THE ENSEMBLE PRACTICE

PULSE OF THE INDUSTRY

2020 MIDYEAR SURVEY

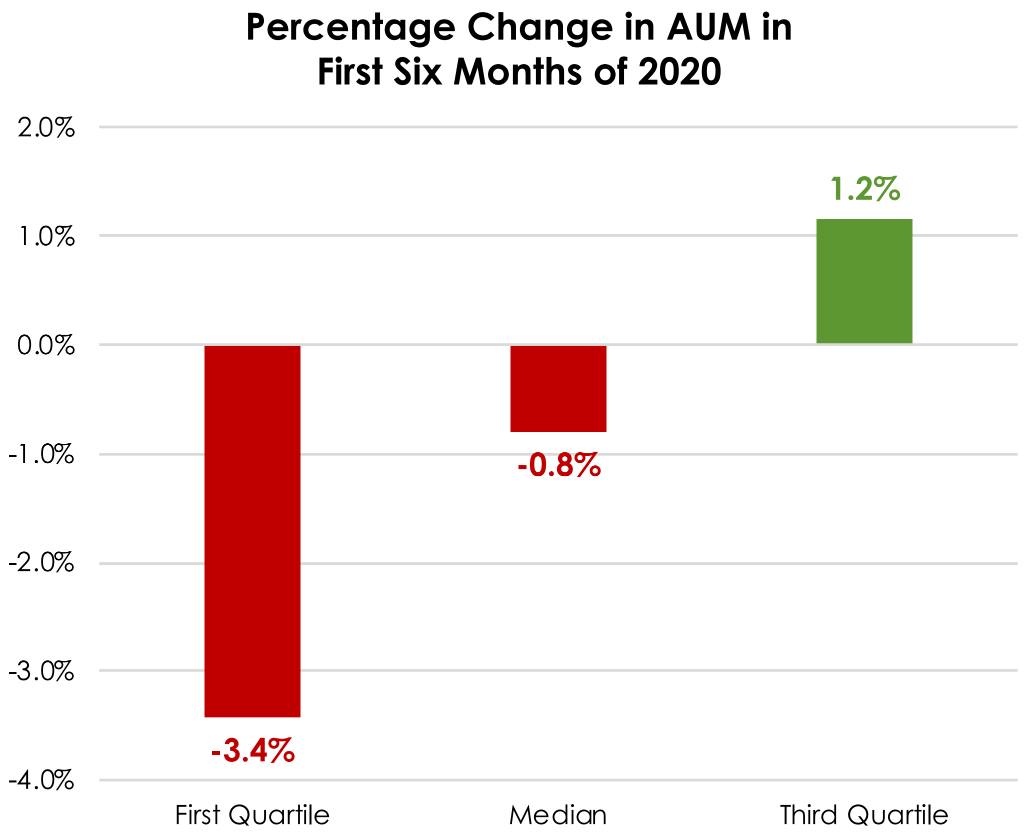
Executive Summary

- The advisory industry has suffered surprisingly little damage from the COVID-19 crisis and continues to invest in client services and adapt to the new way of working.
- The average change in assets under management (AUM) is minimal at -1.2%, and very few firms are either suffering significant declines (low quartile is -3.2%) or gaining ground (high quartile is 1.2%).
- Advisory firms are also continuing to hire, with 53% of firms ending the first two quarters of 2020 with more employees than they started with. Layoffs are essentially non-existent in the industry.
- Client activity is significantly diminished, with net activity as low as one-third of 2019 levels, though firms are adding twice as many clients as they are losing. The typical firm had 675 clients, added an average of 24 clients and lost 10.
- While industry spending is changing, not dramatically so. Firms are reducing incentive compensation budgets and purchasing more technology to work remotely. Some firms are curtailing marketing spending while others are willing to be contrarians, spending more on growth by increasing marketing budgets.
- The size of the firm made little difference on outcomes: firms large and small faced similar dynamics. Still, the largest firms have been more likely to make budget changes, either decreasing or increasing them.

The Survey

- The Ensemble Practice invited participants and alumni of the G2 Leadership Institute to complete the *Pulse of the Industry* survey.
- Seventy-two firms responded to the survey.
- The average participating firm has $1.746 billion in assets under management.
- Due to the nature of the invitation, data may not be representative of the entire industry.
  - Sixty percent of firms surveyed have AUM over $1.0 billion, which is significantly above industry statistics.
  - Twenty-six percent of firms have AUM under $500 million.

Changes in AUM



- Participating firms saw little change in assets under management (AUM) in the first six months of 2020.
- The typical firm ended the first two quarters with almost the same AUM it started the year with (median change of -0.8%).
- There are almost no firms "in trouble," i.e., no firm reported a decline in AUM over 10%.
- There are also no firms "swimming against the current," with the third quartile of growth equal to 1.2%.

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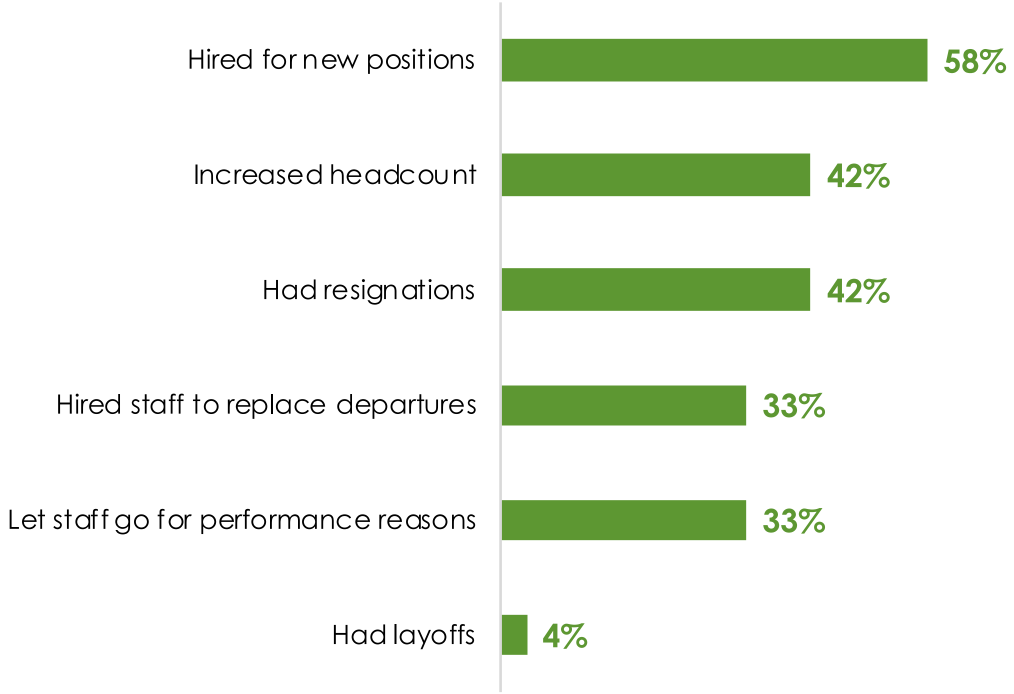
Changes in Staffing

- Retaining assets meant retaining employees: almost no firms went through a staff reduction.
- Even if slowly, firms continue to hire: 58% of firms have hired for a new position during the crisis so far.
- Forty-two percent of firms ended the first six months with more employees than they started with.

Percentage of Firms with Changes in Staffing in First Six Months of 2020



Changes in Client Relationships

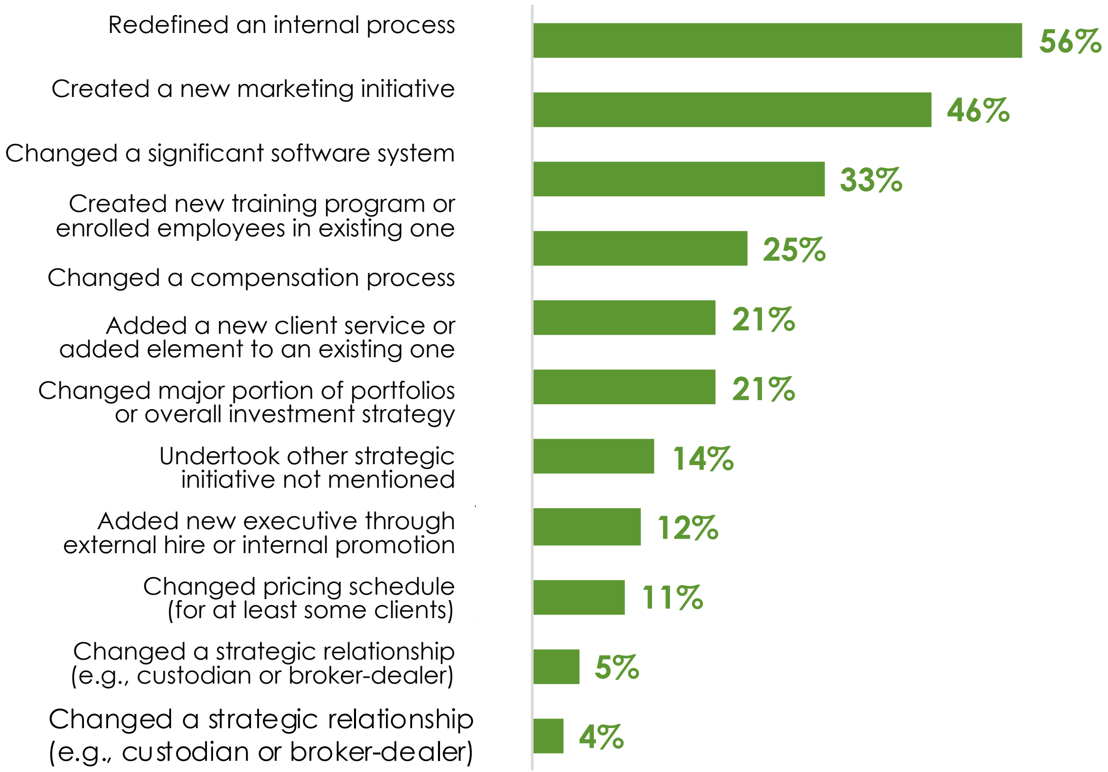
Starting Clients: January 1, 2020	675	
Less: Clients Who Left	-10	1.4%
Plus: Clients Added	24	3.6%
Ending Clients: June 30, 2020	689	

- Advisory firms faced very few client departures and continued to add clients.
- The typical firm lost 10 clients or 1.4% of its client count, which is actually lower than normal.
- On average, firms added twice as many clients as they lost (24 clients, or 3.6% of the client count).
- Overall, client activity is low. For comparison, in 2019 firms increased their net client count by 8.2% (11.9% growth and 3.8% departures).

Key Changes in the Business

- The crisis has brought about many changes in the business.
- More than half of firms redefined their processes.
- Forty-six percent of firms rolled out new marketing initiatives.
- Thirty-three percent of firms changed their software systems in response to the new environment of working remotely.

Changes in Key Aspects of the Business in First Six Months of 2020



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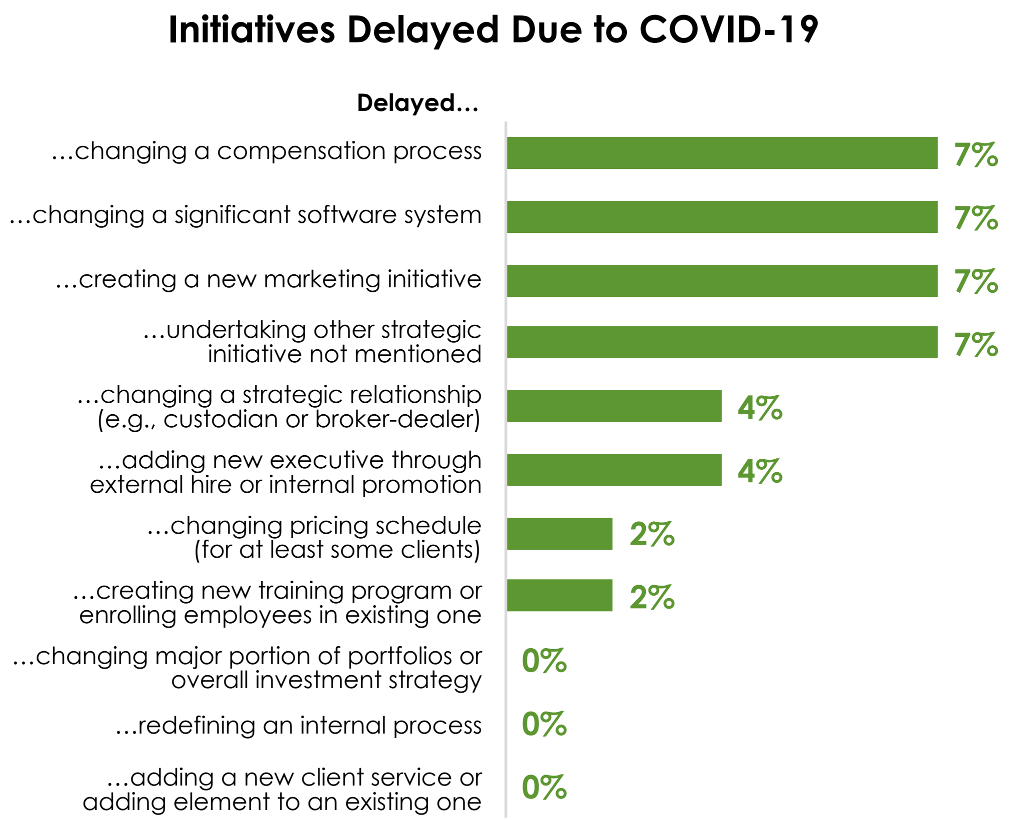
Delays in Strategic Changes



- The crisis delayed very few initiatives.
- Compensation, systems, marketing and executive hires were among the few projects that were deferred.

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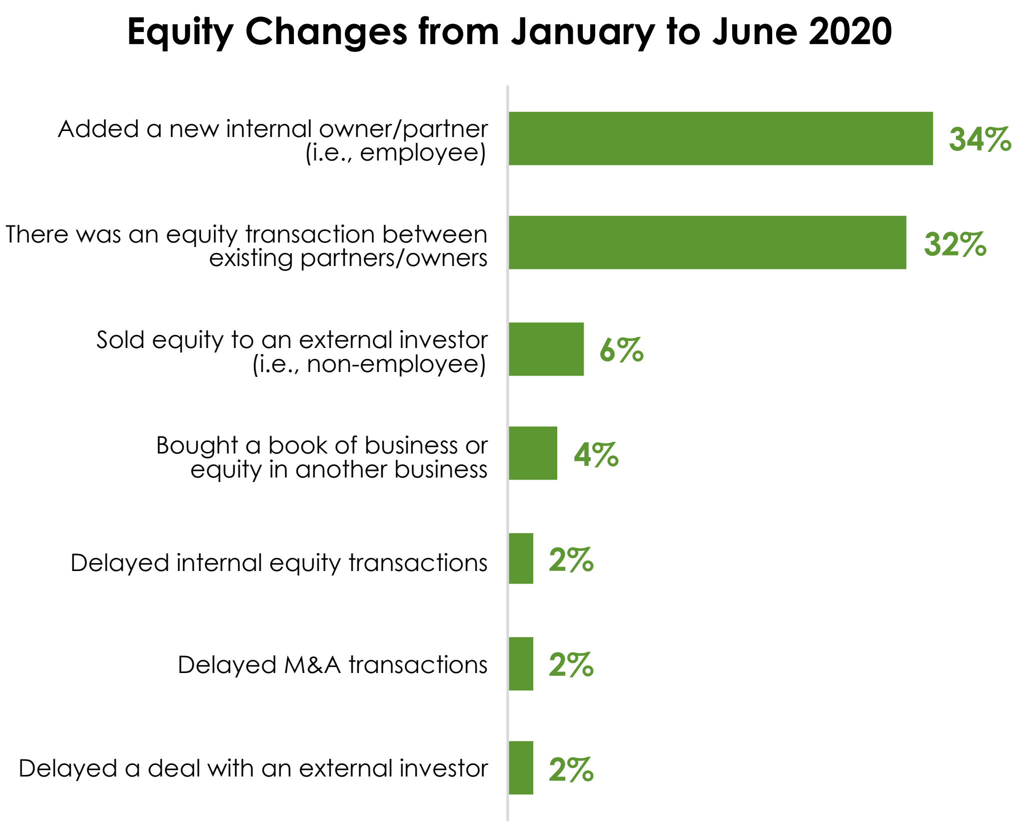
Equity Changes

- Despite the crisis, 34% of firms in the survey added a partner in 2020.
- Thirty-two percent of firms also executed transactions between existing partners.
- Six percent of firms added an external investor.
- The cases of delayed equity transactions were very isolated.



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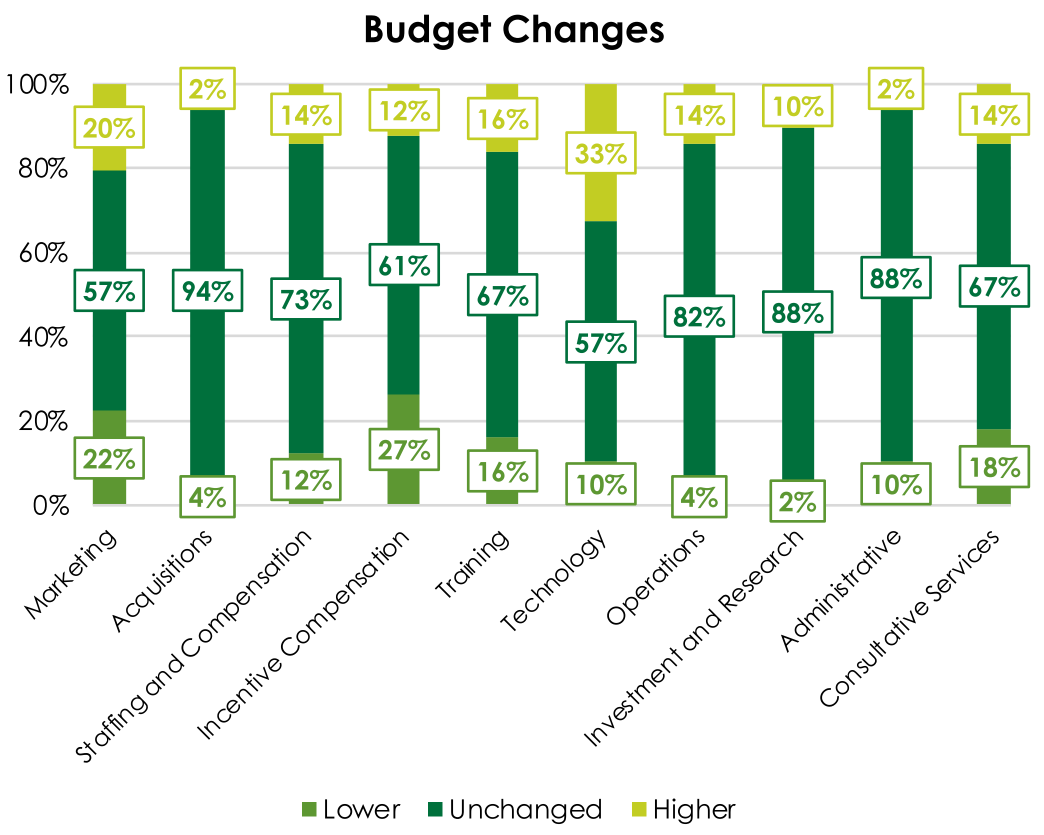
Budget Changes



- The budgets most affected by the pandemic included incentive compensation (27% of firms lowered their budget), marketing (22%) and consulting services (18%).
- Yet, many firms were willing to be contrarians and increase their budgets, with 33% of firms spending more on technology and 20% allocating more money to marketing.

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THANK YOU!