

The Power of Outsourcing Investment Management

Uncovering How Investment Management Outsourcing Enhances Financial Advisors' Businesses

Financial advisors face an industry in transition. While clients have been the beneficiaries of a nearly ten-year bull market, they still want more from their advisors. They want more personalized, one-on-one help. They want ongoing advice and financial planning support, not just a portfolio. And they want to see value in every advisor interaction to justify the fees they pay.

But client management is not an advisor's sole task. Advisors are also business owners. They need to take care of running their practice and managing back office tasks. They also have to execute client investment strategies, including initial research and ►

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Executive Summary

In this paper, we'll review the findings of **AssetMark's 2019 Impact of Outsourcing Study**, that showed:

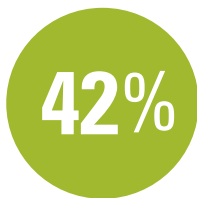
- Advisors face increased demands on their time from additional client expectations to administrative burdens
- One of the most powerful and often overlooked ways to gain capacity in a practice is through investment management outsourcing
- When asked, advisors who outsource cite that the decision has saved them time, reduced their stress levels, and led to stronger client relationships
- Outsourcing can offer tangible benefits including asset growth, higher personal income and lower costs
- The level of benefits advisors say they experience correlates directly to the amount of assets they outsource
- Many myths and misperceptions exist about investment management outsourcing
- While outsourcing may not be right for every advisor, it was found to help meet a wide range of advisor goals
- Selecting the right investment outsourcing firm matters and not all providers are the same

ongoing due diligence and monitoring. Adding to these demands, the shifting regulatory landscape is requiring advisors to take on additional training, as well as constant administrative tasks to stay in compliance.

And finally, increasing competition from new providers, including robo-advisors, is forcing advisors to devote more effort to marketing, relationship building and client acquisition. Given all of these factors, advisors need ways to get back their most precious resource: time.

Freeing up advisor time delivers additional capacity

Fortunately, the industry offers a wide range of solutions that can help advisors off-load some of their daily tasks. Available technology can help automate tasks and streamline workflows to reduce this administrative burden. Advisors can choose to work with broker-dealers or third-party asset management platforms (TAMPs) that offer marketing, trading and compliance services to help run their practice more efficiently. And as client demands for time increase, advisors can even hire staff to build a team approach to serving clients and providing a high-touch client experience.



42% of advisors who don't already outsource have considered outsourcing investment management to a third party.

An often-overlooked tool is investment management outsourcing. Advisors can tap into the expertise of a professional third-party outsource investment firm and delegate the full range of investment research and monitoring tasks, as well as portfolio construction, trading and rebalancing. By tapping into the expertise of a dedicated investment team, advisors are able to gain scale in their practice and increase capacity.

While some advisors have built their personal brand as an adept investment manager, those who have built their practice as a holistic wealth manager can benefit from investment management outsourcing. Delegating portfolio management tasks to a professional third-party can help advisors gain efficiencies in their practice, tap into new or bespoke investment strategies and, perhaps most importantly, gain back time. Time that can be devoted to servicing client needs, enhancing the performance of their practice and furthering their brand as a holistic solutions provider.

AssetMark commissioned a study to learn more

AssetMark is driven by a simple mission - to make a difference in the lives of advisors and their clients. One way we accomplish this is through research to better understand the challenges advisors face and how they deal with the realities of the industry. Recently, AssetMark engaged Q8 Research to undertake a research study with 702 advisors from across the country using a



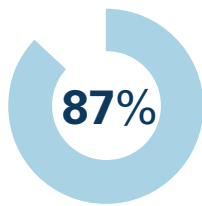
You really can't do the best job for the client, trying to wear that many hats. There's just too much going on and too many moving parts.

– RIA advisor

combination of qualitative, in-depth interviews and a quantitative online survey focused on the topic of investment management outsourcing. This paper details what advisors shared about their perceptions and the benefits they have experienced by outsourcing a portion of their investment management tasks.

Benefits of investment management outsourcing

Advisors who outsource some, or all, of their investment management tasks note a range of benefits. Some are tangible—others less so—but nearly all agree that they have benefited directly from outsourcing.



Nearly **9** out of **10** advisors attest that the benefits of outsourcing investment management have met or exceeded their expectations.

Advisors noted broad improvement in their business when they did outsource investment management tasks. The capacity gains from outsourcing allowed them to focus on the types of value-added services clients want. These advisors reported stronger client relationships, higher retention and even increased acquisition rates—all key indicators of practice health and factors that can directly contribute to an advisor's ongoing success.



I have a particular way I want to serve my clients, but I did feel that I could outsource the money management piece.

– *RIA advisor*

What is investment management outsourcing?

Investment management outsourcing is when an advisor delegates part or all of their investment management activities to a professional money manager. For a fee, the outsource provider creates a range of turn-key investment strategies that the advisor can use to invest a client's assets.

In general, these strategies represent a curated selection that the outsource provider has researched and chosen, based on their investment expertise. Investment management outsourcing firms also generally offer:

- Ongoing due diligence with active monitoring of strategies and investments
- Portfolio construction guidance based on an academically grounded investment philosophy
- Pre-built, complete portfolios for a range of client needs from saving to retirement income
- Custom portfolios for high-net-worth clients with unique needs and financial goals

The benefit of working with an investment management outsourcing firm is that an advisor can focus his or her attention on other tasks with the confidence that their client's assets are being professionally managed.

Percentage of advisors who say outsourcing helps deliver:



Advisors who outsource also noted other benefits, including lower personal stress, easier compliance and audit processes, and even higher business valuation.

When asked about the tangible, direct benefits of outsourcing, the majority of advisors cited that they have seen growth in their total assets under management, higher personal income and lower operating costs for their practice. The same advisors quantify this benefit as delivering, on average, double digit improvement across all three factors.

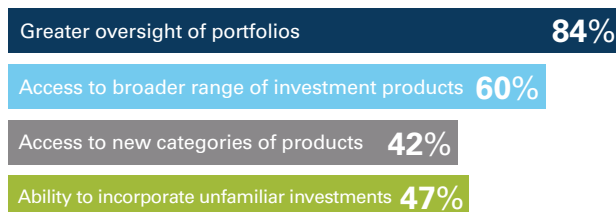
Percentage of outsourcing advisors who experienced:



They also note that these benefits are a direct result of investment management outsourcing and underscore how it can help make their practices healthier, more efficient and more valuable.

The benefits of outsourcing don't stop with the advisor. Clients can also benefit from having a larger team dedicated to managing their investments and keeping their strategy on track. Outsourcing can offer clients a broader range of investment products and new categories of investments, expanding the investment solutions offered by an advisor who provides in-house investment management.

Percentage of advisors who noted outsourcing delivered:



And nearly all advisors who outsource agree that they are able to deliver better investment solutions by outsourcing investment management than they could on their own.



The biggest perk [of outsourcing] for me was more time with family. I have young children, so it definitely added to that time.

– RIA advisor



98% of advisors who outsource state that outsourcing allows them to deliver better investment solutions to clients.

The most powerful benefit advisors reported coming from investment management outsourcing is additional capacity. Time previously spent on investment management can be redeployed to build relationships with clients or seek out new business opportunities. It can also be used to expand the breadth of services offered or even be used for personal pursuits, like spending more time with family or on personal interests. There is broad agreement that outsourcing helps advisors be more successful and enhances an advisor’s capacity in ways that are good for the advisor, the practice, and the client.

Enhancing the benefits of outsourcing

While advisors say that outsourcing offers them clear and measurable benefits, advisors who outsourced more of their assets say that they actually saw greater benefit across both tangible and intangible factors. These benefits were directly correlated with the degree of outsourcing, with most benefit going to advisors who outsourced nearly all of the assets in their care.

Higher levels of outsourcing were seen to offer larger reductions in stress and further reduce an advisor’s practice management burden. More impressively, higher levels of outsourcing were seen to drive further improvement of the key metrics of business health: asset growth, personal income and operating costs.

Benefits increase with amount of assets outsourced:

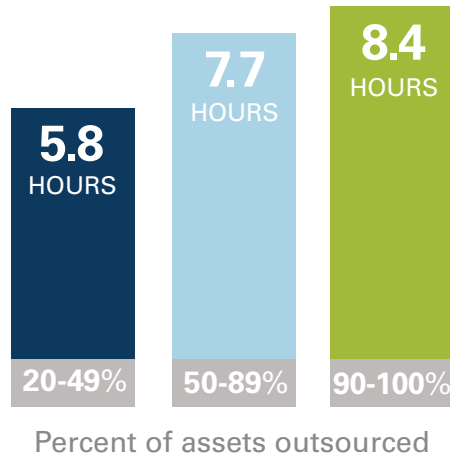
		20-49% AUM Outsourced	50-89% AUM Outsourced	90-100% AUM Outsourced
% of Advisors Who Benefited	Growth in Total Assets	68%	85%	87%
	Higher Personal Income	66%	76%	85%
	Lower Operating Expenses	59%	73%	82%
Mean % Experienced	Increase in Total Assets	21% ▲	26% ▲	41% ▲
	Increase in Personal Income	17% ▲	25% ▲	47% ▲
	Decrease in Operating Costs	13% ▼	16% ▼	25% ▼



The level of benefits advisors say they experience correlates directly to the amount of assets they outsource.

Not surprisingly, the amount of time advisors were able to recapture by outsourcing is also directly correlated with the proportion of assets they outsourced. Advisors noted that they were able to redeploy an average of 2.1 hours per week to client-facing activities by outsourcing their investment management. They also noted a time benefit of more than 8 hours per week when nearly all investment management tasks were outsourced, thus offering them additional capacity to manage and grow their practice.

Hours saved per week on investment management:



Investment management outsourcing myths

While many advisors do outsource their investment management tasks, the process and its benefits are still not universally understood. In fact, a number of myths exist about outsourcing.

MYTH #1: Outsourcing erodes an advisor's value proposition

Outsourcing can help enhance an advisor's value by freeing up more time to meet with clients and to focus on planning activities that enhance the client experience. For most clients, one-on-one advice and financial planning services are highly valued, while investment management is often seen as a commodity.

Investment management outsourcing firms also offer a wider range of investment solutions that allow advisors to expand their service offering and address a broader set of client needs.



The number one benefit [of outsourcing] is spending my time with the clients, being available to them and getting the calls returned within 24 hours.

– RIA advisor

MYTH #2: Outsourcing means giving up control

While outsourcing does mean relying on a third-party to make investment selections and construct portfolios, it doesn't mean giving up control over client assets.

Investment management outsourcing firms offer advisors a wide range of solutions to build and manage investment strategies that are aligned with client goals. With integrated technology, advisors can easily compare and select portfolios and make changes to client investments as necessary. Outsourcing firms take a disciplined approach to hands-on investment research, trading and monitoring so that advisors have more capacity to focus on guiding client investment decisions.

MYTH #3: Outsourcing is expensive

While there is a fee associated with investment management outsourcing, the cost needs to be looked at in context. When considered along with the financial benefits realized from outsourcing, many advisors found that outsourcing investment management actually saved money in the long run. Advisors reported growth in assets under management, higher personal income, lower operating costs and increased business valuation. The time an advisor spends on investment management has a value and may be more effectively spent taking care of other tasks. Delegating investment management can also eliminate the need to hire in-house investing expertise and the costs associated with it.

All of these factors can contribute directly to a practice's bottom line. And when asked, the majority of advisors who outsource say that the cost is reasonable or even less than expected.

MYTH #4: Outsourcing eliminates an advisor's ability to customize investments

Just because an advisor outsources doesn't mean that he or she is unable to offer the customized investment solutions clients want. Most investment management outsourcing firms offer advisors the ability to customize portfolio solutions or mix and match their strategies to create a customized approach for each client. Outsourcing can provide the convenience of off-the-shelf strategies, combined with the ability to create bespoke client solutions.



We now (have) the capacity to work with much larger accounts in a much more reliable and meaningful way.

– Advisor



73% of advisors who outsource say the fees are what they expect or less.

MYTH #5:

Outsourcing is time consuming for advisors

The process of researching and setting up a relationship with an investment management outsourcing firm can take time. However, most outsourcing firms have years of experience working with advisors and have established processes to help reduce the administrative burden of transitioning clients and moving to an outsource model.

Once client assets are in place, the ongoing time savings far surpass the initial time spent on implementation.

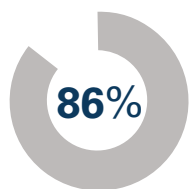
Outsourcing also gives advisors the capacity to choose other ways to better serve their clients. Freed from the burden of investment selection and management, advisors can focus on delivering holistic financial planning and other activities that have been shown to increase share of client assets and improve client retention.¹

Making the decision to outsource

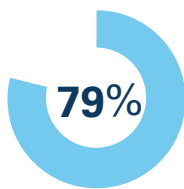
Only 4% of advisors said that they would never consider investment management outsourcing. And for those who have embraced outsourcing, they are realizing material benefits from that decision.

In fact, advisors who stated happiness with their decision to outsource, also expressed a commitment to outsourcing more of their investment management activities in the future.

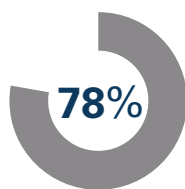
Among advisors who outsource:



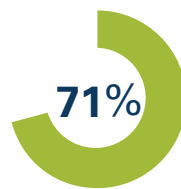
Agree outsourcing has made them more successful



Plan to increase the percentage of outsourced assets in the next 3 years



Wished they had outsourced assets sooner



Would recommend outsourcing to other advisors

Given the benefits of outsourcing, it is no surprise our study shows that 95% of advisors who outsource investment management were at least somewhat likely to recommend outsourcing to other advisors. We believe this trend will only accelerate as more advisors become aware of the benefits of outsourcing and the demands on advisors increase in the ever-changing investment advisory landscape.



You get to the point when you have as many accounts as we have, that you really are kind of kidding yourself if you think you can do as good a job as people who are just doing it—that's all they're doing.

—Advisor

What advisors say about outsourcing with AssetMark

Not all investment management outsourcing firms are the same; each has a different approach to investing and serving clients.

AssetMark supports financial advisors in their life's work—helping clients thrive. By giving advisors the tools they need to be successful, we free them up to help their clients reach their goals. We believe that advisors are at their best when they have more time with their clients - listening to their concerns, navigating obstacles and charting a productive course for their future.

Using our innovative investment and management solutions, delivered through compelling technology and outstanding service, advisors can build a better future for their clients while also building more successful businesses for themselves.

AssetMark by the numbers:

(As of March 31, 2019)

>\$49 billion
in combined assets
on its platform

7500
advisors

625
employees

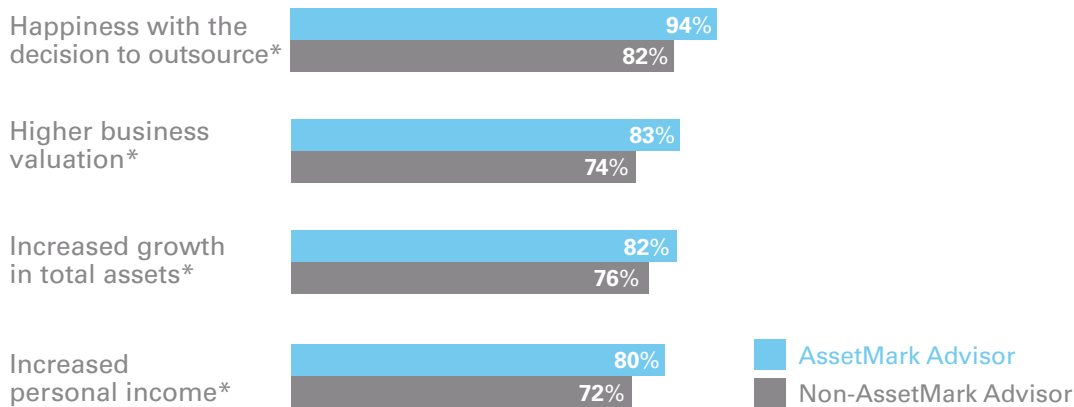
20+
years
serving advisors

94%

94% of AssetMark advisors said they are happy with the decision to outsource.

When asked about the benefits of outsourcing, advisors who work with AssetMark cite higher levels of satisfaction and increased benefits compared to advisors who work primarily with another outsource provider.

Greater benefits from outsourcing with AssetMark:



*For those who use AssetMark as their primary outsourcing provider.

Many advisors could benefit from outsourcing

Admittedly, investment management outsourcing is not right for every advisor's practice. Some advisors are skilled investment managers and the time they spend researching and creating portfolios delivers real value to their practice and their clients.

For other advisors, outsourcing can be a powerful tool to help create discipline, drive scale and gain time and capacity for other activities.

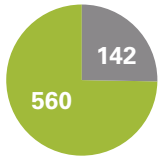
For advisors who are time-starved...	Outsourcing can offer an easy way to reduce the burden of administrative and back office tasks associated with investment research, due diligence and portfolio monitoring and maintenance. This time can be redeployed to business building or other value-added activities.
For advisors who want to expand their client base...	Outsourcing can provide an easy way to serve a diverse client set. Investment management outsourcing firms offer a range of strategies that can help advisors provide the institutional quality solutions that high-net-worth investors demand, as well as turnkey, scalable solutions for clients with fewer assets and less complex needs.
For advisors looking to grow their business...	Outsourcing offers an avenue for responsible, cost-effective growth. Advisors can access dedicated, professional investment management without the added cost or administrative burden of hiring staff. Outsourcing expenses can also be controlled, as advisors only pay a fee on the assets outsourced.
For advisors thinking about succession planning...	Outsourcing can help advisors add scale to their practice and establish sustainable processes that can be shared with new staff or passed onto another advisor. Sustainable practices are also more attractive when it comes to planning business succession or maximizing value in anticipation of a sale.
For advisors looking to enhance the client experience...	Outsourcing empowers advisors by giving them increased capacity to spend with clients and expand their service offering. High levels of responsiveness and a broader range of services can help drive client satisfaction and allow advisors to deliver a best-in-class advisory experience.



Advisors noted a time benefit of more than 8 hours per week when nearly all investment management tasks were outsourced.

About this study

The *2019 Impact of Outsourcing Study* was conducted by Q8 Research, using qualitative, in-depth interviews and a quantitative online survey between December 2018 and February 2019.



702 advisors: (560 outsourcers and 142 non-outsourcers) completed the survey and were drawn from various firms, including independent broker-dealers, insurance broker-dealers and independent RIAs.

All respondents have:

7+ years tenure as a financial advisor

Between \$20 to \$500 million in assets

At least 30% fee-based business

At least 50% of their total assets with individual retail investors

Learn more about AssetMark

If you'd like to learn more about how AssetMark can help build your business, we're here to help. Visit us at assetmark.com or give us a call at **833-273-0409**.

Source is AssetMark 2019 Impact of Outsourcing Study, unless otherwise noted.

¹Source: Corporate Executive Board, "State of the High Net Worth Client in 2018" report.

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Important Information

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