



The Impact of Outsourcing

How financial advisors are better serving clients and elevating their businesses

WHITE PAPER





What is investment management outsourcing?

Investment management outsourcing is the practice of an advisor delegating part or all of their investment management activities to a professional money manager or outsource provider for a fee. In turn, the outsource provider offers a range of turn-key investment solutions that are thoroughly researched and monitored by a team of investment professionals.

Investment management outsourcing firms may offer additional services:

- Ongoing due diligence with active monitoring of strategies and investments
- Portfolio construction guidance based on a grounded investment philosophy
- Pre-built portfolios for a range of client needs from savings to steady income in retirement
- Custom portfolios for high net worth clients and clients with unique needs and financial goals
- Enhanced services, such as technology, compliance, practice management, marketing, and more

The benefit of working with an investment management outsourcing firm is that advisors can turn their focus to other tasks with the confidence that their clients' assets are being well managed.

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Executive summary

In a rapidly changing industry, financial advisors face increasing challenges as they seek to provide value and service to clients, while also trying to optimize and grow their businesses. Considerable resources are required to keep up with regulatory demands, digital transformation, and evolving client preferences. The recent pandemic added another layer of complexity to the day-to-day requirements of running a practice.

This *Impact of Outsourcing* study, conducted in the fall of 2021, furthers initial research conducted in 2019 to uncover how the role of outsourcing has changed and in what directions trends are heading.



Over 750 financial advisors were surveyed for a look at outsourcing by the numbers.

Business improvements as a result of outsourcing are reported by 99% of advisors and include the following areas: growth in total assets (91%), higher business valuation (84%), lower operating costs (79%), increase in personal income (83%) and easier compliance/audit process (95%). *(See page 8.)*

Client relationships are reported as enhanced by outsourcing in addition to increased client retention, acquisition of new/higher-quality clients, and increased client referrals. *(See page 7.)*

Work-life balance is directly related to outsourcing, with advisors who outsource at least half of assets or more likely to report significant improvements in work-life balance, as well as higher career satisfaction, than advisors who outsource 20-49%. *(See pages 8 - 9.)*

Satisfaction rankings are up: 92% of advisors are happy with their decision to outsource (up from 83% in 2019) and 93% agree outsourcing has made them more successful as financial advisors (up from 86% in 2019). *(See page 10.)*

A consistent trend is revealed in both the 2019 and 2021 studies: four out of five financial advisors who are already outsourcing plan to move more assets to outsourced management in the next few years. *(See page 11.)*

What challenges do financial advisors face today?

Three out of four advisors stated that challenges they tackle today include scaling their business for growth and spending needed time on business-building activities. Advisors are finding themselves in a struggle of time and goal management as they seek to grow their businesses, increase their offerings, and enhance relationships with clients.

Most common challenges faced by 3 out of 4 advisors



Scaling business
for growth

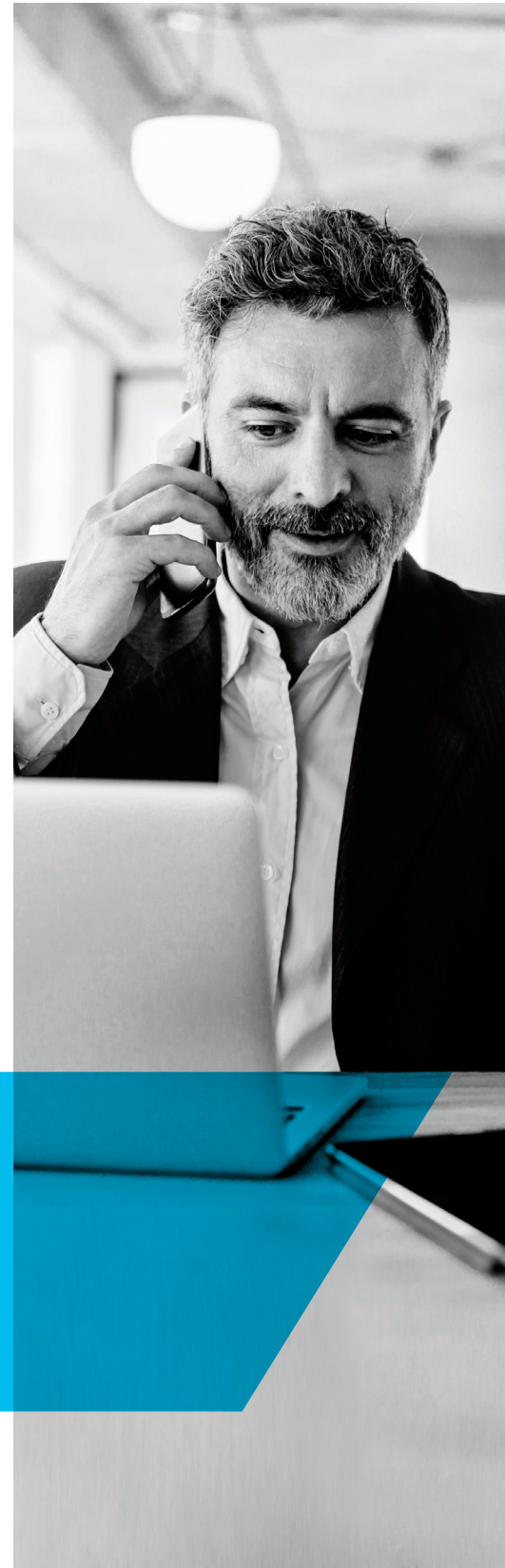


Spending time on business-
building activities

To achieve scale and growth, advisors must allocate their time and resources toward high-impact, high-value endeavors. Time spent in nurturing client relationships can generate more value than the time consumed in managing investments.

“Investment management takes a LOT of time and energy to do well, and it’s not very profitable when compared with other activities an advisor could engage in: networking, business development, etc.”

–Advisor, Insurance Broker-Dealer



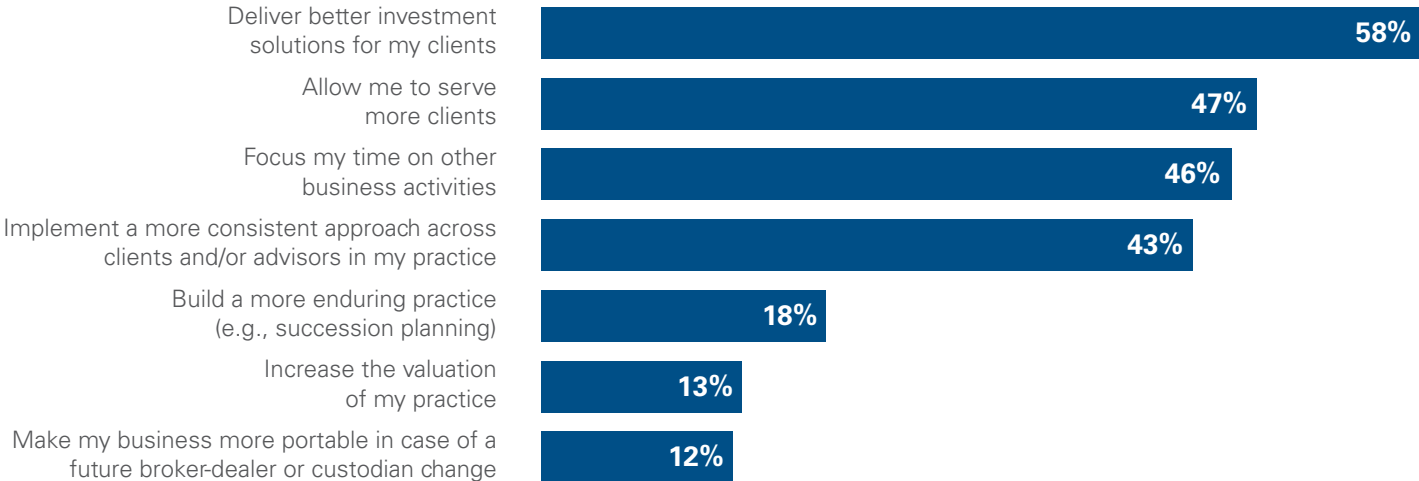


Why are financial advisors outsourcing investment management?

Financial advisors' top motivation to outsource is to deliver better investment solutions for their clients. Serving more clients and focusing time on other business activities are also among the key reasons cited by financial advisors for outsourcing investment management. Other factors include consistency of approach, work-life balance, succession planning, practice valuation, and practice portability.

Top Ranked Reasons for Outsourcing Investment Management

% of Outsourcing Advisors Who Ranked Among Top Three Reasons



How are advisors benefiting from investment management outsourcing?

Advisors who outsource cite a range of advantages: greater access to investment solutions, better relationships with clients, notable improvements in their businesses and personal benefits.

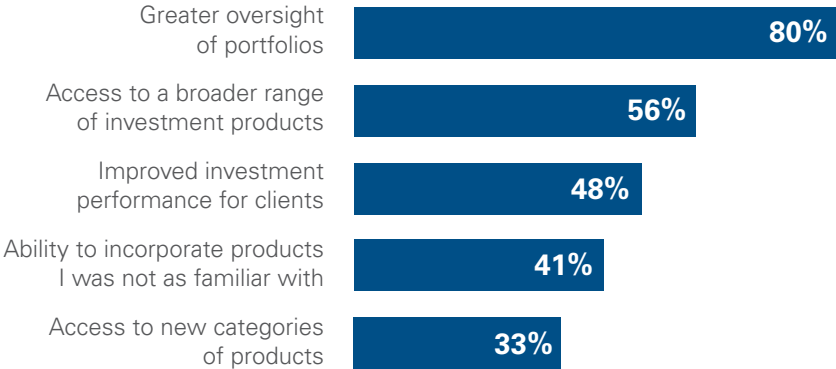
INVESTMENT SOLUTIONS

Ninety-eight percent of advisors surveyed agree that outsourcing enables them to deliver better investment solutions to their clients. The most commonly cited improvements include greater portfolio oversight (e.g., rebalancing, shifting out poorly performing products) and expanded product access.



Ways Advisors are Delivering Better Investment Solutions

% of Outsourcing Advisors



Access to newer and different products for my clients.

–Advisor, Independent Broker-Dealer



Deeper due diligence, more automation of basic but important investment tasks, access to institutional-level managers.

–Advisor, Independent Broker-Dealer



75%

of advisors increased time for building client relationships after outsourcing

CLIENT RELATIONSHIPS

Eight out of ten advisors agree that investment management outsourcing has better enabled them to strengthen client relationships.

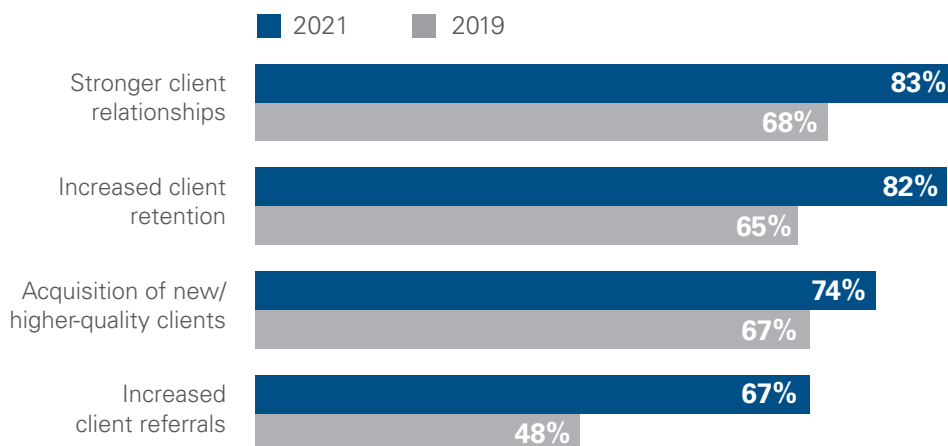
One of the most common reasons advisors outsource investment management is to spend more time with their clients, with 75% of advisors allocating more time to building client relationships after outsourcing.

Many advisors view financial planning as the sweet spot where pressing client needs intersect with the primary value an advisor can offer, creating a stronger connection and translating to increased client acquisition, retention and referrals.

Advisors are expanding their financial planning capabilities to offer tailored advice to their clients. Often time saved with outsourcing is spent in financial planning discussions with clients, a primary focus area for 87% of advisors.

Client Relationship Benefits as a Result of Outsourcing Investment Management

% of Outsourcing Advisors



Doing actual planning work with clients enriches the relationship and adds true value vs. investment talk that 95% of clients don't care too much about.

–Advisor, Insurance Broker-Dealer



You can manage money or relationships, but not both effectively. This is a relationship business; therefore, most advisors would be well served outsourcing investment management.

–Advisor, Independent Broker-Dealer



[Outsourcing provides the] ability to secure higher net worth clients and allows more time to focus on these clients within a practice.

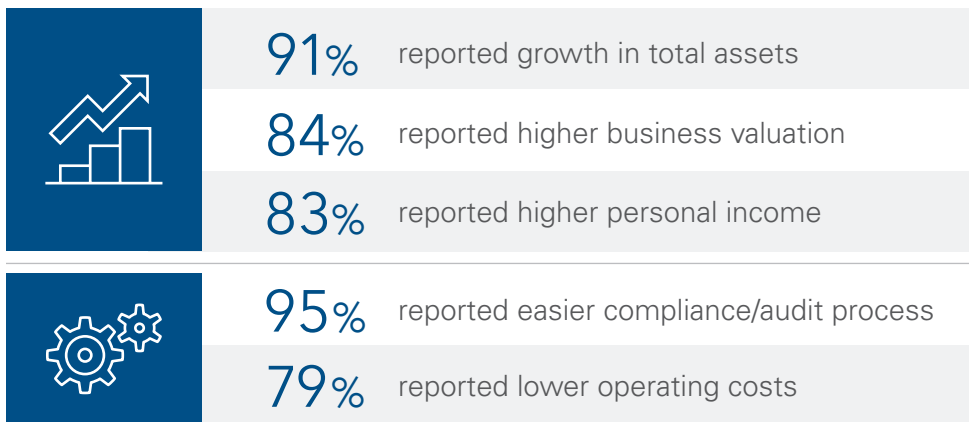
–Registered Investment Advisor

BUSINESS EFFICIENCY AND GROWTH

Advisors also state that delegating investment management results in tangible financial value on the growth and efficiency sides of their business' profit equation. For example, 99% of advisors have experienced at least one of the benefits below, and more than half have achieved all five as a direct result of outsourcing.

Tangible Business Improvements as a Result of Outsourcing

% of Outsourcing Advisors



PERSONAL BENEFITS

Ninety-five percent of advisors affirm they have better work-life balance due to outsourcing.

While most advisors redirect time savings to clients and other areas of their business, about 60% also gift some of that time back to themselves in the form of fewer hours spent at work.



95%

of advisors affirm they have better work-life balance due to outsourcing

“

Easier to build a more efficient, growing practice this way. Plus adds more protection for the client, therefore increasing trust and rapport.

–Advisor, Insurance Broker-Dealer

“

Allows more time for growth activities while reducing the potential compliance and investment suitability concerns.

–Advisor, Independent Broker-Dealer

“

It's way easier for me to have a good work-life balance.

–Advisor, Insurance Broker-Dealer

“

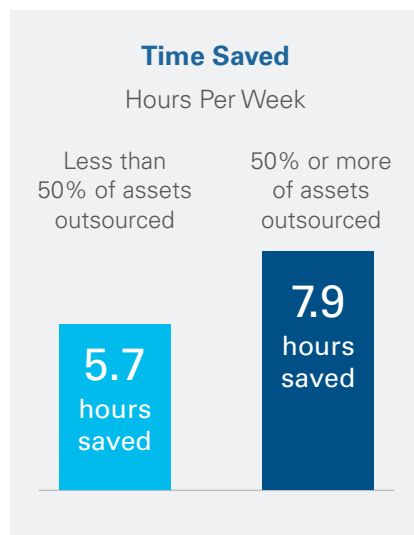
You get your life back.

–Advisor, Independent Broker-Dealer

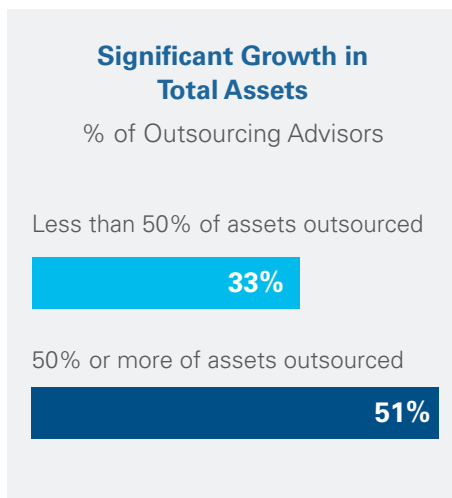
Outsource more, benefit more

While 99% of financial advisors who outsource say they are receiving clear benefits from partnering with a third party for investment management, advisors who outsource more AUM tend to experience more benefits.

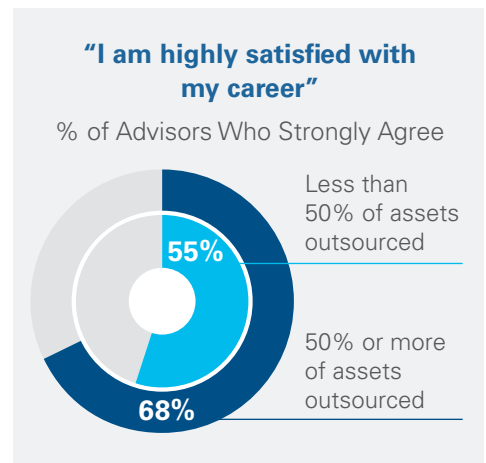
Financial advisors who outsource at least half of their AUM gain back an average of eight hours per week, compared to the five to six hours saved by advisors who outsource less than half of their AUM.



More than 90% of financial advisors who outsource reported growth in total assets. Compared to advisors who outsource less than half of assets, those who outsource 50% or more are much more likely to report *significant* growth in total assets.



The research also found that advisors' career satisfaction increases as the share of assets outsourced increases, with advisors who outsource half or more of assets under management experiencing significantly higher levels of career satisfaction than those who outsource less than half.



Advisors who outsource a higher percentage of assets are more likely to experience financial, operational, and client relationship benefits. The chart below shows how likely advisors are to experience these benefits based on the percentage of AUM they outsource.

Benefits Experienced as a Result of Outsourcing

% of Outsourcing Advisors

Share of AUM Outsourced	Higher personal income	Higher business valuation	Lower operating costs	Stronger client relationships	Increased client retention	High-quality client acquisition	Increased client referrals
90-100%	91%	90%	85%	90%	89%	82%	73%
50-89%	83%	86%	78%	81%	86%	73%	71%
20-49%	77%	77%	74%	79%	72%	68%	59%

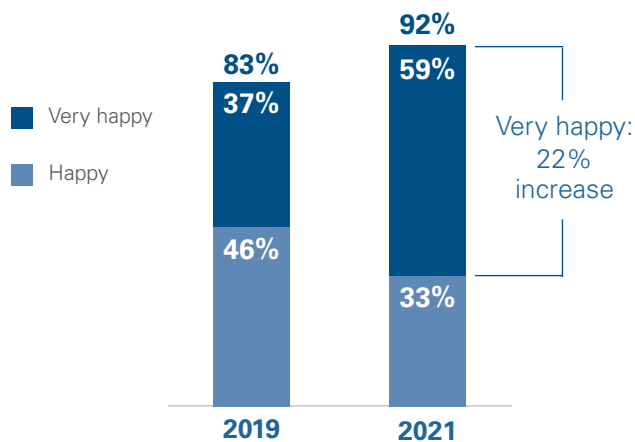
Key changes and trends

Happiness with outsourcing rises.

Overall satisfaction with the decision to outsource investment management has increased considerably. Ninety-two percent of advisors stated they are happy with their decision to outsource, compared to 83% in 2019. And while in 2019 most outsourcing advisors said they were *somewhat happy* with their decision to outsource, now most say they are *very happy* with their decision to outsource.

"I'm Happy with My Decision to Outsource."

% of Outsourcing Advisors

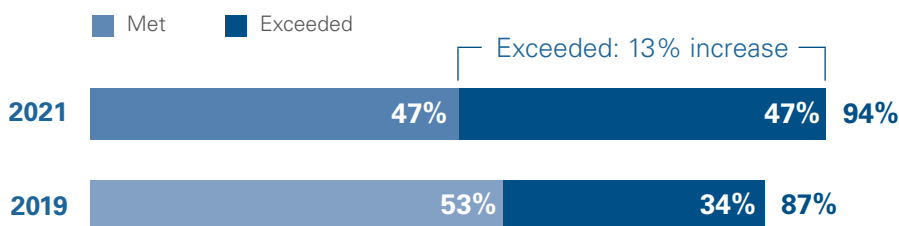


Benefits increasingly exceed expectations.

When asked whether the benefits of outsourcing investment management had met their expectations, 94% of advisors said their expectations were met or exceeded, up 7% from 2019. Additionally, in 2021 significantly more advisors said that the benefits of outsourcing exceeded their expectations than had in 2019.

Benefits of Outsourcing Compared to Expectations

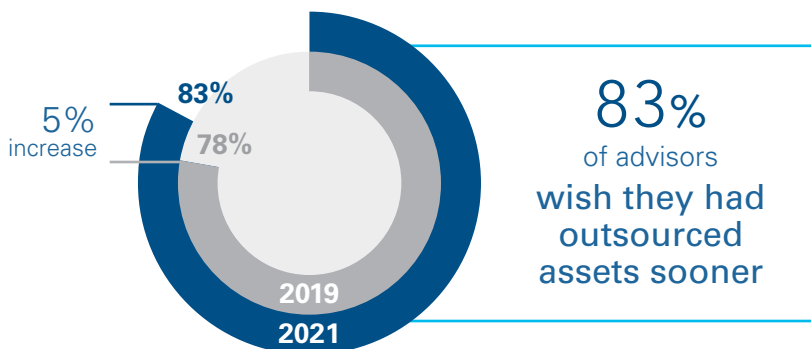
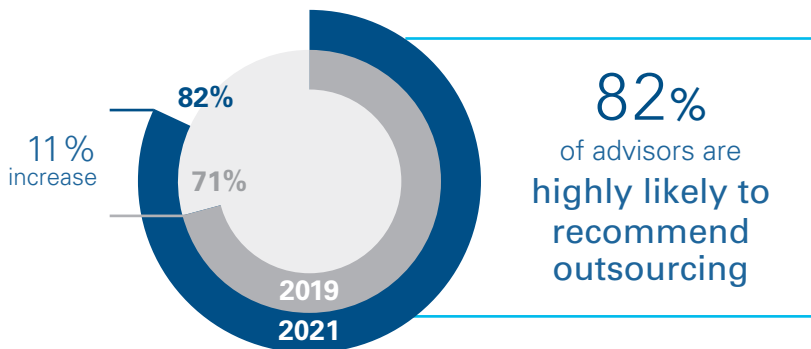
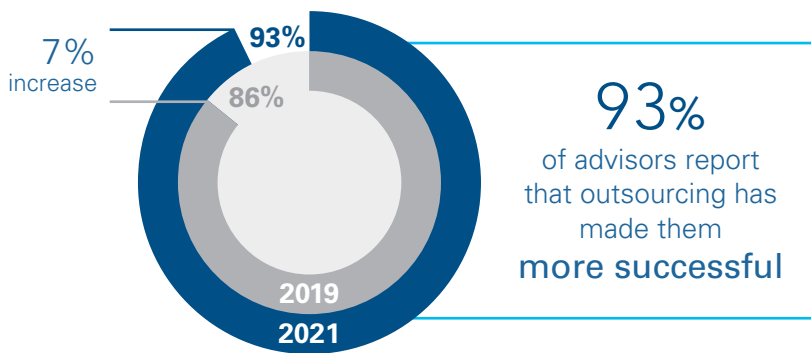
% of Outsourcing Advisors



In this robust study on all aspects of outsourcing, some of the most significant changes between 2019 and 2021 were found in financial advisors' happiness with investment management outsourcing and the associated benefits.

In 2021, a resounding 99% of financial advisors who outsource would recommend outsourcing to other advisors (versus 95% in 2019).

The proportion of outsourcing advisors who plan on increasing the percentage of assets outsourced over the next three years has held constant between 2019 and 2021, with four out of five advisors planning to outsource more assets.



Four out of five financial advisors who outsource plan to **increase their share of assets outsourced** over the next three years

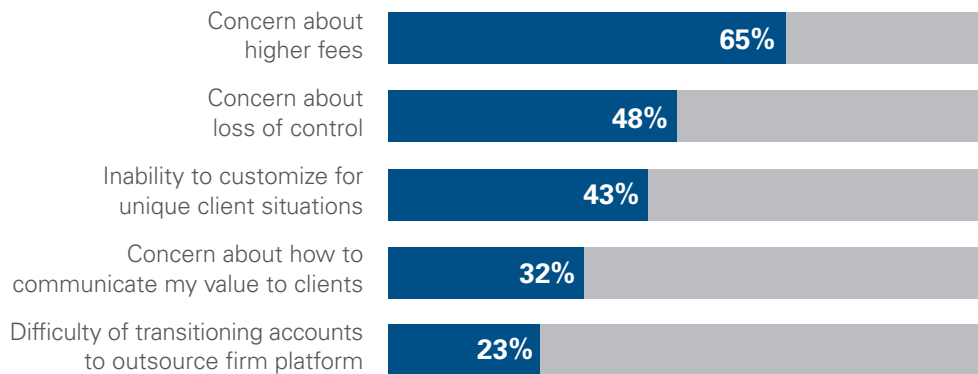
99% of financial advisors who outsource recommend outsourcing

Investment management outsourcing myths

Advisors who choose not to outsource investment management cite a variety of reasons such as concerns about cost, control, or fears about the impact on client relationships.

Common Reasons for Not Outsourcing Investment Management

% of Advisors Who Do Not Outsource Investment Management



Misconceptions about investment management outsourcing can arise when the process and its benefits are not well understood. In fact, five major myths exist about outsourcing.

MYTH 1 Outsourcing is expensive.

While 77% of financial advisors say outsourcing fees are what they expected or less, an astounding 83% of advisors reported increased personal income as a result of outsourcing.

The financial benefits of outsourcing are extensive, with 91% of advisors reporting growth in total assets, 84% reporting higher business valuation, and 79% reporting lower operating costs. (See page 8.)

These factors contribute directly to a practice's bottom line, and when asked, most advisors who outsource say that the cost is reasonable or less than expected.

“ Cost is far less than the value.

–Advisor, Independent Broker-Dealer



77% of outsourcing advisors say the fees are what they expect or less

MYTH 2

Outsourcing means giving up control.

While outsourcing means having a third party to make investment selections and construct portfolios, it doesn't mean giving up control. Four out of five financial advisors reported greater oversight of portfolios as a result of outsourcing, and more than half of advisors reported benefiting from the broader range of investment products. Outsourcing firms take a disciplined, hands-on approach to investment research, trading, and monitoring so that advisors have more time to focus on guiding client investment decisions. (See page 6.)

MYTH 3

Outsourcing removes an advisor's ability to customize investments.

Most investment management outsourcing firms offer advisors the ability to choose from ready-made portfolios or to customize portfolios using a broad offering of investment solutions and strategies. With integrated technology, advisors can easily compare, select portfolios, and customize to align with client goals. Financial advisors also reported that as a result of outsourcing, they now have access to a broader range of investment products, new categories of products, or products they were not familiar with. Overall, 98% of advisors report delivering better investment solutions as a result of outsourcing. (See page 6.)

MYTH 4

Outsourcing erodes an advisor's value proposition.

Outsourcing often enhances an advisor's value by freeing up time to meet with clients and focus on improving the client experience. In fact, more than four out of five advisors reported stronger client relationships and increased client retention, and about three out of four reported acquisition of new or higher quality clients as a result of outsourcing. (See page 7.) For most clients, one-on-one advice and financial planning services are highly valued, while investment management is often seen as a commodity. Investment management outsourcing firms may also offer a wider range of investment solutions that allow advisors to expand their service offering and address a broader set of client needs.

MYTH 5

Outsourcing is difficult to implement.

An advisor's decision to outsource is supported by a desire to delegate more back-office tasks—the technology, the investment management and monitoring, the administration, and more. Outsource providers typically offer a spectrum of support to get an advisor up and running as quickly and smoothly as possible. Working with the right provider should feel as though an advisor has hired their own team of professionals to support the day-to-day functions of their practice. As a result, advisors report saving on average seven hours per week. (See page 9.)



I can spend more time in overall planning with my clients. This means I have better outcomes for my clients, which in turn will increase my revenue and the value of my practice.

—Advisor, Insurance Broker-Dealer



It is easy to set up and administer.

—Advisor, Independent Broker-Dealer



Oversight, rebalancing, reallocation, and diversification lead to turn-key investment solutions.

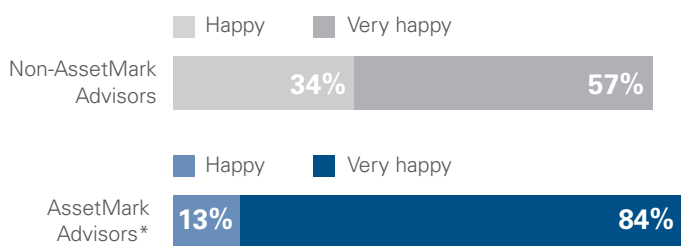
—Advisor, Independent Broker-Dealer

Selecting the right outsourcing partner matters

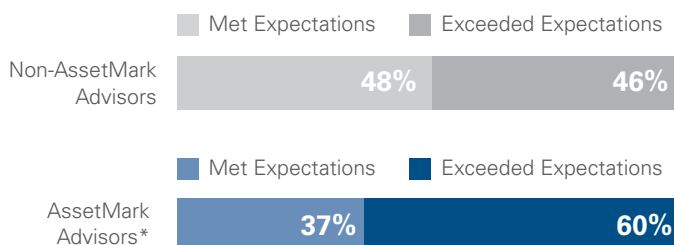
Not all investment management outsourcing firms are the same. Therefore, advisors pursuing outsourcing should do their due diligence to determine which potential partners are best positioned to help them achieve their specific goals for delegating investment management.

When asked about their outsourcing experience, advisors who outsource to AssetMark cite higher levels of satisfaction and increased benefits compared to advisors who work with other outsourcing providers.

Happiness with the Decision to Outsource Is Higher with AssetMark

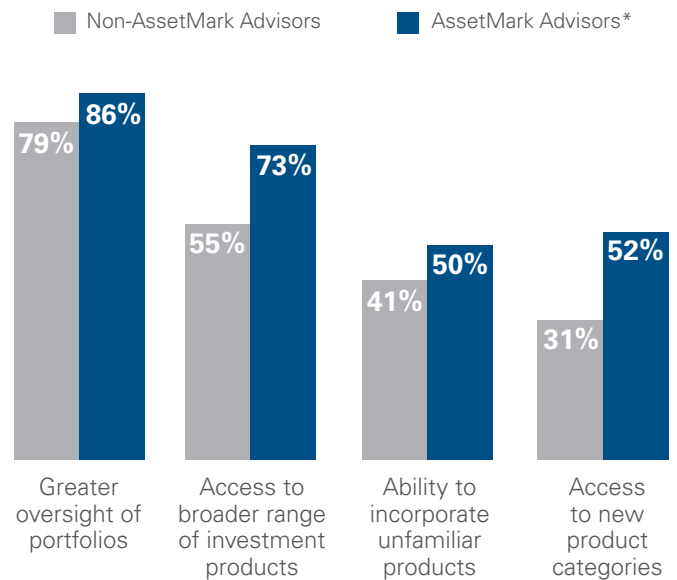


Benefits of Outsourcing Exceed Expectations More Often with AssetMark

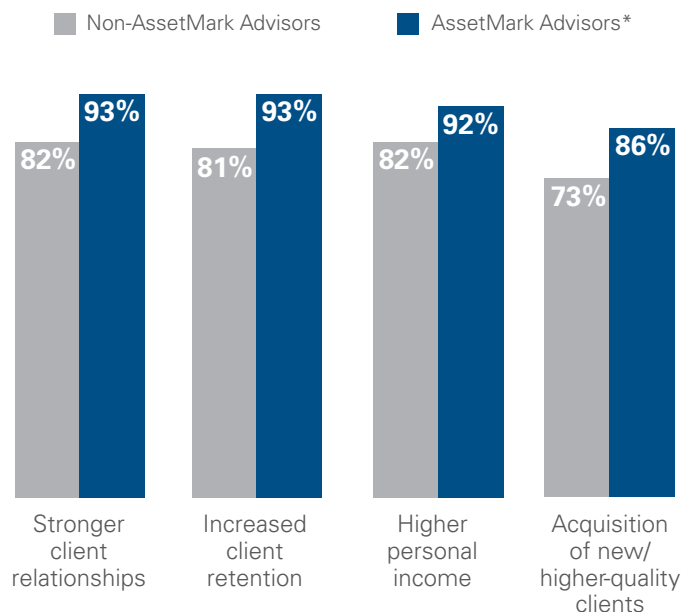


Advisors who outsource to AssetMark also cite broader benefits both in terms of the investment solutions offered and the business benefits they reap.

Better Investment Solutions from Outsourcing with AssetMark



Greater Benefits from Outsourcing with AssetMark



*Advisors who use AssetMark as their primary outsourcing provider.



93%
of advisors using
AssetMark are highly
likely to recommend
outsourcing

It's no wonder that 93% of advisors who use AssetMark as their primary outsourcing provider are highly likely to recommend outsourcing to other advisors, compared to 81% of advisors who outsource with another provider.

AssetMark provides advisors with a full spectrum of service and wealth technology solutions to help them forge an independent path to financial success for themselves, their businesses, and their clients. Advisors today take on more roles than ever—small business owner, trusted fiduciary partner to clients, and part-time life coach are just some of the hats they wear. Our innovative investment management solutions, delivered through transformational technology, amplify advisors' capabilities and allow their clients and practices to flourish in the future.

When you work with AssetMark, you work with a dedicated team with the expertise to help you add the services and solutions you need to build the enterprise practice you want.

AssetMark can help build your business.
Let's talk. Visit us at assetmark.com
or call us at 800-664-5345.



I'm going to continue to grow my business, and the partnership with AssetMark is a key element to that.

—Advisor, Insurance Broker-Dealer



Having the support of AssetMark has increased my confidence and allowed me to enhance my client experience.

—Registered Investment Advisor



AssetMark has been a significant part of my practice for over 15 years, and they continue to improve their services and lineup of products for the independent advisor.

—Advisor, Independent Broker-Dealer



About this study

The *Impact of Outsourcing* study was conducted in partnership with 8 Acre Perspective, an independent research firm, and represents the second installment of original research conducted by AssetMark in 2019.

757 financial advisors participated in the study, completing an online survey between September and October 2021. Participants included 581 advisors who outsource investment management and 176 who do not. All participating advisors are owners/principals/partners at firms in the independent broker-dealer, insurance, and independent RIA channels.

All participants have the following characteristics:

- 7+ years tenure as a financial advisor
- Up to \$500 million in total assets under management
- At least 30% of total assets under management is fee-based business
- At least 50% of total assets under management is from individual retail investors

Those who outsource investment management have at least 20% of their assets outsourced to a third party (broker-dealer, model provider, and/or TAMP).

Learn more about AssetMark.
Visit assetmark.com or
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Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange-traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments.

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