2017 ELITE RIA STUDY

BLACKROCK®

IN RESEARCH

USR1117U-279541-882844

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FORWARD

Staying in front of shifting trends – something the nimble RIA tends to be good at – is critical to long-term success in our industry. I'm pleased to share with you this latest research on the Elite RIA market and the evolving business models that are tracking to the best prospects for success. In an industry landscape that continues to evolve around us, some of these trends are fast-moving targets, while others have begun to establish more enduring roots.

Among the biggest trends this year are: the importance of your brand, new technology's influence on investment process and challenges with inorganic growth strategies. These are conversations our team is having with RIAs of all sizes every day. Those firms poised for growth can continue to learn from where Elites have seen success while also employing new methods to advance.

With increasing competition from established and new entrants alike, your brand matters more than ever. The consistency, discipline and specialization employed by Elites' prove to be critical to reinforcing their brand promise in a noisy world. And having a strong brand allows them to more quickly achieve greater reach across a wider client base.

As Elites extend their targeting efforts, they are also choosing to rely more on external partners for certain investment and risk management services that complement their in-house capabilities. While our earlier studies showed Elites to be more cautious of new technology, we now see that they are growing their use of outsourcing at a faster pace and choosing platforms with a high degree of versatility.

These trends are also strongly present with "Emerging Elites," a group of firms that are embracing new ways to scale their practices and operations. Where these emerging firms haven't been scooped up by M&A (Elites tend to focus on buying these growing firms), they've been pursuing acquisitions and partnerships themselves. But who you choose to buy, or how you position your firm for purchase, also greatly impacts your prospects for success.

We'd like to thank *InvestmentNews* for their exploration of this complex and evolving ecosystem. Whether you are an established Elite, on the cusp of emerging growth or just getting started, we hope the trends captured here spark new ideas for your business. These are exciting – and challenging – times to run an advisory firm, and whatever your approach, BlackRock is dedicated to supporting you and your peers across the RIA community.

Hollie Fagan
Managing Director
Head of BlackRock's RIA Business

ACKNOWLEDGMENTS

About this research

To support this report, *InvestmentNews* distributed a survey to its audience in May-June 2017 and received 539 responses from qualified advisers. Of these, 339 were from independent financial advisory professionals who do business through an RIA. Deemed "Elite RIAs" were those firms with (a) more than $250 million in assets under management and (b) those that ranked in the 50th or higher percentile in a blended score of firm productivity metrics.

The data reported in this study were provided directly by participants to *InvestmentNews* Research, which was not engaged to and did not audit or review the information. Accordingly, InvestmentNews Research does not express an opinion or any other form of assurance on it. The data contained in this report may not be a statistically valid representation of the entire market of financial advisory firms; rather, they are representative of the firms that elected to participate in this survey.

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The mission of *InvestmentNews* Research is to provide financial advisers with the industry's most informative practice studies and benchmarking reports. Our benchmarking studies are a leading source of market intelligence for advisory firms and industry partners, such as custodians, broker-dealers, service providers and professional organizations. In 2009, InvestmentNews acquired two bellwether benchmarking studies from Moss Adams LLP — the Adviser Compensation & Staffing Study and the Financial Performance Study of Advisory Firms. We continue to improve and expand these two critical industry studies. We also have introduced new studies, such as this study on Elite RIAs, which support the growth and development of financial advisory firms.

Need more information? Contact Mark Bruno at mbruno@investmentnews.com or visit Research.InvestmentNews.com

INTRODUCTION

Since we launched the first study of Elite Registered Investment Advisers (RIAs) in partnership with BlackRock in June 2015, one consistent factor running through these annual examinations of success drivers in the advice business has been the constancy of change.

Last year, the rise of robo-advice and the role of regulation — particularly the potential impact of the Department of Labor's rule regarding fiduciary standards — led to significant changes in thinking and positioning among Elite RIAs.

This year, perhaps an even more significant change has occurred: Elite RIAs have grown so large in terms of size and scale that we are seeing a broader structural shift in the advice business. More and more "Elites" have become established brands in their regional markets, or nationally in some cases. There are many contributors to their success that all advisers can learn from, but on the whole their business models and strategies have evolved and specialized to the point that they will be challenging to replicate.

This study will identify the keys to success for the current generation of Elite RIAs. But in addition, we have also focused on a new group of "Emerging Elites" that can provide strategies to small- and mid-sized firms for non-traditional growth. In many cases, these firms rival the size and productivity levels of the Elites, but they represent a new approach to providing advice, specifically by leveraging technology and the growing number of third parties that are providing advisory firms with the ability to outsource non-core competencies or commoditized services.

As was our intent in previous studies, we hope to share insights from the analysis of Elite RIA data, which can provide clear direction on growth strategies for firms of all sizes. Specifically, we aim to shed light on the following levers of success:

- Organizational structure and branding, and how firms transition from a practice to a business that is independent of any single founder or principal.
- Client targeting and service delivery approaches that permit firms to serve a wider, and larger, client base.
- Investment management, which can be performed with greater sophistication in a variety of new ways.
- Technology that adds value to the firm and its clients.
- Organic and strategic growth, and the most common tactics firms utilize in their pursuit of each strategy.

A SNAPSHOT OF ELITE RIAs

Who are the Elite RIAs?

More than ever, Elite RIAs — the designation given by *InvestmentNews* to the top quartile of registered investment advisory firms as measured by revenue, assets under management, personnel and productivity — are in a class by themselves.

To start our analysis, we examined data from registered investment advisers or dually registered advisory firms with at least $250 million in assets under management (AUM) that scored in the 50th percentile or higher in revenue per professional (which includes partners and advisers) and revenue per staff (total firm headcount). All data were collected as of year-end 2016.

This year, our pool of $250 million-plus RIA firms increased from 48% of all RIAs in our sample to 53% — a 10% jump. As noted above, firms must first manage at least $250 million to be considered an "Elite" RIA using our methodology. As the industry grows, more and more firms are reaching that threshold for qualification. This trend was one of the driving factors in carving out a new cohort of "Emerging Elites" for this study. While the largest firms may have cemented their growth strategies and legacy in another era, how are firms that cross this threshold today managing to grow successfully?

Emerging Elites were identified by examining RIAs in our sample with AUM of at least $100 million and scoring them based on productivity, in terms of staff and professional productivity (50% weight), and by their management strategy (50% weight). Firms received points for utilizing teaming structures, having two or more specialists on staff, and pursuing inorganic growth strategies. If not already an "Elite," 63% of the RIAs in our study managing $100 million or more in AUM would qualify as an "Emerging Elite RIA."

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A SNAPSHOT OF ELITE RIAs

Emerging Elites: A New Category

With their emphasis on organization, workflows and specialization, Elite RIAs have grown to dominate the independent advisory business. They have attracted the most sought-after clients and are in a class of their own in terms of size and presence.

Entering their league has become more challenging. But our research has discovered a distinct group of firms that we have labeled “Emerging Elites.” While not yet at the level of the Elites, they outperform the median in terms of productivity, have professionalized their operations, and show strong indications of being able to grow to the next level. By many measures beyond financial ratios and firm size, this group may offer a glimpse into the business model and operations of the next generation of “Elite” firms.

From our data, here is a portrait of Emerging Elite firms:

- They are slightly smaller than their Elite cousins, but still larger than the typical firm. Like Elites, the vast majority (81.8%) of Emerging Elites use teaming in their service structure, and focus heavily on human capital strategies. One-third say that “having the right employees in the right roles” will be a top contributor to firm success.

- They are in growth mode, and if they haven’t already done so, are weighing the addition of a professional manager — a full-time administrative position such as President or COO — to their firm.

- Compared to all other firms, more Emerging Elites say they plan or would like to acquire another firm (18.6% vs. 15.6%), acquire an adviser or book of business (41.9% vs. 31.0%) or merge with another RIA firm (16.3% vs. 9.5%).

Over the next several years, many smaller firms will adopt key practices and join this new mid-level tier. Most important, many Emerging Elite firms likely will grow into Elites by turning to new technologies and investment management practices. For example, 18.0% plan to offer a robo-advice platform, the highest projected adoption rate among RIA firms, and 83.8% agreed with the statement “Technology is allowing me to deliver even more customized service and support to clients.” That demonstrates commitment to use technology to provide differentiated client service.

A SNAPSHOT OF ELITE RIAs

FIGURE 1: TALE OF THE TAPE

Metric (median values)	Elite RIAs	Emerging Elites	All others*	All participants
AUM	$750M to $1B	$250M to $500M	$100M to $150M	$150M to $200M
Revenue	$5,800,000	$2,150,000	$1,000,000	$1,300,000
Headcount	15	8	5	6
Clients	540	250	220	250
Revenue per client	$13,420	$9,500	$4,460	$5,300
Revenue per staff	$364,000	$276,389	$207,000	$234,000
Revenue per professional	$857,000	$558,334	$350,000	$419,000
% serving $5M+ clients	84%	77%	45%	49%
% serving institutional clients	66%	48%	43%	46%

* "All others" includes all firms not deemed "Elite RIAs" – including Emerging Elites.

Characteristics of the Elites

As in years past, the defining characteristic of Elite RIAs is that they are organized and structured as wealth management businesses that provide a range of financial planning and investment management services — not as large solo practices or a confederation of practitioners. These are businesses that are marked by systematic and replicable procedures and workflows that are not dependent on any one principal or employee. Equally important, clients view Elite RIAs as institutional providers of wealth management services, as opposed to the provider being an adviser or advisers supported by assistants.

In terms of metrics, the median Elite RIA firm now manages between $750 million and $1 billion in assets. This compares with median AUMs of $250 million to $500 million for Emerging Elite firms and $100 million to $150 million for all other firms.

Median revenue at the Elite firm is $5.8 million, which is 2.7 times the $2.15 million in revenue generated by the Emerging Elite firm and 5.8 times the $1 million median revenue of all other firms. To service that revenue, Elite RIAs have larger staffs, employing 15 people compared with eight at Emerging Elite firms and five at all other firms.

Elites serve 540 clients, on median, as compared with Emerging Elites, which serve 250, and all other firms, which serve a median of 220 clients. In fact, our current crop of Elite RIAs serves 48% more clients than those surveyed two years ago, finding ways to remain highly productive while going downstream to expand their client numbers. And they sacrificed little in terms of client size, with their typical client producing only 6% less revenue than last year's cohort. In last year's study, Elites reported that their future growth would see contributions from superior investment processes (21% vs. 15% of all others), effective use of technology (57% vs. 51%), and offering a breadth of services (23% vs. 13%) at higher rates than all other respondents – inter-related factors that, as we will explore in detail later, have enabled Elites to offer scalable yet differentiated service to a wider net of investors, allowing them to take on more clients.

A SNAPSHOT OF ELITE RIAs

Staffing strategies also played a major role in their ability to win more clients and serve them productively. To achieve current levels of scale, Elites are leveraging their staff with decentralized teaming structures, and are training future business developers who support accumulator clients. They are also implementing broader fee offerings with more service offerings, relying on technology to deliver those services and smooth the back-office processes behind them.

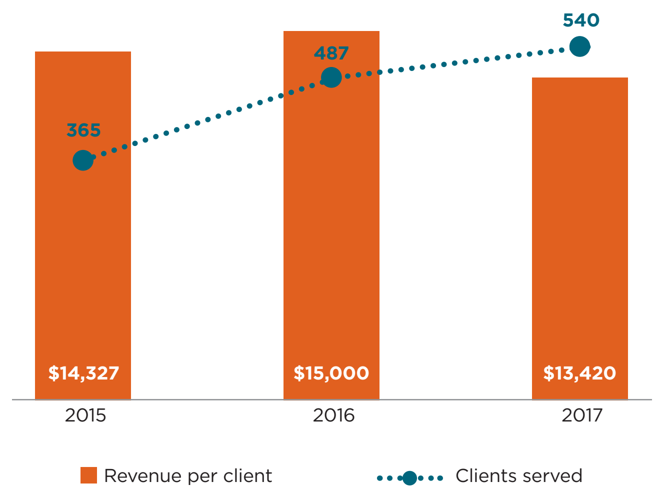
Other measures reveal similar disparities in productivity: Elite RIAs enjoy revenue per client of $13,420, revenue per staff of $364,000, and revenue per professional of $857,000. This compares with figures of $9,500, $276,389 and $558,334, respectively, for Emerging Elite firms, and $4,460, $207,000 and $350,000, respectively, for all other firms.

Staffing strategies also played a major role in Elites' ability to win more clients and serve them productively.

Strategic growth also is playing a greater role at the largest firms: on average, firms with over $250 million in AUM grew by 5% in 2016 via pure M&A activity or softer strategies such as acquiring books of business or recruiting advisers who bring business with them, according to the 2017 *InvestmentNews* Adviser Compensation & Staffing Study.

Clients of Elite RIA firms also are wealthier, with 84% serving very-high-net-worth or ultra-high-net-worth, as compared with 77% for Emerging

FIGURE 2: **ELITE RIAS SERVE 48% MORE CLIENTS THAN THOSE IN OUR 2015 STUDY, WHILE REVENUE PER CLIENT DIPPED SLIGHTLY**



Elites firms and 45% for all other firms. Emerging Elites are carving out a niche of clients in the $1-million-to-$5-million range, with 91% currently serving these clients compared to 68% of all other firms. Two-thirds (66%) of Elite RIAs serve institutional clients, compared with just under half (48%) of clients at Emerging Elite firms and 43% of clients at all other firms.

While size is the most apparent factor differentiating Elite RIAs, distinctions in five major areas truly separate Elites from other advisory businesses. Specifically, these areas involve organizational structure and branding, client targeting and service delivery, investment management, technology, and growth strategies that are both organic and strategic.

WHAT SETS ELITE RIAs APART

Organizational structure and branding

Elite RIAs have evolved into large enterprises, and have learned how to deliver consistent client service through systematized workflows, processes that are increasingly automated and back-office tasks that are being continuously streamlined. The consistency and efficiency of service delivery not only helps sustain and foster growth, but also bolsters the underlying value of the firm and helps it create a brand and reputation beyond that of any principal. This creates a virtuous circle in which efficient processes and greater enterprise value enable Elites to attract and/or acquire other RIA firms and more readily meld them into the business — propelling even further growth.

Consistency and efficiency of service delivery helps foster growth and build a brand.

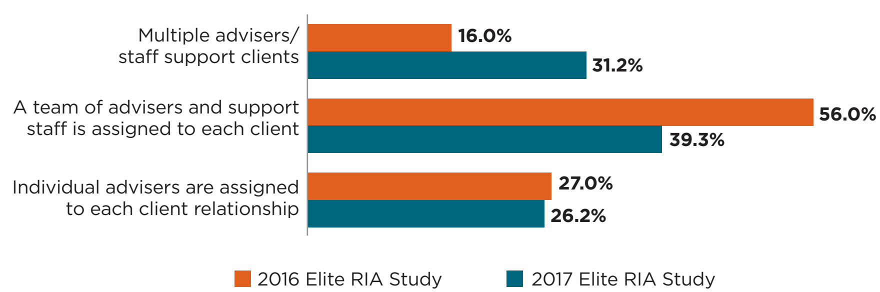
Technology is a key tool among Elite RIAs, but as we will see more fully later, the firms are not necessarily technology innovators or lavish technology spenders; instead, their strength comes from employing technology to further enterprise value and growth opportunities.

Driving efficiency and productivity, Elite firms also consistently hire and employ people in specialized roles. Defining "specialized" as employees who devote more than 75% of their work time to a specific activity, we find that Elite firms had about the same percentage of employees specializing in investment management as other firms — 83.6%, versus 80.3% for all other firms. But their rate of specialized personnel in other areas is dramatically different. More than nine in ten (90.9%) Elite firms employ personnel who specialize in operations, compared with 58.0% at all other firms. At 61.8% of Elite firms, there is a full-time CEO or president at the helm; just 39.5% of all other firms, by comparison, were led by full-time professional management. And compliance is a dedicated staff function at 52.7% of Elite firms, versus 38.2% at all other firms.

Having flexible teams composed of advisers and others who have specialized roles and have become experts in particular areas increases efficiency. It also enables Elite firms to compete more successfully for qualified staff as well as provide employees with career paths and opportunities for advancement. Similarly, having specialized senior management permits Elite RIA firms to spend more time on personnel assessment and training, strategic planning and mergers and acquisitions than is the case at other firms.

Elite firms also are utilizing more flexible teaming arrangements than before, with advisers and support staff working together to serve clients, but not necessarily in set formations. Almost three-quarters (70.5%) of Elites have multiple advisers working with individual clients, compared

FIGURE 3: HOW ARE CLIENTS PRIMARILY SUPPORTED AT YOUR FIRM?



WHAT SETS ELITE RIAs APART

to 37.5% of all others. While this overall rate of teaming has not increased from the 2016 Elite RIA Study, how advisers work together at Elite firms has shifted. Clients still see multiple professional staff, but firms are less likely to structure those professionals into defined teams. This signals a trend towards advisories placing primacy on the value of the brand of the firm itself, rather than on the individual adviser or team lead. Establishing a brand beyond any key partner's name helps the firm develop a reputation in its market that is easily transmittable among clients, boosting referrals that still underpin roughly half the growth seen in the industry each year.

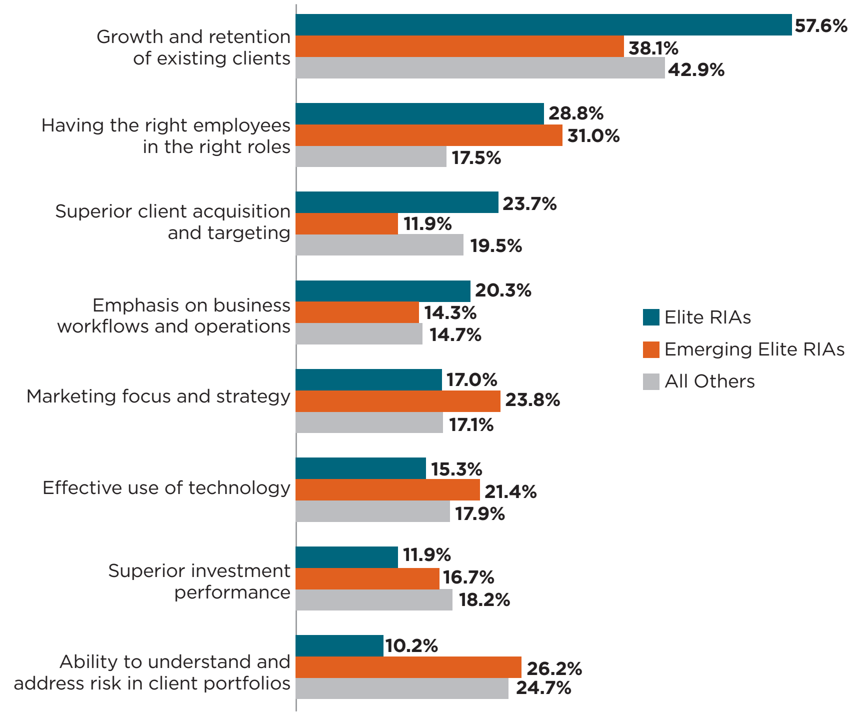
Client targeting and service delivery

As they prepare for the future, Elite RIA firms are resolute in focusing on the core organizational attributes that set them apart from other firms. When asked what would drive their success over the next year or two, 57.6% of Elites said that the growth and retention of existing clients would be the driver, as compared with 42.9% of all other firms. To support that goal by providing a high level of service, 20.3% of Elite RIAs said the driver would be an emphasis on business workflows and operations, as compared with 14.7% of all other firms.

The Emerging Elites, meanwhile, have differing priorities. Much like Elites, they are most focused on their firm's human capital and taking care of their current clients.. But while Elites' secondary focuses are on client targeting and workflow operations, Emerging Elites are more likely to cite as secondary drivers of future success their ability to understand and address risk in client portfolios (26.2%), their core marketing strategies (23.8%), and effective utilization of technology (21.4%). There is interplay between these three areas, not least because modern portfolio risk-assessment software for advisers often accomplishes all three of these objectives.

This enterprise orientation is evidenced in the way Elite RIA firms organize the delivery of advice. Instead of being adviser-centric, they use flexible teaming arrangements. As noted earlier, teaming is an important way Elites bind clients to the enterprise, rather than a particular adviser, which in turn helps create a unified brand for the firm.

FIGURE 4: WHICH OF THE FOLLOWING FACTORS WILL MOST SIGNIFICANTLY CONTRIBUTE TO YOUR FIRM'S SUCCESS IN THE NEXT ONE TO TWO YEARS?*



*Respondents could select up to two responses

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WHAT SETS ELITE RIAs APART

At the same time that Elite RIAs are focused on retaining their high-net-worth clients, they are successfully going downstream to win new clients, without compromising their fees or account minimums. Only 3.3% offer services at unbundled prices and just 1.6% offer custom pricing structures based on client size. In contrast, 12.2% of all other firms offered such custom pricing models. Elites feel secure marketing their all-inclusive wealth management model and believe it allows them to serve smaller, lower-yield clients.

In comparison to two years ago, Elite RIAs are more likely to be serving a broader client base and more likely to be serving a greater number of clients, some of whom have slightly lower AUM than was the case in the past. Still, Elite RIAs are more likely to have minimum or structured entry points for new clients in terms of minimum AUM or fees and are less likely to lower their fees to attract new clients than other RIAs.

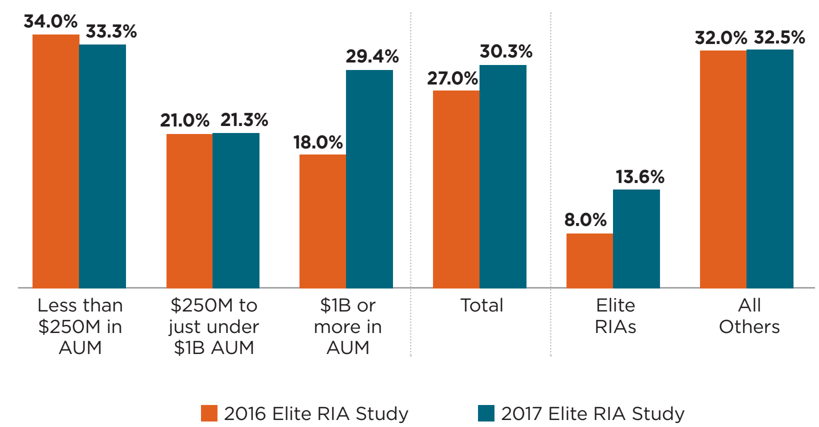
Among factors that could be an obstacle to success, the "ability to understand and address risk in client portfolios" stood out, with 15.3% of Elite RIAs vs. just 6.0% of all others saying it could be a hindrance. Elites, who often assume risk-assessment and risk-management responsibilities for clients fully in-house, see this as an area where even they may need help — especially as client portfolios grow larger and become more sophisticated, and firm offerings expand.

Emerging Elites view things differently, with 21.4% citing an inability to deliver "superior investment performance" as one of the biggest hindrances to their success over the next year or two, versus just 8.5% of Elites. While Emerging Elites may not have as sophisticated an investment management process in place as Elites, they believe their technology will help them address other facets of their service; 21.4% see technology playing a big role in their future success, vs. 15.3% of Elites.

Investment management

Elite RIAs continue to be much more likely to take control of the investment management process in-house than to turn to outside investment managers. Just 13.6% of Elite RIAs versus 32.5% of all other firms outsource investment management in some capacity. Compared to all other firms, Elites are increasing their use of outsourcing at a faster pace, with a significant increase from just 8.0% outsourcing in 2016. This is in line with the broadest trend in the adoption of outsourcing, which is that more and more of the largest firms are contracting with third parties to help manage client assets. Since all other firms used outside investment management at the same rate in both years, the year-over-year increase in outsourcing activity among Elites drove up the industry's overall rate of usage from 27.0% of firms to 30.3%.

FIGURE 5: THE PERCENTAGE OF FIRMS THAT OUTSOURCE INVESTMENT MANAGEMENT IS UP YEAR-OVER-YEAR, PRIMARILY DUE TO A HIGHER CONCENTRATION OF LARGE FIRMS UTILIZING THE PRACTICE



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WHAT SETS ELITE RIAs APART

This year, the biggest change in investment management outsourcing came among firms managing $1 billion or more in assets. Where 18.0% of such firms turned to outsourcing last year, 29.4% used outsourced managers in 2017. These large firms are outsourcing portfolio management (77.8%), portfolio construction (59.2%), and specialized alternative investments (44.4%).

There are several drivers behind the increase, but by a wide margin, the top benefits for outsourcing among all firms is to free up professionals' time for other activities (71.7%). This is followed by increasing revenue (30.3%) and preempting the need to hire more investment professionals (23.5%). Mid-size firms saw pre-empting the need to hire specialists (42.1%) as the second top benefit, while the largest (30.3%) and the smallest firms (32.7%) saw a boost in revenue as the second top benefit.

The notion of outsourcing some element of investment management is clearly being embraced by a growing number of Elites as they look for opportunities to focus more resources on driving organic growth and improving their overall margins. As it becomes more difficult for advisers to differentiate based on investment management and performance, we anticipate that more Elite firms will continue to explore outsourcing some portion of their clients' portfolios to third-parties, particularly in specialized areas that require advisory firms to devote substantial research, due diligence and resources. Outsourcing and the use of third-party investment management tools can also help support advisers' ability to go downstream — and scale their business more effectively.

> **Elites view technology as a tool to drive productivity and efficiency, but they are also increasingly focused on leveraging technology to create a set of easily repeatable and automated processes**

Technology

Overall technology adoption rates are strong among all RIA firms. With their emphasis on organizational efficiency, Elites have leveraged technology to upgrade their workflows and make their staff more efficient. They also are more likely to have specialized technology staffers.

On the other hand, Elites have slightly lower usage rates of newer solutions such as account aggregation and risk management. This should not come as a surprise given the long-term evidence that Elites are more likely than other firms to adopt new technologies only after the technologies are proven. That is likely because their firms and technology platforms are ingrained, affording them less margin for error with a new, untested product — or simply less of a need to experiment with emerging technology because of their established platforms.

However, Elite firms implementing these emerging software platforms recognize their versatility (see figure 6). Given how large Elite firms are, versatility is a prized commodity, and it stands to reason that once relatively new software solutions such as risk management platforms and account aggregation software are well established in the market, the adoption rate among Elites will meet – and possibly exceed – that of their peers.

Elites view technology as a tool to drive productivity and efficiency, but they are also increasingly focused on leveraging technology to create a set of easily repeatable and automated processes throughout their organizations. Because of the size and scale of Elites, both in terms of the number of clients and employees they support, workflows surrounding portfolio management, client reporting and onboarding, for example, must be consistent. Not only has efficient workflow management and the creation of institutional processes historically driven Elite growth, we believe they set Elites on a path of continued growth through mergers and acquisitions.

What technology do Elites value most? Advisory firms of all sizes rated portfolio management software as the most versatile solution, followed by portfolio rebalancing and account aggregation. Among Elite RIAs, however, risk management software was rated most versatile (it ranked fifth among all other firms), followed by portfolio management and account aggregation software.

Elites also differed in how they assessed productivity-enhancing technology solutions. In that area, document management software ranked number one, followed by portfolio rebalancing and portfolio management tools. Among all other firms, the top choice was customer-relationship management software, followed by portfolio rebalancing software and digital account-opening tools. Elite firms' use of document management solutions results in so much greater efficiency and faster processing that standalone digital account-opening tools may not provide significant added value.

Another difference: Elite RIAs, in keeping with their heavy focus on in-house investment management, are more likely to use portfolio management software as the 'hub' of an integrated technology platform. Smaller firms, more likely to be classic relationship managers and rely more on outside investment managers, use CRM as their hub and automate workflow around client touches. As they strive to add assets, they look to CRM and digital account opening to smooth the process of winning and onboarding new clients. Finally, rebalancing software is universally beloved for helping to automate what was once a manually intensive process for advisers.

While Elites have been somewhat slow to embrace new technology, as a group they are shifting their focus to offer a broader range of client-facing solutions, including robo-advice platforms. In their positioning on robos, the majority of Elite RIAs — 74.1% — do not offer robo-advice service, as compared with 66.6% of all advisory firms that are steering clear of robos.

FIGURE 6: MOST VERSATILE* CORE TECHNOLOGY SOLUTIONS

	Elite RIAs	All Others
1	Risk Management	Portfolio Management
2	Portfolio Management	Portfolio Rebalancing
3	Account Aggregation	Account Aggregation
4	CRM	Risk Management
5	Compliance	Compliance
6	Financial Planning	Financial Planning
7	Document Management	CRM
8	Portfolio Rebalancing	Document Management

*"Versatility" was determined by ranking each technology solution by how evenly distributed respondents rated it across the different perceived benefits it could provide to the firm.

FIGURE 7: TECHNOLOGY SOLUTIONS WHERE TOP BENEFIT IS TO BOOST PRODUCTIVITY

	Elite RIAs	All Others
1	Document Management	CRM
2	Portfolio Rebalancing	Portfolio Rebalancing
3	Portfolio Management	Fully-digital account opening

WHAT SETS ELITE RIAs APART

But Elites are softening. This year, 16.7% of them are offering a robo solution and 9.3% are planning to offer one, but their reasons for doing so are different from other firms.

More Elites (42.6%) are interested in the potential for a robo service to attract new client segments, such as younger and less affluent clients, than are other firms (38.6%). On the other hand, more of all other advisory firms (38.0%) are interested because they believe robos can reduce the cost of managing client portfolios, which was a reason cited by only 29.6% of Elite RIAs.

Elites are more likely to view robo-advice as a corollary expansion into low-asset markets rather than a means to serve any of their current target clients.

The biggest divergence between Elite RIAs and other firms in their attitudes surrounding technology and robo-advice was in the way clients perceive its use. Only 46.3% of Elites versus 56.8% of all other advisers agreed with the statement, "My clients clearly see my use of technology as a benefit to them."

Successfully shaping value proposition around the firm and its brand can help lead clients to see the firm's technology as an extension of the trust that's been established. Technology not only helps develop that mindset, but pays dividends by permitting advice delivery without the extra time and intervention of firm principals. In the end, clients view technology as part and parcel of the firm's brand.

When it comes to robo-advice's long-term effects on their business model, advisers are divided. Fifty-one percent agree that "The trend toward pairing robo advice with human advisers will place a drag on fees at all levels of advisory firms," although Elites, and especially Emerging Elites, are less likely to agree, perhaps more secure in the comprehensive value they deliver to clients.

FIGURE 8: DO YOU OFFER ROBO-PLATFORM OR ROBO-ADVICE SERVICE TO CLIENTS?

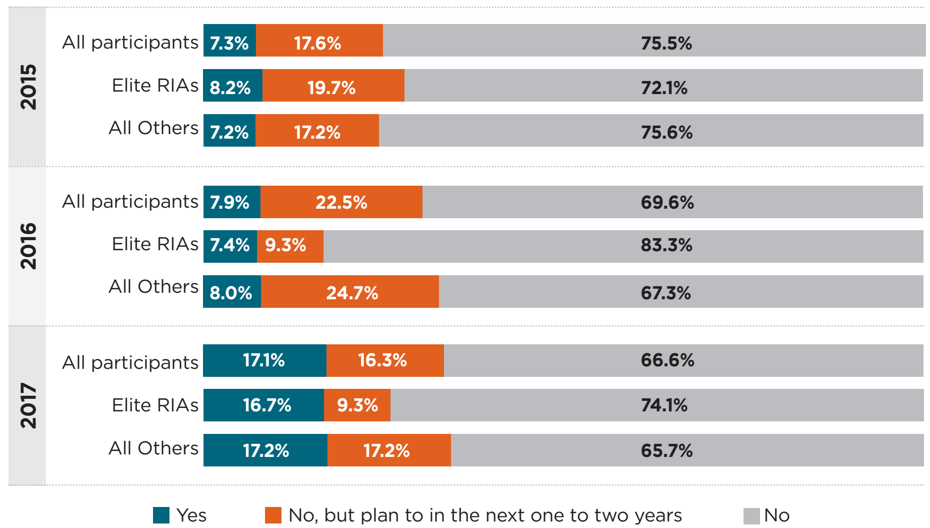
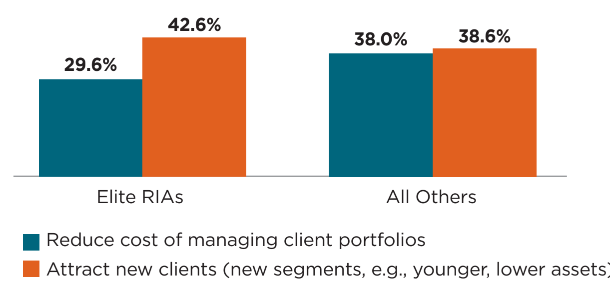


FIGURE 9: TOP TWO REASONS FOR OFFERING A ROBO-ADVICE PLATFORM



WHAT SETS ELITE RIAs APART

FIGURE 10: ADVISER ATTITUDES SURROUNDING TECHNOLOGY AND ROBO-ADVICE

Statement	Agree	Neutral	Disagree
My clients clearly see my use of technology as a benefit to them	69.7%	27.2%	3.1%
I find it challenging to assess which technology provider is best for my needs	47.9%	27.9%	24.2%
Technology is allowing me to deliver even more customized service and support to clients	78.5%	16.3%	5.3%
Robo-advice technology can support what I do, but not replace it	56.5%	25.2%	18.3%
Robo-advice is appropriate only for clients with relatively simple investing needs	55.6%	27.7%	16.7%
I can demonstrate my value compared with robo-advice by making my support even more customized to my clients' needs	80.0%	16.5%	3.5%
The trend towards the pairing of robo-advice with human advisers will place a drag on fees at all levels of advisory firms	50.6%	32.9%	16.5%

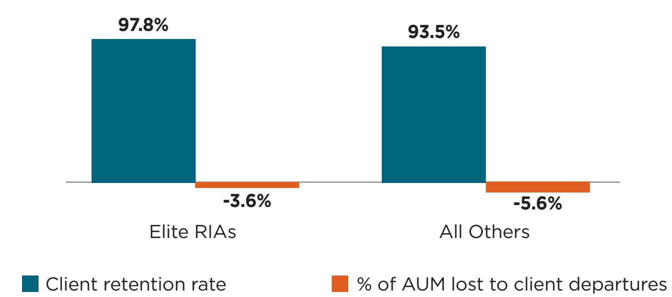
Strong organic growth expectations are a hallmark of Elite RIA thinking.

Organic and strategic growth

Strong organic growth expectations are a hallmark of Elite RIA thinking. Among all firms participating in our study, growth and retention of the firm's existing client base (44.6%) and their ability to understand and address risks in a clients' investments (23.1%) were rated as the top contributors to their firm's success.

Elites have an even greater focus on the growth and retention of existing clients, perhaps because they deal with much larger advisory relationships — nearly three times larger than all others, on median. These relationships are more complex and require a broader array of services to maintain and successfully retain. That dedication plays out in the data, however, as Elite RIAs enjoy annual client retention rates of 97.8%, vs. 93.5% for all others. That translated to 3.6% of AUM lost for Elites and 5.6% lost for all others. That was fully two percentage points of additional growth that other firms had to garner in order to overcome departures, adding to the pressure to post higher market-agnostic organic growth rates in order to propel the firm forward.

FIGURE 11: CLIENT RETENTION RATES & PERCENT OF AUM LOST TO ATTRITION*



*Source: 2016 *InvestmentNews* Financial Performance Study of Advisory Firms

WHAT SETS ELITE RIAs APART

In addition, Elites believe organic growth will result from their current strengths. Over the next year or two, 28.8% of Elites said that having the right employees in the right roles will contribute significantly to their firm's success, compared with 17.5% of other firms. Similarly, 23.7% of Elites said success would result from superior client acquisition and targeting, versus 19.5% of other firms. And 20.3% said a significant contribution would come from their firm's workflows and procedures, versus just 14.7% of
all other firms.

Elite RIAs also are more committed than other firms to other avenues of organic growth. While less likely to target new client segments than other firms (25.4% vs. 37.6%) or open an office or branch in a new region (13.6% vs. 16.5%), Elites were more likely to try to improve acquisition strategies targeted at existing client segments (54.2% for Elites vs. 42.4% for other firms), generate more revenue from their current clients by increasing wallet share or adding new services (40.7% vs. 38.0%) and try ways to generate more revenue from existing clients (40.7% vs. 38.2%).

Trends in strategic growth

Taken as a whole, inorganic (or 'strategic') growth strategies are more prevalent. A confluence of factors has spurred interest and merger-and-acquisition activity:

- Intensified competition at the upper echelons of the RIA space, as Elites have evolved into truly massive national brands.
- Rapidly advancing technology, which is quickly changing how the wealth management industry interacts with clients and runs its internal business processes.
- The prevalent service model and fundamental value proposition underpinning the financial advice industry has shifted towards the fiduciary model long championed by RIAs, driving consolidation.

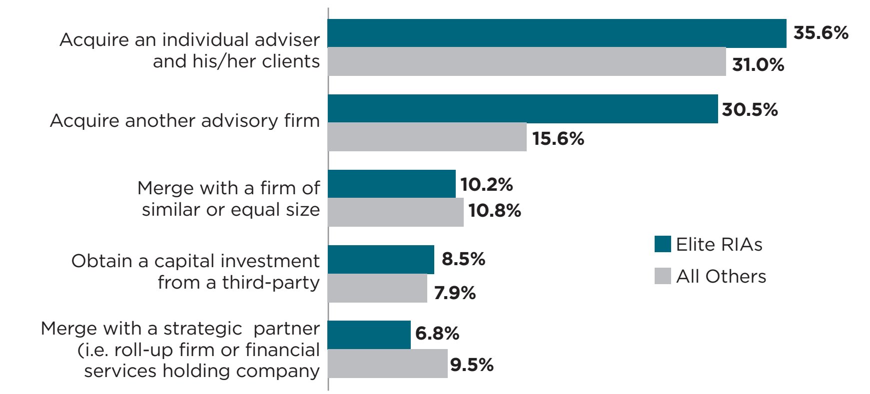
In addition to focusing on organic growth, Elite RIAs have developed strategic growth plans. Over the next year or two, Elite RIAs are more likely to acquire another advisory firm (30.5% vs. 15.6%) and want to pursue growth on their own; less than 10% identified themselves as a seller to a strategic partner such as a roll-up firm.

Overall, 35.6% of Elite RIAs, as compared with 22.0% of all other firms, said they would attempt to either acquire or merge with another firm in the next one to two years, up from 26.0% of Elites who said the same in 2016, signaling that industry consolidation is still underway, and Elites are positioning themselves to take advantage.

FIGURE 12: PERCENT OF ELITE RIAS PLANNING TO EXPAND THROUGH M&A IN THE NEXT 1-2 YEARS, 2016 VS. 2017

WHAT SETS ELITE RIAs APART

FIGURE 13: **INORGANIC GROWTH STRATEGIES BEING CONSIDERED OVER THE NEXT 1-2 YEARS**



The inorganic growth strategies outlined in Figure 13 are set to play an active role among many firms in our sample, with Elites slightly more likely to acquire talent or books of business than others, who are slightly more likely to merge with a strategic partner such as a roll-up firm or a financial services holding company. Where things diverge, however, are straight acquisitions: Elites are twice as likely to pursue this strategy, likely because of their position as established market dominators. Acquiring other firms allows them to achieve growth, scale and increase market share in the niches in which they compete. The current industry environment is ripe for such activity, and Elites are taking advantage of it.

Other firms, meanwhile, are open to the new realities of the M&A market, and are pursuing a variety of inorganic growth strategies. They track Elites closely in purchasing books of business, acquiring talent and recruiting advisers who bring in new client assets. Luring new talent — especially established, experienced advisers — poses challenges for larger firms with established processes and culture, where a new lead adviser must yield to firm methodology more than they might at a less established practice. But it is a worthy endeavor given the variety of benefits it can bring. Purchasing books of business, meanwhile, is more prevalent as a population of aging advisers retires in increasing numbers.

However, success with inorganic strategies remains elusive. In the 2017 *InvestmentNews* Compensation & Staffing Study, RIAs with over $250M in assets grew 4.9% on average via inorganic growth strategies, compared with 2.4% of all others, demonstrating that while interest might be strong among most firms, executing transactions is easier said than done — and the largest firms are the ones more readily taking advantage. Overall, 13% of all firms in the study reported adding AUM in 2016 via inorganic growth, and two-thirds of those had over $250 million in AUM at year-end 2016. Firms that executed a transaction gained, on average, a staggering $187 million of new business from the strategy — illustrating how M&A can fast-track growth.

Acquiring other firms allows them to achieve growth, scale and increase market share in the niches in which they compete.

While also interested in acquisitions, Emerging Elites were more focused on acquiring an adviser or book of business, with 42% reporting this as a growth strategy in the next one to two years — by far the highest level among any cohort tracked for this study. For Emerging Elites, these deals could be easier to find and simpler to execute than M&A transactions.

LESSONS FROM THE ELITE AND ACTION STEPS

Organizational structure and branding

Perhaps the key differentiator of Elite RIA firms is their emphasis on structure, workflow efficiency and the institutionalization of the business as an enterprise distinct from its founders or principals. In keeping with this focus on the business as an on-going enterprise, Elite RIAs typically work in teams, and while team members may vary even with the same client, those professionals and paraprofessionals are usually specialists in a particular area. The takeaways for other firms are:

Consider, first, mapping out every operational step currently conducted at the firm in granular detail.

- Consider, first, mapping out every operational step currently conducted at the firm in granular detail. This includes all procedures involved with account openings, transfers, quarterly reports, annual reviews, client events and other actions.

- Once fully reviewed, consider using one of the many software applications available to manage advisory workflows as a way to increase efficiency, simplify compliance and promote consistent, repeatable steps throughout the organization.

- Have employees create their own job description and compare that to the ones your firm currently has in place. This process will help define the firm's actual work, which is an important step in designing efficient workflows and structuring meaningful jobs that are in sync with the true needs of the firm.

- When adding staff, even at a firm of small size, emphasize a degree of specialization so that even if an employee must do a variety of tasks, there is the understanding that he or she is expected to develop expertise in a particular area.

- Developing the firm's brand goes beyond traditional marketing. There must be an operational underpinning enabling the firm to deliver on any public statement it makes. Elites and Emerging Elites put great effort into building a consistent experience, employing service structures where multiple advisers work together rather than on static teams. There is strong focus on the technologies that streamline the underlying workflows of service delivery at the firm.

LESSONS FROM THE ELITE AND ACTION STEPS

Client targeting and service delivery

While attracting new clients will always be a core function at advisory firms, Elite RIAs more than most realize that firm success is equally dependent on client retention. For that reason, they place priority on the delivery of excellent service, where they believe they excel due to their operational efficiency and client-focused teams composed of specialized advisory professionals.

If size does not permit teaming and specialization to the extent possible at Elite firms, other RIA businesses can work to attract new clients and deliver better service to new and existing clients by:

- Considering the formation of a "firm within a firm" using younger advisers to concentrate on attracting younger, less affluent clients who ordinarily would not be prime targets of a firm's marketing efforts. Other InvestmentNews research has found that such clients served through a different pricing model can be the basis of a profitable business and one that, sometimes ironically, can attract more affluent investors as well.

- Focusing more efforts on the wives of husband-and-wife client couples. Widowhood continues to be the largest driver of client attrition at advisory firms, largely because the recent widows who exit feel they were ignored. Extra efforts to attend to wives, understand their needs and concerns (which they may not share with their husband), and incorporate their wishes into financial plans can delivery significant long-term returns.

Investment management

Because of their size, Elite firms are able to differentiate themselves through the investment management services they are able to deliver, much of which are bespoke. As noted, just 13.6% of Elite RIAs outsource investment management in some capacity, as compared with 32.5% of all other firms. Yet even that percentage represents a boost from the mere 8.0% of Elite RIAs who used outside investment managers based on our 2016 study data.

For firms looking to become Elite, the takeaways are:

- Firm size need not be an impediment to delivering high-quality, custom portfolios. The range of available outsourced investment management resources has never been as broad, as easily accessed or of as high quality. Being able to select and monitor these managers can bring as much value to clients as the investment management itself.
- Firms that already specialize or focus in one area of investment management can complement that offering through the use of outside managers.
- As ongoing financial planning rises as a component in the total value delivered by the advisory relationship, the perceived value of in-house investment management may be declining.
- Upgrade your approach to risk in client portfolios. Elite RIAs view their risk management software as the most versatile they use, allowing them to boost productivity and enhance the client experience in equal measure. Emerging Elites, meanwhile, see the ability to address risk in client portfolios as one of the biggest drivers of their success over the next two years.

LESSONS FROM THE ELITE AND ACTION STEPS

Technology

Firms of all sizes have adopted technology and software solutions to help improve efficiency at fairly consistent levels across the board. While Elite RIAs may be more patient in adopting new technology, there is probably not much other firms can gain by being a first-mover in technology since competitors are likely to catch up quickly. But, like Elites, other firms can:

- Make a greater effort to maximize existing technology. Many firms use only the rudimentary power of the CRM, portfolio management and financial planning tools. By learning more about what these tools can do and using them more intensively, firms can extract their maximum value.

- If not already offering a robo-advice platform or solution, consider adding one. The addition of robo-advice does not mean abandoning a firm's current business model or client base. Instead, it can serve as an entree into attracting a new market niche, as well as a way to serve the less affluent adult children or other relatives of current clients.

- Emerging Elites and Elites both put added emphasis on the ability of their technology to offer more customized services and support to their clients. And almost as important, these firms are more likely than others to assert that their clients see the benefit.

Organic and strategic growth

Smaller firms are about as likely as Elite RIAs to acquire an adviser or his or her book of business, but they are less likely than Elites to acquire another firm or stage a merger — and, like Elites, they want to remain independent. As a result, with strategic growth opportunities somewhat circumscribed, smaller firms may benefit from applying some of the Elite RIAs' organic growth strategies. These include:

- Improving acquisition strategies targeted at existing client segments.

- Trying ways to generate more revenue from existing clients by capturing more share of wallet or by adding new services.