REFINITIV STREETEVENTS

EDITED TRANSCRIPT

LPLA.OQ - Q4 2020 LPL Financial Holdings Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2021 / 10:00PM GMT

OVERVIEW:

Co. reported FY20 EPS prior to intangibles of $6.46 and 4Q20 EPS prior to intangibles of $1.53.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Gerald Edward O'Hara *Jefferies LLC, Research Division - Equity Analyst*

Jeremy Edward Campbell *Barclays Bank PLC, Research Division - Lead Analyst*

Kyle Kenneth Voigt *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

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

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

William Raymond Katz *Citigroup Inc. Exchange Research - Research Analyst*

PRESENTATION

Operator

Good afternoon, and thank you for joining the Fourth Quarter and Full Year 2020 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer, Matt Audette. Dan and Matt will offer introductory remarks and then the call will be open for questions. (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. The company refers listeners to the disclosures 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 for more information about such risk and uncertainties.

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

With that, I will now turn the call over to Mr. Arnold.

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

Thank you, Carmen, and thanks to everyone for joining our call today. Over the past quarter and throughout 2020, our focus remained on our mission, of taking care of our advisors so they can take care of their clients. This is a credit to our employees who responded with agility and ingenuity to new working conditions and new opportunities to support our advisors. Their dedication is inspired by the unfailing commitment of our advisors who continue to provide much-needed financial advice to millions of Americans, managing through a challenging environment.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

As we enter the new year, we remain focused on executing on our strategy, while also evolving our long-term vision of how we deliver on our mission. We aspire to push past our old vision of extending our leadership in the independent space and redefine the independent model over time. And by doing so, become the leader across the entire advisor-centered marketplace. Our approach is to build a platform that is simple and straightforward for advisors to use and constructing the perfect practice for themselves and their clients.

More specifically, this vision centers around making it easy for advisors to join our platform with no friction or complexity. And as simple as turning dials, they can determine the exact services they want to leverage, pick the business model that will work best for them, choose the technology and workflows that make them most efficient and select a product mix that best meets the needs of their clients, all while leveraging expertise and solutions to enhance the performance of their business. Ultimately, that creates total empowerment for LPL advisors to thrive and that is the heart of our mission.

Doing this well gives us a sustainable path to higher levels of organic growth, increased market leadership and long-term shareholder value creation.

Now with that context in mind, let's now turn to the fourth quarter and discuss our results and progress on our strategic plan. Let's start with our fourth quarter business results.

Total assets reached a new high of over $900 billion, up 18% from a year ago. This increase was primarily driven by continued organic growth and equity market appreciation. With respect to organic growth, fourth quarter net new assets prior to acquisitions were a new high of $18 billion, which translated to an 8.8% annualized growth rate. For the full year, net new assets were $56 billion, which translates to a 7.4% annualized growth rate, up from 5.3% a year ago. This increase was driven by continued strength across new store sales, same-store sales and retention.

In the fourth quarter, recruited assets remained solid at $10.8 billion, which brought our full year total to $41 billion. This was up $6 billion from a year ago and by more than 50% over the past 3 years, primarily driven by the appeal of our model, our ongoing innovation for the future and continued solid execution by our business development team.

In the fourth quarter, we also continued to enhance the advisor experience as we delivered solid service outcomes driven by flexibility of our affiliation models, evolving capabilities and technology and enhanced service experience. As a result, retention remained approximately 98% for the year, up from 96.5% a year ago. And Net Promoter Score increased by over 15 points year-over-year and more than 60 points in 3 years.

Our fourth quarter business results also led to solid financial outcomes with EPS prior to intangibles of $1.53, which brought our full year total to $6.46.

Let's now turn to the progress we've made executing on our strategic plan. As we look ahead, we continue to see growing demand for advice and believe we are well-positioned to serve our advisors and collectively compete for additional market share.

Now in light of this, we remain focused on executing our 4 strategic plays. As a reminder, our first strategic play involves meeting our 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. Strategically, we believe this combination positions us not only to deliver sustainable and repeatable organic growth, but also to increase our growth rate over time.

In our traditional markets, while advisor movement remained at lower levels over the past year, we continued to drive solid recruiting results and gain market share.

To share a little more color specifically on our third-party financial institutions channel, we continue to see good momentum in the core segment of this market. And at the same time, we remain encouraged by our opportunity with regional banks. The planning and preparation for our new relationships with BMO and M&T are going well, and we are in ongoing strategic dialogues with other prospects.

With respect to the expansion of our addressable markets, we anticipate our new affiliation models will also contribute additional organic growth in 2021. Following 5 strategic wealth services practices that onboarded last year, we have a solid pipeline with a number of commitments that will

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

join in the first half of this year. In January, we also onboarded our first independent employee model practice, and we are seeing other prospects progress through the pipeline.

Another key component of this strategic play is using M&A as a strategic lever to complement organic growth. Earlier in Q4, we onboarded a combined $4 billion of assets from our acquisitions of Lucia and E.K. Riley.

Then in December, we signed an agreement to acquire Waddell & Reed's Wealth management business, which has over 900 experienced and accomplished advisors, serving approximately $70 billion of client assets.

Post the signing, our teams have collaborated well with Waddell & Reed and Macquarie, which is contributing to solid progress on the transaction. Thus far in the process, Waddell & Reed advisors serving approximately 80% of client assets have already committed to join our platform following the close of the transaction. We will give you an update on the rest of the retention pipeline next quarter.

Our second strategic play is focused on providing capabilities that help our existing advisors differentiate the marketplace and drive efficiency in their practices. In 2021, we plan to continue our work from last year with a focus on developing capabilities and solutions in 2 key areas. The first is to enrich the end-client experience with expanded digital solutions, enhancements to our advisory platforms and a broader set of lending solutions. The second key area is using technology, including ClientWorks and ClientWorks Connected to help advisors enhance the performance of their practices, operate more efficiently within their key workflows and expand scalability to serve more clients. We believe these evolving capabilities will contribute to an increase in advisor growth and retention rates.

Let's next move to our third strategic play, which involves creating an industry-leading experience to delight advisors and their clients, and that, in turn, helps drive advisor retention. One of the key parts of this strategic play is providing advisors with differentiated service at a time and in a manner that works best for them. We are doing this by transforming our service model into a client care model. And we're about halfway through the implementation of this model. And at this point, it has made a solid contribution to our Net Promoter Score. We see additional opportunity to drive these outcomes higher as we deliver the second half of this initiative.

We also see evolving our custodial platform operations as an opportunity to further enhance service levels, platform scalability and efficiency. As part of this work, our areas of focus include automating routine work with robotics, removing paper forms and increasing e-delivery through digitization and process reengineering to drive continuous improvement. We believe these initiatives, combined with our transformation to a client care model position us to further strengthen the advisor experience and our platform as our business grows.

Our fourth strategic play is focused on helping advisors run the most successful businesses in the independent marketplace. One of the key components of this play is our portfolio of Business Solutions. Now as a reminder, when we started Business Solutions over 2 years ago, we saw the opportunity to help advisors find better alternatives for certain local services that cost in excess of $1 billion a year. Our hypothesis was that we could provide higher quality services at a lower cost and free up additional time for advisors to spend on more valuable activities, including serving their clients and growing their practices. In that spirit, we created our Business Solutions portfolio to solve for these discrete needs with outsourced professional expertise.

Since then, we have been able to expand and evolve the value proposition of the portfolio and scale our subscription base. As a result, we finished the fourth quarter with about 1,400 monthly subscriptions which more than doubled the level a year ago. At the same time, we have expanded the portfolio to include business optimizers and additional professional services. We're also innovating on how we package these solutions such that we can unlock additional value for advisors when using a combination of different offerings. As we look ahead, we see several pathways for continued growth, including partnering with more of our LPL advisors, introducing new solutions and experimenting with serving advisors outside of LPL.

In Q1, we will launch the next innovation in our portfolio, M&A Solutions, which will be our sixth offering. As context, this service grew out of CFO Solutions, as we identified an opportunity to help advisors acquire other practices. That inspired us to develop M&A capabilities as a service for advisors. This M&A offering will provide a turnkey solution and dedicated support for advisors from deal sourcing all the way through transaction

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

advice, capital funding and process execution. With this offering, advisors can now more easily use M&A as a repeatable and sustainable growth engine for their practices.

In summary, in the fourth quarter and throughout the year, 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 on our strategy to help our advisors further differentiate and win in the marketplace and drive long-term shareholder value.

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

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

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call.

Before I review our fourth quarter results, I'd like to highlight our progress during 2020. Looking at the year, we are proud of what we accomplished within our framework for driving long-term shareholder value. We entered 2020 with momentum and continued to invest through a volatile environment to provide an industry-leading value proposition for our advisors, to serve their clients and win in the marketplace.

This commitment to enhancing the support we provide our advisors resulted in the highest quarterly and full year levels of organic net new assets in our history. By leveraging the investments in our platform and the financial strength we built over the last several years, we enter 2021 in an even stronger position as we work to onboard our 2 largest financial institutions, M&T and BMO, as well as Waddell & Reed.

So as we look ahead, we are excited to continue growing our business and leveraging our increased scale and capacity to further invest in our platform, which positions us to drive additional growth and long-term shareholder value.

Now let's turn to our fourth quarter business results. Total advisory and brokerage assets increased to a new high of $903 billion, up 11% from Q3, driven by continued organic growth and higher equity markets. Looking at organic growth, total net new assets were $17.8 billion or an 8.8% annualized growth rate.

Moving on to recruiting and retention, which are 2 key drivers of organic growth, we continued to produce strong results in the fourth quarter. Recruited assets were $10.8 billion in Q4, which was our third consecutive quarter above $10 billion and brought our 12-month total to a new high of $40.9 billion. At the same time, full year retention was 97.7%, an improvement of over 1 percentage point from last year.

Looking at our business mix. We continued to see positive trends in Q4. Advisory net new assets were $15.9 billion, or a 16% annualized growth rate. Our full year total was $50 billion, up almost 50% from last year and more than double our total in 2018. Centrally managed portfolios also continued to grow as net new assets reached a new quarterly high of $2.5 billion or a 17% annualized growth rate.

Now let's turn to our Q4 financial results. Strong organic growth, combined with expense discipline, led to EPS prior to intangibles of $1.53, up 6% sequentially.

Looking at our top line growth. Gross profit was $534 million, up $28 million or 6% sequentially. Looking at the components, commission advisory fees net of payout were $153 million, up $11 million from Q3, primarily driven by organic growth and higher equity markets.

Moving on to asset-based revenues. Sponsor revenues were $153 million in Q4, up $9 million sequentially as average assets increased driven by organic growth and higher equity markets.

Turning to client cash revenues. They were $105 million, down $4 million from Q3, driven by lower client cash yields. Looking at client cash balances, they remain elevated at $49 billion, up $2 billion sequentially.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

As for client cash yields, our Q4 ICA yield was 108 basis points, down 10 basis points from Q3. The decrease was primarily driven by $0.5 billion of fixed rate contracts that matured during the quarter and higher cash balances.

Looking ahead to Q1, we will have the full quarter impact of the $0.5 billion of fixed rate contracts that matured in Q4 as well as another $0.5 billion of fixed rate contracts maturing in Q1. Given these factors and where interest rates, client rates and cash balances were at the end of Q4, we expect our Q1 ICA yield to be around 100 basis points. Roughly half of the decline is driven by growth in balances, while the other half is driven by fixed rate contract maturities.

Moving on to Q4 transaction and fee revenues. They were $130 million, up $10 million sequentially, driven by higher trading volume and fee revenue. Looking ahead to Q1, while we acknowledge the widely discussed increase in activity in the self-directed space, our trading levels have remained more stable and consistent with what we would expect to see in the advisor-led wealth management space. As a result, our trading activity through January is in line with Q4 levels. That said, I would note there are 3 fewer trading days and seasonally lower fee revenue in Q1. So we expect these 2 items to reduce transaction and fee revenue by $5 million.

Turning to Business Solutions. They continue to scale with 1,400 subscriptions at the end of Q4. This is up 200 from last quarter and double our total from a year ago. These offerings now generate roughly $17 million of annual recurring gross profit, up from $15 million last quarter. And more importantly, they help free up additional time for advisors to spend on more valuable activities, including serving their clients and growing their practices.

Now let's turn to expenses, starting with core G&A. It was $252 million in Q4, leading to full year core G&A of $925 million, in the lower half of our original outlook range of $915 million to $940 million.

Turning to our outlook for 2021. Our long-term cost strategy remains unchanged. We continue to prioritize investments that drive organic growth while delivering operating leverage in our core business. Looking back, over the last 3 years, our core G&A has grown in the mid-single-digit range annually as we invested to drive growth. And over the same period, these investments have helped our organic growth more than double from 3% to 7%. Given the success we are seeing with these investments, we are planning the same level of core G&A growth we planned last year, which was 5.5% to 8%. So for 2021, this translates to a range of $975 million to $1 billion. I would note this includes cost to support BMO and M&T, but is prior to expenses associated with Waddell & Reed.

Moving on to Q4 promotional expenses. They were $48 million, down $10 million sequentially, primarily driven by lower conference expenses following our national sales conference in Q3. Turning to Q1, we anticipate promotional expense will increase by approximately $10 million, primarily driven by increased transition assistance from recruiting and BMO and M&T onboarding expenses. Looking ahead, we anticipate BMO will join by the end of Q1, and M&T will join during the middle of this year.

Now let's talk about Waddell & Reed. We are excited about the transaction and encouraged by the progress we're making with advisors. As mentioned, Waddell & Reed advisors serving approximately 80% of client assets have committed to join our platform following the close of the transaction. This puts us above our 70% modeling assumption, thus far in the process. I would also note Waddell & Reed Wealth Management assets at the end of Q4 were $70 billion, which is up $7 billion from Q3.

With respect to the ongoing earnings benefit from Waddell & Reed, we will have updated estimates as we move towards the close and onboarding dates, which we expect to be in the middle of this year. That said, today, I would like to provide some color on the acquisition and integration costs, which we continue to estimate will be approximately $85 million.

That said, to provide more transparency, we will add an acquisition cost line item to our management P&L beginning next quarter. We think reviewing our results prior to these acquisition costs will be helpful in understanding our financials. So starting in Q1, we will report our results as EPS prior to intangibles and acquisition costs. As we look ahead, our integration work is progressing well, and we anticipate up to $10 million of acquisition costs in Q1.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Looking at share-based compensation expense. It was $8 million in Q4, relatively flat to Q3. Looking ahead, Q1 tends to be our highest quarter of the year, given the timing of our annual stock awards. So we anticipate this expense will increase by a few million dollars sequentially.

Turning to depreciation and amortization. It was $29 million in Q4, up $1 million sequentially. Looking ahead, we continue to invest in technology and recently rolled out several improvements to our advisory platform and end-client experience. As a result, we expect depreciation and amortization to increase by $4 million sequentially.

Moving on to capital allocation. Our balance sheet remained strong in Q4, with credit agreement net leverage at 2.16x and cash available for corporate use of $280 million.

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 opportunities where appropriate and returning excess capital to shareholders. In the near term, we expect the majority of our capital deployment to be focused on organic growth and M&A as we onboard BMO, M&T and Waddell & Reed. Once we have completed these transitions, we plan to reassess our capital deployment opportunities. And if, at that time, we have excess capital to deploy beyond organic growth and M&A opportunities, we would anticipate restarting share repurchases. That said, we'll have to see what our opportunities look like at that time.

In closing, we delivered another quarter and year of strong business and financial results. And 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) Our first question comes from Steven Chubak with Wolfe Research.

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

So wanted to start with a question on organic growth. As you noted, you're coming off a record year, organic growth north of 7%, 4Q was your strongest quarter at 9%. So momentum was clearly building nicely towards year-end. I was hoping you could speak to what you're seeing in terms of the backlog across both the traditional market as well as some of the newer TAMs and how that compares with the year ago levels? And just what's informing your confidence around the sustainability of that 7% plus organic growth rate from here?

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

Yes, Steven. So let me take a stab at that. And please, if I don't get it all, you ask a follow-on. So look, the short answer is as we said in the remarks, we think the pace around 7% is sustainable. And then we continue to challenge ourselves to expand on that growth rate. So let me give you a little color as to how we think about that. I think one quick way to orient yourself to it is how do we get to where we are over the last, call it, 3 years. And that's been driven by new store sales increasing by 50% over that period of time, which has come almost wholly out of our traditional markets. Retention rates have improved from 96% to 98% over that period of time. So that's also a helpful contribution. And then same-store sales continue kind of a steady, durable increase over that period of time. And so what you've done is you've gone over that period of time from roughly below 3% organic growth rate to 7%.

Now as we look ahead, relative to the opportunity to both sustain, but more importantly, grow that rate, we look to new store sales first and see the new markets that we've entered, the strategic wealth services model, the independent employee model in the RIA markets and obviously see

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

a much bigger opportunity set with momentum building inside those 3 new offerings which largely haven't contributed a whole lot to our growth up to this point. So that's one opportunity.

Certainly, this emerging new bank opportunity with respect to larger banks exploring outsourcing is a second way to think about an opportunity going forward.

And then we continue to improve our own efficacy of our business development team and its capabilities to grow and win at higher rates. That's a third one as we continue to innovate there.

And then finally, I think we continue to innovate around onboarding. And the more seamless we can make that, we believe creates more movement in the marketplace in the future.

So those are how we think about opportunities in new store sales. I think if you click over to same-store sales for a minute, we see the opportunity to continue to drive automation into the advisor's key workflows that they then get the benefits of efficiency, freeing up time to reallocate to more valuable activities. We also see this technology creating more scalability in their practices, so they can obviously attract and support more clients. We continue to build out new solutions for their organic growth efforts. And finally, this new M&A Solutions becomes yet another way for them to create another lever to grow their practices.

So across new store and same-store sales, you've got multiple oars in the water that we're working on in order to drive that rate higher. If we're successful on executing on these, well, then you can see where the logic around the opportunity set grows and we deliver higher growth rates. I hope that helps.

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

No. That's great, Dan, a very fulsome response. And maybe just a follow-up for Matt just on the ICA outlook. Lack of deposit appetite from third-party banks, it's something we've been hearing from you and also from many of your competitors. Typically, we don't see demand for cash increase until short rates start to rise, clients start to engage in some form of cash sorting. And if we enter a prolonged period where short rates are at 0, but the yield curve steepens materially, how do you see demand from third-party banks evolving? Do you anticipate you're going to have opportunities to term out the cash, take advantage of the steepening? And if cash balances continue to build from here, should we assume that that's going to fall into the overflow bucket? Or are there opportunities to maybe optimize the pricing there as well?

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

Yes, Steven. I think you'd summarize the market well, right? I think right now, there is so much liquidity in the market from lots of sources that you all know that there's just not a lot of demand for the banks on the sweep fund side. So I think you see the balances flowing into overflow contracts, a little over $2 billion this quarter. And I think in the near term, that's likely where cash would go. But I think on -- and your point and your scenario, as we move past what I'd call just kind of the technicals of the market right now, I think in an environment where near-term rates are low, but the curve starts to steepen, I think there's opportunities to move into fixed in that environment, right? So of course, it's always hard to predict, but I think this environment we're in right now is really just driven by that excess cash.

Now when you look at our financials, right, and we target being in the 50% to 75% zone for fixed and we're hovering in the kind of 1/3 in the 35% zone, there's pretty meaningful upside when we're able to do that. So I think we're comfortable long term that opportunity is there. But today, it's -- there's just not a lot of demand.

Operator

Our next question comes from Bill Katz with Citigroup.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

William Raymond Katz - *Citigroup Inc. Exchange Research - Research Analyst*

Maybe Dan, start with you. So I'm intrigued by your commentary about maybe taking Business Solutions on the road. I was just wondering if you could maybe flesh out how you're sort of thinking about that beta test? What kind of milestones you might be looking for? And then how do you think about the TAM associated with that?

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

Yes. So Bill, good question. Look, first of all, these Business Solutions are subscription-based services, right? So that gives us flexibility as to how an advisor can plug-in and leverage the LPL platform. So that's the premise where you have a bit more flexibility in this concept about being able to serve advisors outside of the LPL family, if you will. And today, we're focused on continuing to innovate and deliver those services for LPL advisors. So that's where the majority of our allocation of investment goes across this strategic play, and that's allowing us to continue to learn and innovate on our offering.

That said, our hypothesis is these services could potentially be offered to all 300,000 financial advisors in the marketplace. If you think about that premise of, if I'm operating my own business and I have local level services that are necessary to support the operation of that business, well, then we believe we can step in and create higher quality solutions at a lower cost, using automation and digital capabilities to create real interesting scalability and you began to see where you could take, for an example, take our M&A Solutions that we were just talking about. And if we do that well for LPL advisors, then we could easily take that and point that to an advisor that doesn't necessarily sit on our platform today and help create growth opportunities associated with our practice by providing or plugging in to that type of solution. So that's the concept.

You're right to call it an experimental phase now. I think it's logical for us in our overall journey around this play to begin to experiment there, and it's early days of that experiment. So we will likely take one of these solutions and begin to explore how that might work and present itself outside of the LPL family of advisors. And that will allow us some learnings that then apply and further innovate on how we might take this portfolio outside the LPL advisor base. I hope that helps.

William Raymond Katz - *Citigroup Inc. Exchange Research - Research Analyst*

That's very helpful. I appreciate the incremental change there. So I don't know if the questions for you, Dan, or for Matt. A two-parter, so I apologize for sneaking that extra question in. But -- so on the 20% of the Waddell financial buyers that haven't agreed to this point in time. I was wondering if you could provide some color on why not? And then could you just help me understand, I apologize if I surely know this. The interplay between the integration charges associated with Waddell and any flow through onto the core G&A line?

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

Yes. Thanks, Bill. I'll take the first part of that. And then Matt, you take the second. How about that?

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

You got it.

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

So Bill, as you recall, we announced the transaction in early December. And at that point, we began our retention efforts associated with the Waddell & Reed advisors. And so we've been at that largely 6 weeks. And so what you're seeing is that 80% retention rate has more to do with just the timing and where we are in the overall process than anything else. As Matt said, we expect to close and convert in the second quarter. So there's still time

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

left to have that ongoing dialogue and make sure that all advisors can make an informed choice around where that best option is for them. So think about that just as more where we are in the timing process than anything else.

Matt, do you want to take the second part of that?

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

Yes, sure, Bill. On the Waddell & Reed expenses, they're not included in core G&A. So we're going to have a separate line item that includes the acquisition integration expenses, so you can clearly see that. And there weren't any in Q4.

Operator

Our next question comes from Craig Siegenthaler with Crédit Suisse.

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

Congrats on the record organic growth.

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

Thanks.

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

Thank you.

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

So just wanted to start with the Waddell & Reed transaction first. So its advisors hold a very high percentage of Waddell and Ivy products. How do you think about the trajectory for them to reinvest these products into other funds? And could this have any economic impact on LPLA or are the commission rates and shelf fees roughly in line with the product on LPL's platform?

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

Yes. You may take that, Matt, then I'll add color around that.

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

Yes, sure. Yes, it sounds good. So Craig, I would just highlight the partnership with Macquarie that really -- that we worked with on this transaction together. So I think when we look on the other side of closing and integration, I think we see ourselves continuing to be that strong partner with Macquarie, meaning the Ivy funds moving over to their platform. So I think that relationship and that synergy, being able to continue the experience the Waddell advisors have with those funds today.

On the other side of this transaction was a really, really important part of I think what made this deal exciting for all 3 parties. So I just wanted to give you -- just emphasize that from a strategic level. And then, Dan, if there's anything you would add?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

And more from an operational standpoint, we don't expect some big reallocation or shift in how they're thinking about their portfolios or using what will then be Macquarie product on a go-forward basis. So I don't think you're going to see some big step function change in terms of the allocation of those assets. So I'm not sure you see any then knock-on effect from that, which is just the second part of your question.

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

Great. Helpful. And I had one question on the production retention. It's still at a really nice level, but we've watched it go down for 3 quarters now. Can you talk about any puts and takes or seasonality that could be acting -- that could be impacting 4Q or any other perspective on it would be helpful, too.

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

Yes. I think you're talking about our overall retention inside LPL. And look, I think this is mainly just -- you've seen it increase throughout the year, which is largely a matter of timing related to the impact the pandemic had in the early part of the year. So where it might have been more complex or tougher inside that 4 to 5-month period of real uncertainty, I think you just see now some of that pulling through. As we think about it and look at it over the full year, you've got 98% retention. And as I shared last quarter, we think about a good sustainable range being somewhere around 2% to 3% of attrition or, said differently, 97% to 98% retention. So that's what we're trying to manage to and work to. And we feel good about the client experience and the advisor experience we're providing. And that is the primary driver of that attrition rate or retention rate. And so that's kind of how we're managing to it and thinking about it. I hope that helps.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

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

I wanted to ask you around TA packages that are out there in the marketplace right now. Obviously, Raymond James talked about seeing a little bit more pressure in that market. It sounds like that's more in the employee channel, which is small for you guys for now. But curious if you're seeing any meaningful change there? And maybe, Matt, the follow-on is for you, I guess, with respect to promotional expense. To what extent that's putting some incremental pressure on promotional expense for you guys into '21?

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

I'll take the first half of that, Matt, then I'll turn it over to you. So look, the short answer is we're not seeing a lot of change in transition assistance rates at this time. And you said it as a core principle for us, we determine transition assistance on a return basis approach and our TA rates have been stable over the last few quarters. And as we enter this new year, we don't see that changing.

And when we look ahead, we think about TA and how it's currently positioned, or transition assistance, along with the rest of our value proposition from capabilities, technology and service and believe that that's an overall really solid competitive offering. And believe as we go forward, that it will be a source of us continuing to gain market share. You want to talk about promotional expenses?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. And I think I was just building what Dan said. I think with the rates being stable, I think promo and the transition assistance amortization, if that's going up in a meaningful way, it's simply because recruiting, and therefore, organic growth has gone up. So I think it will move along with our recruiting success and the rates themselves really have been quite stable.

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

Great. Perfect. And then just a follow-up on Waddell & Reed. I know you guys gave a little bit of color on the kind of the composition of the assets, et cetera, at the time that the deal was announced. But on the 80% that you already sort of retained, can you give us an update on sort of what's the gross profit ROAs on that base and the mix of assets kind of equity fixed income?

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

Yes, not yet. I think it's a little bit early. I think as we move towards close and onboarding, we'll start to give more updates on overall economics. I think today, we wanted to really highlight the early success on the retention front. So we'll give you more on that at a future date.

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

All right, we'll stay tuned.

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

Yes.

Operator

Our next question comes from Chris Harris with Wells Fargo.

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

Can you guys talk a little bit about your risk management controls and what you're doing to keep risk reasonably well controlled with all the growth that you guys are seeing across the platform?

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

Yes, let me take that one and then, certainly, you could add anything to that. Look, it's a core component and value proposition of what we offer, both from a protection of -- to the firm, to the advisors, to their clients, but it's also a really important value proposition for us of taking complexity out of this business and simplifying it to enable the advisors to operate their businesses successfully. So it's a place that we have constantly have to innovate on, regardless of our growth rates. But in a world where you're growing, that just creates more opportunity to allocate resources to think about how you improve the efficacy and the efficiency of compliance and our overall risk management programs. And though we're not perfect and though we'll try to play into that, I think, look, there's key components of our overall risk profile that we look at. There's some 16 different risk components that we actively monitor and review how we're doing in those areas. So think about that as managing your day-to-day risk or your operational risk and then as a complement to that, there's that strategic opportunity that says, hey, how do we take and use robotics and artificial intelligence and automation of which to enrich the efficacy of our supervision, of our oversight how do we imagine new ways of which to use technology to drive efficiency into what we do, which simply just then creates much more scalability to support that growth. And so we look at it through an operational lens and track that on a monthly basis and hold ourselves accountable to constantly iterating and learning and applying

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

what we're doing well and/or not to improve it and then we allocate resources to drive innovation to do it better. And look, our goal is to take risk management and turn it into an asset. If we continue to invest in it and we can do it better and cheaper than anyone else, it becomes a differentiator. And so that's how we think about our risk management programs, and that's sort of what is our North Star, if you will, with respect to risk management.

Operator

Our next question comes from Jeremy Campbell with Barclays.

Jeremy Edward Campbell - *Barclays Bank PLC, Research Division - Lead Analyst*

Looks like a really nice December drove the big robust acceleration in NNA growth, but also looks like your recruited assets was pretty stable the prior couple of quarters. So just wondering if you could unpack some of the key drivers behind the December pickup.

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

Yes. Jeremy, it's Matt. I think when you look at the interest and dividends component of it, and add into your observation, that happens typically in the third month of each quarter. And then in the third month of Q4, at year-end in December, you've got a lot of funds that will distribute things annually. So that was a driver of it. But even if you kind of pull that uptick out, when you look at our growth rate in Q4 at 8.8%, that was about 0.5 percentage point, so still above an 8% organic growth rate. So really, really strong quarter in our view. But that interest dynamic that happens at the end of the year was the thing that biased December up a little bit.

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

And if I added anything to that, any of you click down on that, this is where you see that durable but steady trend upward in same-store sales, where you're seeing advisors doing a really great job of serving and supporting their existing clients. So they're actually capturing assets from those existing clients at a higher rate than historically and certainly pre-pandemic. At the same time, we've seen them now return to capturing or acquiring new clients at the rates they were pre-pandemic. And so some of that dynamic underneath fourth quarter is certainly supportive of increasing growth rates both across the quarter -- I'm sorry, across the whole quarter and ramping up within the quarter.

Jeremy Edward Campbell - *Barclays Bank PLC, Research Division - Lead Analyst*

Got it. Great. And then, Dan, you gave some really nice high-level color around the growth trajectory going forward to an earlier question, but I don't know whether this is for you or for Matt, but can you just give us a quick update around how January activity is shaping up so far?

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

Matt, can you do that?

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

Yes. Yes. I'll take that one, Jeremy. Since we're sitting here in February, we certainly have some thoughts on January. So overall, it went pretty well. I mean we're still finalizing the results. But I would describe it as growth consistent with what we saw in 2020, right? So nice organic growth.

There are a couple of things to highlight, though, for January, by its nature, kind of the building on how we were just talking about December by its nature, that drives NNA a little bit lower for that month. The first one is December recruiting. I think you know this well. But FINRA shuts down for the last week or 2 of the year, so you just don't have new advisors coming on to the platform. So it naturally slows NNA down in the early parts

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

of January each year. And then just building on what we're talking about December, while the month 3 is the highest kind of interest in fees driven NNA of the month, month 1 is the lowest, right? Because you have the advisor fees coming out primarily in the first month of the quarter. So those 2 things together kind of put a naturally have you have a decline in January. When I pull all that together, I think we would expect January to be in the 4% to 5% growth, organic growth. But again, we'll finalize those results and release them in a couple weeks.

Operator

Our next question comes from Kyle Voigt with KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Just a couple of follow-ups on promotional expenses. Wondering if you have any update on how much TA you're contemplating for the Waddell deal or the TA rates associated with those Waddell assets you're expecting to onboard?

And then separately, how should we think about the return of some higher non-TA-related promotional expenses in a post pandemic world? Maybe you could frame how much expense benefit you realized there in 2020 due to lower conference spend or something else?

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

Okay. I got you. Yes. So Kyle, I'll start there. I think on the Waddell side, I think we -- and Dan talked about our approach and thoughts on TA a little bit earlier. And I'd say we have the same approach with Waddell. So there's really no different approach there, making sure that we put those advisors in a position to successfully transition on to our platform. That's what transition assistance is for, and we'll underwrite it in the same way.

I think on the conference side of things, and I'll give a little color here and, Dan, if you want to jump in. But I think as we evolve over time, I think like most folks, we see on the other side of the pandemic, doing a mix of continued virtual and digital things. But also people value getting together in person, I think especially in the independent advisory space, folks value getting together. So I likely see us having a mix of what we had pre-pandemic, but it's a little bit early to kind of call where and how those numbers start to change. So we'll keep you updated a quarter ahead of time, kind of how we gave -- how we did here today on promotional for next quarter. That's on the cost side. I don't know, Dan, if there's anything that you want to add.

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

No, well said.

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

Yes. All right. We're all good there, Kyle.

Operator

Our next question comes from Gerry O'Hara with Jefferies.

REFINITIV STREETEVENTS | www.refinitiv.com | Contact Us

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Matt, perhaps you could give a little bit more detail just around the Waddell timeline as it relates to the close, advisor onboarding and synergy runway. I know you had a nice graphic in the presentation last quarter, and I may have missed it this time around. But if you could help us just kind of walk through that a little bit, that would be appreciated.

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

Yes, sure, Gerry. We didn't update it, but it's unchanged. So I think when we think about the next key dates, which are closing and then the subsequent asset transfer, our estimate for that is the middle of this year. And then the integration, the onboarding process, et cetera, occurs after that. And I think that will lead to an EBITDA benefit ramp of about 12 months after closing. So if you think we're closing and onboarding in the middle of this year, that would have us reach that run rate EBITDA estimate by the middle of next year or the middle of 2022. So that's what was in that presentation, and those estimates are the same today.

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then just a follow-up. I think in the prepared remarks, Dan, you mentioned kind of the evolving opportunity around the custodial platform. Is there any potential kind of color you could add or context as to what that opportunity might be sizing or just, I guess, clients, advisors, anything you might be able to add would be helpful.

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

Yes. And maybe I'll just give you a higher level macro overview at this point. And I think we can give you more color as we move forward. But with respect to our RIA offering, we currently provide the solution to a number of advisors. That said, we're investing in our capabilities and resources that we believe match that growing opportunity set, as we do expect, over the next few years, more advisor movement or churn across that space. And so we believe we can put together an interesting, differentiated solution that will contribute to our ongoing organic growth and be a nice contribution to increasing that organic growth rate. So that's how we see that. And where we are is continuing to make sure we've got that differentiated solution and that we've got the resources in place to take that to the market. So more color on that as we go forward throughout the year. But hopefully, that gives you sort of our jumping off point.

Operator

Our next question comes from Chris Shutler with William Blair.

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

On the $10 million expected increase in promotional expense quarter-over-quarter, how much of that is BMO and M&T? And how much is something else? I'm guessing marketing and conference expense are reasonably stable sequentially. So I'm just trying to figure out if that Q1 level is kind of a new jumping off point or how to think about anything that might be in there that's more seasonal or onetime?

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

Yes, Chris. M&T and BMO are about half of that. They're large financial institutions, where there's a bit more technology, a bit more onboarding support. So that's why you see that increase. And while I wouldn't call that onetime, I'd call it connected to onboarding a large financial institution. So any time we have those coming, you'll see a little bit of a pickup in promotional for that. But it is -- to your point, it's not recurring. It's just associated with those firms.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

The rest of it is really -- there's a handful of things in there, but it's primarily tied to transition assistance amortization as we continue to recruit.

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

Okay. So the half associates with the 2 big banks is not amortization of transition assistance, it's other stuff?

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

That's right. That's right. They haven't joined yet, so that wouldn't have begun.

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

Yes. It makes sense. Okay. And then the other one was just on the new M&A offering. Maybe just give us a sense of how you plan to price that offering. I'm guessing the workload there could vary a decent bit depending on the advisory firm that you're working with or the complexity of the targets. So just help us think through how to think about that.

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

Yes. Let me give you a little color on that. And again, I think there's more to play out here as we go forward. So if I can't answer anything -- everything today, I think we can give you that color over the next couple of months. And so with respect to our M&A Solutions, again, what we're trying to solve for is actually helping advisors acquire other practices to integrate into their businesses, right? So that's the context. And quite frankly, we realized and recognized in working with our advisors that many of them saw this as an opportunity, but saw the complexity associated with M&A really hard, and it kept them out of exploring those opportunities. So our concept was, could we go create or build a solution that makes it much easier and simpler for them to go from point A to Z in that M&A process and, thus, in building a platform that helps them do that. If they do it once, then we're going to increase the odds that they can do it again and again. You sort of create this repeatable, sustainable growth lever for them and a bit of a flywheel, if you think about it across a larger number of advisors. So that's the concept.

And so what we've done over the last year is build that end-to-end platform for ourselves. So we will deliver that with LPL resources. So we've got a technology platform that we've built that will host that and drive that and digitize that and make that easier. We obviously have access to the marketplace and will help facilitate that marketplace of buyers and sellers. We can give good transaction advice around that. We know this well. And we know the models well, so we can provide advice and are positioned to do that, and then we can also provide the capital funding or an option to the advisor for their capital funding. So it's really delivered by us. We're not working with other advisory firms. And again, us doing it as a service, our opportunity is to certainly charge for the value that we're providing associated with managing through that process, but the real win for us is at the end of it is helping these advisors capture assets and grow on the platform. And so that's how we think about that.

That's how you would see us pricing it associated with the more discounted fees for the value that we provide in the M&A process, knowing that we can both help retain and grow organic assets on our platform. So I hope that helps you get the principles and the macro way we're thinking about it. More to come when we roll it out on pricing and things of that nature, and that will happen this quarter.

Operator

Our last question comes from Michael Cyprus with Morgan Stanley.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

I just want to come back to the client cash levels. Looks like the allocations there came in a bit, 5.4% client cash allocation. I guess how do you see that evolving from here? Where do you see that leveling out, say, a year or 2 from now and what environment? Would you say that would be higher or lower? And has there anything changed structurally that could result in a different cash allocation than what we've seen historically on your platform?

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

Yes. I mean I think it's -- I mean, when you -- maybe the bookends to look at, right? If you look at the periods we've got in our key metrics supplement, right? We -- it kind of bottomed out in the low 4% range and think of that as probably the max deployed in the market that we've seen. And then the other extremes, when you go back years and years ago when you've seen the max pullback is in the 9% -- 9% to 10% zone. So it kind of feels like where we are right now, at least with recent history, balances are a little bit high. I don't think it would surprise us if you get on the other side of a pandemic with vaccines out and whatever environment you would describe as the new normal, it wouldn't surprise us if that -- if you saw that 5.4% start to go back down as you see money going to the market. But I'd emphasize, of course, that's a really hard one to predict. But I think if -- when we look at the history that we have, that's probably what we'd expect to see.

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

Got it. And just a quick follow-up on the money fund and DCA yields there. They continue to come in, in the fourth quarter. Just curious any color you could share on the drivers there and what would need to happen to see further compression? Or in what scenario could it even go negative? Or how do you think about any sort of floor on that and thoughts into '21?

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

Yes. Remember, DCA was a little bit challenging because it's a fee per account, not a rate. So balances moving around can just change the reported rate because it's a fee per account type fee. So I wouldn't read into the move into that yield much.

On the money market side, I think you're just seeing the dynamic of interest rates being near 0. And those products where the product manufacturers can waive fees, that puts a little bit of pressure on the yields. But I don't think it's anything that you -- unexpected in an environment where Fed funds is in the [7 8 9] zone, I think that's what you expect to see on money funds. And of course, to emphasize when you look at the balances, those are -- of our nearly $50 billion in client cash balances, those are pretty small piece of the overall pie.

Operator

And ladies and gentlemen, this concludes our Q&A session for today. I will turn the call back to Dan Arnold for his final remarks.

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

Yes. Thank you, Carmen, and thanks, everyone, for taking the time to join us this afternoon. We really appreciate it, and we look forward to speaking with you again next quarter. Have a great rest of your day.

Operator

Ladies and gentlemen, thank you for your participation in today's program. You may now disconnect.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV