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SEI Investments Co. (SEIC)

Q4 2024 Earnings Call

CORPORATE PARTICIPANTS

Brad Burke

Head-Investor Relations, SEI Investments Co.

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

Michael Lane

Executive Vice President & Head-Asset Management, SEI Investments Co.

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

Philip McCabe

Executive Vice President & Head-Investment Manager Services, SEI Investments Co.

Paul F. Klauder

Executive Vice President & Head-Advisor Business, SEI Investments Co.

Jay J. Cipriano

Executive Vice President & Head-Institutional business, SEI Investments Co.

OTHER PARTICIPANTS

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Aidan Hall

Analyst, Keefe, Bruyette & Woods, Inc.

Jeff Schmitt

Analyst, William Blair & Co. LLC

Ryan Kenny

Analyst, Morgan Stanley & Co. LLC

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Q4 2024 SEI Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker, Mr. Brad Burke, Head of Investor Relations. Please go ahead.

Brad Burke

Head-Investor Relations, SEI Investments Co.

Thank you and welcome, everyone. We appreciate you joining us today for our fourth quarter 2024 earnings call. On the call we have Ryan Hicke, SEI's Chief Executive Officer; Sean Denham, Chief Financial Officer and members of our executive management team: Jay Cipriano, Sandy Ewing, Paul Klauder, Michael Lane, Phil McCabe, Mike Peterson, Sneha Shah and Sanjay Sharma.

Before we begin, I would like to point out that our earnings press release and the presentation that will accompany today's call can be found under the Investor Relations section of our website at seic.com. This call is being webcast live and a replay will be available on the Events and Webcast page of our website. We would like to remind you that during today's presentation and in our responses to your questions, we have and will make certain forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements that appear in today's presentation slides and in our filings with the Securities and Exchange Commission. We do not undertake to update any of our forward-looking statements.

With that, please turn to slide 3 as I turn the call to our CEO, Ryan Hicke. Ryan?

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

Thank you, Brad, and good afternoon, everyone. I know you've heard me use this quote before, but it's worth repeating. Anything that happens once may never happen again, but anything that happens twice can surely happen a third time. Sales events for Q4 2024 were \$38 million, with \$28 million net recurring. We also posted \$1.19 of EPS for the quarter. This is the second consecutive quarter where SEI has realized significant growth in net sales events. We have made meaningful and consistent progress over the last 18 months and we are surgically focused on maintaining and growing this momentum. For the full year, net sales events reached nearly \$130 million, with nearly \$100 million recurring. SEI net events for 2024 were nearly 60% higher than what we achieved in 2023 and almost double what we did in 2022. Most importantly, similar to last quarter, there isn't a single client or win driving these results and we have not changed our pricing or value propositions. The sales are broad based across the organization coming from existing and new clients, both in the US and globally. And while the third quarter benefited from some delays in the first half of the year, the fourth quarter did not benefit from delays or a pull forward from 2025.

SEI has real momentum and increased confidence across the entire workforce. Our 5,000 employees have embraced a true enterprise first mindset, putting in the time and energy to ignite our momentum. Because of their efforts and our strong financial performance during the year, we determined with the board's unanimous approval

that a one-time increase to our 2024 incentive compensation was appropriate. We're confident that this is a decision that is in our company's best interest. Maybe not the optimal decision, if only trying to maximize earnings per share in a single quarter. But we were still able to post impressive earnings growth in the fourth quarter while rewarding our employees.

EPS reached \$4.41 for the full year, growing 27% versus 2023. Last quarter we called out a handful of one-time items that benefited us. This quarter we saw the opposite with an approximate \$0.02 headwind from incentive compensation and some other items affecting comparability that Sean will talk through in greater detail. Absent these items, our EPS would have achieved solid growth against both the prior year and prior quarter. Again, the growth drivers are broad based and every single business unit realized revenue growth, operating profit growth and margin growth relative to the fourth quarter of last year. However, we also continue to see some challenges in the quarter. Our Institutional business saw asset outflows due to some expected planned terminations. And LSV also experienced net outflows due to the structural pressures facing almost every single active asset manager. The core of our business remains very strong and we've been able to mostly offset these challenges and continue to post strong net sales and earnings growth. But we still have a lot of work to do.

In total, our \$1.6 trillion in assets under management and assets under administration are nearly flat with the prior quarter, despite a modest headwind from capital markets. We're continuing to see strong demand for alternative investment products, particularly in the investment managers business and our intermediary businesses. Strategically, we looked at 2025 to really drive continued change across our operating model and aligning our capabilities more effectively with how clients and prospects want to engage and consume our services. We are relentlessly focused on allocating capital where we see the strongest growth opportunities and we have been very deliberate and consistent in where we have been investing, including expanding our global footprint of our investment managers business and focusing resources on regional and community banks in our private banking segment. We are seeing those investments pay off.

We are going to continue to invest in our infrastructure, our scale, client experience, our people and our global regulatory and compliance capabilities. Outside of the US, our regulated subsidiaries are subject to a high level of supervisory engagement. In particular, our UK subsidiary continues to engage with our UK regulator in the process, we disclosed in our Q3 10-Q, to implement measures to meet the regulator's expectations for a firm of our size and complexity that will enable us to continue driving the growth of our UK business effectively. The momentum you've seen in the last few quarters is not just a hot hand. We see real underlying improvement in our business, in our sales and in the discussions we're having with our clients. As we look at our pipelines of strategic growth initiatives, we are focused on continuing these trends.

With that, I'll turn the call over to Sean. Go, Birds.

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

Thank you, Ryan. Please turn to slide 4. Our EPS of \$1, \$1.19 in the quarter represents a 31% increase from the prior year, with a positive contribution from all of SEI's business units. The fundamental earnings of the business also improved on a sequential basis. We did have some items in the quarter that affect the comparison. The first is a \$0.04 impact from the increased incentive compensation that Ryan noted earlier, in recognition of our employees enabling the record results achieved in the year. We also saw a \$0.05 impact from the timing around stock compensation plans. Our option plans vest contingent upon achieving certain EPS thresholds. As a result of the strong EPS growth achieved during the year, we recognized an increased level of stock expense in the quarter. These were offset by a \$0.02 benefit from foreign exchange gains and a \$0.05 benefit from a lower tax

rate from options exercised during the quarter as well as our year end provision estimate. Absent these items, SEI would have achieved EPS growth on both an annual and sequential basis.

Turning to our business unit financial performance on slide 5. Each of our business units realized both revenue and operating profit growth over the prior year. Growth in our Private Banking and Investment Managers businesses has been supported by the strong sales events we have achieved during the year. In addition to the new client wins, growth has been driven by improved client retention, especially in our Private Banking business and growth within our existing client base, most notably in Investment Managers. Results in our Investment Advisors business were supported by a full quarter benefit from our Integrated Cash Program, which contributed just over \$20 million to the fourth quarter and more than \$10 million increase over the third quarter. We do expect to benefit from our cash program to moderate during 2025 as clients continue to explore alternative cash options we make available and the short term interest rates are expected to decrease. Additionally, I would highlight that our institutional team has made enormous efforts to offset the structural headwinds from our corporate DB plan terminations. This is having a measurable impact. The 1% year-over-year revenue growth in the fourth quarter represents a marked improvement from the first half of 2024, where revenue declined by more than 4% against the first half of 2023.

Slide 6 illustrates the changes in our operating margins for our business units and the progression of our operating margin for the entire company. We are pleased with our margin performance in Q4 compared to both the prior year and the prior quarter. The items I noted earlier had a combined 210 basis point negative impact to consolidated margins in the quarter. Across business units, the impact was nearly 3% for Private Banking, 1.5% for Investment Managers, 1% for Investment Advisors, and 2% for Institutional Investors. Excluding these items, our consolidated operating margins improved relative to the prior year and the prior quarter, reflecting SEI's continued cost discipline and cost leverage against healthy revenue growth. I want to specifically discuss Private Banking, where we had seen the most dramatic benefit from improving margins as of late. Recall that our third quarter Private Banking margins were benefited by approximately 1.5% due to some onetime items. Combined with nearly 300 basis point impact from incentive comp – incentive and stock compensation in the fourth quarter, we continue to see steady profitability improvement in this business unit.

Turning to slide 7. SEI had another outstanding quarter for sales events, which totaled \$38 million. While lower than last year's last quarter's record result, I'd remind you of the comments we made during our last earnings call. We did benefit in the third quarter with sales events that were delayed in the first half of the year. The third quarter benefited from the approximately \$7 million of sales events that were delayed. The fourth quarter received no such benefit, making the sales event outcome all the more impressive. Net events in the quarter were led by our Private Banking and Investment Managers businesses.

Within Private Banking, regional and community banks were a notable contributor to fourth quarter sales events. Our shift toward an enterprise mindset is also demonstrating results. Our strategic partnership with Close Brothers, which we announced in November, is an excellent example of a true enterprise wide partnership where we are providing our SWP platform, professional services and IT managed services. This win was highly contested and SEI's ability to offer the full capabilities of our firm provided to be the differentiating factor in our success.

Our Investment Managers sales events came from a balanced mix of traditional, alternative, and global clients. The solutions and operating model are really resonating with our clients, and we're seeing significant traction, especially with our global and private credit offerings. We continue to observe a convergence between private and public markets. SEI is one of the few administrators that can effectively service both globally.

We also continue to invest in our operational footprint within – with the enhancements we made to our global offering and leadership team in Luxembourg. We expect our competitive differentiation to continue to increase going forward. Our strong fourth quarter results were only partially offset by losses in our Institutional business, driven by planned terminations, Ryan noted earlier.

I want to highlight that we are – while our accelerating sales events in the second half of the year are an outstanding outcome for our business, they may slightly pressure margins in the near term. As we win new business, we must augment our teams and the associated costs ahead of onboarding a client on time and on budget. As a result, the expense hits the income statement before revenue.

Turning to slide 8. We had healthy growth in assets during 2024 for both AUM and AUA. In the fourth quarter, Investment Managers continued to realize growth in assets driven by the strength of our alternatives business as managers deploy capital. Beyond Investment Managers, assets declined in the fourth quarter due to a combination of market valuation and net outflows. The decline in our AUM for advisors was mostly offset by growth in platform assets. Our advisors business has been able to retain strategic oversight of client portfolios where we continue to earn an overlay fee even if those clients migrate to third party passive funds and ETFs. Within Institutional, we had a couple of large planned terminations which were more than offset nice wins against robust competition in the quarter. While we continue to view planned terminations as a structural headwind, the impact to the fourth quarter was larger than normal due to the timing of planned terminations combined with lower market valuations.

Our LSV investment also experienced net outflows and to a lesser extent market depreciation from a decline in global value indices in the fourth quarter. It's important to remember that LSV is an actively managed global value-oriented asset manager. Client outflows have been entirely due to changing asset allocations or active to passive transitions. We have not seen LSV losing business to other active value managers. While long term performance from LSV remained strong on both a three-year and five-year basis, we would expect performance fees to moderate from 2024 levels, which totaled \$21 million for SEI's share.

Before concluding, I want to touch on capital allocation on slide 9. During the fourth quarter, SEI repurchased \$259 million in stock and increased our semi-annual dividend by \$0.03, representing a 6.5% increase. Stock repurchases in Q4, the highest amount repurchased in SEI's history, were supported by strong free cash flow in the back half of the year. Total capital returned to shareholders through either share repurchases or dividends totaled \$620 million for the full year, representing nearly 6% of our year end market cap. We also announced the acquisition of LifeYield in December for approximately \$29 million in cash, plus a contingent earn-in. LifeYield will be reported in our Investment Advisors segment and we expect it to resonate across business units. The integration of LifeYield's Tax-Smart technology with our investment technology and evolving multi-custody capabilities will deliver the industry's first fully bundled UMH solution.

Notwithstanding our significant capital deployment during the year, SEI ended the fourth quarter with a pristine balance sheet, no long term debt and significant liquidity in the form of \$840 million cash balance and \$325 million undrawn revolver capacity.

Before turning the call over for questions, I want to reiterate Ryan's opening comments. We are running this company and showing up in the market differently. We are investing in the areas of our business that are core to the best in class products and services we provide our clients. And we are driving the next level of momentum that we believe is unleashing long lasting growth potential. The shift to an enterprise mindset is powerful, and we're excited for what's ahead in 2025.

With that operator, please open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment while we compile the Q&A roster. And our first question will come from the line of Owen Lau with Oppenheimer. Your line is open.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Good afternoon and thank you for taking my question. So, first of all, thank you for creating the slide. It helps investors understand the story better. So I really appreciate it. For my question, could you please talk about the sales environment? Net sales were strong, \$38 million in the fourth quarter. I'm wondering the driver of that growth. I know you touched on this a little bit on your prepared remark, but how much of that comes from pricing, existing and new clients? And how do you see the sales outlook in 2025? Thank you.

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

A

Hey, Owen. Happy New Year, my friend. Thanks for the question. I can let some others provide some color. So I try to break it down in a couple of ways. So if you look at the sales events in Q4, we had a really nice mix of new logos in the new names and continued growth from existing clients. But I think even more exciting, as Sean mentioned, it was broad based across the units, but also broad based domestically and globally. We saw some nice traction in our non-US markets especially in IMS and Banking. I mean, I can't reiterate this any more clearly than I have in the last two calls. We're not changing our pricing, Owen. We have remained extremely consistent, confident and [ph] convicted (00:26:50) around the value proposition. But equally said, we're continuing to really lean into two fundamental areas that I think are driving continued sales. One, making sure we are meeting and exceeding client expectations wherever possible. And also one thing we believe is a competitive differentiator for us is when these firms are making these decisions, these are critical strategic decisions for their business growth and they're reliant on us – relying on us to deliver on time, on budget. And that is a hallmark and a principle that we hold really dear. And I think the blast radius of that reputation is continuing to expand and firms are looking to engage with us because of the confidence they have, not just in our capabilities and our solutions, but they know that we pride ourselves on our delivery and ongoing client service. I would also say, you know, the reason I open the call with the way I open the call, we don't give guidance, as you know. But we feel really, really positive about the level of engagement we have in the market, the breadth of activity we have in the market, our sales pipelines. And we mentioned in the call last time with Michael Lane joining kind of a reignite and reignition, if you will, of our asset management based businesses. So that's a lot for one question. All the unit leads are in the room though, if you want to unpack any of that.

Operator: Okay. We'll go on to our next question. One moment, please. And that will come from the line of Aidan Hall with KBW. Your line is open.

Aidan Hall

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Good afternoon. Thanks for taking my questions. Maybe just one to start, Sean, on the near term margin comment about the pressure expected associated with obviously strong net sales events, it's a good problem to have. But any way to put a finer point on that, whether at the firm level or segment level, how long before the

upfront associated expenses kind of lapped the revenue associated with that business coming in? Just trying to think about the margin profile in 2025 as it relates to 2024.

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

A

Sure. Nice to hear from you, Aidan and thanks for the question. So, you know, we need to make certain investments in costs prior to onboarding those clients. I know you're aware of that. We are still very, very confident in our margins that continue margin expansion in 2025, just like every year we are not making short term decisions. We're making investments for the long term. We're not here just to hit certain earnings targets that may be external or, you know, for that matter.

So sales typically, depending on the business from a sales event in Sanjay's business, will take anywhere from 3 months to 18 months or probably closer to 6 months to 18 months to bring that revenue online. With that comes, you know, upfront costs that we have to get to onboard those clients. Same with Phil's business. Phil's business is more from 3 months. It can go all the way up to 18 months, but maybe staying closer to a year. So increasing head count, making sure we have the right quality in place, the right leverage in place to onboard that client. We don't build massive teams. We try to do more of a little bit more of a just in time. If you think about that model. So we bring in expense slightly ahead of when those sales events are coming online and then when we expect the revenue to hit. So we do have certain expenses that we're going to have in 2025 in order to keep up with our infrastructure. So that's how I think I would answer that question.

Aidan Hall

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. No, that's helpful. Maybe just one for Michael. I know last earnings call caught you only a month or two into the job and give some high level thoughts about the opportunity in the asset management based businesses. Just curious if you had any more tangible takeaways now a quarter further into the seat about how you're thinking about the largest opportunities for these segments?

Michael Lane

Executive Vice President & Head-Asset Management, SEI Investments Co.

A

Absolutely. In the last earning call, we spoke about how we would be looking for ways to consolidate areas of overlap and free up dollars to invest in new distribution opportunities. We have started that process. We had project teams created to come back with proposals for areas that we have overlap between different business units. We are now in the process of exploring how we're going to repurpose those areas of savings into new markets. And when you look at the business that we have available to us with the existing product line and the existing people that we have within the organization. We believe that there are tremendous opportunities for us to use the scale of our banking business where we have \$7 trillion running on our wealth platform and bringing that to the most scaled, being the largest, most successful firms out there that we have not actually brought that to, both from a technology custody and an investment perspective, whether that be in a model allocation or even in some of those relationships, it will be in an individual fund opportunity for us. And so we are deep in that process right now of looking at the areas of consolidation, looking at areas of new investment in new businesses, using the areas of consolidation to fund that. And what I've been very impressed with, to be quite honest with you, is the collaboration across the different business units to bring that all together.

Aidan Hall

Analyst, Keefe, Bruyette & Woods, Inc.

Q

I appreciate the color. Thanks for taking my questions.

Michael Lane

Executive Vice President & Head-Asset Management, SEI Investments Co.

Welcome.

A

Operator: Thank you. One moment for our next question. And that will come from the line of Jeff Schmitt with William Blair. Your line is open.

Jeff Schmitt

Analyst, William Blair & Co. LLC

Hi. Thank you. So Private Banks obviously continues to do really well. Do you think you can keep growing that business in the double digits? I guess now that comparisons are going to be a lot tougher. And any details you can give on client retention improvements in that business over the last year or two would be helpful too.

Q

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

Hey, Jeff. Hope you're doing well. I'll turn that one over to Sanjay. I think the good news is I hope we answer this question consistently every quarter. So I'll let Sanjay continue to unpack what we're doing with banking and why we expect to maintain that momentum.

A

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

[indiscernible] (00:33:57) first of all, that's great question. Thank you, Jeff. If you look at Private Banking, our strategy has been very consistent over the last eight plus quarters. You've seen that growth through existing clients that happens by improving our engagement with the clients. So our clients, they're trusting on us and they are outsourcing their technology in our business. In that process, we are building good credibility with that client base. And you have seen consistently we outlined retention is very high and that is enabling us to grow through our existing client base. And that's why you're seeing the new services or new segment expansion initiatives we have launched. For example, SEI Data Cloud, SEI professional services, digital onboarding now through those, we are able to grow our footprint for the existing client base. So that's a really good growth engine.

A

The second part is if you look at – we've focused on segment specific growth initiative be it on our global markets, be it on the [ph] recent of Community Bank (00:34:57) segment. And then we started small banking initiative as well. And there it's a very laser focused initiative in terms of what solutions is needed for those segments. And we have invested significantly in that, as Ryan called out earlier, that we are absolutely certain about that. We have to make sure we [ph] don't provide adverse experience (00:35:17) on or impact our client's business as part of that onboarding process. So delivery certainty, delivery experience, delivery excellence those are absolute requirement for us. So that's why you could see that we are going through those segment-specific sales strategies. So those two [ph] outside (00:35:38) of those two growth pillars, they are really helping us. And as I as I called out, the reason why we invested in professional services was so that we can help our clients to focus on growing their business while they can rely on us to manage that overall transformation journey. Ryan, and Sean you have anything to add anything?

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

That's great.

A

Jeff Schmitt

Analyst, William Blair & Co. LLC

Q

Okay, great. And then a question on capital management. Share buybacks, I think were record in the quarter. Does this signal a shift in your strategy there or is there potential that we may see you look to do more M&A in 2025 if activity kind of picks up there? I mean, obviously, you have a ton of dry powder for that, too.

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

A

Yeah. So I was expecting that question, especially after the buybacks and repurchases in Q4. So, I mean, how we're thinking about it, we are just like we have every single quarter, we're looking at what our cash balance is, what available cash is or free cash flow is. And in Q4, we saw a significant increase in Q4, especially early Q4. A lot of these repurchases occurred more in the December timeframe. I've done an analysis in Q1 on what we think the buyback will be for Q1. And so I don't think we're taking a long term view of this. We do see a very good return on our capital when we think about economic value added and return on invested capital. We do believe this is a good use of our capital and as a result, will we accelerate that? Maybe. But, you know, I think we continue to look at what our cash needs or capital needs are. And it really it's more on a quarter by quarter decision.

Jeff Schmitt

Analyst, William Blair & Co. LLC

Q

Got it. Okay. Thank you.

Operator: Thank you. One moment for our next question. And that will come from the line of Ryan Kenny with Morgan Stanley. Your line is open.

Ryan Kenny

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks for taking my questions. So first is just on the incentive comp, appreciate you breaking it out in terms of the impact by segment. Should we think of that as a one-off or if we get strong net sales next year as well, could that also come with elevated incentive comp in 4Q 2025?

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

A

So Ryan, we are we're thinking about that currently as one-off. The shift from going to a vertical strategy to a horizontal strategy is something the entire organization embraced. The great fiscal year that we had as a leadership team as Ryan mentioned, the board unanimously approved that. But we are thinking about that really as a one-off. And so we will look at that on a year by year basis but we're not expecting really a shift or a recurrence of that necessarily.

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

A

But I would add to that, Ryan, and Sean's absolutely right. It's certainly a one-off in respect to expense, but we hope it's not a one-off in terms of the board and executive management team feeling empowered and compelled to reward the workforce for record sales and record earnings results.

Ryan Kenny

Analyst, Morgan Stanley & Co. LLC

Q

All right. Thanks. That's helpful. And then separately on alternative servicing, I know it's a growth area for you and you laid that out in the prepared remarks. How should we think about how big alternative servicing is as a percentage of the IMS segment? Is there any stats you could share in terms of percent of revenues or percent of assets? And what really differentiates your product there?

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

A

Phil?

Philip McCabe

Executive Vice President & Head-Investment Manager Services, SEI Investments Co.

A

Yeah, I can take that. So thanks, Ryan. Couple of things real quick. Normally, the alternatives business, if you include the global component of it, is about 70% of our revenue. So that's approximately the number. And, you know, I think it's growing based upon industry tailwinds. We talked in the last call about globalization, retail alternatives, private assets, especially private credit and the convergence of public and private markets. So it's a pretty significant and growing component of that business. But we expect the traditional side to grow as well as those – as we are – as they launch alternative products and as alternative clients are going into traditional market for distribution. So hopefully that answers your question. Anything to add? Okay. Thank you.

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

A

I think the only thing to add, Phil, which we called out in the call, is that we made investments in 2023 and 2024 to expand our footprint with front line talent globally, especially in the European markets. And as we have spoken about before, we will continue to invest. And to Jeff's question on the M&A front, there are areas we're always kind of considering and contemplating strategically to expand our footprint to service US and non-US clients that are growing their footprint.

Philip McCabe

Executive Vice President & Head-Investment Manager Services, SEI Investments Co.

A

And I'll add something to that very quickly. So our international team had the best quarter that they've ever had and the best year that they've ever had. So the investments that we made over the last couple of years are bearing fruit. We're getting larger clients over there, which should lead to more future cross-sell. So it's really looking bright over there. And it was something we focused on over the last couple of years, and our Lux offering is really strong. I think we're the seventh largest private asset administrator in that space and we've only been there for two or three years.

Ryan Kenny

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Thank you. One moment for our next question. And we do have a follow-up from Owen Lau with Openheimer. Your line is open.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my follow-up. Could you please talk about the progress of your Integrated Cash Program? I think the balance end at around \$2.4 billion in the fourth quarter. Is there any room to expand it further? And again, what is the outlook for this program in 2025? Thanks.

Paul F. Klauder

Executive Vice President & Head-Advisor Business, SEI Investments Co.

A

Hey, Owen. It's Paul. How are you? So we ended the quarter at about \$2.4 billion. We exited the quarter just a little shy of \$2.4 billion, but a lot of volatility during the quarter because what hits FDIC first are the fees that we pay to advisors, which average about \$180 million per quarter and any disbursement. So the average balance during the quarter was about \$2.18 billion. And we think as we move into 2025, something closer to around \$2 billion, maybe \$2.1 billion is a more realistic target on a normalized run rate. As we get cash flow in the business, cash flow will matriculate to the FDIC program, but we don't see another kind of conversion that we're going to be doing. We think we have an appropriate level of diversification with the – money fund options that advisors have and the right disclosures in place. So we think if from a modeling perspective, somewhere between \$2 billion to \$2.1 billion is probably a fair number to model on a go-forward basis. And we saw the rates did move today. So our net yield is about 380 basis points presently on the program.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Got it. That's very helpful. And then on Institutional Investors, could you please talk about the unusually but expected large impact on the terminations? What were the drivers of that? And is that one-off or something that could happen more frequently in the future? Thanks.

Jay J. Cipriano

Executive Vice President & Head-Institutional business, SEI Investments Co.

A

Hey, Owen, this is Jay. Thanks for the question. With – as we've talked about, the headwinds with in the defined benefit space, currently we talk quite a bit with our clients. And when we're over that 110%, 115% funding rate, some clients make the decision to annuitize. In this case, we had some clients we were talking to. It's very difficult to predict the timing of our client based on their own individual business needs when they'll make the decision to annuitize. But in this case, a client did – clients did decide to annuitize at that time, and it hit us in the fourth quarter. We'd expect the headwinds in defined benefit space to persist through 2025. Our rates continue to be elevated and based off of recent comments, we don't know when they'll fall. And it's advantageous to the plans in these higher rate environments to hit a higher funding status and explore opportunities to move that liability off their balance sheet. So it's difficult to predict the timing when a plan will do it. But in this environment, we do expect to continue to hit those headwinds in 2025.

Owen Lau

Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thanks a lot.

Jay J. Cipriano

Executive Vice President & Head-Institutional business, SEI Investments Co.

A

Sure.

Operator: Thank you. One moment for our next question. And that will come from the line of Patrick O'Shaughnessy with Raymond James. Your line is open.

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Hey, good afternoon. Just one question from me. I want to follow up on the discussion around retention within Private Banks. One of the historical challenges in that segment was big negative events from client cancellations or re-contracting events. We haven't seen a lot of those big downside risks or downside events in recent quarters. Have you guys been lucky or have you been good?

[indiscernible] (00:45:31)

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

A

Patrick. I'd answer that. So we have not been lucky. I think we have been much more aggressive in ongoing engagement with our client base. Sanjay [ph] has not (00:45:43) just been personally present his entire team, I think it's just extremely active in the market. I think we are leveling up at a higher level of organizations and engaging more of the executives and decision makers of those firms. We are expanding and exposing, I think, a broader set of capabilities from SEI beyond just like our solutions and products. I think they get access more to our people and our culture, and that resonates. But I'll let Sanjay provide a little more color. But this is one I would say definitely not been luck. This has been real hard work and something we think is sustainable.

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

A

I think you've got it all. I'd just add one more thing. And Sean, you called it out earlier. The major difference we've made now is enterprise mindset. I would think about it if private banks, the wealth management, they are consuming many, many services, not just what we are providing and by banking unit. So that's what we expose to our client base and that's really helped us with the retention strategy. The other thing is when you look at the retention strategy, our engagement and the be it on the operations side, be it on technology side, be it on the business side. So they are seeing SEI as a true partner. And we are on the table when they are defining their next year strategy. The question is we are exchanging now, okay, where you want to see your business in the next three to five years' timeframe. Looking at many of these banks, they are going to have an edge and we are helping them to onboard that business very efficiently. So they are truly now experiencing the power of SEI enterprise. And that has been a major game changer.

Another thing that's again, I'm going to call out is that professional services. SEI Professional Services are really helping our existing client base because they are reaching out to some other third-party consulting companies and they're teaching them their business, they're teaching them our platforms and our capabilities to deliver those services. That's what was happening in prior time. But now they are relying more and more on SEI to deliver those services, and that is really helping us to grow our footprint through existing client base and improve retention.

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

A

I think the only thing I'd add, and maybe it's a great way to almost close. There's two positions you can occupy with your client base. You can be a vendor or a strategic partner. I would love to tell you we occupy the latter with every single one of our clients, but that's our aspiration. And I think we allowed ourselves to get put in the vendor

bucket for a lot of our banking clients for many years. And Sanjay and the team have done a marvelous job of repositioning and moving SEI from that space, Patrick, into more of that strategic partner category.

Operator: Thank you. One moment for our next question. And that will come from the line of Aidan Hall with KBW. Your line is open.

Aidan Hall

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks for taking my follow-up. Maybe just staying on the topic. Sanjay, wanted to get your thoughts on how you think SEI is positioned for bank M&A or the potential consolidation of banks here in the US over the next couple of years. See some puts and takes with the opportunity for new business as some of your larger regional banking clients acquire down cap for scale. But at that smaller cap level or the relationships there, it seems like potentially more of a risk or maybe opportunity for investment contracts coming under review. So how would you kind of characterize that trend over the next couple of years?

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

A

No, that's a great, great question, Aidan. And if you look at in the industry right now, I see that M&A traffic is increasing and that is presenting two opportunities for us. Let's take [ph] this opportunity which is (00:49:34) our existing client is acquiring somebody else. Great opportunity for us. We are helping. We have done many such projects in past and we are helping in terms of overall technology transformation and operation [ph] specialization (00:49:50) and onboarding that business to our platform based – we have really good experience in that. And we are seeing good many such opportunities in there as we speak.

The second opportunity is that our existing client is getting acquired by somebody else who is not on our platform. I like that opportunity because now I can further grow our business. And think about a scenario because our existing client base is solid, they are referenceable, they'd like the partnership, and now with them moving and getting acquired by somebody else, that presents us an opportunity that I can go now and convince the acquiring party just come on our platform. So I see this as a very positive thing for SEI. Sean, Ryan, do you want to add anything further?

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

A

I'll throw a question. I don't know the number. I know you do off the top of your head. but our attrition rate on those clients where we are is historically a lot higher as a result of everything you just said is somewhere around 1%, 2%. Somewhere around there?

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

A

Yeah. It is 1%.

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

A

1% I thought. Okay.

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

Yeah.

A

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

Yeah. That's the number I thought. Okay.

A

Sanjay K. Sharma

Executive Vice President & Global Head-Private Banking & Wealth Management, SEI Investments Co.

[indiscernible] (00:50:58). So then we could go back to the client and bring them back.

A

Sean Denham

Chief Financial Officer & Executive Vice President, SEI Investments Co.

I mean, a 1% attrition rate is amazing in my mind.

A

Aidan Hall

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you, Sean.

Q

Operator: Thank you. I'm showing no further questions in the queue at this time. I would now like to turn the call over to management for any closing remarks.

Ryan P. Hicke

Chief Executive Officer & Director, SEI Investments Co.

I just want to thank everybody for taking the time. And actually, the level of engagement today has been fantastic. We really appreciate the breadth of the questions. We enjoyed it. And it does feel like the SEI momentum and story is resonating and we're focused on what we need to do to continue, maintain and grow that. Belated Happy New Year to everybody. Look forward to seeing everyone in-person and wish you a good evening.

Operator: Thank you all for participating. This concludes today's program. You may now disconnect.

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