Current Trends In Investment Management Outsourcing
Webinar discussing research study of financial advisors
October 3, 2012

Twitter Hashtag: #Investmentoutsourcing
Today’s Speakers

Laura Gregg
Northern Trust
Vice President
Direct Distribution

Leo J. Dolan, Jr.
Brinker Capital
Principal and National Sales Director

Sean Hanlon, CFP®
Hanlon Investment Management, Inc.
Chairman, CEO and Chief Investment Officer
Our Panelists

Leo Dolan

Mr. Dolan is a long-term senior manager and national sales director for Brinker Capital as it achieves major growth with an expanded array of products and services. From 1995 to 2001, Mr. Dolan served as SVP and operating head of the Investment Advisory Group at SEI Investments, transforming a small unit into a highly profitable $25 billion division. During his 20 years of investment industry experience, Mr. Dolan has supervised relationships with over 12,000 advisors. Mr. Dolan holds a B.S. from Saint Joseph’s University and an M.B.A. from The Wharton School.

Sean Hanlon

Chairman, CEO and Chief Investment Officer of Hanlon Investment Management (HIM). HIM, founded in 1999, offers a range of investment solutions to meet the needs of advisors and their clients, delivered through the HIM turnkey asset management platform (TAMP). Today HIM manages over $3.5 billion for over 2,200 financial advisors’ clients. Sean is also Chairman of Interactive Advisory Software (IAS), founded in 2001. IAS is the developer and distributor of Solution 360°, a wealth management software application focused on serving the needs of Registered Investment Advisors and Independent Financial Advisors. Today IAS serves 165 advisory firms that have $33 billion on the IAS application. Sean serves on the Board of Trustees of Stevens Institute of Technology and holds a Mechanical Engineering Degree from Stevens.
Research Highlights from Northern Trust’s Investment Management Outsourcing Survey
- An update of initial research conducted in 2010
- What’s changed and what has remained constant
- PDF of the research is downloadable from this page

Panel Discussion with Outsourcing Solutions Providers Brinker Capital and Hanlon Investment Management
- What trends are they seeing in this market?
- What are their clients asking for?

Q & A
Northern Trust’s “Investment Management Outsourcing: The State of the Art in 2012”

- Survey of Advisor Perspectives readership June/July 2012
- Refresh of 2010 survey, similar questions and composition of respondents
- Insights of advisors who do and those that do not outsource

Link to whitepaper presenting survey findings in email confirming registration to today’s Webinar. www.northerntrustinvestments.com/outsourcing.
Access and Alpha—
driving investment management outsourcing in 2012

- The 2012 top outsourcing drivers
  - Access to asset allocation models
  - Access to managers firms could not access on their own
  - The potential to generate alpha through best investment ideas

- The leading reason provided for not outsourcing:
  Investment management is central to the firm’s value proposition
  - 2012: 54% of non-outsourcing advisors
  - 2010: 43% of non-outsourcing advisors
What's Outsourced

50% outsource all investment management activities; 20% outsource all back-office operations

Outsourced Investment Management Activities
As a percentage of outsourcing responses

- All investment management activities: 50%
- Just specific asset classes: 15%
- All investment management-related back-office operations: 20%
- Just specific investment management-related back-office operations: 15%

Top outsourced back-office operations:
- Custody services
- Statements
- Performance reports
- Portfolio operations
6 out of 10 advisors outsource more than half of their clients’ assets

The Outsourcing of Clients’ Assets
Percentage of all responses

- Less than 10%: 8%
- 11%-24%: 12%
- 25%-50%: 18%
- 51%-74%: 25%
- 75%-100%: 37%
- 62%
Which Client Assets?

Investment products, followed by client account size dictate which assets or which account

Outsourcing of Particular Assets or Accounts
As a percentage of outsourcing respondents

- The investment products selected for the client: 48%
- Client account size: 37%
- The need for tax efficiency: 13%
- Other: 2%
For 4 Out Of 10 Advisors, Outsourcing Has Led To Fee Changes

Outsourcing’s Effect on Fees Charged
As a percentage of outsourcing respondents

- 28% Fees have increased
- 15% Fees have decreased
- 57% No change in fees

IN THEIR OWN WORDS: ADVISORS’ COMMENTS ON FEES CHARGED

“I, as the FP, make less since I charge the same and pay the third-party money manager from my comp.”

“Fees have increased compared to buy and hold mutual fund accounts.”

“We have reduced some client fees due to less work required on our part to manage the assets.”
As in 2010, 94% of advisors are satisfied with what outsourcing achieves

- More time to spend with clients
- The ability to grow more efficiently
- The ability to grow a more consistent investment process for the firm

Where it exists, dissatisfaction centers on investment performance—one-third say investment performance is the single most negative impact of outsourcing.
What Keeping Investment Management In-House Entails

- Heightened demands on their time—advisors from larger firms spend 15 hours a week on investment manager research, portfolio construction and monitoring

- In order to change their position, today’s outsourcing solutions need:
  - Added capabilities (20%)
  - To be more affordable (19%)

Is there a weakening resolve in the most common leading response?

Our Opinion Won’t Change
As a percentage of outsourcing respondents

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>34%</td>
</tr>
<tr>
<td>2010</td>
<td>67%</td>
</tr>
</tbody>
</table>
- Link to the whitepaper
- Link to 2010 research papers
- Watch your email tomorrow for a summary of this panel discussion
Important Information

The information does not constitute investment advice or a recommendation to buy or sell any security and is subject to change without notice. Northern Trust and its affiliates may have positions in, and may effect transactions in, the markets, contracts and related investments described herein, which positions and transactions may be in addition to, or different from, those taken in connection with the investments described herein. Past performance is no guarantee of future results. All material has been obtained from sources believed to be reliable, but the accuracy, completeness and interpretation cannot be guaranteed.

Asset Management at Northern Trust comprises Northern Trust Investments, Inc. (NTI), Northern Trust Global Investments Limited (NTGIL), Northern Trust Global Investments Japan, K.K. (NTGIJ), the investment advisor division of The Northern Trust Company (TNTC) and The Northern Trust Company of Connecticut (NTCC), and its subsidiaries to offer investment products and services to personal and institutional markets.

IRS CIRCULAR 230 NOTICE: To the extent that this communication or any attachment concerns tax matters, it is not intended to be used, and cannot be used by a taxpayer, for the purpose of avoiding any penalties that may be imposed by law. For more information about this notice, see http://www.northerntrust.com/circular230.