



Industry Trends & Dynasty Guidance

Q3 2022

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Insights Heading Into Q3 2022

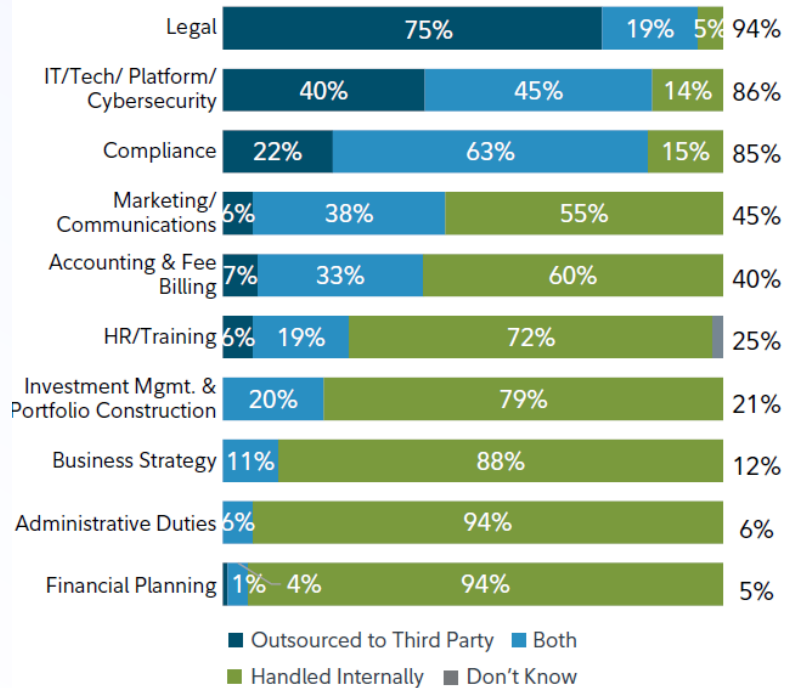


Outsourcing: Impact on Growth, Compensation, and Advisor-to-Client Ratio

Outsourcing Practices by Business Function

Percentage of firms

Outsourced NET



Fidelity's RIA Benchmarking Study found that **82%** of all firm types* who outsource six or more functions reported growth in the past year. Only **69%** of firms that do not outsource reported growth.

Advisors who outsource report **higher growth**, **higher compensation**, and **fewer clients per advisor**.

As a firm outsources more non-client-facing business functions, the advisor-to-client ratio drops.

Why? Outsourcing frees up an advisor's time, so they can offer more attention and perhaps even specialized services to their clients, making it easier to move up market and target wealthier households, which helps them build a smaller book of larger clients.

Outsourcing and Growth

Percentage of firms

Don't outsource Outsource 1-5 functions Outsource 6+ functions

	Don't outsource	Outsource 1-5 functions	Outsource 6+ functions
Percent reporting client/household growth in past year	69%	77%	82%
Percent reporting asset growth in past year	84%	89%	94%
Past year organic AUM growth percentage (Mean)	6%	7%	9%
Past year compensation (Mean)	\$359K	\$355K	\$381K
Past year Individual/ HH Clients per advisor (Median)	160	150	140

The Market Opportunity: An Underserved Client Segment

There is a sweet spot of clients that is underserved by the industry. This segment is wealthy enough for very personalized financial advice, but not quite elite enough for multi-family office services (\$3-\$25m). A Fidelity study focused on “decamillionaires” (i.e., those with \$10m+ in investible assets) found that this client segment expressed low satisfaction with advisors, which presents a unique opportunity for RIAs.¹

Almost Half



Want their advisors to provide more comprehensive services, including estate planning, tax services, and long-term care planning

Only 1 in 7



Say that their advisor offers more holistic financial planning services, beyond just investment management

<25%



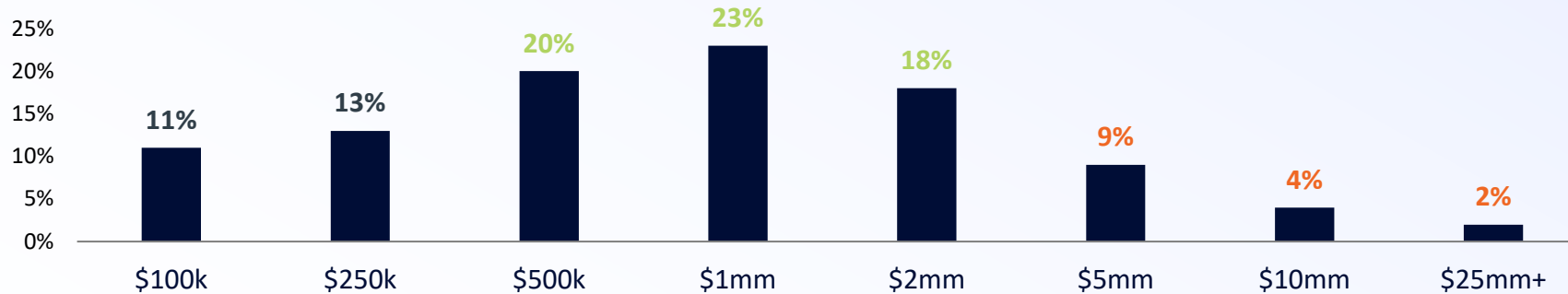
Believe that their advisors use technology to be more accessible

Only 20%



Stated that they would be likely to transition their assets to a new firm in order to retain their advisor

% of an Independent Advisory Firm's Client Base by AUM Segment²



Independent advisory firms typically service clients between \$500k and \$2mm in AUM, with 61% of client assets residing within these segments.

The ability to attract and service larger clients is directly related to firm size, as larger firms have the resources and infrastructure to cater to upper market demands.

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If your firm is looking to **move up market and target wealthier households**, consider the underserved client segment between \$3-25MM in assets. This segment is wealthy enough for very personalized financial advice, but not quite elite enough for multi-family office services. In order to focus your time and resources effectively in servicing these clients, consider what business functions your firm currently keeps in-house that could potentially be outsourced.

M&A Trends in 2022

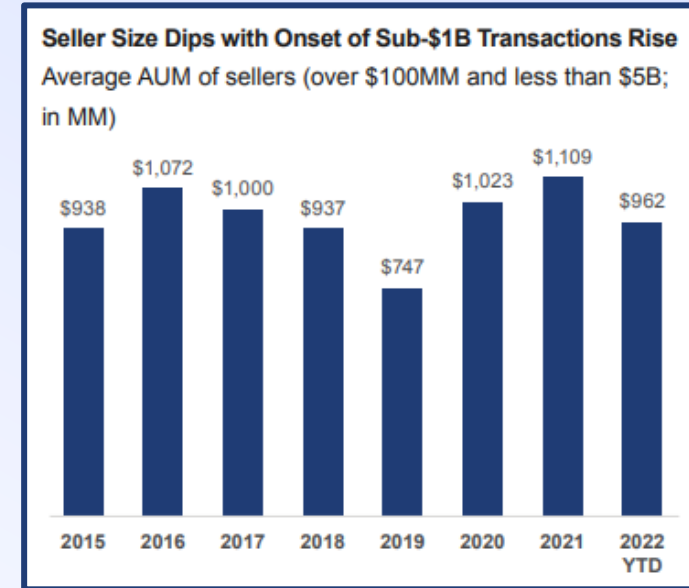
RIA wealth managers continue to grow at a fast pace

- There are ~872 RIA wealth managers with \$1B+ in AUM (a 16% increase from 12/31/2020)¹
- There are 167 firms with \$5B+ in AUM (a 23% increase from 12/31/2020)¹
- There are 75 firms with \$10B+ in AUM as of 12/31/2021¹
- M&A continues to be a driver in growth
 - 41 of \$1B+ firms from Fidelity's 2019 list have since joined into another \$1B+ RIA (as of 5/31/2021)¹
 - 9 new additions to Fidelity's 2021 list reached the \$1B threshold via M&A (as of 5/31/2021)¹

Trends in M&A activity in a turning market



- RIA M&A activity in Q1 started 2022 off strong with 67 transactions²:
 - January: 27
 - February: 23
 - March: 17
- DeVoe notes the slight deceleration in transactions each month – this could be tied to the volatility in our world right now: the recent events in Russia and Ukraine, inflation, rising interest rates – but it's too soon to tell if this trend will continue in following quarters.



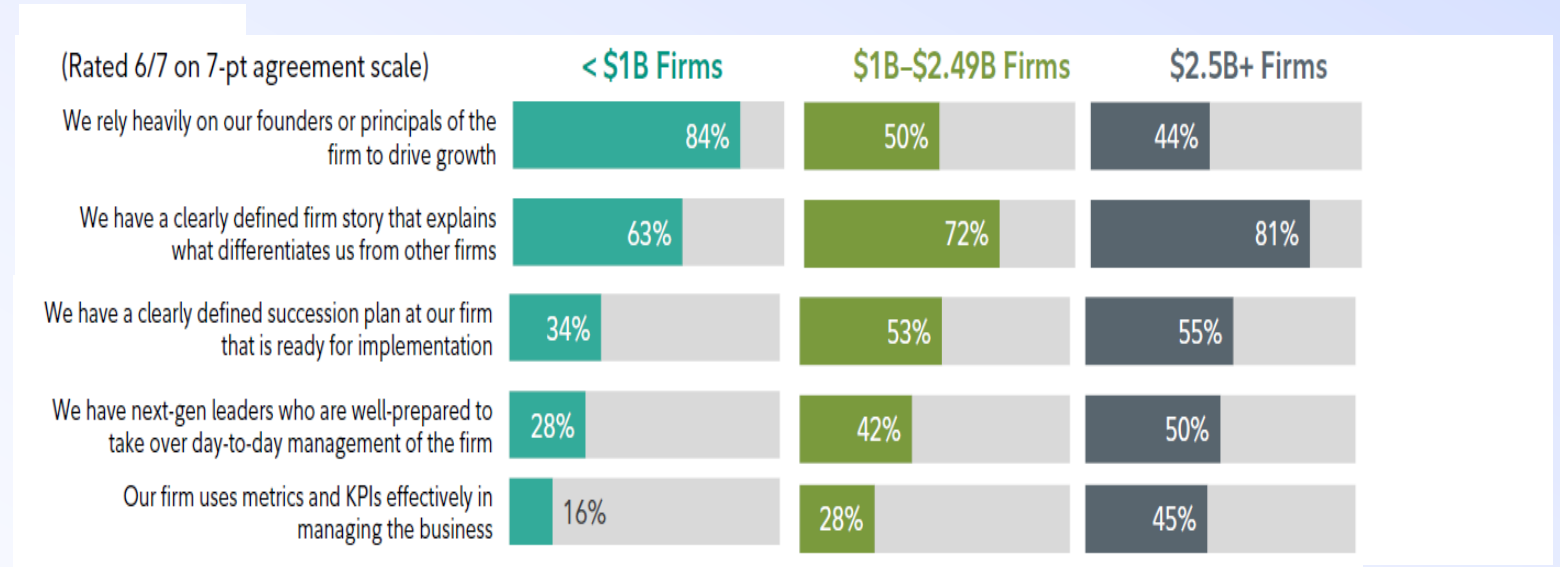
- M&A activity amongst small-size (firms with AUM between \$100M to \$500M) and mid-size sellers (firms with AUM between \$501M to \$1B) increased in Q1 2022, comprising 70% of all transactions.² In 2021, these two groups of sellers made up only 59% of all transactions.
- As seen in the chart above, the average AUM of sellers in Q1 2022 was just under \$1B, slightly lower than the \$1B+ trend we've observed in 2020 and 2021.²

Are RIA market valuations peaking?

- In Citywire RIA's latest issue, they comment on how high RIA valuations have been over the past couple of years, perhaps due to the impact that a strong market environment and low interest rates has had on optimistic acquirors who assumed these conditions would last forever.³
- With the S&P 500 down 21% YTD and the Fed's third interest rate hike this year, the writer warns that these high multiples may have peaked.³

\$2.5B+ Firms and How They Differ

- <\$1B firms rely almost twice as much on their founders or principals to drive firm growth when compared to firms with \$2.5B or more in AUM
- \$2.5B+ firms are ~3x more likely than <\$1B firms to use metrics and KPIs to manage their business
- \$2.5B+ firms are more likely to have next gen leaders and a clearly defined succession plan in place than smaller firms



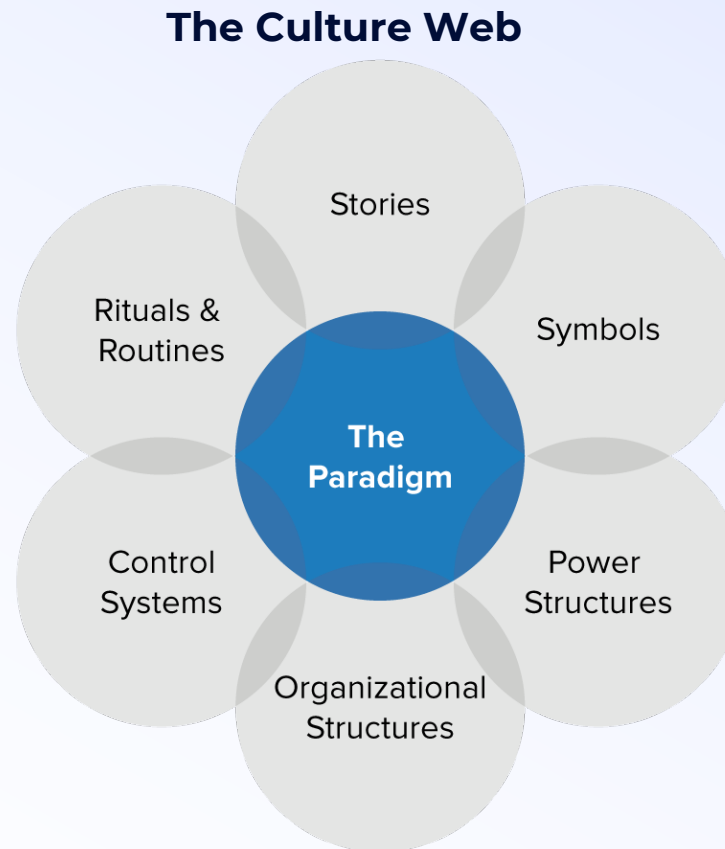
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81% of larger firms have a clearly defined firm story that differentiates them from competitors, which is one of the reasons they don't need to rely heavily on their founders to drive growth. In addition to ensuring your **firm's value proposition and key differentiators** are clearly defined and communicated **internally** to your team and **externally** with your clients and prospects, Dynasty suggests that firms work on **building a growth culture** in their firm with their Dynasty Relationship Manager.

How do you build a growth culture? Discussions with your Relationship Manager will start with your firm completing Dynasty's growth diagnostic before diving into a variety of topics specific to your firm.

Turning Your Culture into a Talent Acquisition Strategy

- The Great Resignation, The Great Reshuffle, The Great Reflection – whatever you call it, we have witnessed **record numbers of employees leave their companies since January 2021**.
- Why are people quitting their jobs? **Living amidst a pandemic gave employees the chance to decide what they really want to do with their lives**, with their work, with their time – and act on it.¹
- It's clear that employees want to feel fulfilled by their work and believe in what their company is trying to accomplish, so working on **strengthening your firm's culture authentically is an excellent strategy to attract and retain top talent**.
- Earlier this quarter, the inaugural class of the Dynasty Advisor to CEO Program spent three days in Cambridge at MIT Sloan's School of Business, where we covered a variety of topics, including Court Chilton's session on Entrepreneurial Leadership, where he discussed how to enroll people and sustain cultural change.



Six Elements that Cue an Organization's Paradigm²

- **Stories:** What is often told?
- **Symbols:** Logos, offices, titles, prizes, plaques, privileges, etc.
- **Rituals & Routines:** What are the organization's habits, meetings, ceremonies, celebrations, and rites of passage?
- **Organizational Structures:** What are the reporting lines, decision-rights, and accountabilities?
- **Control Systems:** What are the metrics, OKRs, KPIs, rewards, hiring/firing/promotion criteria?
- **Power Structures:** Where does the real, often informal power lie? Who are the true decision influencers?

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