

## CORPORATE PARTICIPANTS

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## PRESENTATION

### **Adam Roosevelt**

Greetings, and thanks for joining us. At Pershing, our wealth and advisory clients all have unique value to the market, but from our view, we've seen a continuous convergence of the RIA and the IBD universe, and because we're often asked by our clients, today, we'd like to home in on some key marketplace observations and discuss how firms are strategically repositioning their business for future success. So, as the leader of a broker-dealer, I'd ask you, what does your mix of advisory versus commission assets tell you about your business? Many firms now look more like a fee-based RIA than they do a commission-based broker-dealer, but are you delivering that RIA experience to your top advisors? Some are, but many are still experiencing an ongoing net loss of advisors to the RIA model, and that trend of exponential growth in the advisory space is fueling some firms to quickly adopt new strategies, and in order to compete, all firms are focused on the improvement of the advisor experience to retain those advisors affiliated with their firm, as well as attract the top talent advisors in transition. At Pershing, we've seen a shift in strategy with our clients that I would categorize as firms moving from a defensive position to an offensive position when it comes to defining and delivering advisory value.

So, let's talk about those advisor trends and how IBDs are responding, and I'm pleased to have with me today John Furey from Advisory Growth Strategies to share the conversation about these changes to the IBD marketplace.

Hi, John.

### **John Furey**

Hey, Adam, great to be with you today.

### **Adam Roosevelt**

You as well. So, let's start with the advisor, which is really the lifeblood for an IBD firm. We see the fee revenue continued to significantly outpace commissions. That's not even a question anymore. Some advisors have moved to a fee-only model, and when you look at advisors in transition, you see this undeniable drop in IBD affiliated advisors, and a significant increase in the growth of RIAs, and by the way of the fastest growing segment, it's really in the hybrid RIAs that have some unique needs in the marketplace that have been growing fastest, and I'd pause to define that the hybrid RIA is really defined as the advisor with a standalone RIA, who also continues to hold their license with an IBD for some of that commission business, and that's different than a duly registered advisor who maintains all of their business, advisory and commission, within the structure of an IBD and their corporate RIA. So, I think it's important to just define those terms for the audience.

But John, what do you see as the driving force behind the interest in the independent RIA space from the wirehouses and independent broker-dealers?

### **John Furey**

Great question. I think there's several factors that are really driving the move. The first one I think is somewhat obvious to us, but I think it's super important, is the notion of being a fiduciary, and the independent space, the hybrid space offers the best opportunity. I believe hybrid is not in conflict with fiduciary, but it's still the ability within an independent advisory framework to essentially decouple from things that are maybe less desirable in a large institution, product manufacturing, top-down mandates, things like that. The

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second factor would be essentially the need for control, and that is linked to fiduciary, but it's also offered within the independent advisory role, the hybrid world. So, that's control over marketing, greater control over compliance, greater control over technology, the way you want to run your business. And then the final one, which is, I think, still very important, is the financial aspect, and it's not just for advisors, but it's also for clients, the ability to have greater control over a variety of things. What a client pays for, let's call it investment services, advisory services, and the advisor's ability to really control, one, pricing, how they get paid. The second is essentially their expense model, how they run their business, and what they pay for operating their business, and then the final piece is the benefits of being an owner, profit, and then, fourth, the ability to transition and monetize your business at some point in the future, which is traditionally better, not only from a tax perspective, but also just a total value perspective.

### **Adam Roosevelt**

Yes, that's interesting. I agree with those points. I've heard it referred to as also both a push out of the current situation and a pull to the new environment that drive advisors to move, but there needs to be both, and when we reflect on what advisors seek when leaving an IBD, there are only a few items that are potentially or seemingly impossible to provide within an affiliation structure, maybe true autonomy, maybe conflict-free advice, and around economics, maybe the idea around greater enterprise value. But most IBDs that we talk to would argue that the characteristics that the advisors seek when they move to the RIA space is actually core to the services they already provide, yet when we do exit interviews with advisors that have left, or we talk about advisors that have joined our custody business, those advisors who have emigrated to an RIA world continue to tell us that they no longer saw the value in that BD relationship. Any idea where that disconnect comes from, and maybe how broker-dealers can change that paradigm?

### **John Furey**

Yes, so it's an interesting undercurrent that's happening in the industry, Adam. I think a lot of it comes from where independent broker-dealers have traditionally driven value, and it's really been through scale. If you want to scale something, you usually want to make things more uniform, consistent, best-in-class you might call it. I think how the world's changed now is the ecosystem around being an independent advisor and hybrid RIA, there's just more choice, so whether that be investment choice, technology choice, platform choice, marketing choice. So, an independent broker-dealer may be selecting in their image what they feel to be best in class to scale, but it could be for advisors, or a certain advisor, or subset of advisors, a minority of advisors, maybe less interesting. So, I think that's where that comes from, where advisors now are being inundated with information. There's tons of information out there, and now they're just saying, hey, wait a second, I may want to go to maybe something a bit more hybrid, where I have more control, more choice, and I'm OK with the tradeoff of maybe not being with a scaled provider.

### **Adam Roosevelt**

Yes, and I find it's still a relationship world, and so the culture of what that advisor is moving to is critically important, and so that's why I see some of the firms that are winning, when you look quarter over quarter of those firms, some regional, some national, they sell their culture first, and then they also back it with the ability to have multiple affiliation models. You want to be an RIA, we can do that for you; you want to be hybrid, no problem; you want to be affiliated, you want to be W2, you want to be affiliated within. So, I mean, they sell the culture, the advisor buys in and then say, by the way, you have all this choice. So, I think that's where we're seeing firms win. What firms do you see that are getting it right?

### **John Furey**

Great question. I look at firms and Raymond James having historical context there, what you're saying, open choice, anything from being, essentially, a branch advisor all the way up to being, essentially, an independent RIA or a hybrid RIA and everything in between. So, Raymond James have that.

Other firms out there that are maybe a bit RIA-centric, less so on the independent broker-dealer hybrid side, I look at firms like Dynasty Financial or a Hightower that are, essentially, providing open architecture platform for technology support, investments,

compliance in a way where they're essentially consolidating resources and bundling it in a custom way to advisors. And there are many other providers in between, whether it be boutique providers or smaller firms, emerging firms that are trying to provide platform solutions. So, very dynamic out there.

### **Adam Roosevelt**

Yes, and the landscape continues to change and it's changing fast. I mentioned earlier how firms are taking more of an offensive approach and how there's a convergence of solutions. We've seen, I would call it kind of three types of evolution or transformation of our own broker-dealer clients. We see... if I had to squeeze it into three different categories, I would say there's a modernization strategy. It's staying within the structure that you have, but really trying to modernize the corporate RIA to meet the shift in advisory-first business. So, advisor segmentation, some firms are offering IAR-only solutions, maybe there's a change in their service model, more of an advisory-first compliance program, maybe a different comp structure, but really keeping it all under the original BC corporate RIA structure.

Then we see firms that are taking more of, what I would call, a national RIA approach, where they keep their BD and their corporate RIA, but they add this new national RIA to their line-up. And in that model, they leverage an RIA custodian as the BD and they benefit from the middle and back office service experience, the technology investments, and then the third-party integrations that those firms are making. They take advantage of it. Essentially, expanding that spectrum of affiliation models that I mentioned earlier. Some of which even... we have probably about 40 firms that straddle our broker-dealer clearing platform and our RIA custody platform. And then another piece of that is a broker-dealer withdrawal. We had seven firms this year that withdrew their broker-dealer registration and went completely RIA. So, that's another... there's probably smaller mid-sized firms, but again, the trend is there.

And then the third I would mention is this idea of platform provider. You mentioned Hightower and Dynasty in your examples. We're seeing broker-dealers taking core capabilities and offering them as, really a fee for service to RIAs, changing their constituency a little bit. It's a significant shift in economics and who they serve, but it's an interesting way to enter the RIA space even as a retention strategy to maintain relationships with advisors that have expressed an interest to establish their own RIA.

So, we're seeing pretty significant shifts in business models within the broker-dealer space as well.

I think, John, more than ever the idea of technology or digital capabilities are really dominating and defining both the advisor and the client experience. Any thoughts on the role technology as a motivating factor?

### **John Furey**

Yes, I think it's going to be more important. So, one thing the pandemic has taught us is you don't want to be caught out with a poor digital solution for your clients. Do you really want to be in a reactive position or be forced to do emails, calls, things like that? You need to have a proper robust frontend for clients, really, if you're an advisor to compete. So, I think that client experience is going to be much more important, so how the client of an advisor receives information about their account, how the advisor communicates with them digitally in an integrated experience, those frontend solutions are going to become more and more and more important. And I think the firms that are able to more or less deliver that to an advisor in a way that is somewhat open architecture will be advantaged.

So, I think that can't be dismissed and you will see the firms that are fastest growing in the future, advisors and firms are ones that have the ability to do that. So, I think it's going to be more important in the future, that digital experience. It's not like a robo-solution, but it's more how the client receives information from their advisor.

### **Adam Roosevelt**

I would like to shift our focus slightly, John. You see all of this consolidation and I contemplate that it's impacting choice for advisors, though I'm not the M&A expert, you certainly have a lot of experience there and I would love to hear your perspective.

**John Furey**

If you look out to the broader ecosystem, and not just RIA world, it's hybrid world, it's the whole ecosystem, there's just a lot more choice, and I think what you're likely to see is a flight of advisors moving towards that, to have my business setup in a way where there's more optionality and I can take advantage of the benefits of M&A now, which is greater number of partners, increased enterprise value, the ability to do unique transaction structures. So, I think you will see that certainly with larger advisors in the future over the next decade.

**Adam Roosevelt**

Is it going to slow down any time soon?

**John Furey**

No, it can't. If you look at the macro trends, we've studied this as a firm (my company), the broad industry studies, and Pershing has done work on this, at least a third of advisors will likely transition their businesses within the next decade. It's just an age-out, retirement age. You can't take your business to the grave, maybe you may want to, but you can't, so you can't fight time that way. And I just think, in general, just the benefits of scale and these huge providers out there, I just think advisors will be looking for opportunities to take advantage of it.

**Adam Roosevelt**

Thanks, John. Always great chatting with you. I think if there were a few takeaways that came out of our conversation, I think it's that those firms that are meeting advisor expectations are going to need to offer a spectrum of affiliation options. I think they need to give advisors different ways to work with their firm in different stages of their business, and I believe the idea of rethinking and re-evaluating business models may give financial service firms an advantage, or broker-dealers an advantage to compete or beat those other options that advisors have to choose from in today's dynamic landscape.

John, thanks so much for your time. It's good to see.

**John Furey**

Great to be with you.