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Co. reported 2Q20 EPS prior to intangibles of $1.42.

THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the LPL Financial's Second Quarter 2020 Earnings Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded.

(Operator Instructions)

I would now like to hand the conference over to your speaker today to Mr. Dan Arnold, President and CEO. Thank you. Please go ahead, sir.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thank you, Dilan, and thanks to everyone for joining our call today. Over the past quarter, in the face of a challenging operating environment, our advisors have responded with resilience, flexibility and ingenuity. I want to acknowledge the essential roles they are playing by providing much needed financial advice to millions of Americans, while at the same time, pivoting their own practices to work remotely. I also want to thank our employees for their ongoing commitment and dedication to our mission of taking care of our advisors so they can take care of their clients. Now while the environment we are operating in has changed, our principles remain the same. We believe a good strategy matched with extraordinary execution and alignment with a mission-driven culture will drive long-term growth and value. Following those principles, in the second quarter, we continued to focus on executing the components of our business priorities, while also moving forward on our strategic plan. Today, I will share color on both of those areas.

Starting with our business results. Organic growth remained solid as second quarter net new assets totaled $13 billion, which translated to a 7.8% annualized growth rate. This was our third quarter in a row at 7% or higher and was driven by continued strength across new store sales, same-store sales and retention. In the second quarter, recruited assets were at new high at $11.1 billion. These results against the backdrop in which industry advisor movement was down by over 30% from a year ago are a testament to the appeal of our model and the performance of our business development team. Looking at the past year, recruited assets were nearly $39 billion, which is also a new high for the team.

With respect to the advisor service experience, we were able to pull forward solid outcomes in a challenging operating environment as our Net Promoter Scores remain consistent with the increased levels we delivered in Q1. Additionally, our retention was at a new high of over 98% for the first half of the year as the flexibility of our affiliation models, evolving capabilities and enhanced service experience continue to resonate with advisors.

These key business results also led to solid financial outcomes with second quarter EPS prior to intangibles of $1.42. Now while we remain focused on operating the business in the second quarter, the influence of the remote work environment created new challenges and opportunities to solve for. As an example, to help advisors effectively operate remotely, we developed a bundle of new and enhanced capabilities, including an online calendaring solution for advisors and their clients to schedule time to meet virtually; intra-office instant messaging for advisors to stay connected with their staff remotely; and a more digitized, Centrally Managed Platform experience with greater model flexibility. We also continue to evolve how we engage with our advisors in the new and more virtual landscape. Instead of canceling our national advisor conference this summer, we pivoted to a fully digital experience. Similar to the format of our traditional in-person meeting, the 3-day program will include livestream general sessions, a mix of breakout meetings, technology demos, a virtual sponsor exhibit hall and online networking. With the event now online, we can potentially reach all 17,000 of our advisors and their staff rather than the 5,000 who might normally attend in-person. As we look forward, we expect new virtual approaches like these will become another way that we can support our advisors and their clients over time.

Let's now turn to our progress executing on our strategy. As we look ahead, we continue to see growing demand for advice, and believe we are better positioned than ever to serve our advisors and compete for additional market share. In light of this, we remain focused on executing the strategy we've shared with you in the past. And while that strategy has not changed, we have evolved from 3 Strategic Plays to 4, which enhances our focus on how we innovate and execute on our strategic agenda. You can see our updated framework in our Investor Presentation.

Now with that as context, let's walk through our progress on our strategic priorities, starting with our first Strategic Play. This play involves meeting advisors where they are in the evolution of their practices by winning in our traditional markets, while also leveraging new affiliation models to expand our addressable markets from $4 trillion to $13 trillion. With respect to our traditional markets, the appeal of our model continues to attract more advisors on to our platform and strengthen our pipeline. In addition, the continued evolution of our digital capabilities within the sales process and for advisor onboarding has proven to be an increasing source of competitive advantage. As a result, interest from prospective advisors continue to grow, and our pipeline is the largest in our history. Another opportunity to grow in our traditional markets is by increasing our market leadership in the third-party bank channel. Yesterday, we announced that we reached an agreement with M&T Bank to transition its wealth management business on to our platform. M&T is a top 25 U.S. bank with approximately $20 billion in brokerage and advisory assets and 170 financial advisors. They will become our largest financial institution client when they onboard next year. We look forward to the opportunity to help them serve and support their clients, expand their value proposition and contribute to growth in their business.

With respect to our new affiliation models, in June, we launched our independent employee offering. We're seeing solid early interest from prospective advisors, and we expect the model to contribute to our opportunity set, pipeline and results going forward. We're also using M&A of advisor-owned practices as an additional source of growth. The 2 acquisitions we announced over the past quarter, Lucia Securities and E.K. Riley have approximately 55 advisors and $3.5 billion of assets combined. Approximately 95% of advisors across those 2 firms have committed to join, and both transactions are on track to close later this year.

Our second Strategic Play is focused on providing capabilities that help advisors differentiate and win in the marketplace. This in turn helps existing advisors grow their practices and attracts new advisors to our platform. Within this play, we are focused on equipping advisors with digital capabilities to help increase their accessibility, deepen their relationships, attract new clients and lower their costs. In that spirit, over the past quarter, we began the rollout of our new mobile app. This solution goes beyond typical transactional information to create a new way for advisors to help their clients digitally engage in their personal financial journeys. The tool enables advisors to personalize the interface for their practice and individual clients, while also providing clients with enhanced views of progress towards their financial goals. As we look ahead, we plan to continue to invest in this area to help advisors enhance the overall experience for their clients.

Let's next move to our third Strategic Play, which involves creating an industry-leading experience to delight advisors and their clients, which in turn, increases our ability to attract and retain advisors. The main components of this Strategic Play are transforming our service model into a client care model and using robotics and artificial intelligence to deliver instantaneous processes.

As part of our service model transformation, I want to highlight 2 technology-driven enhancements that we made over the past quarter. First, we scaled our omnichannel capabilities from 3,000 advisors to nearly 16,000. This means nearly all of our advisors benefit from the combination of interactive voice recognition with skills-based routing to a service professional, who is trained and certified to answer their specific question. Second, we introduced new speech analytics capabilities to enhance our quality management. We are now using artificial intelligence and machine learning to capture and score the sentiment of each service call. This positions us to quickly identify emerging service issues and more systemically and proactively address it. At the same time, we can also use this data to enrich how we develop and manage our service professionals. Our advisors continue to share positive feedback on our service model transformation, and tell us that it is a key contributor to our increased Net Promoter Scores and retention levels.

Our fourth Strategic Play is focused on helping advisors run the most successful businesses in the independent marketplace, using innovations such as outsourced Business Solutions and advisor-focused capital solutions. With respect to Business Solutions, in early June, we introduced our newest offering, the Assurance Plan. As context, across our industry, 70% of advisors don't have a succession solution in place. The Assurance Plan can help our advisors with this challenge by protecting the value of their businesses in the event of an unplanned exit. With this plan, we provide an annual valuation, and we facilitate a commission-free sale to another qualified LPL advisor at a guaranteed minimum purchase price. This gives advisors the peace of mind that their family and clients will be taken care of, and it strategically positions us to continue serving clients and assets through succession events. After launching in June, we signed over 150 subscribers in the first 2 weeks. We look forward to continuing to providing this solution along with our broader portfolio of offerings to help advisors run and grow their businesses.

Before closing, I also want to share that we have thought a lot about the growing need in our businesses and our country to address issues of inequality. To inform our learning, the management committee and I have been talking with business leaders, advisors and employees in the black community while simultaneously engaging with all members of the LPL family in the spirit of understanding and building empathy. Within LPL, there is a broad consensus around the desire to take action to make a difference. In order to do that, we are creating a strategy to promote racial equality and equity at LPL. There are definitely no easy or quick fixes to solve these challenges, but we are committed to making progress for our advisors and their clients, our employees and future generations.

In summary, in the second quarter, we continue supporting our advisors and their clients while driving growth and increasing our market leadership. As we look ahead, we see an opportunity to not just return to business as usual, but rather create a future that is better than ever for our advisors and their clients. We believe that continuing to execute on our strategy will achieve this goal and create long-term shareholder value.

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

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Thank you, Dan, and I'm glad to speak with everyone on today's call. Before I get into my prepared remarks, I just wanted to encourage everyone to take a look at Page 3 of our press release. We described several non-GAAP measures that Dan and I used to discuss the business. And as the name would state, they are non-GAAP measures, and we provide reconciliations to each of the relevant GAAP measures. In addition, on Page 4 of that release, we also describe some forward-looking statements that Dan and I will use to discuss our business results today, and actual results could vary materially from those estimates. So please keep that in mind as well.

Now as we turn to the quarter, the macro environment remains uncertain, but we have never been more certain about the importance of the role our advisors play in helping their clients achieve their financial goals and dreams. That is why we continue to invest to provide an industry-leading value proposition for our advisors to serve their clients and win in the marketplace. These investments, in turn, help us drive growth, and in Q2, we generated the highest organic growth rate in our history. So as we look ahead, we are excited about the opportunities we see to continue serving our advisors, growing our business and creating long-term shareholder value.

Now let's turn to our second quarter results, starting with total brokerage and advisory assets. They were $762 billion, up 14% from Q1, driven by continued organic growth and higher equity markets. Looking at organic growth, total net new assets were $13 billion or a 7.8% annualized growth rate. This was the highest quarterly level we have recorded and double our pace from a year ago. Moving to recruiting and retention, which are 2 key drivers of organic growth, both reached new highs in the second quarter. Recruited assets were $11.1 billion, and retention was 98.6%

year-to-date. Looking at our business mix, we continue to see positive trends in Q2. Advisory assets increased to over 49% of total assets, primarily driven by advisory net new assets of $10.2 billion or a 13% annualized growth rate. Within our advisory platforms, Centrally Managed net new assets were $1.3 billion or an 11% annualized growth rate.

Now let's turn to our Q2 financial results. Strong organic growth combined with continued expense discipline led to EPS prior to intangibles of $1.42. Looking at commission and advisory fees net of payout, they were $131 million, down $31 million from Q1. The decrease was primarily driven by seasonally higher production bonus expense, lower advisory fees following the Q1 equity market decline and lower sales commissions. Moving on to asset-based revenues, sponsor revenues were $131 million in Q2, down $3 million sequentially as average assets decreased in the quarter.

Turning to client cash revenues, they were $116 million, down $35 million from Q1, primarily driven by lower short-term interest rates. Looking more closely at client cash balances, they remained elevated throughout the quarter and finished Q2 at $45 billion. I also want to give you an update on our ICA portfolio. As a reminder, when ICA balances increased rapidly in March, we took action that same month to secure $5 billion of new variable rate capacity. This allowed us to minimize the amount of overflow balances, which currently have a yield close to 0. In Q2, we continued that work by adding another $5 billion of variable rate capacity, which allowed us to move the remaining overflow balances to higher-yielding contracts. We also continue to grow our fixed rate portfolio by adding another $1 billion of fixed rate balances, bringing the total to over $13 billion. I would note that given the flatness of the yield curve, we added these new balances at the 1-year point, which was about 60 basis points at the time. As for client cash yields, our Q2 ICA yield was 127 basis points, down 68 basis points from Q1. The decrease was primarily driven by the full quarter impact of lower short-term interest rates, partially offset by the benefit of the Q2 ICA portfolio enhancements that I highlighted. Looking ahead to Q3, our ICA yield will reflect the remaining impact of lower LIBOR rates as well as the maturity of $0.5 billion of fixed rate balances. Given these factors and where interest rates, client rates and cash balances were at the end of Q2, we expect our Q3 ICA yield to be around 115 basis points.

Moving on to Q2 transaction and fee revenues, they were $119 million, down $18 million sequentially. The decrease was primarily driven by lower transaction volumes following the record Q1 activity levels. Looking ahead to Q3, volumes have returned to more normalized levels, which on a run rate basis would result in a decline in transaction revenues of around $5 million from Q2.

Now let's turn to expenses, starting with Core G&A. It was $222 million in Q2, roughly flat to Q1. This brings our Core G&A expense for the first half of the year to an annualized run rate of about $890 million, which is below the low end of our outlook range. Looking ahead, as our investments are resonating with advisors and driving record levels of growth, we feel confident in our spending plans for the second half of the year. At the same time, the operating environment remains volatile. So we plan to stay flexible and dynamic on expense management. Given these factors, we continue to manage to the lower half of our Core G&A range of $915 million to $940 million.

Moving on to promotional expenses, they were $45 million, down $13 million sequentially as we had no major conferences in Q2. Looking ahead to Q3, we will host our national advisor conference, and while we pivoted to a virtual format, we are still investing to create a meaningful and engaging conference experience for our advisors, including a new digital platform, content over several days and outside speakers. Given the conference as well as continued growth and transition assistance from our recruiting success, we expect our Q3 promotional expense to be around $60 million.

Moving on to capital allocation. Our framework continues to be investing in organic growth first and foremost, pursuing M&A opportunities where appropriate and returning excess capital to shareholders. Looking at the components of our framework, organic growth continues to provide the highest and most attractive returns on our capital. Our investments here are working well, so we plan to continue prioritizing organic growth as we deploy capital. M&A can also provide compelling returns, and while the timing is inherently difficult to predict, we want to remain positioned to take advantage of opportunities should they arise. As for capital returns to shareholders, given our focus on preserving capital for organic growth and M&A, combined with the continued uncertainty in the macro environment, we plan to remain paused on share repurchases for now, though we will stay flexible and dynamic as we move forward.

In closing, we delivered another quarter of strong results in Q2, including the highest organic growth rate in our history. 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.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

I show our first question comes from Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

We can see from Slide 16 that LPL now represents 15% of the bank market after the M&T partnership closes mid next year. Can you help us think about the size and timing of future partnerships with the remaining 85% of the market that is not currently serviced by LPL?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. Thanks for the question. And look, I think as we look at the bank marketplace, as you say, it's roughly $1 trillion. And if you click that down further, about 2/3 of the market today does not outsource to a third-party provider like ourselves, about roughly 1/3 does. And what we've been doing is exploring our opportunity set in that overall $1 trillion market. One way to do that was to explore working on new expanded solutions that would make outsourcing more appealing to larger banks and create that openness and willingness to explore a strategic alternative.

And so with respect to M&T, that's what we were able to do. And they run their own BD today or broker-dealer today and RIA post that and transitioning to our platform. The value that we would offer is -- will reduce their risk across this business line significantly. We help enhance their client experience and the solutions that are made available to them across this business line. We'll increase the financial contribution of this program to the overall enterprise, and we can also work on custom integrations that help create unique offerings to their clients. And so we think that's an interesting and compelling solution for larger banks that has historically not outsourced this business line. And so we're using that solution to engage in some other financial organizations that tend to be in larger in size and exploring whether or not it would be an interesting option or alternative for them. So that's where we are in that process. So I hope that helps answer your question.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Very helpful there. And then we've been very impressed with the progression of your organic growth over the last few years, now around 8%, very high level. In 2021, when you have both the employee and pure RIA channels open, I wanted your thoughts to see if we could get another step-up in the firm's organic growth rate?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. So our strategy with respect to our overall organic growth is absolutely to continue to work on increasing that growth rate. Q2, we were able to achieve 7.8% annualized growth rate. We had good momentum coming into the quarter, which was always helpful as we have had 7-plus percent growth rates in the prior 2 quarters. We continue to see and invest in the appeal of the model. So it continues to evolve and grow, and that certainly is helpful. We've also seen the continued improvement enhancement of the overall efficacy of our business development team and their ability to share our message and do it in really create an effective digital and data-driven ways. And we think that those 2 are big time structural drivers to the overall value of our model, and the ability to then continue to achieve these types of growth rates. At the same time, if we continue to improve the service experience that enhances our overall retention numbers, you get a really good, strong baseline performance. You add to that these new models like the independent employee model, as an example, and that begins to be an additional catalyst or leg up to give us more opportunities in the batter's box to drive greater growth. And so we continue to drive up growth rates in our traditional markets. We get more swings in the batter's box with these new markets. We think those 2 things together will help us continue to drive up growth. You complement that with continuing to increase your retention levels and maintain good same-store sales levels, you end up driving up growth. So that's what we're trying to do. We feel good about our ability to do that.

Operator

Our next question comes from Bill Katz from Citigroup.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

I was just sort of wondering, given the -- the exit momentum you've had through the quarter -- thank you for the monthly details, if you could maybe just sort of color out or frame out the July trends. And I'm sort of curious around sort of net new asset and mix dynamics, what's happening with cash? And then underneath that, Matt, I think you said, if you $630 million sort of yield levels, but I think yields have come in a little bit more since then. So how to sort of think about that stress test on the ICA yield?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Sure, Bill. I mean, I think when we look at July on cash balances, remember, I'm sure you do, but just for everybody, remember, the first month of a quarter is when the largest buck of advisory fees gets charged to clients. So that will naturally reduce cash. So if you put that aside and just look at the activities for cash balances in July, they've actually grown. So you've started to see, not substantially, but they've moved up a little bit. I think on the yields, it's -- I think the 115 basis point comment was where everything was at the end of the quarter. I haven't seen anything so far in July that would meaningfully move that.

On the net new asset trends, just keep in mind the shift in the tax deadline this year from April to July, I think in the month that personal income taxes are due, I think you see across our industry, we are no different. That's usually a net new asset month that's relatively subdued as people are using those investable assets to pay some taxes. And what you typically see is subdued NNA through most of the month. And then as you get towards the end of the month, when you're removed from that tax deadline, you start to see NNA come back to more normalized levels. And that's exactly what we've seen in July. As we kind of come in here towards the end of the month, we're starting to ramp back up at levels that are consistent with Q2. So I think I got -- I think that covers all 3 questions, right?

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Yes. Well, that's my first question. Okay. Second one, just maybe a big picture question. Certainly appreciate sort of the added opportunity set with the Assurance Program. Is there any balance sheet recourse risk that we need to think through on this effort?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I'll take that one, too, Bill. I mean, no. I mean, I think the key thing is to keep in mind what the plan is. And I think Dan described it well in his remarks, but it's really about helping advisors bridge the value of their business, if they do end up having an unfortunate event, an untimely passing or disability where they can't continue to serve their clients. And you can imagine, as a retail investor, if all of a sudden, your advisor is not there, a quick transition is really, really important to preserve the value of that practice. So I think that's the primary thing that we do. We provide that peace of mind and that guarantee. But also when you look across our practice with 17,000 advisors, I think we've got a long list of folks that are quickly and qualified to be buyers of these practices. So I'd really view it as us providing a service to really bridge in an instance like this and really protect the value of the practice for the family really and also to get those retail investors to a new home where they can be served well. So I think that's the #1 thing I keep in mind.

Operator

Our next question comes from the line of Steven Chubak from Wolfe Research.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

So I wanted to start off -- on the last earnings call, Dan, you spoke of some of the challenges potentially marketing, Business Solutions during work from home, but we did see some nice acceleration in terms of subscriber additions in Q2. I was hoping you could speak to some of the factors that contributed to that positive surprise. And just with the addition of new solutions, including remote office and succession planning, is Business Solutions still expected to be accretive to firm-wide ROA? And are the -- said differently, are the fee dynamics still better than the blended ROA for the firm?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. Steven, thanks. So with respect to the sort of the first part of that question, I think if you look back at Business Solutions over the quarter, you saw a couple of things occurring. A, you saw advisors very much focused on serving and supporting their existing clients. And the -- sort of the extreme conditions they were in of having to focus and spend significant amount of time with their clients, that created new opportunities. As an example for our virtual CMO program, where the CMO shifted to helping their advisors manage those client relationships and those client communications. With respect to the CFO offering, the downside planning and helping them understand cash flows and to think about how to transition through any potential change within their practice was clearly an important value to provide in the short run, and then certainly having a virtual admin made it much, much easier to move to a remote environment. So probably the most significant thing that occurred in the quarter is that really reinforced the structural value associated with the Business Solutions. And I think you're now seeing, as we come out of that volatile period, that reinforcement of that value, we're very optimistic on the continued potential increase in subscriptions associated with those traditional solutions. Inside the quarter itself, it was hard for advisors that weren't using those practices to pull up and try to engage in them and start them a new inside the quarter, given the focus on their clients. So we didn't see as many new sales on those items within the quarter, but again, I think we're seeing that trend change as we're coming out of that period of volatility. What we've also seen, though, is the ability to continue to innovate and add new capabilities and new solutions, whether it be the Assurance Plan, whether it be a Remote Office Solution, it helped advisors quickly pivot to operating remotely with this turnkey technology solution. So we continue to create new services within the overall offering. Those new services drove a higher proportion of the overall sales in Q2 than the traditional ones did. And if you look at the overall mix or the ROA, we still expect that to have a higher contribution than the overall baseline business. That said, some of these services are more labor intensive and scale differently. So they would probably have higher revenue and higher cost. Some of these new solutions, like the Assurance Plan, would have lower revenue but much lower cost. And so that would be a way to maybe think about the traditional solutions versus the -- some of the newer ones that we've just come up with in the quarter. I hope that helps.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

Yes, that's very helpful. And just a follow-up for Matt. I was hoping you could give some additional detail relating to the M&T transaction, and how should we be thinking about the potential earnings accretion from this deal? And maybe just any context you can give around the blended ROA that you typically earn on these bank mandates and any incremental costs associated with servicing those assets?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Sure, Steve. I think when you look at an institution like an M&T, those firms are usually more brokerage than advisory. So if you look at -- if we just start with the baseline of the gross profit ROA on our brokerage business, which is in the 15 to 20 basis point range, and an institution of this size, I think, would be at the lower end of that, right, so 15 basis points. And then when you look at the cost to serve because of that same size and scale, the cost to serve would be -- also be a lot lower. And then you add on top of that, the transition assistance, which we -- our principle of underwriting for returns would be matched up here. So you put all that together from a -- if we look at it from an EBITDA margin lens, it would be accretive to our EBITDA margins, if you just look at what we delivered this quarter. So I think we're -- as Dan said in his remarks, we're excited about the opportunity to serve M&T and help them help their clients.

Operator

Our next question comes from Alex Blostein from Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

So Matt, first question I wanted to dig a little bit more on the promotional expense guidance. So I appreciate the conference, but it's still a pretty meaningful step up sequentially, and it feels like the virtual conference, should be somewhat cheaper than the actual conference. So maybe help bridge the delta from this quarter to next quarter? What's TA versus what's the conference? And I guess, just a little bit bigger picture, given the success you guys are having recruiting in a virtual format, should we be thinking about the promotional expense relative to the growth of the company just being a little bit slower, I guess, a smaller percentage going forward once things are normalized?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I think on the second question, Alex, the teams that are doing the recruiting, those costs show up in Core G&A, not promotional. So I think that's just inherent in our Core G&A guidance on the cost and the efficiencies that we would get in doing that. On your first question, I think that probably the thing that maybe makes the swing be a little bit higher is, we didn't have any conferences in Q2. I think we typically have one of our larger conferences in Q1, another large one in Q2 and then our largest in Q3. So with that, I think you've got a trend that looks a little bit higher, but I think it's -- both Dan and I talked about in the prepared remarks, I think well to state the obvious, we're saving on hotels and travel and things of that nature. The core point of the conference is really to get our advisors together and provide them content and opportunities to really focus on their businesses and how to grow. So I think we're really focused on doing that. We haven't done it yet. This will be our first one, and I think we'll learn and iterate based on how that goes. But I think we -- I would say, sitting here now and in our planning, we feel really confident that what we are investing in the conference is going to have a great return and help those advisors grow and in turn, help us grow over time.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Got you. And then a quick follow-up on the ICA dynamic. So saw the disclosure around a little of an incremental extension this quarter, $1 billion. It looks like you guys did it at a 60 basis point rate, which I don't recall seeing one year 60 basis points since this whole thing unfolded. Maybe a little bit more color of kind of where you were able to lock in the rate like this? And opportunistically, are there more opportunities to do kind of above-market locks similar to this?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. There is one day, Alex, one day, it was at 60. So I think that our focus here on the fixed rate balances, right? I think we've talked about it a lot on the philosophy of really minimizing the interest rate movements, allowing us to have a more stable earnings stream and focus on investing in organic growth. And I think the core of your question is, there is not a lot of opportunities right now, and I think the -- hopefully, what you take away is that we're -- we monitor the markets every day. We're talking to lots of banks every day. And if there is a tactical opportunity to do something that can move us forward, we're prepared and ready to do that. And I think that's how I would read the $1 billion at 60 bps. And just to state the obvious, or 60 bps, to state the obvious, that's not where rates are today, right? The curve is pretty much flat. I think the 10-year closed today at an all-time low at 53 point something. So right now, not a lot of opportunities, but if they do present themselves even for a short period of time, we'll do our best to take advantage of them.

Operator

Our next question comes from the line of Chris Harris from Wells Fargo.

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

A few follow-up questions on cash economics. First, banks are retrenching, loan growth is way down, so has there been any change in the appetite among banks to acquire your deposits? It doesn't sound like there has been, but maybe you could frame up the risk for that and whether that potentially might reduce your spreads? And then is there any more downside to any of your money market yields where they sit today?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Chris, I think on the cash appetite, I think what we've seen is primarily appetite for floating balances. And I think if you just look at Q1 where we added $5 billion of capacity on floating balances in the Fed funds plus 20 to 30 range, and we added another $5 billion this quarter. I mean those are at least for -- when you look at the relative size of that on our balance sheet, those are pretty substantial adds. And as I was just talking with Alex about, there is not a lot of demand and appetite on the fixed rate side for those.

On the money market side, I mean, a couple of things I keep in mind. The money market sweep is really running off. So it's a product that's getting smaller and smaller. Really where our money market product is, is on the purchase money market side. And from our economics, that's really a revenue share. It's not directly tied to interest rates like the ICA account would be. So it's more of a revenue share that you can see is in the 20 basis point range, higher end of that right now. So it wouldn't be directly tied to movements in interest rates.

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Okay. And related, real quick, if I can. The -- for the M&T transaction, what do you guys can earn on those cash balances? How does that work?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. So for M&T and for banks in general, I think, to state the obvious, they are their own bank. So a lot of times institutions will just keep the cash balances and will serve their wealth management business, and that's the case in M&T. So those cash balances will be staying in their bank.

Operator

Our next question comes from Michael Cyprys from Morgan Stanley.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

I just wanted to circle back on the Centrally Managed platform, about $54 billion in assets now. I was hoping you could just share an update on some of your initiatives there, how you see that evolving in the next couple of quarters? And maybe you can also give us a little bit of sense of the profile of advisors that are taking you up on that Centrally Managed platform. What are the types that are more likely or more active users of that? And maybe what portion of those advisors have joined, say, in the past couple of years versus those that are -- have been on your platform for many years?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. So let me take that one. And first of all, your Centrally Managed platforms. If you think about the real structural value that you're providing is compelling investment content, right? And then secondly, the ability to save the advisor valuable admin time, where they don't have to do a lot of the administrative work and trading work associated with portfolio management, and so thinking about those as 2 core characteristics. Generally speaking, they're going to apply to any potential different personas of advisors that sit up there today with the exception of the advisor who creates most of their value through their very own portfolio construction. That being harder and harder to do and getting paid less and less for that, obviously, you're seeing a move away from that from most advisors who have a broader value proposition, and then would use the Centrally Managed platforms along with also, in some cases, using a rep directed platform. And that's the nice thing as we give them the flexibility to use whatever platform is best for whatever individual client. And so with that as a baseline and a foundation, that opens us up to a Centrally Managed solution being applicable to 70-plus percent of the advisors, and again, they can use them however they want to with inside their practice. So there is broad appeal there and broad applicability there. And I think what you're seeing is more and more advisors growing in this trend of recognizing the value of their time and the trade to save that time to use it on, what I might call, higher-margin activities. And so we do expect the demand and the utilization for the Centrally Managed platforms to continue to trend up. Now we've got to keep investing in it, and make sure that we give them that compelling investment content that we actually are able to give them continued expansion in the savings of time by adding new functionality and new capabilities to the platform. And a great example of that was the Advisor Sleeve solution that we rolled out. We just enhanced in Q1 and Q2. That basically gave the advisor more flexibility as to how they engage in a Centrally Managed platform, where they can load and trade their -- sorry, load up their own models on the Centrally Managed platform, but still get all the benefits of the time savings and the outsourcing of the trading and the operational work to us. And so that's an example of where we continue to invest. We continue to invest in the SMA platform, same concept and principle here, a Centrally Managed platform and continue to expand the functionality and flexibility will drive more growth to the platform. We also is where we're investing from a pricing standpoint. As we've shared with you, we've continued to use pricing as an option for an investment for the past 5 years, and Centrally Managed platforms are a place that we continue to see opportunity to do that. So I hope that answers your question, but that's some of the opportunity that we see associated with both the structural benefits and growing demand as well as some of the investments that we're making.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Great. Much appreciated. And maybe just a quick follow-up on that as well. I guess what would you say would be the top 3 things or so you'd like to add or expand or improve on that platform as you look out over the next couple of years?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. I think the more we can give the flexibility for the advisor to move in and out of that platform, the better. What I mean by that is that there is certain times where the advisor wants to take the wheel and control it. And to the extent that you can give them the ability to do that on a Centrally Managed framework, we believe is a journey that we've been on, and we've got a few more steps to take on that. I think a second component is continuing to add certain securities to it. So you'll see us working on adding equities to the Centrally Managed platform. Historically, it's been limited to portfolios with mutual funds and ETFs. And so there is an example. And then you'll also see us pulling in SMAs to this -- to our MWP platform, our sort of core Centrally Managed platform and integrating our SMA solutions into that platform. So those are 3 big things that we're working on.

Operator

Our next question comes from the line of Devin Ryan from JMP Securities.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD and Equity Research Analyst*

I just want to have another follow-up here on the Business Solutions. And I appreciate all the color, and obviously, good to see the continuing progress. Trying to think about just the growth trajectory, and I appreciate it does take time to scale and it's newer, but you're also learning a lot as you go here and experiments as well. So I'm curious for the advisors that aren't using any of the solutions yet. Is it an education thing or a marketing dynamic thing where essentially advisors aren't aware of all the capabilities you have? And so you just need to better educate them and make sure they're aware. Or is it playing around with the pricing structures? Do you guys provide trials, so maybe you have a little bit of a sense of the backlog of what could come? I'm just trying to get a sense of the growth trajectory and some of those dynamics.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. It's a fair question, and I think there is a multitude of the different places that we would look at in order to accelerate, if you will, the growth trajectory of the solution. I think one place that you look at is definitely on the value proposition side. Does the value proposition resonate or are there other things that we can expand or do that make it even more valuable and more appealing. So we've been able to learn a lot about that over the past 1.5 years. We continue to roll out new digital capabilities inside all of them based on the feedback and the learnings we have from the existing clients. And so we see those baseline Business Solutions becoming more and more appealing as we make those investments, which will create, we think, more and more demand. I think at the same time, we are looking at different pricing structures. Can you create different versions of these or simplified version that would have a lower price point? Can you create a different construct, as you say, to give someone a trial period to come in and really experience the value and thus better understand how they may value it relative to their own practice? And so we absolutely are exploring and experimenting with different price points and pricing structures in order to do that.

And then we -- the third area would be continuing to innovate on new capabilities and new solutions. The nice thing about innovation is that it gets innovation as you're working down, solving real problems or challenges for advisors inside their practice and helping them operate their business, identifies new places to create and add value. And that's what occurred as a great example with the Assurance Plan. The dialogue around that need led to 3 other questions to ask, which then created this idea or concept of how to solve for it. So we do believe there is more things that we can do down inside the practice where they either buy those services somewhere else or don't even use them today because they don't think they have access to them that we can continue to help them operate their practices. So that's the 3 ores in the water that would help drive topline growth.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD and Equity Research Analyst*

Really appreciate the color, Dan. Maybe just a quick one for Matt on the follow-up on just transaction and other. I heard the comments about kind of normalizing volumes. What are the other kind of puts and takes as we think about just the current quarter? Sometimes there is elevated kind of conference-related revenues. You're trying to think about other things that -- I don't know if there's seasonality as well to think about for that line, which is obviously bounced around a fair amount over the last few quarters?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I think the only additional thing I'd highlight, Devin, is on the -- just a couple of things on fees. The seasonality of IRA fees, right, those are typically a first half seasonal meaning Q1 is typically the highest quarter, Q2 is still a little bit elevated, but then when you get into the second half of the year, and specifically Q3, you start to see those come down. And then the other side of this, which is a great long-term item, is our retention, right? Retention is at all-time highs and meaning attrition is at all-time lows. And when those accounts leave, there is a fee charge for them to leave. So meaning the fees associated with folks leaving, accounts leaving LPL are also down, right? So great from a value standpoint long term, but in an individual quarter that puts a little bit of pressure down on fees.

Operator

Our next question comes from Chris Shutler from William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

A few weeks ago, another large broker-dealer announced they plan to become a bank. Just given the rate environment likelihood that we might be here for some time, what would cause you to take a more serious look at that option?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Chris, this is Matt. I'll take that. I mean, I think for us, it gets back to our value proposition and how we can serve and support our clients. And I think when you think about that, you don't need to be a bank to do that, right? When you just think about the cash capabilities that we offer in sweep today, and there is lots of folks out there that you can offer additional capabilities that a bank offers without being a bank specifically. So I think we're focused on the value prop, focused on how do we provide the services and solutions for our clients and their clients, and I don't think becoming a bank is necessary to do that well.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. And then secondly, can you give us a sense, even a ballpark, what percentage of assets at LPL are invested in passive investment products and ETFs more specifically? And I know it's super, super early days here, but if actively managed ETFs were to take off in a more meaningful way, how could that impact your economics?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. So obviously, with passive investments, as we've discussed in the past, it is only on the advisory platform to the advisory business, where this shows up as relevant in the brokerage construct you're, obviously -- an advisor is not going to use them or they don't get paid, right? So on the advisory platforms today, roughly 1/3 of the overall assets are in passive type constructs, think about mutual funds and/or ETFs. And we've seen an ongoing trend over the past couple of years of about 1% a year. We've shared that with you before in terms of that mix shift over time. You'll see some volatility from quarter to quarter, but on average, it's been about 1%. We see advisors using it primarily inside of a rep-driven platform where they may use it for large-cap growth or value type components of an overall portfolio. We also have passive options and alternatives on our Centrally Managed platforms as well, if an advisor want to, needs to or desires to use it in that format. So we don't see a big shift relative to how passive is being used as we go forward. Now active ETFs would create a question around how they might be utilized instead of active mutual funds, and I think it is a strategy or a way to potentially lower the cost of active management. We're supportive of lowering the cost. As the innovation around these products have occurred, we've been in dialogue with a number of different product sponsors as to how they think about it, and how we make sure that the overall ecosystem can use those in an effective way to help lower the cost of active management and enhance the overall experience to the end investor. So it's early days now in terms of how those may be positioned and rolled out, but we're optimistic that with the emergence and evolution of active ETFs that our sponsored programs will and can be evolved and adjusted and pivoted such that it has more of a neutral impact on our overall sponsor relationships.

Operator

I show no further questions in the queue. At this time, I'd like to turn the call back to Dan Arnold, President and CEO, for closing remarks.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thank you, operator, and thanks, everyone, for taking the time to join us this afternoon. And we look forward to speaking with you again next quarter. Please stay safe. See you now.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.