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LPLA.OQ - Q2 2024 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon, and thank you for joining the second-quarter 2024 earnings conference call for LPL Financial Holdings Inc. Joining the call today are President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer and Head of Business Operations, Matt Audette. Dan and Matt will offer introductory remarks. (Operator Instructions)

The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com.

Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies, and plans, as well as other opportunities and potential risks that management foresees. Such forward-looking statements reflect management's current estimates or beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements.

For more information about such risks and uncertainties, the company refers listeners to the disclosure set forth under the caption forward-looking statements in the earnings press release as well as the risk factors and other disclosures contained in the company's recent filings with the Securities and Exchange Commission.

During the call, the company will also discuss certain non-GAAP financial measures. For a reconciliation of such non-GAAP financial measures to comparable GAAP figures, please refer to the company's earnings release, which can be found at investor.lpl.com.

With that, I'll turn the call over to Mr. Arnold.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Thank you, operator, and thanks to everyone for joining our call today. To set the stage for tonight's call, I'll start by taking us through our quarterly business results and hand it over to Matt to cover the financials. Then before we open the call for Q&A, I'll take a few minutes to share our perspective on recent events in the marketplace related to sweep deposits.

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Okay, with that as context, over the past quarter, our advisors continued to provide their clients with personalized financial guidance on the journey to help them achieve their life goals and dreams. To help support that important work, we remained focused on our mission of taking care of advisors so they can take care of their clients.

During the second quarter, we continued to see the appeal of our model grow due to the combination of our robust and feature-rich platform, the stability and scale of our industry-leading model, and our capacity and commitment to invest back into the platform. As a result, we continue to make solid progress in helping advisors and institutions solve challenges and capitalize on opportunities better than anyone else, and thereby, serve as the most appealing player in the industry.

Now with respect to our performance, we delivered another quarter of solid results, while also continuing to make progress on the execution of our strategic plan. I'll review both of these areas starting with our second-quarter business results.

In the quarter, total assets increased to $1.5 trillion, as continued solid organic growth was complemented by higher equity markets. Regarding organic growth, second-quarter organic net new assets were $29 billion, representing 8% annualized growth. This contributed to organic net new assets over the past 12 months of $104 billion, also representing an 8% growth rate.

In the second quarter, recruited assets were $24 billion, bringing our total for the trailing 12 months to a record $93 billion. These results reflect the continuing appeal of our model, as well as the strength of our recruiting across our expanded addressable markets.

Looking at same store sales, our advisors remain focused on taking care of their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients, and expanding wallet share with existing ones, a combination that drove solid same store sales in Q2.

At the same time, we continue to enhance the advisor experience through the delivery of new capabilities and technology and the evolution of our service and operations functions. As a result, asset retention for the second quarter was approximately 98% and 98% over the last 12 months.

Our second-quarter business results led to solid financial outcomes with adjusted EPS of $3.88. Let's now turn to the progress we made on our strategic plan.

Now as a reminder, our long-term vision is to become the leader across the advisor-centered marketplace. To do that, our strategy is to invest back into the platform to provide unprecedented flexibility in how advisors can affiliate with us and to deliver capabilities and services to help maximize advisors' success throughout the lifecycle of their businesses. Doing this well gives us a sustainable path to industry leadership across the advisor experience, organic growth, and market share.

Now to execute on our strategy, we organize our work into two strategic categories: horizontal expansion, where we look to expand the ways that advisors and institutions can affiliate with us, such that we are positioned to compete for all 300,000 advisors in the marketplace; and vertical integration, where we focus on delivering capabilities, technology, and services that help our advisors differentiate and win in the marketplace and be great operators of their businesses.

Now with that as context, let's start with our efforts around horizontal expansion. Over the second quarter, we saw strong recruiting in our traditional independent market, reaching a new quarterly high of approximately $19 billion in assets. At the same time, due to the ongoing appeal of our model and the evolution of our go-to-market approach, we maintained our industry-leading win rates while also expanding the breadth and depth of our pipeline.

With respect to our new affiliation models, Strategic Wealth, Employee, and our enhanced RIA offering, we delivered another solid quarter, recruiting roughly $4 billion in assets. And as we look ahead, we expect that the increasing awareness of these models in the marketplace and the ongoing enhancements to our capabilities will drive a sustained increase in their growth.

Next, in Q2 we added approximately $1 billion of recruited assets in the traditional bank and credit union space, which continues to be a consistent contributor to organic growth. During the quarter, we also continued to make progress within the large institution marketplace, where we advanced

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our preparation to onboard the retail wealth management businesses of Prudential Financial and Wintrust Financial. Collectively, these two deals will add approximately $66 billion of brokerage and advisory assets by early 2025.

Now as a complement to our organic growth, we are on track to close the acquisition of Atria Wealth Solutions later this year and complete the conversion in mid-2025. As a reminder, this acquisition will add approximately 2,400 advisors and 150 banks and credit unions, managing approximately $100 billion in client assets. In addition, we're seeing solid momentum within our Liquidity & Succession solution as demand continues to build with existing LPL advisors, and with advisors outside of our ecosystem, including the signing of another external deal in Q2.

Next, I want to update you on our OSJ ecosystem. A reminder that for many years, we have collaborated with large OSJs in serving and supporting independent advisors on our platform. We've been actively working to strengthen our alignment with these firms for a number of years, driving incremental changes to the broader OSJ ecosystem over that period. This year, we put a capstone on those efforts and through that work, there were a couple of isolated firms that surfaced as strategically misaligned with our mission and model as they were limiting advisors' ability to choose how and where they do business. That posture is in stark contrast to our core principles of advisor independence, and as a result, we have resolved to separate from these relationships.

Collectively, these firms have roughly $20 billion of client assets, which began to off-board from our platform in July. At the end of the day, these separations will strengthen our overall ecosystem and position us to better serve the great partners on our platform.

Now within our vertical integration efforts, we remain focused on investing back into the model to deliver a comprehensive platform of capabilities, services, and technology that help our advisors differentiate and win in the marketplace and run thriving businesses. As part of this effort, we continue to make progress across several key areas of focus, including our ongoing journey to build a world-class wealth management platform.

Now within this body of work, we are developing a comprehensive suite of trading capabilities that will help advisors deliver a differentiated client experience and manage their advisory business more efficiently and effectively. In that spirit, we're rolling out a new trading system, ClientWorks Rebalancer, which enables advisors to rebalance models across multiple client accounts at one time and deliver a more personalized client experience across their book of business.

In doing so, our aspiration is to help more advisors run models-based practices and ultimately turn trading from an administrative function into a strategic asset. The initial feedback on ClientWorks Rebalancer has been positive and we're seeing solid early adoption.

In summary, in the second quarter, we continued to invest in the value proposition for advisors and their clients, while driving growth and increasing our market leadership. As we look ahead, we remain focused on executing our strategy to help our advisors further differentiate and win in the marketplace, and as a result, drive long-term shareholder value.

With that, I'll turn the call over to Matt.

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Alright, Thank you, Dan, and I'm glad to speak with everyone on today's call. In the second quarter, we remained focused on serving our advisors, growing our business, and delivering shareholder value. This focus led to another quarter of strong organic growth in both our traditional and new markets, and we are preparing to onboard the wealth management businesses of Prudential and Wintrust.

In addition, we continued to build momentum in our Liquidity & Succession solution, closing six deals during the quarter, and signing one deal with an external practice. Lastly, we remain on track to close on the Atria transaction in the second half of the year, and plan to onboard their business in mid-2025. So as we look ahead, we remain excited by the opportunities we have to serve and support our 23,000 advisors, while continuing to deliver an industry-leading value proposition and drive organic growth.

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Now let's turn to our second-quarter business results. Total advisory and brokerage assets were $1.5 trillion, up 4% from Q1, as continued organic growth was complemented by higher equity markets. Total organic net new assets were $29 billion or approximately an 8% annualized growth rate.

Our Q2 recruited assets were $24 billion, which prior to large institutions, was the highest quarter on record. Looking ahead to Q3, our momentum continues, and we are on pace to deliver another strong quarter of recruiting. As for our Q2 financial results, the combination of organic growth and expense discipline, led to adjusted EPS of $3.88.

Gross profit was $1.079 billion, up $13 million sequentially. As for the components, commission and advisory fees net of payout were $263 million, up $3 million from Q1. Our payout rate was 87.3%, up 70 basis points from Q1 due to typical seasonality.

Looking ahead to Q3, we anticipate our payout rate will increase to approximately 87.5%, driven by the typical seasonal build in the production bonus. With respect to client cash revenue, it was $361 million, down $12 million from Q1, as average client cash balances declined slightly during the quarter. Overall client cash balances ended the quarter at $44 billion, down $2 billion sequentially, driven by record client net buying activity of $39 billion.

Within our ICA portfolio, the mix of fixed rate balances increased slightly to roughly 70%, within our target range of 50% to 75%. As a reminder, during Q2, there were roughly $2.1 billion of fixed rate contracts that matured. We placed $1.7 billion of these maturing balances into new, three- to six-year contracts, yielding approximately 420 basis points, which is roughly 220 basis points higher than their prior yield.

Looking more closely at our ICA yield, it was 318 basis points in Q2, down 5 basis points from Q1. As for Q3, based on where client cash balances and interest rates are today, as well as the yields on our new fixed rate contracts, we expect our ICA yield to increase by approximately 10 basis points.

As for Service and Fee revenue, it was $135 million in Q2, up $3 million from Q1. Looking ahead to Q3, we expect Service and Fee revenue to increase by approximately $10 million sequentially, driven by revenues from our annual Focus conference, as well as higher IRA fees.

Also, depending on the timing of the previously mentioned separation from a couple large OSJs, we could record up to an additional $5 million of fees. Moving on to Q2 transaction revenue. It was $59 million, up $2 million sequentially due to increased trading volumes.

As we look ahead to Q3, we expect transaction revenue to be relatively flat with Q2. Now let's turn to expenses, starting with Core G&A. It was $371 million in Q2. Looking ahead, if our strong levels of organic growth continue into the second half of this year, we would expect to be in the upper half of our 2024 core G&A guidance range. As a reminder, this is prior to expenses associated with Prudential and Atria.

To give you a sense of the near-term timing of the spend, in Q3, we expect core G&A to increase by $5 million to $10 million sequentially. Moving on to Q2 promotional expense. It was $148 million, up $16 million from Q1, primarily driven by Prudential-related onboarding costs, as well as increased transition assistance resulting from our strong recruiting.

Looking ahead to Q3, we expect promotional expense to increase to approximately $170 million to $180 million, primarily driven by conference spend as we will host our annual Focus conference next month, as well as continued Prudential-related onboarding and integration costs.

Turning to depreciation and amortization, it was $71 million in Q2, up $4 million sequentially. Looking ahead to Q3, we expect depreciation and amortization to increase by roughly $8 million sequentially, which includes approximately $3 million of technology development related to Prudential. Regarding capital management, we ended Q2 with corporate cash of $684 million, up $373 million from Q1. Our leverage ratio increased slightly to 1.7 times, within our target leverage range of 1.5x to 2.5x.

I would note that during the quarter we issued $1 billion of senior notes, the proceeds of which, will be used to finance our acquisition of Atria. As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate: investing in organic growth first and foremost, pursuing M&A where appropriate, and returning excess capital to shareholders.

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In Q2, the majority of our capital deployment was focused on supporting organic growth, as well as M&A, where we allocated capital to our Liquidity & Succession solution and closed on the acquisition of Crown Capital. Specific to share repurchases, a reminder that we paused buybacks following the announcement of the Atria acquisition. Our plan remains to evaluate restarting share repurchases following the close, which we expect to occur in the second half of this year.

In closing, we delivered another quarter of strong business and financial results. As we look forward, we remain excited about the opportunities we see to continue investing to serve our advisors, grow our business, and create long-term shareholder value.

Before we open the call up for questions, I'd like to turn it back over to Dan.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Thanks, Matt. I would be remiss not to acknowledge recent developments in the marketplace related to cash revenue and speculation on the potential read throughs to our business. We have been evaluating the announced changes to better understand the impetus, magnitude, and competitive implications. As for the firms that have made changes, they have different business models and monetization frameworks than ours, so we can only speculate as to the issues they may be addressing.

As it relates to LPL, we continuously strive to ensure advisors have choice in the tools and products they use to serve their clients in a comprehensive way and feel good about our position both competitively and regulatorily. To that end, and specific to client cash, our broad-based offerings range from solutions for operational balances, to cash-like alternatives when seeking yield or income. Solutions like our sweep deposit program, which offers expanded FDIC insurance and immediate liquidity for transactional cash, to positional money market funds, for those seeking higher yield in a liquid product, to CDs and fixed income funds to achieve interest rate exposure at various maturities.

In all, we feel good about the strong complement of cash solutions we provide. In that spirit, we do not have plans to change our pricing and believe our product set provides advisors with the solutions they need to successfully serve their clients. As always, we will remain agile and nimble, as we continuously evaluate our solution set and control framework for opportunities to enhance our offering.

With that, operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steven Chubak, Wolfe Research.

Steven Chubak - *Wolfe Research, LLC - Analyst*

Good afternoon, Dan. Good afternoon, Matt. So again, just appreciated the remarks around some of the sweep cash developments across the industry. You made it clear you have no plans to adjust sweep pricing on the platform at this time. Just looking out over the next few years, do you anticipate any wholesale changes to sweep deposit pricing and how sweep cash is monetized across the industry more broadly?

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Yeah. Thanks for the question. And look, maybe just a little context to our jumping off point, and then I love the future question. At the highest level, we have a -- evaluate all of our pricing in the context of our overall strategic pricing framework and value proposition, which we review regularly. Within that framework, we consider a host of factors, including industry benchmarking to ensure that we've competitively positioned ourselves in the market.

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So specific to the pricing of our cash sweep program, our ICA, we take a dynamic and thoughtful approach, including household AUM-based tiers that range anywhere from 35 to 220 basis points. That typically puts us in the top half of the marketplace and that's where we are the day. And of course, because you look out over the next year and you look at the dot plots, you expect rates to change over that period of time. That certainly will influence some of that pricing. But that's kind of where we are from a jumping off point and how we've approached it at this point.

I think, as we look into the future, we obviously don't know what exactly the pricing might look like. But I do believe it challenges all of us to evolve and transform and maybe even disrupt our value proposition, including pricing, all in the spirit of helping our advisors better service their clients.

And that's what we've been trying to do over the last five years that we shared with you all that journey of investing back into the advisor's value proposition by lowering prices in areas that matter most to the advisors and their clients in exchange for obviously then enhancing the value we provide to them.

Now with respect to cash sweep pricing, this is one element of the various discrete pricing mechanisms we consider and not one of great priority to advisors. That said, as we think about the future, we'll continue to focus on pricing through a highly strategic plan, evaluating all fees and charges at the aggregate of our value proposition and in context of the overall priorities and needs of the advisors and their clients. And to the extent that we're compelled to make a change with respect to this cash sweep program, I think, because of our scale, because of our vertically integrated solution, because of the number of different affiliation programs that we have, we have great flexibility in how we think about our options and alternatives from a pricing standpoint and believe that across the aggregate of our different pricing options and alternatives that we can make most any adjustments, do it in a very competitive way, and most likely put it into strategic opportunities. So I hope that helps and color. We don't know exactly what that looks like, but that's the discipline and the framework and the approach that we take with respect to our pricing model.

Steven Chubak - *Wolfe Research, LLC - Analyst*

Yeah, that's very helpful color, Dan, in framing your philosophy around that. Maybe just sticking to the same topic, but just looking at it from a growth strategy lens, you had another strong quarter of NNA, continue to be active on Liquidity & Succession front, just given some of the unknowns around the developments relating to sweep cash, whether it's competitive or regulatory, just want to get a sense as to whether that would alter your approach to underwriting deals and do you anticipate any changes to TA for you and the industry peers in light of some of these developments?

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Let me let Matt start with that and then I'll follow with any color.

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah, hey, Steven. I think when you look at TA, just first and foremost, a reminder of what's most important for advisors when they're determining and deciding to change firms, right? Their top priorities are really the capabilities, technology, service. That's tier one for them. And then second is ongoing economics. And third is TA to really just facilitate, as the name named would say, it's just a transition from one firm to another.

I think our approach of underwriting to returns, which we've been doing for quite some time at 3 to 4 times EBITDA as a general rule, I wouldn't change. And I think when you look across our revenue model, to the extent things move up and down within that, we've always reflected that and we've underwritten this way across a range of interest rate environment. So I don't I don't think that would change. We don't expect that to change.

Just reiterating this there're other things that are much, much more important, and then perhaps emphasizing Dan's point, I'll turn it back over to him, that we don't -- we feel good where we are positioned from a value proposition to, specifically for cash sweep.

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Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Yeah, I just might add that I reinforce the -- it's the availability of the product set to give the advisors, the necessary flexibility they need and meet the clients' needs. If I'm looking for yield or I'm looking for income, we make it very easily and accessible for them to access those solutions necessary to meet the needs of their clients.

We're looking to simplify our clients' life and make it very easy to pay for fees or get quick access to some liquidity or to store some cash in between trades, et cetera. Then we have a sweep vehicle that is intended to do that. And I think that's the key to the advisors, we do give them the necessary flexibility so they can deliver great experience to the client and have the solutions necessary to help them achieve their life goals and dreams. And we think that our portfolio does a good job of doing that.

Operator

Devin Ryan, Citizens JMP.

Devin Ryan - *Citizens JMP Securities, LLC - Analyst*

I guess, first question, want to ask on the centrally managed accounts specifically because we've received some questions on that as well. And so it would be great just to get the percentage range of cash in these accounts.

And then if you can just talk about kind of the fiduciary obligation, either at the advisor level or at the firm level, when appropriate, on advisory cash in centrally managed accounts and maybe how that's different from just fee-based more broadly, if at all?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah, Devin, I'll start there. I mean, I think when you look at centrally managed, we've got around $127 billion of assets in there, is about 8% of total assets. From a cash standpoint, just similar to our business overall, the cash levels from a transactional cash standpoint are at low levels. Think about it as about 3% of AUM like our business overall. And in those models, right, if there's a portfolio allocation of cash beyond that, that goes into what Dan was just talking about those investing cash options. So it would go into things like money market funds, treasuries, short-term bonds, and things like that.

So I think when we look at the cash allocations within centrally managed, I'd just reiterate our overall perspective that Dan articulated, I think, quite well, applies just the same to centrally managed, and we feel good about how that is set up, how that is priced, and the value prop, both on transactional cash, but as well as those investing cash products that are really available for advisors to make sure that they can serve and support their clients as needed.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

I just would add that our allocations to cash within our centrally managed programs are consistent and the same across all models, whether they're contributed to by LPL research or external third-party management. So there's a consistent common structure between them.

Devin Ryan - *Citizens JMP Securities, LLC - Analyst*

Okay, terrific. Thank you. And then just as a follow-up, can you remind us on what the OSJ economics generally look like on an EBIT ROA basis relative to the firm-wide average? I believe they're lower, but would love just get a little color there.

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And then, we know this topic has been in the headline events, so not too surprising, but do you anticipate other OSJs to potentially exit intermediate term? It sounded like this was maybe part of the mutual process, but just wanted to get a little bit more color on expectations there. Thanks.

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah, Devin, I'll start on the returns. You're right. I think when you look at our overall gross profit ROA for the firm, it's in the low-30s. For the firms that we're talking about, this $20 billion, it's around two-thirds of that. So, think in the low-20s. So returns are lower. And then, from organic growth standpoint, these folks weren't growing. They were actually a drag or reduction on organic growth. So I think lower returning, lower growing would be the headline on those firms.

Maybe on -- Dan, maybe I'll turn it back to you on the space overall.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Yeah, Devin, and as we look forward or strategically, I think now that we've strengthened and done a good job of aligning with these large OSJs, I think we're more convicted than ever that we can collectively pull through the synergies of our relationships and serve and support advisors really well, which ultimately will contribute to the overall growth of the business. I think we feel great about where we landed and it's work that it needed to be done and it was done over an extended period of time dating back to 2018.

So I think in working through it, there's some key things that we focused on and solved for. One was making sure that we were well aligned on the value to be delivered by both parties, us and them; refining the policies on how to operate within our ecosystem; and then the legal agreements that helped memorialize all of that.

Yeah, and I think that's the right structure that gives us the foundation to go forth and work with these folks as a real contributor to growth and hope that helps.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs & Company, Inc. - Analyst*

Hey, Dan. Hey, Matt. Hope you guys doing well. So sticking with the topic, I guess, of the starting season, I appreciate that you might not have the perfect visibility at what happened with some of your larger competitors and the details and rationale, obviously, seem to be pretty murky there. But can you discuss how LPL's advisory offering might differ from what's transpired to the larger banks?

And I guess, what gives you confidence that you will remain insulated from any regulatory action that may result in either higher client credit and rates or incremental shift to money market funds or kind of other higher yielding options? So is it a function of disclosure? Or is it a function of account size? Anything else that you could provide supporting your view and thinking there would be great.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Alex, let me start with just maybe how we think about the programs being different, and then I'll answer your bigger question around how do we think about our positioning from a regulatory standpoint going forward. So I think, look, as a starting point, relative to the differences in the programs, we don't have an affiliated bank or proprietary mutual fund complex. So we don't have that same structure or potential conflicts of interest. And we certainly have a different monetization program because of that with our cash sweep solution.

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As you know, they would tend to monetize that business both on the cash sweep as well as potentially through the banks, and then the foundational structure around why we don't have proprietary products and the potential elimination of conflicts associated with essentially also earning asset management fees. So those are, I think, foundational or big foundational difference, if you will, in our models.

Second, those companies' sweep programs potentially don't have -- are only single sweep through their banks, right, and where we have a program that contracts with ultimately third-party banks. And so we can actually create added benefit with our program through that by having 10 times the amount of FDIC insurance limits, $2.5 million for an individual, $5 million for a joint account. It's another place where I think there's a fundamental difference in our programs and our platforms from a value standpoint.

Additionally, as part of our cash program offerings, we make all of the positional money market funds available to our advisors with a really low entry point of $10,000, and which is less typical in a lot of those, I think, firms that have contemplated moves. And for purchases in an advisory account, there's no ticket charge associated with these movements in and out of the money funds.

So, we've tried to make it really easy and accessible to access money market fund or any other of the alternative cash-like solutions so that these advisors can make sure they're easily meeting the needs of their clients and performing their duty of care. So that's just some of the high-level places we're different. It's not meant to be exhaustive. It's not meant to be comprehensive, but it gives you a little color.

Maybe to your second part of your question, you know, and as I said in the prepared remarks, we feel good about our positioning from a regulatory standpoint. Now, why do we think that? Maybe a little color around that. If you take and create a framework around the regulatory guidelines, these typically will focus on duty of care obligations, operating control environment, and disclosure requirements. And as such, we regularly review all of these elements to ensure that we're operating within the prescribed requirements and guidelines.

So with respect to duty of care, we regularly review our sweep program and cash investment products to ensure we're meeting both our conduct standards and the needs of our advisors and their clients, and that we provide the flexibility and low barriers to entry in our solutions for investing cash to help our advisors serve and support their clients, and that's what I was just referring to earlier. And that is done consistent with their obligations as advisors. And then, we don't provide incentives for advisors to direct allocations to cash sweep programs, another important point, I think, with respect to duty of care.

Now with respect to controls, there's any number of controls that we might have, but one specifically in this area is we actively monitor the levels of cash position within advisory accounts, making sure that advisors are actively managing those accounts and there's not idle cash sitting in there that is not optimized, aligned with the client's goals and objectives for that overall portfolio.

And then with respect to controls -- I mean, sorry, and then with respect to disclosures, we provide clear and transparent disclosures describing the features and terms of our programs, including the fees we earn relative to the yield clients receive. So to that end, that's why we feel that our cash offering, controls, monetization framework meet the needs and the expectations of all of the advisors.

I know that was a lot, but I'll pause there.

Alex Blostein - *Goldman Sachs & Company, Inc. - Analyst*

I got you. No, that was very comprehensive. I'll actually leave it there. I'm sure others will have questions as well. Thank you.

Operator

Michael Cyprus, Morgan Stanley.

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Michael Cyprus - *Morgan Stanley & Co. LLC - Analyst*

Great. Thanks for taking the question. Maybe just continuing with the same theme on understanding that you don't have plans to change your sweep pricing. But maybe just to clarify, I was just hoping you might be able to unpack like what might lead you to change that at some point, what might be those different scenarios? And to what extent have you heard from regulators on your sweep rates or disclosure practices and such? Thank you.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Yeah, I think, Michael, with respect to the second part of your question, you know, as an ongoing matter around our ongoing reviews with regulators, this is always a part of their review and we've had that consistent and constant discussion with them along the way, part of the reason we feel very confident in our regulatory positioning today.

I think with respect to the first part of your question, first and foremost, when we look at pricing, it's through the strategic lens. We're always looking to make sure that we do two things: how do we make sure that we're differentiating in the marketplace with our overall holistic value proposition; and then two, is that well aligned with our advisors' needs and their clients' needs. And those are the two biggest drivers that we think about relative to how we might invest, innovate, or evolve our pricing strategies.

In the past five years, we've very much focused on advisory and transaction charges because that's sort of where the trend in the business was going and that's where our advisors really challenged us to focus on. So that's what drove that activity. And that's a great example of those two being the real catalyst for how we think about that.

I think with respect to any other drivers, I mean, we should always be challenging ourselves to think outside the box. What can we learn from other places, other industries around how they create value, how they price, how they make some great new value that extends new revenue streams that then could offset pricing somewhere else. So I think those are all part of how we challenge ourselves from an innovation standpoint to evolve this business model to ultimately enhance its value to the end client and to the advisor. And if we do that really well going forward, we'll create a lot of shareholder value through that.

So the good news is because we're vertically integrated, we have a clearing solution. We're a broker dealer. We're an RIA. We've created lots of services that are down inside the advisors ecosystem. With that vertical integration, we've got lots of different levers of revenue of which we could think about, hey, where do we innovate to create new levels of revenue? If we wanted to modify or change one level of revenue, we can look at that as an investment back into the business. But we can look at it as a bigger priority for advisors. So we'll offset that with the fee somewhere else.

So I think that's the flexibility and the approach that we take in terms of scenario planning and trying to think about how we evolve this pricing, again, and best in line serving the advisors and their clients.

I hope that helps. It's nothing specific, but it, at least, gives you the sense of how we think about it.

Michael Cyprus - *Morgan Stanley & Co. LLC - Analyst*

Great. And just a follow-up question, if I could here. Just as you look at the actions of others across the industry and based on conversations you're having with folks across the industry, including regulators, do you have any sense whether or not the goalpost is moving beyond practices that have been accepted over the years that are disclosure based?

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

That is not our sense. I think there's a pretty tidy and clear regulatory framework of which that we all understand how to operate in. That regulatory framework governs the entire aggregate value proposition and relationship that we have with clients. And again, I think anywhere where there

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may be a potential conflict within that overall aggregate business model, you know, there's a requirement to disclose, and to be clear, to set that expectation for the clients so that they can make an informed choice.

And that's a very logical and very principled way to approach it and we think when we begin to change principles, it's much, much harder to change that. And so we don't necessarily see that on the landscape. I will tell you we're not clairvoyant. So we don't have all the answers, but we're not seeing signs that that would ultimately change from the goalpost. It's a great question.

Operator

Kyle Voigt, KBW.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Hi, good evening. Maybe I'll start on the same topic that everyone else has but just a follow-up on the advisory cash discussion. You mentioned that 3% of the centrally managed program is in sweep. I guess, can you provide any color on cash as a percentage of client assets for total advisory accounts in corporate RIA, so on the $568 billion of assets or so? I think, in the past, you've mentioned that typically there's higher cash allocations in those accounts versus brokerage, but not sure if that's still true today.

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah, I think when you look at cash as a percent of AUM overall, it's around 3%. The centrally managed is little bit above that. I think when you look at the rest of advisory, it's still in the same ballpark. That's a little bit above centrally managed.

I think on brokerage, that cash is around 2.5%. And that's because brokerage has a lot of business and accounts that just simply have no cash at all, like annuities, and direct business on the mutual fund side. So you end up -- brokerage overall ends up having a smaller balance or smaller percentage. But headline point is on the outside of centrally managed on the advisory side, it's in the same ballpark, just a little bit higher.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

That's helpful. Thank you. And then, Matt, just wondering also if you could give an update on July to date sweep cash balances? And related to the OSJs that are off boarding towards the end of this month or starting this month, any color on if they have a similar cash as percentage client asset as well, which I think would imply maybe $600 million or so of an impact that we should expect to show up in the monthly figures this quarter?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah. I think so. So on how things are trending so far in July, I mean the headline I would give you is it's shaping up to be a good month. And especially when you factor in the seasonality that I think you're well familiar with on month one of a quarter, but I'll walk through that.

I think specific to client cash, so a reminder that seasonality is advisory fees primarily hit in the first month of the quarter. So that will reduce cash in July by around $1.4 billion, all else being equal. And flows outside of that have been an inflow of around $700 million. So when you put those two things together, what we've seen, from a cash flow standpoint in July, is a decline of around $700 million or putting it at around $43.3 billion.

To add to that on the organic growth side, those advisory fees impact organic growth just the same, hit in that first month at $1.4 billion. And outside of that, the momentum we've seen in the first half of this year, and as we saw in this quarter, has really continued. So I think that puts us, from an organic growth standpoint in July, looking at something in that 6% to 6.5% zone, keeping in mind that it's usually the lowest month of the quarter.

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Now those numbers are -- to your point on the OSJs, those numbers are prior to any impact of those OSJs leaving. We'll make sure as we report results to clearly delineate the impact that those have had, meaning how much of that $20 billion has flowed out. We'll just make that clear going forward. Very little has flowed out so far.

And to your point on cash, I don't think there's anything distinctive different from an amount of cash standpoint for those two firms. But again, we'll make it clear in the metrics as probably over the next three or four months is when it'll flow out. We'll make it clear so you can see that versus the rest of the business.

Operator

Michael Cho, JP Morgan.

Michael Cho - *J.P. Morgan Securities LLC - Analyst*

Hi, good afternoon. Thanks for squeezing me in here. I'm going to skip the regulatory and cash discussion. I just wanted to follow up on the OSJ.

Matt, you talked through the timing and that you'll delineate kind of going forward. I'm just curious what -- and this is not necessarily new, but what kind of areas were particularly misaligned as you characterized? And going forward, and Dan you touched on a little bit, how would you frame the potential for other OSJs maybe falling into similar buckets over time?

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Yeah, so going forward, to answer your second part of your question, because of the alignment and the structure we put around the program, there's very little probability that that will occur. I think back to your first part of your question, we see in some cases where I know OSJs may buy up their advisors' practices, turning them into more of an employee-based construct, and ultimately, because of that approach, it's more of a captive type of model at that point, which again, is very different from the principles of independence and providing the flexibility for those advisors, move those assets where they want to or go where they want to.

And I think that's our point. As soon as they begin to lose the principles of independence within the model, we have a hard time with that sitting within our platform and within our ecosystem. So that's an example of something that I think we were just trying to make sure we had alignment on and teased out such that as we go forward, that foundational principle is in place across our collective ecosystem. Hope that helps.

Michael Cho - *J.P. Morgan Securities LLC - Analyst*

Great. Thanks, Dan. And then just to switch gears a little bit, just on the annuity side, annuities continue to remain solid. Clearly, the rate environment has helped and continues to help. I'm wondering what you're seeing at the incremental level that the strong demand in recent quarters of years could be nearing any sort of normalization point yet, just given the strong growth that annuities have been seeing on LPL's platform.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Sorry, what was the second half of that? You just broke up a little bit.

Michael Cho - *J.P. Morgan Securities LLC - Analyst*

Yeah, no, any sort of normalization that you might see on the strong demand?

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Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Sorry, got it. Okay. Thank you.

Yeah. So look, I think that if you looked at the marketplace and the growth, call it over the last year or two, it's a very much -- a couple of things happening. The foundation of an annuity as it supports and helps someone with retirement planning is clearly a relevant problem to be solving for many folks as they think about one of those all-important life goals. And so it's a relevant solution across a broad opportunity set.

And with the rate environment becoming very, very different than the one we lived in for an extended period of time, it has created an opportunity obviously to help clients solve for creating that revenue stream or income stream in retirement. And certainly, whether it be a fixed or variable, annuities are well positioned to do that, as with a steepening yield curve may occur as we go forward. That also is helpful with respect to variable annuities in terms of the features and benefits that they provide, and so, that is obviously something that if you've got more appealing features and benefits relative to the macro, then obviously, that's something that can differentiate annuities relative to other options and alternatives.

From a seasonality standpoint, I look at it, it's probably more of a product choice in solving a really important need for a broad set of an advisor's clients than necessarily a found opportunity, if you will, to create new asset gathering opportunity because the features are more sound. I think it's ultimately more of a how do you ultimately pick which solution you're going to use to best serve and support the client. So I don't think it necessarily creates some step down or step up as much as it's just a demonstration of a heavier utilization in a product given the market conditions.

That said, as we evolve and grow our -- number of advisors on our platform, that certainly is a tailwind to the overall volumes of brokerage solutions, or in this case, annuity solutions being done. So that certainly does provide some tailwind of growth.

I hope that helps. Do you want to add anything to that?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

No. Well said.

Operator

Dan Fannon, Jefferies.

Dan Fannon - *Jefferies LLC - Analyst*

Thanks. So just a question on the environment for recruiting. Obviously , $24 billion, quite strong in the quarter. Can you talk to the economics of those assets today versus maybe what you were underwriting a year ago? And then ultimately, you talked about good momentum, I think, into July and the backlogs and maybe some characterizations around how that's progressing as we think about the rest of the year.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

You want to hit first part there?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah, Dan, I'll start. On the economics and underwriting, kind of my point earlier to Steven's question, I think our underwriting approach and economics haven't changed. I think we underwrite to returns, on TA, and the economics there are really the third thing that advisors are looking

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at. But the return hurdles in the underwritings have not changed. If you think about it as recruiting in general comes onboard at 3 to 4 times EBITDA, and that has not moved much.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Yeah, with respect maybe to your second question, just again, as we said in the remarks and as you just said, as a jumping off point, you had recruited assets of $24 billion in Q2 and $93 billion over the trailing 12, which is a solid place for momentum. And we continue to see that momentum into the third quarter. I think we're seeing it across all of our affiliation models. So you've got good diversification in that opportunity set.

That's being driven by this continued evolution of the appeal of our model and then that breadth of market that we serve, given the different affiliation models. So as we look in the third quarter, we certainly see momentum there.

And beyond that, given the structural value that we're creating inside the model, our go-to-market strategy and efficacy around how we deliver that to the marketplace, we feel a pretty good, strong structural trends. So as we look out even further and beyond third quarter, we feel good about that momentum across all of our models.

At the same time, we have some built in -- as we've talked about institutions, large institutions that have yet to onboard, they collectively represent $66 billion in sort of recruited large institutions. So that certainly is a tailwind to that outlook as well.

So we got really good positioning across all models in your advisor recruiting. And then, on the institution side, you've got that already committed wins in the pipeline. And then, beyond that, we feel good about that evolving and growing pipeline across both large banks as well as insurance services. Hope that helps.

Dan Fannon - *Jefferies LLC - Analyst*

That is helpful. And then just a quick one, Matt, on expenses. The promo spend is a sizable pickup, both sequentially as well as year over year. I think you said conferences, but I mean, you have this conference every year. So just curious about the magnitude of the pickup. And then, should we see that normalize again in the fourth quarter after, I guess, what would be seasonal pickups?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah. I mean, I think, a couple of things. I think the conference from a seasonality standpoint, it is in Q3 each year, so just given a little -- I was giving color on the sequential change.

The other thing I'd keep in mind is specific to the onboarding costs associated with Prudential. Just a reminder of the spend there to bring them onboard. There's no TA associated with Prudential. It's really important to them. It's really -- the technology build and the process to get onboard.

So when you look at what we're spending there, $125 million of integration costs and $200 million of technology, that is the entire amount that's being spent there. And a lot of that will show up in promotional. So when you think about the trends, especially year over year, probably the spend related to Prudential, which will, when you look at the overall spend, probably peak or the two highest quarters are likely be Q2 and Q3, related to that.

I think when you get on the other side of that, meaning on the other side of our largest conference, you get into Q4 and you get on the other side of Prudential-related spend, I think then you get into the core drivers, just the level and amount of our recruiting, right? So, the underwriting to TA hasn't changed, then it's really just driven by the -- really the tonnage or the amount of recruiting we're doing, which I think we've covered a few times, we keep hitting new record levels. So we think it's a good use of capital, but hopefully, that helps give you a little sense as to why that number is increasing. It's largely a timing of conference and Prudential.

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Operator

Brennan Hawken, UBS.

Brennan Hawken - *UBS Securities LLC - Analyst*

Hey, good evening. Thanks for fitting me in. I'd like to ask a question on the upcoming fixed rate maturities. So you guys are now at about 70% of the ICA and fixed rate. Are you going to continue to roll the maturities into fixed rate? Or at this point, is there some benefit to seeing the floating rate side pickup, bring you closer to the mid or even lower end of the targeted range?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah, Brennan. I think when you when you look at our approach there in targeting 50% to 75% and I think looking at what I think most folks would conclude a peak rate environment that we're in right now. I think while we always want to be within that range. I think we like being towards the, call it, the upper half of the range and where we are now, just given where the rate environment is.

So I think as we move forward in the next couple of quarters, we've got about $2 billion maturing each quarter. Based on where sweep balances are overall, where rates are overall, we'll make those choices. But I think, in the near term, I think we like being in that upper half. When you look at where rates are for this fixed rate contracts, we typically will deploy in the three- to five-year points on the curve. And those rates, including the spreads that you can earn, which are in that 20 to 30 basis point range are around 400 right now.

So that should hopefully give you a sense as to where we deploy that, which would be above the rates that they're currently earning. So I hope that helps with the headline is we like 50% to 75%. We like being kind of towards the top half of that, just given where the rate environment is.

Brennan Hawken - *UBS Securities LLC - Analyst*

Great. Thanks, Matt. That's helpful.

And then second question, I noticed that the advisor loan growth was a little healthy here quarter over quarter, up about 12%. I know that you closed some deals. So I expect some might be deal related, but really be helpful if you could maybe unpack some of the contributors to that growth here?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yes. I think from a TA standpoint, remember, there's two things in there. We don't necessarily break them out in the release, but there's all -- there is TA as well as repayable loans, right? So it's not all entirely TA related.

For the components that are TA related, just emphasize kind of we were talking about before. The underwriting standards have not changed. We do continue to deliver record levels of recruiting. So it's more volume, but the rates that we're paying are consistent. And just keep in mind that the TA is not the entire driver of that line item.

Brennan Hawken - *UBS Securities LLC - Analyst*

Okay. Was there some contribution from the recently closed deals though in that growth?

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Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Head of Business Operations*

Yeah. So I think when you're talking about advisor loans, so the recently closed deals were acquisitions. So that would be -- that would come out in a different spot. It would show up in goodwill and other places.

Specific to the loans, that would just be to the extent we're doing growth-related loans or things of that nature. The primary driver is typically TA. It would just be connected to the record recruiting quarter.

Operator

Thank you. This does conclude the question and answer session of today's program. I'd like to hand the program back to Dan Arnold for any further remarks.

Dan Arnold - *LPL Financial Holdings Inc - President, Chief Executive Officer, Director*

Just thanks, everyone, for taking the time to join us this afternoon. And we look forward to speaking with you again next quarter. Take care.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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