A·A·M
ADVISORS ASSET MANAGEMENT

POWERING ADVISORY GROWTH FOR 40 YEARS

From Fixed Income Specialist to $30 Billion Distribution Partner, AAM Masters Unique Business Model to Drive Asset Growth

A·A·M
40
YEARS
1979 - 2019

www.aamlive.com

Advisors Asset Management (AAM) opened in 1979, managing and trading bonds for financial advisors who sought fixed-income investments to build client portfolios. Forty years later, AAM is a value-add distribution partner with a diverse range of carefully sourced, vetted, and supported investment solutions with nearly $30.0 billion in brokerage and advised business assets.*

While we have evolved as a firm over the years, we have never wavered from our core mission of serving financial advisors. With our unique advisor-centric service model, we work with select boutique and institutional managers to identify investment solutions that target unmet needs in client portfolios across a range of asset classes.

AAM OFFERS:

- Unit investment trusts
- Mutual funds
- Exchange-traded funds
- Managed accounts
- Fixed income & structured products
- Sales & distribution services
- Bond services
- Portfolio support
- Technological services

Our model is what sets us apart from the traditional financial services firm. We work to build well-diversified portfolios and capture strong risk-adjusted returns, but from a different entry point.

With our approach, we arm financial advisors with strategies that have largely been the domain of institutional investors, designed to stabilize and grow revenue.

As an independent firm, we have the flexibility to seek out only those managers who demonstrate the skill, passion, dedication and discipline we require for our strategic partnerships—and we conduct rigorous due diligence to determine who they are.

In addition to our in-house managers who are fully engaged in our clients' success, AAM cultivates deep ties with managers who meet our criteria, and those firms become part of the exclusive complex of long-term partners who serve the high-net-worth (HNW) advisors in our distribution network. To deliver these unique strategies to investors, we leverage a force of seasoned wholesalers who provide access to these strategies in various wrappers according to how the advisor needs to consume them.

We are no longer the singularly-focused fixed income specialist we were four decades ago. Today, we offer customized fixed income and equity portfolios for managed accounts, unit investment trusts (UITs), mutual funds, and exchange-traded funds (ETFs) intended to meet current cash flow and future capital appreciation goals, along with broad access to structured notes and market-linked CDs.

Our firm still revolves around the needs of advisors and our focus remains on the income-based products we know best.

* As of June 30, 2019, the brokerage and advised business at AAM represents approximately $29.9 billion in assets. (Assets under supervision represent $6.7 billion in UIT assets. The firm has $21.0 billion in assets under administration that represents the non-proprietary assets for which AAM provides various levels of service, but not management. The firm's $2.2 billion in assets under management represents AAM's proprietary separately managed account, mutual fund and ETF assets.)

Our model has set us on a course of rising success among advisors by freeing us to deliver a diversity of ideas. It is a model that has transformed AAM into an indispensable wealth management apparatus in our 40th year, and one we expect to power growth for 40 more.

AN UNCOMMON EVOLUTION OF A SMALL FIRM

In 2001, an income and wealth preservation company, Sterling Resources, Inc., merged with Fixed Income Securities, Inc. (FIS), and assumed the FIS name. The union of the two competing firms yielded a company with expanded trading and analytical capabilities, and a deeper expertise in diversifying income-producing portfolios. In 2008, the firm became AAM to reflect the broad array of investment vehicles it offered, beyond the bond specialty of its predecessor. The founder of Sterling Resources was a fixed-income expert named Scott Colyer, who today serves as CEO and CIO of AAM.

In the ensuing years, AAM embarked on a transformation as it built proprietary separately managed accounts (SMA) and unit investment trusts (UIT), and joined forces with boutique and institutional managers seeking retail distribution. We formed partnerships with Merrill Lynch and other issuers to sell structured products. We were appointed the successor sponsor of roughly $1.8 billion of Merrill Lynch's Defined Asset Funds, as well as Citigroup's Tax Exempt Securities Trusts assets and UBS' proprietary UIT assets, and created a unified wealth management solution on the Envestnet platform. The firm's growth trajectory continued upward from there.

AAM ASSET (AUS) GROWTH

- Grew over 20% per year since 2010
- 2018 asset management gross sales totaled $5.6 billion
- Q1 2019 asset management gross sales totaled $2.3 billion
- SMA and fund sales grew at compounded rate of 65% since 2010
- Over $17.4 billion of AAM-sponsored solutions placed in client portfolios in 2018

In 2012, AAM's High 50® Dividend Strategy Portfolio surpassed $1 billion in assets. Soon after, the firm was named to *Inc.* magazine's list of the 5000 fastest-growing companies for the fourth year in a row, ranking 160th in the financial services industry. In 2014, AAM hit the $10 billion mark in UIT assets.

We gained momentum in recent years with the addition of the $3.8 billion* Louisville, KY.-based Todd Asset Management LLC, which sought to challenge industry assumptions with its intrinsic value strategies. The $95.4 billion* Hartford Investment Management Company ("HIMCO"), the asset management arm of The Hartford Financial Services Group, Inc., also joined our roster with its highly-specialized short-duration, investment-grade expertise.

* As of June 30, 2019

Global investment manager Cohen & Steers, one of the largest real estate investment trust managers in the U.S, currently with $62.4 billion in assets under management (AUM)*, then became the portfolio consultant to several of AAM's UITs in 2016. AAM launched its first proprietary ETFs the following year, partnering with Standard & Poor's and the New York Stock Exchange.

IN 2018, AAM PARTNER BAHL & GAYNOR NAMED:

- # 1 asset gatherer by Merrill Lynch for SMAs
- # 2 asset gatherer by UBS for large cap core SMAs

Our assets under supervision (AUS) have grown every year—and by more than 20% each year since 2010. The firm placed $17.8 billion into client portfolios in 2018 alone. That same year, another one of our partners, Cincinnati-based dividend equity manager Bahl & Gaynor, was named the # 1 asset gatherer by Merrill Lynch for SMAs and the # 2 asset gatherer by UBS for large cap core SMAs. Neither our SMAs or mutual funds have ever experienced a period of net redemptions.

Now, with 250 seasoned professionals overseeing nearly $30.0 billion in AUS, AAM offers mutual funds, ETFs, SMAs, UITs, and structured solutions through advisory and brokerage platforms.

The diverse lineup is a culmination of a long history of unions with financial advisors from the largest broker/dealers, independents, boutique Registered Investment Advisors (RIA), and family offices.

FORGING EXCLUSIVE PARTNERSHIPS WITH INSTITUTIONAL ASSET MANAGERS

At AAM, our goal is not to become a large firm with a generic product lineup defined by quantity over quality. We aim to offer a distinct array of products and strategies that advisors can't get anywhere else. With our model, we identify institutional and boutique managers with the most relevant solutions for a well-constructed portfolio—ones often unavailable in the HNW advisor marketplace or overlooked by the investing populace.

The key to growth, we've learned, is sometimes knowing when to say no. To determine which firms are compatible with our organization and address a specific portfolio need for advisors, we conduct an intensive due diligence review. Only a select few meet our qualifications to become a strategic partner.

We vet firms to identify top-quartile managers with substantial institutional assets that can demonstrate a potential to grow. Our screening criteria for new products includes quantitative assessments, such as 2008 stress testing, and qualitative reviews that consider whether a firm's culture is a good fit.

* As of June 30, 2019

We want to know how strategies will react to all types of market environments in the context of a client's portfolio. Our solutions, intended as long-term allocations, typically comprise 10 to 15 percent of the portfolio. We screen to determine whether a portfolio manager's success is attributable to skill as opposed to a flip of a coin. We also like to know whether a firm is passionate about what it does, and whether it creates a supportive culture for its portfolio managers.

AAM DUE DILIGENCE CHECKLIST FOR ASSET MANAGERS

- Does product have at least a three-year track record?
- Does product have Global Investment Performance Standards-verified track record?
- Was portfolio management team fully engaged for bulk of track record?
- Was product performance in 1st or 2nd quartile over most time frames?
- Is hypothetical performance and back-testing allowed?
- Can product demonstrate institutional sales momentum?
- Has business demonstrated history of scaled growth?

Above all else, firms must demonstrate a disciplined approach to portfolio management, and a refusal to stray from their investment mandate. We pride ourselves on the access we've earned in the advisory community, and we don't take it lightly.

We know our success and continued access hinges on our ability to deliver strategies that stick to their stated process and behave as expected. We thoroughly vet managers to filter out firms that don't do what they say they're going to do, or who work outside their core competency. We want clients to understand expected behaviors so they stay committed through all market cycles. We never want to be the cause of an advisor having to inform investors that an unexpected management deviation resulted in significant asset loss.

RED FLAGS THAT DISQUALIFY MANAGER PROSPECTS

- Lack of scale
- Duplicate strategy
- Product outside core competency
- Poor product integrity
- Poor service model
- Lack of a demonstrable and repeatable process

It is our ability to stand behind the solutions we provide that keeps the doors to advisors open for us—to more than 15,000 of them. It is also the primary reason we've had such success with not only opening new accounts but adding business to existing ones.

We look for managers who have the commitment and patience to develop a retail strategy and support our distribution efforts. Success does not come overnight.

It requires regular field visits from portfolio managers and specialists, along with an intensive commitment to education. They must be willing to enter into long-term partnerships, ideally of five to seven years. We look to exclude firms exhibiting signs of a "private equity mentality," or indicating that executives may be plotting a sale in three years. Our due diligence teams also screen for liabilities that impede growth, such as poor product integrity, substandard service models, or a lack of scale.

Our flagship success story, Bahl & Gaynor, is a testament to the value of consistency and conviction. Advisors use Bahl & Gaynor solutions across their book of business because of the firm's clearly defined approach and unwavering discipline when it comes to portfolio management.

The firm, currently managing/advising $31.1 billion* in assets, has experienced dramatic growth over its nine-year partnership with us. Bahl & Gaynor makes investment decisions by consensus—through an Investment Committee comprised of 17 senior investment professionals who function as portfolio managers, research analysts, and client service contacts. The firm reports a very low turnover rate among its clients.

Other managers have fared equally well in their respective disciplines. Insight, a London-based intermediate fixed-income manager with $845 billion in AUM*, partnered with AAM to gain retail exposure in the U.S.

The institutional-facing firm has thrived with an unusually high number of analysts, arming it with an intense knowledge of credits with an analyst assigned to every issuer in the AAM/Insight Select Income Fund. Shenkman Capital, a New York-based boutique investment manager, has reported consistent outperformance and low volatility with its highly-specialized knowledge of short duration, high-yield strategies.

A WHOLESALING FORCE PRIMED FOR MAXIMUM DISTRIBUTION

AAM has one of the largest, independent privately-owned distribution teams in the country, comprised of internal and external sales consultants, product specialists, marketers, researchers, relationship managers, and due diligence experts working with major national and regional wirehouses, and more than 100 Independent Broker-Dealers (IBDs).

CRITERIA FOR A SUCCESSFUL WHOLESALER RELATIONSHIP

- Disciplined approach
- Ability to challenge assumptions
- Frequent on-site interaction
- Integrity & initiative

* As of June 30, 2019

Managers, of course, want to see their products onboarded onto platforms as expeditiously as possible to build momentum. But they are often disappointed when they attempt to handle sales internally. Many dramatically underestimate the time, effort and cost/expense required to build an infrastructure, train wholesalers, and educate advisors.

At AAM, we pursue asset managers with specialized institutional-focused strategies looking to diversify through a retail presence, and we have no shortage of firms seeking our distribution services. We build relationships with the major national and regional wirehouses, custodians, IBDs, RIAs, as well as with private banks and family offices.

Our distribution specialists create and execute the sales strategy for AAM's full suite of solutions, and direct the field activities of our national external and internal wholesaling teams. AAM removes operational hurdles and navigates the approval requirements so firms can focus on their core competency - portfolio management. Our teams include wholesaling and Private Client experts who have worked extensively in the very wealth management channels we pursue.

At AAM, we know a wholesaler must have discipline, strong relationship management skills, and in-depth product and market knowledge in order to cultivate successful advisory relationships. That is why we embrace a consultative approach. Advisors need product knowledge, but they also want their assumptions challenged with intelligent arguments and new perspectives to improve portfolio construction.

We prioritize frequent on-site interaction and maintaining a consistent branch presence, recognizing the limitations of communicating by phone. Our external wholesalers are always available for questions, and are supported by additional guidance from our internal sales team. It is a bond that deepens over time, and requires people skills as well as analytical ones.

AAM DISTRIBUTION REACH

- Over 15,000 advisors used AAM managed and advised products
- Made recent structural changes to sales force to better serve RIAs & IBDs

We train our external wholesalers to seek an intimate knowledge of advisors' businesses and to gain a comprehensive understanding of the challenges they face with their client base or with identifying investment opportunities. We cultivate relationships by listening and holding conversations that don't involve pitching products, to learn the profile of an advisor's most difficult client or obstacles that are impeding practice growth.

We also recently made structural changes to our sales force at AAM, training wholesalers to engage the IBDs and RIA community in the same way they've engaged the wirehouses. With wholesalers divided by specialty, IBDs and RIAs had only a selective view of our product suite and capabilities.

Now grouped together as a team and trained to speak about the full range of our solutions, we hope to better inform independent advisors and their clients about the breadth and depth of our offerings. With the changes, our wholesalers, both internal and external, can act as a single point of contact for all products and will be able to serve with more continuity as consultants on portfolio construction.

Building these relationships has become critical with home offices less eager to onboard new products as they continue to rationalize and eliminate strategies from platforms. It used to be more choice is better. Many products in recent years, however, have been excised, particularly mediocre ones or those lacking distribution or substantial assets. With a narrower bandwidth for product sales, we know meaningful interaction is essential to maintaining a productive relationship.

CULTIVATING THE ADVISORY RELATIONSHIP

THE AAM ADVISORY RELATIONSHIP

- Helping advisors transition to a fee-based business
- Delivering solutions in various wrappers
- Seeking a holistic understanding of advisory practice

While we are aware of benchmarks and style boxes, our primary focus is the desired outcome of the end investor.

We look for long-term core strategies, not tactical ones, that define large allocations of portfolios. AAM has also been instrumental in helping advisors transition to a fee-based business. That means a successful income growth SMA can be delivered in a mutual fund or UIT wrapper to meet the needs of smaller advisors. We provide solutions in various wrappers to support advisor needs.

Our business model means we know exactly what advisors are searching for in a given environment to meet the needs of their clients. While they may not be interested in a recently launched fund or another large cap core manager, they may be interested in particular social impact strategy or an established high-yield manager. It means knowing how a solution will interplay with a portfolio overall, and how volatility and the risk/return profile could potentially unfold. It also means evolving our role as wholesalers to respond to an increased demand for education and portfolio management interaction as home office research groups and product teams have been downsized to seek margin.

At AAM, we've stayed independent for a reason. We began as fixed-income specialists founded to equip advisors with a vital service they couldn't get anywhere else. Over time, we developed an acute sense of advisor needs as we learned how to build better portfolios in every type of market environment. And we're glad we did. AAM has embarked on its own momentum, canvassing the institutional landscape to discover pockets of highly-specialized expertise and mobilizing a powerful distribution force to deliver the select strategies we extract from them.

AAM began as an engine fueling advisors' businesses 40 years ago and will be powering them for many years to come.

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