ENVESTNET

Envestat Report

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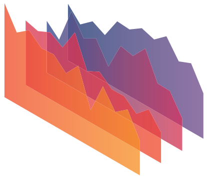
Investment costs, not advisor fees, the focus of compression

While much has been assumed about fee compression in the investment advisory space, there has been little data available to help financial advisors and wealth management firms truly understand the marketplace. Guessing blindly about pricing trends has often led advisors to be concerned they are charging fees that are too high whereas firms may assume their financial advisors are charging sub-market fees.

While there has been compression in the total fee charged to clients, high level trends mask the reality that the vast majority of fee compression has been driven by the compression of investment management costs rather than the component of the total client fee paid to the financial advisor.

In this edition of Envestat, we examined the trend in investment advisory fee levels over the past three years to answer three key questions:

- What has been the extent of fee compression?
- What are the key drivers of fee compression?
- How does fee compression differ based on the type of advisory program or solution recommended?



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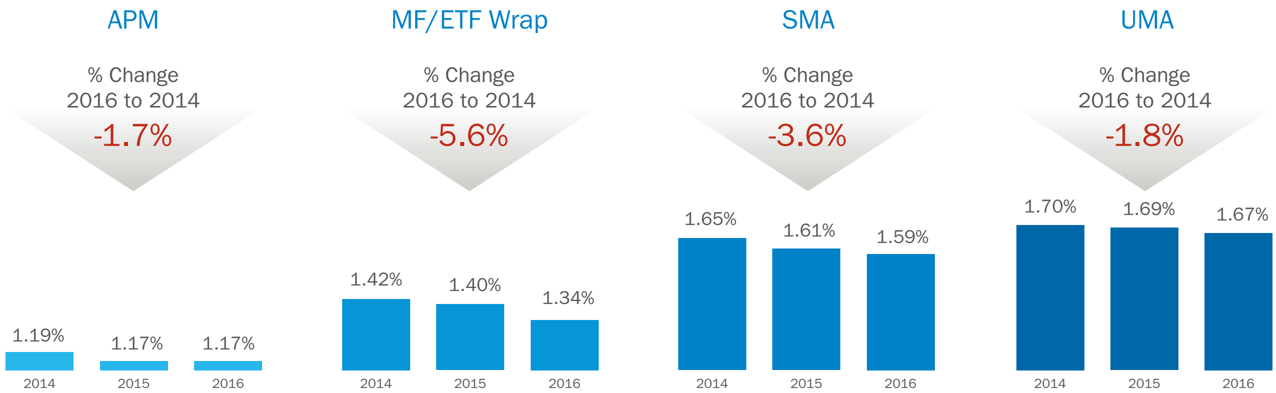
Three-Year Client Fee Trend in Managed Accounts (Mean Client Fee Rates)



Envestnet analysis of APM, MF/ETF Wrap and SMA accounts which ranged between 509,000 in 2014 to 743,00 accounts in 2016. UMA V2 accounts analyzed ranged between 7,300 in 2014 to 11,700 accounts in 2016.

Envestnet's observations:

- Total client fees have declined over the last several years, but the rate of decline seems to be driven primarily by the type of advisory program used. In programs where client fees have declined the most, such as mutual fund or ETF wrap accounts or separately managed accounts (SMAs), advisors are seeking out the lower cost passive solutions, bringing down overall client fees.
- Client fees in UMA accounts that included only managed strategies (SMA and MF/ETF Wrap) saw little erosion, declining by just 3 basis points. It's believed that the UMA's potential to deliver more value to investors through accessible tax management and the simplicity of one account has contributed to the resiliency of client fees.[1]
- What is perhaps most noteworthy is the resilience of financial advisor fees (the component of client fees credited to advisor commission grids or to the advisor directly) as advisors seek to deliver lower cost solutions while maintaining their revenue. In the case of SMAs and UMAs, where advisors have the opportunity to deliver additional value through tax management, financial advisor fees actually increased 1–3 basis points whereas in MF/ETF Wrap and APM programs average advisor fees decreased 3–5 basis points.

Envestnet Analytics offers wealth management firms the ability to analyze pricing and other key trends at an even more granular level. For more information, contact your Envestnet Enterprise Consultant or Todd Buck at todd@wheelhouseanalytics.com

About Envestat

Envestat, Envestnet's industry analytics engine, delivers regular digests of business intelligence designed to provide context to the decisions that financial advisors and enterprise business owners face every day.

[1] Note: Envestnet restricted its UMA analysis to those UMAs containing only managed product types (SMA and MF/ETF Wrap) in an effort to keep the data analyzed as consistent as possible with UMA industry norms. UMAs with single sleeves (typically advisor managed) were eliminated from the fee analysis.

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