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PRESENTATION

Adam Roosevelt

The industry trends are very apparent. Advisory growth has been explosive over the past decade, and there's increasing competition to both retain and recruit top advisors. I'm joined today by Maura Creekmore, who leads our broker-dealer clearing business, and Ben Harrison, who runs our RIA Custody Business. So, Maura, let's start with you. What are some of the trends that you're seeing, and what are some of the perspectives that you're hearing from our clients?

Maura Creekmore

Sure. Thanks, Adam. So, our broker-dealers have seen great growth in the advisory space. In fact, their assets have grown by over 40% over the last few years, and we see significant opportunity for our clients to capitalize on this move, from really a defensive position with their advisors to an offensive position. Broker-dealers do have an opportunity to rethink their business for future success, and they're starting by examining the gaps that they've heard from advisors, and they're partnering with our teams to identify enhancements that they can make to their strategy, both short-term and long-term.

Adam Roosevelt

Let's bring Ben into the conversation. Ben, as Head of our RIA Custody Business, why don't you share a little bit about your perspectives on some of these industry trends around advisory growth?

Ben Harrison

Yes, thanks, Adam. This is an incredibly important topic for our clients, as well as for Pershing and the industry. In the advisory space, we're seeing a few things. We're seeing a convergence of the broker-dealer and the RIA model. Scale is also critically important. Firms are seeking opportunities to outsource in areas where they can capture scale, so they can focus their efforts to drive growth. And finally, the client and advisor experience is critically important. It's driving investment in technology that provides advisors with choice and flexibility, and gives investors in optimal experience.

Adam Roosevelt

So, let's focus on the business model convergence piece for a moment. I think all three of those are interesting, and we'll touch on all of them, but if we jump into the convergence one. Broker-dealers are looking more and more like our RIAs. In fact, it's been several years now where broker-dealers, the top 50 broker-dealers, are generating more revenue from fees than they had from traditional commissionable revenue. It's similar in the hybrid space where the independent RIA assets are greater than the broker-dealer assets, and really all of that acceleration of growth is rooted in the advisory model, and this is driving firms to really rethink how they're structuring their businesses.

So, given that convergence, Maura, of these businesses due to those trends, can you share a little bit about what some of our broker-dealers are doing, what action steps they're actually taking to best position themselves for this future growth?

Maura Creekmore

Absolutely. So, the convergence of these businesses is incredibly important, as we look out three to five years, and even now, there's just so much activity among our broker-dealer client base. They're exploring several strategies to grow in the advisory space, so I'll highlight all of them.

The first is, really, modernizing their corporate RIA. Broker-dealers can look to leverage their current infrastructure and core services within their corporate RIA, yet rethink the technology and service offering they provide to their advisors. It's really an opportunity to assess the marketplace, identify the technology integrations that will help their firm retain and attract new advisory talent. For example, a recent consulting engagement that we had with one of our largest broker-dealer clients led to their firm segmenting their top teams into this private client group, and identifying and implementing new technology to build a more robust an investor experience.

Adam Roosevelt

So, the model doesn't change in that example, but the evolution of that model, right? They keep the broker-dealer in the corporate RIA, but they're evolving technology, and they're evolving their platform and advisor segmentation. That's interesting. I know there's other models out there as well that you'll share.

Maura Creekmore

Yes, that's exactly right. We've also seen our clients establish a national RIA, and this is by completely exiting their broker-dealer business through a broker-dealer withdrawal, or what's commonly called a BDW, or they bolted on a new RIA entity to stand alongside the broker-dealer, and this strategy really enables the broker-dealer to shed certain regulatory responsibilities, gain efficiency and operational scale by working with Pershing as an RIA custodian.

Adam Roosevelt

Yes, and you see some of the top firms that are winning advisors today really offer that spectrum of affiliation models to advisors. So, I think that is going to continue, that trend is going to continue here in the future, the national RIA strategy, and we see, actually we have about 50 clients today that leverage solutions on both our custody side and our clearing side.

Maura Creekmore

Yes, and we expect at least two firms to launch a national RIA and seven more firms to file a BDW within the next six months.

So, now the third main strategy broker-dealers are exploring is an RIA platform provider approach, and here firms package together key services, including robust technology around account opening, CRM, financial planning, portfolio management, and client service. They essentially become a hub for RIA firms to provide a leading advisor-investor experience to RIAs as a fee-for-service, and this is really a paradigm shift in the economic relationship with an advisor, yet it's the exact expectations RIAs want to have with that service provider.

Adam Roosevelt

It's, I think, a good example that one size does not fit all, there's not just one solution, but multiple solutions that you can deliver, and really, it comes down to serving advisors. So, when we stay on that topic of serving advisors, the advisor demands are driving these trends, Ben, so from your perspective, what are the expectations that our clients need to be mindful of to best serve those growth-minded advisors?

Ben Harrison

Yes, we have this conversation all the time, Adam, and our experience, in terms of what advisors are looking for in their platform, and the broker-dealer, is a few things. Number one is greater scale. We touched on this earlier, advisors need scale to fuel growth, so that they

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can efficiently run their businesses and they are really seeking that in the marketplace. Another is access to leading business solutions. So, these are... This could be practice management, or ways in which you can help advisors grow. Virtual tools, such as administration or outsourced technology, marketing, risk management support, and increasingly, it's important to examine things that create friction in advisory relationships. We hear this all the time. Resolving friction can sometimes be a shift in mindset from legacy thinking, to just a new terminology, or a new environment. So, a great example of this is moving from a compliance management program, to more of a risk management program, or from model portfolios to outsourced CIO capabilities. Also, restrictions centered around marketing or social media restrictions are an area of friction. It's really about an open architecture mind-set. Everything from investments to technology is something that we continually hear advisors clamoring for.

Adam Roosevelt

Yes, and you mentioned kind of this idea of perception and culture. Addressing perception is really a compelling proposition for firms to consider, and I think the cornerstone of how we address perceptions of value must begin with open communication with your advisor, and transparency in terms of the services that you're offering, and the value that you're providing, and the cost of doing business. Maura, I know you have some insights to share there.

Maura Creekmore

Well, yes, I have a great example around transparency. So, one of our broker-dealers took a very interesting approach in terms of transparency of pay-out. So, they knew that they provided value to their advisors, and the value that they provided was sometimes misunderstood or not as transparent to the advisor. So, they began to clearly display the expenses that they withheld from an advisor within each commission check, and this approach really eased the notion of around 100% pay-out. Advisors quickly realized the value that they were receiving from their service provider, and that these core services have value that the broker-dealer provides, and ultimately, they have to pay these services out of their own pockets if they were to go alone. So, ultimately, the advisors in this case decided to stay and it was really a win-win.

Ben Harrison

Yes, I think that's a great example. I think the payout versus platform of services concept is a key, uh... is really a key concept when broker-dealers look to create a new service model. Whether an advisor goes independent or stays with their current firm, certain business services need to be provided, and there's this distinction that comes down to value exchange. Is it a reduction in payout in exchange for a service, or is this line item an expense in the independent model? We talk about this all the time with advisors, and increasingly, we're seeing advisors willing to pay for high value services, and those high value services are things like consulting, technology, and marketing, support. Those are all growth engines back to the fuel, uh, for... that advisors need to scale their businesses. So, they're willing to pay for those, and sometimes it's just this shift in perception around how those services are provided, to your point, how it's really displayed to an advisor for them to really get the value exchange.

Adam Roosevelt

So, there's perception in value, there's perception and the services that are offered, and there's also perception, and I'd like to stay on this for a moment, of capabilities of the platform. We have one platform at Pershing, and we have hundreds of broker-dealers that use that platform and curate it in many different ways, and RIA Custody Businesses-- RIA Custody Business does the same thing in terms of curating the platform. So, because of that open architecture, there tends to be differences between the experience the advisors have. So, Maura, can you talk for a moment about those differences between the technology and the platform used by our clients leveraging our clearing solutions, versus RIA clients leveraging our custody solutions?

Maura Creekmore

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Sure, because it's really simple. There is no difference in the product and services that are offered. Advisors want flexibility and choice, and interestingly, some clients have found that advisors left their broker-dealer because of technology or product restrictions, and they found that many of these technology or product solutions were already available on their platform, and was really a matter of changing certain entitlements, such as turning on block trading and rebalancing, and after conducting some entitlement audits with our clients, they've seen measurable success with advisor retention simply by turning on certain functionality.

Adam Roosevelt

That's great. I think it's a nice takeaway for the team to think about, for those listening, to consider working with their relationship managers on.

Ben, Pershing Advisor Solutions in the marketplace is looked at as an RIA custodian, but at the core, it's a broker-dealer, and you've curated our platform to serve growth-minded RIAs. So, can you talk a little bit about how our RIA Custody Business approaches curation of technology and platform innovations?

Ben Harrison

Sure, thanks, Adam. So, Maura said it really well. The technology platform that Pershing delivers to broker-dealers is the exact same platform that we deliver to our RIAs. There's a few important things to highlight. We've architected our platform in order to have deep integrations with leading FinTech providers. We also have a business and technology consulting team that works really closely with the advisors on our platform to evaluate their unique needs and to recommend solutions that will fit their business model. And as the brand behind the brand, we're continually investing in robust integrations with providers, but also focused on the client experience in really digitizing the onboarding and transfer of assets to the platform.

Adam Roosevelt

Awesome. So, we've talked a lot about kind of the present state and what some firms are doing today. Let's now turn our focus here, as we close out, to the future. So, Ben, we'll start with you, where are things going? Where do firms need to be investing? And then Maura, I'd love to hear some of the themes that you see that will define the firm of the future.

Ben Harrison

Sure, happy to, Adam. As we look ahead, there are a few critical themes that we believe firms should be, should be really considering as a part of their strategy. The first is around data and analytics, and the concept of being able to deeply understand your client's needs is critical, and we believe that data and analytics are going to be a key component of that in the future. We've talked a lot about technology here on this session, and leading technology in integration solutions are extraordinarily important. It's really important to look at all of our lives. We all have unique experiences. We use tools like Uber and Amazon in our day-to-day lives, and that's the type of solution that clients are seeking and demand of the experiences in which they engage.

Economics. Economics are going to continue to evolve. We're in a very competitive place in the industry right now, and you really need to think through your economic modeling, and stand out and differentiate your offering from the competitors.

And then finally, it's all about scale, and we're in a digital age. So, in order to compete and win, you need scale, and you need to digitize your business.

Maura Creekmore

You're seeing new business lines, new ways of working, and the ability to work and serve investors anywhere. It's all fueled by those digital enhancements and new digital tools.

Adam Roosevelt

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That's great, thank you, guys, and I think there's an opportunity and there's a call to action here, you know. Convergence is a reality, advisors are at the center of it, and it really should serve as a wake-up call for many financial services firms to reconsider the way they're interacting with those advisors today, and all firms have an opportunity to really rethink their businesses for future success. It's not a zero-sum game, as we said earlier. The grass isn't always greener. With a shift in perception, with an increase in the value that you're bringing at your firm, open communication with firm leadership, we think advisors may realize that what they need is exactly what they have right where they are. But firms cannot be complacent. Creative solutions and new business models will emerge, and it will allow broker-dealers to adapt and transform in a variety of ways, and really continue to grow alongside their advisors for many years to come.

So, it's always great to spend time with both of you, thanks for joining me, and have a great day.

Maura Creekmore

Thanks for having us.

Ben Harrison

Thanks, Adam.