

West Lockhart

Head of Latin America Wealth Client Business

August 2019

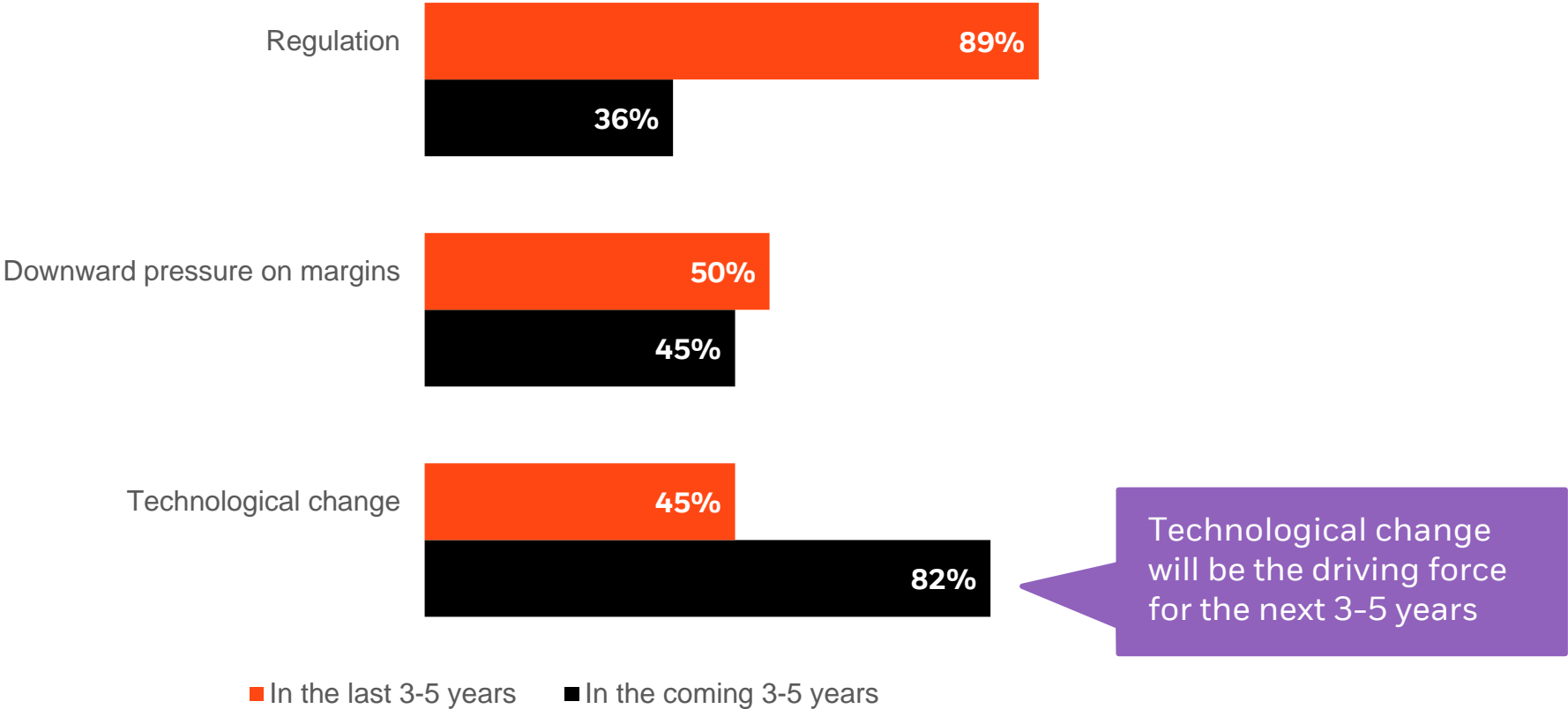
BlackRock

An Industry in Transition

Factors driving the industry: technology will overtake regulation as the largest driver of industry change

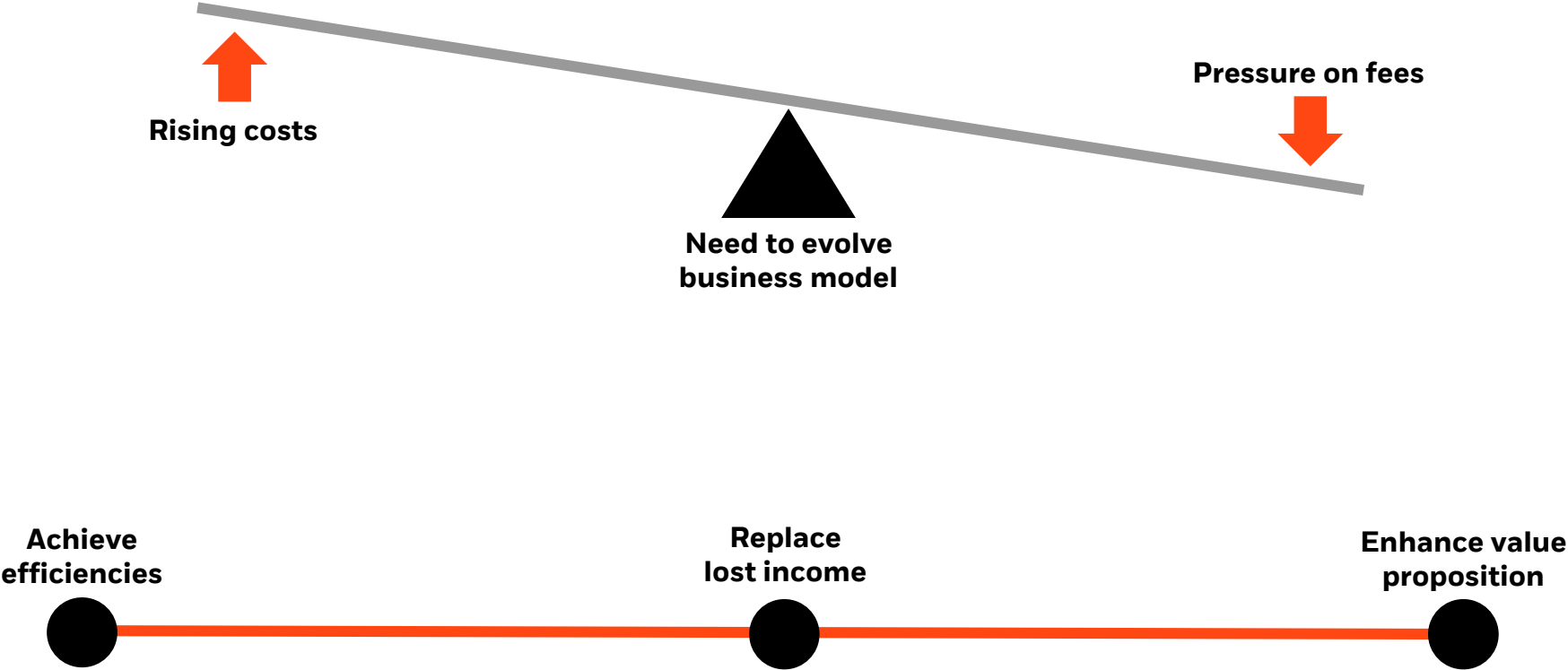
Overarching trends expected to impact the financial services industry over the next 3-5 years

% of responses



Source: Blackrock Wealth Management Industry Survey 2018. For illustrative purposes only

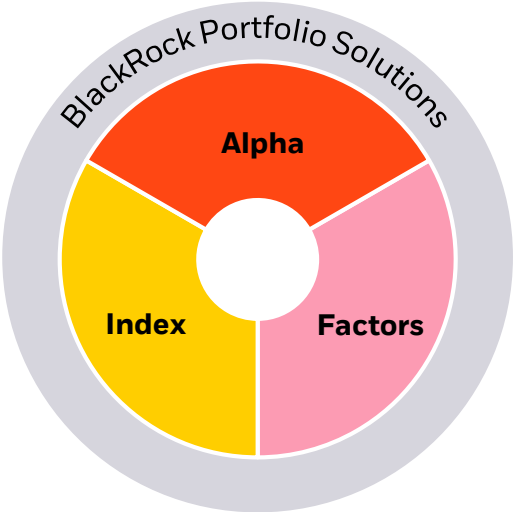
Business model evolution will be multifaceted



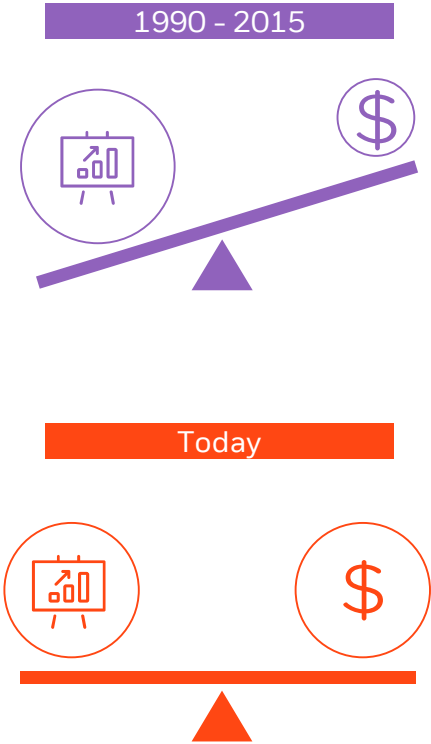
Source: Blackrock. For illustrative purposes only.

Major Implications Of Shifts For Managers Seeking To Win

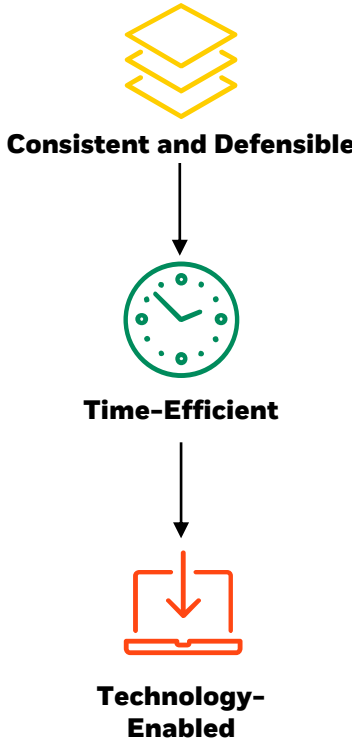
Value is Driven Largely by Portfolio Construction



Investment Performance and Value Matters

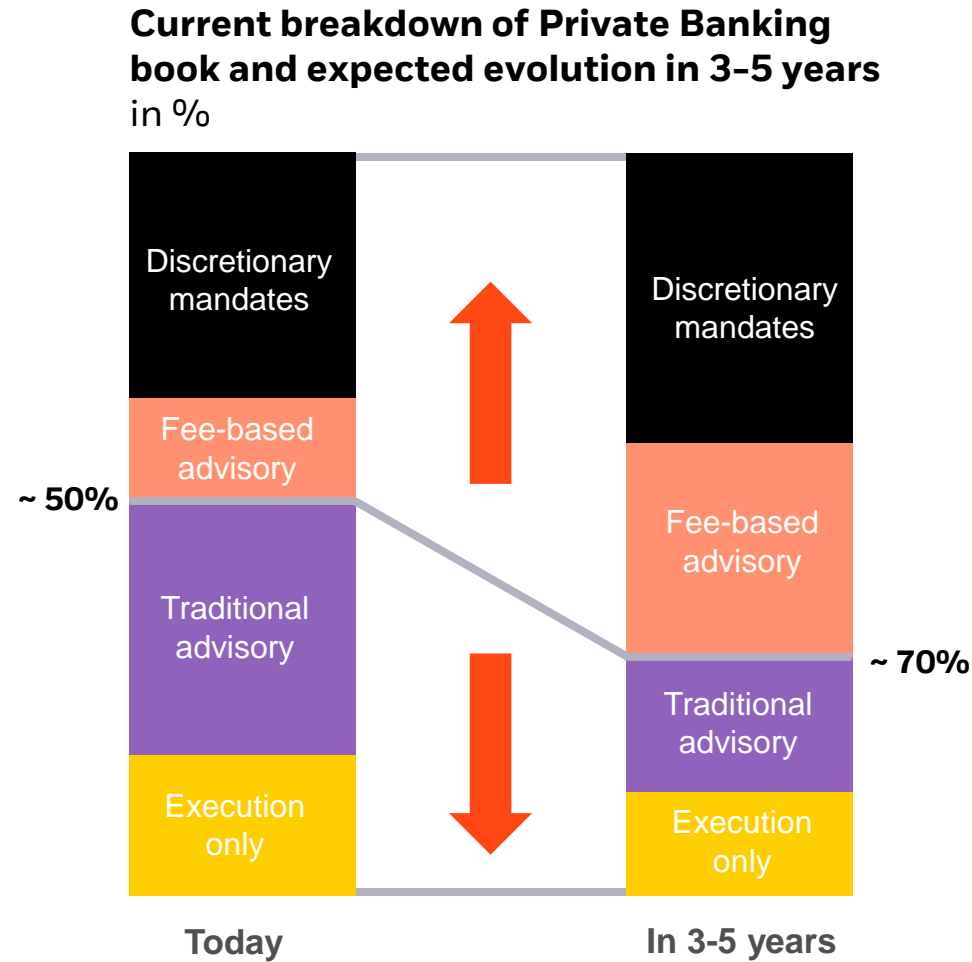


Advisors Need Repeatable, Scalable Processes



Source: Blackrock. For illustrative purposes only.

Wealth Managers are accelerating their shift to fee-based models



36% of respondents expect further fee pressure for discretionary and advisory, by more than 10%

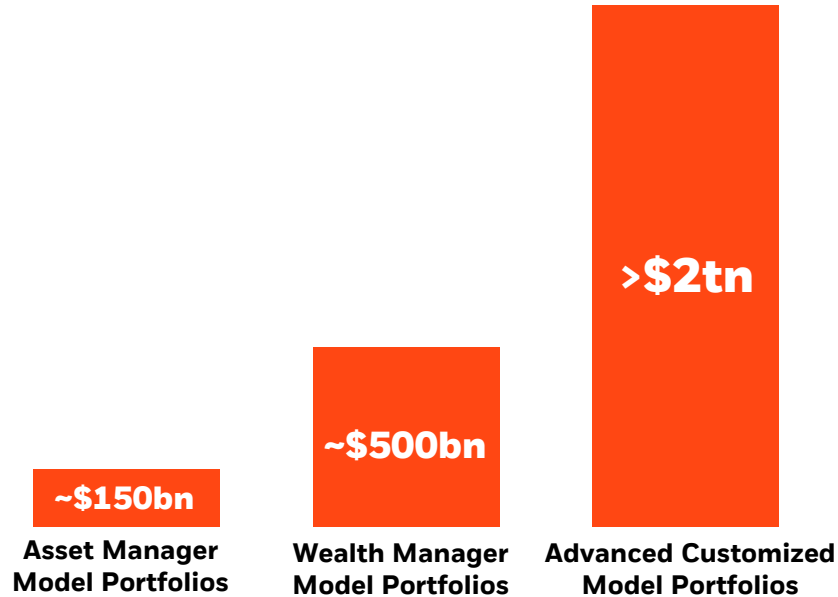


Average current pricing for an all-in fee model for an upper affluent client
in basis points

Source: Blackrock Wealth Management Industry Survey 2018

Advisors Consuming Models & Tech That Supports Models

Advisors are using model Portfolios to scale their practices
 U.S. Model Portfolio Landscape (by assets)¹



Technology providers are moving quickly to take advantage
 Aiming to reduce cost and friction



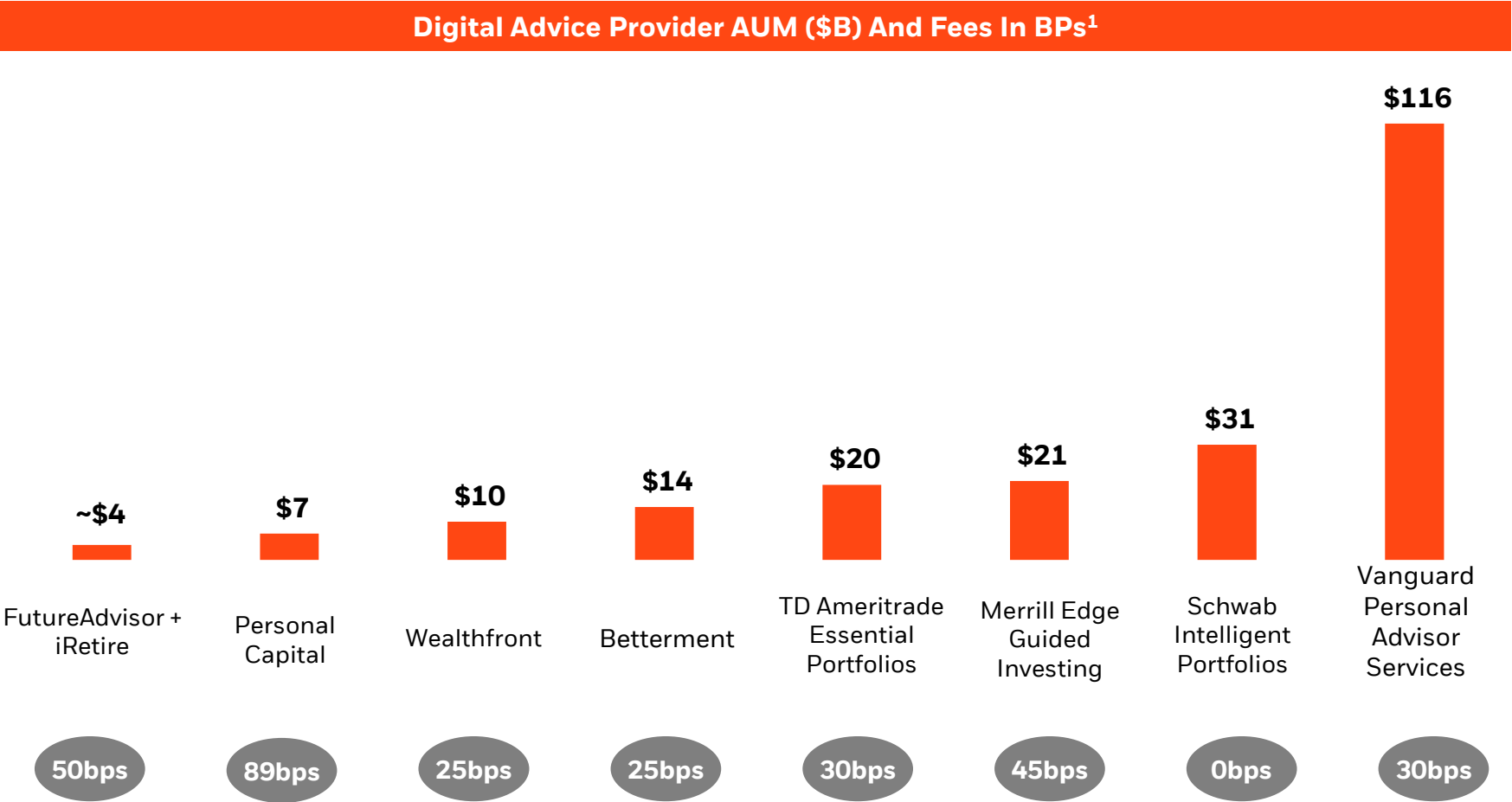
¹ Cerulli Intermediary Distribution, BlackRock 2017 Internal Estimates

February 2017 – Kitces Article Coins the Term "Models Marketplace" <https://www.kitces.com/blog/model-marketplace-from-irebal-riskalyze-orion-and-unbundling-traditional-tamp/>

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Digital Advisors Setting New Fee Floor For Basic Advice

A range of wealth management providers – both incumbents & new entrants – are setting a new floor for fees for basic strategic asset allocation advice below 50bps and as low as 0bps. This is forcing advisors to more clearly articulate value propositions beyond strategic asset allocation

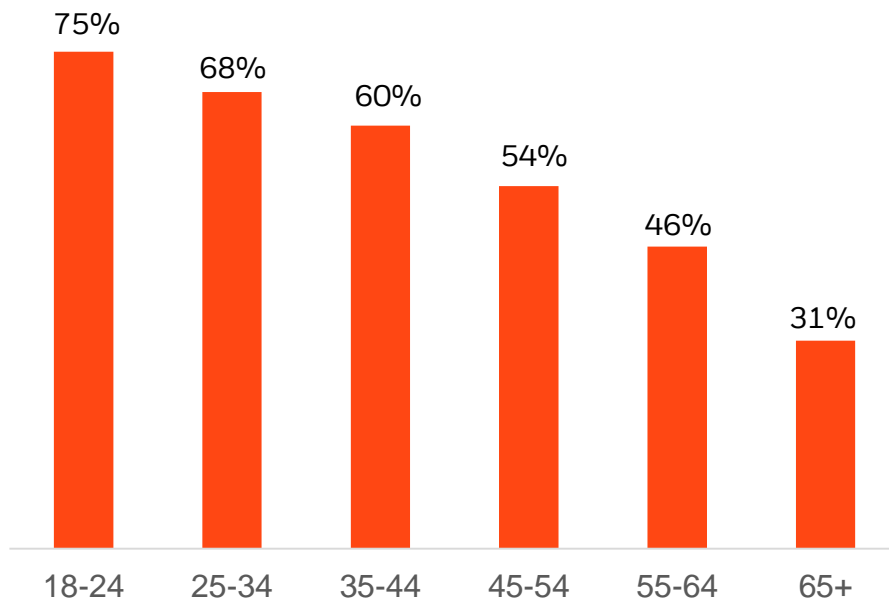


Source: Firm ADVs; Cerulli Associates

Tech Providers & FANG Would Be Welcomed As Wealth Managers

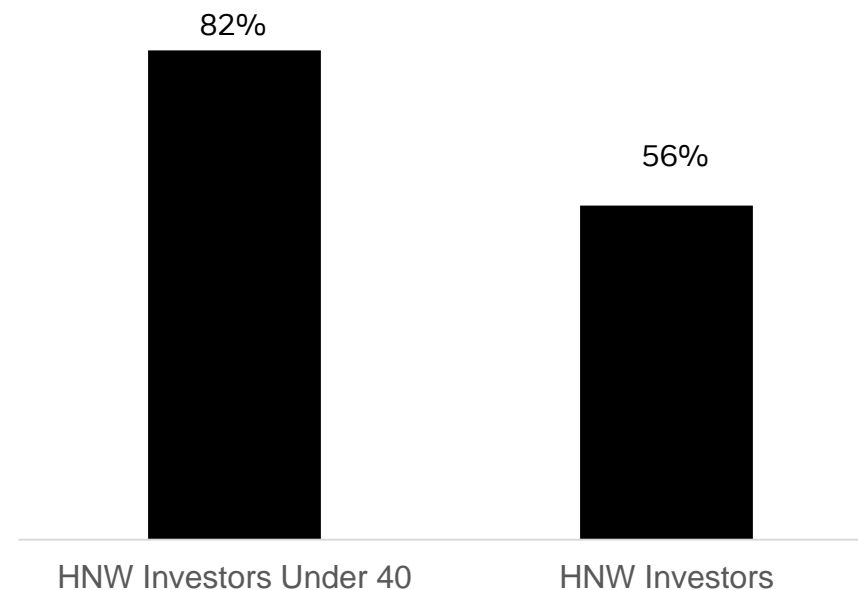
Three-quarters of young adults would be willing to buy financial products from technology firms. A majority of HNW investors would consider Google, Apple, Facebook, or Amazon for wealth management services

US Citizens Willing to Buy Financial Products from Technology Companies by Age (Bain)



Source: Bain Retail Banking Study

HNW Investors Who Would Consider Google, Apple, FB or Amazon For Wealth Mgmt. (Capgemini)



Source: Capgemini World Wealth Report 2017

“In the game of customer experience, your competition isn’t just your competition. It’s often your customers’ last best experience. Today Apple, Amazon and Uber have conditioned your customers to expect more—often more than you can readily deliver.”

Gartner Group

Digital Advisors Setting New Fee Floor For Basic Advice

Adaption of sustainable investing

OVER 80% of respondents believe that sustainable investing is the **next biggest opportunity** for product developers and distributors

OVER 90% have started to implement ESG in their organization, be it with collecting information, with developing research expertise, with adopting the processes or even developing specific products

OVER 40% have adopted investment processes AND created specific ESG products

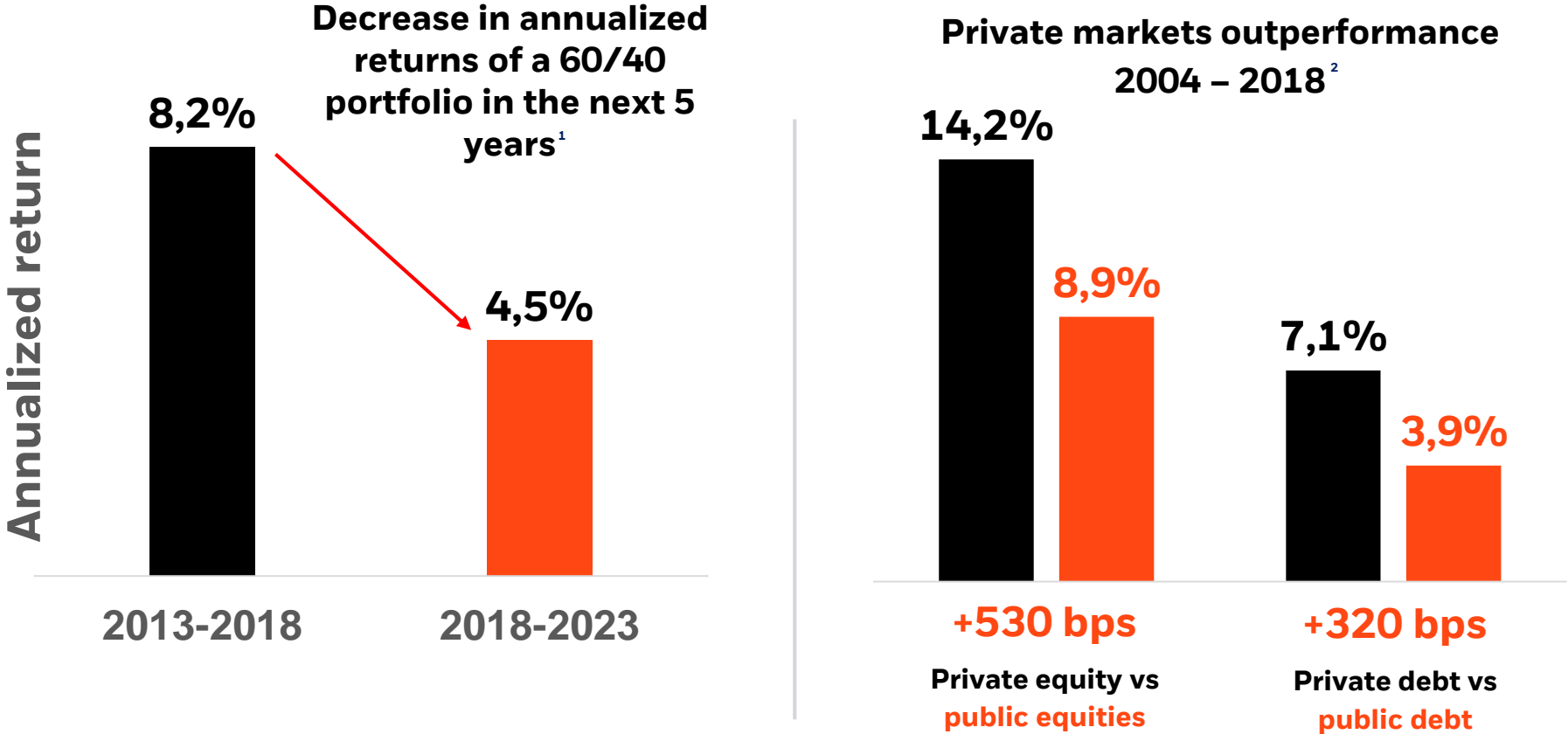
Why do companies build up ESG resources and capabilities? % of respondents, Selection of 3 out of 9



Source: Blackrock Wealth Management Industry Survey 2018. For illustrative purposes only, n= 28

The rise of Alternative Investments

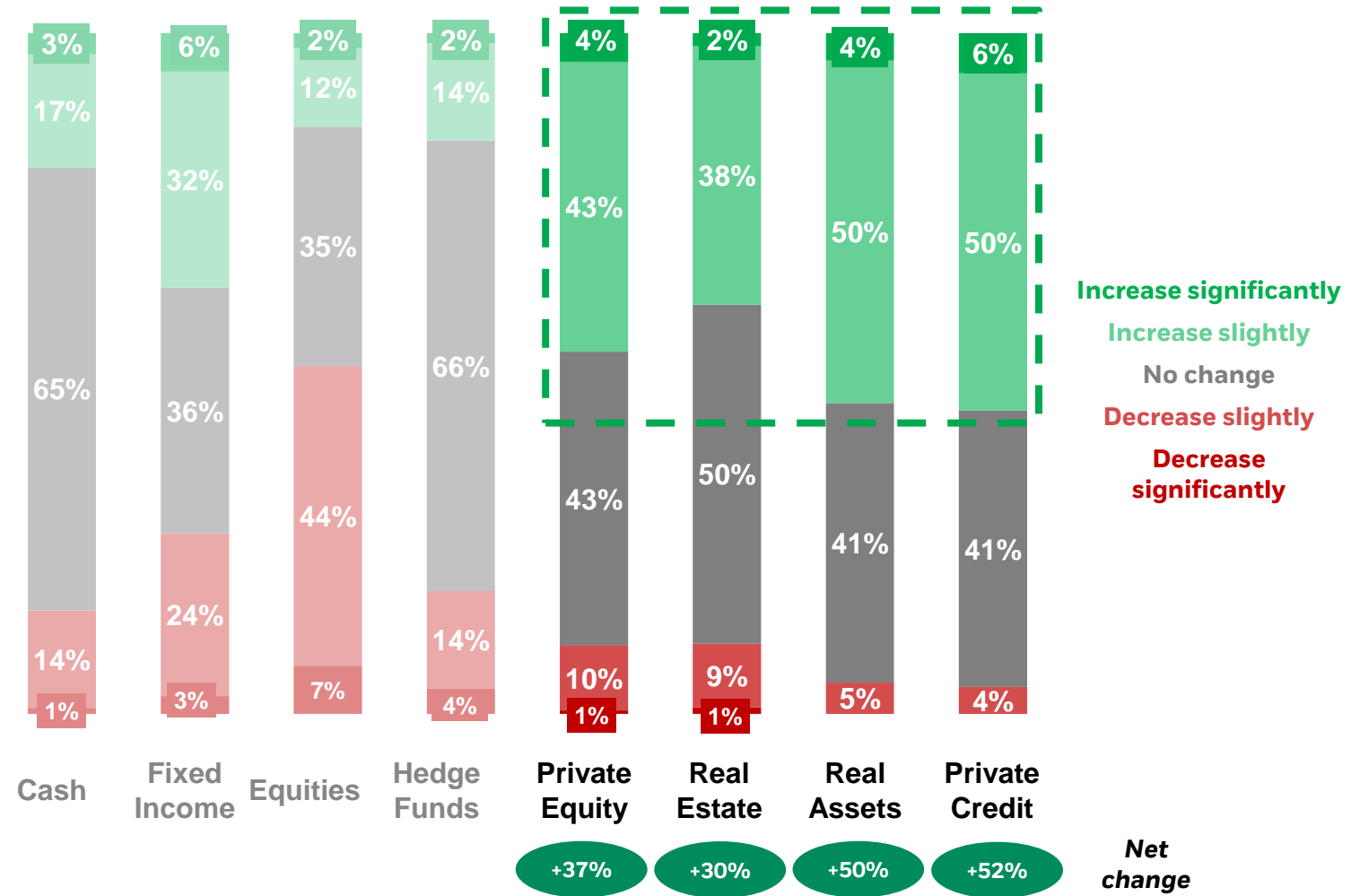
Investors may fail to meet return targets without private markets



Past performance is not a reliable indicator of current or future results and should not be the only consideration factor when choosing a product or strategy. This material may contain forecasts that are not purely historical in nature. Such information may include, inter alia, projections and forecasts. There is no guarantee that the forecasts made will be realized. Sources: 1) BII Capital Markets assumptions as of 30 June 2018. The 60/40 portfolio is composed of 60% by S&P500 and 40% by Bloomberg Barclays US Aggregate Bond Index. 2) Data sourced from Morningstar for the period from 9/30/04 (inception date of the private debt index) through 6/30/18 (latest common available data date). Private Equity represented by the Cambridge Associates US Private Equity Index. Private Debt represented by the Cliffwater BDC Index.

Allocation shift to private markets

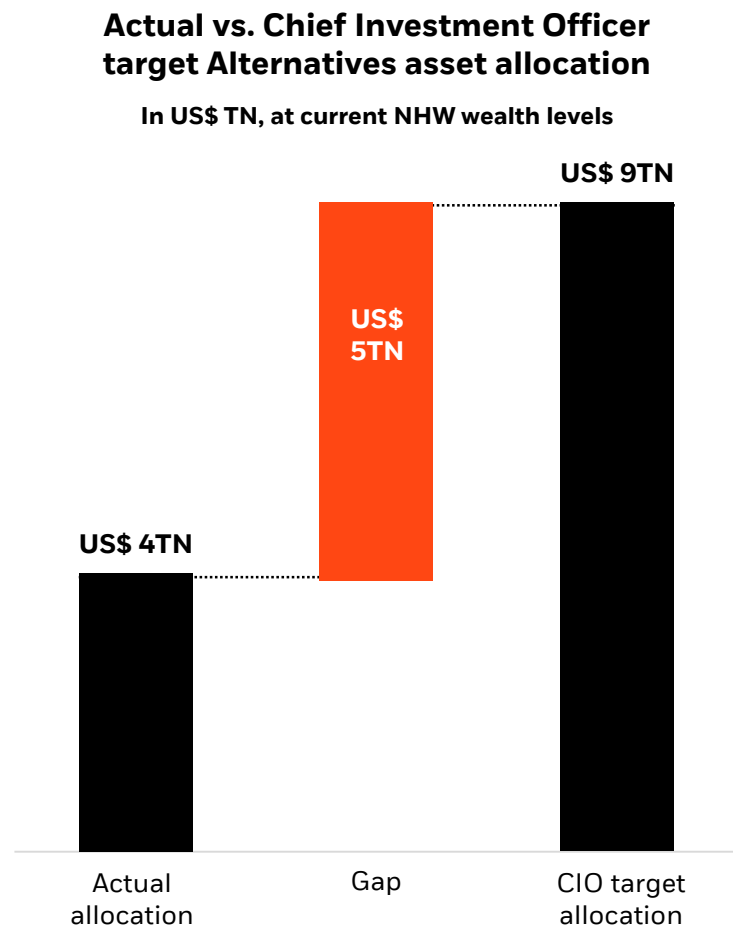
Anticipated 2019 asset allocation changes (% selected)



Source: BlackRock Global Institutional Investor Survey, as of December 2018. For illustrative purposes only. The figures/net change represented in percentages is illustrative in nature and do not express a forecast. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. No analysis was conducted and no statement of opinion in relation to their suitability is provided. Net percentages represent a net percentage intending to increase or decrease allocations to each asset class. (Calculation: % of firms intending to increase - % of firms intending to decrease) Base sizes: Total (291); Cash (223); Fixed Income (230); Equities (225); Hedge Funds (133); Private equity (188); Real Estate (203); Real Assets (173); Private Credit (61)

Significant untapped potential in wealth management

Large gap between optimal allocation to Alternatives and current allocation to Alternatives

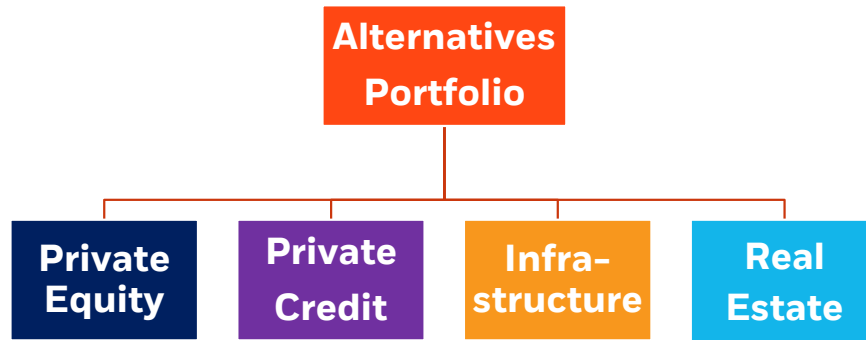


Important Information:

* Estimate. Sources: 1) PwC AWM Research Centre, *Asset & Wealth Management Revolution: Embracing Exponential Change*, 2017. Data does not include commodities. All data in US dollars. * Estimates from PwC AWM Research Centre and Prequin, ACC Rearch, growth rate for 2020-2025 extrapolated from 2016-2020. There is no guarantee that the forecasts made will come to pass.

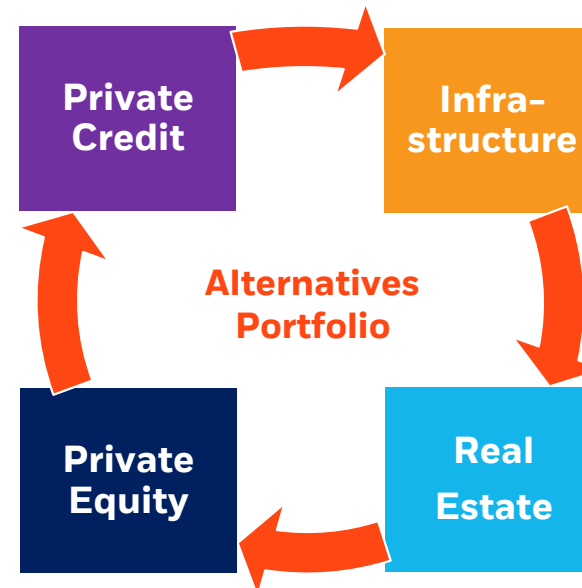
Asset allocation – a holistic portfolio approach

Exposure based investing



Single strategy allocation can lead to concentrated and unintended risk exposures

Outcome based investing



Integrated approach incorporates views on relative value, risk and liquidity across alternative asset classes

Source: Blackrock. For illustrative purposes only.

Anticipating clients' needs to deliver top-tier investment performance

1

Markets are shifting towards sophisticated alternatives providers with increased access and scale

2

Asset managers need to build more resilient portfolios for specific outcomes

3

Longer term view in investments and a focus on sustainability of business models

Source: Blackrock. For illustrative purposes only.

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