

Outsourcing: Drive Growth and Profitability, Focus on Core Competencies

Inside:

- Executive Summary
- Challenges Facing RIAs
- Benefits of Outsourcing
- Choosing an Outsourcing Partner
- Advisor Success Stories
- The Envestnet Advantage

Executive Summary

Registered investment advisors, tasked with making money for their clients, also must be mindful of their own bottom line.¹ Those who are most successful are particularly adept at marshalling their resources to concentrate on revenue-generating activities. According to a recent study, 75% of their efforts comprise managing investments, expanding existing client relationships, and garnering new opportunities. Rather than becoming entrenched in the quagmire of time-consuming administrative, compliance, training, and back-office tasks, they mobilize outsourcing services to manage them, so they can stay focused on serving clients and increasing profits.

Organic growth—generating new business through referrals and consolidating assets from existing clients—may be the most intuitive path to an advisor’s success. At the same time, many advisory firms are exploring paths for inorganic growth (such as recruiting new advisors, acquiring competitors, and merging with like-minded firms). Whichever growth approach an advisory firm takes, outsourcing non-core functions can help accelerate progress toward that goal.

What exactly are non-core functions? Investnet defines non-core functions as those activities that keep advisors from meeting clients and prospects, identifying and implementing wealth management solutions for customers, and growing their firm. Spending more time on growth may require fine-tuning how administrative functions are organized and operated.

The good news is that better solutions and tools to help firms grow exist in the marketplace today than ever before. In addition, the team members—those who best know the firm’s clients, philosophy, and values—can become even more valuable to the organization when their focus is tuned to growth and client service.

In this white paper, we’ll look at key challenges facing advisors today, including the need for more timely performance reporting, better technology systems integration, and getting the most from technology investments in today’s challenging environment. We’ll also look at the benefits of outsourcing, such as improved time management, more scalable solutions, and customized interfaces that keep the advisor in the driver’s seat. Finally, we’ll share some advisor success stories on how they use outsourcing to help their firms realize their full potential.

Challenges for RIAs today

Independent advisory firm owners enjoy several advantages. They can select high-conviction investment managers, partner with leading technology providers, and maintain the highest standards in operating their firms. At the same time, running the business presents challenges, especially in technology. Some of these are:

- poor systems integration
- hidden technology costs
- too much time spent on administration and operations
- maximizing revenue per employee

¹ Source: Cerulli Advisor Metrics December 2014 and Cerulli RIA Marketplace 2014

Poor systems integration

A recent survey by the Aite Group found that the majority of RIAs license individual technology solutions from a range of different vendors—the à-la-carte approach—and install them in-house. RIAs participating in this survey estimated that the average level of technology integration across business applications was less than 50%.² Oftentimes, RIAs’ technology systems aren’t integrated, and typically require manual transfer and reconciliation of data. This consumes vast amounts of time and energy from team members.

Poor systems integration may create tactical problems and strategic challenges for the firm. On the tactical side, team members manually reconcile data rather than spend time on activities that generate growth and revenue. On the strategic side, poor systems integration prevents viewing client assets held at other financial institutions. Some studies suggest that advisors typically may see only 60% of clients’ total assets.³ Lacking access to a client’s complete financial picture may mean missed opportunities

for the firm to consolidate assets and offer more holistic financial planning solutions.

Hidden technology costs

Technology costs often are hidden because advisors don’t consider both the cost of a stand-alone software solution and the time it takes their administrative staff to run it. This situation can result in different software systems “specialists”, which creates problems when they are on vacation or out of the office. It also can add unnecessary headcount costs to the firm. Outsourcing technology solutions means the firm no longer must rely upon a single person to conduct critical client-service operations.

Too much time spent on administration and operations

If a firm is focused on growth, time spent on operations is a distraction from gathering new assets. In a 2014 report by the Financial Planning Association, nearly a third of the advisors cited a higher administrative burden as the greatest perceived obstacle they face in increasing

RIA Time Allocation by Firm AUM, 2014

Sources: Cerulli Associates, in partnership with the Investment Management Consultants Association, WealthManagement.com, Peak Advisor Alliance, and Impact Communications

Activities	<\$50m	\$50m to <\$100m	\$100m to <\$250m	\$250m to <\$500m	≥\$500m	All RIAs
Client-facing activities	43%	46%	57%	50%	56%	49%
Meeting with current clients	17%	18%	29%	15%	21%	20%
New client acquisition	12%	10%	11%	15%	14%	11%
Client meeting and plan preparation	8%	8%	9%	13%	11%	9%
Client service problems	6%	10%	8%	8%	11%	8%
Administrative	18%	23%	21%	30%	26%	22%
Office administration and management	7%	7%	6%	15%	5%	7%
Compliance	8%	10%	11%	10%	17%	11%
Dealing with operations/back office	3%	6%	3%	5%	4%	4%
Other	0%	0%	2%	0%	0%	0%
Investment management	33%	26%	16%	13%	14%	24%
Research/due diligence	22%	13%	10%	8%	9%	14%
Trading and asset management	11%	14%	5%	5%	5%	10%
Training/professional development	6%	4%	7%	8%	4%	5%

² Source: AITE. “RIA Technology Integration: The True Opportunity Cost of Inefficiency.”

³ Source: ByAllAccounts

productivity.⁴ As illustrated in the chart on the previous page, RIAs overall report spending more than half of their time on non-client-facing activities.

In addition, newly independent advisors may be challenged to replicate the level of administrative and operations support they enjoyed at their previous firms. In our view, outsourcing is the most practical, results-oriented, and cost-effective way for breakaway brokers to access the support they need and for independent advisors to maximize their productivity.

In fact, in Northern Trust’s 2014 report, “Investment Management Outsourcing: Impact on Clients,” 57% of respondents cited “more time to spend with clients” as the seminal benefit of outsourcing for the firm, and seven out of ten advisors said growth in clients and/or firm revenue could be attributed to outsourcing.⁵

Maximizing revenue per employee

Our premise is that the firm’s principals should

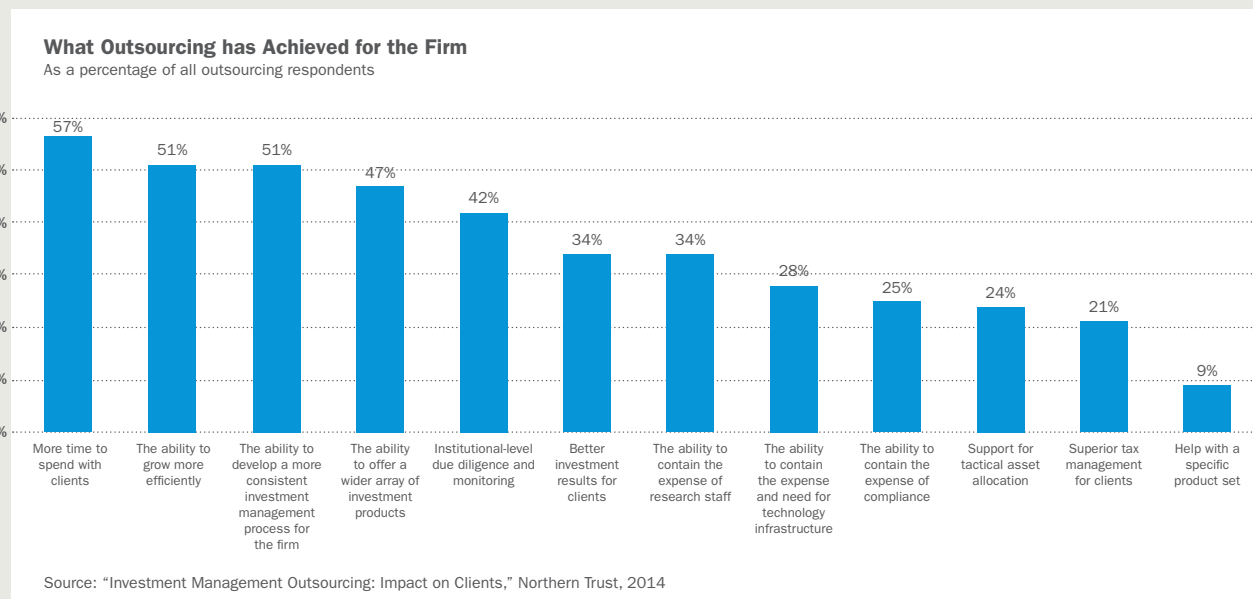
focus on generating new business, and outsource activities that don’t generate revenue. In the 2013 InvestmentNews/Moss Adams Advisor Compensation and Staffing Study, the top-performing firms had revenue per professional of \$775,557 compared to \$460,100 for all other firms, and revenue per staff of \$354,824 compared to \$207,071 for all others. The study also said high overhead may indicate poor cost control, high discretionary spending by the owners, or too many administrative employees. The top firms were more efficient in their use of administrative and operations staff, with total overhead expenses of 30.4% compared to 38.5% for all other firms.

A quick way to benchmark a firm’s performance is by these two back-of-the-envelope calculations:

- take total staff and divide by total revenue to calculate revenue per staff.
- take total number of professionals and divide by total revenue to calculate revenue per professional.

Boosting Productivity

In a recent survey conducted by Northern Trust Asset Management, advisors who outsourced investment management ranked productivity and profitability at the top of what their firm achieved by outsourcing.



⁴ Source: Financial Planning Association. “The 2014 Time Management and Productivity Study.”

⁵ Source: “Investment Management Outsourcing: Impact on Clients,” Northern Trust, 2014



Jim Pratt-Heaney
Founding Partner
 LLBH Private Wealth Management

“We always have outsourced so we can spend more time servicing clients, developing new relationships, and generating new business. As a result, our business has quadrupled in assets under management in the last five years.”

Since they went independent in 2008, LLBH has always outsourced. LLBH uses the “Virtual Family Office” approach to wealth management. This service model allows the firm not only to be the point of contact as the wealth advisor but also to coordinate and communicate with outside trusted advisors (accountants, lawyers, insurance brokers) and utilize outside vendors to enhance the overall client experience. “In other words, a one-stop-shop but not all services are in-house,” explains Jim Pratt-Heaney. “So outsourcing is perfectly in line with our overall business strategy.”

The firm currently outsources performance portfolio reporting, money management, research, trading, technology support, and legal/compliance support.

“Being able to outsource to the best of breed providers is one of the reasons we went independent, so we could provide the best services to our clients,” says Pratt-Heaney. “It is more efficient and frees up time for employees to focus on their specific jobs.”

“We didn’t think we should try to do everything in-house, but rather, stick to our expertise and let others, who are experts

in other things, focus on what they do best. We want to be the best and most efficient at what we do. Outsourcing allows us to focus on providing the best possible service and tools to our clients,” Pratt-Heaney continues. “Highlighting our ‘Virtual Family Office’ service model and promoting our ‘best of breed’

vendors is a huge value-add for our clients. They specifically love that we are able to show assets held outside the firm aggregated on the Envestnet platform.”

Firm at a Glance

Name: LLBH Private Wealth Management
Founded: 2008
Number of Professionals: 11
Number of Admin Staff: 7
AUM: Approximately \$1.6 billion

“We always have outsourced so we can spend more time servicing clients, developing new relationships, and generating new business. As a result, our business has quadrupled in assets under management in the last five years,” he concludes.

In our view, many RIAs significantly lag the top performing firms in these two metrics. Outsourcing administrative and operational tasks potentially should help improve the firm’s revenue relative to other similarly sized advisory firms.

- more comprehensive systems integration
- better time management
- measurable cost savings
- increased growth potential
- smoother succession planning

Benefits of outsourcing

According to the 2014 Northern Trust survey, nine out of ten advisors said they were satisfied with their outsourcing solution. Nearly four in ten (39%) say they were “very satisfied”.⁶

As the firm grows and evolves, advisor owners can choose the level of outsourcing that makes the most sense for the organization. Although each advisory firm is unique and may have specific goals for outsourcing, some benefits are common among those that employ it successfully. These typically include:

Comprehensive systems integration

Outsourcing all reconciliation and data transfer among programs reduces the potential for operator error: the fewer numbers manually inputted, the less likelihood for mistakes. Outsourcing also delivers more timely access to data—assuming that the outsourcing partner operates 24/7. For example, an advisor who leaves the office at 5 p.m. and arrives at 8 a.m. the next morning should have immediate access to data that has been reconciled overnight. More opportune recommendations can be made with accurate and actionable client data.

⁶ Source: “Investment Management Outsourcing: Impact on Clients,” Northern Trust, 2014



Todd Battaglia
President
 Meg Green & Associates Inc.

“I would say we have freed up an additional 10% of our time to spend on client relationships and business development.”

Meg Green & Associates Inc. serves wealthy families, entertainers, coaches, and small and mid-sized institutions. As the firm grew, the need to automate certain things to free up time and to stay ahead of industry changes became eminent. That led to making two important changes: enhancing performance reporting and tracking, and managing assets on a discretionary basis.

“Technology enhancements forced us to adopt a daily updated and reconciled reporting system that our clients could access online, 24 hours a day. That gave us a competitive advantage versus our previous once-a-month system,” says Todd Battaglia. “Also, as our practice grew larger, it was inefficient for us to contact all of our clients and get paperwork signed every time we wanted to implement a manager change.”

“Investnet’s UMA and APM capabilities allow us to manage a larger, growing client base without spending time on mundane, unnecessary activities,” says Battaglia. “As we went from discretionary to non-discretionary portfolio management, and outsourced our reporting function, the Investnet system became the backbone of our practice.”

The reporting sophistication and UMA expertise have led to more referrals, captured more assets, and helped track business level results. Battaglia says “It has created more clarity and awareness of how we are doing not only at the client level, but at the firm level as well.”

Battaglia quotes scalability, mobility, and 24/7 accessibility as the biggest benefits of outsourcing. “Our main deliverables to clients are our collective expertise, first class service, and dynamic team approach. Outsourcing helps us to deliver these

tenets of our success at a much higher and more consistent level,” Battaglia explains. Outsourcing means they can be more productive as a firm on their deliverables since they can work virtually anywhere any time. It also gives them the ability to scale their practice without necessarily adding as much mundane workload to their administrative and operations staff as before. “This is leverage!” Battaglia says.

Firm at a Glance
Name: Meg Green & Associates Inc.
Founded: 1984
Number of Professionals: 6
Number of Admin Staff: 6
AUM: \$750,000,000

Since the firm started outsourcing portfolio management, performance reporting, trading, and rebalancing in 2012, it has

helped them retain more sophisticated clients and devote more time to cultivating relationships and building deeper bonds with clients. “I would say we have freed up an additional 10% of our time to spend on client relationships and business development,” says Battaglia. “Also, we are building out a new CRM that will integrate deeply with Investnet, emails, and document management and webform software, and even automate some custom reports we designed for clients to track portfolio cashflow and beneficiary information. We are very excited about this revolutionary impact. It will take the outsourcing we currently have with Investnet to a whole new level. If you have an iPad, you can work anywhere in the world seamlessly as if you were sitting at your desk. I expect this will add another 10% of time to our day to deepen relationships and meet additional prospective clients.”

Better time management

Web-based solutions deliver many benefits. No servers must be maintained, no software upgrade installations are needed, and no additional software “specialists”, who increase technology headcount, are required. Routine operations, such as opening new accounts and generating liquidity in client portfolios, can be automated. Most important, valued employees at all levels of the firm can be retrained to focus on growth, marketing, and client service efforts.

Measurable cost savings

Lower costs result when administrative and operational needs are outsourced through a single partner who offers systems integration, compared to maintaining multiple stand-alone systems. Integrated systems also may position the firm better for future growth. For example, with the right technology systems in place, it may be possible to add new clients without hiring additional employees. Before increasing new administrative staff, the firm should investigate whether technology solutions exist to execute those same functions at a lower cost.

Increased growth potential

The fastest growing advisory firms rely on a combination of organic and inorganic growth strategies. For organic growth, outsourcing frees up a principal to spend more time on prospecting and generating referrals from existing clients and centers of influence. For inorganic growth, outsourcing administrative functions makes adding new professionals easier and the firm more scalable through merger, acquisition and recruiting activities. The outsourcing partner assumes much of the administrative burden and eases the strain on staff.

Smoother succession planning

The wealth management industry faces not only an aging client population but also an aging financial advisor community: one in ten financial advisors is over 60 years old. According to a recent report by the Financial Planning

Association, 40% of financial advisers plan to retire within the next 14 years. Yet these advisors may be ill-prepared to make a successful transition: only a quarter of all advisors have a formal succession plan in place.⁷

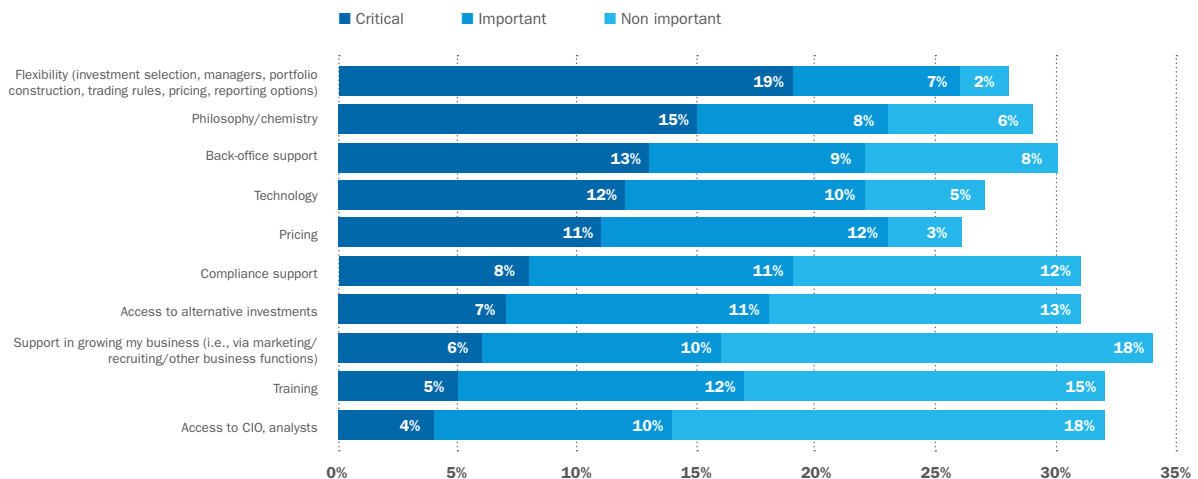
Therefore, outsourcing administrative processes may address a wide range of succession planning issues. Succession plans often encompass several possible exit strategies for the principals/owners. These may include a sale to existing employees, an external sale to a new owner, or a possible reorganization of the firm through a merger or acquisition. Outsourcing offers a greater range of opportunities for a firm's eventual sale, because operations can be conducted smoothly before, during, and after a sale or transfer of equity.

Choosing an Outsourcing Partner

In a recent survey conducted by Northern Trust Asset Management, advisors who outsourced investment management ranked flexibility at the top of what's important in working with an outsourcing provider.

What's Important: When Working with an Investment Management Outsourcing Provider

As a percentage of all outsourcing responses



Source: "Investment Management Outsourcing: The State of the Art in 2012," North Trust, 2012

⁷ Source: Financial Planning Association. "The Future of Practice Management"

Choosing an outsourcing partner

Given the wide selection of outsourcing partners, knowing where to start can be overwhelming. We suggest beginning a conversation by asking lots of questions, rather than rushing into new solutions before exploring all possibilities. Discussions with a potential technology partner should explore these key topics:

- scope of reporting capabilities
- scalability
- systems integration
- customization
- conversion support

Breadth and depth of reporting capabilities

Consider using an outsourcing partner who can aggregate data from as many financial institutions as possible. It should result in a complete picture of all clients' holdings, including those assets held away from the firm. High net worth families usually have multiple custodians for their assets; a technology provider should have access to the ones they use.

Scalability

A technology partner should deliver scalability. Web-based solutions make a firm more scalable, more mobile, and easier to expand into new regions. They also make emergency disaster recovery operations simpler. Managing and maintaining proprietary servers, software, and multiple systems on site is rarely cost effective, even for the largest advisory firms.

Integration

Look for a partner who offers an entire suite of solutions, including proposal generation, new account set up, performance reporting, rebalancing, and CRM. Even outsourcing just one or two functions, at first, requires a partner who can add functionality and plug in existing solutions when needed.

Customization

Customization plays an important role in maintaining a firm's culture. It also creates a smoother path between prior processes and

new ones to be migrated in the future. Ask a potential outsourcing partner about the level of customization available. Having many options means greater latitude in running the firm and serving clients.

Conversion support

Finally, be sure to ask potential outsourcing partners about the amount of human support to help during the conversion process. The goal of outsourcing is to reduce the team's administrative burden, not increase it. The conversion process should provide ample human assistance for all required transitions. Look for a partner with dedicated conversion specialists—people who focus exclusively on the firm's needs during the process.

Empower the Practice

Whether an RIA or an independent broker-dealer, an advisory firm must deliver outstanding financial advice and service, and manage its business in an efficient, scalable way. In short, clients need to trust the firm will deliver a great financial outcome for them over the long haul. Envestnet can help.

The Envestnet advantage:

- Full suite of outsourcing solutions, from proposal generation to ongoing reporting and rebalancing
- Ability to advise, invest, manage and report on a single open-architecture platform
- Functionality to aggregate data from more than 5,000 financial institutions
- Daily reporting and data reconciliation for nearly three million investor accounts
- Dedicated conversion specialists
- An industry leader—committed to meeting advisors' needs for the long term

To learn more

Visit envestnet.com to learn more about Envestnet's complete suite of outsourcing solutions for financial advisors. There you will find case studies from established financial advisors on how working with Envestnet has benefited their practices.

The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this document is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. Investment decisions should always be made based on the investors' specific financial needs and objectives, goals, time horizon, and risk tolerance. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment advisor to determine the appropriate investment strategy.

The statements contained herein are based upon the opinions of Envestnet and third party sources. Information obtained from third party sources is believed to be reliable but not guaranteed. All opinions and views constitute our judgments as of the date of writing, and are subject to change at any time without notice. Past performance is no guarantee of future results.

APPROVED FOR ADVISOR/PROFESSIONAL USE ONLY—IT IS NOT INTENDED FOR PRIVATE INVESTORS