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2017 ADVISER COMPENSATION & STAFFING STUDY

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About this study

The survey was conducted between April 11, 2017 and June 9, 2017. The data collected was analyzed and assessed by the teams at *InvestmentNews* Research and The Ensemble Practice. In total, qualified data was used from 353 firms who supplied detailed financial information for their organizations, including data on clients, assets under management, revenue, profit & loss statement, staffing, service structure and recruiting, as well as salary, compensation and other key demographic information about every member of their staff.

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The data reported in this study was provided directly by participants to *InvestmentNews* Research. *InvestmentNews* Research was not engaged to and did not audit or review this information and, accordingly, 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, it is representative of the firms that elected to participate in this survey.

InvestmentNews Research

The mission of *InvestmentNews* Research is to provide financial advisers with the industry's most informative practice management 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, while we have also introduced new studies on technology and succession planning that support the growth and development of financial advisory firms.

Led by VP and *InvestmentNews* Publisher Suzanne Siracuse, Associate Publisher Mark Bruno, Senior Research Analyst Matt Sirinides, and Research Associate AnnMarie Pino, our studies are supported and driven by a team with over 40 years of combined experience and exposure to the ever-evolving financial advisory business.

In addition to our research studies, *InvestmentNews* Research also produces regular webcasts and regional workshops that arm advisers with actionable insights. Our events allow advisers to hear directly from some of the industry's leading experts - and also network with other advisers who are looking to improve their practices and grow their businesses.

Custom research: One of the core capabilities of *InvestmentNews* Research is providing custodians, broker-dealers and RIAs with custom benchmarking reports and white papers that leverage our deep data and analytical expertise. For more information about custom research requests and *InvestmentNews* Research, please contact Mark Bruno at 212-210-0116 and mbruno@investmentnews.com, or visit research.investmentnews.com/dashboard.

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The Ensemble Practice

The Ensemble Practice LLC is the premier business consulting firm for the financial advisory industry. It is committed to helping independent financial advisers create multi-professional ensemble firms with strong organic growth and sustainable profitability. The Ensemble Practice works with the top wealth management firms in the country. The firm also hosts the "G2 Leadership Institute"—a training program for the future leaders of advisory firms. The firm is founded and led by Philip Palaveev, a highly regarded industry expert, thought leader and author of the book "The Ensemble Practice."

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FOREWORD

THE 2017 *INVESTMENTNEWS* ADVISER COMPENSATION & STAFFING STUDY

Foreword by Gabriel Garcia
Managing Director
BNY Mellon's Pershing Advisor Solutions

Over a quarter-century of evolution has taken place since the first benchmarking study was published in 1991 for the IAFP (International Association of Financial Planners), conducted by our CEO Mark Tibergien while he was with Management Advisory Services and subsequently Moss Adams. The 2017 Compensation & Staffing Study marks the 9th consecutive year that Pershing has sponsored this study, which showcases key trends in the advisory business. This year's findings reveal the great extent to which the independent financial advisory industry has evolved and highlights trends that deserve the attention of enduring advisory firms. The advisory industry is experiencing stable levels of profitability and owner income. It continues to grow, although rates of growth are slower than they were just five years ago.

While the overall results for the industry remain impressive, each firm should review its own performance and find areas where it can improve, whether that is growth, profitability or productivity.

Although the median revenue growth rate for firms taking part in the study was a respectable 5% in 2016, that result was down from the 8% growth rate of 2015 and less than half the rates experienced in 2014 and 2013. If single-digit growth rates persist, it may signal an industry-wide shift: from an era of rapid expansion to one of steady, more measured growth as befits a maturing industry.

Such a shift will require significant changes in how firms manage and reward their professionals. The study reveals that from 2015 to 2017, the salaries for many common positions have outpaced firms' revenue rate increases, with double-digit salary increases among support advisors, service advisors and lead advisors. With revenue growth slower than compensation growth, firms will undoubtedly see reductions in profitability. This paradox and related study findings suggest that firms will need to recalibrate numerous aspects of the business—including compensation, training, productivity management and a firm's culture as a whole—to maintain profitability and build capacity for growth.

The fundamental message of this year's study is a positive one: that our industry continues to thrive. With the right insights and actions, advisory firms can evolve their businesses to sustain success in a maturing marketplace. Our goal for these benchmarking studies is to provide firms with both ideas and insights as you grow your enduring business in this new and exciting era for the advisory industry.

FOREWORD

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EXECUTIVE SUMMARY: 2017 SURVEY REVEALS A MATURING INDUSTRY

Every year over the last 20 years, we have reached out to independent advisory firms to uncover standards of excellence and trends that impact the industry as a whole. Every other year, we have also surveyed the compensation of the most common positions inside advisory firms. This year's survey includes the full financial and compensation data of 353 firms that represent a cross-section of the industry in terms of size, geography and client services.

The 2017 survey reveals the great extent to which the independent financial advisory industry has evolved. It is experiencing stable levels of profitability and owner income. It continues to grow, but rates of growth are slower than they were just five years ago. Productivity ratios remain relatively unchanged, but increases in compensation are slow and do not yet create pressure on the gross margins of firms. In their totality, these results suggest an industry that is beyond its early years of expansion. It is steadier, more stable and, perhaps, more mature.

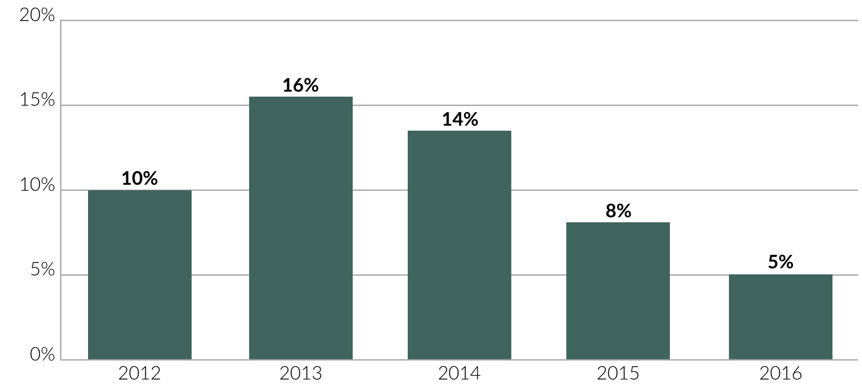
Overall results in the industry remain impressive, but each firm should review its own performance and find areas where it can improve, whether that is growth, profitability or productivity. With levels of compensation steadily on the rise, the challenge for most firms today is adjusting to slower rates of growth while managing the career expectations of partners and staff. Meeting those expectations without changes in productivity and leverage will be difficult, and this challenge may ultimately change the culture of most firms.

While times of fast growth favor creativity, initiative and opportunistic behavior, the mature stage of an industry tends to favor firms that can show discipline and execution while continuing to grow and expand. Growth can erase many problems, but it can also expose many weaknesses as its rate begins to decelerate. We hope this report can become a catalyst for practical changes in firms of every size. As always, we are deeply thankful to all firms who participated and who make this valuable industry resource possible.

Slowing Growth and Rising Salaries

The independent financial advisory industry continues to grow and be successful, but the rate of growth for revenue is below the 10% goal most firms reported they would be targeting in last year's benchmarking study. As shown in **Figure 1**, the median revenue growth rate for firms participating in this year's survey was 5% in 2016.

FIGURE 1: Median revenue growth for all participating advisory firms over the last five years

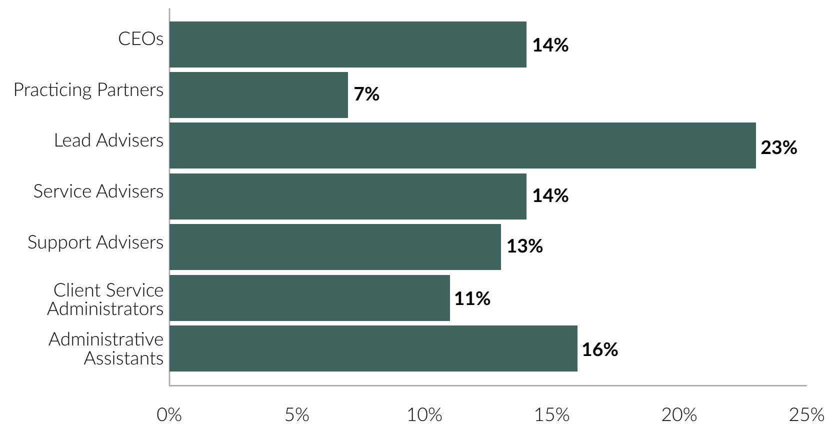


*Source for all historical data: *InvestmentNews*/Moss Adams benchmarking studies

As we will see, this revenue growth rate is slower than the growth in compensation for nearly all positions in the firm—from partners and executives to professionals and operations staff. With revenue growth slower than compensation growth, firms are bound to soon see reductions in profitability.

Salaries across the firm have increased over the last two years. As shown in **Figure 2**, lead advisers saw a salary increase of 23% between 2015 and 2017, the largest increase across all positions. Other professional compensation also increased at double-digit rates over the same period: CEO salaries increased by 14%, service adviser salaries by 14% and support adviser salaries by 13%. With free capacity in most firms being low, the high demand for professionals is likely to continue. We therefore expect compensation to continue to increase steadily.

FIGURE 2: Growth in salaries for professional positions between 2015 and 2017

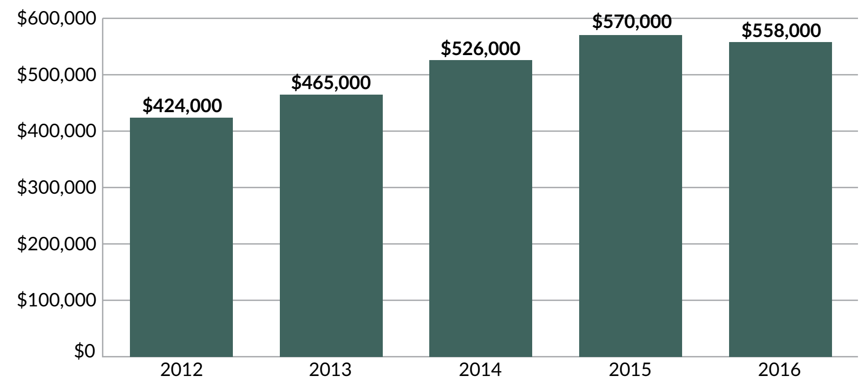


Firms do not appear to be recruiting very aggressively, especially at positions that require more experience. When we look at hired staff in 2016, 9% of firms hired a lead adviser, 11% hired a service adviser and 14% hired a support (level 3) adviser. Clearly, firms prefer to hire less experienced staff and train them internally over seeking experienced hires who can immediately add to capacity.

Partner Income

Partner income comprises compensation for working in the firm and profit from being an owner in the firm. Steady profits continue to increase partner income at advisory firms. As shown in **Figure 3**, partners had an average income of $558,000 in 2016. While partner income remains high, this is the first time in five years that we report a decrease over the previous year.

FIGURE 3: Average partner income over last five years for all participating firms

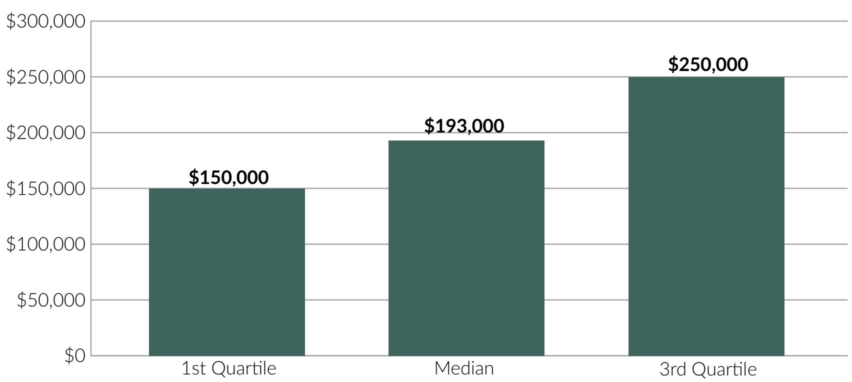


Perhaps the decline in the average partner income is a reflection of the increased number of partners. Eight percent of all firms in the survey "promoted" a professional to partner (an owner) in the firm. If the number of partners grows more rapidly than revenue, the result is a dilution of partner income. Compensation growth for positions across the firm, as discussed previously, may also be a factor in this trend.

While overall partner income has decreased from 2015, the compensation component of that income has increased. We noted a 7% increase in practicing partner salaries. So while partners are getting paid more to work in the firm, they are perhaps starting to see lower profits for being an owner in that firm.

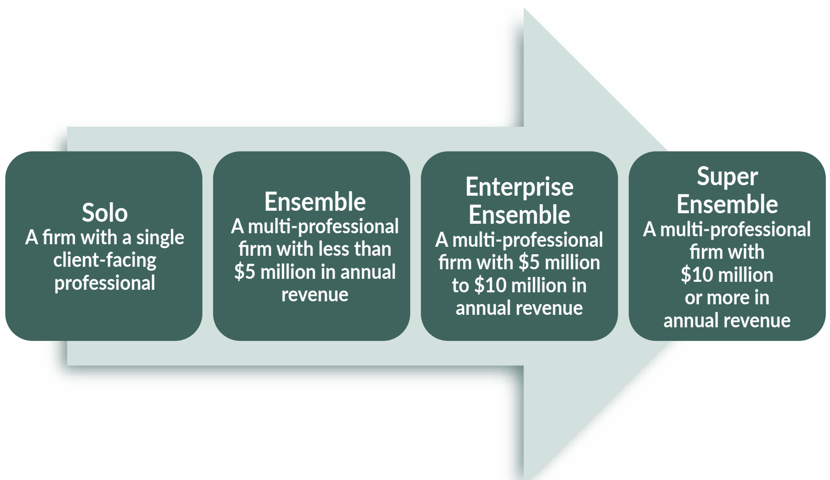
The majority of advisory firms in the survey (70%) compensate their "practicing partners"—partners who are lead advisers—with salaries. A minority of firms (22%) use variable pay such as "payouts," where partners receive a percentage of the revenue they generate. The remaining firms do not use compensation at all and instead only rely on profit distributions. In firms where practicing partners are compensated with a salary, the salary ranges from $150,000 (1st quartile) to $250,000 (3rd quartile). The median salary for a practicing partner is $193,000 (**Figure 4**).

FIGURE 4: Partner salaries: interquartile range and median for all participating firms



Executive Compensation

While the industry uses the term "partner" to signify its most experienced professionals, the typical advisory firm is far from a partnership in the way it is run. Most firms are run as a professional organization led by an executive team. These firms recognize the importance of management and dedicate time and budgets to the executive functions in the firm. Firms of all sizes have increased their use of professional executives who manage the business as a primary responsibility.

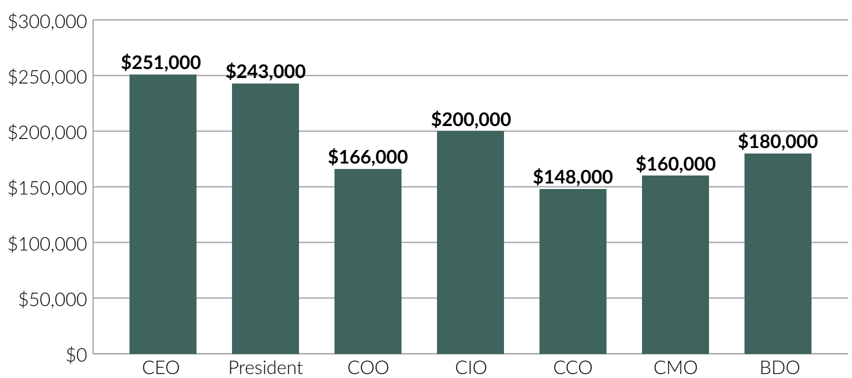


ADVISORY FIRM EVOLUTIONARY STAGES

The modern advisory firm is a well-managed enterprise led by a chief executive officer (CEO) who is focused 100% on the pursuit of the firm's vision and the execution of the business plan agreed upon by partners and owners. Dedicated CEO positions are very much the norm among the largest firms in the industry (the Super Ensembles). Even smaller Ensembles are carving out at least a portion of the time and capacity of their top partners to the executive function. The same is true for other executive positions such as chief operating officers (COOs) and chief marketing officers (CMOs).

The CEO position is reported by 76% of Super Ensembles, 75% of Enterprise Ensembles and 52% of smaller Ensembles. The salary for CEOs ranges from $175,000 (1st quartile) to $350,000 (3rd quartile) in 2017, with a median salary of $251,000 and a median bonus of $76,000. In comparison, the COO position earns a median salary of $166,000, and the chief information officer (CIO) position earns a median salary of $200,000 (**Figure 5**).

FIGURE 5: Median salaries for executives in 2017

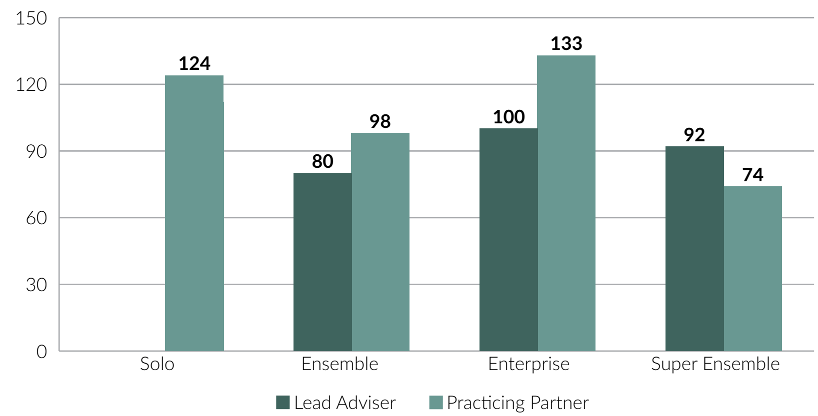


Managing Capacity

Creating and utilizing capacity is one of the most pressing issues for advisory firms. As mentioned previously, 20% percent of all firms in the survey tell us they are at capacity and cannot grow any further. Another 69% of firms are very near their capacity limits. For many firms, the reason for slow growth can be found in the lack of capacity to absorb that growth.

The median number of client relationships managed per lead adviser is 80 at Ensembles, 100 at Enterprise Ensembles and 92 at Super Ensembles (**Figure 6**). With the exception of Super Ensembles, the expected number of client relationships managed per practicing partner (i.e., lead advisers who are also owners) is higher than it is for the lead advisers. The median number of client relationships per practicing partner is 112 at Solo firms, 98 at Ensembles, 133 at Enterprise Ensembles and 74 at Super Ensembles.

FIGURE 6: Median number of client relationships managed by lead advisers and practicing partners, by evolutionary stage

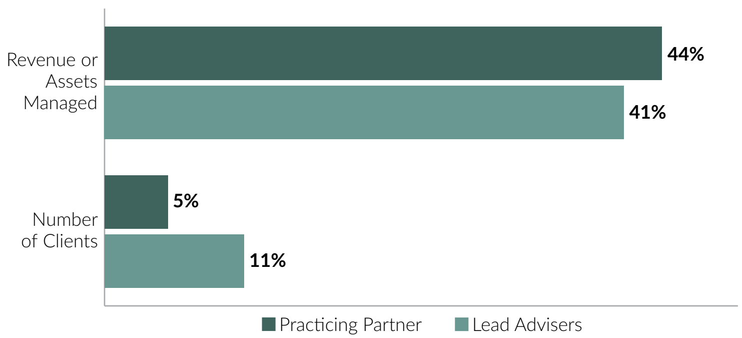


It is interesting that Super Ensembles are the only type of firm where lead advisers have a higher number of client relationships than practicing partners. This is in line with most accounting and consulting firms, where partners are conventionally expected to work with fewer clients than employee CPAs and consultants so they can focus more on business and staff development.

At 65% of firms, the lead adviser is supported by another professional, also known as a “second-chair adviser” where the most common positions are service and support advisers. The majority of firms (80%) do not keep their second-chair paired with a specific adviser, but instead support professional work with all or some of the lead advisers at their firms. At Super Ensembles, who utilize second-chair advisers 78% of the time, the majority rely on service advisers, who on average service 52 clients in support of the lead adviser.

While many firms suffer from capacity shortage, only a minority of them prioritize using AUM or revenue capacity measures when assessing the performance of their lead advisers and practicing partners. Just over 40% of all surveyed firms track the assets under management or revenue managed by their professionals and use those measures as a barometer of adviser performance. **Figure 7** breaks this number down, showing 44% of firms tracking the AUM or revenue of partners, and 41% of firms tracking the revenue or AUM of lead advisers. The number of relationships handled by an adviser is rarely used to measure their success, with client retention (for 34% of practicing partners and 31% of lead advisers) a far more common means of monitoring adviser performance.

FIGURE 7: Percent of firms using a capacity measure to assess adviser performance



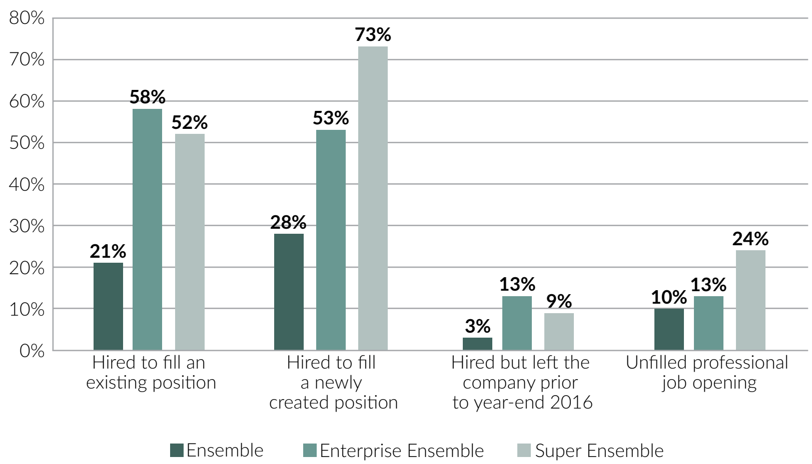
These results are very surprising. It seems only logical that if firms are struggling to find capacity, they would monitor very closely the use of a scarce resource: the time of their professionals. The survey indicates the opposite is true. The majority of firms do not prioritize the use of capacity measures – such as the revenue, assets, or number of clients managed by their professionals – to assess their performance, indicating the likelihood that many do not systematically track these vital indicators of capacity.

Recruiting

When a firm grows, it creates a staffing issue. The question for management is how to service the ever-increasing needs of an increasing number of clients. While the first approach should be a thorough review of the firm's service structure, the next initiative is to enlarge the firm's staff in order to increase capacity and meet the demands of growth.

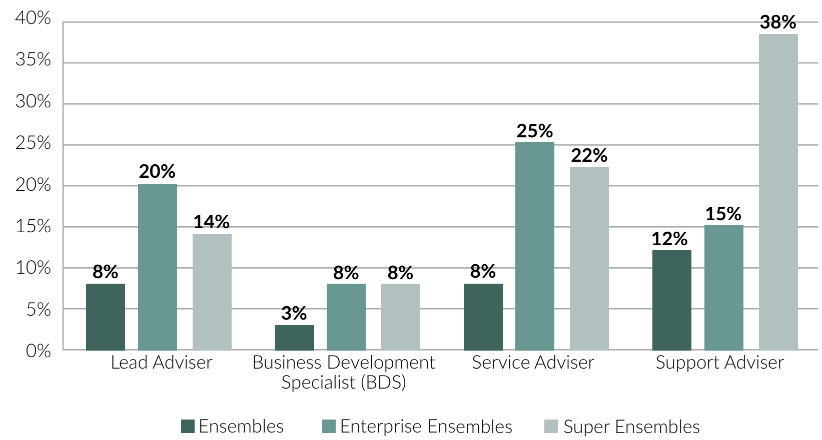
The largest firms in the industry are always hiring and always looking for new candidates. As shown in **Figure 8**, nearly three-quarters of Super Ensembles created at least one new position in 2016 (73%), and the majority hired to fill an existing position (53%). Indeed, Super Ensembles outperform every other category of firm size in this regard.

FIGURE 8: Hiring activity for professional positions in 2016 by evolutionary stage



The conclusion that Super Ensembles hire a lot is not particularly surprising. We expect a larger organization to have more positions on the organizational chart and a greater need to hire for these positions. It is worth noting, however, that as a firm grows from Solo to Super Ensemble, the frequency of hiring activity to fill newly created positions and backfill other positions increases substantially. It is also of note that Super Ensembles, relative to other firms, heavily favored hiring entry-level support advisers relative to their Enterprise Ensemble peers, preferring to organically grow talent within rather than bring on established advisers (**Figure 9**).

FIGURE 9: Hiring activity by employee adviser positions in 2016 by evolutionary stage



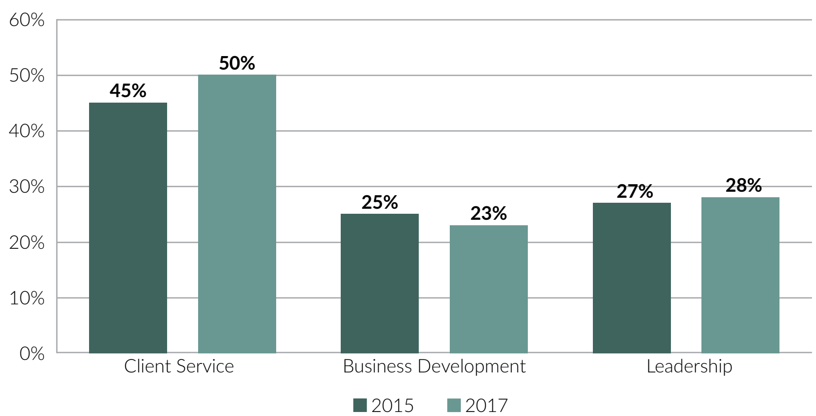
By year-end 2016, firms of all sizes had unfilled position openings. For most professional positions, it takes an average of four to six months to hire a candidate. That means a firm should begin forecasting staffing needs almost a half-year before the need for the new hire is critical.

Staff Development

The skill development of advisory professionals can be grouped into three broad categories: the technical skill to service clients, proficiency in business development and the ability to lead. While more firms are focusing on client service professional development programs, there has not been any measurable improvement in business development or leadership training. As shown in **Figure 10**, 50% of firms report a formal training or education structure for developing the client service skills of staff in 2017, up from around 45% in 2015.

As for business development training, almost half of firms rely on ad-hoc mentoring by a senior level adviser. In fact, 31% do not have any program in place for business development. Similarly, one in five have no program in place for developing the firm's future leaders, and an additional 52% utilize ad-hoc or informal training. This is surprising since, as we will see in the "Recruiting and Hiring" chapter, most firms are hiring early career advisers to grow into their business.

FIGURE 10: Growth in firm-sponsored professional development for advisory professionals between 2015 and 2017



Conclusion

The advisory industry is not so young anymore. The typical firm is celebrating more than a quarter-century of history and entering into its maturity. Profitability and productivity are stable. Growth rates are steady but not aggressive. Client services are well established. Client ratios remain unchanged. Finding success in this competitive environment depends on carefully managing the details. It is a bit like trucks passing each other on the highway: the process is slow, and small differences have a big effect.