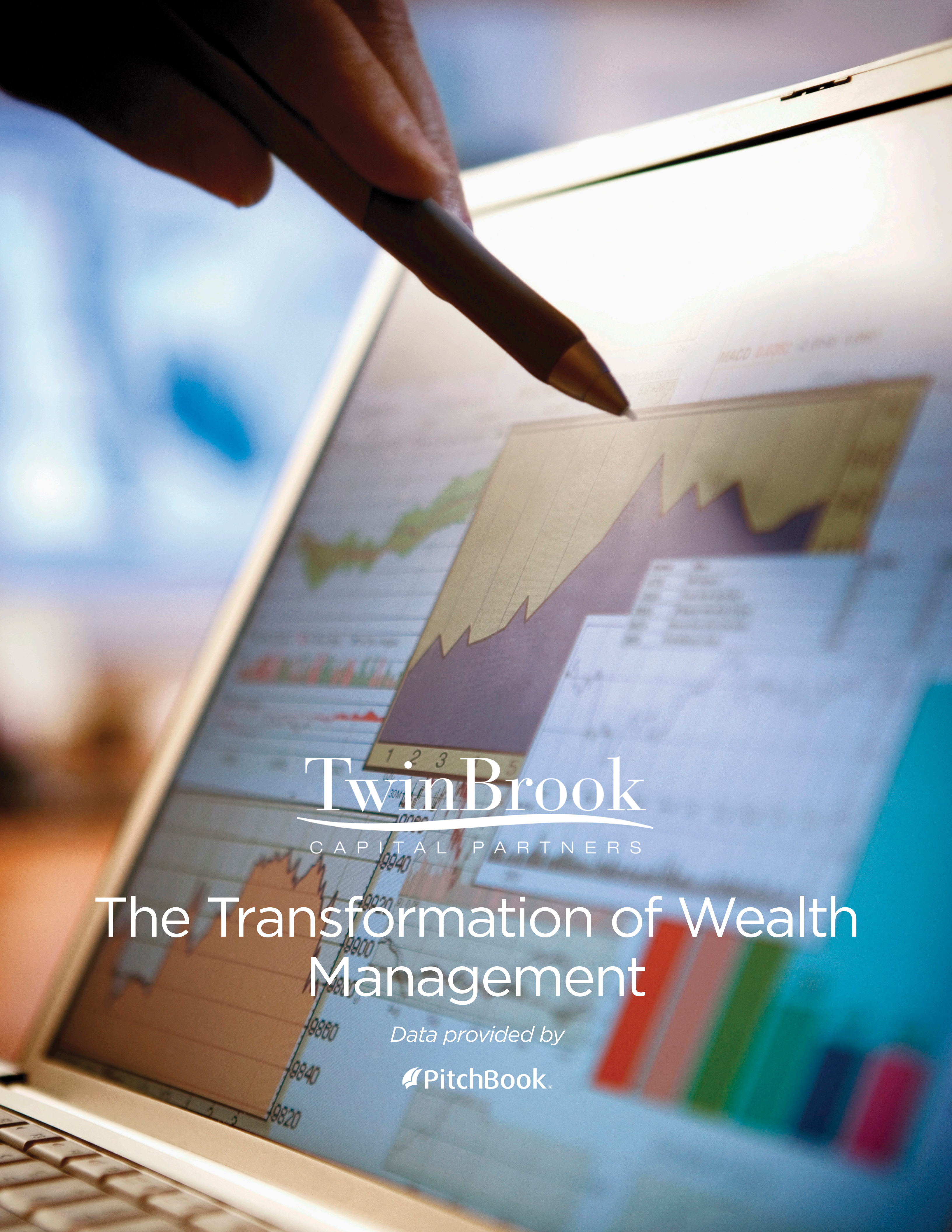

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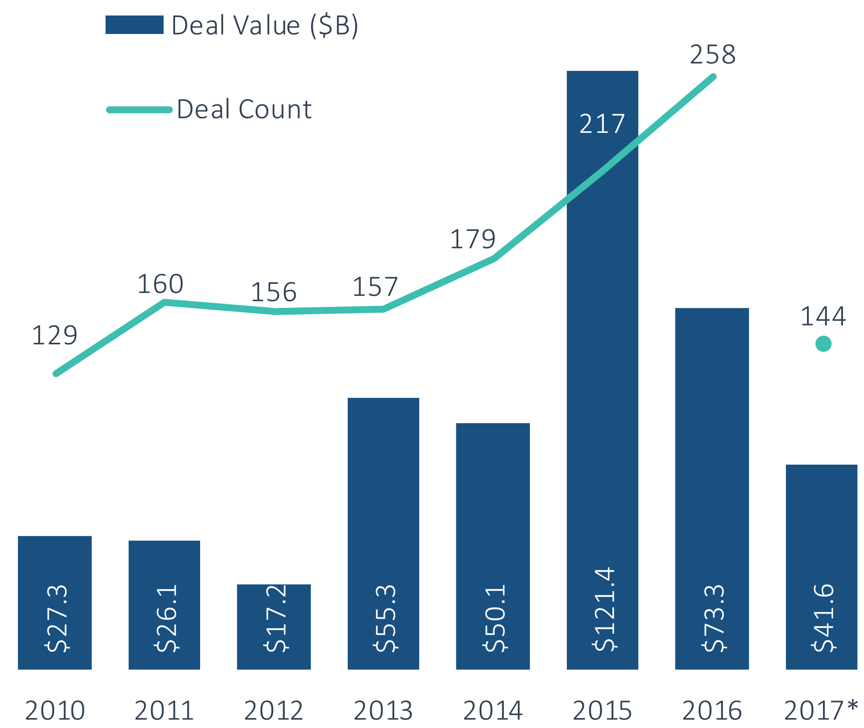
The Transformation of Wealth Management

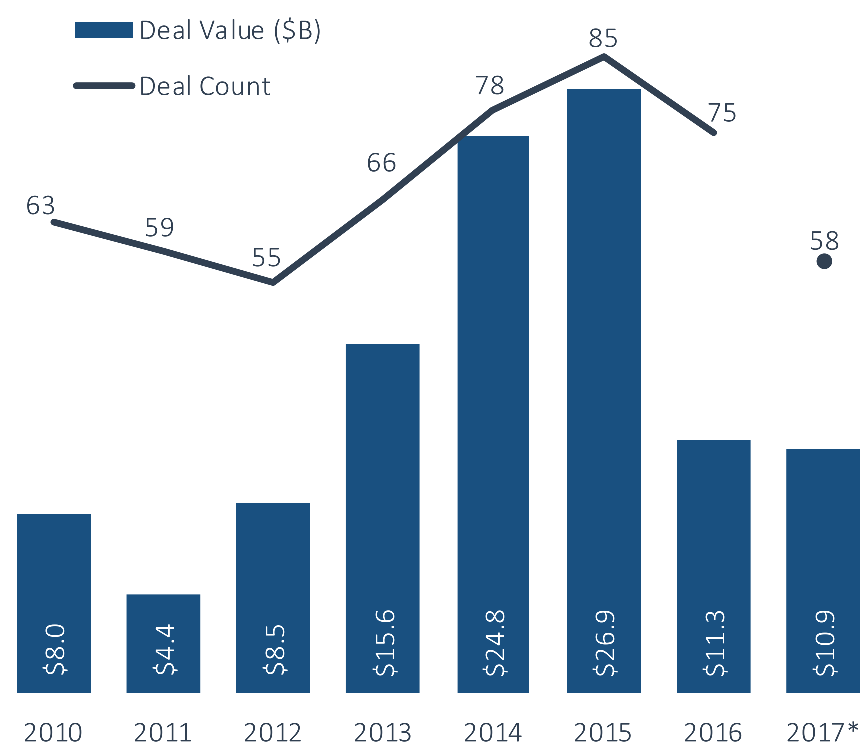
Data provided by

PitchBook

The asset management industry is still undergoing a sea change
M&A activity in asset management



Skewed by outliers in deal value, PE activity is evening out
PE activity in asset management



Source: PitchBook
*As of 10/9/2017

The ongoing shift toward independence

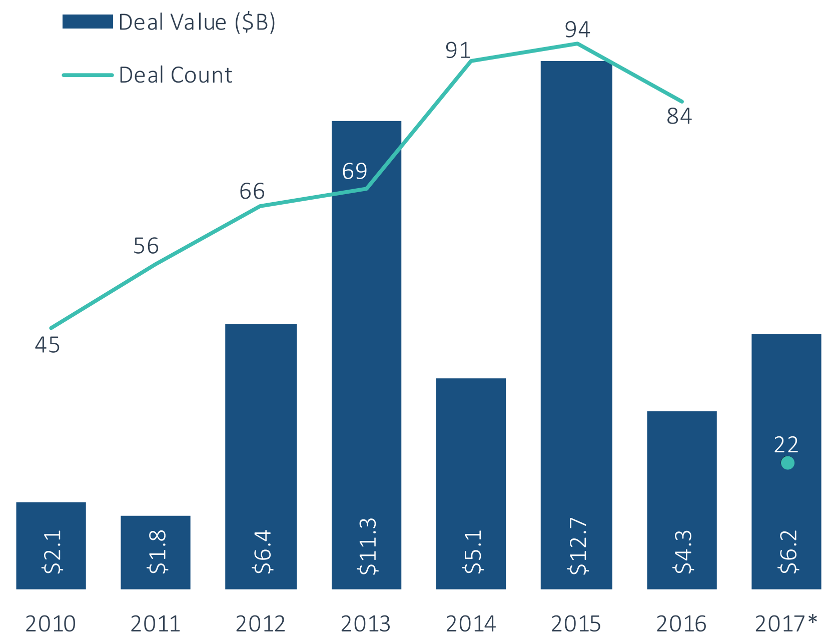
Context is critical when it comes to analyzing the ongoing shift away from wirehouses to independent broker-dealers and registered investment advisors (RIAs). The broader asset management space—and consequently wealth management in particular—has been transformed significantly in the past decade. As venture-backed startups began to offer more user-friendly interfaces armed with innovative features such as robo-advisors, so too did passive investing become increasingly popular. Both in tandem have helped transform asset management overall, as more customers began seeking lower-cost and increasingly bespoke options as well as greater ownership or at the least independence. Meanwhile, consolidation among the largest asset managers began to ramp up, with increasingly proliferating fintech tools enabling both consumers' and financial advisors' ability to strike out on their own.

These developments are mirrored in the steady rise in both mergers and acquisitions as well as standalone private equity activity between 2013 and last year. Cresting at 258 completed transactions for a total of $73.3 billion in value worldwide last year, M&A activity has diminished in volume, yet on a historical basis, aggregate value remains fairly robust. PE investing, on the other hand, has stayed relatively on pace, looking to close the year at a total deal value exceeding the full-year sum of 2016. Both of these trends align with the overall winding down of the M&A and PE cycles as the environment remains pricey in the wake of a highly active buying period. They also speak to how the industry is entering the later stages of a period of consolidation and retrenching.

That aforementioned shift toward RIAs and independent channels has also exerted greater pressure on more traditional independent broker-dealers overall, which can be further evidenced by the upsurging wave of brokerage M&A activity between 2014 and 2016. Whether it is competitive pressure from RIAs or the difficulties of complying with the parameters of the recently adopted Fiduciary Rule (however uncertain its future may be) and facing declining commission-based revenue from its impact, consolidation within brokerages has been on the definite upswing as of late. The impact of corporate divestitures by large wirehouses also can't be underestimated, along with demographic pressures.

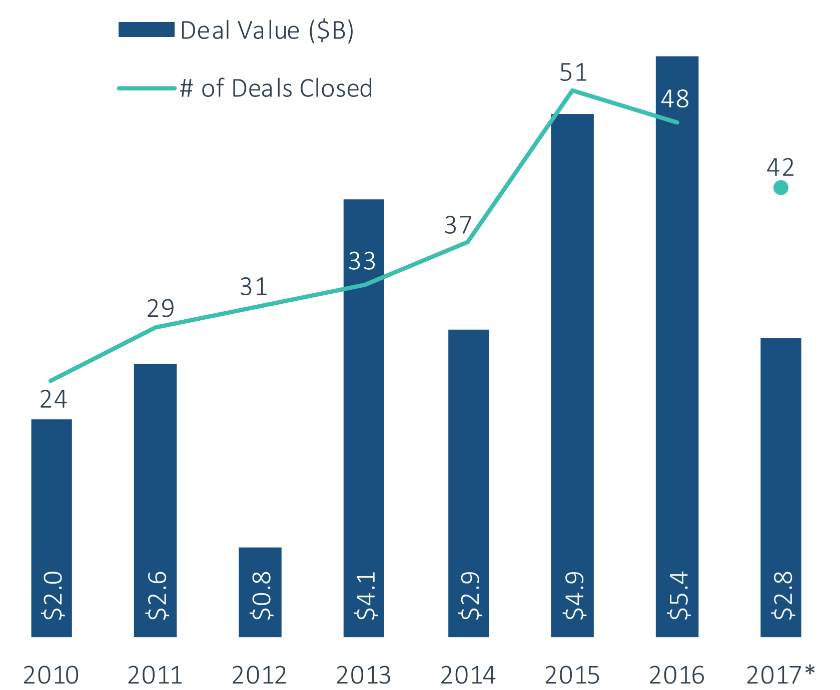
The most recent downturn in activity could be more due to most of the prime targets having already been absorbed by the largest firms as well as decreasing supply, since those brokerage owners that most eagerly desired to sell have likely already done so. Wealth managers are still seeing considerable consolidation, beset as they are by both VC-backed startups and their largest brethren.

Volume declines likely due to heightened recent levels of activity
M&A activity in brokerages



Source: PitchBook
*As of 10/9/2017

Consolidation is still on the upswing in wealth management
M&A activity in wealth management



Source: PitchBook
*As of 10/9/2017. Note: Custom parameters were used for the definition of wealth management.

About Twin Brook Capital Partners

Twin Brook Capital Partners is a finance company focused on providing cash-flow based financing solutions for the middle-market private equity community. The firm is managed by highly experienced, dedicated professionals who have successfully worked together throughout their careers at leading middle-market lending institutions. Twin Brook's flexible product suite allows for tailored financing solutions for leveraged buyouts, recapitalizations, add-on acquisitions, growth capital and other situations.
Twin Brook focuses on loans to private equity-owned companies with EBITDA between $3 million and $50 million, with an emphasis on companies with $25 million of EBITDA and below. Since inception in the fourth quarter of 2014, Twin Brook has acquired $5.6 billion of committed capital, closed 114 transactions and provided total arranged commitments of over $3.2 billion.
For more information, visit www.twincp.com.

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Q&A: Analyzing the shift toward independent channels

Betsy Booth

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Betsy Booth joined Twin Brook in 2015 as a Vice President in the firm's middle market direct lending loan business. Prior to joining Twin Brook, Betsy was at Ares Management LLC where she underwrote senior debt and unitranche credit facilities supporting PE-backed transactions primarily in the middle market space across a variety of industries. Previously, Betsy was with Madison Capital Funding LLC where she underwrote and managed senior credit facilities supporting middle-market PE transactions, managing all aspects of the underwriting process including loan structuring, due diligence and financial modeling as well as legal documentation and negotiation. Prior to Madison, Betsy held a number of positions at MB Financial Bank, N.A., including credit analyst, portfolio manager and new business development. Betsy received a B.S. in Finance from the University of Illinois, Urbana-Champaign.

Could you give us an overview of the current wealth management landscape and models available to individuals? What key features differentiate the latter?

The current wealth management industry offers a variety of options for individual investors. In our view, the three primary models to best analyze this landscape include wirehouses, independent broker-dealers (IBDs) and registered investment advisors (RIAs). A key differentiating feature between the major wirehouses and the latter two is, of course, independence, or rather employee status. The term "wirehouse" is a bit archaic—to be clear, it refers to investment advisors who are actual employees of a firm that typically provide access to proprietary products. Within the independent channel, RIAs and IBDs have more freedom to advise on a range of products that they deem suitable for their clients. As for the disparities between RIAs and IBDs, it's easiest to break down by regulatory classification. The Securities and Exchange Commission (SEC) regulates RIAs, holding advisors responsible for putting client interests ahead of their own. In contrast, IBDs are members of the self-regulated Financial Industry Regulatory Authority (FINRA), and consequently owe a duty of fair dealing to their clients. To illustrate, RIAs who have a conflict of interest must fully disclose that conflict to investors or eliminate it, while IBDs are required only to disclose material conflicts of interest when recommending investments. Essentially RIAs tend to be held to higher standards.

Let's discuss the continued shift away from wirehouses toward the RIA and independent broker-dealers. What do you think is driving that trend?

Based on our experience, there are two key drivers: first, consumers' emphasis on independent investment advice and second, advisors' desire to gain unencumbered control of the investment options offered to their clients. The concept of independence has become increasingly important to households in the wake of the financial crisis. Post-2008, some investors were concerned with a lack of transparency and potential conflict of interest for advisors affiliated with wirehouses. Conversely, in the independent channels, advisors are perceived to have fewer conflicts of interest. Additionally, the structure of the independent channel gives advisors the ability to build equity in their own businesses and ultimately retain a higher payout based on AUM.

> *"The structure of the independent channel gives advisors the ability to build equity in their own business"*

Can you run through the details of the Fiduciary Rule and its impact on the industry?

The Department of Labor Fiduciary Rule requires that financial advisors act in their clients' best interests, particularly with regard to retirement planning. Effectively, advisors cannot conceal any potential conflict of interest and must clearly disclose all fees and commissions. The timing and true efficacy of the Fiduciary Rule is still unknown with many details and depth of implementation still to be determined. Despite uncertainty, the Rule has caused downward macro-regulatory pressure and has created an inflection point for owners of smaller wealth management firms, many of which are nearing retirement—do they double down on the business and invest in technology in order to meet more stringent requirements or do they sell their business to a larger platform and create a liquidity event?

> *"The full effects of the Fiduciary Rule remain as of yet unknown"*

Has that helped drive recently increased activity in M&A in the space, particularly with regard to PE?

Based on our experience in the industry, and given our interaction with clients operating in that space, this segment represents an attractive opportunity for consolidation, due to its fragmented nature, among other factors. Circling back to my points regarding the impact of the Fiduciary Rule, when it was first proposed some time ago, there was a significant amount of uncertainty around the specifics, implementation, and long-term impact on the industry. As some of the datasets within this brief illustrate, this may have had an impact on the volume of closed transactions, as dealmakers sought to gain clarity around whether there would be material changes to their business. However, since then, we have seen activity pick up, partially driven by the new administration. PE sponsors in particular, have shown an appetite for add-on acquisitions and are likely to recognize the opportunity as consolidating fragmented industries is one of the better plays to make in this pricey environment.

What makes this industry attractive for lenders?

From a credit perspective, wealth management firms can generate high free cash flow with significant EBITDA margins, making the industry quite appealing. To look at their attributes more broadly, the general fee-based recurring-revenue model is one of the most attractive features in the market today. In addition, the large, fragmented addressable market provides avenues for growth and acquisition targets at often accretive multiples to the consolidated platform. Our clients value our relevant experience in this space, frankly, as there are plenty of nuances to consider when it comes to lending to regulated entities, such as the restrictions on collateral, implications of cash flows tied up in trusts, etc.

What do you look for when assessing a wealth management business from a debt perspective?

When comparing like opportunities in the wealth management space, we primarily look for advisor diversity and retention, diverse portfolios with a mix of equity, fixed-income and other products, as well as firms that are weighted more towards fee-based advisory models, as opposed to commission-based sales. To address the regulatory side of business, we also look for reliable technology platforms.

> *"Be sure to analyze how integration of your tech platforms and the target's will play out"*

Especially given how certain aspects of asset management are being disrupted by technical advances, what's your take on the current level of technological adaptation within the industry?

The level of adoption and implementation can vary widely within the industry. Smaller firms with, say, two to four advisors, may have less sophisticated platforms that have been used for the past 30+ years. Larger companies with broader customer bases and national footprint of advisors typically experience more pressure from users looking for superior client-interface and functionality. One very salient point to address here is that when it comes to acquisitions, given the bespoke nature of this industry and associated platforms, the ability to integrate smaller firms onto the broader platform becomes an important aspect of diligence. How easily can you migrate client functions onto your own platform without advisor and client disruption? In other words, conversion is crucial.

Experience matters.

$5.6+ Billion
committed capital

$4.1 Billion
commitments issued to date

140
closed transactions

Since 4th Quarter 2014 inception

$325M	$72M	$40M	$90M
SMILE DOCTORS BRACES	deflecto	COVERCRAFT SINCE 1965	Z-MEDICA
Sole Lead Arranger & Administrative Agent Acquisition	Sole Lead Arranger & Administrative Agent In Support of Investment by	Sole Lead Arranger & Administrative Agent Refinance & Add-On Acquisition	Sole Lead Arranger & Administrative Agent Acquisition
LINDEN	the edgewater funds	Century Park Capital Partners	LINDEN
OCTOBER 2017	SEPTEMBER 2017	SEPTEMBER 2017	SEPTEMBER 2017

$25M	$124M		
Adult & Pediatric Dermatology, PC	US Retirement & Benefits Partners	All My Sons Moving & Storage	HM Hanson McClain Advisors
Sole Lead Arranger & Administrative Agent Leveraged Buyout	Documentation Agent Recapitalization	Administrative Agent Leveraged Recapitalization	Joint Lead Arranger & Administrative Agent Leveraged Buyout
Waud Capital	Centre Partners	Sterling Investment Partners	Parthenon Capital Partners
SEPTEMBER 2017	SEPTEMBER 2017	SEPTEMBER 2017	SEPTEMBER 2017

$74.5M	$205M	$54.5M	$90M
GCS Inc.	Worley	CMP	ivyrehab Physical Therapy
Sole Lead Arranger & Administrative Agent Leveraged Buyout	Documentation Agent Recapitalization	Sole Lead Arranger & Administrative Agent Recapitalization & Add-On Acquisition	Sole Lead Arranger & Administrative Agent Add-On Acquisition
PNC Riverarch Capital	Aquiline Capital Partners LLC	Tenex Capital Management	Waud Capital
SEPTEMBER 2017	AUGUST 2017	AUGUST 2017	AUGUST 2017

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