

THE ENSEMBLE
P R A C T I C E

PULSE OF THE INDUSTRY

2021 MIDYEAR SURVEY

THE ENSEMBLE PRACTICE

Executive Summary

- **Great market returns are fueling growth:** Participating firms saw rapid growth in the first six months of 2021, with assets under management (AUM) growing by a median of 13.7%. Much of this growth was fueled by great market returns. The S&P returned 14.4% for the first six months of 2021.
- **New business development is robust:** Firms also had success adding new clients, and the number of client relationships grew by 6.0%.
- **Growth is leading to demand for more professionals:** 63% of firms in the survey hired for a new position (rather than replacing a departure), and half of the firms increased their headcount in the first half of 2021. Recruiting and developing professionals was also relatively high on the priority list of most firms.
- **Internal equity transactions continue:** While mergers and acquisitions continue to capture the attention of the industry, internal transactions between existing owners are much more common, with 33% of firms having completed such a transaction.
- **Growth is THE priority:** The number one priority of advisory firms is growth. When asked to rate their priorities in 2021, the addition of new clients made the top of the list for most firms.

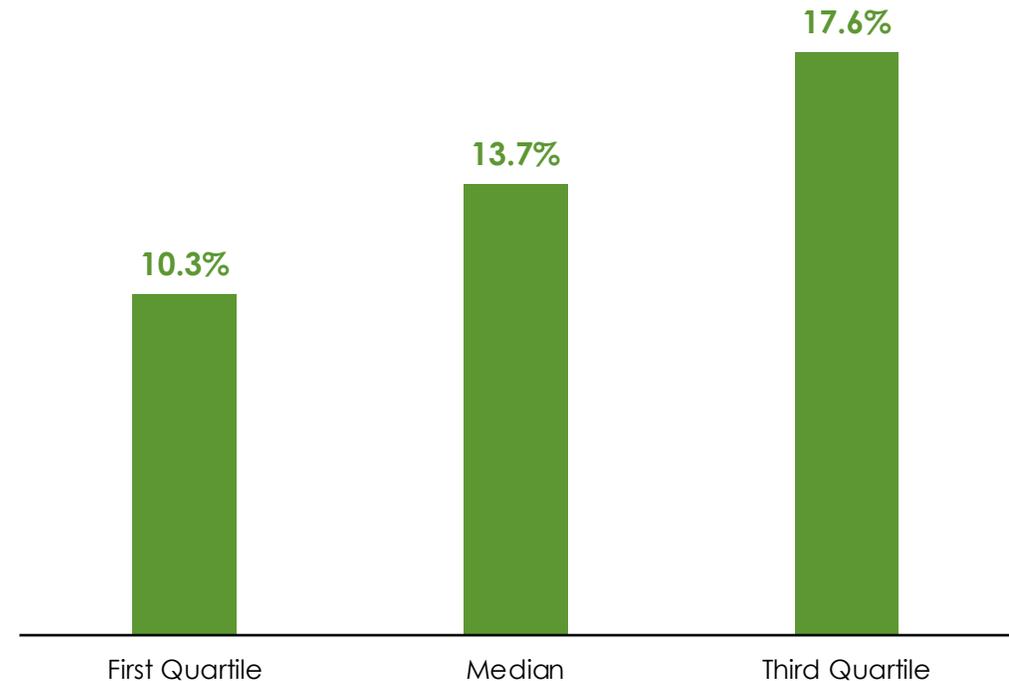
The Survey

- The Ensemble Practice invited participants and alumni of the G2 Leadership Institute to complete the *Pulse of the Industry* survey.
- Fifty-two firms responded to the survey.
- The average participating firm has \$1.397 billion in assets under management.
- Due to the nature of the invitation, data may not be representative of the entire industry.
 - Forty-six percent of firms surveyed have AUM over \$1.0 billion, which is significantly above industry statistics.
 - Thirty-seven percent of firms have AUM under \$500 million.

Changes in AUM

- Participating firms saw rapid growth in the first six months of 2021, with a median growth in assets under management (AUM) of 13.7%.
- Much of this growth was fueled by great market returns: the S&P returned 14.4% for the first six months of 2021.
- Still, firms also had success in adding new clients, as the number of client relationships grew by 6.0% over this same period.
- The fastest growing firms (i.e., the third quartile) grew their AUM by 17.6%.

Percentage Change in AUM in First Six Months of 2021



Changes in Client Relationships

Changes in Client Relationships from Jan. 1 to June 30, 2021



CHANGES IN CLIENT RELATIONSHIPS FROM JAN. 1 TO JUNE 30, 2021

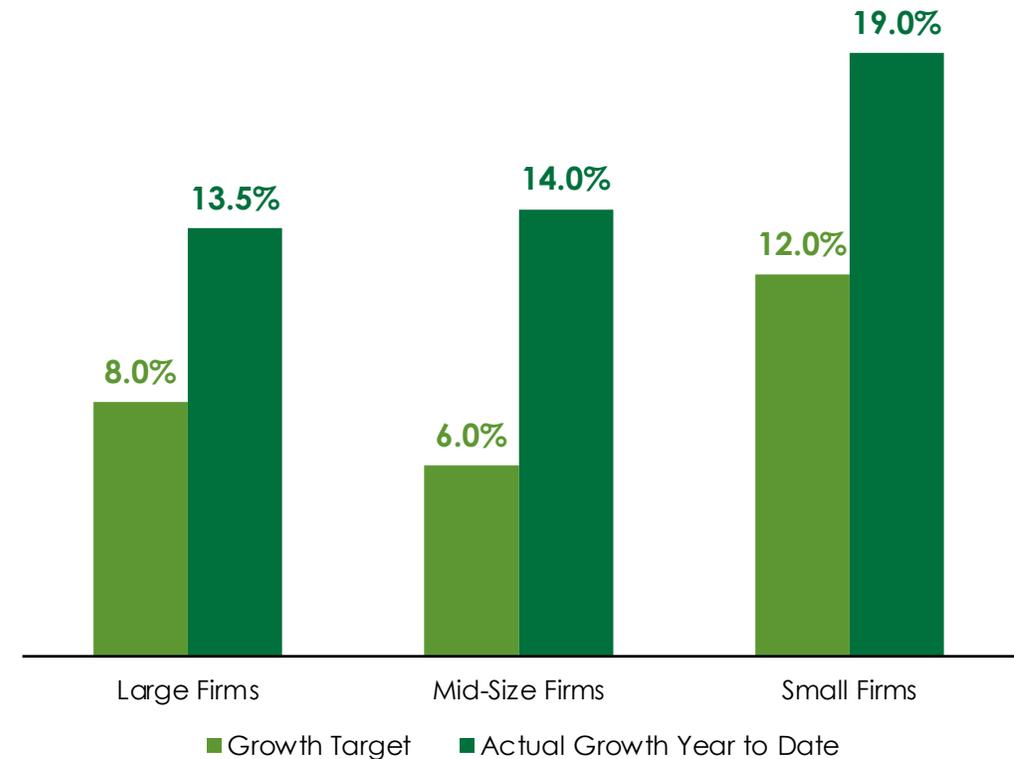
Starting Clients: January 1, 2021	557	
Less: Clients Who Left	-7	1.3%
Plus: Clients Added	41	7.3%
Ending Clients: June 30, 2021	590	

- Advisory firms continued to add client relationships, with the typical (median) firm adding 41 new relationships, which is growth of 7.3% in the number of clients.
- New business development activity is twice the rate of growth that we observed in 2020, perhaps signaling a return of investor interest in working with an advisor and a general return to a more normal business environment.
- Client losses were low the typical (median) firm lost seven clients, or a reduction of 1.3% of their client base.

Growth Targets for 2021

- The typical (median) growth target for participating firms is 8.0% in 2021, a rather modest target that firms are very likely to achieve given their current results.
- The largest firms (those over \$1 billion) are targeting 8.0% growth and have experienced growth of 13.5% so far in 2021.
- Mid-size firms are seeking 6.0% growth and have reached growth of 14.0% so far in 2021.
- Small firms are the most ambitious, with a growth target of 12.0% and growth of 19% so far in 2021.

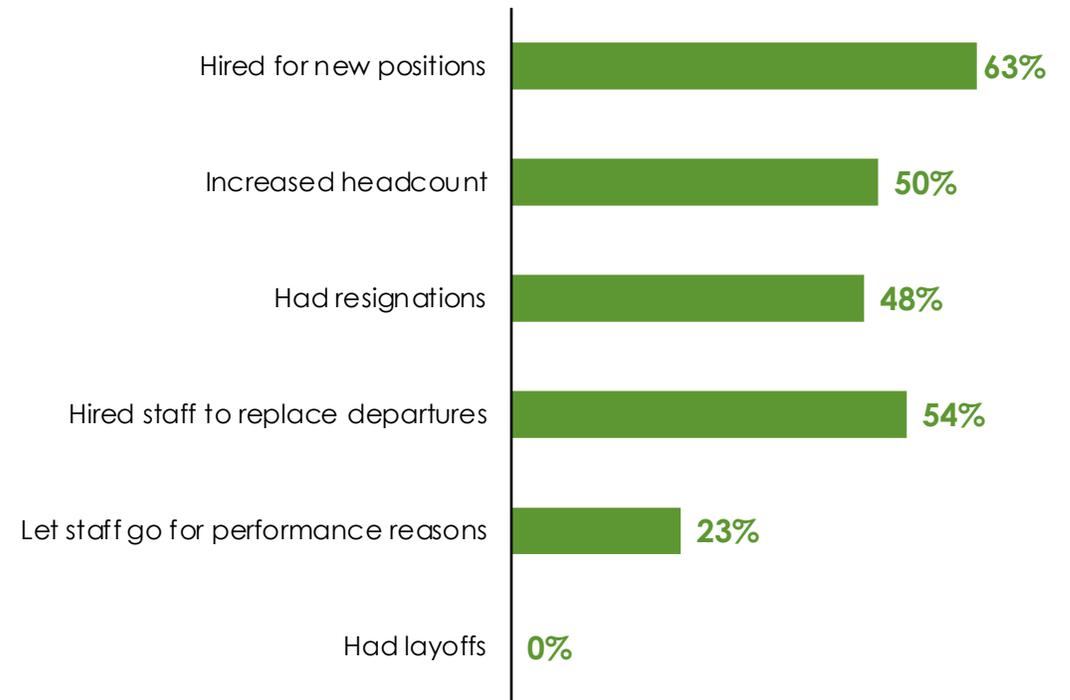
Growth Targets and Actual Growth Year to Date



Changes in Staffing

- With strong growth in assets, firms are looking to grow and have continued to hire new staff.
- Sixty-three percent of firms have hired for a new position (rather than replacing a departure), and half of firms increased their headcount in the first half of 2021.
- No firms laid off staff.
- Turnover (48% of firms had resignations) and hiring to replace departures (54% of firms) in the first half of 2021 matches the historical pace of staffing changes.

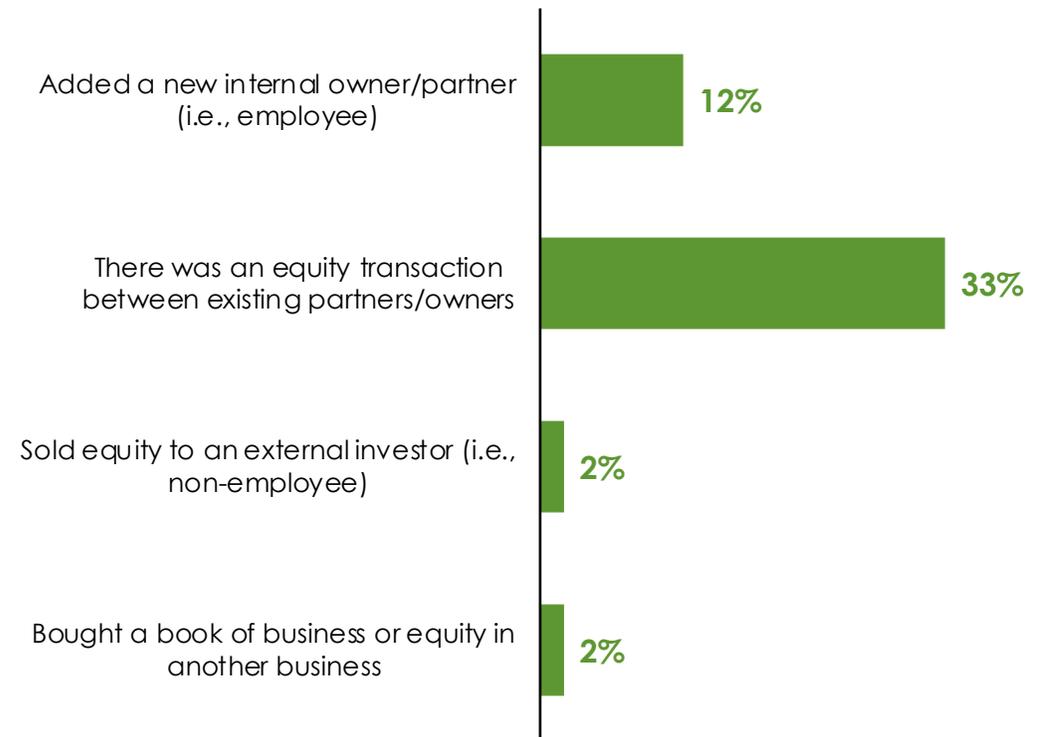
Percentage of Firms with Changes in Staffing in First Six Months of 2021



Equity Changes

- While mergers and acquisitions continue to capture the attention of the industry, internal transactions between existing owners are much more common, with 33% of firms having completed such a transaction.
- Twelve percent of all firms are adding new partners as they grow, a great sign of the growing sustainability of ownership in the independent advisory business.
- Only 2% of the firms in the survey sold equity or acquired a practice, but naturally such transactions gradually accumulate to result in industry consolidation over time.

Equity Changes from January 1 to June 30, 2021



Priorities

- The top priority of advisory firms is growth. When asked to rate their priorities in 2021, the addition of new clients is what most firms seek.
- Another high priority strategy is the addition of new services and markets to expand the firm's reach as well as what it delivers to its clients.
- Acquiring practices is also high on the priority list, but unfortunately, the shortage of sellers has resulted in only 2% of participating firms meeting this objective.
- Recruiting professionals and developing professionals is another objective that received the attention of participating firms.

THE PRIORITIES OF FIRMS	
1	Add new clients and assets using same positioning and strategy we have had
2	Enter into a new market or service
3	Acquire and merge practices and businesses
4	Recruit professionals
5	Train and develop our people
6	Change a strategic partner relationship, including custodian or broker-dealer
7	Improve our profitability
8	Make additions and changes to our overall client service
9	Integrate a merger or acquisition made in 2020
10	Add more owners (partners)
11	Change our brand and positioning, including our name
12	Plan or implement a plan for founder succession
13	Change significantly our technology
14	Change and improve our investment process, services and results
15	Improve our efficiency or processes
16	Raise capital through loan or investors



THANK YOU!

PULSE OF THE INDUSTRY: FIRST HALF OF 2021 // All Firms

ALL FIRMS: CHANGES IN AUM	
Starting AUM on January 1, 2021	\$1,397,355,092
Ending AUM on June 30, 2021	\$1,571,787,372
Percentage Change in AUM: First Quartile	10.3%
Percentage Change in AUM: Median	13.7%
Percentage Change in AUM: Third Quartile	17.6%

ALL FIRMS: CHANGES IN STAFFING	
Starting Employees on January 1, 2021	22
Less: Employees Let Go for Performance	0
Less: Employees Laid Off for Economic Reasons	0
Less: Employees Who Resigned	1
Plus: Employees Hired to Replace Departures	1
Plus: Employees Hired in New Positions	2
Ending Employees on June 30, 2021	23
Percentage of Firms That Let Go for Performance	23%
Percentage of Firms That Had Layoffs	0%
Percentage of Firms That Had Resignations	48%
Percentage of Firms That Hired to Replace Departures	54%
Percentage of Firms That Hired for New Positions	63%
Percentage of Firms That Increased Headcount	50%

ALL FIRMS: CHANGES IN CLIENT RELATIONSHIPS		
Starting Clients on January 1, 2021	557	
Less: Clients Who Left	7	1.3%
Plus: Clients Added	41	7.3%
Ending Clients on June 30, 2021	587	

ALL FIRMS: CHANGES IN EQUITY			
	Yes	No	No Answer
We added a new internal owner/partner (i.e., employee)	12%	73%	15%
There was an equity transaction between existing partners/owners	33%	52%	15%
We sold equity to an external investor (i.e., non-employee)	2%	83%	15%
We bought a book of business or equity in another business.	2%	85%	13%

ALL FIRMS: GROWTH TARGETS AND OPEN POSITIONS

	Median	Average
Growth Target for 2021	10.0%	12.2%
Number of Positions Currently Open	1.00	1.61

ALL FIRMS: PRIORITIES

What are your priorities in 2021 (lower score indicates highest priority)?	Priority Score	Priority Rank
Add new clients and assets using the same positioning and strategy as we have had	1.17	1
Enter into a new market or service	1.65	2
Acquire and merge practices and businesses	1.83	3
Recruit professionals	1.94	4
Train and develop our people	2.06	5
Change a strategic partner relationship, including custodian or broker-dealer	2.17	6
Improve our profitability	2.17	6
Make additions and changes to our overall client service	2.27	8
Integrate a merger or acquisition made in 2020	2.31	9
Add more owners (partners)	2.31	9
Change our brand and positioning, including our name	2.33	11
Plan or implement a plan for founder succession	2.48	12
Change significantly our technology	2.56	13
Change and improve our investment process, services and results	2.67	14
Improve our efficiency or processes	2.75	15
Raise capital through loan or investors	3.62	16

ALL FIRMS: PERCEPTION OF BUSINESS CLIMATE

We are generating more leads and see more opportunity for business development compared to pre-COVID years	58%
We are generating similar number of leads and opportunity for business development compared to pre-COVID years	21%
We are generating less leads and see less opportunity for business development compared to pre-COVID years	8%
No Answer	13%

PULSE OF THE INDUSTRY: FIRST HALF OF 2021 // Super Ensembles

SUPER ENSEMBLES: CHANGES IN AUM

Starting AUM on January 1, 2021	\$2,562,960,794
Ending AUM on June 30, 2021	\$2,877,056,284
Percentage Change in AUM: Average	13.5%

SUPER ENSEMBLES: CHANGES IN STAFFING

Starting Employees on January 1, 2021	32
Less: Employees Let Go for Performance	0
Less: Employees Laid Off for Economic Reasons	0
Less: Employees Who Resigned	1
Plus: Employees Hired to Replace Departures	1
Plus: Employees Hired in New Positions	3
Ending Employees on June 30, 2021	34
Percentage of Firms That Let Go for Performance	17%
Percentage of Firms That Had Layoffs	0%
Percentage of Firms That Had Resignations	63%
Percentage of Firms That Hired to Replace Departures	58%
Percentage of Firms That Hired for New Positions	71%
Percentage of Firms That Increased Headcount	100%

SUPER ENSEMBLES: CHANGES IN CLIENT RELATIONSHIPS

Starting Clients on January 1, 2021	835
Less: Clients Who Left	16
Less: Clients Added	68
Ending Clients on June 30, 2021	892

SUPER ENSEMBLES: CHANGES IN EQUITY

	Yes	No	No Answer
We added a new internal owner/partner (i.e., employee)	13%	71%	17%
There was an equity transaction between existing partners/owners	29%	54%	17%
We sold equity to an external investor (i.e., non-employee)	0%	83%	17%
We bought a book of business or equity in another business.	4%	83%	13%

SUPER ENSEMBLES: GROWTH TARGETS AND OPEN POSITIONS

	Median	Average
Median Growth Target for 2021	8.0%	9.5%
Number of Positions Currently Open	2.00	2.08

SUPER ENSEMBLES: PRIORITIES

What are your priorities in 2021 (Lower score indicates highest priority)	Priority Score	Priority Rank
Add new clients and assets using the same positioning and strategy as we have had	1.38	1
Make additions and changes to our overall client service	2.38	4
Change and improve our investment process, services and results	2.00	2
Recruit professionals	2.33	3
Train and develop our people	2.92	7
Acquire and merge practices and businesses	2.92	7
Plan or implement a plan for founder succession	2.58	5
Integrate a merger or acquisition made in 2020	3.63	14
Enter into a new market or service	3.38	11
Change significantly our technology	2.79	6
Improve our efficiency or processes	3.13	9
Change our brand and positioning, including our name	3.25	10
Change a strategic partner relationship, including custodian or broker-dealer	3.63	14
Improve our profitability	3.50	12
Add more owners (partners)	3.58	13
Raise capital through loan or investors	5.21	16

SUPER ENSEMBLES: PERCEPTION OF BUSINESS CLIMATE

We are generating more leads and see more opportunity for business development compared to pre-COVID years	63%
We are generating similar number of leads and opportunity for business development compared to pre-COVID years	21%
We are generating less leads and see less opportunity for business development compared to pre-COVID years	4%
No Answer	13%

PULSE OF THE INDUSTRY: FIRST HALF OF 2021 // Mid-Size Firms

MID-SIZE FIRMS: CHANGES IN AUM	
Starting AUM on January 1, 2021	\$782,088,354
Ending AUM on June 30, 2021	\$888,625,965
Percentage Change in AUM: Average	14.0%

MID-SIZE FIRMS: CHANGES IN STAFFING	
Starting Employees on January 1, 2021	22
Less: Employees Let Go for Performance	0
Less: Employees Laid Off for Economic Reasons	0
Less: Employees Who Resigned	1
Plus: Employees Hired to Replace Departures	1
Plus: Employees Hired in New Positions	2
Ending Employees on June 30, 2021	24
Percentage of Firms That Let Go for Performance	33%
Percentage of Firms That Had Layoffs	0%
Percentage of Firms That Had Resignations	33%
Percentage of Firms That Hired to Replace Departures	33%
Percentage of Firms That Hired for New Positions	67%
Percentage of Firms That Increased Headcount	100%

MID-SIZE FIRMS: CHANGES IN CLIENT RELATIONSHIPS		
Starting Clients on January 1, 2021	467	
Less: Clients Who Left	-3	-0.7%
Less: Clients Added	27	5.8%
Ending Clients on June 30, 2021	467	

MID-SIZE FIRMS: CHANGES IN EQUITY			
	Yes	No	No Answer
We added a new internal owner/partner (i.e., employee)	11%	56%	33%
There was an equity transaction between existing partners/owners	22%	44%	33%
We sold equity to an external investor (i.e., non-employee)	11%	56%	33%
We bought a book of business or equity in another business.	0%	67%	33%

MID-SIZE FIRMS: GROWTH TARGETS AND OPEN POSITIONS

	Median	Average
Median Growth Target for 2021	6.0%	8.1%
Number of Positions Currently Open	1.00	1.44

MID-SIZE FIRMS: PRIORITIES

What are your priorities in 2021 (Lower score indicates highest priority)	Priority Score	Priority Rank
Add new clients and assets using the same positioning and strategy as we have had	1.67	12
Make additions and changes to our overall client service	0.44	2
Change and improve our investment process, services and results	1.89	14
Recruit professionals	0.67	3
Train and develop our people	0.33	1
Acquire and merge practices and businesses	1.56	9
Plan or implement a plan for founder succession	1.22	6
Integrate a merger or acquisition made in 2020	1.56	9
Enter into a new market or service	1.78	13
Change significantly our technology	1.00	4
Improve our efficiency or processes	2.00	15
Change our brand and positioning, including our name	1.11	5
Change a strategic partner relationship, including custodian or broker-dealer	1.56	9
Improve our profitability	2.22	16
Add more owners (partners)	1.22	6
Raise capital through loan or investors	1.22	6

MID-SIZE FIRMS: PERCEPTION OF BUSINESS CLIMATE

We are generating more leads and see more opportunity for business development compared to pre-COVID years	33%
We are generating similar number of leads and opportunity for business development compared to pre-COVID years	22%
We are generating less leads and see less opportunity for business development compared to pre-COVID years	11%
No Answer	33%

PULSE OF THE INDUSTRY: FIRST HALF OF 2021 // Small Firms

SMALL FIRMS: CHANGES IN AUM	
Starting AUM on January 1, 2021	\$216,453,188
Ending AUM on June 30, 2021	\$246,629,413
Percentage Change in AUM: Average	19.0%

SMALL FIRMS: CHANGES IN STAFFING	
Starting Employees on January 1, 2021	10
Less: Employees Let Go for Performance	0
Less: Employees Laid Off for Economic Reasons	0
Less: Employees Who Resigned	0
Plus: Employees Hired to Replace Departures	1
Plus: Employees Hired in New Positions	1
Ending Employees on June 30, 2021	10
Percentage of Firms That Let Go for Performance	26%
Percentage of Firms That Had Layoffs	0%
Percentage of Firms That Had Resignations	37%
Percentage of Firms That Hired to Replace Departures	58%
Percentage of Firms That Hired for New Positions	53%
Percentage of Firms That Increased Headcount	100%

SMALL FIRMS: CHANGES IN CLIENT RELATIONSHIPS		
Starting Clients on January 1, 2021	247	
Less: Clients Who Left	1	0.6%
Less: Clients Added	12	5.0%
Ending Clients on June 30, 2021	258	

SMALL FIRMS: CHANGES IN EQUITY			
	Yes	No	No Answer
We added a new internal owner/partner (i.e., employee)	11%	84%	5%
There was an equity transaction between existing partners/owners	42%	53%	5%
We sold equity to an external investor (i.e., non-employee)	0%	95%	5%
We bought a book of business or equity in another business.	0%	95%	5%

SMALL FIRMS: GROWTH TARGETS AND OPEN POSITIONS

	Median	Average
Median Growth Target for 2021	12.0%	17.6%
Number of Positions Currently Open	1.00	1.06

SMALL FIRMS: PRIORITIES

What are your priorities in 2021 (Lower score indicates highest priority)	Priority Score	Priority Rank
Add new clients and assets using the same positioning and strategy as we have had	0.68	1
Make additions and changes to our overall client service	1.32	4
Change and improve our investment process, services and results	1.58	7
Recruit professionals	2.05	11
Train and develop our people	1.79	9
Acquire and merge practices and businesses	1.53	6
Plan or implement a plan for founder succession	2.11	12
Integrate a merger or acquisition made in 2020	0.89	2
Enter into a new market or service	1.21	3
Change significantly our technology	2.32	14
Improve our efficiency or processes	1.47	5
Change our brand and positioning, including our name	2.16	13
Change a strategic partner relationship, including custodian or broker-dealer	1.68	8
Improve our profitability	1.84	10
Add more owners (partners)	2.42	15
Raise capital through loan or investors	2.74	16

SMALL FIRMS: PERCEPTION OF BUSINESS CLIMATE

We are generating more leads and see more opportunity for business development compared to pre-COVID years	63%
We are generating similar number of leads and opportunity for business development compared to pre-COVID years	21%
We are generating less leads and see less opportunity for business development compared to pre-COVID years	11%
No Answer	5%