



DRIVING GROWTH: EVOLUTION OF THE OSJ MODEL

Investor demands and the use of technology are changing the advisor landscape.

Regulatory pressures—and a broadened fiduciary standard—continue to encourage a shift to fee-based business. The speed at which advisors must evolve their practices presents an opportunity for firm's providing Office of Supervisory Jurisdictions (OSJs) services. Progressive OSJs are expanding their services to drive profits.

FIVE KEY TAKEAWAYS FOR THE EVOLVING OSJ

- 1 Market forces are creating opportunities within the advisory landscape
- 2 Three distinct segments and their potential for growth
- 3 How and where new growth is being created
- 4 Four strategies driving success
- 5 How to determine your capacity for delivering new services to advisors

OSJs that offer business strategy tools have greater revenue growth, more fee-based accounts, and higher revenue per advisor than Traditional OSJs.

Investing in meeting advisor demands can increase loyalty and improve production.

Market Forces are Opening New Opportunities for OSJs

INDUSTRY CONSOLIDATION

From 2002 to 2014, the number of brokerage firms decreased 24%.^{*} Fewer, larger firms increasingly control a greater share of client assets. Progressive OSJs are scaling their business and fostering more personal relationships with advisors via recruiting and sustainable extensions of services and support.

INCREASING COMPLIANCE RESPONSIBILITIES

The OSJ's core mission has been increasingly leveraged by broker-dealers to provide oversight and drive scale. With increasing compliance requirements and a new fiduciary standard, OSJs may be in a unique position to help their advisors adjust business practices and/or support their advisors shift to conflict of interest free models.

ADVISOR RECRUITING AND TRANSITIONING

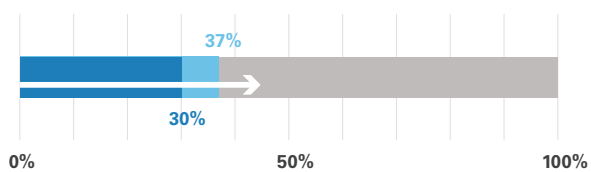
Competition for advisors among independent and insurance-affiliated broker dealers is fierce. Advisors are seeking a plug-and-play environment to quickly boost productivity and efficiency. OSJs who have built out operations and technology solutions will be more competitive in attracting transitioning advisors and can augment broker-dealer recruiting efforts.

^{*}FINRA, data sourced 2015



OSJs can streamline and scale their business to capture market driven opportunities.

Percentage (of total AUM) of client assets in fee-based programs, 2010-2014



GROWTH OF FEE-BASED MANAGEMENT

The shift to fee-based management is industrywide; from 2010 to 2014 the percentage of client assets in fee-based programs increased from 30% of total AUM to 37%. OSJs can help advisors embrace the shift and minimize losses during the transition from one-off products sales to fee-based programs.

EMERGENCE OF THE VALUE-DRIVEN PRACTICE

Advisors striving to deepen client relationships and build their practices can leverage OSJs to develop a sustainable value-driven business model such as financial planning, estate planning and providing institutional-quality portfolio models.



OSJs can help advisors embrace the shift and minimize losses.

Three distinct **business models**
emerged in this study:

TRADITIONAL
OSJs

FACILITATORS

BUSINESS
BUILDERS

OSJs: Evolving, Growing, Differentiating

As competition for advisors' businesses increases, the stakes are raised for OSJs to attract and retain the most productive advisors. AssetMark commissioned Aite Group to study how OSJs are responding to industry trends and advisor demands and how they impact advisor success.

OSJ BUSINESS MODELS

	CHALLENGES	STRENGTHS
TRADITIONAL OSJs - Primary role is supervision - Additional services are usually an extension of the broker-dealer - Strength in developing local reputation and relationship with advisors	- Affiliated advisors tend to be comparatively lower producers - Recruiting is becoming increasingly competitive - Difficult to build enterprise business with sustainable, transferable value	- Proven, scalable model - Low startup cost and solid growth - Most manage a book of business
FACILITATORS - Traditional model + complimentary business building services - Services are often ad hoc and not part of a formal business designed to stand on its own - Focus on facilitating the advisor experience, acting as a liaison between advisors and the broker-dealer	- Role in technology limited to basic support - Principal is typically a producer, diverting focus from growing sustainable business that supports advisors - In-between model creates limited service offerings which hampers recruiting	- Higher producing advisors than Traditional OSJs - Advisors are generally committed to fee-based business - Lower startup cost than Business Builders
BUSINESS BUILDERS - Robust business building services (practice management, marketing, technology and training) on a turnkey or customized basis - Highly selective and proactive when recruiting advisors and acquiring practices - Defined vision and executable plan to create sustainable, transferrable business	- Return on initial investment dependent on compelling offering gaining traction in the market - Overly-selective recruiting may impede growth - May require strategy review with Broker-Dealer to discuss benefits for both parties	- High producing advisors with greatest commitment to fee-based business - Plug-and-play infrastructure highly attractive to advisor recruits, frees advisors to focus on building their business - Dedicated managers support articulation of vision and actionable business plan

WHAT IS DRIVING GROWTH?

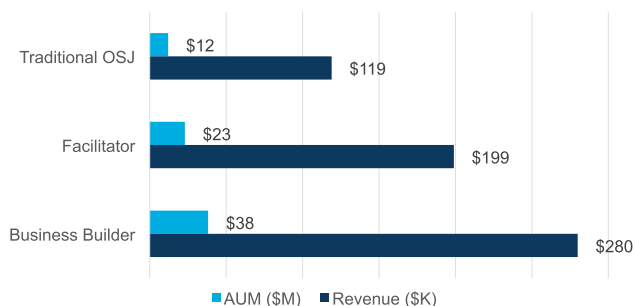
Steady, recurring, non-differential AUM-based fees combined with streamlined business practices, attracts larger advisor practices and helps smaller practices grow.

Business Builders Outperform Their Peers

The services and support offered by OSJs impacts their ability to generate revenue and drive growth. The differences are evident in the consistently higher revenues, a higher percentage of fee-based revenue streams, and greater assets per advisor of the OSJ Business Builder model.

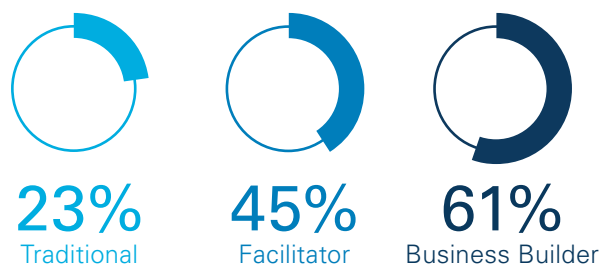
INCREASED ADVISOR PRODUCTIVITY

Average AUM and Revenue per Advisor



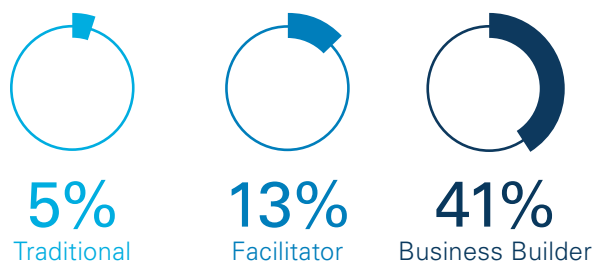
SUSTAINABLE, SCALABLE MODEL

Fee-Based Revenue as a Percentage of Total Revenue

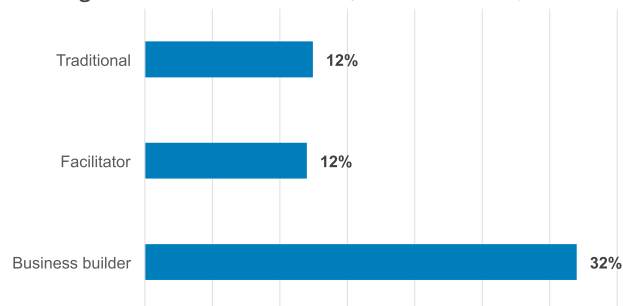


FACILITATING GROWTH

Net New Advisors as a Percentage of Total Advisors, Prior 3 Years (2013-2015)



Average Annual Growth Rate, Prior 3 Years (2013-2015)



Source: The Evolving OSJ: Emerging Business Models, AssetMark and Aite Group 2016

Four Strategies That Drive Performance

To understand exactly what is driving the growth of the Business Builder model and anticipate the potential challenges and opportunities involved in making this switch, various aspects of the OSJs' businesses were viewed in addition to their unique visions for their businesses. When OSJs drive performance, they have four main areas of focus: **Internal Leadership/Staffing, Technology, Operational Services and Marketing Services**. Although any model can choose to develop more than one area, Business Builders have consistently built well-developed programs in all four areas.



LEADERSHIP AND STAFFING

- Less than half of Business Builder principals manage their own book of business. Most principals focus on strategic planning to build the OSJ office.
- Business builders generally employ more staff members per advisor than facilitators and traditional OSJs.



TECHNOLOGY AS A SERVICE

- Technology offerings are integrated into core business model, not ad hoc
- Provide sourcing, set up, ongoing maintenance and support
- Focused on customer relationship management, financial planning and integration across business applications



MARKETING SERVICES

- Advisor recruiting
- Campaign management
- Social media assistance
- Marketing specialists
- Design services
- Event planning



OPERATIONAL SERVICES

- New advisor onboarding
- Practice management support
- Financial planning and other specialists
- Succession planning
- Scalability and back-office support

Considerations for Your Business

Extending beyond traditional services can net a higher override from advisors while promoting greater advisor productivity, which also helps their bottom line. Careful consideration should be given to the initial and ongoing investment required, developing a strategic vision, and creating a tangible, achievable business plan.

- 1 **CONSIDER THE INITIAL AND ONGOING INVESTMENT REQUIRED**
- 2 **DEVELOP A STRATEGIC VISION**
- 3 **CREATE A TANGIBLE, ACHIEVABLE BUSINESS PLAN**



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AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

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