

Wealth & Asset Management

Competing for Growth

Wealth and asset managers face a common set of challenges and opportunities. Reviewing their outlook together for the first time, we see them competing for common growth opportunities: (i) extending private markets access, (ii) capturing the next wave of ESG, (iii) responding to new interest in crypto, and (iv) offering more customization.



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Executive Summary

Wealth and asset managers face common challenges and opportunities

Wealth and asset managers face a common set of challenges and opportunities driven by the macroeconomic environment, shifts in client demand, and the continued evolution of technology to deliver improved investment and advisory solutions.

For wealth managers, the shift to providing more holistic financial advice and planning requires them to move beyond constructing standardized portfolios, to greater customization that utilizes a broader array of product types and technology to deliver it to lower wealth bands. For ultra high net worth (UHNW) and high net worth (HNW) investors we see private markets and ESG as the largest opportunity.

For asset managers, the opportunity is in delivering differentiated, in-demand products, increasingly into the retail channel, which offers better economics than institutional and represents an increasing share of total industry assets under management (AUM).

Reviewing the outlook for wealth and asset managers together for the first time, we see them competing for common growth opportunities

This is our first report where we review the outlook for wealth and asset managers together. In doing so, we see them competing for common growth opportunities, displayed in [Exhibit 12](#).

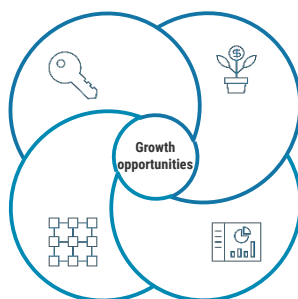
Exhibit 1: Key growth opportunities for wealth and asset managers

Private markets

Private markets now available to more clients across the wealth spectrum and growth further fuelled by product innovation

Crypto

Institutional interest growing along with vendor ecosystem paving the way for new crypto product offerings



ESG

New wave of ESG growth from beyond Europe, beyond screening and beyond environmental themes

Customization

Technology allowing more customization for broader range of investors, bridging the gap between UHNW and HNWI

Source: Oliver Wyman analysis

By 2025, we expect each to represent a significant opportunity in its own right:

- Total private markets fund AUM of ~\$13TN
- Total ESG fund AUM of ~\$6.5TN
- Bitcoin ETF AUM ~\$0.3TN (one crypto store-of-value use case)
- Direct indexing managed accounts AUM of ~\$1.5TN (one customization product manifestation)

While the specific actions taken may differ between wealth and asset managers, all should have a well-thought-out plan for how to best capitalize on these opportunities or risk being left behind. Given the different starting points and different ways in which they can approach such opportunities, we expect the development of capabilities needed to capture them to be highly firm-specific, preventing any direct ROI comparison.

Our report has been informed by 23 interviews with senior executives of wealth and asset managers with ~\$34-TN in combined assets under management.

Private markets – ‘access for all’

Robust private markets growth continued in 2020 and now exceeds \$7TN total AUM. We expect this strong growth to persist with AUM of ~\$13TN by 2025, driven by the demand for yield and inflation protection and the emergence of new supply-side drivers, most notably the development of structures and delivery models designed to open access to retail wealth investors.

The HNW segment historically had limited access due to high entry barriers, such as illiquidity, high minimum thresholds and limited diversification. These hurdles are now being overcome. We see HNW investors playing a much more important role in this space going forward and allocating an additional 5% of their portfolios by 2025, representing ~\$1.5TN AUM, or a ~\$21BN revenue opportunity.

Technology is playing a critical role in reducing these hurdles as distribution platforms rapidly emerge allowing individual investors to invest in private market funds at lower thresholds and helping wealth and asset managers solve processing friction. While distribution platforms were initially seen as potential competition to wealth

managers by directly targeting end clients in a B2C model, their business models have evolved to become complementary to wealth (and asset) managers, through enabling a B2B2C or B2B outsourcing model.

For wealth managers, these platforms will allow a wider range of managers to build an offering in this space. Whereas the largest wealth managers have the option of leveraging their size to build their own offering at scale given their negotiating power and access to a broad range of alternative managers, these platforms give small to medium-size wealth managers an opportunity to participate as well by supporting them on their front-end and portfolio aggregation and construction. That said, large size wealth managers will still find benefits in using these platforms alongside their in-house offering and, in a B2B model, outsourcing their middle and back-office operations.

As a result, wealth managers now have a larger number of potential partners to work with to develop more diversified exposures across managers and funds. They will need to enhance their capability to review, filter and select platform partners, investment consultants, funds of funds and alternatives managers.

Asset managers, particularly those with limited historical access to the wealth space, can use these platforms to significantly improve their access to individual investors in a cost-effective way. Larger players, alongside wealth managers, stand to gain efficiencies as well through leveraging the platforms to outsource middle and back-office operations, reducing operational costs and risks, and improving functionalities such as onboarding, reporting and secondary market access.

Moreover, there is also an opportunity for asset managers to utilize new product structures to take advantage of retail demand for private assets. Asset managers can create 'semi-liquid' and packaged private markets solutions that offer improved diversification to tap into this demand and drive high margin inflows.

In the longer term, wealth and asset managers can leverage blockchain technology to make private markets investment and operational processes more efficient and open up new types of product opportunities, including Non-Fungible Tokens (NFT) and Security Token Offerings (STO).

ESG – beyond Europe, beyond screening and beyond 'E'

Environmental, Social and Governance (ESG) considerations have already been a major driver of opportunities for wealth and asset managers. We expect the next wave of opportunity to come from three macro shifts: 'beyond Europe', 'beyond screening' and 'beyond E'.

- **Beyond Europe:** The growth of ESG has, so far, been primarily a European phenomenon, with Europe representing around 85% of total ESG AUM at the end of 2020. However, growth in the US has begun to accelerate, representing the next wave of opportunity.
- **Beyond screening:** In addition to a geographical shift, we observe a strategic shift from 'less mature' strategies, such as screening and exclusion, to 'more mature' strategies, such as impact and thematic investments. This will require wealth and asset managers to go beyond high-level scores and use more quantitative and outcome-oriented data to monitor and report on tangible ESG results of investments.
- **Beyond 'E':** 'More mature' strategies will require decomposing ESG and will create an opportunity for managers to differentiate by enabling investors to focus on the specific themes and goals they care about, for example by targeting UN Sustainable Development Goals (SDGs) across E, S and G.

Global ESG AUM currently stand at ~\$2TN, with the majority of AUM in Europe, in 'less mature' screening strategies and in 'broad ESG' or 'E' themes. We expect global ESG AUM to grow to ~\$6.5TN by 2025, with a larger proportion in the US, 'more mature' impact and thematic strategies and dedicated E, S and G themes.

The next wave of growth will require wealth and asset managers to overcome major data challenges, by leveraging a number of technology-enabled solutions that have recently emerged across the data value chain, such as Natural Language Processing (NLP) of alternative data sources. Data will become increasingly important for wealth and asset managers with regard to their ESG capabilities and proposition. While most managers will rely on third-party data providers, leaders will differentiate in their ability to analyse that data, and the quality of their research and company-level engagements.

Cryptocurrencies – time to decide and act

Institutionalization of crypto creates a significant opportunity for wealth and asset managers. Total market capitalization of cryptocurrencies has hit new highs, exceeding \$2TN in April 2021, up from under \$50BN four years ago, as traditional institutional investors, attracted by strong returns, low correlation and institutionally suitable products, add another tailwind to persistently strong retail trading activity and family office investments.

At the same time, significant barriers remain towards broader adoption of crypto by institutional investors and wealth managers, the most important being regulatory uncertainty, persistently high volatility, and sustainability concerns. Putting these barriers aside, crypto could generate a ~\$300BN AUM and ~\$1BN revenue opportunity from ETFs, based on crypto's (most notably bitcoin's) ability to replace stores of values such as gold. In relative terms, this represents a non-trivial opportunity compared to the ~\$12BN in total ETF revenues from other asset classes in 2020, especially given market concentration.

Asset managers who want to participate in crypto should consider a range of product responses, from including crypto assets as part of an existing multi-asset fund, to having dedicated passive or active crypto products, to offering structured solutions.

The rapidly evolving service provider landscape has made it significantly easier for asset managers to enter this space as institutional-grade solutions for core activities, including trade execution, custody and fund administration, have emerged. Asset managers will need to think through other operational considerations, most notably regarding cyber security and infrastructure strategy.

Larger wealth managers will need to decide how to participate, while smaller players can still decide whether this is a market they want to enter. A growing number of private investors will be interested in crypto, including younger and more technology savvy asset owners, and wealth managers will need to develop an offering to meet their demand.

Customization – bridging the gap between bespoke and standardized

Access to customized portfolios has so far been the preserve of institutions and UHNWIs due to the high cost, high-touch model required and limited scalability of such offerings. At the lower end of the wealth spectrum, the industry is moving toward increased standardization through model portfolios.

We now see all the factors in place to offer a greater degree of customization and integrate personal needs and preferences to a wider array of HNW investors. The specific enabling factors are:

1. Underlying vehicles allowing direct security holdings (e.g. SMAs in the US)
2. New technology enabling direct holdings at lower investment amounts (e.g. fractional shares)
3. Evolution of indexing accommodating more customized exposures (e.g. direct indexing)

Direct indexing, a product manifestation of customization leveraging these three factors, has reached ~\$350BN AUM in 2020 and could grow to ~\$1.5TN by 2025 by taking share from mutual funds and ETFs.

As technology improves, asset managers will need to decide how to scale their Separately Managed Accounts (SMA) platforms to offer them to smaller account sizes, with sufficient customization flexibility, and at low cost. While delivering these products creates greater optionality, and hence more potential value, for clients, it also increases the burden on asset managers to help investors and their advisors best utilize that customizability. Asset managers can differentiate themselves not just through the provision of product, but also through well-designed technology, tools and digital experiences that enable investors and advisers to easily and effectively build customized portfolios.

New technology allows wealth managers to offer customization further down the wealth spectrum, at much lower cost through automation. This is an opportunity to 'bridge the gap' between UHNW (over \$50MM) and core HNW (\$10-50MM) investors. Lower down the wealth spectrum, we expect a bifurcation between wealth managers who seek to expand customization to the entry-level HNW (\$1-10MM) and affluent (below \$1MM), and those who consciously decide against it. This decision will primarily depend on a trade-off between the ability to better meet client needs and differentiate with customization on one side, and the risks related to suitability and outcome dispersion, and the loss of the efficiency benefits from standardization on the other side.

Even for those who believe in the benefits of customization for lower wealth segments, we expect most managers to develop a new 'made to measure' service that reflects clients' needs while remaining scalable and cost efficient. This model is likely to consist of a limited set of pre-defined custom 'toggles' in addition to standardized model portfolio parameters.

State of the Industry

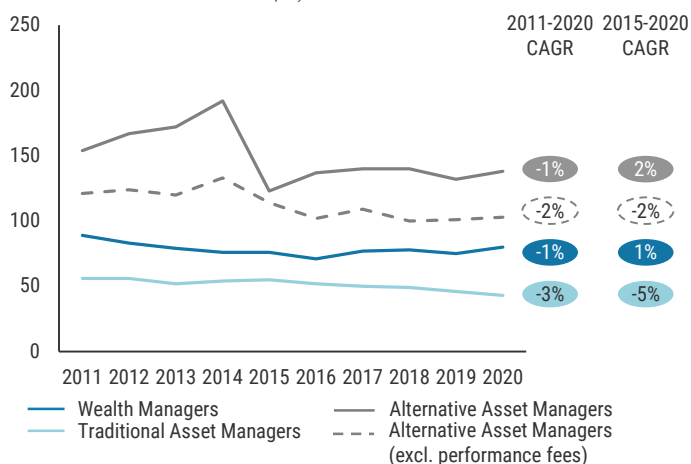
Our report this year considers for the first time the state and outlook of the wealth and asset management industry combined. Accordingly, we focus on themes common to both sets of industry participants, primarily centred on product innovation, distribution and technology, acknowledging that other themes we have addressed in previous years' reports, such as the China opportunity, pricing and cost efficiency, continue to be important drivers of success for the industry.

Wealth and asset managers face a common set of challenges and opportunities, yet the extent of pressure is different for each type of player

Both wealth and asset managers face a common set of challenges and opportunities driven by the macro environment, shifts in client demand, and the continued evolution of technology to deliver improved investment and advisory solutions.

Long-term trends have acted as a drag on industry revenues, including the continuing low interest rate environment and intensifying margin pressures. Wealth managers have been able to defend their franchises comparatively better on the back of strong underlying client wealth growth, and technology investments enhancing transparency on portfolio performance and enabling more unique client choice. Traditional asset managers have faced more acute pressures driven by the continued shift to passive investing and increased commoditization of product manufacturing. Alternative asset managers on the other hand have benefited from structurally higher margins, primarily driven by robust client demand for higher yielding, longer duration private market products. Accelerating inflows coupled with higher fee levels is resulting in a position of strength unlikely to be challenged in the near term.

Exhibit 2: Revenue margins for wealth and asset managers (2011-2020, revenue over AUM, bps)



Source: Thomson Reuters/Refinitiv, Morgan Stanley & Oliver Wyman analysis

Investor demand has evolved towards more customized and holistic solutions across a broader product set to accommodate specific objectives and constraints. Technology has continued to advance to allow wealth and asset managers to deliver against these expectations, creating significant opportunities for those who embrace these new capabilities. The opportunity should manifest in net new money flows and cost optimization driving up margin for wealth and asset managers.

Increasing scrutiny on fees across the wealth and asset management value chain now puts wealth and asset managers on the defensive to clearly articulate the value they create relative to the fees they charge. This proposition is easier to defend on the wealth management side, given the holistic and integrated service offering which is harder to replicate via technology. Overall, we expect wealth managers, given their ownership of the client, and asset managers with differentiated products in the right area of opportunity, to be better positioned to protect their margins and capture growth going forward.

For wealth managers, providing more holistic financial advice requires access to a broader, more customized range of products for all wealth bands

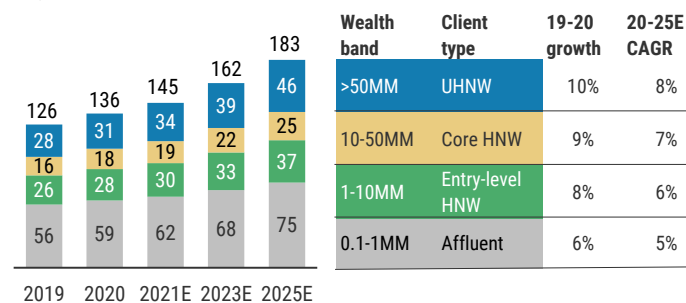
The shift to providing more holistic financial advice and planning requires wealth managers to move beyond constructing generic portfolios comprising traditional packaged products into greater customization, tapping into a broader product set, including private market investments, insurance-like outcomes, and utilizing technology to deliver their enhanced propositions to lower wealth bands.

Wealth managers need to enhance their portfolio construction capabilities to accommodate a wider range of customer needs. This will require a better understanding and access to a differentiated and unique product set that this report will detail.

Lower wealth bands represent a significant opportunity for wealth managers often neglected in previous years in the drive to capture greater UHNW flows. Despite growing slower than the UHNW segment, the three combined segments of core HNW, entry-level HNW and affluent wealth still represent the majority of total wealth and will continue to do so in the years to come. Wealth managers will need to adapt their offering to address the rapidly evolving needs of these segments, and 'bridge the gap' between their different client propositions.

At the same time, we recognize that the breadth of revenue stream may differ between HNW and affluent categories, which may lead some wealth managers to prefer specialization in the HNW and upward segments, with dedicated product offering for those clients' needs. From a client perspective, the affluent wallet may also be better served by a 'lower cost' solution than the current HNW product offerings, tailored for larger scale, full relationships.

Exhibit 3: Global onshore wealth by wealth band (2019-2025E, USD TN)



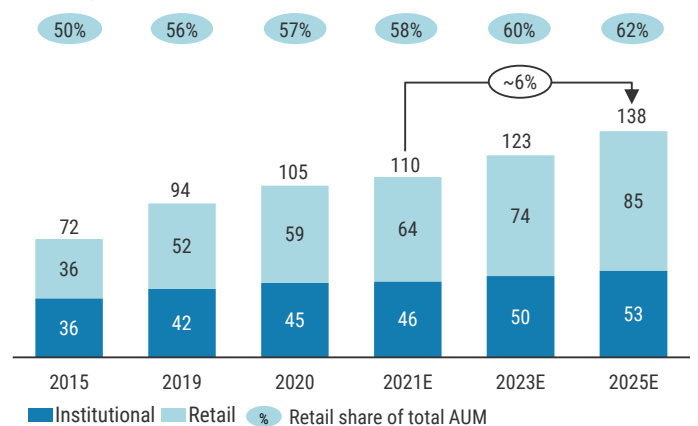
Note: wealth is defined as investable personal financial wealth, i.e., gross personal financial assets held by private individuals (including currencies/deposits, equities, bonds, mutual funds, alternatives, corporate assets in publicly-listed entities controlled by private individuals) excluding assets held in insurance policies and pensions and non-financial assets (e.g., direct real estate or any other real assets). Source: Oliver Wyman Wealth Management Model

For asset managers, protecting and growing margins requires delivering differentiated, in-demand products, increasingly into the retail channel

For asset managers, the opportunity is delivering differentiated, in-demand products, increasingly into the retail channel, which offers better economics than institutional and is set to become an ever-growing share of the asset management AUM pool in the years to come.

Asset managers face a persistent struggle to maintain margins and tap into growth. In this context, retail provides an attractive, higher margin distribution channel for asset managers compared to the tighter pricing of the institutional channel. Indeed, asset managers are already increasingly focusing on the retail channel, as demonstrated by the share of retail assets growing over recent years, and now representing \$59TN, or 57% of total assets. Going forward, we expect the retail segment to continue to drive AUM growth, and reach \$85TN, or 62% of total assets by 2025.

Exhibit 4: Global AUM composition by client segment (2015-2025E, USD TN)



Note: AUM defined as the sum of externally managed institutional assets (including insurance, pensions funds and SWF) and externally managed retail assets (including assets in open-end, close-end and money market funds, alternatives and ETF). Source: Oliver Wyman analysis

We are not saying that there are no opportunities for asset managers in the institutional space, rather, retail, and more specifically retail via wealth management, revenue pools look more attractive. Asset managers that can effectively adapt and distribute existing institutional products into the retail channel and build new, differentiated products that address the evolving demand trends that we detail in this report stand to benefit most.

The push for open architecture and focus on core competencies has led to a separation between wealth and asset management over the years, primarily in Anglo Saxon markets, while captive or vertically integrated models are more common in European markets. The growing importance of the retail channel means that asset managers face increasing pressure to secure improved access to distribution and just having good products will not be enough. For integrated wealth and asset managers, the wealth management arm provides an extremely valuable source of new money flows, particularly in private market and alternative products. While we do not expect to witness M&A between significant wealth and asset management franchises, we do expect to see smaller, distribution-driven deals and tie-ups as asset managers look to secure favorable access to end clients.

Reviewing the outlook for wealth and asset managers together for the first time, we see them competing for the same growth opportunities

This report focuses on product, distribution and technology as key differentiation vectors for wealth and asset managers, while recognizing that other vectors, such as the China opportunity, pricing and cost-efficiency, remain important for both sets of players, as detailed in previous years' reports.

We see four key growth opportunities, outlined below, that will enable wealth and asset managers to differentiate and capture a disproportionate share of wallet going forward.

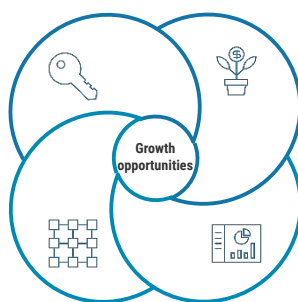
Exhibit 5: Key growth opportunities for wealth and asset managers

Private markets

Private markets now available to more clients across the wealth spectrum and growth further fuelled by product innovation

Crypto

Institutional interest growing along with vendor ecosystem paving the way for new crypto product offerings



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New wave of ESG growth from beyond Europe, beyond screening and beyond environmental themes

Customization

Technology allowing more customization for broader range of investors, bridging the gap between UHNWI and HNWI

By 2025, we expect each to represent a significant opportunity in its own right:

- Total private markets fund AUM of ~\$13TN
- Total ESG fund AUM of ~\$6.5TN
- Bitcoin ETF AUM ~\$0.3TN (one crypto store of value use case)
- Direct indexing managed accounts AUM of ~\$1.5TN (one customization product manifestation)

While the specific actions taken may differ between wealth and asset managers, all should have a well-thought-out plan for how to best capitalize on these opportunities or risk being left behind. Given the different starting points and different ways in which they can approach such opportunities, we expect the development of capabilities needed to capture them to be highly firm-specific, preventing any direct ROI comparison.

Our report has been informed by 23 interviews with senior executives of wealth and asset managers with ~\$34TN in combined assets under management.

Source: Oliver Wyman analysis

Private Markets – 'access for all'

Private markets growth persisted in 2020, with total AUM exceeding \$7TN in 2020; we expect this to reach ~\$13TN by 2025

Private markets have delivered strong double-digit growth over the last decade and, like all markets, came roaring back from the depths experienced early in the pandemic last year. Private markets AUM has now exceeded \$7TN across individual and institutional investors.

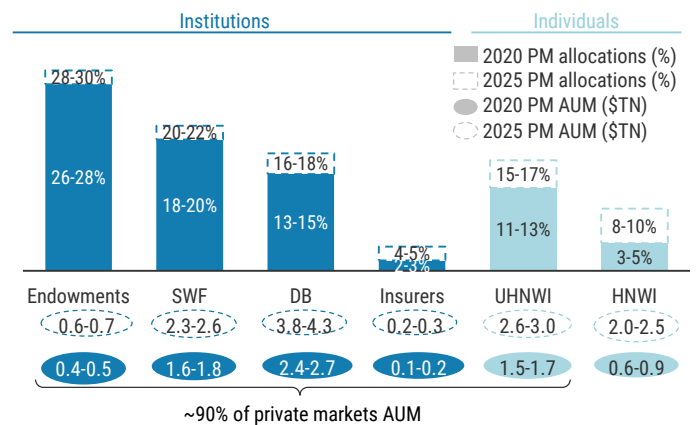
We expect similar growth to continue going forward with total AUM reaching ~\$13BN by 2025. Despite some concerns about valuations, we see the existing demand drivers continuing (e.g. demand for yield and inflation protection) and new supply-side drivers emerging, in particular with the development of new structures and delivery models designed to open access to retail wealth investors.

~90% of private markets AUM is held by institutional and UHNW investors, whereas HNW investors had limited access due to high entry barriers

Institutional investors and Family Offices/UHNW have successfully increased their allocation to private markets and hold ~90% of all private markets AUM. We expect their allocations to continue to grow, representing a significant revenue stream for alternative managers.

The HNW segment, defined here as financial investable wealth between \$1M and \$50M, historically had limited access to private markets due to high entry barriers. This was due to limited liquidity of funds, which are typically locked for 10 years, investment thresholds of several millions, difficulty in achieving sub-asset class and manager diversification with low investment amounts, regulatory and operational complexities, lack of access to investment opportunities and lack of education on the asset class.

Exhibit 6: Private markets allocations by investor type (2020-2025, %)



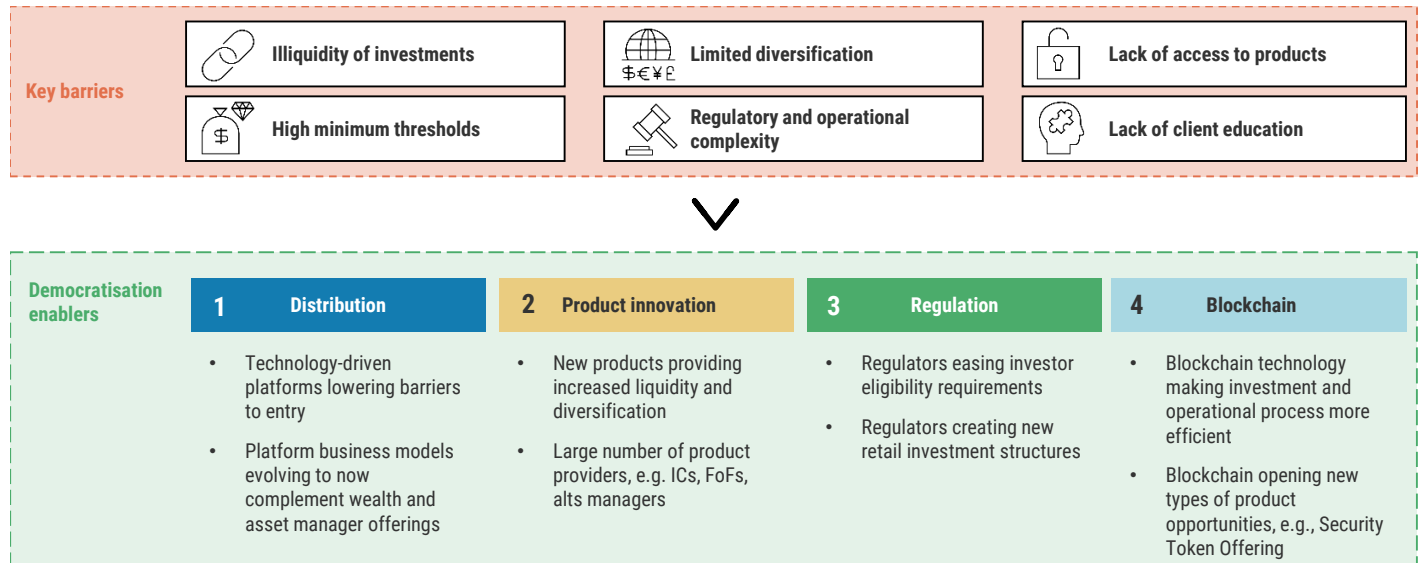
Note: Private markets include private equity, venture capital, private debt, real estate and infrastructure| Other pension plans such as DC plans currently allocate a much smaller share to private markets (1-2%) however the US DoL recently allowed DC plans such as 401(k) to invest indirectly into PE, which could lead to up to 4-5% allocations by 2025 (equivalent to ~\$0.3-0.4TN), depending on regulatory developments and DC providers' responses| UHNW: financial investable wealth >\$50M | HNWI: financial investable wealth \$1-50M | Source: Oliver Wyman analysis

Four key factors are now enabling the democratization of private markets: we expect additional HNWI allocations to represent ~\$1.5TN of AUM by 2025

We now see these hurdles being overcome through a number of factors, and hence private markets investment opportunities becoming more accessible for individuals.

- 1. Distribution:** New distribution and process outsourcing opportunities arising from technology-driven platforms
- 2. Product innovation:** New products emerging tackling liquidity and diversification challenges
- 3. Regulation:** More permissive regulation and new product structures allowing retail participation
- 4. Blockchain:** Underlying blockchain technology improving private markets processes and opening up new product opportunities in the long term

Exhibit 7: Private markets' key barriers and democratization enablers



Source: Oliver Wyman analysis

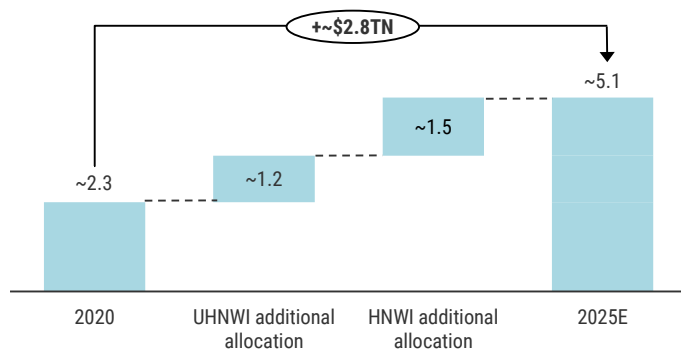
For wealth managers this is a major opportunity. It can be a source of competitive differentiation, a protection against downward fee pressure and a way to increase client stickiness and secure a source of recurring revenues.

1. Distribution models for private markets are expanding, with platforms offering additional distribution opportunities and middle & back office support

While we expect growth across all investor segments, we see lower wealth bands as the largest 'untapped' opportunity, particularly the entry level HNW investors that are most under-served (\$1-10M). We expect HNW investors as a whole to grow their allocation to private markets by 5% from 2020 to 2025, representing ~\$1.5TN of AUM, or a ~\$21BN revenue opportunity at 140bps average revenue per AUM.







We have seen technology-driven distribution platforms rapidly emerge. These platforms allow individual investors to invest in private market funds at lower thresholds by aggregating individual demand, curating private markets portfolios, digitizing and streamlining the end-to-end process, from subscription to reporting, capital calls and distributions. The largest platforms now manage over \$50BN AUM individually and have seen over 100% CAGR over the last three to five years. These include for example iCapital Network and Yieldstreet in the US and Moonfare in Europe. These platforms are transforming the private markets landscape by directly alleviating a number of barriers that make it difficult for HNW investors to access private markets.

Exhibit 8: AUM opportunity from wealth private markets allocations (2020-2025, USD TN)



UHNWI: financial investable wealth >\$50M| HNWI: financial investable wealth \$1-50M
 Source: Oliver Wyman Wealth Pools 2021 Update, Oliver Wyman analysis

Exhibit 9: Private markets' key barriers and platform solutions

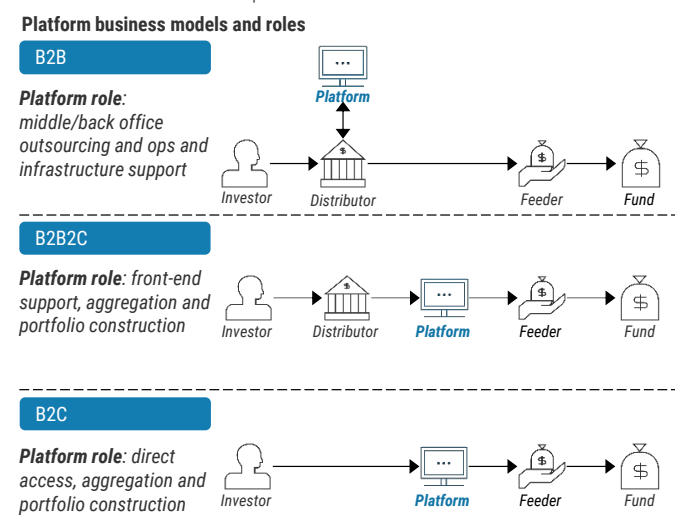
Private markets' barriers	Platform solutions
 Illiquidity of investments	<ul style="list-style-type: none"> • Secondary markets • Funds of various maturities
 High minimum threshold	<ul style="list-style-type: none"> • \$50-200k minimum investment
 Limited diversification	<ul style="list-style-type: none"> • Diversified portfolios across managers and strategies
 Regulatory and operational complexity	<ul style="list-style-type: none"> • Compliance solutions • Middle and back office support
 Lack of access to products	<ul style="list-style-type: none"> • Product opportunities and access to General Partners (GPs)
 Lack of client education	<ul style="list-style-type: none"> • Training and education

Source: Oliver Wyman analysis

While distribution platforms were initially seen as potential competition to wealth managers by directly targeting end clients through a B2C model, we see the majority of investors still seeking advice when making complex private markets investments. Platform business models have hence evolved to become complementary to wealth managers and support their private markets offering. Most advanced platforms seamlessly integrate into advisors' desktops and provide them with the necessary information and tools to advise their clients on these products (B2B2C model). They also provide wealth managers access to a broader set of curated investment structures.

Servicing private market products also introduces a new set of operational burdens to wealth managers given the complexity of the product characteristics, such as managing capital calls and distributions. As a result, platforms are developing middle and back office support models for wealth (and asset) managers, for example with reporting, cash flow management and administration services (B2B model).

Exhibit 10: Distribution platform business models and roles



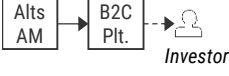



Source: Oliver Wyman analysis

There are several ways to access retail investors for alternative asset managers, with different levels of intermediation, as shown on Exhibit 11. Platforms can provide a step change in managers' access to the retail channel for a wider array of their private markets products, dramatically reducing their distribution efforts. We observe a divide between large scale alternative players who can build direct distribution to wealth managers and offer a wide range of products across various sub-asset classes and smaller scale players providing individual pockets of exposure. Platforms could reduce this divide for smaller scale managers who might have insufficient wealth manager relationships and distribution prowess.

Asset managers can also leverage platforms to outsource middle and back office operations (especially around fund raising, capital calls and client reporting), thereby reducing operational costs and risks, and improving functionalities such as client onboarding, reporting and access to secondary markets.

Exhibit 11: Asset managers' retail distribution options

Retail distribution option	Description	Pros	Cons
Sub-advise to retail AM 	Enter into single or multi manager sub-advisory relationships	<ul style="list-style-type: none"> ✓ More recognisable brand ✓ Large salesforce for adviser ✓ Key acct access to AM ✓ Assist with product ops 	<ul style="list-style-type: none"> ✗ Do not own client ✗ Some fee goes to investment adviser
Distribute to wealth managers 	Placement of retail geared products to WM (could be via B2B2C platform model)	<ul style="list-style-type: none"> ✓ Closer-to-client brand ✓ Direct adviser relationship ✓ Integrated in portfolio construction 	<ul style="list-style-type: none"> ✗ Do not own client ✗ Some fee goes to wealth manager
Distribute via digital platforms 	Secure placement of retail geared products on digital distribution platforms	<ul style="list-style-type: none"> ✓ Digital access to advisers ✓ White label WM platforms ✓ Assist with DD, education ✓ Feeder fund set up and operations 	<ul style="list-style-type: none"> ✗ Do not own client ✗ Some fee goes to platform (e.g. listing fee, feeder fund fee, fund ops fee)
Distribute directly 	Dedicated salesforce to distribute retail geared products to retail investors	<ul style="list-style-type: none"> ✓ Direct access to investors ✓ Stickier client relationships ✓ Retain full mgmt fee 	<ul style="list-style-type: none"> ✗ Requires dedicated sales and compliance team ✗ Significant time on DD, investor education

Source: Oliver Wyman analysis

Delivering private market products is increasingly viewed as a core capability that wealth managers must have to service lower high net worth clients such as entry-level and core HNW investors. Wealth managers need to decide how they are going to deliver these products to their clients – Exhibit 12 highlights different options that can be pursued. While multiple factors come into play, the appropriateness of each approach is likely to be driven by a wealth manager's size.

Whereas the largest wealth managers can build their own offering at scale given the overall size of their client books and resulting negotiation power and access to a broad range of managers, the new platform solutions open the door for small to medium-size managers to participate. That said, large size wealth managers will still find benefits in using these platforms alongside their in-house offering and, in a B2B model, outsourcing their infrastructure and administration activities.

Exhibit 12: Private markets participation options for wealth managers

Participation options	Partner with B2B2C distribution platforms	Partner with investment consultants / FOF providers	Partner with leading alternative managers	Develop in-house alternative capabilities
	Small to medium-size regional WM			Large size global WM
Pros	<ul style="list-style-type: none"> ✓ Access to broad set of options ✓ Operational and administrative support 	<ul style="list-style-type: none"> ✓ Immediate access to opportunities ✓ Diversified product set across sub-asset classes 	<ul style="list-style-type: none"> ✓ Ability to demonstrate value to end client ✓ Potential exclusive fee arrangements 	<ul style="list-style-type: none"> ✓ Full control over opportunities ✓ Flexibility in portfolio construction
Cons	<ul style="list-style-type: none"> ✗ Give away part of value chain and fee ✗ Give away control over portfolio construction 	<ul style="list-style-type: none"> ✗ Give away part of value chain and fee ✗ Potentially more expensive for end client 	<ul style="list-style-type: none"> ✗ Operational burden and administrative complexity ✗ Multiple relationships to maintain 	<ul style="list-style-type: none"> ✗ Full responsibility for operational and admin. tasks

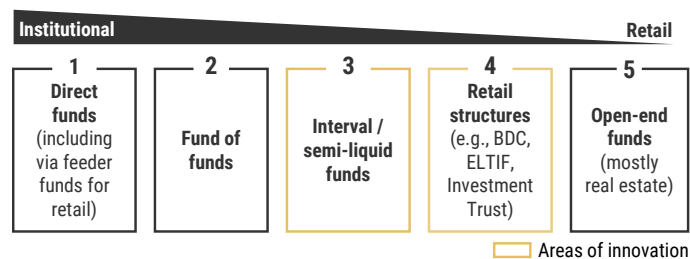
Source: Oliver Wyman analysis

2. A broad range of innovative private markets products is emerging

A number of players are developing innovative products to meet individual customer requirements, particularly around improving the liquidity and diversification properties of smaller investment amounts. For example, investment consultants and funds of funds are creating 'turnkey' products offering more diversified exposures across managers and funds.

Some forward-thinking alternative managers are developing their own in-house products that seek to create broad and diversified exposure across sub-asset classes. There is also an opportunity for asset managers to utilize new product structures to take advantage of retail demand for private/illiquid assets. Asset managers can create 'semi-liquid' and packaged private market solutions that offer improved diversification. For example, they can introduce a number of liquidity mechanisms in their product design, including recurring subscriptions, redemption discounts, limits and suspensions, credit facilities to fund capital calls, secondary sales and purchases and cash/listed equity and credit balances. Managers who manage to develop attractive products can secure a new and attractive source of recurring high margin inflows. From our conversations with larger alternative managers, we see this type of product innovation as the key driver of AUM growth in the near term.

Exhibit 13: Private markets product spectrum and areas of innovation



Source: Oliver Wyman analysis

Wealth managers now have a larger number of potential partners to work with, from distribution platforms to investment consultants, funds of funds and larger alternative managers. They will need to enhance their capability to review, filter and select partners and demonstrate to their clients that they have a robust process for doing so.

3. Regulatory change and new product structures are allowing more retail participation

Different jurisdictions are starting to allow greater individual participation in private markets by easing investor eligibility requirements and creating new retail investment vehicles. This is increasing the confidence of wealth and asset managers that there are meaningful opportunities to invest in capabilities to deliver private market products to retail investors.

In the United States, the SEC amended its definition of 'accredited investor', expanding the pool of individual investors eligible to participate in private markets. While historically the definition of 'accredited investors' relied exclusively on financial thresholds (in terms of income or net worth), the SEC now expanded its list of participants to take into account financial sophistication (in terms of professional knowledge, experience and certifications). The Department of Labour similarly allowed indirect private equity investments in 401(k) retirement plans.

In Europe, the European Long-Term Investment Fund (ELTIF) regime enables retail investors to access private markets from €10,000 investments. While the inflow into ELTIF has been rather limited so far (AUM stood at €1.5BN at the end of 2020, exceeding €2BN in May

2021), the EU started a public consultation to revise the framework and simplify its requirements. ELTIFs could follow the success of other retail-friendly vehicles such as Business Development Companies (BDCs) in the US that hold over \$100BN and Investment Trusts in the UK that hold over \$300BN in assets, of which over \$30BN in private equity and \$30BN in infrastructure.

Regulators are now greenlighting the use of less liquid investment products for the retail audience. This is a significant opportunity for asset managers, who need to ensure they are ready to capture it. The current costs of setting up ELTIFs are orders of magnitude greater than traditional mutual funds (such as UCITS), but given the size of the opportunity, asset managers should consider devoting the necessary upfront resources and one-time investment to reap dividends in the longer term.

Wealth managers should review their broad investment offering versus their client segmentation and consider whether to offer private markets to lower wealth bands based on robust suitability assessments. This is also an opportunity for wealth managers to improve private markets perception and education within their advisor and client base. This includes more awareness on investment opportunities and clearer explanation of the risk/rewards of such investments.

4. Underlying blockchain technology could accelerate private markets democratization in the longer term

Private markets are still hamstrung by an investment process that is complex, time-consuming and not fully transparent due to the presence of multiple intermediaries. The lack of common standards means that each underlying investment is often unique, requiring its own bilateral contract and highly manual intervention in administration. Transactions involve intensive legal resources and can take months or years to close. The quality and availability of data remain scarce and asymmetric, mostly relying on infrequent diligence and exchanges of information between portfolio companies, fund managers, custodians and investors.

Blockchain, in a permissioned distributed ledger, can help overcome these challenges across the investment process, from client onboarding to transaction, administration and reporting. Blockchain offers a decentralized and intermediary-free, immutable, open and auditable and real-time network. This can make private market investments more transparent, more standardized and more efficient to operate over time. This will likely require broader adoption across a smaller number of permissioned distributed ledgers.

Its single interface provides complete transparency and real-time distribution of information between all stakeholders, such as investors, managers, asset servicers and regulators. This allows for more control over asset ownership and investors' credentials, quicker asset transfers based on current valuations and up-to-date legal information and more active portfolio monitoring and reporting. Its set of standardized rules will accelerate contracting and valuations. The chain immutability, digital validation and absence of intermediary can make transactions more efficient.

Blockchain can also broaden the scope of investable asset classes. The value stored in illiquid assets such as collectibles or real estate can be converted into Non-Fungible Tokens (NFT) or Security Token Offerings (STO) that can be easily and securely transacted on a blockchain network. Contract criteria can be coded into the tokens themselves, further increasing the speed of contracting. Tokens allow fractional ownership (up to 18 decimals), which can increase the depth of markets and lower entry barriers, making private markets' exposures more transactable. Security tokens offer the additional benefits of greater divisibility making the underlying assets even more accessible.

A blockchain-driven platform for secondary trading of security tokens would then reduce a major hurdle to wider adoption and increase private markets liquidity. While details of a blockchain-based secondary market are yet to be defined, this could streamline approval processes for secondary sales and increase access to deal flow, as well as introduce more mark-to-market valuations, which would have a significant impact on secondary market players.

While these developments are admittedly further out in the future, asset managers should take the time now to understand how blockchain technology can be utilized in their private markets businesses, from making their investment and operational process more efficient, to opening up new types of product opportunities, including NFT, STO and enhanced secondaries.

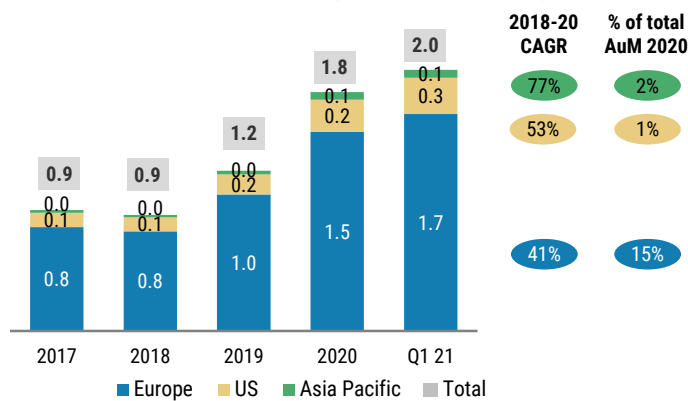
ESG – beyond Europe, beyond screening, beyond ‘E’

Environmental, Social and Governance (ESG) considerations have already been a major driver of opportunities for wealth and asset managers. We expect the next wave of opportunity to come from three macro shifts: ‘beyond Europe’ into other geographies, particularly the US; ‘beyond screening’ into a combination of thematic and impact strategies; and ‘beyond E’ into social and governance themes.

Beyond Europe: while Europe has historically driven ESG growth, accounting for ~85% of global AUM, the US represents the next wave of opportunity

The growth of ESG has, so far, been primarily a European phenomenon. We estimate that fund AUM in ESG strategies accounted for ~\$2TN worldwide in 2020, excluding institutional separately managed accounts. In this sizing, we include all ESG strategies, from exclusion strategies to impact investments. Europe represented \$1.5TN, or ~85%, of total ESG AUM at the end of 2020. Yet growth in North America has begun to accelerate, with 53% AUM CAGR over 2018-20 vs. 41% in Europe, but remains at relatively early stages with penetration of ~1% of total AUM compared to ~15% in Europe, indicating a long runway for growth.

Exhibit 14: ESG AUM by region (2017- 1Q21, USD TN)

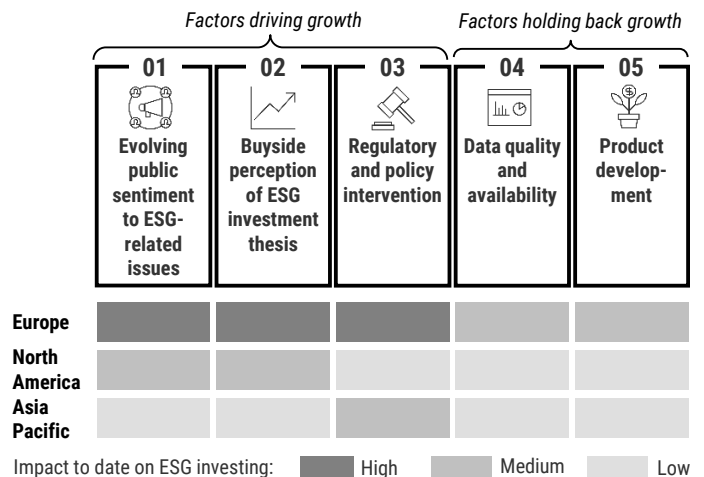


Source: Morningstar, Oliver Wyman analysis

The key factors driving ESG growth in Europe in recent years are well-known and include evolving public sentiment to ESG-related issues, improving buy-side perception of the ESG investment thesis and regulatory and policy intervention. We expect the same factors to drive

growth in the US, especially given the increasingly vocal and public debate on climate and social issues, the rising importance given to long-term performance of ESG strategies and the momentum from the new Administration setting a clear ‘tone from the top’. We also observe supportive regulatory developments in Asia, both in terms of corporate disclosures and net zero transition commitments. Other factors that have historically weighed on growth are now improving across geographies as well. Data barriers are being lowered as more companies report on ESG and data providers expand their product offerings. Innovative products are expanding across asset classes and instruments, including the ability to create custom portfolios aligned to individual investor’s ESG preferences as we will discuss later.

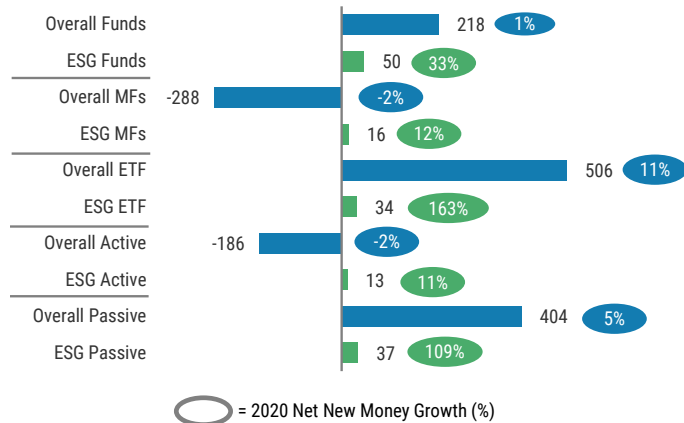
Exhibit 15: Factors driving impact to date on ESG investing



Source: Oliver Wyman analysis

We already see ESG in the US contributing to the growth of passive strategies, with \$37BN ESG passive inflows out of the \$400BN total passive inflows in 2020. We expect that the largest opportunity for asset managers in the US is in capturing initial ESG assets into passive products, as most advisors and clients are attracted to these types of products given their lower cost and greater simplicity. ESG also provides an opportunity for asset managers to defend their active strategies from outflows, in particular in mutual funds. Indeed, ESG active strategies attracted positive inflows in 2020, in contrast to \$186BN outflows for total active strategies.

Exhibit 16: US net flows by product and strategy (2020, USD BN)

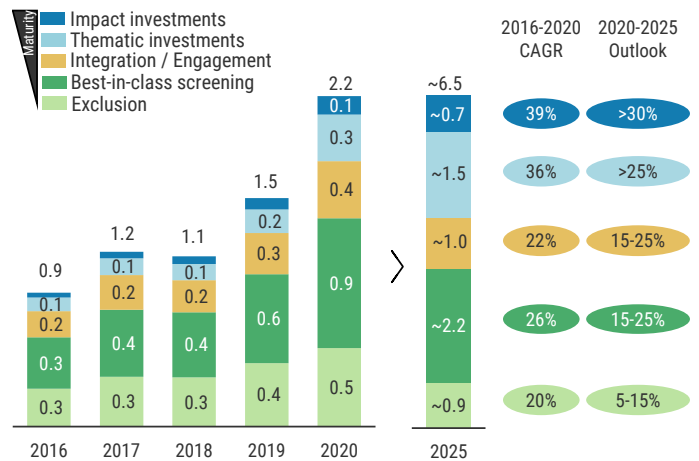


Source: Morningstar, Oliver Wyman analysis, Note: Bubbles = 2020 Net New Money growth

Beyond screening: while >60% of assets are held in screening strategies today, we expect >25% growth in 'more mature' impact and thematic investments going forward

In addition to the geographical shift from Europe to the US, we observe a strategic shift on a global level from 'less mature' strategies to 'more mature' strategies. Last year we introduced a maturity spectrum for ESG investment strategies. At the less mature end of the spectrum, screening approaches exclude or include specific companies or sectors (e.g. tobacco or oil), and integration approaches consider ESG criteria in the investment process alongside financial analysis. At the more mature end of the spectrum, thematic approaches focus on specific ESG themes and impact approaches invest with ESG objectives alongside financial performance. Most assets are currently held in 'less mature' screening strategies, representing 62% of total AUM. However, we observe stronger growth in 'more mature' impact and thematic investments at over 35% CAGR from 2016-2020, albeit from a smaller base. We expect this trend to continue and overall ESG AUM to reach ~\$6.5TN by 2025, with impact and thematic investments taking a larger share of the total.

Exhibit 17: ESG AUM by investment strategy (2016-2020-2025, USD TN)



Source: Broadridge Global Market Intelligence, Oliver Wyman analysis

The shift has been mainly driven by an increasing recognition from investors that 'less mature' strategies, while easy to understand and convenient to invest in, are an overly basic way to express their ESG preferences. Moreover, regulators and investors continue to push for better disclosure and less 'greenwashing', prompting managers to demonstrate the tangible impact of their investments.

In Europe, the Sustainable Financial Disclosure Regulation (SFDR) recently introduced a new categorization of funds that is likely to formalize the shift from 'less mature' to 'more mature' strategies by requiring funds that do not integrate sustainability in their investment process to be clearly labelled as non-sustainable (i.e. Article 6 funds) and by making a clearer distinction between funds that promote ESG vs. funds that have ESG as an investment objective (i.e. Article 8 and 9 funds):

- **Article 6:** funds that are not promoted with ESG characteristics or objectives
- **Article 8:** funds that promote sustainable characteristics, but not as overarching objectives
- **Article 9:** funds that have a sustainable investment objective

SFDR data as of 27 April 2021 from Morningstar research, covering 52% of the European investment universe, suggests that ~21% of funds fall under Article 8 and just ~3% under Article 9. These numbers are expected to grow as managers reclassify funds, enhance existing ESG practices and launch new strategies aligned to this new categorization.

We see also some managers in the United States aligning their funds to Article 8 and 9 in anticipation of European rules becoming global standards in order to be better positioned as the market evolves.

While we expect growth across all strategies, we believe that allocation to 'more mature' strategies will continue to increase as a proportion of total ESG assets in the next years, driven by demand from investors and regulators and supply-side factors, including improved data and analytics, which will allow managers to better measure, monitor and report on the ESG performance of their investments.

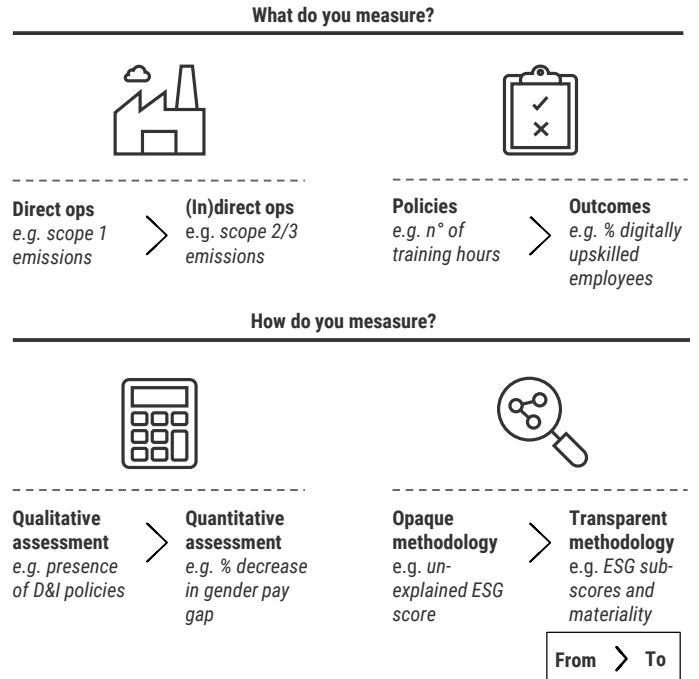
Demand for 'more mature' investments, in particular impact investment, increases the importance of having a private markets offering for wealth and asset managers. Indeed, impact can often be better achieved with longer-term, private investments than listed securities.

In order to capture growth in 'more mature' strategies, wealth and asset managers will need to go beyond high-level scores and use more quantitative and outcome-oriented data. This will require wealth and asset managers to significantly improve the data and metrics currently used, both in terms of what is measured and how it is measured.

In terms of what is measured, wealth and asset managers should shift from considering only the direct operations of their portfolio companies, such as scope 1 carbon emissions (e.g. company vehicles), to taking into consideration broader activities up and down-stream along their portfolio companies' supply chain, such as scope 2 and 3 carbon emissions (e.g. processing, use and end-of-life of sold products). Managers should also transition from just assessing policies to evaluating actual impact of these policies, for example looking at the impact of a training programme on a company's workforce rather than its mere existence.

In terms of how it is measured, wealth and asset managers should rely on quantitative rather than qualitative assessments, such as reduction in gender pay gap rather than availability of a gender diversity policy. Leading managers will transition from using opaque to transparent methodologies, allowing them to decompose ESG scores into their E, S and G sub-scores, analyze the main drivers of each E, S and G sub-score and explain the materiality of each driver when aggregating them. These shifts will likely require wealth and asset managers to develop sufficient in-house expertise and thought leadership to support 'more mature' strategies.

Exhibit 18: Data shifts required for 'more mature' strategies



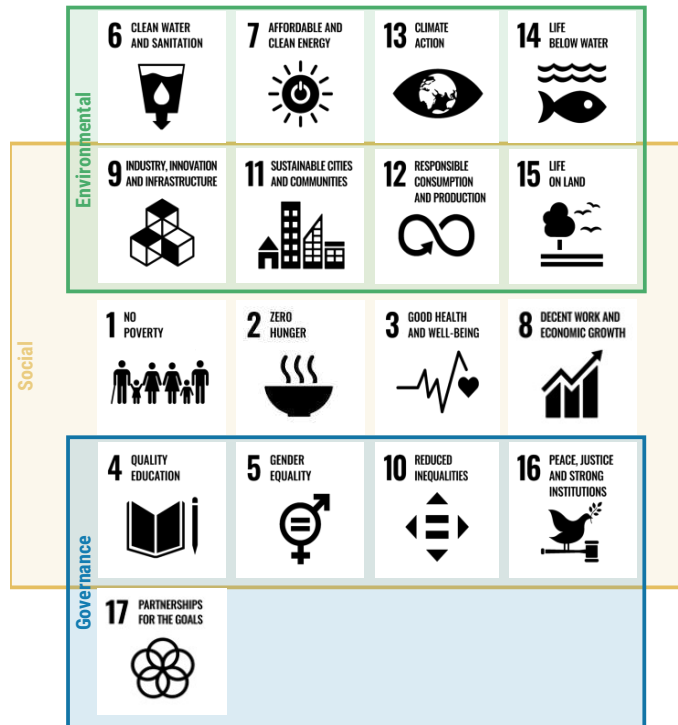
Source: Oliver Wyman analysis

Beyond 'E': the development of 'more mature' strategies will require decomposing ESG into 'E', 'S' and 'G' and offering products that focus on each

'More mature' ESG investment strategies require a more granular approach to ESG investing, decomposing environmental, social and governance aspects. While governance has always been embedded in asset managers' investment decisions, we see environmental and social issues rising in importance, as these are what investors mostly care about.

While the environmental theme has risen to the top of the global policy agenda following the 2016 Paris Agreement, the next generation of funds and products will enable investors to focus on the specific themes that they care about – whether these are 'E', 'S', or 'G'. For example, fund managers are launching active and passive products that allow investors to target specific ESG themes and tangible outcomes tied to UN Sustainable Development Goals (SDGs). This trend manifests itself primarily in active strategies in Europe, and ETF strategies in the US.

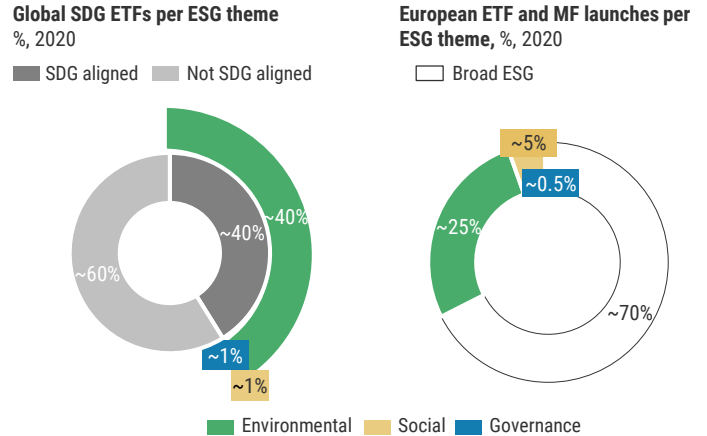
Exhibit 19: Mapping of UN Sustainable Development Goals (SDGs) to ESG themes



Source: United Nations Sustainable Development Goals, Oliver Wyman analysis

Across the UN SDGs, the most prevalent alignment theme for ETFs is environmental with 98% of ESG SDG-aligned ETFs being focused on the 'E', which reflects the current widespread concern regarding climate risk. This is also reflected in the European fund launches per ESG theme in 2020: ~70% remain 'broad ESG' funds, however ~30% of the funds are dedicated to a specific ESG theme, with the most popular theme being environmental. We expect the number of environmental funds to continue to grow, and this to expand to other ESG themes, in particular on social aspects such as diversity and inclusion. This provides wealth and asset managers with an opportunity to differentiate by developing products focusing on these specific themes.

Exhibit 20: Global SDG ETF and European ETF and MF launches mapped to ESG theme (2020, %)



Source: ESG observatory by Trackinsight.com, Morningstar, Oliver Wyman analysis

We think this type of product innovation is relatively nascent. There is a significant opportunity for asset managers to innovate by developing new funds and strategies that focus on particular themes and SDGs. Winners will clearly articulate the outcomes targeted by their products and utilize explicit metrics to demonstrate progress against achieving these outcomes.

The next wave of growth will require wealth and asset managers to overcome major data challenges

Wealth and asset managers rely on a broad set of data and analytics to support their ESG offerings. These datasets range from raw underlying data such as specific carbon emissions, to company-level analytics such as company scores, research and controversy analyses, portfolio-level analytics such as fund scores, indices and risk analyses. Most managers have limited in-house capabilities to process large amounts of complex, incomplete and non-standardized raw underlying data, so they mostly rely on third-party sources to supply ESG data and independent scores at an individual company and portfolio level.

Wealth and asset managers still face major challenges with the quality of both underlying data and company or portfolio-level analytics that they need to address. These include lack of timeliness as most metrics are updated annually at best, limited transparency in methodologies hindering the ability to understand and decompose scores, narrow coverage restricting product ranges across geographies, asset classes and ESG themes, insufficient integrity with heavy reliance on company self-reporting, subjective methodologies (in particular to model data gaps), backward views not incorporating management plans and low correlation in scores for the same company across providers.

The increasing investor focus on tangible and relatable goal fulfilment (e.g., how many trees did I save) and idiosyncratic requests that need to be accommodated (e.g., more importance given to 'S' than 'E', or within 'E', greater importance to marine conservation than deforestation) further increase these challenges for wealth and asset managers. Data will become increasingly important for wealth and asset managers with regard to their sustainability capabilities and proposition.

Exhibit 21: Key ESG data challenges for wealth and asset managers

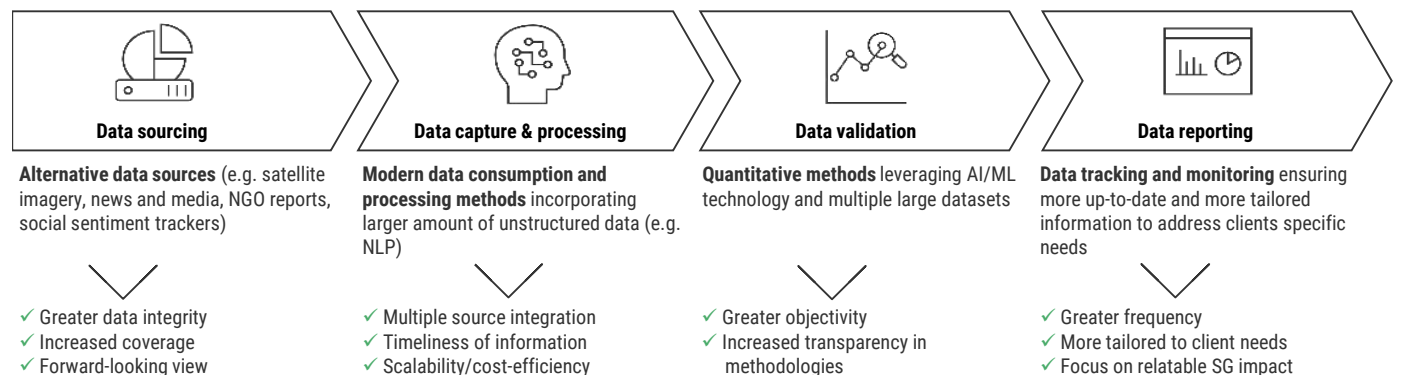
Challenges	Description
1 Timeliness	<ul style="list-style-type: none"> Lack of timestamped and point-in-time dataset through history Large period of time between metric being disclosed by company and available on vendor database
2 Transparency	<ul style="list-style-type: none"> Limited transparency in methodology, especially around materiality frameworks and aggregation No consistency and comparability between vendors
3 Coverage	<ul style="list-style-type: none"> Significant data gaps in most vendors, in terms of geographies, asset classes and ESG themes Insufficient number of metrics provided, especially for S and G theme
4 Integrity	<ul style="list-style-type: none"> Frequent errors in vendor data processing and distribution Risk of reliance on self-reported company data that could be delayed or misreported
5 Subjectivity	<ul style="list-style-type: none"> Value-based data collection and aggregation approaches Modelling of data gaps based on subjective assumptions
6 Backward view	<ul style="list-style-type: none"> Limited consideration of forward-looking engagement metrics, management plan or changes in behaviour Lack of robust mapping to impact metrics
7 Correlation	<ul style="list-style-type: none"> Low correlation among third-party ESG scores, prohibiting comprehensive analysis through one ESG score

Source: Oliver Wyman analysis

A number of solutions to these data challenges are emerging, mostly based on wider use of technology across the ESG data value chain, from sourcing to capture & processing, validation and reporting.

- **Data sourcing:** using alternative data sources to improve data integrity, coverage and frequency, such as satellite imagery for carbon emissions, news and media for controversies, NGO reports on particular ESG aspects, social sentiment trackers for customer and employee satisfaction
- **Data capture & processing:** leveraging modern data consumption and processing methods such as Natural Language Processing (NLP) to derive meaningful insights from a much larger amount of unstructured data, thereby increasing coverage, to increase timeliness of information processing and improve scalability, for example by automatically processing large numbers of qualitative ESG reports and disclosures
- **Data validation:** relying on quantitative methods to ensure more objectivity (as opposed to less reliable 'yes/no' questionnaires or self-reported data) and better understand the relevance and materiality of each piece of information
- **Data reporting:** ensuring more up-to-date and more tailored reporting of ESG information to address client-specific ESG needs and requests

Leading wealth and asset managers will differentiate in their ability to leverage these solutions to analyse third-party data, and combine it with high-quality research and company-level engagements.

Exhibit 22: Technology-driven solutions to ESG data challenges

Source: : Oliver Wyman analysis

Wealth managers should shift to offering clients a more tailored range of approaches to ESG, focusing on tangible impact and improving their reporting

Wealth managers previously offered 'one size fits all' sustainability investment portfolios that typically focused on using 'less mature' exclusionary strategies. These were often not widely promoted, and clients had to specifically ask for them, rather than being integrated into the relationship management and planning process.

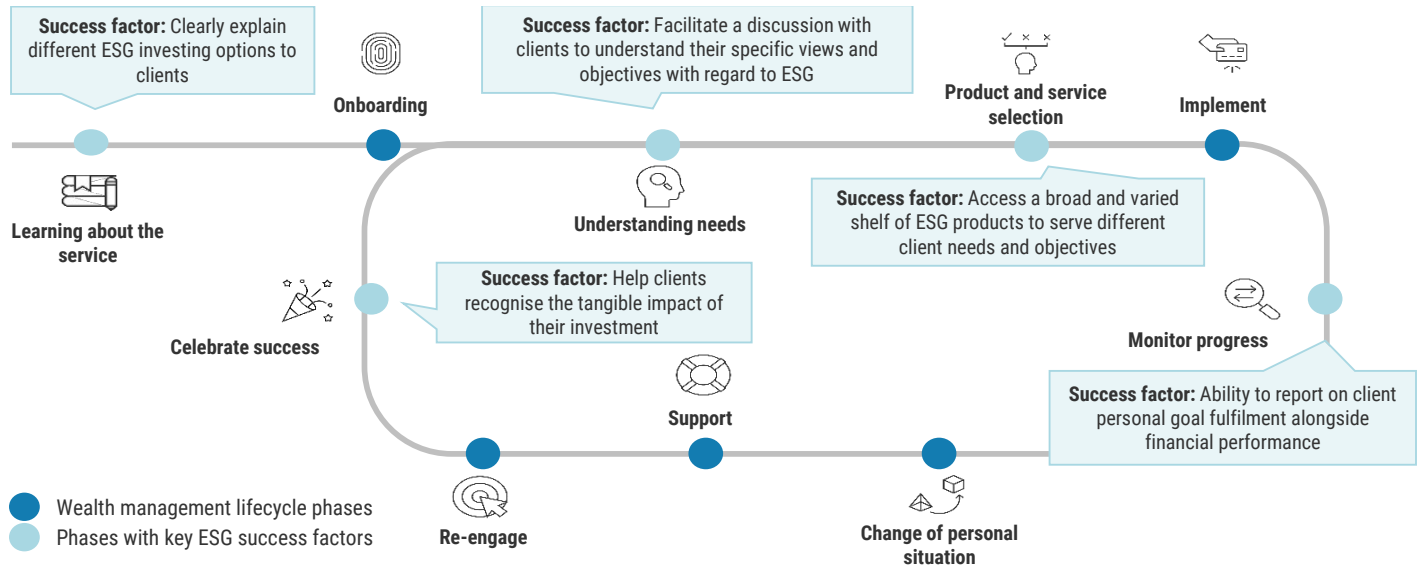
The increasing range of products available and rising demand for personalized solutions represents a major opportunity. Wealth managers need to innovate and offer sustainability propositions that are tailored to client needs, from initial goal setting and advice through to implementation, reporting and fulfilment.

For this, they will need a much more customized ESG product shelf that serves different client needs and objectives. This will need to go across the spectrum from exclusion to impact and offer optionality to accommodate different views on ESG by incorporating individual preferences into portfolio construction.

By focusing on the tangible impact of each investment, wealth managers can overcome some of the data challenges mentioned previously, in particular the inconsistent and often contradictory third-party provider scores that might not align with how their client thinks about ESG. This increasingly puts the onus on the wealth manager to select product, mitigate 'greenwashing' and articulate the choices to their clients. To do so, wealth managers will need to train their advisors and develop expertise on the topic. They will also increasingly need to evaluate asset managers' ability to deliver according to their sustainability objectives and metrics, as well as investment performance.

We also see investors increasingly asking for incorporation of personal goals alongside financial performance in target setting and reporting. Wealth managers will need to develop their ability to report on goal fulfilment rather than just financial performance (e.g., along the lines of "every dollar invested reduced carbon footprint by x").

Exhibit 23: ESG success factors along the wealth management lifecycle



Source: Oliver Wyman analysis

Cryptocurrencies – time to decide and act

Crypto – a brief explainer

For many, 'crypto' is synonymous with bitcoin, the original and largest of all digital assets, which came into existence as society was grappling with the fallout from the Great Recession. Like all digital assets, bitcoin is in essence a computer network with a particular structure and set of rules for how that network is maintained and operated. The network structure, known as Distributed Ledger Technology (DLT), underpins the entire landscape and supports many use cases. These range from investment and savings (e.g. bitcoin is sometimes referred to as "digital gold"), but other use cases for the technology exist in supporting efficient digital payments, tokenization and smart processing. Our primary focus for this report will be on crypto for investment and savings, arguably the most relevant and largest use case for wealth and asset managers, and in particular bitcoin. We also touch on tokenization in the form of Non-Fungible Tokens (NFT) and Security Token Offerings (STO), which represent an attractive opportunity for wealth managers in the private markets space.

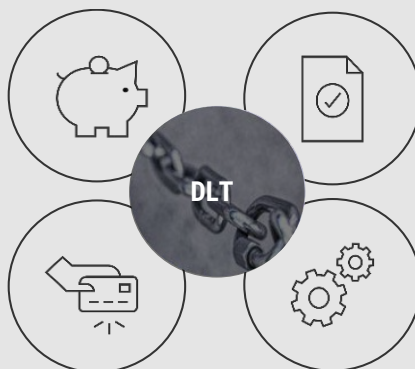
Exhibit 24: Distributed Ledger Technology landscape simplified schematic

1. Investment & savings

Investment and savings products (e.g., exchanges, market makers, custody, wealth and asset managers)

2. Payments

Digital payments (e.g., payment processors, stable coins, Central-Bank Digital Currencies)



3. Tokenisation

Process of issuing tokens digitally representing an asset (e.g., collectibles, digital art, unlisted equities)

4. Smart processing

Fast, secure and low-cost processing without intermediary (e.g., equities clearing, digital ID, supply chain logistics)

Source: Oliver Wyman analysis

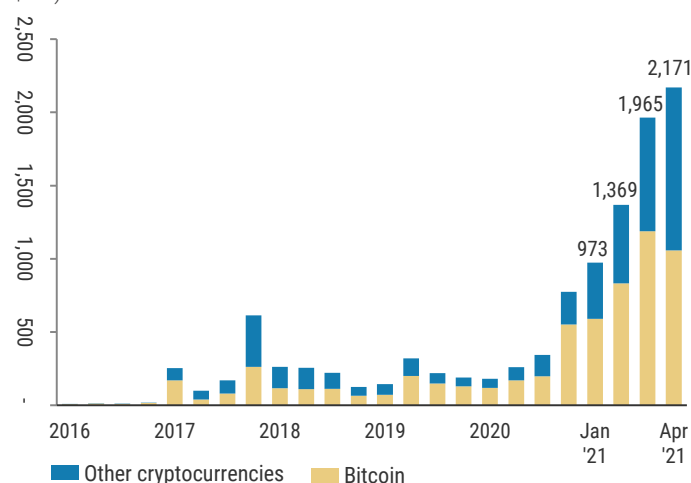
Since its inception, the number of bitcoin addresses with a non-zero balance, a proxy for users, has grown to over 30 million, bitcoin's market capitalization has topped \$1TN, and the total size of the crypto market exceeded \$2TN in April 2021. Crypto is rapidly gathering pace as institutional-grade custody, trading and product solutions enter the market, attracting significant attention from and adoption by institutional investors. It is hard to deny that pockets of the crypto market exhibit signs of froth and sharp price swings, as experienced in May 2021, which are unlikely to go away anytime soon, but the market and the underlying DLT supporting it have proven remarkably resilient through periods of technological, economic, and regulatory upheaval.

In short, we believe crypto is here to stay, although we acknowledge that due to nascent regulation and continuing volatility, in the near term not all HNW and institutional investors will embrace allocating to this asset class in size. This report does not make predictions about how crypto might (re)shape capital markets, monetary systems or the way society saves, invests and transacts, yet we do believe it is critical that wealth and asset managers take the time to understand the landscape so they can make informed decisions about how to best position themselves in this rapidly growing and dynamic space.

Institutionalization of crypto creates a significant opportunity for wealth and asset managers, with crypto market capitalization topping \$2TN

Total market capitalization of cryptocurrencies has hit new highs in recent months as institutional investors, attracted by strong returns, low correlation and institutionally suitable products, add another tailwind to accompany persistently strong retail investor trading activity and family office investment. Total market capitalization of all cryptocurrencies exceeded \$2TN in April 2021, up from under \$50BN four years ago, with bitcoin representing >50% of the total. For comparison, gold has a market capitalization of ~\$11TN and total hedge fund AUM stand at ~\$4TN as of April 2021.

Exhibit 25: Market capitalization of cryptocurrencies (2016-2021, \$Bn)



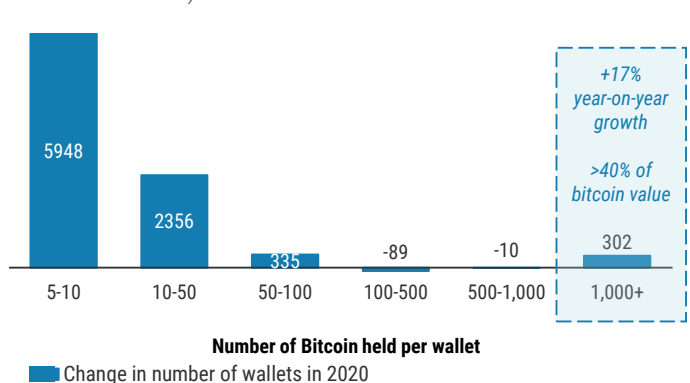
Source: Coinmarketcap, Oliver Wyman analysis

The crypto ecosystem, once characterized by a few fragmented brokers, execution venues, wallet providers and limited regulation, has grown into an ecosystem that in many ways parallels established capital markets. It has brokers, traditional investment structures and vehicles, exchange-traded and OTC options, execution venues, trading software, market data, surveillance, clearing & settlement and custody, as well as growing regulatory oversight governing the market. There are differences that can impact how participants interact with the market and how solutions need to be structured, but the basic picture is one of similarities with traditional capital markets not differences, which is likely to further entice the next wave of institutional investors to enter the market.

We can see this new institutional investor interest by analyzing the wallet distribution of major cryptocurrencies. While there is no

formal reporting on aggregate institutional holdings, we can gauge institutional interest by looking at the number of large wallets (a set of addresses controlled by a single entity), though some are likely to be early individual investors who have maintained their holdings, UHNW/Family Offices and large exchanges. Over 40% of bitcoin value is held by investors with more than 1,000 bitcoins, equivalent to more than \$55M at the end of Q1 2021. The number of wallets with more than 1,000 bitcoins has increased by 302, or 17%, year-on-year, as shown in Exhibit 26. Similarly, the recently listed crypto exchange Coinbase reported that on its exchange, institutional trading volumes increased from 20% of total trades in Q1 2018 to 64% in Q4 2020, which is also indicative of institutional investor interest. We also see major custodians developing new crypto custody solutions in response to their institutional clients' demand. While 'early adopter' retail investors and crypto-focused funds and crypto-focused corporates still represent the majority of holdings, we now see significant growth potential from 'newcomer' traditional corporates and asset managers.

Exhibit 26: Change in number of bitcoin wallets by wallet size (2020, number of wallets)



Source: Chainanalysis, Oliver Wyman analysis

Wealth and asset managers are starting to develop their crypto offerings

Interest in crypto has significantly surpassed our previous estimates. Last year we said that we expected digital assets to remain a niche market, at least in the short term, though they could represent a differentiating wealth management offering. It is now clear that this was too pessimistic. Private investors are currently getting exposure via 'one-stop shop' exchanges or platforms rather than mainstream wealth managers. Leading wealth managers are developing offerings to let their clients invest in crypto currencies. They do so by (re)establishing crypto trading desks and providing access across the spectrum of crypto investments, from physical coins to derivatives and investment vehicles, e.g. through joint ventures and partnerships.

Exhibit 27: Examples of public announcements from top 10 wealth managers (non-exhaustive)



Source: Public company announcements

However, most wealth managers are still waiting for more permissive regulatory signals, improved liquidity conditions and the development of mutual funds or ETFs. For the moment, crypto investments remain limited to clients that have a high risk tolerance and even then, investments are typically a low proportion of investable assets. Wealth managers tend to be more hesitant to offer products due to suitability questions in comparison with asset managers' willingness to develop and manage them.

Most institutional assets are not held with asset managers, and if they are, they are held with crypto-specialist asset managers who manage ~\$50BN AUM in ETF-like products (i.e. ETFs or other similar products such as trusts). The Grayscale Bitcoin Trust only reached ~\$40BN AUM in early 2021. More mainstream asset managers are still mostly considering their options: on one end, just trading, and on the other, offering an array of asset management products to clients.

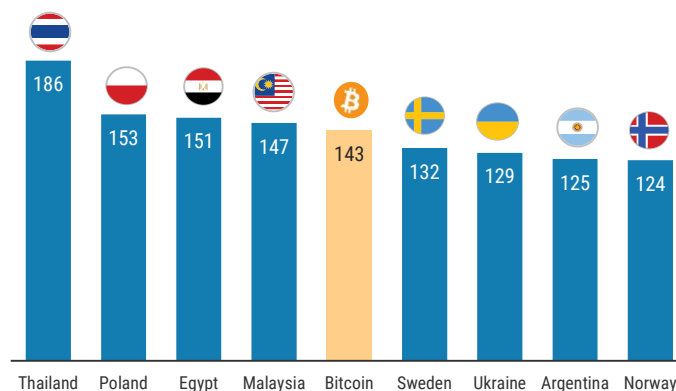
Significant barriers to broader adoption remain, specifically regulatory approvals and sustainability considerations

While regulators have previously resisted granting authorization for crypto-based asset management products, we are now seeing a more mixed approach globally. The initial hesitation from regulators was attributed to extreme price volatility, potential fraud and market manipulation, and avoidance of endorsing a high risk and insufficiently understood asset class. However, in some countries, we now see a clear trend towards a more permissive stance. Sweden, Switzerland and Germany have approved crypto ETPs in 2019/2020 (Exchange Traded Products, 100% physically backed by the asset they track, similar to commodities); Canada and Brazil approved bitcoin ETFs in Q1 2021; and Hong Kong is proposing a new licencing regime. On the other hand, some regulators are becoming more restrictive. China recently banned banks and payment providers from providing services related to crypto. In the US, the SEC is still considering approving bitcoin ETFs, with a decision expected in June 2021 for the more than 10 asset managers who have filed for ETFs. An approval from the SEC would be likely to more permanently establish crypto as another asset class, and lift a major hurdle for wealth management.

26

Sustainability considerations represent another significant barrier to wealth and institutional adoption. Most importantly, crypto, and more specifically bitcoin, requires a very large energy footprint to support the underlying mining computations. According to Cambridge University, bitcoin's estimated annual energy usage stood at over 140TWh in April 2021, more than Sweden (132TWh), Ukraine (129TWh), Argentina (125TWh) or Norway (124TWh). However, the industry is starting to respond to this, most notably with the Crypto Climate Accord, a global effort to decarbonize the crypto industry by transitioning all blockchains to renewable energy by 2030 with a 2040 target to reach net-zero emissions. Cambridge University's survey data already shows that ~39% of bitcoin's computations' ("hashing") total energy consumption came from renewables in 2019. In addition, a number of ESG-friendly products are now available such as Bitcoin Zero including carbon credits and Ethereum 2.0, which is transitioning from a proof-of-work protocol to a less computationally and energy-intensive proof-of-stake model. Decarbonizing crypto will however take significantly more effort, especially as the mining proof-of-stake cost for bitcoin is hardwired in the code to increase over time.

Exhibit 28: Bitcoin's annual electricity consumption compared to countries (April 2021, TWh)



Source: Cambridge Centre for Alternative Finance, Digiconomist, Oliver Wyman analysis

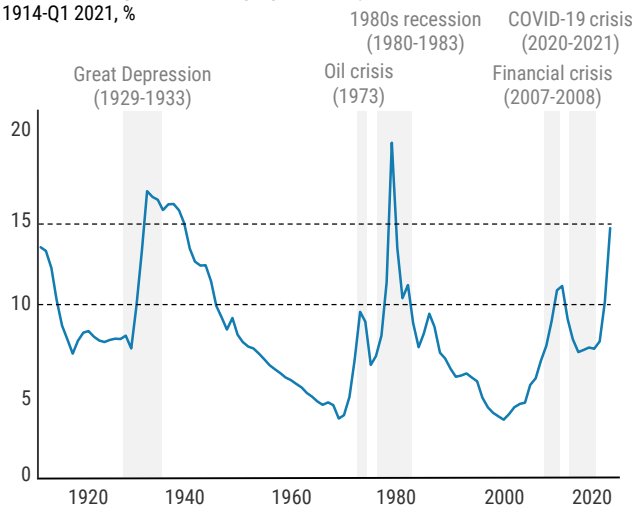
If these barriers were removed, crypto could generate a ~\$300BN AUM and ~\$1BN revenue opportunity from ETFs

If regulators across the globe continue to approve crypto investment products and sustainability concerns are alleviated, we believe crypto could have the potential to generate a base case ~\$1BN revenue opportunity for asset managers. This just reflects the store-of-value use case, and as such will primarily depend on crypto's (most notably bitcoin's) ability to replace (growing) stores of values such as gold. More broadly, crypto's ability to take share from fiat currencies (e.g., in corporate cash portfolios) or revolutionise global payments infrastructure could further increase the revenue opportunity.

Our 2025 illustrative scenario focuses on the largest crypto, bitcoin, and uses a gold comparison to estimate potential revenue opportunity. Gold market capitalization has historically hovered around 5-15% of annual global GDP, increasing to 10-15% post-economic crises when demand for safe haven assets tends to increase and reinflationary policies are employed. Global GDP is expected to reach \$120TN by 2025 according to the OECD, so this would mean a gold market capitalization of \$12TN, assuming a 10% ratio over global GDP. Not all of that market value would be capturable by bitcoin, however, as demand for gold is driven by additional uses beyond its role as a store of value. Based on data from 2020, ~50% of gold demand was driven by its use as a store of value, via bars and coins, ETFs and other funds and central banks holdings. If bitcoin were to capture the 50% of gold's demand that is driven by its use as a store of value, its market capitalization could reach \$6TN by 2025.

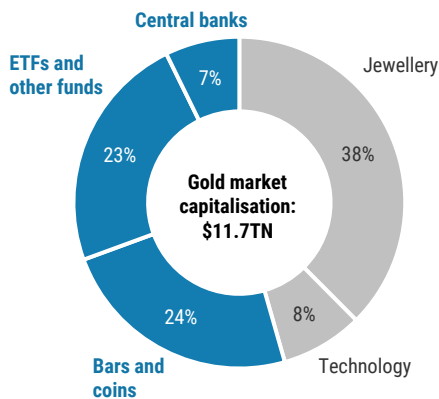
Exhibit 29: Gold market capitalization as proportion of global GDP and demand drivers (%)

Gold market capitalisation as proportion of global GDP¹
1914-Q1 2021, %



Gold demand by sector
2020, %

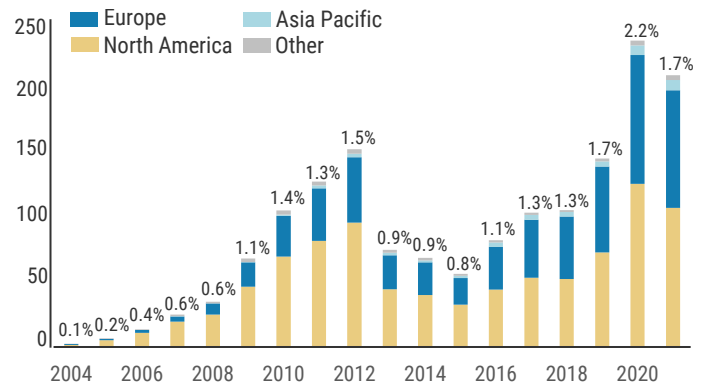
■ Potential for Bitcoin to replace
■ No potential for Bitcoin to replace



1. Market capitalisation and GDP adjusted for inflation and expressed in 2011 prices
Source: World Gold Council, National Mining Association, Our World in Data, World Bank, Refinitiv, OECD, Oliver Wyman analysis

Using the current 5% ratio of bitcoin ETF-like AUM to total bitcoin market capitalization, bitcoin ETF AUM could reach \$300BN by 2025. This compares to a ~2% ratio of gold ETF AUM to total gold market capitalization (stock view vs. demand flow view in Exhibit 30) – we expect a higher ratio for bitcoin ETFs given the greater regulatory and security benefits over direct holdings, by relying on ETF providers for reporting, compliance and custody. At the average expense ratio of the largest five gold ETF providers of 0.34%, this would represent a ~\$1BN revenue opportunity for bitcoin ETFs, although it could be much larger if fee levels remain higher. This compares to ~\$12BN total ETF revenues from other asset classes in 2020, assuming a 0.15% average expense ratio.

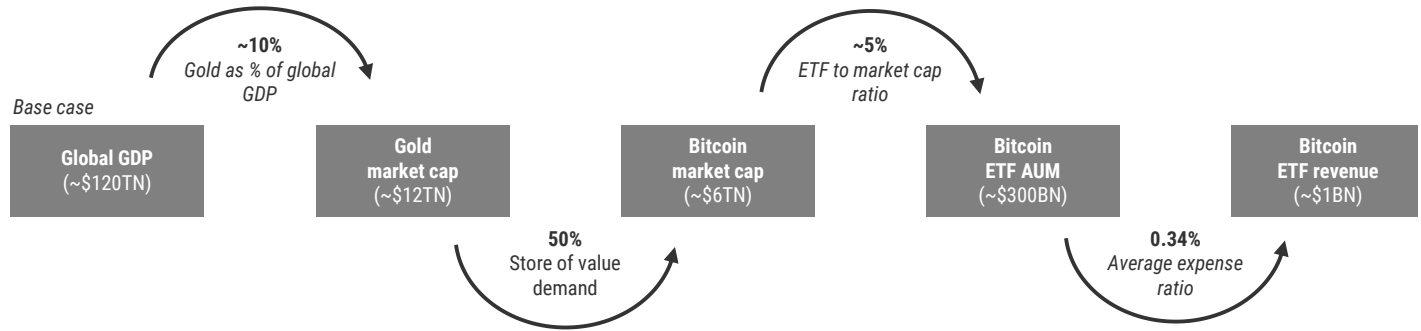
Exhibit 30: Gold ETF AUM as share of total gold market capitalization (2004-Q1 2021, \$BN, %)



Source: World Gold Council, Oliver Wyman analysis

Our bear and bull scenarios stress the share of gold displaced by bitcoin, the demand for store-of-value assets and expense ratio. In our bear case, we assume bitcoin maintains its current 20% market capitalization relative to gold. In our bull case, we assume bitcoin achieves parity with gold, i.e. gold and bitcoin have half of the market, demand for store-of-value reaches its historical peak of 15% of global GDP and bitcoin ETF expense ratios remain above the level of gold ETFs.

Exhibit 31: Projected bitcoin market size based on gold comparison (2025E)



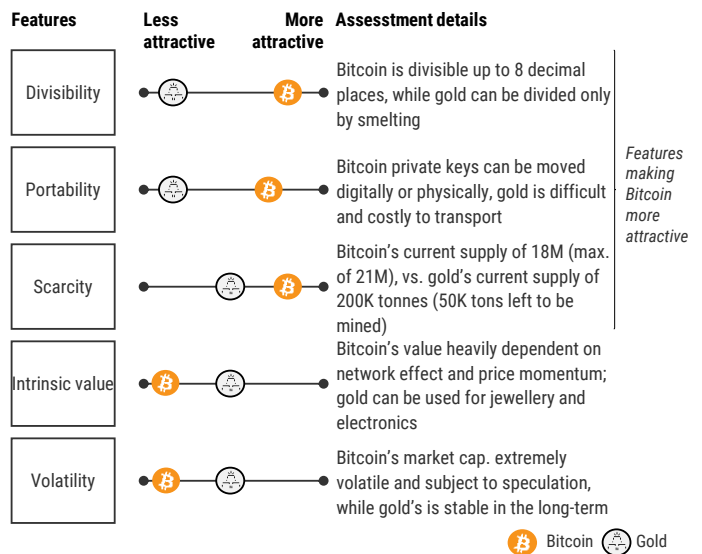
2025 Scenarios	Bear	Base	Bull
Illustrative scenario description	Bitcoin maintains its current market cap relative to gold of ~20%, representing demand for gold ETF	Bitcoin replaces the ~50% of gold demand for bars and coins, ETFs and central bank reserves	Bitcoin achieves parity with gold, demand for store of value reaches peak of 15% of global GDP, and expense ratio remains higher at 1%
Bitcoin market cap	~\$2TN	~\$6TN	~\$9TN
Bitcoin ETF AUM	~\$120BN	~\$300BN	~\$450BN
Bitcoin ETF revenue	~\$0.4BN	~\$1.0BN	~\$4.5BN

Source: World Gold Council, Oliver Wyman analysis

There remains a considerable debate in the market as to whether 'this time is different' or crypto is just another asset price bubble. While some see increasing institutional investor interest and the maturing provider ecosystem as a source of stability, others note the asset's remarkable rally over the last few months, extreme volatility and speculation-driven trading. When comparing against gold as a store of value, crypto's recent existence must be compared to gold's tried and tested history across thousands of years. However, we see in bitcoin a number of features making it a potential alternative to gold, in particular in terms of divisibility, portability and scarcity.

Given rising levels of end-client interest across all client ranges, wealth and asset managers can no longer ignore this trend. Asset managers will need to develop their product strategy, while considering how to best leverage rapidly evolving service provider solutions along the value chain. Larger wealth managers will need to decide how to participate, while smaller players can still decide whether this is a market they want to enter.

Exhibit 32: Comparison of bitcoin and gold features



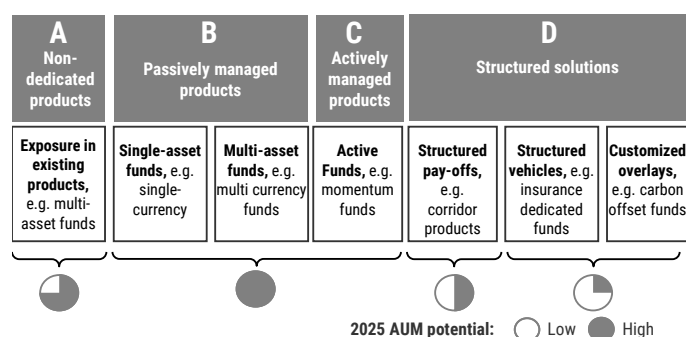
Source: Oliver Wyman analysis

Asset managers need to design their crypto product offering and leverage evolving service provider solutions along the value chain

Asset managers need to decide how to respond. For those who want to participate in crypto and are convinced of its long-term value and increased role that it could play in the financial markets, there are likely significant benefits from being an early mover.

We see a range of product offering responses asset managers could consider, from including crypto assets as part of a fund, to having dedicated crypto funds, to offering structured solutions.

Exhibit 33: Asset managers' potential crypto product offering responses



Source: Oliver Wyman analysis

The rapidly evolving service provider landscape has made it significantly easier for asset managers to enter this space, as institutional-grade solutions for core activities like trade execution, custody and fund administration have emerged in the last 24 months or so.

- **Trading execution:** best execution through access to global sources of liquidity, Order and Execution Management Systems (OEMS) for execution optimization and dark pools for position liquidation
- **Custody:** secure generation, storage, and use of private keys and premium customer service
- **Fund administration:** reporting, regulatory disclosures and transfer agency

The most well-resourced and biggest believers in the long-term potential of the space could consider building their own capabilities, particularly if they are looking to monetise a larger portion of the value chain and/or differentiate their offering through vertical integration. Given the development of institutional-grade service providers and the complexities associated with these activities, however, we expect the cost-benefit assessment to favour outsourcing solutions in most cases.

That is not to say that asset managers do not have to build in-house capabilities. The more advanced the product offering, the more complex these services become for asset managers. For example, structured crypto products will require building more sophisticated risk management capabilities and crypto derivatives modelling and trading expertise.

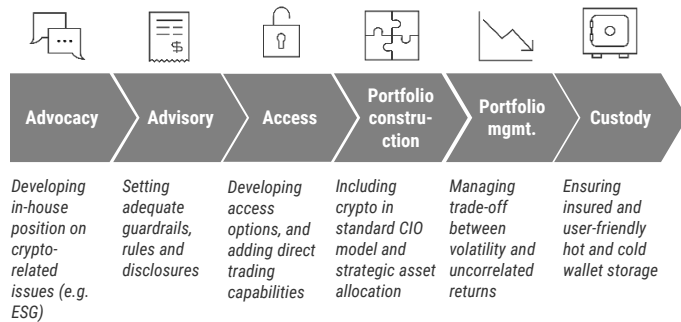
In addition, there are operational considerations that asset managers will have to think through. In particular, asset managers will need to review their cyber security and infrastructure strategy. On the cyber security side, most asset managers are still concerned about the security of crypto investments and potential reputational risk from loss, theft or hacks. It is important to note that this risk primarily applies to custodians who store crypto on behalf of their clients and that cyber risk is to some level mitigated if these custodians generate and then store keys in cold storage (any time connected to the Internet is a risk). Asset managers will also need to manage Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) risk from the abuse and misuse of crypto, which might lead them to using regulated and audited service providers. On the infrastructure side, the key question is between developing in-house technology or partnering with a third-party provider to develop institutional execution and custody solutions. In the longer-term, we also see growing interest from asset managers in broader blockchain technology for trade and post-trade efficiency, with a particular use case in private markets as we have noted.

Larger wealth managers need to decide how to participate, while smaller players can still decide whether this is a market they want to enter

We expect that an important segment of private investors will continue to seek exposure to cryptocurrencies. Leading wealth managers will need to develop an offering to meet their demand. These segments include younger and more technology savvy asset owners allocating more heavily into crypto, as well as emerging markets' clients seeing crypto as a store of value in jurisdictions with less stable currencies and potentially using crypto for payments and remittances. Crypto has also created a new generation of (U)HNW individuals not necessarily using traditional wealth management channels, for which wealth managers will need to manage competition from increasingly 'one-stop shop' marketplaces used for a wider range of financial needs.

Wealth managers should define and size this client segment and develop their crypto offering accordingly. We see six areas that wealth managers should focus on, including advocacy, advisory, access, portfolio construction, portfolio management and custody.

Exhibit 34: Wealth managers' considerations to develop a crypto offering



Source: : Oliver Wyman analysis

In addition, in the longer term, wealth managers can leverage crypto-related tokens to expand their alternative asset base. As we introduced in our explainer, tokens are a digital representation of assets on a blockchain. Non-Fungible Tokens (NFT), the most popular of these tokens, represent digitally native underlying assets. The tokens are used to verify ownership and certify authenticity and scarcity of the assets. They run on blockchain technology and are stored in wallets like cryptocurrencies. NFTs have been used by Twitter's CEO to sell his first-ever tweet for over \$2.9M in March 2021 and by the NBA to sell highlight clips on the Top Shot platform with \$500M sales and more than 800,000 registered accounts since its public beta testing phase began in October, according to its creator Dapper Labs. Christie's and Sotheby's auction houses recently conducted auctions for tokenized digital art, giving further credibility to the technology. Other forms of tokenization such as security tokens have the potential to expand to a broader set of alternative assets, including private equity, venture capital or real estate. This will require overcoming its current limitations, primarily AML/CFT risk. In the longer term, we see tokenization as the impetus for further standardization in alternative markets, by facilitating different marketplaces' ability to communicate and operate together.

Customization – bridging the gap between bespoke and standardized

While customization has been reserved to institutional and UHNW investors only, we now see all factors in place to extend it to a broader range of investors

Access to bespoke portfolios and strategies has so far been the preserve of institutions and UHNW investors due to the high cost, high-touch model required and limited scalability of such offerings. At the lower end of the wealth spectrum, the industry has been moving towards increased standardization through model portfolios for some time. The bifurcation of the market into fully bespoke on one end and highly standardized on the other leaves a large set of core HNW investors that are not wealthy enough to command bespoke services but for whom standardized models fail to best meet their needs.

We now see all the factors in place to offer a greater degree of customization to a wider array of HNW investors. The specific enabling factors are:

1. **Underlying vehicles** allowing direct security holdings (e.g. SMAs in the US)
2. **New technology** enabling direct holdings at lower investment amounts (e.g. fractional shares)
3. **Evolution of indexing** accommodating more customized exposures (e.g. direct indexing)

Together, these represent the next frontier for both wealth and asset managers to deliver customization at scale and in a cost-effective way.




1. Investors and advisors are increasingly seeking investment vehicles such as SMAs that allow direct holdings to customize their strategies

Increasingly we see individual investors and advisors considering more customized investment strategies. Individual investors are increasingly looking for solutions tailored to their specific needs and requirements such as tax efficiency, value-based and thematic investing. Financial advisors and intermediaries are also looking for new ways to demonstrate their value in a highly competitive market where fees are heavily scrutinized driven by the shift to passive, increased use of model portfolios limits the scope for demonstrating active portfolio management skill, and where disintermediation risk from robo-advisors continues to nip at their heels.

We see customized separate accounts as an extension of the trend towards growth in 'solutions' which has evolved from institutional (outsourced CIO, outsourced solutions) and packaged products geared to retirement savings and DC (e.g. absolute return/diversified growth, managed volatility, multi-asset income) to a build out of offerings in customizable separate accounts.

This trend towards more customized investment strategies manifests itself in the growth of Separately Managed Accounts (SMAs), primarily in the US for the moment, but we expect other geographies to follow. SMAs allow investors to hold individual securities as opposed to shares in a fund. This provides investors with the flexibility and transparency to customize and control their portfolios to meet their specific needs. Historically, the growth of SMAs has been due to their ability to support clients with tax optimization, but they are also extremely valuable in enabling a wide range of customization overlays such as reducing concentration risk by excluding securities investors already own or reflecting personal values by screening out specific securities. [Exhibit 35](#) highlights the benefits of SMAs over ETF and mutual funds structures.

Exhibit 35: SMAs, ETFs and MFs comparison

Investment vehicles (taxable accounts)	 Separately Managed Accounts (SMAs)	 Exchange Traded Funds (ETFs)	 Mutual Funds (MFs)
Key use cases	Range of customization, control and tax efficiency	Diversification and liquidity at low costs and low minimums	Ability to execute diverse and complex strategies
Transparency	Real time	Typically daily	Typically monthly
Customisation	Full flexibility	None	None
Tax efficiency	At security level	At portfolio level	Limited
Average fees	15-35bps	0-50bps	70-150bps
Typical minimum investments	~\$50-300K	ETF share price	~\$1-5K

Advantage: High Medium Low

Source: Oliver Wyman analysis

While data on SMAs is not as robust as for ETFs or mutual funds, we estimate that SMAs now represent 8-10% of investment vehicle AUM in the US and have grown at over 10% CAGR for the last five years, slower than ETFs but outgrowing mutual funds.

2. Technology now makes it easier to directly hold securities at lower investment amounts

We see three technological advancements enabling direct holdings for a broader range of investors at lower investment amounts: fractional shares, zero/low commission trading and automated rebalancing technology.

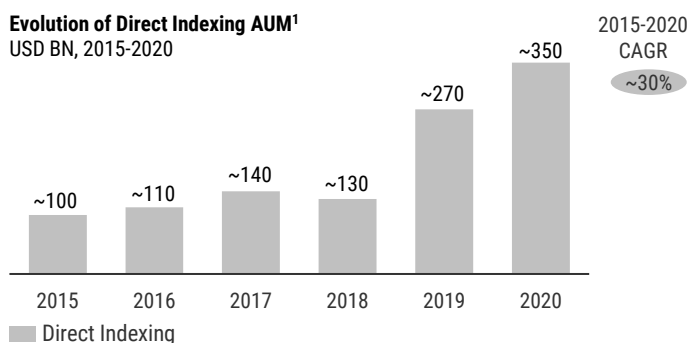
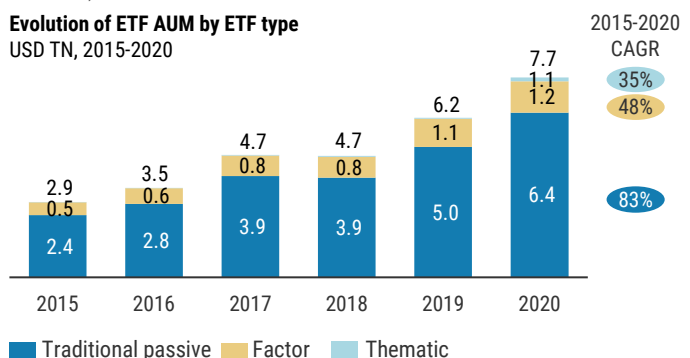
- **Fractional shares** allow smaller investors to buy portions of a stock rather than the whole stock, reducing the minimum investment required and lowering tracking errors for broad index exposure
- **Zero/low commission trading** reduces the fees associated with buying a large number of underlying stocks rather than investing via a fund and lowers the cost of frequent portfolio rebalancing
- **Rebalancing technology** automates portfolio construction, management and ongoing adjustments, making custom index trading and tax-loss harvesting more efficient at scale

3. Indexing can now accommodate a range of more specific and customized use cases – direct indexing could reach ~\$1.5TN AUM by 2025

As Exhibit 36 shows, traditional passive indexing that provides investors low cost exposure to popular indices remains the most common and popular form of indexing solutions. There are now ~\$6.3TN assets in passive index ETFs. Factor ETFs, which seek to provide exposure to particular factors that have demonstrated potential to outperform standard market cap-weighted indices, such as momentum or quality, have been around for some time and are enjoying robust growth in line with other ETFs at ~20% CAGR.

Thematic ETFs represent an evolution of indexing and allow investors to focus on a wide range of specific growth themes or sectors and have significantly outgrown passive index ETFs, albeit from a small base, having delivered a 77% CAGR in 2015-2020.

Exhibit 36: ETF AUM and Direct Indexing AUM growth (2015-2020, USD BN)



¹ Direct Indexing AUM estimated based on key player's AUM
Source: Morningstar, company annual statements, Oliver Wyman analysis

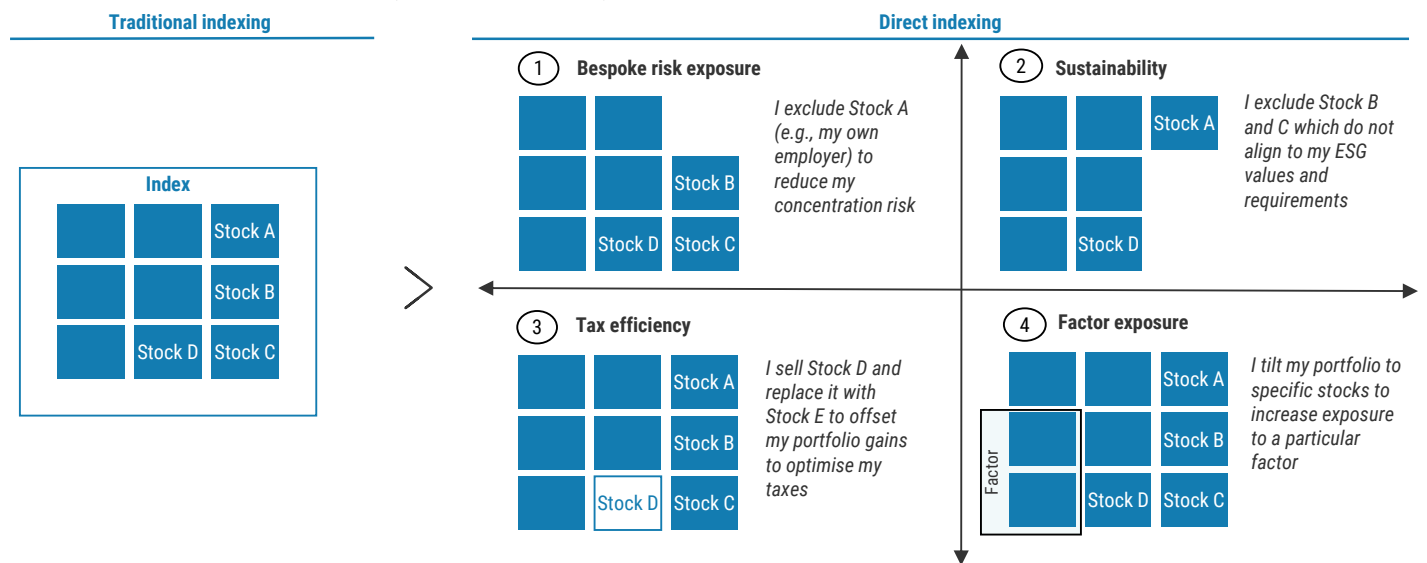
We now see the emergence of more customized indices, in the form of 'direct indexing', using SMAs as underlying vehicles. 2020/21 saw significant growth in direct indexing, with AUM reaching ~\$350BN and a flurry of M&A activity, with key direct indexing providers transacting at a significant premium.

Direct indexing can be superior to holding an ETF or mutual fund as it allows the structuring of more efficient and/or more tailored exposure to a particular index by purchasing its underlying individual securities using a SMA vehicle. This makes it possible for investors to customize the risk exposure of their portfolio, for example, by excluding specific stocks to manage concentrated holdings (e.g. their own employer). It also allows investors to express their specific sustainability values and preferences by excluding certain securities, for example, specific high greenhouse gas-emitting companies. Direct indexing improves tax efficiency relative to fund structures by

enabling strategies like tax loss harvesting and gain deferral. Finally, direct indexing can be used to get exposure to specific factors, such as momentum or quality. Exhibit 37 shows these four direct indexing use cases.

In addition to customization use cases, direct indexing could also provide better performance than mutual funds by not having to carry cash for redemptions and be more efficient than ETFs for strategies with insufficient market markers or liquidity.

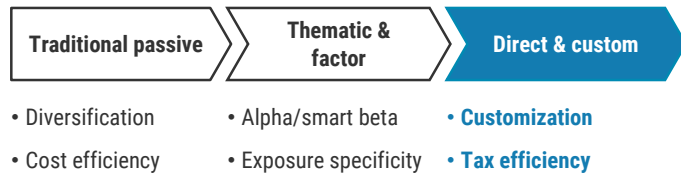
Exhibit 37: Direct indexing use cases (simplified schematic)



Source: Oliver Wyman analysis

Exhibit 38 below summarizes how direct indexing compares to passive index and thematic/factor strategies. Traditional passive indices offered diversification at low cost and thematic and factor indices added a layer of performance and some level of customization. Direct indexing now allows for full customization and tax efficiency, while keeping the benefits of other indices.

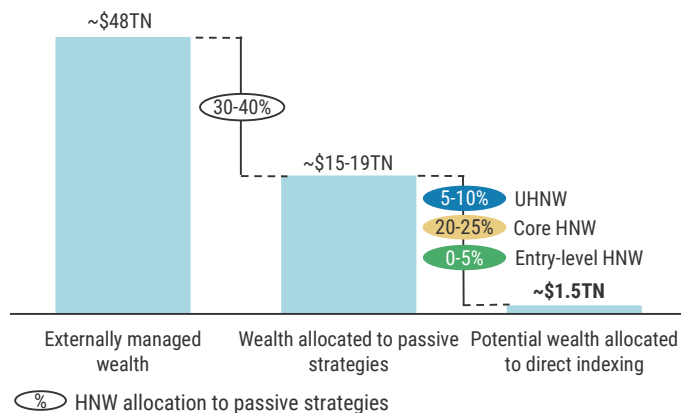
Exhibit 38: Evolution of indexing



Source: Oliver Wyman analysis

We estimate that direct indexing AUM could reach ~\$1.5TN globally by 2025 by taking share from other passive products such as mutual funds and ETFs. We expect different levels of adoption dependent on wealth bands, as we will discuss later. We assume that direct indexing could replace up to 5% of passive products for entry-level HNW investors as most managers will maintain standardized model portfolios for this segment, 20-25% for core HNW investors where we see most opportunity, and 5-10% for UHNW investors who already benefit from bespoke services and hence have a lower need for direct indexing. Overall, our estimates are in line with the historical AUM growth of key direct indexing providers, at ~30% CAGR.

Exhibit 39: Potential direct indexing AUM from wealth channel (2025, USD TN)



Note: UHNWI >\$50MM, Core HNWI \$10-50MM, Entry-level \$1-10MM
Source: Oliver Wyman analysis

Asset managers will need to offer SMAs at lower account sizes, enhance their product set, and provide better tools and technology

While wealth managers are in a better position to monetize enhanced customized solutions as a differentiating factor for clients, we also see room for improvement on customization offering for asset managers. Many asset managers are already offering customized products as we saw from the development and strong growth of SMAs. However, this remains primarily a US phenomenon focused on serving institutional clients and UHNW investors.

As technology improves, asset managers will need to scale their SMA platforms to allow them to offer SMAs to smaller account sizes, with sufficient customizability, and at low cost. They can either build and scale their own technology, or partner with third-party providers to gain these capabilities.

They will also need to think through the degree of customization to build into the platform, which will require engaging with distributors and end investors to understand their needs. We highlighted risk exposures, sustainability, tax efficiency and factor exposures as areas of customization, but there are many more, and the combinations across these dimensions are essentially limitless. Greater customizability is generally a valuable attribute, but asset managers will need to balance offering greater flexibility with the need to keep the products manageable for the advisor and end client, and operationally scalable for themselves. Along those lines, managers can consider how to integrate customization 'toggles' into their existing strategies, which, aside from being efficient, could combine the benefits of customizability, scalability and active management.

Looking beyond development of the core product, customization creates greater optionality for clients, and therefore places an additional burden on asset managers to help advisors and end investors navigate that increased complexity. Ultimately, customization will become increasingly common amongst asset managers, and hence its value as a point of differentiation to diminish. One way asset managers will build a more sustainable advantage and secure favourable distribution access is to move beyond pure product provision and provide well-designed technology and tools to create a streamlined digital experience that enables investors and advisers to easily and efficiently customize portfolios. Asset managers that can deliver an end-to-end solution will be much better positioned to win in a space where even customization can become easily commoditized.

New technology can help wealth managers bridge the gap between UHNW and HNW, but they need to ensure this does not hamper progress made on standardization

Wealth managers have been offering bespoke portfolios to UHNW investors for many years, both because these clients can afford a high-touch service supported by a dedicated portfolio manager and because this client group tends to have unique needs with regards to their investment and tax strategies.

On the other side of the wealth spectrum, wealth managers have sought to develop standardized model portfolio solutions to serve the lower wealth tiers (i.e. typically below \$50MM), in order to control costs and reduce dispersion of performance outcomes for similar clients. This came at the cost of limited ability to customize the offering to individual clients.

New technology allows wealth managers to offer customization further down the wealth spectrum. Indeed, wealth managers who choose to embrace customization now have the tools to construct and offer customized portfolios at much lower cost through automation.

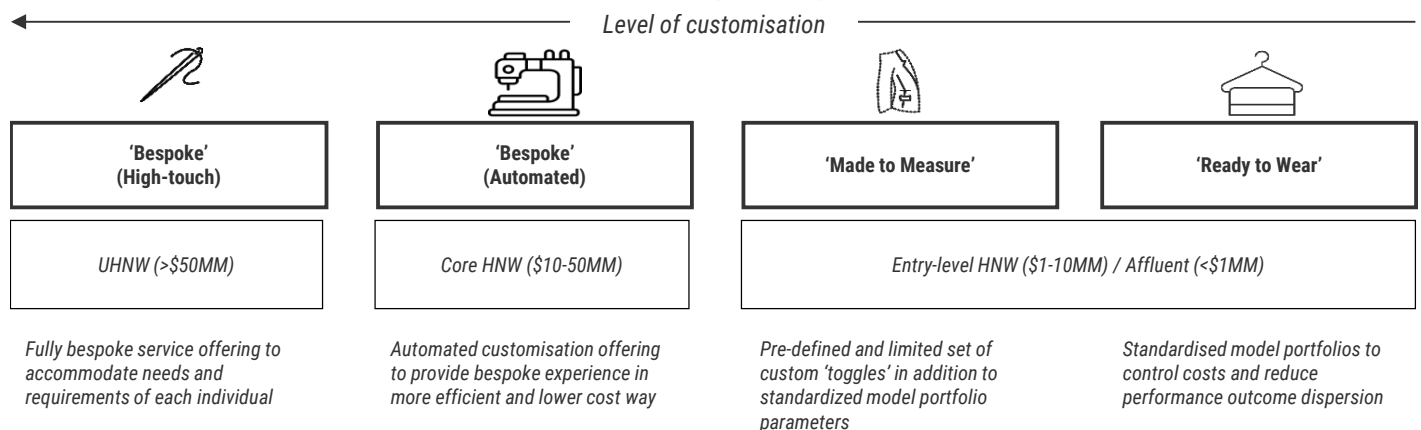
This is an opportunity to 'bridge the gap' between UHNW and core HNW clients, the middle tier for whom this is most relevant. In practice, this will consist in offering customized products such as direct indexing to core HNW clients in order to accommodate their specific

needs such as bespoke risk exposures, sustainability, tax efficiency and factor exposures, as described above. While the experience will feel highly bespoke, the process will be highly automated and require less portfolio manager involvement than for UHNW clients.

Some wealth managers will also look to push customization even further down to entry-level HNW (\$1-10MM) and affluent (below \$1MM) clients. However, offering customization increases outcome dispersion and complexity, and we do not expect all wealth managers to embrace this. Indeed, we expect a bifurcation between wealth managers who seek to expand customization to the entry-level HNW and affluent segment as a means of differentiation, and those who consciously decide against this. This decision will primarily depend on a trade-off between the ability to better meet client needs and differentiate with customization on one side, and the risks related to suitability and outcome dispersion and the loss of efficiency benefits from standardisation on the other side.

Even for those who believe in the benefits of customization for entry-level HNW and affluent segments, we expect most wealth managers to develop a new 'made to measure' service that is scalable, cost efficient, and reflects client needs and preferences. This model is likely to consist of a limited set of pre-defined custom 'toggles' in addition to standardized model portfolios parameters in order to provide some level of customization while maintaining efficiency. This puts the onus on wealth managers to define a small number of in-house 'toggles' that will best meet the diverse needs of their investors, for example defining environmental, social and governance overlays.

Exhibit 40: Spectrum of customization offerings for wealth managers (illustrative)







Source: Oliver Wyman analysis

Wealth managers will need to rethink custom reporting and expectation-setting to both clients and regulators to accompany custom portfolios. They will need to incorporate personal goal fulfilment alongside financial performance, such as personal ESG objectives. They should also consider reviewing the reference points against which to benchmark performance when clients do not want to compare their individual outcomes with broad market benchmarks. Wealth managers should manage expectations and trade-offs when value (financial performance) and values (sustainability) collide. Finally, they should also ensure they can defend more varied outcomes for investors with similar risk profiles but different custom preferences. This will require ensuring sufficient guardrails and investor protection.

While full customization is now technically possible at lower cost for manufacturers, these reporting and expectation-setting challenges are likely to shift distribution more into 'made to measure' models that can overcome these hurdles.

In closing, customization will require a combination of greater control of portfolio construction and proximity to clients' specific needs and requirements. This will require wealth managers to be closer to product manufacturing and asset managers to client distribution.

Exhibit 41: Custom reporting implications for wealth managers

Personal goals	Benchmarking	Dispersion	Value vs. values
			
<ul style="list-style-type: none"> • How to incorporate personal goal fulfilment alongside financial performance in reporting? 	<ul style="list-style-type: none"> • Against which reference points should performance be compared? • Does this require a shift to total return? 	<ul style="list-style-type: none"> • How to defend varied outcomes for investors with similar risk profiles, but different preferences? • How to you ensure sufficient guardrails and investor protection? 	<ul style="list-style-type: none"> • How to trade off value (financial performance) with values (e.g. ESG) when these are not correlated?

Source: Oliver Wyman analysis

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TOTAL	3,477		872			1530	

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