

Swan Advisor Forum: Top Trends for RIAs

April 29, 2019



SMART PEOPLE
SUPERB TECHNOLOGY

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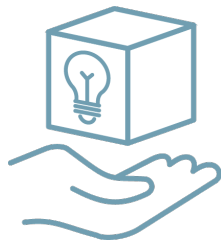
How has the industry transformed and how do wealth managers need to react?



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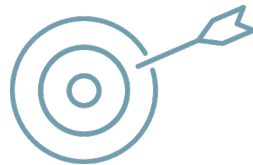
Three major takeaways from today's presentation

First



*The industry has fundamentally transformed, wealth managers **MUST** adapt*

Second



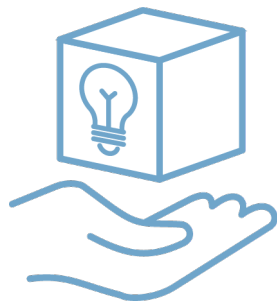
*There is an opportunity in the market, **BUT** wealth managers must address changing market dynamics*

Third



*What got you where you are today will not keep you here
FOCUS! FOCUS! FOCUS!*

The wealth and asset management industries have transformed



The future of wealth management is in personalized investment solutions



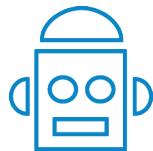
Technology and data are now table stakes for wealth managers

A few firms across the value chain are addressing these challenges through radical change

Are you ...



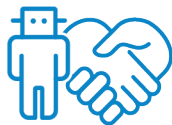
The asset manager that made headlines with zero-fee index funds?



The firm that replaced stock portfolio managers with robots?



The wealth manager that integrated digital advice as a standard service?



The firm aggressively exploring the possibilities of AI to engage customers?

What are the market opportunities
and challenges for wealth managers?



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Wealth accumulation and technology are fueling the financial advice market

The shrinking advice industry is vastly overstated



Number of wealthy households in the United States has reached a record high



Number of U.S. households with real financial planning is a large minority

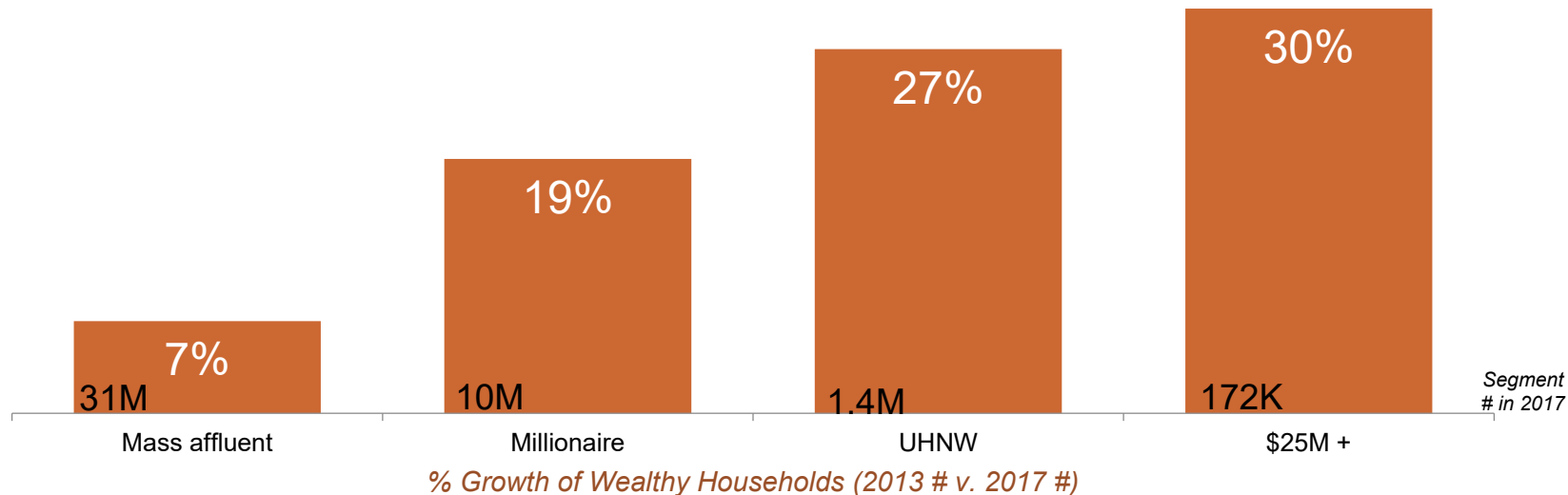


Automation in financial services has potential to ignite growth in financial planning by broadening the number of segments served

The number of wealthy U.S. households has reached record highs

The number of wealthy households has reached record highs

Percentage growth of market segments



Less than half of households in the United States have a financial advisor



31% – 46%

of households have
a financial advisor

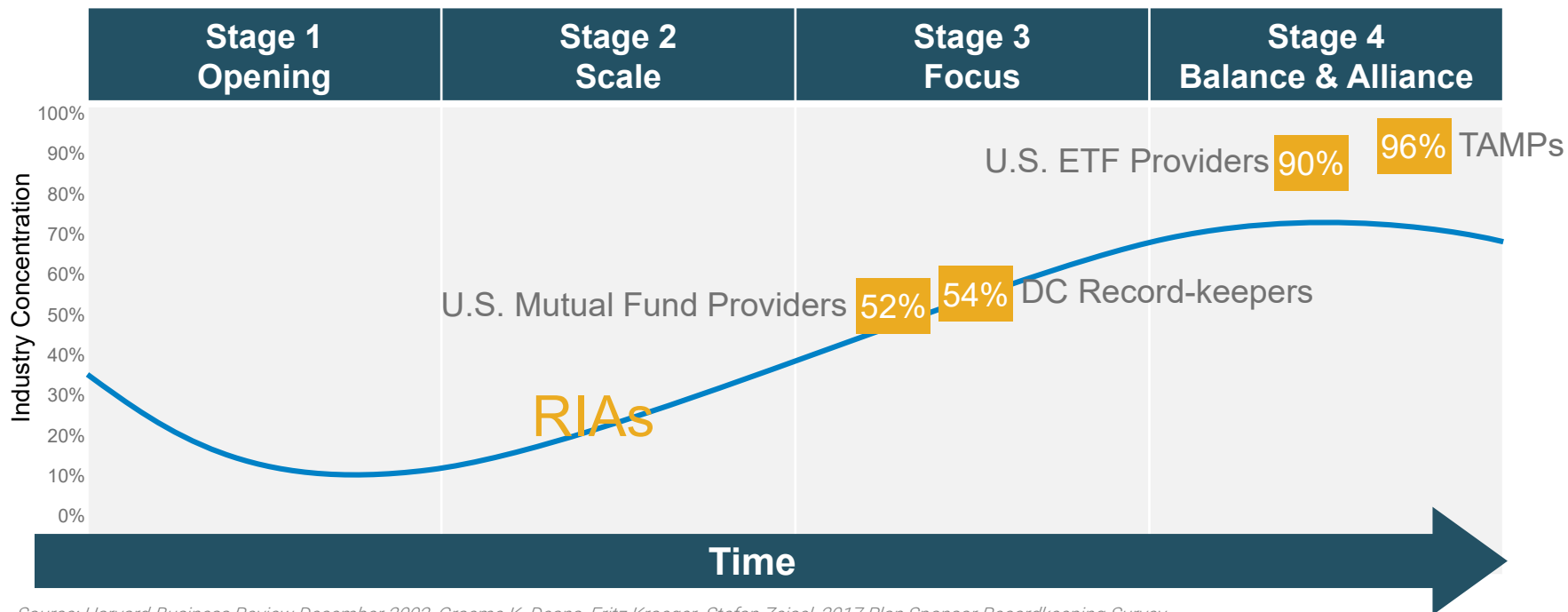


Est. 300,000
financial advisors

83,833
CFPs

Industry consolidation life cycle

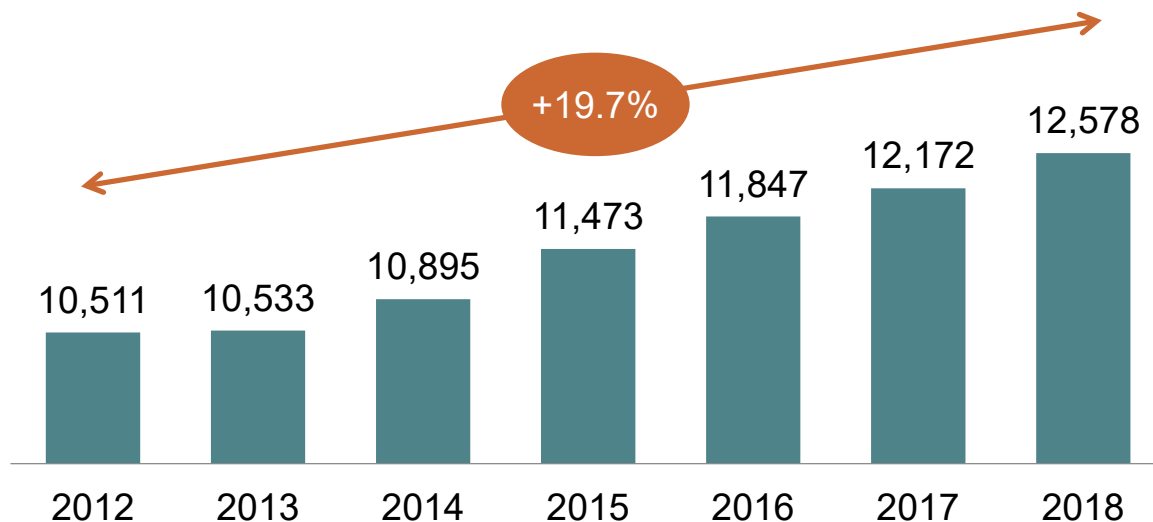
Once an industry forms or is deregulated, it will move through four stages of consolidation — or it disappears



Source: Harvard Business Review December 2002, Graeme K. Deans, Fritz Kroeger, Stefan Zeisel, 2017 Plan Sponsor Recordkeeping Survey, Morningstar Direct 12/31/2018, Wealth Advisor "America's Best TAMPs"

The RIA universe continues to grow

Number of SEC-Registered Investment Advisors

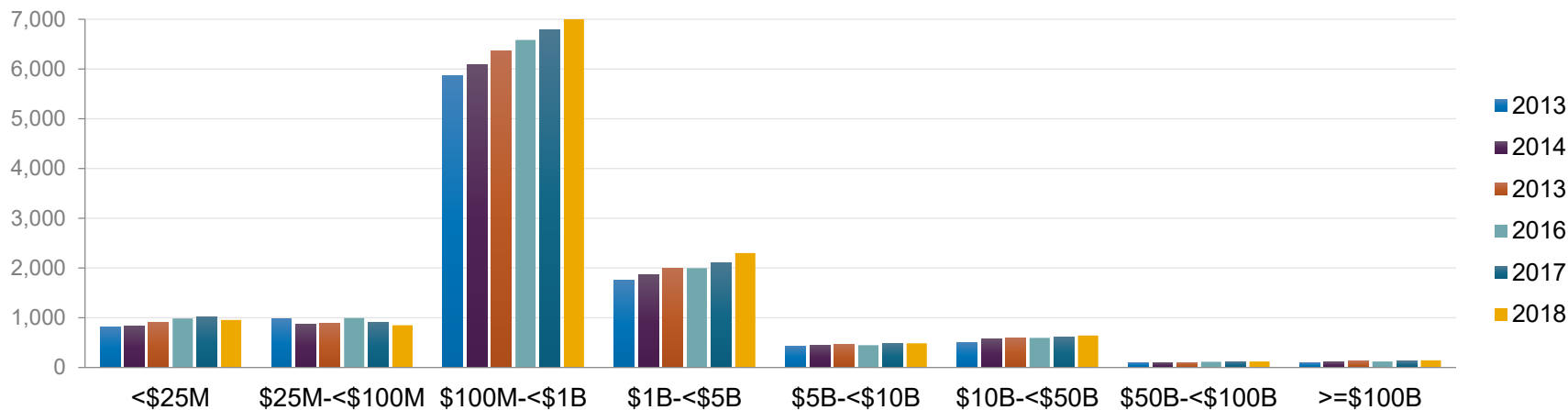


*This does not include
state-registered RIAs
(<\$100M)*

*In 2018 there were
over 17,500 state-
registered RIAs*

Highest RIA numbers – and highest growth – in the \$100M – \$1B AUM category

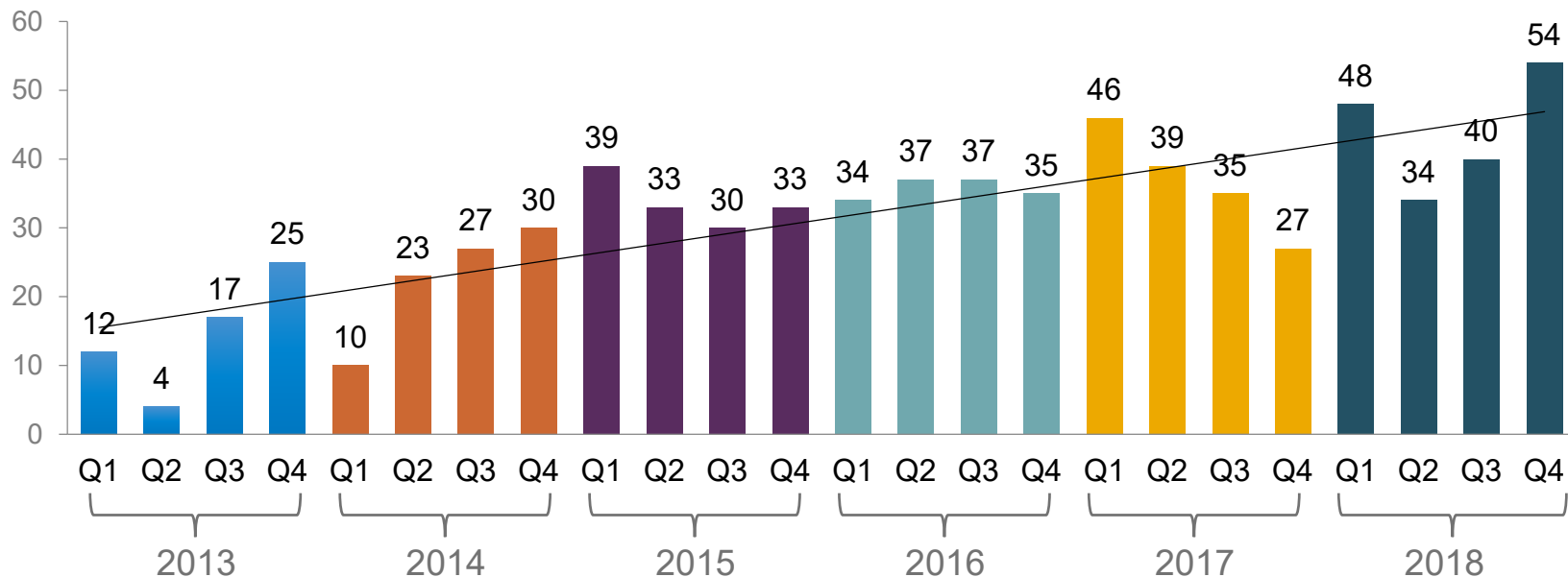
Number of SEC-Registered RIAs by AUM Category



*The average AUM for RIA firms is ~\$2.6B, yet only 2,000 firms exceed this average.
The median AUM for RIA firms is \$38 million.*

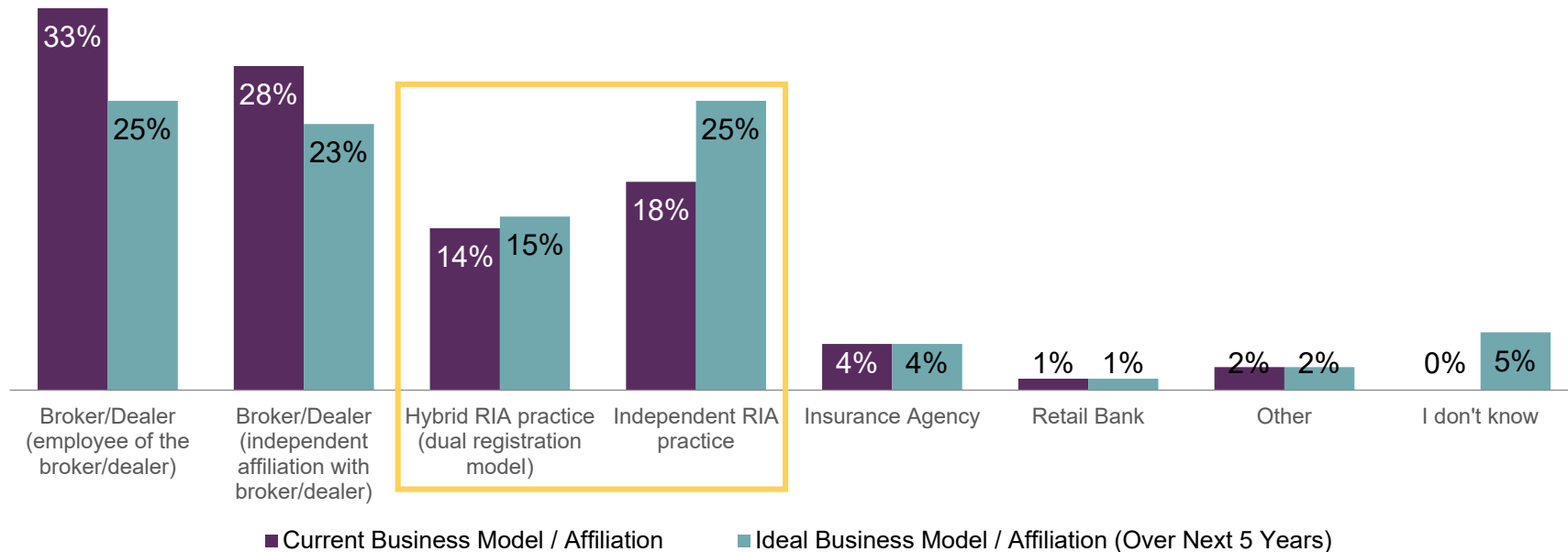
RIA M&A activity continues to trend upward

Number of RIA M&A transactions executed by quarter



New entrants will continue to put pressure on incumbent and mature RIA firms

Current and Anticipated Business Model



(n): 436

What are the key differentiators for future leaders in the wealth management space?



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Building for the future requires a focused approach



Focus on Value
Propositions



Advanced Technology
Platforms



Outsourced Functions
& Solutions

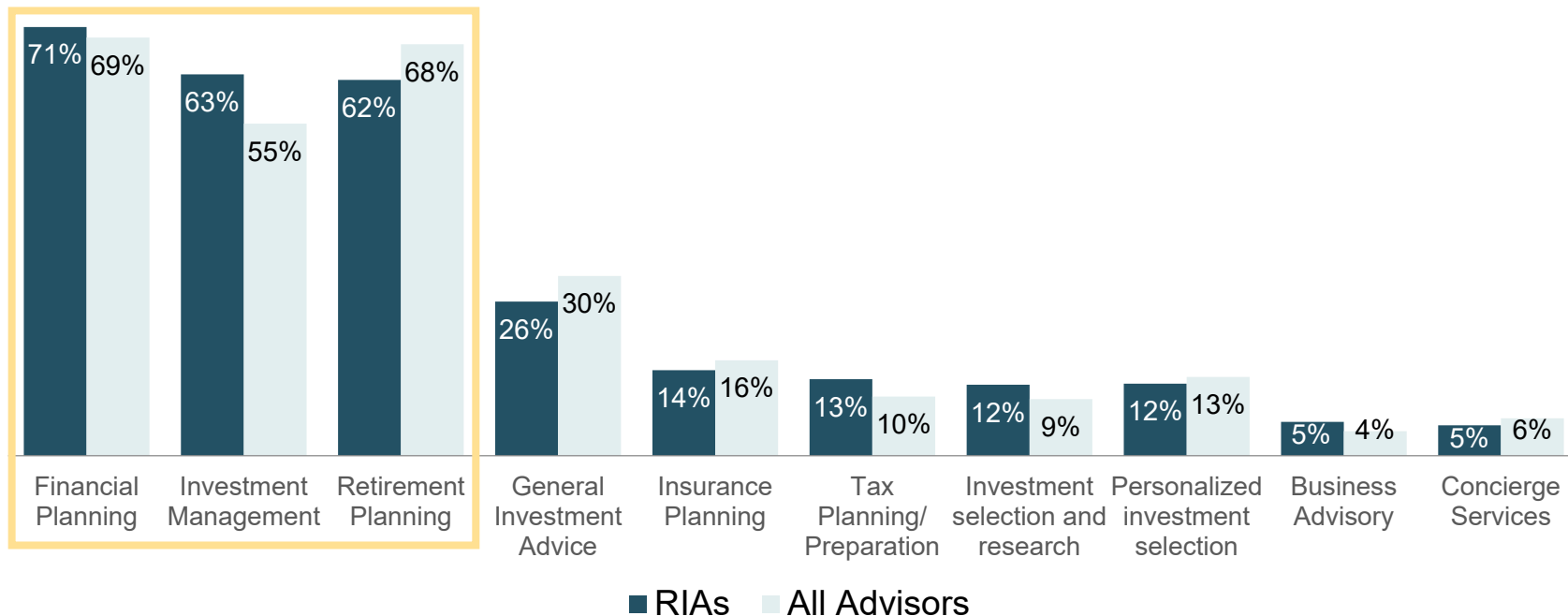


Staff Expansion



Services & Pricing

Core value proposition for RIAs is similar to that of other advisors



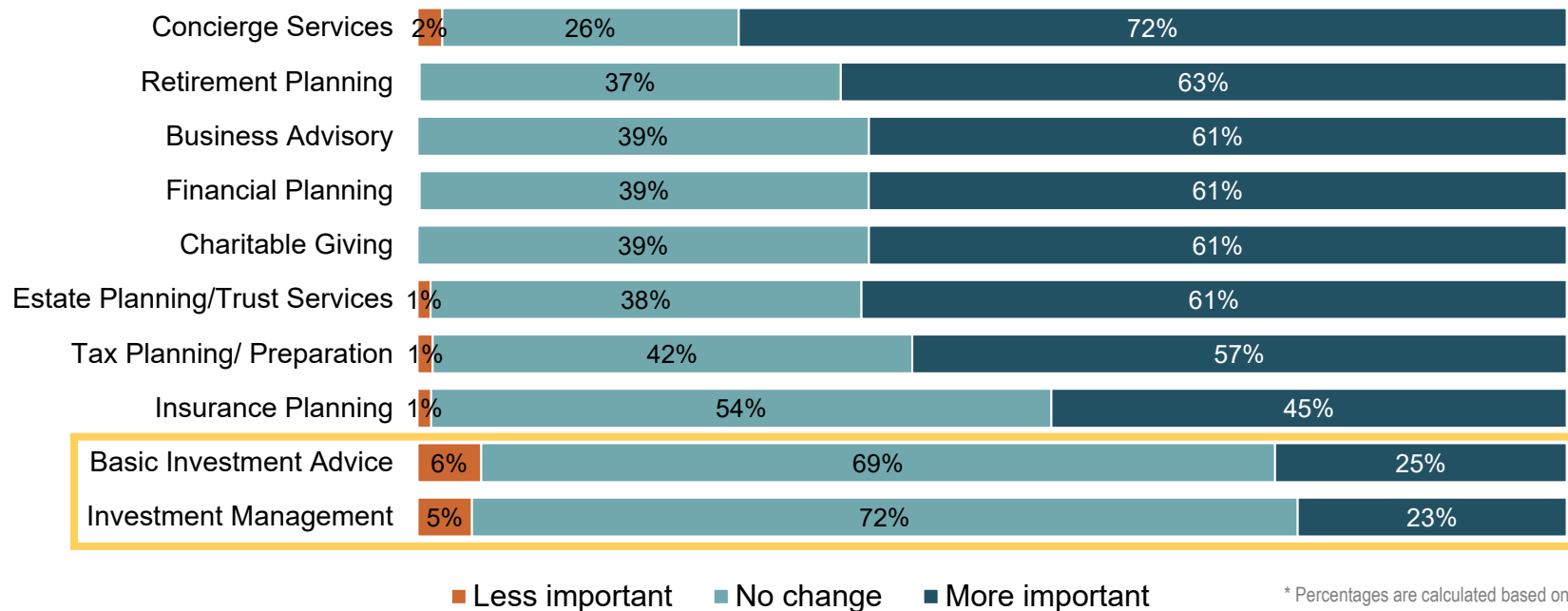
* Advisors were asked to select up to three value propositions so the choices above were not mutually exclusive.

Source: SS&C DST Advisor Insights in partnership with Horseshmouth. n = 1,694

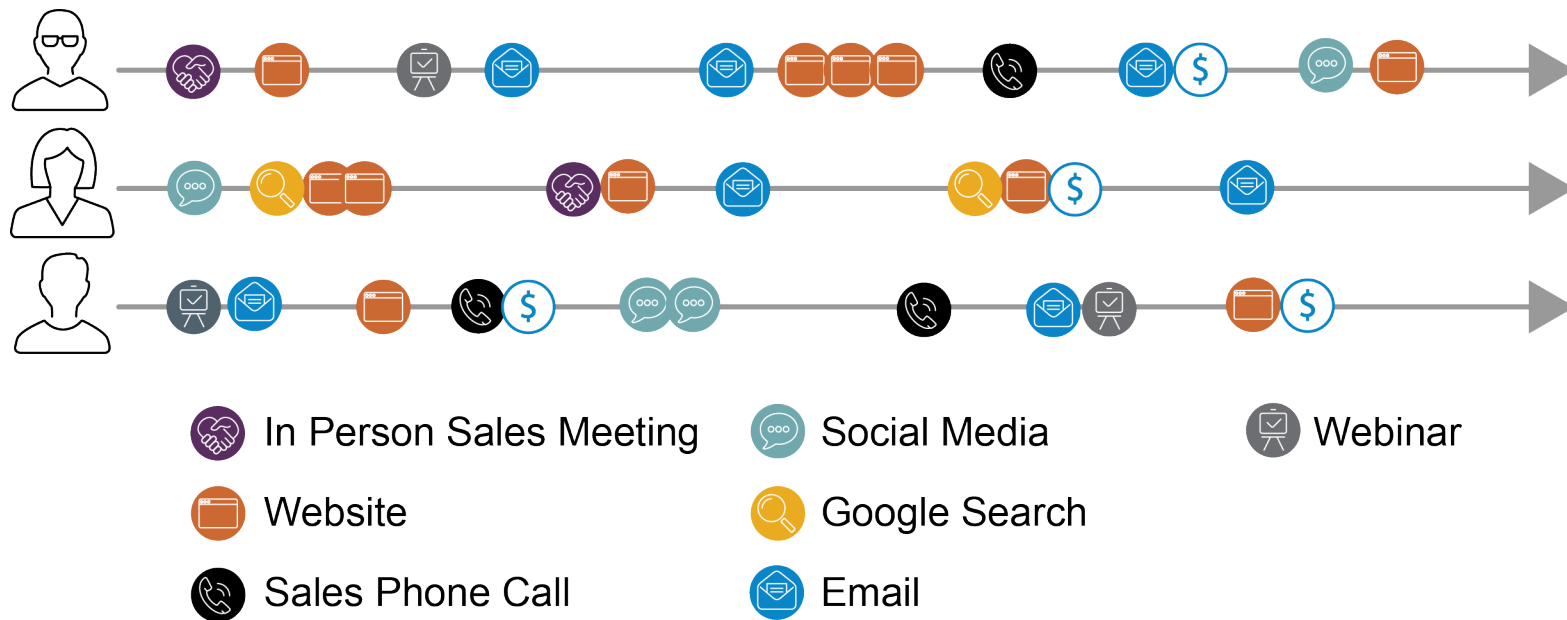
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Successful wealth management firms will increasingly resemble today's multi-family offices

Expected change in importance for key advisor value propositions



The customer journey is central to the acquisition and retention of a customer



All touchpoints in a customer journey — regardless of channel and device — should create a single, consistent and continuing experience with the firm

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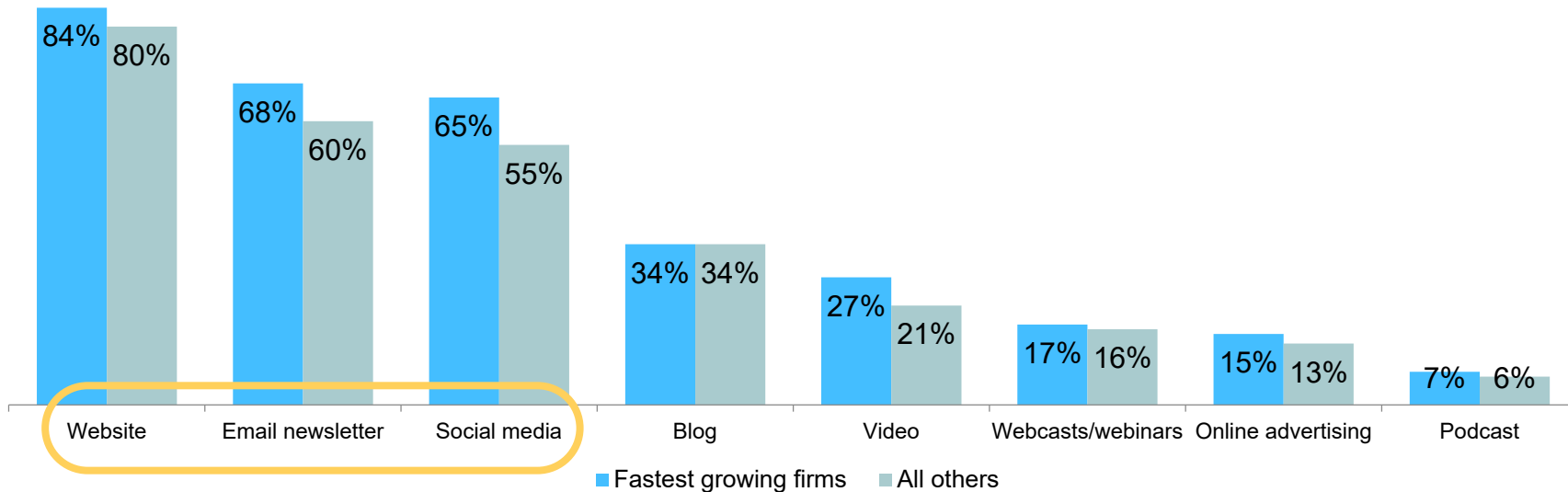


Services & Pricing

Technology is a must to improve client experience

Prioritize tech which improves firm scalability

Digital tools being used for growth: percent of firms

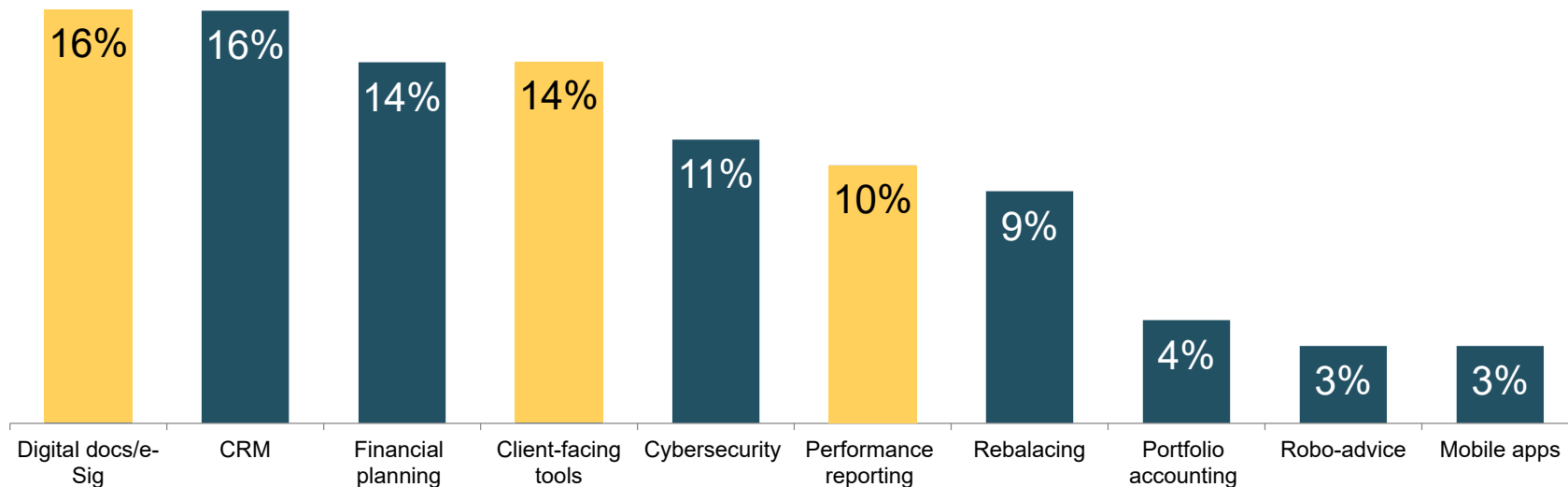


Source: 2018 RIA Benchmarking Study from Charles Schwab
(Fastest growing firms are top 20% of firms with \$250M or more in AUM based on 5-year CAGR)

Digital engagement is table-stakes for client engagement and acquisition

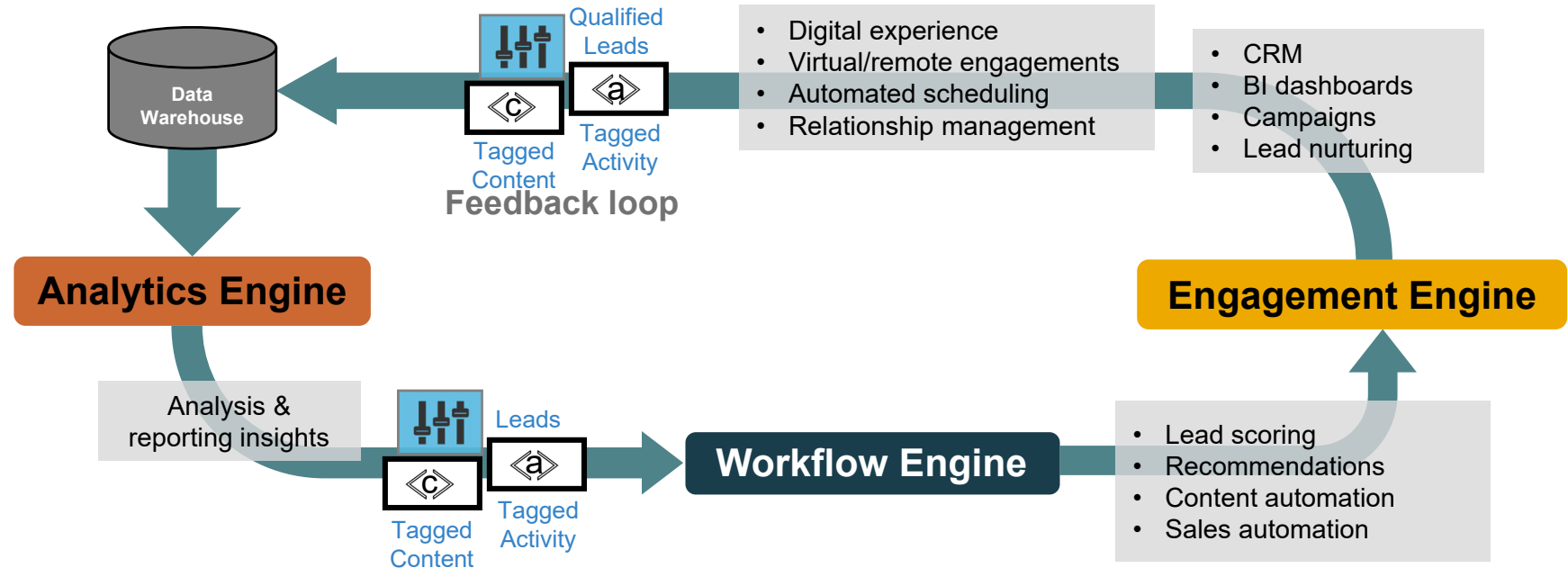
Large downside for bad experiences in simple tasks

Top tech solutions under consideration



End-to-end technology platform is necessary to improve client acquisition, management and retention

Several technologies are used in connection with one another and leveraged throughout the end-to-end sales enablement system. The following pages break down how each is used.



Building for the future requires a focused approach



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Staff Expansion



Services & Pricing

Wealth management technology platforms can automate and/or improve many functions

Insourced capabilities should all be tied to your unique value proposition

Prospecting & Proposals	Rebalancing	Proposals & IPS	Trust Accounting	On-boarding/ e-Sig	Trade Order Management
Asset Transfer	Aggregation	Asset Allocation	Custody Reconciliation	Advisor Dashboards	Statement & Document Management
Investment Selection & Portfolio Management	Manager Dashboards & Escalation	Performance, Analysis & Attribution	Manager Selection	Mobile Access	Feeding
	Pre-Trade Compliance	Sleeve Management & Overlay	Client Self-Service	Workflow	

New technologies enable streamlined workflows, better efficiencies and more time serving clients

How firms are spending their technology dollars:

58%

- Workflow tools (e.g. account opening and on-boarding, data aggregation, reporting, etc.)

19%

- Building a digital experience combining back, middle and front office solutions

13%

- Financial planning tools (e.g. cash flow planning, estate planning, goal-based planning, etc.)

10%

- Building a client portal

Building for the future requires a focused approach



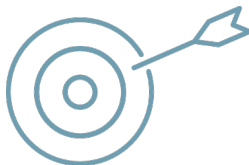
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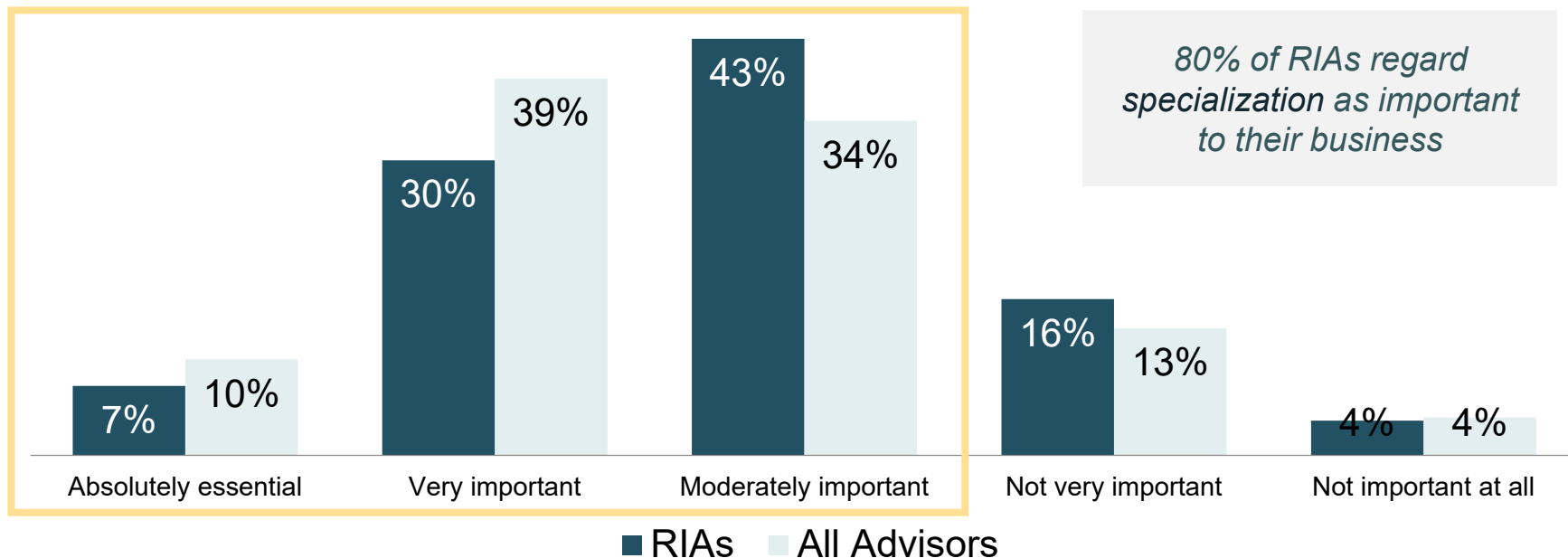
Staff Expansion



Services & Pricing

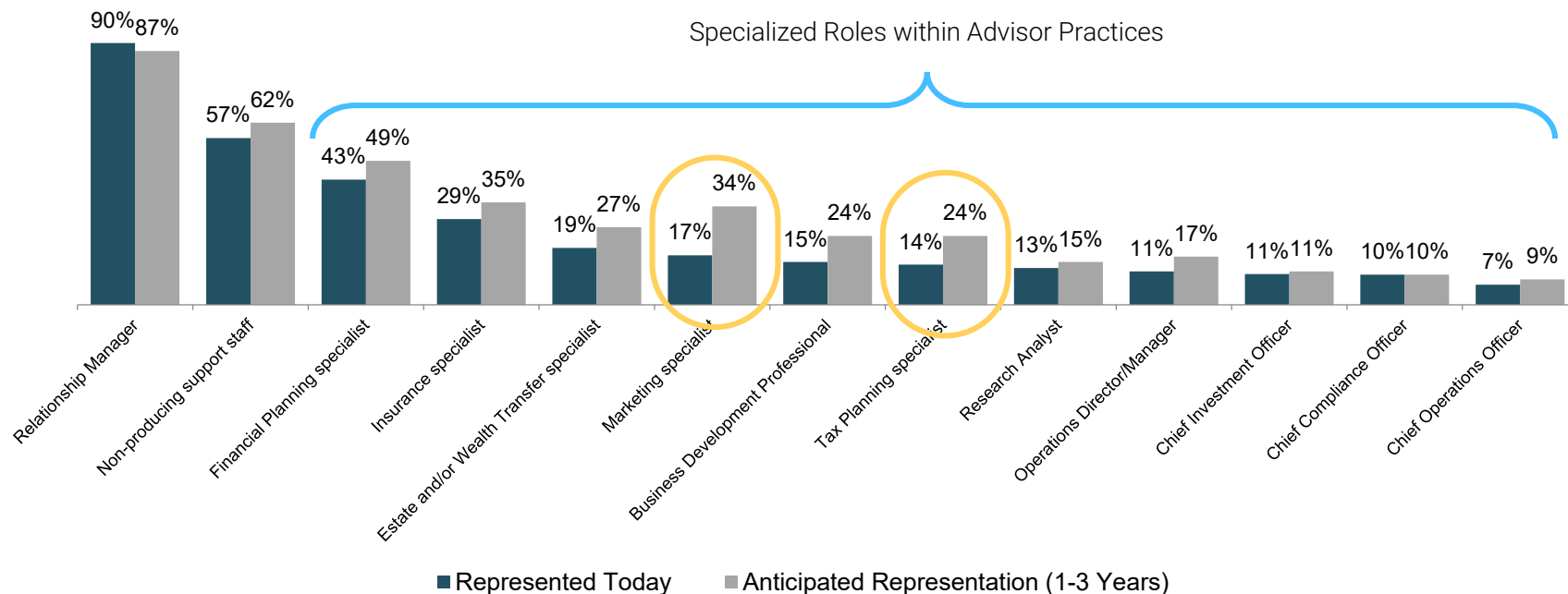
Like most advisors, RIAs believe specialization is important to business success

Importance of specialization to business success



Expectations to increase the number of specialists within the next 1–3 years

The Advisor Practice: Percentage of Roles Represented on Average



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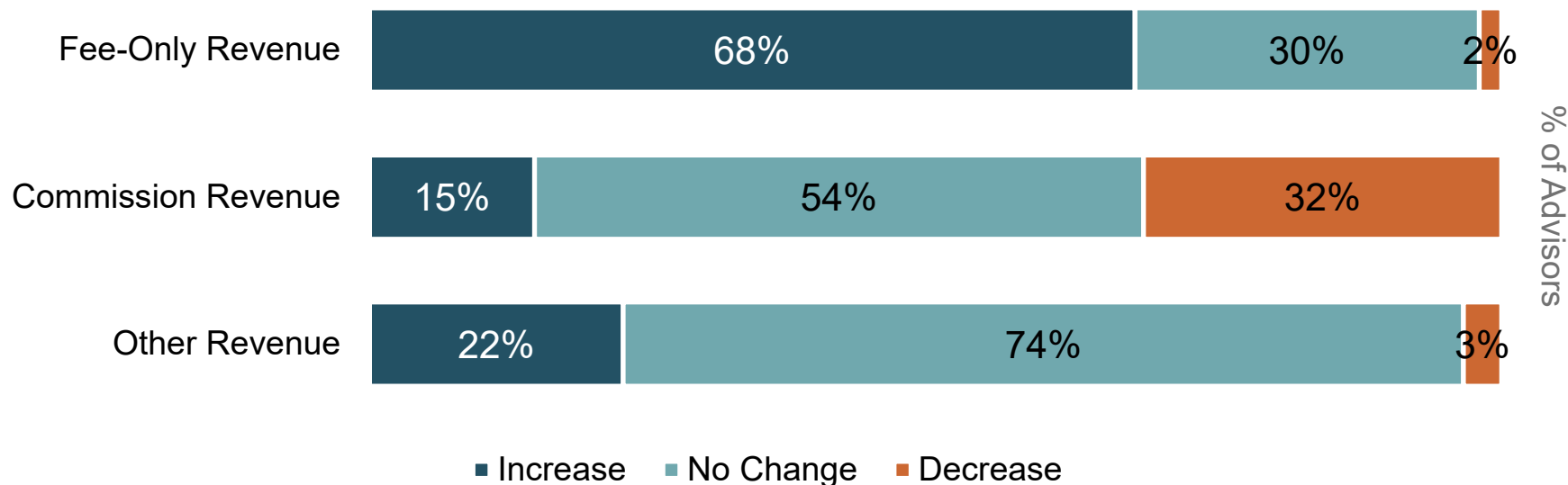
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Services & Pricing

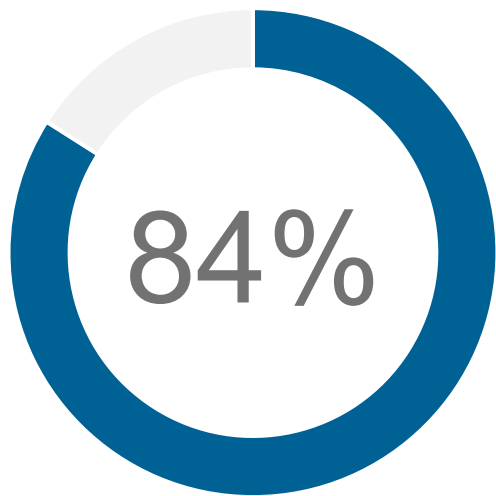
Expected change in revenue sources

Over two-thirds of advisors expect fee-only revenue to increase, with nearly a third of advisors predicting a decrease in commission revenue

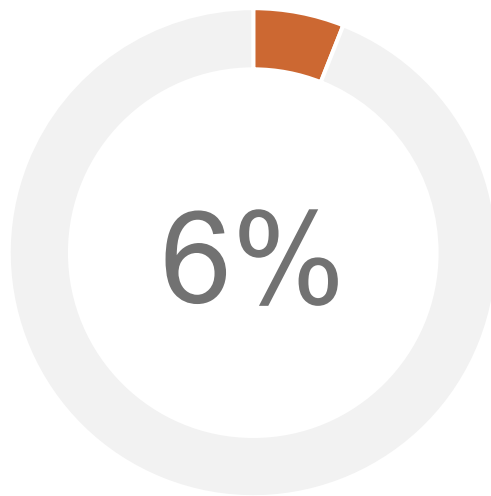


While asset managers are facing the brunt of fee pressures, wealth managers are next

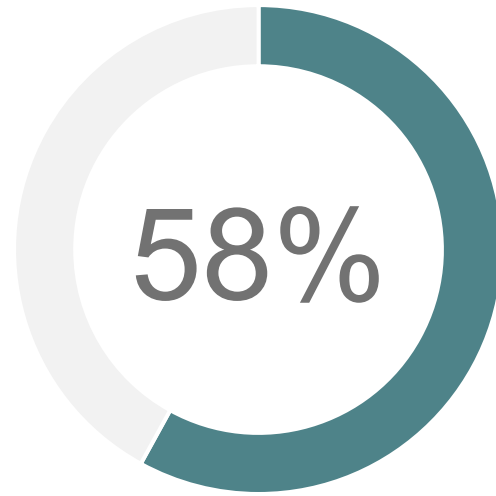
Elite firms not feeling pressure to reduce fees



Firms kept fees steady



Firms decreased fees



Firms not receiving
pressure to reduce fees

Holistic wealth management driving business and maintaining pricing

Key drivers of pricing power include:

58%

Holistic wealth management services

(include estate planning, tax planning, private banking, etc.)

32%

A strong brand that articulates a unique value proposition

10%

A solid network of client referrals

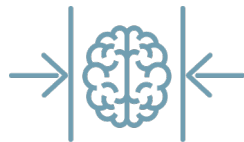
Top three areas for business growth:

- 74% tax planning
- 61% philanthropic investments, alternative investments
- 52% private banking solutions

Conclusion – Create your roadmap for the future!



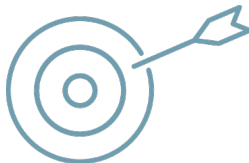
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