

The Evolving Advice Business Model

Uncovering the opportunities for asset managers amidst changing advisor trends.



Ready for Next

About the Research

During January and February 2021, Broadridge conducted a survey in partnership with research firm 8 Acre Perspective, polling 400 financial advisors with at least \$10M in AUM and 20% of AUM in ETFs and/or mutual funds. This latest in our series of financial advisor surveys reveals how advisors perceive the industry one year since the pandemic began and how they are planning to change their business practices in the months and years ahead.



Executive Summary

Emerging from a year like no other, advisors are expressing optimism about 2021 and beyond.

Client engagement and business growth are top priorities. The advisor business model continues to evolve. Pressure is mounting on asset managers to differentiate themselves and deliver more value.

So, how can asset managers enhance their distribution strategy? This new Broadridge survey takes a closer look at what advisors need to accelerate growth—and how asset managers can support these efforts.

The bottom line: Asset managers who understand and inform advisors about the products and trends that are reshaping the market will be best positioned for success.

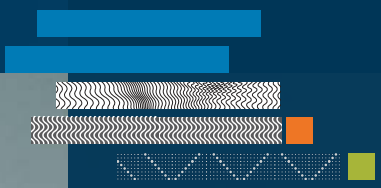
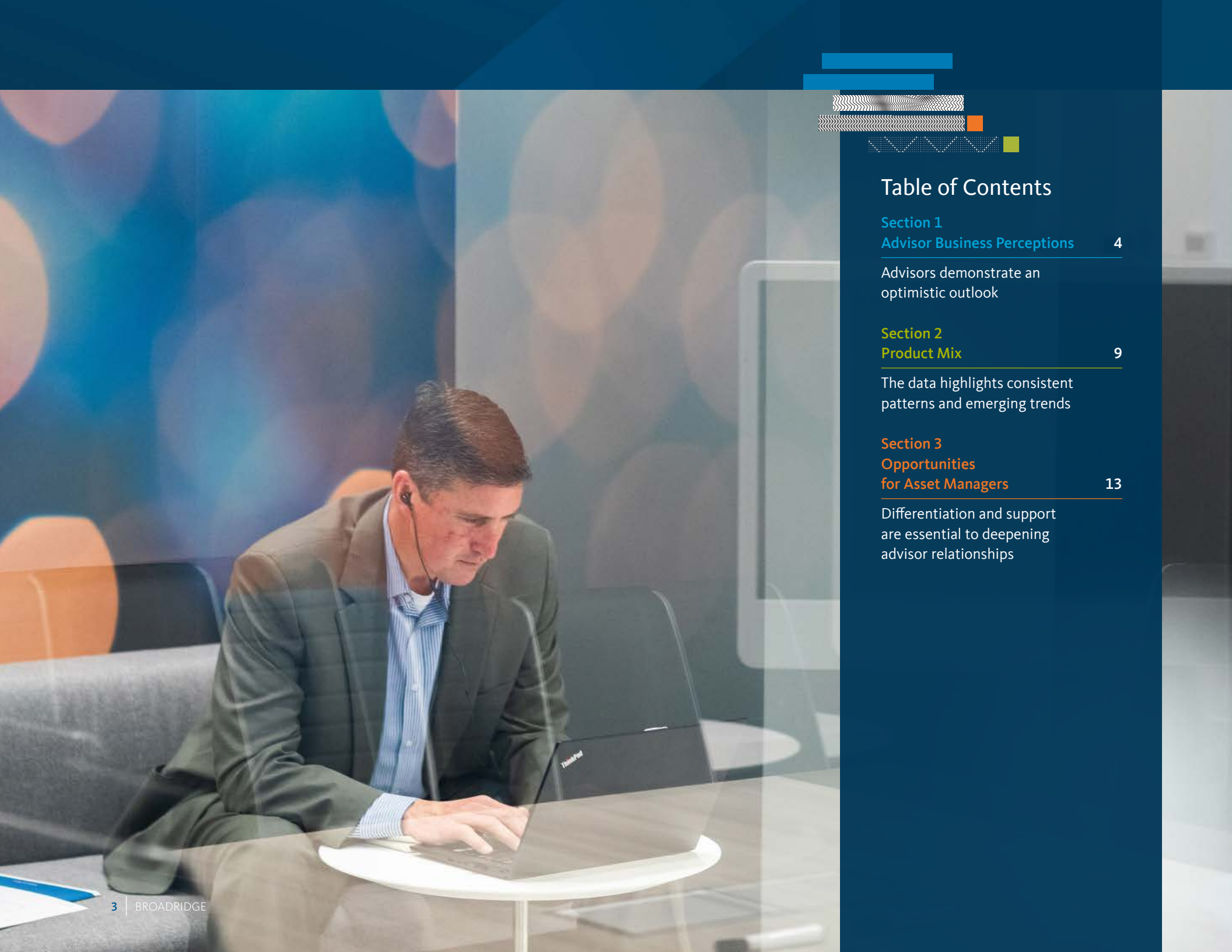


Table of Contents

Section 1 Advisor Business Perceptions 4

Advisors demonstrate an optimistic outlook

Section 2 Product Mix 9

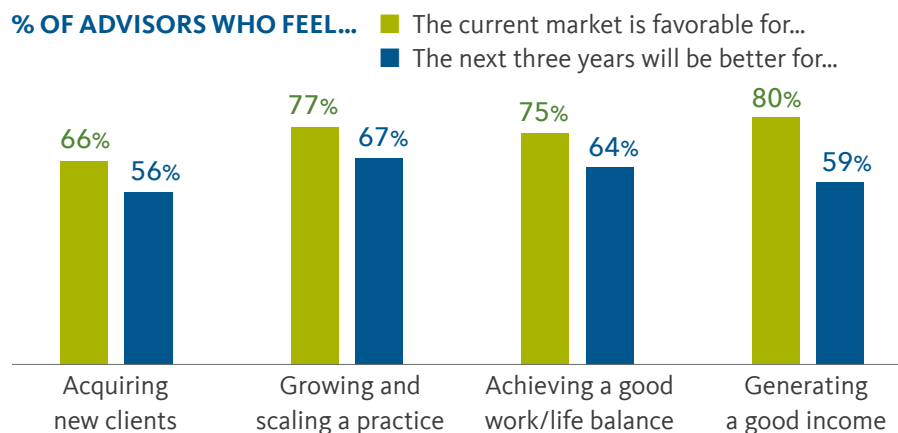
The data highlights consistent patterns and emerging trends

Section 3 Opportunities for Asset Managers 13

Differentiation and support are essential to deepening advisor relationships

Emerging From the Covid-19 Crisis, Advisors See Opportunity Ahead

Advisors are optimistic about the future.



Advisors' outlook on near-term AUM growth has improved since last year.

ADVISOR EXPECTATIONS FOR AUM ONE YEAR FROM TODAY

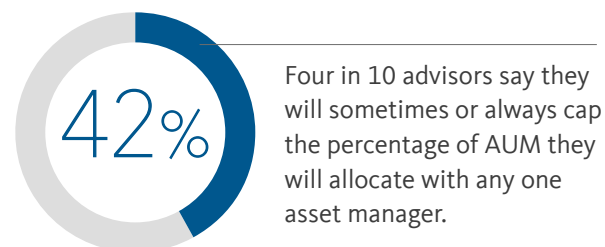
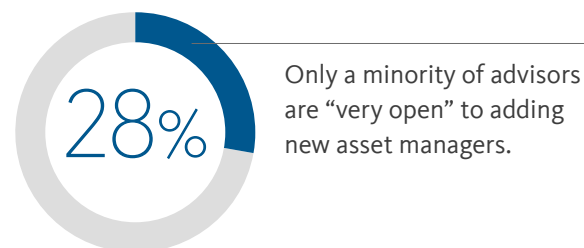
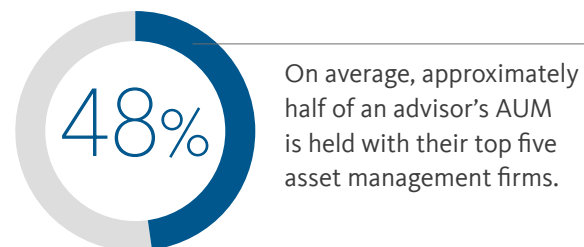
Lower About the same Higher



Asset Managers Must Add Value

Asset managers must overcome certain challenges to gain a competitive edge.

BUSINESS DEVELOPMENT CHALLENGES FOR ASSET MANAGERS



So, what will advisors do differently in the near future—and how can understanding this give asset managers an advantage?

Looking Ahead

Advisors want to spend more time on client-facing activities and new client acquisition.

ANTICIPATED CHANGE IN TIME ALLOCATION IN 2021 (% of advisors)

■ Less time ■ No change ■ More time



Client-facing activities



New client acquisition



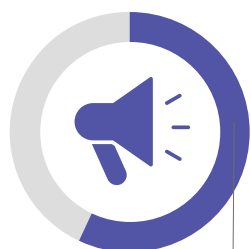
Investment management



Administration and operations

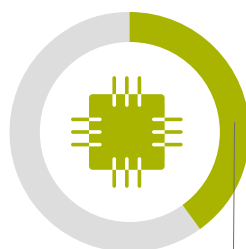
Their plans for increased spending also reflect this client-facing focus. Asset managers should help advisors achieve greater efficiencies and more effective outreach.

AREAS ADVISORS PLAN TO INCREASE SPEND IN NEXT YEAR (% of advisors selecting, multiple responses allowed)



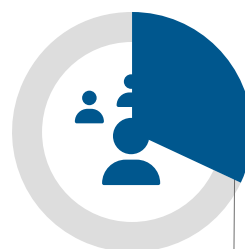
57%

Marketing
and business
development



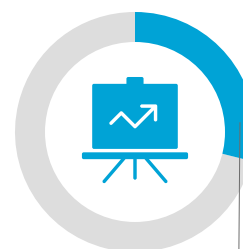
40%

Technology
and operations



32%

Staffing



29%

Training and
development





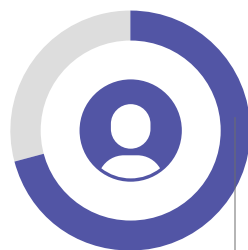
Lead generation activities are squarely focused on referrals, predominantly from clients, but also from “centers of influence”, events and webinars.

SOURCE OF LEAD GENERATION (% of advisors ranking among top 3)



Client referrals

98%



Centers of influence
(e.g., accountants)

71%

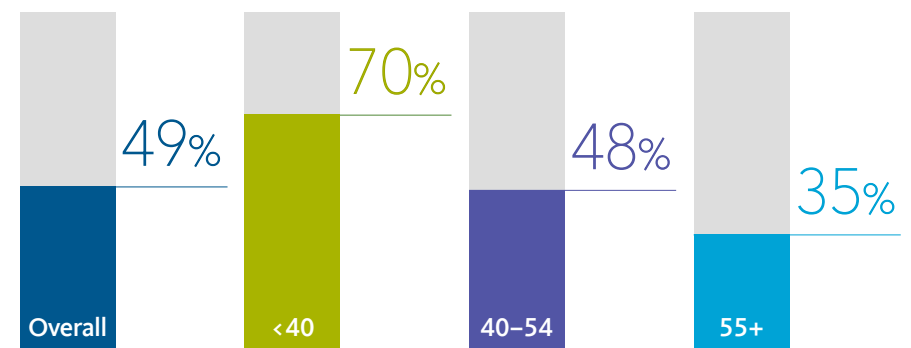


Events and webinars

28%

There is growing emphasis on holistic planning, indicating advisors see their roles with investors expanding. This trend is more prevalent among younger generations of advisors; Asset managers should consider this demographic factor when developing content for advisors.

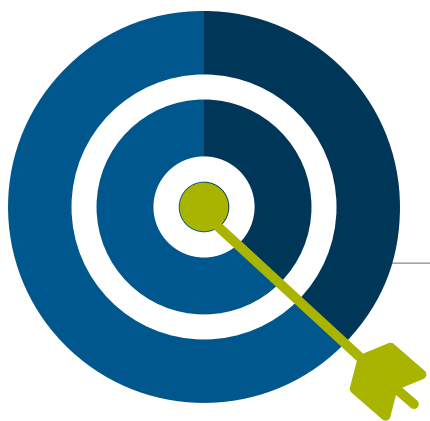
PLANS TO INCREASE HOLISTIC PLANNING (% of advisors who plan to increase)



Fewer than 1% of advisors plan to decrease focus on holistic planning.

The Importance of Advisor Targeting

The types of clients that advisors choose to target may influence advisor marketing activities, product selection and asset manager relationships. Understanding these influences can help asset managers with their own targeting efforts.



37% of advisors indicate they target certain investor segments.

TOP THREE INVESTOR SEGMENTS TARGETED (% of advisors selecting)

25%
Business
owners/self-
employed



25%
Women



21%
Doctors,
dentists,
healthcare



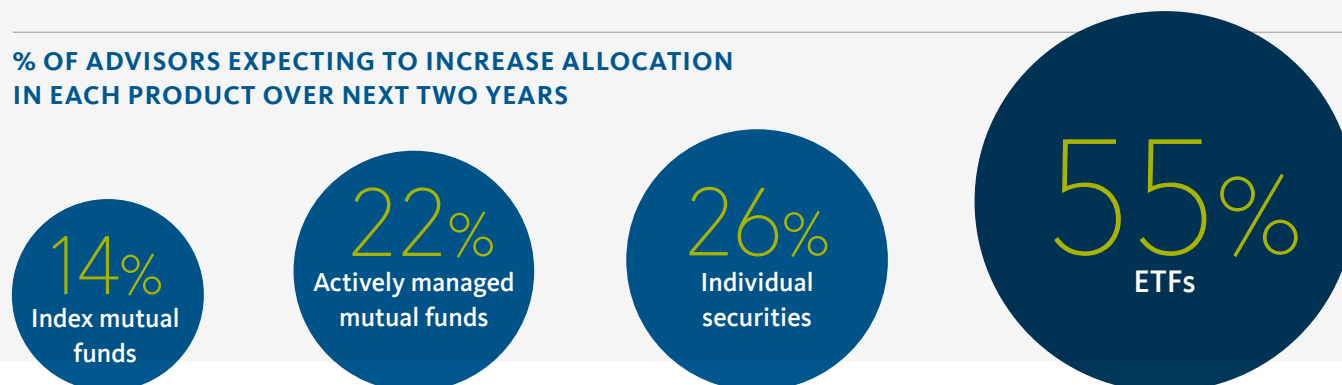
Base: Advisors who target investor segments



ETFs on the Rise

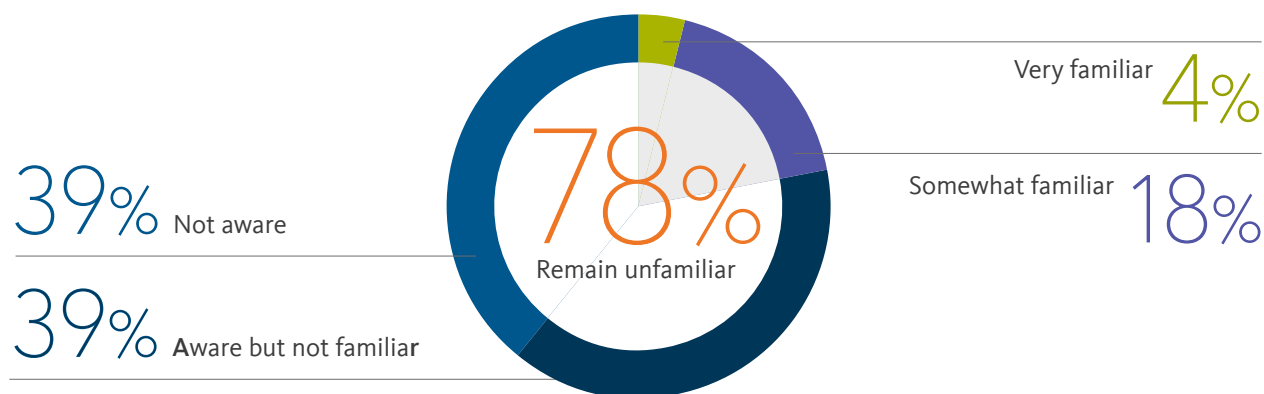
The trend of explosive growth of ETFs continues—most advisors expect to increase ETF allocations over the next two years.

% OF ADVISORS EXPECTING TO INCREASE ALLOCATION IN EACH PRODUCT OVER NEXT TWO YEARS



Active Semi-transparent ETFs (ASTs) Emerging

Currently a significant majority of advisors (78%) remain unfamiliar with active semi-transparent ETFs. This product category is expected to gain traction as advisors become more familiar with it.



Importance of education

Many advisors express concerns about the limited performance track record of ASTs. Asset managers can provide insight into potential AST performance by comparing their performance-to-date against similar investment vehicles. Asset managers should also help advisors understand the differences in costs and transparency between ASTs, traditional mutual funds and ETFs—and how to assess suitability of AST use.

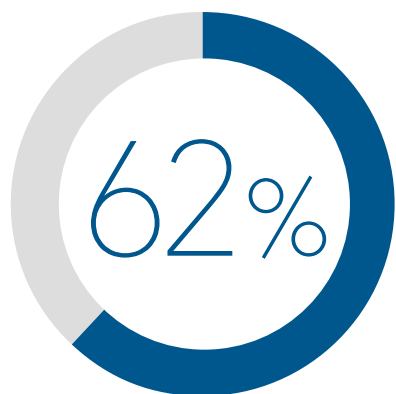
Advisors are more likely to consider ASTs offered by trusted asset managers¹.

¹The Dawn of Active Nontransparent ETFs >>

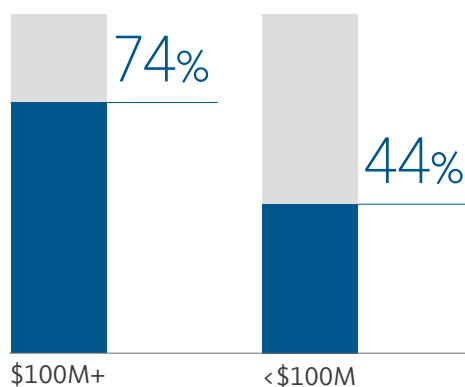
Separately Managed Accounts (SMAs) Offer Customization Options

As advisors actively seek opportunities to enhance personalization of the investor experience, Separately Managed Accounts (SMAs) offer attractive customization features not available with mutual funds. Advisors are demonstrating a growing preference for SMAs. This trend is most prevalent among younger generations of advisors and those with higher AUM.

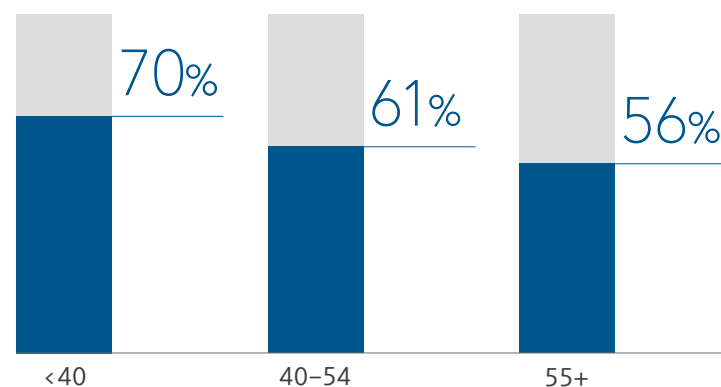
% OF ADVISORS USING SMAs



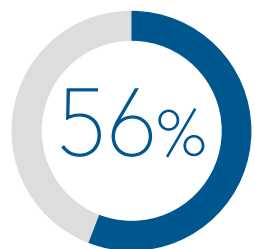
% OF ADVISORS USING SMAs (AUM)



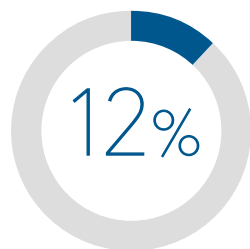
% OF ADVISORS USING SMAs (advisor age)



ADVISOR PLANS TO INCREASE USAGE OF SMAs



of current SMA users
plan to increase usage



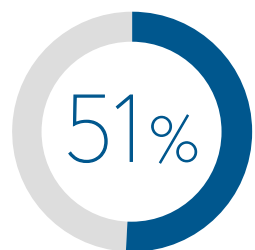
of non-SMA users
plan to increase usage

Over the next two years, advisors who currently use SMAs are much more likely to increase usage than non-users.

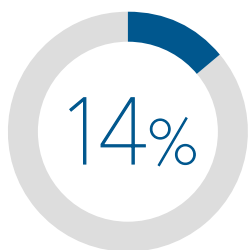
Private Funds of Interest to Select Groups

Half of advisors use private funds. Current users are more likely to increase usage while non-users are less likely to start.

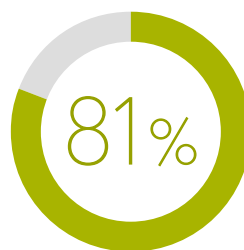
There is also a strong correlation between use of private funds and SMAs.



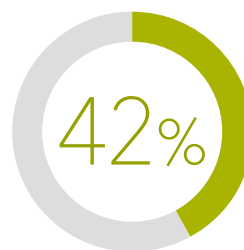
51% of private fund users plan to increase use within two years



14% of advisors who do not use private funds plan to start within two years



81% of those who use private funds also use SMAs



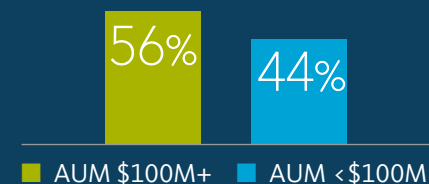
42% of those who do not use private funds use SMAs

Profile: Who uses private funds and SMAs?

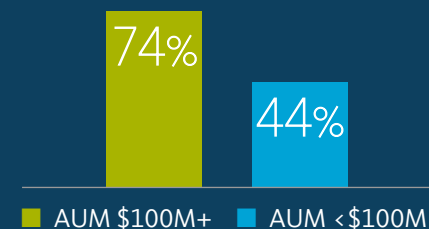
The use of private funds and SMAs is higher among advisors with more than \$100M in AUM and advisors serving higher net worth clients.

Liquidity concerns are likely to make these products less attractive to advisors serving less affluent investors.

USE PRIVATE FUNDS



USE SMAs



ESG: A Growth Opportunity

Six in ten advisors use ESG funds. While ESG represents just a fraction of their practice today at 7% of AUM and 11% of clients, ESG funds are gaining ground and represent a true growth opportunity.

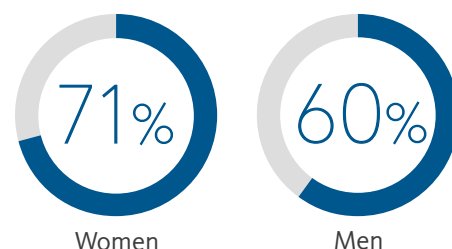
% OF ADVISORS PLANNING TO USE ESG OVER THE NEXT TWO YEARS



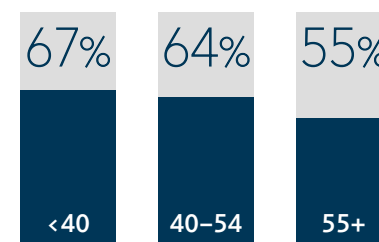
Which advisors use ESG most?

ESG use is more prevalent among younger and female advisors—knowing this can help asset managers focus their distribution efforts.

ESG USE BY GENDER (% use ESG)

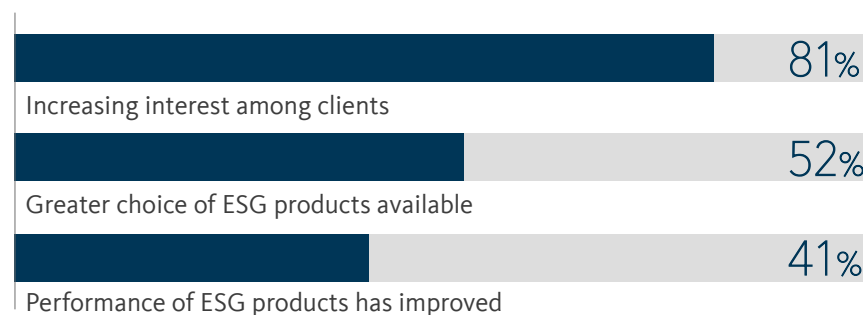


ESG USE BY AGE (% use ESG)



Increased investor demand for ESG is the key driver of advisor adoption. It's also an opportunity for asset managers to consider a direct-to-investor promotional strategy.

TOP 3 REASONS ADVISORS PLAN TO START OR INCREASE ESG USAGE (% of advisors selecting)

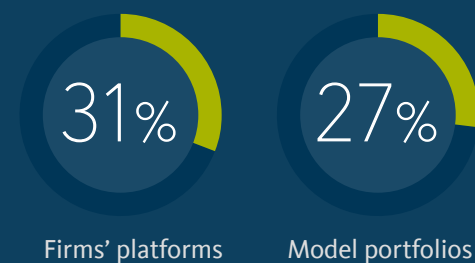


More ways to target ESG efforts

Two other key factors emerged as reasons for increased ESG usage.

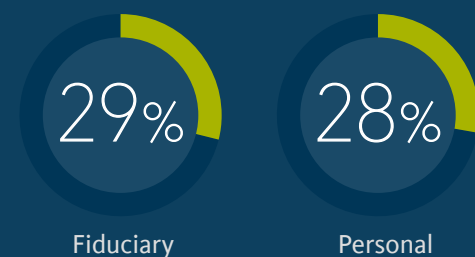
Access

Some advisors attribute increased usage to more ESG options being added to their firms' platforms and to model portfolios they use.



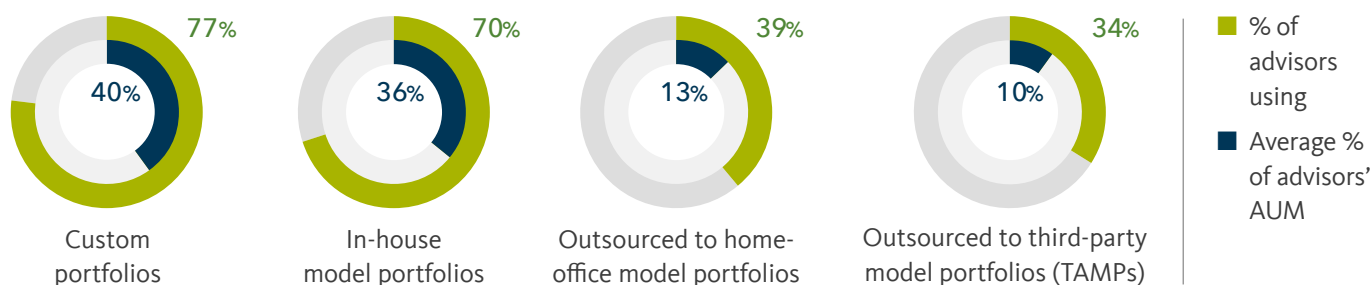
Responsibility

A similar percentage cite fiduciary and personal responsibility as drivers.



Model Portfolios: Built for Scale

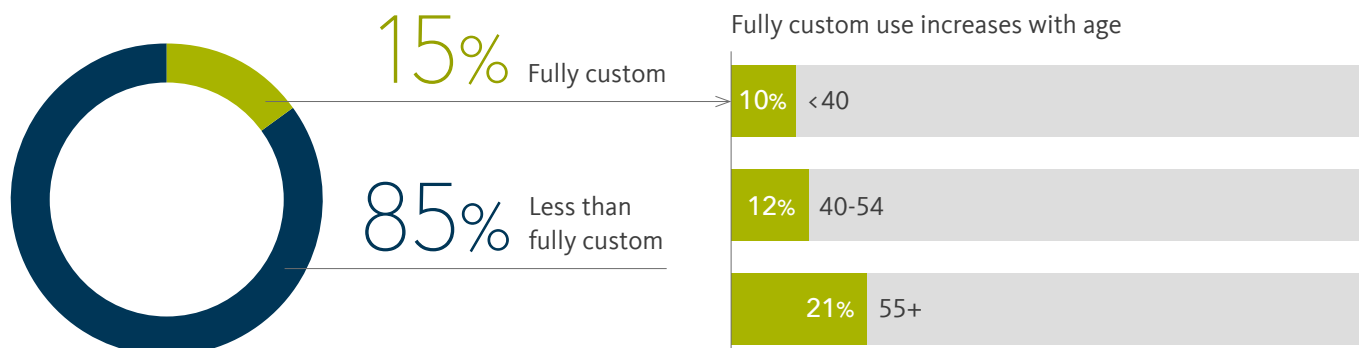
The popularity of model portfolios is apparent: They allow advisors to scale and build their practices by outsourcing investment management activities. Currently, the most used approach is custom portfolios, followed closely by in-house models.



Few advisors use only custom portfolios.

Only 15% exclusively manage their AUM through fully custom portfolios.

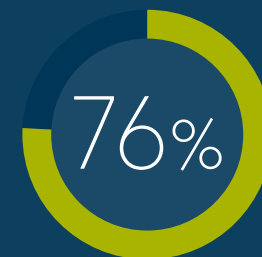
% OF ADVISORS USING ONLY CUSTOM PORTFOLIOS



Who outsources more?

Female advisors (36%) are more likely to outsource than their male counterparts (21%).

How much control is enough?



Among advisors who do not use model portfolios, three quarters cite “maintaining control over the investment process” as their top reason.

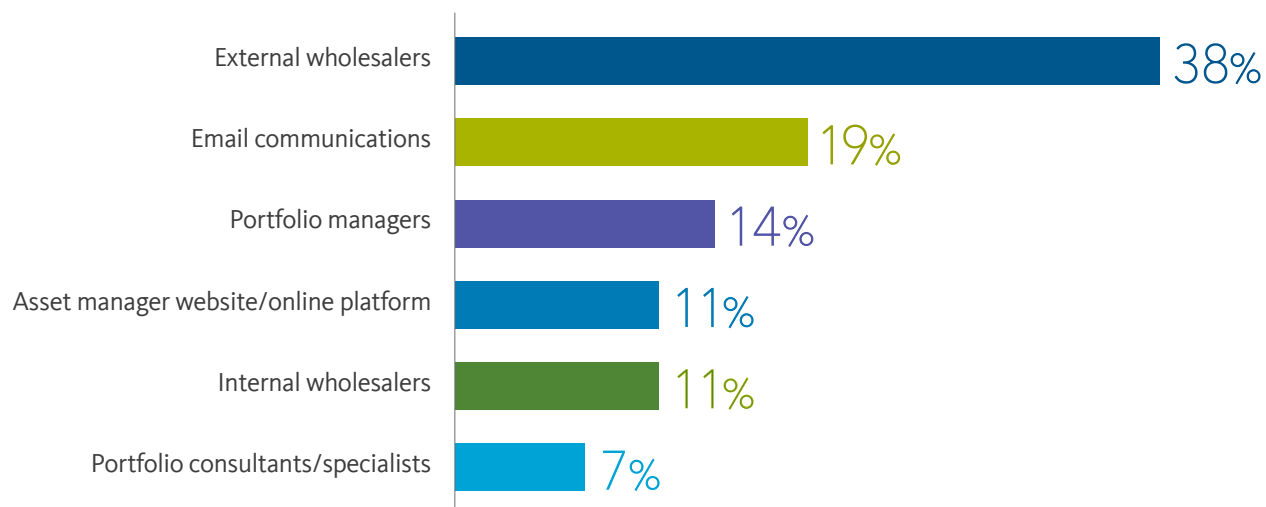


In stark contrast, most advisors who outsource model portfolios and have the ability to tweak those models rarely or never do.

Helping Advisors Chart a More Focused Path

Wholesalers are still critical to distribution efforts. They are ranked #1 by more advisors than any other way of engaging with asset managers—and 70% rank wholesalers among their top three ways to engage.

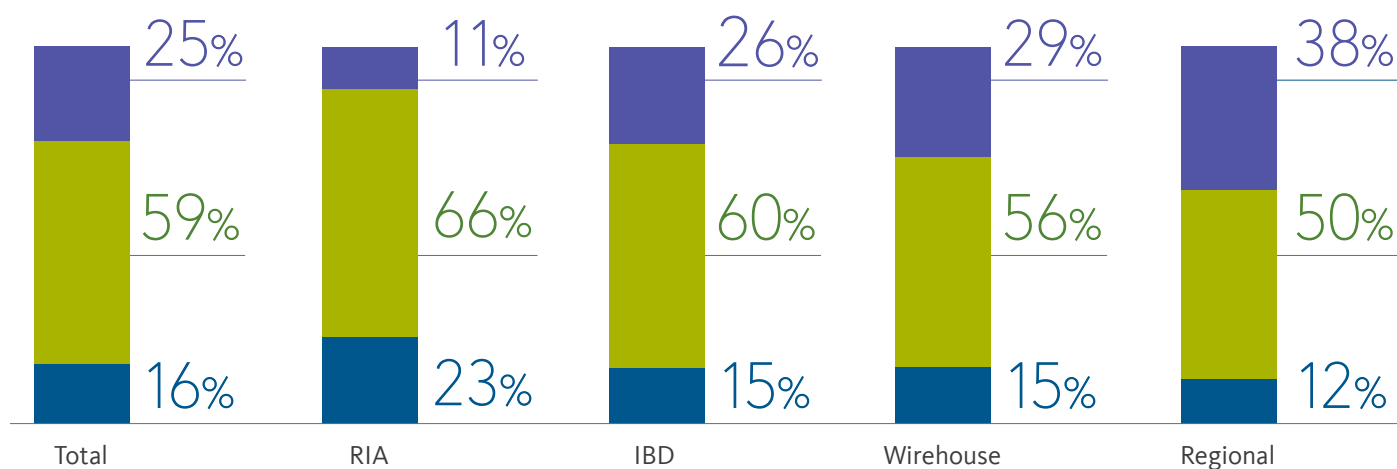
PREFERRED WAYS TO ENGAGE WITH ASSET MANAGERS (% of advisors ranking #1)



As advisor business models become more varied in how they evolve, advisor segmentation—and journey mapping—will prove important. Understanding which advisors plan to increase (and decrease) wholesaler engagement can help asset managers home in on their best opportunities.

PLANS FOR EXTERNAL WHOLESALER ENGAGEMENT IN 2021 COMPARED TO 2020 BY CHANNEL

(% of advisors) ■ More ■ Same ■ Less



“As the advisor business model becomes more complex and varied, data and segmentation will be essential to help inform how asset managers can more effectively differentiate their services in a dynamic market.”

MATT SCHIFFMAN,
PRINCIPAL OF DISTRIBUTION INSIGHT,
BROADRIDGE FINANCIAL SOLUTIONS

As the business of advice evolves, one factor remains true: There is no “one-size-fits-all” approach. Asset managers must achieve differentiation and provide support in order to maintain and grow advisor relationships. Education is key to helping advisors—and investors—understand the value of lesser-understood products and dispel misinformation.

Explore the Broadridge Distribution Insight Platform.

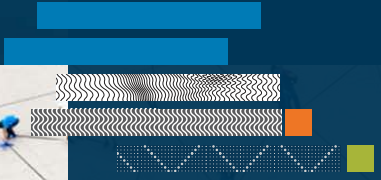
See the whole picture. Covering retail and institutional distribution across every geography and every vantage point.

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Broadridge can help.

We deliver the analytics and strategic expertise asset managers need to stay in front of fast-moving trends and make more informed decisions. Working side-by-side, we'll help create a distribution strategy to execute on every opportunity.

For more insights, contact
matthew.schiffman@broadridge.com
or visit: broadridge.com/resource/distribution-insight



About the Study

This survey was conducted in January and February 2021. Advisors were invited to participate via email. The survey was administered online. 400 financial advisors with \$10M+ AUM participated.



For more insights, contact matthew.schiffman@broadridge.com
or visit: broadridge.com/resource/distribution-insight

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