AssetMark Financial Holdings, Inc.

Q1 2021 Earnings Conference Call

May 4, 2021

CORPORATE PARTICIPANTS

Taylor Hamilton, *Head, Investor Relations*

Gary Zyla, *Executive Vice President & Chief Financial Officer*

Natalie Wolfsen, *Chief Executive Officer & Director*

CONFERENCE CALL PARTICIPANTS

Ryan Bailey, *Goldman Sachs Group*

Kevin McVeigh, *Crédit Suisse*

Patrick O'Shaughnessy, *Raymond James & Associates*

Kenneth Worthington, *JPMorgan Chase & Co.*

Gerald O'Hara, *Jefferies*

Michael Young, *Truist Securities*

PRESENTATION

Operator

Good afternoon, everyone, and welcome to the AssetMark's First Quarter of 2021 Earnings Conference Call.

Now I'd like to turn the call over to Taylor Hamilton, Head of Investor Relations. Please go ahead, Mr. Hamilton.

Taylor Hamilton

Thank you, Celine. Good afternoon, everyone, and welcome to AssetMark's first quarter 2021 Earnings Conference Call.

Joining me remotely are AssetMark's Chief Executive Officer, Natalie Wolfsen, and Chief Financial Officer, Gary Zyla. They will discuss the results for the first quarter and provide an update to AssetMark's business outlook for the remainder of 2021. Following our introductory remarks, we'll open up the call for questions. We also have an earnings presentation that Natalie and Gary will reference during their prepared remarks. It can be accessed on our IR website at ir.assetmark.com.

Before we get started, I'd like to note that certain statements made during this conference call our forward-looking statements. These forward-looking statements represent only our outlook as the date of this call and actual results could differ materially.

Additionally, during today's conference call we'll be discussing net revenue, Adjusted EBITDA, Adjusted EBITDA margin, and adjusted net income, all of which are non-GAAP financial metrics. Please refer to our earnings press release and SEC filings for more information on forward-looking statements, risk factors associated with our business, and required disclosures related to non-GAAP financial information.

With that, I'll now turn the call over to my colleagues. Natalie, take it away.

Natalie Wolfsen

Thank you so much, Taylor. Good afternoon, everyone, and thank you for joining our first quarter earnings call, and my very first as CEO. I'm excited and honored to talk with you all today. I met many of you during the IPO roadshow back in July of 2019, but for those of you who I have not had a chance to meet, let me briefly introduce myself and provide some perspective about why the Board has selected me to lead AssetMark into the future.

I've been at AssetMark for about seven years now, and I've spent two-plus decades in the financial services industry helping financial advisors and their clients. I have a deep understanding of how advisors and their clients think and what solutions, tools, and technology they need to be successful. Prior to taking over as CEO in March, I was AssetMark's Chief Solutions Officer, responsible for building and executing AssetMark's current strategy. Our mission and our strategy remain unchanged. As a result, the leadership transition has been seamless for our associates, our advisors, and their clients. I'm very excited to continue to set the strategic vision for the firm and to create continued value for our advisors, their clients, and our shareholders.

The Board and I have a shared vision on growing our technology capabilities with Voyant, our recent announced acquisition being a prime example. I will look to leverage my expertise in technology, investment solutions, and financial wellness to further expand our entire offering.

Lastly, I'm deeply committed to ESG and diversity inclusion, not only at AssetMark, but industry-wide. I'm excited to work with the leadership team here at AssetMark to expand our focus in this area. In the coming months, I look forward to re-engaging with those of you I met during the road show and building relationships with those of you who I haven't met yet.

Now I'd like to transition to the heart of today's earnings presentation.

Starting on Slide 3, we're going to focus on five key messages during our earnings call today. I'll discuss the first three and Gary will cover the final two.

First, because of our unwavering focus on our mission, making a difference in the lives of our advisors and their clients, AssetMark is a strong company and has successfully delivered for our advisors and their clients, and as a result, our shareholders, since going public in 2019.

Second, our addressable market is almost 1.5 times larger than it was two years ago, providing a long runway for future growth. We have also grown our market share and are now the largest TAM in the industry.

Third, our future has never looked brighter. We're making great progress on our 2021 strategic priorities to maintain a strong financial position, and we'll be returning to in-person events soon. All of this will help us continue to attract new advisors, accelerate organic growth, and gain market share.

Next, Gary will discuss our organic growth, which has returned to pre-COVID levels. Net flows are up 26% quarter-over-quarter to $1.93 billion, an all-time high for AssetMark.

Lastly, Gary will walk us through our financial results for the quarter highlighted by record revenue and EBITDA. He will also update you on our expectations for the rest of the year.

When I last spoke to many of you two years ago during our IPO roadshow, since then our strategy has progressed substantially. We have strengthened our strategic pillars to make our platform more attractive to advisors. We have grown our operating and financial metrics while adding scale to our business. We have expanded into adjacent markets and pursued opportunistic M&A that has increased our total addressable market.

Let's discuss each of these in a bit more detail.

If you turn to Slide 4, this slide shows the evolution of our offering over the last two years. Continual platform innovation allows us to attract new advisors and to capture greater share of wallet from existing advisors. Since going public, we've added over 1,300 NPAs, or new producing advisors, and almost 500 engaged advisors to our platform.

Let me provide a few specific examples of how platform enhancements have supported our growth. Since our IPO, we have added six new investment strategies to our platform, and these new solutions account for $2.7 billion of our assets as of March 31. In addition, in August of last year, we introduced our enhanced securities backed line of credit offering, or S Block program. Since launch, over 500 new lines of credit have been issued, which is well ahead of our goal. More importantly, our securities backed line of credit provides long-term benefits to AssetMark and to advisors and clients. The benefits to AssetMark are stickier assets on our platform and incremental sources of revenue.

In January, we launched our advisor growth program that helps advisors establish a formal marketing plan and activities to drive practice growth. This will not only help our advisors grow, it will also help AssetMark grow. The improvements we made to our platform have allowed us to attract more advisors, impact more households, and grow more platform assets.

On Slide 5, you'll see the dramatic growth of our business over the last two years. Engaged advisors have increased 23% since going public and now account for 91% of our total platform assets, versus 88% in the second quarter of 2019. Engaged advisor growth is a crucial part of the AssetMark plan, as these advisors exhibit stronger levels of growth and stickier assets. For example, engaged advisors redemptions are in the high single digits.

The number of people getting closer to reaching their financial goals and dreams because of AssetMark is also growing. Households have increased by 35,000 households, or 23% since going public. Platform assets have also increased and they've increased by 41% since we went public, driven by $9.9 billion in net flows and $2.1 billion in assets from acquisition. The amount of assets on our platform serve as an important indicator of the strength and growth of our business, our increased customer footprint, and the market acceptance of our platform. The evolution of our offering has not only allowed us to drive strong operating metrics, but it's also translated into strong financial results.

On Slide 6, you can see the growth of our financials since going public. First and foremost, we are growing our top line, even with the loss of revenue from our switch to lower cost mutual fund share classes, and the absence of spread revenue due to declining interest rates. Trailing 12-month net revenue is up 14% to $300.3 million, and up 22% when excluding the impact of spread revenue. We are investing in the future of our business while also growing EBITDA. Trailing 12-month Adjusted EBITDA is up 24% to $120.8 million, and up a robust 55% when excluding spread income. Our business continues to scale nicely as evidenced by our growing margins. We have realized Adjusted EBITDA margin expansion of 260 basis points, and when excluding spread income, expansions over 600 basis points.

Last but not least, we are also growing our bottom line, with trailing 12-month adjusted EPS up 18% to $1.07. We remain highly focused on what we can control, and our business is flexible to adjust across different market environments, as we have seen over the past two years. During Gary's prepared remarks later, he will share that we are raising our 2021 expectations as we are expecting even stronger results this year than when we last spoke.

In addition to adding and improving investment solutions, features, and technology on our platform, all of which help track new advisors and gain share of wallet, we've also expanded our offering, allowing us to increase our total addressable market.

Let's turn to Slide 7.

When we went public, the majority of our clients were independent broker dealer affiliated advisors and retirement oriented advisors. The total addressable market in these two areas has increased double digits since we went public, with the independent broker dealer affiliated advisor total addressable market now at $2.7 trillion, and the retirement segment at $1.7 trillion. We remain extremely committed to those channels.

In addition, since our IPO, we've added multiple new channels, expanding our total addressable market by approximately $1.8 trillion. In March of 2020, we acquired OBS Financial, allowing us to explore the bank trust opportunity, which is a total addressable market of $583 billion. In addition, in March of this year we agreed to acquire Voyant, which provides diversified revenue with a vast addressable market. Once closed, Voyant will add $460 million of total revenue opportunity between its existing and expansion markets. Just a few months ago, we launched AssetMark Institutional, which will help us further penetrate the RIA market. For us, this has an addressable target market of $1.2 trillion.

Not only have we grown our addressable market, but we've also captured market share. When we went public, we were the number two camp, as measured by platform assets, and we trailed the leader by more than $10 billion. As a result of a relentless execution on our strategy and our unwavering focus on our mission, coupled with opportunistic M&A, we took over the top spot this quarter and are now the largest camp in the space, exceeding the second competitor by $1.4 billion in assets.

As you can see, AssetMark is a strong and growing company. Even so, we're not taking our foot off the gas. We are making great progress on our 2021 strategic priorities to maintain a strong financial position and have started returning to the road. All of this will help us to continue to gain market share, attract new advisors, and accelerate our organic growth.

Let's discuss each of these in further detail.

Turning to Slide 8 in the presentation, let me provide you a midyear update on our strategic priorities, which support our growth efforts.

First, and as always, we look to enhance advisor value and productivity. We are building a financial wellness program with solutions to support meaningful wellness conversations between the advisor and their client. The announced acquisition of Voyant will be a big step forward in delivering our financial wellness solution. As discussed when we announced the deal, we plan to integrate key features of Voyant's financial planning tools and capabilities to enhance the AssetMark advisor experience, adding foundational financial wellness tools from Voyant to our e-wealth manager solution. In addition, adding these foundational Voyant features to AssetMark RIAs offering will also help us attract new RIAs. We still expect the deal to close in the early summer.

Additionally, we are exploring other ways to enhance our financial wellness offering. We're building out a redesigned investor dashboard that will provide investors an interactive platform with a holistic view of their financial life. We are also building a new interactive investor timeline, which will create engagement, and collaboration, and a holistic view to facilitate advisor-investor conversations. Investors will be able to easily and interactively add life events and goals to their time line, and to analyze how the timeline changes when unexpected life events are added. The timeline will include both cash flows and probability of success outlooks, while also incorporating a clear view of risk, comprising risk capacity and risk need, in addition to the traditional risk tolerance approach.

Our second strategic priority for 2021 is to attract adjacent advisors through channel expansion. Our biggest opportunity right now is subscale RIAs. In March, we launched AssetMark Institutional, or AMI. While still in the very early innings of this launch, we are already seeing strong interest in AMI, and are running at about 114% of our AMI production goal. As AssetMark Institutional becomes a more meaningful part of our business, we intend to break out these results for all of you.

Last week, we launched AssetMark Alternative Investments. This solution will help RIAs attract and serve high net worth clients, and is a critical part of our AMI offering. Later this month, we'll also be hosting our inaugural RIA summit, which will not only introduce many advisors to AssetMark Institutional, but will also help position AssetMark as a thought leader in the RIA space. Overall, we are very pleased with the early success of AssetMark Institutional, and I look forward to updating you as we make more progress.

Our last strategic priority for 2021 is to continue to invest in the platform and infrastructure to support our future growth. We are strengthening our back office, security and trading systems, all to enhance our competitiveness. As a reminder, these investments are already part of our planned capital expenses, and capital spend will remain about 7% of our total 2021 revenue, as previously disclosed to all of you.

The next area that excites us about the future is our strong financial position, highlighted by our resilient balance sheet, ability to generate cash, and low net debt. We currently have about $86.8 million of cash on our balance sheet as of the end of the first quarter, and have generated $82.4 million in cash from operations over the last year. We have a revolving debt credit facility with commitments in aggregate principal amount of about $250 million, of which we drew $75 million as of the first quarter. Due to our refinancing in 2020, the interest cost on our debt remains very low.

Our strong financial position not only allows us to invest in our platform but also to pursue opportunistic M&A, which remains a very important component of our growth strategy. We continue to view M&A in two avenues: consolidation M&A and capabilities M&A.

While we've had great success in augmenting our organic growth through consolidation M&A, we are encouraged about the prospect of adding new technologies to our platform, especially given our recent announcement about our planned Voyant acquisition. Capability M&A helps us enhance and improve our platform. This not only benefits our advisors and their clients but also our shareholders. Capabilities M&A has the potential to provide revenue growth and diversification, as well as to accelerate our operations cost synergies. M&A also has the opportunity to open new markets for AssetMark and to expand our total addressable market. We continue to leverage our deep relationships within the industry and analyze all of the opportunities that would be a strong fit for AssetMark: our advisors, their clients and our shareholders.

Lastly, we believe our outstanding results will only accelerate with the reopening of the economy and increased in-person engagements. While we are taking every precaution and closely monitoring case and vaccination rates, we've started to return to the road. Beginning this month, vaccinated sales associates have started meeting with advisors in person again and hosting small group events. We plan to begin hosting larger live advisor events in late summer as vaccinations become more widespread. We are excited to see our advisors and to see each other in-person in the coming months.

On the last note, before I hand the call over to Gary to tackle the final two items we want to discuss with you today, I wanted to emphasize how extremely pleased I am about all we've accomplished in the first quarter of this year and over the past two years.

I'm very excited about our future and truly believe the best days of AssetMark are ahead of us. Because I have such a strong belief about AssetMark and our mission, I just wanted to let you all know in the vein of full transparency, that I canceled my 10b5-1 Plan and have no plans to implement another for the foreseeable future.

With that, I'll hand off to Gary.

Gary Zyla

Thank you, Natalie, and good afternoon to all those on the call.

As Natalie discussed, our results in the first quarter are outstanding, highlighted by an all time high in platform assets and a record number of net flows, revenue and Adjusted EBITDA.

As usual, I will start with a discussion of our platform assets and talk about our revenue, our expenses and then our earnings. I will conclude with an update on our 2021 outlook.

Starting with Slide 9, first quarter platform assets were a record, $78.9 billion, up 41% year-over-year. This growth reflects first quarter net flows of $1.9 billion, the highest quarterly total in our Company's history, and $2.4 billion in market gain, net of fees. The improvement in our net flows quarter-over-quarter is driven by increased production, while redemption rates have again remained relatively stable. In March alone, we realized net flows of $901 million, the highest month in our Company's history. Annualized net flow as a percentage of our beginning period assets 10.3%, ahead of our 2021 guidance of 8% to 10%. Our net flows now have increased by at least 20% each quarter since the second quarter of 2020 and they're now back to pre-COVID levels.

Turning to Slide 10, we continue to see excellent growth in our business. As we have broken out the past few quarters, our core growth, excluding recent acquisitions, is even stronger. The first quarter of 2021, core business net flows as a percentage of beginning period assets were 11.6%, ahead of our 2020 annualized core growth rates of 10.3%.

In the spirit of transparency, we do expect one or two more large advisors GFPC with a total about $450 million of assets on our platform to leave in the second or third quarter this year and we will update you as such.

We expect organic growth to continue to be strong in the second quarter based on advisor activity metrics and our April net flows of approximately $750 million, which will be disclosed next week in our monthly AMK report.

Turning to advisor metrics, we added 194 new producing advisors or NPAs, in the first quarter of 2021. This is the highest total since the first quarter of last year. NPAs serve as a source of our growth in the near and medium term. While still leveraging a remote business model, we are encouraged by the growing number of new advisors on our platform.

First, March was one of our best months ever in the number of NPAs and the best month ever for NPA production.

Second, year to-date-production from this year's cohort is up more than 25% compared to last year's cohort. We were also excited about our recently launched digital lead generation capabilities, our upcoming RIA summit and our return to in-person engagement with our advisors. All of these will allow us to attract new advisors and deepen relationships with our existing advisors.

Our total engaged advisors at the end of the first quarter was 2,611. Engaged advisors were up 22% year-over-year and now account for 91% of the total assets on our platform. Since the beginning of 2020, that is, over the five quarters, our total number of engaged advisors is up 381.

Now let's turn to Slide 11 to discuss this quarter's revenue. Entering the first quarter, our assets were at $74.5 billion, leading to a reported revenue $119 million. This reflects a strong increase in our asset base revenue, offset by the decline in spread-based revenue due to last year's rate decline. We focus on our revenue net of related variables (inaudible).

Since the first quarter of 2021, our net revenue of $82.2 million was up 4.6% year-over-year. Asset based net revenue was up 12.9% to $79.7 million. Recall, this reflects our mid-2020 shares, the lower cost mutual fund share classes, which resulted in a revenue reduction of $3.5 million per quarter. After that one-time product shift, our asset based revenue growth would have been about 17%. Spread based revenue is down, of course, materially at 71% year-over-year, due to the aforementioned decline in interest rates.

Now let's turn to Slide 12 and more fully discuss the drivers of the change in net yield year-over-year. As the waterfall shows, revenue was up year-over-year with the increase in asset based revenue outpacing the client and spread based revenue. Our waterfall splits the impact of our asset growth, which generated $14.2 million in additional revenue, and the impact of the compression of net revenue yield, which reduced revenue by $5.2 million. Of this $5.2 million, again about $3.5 million was due to the shift to lower cost mutual fund share classes, with the remaining impact due to fee compression.

It's important to note at the year-over-year fee compression impact was in line with the 1 basis point we had set this year.

Moving to spread based revenue, it decreased $4.7 million year-over-year due to the yield decline from 1.36% to 0.31%.

Lastly, our other income decreased $700,000 or about 0.5 basis points, driven primarily by interest-related income on our corporate assets.

Overall, net revenue as a percentage of total platform assets for the first quarter 2021 was 44 basis points, down 1 basis point quarter-over-quarter and down 7 basis points in 2020. The bottom of Slide 12 helps detail the year-over-year decline in yield as it shows 3.1 basis driven by the asset based revenue, and of this, about 2 basis points is due to the shift to lower cost mutual funds. The decline in spread based revenue resulted in a decline of 3.3 basis points on our total yield.

For clarity and transparency, the calculation of our annualized revenue yield net of variable expenses is shown on Slide 17 in the appendix of our earnings presentation.

The takeaways from the slide is two-fold. First and most importantly, our strong organic growth and market gains have mitigated the revenue loss and the move to lower cost mutual fund share classes and the declined interest rates. Second, yield compression from lower interest rates is stabilizing, down only 1 basis point quarter-over-quarter.

Now let's discuss expenses. As shown in Slide 13, we continue to do an excellent job of maintaining our (inaudible) even as we have grown our Company significantly over the past year. Total adjusted expenses decreased 1% year-over-year to $90 million. Operating expenses were down 3.2% year-over-year to $48.1 million, driven by a $2 million increase in compensation expense, offset by a $3.6 million decrease in SG&A. The increase in compensation expense is largely driven by our variable sales incentive comp as a result of our strong sales in the quarter. Our strong sales results increased our compensation expense and we, of course, will realize the revenue benefit from it in the upcoming quarters.

Also driving the increased year-over-year compensation was the fact that our head count increased 2.2%. The decrease in SG&A is largely driven by our new business environment, driven by lower event costs and travel costs. We successfully held our annual client event, Gold Forum, entirely online in February, generating material savings in 2020. As discussed previously, we are eager to get back on the road and meet clients in person.

That said, there are permanent changes we've made to our business model and we have always expected to absorb the increased spend related to travel in our operating expenses. We have learned to become much more efficient and effective in a virtual environment and will not lose that competitive advantage.

Let me run through our expense adjustments, which were unusually large due to the acceleration of share-based compensation cost as a result of our February vesting and the CEO change.

In the first quarter, we added back a total of $46 million pre-tax and this is comprised of four items. First, $33.4 million of non-cash share-based compensation, due again to the acceleration and amortization of the pre-IPO grants. Of our total equity charge of $33.4 million in the first quarter, $30.6 million was related to the pre-IPO restricted stock awards and $2.9 million was due to our ongoing equity incentive program, the largest (inaudible) related to the pre-IPO (inaudible), was driven in part due to the large vesting event in February, as well as the accelerating recognition of costs as a result of the CEO change.

As a result, the remainder of year will see far less expense related to this fixed block of grants. To set expectations for you, you should expect to see equity cost drop for the rest of the year, between $5 million to $8 million per quarter. Looking ahead to 2022, our quarterly equity costs, where we select only the ongoing programs and settle into the $4 million to $5 million per quarter range we've previously discussed.

The second adjustment to our expenses is $5.1 million of amortization expense related to the 2016 sale. Like the equity charges, this expense will be fully amortized also by the end of 2021.

Third, $4.7 million related primarily to reorganization and integration costs, the majority of this cost related to the CEO transition.

Lastly, $2.8 million in acquisition related expenses associated with our announced acquisition of Voyant and the integration of GFPC and OBS. Additional color and adjusted expense reconciliation table for income statement line item can be found on Slide 18 in the appendix in our earnings presentation.

Now let's turn to Slide 14 and discuss the earnings report. We view Adjusted EBITDA as an important measure of our Company's health. Our first quarter 2021 Adjusted EBITDA was a record $34.1 million, up 20.2% year-over-year. Adjusted EBITDA margin for the quarter was 28.6%, up 390 basis points year-over-year. This improvement in margin year-over-year despite the decline of spread-based income is a testament to our Management team's ability to focus on expense management while investing in future growth.

Now, adjusted net income for the quarter was $22.2 million at $0.30 per share. This is based on a first quarter diluted share account of 72.9 million.

Now let's look at the reported first quarter balance sheet; I would highlight two items. First, we ended the quarter with $86.8 million in cash. As Natalie mentioned in her prepared remarks, our cash position, the ability to generate cash and low debt positions allow—position us well to pursue opportunistic M&A. Our expectation is that we will use about $50 million of our corporate cash, plus $70 million from our revolving credit facility, when we close our acquisition of Voyant later this year.

Second, capital expenditures primarily reflect our longterm investments in technology to create new capabilities, increase scale and improve service. For the first quarter, our capital spend was $8.2 million or 6.9% of total revenue. Now, as Natalie previously mentioned, we are expecting our capital expenditures to be about 7% 2021 total revenues as we continue to invest in the future of this business.

Now, let me update you on our expectations for 2021. Before I get into those numbers, I want to be clear that these expectations do not include the impact of Voyant, given the unknown timing of the close.

Let's turn to Slide 15. We're increasing our net revenue growth outlook to 18% to 21% for the year compared to a previous expectation of 16% to 19% driven by strong momentum for the first quarter net flows and market gains. We continue to expect our operating expenses, which consists of compensation and SG&A, to increase mid-teens due to increased investment in 2021. It is important to note that we will maintain discipline in our expense growth so as to not outpace revenue growth. As noted earlier and on previous calls, this expense outlook assumes business fully re-opens by midyear.

As a result, we are revising our 2021 Adjusted EBITDA growth expectation range to 22% to 26%, which is above our previously guided range of 15% to 25%. This outlook reflects the strong momentum from the first quarter, our confidence in top-line growth and our ability to find ways to scale our business. Based on the revised growth outlook we have laid out, we have set margin expansion of about 150 basis points in the year, much higher than our previous expectation of 100 basis points and the 50 to 75 basis points goal we had targeted in previous years. This is phenomenal given we are still investing significantly in our business.

With that, I'll hand it over to Natalie for her concluding remarks.

Natalie Wolfsen

Thank you. Thank you, Gary. Thank you, everyone, on the call today. I'm extremely pleased with all we've accomplished and feel we're well-positioned to create further value for advisors and their clients, as well as our shareholders. We look forward to sharing future updates at upcoming conferences and on subsequent earnings calls.

This concludes our prepared remarks. I will turn the call back to the Operator to begin Q&A.

Operator

We have our first question coming from the line of Ryan Bailey with Goldman Sachs. Your line is open.

Ryan Bailey

I was just wondering if we can get a quick update on the advisor managed portfolios. I know you said you'll start breaking out the assets once it becomes a bit more meaningful, but if you can give us an indication of maybe how many advisors sit on the platform now or how many are using it, whether you've seen any wallet sheddings from those advisors, and then how you're thinking about pricing and how those conversations are going.

Natalie Wolfsen

Thanks, Ryan. Appreciate the question about AssetMark Managed Portfolios. AssetMark Managed Portfolios, as you know, they're a subset of the offering that we've put in place for RIAs, so a subset of the AssetMark Institutional offering. As I said in my prepared remarks, we're really happy with how the AssetMark Institutional offering is going and are tracking 14 points ahead of plan, which is fantastic.

What we're focused on is we're focused on attracting RIAs to our platform and providing the services that those RIAs need from AssetMark, and a piece of that is AssetMark Managed Portfolios, the ability to trade their own sleeve of a portfolio on our platform, but by no means is it the only piece. The community, the access to investment solutions, the ability to participate in our growth programs, all of those things are important to RIAs and specifically subscale RIAs.

Even so, within AssetMark Institutional, we have seen adoption of our AssetMark Managed Portfolios, particularly from the larger RIAs that are on our platform. The conversations are going well as it relates to pricing. Our approach to pricing isn't specific pricing for the technology itself, but to look at the whole relationship and make sure the whole relationship price works for us and our margins and then also for the advisor and what they're trying to achieve. I would say that the pricing conversations and pricing negotiations are going well, because what attracts RIAs to our platform isn't just AssetMark Managed Portfolios, but the entirety of the solutions we can offer, how much we can help them outsource their business and then refocus that time on growth.

While I didn't give you, Ryan, any specific numbers on the number of advisors using AssetMark Managed Portfolios, know that the top-line metric we use, which is the growth of the number of advisors and how many are attracted to our platform, is growing quite nicely right now in the first two months.

Ryan Bailey

Got it. Okay. Then maybe you mentioned that you have an alternative investments offering that's coming through AMI as well. Was just wondering, maybe specifically for that, is there a way we should think about revenue contribution from that over time?

Natalie Wolfsen

Yes. As it relates to AssetMark Institutional Alternative Investments platform, we announced a partnership with iCapital to provide our advisors with access to an array of alternative investments offerings that have been diligenced and that are easier for them to administer than it would be if they go direct. Because we are partnering for that offering, it does contribute revenue, but it's immaterial. What's really more important is the holistic relationship with the RIA advisor.

Operator

We have our next question coming from the line of Bryan Wynn with Credit Suisse. Your line is open.

Kevin McVeigh

It's Kevin here with Bryan. Quick question, Gary and Natalie. I wonder, can you give us a sense of how we should think about the revenue impact from the stepped up investment? Overperformance gave an opportunity to step up some of the investment, but how are you thinking about that from a revenue perspective as it relates to '21 into '22?

Natalie Wolfsen

Thanks so much for the question, Kevin. Gary, do you want to take that one?

Gary Zyla

Sure, Natalie. I'm trying to think of the right way to put it in context for you, Kevin. We are focused on the investment resulting in that double digit top-line growth with margin expansion creating the double digit, mid-teens EBITDA growth that we target every year. What we're trying to do with our investment is broaden our offering, both for existing advisors so they can grab share of wallet, as well as to bring in new advisors. We're not going to be able to give you an IRR on the investment that we're bringing in. The investment, all the investments we're making, are designed to attract assets from existing advisors, as well as bring in new advisors, particularly RIAs. Is there a way I can—go ahead. Go ahead.

Kevin McVeigh

Yes. No. That's helpful, Gary. I was thinking more, is there any way to think about how much revenue was associated with the incremental investment, whether it's a percentage associated with it? Because obviously what's nice is you've been able to step up the investment, but also—or rather, maintain the investment, but then also drive some incremental Adjusted EBITDA, which is a nice outcome for you folks.

Gary Zyla

Yes. You're absolutely right. That's exactly the right way to think about it. The way we characterize it is, the new assets coming in, particularly on our managed platform, is a very high, what you would call, incremental margin. We view it more as we have the investment to bring in the asset so that we can recognize that revenue at a much better margin in our overall book. That's how you create that margin expansion.

Kevin McVeigh

That's helpful. Then just real quick, Gary, is it too early to start thinking about impact of interest rates as it relates to maybe '22 or just any shifts in thinking around rates, just given some of the recent activity?

Gary Zyla

You mean like Janet Yellen saying today that rates might go up? That was exciting. I do think it's a little early to talk about it. We always disclose our cash and what we're earning. We earned 31 basis points on the cash right now. We're not baking it into a near-term outlook for ourselves. The numbers we talk about for 2021 do not assume any interest rate improvement, but one can hope that in 2022 or by 2023 we see some movement. Natalie, do you have anything to add on that?

Natalie Wolfsen

No. Other than to say that, as we've disclosed in the past, for every 25-ish increase in rates, we capture just shy of 20 basis points of it, or at least that's what we've done in the past. Clearly, past isn't exactly equal to what will happen in the future, but for modeling purposes, that might be a way to handle it.

Operator

We have our next question coming from the line of Patrick O'Shaughnessy with Raymond James. Your line is open.

Patrick O'Shaughnessy

In light of your proxy being filed last week, I want to touch base on AssetMark's Board composition and ownership. I believe that five of your directors are affiliated with Huatai, which still owns around 70% of your shares. Can you provide an update on how close AssetMark's relationship with Huatai is and whether there's any update on Huatai's ownership plans?

Natalie Wolfsen

Yes. I'll take that one. Patrick, thanks so much for the question. You are correct that five of our Board members are employed by Huatai, one in the U.S. and the others outside of the U.S. A couple of things to note on that. The first is that they are our majority shareholder, as you mentioned. They own about 70%, a little over 70% of us. They believe in AssetMark for the long-term and remain very pleased with the phenomenal results that AssetMark has delivered for them. As our top shareholder, they are excited about the results that we just shared with you and our strategy and our mission and our strong operating and financial performance.

With that said, both Huatai and I agree that our strong fundamentals are not really reflected in our stock price right now, and the underlying drivers of this involves improving investor demand and improving the relatively low trading volume, and fixing these issues is one of the Board's, including Huatai's, top priorities, as well as mine and Gary's for this year.

Then finally, I'm having great dialogue with the Board and our controlling shareholder right now about their ownership plans and the status of the shelf offering. We know we need to provide incremental clarity to you and to our shareholders. That's something we're working on right now. A summary of that is we understand the question and given where AssetMark is right now in terms of its fundamentals, we're incredibly excited about the Company and know that we need to provide clarity as it relates to the shelf filing and are working on that.

Patrick O'Shaughnessy

Got you. Really appreciate that detail. Then a question on your share of wallet for your engaged advisors. Where would you guys estimate that stands today? Maybe where was it a year ago? Where do you realistically think that it can go over time?

Natalie Wolfsen

Why don't I start that one, Gary, and then you can provide more details?

Gary Zyla

Sure.

Natalie Wolfsen

Our share of wallet for our engaged advisors, it varies depending on the level of engagement. It ranges. We have the lowest level of engagement, which is over $5 million, and then the highest level of engagement, which is above $75 million. We actually have many clients on our platform that are well above that. At the higher tiers, our share of wallet ranges from 80% to 100%, and at the lower tiers, it can be much smaller. The great news about that is there's potential relationship share of wallet growth potential from our advisors. It's one of the main reasons that we look to add new types of solutions to our platform, like Alternative Investments so that formerly unaddressable share of wallet becomes addressable.

We did that with our AssetMark Managed Portfolios offering. We've done it with Alternative Investments by adding some fixed income solutions to our offering. All of that expands the addressable wallet. But know that the share of wallet ranges are quite wide depending on the level of engagement. Gary, maybe I'll hand off to you if you have more specifics.

Gary Zyla

Sure. I would say—reiterate what Natalie was saying about, at the high end, those advisors who have a large amount with us, naturally they have a higher share of wallet with us. I would say, generally speaking though, if you look at the 2,600 engaged advisors, their share of wallet with us on average, probably somewhere in that 40% to 50% level. But (inaudible), Patrick, because it's almost a self-fulfilling thing. We are focused on, let's say—let’s use those 2,600; we focus on the share of wallet, how can you help those advisors bring more assets to our platform? At the same time, you're having the new producing advisors coming on and the new class of engaged advisors starting out in the lower end. Our overall percentage has moved along in that, let's call it, 30%, 40%, 50% range. But what you're seeing, when we talk to you about the growth of engaged advisors and their percent on our platform, is the evidence that the existing advisors are moving up the ladder and we're replacing them with new advisors who give us more runway for growth in the future as well.

Operator

We have our next question coming from the line of Kenneth Worthington with JPMorgan. Your line is open.

Kenneth Worthington

Net sales recovered to above your target organic growth rate. I wanted to dig into a bit more of the factors that might influence the growth over the next few quarters. Number one, you went over this fast. You mentioned another handful of departures and maybe $450 million of outflows that might take place. I thought it might be 2Q as a result. Just a little more flavor there.

I'm curious to see if you thought that either stimulus checks or tax refunds might have had any noticeable, positive impact on net sales in 1Q.

Then, when you talk about the migration back to face-to-face meetings, it seems like AssetMark and your advisors have both adapted well to the remote work environment. Maybe, to what extent is face-to-face—might that just be a (inaudible) positive or does it have the likelihood of being more significant?

Natalie Wolfsen

Sure. Thank you so much, Ken. I appreciate those questions. Gary, why don't you take the question about outflows and more detail on outflows, and then I'll take the question on stimulus checks and refunds and the impact on 1Q results. Then as it relates to the return to the road and the sales impact, we'll share that one.

Gary Zyla

Yes, that sounds great. How are you doing, Ken, I hope you're doing well. What we said was there's two advisors. We leave the two advisor offices. They have about $450 million of assets. We do believe most of that will go in 2Q. It could bleed over to 3Q. We mentioned that, Ken, because back a quarter ago, we actually thought those were going to happen in first quarter, but it was delayed as things often are and whatnot. We will break those out if they do happen in 2Q. We do feel that's a one-time thing and certainly is part of our core numbers, but a part of our numbers, but not part of our core. Hopefully that gives you the color. Again, we believe that will be the last time we talk about these one-offs and the acquisitions, because it's basically a closed story, but again, we thought it was going to happen in the first quarter. It's been delayed.

Natalie Wolfsen

Then as it relates to stimulus checks and tax refunds in the first quarter and their impact on the first quarter results, while I can't say specifically how much of the first quarter results are related to either one of those two things, what I can say is that typically the assets on our platforms are transferred in. They're transfers of other assets rather than cash. We didn't see any unusual increase in new accounts opened with cash. In fact, we saw instead broad improvement or broad increases in contributions from accounts of all size, from advisors who are engaged with us, from various different places, meaning various different former suppliers or providers of our advisors—I mean, of our clients. Growth in contributions from existing clients of advisors, cash, non-cash at the same rate that there has always been, a growth of advisors, them attracting more clients to the platform and then transferring assets to us, and then growth from new advisors, and specifically attracting new advisors that are larger than the advisors that we've attracted in the past.

Then, Gary, I didn't know if there's anything you wanted to add to that before I get to the sales impact of returning to the road.

Gary Zyla

No, you got it.

Natalie Wolfsen

As far as the sales impact of returning to the road goes, a few things: we are returning to the road in a very careful and measured way because obviously the safety of our associates, as well as their clients, is the most important thing to us. You'll be seeing a waved approach to the return to the road as each of these associates completes their second vaccine and schedule meetings with their clients. In the second quarter, the return to the road is gradual, and then we expect it to accelerate in the third quarter as vaccinations progress and we gain experience.

Our sales teams and our clients are incredibly excited to see each other and to work together on initiatives that are more complex. Then also to reengage with new advisors who were a little hesitant to completely change their outsource provider without meeting members of the team in person. We're very hopeful that this will have a positive impact, but we clearly can't say anything because we don't know what the exact rate of vaccinations will be, both for our associates, as well as our clients.

Operator

We have our next question coming from the line of Gerald O'Hara with Jefferies. Your line is open.

Gerald O'Hara

Maybe just a quick one from me. I'm curious to hear your thoughts on the bank trust channel highlighted here in your addressable market slide. But you highlight talking about a low risk entry into this channel and presumably through OBS, but if you could talk a little bit more about how you see that playing out and perhaps what resources you might put behind it to accelerate some of that wallet share. Thank you.

Natalie Wolfsen

Thanks so much for the question. You are correct. The reason we talk about that as a low risk entry is because bank trust was a channel that OBS served and one that, at AssetMark, we want to serve.

What we have done in the transition process is we've learned a lot about bank trust clients, existing bank trust clients and potential bank trust clients, and the technologies they use and how—the services that they'd like to see from an outsource provider like AssetMark. We successfully transitioned several of the bank trust clients from OBS over onto our platform. We're learning from those relationships.

In addition, we've hired a sales specialist to work on the bank trust channel and to help us attract new bank trust opportunities to AssetMark. As we are with AssetMark Institutional, we're in the early innings of our bank trust offering, and very much learning and determining what types of incremental investments we'll need to make. No real specifics at this time, other than to say that many of the transitions have completed and we're happy with where we are.

Gerald O'Hara

I suppose the follow-up, staying on the same slide for a moment, do you anticipate, as you get more advisors out on the road or more associates out on the road meeting with advisors, there's an expectation for an uptick in assets in motion, or have advisors gotten comfortable with the current work from home environment or what have you over the past six months, and then it'll just be more incremental growth opportunity for you all?

Natalie Wolfsen

I'm sorry. Would you mind repeating that? I didn't quite understand what you're asking.

Gerald O'Hara

Sure. I think there's a thesis whereby, as you're out in front of advisors a little bit more, there's an opportunity to do a little bit more recruiting of Ras, broker dealers, otherwise, blocks of business might be willing to move, or on the flip side of that, what was going to move has already moved and it'll just be regular way type of recruiting.

Natalie Wolfsen

Yes. We think it's a combination of those that we absolutely know of and can see in our sales funnel, opportunities that have stalled because the RIA or broker dealer affiliated advisor would like to meet the team in person before they make a big decision to outsource. In addition, we've gotten very effective in our remote recruiting. We've seen success. The larger the business transition, it feels the more important it is to meet in person. I know I speak for our entire sales team when I say how excited they are to begin meeting folks in person. They believe that will help them attract new advisors in the medium term.

Operator

We have our next question coming from the line of Michael Young with Truist Securities. Your line is open.

Michael Young

Wanted to start with the growth outlook for the year, Gary, that you laid out. It sounds like there's a good market share gain opportunity ahead of you from the reopening, but does the guidance contemplate some macro impacts from maybe lower savings rates, lower stimulus, those sorts of things as well? Could you maybe just talk about that qualitatively?

Gary Zyla

Yes, I think the quick answer is no, Mike. The outlook just contemplates an average market growth of about 3.5%, right? It's unknown what's going to happen with these stimulus, like if the government gets another $2 billion—$2 trillion with a T, right? Into the economy, what that's going to do for savings and whatnot.

Our outlook is, I think, a little more on the conservative side. We just assume a steady 3.5% annualized growth rate in the market, starting—we lock in first quarter and we're forecasting going forward. We feel good about our outlook because we built it in the beginning of the quarter, right? As we're standing right now today, we've already recognized almost half, collected actually, half of our revenue for the year because we did that huge building (phon) in April, right? When you have market appreciation or other appreciation to assets for the second half of the year, that's going to give you a great tailwind for the following year, opposed to the current year.

Michael Young

That makes sense. Maybe another bigger picture question: we've heard potentially a higher tax rate, higher capital gains tax rate; have you all done any review or thought process around that, whether it be new products or impacts to your current business, et cetera, that you would look to take advantage of if something like that changed?

Natalie Wolfsen

Yes. Clearly, as we think about the solutions that our advisors will need from their clients, understanding macro trends like that is incredibly important. Already on our roadmap for 2021, to begin working on in 2021, is enhanced tax services, so expanding to offer separately managed accounts where there can be individual tax services provided with the account at the advisor's direct direction. In addition to that, tax transition services will become even more important as and if taxes increase. We're working on expanding our services to include tax outsourcing.

Then clearly, we and our compliance and regulatory department are keeping our eye on any emerging trends or any emerging themes to make sure that we're delivering thought leadership, we're delivering consulting support and services to our advisors so they can answer their client's questions and they feel well prepared for whatever changes might come.

Operator

There are no further questions at this time. I will now turn the call back over to Natalie.

Natalie Wolfsen

Thank you so much. I just wanted to say thank you to all of you for joining the call today. I'm looking forward to getting to know all of you in the coming months and talking to you again in the third quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.