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# 2015 RIA Benchmarking Study from Charles Schwab

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# Executive summary

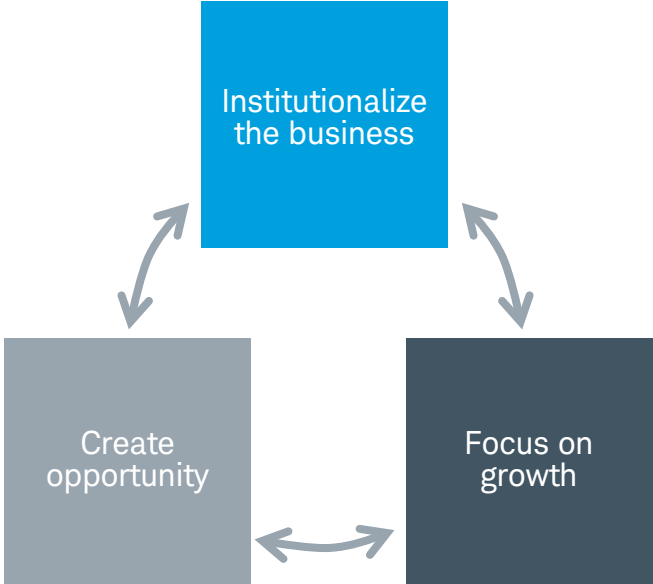
- 2014 results represent the product of more than five years of strong performance by Registered Investment Advisors (RIAs) demonstrated by record revenues, impressive increases in total number of clients, and rising profitability.
- Nearly half (42%) of firms have doubled their revenues and half have increased their AUM by 75% or more since the bull markets of 2009.
- Investor demand was a significant contributor to growth with top-performing firms adding 10% or more new clients and increasing their share of wallet with existing clients by 4%.
- The average account size is now \$1.9 million or more for half of firms, and \$3.9 million for the top-performing firms.
- AUM grew at a 12.1% median CARG<sup>1</sup> as a result of more clients and larger-size accounts, as well as strong market performance.
- The vast majority of firms became more profitable during the last five years with standardized operating margin reaching 27% at the median (a 36% increase over five years.)
- Strong growth, increased margins, retention of clients, and continued cash flow have allowed RIAs to build significant value, and for many firms, double their firm value over the last five years.
- There is a maturity in the industry as over half of the firms in the study have crossed the 20 year mark in business. Success of the industry has attracted many new entrants over the last five years (61% more firms \$100 million - \$1 billion in AUM.)
- Advisors say their top priorities are: growth, recruiting new talent, strategic planning and leveraging technology to improve productivity.

(1) Median compound annual growth rate (CAGR) over the 5-year period from 2010 to 2014. Past performance is not an indicator for future results.

Median results for all firms \$250 million or more in AUM unless otherwise stated. Top-performing firms are firms at the 80<sup>th</sup> percentile or above. 2015 RIA Benchmarking Study from Charles Schwab, fielded January to March, 2015. Study contains self-reported data from 1,007 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups, by AUM size.

# The top priorities for RIAs are also the keys to success: Institutionalizing the business, focusing on growth, creating opportunity

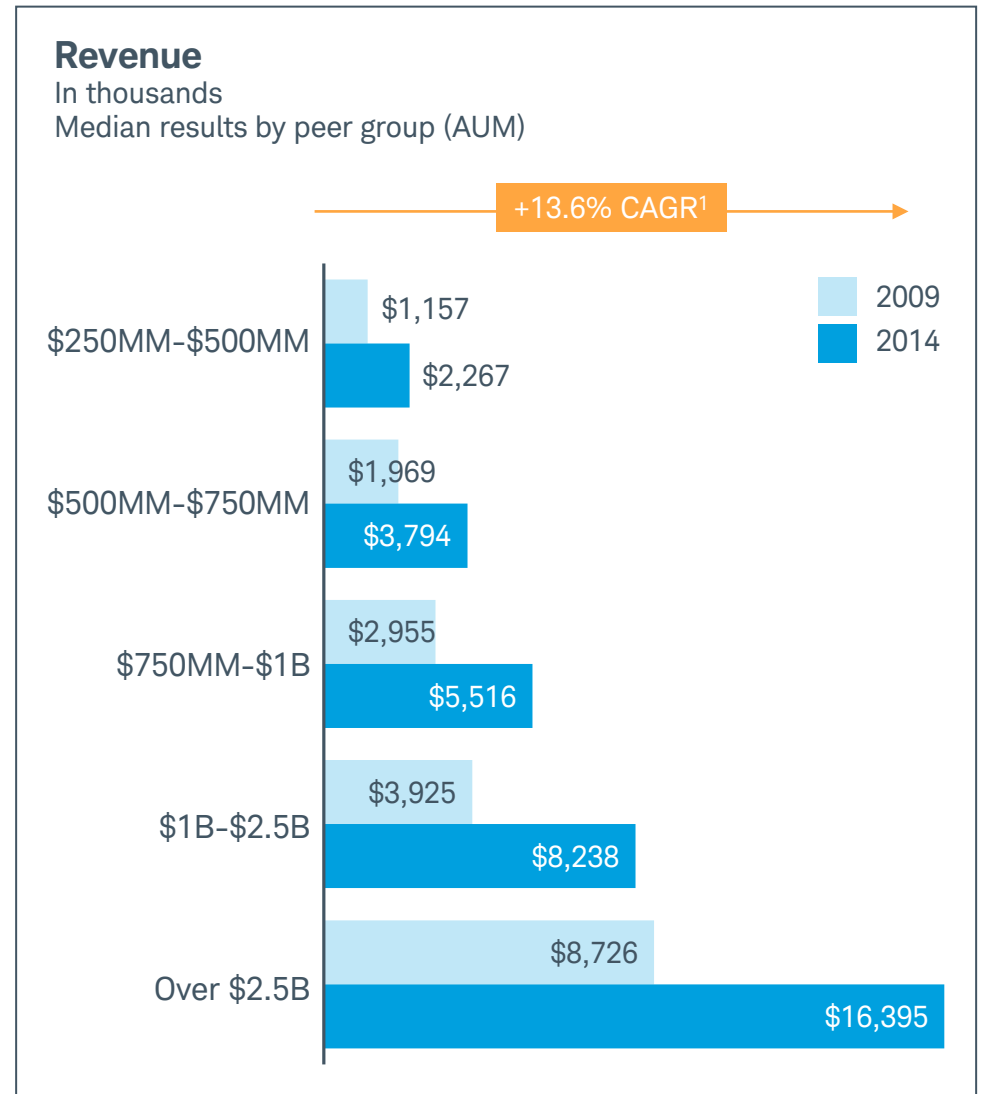
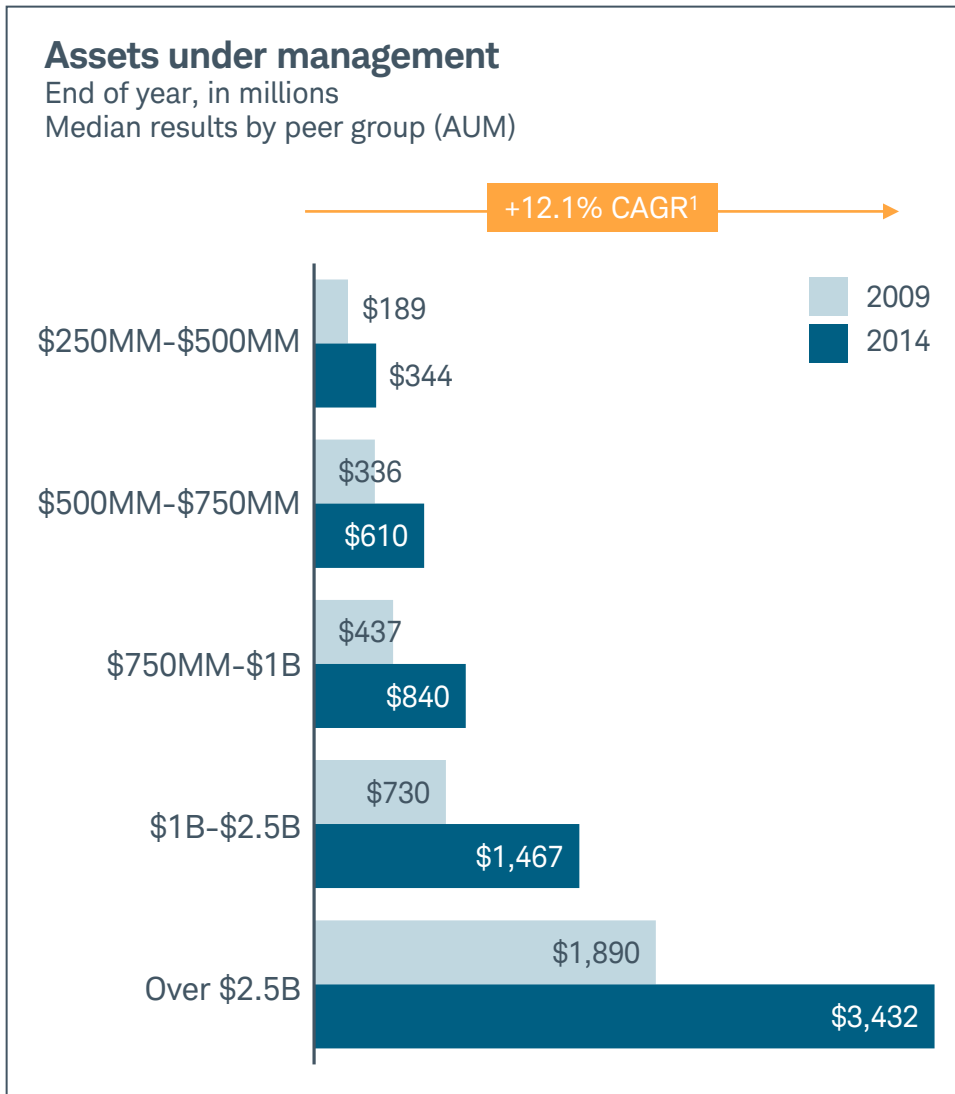
Firms embrace three important ideas that allow them to grow year after year.



- 1 Acquire new clients through client referrals
- 2 Acquire new clients through business referrals
- 3 Recruit new staff to increase firm's skill set/capacity
- 4 Enhance strategic planning and execution
- 5 Improve productivity with new technology

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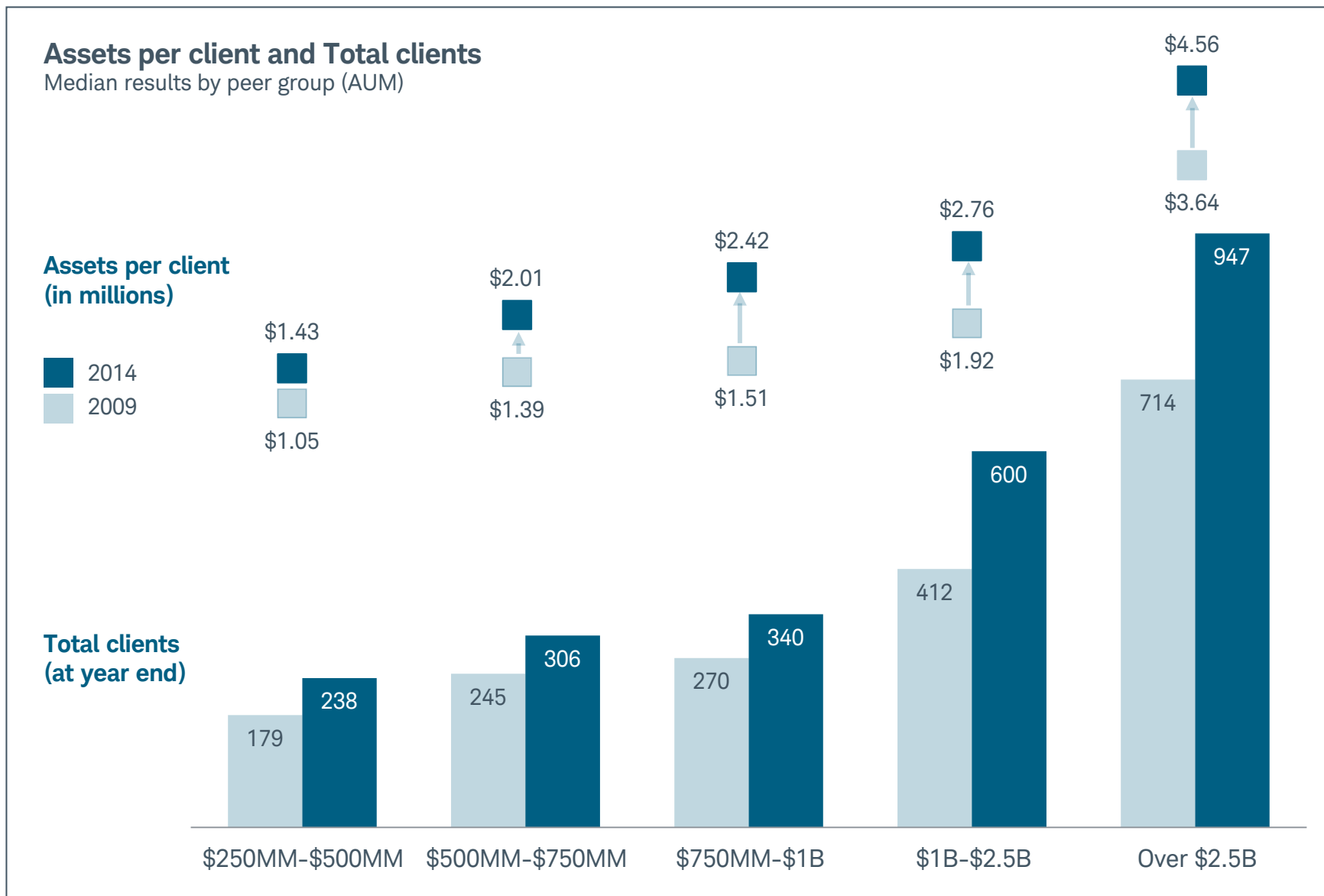
# The median firm increased assets under management (AUM) by 75% over the last five years



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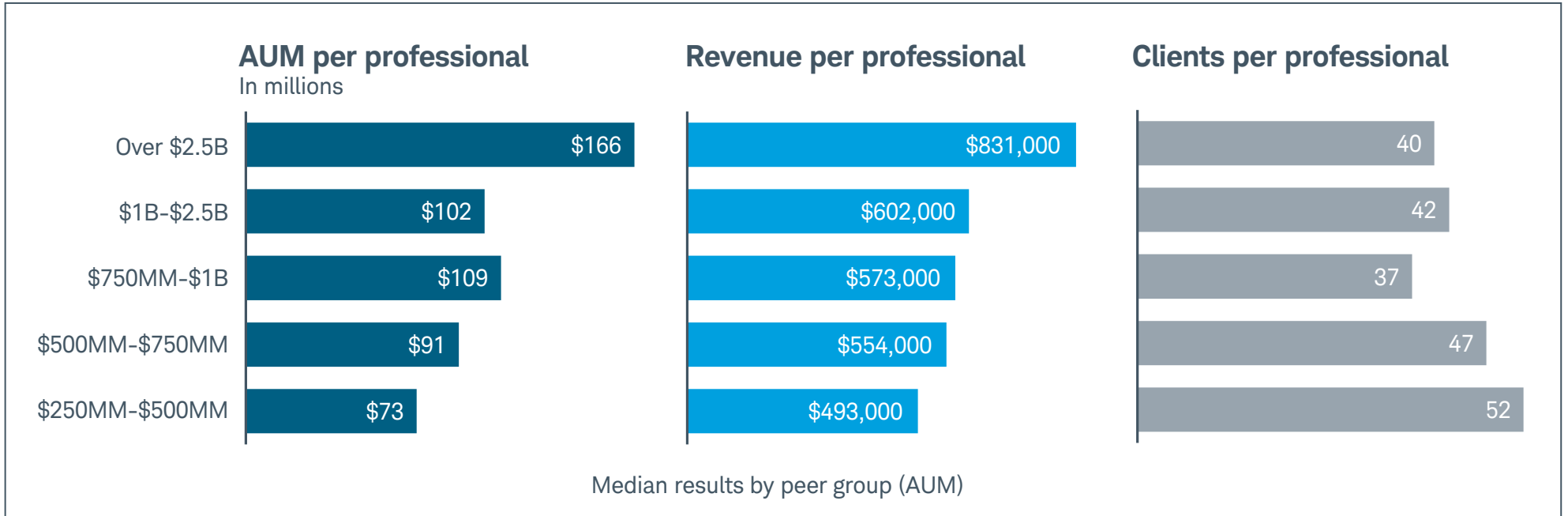
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# RIAs are winning in the marketplace by attracting more clients and a greater number of high-net-worth investors



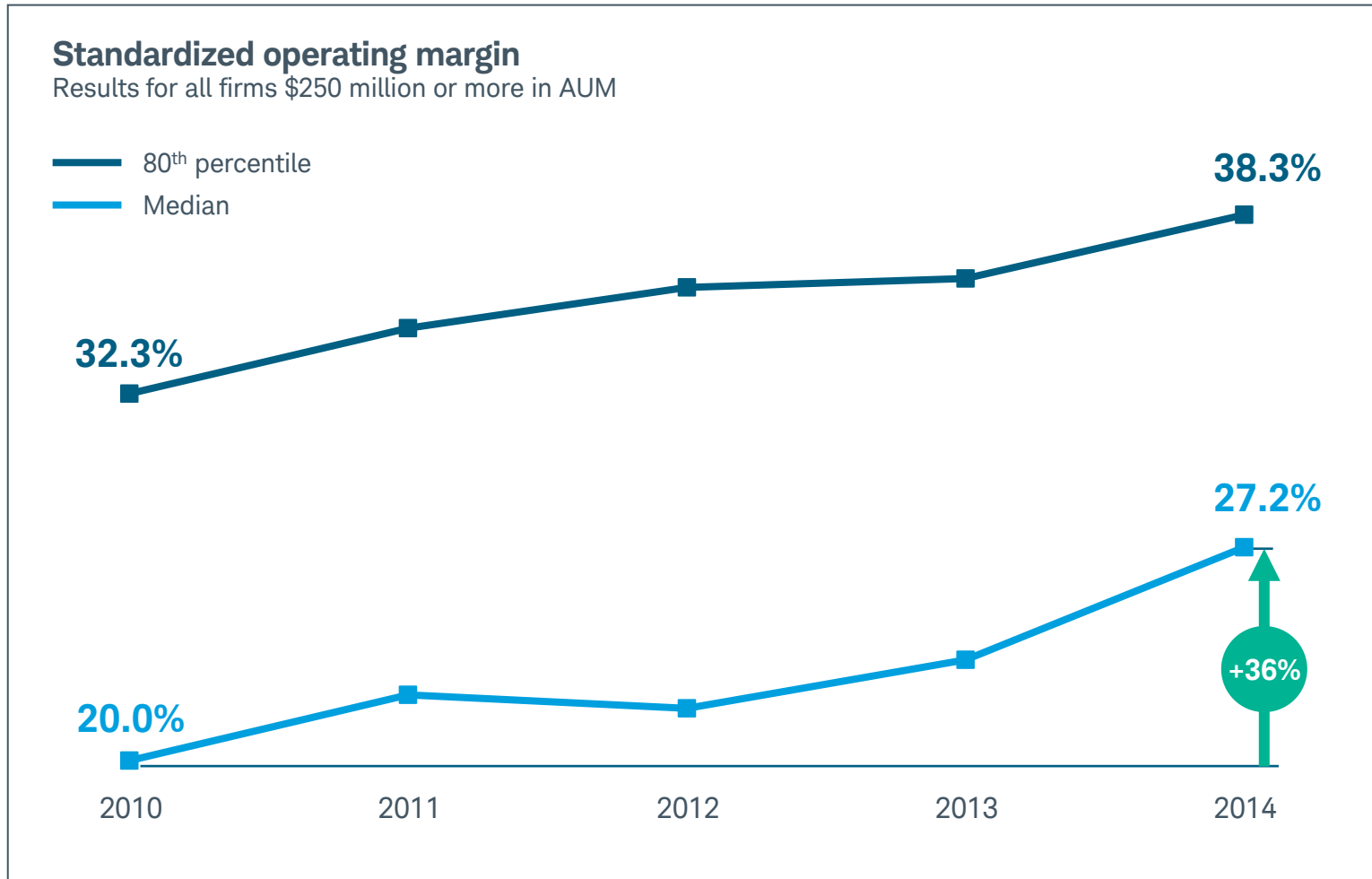
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# RIA firms report increased productivity supporting record profitability



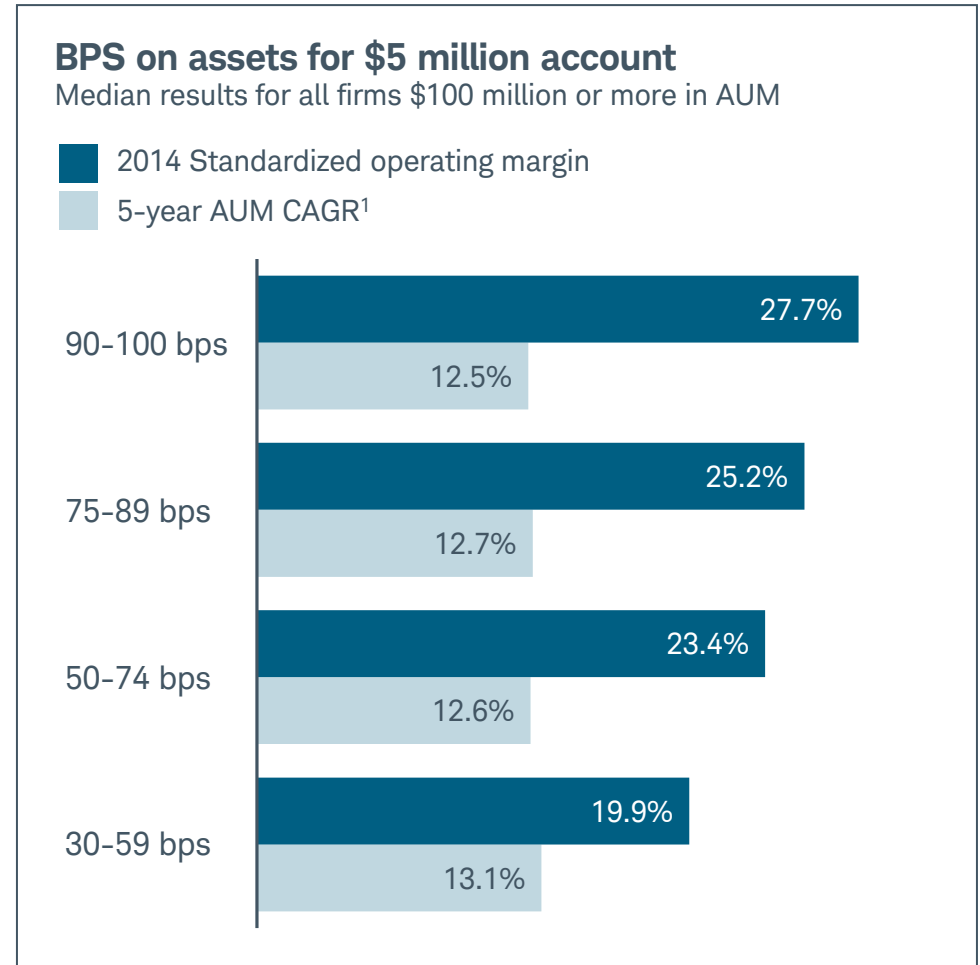
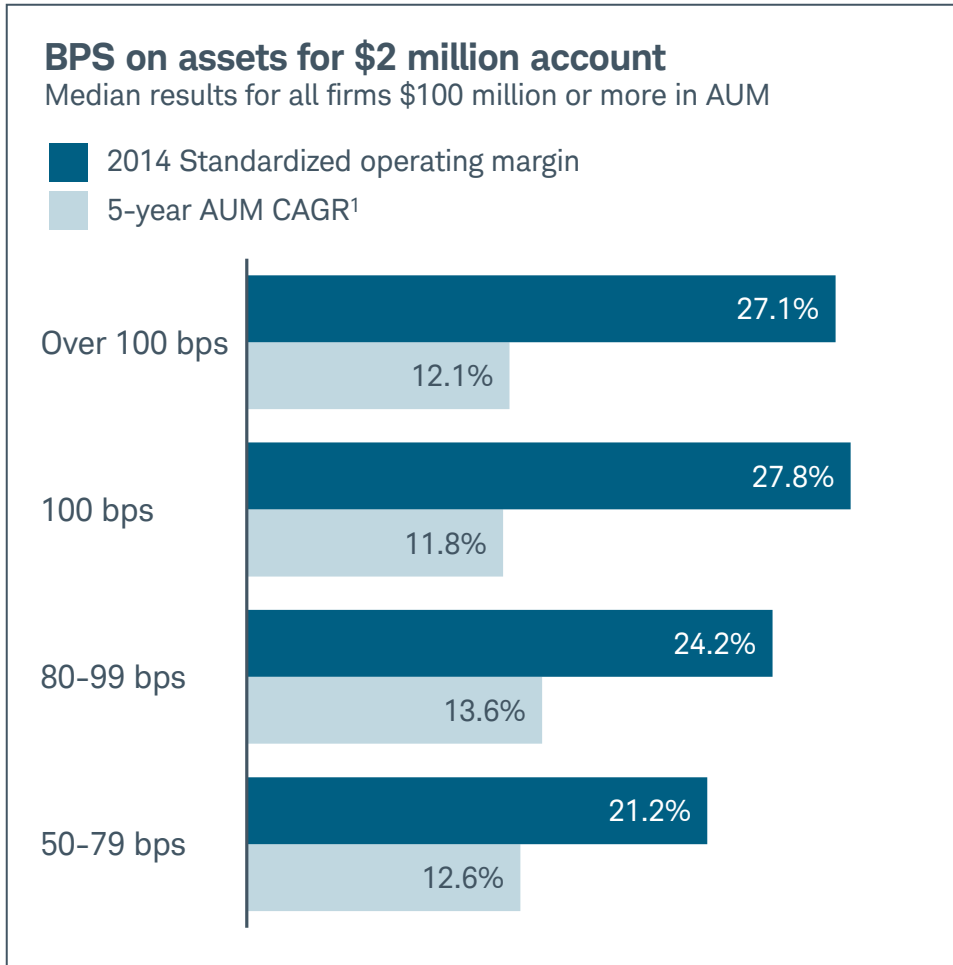
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# For all firms, profitability has risen 36% in the last five years



Results from the 2011, 2012, 2013, 2014 and 2015 RIA Benchmarking Study from Charles Schwab. 2015 RIA Benchmarking Study from Charles Schwab, fielded January to March, 2015. Study contains self-reported data from 1,007 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups, by AUM size.

# Results show a correlation between pricing and profitability

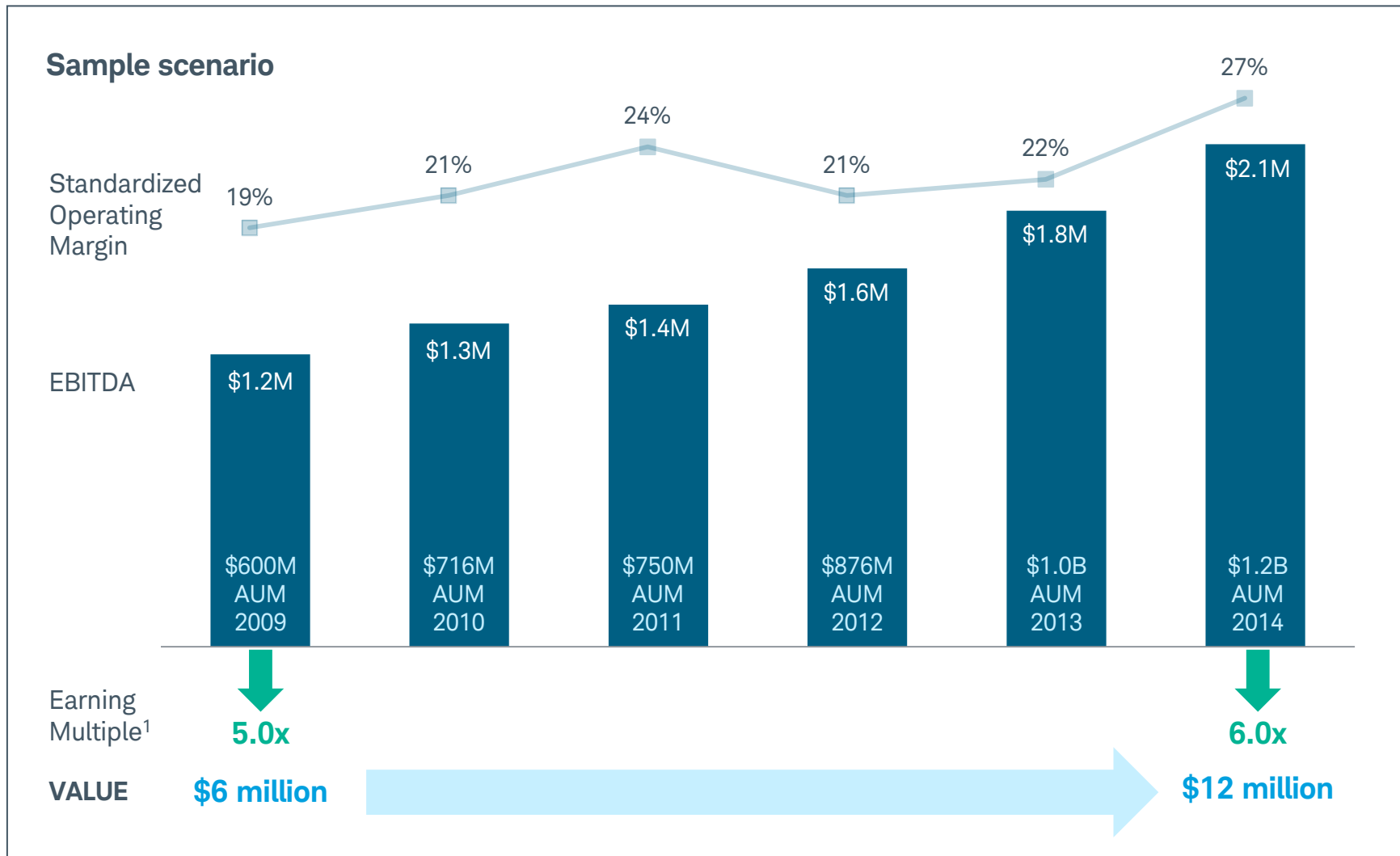


(1) Median compound annual growth rate (CAGR) over the 5-year period from 2010 to 2014 for all firms \$100 million or more in AUM. Past performance is not an indicator for future results.

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# RIAs have built significant firm value through key value drivers – strong growth, increased margins, client retention, and cash flow

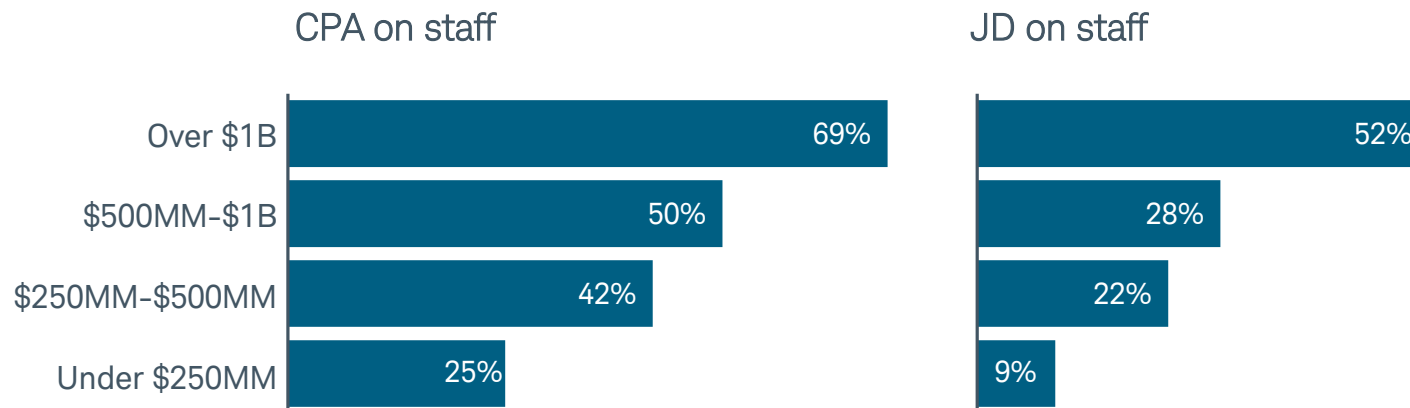
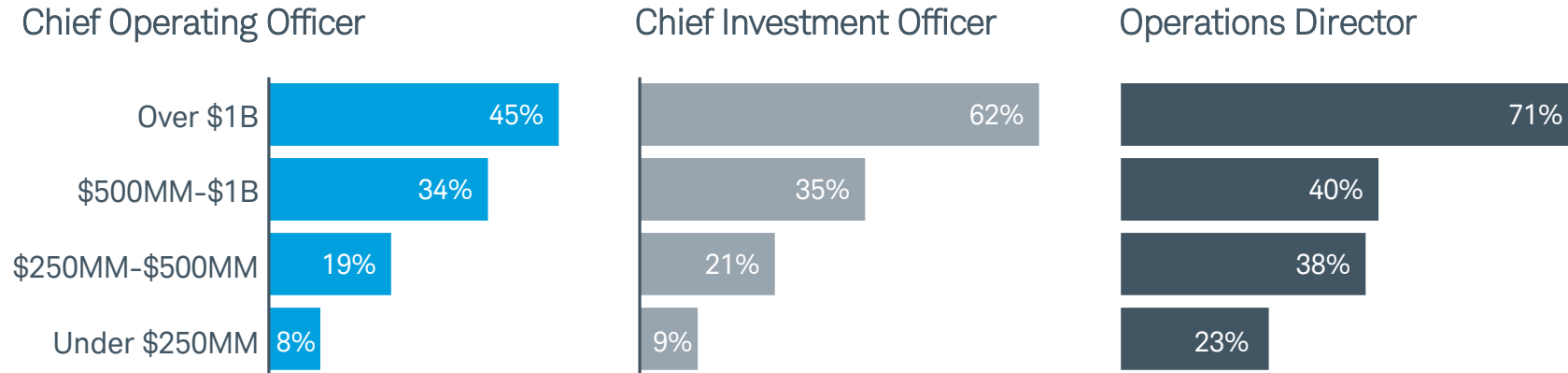


(1) Based on experience from Advice Dynamics Partners, LLC. Advice Dynamics Partners, LLC. is not affiliated with or an employee of Schwab. Refer to the Methodology and Disclosures page for more information regarding earning multiples.

Hypothetical situation. For illustrative purposes only. It does not represent a guarantee of future performance or success and may not be representative of your experience.

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# Firm growth and profitability is requiring more dedicated management, and attracting more qualified and specialized talent



Results by peer group (AUM). 2015 RIA Benchmarking Study from Charles Schwab, fielded January to March, 2015. Study contains self-reported data from 1,007 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups, by AUM size.

# 2015 study included 1,007 RIA firms representing nearly three-quarters of a trillion in assets

Metrics (median)	ALL FIRMS \$250MM+	Peer Groups					
		\$100MM- \$250MM	\$250MM- \$500MM	\$500MM- \$750MM	\$750MM- \$1B	\$1B- \$2.5B	\$2.5B+
2014 Ending AUM (\$MM)	\$600	\$157	\$344	\$610	\$840	\$1,467	\$3,432
5-year AUM CAGR <sup>1</sup>	12.1%	13.3%	12.2%	11.6%	13.2%	12.9%	11.3%
2014 Revenues (\$000)	\$3,400	\$1,099	\$2,267	\$3,794	\$5,516	\$8,238	\$16,395
5-year revenue CAGR <sup>1</sup>	13.6%	13.4%	13.5%	12.9%	13.5%	15.5%	12.8%
2014 Ending number of clients	319	152	238	306	340	600	947
5-year client CAGR <sup>1</sup>	5.1%	6.1%	4.8%	5.0%	4.8%	5.9%	4.3%
Standardized operating margin	27.2%	22.0%	26.8%	29.4%	30.1%	26.0%	27.0%
Age of firm (years)	21	14	18	22	25	25	26

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# Methodology and disclosures

## Earning multiples:

The ultimate value of a firm goes well beyond the numbers. A firm's value can be determined by a wide range of qualitative measures, for both potential risk and reward, such as client demographics, key employee contracts, investment philosophy, and approach to client service. All of these factors have a direct impact on how much value a buyer can realize from the purchase, and thus how much he or she is willing to pay, not just to buy a practice, but to buy a profitable business. A valuation approach can depend on multiple factors and earning multiples are rules of thumbs that should be used with care. For more information, please contact Advice Dynamics Partners, LLC., a full-service consultancy that works with middle market financial advisory firms seeking succession guidance, merger assistance, or acquisition execution.

AUM Tier	Cash Flow Tier	Multiple Paid
Less than \$200MM	Less than \$500,000	3x – 5x
\$200MM – \$500MM	\$500,000 – \$1.5M	4x – 6x
\$500MM – \$1B	\$1.5M – \$3M	5x – 7x
\$1B – \$3B	\$3M – \$10M	6x – 8x
Over \$3B	Over \$10M	8x +

## IMPORTANT DISCLOSURES:

For general informational purposes only. This information is not a recommendation or endorsement of, referral to, or solicitation on behalf of any investment advisor, whether or not named, quoted, or described in this deck. Past performance is not an indicator of future results.

Schwab designed this study to capture insights in the RIA industry, based on survey responses from individual firms. The 2015 study provides information on topics such as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. The study is part of Schwab's Business Consulting Services, a practice management offering for RIAs. Grounded in the best practices of leading independent advisory firms, Business Consulting Services provides insight, guidance, tools, and resources to help registered investment advisors (RIAs) strategically manage and grow their firms.

2015 RIA Benchmarking Study from Charles Schwab, fielded January to March, 2015. Study contains self-reported data from 1,007 firms. Schwab did not independently verify or validate the self-reported information. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups, by AUM size. All data is not verified or validated. Each participating advisory firm submitted only one set of responses.

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