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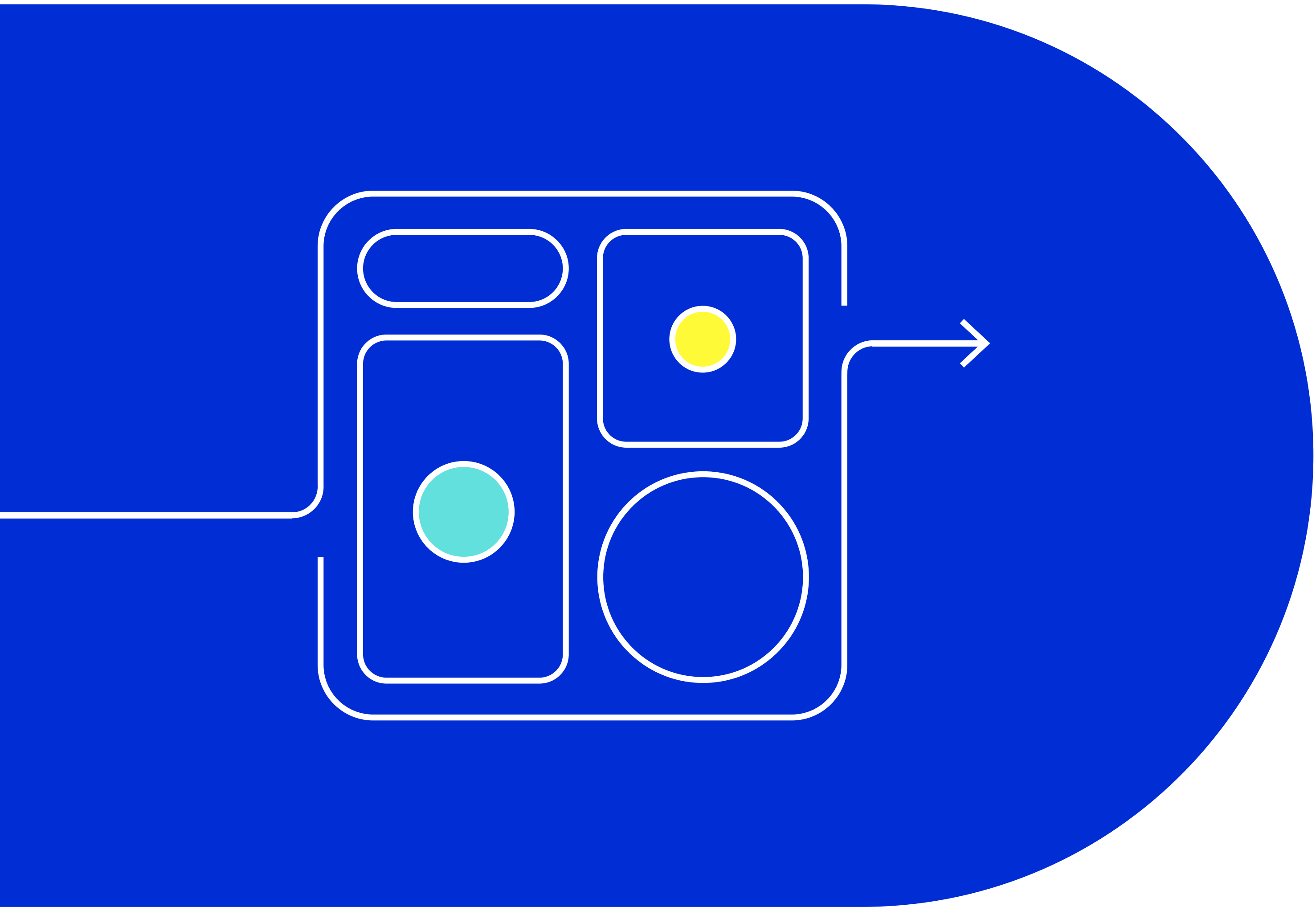
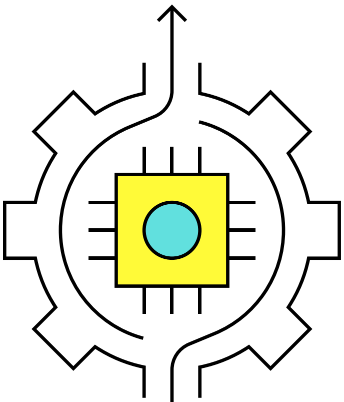


Hyper-personalization in wealth: Four trends driving greater investor demand for personalized portfolios and financial advice



Introduction

Personalization. Customized advice. Tailor-made portfolios. In today's heightened fiduciary environment, these are more than just buzzwords. They mean something to wealth management clients.

Over the past several years, personalization has become the norm in most consumer-facing industries. Amazon and Netflix have significantly raised expectations about what highly personalized service means.

Today's clients increasingly expect their advisors to have an intuitive understanding of their financial and personal situations and increasingly want advice customized to their preferences and goals. They have unique investment preferences, beliefs, life goals, and risk profiles. With hyper-personalization, portfolios can be individually tailored to these specific requirements.

→ 55%

of firms' relationship managers say demand for personalized services and engagement is increasing.

Source: Capgemini[1]

In times of volatility and uncertainty, there tends to be increased demand for total portfolio offerings such as model portfolios and outsourced CIO-like services.[2] In addition, new demands of portfolio construction—including integrating illiquid private-markets strategies at a significant scale and incorporating environmental, social, and governance (ESG) criteria—have created new areas of client need.[2]

To compete and grow, advisors must demonstrate the ability to deliver levels of customization that fully address each client's unique financial circumstances and personal preferences. With many concerned clients demanding more attention, personalized touch points and fast, thorough responses to questions and preference adjustments can make all the difference. Technologies that allow portfolio customization at scale will extend the ability of asset managers to offer advanced portfolio solutions to smaller clients, including retail investors.[2]

Here, we look at what's driving the growing demand for portfolio personalization and how advanced rebalancing technology can help.

→ 1. Market volatility and aversion to risk

With market volatility expected to continue, the demand for personalized client experiences has increased as investors not only seek guidance on navigating complex financial impacts—and more control over their portfolios.

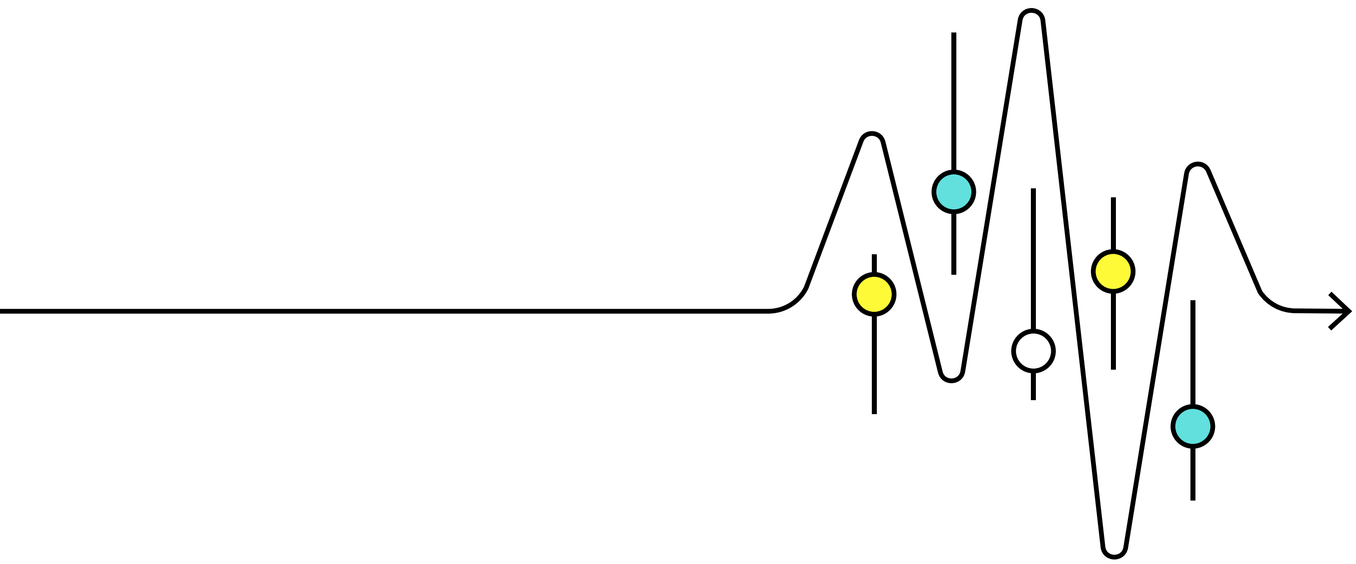
While high-growth sectors have provided investors with lucrative opportunities in the past few years, the new environment of higher inflation, increasing interest rates, and geopolitical uncertainty means some clients are now uncomfortable taking on more investment risk.

→ 51%

of advisors say the most common reason clients reached out to them in the first quarter of 2022 was stock market volatility.

Source: SmartAsset[3]

These are the times to revisit their risk profiles and rebalance as needed in the most personalized way possible. But if you're still rebalancing portfolios in spreadsheets, you are clearly at a disadvantage. Manual rebalancing can take as many as three months to perform.



2. More investment options

Model portfolios, direct indexing, and alternative investments dominate today's investment strategies and client conversations.

$349B

in assets followed model portfolios as of March 31, 2022—a 22% increase since June 30, 2021.

Source: Morningstar[4]

Model portfolios

As investors seek to reduce risk, model portfolios are stepping up to help advisors provide asset diversification and customization to clients' unique goals and objectives.

Advisors are turning to model portfolios to take on more clients, spend less time on investment management, and expand their service offerings, such as financial planning. In addition, model portfolios eliminate the time, effort, and complexity of personalizing portfolios from the ground up while making it easier to scale.

Direct indexing

Direct indexing strategies also are reaching the mainstream and gaining the attention of mass affluent investors. A direct indexing strategy can provide greater customization based on values and preferences while helping to minimize taxes through tax-loss harvesting – an attractive characteristic considering the market volatility experienced over the past few years.

Technologies related to direct indexing, which allow portfolio customization at scale, will extend the capability of asset managers to offer advanced portfolio solutions to smaller clients.[2]

12.3%

annualized rate of growth in direct indexing assets is expected over the next five years

Source: Cerulli[5]

33%

of the retail separate account market will be made up of direct indexing assets by 2026.

Source: Cerulli[5]

Alternatives

Alternative investments are gaining ground with retail clients. Because they are uncorrelated with traditional markets or interest rates, these unlisted and largely unregulated assets can offer improved diversification and outsize long-term returns.

→ 9.1%

of affluent clients' allocations to alternative assets are expected in 2024, up from 7.7% in 2020.

Source: Cerulli[6]

→ 1 in 3

clients invest in alternatives today.

Source: EY[7]

→ 48%

of clients will be invested in alternatives by 2024.

Source: EY[7]

→ 3. Client diversity

Advisors' efforts to refocus on gaining the trust of different client segments are driving more emphasis on personalization. The winners in the wealth industry will be able to hone their strategies and offerings to effectively serve the needs of a more diverse range of clients—from women and mass-affluent to high net-worth (HNW) and younger investors—simultaneously.

Advisors reluctant to target next-gen investors could leave huge sums of money on the table. Fidelity research suggests establishing those relationships now could produce greater returns—since individuals under 40 are investing earlier than their elders, seeking advice for the long haul, and are willing to pay for it.[8] They're also three times more likely to give referrals, prefer to consolidate their business with a single firm, and expect more personalization, services, investment options, and more technology.[8]

→ $540B

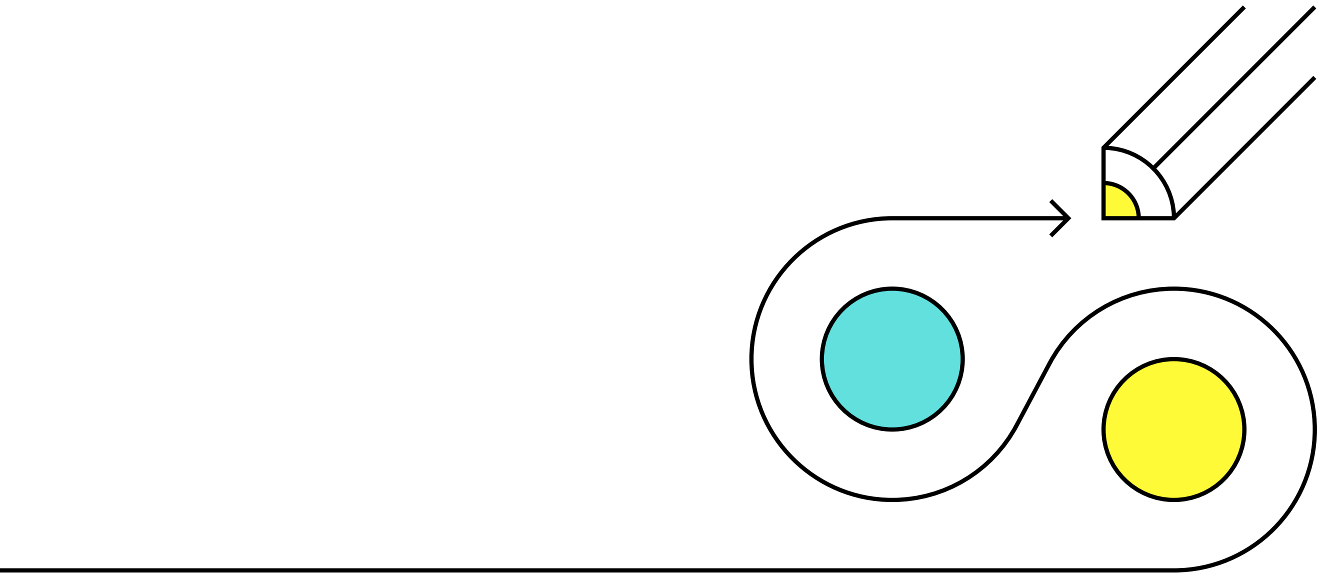
is inherited each year by investors under 40—30% of the total wealth transferred.

Source: Fidelity[8]

→ $84T

of inherited wealth will be controlled by investors under the age of 40 by 2045.

Source: Cerulli[9]



HNW clients often require more personalization to maximize returns on private equity and hedge fund investments, for example. This may be why HNW investors seeking investment diversification, customized service, and a personal touch turn to family offices.[1]

→ 52%

of HNWIs prefer family offices because of their one-stop-shop convenience and personalized services.

Source: Capgemini[10]

→ 49%

said they appreciated their service costs compared with traditional wealth management firms.

Source: Capgemini[10]

Increasingly, women are becoming part of the HNW segment. Today, women represent more than 40% of HNW individuals globally, and the share is expected to grow strongly over the next decade.[11]

While women seek healthy returns and purpose-driven investments like other investors, goals such as connection, meaning, next-generation legacy, and making a social and environmental difference are also important.

→ $10T

equal to one-third of US wealth, is controlled by women.

Source: McKinsey & Company[12]

→ $30T

of US wealth is expected to be controlled by women by 2030.

Source: McKinsey & Company[12]

Advisors shouldn't ignore other opportunities to serve other potentially underserved client segments. For example, a new report by Merrill Lynch Wealth Management said the Asia American and Pacific Islanders (AAPI) community is 25% more likely than the general affluent population to consider inheritance and passing down wealth as part of a financial plan.[13]

→ 4. Increased interest in value-based investing

Clients want the opportunity to direct their money to entities whose world views and beliefs closely align with their own. Advisors offering sustainable investment opportunities will be better equipped to attract new clients, retain existing ones, and keep pace with a changing investor landscape. By integrating customized ESG themes into models, advisors can shift seamlessly to fully satisfy their clients' ESG and other thematic preferences and requirements.

→ $10.5T

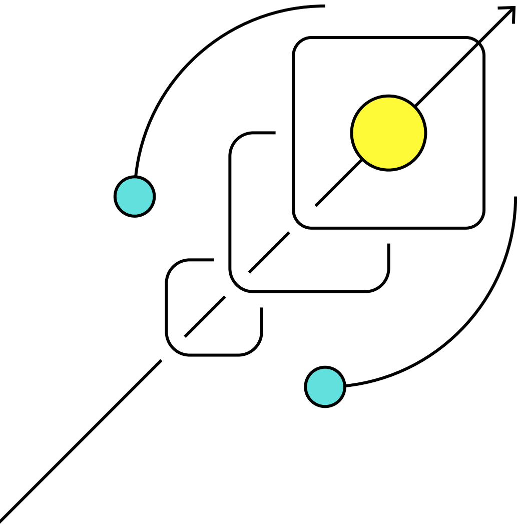
of ESG assets under management in the US are expected by 2026—more than double the AUM in 2021.

Source: PwC[14]

→ 68%

of wealth clients indicated they have sustainability goals.

Source: EY[7]



→ Delivering portfolio personalization at scale

Risk-averse times demand more personalization; today, advisors are held to a higher standard. With time and resource constraints, scaling advice is already a challenge for wealth managers; hyper-personalization at scale could seem unattainable to many.

But portfolio rebalancing and trading that is personalized, precise and scalable can change the game for advisors looking to reach new client segments and grow their businesses.

With increased alternative and thematic investments and the call for more personalization adding to model and process complexity, an advanced rebalancing solution can reduce friction and free up more time to spend with clients.

After all, many client-centric tasks are back-office in nature, and significant efficiency improvements are possible with better technology. Digitalizing high-volume manual processes, like trading and rebalancing, can reduce costs and errors while freeing advisors to work on higher-value tasks and client-facing activities. Instead of weeks or months, rebalancing in a digital environment takes hours or minutes—allowing advisors to respond more to their clients' needs.

Firms have the option to keep some core functions in-house and outsource others. But when it comes to rebalancing and trading, options vary widely in their ability to personalize at scale across accounts and households while supporting the needs of diverse sets of clients. Firms relying on basic trading and rebalancing applications as part of all-in-one or custodian platforms may find themselves quickly outgrowing them as the demand for more customization, complexity, and scale increases.

Advanced and flexible rebalancing technology can help advisors make customizable portfolios available to more customers seeking tax efficiency, diversification, personalization, and values-based investing while enabling firms to expand their capabilities to service more clients.

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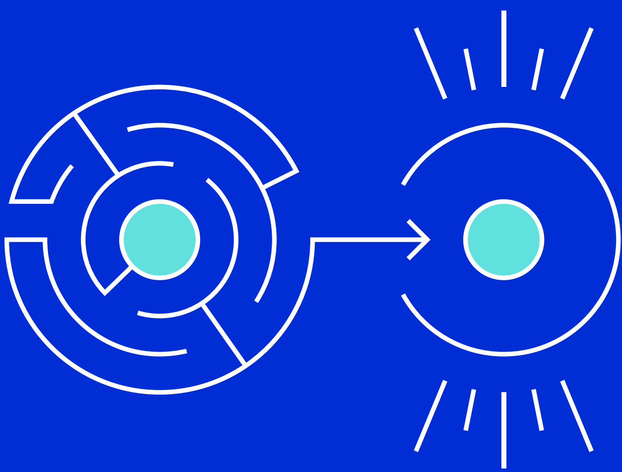
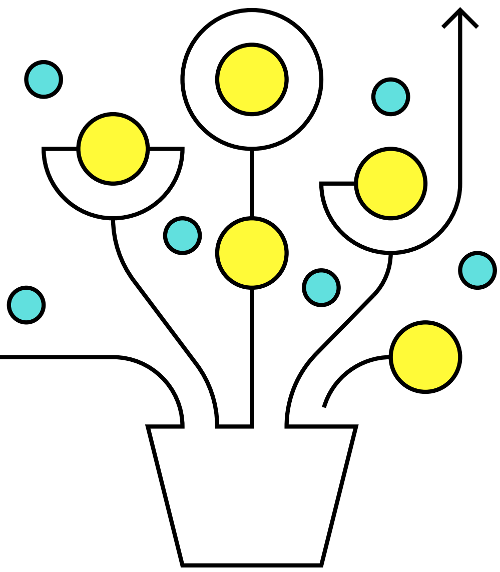


→ About intelliflo

intelliflo widens access to financial advice through leading technology powering the financial advisory experience. We use open software architectures combined with unmatched industry experience to simplify a complex digital landscape to help advisors compete and grow.

Our solutions support over 30,000 financial advisors worldwide, representing over three million end-investors, with over $1 trillion serviced across our platforms.



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