How younger investors can ensure your legacy and fund your retirement
SEI Advisor Network | Our experience working with advisors

Best Practices & Knowledge Sharing

Advisor Experience

Industry Experience & Resources

Client Service
Sales & Marketing
Operations
Business Planning

Advisor Business Phases

Growth Phase
Efficiency Phase
Transition Phase
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Next Gen Succession Planning | Agenda

> The RIA Market today
> A fresh look at the Next Generation
> The hard facts about valuation and succession planning
> An action plan for building your firm’s value via the next generation
> Q & A
Anticipating a new age in wealth management

› Global Private Banking and Wealth Management Survey 2011

› Today’s client is cautious, smart, less loyal and expects excellent service and clear value

› Regulation has become the not-so-invisible hand, increasing the cost of operations

› Greater operational efficiency and effectiveness are required, not just to compete but to survive

› Standing still is no longer an option and institutions must now quickly adapt or face being left behind
The Advisory Business | From baby boomer to graying boomer

Percentage of independent advisors by age

Source: Discovery Database May 2010
Research | Influencing firm value

› Business development capability

› Technically skilled personnel

› Company culture that is aligned with the potential acquirer

› Target markets that are well-defined

› Relationship servicing that is collaborative and team-based

› Operating processes that are mature, standardized, documented and supported

› Current client demographics that will continue to drive growth in assets

› 2011 Average multiple paid was 2.33 (times trailing 12 months recurring revenue)

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1 Source: Real Deals 2010: Definitive Information on Mergers and Acquisitions for Advisors
2 Source: FP Transitions Feb 29, 2012
The Advisory Business | Challenging growth environment

Source: PriceMetrix  The State of Retail Wealth Management,  February 2011
Next Gen Succession Planning | Building a business case

This is why we’re here

As boomers begin to spend down their wealth, how are you going to replace those assets?

Source: “Will the Demand for Assets Fall When the Baby Boomers Retire?” Congressional Budget Office, September 2009, VIP Forum, Emerging Trends, Part V—Refilling the Pipeline
Life cycle of advisor fees

- Estate Plan
- Long-term Care
- Retirement Plan
- Life Insurance

Source: “Will the Demand for Assets Fall When the Baby Boomers Retire?” Congressional Budget Office, September 2009, VIP Forum, Emerging Trends, Part V–Refilling the Pipeline
A FRESH LOOK AT THE NEXT GENERATION
### Next Gen Succession Planning | Knowing the younger investor

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Born</th>
<th>Age</th>
<th>% Households</th>
<th>% Investable Wealth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seniors</td>
<td>1945 or before</td>
<td>65+</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Leading edge boomers</td>
<td>1946-1954</td>
<td>56-64</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Trailing edge boomers</td>
<td>1955-1964</td>
<td>46-55</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Generation X</td>
<td>1965-1976</td>
<td>34-45</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Generation Y</td>
<td>1977 or after</td>
<td>Under 34</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

* $100,000 to $1 million investable assets

Source: VIP Forum, Survey of Consumer Finances
Next Gen Succession Planning | Knowing the younger investor

Total investable assets: $1million-plus (trillions)

- Gen Y: $2.10 trillion
- Gen X: $3.40 trillion
- Trailing boomers: $5.90 trillion
- Leading edge boomers: $3.90 trillion
- Seniors: $5.40 trillion

Source: SEI Research Insights
## Favorable tax laws for transfer

<table>
<thead>
<tr>
<th>Tax</th>
<th>2009</th>
<th>2010</th>
<th>2011-2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift tax on transfer during life</td>
<td>$1M</td>
<td>$1M</td>
<td>$5M</td>
<td></td>
</tr>
<tr>
<td>Estate tax on transfer at death</td>
<td>$3.5M</td>
<td>$5M</td>
<td>$5M</td>
<td></td>
</tr>
<tr>
<td>Generation skipping transfer tax on transfers</td>
<td>$3.5M</td>
<td>$5M</td>
<td>$5M</td>
<td></td>
</tr>
</tbody>
</table>

Wealth does not disappear…it transfers.

Source: VIP Forum

On Jan. 1, 2013, absent further action, by congress, the exemptions all fall to $1M and the maximum tax rate rises to 55%.
Next Gen Succession Planning | Knowing the younger investor

Percentage of high-net-worth clients looking for new advisor

Source: Phoenix HNW Market Insights, August 2009
Next Gen Succession Planning | Knowing the younger investor

Percent who agree with this statement:
“I am always looking for new investment opportunities.”

Source: SEI Research Insights
Next Gen Succession Planning | Knowing the younger investor

Source: SEI Research Insights

Percent who agree with this statement:
“I trust that my financial service firms are looking out for my best interests.”
Next Gen Succession Planning | Knowing the younger investor

Percent who agree with this statement:
“It is important to me to have a written financial plan.”

Source: SEI Research Insights
Next Gen Succession Planning | Knowing the younger investor

Percent who agree with this statement:
“I am willing to pay for advice regarding my investments.”

Source: SEI Research Insights
Next Gen Succession Planning | Knowing the younger investor

Advisor perceptions: Gen X/Y asset allocation

- US Stocks: 47%
- International investments: 10%
- US Bonds: 18%
- Cash: 19%
- Other: 6%

Reality:
- Percentage in cash:
  - Advisor perception: 10%
  - Reality: 27%
  - Gen Y: 33%
Next Gen Succession Planning | Knowing the younger investor

What do we know for sure?

It all adds up to a compelling market opportunity
› The assets are there
› They’re looking for or are willing to switch advisors
› They’re looking for investment opportunities
› There’s a huge wealth transfer opportunity
› They trust you’re making their interests primary
› They value a financial plan
› They’re willing to pay for advice
› They need your help

Question:

How can I leverage this opportunity into a higher multiple at transition time?
BUILDING
“ENTERPRISE VALUE”
The succession challenge

- Market correction takes its toll
- Difficult to create material opportunity for successors
- Close client/advisor relationships may not be transferable
- Few firms have potential for real enterprise value

**Hard fact:**

*Fewer than 2% of the 18,000 advisory firms have or possess the potential to build material enterprise value.*

**Enterprise value:**

The economic value that an investor captures from owning the equity of a company.

Source: Fiduciary Network 2010
Next Gen Succession Planning | Succession plan readiness

Few firms have adequate succession plans

- 18% Adequate plan; implementation underway
- 16% Adequate plan; awaits implementation
- 19% No Plans, not preparing one
- 19% No Plans, but preparing one
- 6% Plan lacks suitable successor
- 14% Plan lacks buy-in financing
- 8% Plan is inadequate for other reason

Source: FA Insights Study of Advisory Firms: People and Pay 2011
Next Gen Succession Planning | Value multiplied

Why plan?

It’s not always about retirement…
- Ensure your heir apparent has the greatest chance of success
- Obtain the highest possible value for your practice
- Continue the business culture you’ve spent a lifetime developing
- Give employees an opportunity to buy some or all of the firm
- Planning makes for a good marriage when merging practices
- Protect your business and estate from your untimely death or disability
- Allowing to step out of a practice over time
Next Gen Succession Planning | Value multiplied

DEGREE OF ENGAGEMENT

<table>
<thead>
<tr>
<th>Slowing Down</th>
<th>Stepping Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Needs</td>
<td>Disability</td>
</tr>
<tr>
<td>Personal Illness</td>
<td>Death</td>
</tr>
<tr>
<td>More Family Time</td>
<td>External Sale of Practice</td>
</tr>
<tr>
<td>Better Work/Life Balance</td>
<td>Internal Sale of Practice</td>
</tr>
<tr>
<td>Competitive Sale</td>
<td></td>
</tr>
</tbody>
</table>
Next Gen Succession Planning | Value multiplied

The benefits

› Preserving the interest of all parties…
› Ensure best interests of owners and estate are served
› Perpetuate the life and culture of the business
› Ensure the success of new management
› Ensure continuity and confidence for clients
› Ensure owner and beneficiaries realize full value
› Ensure orderly transition and avoid fire sale
  - Insurance against untimely death or disability
Next Gen Succession Planning | Value multiplied

Top five reasons advisors state why they don’t have a formal plan:

› No clear successor identified—53%
› Succession planning is not important at this stage in my career—34%
› Lack of time to develop a plan—21%
› The business has no value—9%
› Not sure where to start—7%

What do we know for sure?

Plan succession or fail to succeed

› Advisors are aging too
› Many are deluding themselves about true value of practice
› Any excuse will do
› Fortunately advisors are getting the message

**Question:**
What marketing and business strategies will translate into more enterprise value and a higher multiple?
THE NEXT GEN ACTION PLAN—MOVING THE VALUE METER
Succession Planning | Next Gen action plan

Factors that lower valuation

› Non-recurring revenues
› Processes for investment management and client service are customized for client and driven by advisor
› Systems and back office are self-managed
› High number of relationships based on investment performance
› Outstanding compliance or client complaints

Source: PriceMetrix The State of Retail Wealth Management 2012
Succession Planning | Next Gen action plan

Factors that lower valuation continued

› Forced sale due to death or disability
› Declining profitability
› High percentage of unprofitable clients
› High percentage of aging clients drawing down assets
› Buyer more prepared than the seller for transition
› Perception your practice cannot run without you
Factors that increase valuation

› Practice run as a business and not sole practitioner
› Majority of relationships involve wealth management
› Strong ratio of fee-only clients to commission income
› Majority of clients profitable
› Track record of long-term profitability
› Well-established processes

Factors that increase valuation continued

› Systems and back office administration outsourced
› Client service and marketing practices defined
› Depth of staff, including designated heir apparent
› Perception your practice will run well without you
› Clients perceive transition positively, consistent with their best interests
Moving the value meter

1. Understand younger investors
2. Build enterprise value
3. Recruit, train and retain younger advisors
4. Create a Next Gen education program
5. Rethink Standard Operating Procedures (SOP)
6. Manage wealth not assets
Understanding Younger Investors

- Skewed perspective on investing
- Haven’t experienced full market cycle
- Risk averse
- Little faith in financial institutions
- Accept responsibility for their financial future
1. Recruit next generation advisors
2. Institutionalize client relationships
3. Build diverse base of clients
4. Institutionalize marketing
5. Evolve management and governance
6. Create culture of compliance
7. Reinvest in business
Recruit, Train and Retain Younger Advisors

Growth of world HNW population

WealthCareers.com job postings

Source: VIP Forum
Create a Next Gen Education Program

› Investors hungry for information
  - Survey of 600 employees in higher education
  - Describe themselves as conservative investors—49%
  - Most younger employees using same allocation as older counterparts
    › 50% stocks, 35% bonds/annuities, 15% cash
  - Concerned they won’t be able to retire comfortably—60%

› Education tactics
  - Focus on investing basics, and market perspectives
  - Train advisors on specialized topics, like tax or estate planning
  - Work through current clients to gain access to their heirs

Source: Fidelity.com 2011
Rethink Standard Operating Procedures

› Review service practices
› Be flexible with investment minimums
› Streamline services for smaller accounts
› Invest in technology to connect with the connected
› Enhance transparency to build trust
Manage Wealth, Not Assets

Fundamentals of a viable wealth management firm

› Operate a repeatable and consistent client service model
› Outsource administration and back office
› Enjoy deep, trusted relationships with clients
› Garner a steady stream of recurring fee income
What kind of practice would you want to buy?

› Sole practitioner or comprehensive business?
› An investment-focused firm or wealth management firm?
› A back office that’s run internally or outsourced platform?
› Ad hoc client service or established client service experience?
› One-person show or a deep team of talented professionals?
› Book of commissions or steady flow of recurring fee income?
› Book of older clients with declining wealth or younger clients building wealth
Appendix | Disclosures

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. This information is for educational purposes only.

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