

THE ENSEMBLE
P R A C T I C E

PULSE OF THE INDUSTRY 2021
START OF THE YEAR SURVEY

Executive Summary

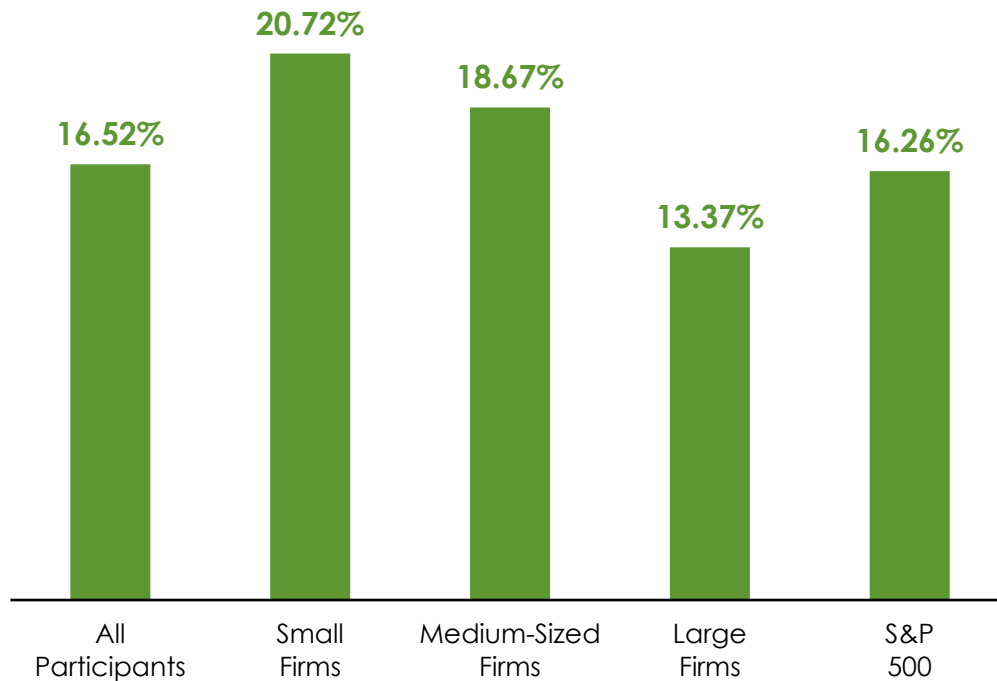
- Drawing on market performance and surprisingly strong business development, advisory firms finished the year with **16.52% growth in assets under management (AUM)**.
- Firms **increased the number of client relationships they serve by a net of 4.0%**, which is not far behind pre-COVID-19 results and remarkable given that most activity came in the second half of the year.
- Large firms added a substantial number of clients (7.3% increase) but also lost an **alarming number of clients (4.0%)**.
- Optimism abounds in our industry with **the typical firm targeting 8.5% growth net of markets** in 2021. Correspondingly, **staffing is planned to be increased by 10%**, with new positions opening in firms of every size.
- While mergers and acquisitions get the headlines, internal transactions between owners create continuity of client service and leadership: **45.6% of all firms added new partners** (i.e., owners) in 2020, and 47.4% executed other transactions between partners.

The Survey

- The Ensemble Practice invited its clients and participants and alumni of the G2 Leadership Institute to complete the *Pulse of the Industry* survey.
- Seventy-three firms responded to the survey.
- The average participating firm had \$1.65 billion in assets under management at the start of 2021.
- Large firms, defined as having over \$1 billion in AUM, represented 51% of participants. Medium-sized firms (between \$500 million and \$1 billion in AUM) represented 23% of participants, and small firms (under \$500 million in AUM) represented 25%.
- Due to the nature of the invitation, data may not be representative of the entire industry.
 - Fifty-one percent of firms surveyed have AUM over \$1 billion, which is significantly above industry statistics.
 - Firms participating in the G2 Leadership Institute are by definition more likely to invest in building their next generation.

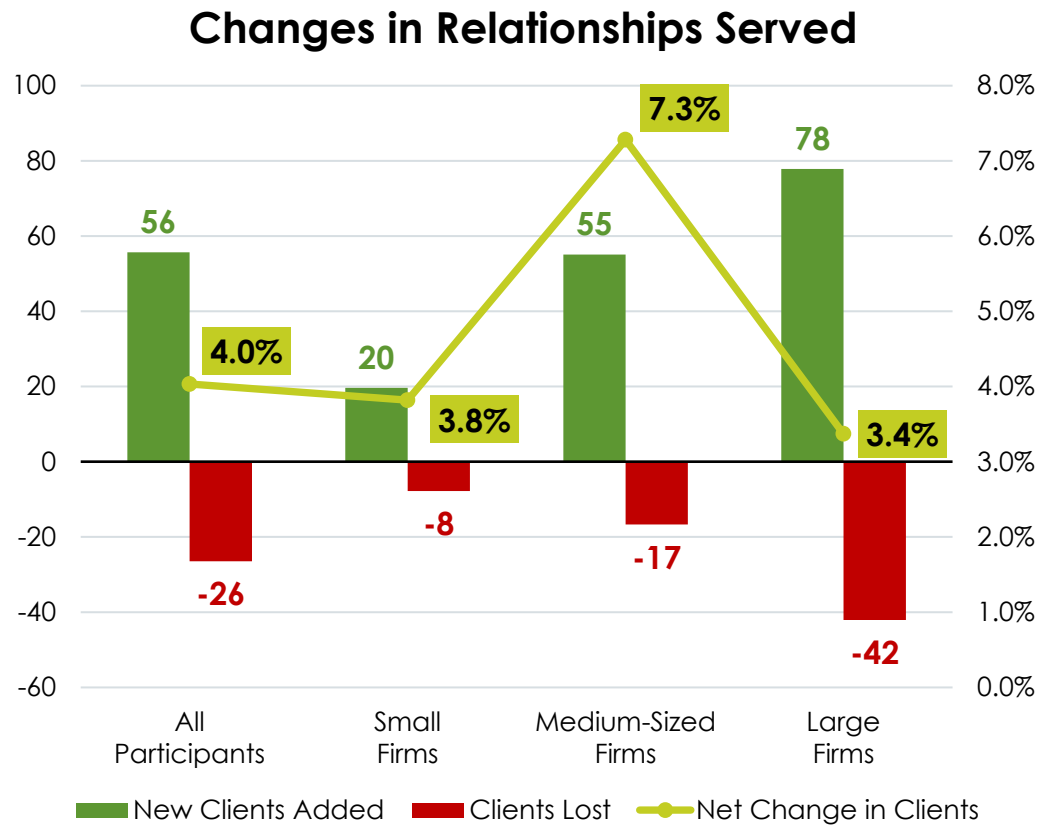
Changes in Assets Under Management

AUM Growth in 2020



- Despite all challenges, the financial markets as measured by the S&P 500 finished the year with 16.26% growth in AUM.
- Advisory firms followed the tide of rising markets, finishing the year with 16.52% growth.
- Growth came not only from the markets but also from surprisingly robust growth in the number of clients added.

Growth in New Client Relationships

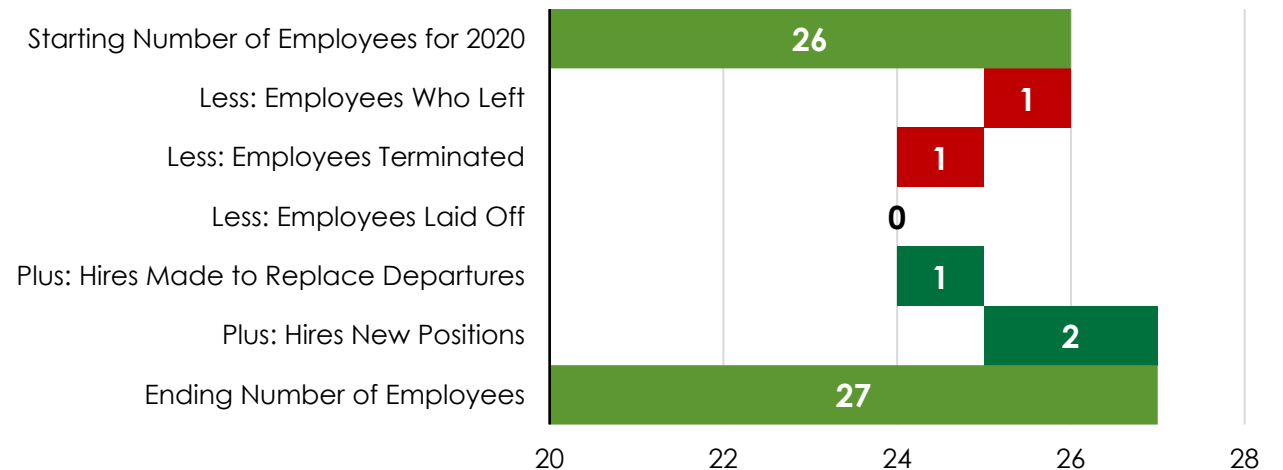


- Participating firms increased the number of client relationships they serve by a net of 4.0%.
- On average, firms added twice as many clients as they lost in 2020.
- The change in clients is commensurate with pre-COVID-19 times. In 2019, firms in the *InvestmentNews* survey recorded 5.3% organic change in new clients.
- Losses of clients appear to be slightly ahead of 2019, with 4.0% turnover in 2020 compared to 2.9% in 2019.

Changes in Staffing

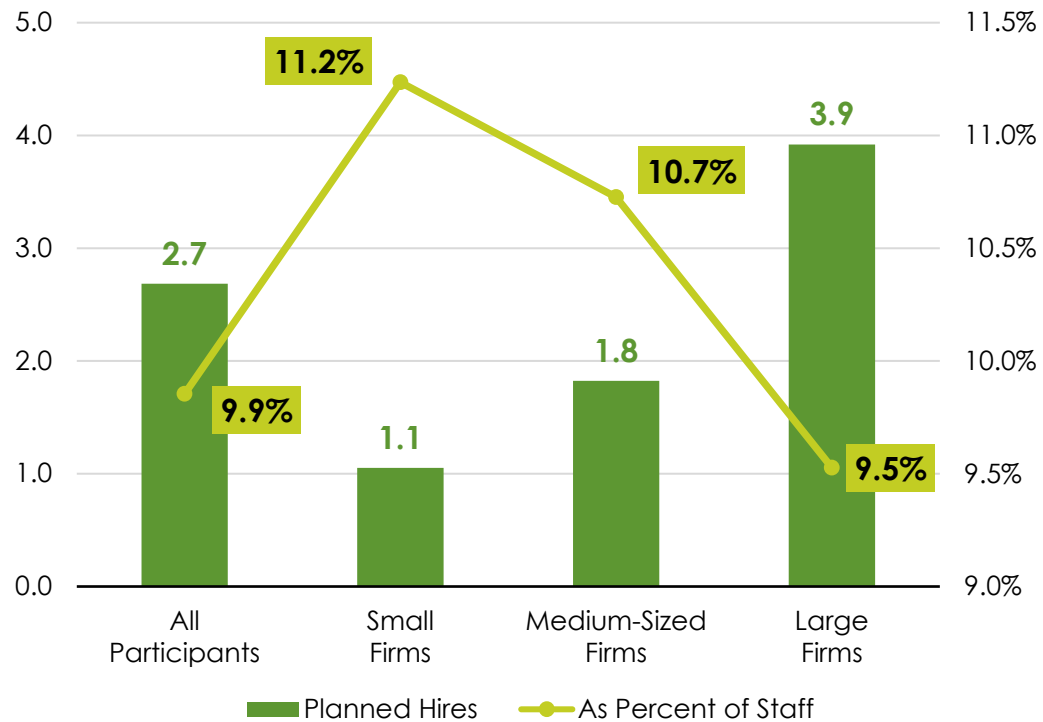
- Retaining assets meant retaining employees: almost no firms went through layoffs of any kind.
- Even if slowly, firms continued to hire: on average, net staff increased by one position.
- More growth in staffing is budgeted for 2021.

Staffing Changes in 2020



2021 Will Bring New Hires

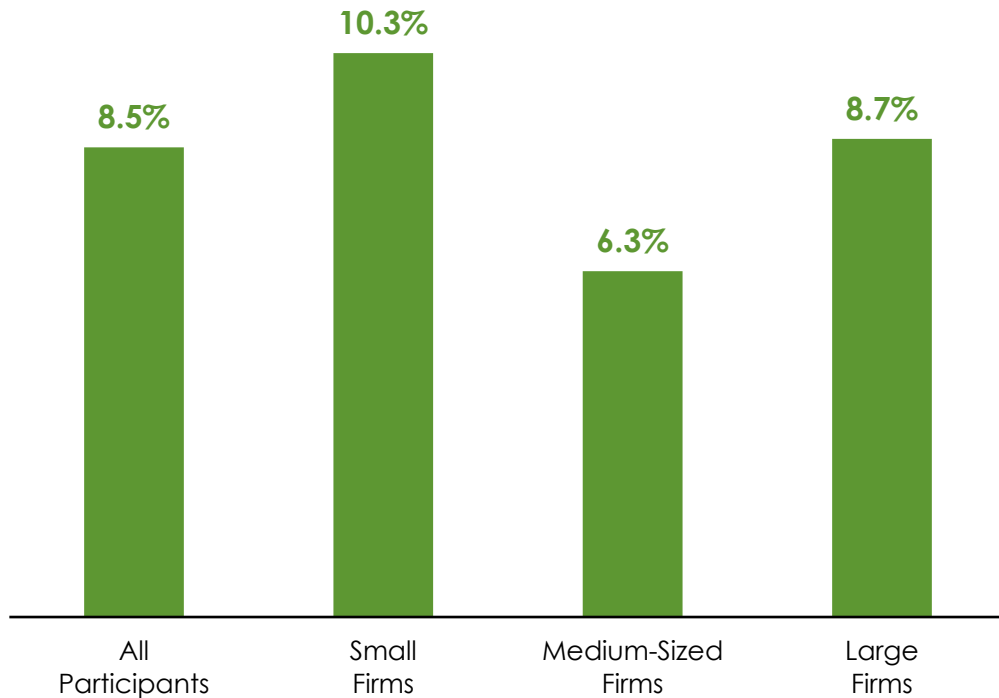
Staffing Changes in 2021



- Advisory firms project to increase their staffing by around 10% in 2021.
- Firms of all sizes are ambitiously looking to hire and continuing to grow.

The Growth Ambition Has Not Abated

Target Growth for 2021



- Growth remains a priority, and firms are targeting 8.5% growth net of markets.
- Small firms have the most ambitious goals with a target growth of 10.3%.

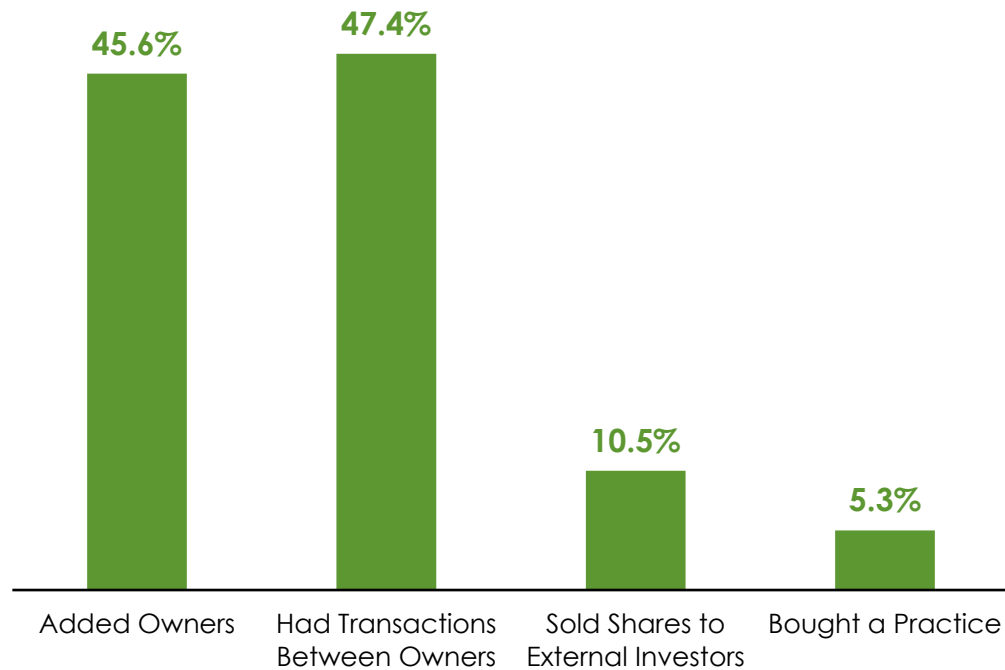
Priorities in 2021

All Participants	Small Firms	Medium-Sized Firms	Large Firms
Add new clients and assets	Add new clients and assets	Improve our efficiency or processes	Change and improve our investment process, services and results
Make additions and changes to our overall client service	Train and develop our people	Train and develop our people	Acquire and merge practices and businesses
Train and develop our people	Make additions and changes to our overall client service	Make additions and changes to our overall client service	Recruit professionals

- Firms are looking to continue growing and developing their teams.
- Large firms have a distinctly different set of goals: they seek to acquire and merge more practices and businesses, improve their investment functions and recruit experienced professionals.

Equity Transactions Continue to Be Very Active

Equity Dynamics in 2020



- COVID-19 has not slowed down the development of G2 partners.
- 45.6% of all firms added new partners in 2020.
- 47.4% executed transactions between partners.
- Firms also continue to be very active in M&A: 10.5% sold shares to an external buyer, and 5.3% purchased a practice in 2020.
- All of the M&A activity was concentrated in the large firms and medium-sized firms, with small firms not participating either in purchasing practices or selling shares to investors.

Large Firms Behave Differently

- Large firms saw more departures (4.0% of clients) than their smaller peers in 2020. Medium-sized firms lost 3.2% of their clients, and small firms lost 2.5% of their relationships.
- While medium-sized firms and small firms prioritize client service and team training, large firms seek better investment processes and more efficiency.
- It appears from the data that at least some of the larger firms have a higher tolerance for client turnover if it also allows them to improve their scalability.
- Mergers and acquisitions may also be impacting the client dynamics: 16.1% of large firms have sold shares to external investors, and 6.5% have made an acquisition compared to no (0.0%) acquisitions or external investment for the smaller firms. The client departures we are observing are perhaps the byproduct of this ownership activity.
- The stark difference in priorities between the large firms in the industry and their smaller peers may signal a fundamental shift in how differently sized firms think about their business.

THANK YOU!