bfinance

Investor insight

Wealth Manager Investment Survey

September 2021

Contents

bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London-headquartered firm has conducted engagements for more than 370 clients in 38 countries and now has eight offices in seven countries. Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.

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Why read on?

In an era of transformative change for the wealth management industry, how are investment capabilities evolving to keep pace with client demands and business imperatives?

Today, high net worth individuals (HNWI) control more assets than pension funds. That figure now stands at approximately **USD 88 trillion**, according to financial services firm PwC, versus USD 50 trillion in pension assets[1]. By 2025, the HNWI figure is predicted to reach USD 108 trillion and will be trending in favour of emerging markets, women and Millennials/Generation Z. Meanwhile, 'mass affluent' savers—those with more than USD 100,000 available to invest—hold an additional **USD 77 trillion** in assets and that figure is expanding at a similarly rapid pace. Wealth managers are becoming increasingly keen to attract clients with these smaller sums, facilitated by digitally-enabled models that make lower investment sizes increasingly commercially attractive.

The 'wealth' client base is growing; its needs are changing. A plethora of research studies have demonstrated that wealth clients are increasingly expecting asset management services that are **digitally sophisticated**, **'sustainable'** and **'goal-led'**[2], while also providing access to a **broad range of asset classes**[3] for investment diversification and better returns. Clients are also becoming more likely to switch providers or use multiple firms if their needs aren't met, with new competitors including fintech companies looking to take a slice of the wealth management pie. And, as illustrated here, wealth managers are under greater cost pressures than ever: **falling fees** for like-for-like services are forcing firms to find new efficiencies or produce new investment offerings that can merit higher charges.

Yet what do these shifts actually mean for the evolution of wealth managers' investment capabilities, products and teams? In June and July 2021, bfinance surveyed 120 wealth managers around the globe, spanning different sizes and specialties, to shed light on key investment developments. Key findings fall chiefly into three themes:

- **Expanding investment capabilities**, with growing allocations to alternative investments and coverage of an increasingly diverse range of asset classes. Meanwhile, the much-discussed shift towards passive investing may have hit its limit.

- **The shift towards ESG and impact investing**, with clear differentiation emerging between those who envisage a separate ESG product suite and those who expect broad integration.

- **Evolving structures and use of service providers**: falling fees on like-for-like services, more use of external managers and a—very mixed—trend in favour of collectivisation.

We hope that this report primarily proves helpful to wealth managers and to the service providers who seek to support them, including the broader asset management industry.

Yet the health and effectiveness of this sector should also concern policymakers, macroeconomists and regulators. Wealth management, more than ever, is a topic that does not just affect the exceptionally well-off. Individuals face growing challenges in delivering their future financial security—challenges compounded by the decline of Defined Benefit pension provision relative to the (individually far riskier) Defined Contribution model, anaemic growth forecasts and a recent decade of stimulus-driven asset price inflation. The results delivered by this industry will be increasingly crucial in determining the financial health (or otherwise) of upcoming generations.

[1] Asset and Wealth Management Revolution, 2020, PWC
[2] Wealth and Asset Management 2021, Roubini ThoughtLab
[3] EY Global Wealth Research Report 2021

Highlights at a glance

EXPANDING INVESTMENT CAPABILITIES

Higher exposure to alternatives

61% of wealth managers have increased the proportion of assets in **private market** strategies in past 3 years; 54% expect to do so in next 2 years. **Liquid alts** are in favour: 44% expect to boost exposure in the next 2 years.

Trend towards equities slows down

66% of wealth managers have more in equities than 3 years ago. But the picture for next 2 years is mixed: 31% will boost exposure, 16% will reduce.

Passive investment: is the tide turning?

Just 21% of wealth managers expect to increase their use of passive strategies in next 2 years, versus 50% in past 3 years.

New asset classes

NEW

69% of wealth managers have added at least one new asset class for wealth clients in the past 3 years; 52% will do so in the next 2 years.

Investment capabilities today:

- 60% use **private equity**;
- 52% use **emerging market debt**;
- 52% use **private credit**;
- 48% use **infrastructure**;
- 42% use **hedge funds**;
- >70% use '**illiquid investments**' (redemption >1yr).

ESG AND IMPACT INVEST

Key driver = business development

54% of wealth managers that integrate ESG say business development is a "significant factor" driving this practice; 18% say expected outperformance is a "significant factor".

Massive shift towards ESG

80% of wealth managers now integrate (or are in the process of integrating) ESG considerations into client portfolios, up from 37% 3 years ago (116% increase).

Impact moves to mainstream

50% integrate impact considerations, up from 18% 3 years ago (177% increase). One third "actively considering".

…but still for minority of assets

Only 13% of those who do integrate ESG say this applies to "all" wealth assets; 27% say it covers the "majority".

ESG strategy reveals 3 clear camps

55% wish to integrate ESG/sustainability factors across the full spectrum of investment activities.

35% plan to have separate ESG/sustainable funds.

10% have no intentions in this space.

Highlights at a glance continued

STRUCTURES AND SERVICE PROVIDERS

Falling fees

46%

say that charges to wealth clients for the same/similar services have decreased in the past 3 years; just 9% say they've increased.

Digitisation and new technologies

87%

of wealth managers have begun offering new technologies for clients to use within the past three years; 90% intend to add new tech in the next 2 years

External asset manager fees are down

57%

say average fees paid to asset managers declined in past 3 years, only 9% note a rise. Opposing forces: higher allocations to (cheaper) passive strategies; higher allocations to (often-costly) alternative investments.

More use of third-party asset managers

36%

have increased the proportion of wealth assets invested via third-party managers in the past 3 years (12% decreased); 30% expect it to increase in the next 2 years (5% decrease); expanding capabilities and efficiencies are key drivers.

92% of wealth managers use external asset managers for some portfolios of wealth client assets.

Expansion of collective investing

34%

(including half of firms with >USD 5 billion in wealth assets) have a higher proportion of assets in collective vehicles than they did 3 years ago. Just 14% have less.

Model portfolios dominate at larger firms

76%

of wealth managers use 'model portfolios' for clients (defined, for example, by 'higher risk' or 'lower risk'). This is particularly prevalent at firms with higher wealth AuM (83% of those with >USD 5 billion vs. 66% of those with <USD 500 million).

LOW HIGH

About the respondents

120 wealth managers

29 countries

5 continents

>$1 trillion in wealth client AuM

About the respondents

In June-July 2021, 120 wealth managers across five continents took part in this study.

Together, their firms manage assets for wealth clients in excess of one trillion U.S. dollars. Respondents ranged from small boutiques to large familiar names and included a handful of family offices and multi-family offices. Some 11% of respondents' firms manage wealth assets of more than USD 15 billion.

As well as varying by size, the group is also extremely geographically diverse, with respondents based in 29 different countries. One quarter of participants are located in the Asia Pacific region, comprising three similarly-sized sub-groups in the Middle East, broader Asia and Australia. Nearly a third of participants are in North America (Canada and the United States). The continent with the most respondents was Europe (45% of the total).

'Assets under Advisory' (AuA) figures are typically lower than AuM: only 37% of respondents advise on wealth assets greater than USD 1 billion. A small number of respondents noted that they provide purely advisory services (do not have discretionary authorisation); another sub-group solely provide discretionary management. Where data is segmented by manager size in this report, it's important to note that the categorisations refer to AuM figures only.

FIGURE 1: LOCATION OF PARTICIPANTS' FIRMS

Region

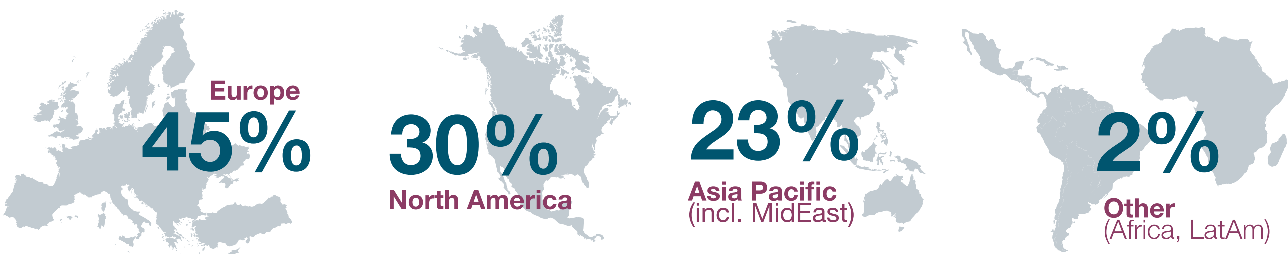


FIGURE 2: WEALTH ASSETS UNDER MANAGEMENT (AUM)

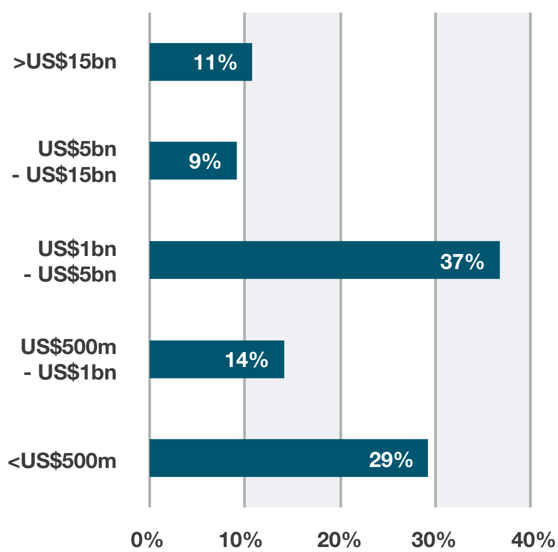
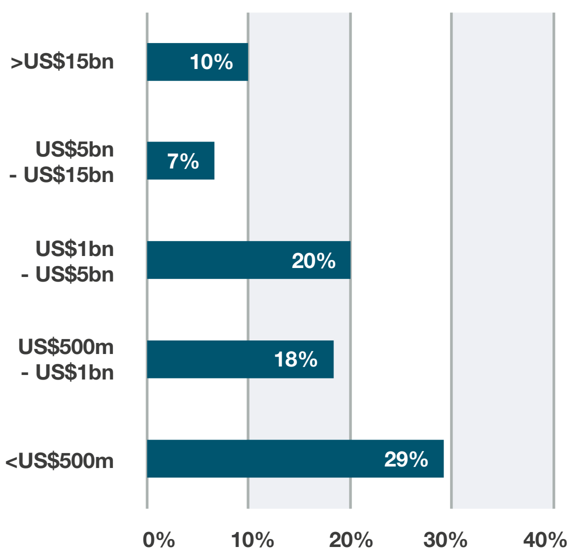


FIGURE 3: WEALTH ASSETS UNDER ADVISORY (AUA)



Prelude: an era of transformative change

The demographics of wealth are shifting dramatically around the world, and so are the behaviours of the individuals who own it.

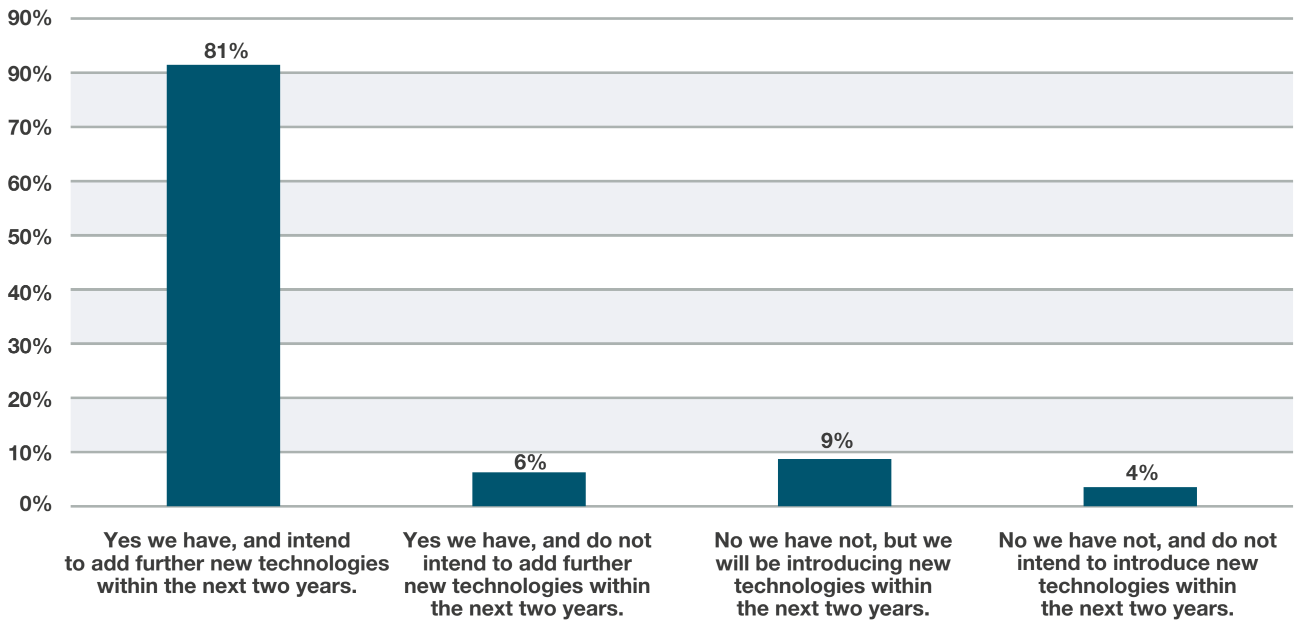
Global HNW and mass affluent client bases are evolving to become more geographically dispersed—with particularly rapid growth in emerging markets—and less male-dominated. In addition, economists are forecasting a very substantial transition of wealth over the next decade from the so-called 'baby boomer' generation towards its successors.

These trends are contributing to changes in client demand, including expectations for digitisation and transparency, the way in which advice is provided, the integration of environmental or social considerations and even the level of risk appetite, with some evidence indicating that Gen Z investors and young Millennials are more cautious than their older peers.

This report covers a number of areas where wealth managers are innovating in response to current pressures. Yet perhaps the single most significant and widespread area of change is the **introduction of new technologies**—affecting the way in which clients access services, view performance, manage their assets and receive advice. As shown in Figure 4, 87% of wealth managers have introduced new technologies for their clients within the past three years, while 90% intend to do so within the next two years.

Many technological shifts described by the participants in this study revolve around the 'SMAC stack' (Social, Mobile, Analytics and Cloud), but some are going further with innovations in processes, such as using Artificial Intelligence (AI) in the provision of advisory services.

FIGURE 4: HAVE YOU BEGUN OFFERING NEW TECHNOLOGIES TO YOUR CLIENTS IN THE PAST THREE YEARS?



Wealth managers in context

Wealth managers discuss…
New technologies for our clients

"We've been trying to run a Smart Advisory [service] which is powered by an AI company called […]. Clients seem to have positive experiences with it, especially mass affluent and HNWI clients. I think there is, however, a gap as to what to offer UHNWI – they still prefer face-to-face and paper-based investment proposals or complete discretionary mandates."

"We have a proprietary portfolio management and client app which shows assets across custodians and direct private investments in a simple format that makes it easy to make decisions. This is updated and reconciled daily."

"We have added a position-based, bottom up risk tool that aggregates factor exposures for a portfolio and allows for 'what if' scenarios to be run from the position-based starting point. We expect to expand this to more goal-oriented presentations in the scenario evaluation presentation."

"We've launched a mobile app, secure chat, in-app / online performance reporting, e-signature, in-app payments and FX."

"We recently moved platform and have been able to provide a better website for access to see the portfolio/reporting. We intend to work with our custodian to deliver an app next year and are very open to further development for communication and reporting."

"We need a better client login portal."

"We recently moved platform to another provider as they offered a more advanced interactive service and reporting."

Developments in client-facing technologies also represent a key line of defence against growing competitive pressures from fintech firms: companies such as Google may not bring an asset management pedigree but excel in developing outstanding user-friendly interfaces and making use of client data.

As well as creating a customer experience which appeals to tech-savvy and information-hungry consumers, more effective digitisation and automation can also **improve efficiency** by delivering advisory elements of service and facilitating investment changes without the need for human intervention on the part of the wealth manager. Pursuing cost efficiency is imperative amid the current fee pressures in this industry (see Figure 17). Yet firms must balance this need for efficiency against client appetite for a **more bespoke** approach: respondents to this study used phrases such as "scaled customisation" and "scale with personalisation" to illustrate their vision and the inherent tensions, which they hope that technology will help solve.

These potential efficiencies are particularly relevant for firms that seek to grow market share in the mass affluent space and the lower end of the HNW bracket. That being said, many upper-end HNWI clients are also expecting sophisticated digital functionality, often alongside the high-quality offline servicing that the higher tiers have traditionally received. Managers should proceed with caution: technological changes do also affect the nature and strength of client relationships and this balancing act can be a challenging one.

Theme 1: Expanding investment capabilities

In an era of low yields and weak growth forecasts, wealth managers are adding new asset classes and channelling a greater proportion of wealth client assets towards alternative investment strategies in private and liquid markets.

67% focusing more on geopolitical issues

"With the rise of tensions in global trading relationships, geopolitical issues have become more important as an input for deciding long-term asset allocation" – 67% agree.

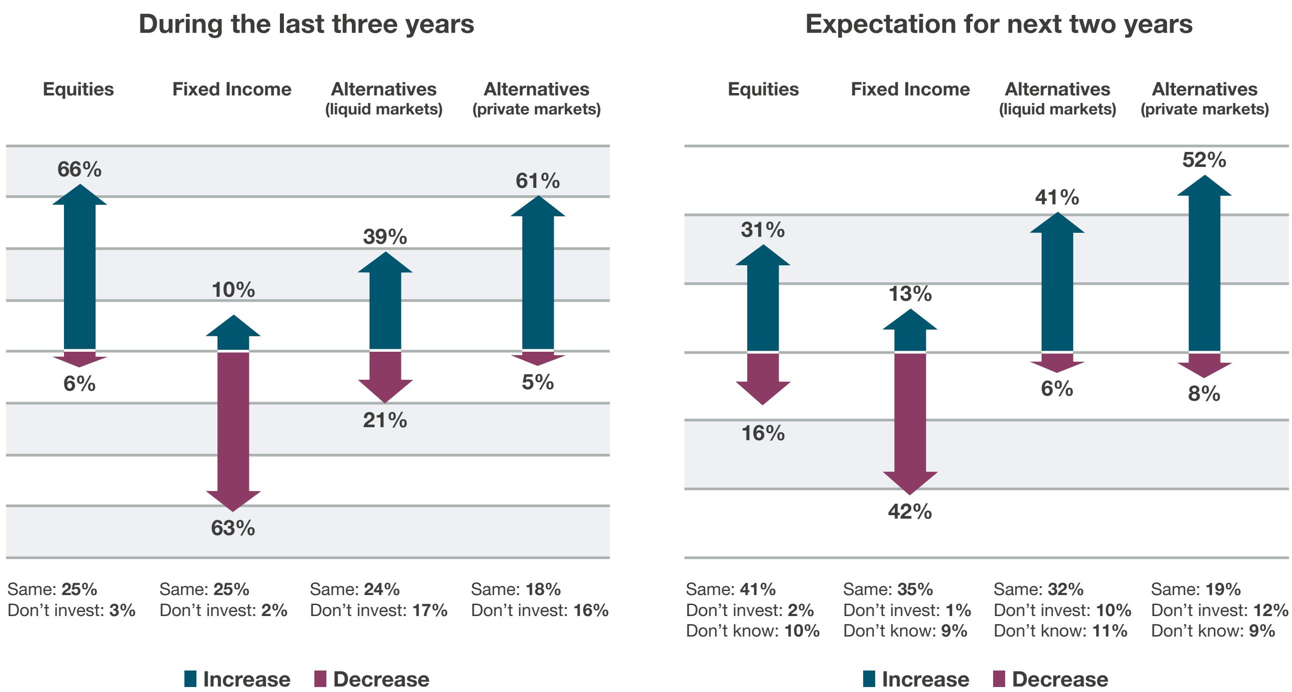
Asset allocation

The past three years have seen a notable decline in the proportion of wealth client assets invested in fixed income, with allocations shifting in favour of equities (66% of wealth managers have increased) and alternatives—particularly private markets strategies (61% increased). Regionally, firms in the Asia Pacific region are more likely to have moved in favour of private market alternatives than their international peers.

Most of those who are active in private markets strategies cite **investment motivations** such as diversification and capturing illiquidity premia, but a significant number drew attention to the benefits that these strategies have in altering **client behaviour**—enforcing a longer-term and more patient approach, which is often ultimately beneficial to outcomes. It should also be noted that, while no respondents mentioned **"justifying higher fees"** when talking about these exposures, a subsequent specific question about fees elicited many comments indicating that alternative investment strategies had provided a bastion against fee compression (see Figure 17).

While the trend towards alternatives is set to continue, the picture for the next two years is rather different. The shift towards equities is softening (31% plan to boost exposure) and a clearer positive sentiment in favour of liquid market alternatives has emerged.

FIGURE 5: HOW HAS THE ASSET ALLOCATION OF YOUR WEALTH CLIENTS CHANGED DURING THE PAST THREE YEARS? HOW IS IT EXPECTED TO CHANGE GOING FORWARD?



Theme 1: Expanding investment capabilities continued

Wealth managers discuss…

Asset allocation shifts

"We added to our "risk assets" as central banks provided more economic support, at the cost of fixed income and diversifying strategies. We expect the risk-off trade will eventually return, given current valuations and the limits of central bank balance sheets. Allocations to illiquids are based upon client preference/spending rates and access."

"There's been huge amount of interest towards digital assets but it's a struggle to offer and risk manage these assets. Private placements have dropped substantially in our region. There's been a huge move towards equities. We're underweight on Fixed Income and I don't suspect it will change."

"Hedge funds have fallen more out of favour due to multiple reasons, and clients prefer long-only fixed income as an alternative. We expect hedge fund risk/return to improve significantly, pulling clients back to the asset class."

"In general, we have almost entirely moved away from liquid alternatives. Fixed income is a function of the rate environment."

"We believe that varying portfolios based upon expectations of what the future may hold is one of the biggest mistakes the industry makes."

…Attractions of private market strategies

"Forces clients into a long-term orientation. Ability to generate excess return via manager skill/finding interesting projects."

"Lack of mark-to-market volatility. Niche/specific asset targeting. Control over investments given the small group of investors relative to public shareholders."

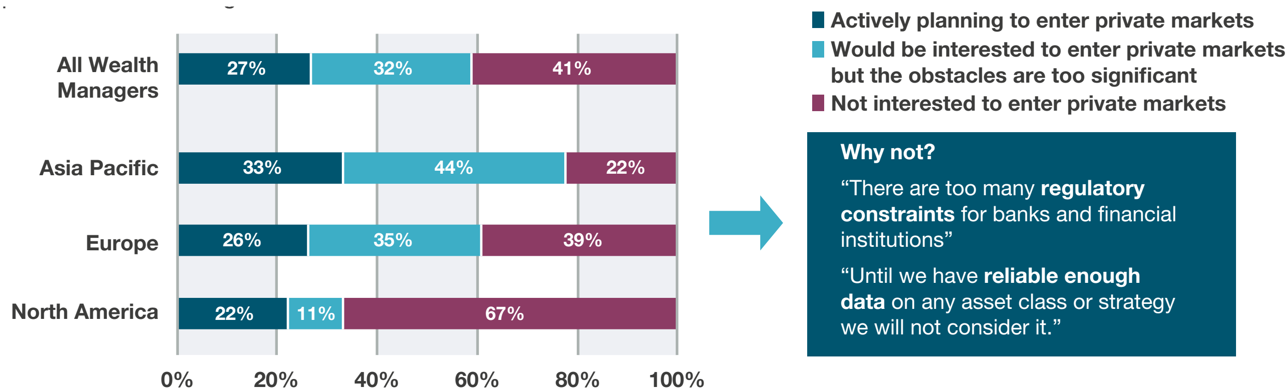
"Capture of complexity premium. And illiquidity is actually a tool to control behavioral bias (short-termism or impulsive decision)."

"Illiquidity premium, and the ability to differentiate yourself with superior access to highest quality managers."

Among those that don't use private markets (Figure 6), a quarter are actively planning to enter this space, while a third say that they would be interested to do so but "the obstacles are too significant". Only 40% of this group are not interested in entering the private markets space.

It's worth noting that a handful of respondents wished to classify (liquid) listed investment trusts as 'private equity' or 'infrastructure'; 'private markets' may not always entail 'illiquid' (see Figure 10).

FIGURE 6: PLEASE ANSWER IF YOU DO NOT CURRENTLY INVEST IN PRIVATE MARKETS STRATEGIES: WHICH OF THE FOLLOWING BEST DESCRIBES YOUR INSTITUTION'S STANCE TOWARD PRIVATE MARKET STRATEGIES FOR WEALTH CLIENTS?



Theme 1: Expanding investment capabilities continued

New asset classes and strategies

More than two thirds—69%—of wealth managers have added new asset classes or investment strategies for their wealth clients during the past three years. This trend is particularly prominent among firms with larger wealth AuM, with new asset classes or investment strategies being introduced by 83% of those with more than USD 15 billion of wealth assets under management.

Looking ahead, 52% of respondents intend to add at least one new asset class or investment strategy in the next two years, including three quarters of those with more than USD 15 billion in wealth AuM.

FIGURE 7: HAVE YOU ADDED ANY NEW ASSET CLASSES OR INVESTMENT STRATEGIES FOR WEALTH CLIENTS DURING THE LAST THREE YEARS?

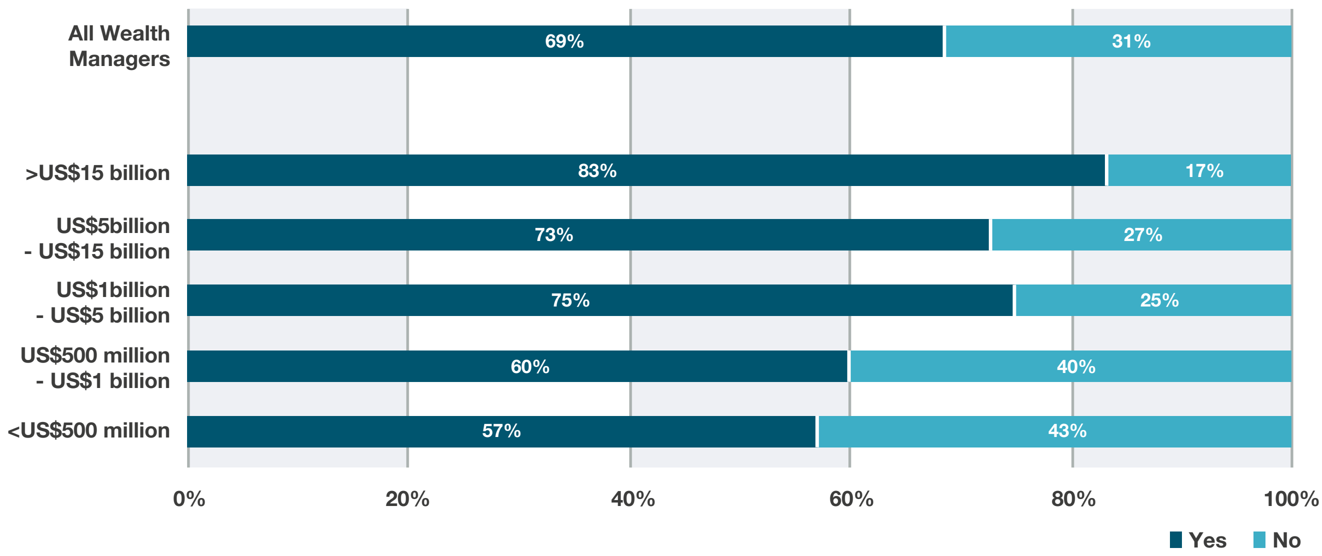
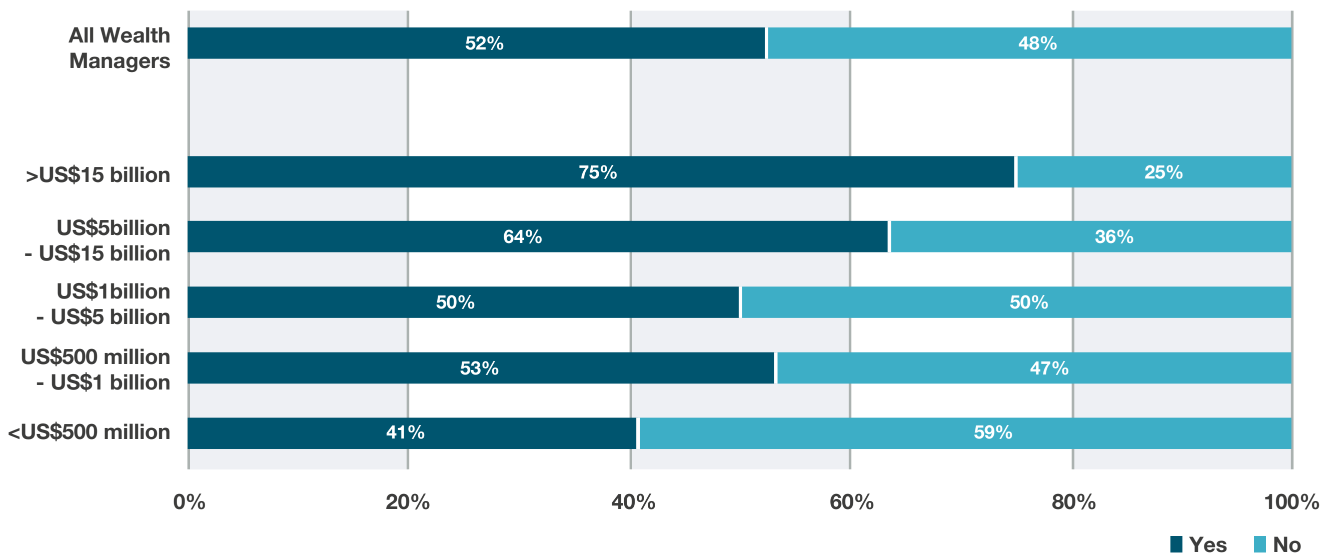


FIGURE 8: FURTHER TO THE PREVIOUS QUESTION, ARE YOU INTENDING TO ADD ANY NEW ASSET CLASSES OR INVESTMENT STRATEGIES DURING THE NEXT TWO YEARS?

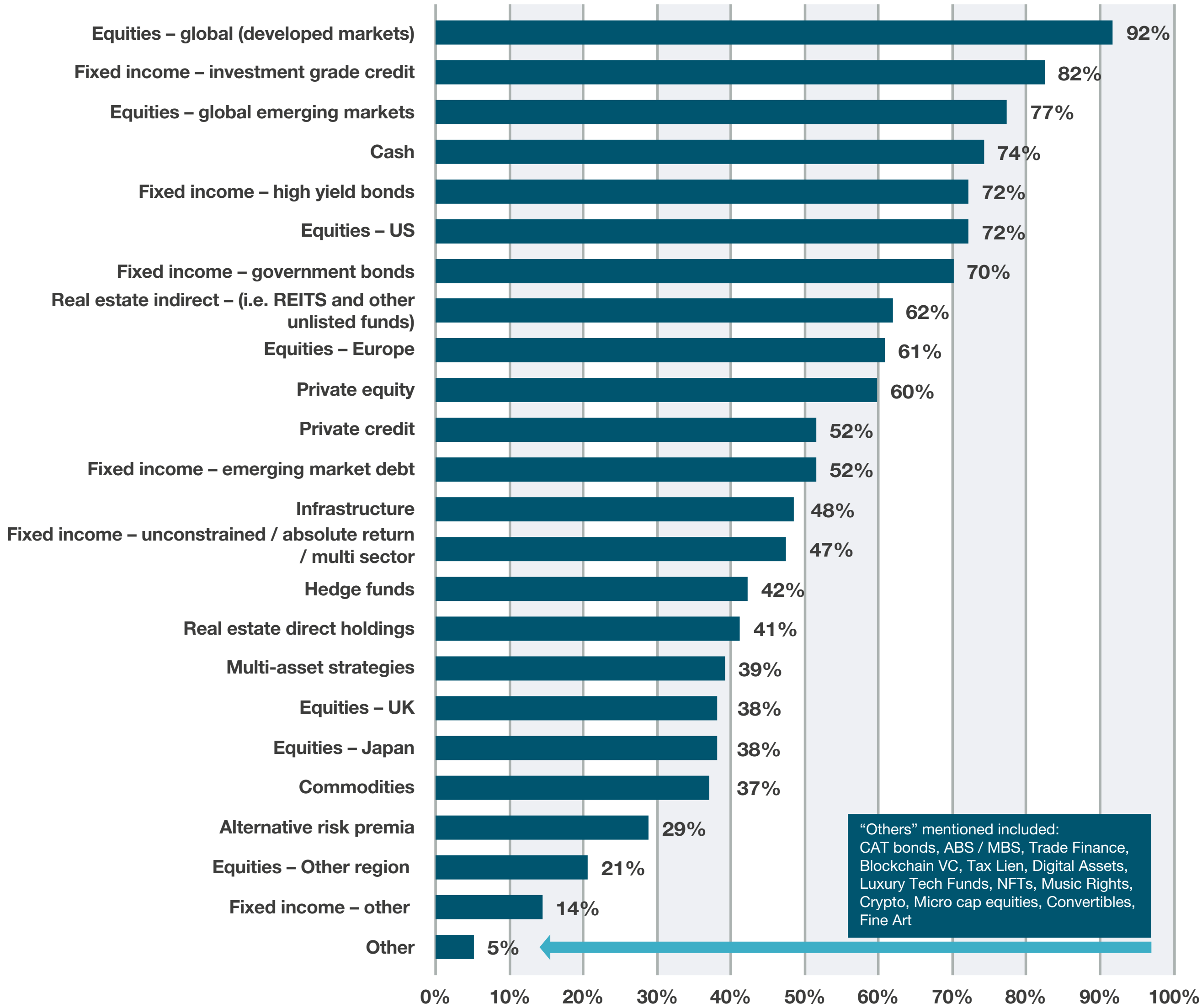


Theme 1: Expanding investment capabilities continued

Asset class usage

The average wealth manager now offers 12 of the asset classes or investment strategies that are listed in Figure 9 to wealth clients, while 23% of firms offer more than 15. When looking at wealth managers of different AuM brackets, we note an interesting barbell effect: although the largest wealth managers were likely to offer a wider range of asset classes, so too were the smallest wealth managers. Geographically, firms in the Asia Pacific group offer a wider range of asset classes—14 on average—versus 11 in North America.

FIGURE 9: WHICH ASSET CLASSES DO YOU CURRENTLY INVEST IN FOR WEALTH CLIENTS?



Some interesting regional distinctions…

North America

More likely than peers to offer:
- Private credit (61%).

Less likely than peers to offer:
- EM Debt (19%);
- High yield bonds (58%);
- Commodities (16%).

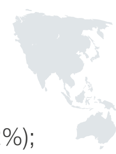
Europe

More likely than peers to offer:
- Japanese equities (51%);
- High yields bonds (79%).

Less likely than peers to offer:
- Direct real estate (26%);
- Hedge funds (34%).

Asia pacific

Greatest diversity of investment capabilities. More likely than peers to offer many strategies, Including:
- Private equity (78%);
- Infrastructure (78%);
- Direct real estate (72%);
- Alt. risk premia (44%).

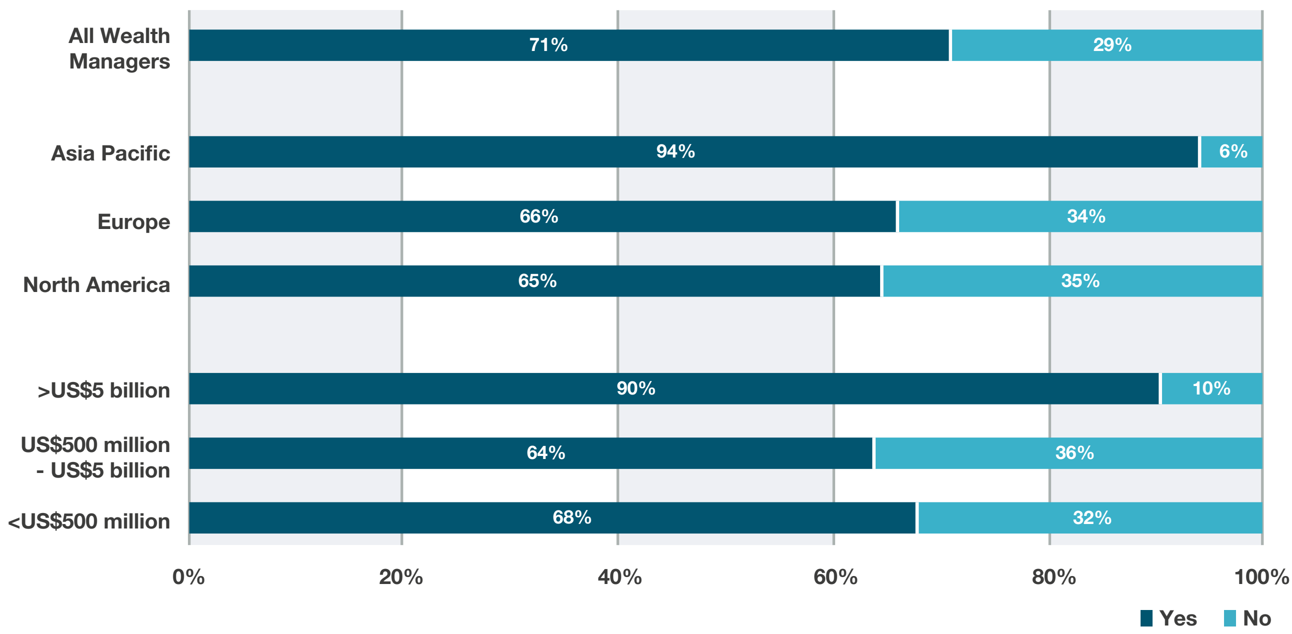


Theme 1: Expanding investment capabilities continued

Asset class usage continued

Fully 71% of wealth managers use "illiquid investments", defined here as having a redemption period that is more than than one year from the date of investment or not within client control. This figure rises to 90% for managers with more than USD 5 billion in wealth AuM, and to 94% for the Asia Pacific segment.

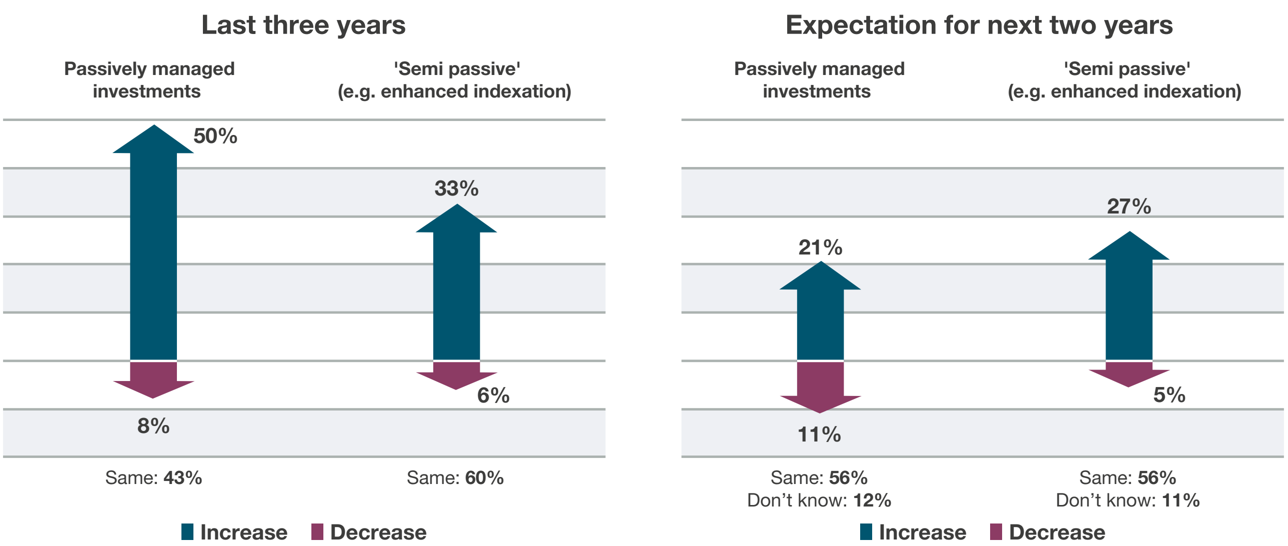
FIGURE 10: DO YOU USE ANY ILLIQUID INVESTMENTS FOR WEALTH MANAGEMENT CLIENTS?



Passive management

The shift towards passive management—famously termed "Flowmageddon" by Morningstar—appears to be tailing off significantly among this investor group. Although 50% of wealth managers increased exposure to passive strategies during the past three years (primarily in equities), only 21% expect to do so in the next two years and 11% expect to cut passive investment exposure. Interestingly, the trend towards so-called 'smart beta' strategies is more consistent and will be a more widespread trend in the next two years than the move towards passive management.

FIGURE 11: HOW IS THE PROPORTION OF PASSIVELY MANAGED INVESTMENTS CHANGING AS A PROPORTION OF WEALTH AUM?



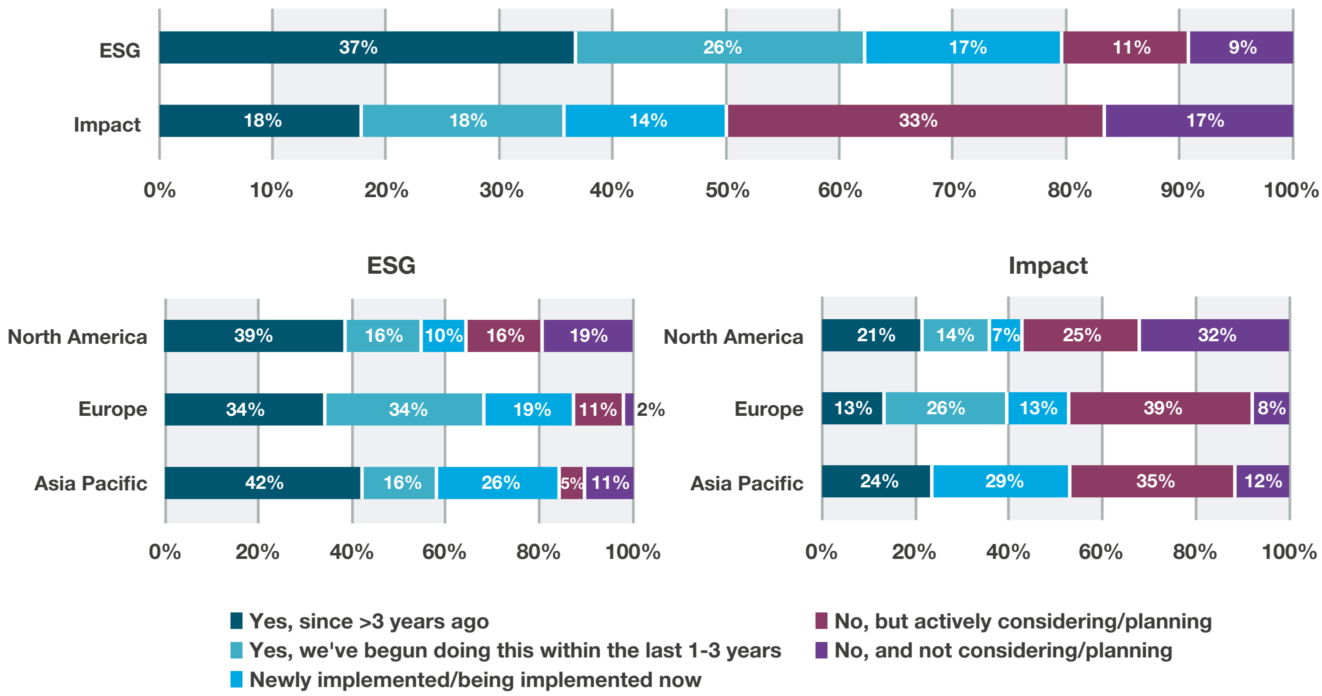
Theme 2: ESG and Impact

The past three years have brought a massive shift towards ESG investment activity in the wealth management sphere.

Fully 80% of wealth managers now integrate (or are in the process of integrating) ESG considerations into their wealth clients' portfolios, up from 37% three years ago. 50% integrate impact investment considerations, up from 18%, and one third are "actively considering" doing so.

Within the institutional investment sphere—among pension funds and endowments, for instance—North American institutions have, on average, exhibited lower uptake of ESG principles than their European or Asian counterparts. This distinction is also evident in the wealth management sphere, although somewhat less substantial; we see a larger group in this region who have no intention of integrating ESG or impact investment criteria (19% versus 9% globally).

FIGURE 12: DO YOU INTEGRATE EITHER ESG CONSIDERATIONS OR IMPACT INVESTMENT CONSIDERATIONS (OR BOTH) IN WEALTH CLIENTS' PORTFOLIOS?

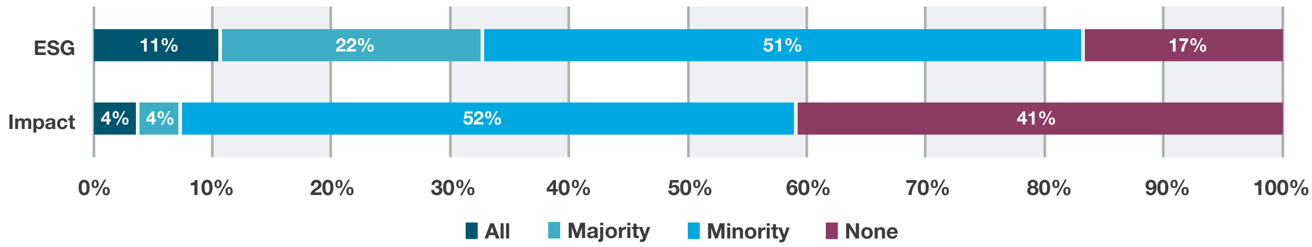


Theme 2: ESG and Impact continued

Although ESG integration has now become mainstream, the practice still covers a minority of wealth client assets. Only 33% of wealth managers say that 'all' (11%) or the 'majority' (22%) of assets are managed with an ESG-focused approach. This translates to approximately 40% of the firms that integrate ESG into investment activities.

Impact, as one would expect, is even more of a minority consideration: 8% of wealth managers said that 'all' or the 'majority' of assets are managed with an impact-focused approach. It is interesting to contrast these findings against the longer-term strategic picture that we see in Figure 15.

FIGURE 13: PLEASE ESTIMATE ROUGHLY WHAT PORTION OF WEALTH ASSETS ARE MANAGED WITH AN ESG-FOCUSED APPROACH AND AN IMPACT INVESTMENT-FOCUSED APPROACH

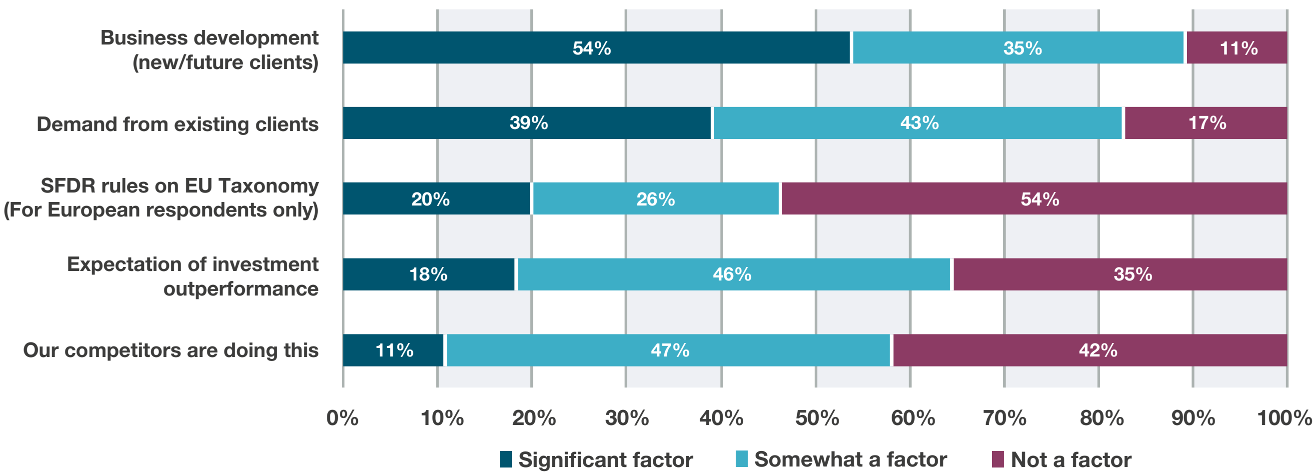


Drivers of ESG adoption

Business development is the key incentive for adopting ESG investment approaches. Among those who integrate ESG factors, 54% say business development (new/future clients) was a "significant factor", while demand from existing clients was a significant factor for 34% of respondents.

Only 18% say that expectation of investment outperformance was a "significant factor" driving adoption. It is interesting to compare this result against the bfinance's latest *ESG Asset Owner Survey*, which showed that more than 80% expect ESG to be a driver of outperformance in equities.

FIGURE 14: PLEASE ANSWER IF YOU INTEGRATE OR ARE CURRENTLY IN THE PROCESS OF IMPLEMENTING ESG CONSIDERATIONS: IN YOUR OPINION, TO WHAT EXTENT ARE THE FOLLOWING FACTORS RELEVANT IN YOUR APPROACH TO ESG INTEGRATION?



Theme 2: ESG and Impact continued

Long-term ESG strategy

Although Figure 13 shows that the ESG trend currently applies to a minority of wealth client assets, this picture is set to change. Looking forward, 55% of wealth managers intend to integrate ESG/sustainability factors across the full spectrum of investment activities, versus one third who intend to have specific separate ESG/sustainable funds for clients that desire this aspect, while 10% have no strategic intention of offering ESG/sustainable investment.

There is an evident link between AuM size and ESG activity: all firms with more than USD 5 billion in AuM have at least some intention of offering ESG investments to clients. Interestingly, however, **larger firms are also more likely to keep ESG as a product-specific consideration** (71%), whereas those with less than USD 5 billion appear more likely to go for a holistic approach.

When considering the new EU Taxonomy—which is now of critical importance in the marketing of investment products—we see those larger players leaning towards "majority dark green" classifications. Taken together, we see a picture of bigger firms planning separate products with a more overt ESG flavour, while smaller firms seek a holistic approach with a lighter-touch definition.

FIGURE 15: WHICH OF THE FOLLOWING BEST DESCRIBES YOUR CURRENT STRATEGY AROUND ESG?

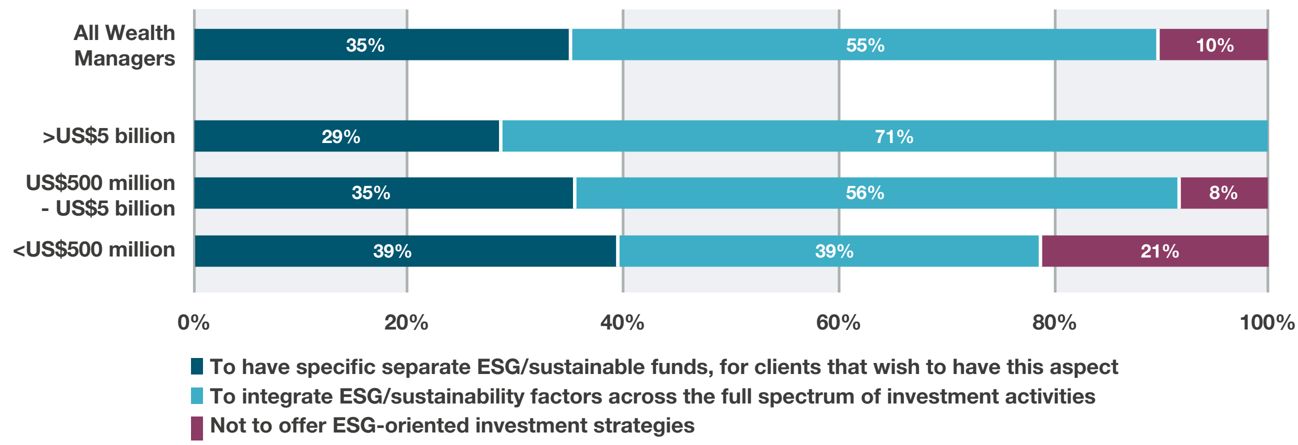
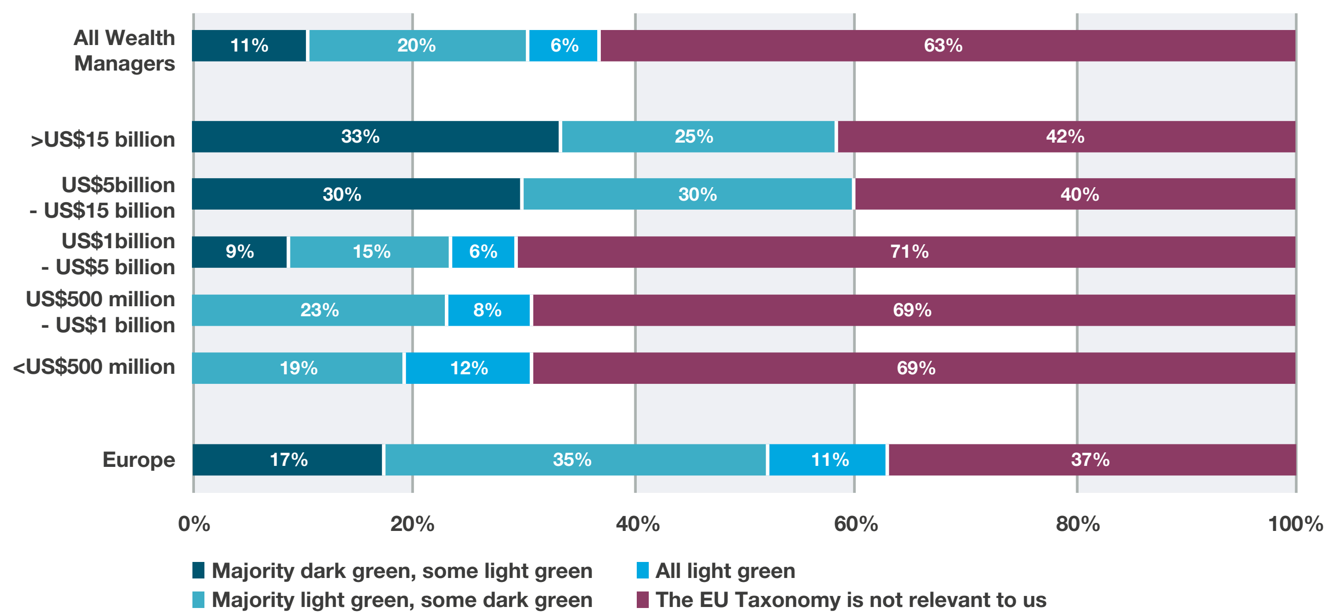


FIGURE 16: FOR ASSETS WHERE YOU DO USE AN ESG/SUSTAINABILITY FOCUSED APPROACH, HOW DO YOU WISH TO QUALIFY UNDER THE EU'S NEW TAXONOMY?



Theme 3: Investment structures, systems and service providers

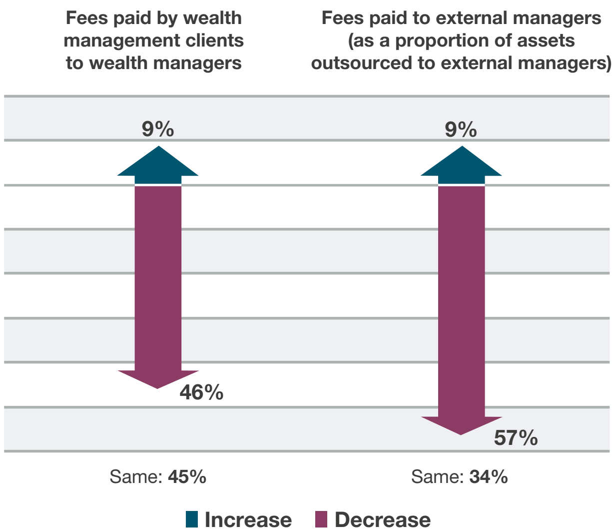
Accompanying the investment and strategic trends discussed above, we note a number of crucial—but more nuanced—trends in implementation.

Fees

Responses indicated a strong trend towards charging lower fees to wealth clients for like-for-like services. Nearly half of wealth managers say that typical fees have decreased in the past three years. That decrease is most evident in Asia Pacific (67% note a reduction) and less so in North America (38%). As a result, wealth managers are under heightened pressure to improve cost efficiency. Falling fees are also driving the expansion of investment capability: an **enhanced offering** helps wealth managers maintain or boost profitability.

Alongside the falling like-for-like fees charged to wealth clients, responses indicated a widespread downward trend in the overall fees that are being **paid to third party asset managers** (as a proportion of assets outsourced to those managers). This outcome is the result of multiple counteracting trends: the shift towards passive management has been fee-reducing, while the trend towards alternatives can be cost-enhancing. We also see wealth managers becoming more sophisticated in understanding fee load and managing down fees from asset managers. Our latest *Investment Management Fees* study illustrates downward trends in average fees being charged by asset managers on a range of investment strategies. The use of external asset managers is discussed later in this section.

FIGURE 17: CHANGES IN FEES AND COSTS DURING THE PAST THREE YEARS (ESTIMATED BY RESPONDENTS)



Wealth managers discuss…

Falling fees for wealth management services

Why have fees decreased?

- "Generic fees have dropped but clients are willing to pay for more complicated investments."
- "There's huge pressure from new entrants and FinTech providers."
- "Liquid markets become more and more of a commodity, higher fees still possible in private markets."
- "Various factors: Royal Commission, competition, Increased FuM, annual disclosure statements."
- "While there is pricing pressure, Wealth Managers are increasing the value of their proposition."

What's the impact on your business?

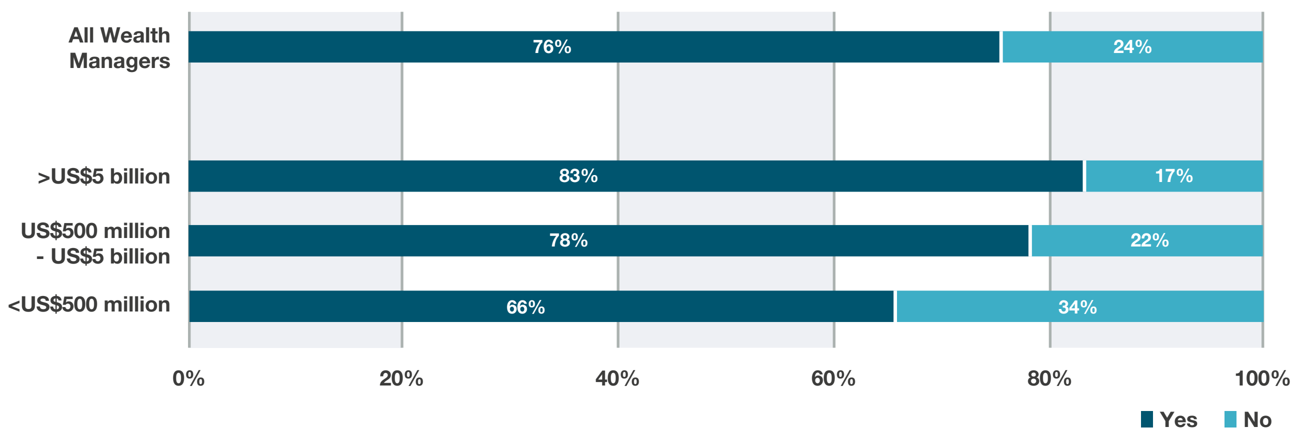
- "Have to increase AuM, AuA to cover the shortfall in revenue. Invest more in fundraising capabilities."
- "Find external managers to give differentiated return streams."
- "Not much thanks to diversification into higher-margin differentiating alternative products."
- "Focus on larger clients. For smaller clients, trying to streamline and segment services."
- "Need better distribution and greater cost efficiency. Need product innovation to justify higher fees."
- "AUM grows strongly in private markets so profitability is maintained."

Model portfolios

In seeking to improve efficiency, particularly at the Mass Affluent and lower-HNWI end of the market, one tool at wealth managers' disposal is the model portfolio approach: a set of default portfolios that clients can opt into. These may be composed of similar underlying building blocks in different proportions—a "one kitchen, many menus" approach. The options are typically defined by 'higher-risk', 'moderate-risk' or 'lower risk' classifications, and may be packaged in a 'goal-led' format (e.g. leading up to life events such as retirement).

Today, 76% of wealth managers in this study use model portfolios for clients and the figure is higher among those with a wealth AuM above USD 5 billion. There are notable grey areas, including bespoke services that are initially based on model allocations but tweaked and customised to meet clients' needs.

FIGURE 18: DO YOU USE 'MODEL PORTFOLIOS' FOR CLIENTS? (DEFAULT PORTFOLIOS DEFINED, FOR EXAMPLE, BY 'HIGHER-RISK', 'MODERATE-RISK' OR 'LOWER RISK' CATEGORISATION)



Wealth managers discuss…
Model portfolios

"I've noticed far more traction with smart advisory or robo-investing or goal based investing with mass affluent clients (majority moderate risk) as opposed to HNWI who still prefer more higher and moderate risk and take time to see if their portfolio does well compared to a model portfolio. UHNWI aren't really changing their methods: these services are still highly bespoke and we've been struggling to introduce new products in this market."

"We operate two services: one pure model portfolios, one more bespoke but based on model allocations for large balances and more complex needs. The model service is larger and faster-growing."

"We begin the asset allocation process from one of five starting allocations, which have recommended implementations associated with them. A minority of clients employ the modelled execution since customisation of position types is fairly common."

Theme 3: Investment structures, systems and service providers continued

Collective vehicles

We note a modest expansion in the use of collective (e.g. fund) structures. Wealth managers are seeking improved cost efficiencies and also trying to open doors to asset classes that typically have higher minimum ticket sizes, supporting the drive towards aggregation. Yet, on the other side of the coin, client demand for bespoke strategies can create pressure in the opposite direction.

Overall, 34% of respondents have a higher proportion of wealth assets invested through collective vehicles than they did three years ago, versus 14% who have less. The figure rises from 34% to 46% for firms with more than USD 5 billion in wealth client AuM—the players who may have more scope to achieve advantages of scale—and falls to just 26% for those with less than USD 500 million.

Looking at proportions of assets, we see that 63% of wealth managers invest more than half of wealth assets through collective investments/funds.

Asset management: in-house and outsourced

Overall, we note a trend towards the use of third-party fund management (see Figure 21), as might be expected given the emphasis throughout this report on improving the breadth of investment capability.

Among our respondents, 36% increased the proportion outsourced to external managers during the past three years and the trend appears likely to continue. In total, 92% of wealth manager participants use external managers.

FIGURE 19: WHAT PROPORTION OF WEALTH AUM IS INVESTED VIA COLLECTIVE INVESTMENTS/ FUNDS?

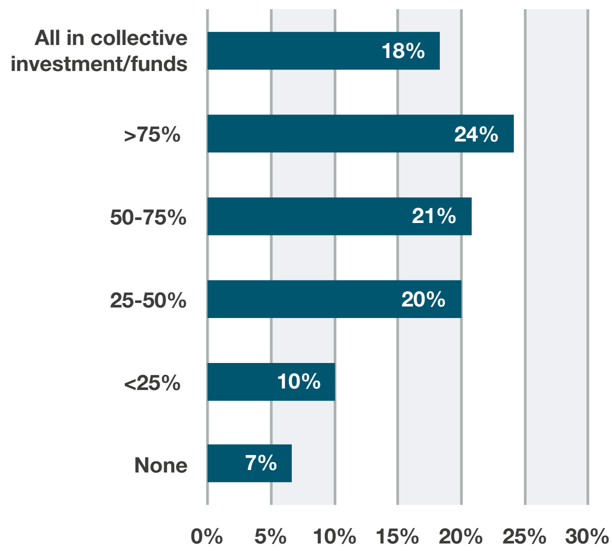
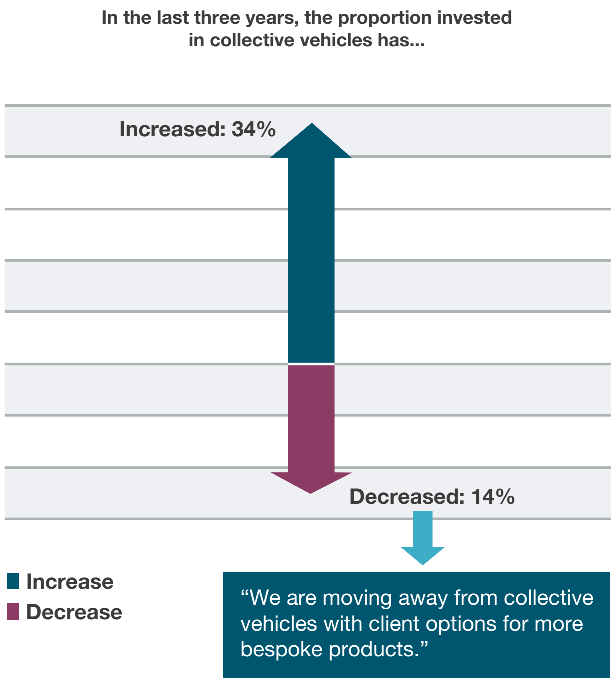
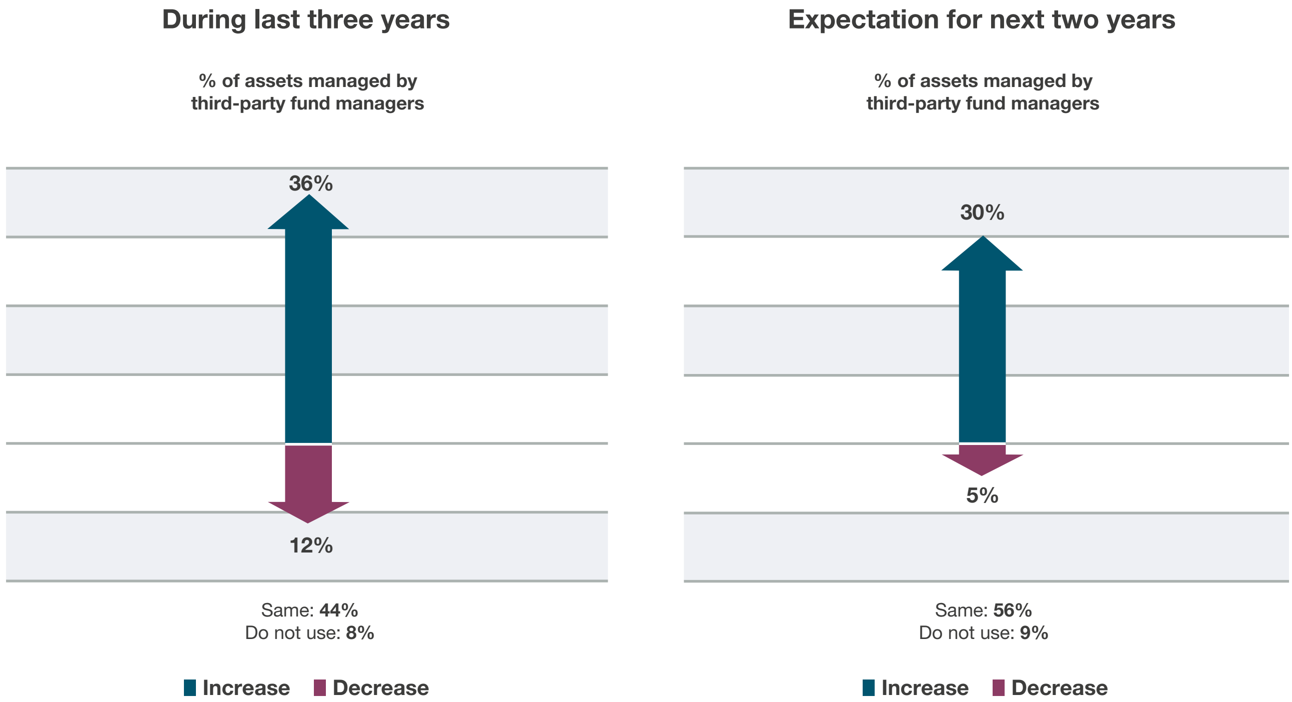


FIGURE 20: IN THE PAST THREE YEARS, THE PROPORTION INVESTED IN COLLECTIVE VEHICLES HAS...



Theme 3: Investment structures, systems and service providers continued

FIGURE 21: IS THE PROPORTION OF WEALTH ASSETS FOR WHICH ASSET MANAGEMENT IS CARRIED OUT BY THIRD-PARTY FUND MANAGERS INCREASING OR DECREASING?



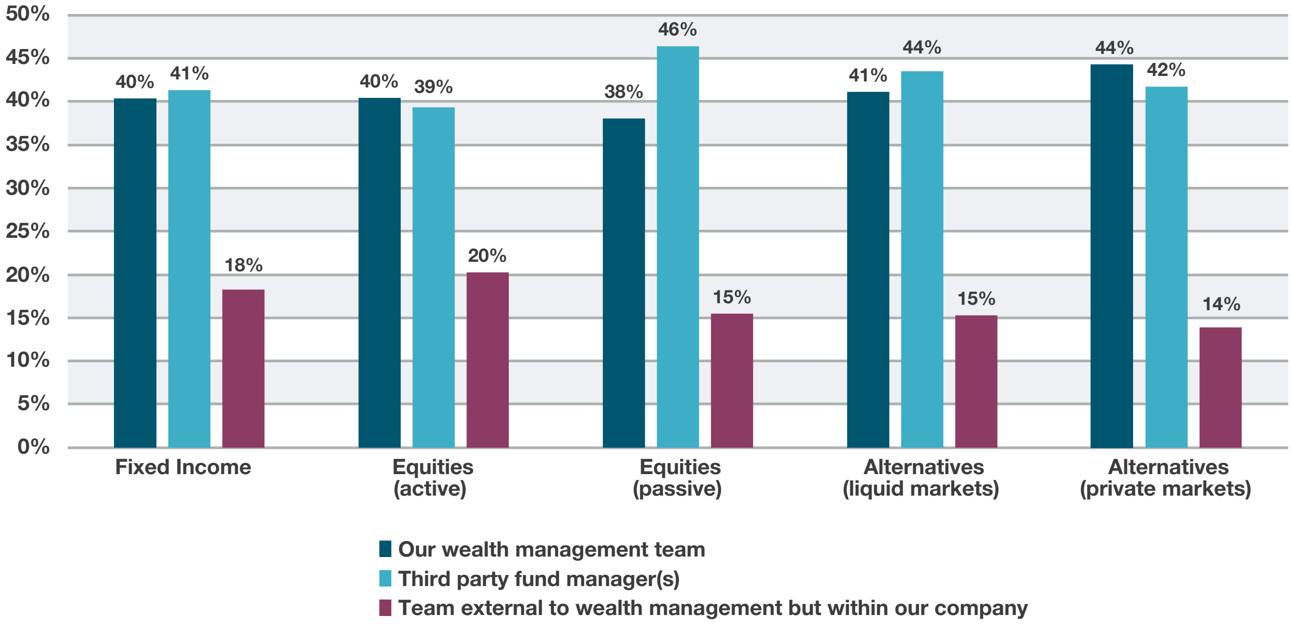
For assets managed via collective vehicles or funds, respondents were asked to indicate who carried out asset management activities for various asset class groupings: an internal team, an external asset manager or an asset management team that sits elsewhere in the wealth manager's parent company.

Interestingly, there were no notable differences between major asset class families: wealth managers were only slightly more likely to use external asset managers for alternatives compared with active equities and fixed income. They were most likely to outsource passive equities—benefiting from what are now extremely robust and very low-cost product offerings.

55% of wealth managers that invest in private market strategies for wealth clients use **feeder fund** structures.

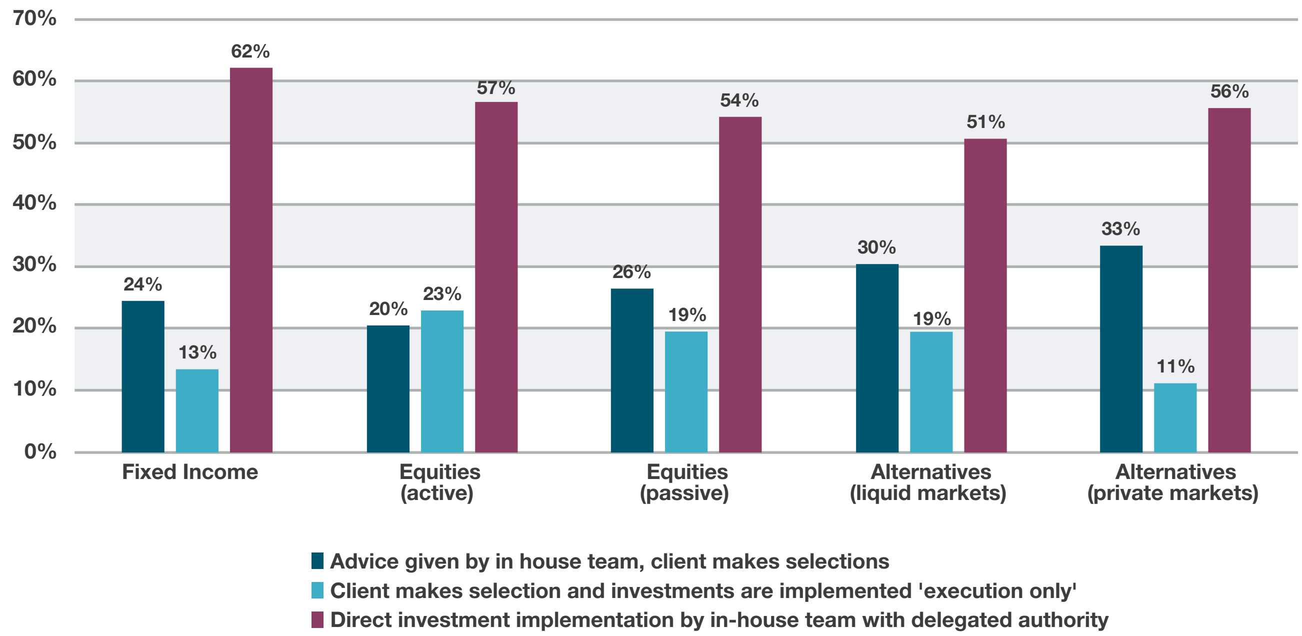
"We use feeder funds to gain access to funds with minimums that are too high for our clients. We usually either try to set them up ourselves or get the fund to do it so that we don't have to pay an additional layer of fees." – Wealth Manager, U.S.

FIGURE 22: WHO DOES THE "ASSET MANAGEMENT" (I.E. SECURITY SELECTION, PORTFOLIO CONSTRUCTION) FOR WEALTH CLIENTS WHOSE ASSETS ARE INVESTED VIA COLLECTIVE VEHICLES/ FUNDS? (TICK ALL THAT APPLY)



For directly invested portfolios, we explored the degree to which the client retains authority and how much are they delegate authority to the wealth manager. The latter approach is prevalent across all asset class groupings.

FIGURE 23: WHO DOES THE "ASSET MANAGEMENT" (I.E. SECURITY SELECTION, PORTFOLIO CONSTRUCTION) FOR WEALTH CLIENTS WHOSE ASSETS REPRESENT DIRECTLY-INVESTED PORTFOLIOS? (TICK ALL THAT APPLY)



Positioning for success

The pressure is on for wealth managers hoping to survive and thrive in a changing world.

From today's hugely diverse and increasingly crowded competitive landscape, winners and losers will emerge. Players must carefully chart a strategic course, balancing the imperative to improve overall cost efficiency and scalability with the need to provide a bespoke, differentiated offering across a broad range of asset classes (including a range of non-traditional strategies).

Can technology help to bridge the gap between 'scale' and 'personalisation'? Can firms develop robust investment capabilities in a suitably broad range of strategies and find effective ways to facilitate clients into more challenging asset classes?

Amid a period of transformative change, firms must not be complacent about retaining market share, even in their favoured client segment or home country. The same is true at a regional level: outside the traditional wealth centres of North America and Europe, wealth managers in the Asia Pacific region appear to be leading the way on a number of key metrics: they are already offering significantly more diverse investment capabilities than similarly-sized Western counterparts and appear to be getting ahead on digitisation as well.

As this report draws to an end, let us leave the final word(s) to a handful of the wealth managers whose insights have formed the backbone of this study. Here, by way of closing thoughts, they highlight the most pressing challenges that they face right now in their respective businesses.

Wealth managers give final thoughts…
What is your key challenge now?

"Scaling while keeping a high level of customisation and intimacy in the relationship."

"Expanding services/offerings for our clients."

"Finding new ways, new asset classes to invest in."

"Creating truly scalable yet personalised solutions."

"Geopolitical risk and lower future return expectations across various asset classes."

"Developing processes and systems to deliver scaled customisation in order to meet the needs of HNW clients and the advisors that serve them."

"Seeking returns in a low interest rate environment."

"Continuing to build economies of scale in the development and delivery of investment advice."

"Avoid significant downside volatility as market environment becomes more challenging."

"Artificial Intelligence development."

"Diversifying the client base."

"Acquiring new clients, especially under-45s."

"Transfer of wealth to next gen."

"Finding ways to differentiate ourselves from our competitors."

About bfinance investor research

We continue to conduct investor surveys and benchmarking projects that we hope will support and inform our clients, fellow asset owners and the wider investment management community.

Investors that take part in bfinance research receive:

- Advance previews of results (within days of survey closure);
- The opportunity to request segmented results for narrower peer groups for benchmarking purposes;
- Invitations to nominate questions for inclusion in upcoming surveys.

If you would like to find out more about investor research, suggest questions which you would find useful for peer benchmarking or take part in future projects, please do contact our investment content team.

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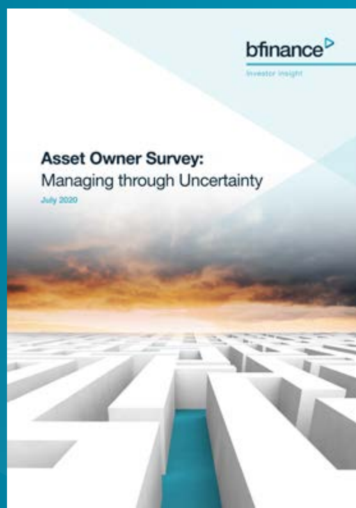

Asset Owner Survey: Managing through Uncertainty
(July 2020)

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