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InvestmentNews
2019 ADVISER
COMPENSATION &
STAFFING STUDY

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About this study

The survey was conducted between April 11, 2019 and June 19, 2019. The data collected was analyzed and assessed by the teams at *InvestmentNews* Research and The Ensemble Practice. In total, qualified data was used from 289 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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IN RESEARCH

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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.

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.

For more information about *InvestmentNews*' benchmarking and custom research, please contact James Gallardo at jgallardo@investmentnews.com.



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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 multiprofessional 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."

For more information visit www.ensemblepractice.com.

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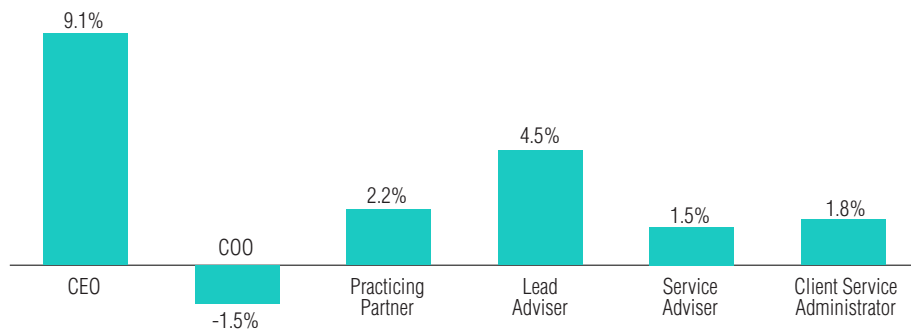
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EXECUTIVE SUMMARY

While the advisory firm industry continues to grow quickly and enjoyed exceptional profitability in 2018, only marginal increases in productivity and compensation may indicate a more conservative outlook for the future. Business owners let profitability reach new heights while compensation stayed nearly flat. Human capital costs are the largest expense for an advisory firm, and financial management practices demonstrate that an industry that has always managed for reward is beginning to manage against risk.

The *InvestmentNews* 2019 Adviser Compensation & Staffing Study benchmarked compensation for 28 standard professional positions. Compared to compensation levels from the 2017 study, wages have increased for many positions, though most increased much less than the 5% annual growth seen in the past (**Figure 1**).

Figure 1: Compound Annual Growth in Compensation, 2017 to 2019

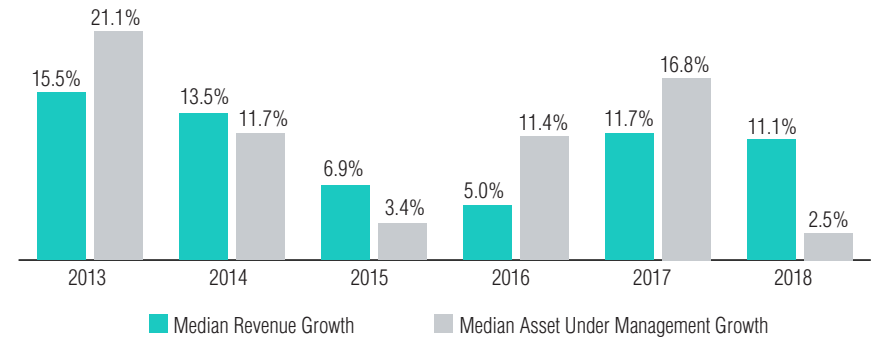


Executive pay has increased significantly, but other positions have not grown at the same rate. In some cases, growth has been lower than standard cost of living adjustments. Perhaps the value of some positions is being reconsidered and compensation is reaching a ceiling, or perhaps controlled compensation gains are reflective of a conservative view of near-term growth for the industry.

Super Ensembles, the largest firms in the industry, lead the way in growth, profitability and compensation. Over the past five years, these firms have increased the distance between themselves and the average firm. Super Ensembles are now adapting for continued growth and demonstrating a new evolution in the organizational model.

Nearly 300 firms submitted complete financials and staff compensation information to be included in the *InvestmentNews* 2019 Adviser Compensation & Staffing Study. Statistically speaking, the data provides a representative sample of the industry and, importantly, covers the full range of firms without many outliers. Participating firms were placed into one of four categories. The Solo practice category comprises firms that operate with a sole professional. The Ensemble, Enterprise Ensemble and Super Ensemble categories comprise firms with multi-professional organizations, further differentiated by size. Given the long-term growth of advisory firms, it may not be long before another category is needed to classify the largest firms.

Figure 2: Median Revenue and Asset Growth for All Firms

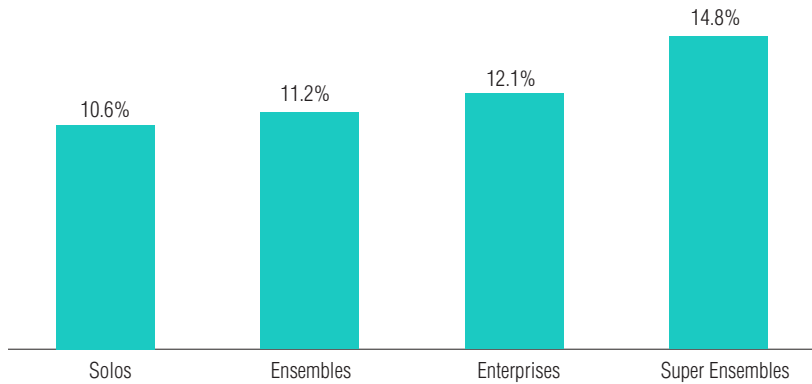


As shown in **Figure 2**, the growth driving the industry reached double digits for revenue in 2018 but stayed nearly flat for assets. Since the average firm in the study receives 83% of revenue from advisory fees, the stunted growth of assets is likely to impact revenue in 2019. The timing of asset growth is important in order to determine whether its impact is reflected on revenue during 2018 or 2019.

Super Ensembles again lead the way in growth rate (**Figure 3**). Over the past two years, all firms grew at a compound annual rate of greater than 10%. As we will see in this year's study, advisory firms utilize their staff through training, goals and incentive compensation to develop new business.

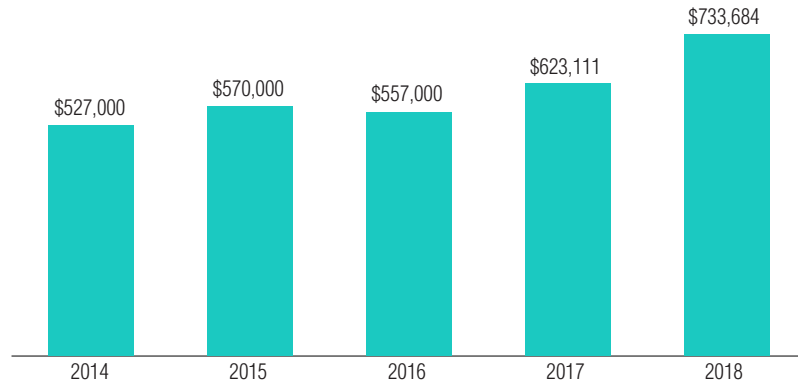


Figure 3: Revenue Two-Year Compound Growth Rate by Firm Category



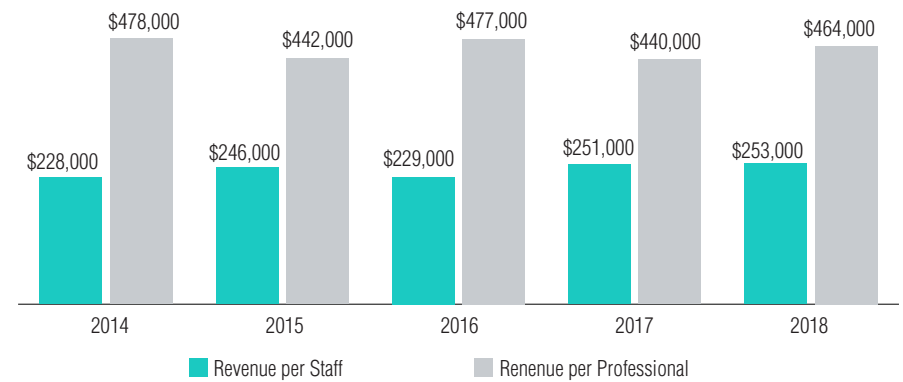
Great growth has led to higher profitability and remarkable income for business owners (Figure 4). While revenue increased in 2018, expenses grew at a much slower rate. The result of revenue less expenses is profit. This gap between revenue and expenses grew to the benefit of Partners. Pre-tax income per partner has escalated to almost 40% higher than it was four years ago. While high profitability in 2018 is a marked achievement, profitability measures financials in the past and does not forecast the future.

Figure 4: Income per Owner by Year



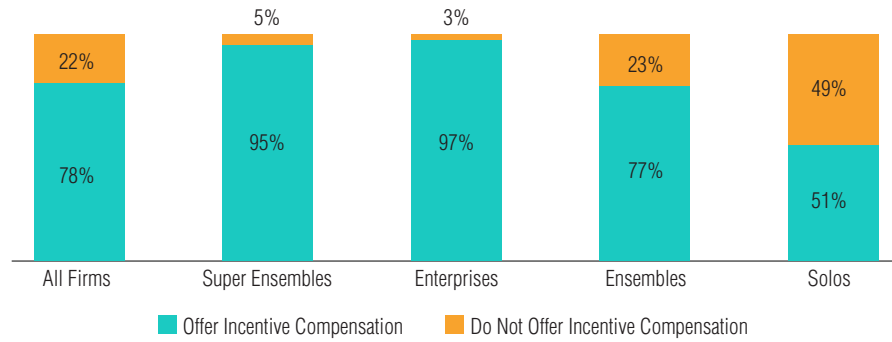
The largest expense category for advisory firms is compensation. People add to productive capacity and growth, and an investment in personnel should be a priority for all advisory firms. However, this study finds that compensation expenses slightly contracted as a percentage of revenue and individual compensation growth was limited. One reason for this may relate to the limited growth of productivity over the last five years (Figure 5).

Figure 5: Staff and Professional Productivity by Year for All Firms



Why is productivity flat? What keeps professional productivity from growing with firm growth? Employee motivation is influenced by how individuals are managed, trained and compensated. As shown in this year's study, firms are using career tracks, training programs and incentive compensation plans to drive human capital performance. The prominence of incentive compensation plans advances with firm size (Figure 6). In order for incentive compensation plans to be impactful on performance, if they have to be effectively managed, and it appears that larger firms have more resources to administer them.

Figure 6: Use of Incentive Compensation by Firm Size



In total, advisory firms are maturing and the industry is continuing to prosper. As firms grow there is more to manage, and this year's study captures many of the ways advisory firms are changing their organizations and preparing to be profitable, productive and successful in the future.