

2016 RIA Benchmarking Study from Charles Schwab

July 2016

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The logo for Charles Schwab, featuring the word "charles" in a lowercase, italicized serif font above the word "SCHWAB" in a bold, uppercase, sans-serif font, all contained within a blue square.

charles
SCHWAB

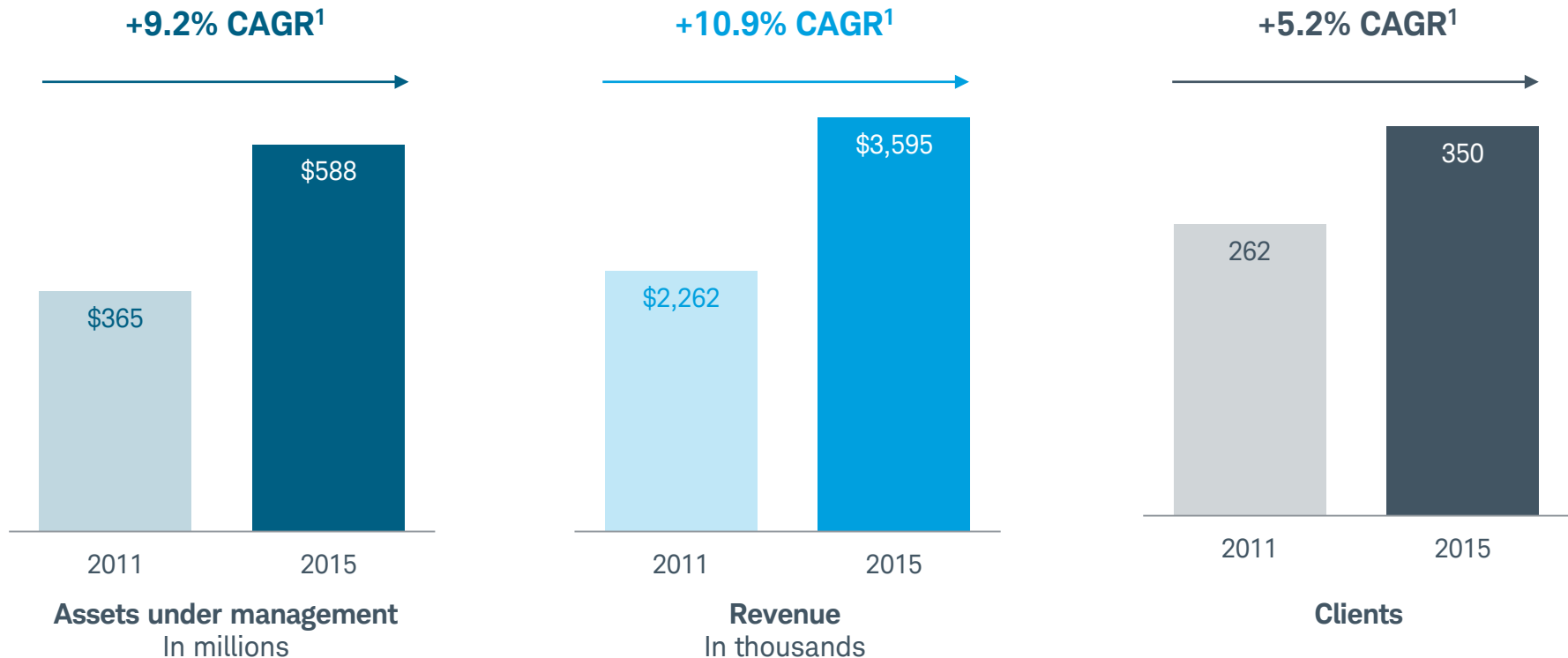
Executive summary

- Independent financial advisory firms have maintained a ten-year growth trajectory despite numerous and varied investment environments.
- 2015 results showed that stable client relationships and robust business fundamentals drive growth, while technology and human capital increasingly align to drive operational efficiency.
- In 2015, asset and revenue growth eased somewhat but remained positive. Assets under management (AUM) rose to \$588 million in 2015 from \$365 million in 2011, at a median compound annual growth rate (CAGR) of 9.2%. Revenues grew to \$3.6 million in 2015 from \$2.3 million in 2011, at a CAGR of 10.9%.
- Firms added a significant number of new clients over the past five years—between 28% and 50% more at the median—while average client size increased by 22% at the median over the same period.
- Despite eased growth, profitability – which grew by 27% at the median over the past five years – was driven by improvements in operational processes and technology-driven efficiencies.
- Firms are looking to strategically source the best talent to propel firm success. At mid-sized firms with \$500MM-\$750MM in AUM, 61% plan to add relationship managers or investment professionals this year.
- Firms are preparing for organic and inorganic growth opportunities to drive future growth. Thirty-three percent (33%) of firms that manage over \$1 billion, and almost 25% of firms with under \$1 billion in AUM, are actively looking to acquire.

1 The Cerulli Report: Advisor Metrics 2015: Anticipating the Advisor Landscape in 2020. Growth represents asset CAGR from 2005 to 2014.

Median results for all firms \$250 million or more in AUM, unless otherwise noted. 2016 RIA Benchmarking Study from Charles Schwab, fielded January to March 2016. Study contains self-reported data from 1,128 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.

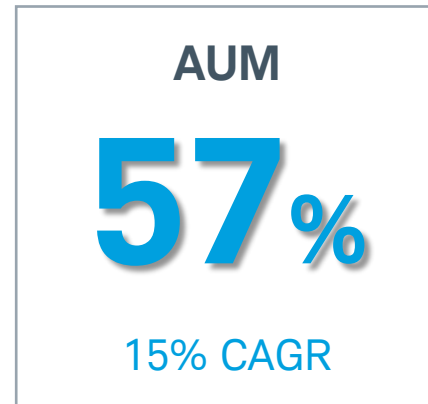
RIAs continue to win in the marketplace



¹ Median compound annual growth rate (CAGR) over the 5-year period from 2011 to 2015 for all firms \$250 million or more in AUM.

Past performance is not an indicator for future results. Median results for all firms \$250 million or more in AUM. 2016 RIA Benchmarking Study from Charles Schwab, fielded January to March, 2016. Study contains self-reported data from 1,128 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.

Over half of firms doubled their AUM and one-quarter doubled their revenues since the lows of 2009



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Charles Schwab Advisor Services

Firms of all sizes are exhibiting strong growth year after year

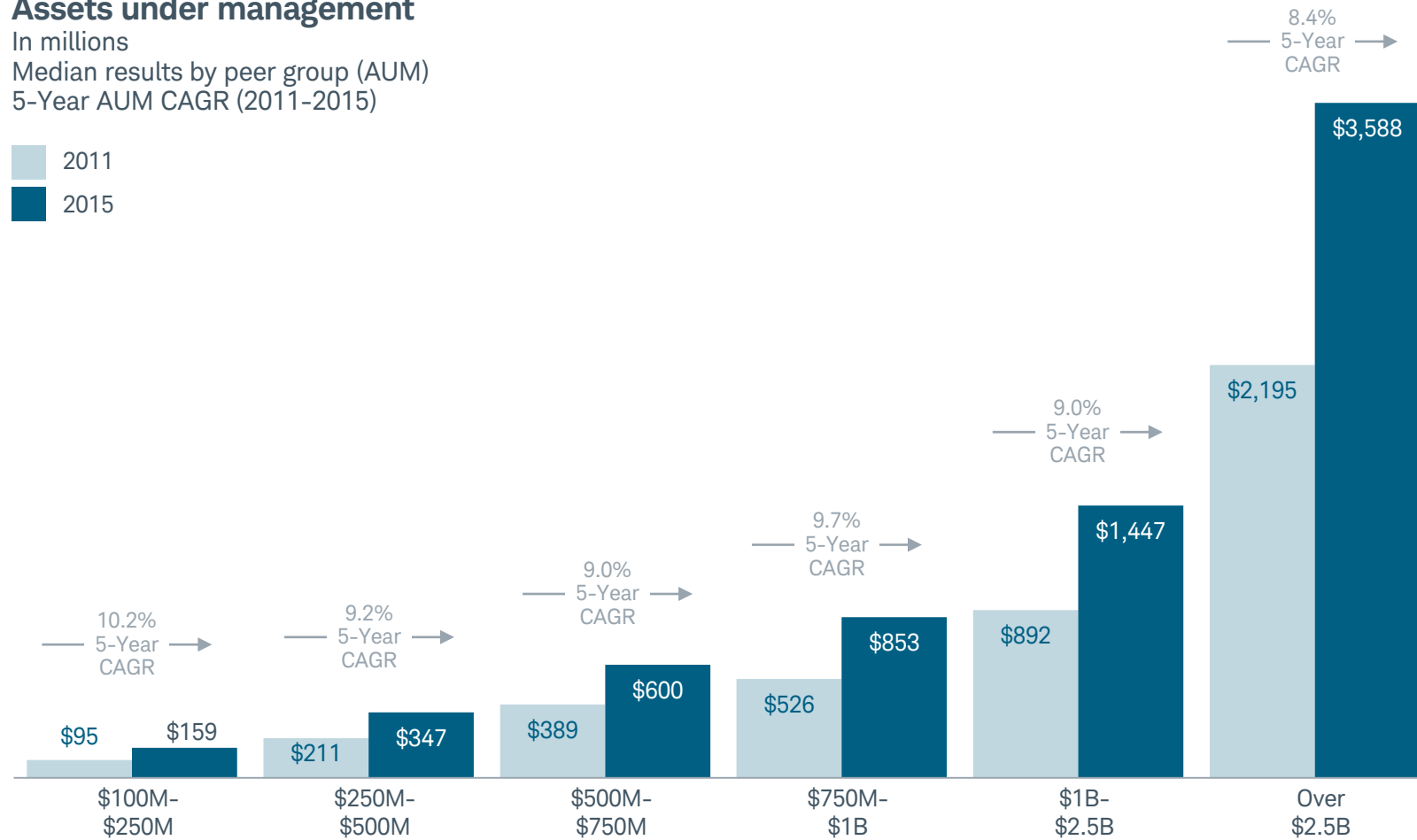
Assets under management

In millions

Median results by peer group (AUM)

5-Year AUM CAGR (2011-2015)

2011
2015

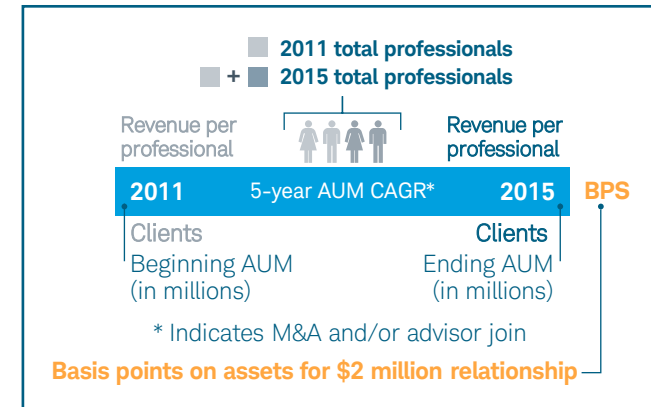
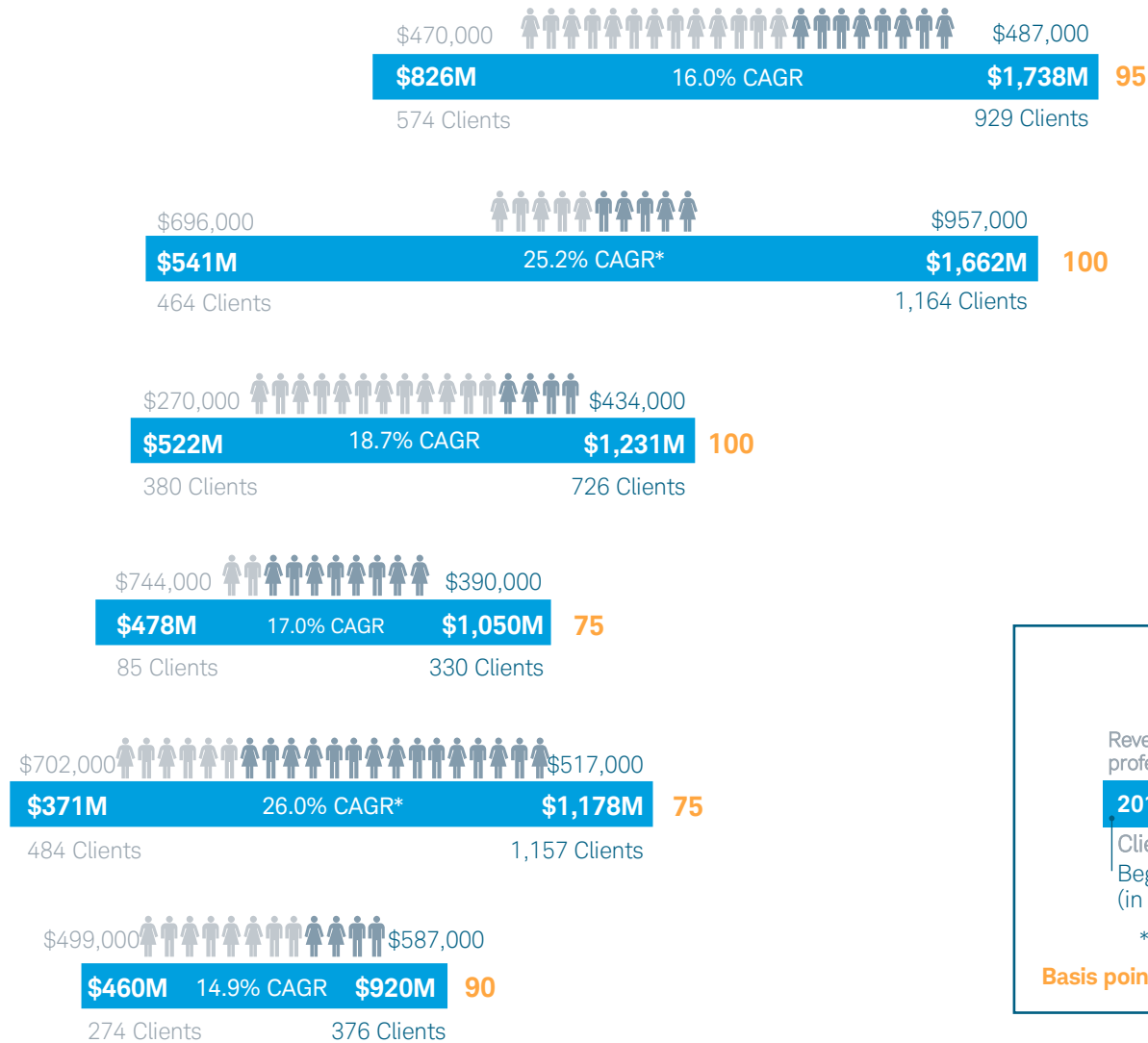


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Transformative change is occurring at firms regardless of size



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Revenue growth is compounded for larger firms

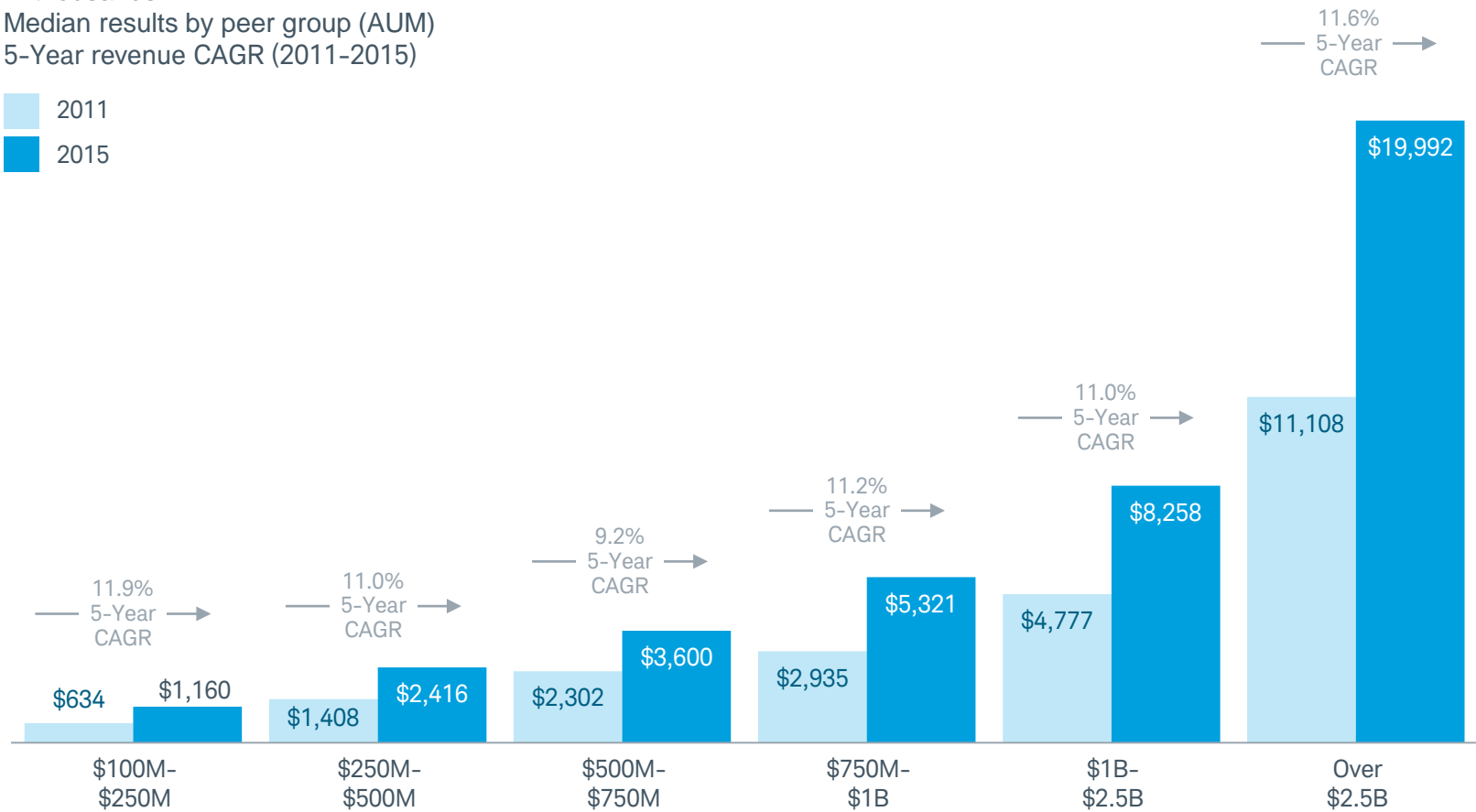
Revenue

In thousands

Median results by peer group (AUM)

5-Year revenue CAGR (2011-2015)

2011
2015



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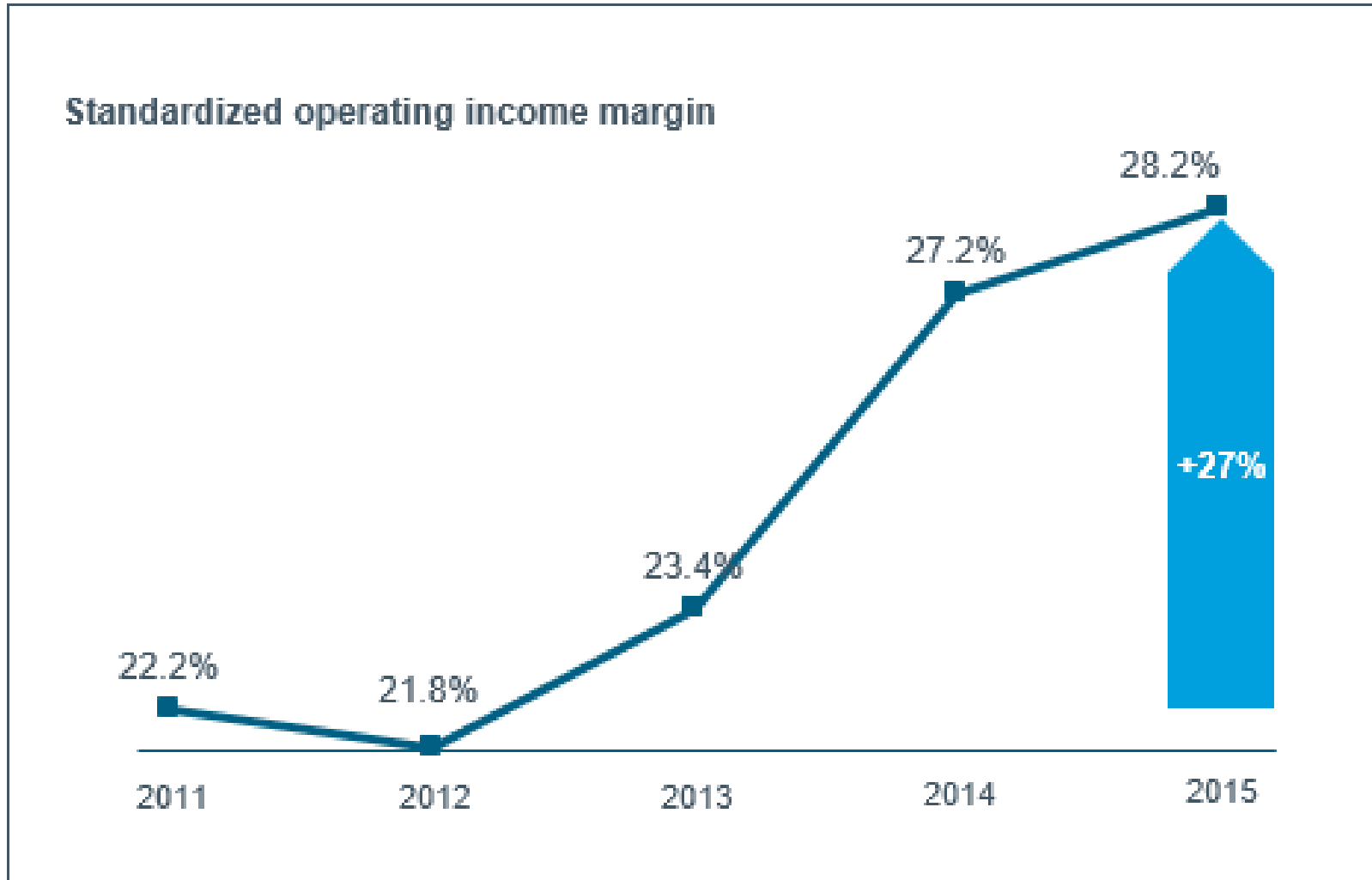
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Productivity ratios remain strong: results per professional increase with firm size



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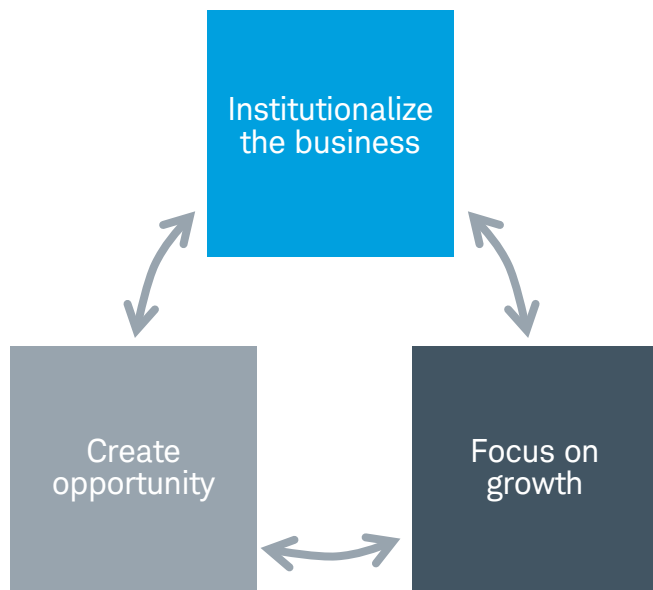
Productivity has driven 27% growth in profitability in last five years



Past performance is not an indicator of future results. Median results for all firms \$250 million or more in AUM. Results from the 2012, 2013, 2014, 2015 and 2016 RIA Benchmarking Study from Charles Schwab.

Advisors are creating enduring businesses by investing in client relationships, technology, and talent

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



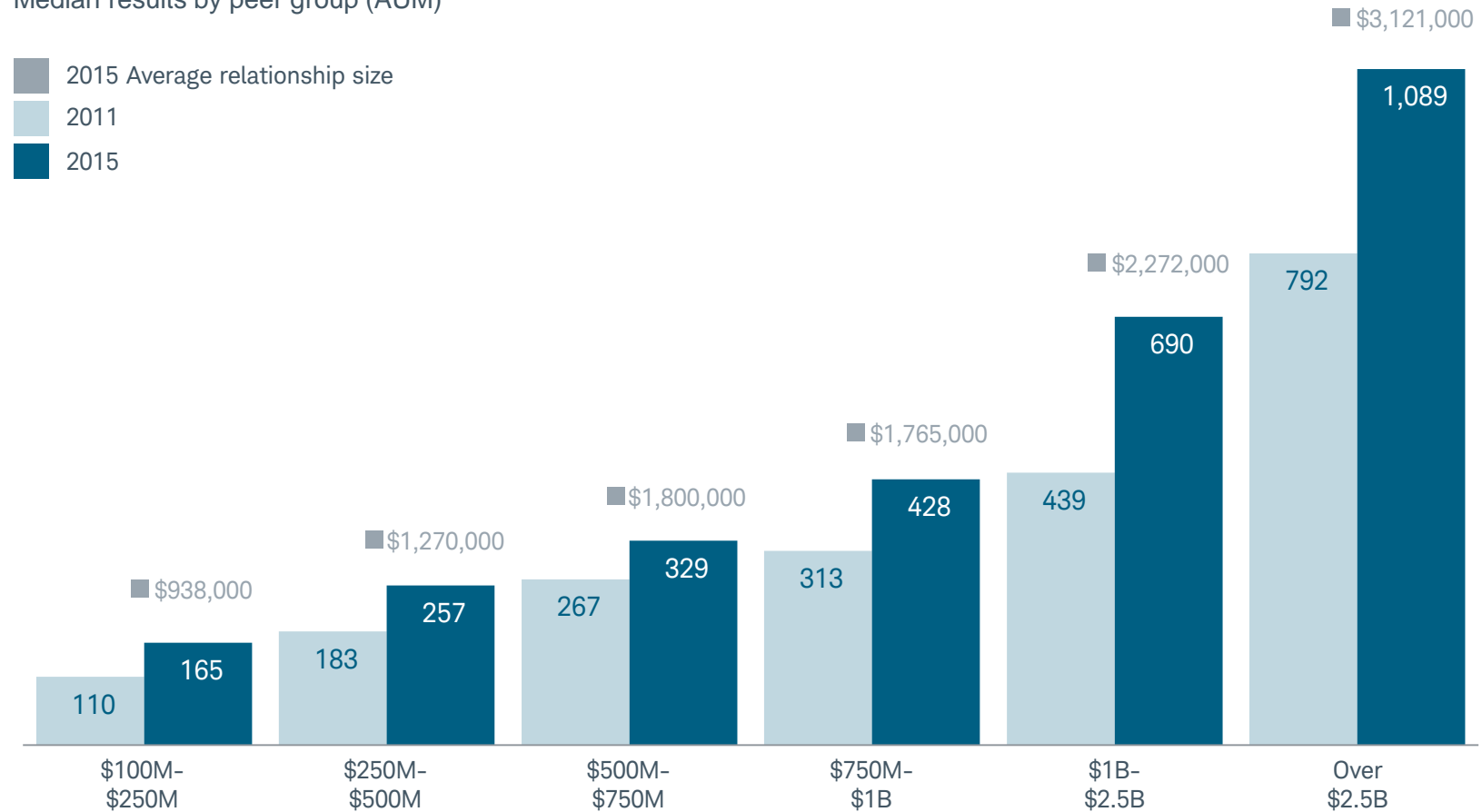
| | | |
|---|---|-------|
| 1 | Acquire new clients through client referrals | (44%) |
| 2 | Acquire new clients through business referrals | (37%) |
| 3 | Enhance strategic planning and execution | (29%) |
| 4 | Improve productivity with new technology | (25%) |
| 5 | Improve satisfaction for existing clients | (19%) |
| 6 | Recruit staff to increase firm's skill set/capacity | (17%) |
| 7 | Make changes to org structure and roles | (16%) |

Results for all firms \$250 million or more in AUM. 2016 RIA Benchmarking Study from Charles Schwab, fielded January to March, 2016. Study contains self-reported data from 1,128 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.

Average number of clients is on the rise

Total clients

Median results by peer group (AUM)

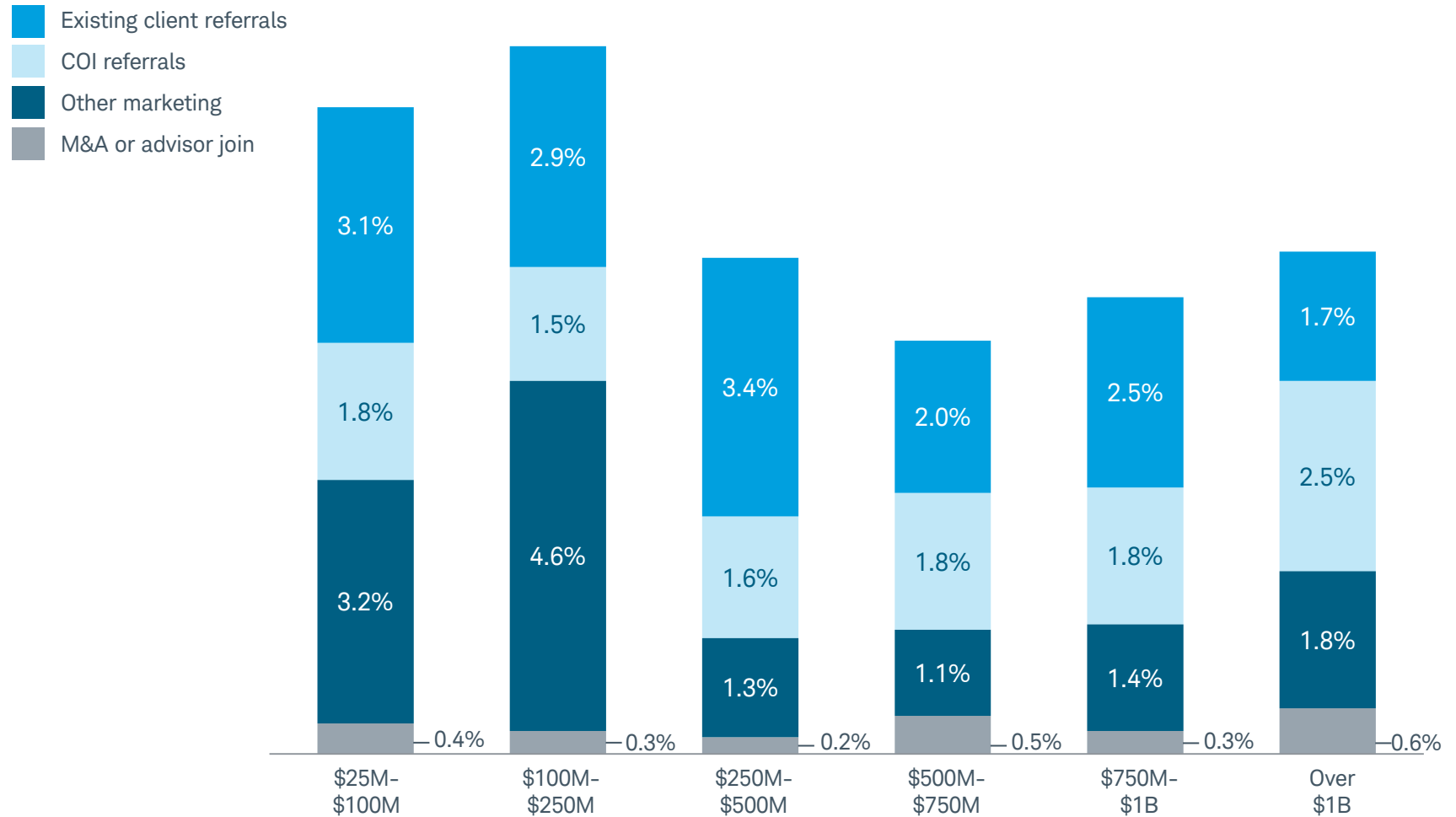


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Strength of the advisor-client relationship drives growth: referrals provide 75% of new assets for RIAs

2015 Net asset flow growth rates by source

Average results by peer group (AUM)

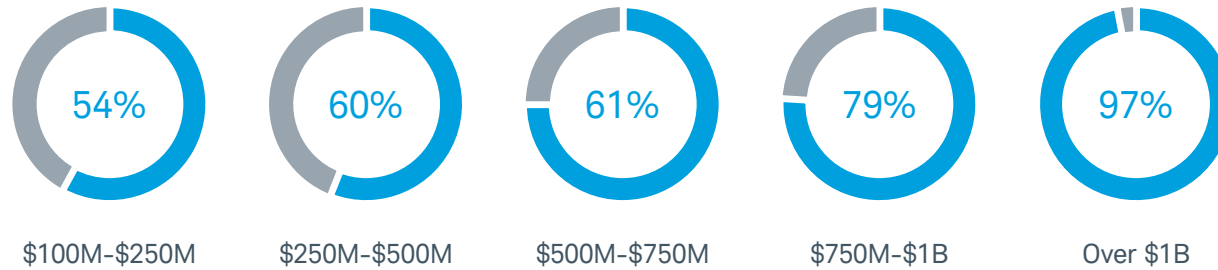


“Referrals provide 80% of new assets for RIAs” is for all firms with \$100 million or more in AUM.

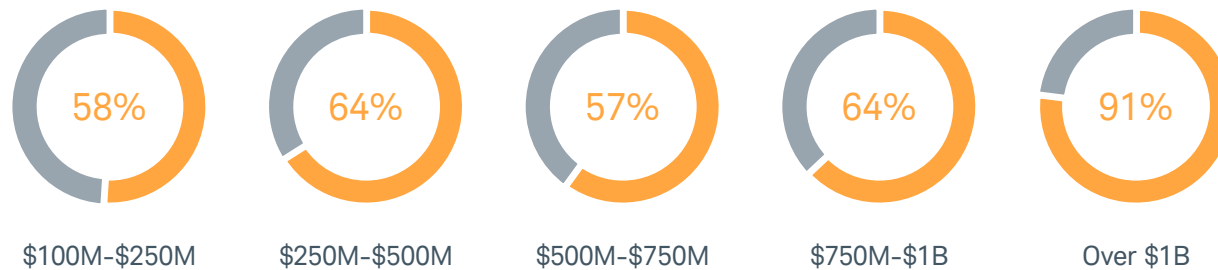
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Firms are focused on talent acquisition to propel firm success

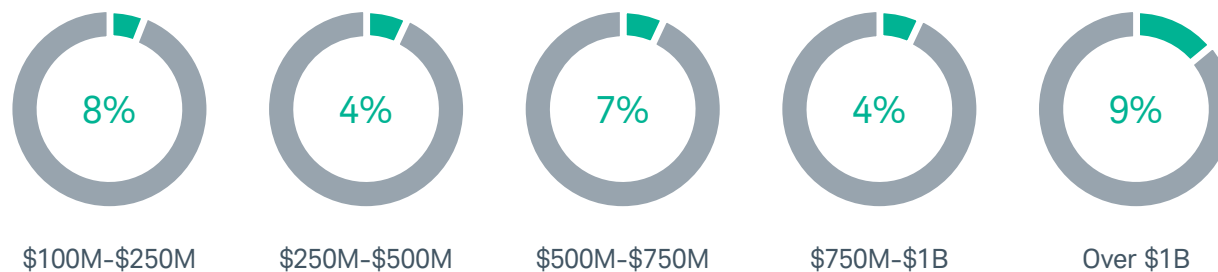
Firms planning to add **relationship managers** or **investment professionals** in 2016



Firms planning to add **support and administrative staff** in 2016



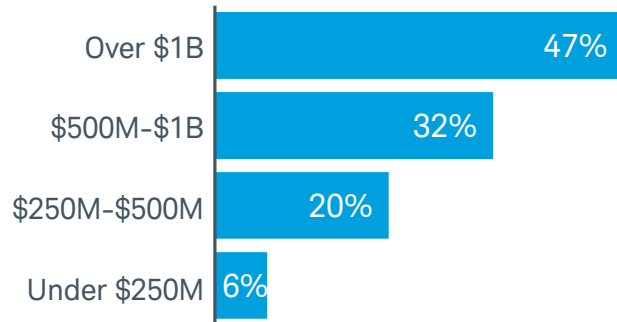
Firms planning to add **dedicated management** in 2016



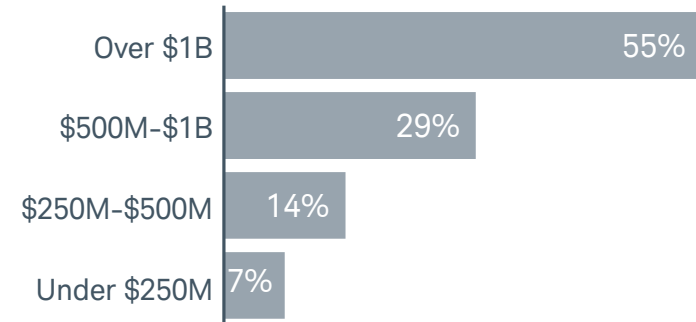
Results by peer group (AUM). 2016 RIA Benchmarking Study from Charles Schwab, fielded January to March 2016. Study contains self-reported data from 1,128 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups by AUM size.

Growth increases demand for unique qualifications and capabilities

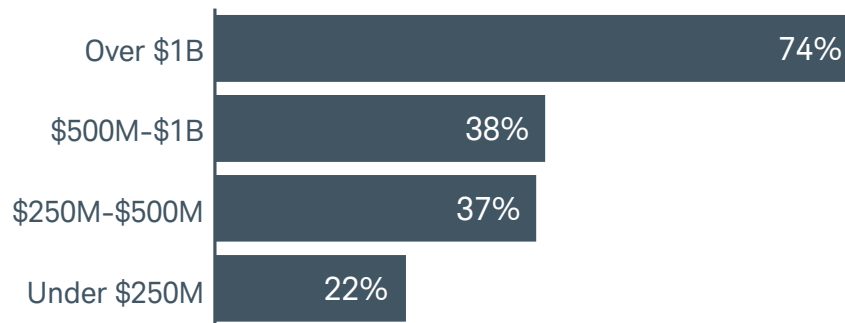
Chief Operating Officer



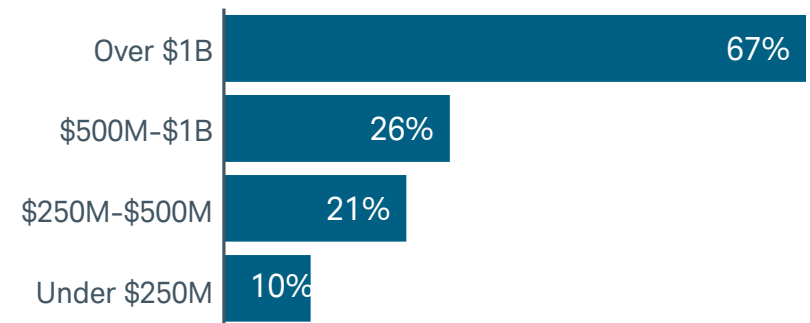
Chief Compliance Officer



Operations Director



Chief Investment Officer



Results by peer group (AUM). 2016 RIA Benchmarking Study from Charles Schwab, fielded January to March 2016. Study contains self-reported data from 1,128 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.

2016 study includes 1,128 RIA firms representing nearly three-quarters of a trillion dollars in assets under management

| Metrics (median) | Peer Groups | | | | | | |
|--|-----------------------|---------------------|---------------------|---------------------|------------------|-----------------|----------------|
| | All firms \$250MM+ | \$100MM- \$250MM | \$250MM- \$500MM | \$500MM- \$750MM | \$750MM- \$1B | \$1B- \$2.5B | Over \$2.5B |
| 2015 Ending AUM (\$M) | \$588 | \$159 | \$347 | \$600 | \$853 | \$1,447 | \$3,588 |
| 5-year AUM CAGR ¹ | 9.2% | 10.3% | 9.2% | 9.0% | 9.7% | 9.0% | 8.4% |
| 2015 Organic growth ² (\$M) | \$15 | \$6 | \$11 | \$14 | \$25 | \$51 | \$43 |
| 5-year organic growth ² CAGR ¹ | 5.4% | 6.9% | 5.6% | 4.5% | 5.3% | 5.6% | 3.9% |
| 2015 Revenues (\$000) | \$3,595 | \$1,160 | \$2,416 | \$3,600 | \$5,321 | \$8,258 | \$19,992 |
| 5-year revenue CAGR ¹ | 10.9% | 11.9% | 11.0% | 9.2% | 11.2% | 11.0% | 11.6% |
| 2015 Ending number of clients | 350 | 165 | 257 | 329 | 428 | 690 | 1,089 |
| 5-year client CAGR ¹ | 5.2% | 6.5% | 5.2% | 4.8% | 5.6% | 6.1% | 5.2% |
| Average account size (\$M) | \$1.60 | \$0.93 | \$1.27 | \$1.85 | \$1.76 | \$2.17 | \$2.96 |
| Standardized operating margin | 27.2% | 22.0% | 26.8% | 29.4% | 30.1% | 26.0% | 27.0% |
| Age of firm (years) | 21 | 15 | 19 | 22 | 25 | 24 | 24 |

¹ Median compound annual growth rate (CAGR) over the 5-year period from 2011 to 2015. Past performance is not an indicator for future results.

² Organic growth from net asset flows is the change in a firm's assets from new, existing, and lost clients before investment performance is taken into account, and it excludes the growth from acquisition or divestitures, and from advisors joining or leaving.

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Methodology & 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 the RIA Benchmarking Study to capture insights in the RIA industry, based on study responses from individual firms. The 2016 study provides information on such topics as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. Fielded from January to March 2016, the study contains self-reported data from 1,128 firms that custody their assets with Schwab Advisor Services and represent nearly three-quarters of a trillion dollars in AUM, making this the leading study in the RIA industry. This self-reported information was not independently verified. Since the inception of the study in 2006, more than 3,000 firms have participated, with many repeat participants. Participant firms represent various sizes and business models. They are categorized into 12 peer groups—**seven** wealth manager groups and **five** money manager groups—by AUM size. Unless otherwise noted, study results are for all firms with \$250 million or more in AUM, representing the vast majority of total assets managed by this year's participants.

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