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PRESENTATION

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Good morning again, everyone. My name is Bill Katz. I cover the asset managers and the retail brokers for Credit Suisse. On behalf of the firm, I'm excited to welcome everyone to the 24th Annual Conference. And I'm particularly delighted to have the management team from LPL Financial here as well, and I appreciate making the trip over, Matt, welcome to the conference.

From LPL, we have Matt Audette, who is the CFO and joined LPL at 2015, which I can't believe say across me has been that long. And before that, you were Executive Vice President and Chief Financial Officer of E*TRADE Financial. And in the audience this morning, Brett Goodman, and Mike Adams from the IR team.

So welcome, everybody, and thank you. I have a bunch of questions I'd like to try and ask, but the same token, try to keep these rooms somewhat intimate. So if anyone has any questions, we'll make sure we get a microphone over to everybody. I know numbers came out this morning, so thank you very much for publishing that ahead of the conference, if you will. And maybe we'll come back to that in just a moment.

QUESTIONS AND ANSWERS

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Just to start off. I think a big area that has been just a nice success story over the last couple of years is the acceleration and sustainability of organic growth, and there seems to be a multi-vectored opportunity associated with that. So maybe we can just start with -- we'll go to maybe the different buckets of the asset pools.

On the traditional side, I think in the fourth quarter, it was a nice bounce back in recruiting to finish the year. On the conference call, you had mentioned that those transit sort of continued into January. The metrics this morning would support that. But what's driving the momentum? And how sustainable do you think this opportunity is?

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

Yes and thanks, Bill, for having me. And I think on the traditional model, I mean maybe just starting with the overall thematic or theme. I think when you look at our improvements in organic growth, it's really about our relentless focus on advisors and what matters to them in building whether it's technology, capabilities, different ways to affiliate with us has all led to that growth opportunity. And if you just -- if you look at the years 2020 and 2021, we think are pretty good bookends to look at from an organic growth standpoint, 7% in 2020, 13% in 2021. And when you pull that forward to what we've seen recently, Bill, I think you're starting to see the macro environment be more conducive to advisors moving.

2022 was challenging on many fronts for all of us and specifically from an advisor standpoint, when you have macro volatility like that, it's very natural to focus on your clients, not necessarily moving to a new firm. And I think as we sit here today, you're starting to get some stability in the macro or maybe just less volatility in the macro either way, it's an improvement. And you combine that with our value prop and just being relentlessly focused on investing in technology capabilities that matter for those clients.

When you put those 2 things together, I think the opportunity set is starting to improve. And then when you connect that dynamic to the sales cycles, the traditional model is usually the shortest sales cycle. So when you start to see an improvement in organic growth, you're likely going to see it in that traditional model first versus things like Strategic Wealth and our employee model where it naturally is a longer sales cycle because there's more involved in the move.

And I think that's, Bill, what you saw in Q4, I think that's what you're seeing in the early days of the first quarter, is that traditional model starting to pick up.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Excellent. And then you had mentioned the new affiliation models, Strategic Wealth Services and then the employee model, I guess, Linsco, at this point. When you laid that out a couple of years now, I think you started with SWS and then you sort of morph that into IE, the employee channel. When you think about that, where are we in terms of the opportunity set? And as you think about the differences, like -- what's the value proposition differential between SWS and IE as it relates to both the financial advisor and then maybe as importantly to LPL?

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

Yes. And I think the value proposition, maybe to start with our traditional model and what that delivered. And that is the core chassis for our offering overall. But when you looked at that model, it -- the offering almost -- suppose you were already independent, right? So the services needed to get to independence for something that wasn't really a part of the core offering.

So we largely recruited from folks that were already independent. But if you were at a pick an employee firm or a wirehouse to get to independence, you usually went with either another firm or utilized other services to do that. So the Strategic Wealth model really solves for that. So it takes that core traditional model chassis and adds on 2 sets of services.

First is really transition services to get you to independence. So to help you establish your business, help get your facilities set up, help with the recruiting process, as you can imagine, if you're an employee advisor getting a plan and confidence that your clients are going to actually follow you, right? It offers all of that.

Then you add to that, you are now running your own small business right? And that's where our Services Group offering comes into play where it's really connected to that offering. So not only does it help you get to independence, it actually helps you run that small business. And so then you take that offering and then the employee offering is really that same value prop, but for folks that want all the benefits of independence, right? They own their own book, they keep more of the economics, they're not beholden to distribute the product of the asset management arm of the firm that they work for.

But at the same time, they don't want to be a small business owner. And that's really where that employee model comes into play that provides all of those capabilities and value prop, but they're an employee, but they're an employee in an independent model.

So that's the value prop. I think that the folks that have, to your point, on where are we in that journey. It's still early days. I think the folks that are on those models and the expectations that they had coming on board, they're super excited, right? The model, the offering is really resonating. And when you're establishing yourself in an area that historically, LPL has really just been in the traditional space, right, to establish yourself in the space that's really driven more from folks coming out of employee firms, right? That takes time.

But I would tell you from what we see, we are moving along at pace and the models are resonating, which is why we continue to invest in them and are excited about the growth opportunities that are in front of us.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

That's awesome. When you look at what the success has been, I think in the beginning of the opportunity set, it was word of mouth. It was beta testing, the success of one platform beginning the next, if you will. As you've been building up your products and services and your acumen and your depth of the relationships, are the success factors changing in any way in terms of why they're coming over now versus maybe the earlier wins when you first started both SWS and the independent model.

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

Yes. I think you -- once you have critical mass on a platform, those folks become key referrals for you, right? So -- and by definition in the beginning, right, we didn't have anybody on the platform. So I think you've got existing clients that are really quite positive on the offering that can serve as references.

In addition, I think each year that goes by and we learn more and more what's important to advisors on that platform. It's just a key part of the LPL DNA is to make sure we get feedback from our clients on all affiliation models, we understand what's important to them, what we could do better, and that informs our investments, whether it be technology, new capabilities, whatever is important to them. And I think that becomes one of the key differentiators in how we operate. And that is true for Strategic Wealth and for the employee model.

So just each year, improving the offering as well as having a critical mass that can really help establish the brand and become referral sources for new recruits.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

And are you seeing -- well, last question so we'll move on. Are you seeing a kin to the independent model where there's a little bit less inertia or as being equal, are you seeing that same kind of re-acceleration or if you say even the right way to think about it, as you look through this year in terms of the dialogue, maybe the early stage conversations you might be having?

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

Yes. I think that the dialogue is absolutely picking up, I would just emphasize that the sales cycle is much longer in those offerings versus their traditional model. Traditional can be 3 to 4 months. The Strategic Wealth and employee models, could be anywhere from 6 months, 9 months or even 12 months, depending upon the location, the amount of time to get physical space. So just the data that you would see externally pulling through, just given that sales cycle would be much longer, but the pipeline or the early signs are certainly picking up.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Great. I've learned one thing covering your stock for a bit of time now is that you don't say something unless you expect to deliver on it over time. So one thing that I picked up on it at your Investor Day recently was the decision -- or so the argument that you could expand your Enterprises, which is formerly known as Financial Institutions Group, from $1 trillion TAM to a $5 trillion TAM and then secondarily, you mentioned that the pipeline is pretty robust with some -- potentially some big wins underneath that, right? So that's in the back of my head as I frame this question.

So first question is -- or set of question. First question is what is allowing you to quintuple the -- assume for except the markets, but that aside, but what's allowing you to quintuple the market opportunity? What's changing within LPL's value proposition that's allowing you to go after a broader array of potential assets.

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

Well, when you look at -- just start with the value proposition for that -- for the existing -- before the expansion that $1 trillion opportunity. And I think the big pivot that we made is in that area, we have -- we LPL in the industry for a long time had really competed for smaller institutions that had already outsourced to a service provider like us. And the larger institutions, the presumption was at that size and scale, it was just more efficient, it was better for them to operate that business themselves.

And I think what we saw was that's not the case, right? We can actually create an offering when you look at institutions of that size in nature where we can help them grow faster, we can improve their operating margin and they could outsource the risk associated with that business to us, right? That's the core part of our offering.

And if you can do those 3 things, I mean, that's a fairly compelling offering. But the process to get from doing this yourself to on our platform for institutions of that size when they're running it themselves is really, really hard. So what we took is that value prop, combined with investing and creating a transition process and a transition service that made it easy, right, and relevant, right? All of this stuff is complex, but we really developed a team, processes and technology and capabilities that made it compelling when you think about the executives of these firms that they can get -- from a wealth management standpoint, they can get the ability to grow faster at better margins, and I've de-risked, right? What CEO or CFO wouldn't want that.

But it was too hard to get there. So we solved in our view, and solved as and we continue to solve for, meaning we always want our improvement, the transition process. And I think that is what opened up things like M&T, BMO, CUNA, the firms that have come over.

And if we took that set of work and you start to look broader on other institutions or business models, insurance companies, as an example, that also have wealth management arms or distribution arms. And we looked at our offering and the ability to pivot that offering to firms of that nature, which will require some additional investment. But I think we've got the process and the road map to do that to really open up that market, right? So that's what's behind that expansion from the $1 trillion to $5 trillion.

I think your inference on how we've spoken to it on our confidence and the ability to compete in that space is high. I would emphasize the comments we've also made on the sales cycle in that space is the longest of all the sales cycles in our offerings, right? So these things can take years.

When you look at the firms that have come on that we've won, right, the entire process of having the dialogue even when we've announced that they're coming on board from that point forward, it's usually a year or more before they come on. So they're very involved.

But with that as putting the sales cycle aside, our confidence and conviction in this space is high and what is required of us to do is back to that core offering, make sure that this transition process -- we can take on that work and make the transition one that is compelling for these firms and delivers on the value prop of helping them grow, improve their operating margin, de-risk. And if we can do that, I think we'll have over the long term, some big opportunities there.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

So within that, I remember when you were first sort of talking about this, as you were scaling some of these incremental wins that would be getting more conversations with larger players as they were thinking from, as you said, sort of shifting to the strategic level rather than the sort of the business line level. How are conversations going as you've been sort of trying to speak with the insurance companies, the wealth management platforms versus maybe a more generic broker deal within a bank?

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

Yes. Well, I think the -- having some -- not dissimilar from the conversation on Strategic Wealth and the employee model, having large public wins in this space, which can become reference clients, certainly opens up the dialogue in a much, much broader way. So I think that is a positive. That is behind our comments and confidence in over the long term, having opportunities in the space, that the pipeline and the dialogue is building, that is a key factor in that. Is just having proof points out there that our value prop has worked.

I can actually -- instead of just talking to the LPL folks that are trying to sell this offering to me, I can actually go talk to someone who's on the platform, who is objective, is going to tell me what works, what doesn't work, et cetera. And I think that is invaluable in a sales process. And now we've got some large reference clients out there to do that.

Now it's incumbent upon us to make sure that, that value prop is there, right? To continue to improve it, to continue to support them. But I think if we do that, I think we'll be in a good spot.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Great.

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

By the way this clock is good. Just went from 4 minutes to 20 minutes back to 5.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Yes. You're talking so quickly, we're gaining time back.

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

What's happening down there.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Yes, yes, yes. Just keep the -- in terms of -- one last question on this one. As -- when it rains it pours, right? So usually one thing happens, something else happens. If you were to get some of these wins, and let's just say they were a little bit on the larger side, all else be equal and you sort of mentioned you had to sort of spend a little bit along the way. Is this a linear incremental opportunity? Or can you do multiple opportunities at the same time? Or would you strategically want to do one at a time? How do you think about the frequency to which this might happen?

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

Well, I think the -- it all depends -- well, the principle for us would be, we want to make sure that the clients that are at LPL, that we are serving and supporting them in a way that they expect and that they deserve, right? So I think we -- maybe to state the obvious, we don't want to get into a place where we're spending so much of our time and efforts and money on bringing on a disproportionate amount of new business to the detriment of our existing business, right, is maybe an obvious concept.

So you then click down and say, okay, well, how do we make sure that, that's not the constraint on our ability to grow. So how are we making sure that we're making investments in the transition teams that actually bring this on. So to the extent you've got -- to the premise of your question, several opportunities, that you've got a team to be able to do that while at the same time, providing the same support that your current clients or existing clients expect, right?

So there is, of course, a scenario which there's only so much business that you can bring on in a way that meets the high standards that we would have of a high-quality transition support service as well as not distracting from our core business.

What that exact algorithm is, it's just -- it's so dependent upon the size, not just the size but the nature and the complexity of the offerings that come on. Things like if it's in our existing offering or existing service, right, that's probably less incremental effort versus if we're establishing something in that incremental $4 trillion. Well, that may take more time and more effort and we'd probably be more deliberate about the timing of which those things come on board.

I don't think, ultimately, it impacts the ability to win folks that want to come on to our platform, it probably just impacts the timing of when they come on to make sure we're being very thoughtful about when and how they come on the platform to make sure we're not overwhelming a certain resource set within the firm.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Great. Okay. On the Investor Day, you also mentioned sort of an opportunity to go after more of the affluent higher net worth type of financial biased end client, if you will. Seems like a natural evolution from my perspective. Can you talk a little bit about what your go-to-market strategy might be? And then some of the feedback that we get from investors is, well, they're going to have to use their balance sheet to do that. Can you talk a little bit about that as a risk or an opportunity?

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

Yes. Yes. I think the narrative on using the balance sheet in that area and concern about that is -- and I know no one in here. You're not referring to anybody in the present -- that's silly. Not what we're talking about.

I think that the way I would think about it is, it's back to our core of understanding our clients, meaning our advisors, their needs and their clients' needs. And each year that goes by, our advisors are growing their books of business. They're serving and supporting more clients that are in the high net worth category. The advisors that are coming on board, same trends there, larger advisors with higher client bases and it's got the clients that need high net worth services, right?

So our focus here is, okay, well, that's important in a need for our clients, how do we solve for that, right? And it starts to get into things like planning as an example. Financial planning is just much more relevant and important to that constituency set. So how do we make sure that we can serve and support advisors in doing so. Paraplanning is an example that gives them a lot of leverage to do so.

Access to and being able to distribute alternative investments is a good example and certain insurance products. And the list goes on and on. I think what our focus here is to make sure if there's things that we can -- that we've got value prop or an ability to offer, well, then we want to go build and offer that, Paraplanning is an example.

If there are other things where we just need to make sure that we've got a set of partners that they can plug into it and get that offering in a way that is smooth and from a technology standpoint, that's not overly cumbersome, we would do that. And I think that is our approach there. There's not a -- we are going out to use our balance sheet in a way that perhaps a bank may serve that offering there. It's back to our model being a capital-light model. We have FDIC-insured cash products, and we're not a bank. We're not using the balance sheet.

We've got access to SBLOC as an example, through partners, right, that gets lending into the hands of our clients without it being a use of capital on our balance sheet. So that is the approach. And I think the core part of that whole narrative or not a narrative, but initiative is our advisors and their clients are evolving, and we're making sure that we have the products and capabilities that matter to them.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. Wonderful. Bringing it all together, you were kind enough to put your metrics out this morning, had a chance to look through that. A little over $1.165 trillion of assets. And then you had about just under $9 billion of flow which was around numbers about a 10% annualized growth rate. So certainly within that range that you had talked about. Can you talk a little bit about maybe tying it back to the 4 different buckets of assets of where you're sort of seeing a greater strength and then if you're willing to talk about what kind of trends are we seeing into early February?

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

So I think -- so for January metrics, keep in mind, part of that net new assets was closing of an acquisition. So we broke that out. So if you look at the organic growth, it was just under 6%, which for the month of January is a good month just given the seasonality that you would typically see in the first month, not only of the quarter where advisory fees primarily hit, but also the first month of the year where the second half of December, there's really not a lot of advisors joining because FINRA shuts down.

So I think in the context of the month of January, we're quite happy with that growth rate. I think the -- clicking down below that, we talked a little bit about it earlier. It's really the traditional model where you're starting to see things turn, and that's because that sales cycle is the shortest. So it's really -- what we saw in January, it was consistent with what we were talking about earlier on overall trends on organic growth.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. Any insights into what's happening in February?

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

No. No. I think we'll do -- I think the thematics of what we're -- maybe nothing different than what we talked about in Q1, which is from an organic growth standpoint, you're starting to see an environment that's more conducive. You're going to see that show up in the traditional models first. And I think how that specifically shows up in the shortest month of the year in February is always harder to predict. So no particular commentary on that.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. Come back to the cash discussion a little bit. I just want to come back to some of the top line drivers. One of the areas that we're particularly focused on is the Services Group, which I think was formally known as Business Solutions. You've done a very good job of sort of the subscription-based model. So maybe a 2-part question. As you think about the opportunity from here, it seems like there's a couple of vectors of opportunity. It's either -- maybe it's both a number of financial advisors that are potentially using these services and/or the back-end costs that -- on there to run their footprint as well the revenue opportunity for LPL. So how do we think about penetration from here? What are some of the key drivers? And how does that sort of blend through to the -- maybe the revenue opportunity?

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

Well, I think I'd even broaden it a little bit beyond that, Bill. I mean, I think when you look at the services offering, and I think where we started, which I think you've highlighted well is more of an a la carte offering, right? Where advisors have certain services that they're spending their own money on now, if we can offer that service at a better value prop and cheaper cost, there's a big opportunity there. And whether the constraints there is their own expense base or penetration of our overall advisors to the point of your question, both would be drivers there.

But I think when you look at the offering overall today, not only what we've evolved to, but where we can head it, it becomes much broader than that. There's an a la carte offering that we're talking through. It is a key engine behind our new affiliation model, Strategic Wealth being a key example. And then you start to broaden out the -- when you think about the benefits of advisors, whether they're on Strategic Wealth or using those services a la carte, in addition to the leverage and cost savings that they get, you start to look at these.

And this is early days. So there's no data to share specifically, but you start to get to a place where those -- you look at the advisors that are using the services and they're growing faster, right, because we're doing a lot more of the work for them.

From an attrition standpoint, right, we're offering services that they really can't get integrated like we provide them and other firms, right? So the logic would pull through that the attrition is lower. So you start to get this overall enterprise-wide value creation that part of it will show up in a revenue number, but part of it will show up in organic growth in the Strategic Wealth model. Part of it will show up in more same-store growth in the traditional models. And then in all models, lower attrition. So there's a much bigger, I think, value driver there that we see. And to your point on -- when you think about that overall value creation, it's very early days, right? You start to think out in years and years and years on potentially success here, especially with only 10 products in there today where we see the opportunity to have more things that we've got an ability to solve, meaning that 10 grows over time, right? Our excitement and conviction around it driving value just builds from here.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

So is it a combination then of both the efficacy on the outsourcing opportunity to make the financial advisors more proficient in what they do plus the cost of running the business is still pretty high at the end of the day, because on of the things you talk about, which we'll come back to later. Is just the cost of this business continues to rise and benefit scale player? So it seems like a bold opportunity, both in terms of number of subscriptions as well as the -- maybe the revenues on it as well -- in addition to the enterprise value proposition.

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

Yes. Well, I think these services have just become a great leverage point, I think, is what you're highlighting for advisors to be able to get the services that they need at a price point that's compelling to them.

And then maybe to your last point, for others to go invest and create competing products, especially if they're smaller, is going to be challenging. I don't know if that was your point, but that's the other point that comes to mind. So you put it all together, if we keep investing and we do it well, I think it's going to be hard for folks to compete. And I think it's going to be compelling for advisors to want to sign up for it.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Great. Just want to move on to one of your newer initiatives called Liquidity and Succession planning. I think Dan Arnold, the CEO, excuse me, at the Investor Day had -- I didn't think about this for a while, it makes sense -- 300,000 financial advisors broadly in the industry. I think you said something like 1/3 retire in the next decade. So it's a lot of turnover, if you will. So you can talk a little -- maybe that's sort of the concept is. Can you talk a little bit about how this product is differentiated in the market and sort of how you sort of see the growth from here?

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

Yes. Yes. And I think we're -- it's one of the ones we're quite excited about. And you said that correctly. I think about 1/3 of advisors in the next decade will either retire, leave the business, need to do something with that asset. And when you look at the offering in the marketplace to be able to facilitate, doing something with that asset, right? It's not a liquid asset. You have to find somebody who's going to buy it. And I think what happens a lot of the time and perhaps for the smaller practices out there is advisors will sell to another advisor. And that's not a smooth process. And so that's where you saw us develop, and it's part of the solutions that we've developed in the last few years, our M&A solutions that really helps connect sellers with buyers and vice versa and also has a platform and a capability that allows that movement. It facilitates that move in a smooth way, and that's working quite well.

I think what we -- in doing that work, what we found is, especially as you get to the larger advisors, there aren't as many other advisors out there that can buy them, right? So if they get to a point where they need liquidity for their business because they are going to be leaving the industry, there really wasn't a natural buyer there, other than they're selling to other firms, whether it be PE firms or other platforms out there that then requires a change.

So what we saw as an opportunity in where I think our product differentiates with the marketplace, to your question, is really being a bridge, bridging from the advisor who is looking to retire and bridge that practice to the next generation. And this is where I think we've developed something that's really compelling. So we can step in, we can buy that practice, allow an advisor to sunset over a period of time, while at the same time, either working with their -- a lot of folks will have a successor that they've identified, working with that successor to get them in a position to run that practice or if they don't have a successor, go identify one, bring them into the practice. And then over what we estimate to be -- and I'll emphasize roughly here, roughly a 10-year period, we will work with that advisor.

We built -- we call them our field management capabilities, which is basically a group to help oversee and run that business and actually train that advisor and get them to a place that at the end of that 10-year period, again, roughly, that they're in a position where they're now capable of running the practice. They can buy it back. And if you look at it from our standpoint, we've gone from an advisor who is towards the end of their career, likely the growth rates of that practice, it would be very natural if those had slowed down. To now, we bridge the practice to the next-generation advisor on our Linsco or on our employee model is where these successor advisors will grow. So they are basically using the LPL services and capabilities that position them to focus on the growth of their practice, right?

So we would expect the growth rates have picked up. We have someone who's integral and connected to LPLs as an offering, and we've done so at a compelling return on capital between the point when we bought it and the point of where we sold it.

So if you take a step back, and these are relatively small, right? So from a capital standpoint, on average, call it, $10 million to $20 million from a purchase price standpoint. When you take a step back and you just play that through the life cycle, it's pretty compelling from our standpoint on what we bridge, not only have we solved for something in the marketplace, but we solved for it in a way where we brought our capabilities and our value proposition to bear to support a next-generation advisor and get them to the place where they can be their own business owner in running that practice.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

So within that, one last question, move on. This seems like it's a great opportunity, and I think your beta testing is sort of going beyond the LPLA footprint and offering this across the sort of the envelope of 300,000 financial advisors. And I know it's early days. Any early indications of uptake or interest levels? And is it creating any kind of residual concern to the existing LPLA footprint from a competitive issue?

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

Yes. Well, I think it's not a competitive issue because we're not competing with our clients, right? This is about us facilitating a transition from one generation to the next. So I think from that standpoint, there's no scenario where we're competing, right? We're trying to facilitate.

I think on bringing this offering to the outside, I think that the value prop would resonate just as well external to LPL as it would, internal to LPL. And I think us making sure that we've landed the value prop that with your -- I think as you highlighted, beta testing it, getting that offering right, I think we're starting internal to LPL. We know those clients better, it's a less complex process because you take it external, you're taking everything that I described on the offering, and then you're adding in a transition from another firm.

So I think if we know how to transition from other firms very well, I think we want to get our liquidity and succession offering, have just as much confidence there. And then when you put the 2 together, I think the incremental level of effort there would be relatively minor.

So I think that's the approach we're taking. And so you'll -- when you see the transactions we've done so far, they've primarily been internal or they've been entirely internal.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. Great. Let's transition to, I think, a big focus area is client cash. It came out at [59.7] (corrected by company after the call) for the end of January. I think on the conference call with earnings, you had mentioned you're down about $4 billion from the end of January. So that's end of December, excuse me. So pretty static to that. So thank you for that guidance. Can you talk a little bit about what you're hearing in terms of just client cash allocations? I think you had mentioned maybe $1 billion of seasonal billings in Q1, some of the inertia you talked about with the regulators not being the holidays, if you will, sort of slowing organic growth. So that has a little bit of an influence as well.

And I think you had like $11 billion of net buy/sell in January, which is one of your biggest months since you've been disclosing that data. Where do you think you are in terms of the client sorting issue? And how protected are you just given the client mix?

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

Yes. I think when you look at our client cash balances, I mean, they are largely transactional. They're behaving how you would expect an environment like this, which is market sentiment and being invested in the market versus being a bit risk off on the sidelines is the primary driver, right?

Our long-term average of cash as a percent of AUM is 5%. I know you know that well. This is not a -- it's transactional cash. This is not a -- like I think you see at other firms where the cash can be in the double-digit range where you end up having a mix of investing cash and transactional cash in the same area. So for us, it's primarily transactional cash. I think what you -- when you look back at 2022, just given where the market environment was and you look at the history of our cash, it was relatively elevated for the year, right? It was sitting in that in that 6% zone for a while.

What you've seen recently is really the money going back into the market. To your point on January net buying, it was over $11 billion, $11.1 billion. By far, the highest month we've ever had. The prior high was in August of '22 at $10 billion. And then if you look at certain months in 2022, you had months worth $3 billion, $4 billion, $5 billion, so much, much lower.

So I think what you see, and you can see it in the equity market levels, right? Cash is going back into the marketplace. You also have allocations of funds from equities into longer-term interest rate products, whether it be annuities or longer-term fixed income. So you have an allocation of portfolios there.

But I think when you look at our cash sweep, it was at 5.1% at the end of January, that's still pretty much on top of the long-term average. And if you look at where in environments where you had a lot of stability in equity markets were continuing to go up, and you see those go down to kind of the 4% range as the low in the past.

So headline for me is cash is behaving, how you would expect it to behave or how you'd expect transactional cash to behave in a market where advisors are really at levels we've really haven't seen before, meaning that $11 billion in January putting their clients back into the markets.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Just related to that, it seems like there's a great opportunity here for rising demand for third-party deposits just given QT, what's happening with some of the clients and some of the initiatives that they have to focus on.

You've targeted a 50% to 75% ratio trying to fix out client cash as a percentage of fixed versus float. I think it was about 44% at the end of the year, up a few percentage points from the September print -- quarter, excuse me. Lot of different variables going on. The forward curve seems to flip flop a little bit every day. You've been very good navigating that over time. How do you think about the pacing to get to that 50% to 75%? Is there an urgency to get a little more quickly given what's happening with forward curves? Or is this more ratable? And is there any upside beyond 75%, longer term?

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

Well, I think that -- so 50% to 75%, I think, is the range. I don't see us to the last point there, really going above 75%. I think we want to make sure that you've got the right balance of a fixed distribution, but also cash balances move in and out, right? So you don't want to get to a place where you're targeting -- you go above 75% and then variable cash moves out and you get to a place that you don't want to be.

So we did a lot of work, a lot of studies on the duration of movements of the cash that really inform that 50% to 75% range. So I think that is -- we've got -- I'm confident that's the range that we want to be in.

I think when you look at the environment that we're in, right, the desire would be, especially with rates where they are, is to be closer to that 75% in, right? If it was if the offerings or the demand for fixed rate deposits rather I got to just decide where to be, I think we would be closer to that 75% side of the range. Again, in a laddered portfolio, right? I'm not trying to be clear going on where interest rates are going, trying to have a balanced portfolio or a laddered portfolio where you're reinvesting a little bit each year, even if you're at that 75% range.

Now we get into where is the market today, right? And to your point, we're at about 45% of fixed at the end of the year. That is the -- since COVID hit, that's the highest that we've been and the reason for that is the demand is starting to come back. It's starting to come back both on the variable side and the fixed side. And I think you saw just in Q4, we were able to put $4 billion in place, that moved us up to that roughly 45%. As we look ahead to Q1, I think our early signs are the demand is still there. So I think we'll be able to -- if we've got $2 billion that's actually maturing in the first quarter, I think we'll be able to place that and if things continue, I think there's an opportunity maybe to grow it even further above that.

But I think -- the headline on that is that the market environment is most certainly improving, but it's not at a place where the demand is so high, we can simply decide where we want to be. So it's not there yet.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Got you. I know we're half minute left, I apologize for leaving going that short of time for this question. But maybe just turning to expenses. You sort of guided this year to 12% to 15%, a little more refined than when you sort of laid out the round numbers, 15% at the Investor Day, prudently taking advantage of the big revenue windfall with higher interest rates to sort of accelerate spend and in order to most likely have a better organic growth rate, if you will, so it all makes strategic sense. So as you look beyond '23 into '24 help us toggle down to what you think is a normalized run rate of expenses?

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

Yes. Well, I think you summarized it well. I think our investment approach and strategy is really about driving improvements to op margin.

And I know I've got 45 seconds for the answer. So we'll go fast, right? We do that by investment to drive growth, investments drive efficiency and productivity and surround all that with adjusting based on the environment we're in. And I think the environment we're in now is conducive to us being able to invest and put ourselves in a place that can drive organic growth over the long term, especially in our traditional markets, where it's going to be very challenging, I think, for folks to compete with us.

Specific 2 years beyond that, I think we'll make decisions based on the environment for those years. But I think what I would emphasize is the ability to flex up or down is there. So if we're in a year beyond '23 where it's not conducive to make those investments, well, we won't. But if we're in a year where it makes sense, we've got the capacity and a list of investments that we think will drive a return, well, then we would, right?

So I just emphasize we're going to adjust to the environment we're in. And you've seen us in the past, adjust and bring expense growth way down if the environment called for it.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Great. With that, we're exactly out of time. So thank you. Good job. Matt and team, thanks so much for coming out today. Really appreciate it. Have a safe trip. So thank you very much.