

STIFEL FINANCIAL CORP  
Form 10-K  
February 20, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	43-1273600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

501 North Broadway, St. Louis, Missouri 63102-2188

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.15 par value per share	New York Stock Exchange Chicago Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Chicago Stock Exchange
6.25% Non-Cumulative Preferred Stock, Series A	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes      No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.      Yes      No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("the Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.      Yes      No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).      Yes      No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

The aggregate market value of the registrant's common stock, \$0.15 par value per share, held by non-affiliates of the registrant as of the close of business on June 30, 2018, was \$3.8 billion.<sup>1</sup>

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The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on February 15, 2019 was 71,878,667.

<sup>1</sup>In determining this amount, the registrant assumed that the executive officers and directors of the registrant are affiliates of the registrant. Such assumptions shall not be deemed to be conclusive for any other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the annual meeting of shareholders, to be filed within 120 days of our fiscal year ended December 31, 2018, are incorporated by reference in Part III hereof.

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## STIFEL FINANCIAL CORP.

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## PART I

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic, political, regulatory, and market conditions, the investment banking and brokerage industries, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under “Risk Factors” in Item 1A as well as those discussed in “External Factors Impacting Our Business” included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this report.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

### ITEM 1. BUSINESS

Stifel Financial Corp. is a Delaware corporation and a financial holding company headquartered in St. Louis. We were organized in 1983. Our principal subsidiary is Stifel, Nicolaus & Company, Incorporated (“Stifel”), a full-service retail and institutional wealth management and investment banking firm. Stifel is the successor to a partnership founded in 1890. Our other subsidiaries include Century Securities Associates, Inc. (“CSA”), an independent contractor broker-dealer firm; Keefe, Bruyette & Woods, Inc. (“KBW”), and Miller Buckfire & Co. LLC (“Miller Buckfire”), broker-dealer firms; Stifel Nicolaus Europe Limited (“SNEL”), our European subsidiary; Stifel Bank & Trust and Stifel Bank (collectively “Stifel Bancorp”), retail and commercial banks; Stifel Trust Company, N.A. and Stifel Trust Company Delaware, N.A. (collectively, “Stifel Trust”), our trust companies; and 1919 Investment Counsel, LLC and Ziegler Capital Management, LLC (“ZCM”), asset management firms. Unless the context requires otherwise, the terms “the Company,” “our company,” “we,” and “our,” as used herein, refer to Stifel Financial Corp. and its subsidiaries.

With a 128-year operating history, we have built a diversified business serving private clients, institutional investors, and investment banking clients located across the country. Our principal activities are:

- Private client services, including securities transaction and financial planning services;
- Institutional equity and fixed income sales, trading and research, and municipal finance;
- Investment banking services, including mergers and acquisitions, public offerings, and private placements; and
- Retail and commercial banking, including personal and commercial lending programs.

Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional, and corporate clients quality, personalized service, with the theory that if we place clients’ needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the nation’s leading wealth management and investment banking firms.

We have grown our business both organically and through opportunistic acquisitions. Over the past several years, we have grown substantially, primarily by completing and successfully integrating a number of acquisitions, including our acquisition of the capital markets business of Legg Mason (“LM Capital Markets”) from Citigroup in December 2005 and the following acquisitions:

- Ryan Beck Holdings, Inc. (“Ryan Beck”) and its wholly owned broker-dealer subsidiary, Ryan Beck & Company, Inc. – On February 28, 2007, we closed on the acquisition of Ryan Beck, a full-service brokerage and investment banking

firm with a strong private client focus, from BankAtlantic Bancorp, Inc.

First Service Financial Company (“First Service”) and its wholly owned subsidiary, FirstService Bank – On April 2, 2007, we completed our acquisition of First Service, and its wholly owned subsidiary FirstService Bank, a St. Louis-based Missouri commercial bank. Upon consummation of the acquisition, we became a bank holding company and a financial holding company, subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. First Service now operates as Stifel Bank & Trust.

Butler, Wick & Co., Inc. (“Butler Wick”) – On December 31, 2008, we closed on the acquisition of Butler Wick, a privately held broker-dealer which specialized in providing financial advice to individuals, municipalities, and corporate clients.

UBS Financial Services Inc. – During the third and fourth quarters of 2009, we acquired 56 branches from the UBS Wealth Management Americas branch network.

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- **Thomas Weisel Partners Group, Inc. (“TWPG”)** – On July 1, 2010, we acquired TWPG, an investment bank focused principally on the growth sectors of the economy, including technology and health care. This acquisition expanded our investment banking presence on the west coast of the United States.
- **Stone & Youngberg LLC (“Stone & Youngberg”)** – On October 1, 2011, we acquired Stone & Youngberg, a leading financial services firm specializing in municipal finance and fixed income securities. Stone & Youngberg’s comprehensive institutional group expanded our public finance, institutional sales and trading, and bond underwriting, particularly in the Arizona and California markets, and expanded our Private Client Group.
- **Miller Buckfire** – On December 20, 2012, we acquired Miller Buckfire, an investment banking firm. Miller Buckfire provides a full range of investment banking advisory services, including financial restructuring, mergers and acquisitions, and debt and equity placements.
- **KBW, Inc. (“KBW”)** – On February 15, 2013, we acquired KBW, an investment banking firm with a focus in the banking, insurance, brokerage, asset management, mortgage banking, real estate, and specialty finance sectors. KBW maintains industry-leading positions in research, corporate finance, mergers and acquisitions, as well as sales and trading in equities and debt securities of financial services companies.
- **Fixed Income Sales and Trading Business From Knight Capital** – On July 1, 2013, we completed the acquisition of the U.S. institutional fixed income sales and trading business and the hiring of the European institutional fixed income sales and trading team from Knight Capital Group, Inc. The combined teams of sales and trading professionals in the U.S. and Europe cover high-yield and investment-grade corporate bonds, asset-backed and mortgage-backed securities, loan trading, and emerging markets, as well as fixed income research in selected sectors and companies.
- **Acacia Federal Savings Bank** – On October 31, 2013, Stifel Bank completed its acquisition of Acacia Federal Savings Bank, a federally chartered savings institution.
- **ZCM** – On November 30, 2013, we acquired ZCM, an asset management firm that provides investment solutions for institutions, mutual fund sub-advisory clients, municipalities, pension plans, Taft-Hartley plans, and individual investors.
- **De La Rosa, & Co. (“De La Rosa”)** – On April 3, 2014, we acquired De La Rosa, a California-based public finance investment banking boutique. The addition of the De La Rosa team strengthened our company’s position in a number of key underwriting markets in California.
- **Oriel Securities (“Oriel”)** – On July 31, 2014, we completed the acquisition of Oriel, a London-based stockbroking and investment banking firm. The combination of our company and Oriel has created a significant middle-market investment banking group in London, with broad research coverage across most sectors of the economy, equity and debt sales and trading, and investment banking services.
- **1919 Investment Counsel, formerly known as Legg Mason Investment Counsel & Trust Co., National Association** – On November 7, 2014, we completed the acquisition of 1919 Investment Counsel, an asset management firm and trust company that provides customized investment advisory and trust services, on a discretionary basis, to individuals, families, and institutions throughout the country.
- **Merchant Capital, LLC (“Merchant Capital”)** – On December 31, 2014, we acquired Merchant Capital, a public finance investment banking firm headquartered in Montgomery, Alabama, which serves the Southeastern market. The strategic combination of Stifel and Merchant Capital strengthened our company’s position in several key underwriting markets in the Southeast.
- **Sterne Agee Group, Inc. (“Sterne Agee”)** – On June 5, 2015, we completed the purchase of all of the outstanding shares of common stock of Sterne Agee, a financial service firm that offers comprehensive wealth management and investment service to a diverse client base including corporations, municipalities, and individual investors. On July 1, 2016, we completed the sale of Sterne Agee’s legacy independent brokerage and clearing businesses pursuant to two separate stock purchase agreements dated June 24, 2016.
- **Barclays Wealth and Investment Management (“Barclays”)** – On December 4, 2015, we completed the purchase of the Barclays Wealth and Investment Management, Americas franchise in the U.S.
- **Eaton Partners, LLC (“Eaton Partners”)** – On January 4, 2016, we completed the acquisition of Eaton Partners, a global fund placement and advisory firm.
- **ISM Capital LLP (“ISM”)** – On May 3, 2016, we completed the acquisition of ISM, an independent investment bank focused on international debt capital markets. The acquisition of ISM increased our company’s debt capital markets origination, sales, and research capabilities.





City Securities Corporation (“City Securities”) – On January 3, 2017, we completed the acquisition of City Financial Corporation and its wholly owned subsidiary, City Securities, an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest.

Ziegler Wealth Management (“Ziegler”) – On March 19, 2018, we completed the acquisition of Ziegler, a privately held investment bank, capital markets and proprietary investments firm.

Business Bancshares, Inc. (“BBI”) – On August 31, 2018, we completed the acquisition of BBI, and its wholly owned subsidiary, The Business Bank of St. Louis, a full-service banking facility. Upon the closing of the transaction, the Business Bank of St. Louis was renamed “Stifel Bank” and Business Bancshares, Inc. was renamed “Stifel Bancorp, Inc.” Stifel Bancorp is the holding company for Stifel Bank & Trust, and its wholly owned subsidiaries, and Stifel Bank.

Rand Associates (“Rand”) – On October 1, 2018, the Company completed the acquisition of Rand, an independent investment adviser that provides comprehensive wealth management and investment counsel services to individuals, families, and institutions.

#### Business Segments

We operate in the following segments: Global Wealth Management, Institutional Group, and Other. For a discussion of the financial results of our segments, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis.”

#### Narrative Description of Business

As of December 31, 2018, we employed over 7,500 associates, including 2,301 financial advisors, of which 101 are independent contractors. Through our broker-dealer subsidiaries, we provide securities-related financial services to customers from the United States and Europe. Our customers include individuals, corporations, municipalities, and institutions. We have customers throughout the United States, with a growing presence in the United Kingdom and Europe. No single client accounts for a material percentage of any segment of our business. Our inventory, which we believe is of modest size and intended to turn over quickly, exists to facilitate order flow and support the investment strategies of our clients. The inventory of securities held to facilitate customer trades and our market-making activities is sensitive to market movements. Furthermore, our balance sheet is highly liquid, without material holdings of securities that are difficult to value or remarket. We believe that our broad platform, fee-based revenues, and strong distribution network position us well to take advantage of current trends within the financial services sector.

#### GLOBAL WEALTH MANAGEMENT

We provide securities transaction, brokerage, and investment services to our clients through the consolidated Stifel branch system. We have made significant investments in personnel and technology to grow the Private Client Group over the past eleven years.

#### Consolidated Stifel Branch System

At December 31, 2018, the Private Client Group had a network of 2,200 financial advisors located in 369 branch offices in 45 states and the District of Columbia. In addition, we have 101 independent contractors.

Our financial advisors provide a broad range of investments and services to our clients, including financial planning services. We offer equity securities; taxable and tax-exempt fixed income securities, including municipal, corporate, and government agency securities; preferred stock; and unit investment trusts. We also offer a broad range of externally managed fee-based products. In addition, we offer insurance and annuity products and investment company shares through agreements with numerous third-party distributors. We encourage our financial advisors to pursue the products and services that best fit their clients’ needs and that they feel most comfortable recommending. Our private clients may choose from a traditional, commission-based structure or fee-based money management programs. In most cases, commissions are charged for sales of investment products to clients based on an established commission schedule. In certain cases, varying discounts may be given based on relevant client or trade factors determined by the

financial advisor.

Our independent contractors, who operate in our CSA business, provide the same types of financial products and services to its private clients as does Stifel. Under their contractual arrangements, these independent contractors may also provide accounting services, real estate brokerage, insurance, or other business activities for their own account. Independent contractors are responsible for all of their direct costs and are paid a larger percentage of commissions to compensate them for their added expenses. CSA is an introducing broker-dealer and, as such, clears its transactions through Stifel.

#### Customer Financing

Client securities transactions are effected on either a cash or margin basis. When securities are purchased on a margin basis, the customer deposits less than the full cost of the security in their account. We make a loan to the customer for the balance of the purchase price. Such loans are collateralized by the purchased securities. The amounts of the loans are subject to the margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Financial Industry Regulatory Authority, Inc. ("FINRA") margin requirements, and our internal policies, which usually are more restrictive than Regulation T or FINRA

requirements. In permitting customers to purchase securities on margin, we are subject to the risk of a market decline, which could reduce the value of our collateral below the amount of the customers' indebtedness.

We offer securities-based lending through Stifel Bancorp, which allows clients to borrow money against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying marketable securities or refinancing margin debt. The loan requirements are subject to Regulation U of the Board of Governors of the Federal Reserve System ("Regulation U") and our internal policies, which are typically more restrictive than Regulation U. We establish approved lines and advance rates against qualifying securities and monitor limits daily and, pursuant to such guidelines, require customers to deposit additional collateral or reduce debt positions, when necessary. Factors considered in the review of securities-based lending are the amount of the loan, the degree of concentrated or restricted positions, and the overall evaluation of the portfolio to ensure proper diversification, or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies. Underlying collateral for securities-based loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis, and an evaluation of industry concentrations.

### Asset Management

Our asset management business offers specialized investment management solutions for institutions, private clients, and investment advisors. Revenues for this segment are primarily generated by the investment advisory fees related to asset management services provided for individual and institutional investment portfolios, along with mutual funds. Investment advisory fees are earned on assets held in managed or non-discretionary asset-based programs. These fees are computed based on balances either at the beginning of the quarter, the end of the quarter, or average daily assets. Fees from private client investment portfolios and institutional fees are typically based on asset values at the end of the prior period. Asset balances are impacted by both the performance of the market and sales and redemptions of client accounts/funds. Rising markets have historically had a positive impact on investment advisory fee revenues as existing accounts increase in value, and individuals and institutions may commit incremental funds in rising markets. No single client accounts for a material percentage of this segment's total business.

### Stifel Bancorp

In April 2007, we completed the acquisition of First Service, a St. Louis-based full-service bank, which now operates as Stifel Bank & Trust. On August 31, 2018, the Company completed the acquisition of BBI and its wholly owned subsidiary, The Business Bank of St. Louis, a full-service banking facility with approximately \$600.0 million in assets that operates from a single location. The Business Bank of St. Louis now operates as Stifel Bank. Business Bancshares, Inc., which operates as the holding company for Stifel Bank & Trust, and its wholly owned subsidiaries, and Stifel Bank (collectively "bank subsidiaries") was renamed "Stifel Bancorp, Inc." Our bank subsidiaries are reported in the Global Wealth Management segment. We have grown retail and commercial bank assets from \$145.6 million on the acquisition date to \$17.8 billion at December 31, 2018. Through our bank subsidiaries, we offer retail and commercial banking services to private and corporate clients, including personal loan programs, such as fixed and variable mortgage loans, home equity lines of credit, personal loans, loans secured by CDs or savings, and securities-based loans, as well as commercial lending programs, such as small business loans, commercial real estate loans, lines of credit, credit cards, term loans, and inventory and receivables financing, in addition to other banking products. We believe our bank subsidiaries not only help us serve our private clients more effectively by offering them a broader range of services, but also enable us to better utilize our private client cash balances held which are swept to our bank subsidiaries, which is their primary source of funding.

### INSTITUTIONAL GROUP

The Institutional Group segment includes research, equity and fixed income institutional sales and trading, investment banking, public finance, and syndicate.

## Research

Our research department publishes research across multiple industry groups and provides our clients with timely, insightful, and actionable research, aimed at improving investment performance.

## Institutional Sales and Trading

Our equity sales and trading team distributes our proprietary equity research products and communicates our investment recommendations to our client base of institutional investors, executes equity trades, sells the securities of companies for which we act as an underwriter, and makes a market in securities. In our various sales and trading activities, we take a focused approach to serving our clients by maintaining inventory to facilitate order flow and support the investment strategies of our institutional fixed income clients, as opposed to seeking trading profits through proprietary trading. Our equity sales and trading teams are located in various cities in the United States, as well as Geneva, Zurich, London, and Madrid.

The fixed income institutional sales and trading group is comprised of taxable and tax-exempt sales departments. Our institutional sales and trading group executes trades with diversification across municipal, corporate, government agency, and mortgage-backed securities.

## Investment Banking

Our investment banking activities include the provision of financial advisory services principally with respect to mergers and acquisitions and the execution of public offerings and private placements of debt and equity securities. The investment banking group focuses on middle-market companies as well as on larger companies in targeted industries where we have particular expertise, which include real estate, financial services, healthcare, aerospace/defense and government services, telecommunications, transportation, energy, business services, consumer services, industrial, technology, and education.

Our syndicate department coordinates marketing, distribution, pricing, and stabilization of our managed equity and debt offerings. In addition, the department coordinates our underwriting participations and selling group opportunities managed by other investment banking firms.

## Public Finance

Our public finance group acts as an underwriter and dealer in bonds issued by states, cities, and other political subdivisions and acts as manager or participant in offerings managed by other firms.

## OTHER SEGMENT

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, compensation expense associated with the expensing of restricted stock awards with no continuing service requirements as a result of recent acquisitions and to actions taken by the Company in response to the Tax Regulation enacted in the fourth quarter of 2017, amortization of stock-based awards for certain administrative employees, and all unallocated overhead costs associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; and general administration and acquisition charges.

## BUSINESS CONTINUITY

We have developed a business continuity plan which is designed to permit continued operation of business-critical functions in the event of disruptions to our St. Louis, Missouri, headquarters facility as well as other critical functional areas of the firm. Several critical business functions are supported by outside vendors who maintain backup and recovery in line with our internal needs and capabilities. We periodically participate in testing of these backup and recovery functions. Likewise, the business functions we support internally can be supported without the St. Louis headquarters through a combination of redundant computer facilities in other east and west coast data centers and from certain branch locations which can connect to our third-party securities processing vendor through its primary or redundant facilities. Systems have been designed so that we can route critical processing activity and functions to alternate locations, which can be staffed with relocated personnel as appropriate.

## GROWTH STRATEGY

We believe our strategy for growth will allow us to increase our revenues and to expand our role with clients as a valued partner. In executing our growth strategy, we take advantage of the consolidation among mid-tier firms, which we believe provides us opportunities in our global wealth and institutional group segments. We do not create specific growth or business plans for any particular type of acquisition, focus on specific firms, or geographic expansion, nor do we establish quantitative goals, such as intended numbers of new hires or new office openings; however, our corporate philosophy has always been to be in a position to take advantage of opportunities as they arise, while maintaining sufficient levels of capital. We intend to pursue the following strategies with discipline:

Further expand our private client footprint in the U.S. We have expanded the number of our private client branches from 39 at December 31, 1997 to 369 at December 31, 2018, and our branch-based financial advisors from 262 to 2,200 over the same period. In addition, assets under management have grown from \$11.7 billion at December 31, 1997 to \$269.9 billion at December 31, 2018. Through organic growth and acquisitions, we have built a strong footprint nationally. Over time, we plan to further expand our domestic private client footprint. We plan on achieving this through recruiting experienced financial advisors with established client relationships and continuing to selectively consider acquisition opportunities as they may arise.

Further expand our institutional business both domestically and internationally. Our institutional equity business is built upon the premise that high-quality fundamental research is not a commodity. The growth of our business has been fueled by the effective partnership of our highly rated research and institutional sales and trading teams. We have identified opportunities to expand our research capabilities by taking advantage of market disruptions. As of December 31, 2018, our research department was ranked the largest research department, as measured by domestic equities under coverage, by StarMine. Our goal is to further monetize our research platform by adding additional institutional sales and trading teams and by placing a greater emphasis on client management.

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