Cerulli Quantitative Update

High-Net-Worth and Ultra-High-Net-Worth Markets 2012:

Understanding Bank Trust Departments, Family Offices, Private Client Groups, and Other HNW Providers

CERULLI ASSOCIATES
Global Analytics

Overview

In its fifth iteration, this report analyzes the U.S. high-net-worth (HNW) (investable assets > $5 million) and ultra-high-net-worth (UHNW) (investable assets > $20 million) marketplaces. Focus is on the UHNW segment, including market size, structure, and developments. Detailed analysis of vehicle usage, fees, and services provided at bank trust departments, family offices, and private client groups is included. Third-party asset managers and distribution strategies are also discussed.

Data is from four proprietary surveys: Bank Trust asset managers, Bank Trust groups, HNW providers, and HNW asset managers. Investor data is drawn from Cerulli's relationship with Phoenix Marketing International, while advisor data is provided by Cerulli's annual advisor survey.

Key Reasons to Buy This Report:

- Unique characteristics of HNW and UNHW investors
- Market segment shifts by certain HNW providers
- Characteristics of the bank trust market
- Adjustments to fee schedules to retain profitability
- Asset manager strategies for addressing specific HNW markets
- Assessments of how HNW providers and investors are constructing portfolios

Answer These and Other Critical Questions:

1. How are HNW providers different than other retail and institutional channels?
2. What is the overall size of the HNW provider market?
3. What is the true size of the bank trust market?
4. How are asset managers selling to bank trust groups?
5. What products are in demand from HNW providers and investors?
6. How are providers constructing portfolios and determining asset allocation?
7. What are pricing trends in this space?

Research Included with Subscription

A subscription to this report remains active through 12/17/2013 and includes online access to the following related Cerulli research:

- Four years of **Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net Worth Markets**
- Bank Trusts: Wealth Management and Distribution in a Fiduciary Setting 2009
- Private Wealth Groups 2006
- Hedge Funds: The Market for Absolute Return 2005
- Wealth Transfer: Product and Advice Solutions 2004
- Asset Management: Private Client Groups 2003

263 pages, 202 exhibits

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LOOK INSIDE
11 pages of report content

Table of Contents - *Expanded*

Key Questions Answered **17**
1. How is working with high-net-worth families different from other retail or institutional channels for asset managers? *17*
2. What is the true size of the bank trust market? *18*
3. How have bank trust firms progressed toward open architecture? *19*
4. What is the most appealing market for asset managers to address high-net-worth investors? *20*
5. What products are most in demand from high-net-worth investors and providers? *21*
6. What is the direction of fees at high-net-worth providers? *22*

Chapter 1: Understanding Provider Marketshare Shifts **23**
Exhibit 1.01. Average Number of Provider Relationships by Investable Asset Range, 2008-2012 24
Defining Segments *24*
Wirehouses Losing Share *25*
Exhibit 1.02. High-Net-Worth Provider AUM by Firm Type, 2005-2012E 25
RIAs, Direct Gain Share *27*
Exhibit 1.03. High-Net-Worth Provider AUM by Detailed Firm Type, 2009-2015E 27
Exhibit 1.04. Reason for Establishing Direct Account by Investable Asset Range, 2011 28

Chapter 2: Bank Trust: Market Sizing and Asset Manager Sales Strategies **30**
Market Sizing *30*
Exhibit 2.01. Bank Trust Departments: Clients Receiving Wealth Management, but Not Trust Services, 2012 31
Exhibit 2.02. Assets by Channel, 2007-2011 32
The Rise of Private Trust Companies *33*
The Move to Open Architecture *34*
Exhibit 2.03. Bank Trust Departments: Challenge of Moving to an Open-Architecture Model, 2012 35
Exhibit 2.04. Asset Managers: Primary Influence of Flows in Bank Trust Channel, 2012 37
Exhibit 2.05. Bank Trusts: Decision Makers on Portfolio Construction, 2012 38
Exhibit 2.06. Bank Trust Departments: Percentage of Assets Managed by Third Party, 2012 39
Portfolio Construction Trends *40*
Exhibit 2.07. HNW Providers: Opinions and Use of Hedge Funds, 2012 40
Asset Manager Sales Strategies *42*
Exhibit 2.08. Asset Managers: Bank Trust Salesforce Structure, 2012 42
Exhibit 2.09. Bank Trust Departments: Considerations When Choosing a Third-Party Asset Manager, 2012 43
Exhibit 2.10. Most Important Elements in Developing Relationships with Professional Buyers, 2012 44
Outlook *47*
Exhibit 2.11. Bank Trust Departments: Reasons That Investors Do Not Work with a Bank or Trust Company as Their Primary Advisor, 2012 47
Exhibit 2.12. Wells Fargo Client Segmentation, 2012 48

Table of Contents *Expanded*

Section I: Market Sizing

Chapter 3: Consumer Sizing 50

Exhibit 3.01. Cerulli Wealth Tiers, 2011E 52
Exhibit 3.02. Household and Asset Distribution by Investable Asset Range, 2011E 53
Exhibit 3.03. Distribution of Households and Investable Assets by Investable Assets Range and Age Range, 2011E 54
Exhibit 3.04. Distribution of Household Investable Assets by Investable Asset Range, 2011E 55
Exhibit 3.05. Distribution of Household Investable Assets by Type of Asset and Investable Asset Range, 2011E 56
Exhibit 3.06. Household Nonfinancial Assets by Type of Asset and Investable Asset Range, 2011E 57
Exhibit 3.07. Household Debt by Type of Debt and Investable Asset Range, 2011E 58
Exhibit 3.08. Top-10 Cities by Ultra-High-Net Worth Residents, 2011 and 2012 59
Exhibit 3.09-Part 1. Where the Forbes 400 Make Their Money, 2011 vs. 2012 60
Exhibit 3.09-Part 2. Where the Forbes 400 Make Their Money, 2011 vs. 2012 61
Exhibit 3.10. Where the Newcomers to the Forbes 400 Make Their Money, 2012 62

Chapter 4: Provider Market Sizing 63

Exhibit 4.01. Service Provider Spectrum, 2011 65
Exhibit 4.02. High-Net-Worth Provider AUM by Firm Type, 2005-2012E 66
Exhibit 4.03. High-Net-Worth Provider Marketshare by Firm Type, 2011 67
Exhibit 4.04. High-Net-Worth Provider AUM by Detailed Firm Type, 2009-2015E 68
Exhibit 4.05. Projected High-Net-Worth Provider AUM by Detailed Firm Type, 2011-2015E 69
Exhibit 4.06-Part 1. Top U.S. Wealth Managers, 2Q 2012 70
Exhibit 4.06-Part 2. Top U.S. Wealth Managers, 2Q 2012 71
Exhibit 4.07. Top 25 U.S. Wealth Managers by Private Client AUM, 2Q 2009-2Q 2012 72
Exhibit 4.08. Number of Failed FDIC Insured Banks, 2007-3Q 2012 73
Exhibit 4.09. Advisor Core Market by Channel, 2012 74
Exhibit 4.10. Wealth Management M&A Metrics, 1998-2011 75
Exhibit 4.11. Wealth Management M&A Metrics by Firm Type, 2007-2011 76
Exhibit 4.12. Who's Selling: Transactions by Sector as Percentage of Total Value, 2010 and 2011 77

Chapter 5: Bank Trust Groups 78

Exhibit 5.01. Bank Trust Assets, 2007-2012E 80
Exhibit 5.02-Part 1. Top-50 Banks by Personal Trust & Agency Assets, Adjusted, 2Q 2012 81
Exhibit 5.02-Part 2. Top-50 Banks by Personal Trust & Agency Assets, Adjusted, 2Q 2012 82
Exhibit 5.03. Bank Trusts: Surveyed Bank Trust Statistics, 2011 83
Exhibit 5.04. Personal Trust Account Ownership by Investable Asset Range, 2011 84
Exhibit 5.05. Personal Trust Account Balance by Investable Asset Range, 2011 85
Exhibit 5.06. Type of Personal Trust Account Ownership by Investable Asset Range, 2011 86
Exhibit 5.07. Bank Trust Departments: Source of Clients, 2012 87
Exhibit 5.08. Bank Trust Departments: Reasons for Client Interest in Trust Services, 2012 88
Exhibit 5.09. Bank Trust Departments: HNW Clients Receiving Trust Services, 2012 89
Exhibit 5.10. Asset Managers: Attractiveness of Bank Trust Relative to Other Business Lines, 2012 90
Exhibit 5.11. Bank Trust Departments: Percentage of Assets Managed by Third Party, 2012 91
Exhibit 5.12. Bank Trust Departments: Change in Percentage of Assets Managed by Third Party, 2012 92

Chapter 6: Other HNW Providers 93

Exhibit 6.01. Wirehouse Broker/Dealers by Advisor Headcount, 2004-3Q 2012 95
Exhibit 6.02. Wirehouse Assets by Product, 2007-2011 96
Exhibit 6.03. Selected Firms Advisor Satisfaction, 2012 97
Exhibit 6.04. Impact of M&A on Business, Productivity and Clients, 2012 98
Exhibit 6.05. Private Client Group Assets Under Management, 2007-2012E 99

Exhibit 6.06. Consulting Firms Advising Wealthy Clients or Family Offices, Ranked by Total Assets Under Advisement, 2012 100
Exhibit 6.07. Investment Consultant Business Segmentation by Channel, 2011 101
Exhibit 6.08. Investment Consultants' Expected Growth of CIO Outsourcing by Market Segment, 2012....102
Exhibit 6.09. Largest Managers of Investment Outsourcing by Assets, 2Q 2011....103
Exhibit 6.10. HNW Provider Use of CIO Outsourcing, 2012 104
Exhibit 6.11. HNW Providers: Reason for Using CIO Outsourcer, 2012 105
Exhibit 6.12. HNW Providers: Reasons for Not Using CIO Outsourcer, 2012....106
Exhibit 6.13. Direct Platform Expected Growth Opportunities, 2011 107
Exhibit 6.14. Ownership of Direct Account by Investable Asset Range, 2011 108
Exhibit 6.15. Direct Account Balance by Investable Asset Range, 2011 109
Exhibit 6.16. Expected Disposition of Direct Assets in Five Years by Investable Assets, 2011 110

Chapter 7: RIAs and Multi-Family Offices....111
Exhibit 7.01. Top-25 Worldwide Multi-Family Offices by Assets, 2011 113
Exhibit 7.02. Marketshare of Employee and Independent Advisors, 2007-2014E....114
Exhibit 7.03. MFO Market Sizing, 2011 115
Exhibit 7.04. MFO Growth Rate, 2011 116
Exhibit 7.05. SFO Market Sizing Estimate, 2011E 117
Exhibit 7.06. Retail-Focused RIA Assets by Segment, 2004-2011 118
Exhibit 7.07. Retail-Focused RIA Firms by Segment, 2004-2011....119
Exhibit 7.08. Top-25 Retail-Focused RIA Firms by AUM, 2011 120
Exhibit 7.09. RIA Assets by Service Agent, 2007-2011 121
Exhibit 7.10. RIA Clients by Service Agent, 2007-2011....122
Exhibit 7.11. Most Popular Custodians for RIA Multi-Family Offices, 2011 123
Exhibit 7.12-Part 1. Barron's: Top-50 Independent Wealth Advisors, 3Q 2012....124
Exhibit 7.12-Part 2. Barron's: Top-50 Independent Wealth Advisors, 3Q 2012....125

Section II: Advice Delivery
Chapter 8: Consumer Attitudes and Needs 127
Exhibit 8.01. Client Need Framework, 2012....129
Exhibit 8.02. Advice Orientation by Investable Asset Range, 2012....130
Exhibit 8.03. HNW Investor Advice Orientation by Age Range, 2012 131
Exhibit 8.04. Average Number of Provider Relationships by Investable Asset Range, 2008-2012....132
Exhibit 8.05. Percent of Households with Share of Wallet 90% or Greater with Primary Provider, 2008-2012 133
Exhibit 8.06. Percent of Households That Have Changed Primary Providers in Past 12 Months, 2008-2012 134
Exhibit 8.07. Number of Financial Professionals Contacted in Past 12 months by Investable Asset Range, 2012....135
Exhibit 8.08. Using Primary Provider for Everyday Cash Needs by Investable Asset Range, 2012....136
Exhibit 8.09. Household Risk Level by Investable Asset Range, 2012 137
Exhibit 8.10. Greatest Personal Concern Affecting Household by Investable Asset Range, 2012 138
Exhibit 8.11. Households' Trust of Financial Firms by Investable Asset Range, 2012 139
Exhibit 8.12. Level of Satisfaction with Primary Provider by Investable Asset Range, 2012....140
Exhibit 8.13. Reason for Satisfaction with Primary Provider by Investable Asset Range, 2012....141
Exhibit 8.14. Investor Economic Outlook Over the Next Three Months by Investable Asset Range, 2012....142

Chapter 9: Service Delivery....143
Exhibit 9.01. HNW Providers' Revenue and Profitability Trade-Off, 2012....145
Exhibit 9.02. Knowledge and Skill Areas of Importance for Private Wealth Advisors, 2012....146
Exhibit 9.03. Surveyed Wealth Provider Statistics, 2010-2011 147
Exhibit 9.04. Surveyed Wealth Provider Statistics by Firm Type, 2010-2011....148
Exhibit 9.05. Surveyed HNW Providers' Business Model, 2012 149

Exhibit 9.06. HNW Providers: Percentage of Clients' Total Assets Controlled, 2012 150
Exhibit 9.07. HNW Advisors: Number of Clients, 2012 151
Exhibit 9.08. HNW Providers: Greatest Challenges, 2012 152
Exhibit 9.09. HNW Providers: Outlook for Firm Initiatives, 2012 153
Exhibit 9.10-Part 1. HNW Providers: Priority and Distribution of Services Provided, 2012 154
Exhibit 9.10-Part 2. HNW Providers: Priority and Distribution of Services Provided for Private Client Groups and Bank Trust Departments, 2012 155
Exhibit 9.10-Part 3. HNW Providers: Priority and Distribution of Services Provided for RIAs & MFOs, 2012 156
Exhibit 9.11. HNW Providers: Plans for Service Offering, 2012 157
Exhibit 9.12. HNW Providers: Firm Growth Plan, 2012 158
Exhibit 9.13. HNW Providers: Change in Target Market Strategy, 2012 159
Exhibit 9.14. Examples of Client Segmentation within Banks, 2012 160
Exhibit 9.15. HNW Providers: Reasons for Clients Joining Firm, 2012 161
Exhibit 9.16. HNW Providers: Reasons for Clients Leaving Firm, 2012 162
Exhibit 9.17. HNW Providers: Greatest Competition for Clients, 2012 163
Exhibit 9.18. HNW Providers: Most Cited Competitors, 2012 164
Exhibit 9.19. HNW Providers: Projected Staffing Changes, 2012 165
Exhibit 9.20. HNW Providers: Changes to Human Capital, 2012 166
Exhibit 9.21. HNW Providers: Efforts to Retain Staff, 2012 167
Exhibit 9.22. HNW Providers: Recruitment of Experienced Advisors, 2012 168

Chapter 10: Wealth Preservation 169
Exhibit 10.01. Understanding the Family Dynamic, 2012 171
Exhibit 10.02. The Natural Destruction of Wealth, 2012 172
Exhibit 10.03. Forbes' Cost of Living Extremely Well Index vs. CPI, 1976-2012 173
Exhibit 10.04. Forbes' Cost of Living Extremely Well Index Basket of Goods, 2012 174
Exhibit 10.05. Anticipated Income Tax Increases, 2012 vs. 2013 175
Exhibit 10.06. Anticipated Tax Increases, 2012 vs. 2013 176
Exhibit 10.07. Likelihood of an IRS Audit, Based Upon Returns and Audits, 2008-2011 177
Exhibit 10.08. Bank Trust Departments: HNW Investor Interest in Trust Features, 2012 178
Exhibit 10.09. Domestic Asset Protection Trust State Rankings, 2012 179
Exhibit 10.10. Dynasty Trust State Rankings, 2012 180
Exhibit 10.11. Estate Planners Expectation of Business Growth Over the Next Five Years, 2012 181
Exhibit 10.12. Estate Planners: Top Reasons Clients Seek Estate Planning, 2012 182
Exhibit 10.13. Estate Planners: Expectation of Future Tax Increases Due to Federal Budget Deficit, 2012 183
Exhibit 10.14. Charities: Source of Contributions, 2011 184
Exhibit 10.15. Reasons for Decreased Charitable Contributions, 2012 185

Chapter 11: Fees 186
Exhibit 11.01. HNW Providers: Change in Fees Over the Last Three Years, 2012 188
Exhibit 11.02. HNW Providers: Direction of Fee Changes, 2012 189
Exhibit 11.03. HNW Providers: Factors Affecting Fees, 2012 190
Exhibit 11.04. HNW Providers: Ways Fees and Services Are Bundled, 2012 191
Exhibit 11.05. HNW Provider Fee Schedule, 2012 192
Exhibit 11.06. HNW Providers Approach for Unprofitable Clients, 2012 193
Exhibit 11.07. HNW Providers: Approach Toward Retainer Fees, 2012 194
Exhibit 11.08. HNW Providers: Factors in Determining a Retainer-Based Fee, 2012 195
Exhibit 11.09. Bank Trusts: Average Fee Schedule, 2012 196

Exhibit 11.10. Bank Trusts: Bundling of Investment Management and Trust Administration Fees, 2012....197
Exhibit 11.11. Bank Trusts: Person Responsible for Negotiating Trust Fees, 2012....198
Exhibit 11.12. HNW Advisor Compensation, 2012 vs. 2014E....199
Exhibit 11.13. Asset Manager Fee by Asset Class for a New HNW Mandate, 2012....200

Section III: Asset Management

Chapter 12: Portfolio Construction and Asset Allocation....202

Exhibit 12.01. HNW Providers: Change in Asset Allocation, 2012....204
Exhibit 12.02. HNW Providers: Client Asset Allocation, 2012 vs. 2015E....205
Exhibit 12.03. Strategic (SAA) and Tactical (TAA) Asset Allocation: Moderate Risk Portfolio, August 23, 2012....206
Exhibit 12.04. HNW Advisor Portfolio Construction Methodology, 2012....207
Exhibit 12.05. HNW Advisor-Reported Portfolio Discretion Breakdown, 2012 vs. 2015E....208
Exhibit 12.06. Largest Endowment Funds and Growth, 2011FY....209
Exhibit 12.07. Endowment Model Databank, 2011-2012....210
Exhibit 12.08. HNW Investor Ownership of Treasure Investments, 2012....211
Exhibit 12.09. HNW Investor Attitudes Toward Treasure Investing, 2012....212

Chapter 13: Asset Manager Sales Strategies....213

Exhibit 13.01. Asset Managers: Reasons for Attractiveness of HNW Providers Relative to Other Business Lines, 2012....215
Exhibit 13.02. Asset Managers: Relative Attractiveness of Channels for HNW Distribution, 2012....216
Exhibit 13.03. Asset Managers: Salesforce Structure Used to Target HNW Channels, 2012....217
Exhibit 13.04. Asset Managers: Average Timeframe from Initial Contact to Winning a Mandate, 2012....218
Exhibit 13.05. Source of HNW Flows, 2012....219
Exhibit 13.06. Asset Managers: Frequency with Which Personnel Meet with HNW Decision Makers, 2012....220
Exhibit 13.07. HNW Providers: Change in Approach to Manager and Market Research, 2012....221
Exhibit 13.08. HNW Providers: Manager Search Criteria, 2012....222
Exhibit 13.09. HNW Providers: Reasons for Terminating Asset Manager Relationships, 2012....223
Exhibit 13.10. Asset Managers: Reasons for Relationship with HNW Providers or Investors Being Terminated, 2012....224
Exhibit 13.11. HNW Providers: Number of Analysts Dedicated to Manager Research, 2012....225
Exhibit 13.12. HNW Providers: Organization of Due Diligence Analysts, 2012....226
Exhibit 13.13. Change in Asset Manager Resources Dedicated to the Bank Trust Channel, 2012....227
Exhibit 13.14. Asset Managers: Bank Trust Salesforce Structure, 2012....228
Exhibit 13.15. Asset Managers: Primary Influence of Flows in Bank Trust Channel, 2012....229
Exhibit 13.16. Bank Trusts: Decision Makers on Portfolio Construction, 2012....230
Exhibit 13.17. Bank Trust Departments: Considerations When Choosing a Third-Party Asset Manager, 2012....231
Exhibit 13.18. Bank Trust Departments: Preferred Frequency of Contact from Asset Managers, 2012....232
Exhibit 13.19. HNW Providers: Asset Manager Databases Utilized, 2012....233
Exhibit 13.20. Asset Managers: Databases Populated, 2012....234
Exhibit 13.21. Asset Managers: Most Cited Competitors in the HNW Market, 2012....235
Exhibit 13.22. Asset Managers: Use of Capital Introduction Firms or Third-Party Marketers, 2012....236

Chapter 14: Investment Products....237

Exhibit 14.01. Asset Managers: Goals and Needs Targeted for HNW Investors, 2012....239
Exhibit 14.02. Asset Managers: Products Used to Address HNW Providers and Investors 2012....240
Exhibit 14.03. HNW Advisor Product Mix, 2012....241
Exhibit 14.04. HNW Providers: Expected Change in Product Use in the Next 12 Months, 2012....242
Exhibit 14.05. Asset Managers: Expected Change in HNW Provider Interest in Products in the Next 12 Months, 2012....243
Exhibit 14.06. HNW Providers: Client Assets Actively and Passively Managed, 2012....244
Exhibit 14.07. ETF Assets, Flows and Growth, 2001-3Q 2012....245
Exhibit 14.08. Total Managed Account Assets, 1999-3Q 2012....246

Exhibit 14.09. Program Type Comparison: Managed Account Marketshare, 3Q 2011 vs. 3Q 2012 247
Exhibit 14.10. Separate Account Consultant Program Assets, Subadvisory vs. Open, 2004-3Q 2012 248
Exhibit 14.11. Asset Managers: Submission of Model Separate Accounts, 2012 249
Exhibit 14.12. Alternative Investments' Value in Portfolio Construction 250
Exhibit 14.13. Global Single-Manager and Fund-of-Hedge-Fund Assets, 2003-3Q 2012 251
Exhibit 14.14. Global Hedge Fund Flows, 2004-3Q 2012 YTD 252
Exhibit 14.15. Mean Allocation to Hedge Funds by Investor Type, 2007-2011 253
Exhibit 14.16. HNW Providers: Change in Approach to Hedge Fund Investing, 2012 254
Exhibit 14.17. HNW Providers: Opinion of Hedge Funds, 2012 255
Exhibit 14.18. Alternative Mutual Fund Assets, 2003-3Q 2012 256
Exhibit 14.19. Alternative Mutual Fund Net Flows, 2003-3Q 2012 YTD 257
Exhibit 14.20. Alternative Mutual Fund Assets by Category, 2003-3Q 2012 258
Exhibit 14.21. Global Private Equity Market Assets, 2000-2011 259
Exhibit 14.22. Average Private Equity Allocation by Investor Type as a Percentage of AUM, 2011 260
Exhibit 14.23. HNW Providers: Offering of Pooled Investment Vehicles, 2012 261

Index of Companies 262

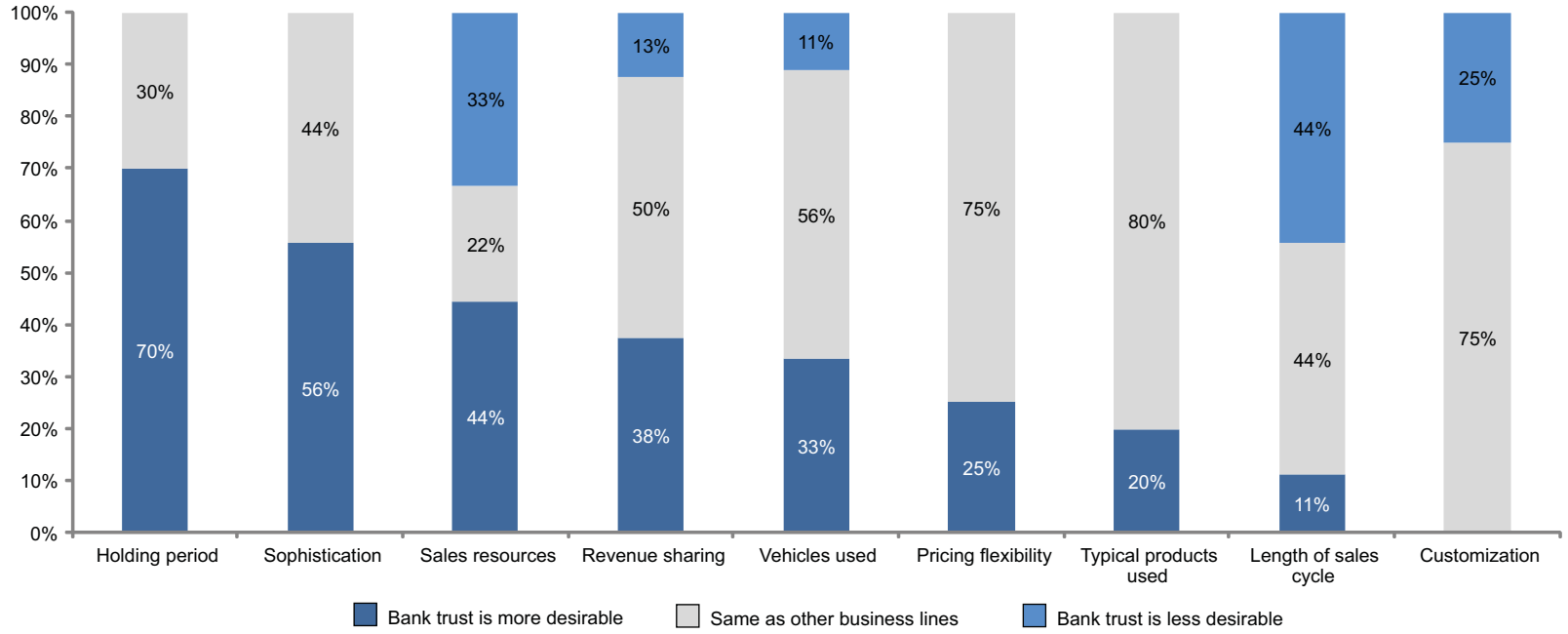
SAMPLE SECTION
from

CERULLI QUANTITATIVE UPDATE: HIGH-NET-WORTH AND ULTRA-HIGH-NET-WORTH MARKETS 2012: UNDERSTANDING BANK TRUST DEPARTMENTS, FAMILY OFFICES, PRIVATE CLIENT GROUPS, AND OTHER HNW PROVIDERS

EXHIBIT 5.10

Asset Managers: Attractiveness of Bank Trust Relative to Other Business Lines, 2012

Source: Cerulli Associates



- Longer holding periods is the primary reason bank trust departments are more attractive than other distribution channels, according to 70% of asset managers. Sophistication ranked second, named by 56% of asset managers.

Key Implication: The sophistication of the end-buyer is perhaps the most important factor at play as asset managers consider what resources to dedicate to the bank trust channel. Asset managers cited centralized due diligence analysts as the primary influence point for flows. Even if trust officers play a role, these are still frequently professionals with a strong investment background. Regardless, the end buyer for asset managers is generally a sophisticated decision-maker. This has implications for the type of salesperson used to staff a bank trust sales role, as this person must be able to discuss their employer's investment strategy in detail. Likewise, these salespeople should be equipped with high-quality resources, such as detailed attribution analyses. It should be noted that this level of intricacy is not universal at bank trust departments—some asset managers felt that the quality of investment staff was not as high at certain banks as it was in other distribution channels.

EXHIBIT 9.08

HNW Providers: Greatest Challenges, 2012

Sources: Cerulli Associates, in partnership with WealthManagement.com

Analyst Note: Respondents were asked to rate these challenges on 1-to-5 scale, with 5 = major challenge and 1 = not a challenge.

Challenge	RIA/MFO	PCG/Bank Trust	All HNW Providers
Keeping clients happy	4.3	4.3	4.3
Maintaining profitability	4.0	3.9	4.0
Attracting and retaining personnel	3.9	3.6	3.8
Adequately addressing compliance issues	3.8	3.6	3.8
Competition	3.5	3.9	3.6
Succession planning of practice	3.0	2.7	2.9

- Keeping clients happy was named as the greatest challenge by HNW providers. Maintaining profitability ranked second.
- Bank trust and private client groups were more concerned about competition than RIAs/MFOs. Competition tied as the second-greatest challenge for private client and bank trust groups.

Key Implication: Keeping clients happy and maintaining profitability can be seen as contradictory goals. On one hand, some firms are looking to expand services in order to keep clients satisfied in an increasingly competitive market. On the other hand, service expansion can only come with capital investments or new hiring, both of which will negatively impact profitability. We have discussed at length the expansion of provider relationships. At some point, this trend should reverse itself and the number of provider relationships will start to constrict. HNW providers should ensure that they are well positioned for this eventuality.

Company Index

Altegris 41
American Funds 76
Baird 164
Bank of America/U.S. Trust 24, 31, 48, 65, 70, 72, 81, 160, 164
Bessemer Trust 65, 111, 113
BlackRock 103, 235
BNY Mellon 113
Cambridge Associates 103
Charles Schwab 25, 28, 29, 69, 111, 121, 122, 123, 175, 176
Dynasty Financial Partners 143, 149, 168
Envestnet 112, 121
Federated Investments 46
Fidelity 25, 28, 29, 31, 69, 81, 111, 112, 121, 122, 123, 175, 176
First Republic Bank 76, 149
Focus Financial 64, 75
Fortigent 39
GenSpring 120
Goldman Sachs 59, 72, 164
HighTower 64, 75, 143, 168
HSBC 113
Johnson Investment Counsel 120
J.P. Morgan 46, 70, 81, 164, 235
Lipper 234
LPL Financial 25
Luminous Capital 76, 149
McKinsey 120
Mercer 100, 103
Merrill Lynch 24, 31, 48, 65, 70, 149, 160
Mintz Levin 64, 75
MIO Partners 120
Morgan Keegan 98
Morgan Stanley 24, 30, 31, 70, 72, 94, 95, 97, 98, 143, 158, 164
Morningstar 233, 234
NEPC 103
Northern Trust 46, 103, 113

Oxford Financial Group 120
PIMCO 76, 235
PNC 70
Prima Capital 39
Raymond James 98
RBC 25
Rocaton Investment Advisors 103
Rockefeller Financial 29, 111, 113
Rogerscasey 103
Russell Investments 103
SEI 103
Spruce Private Investors 65
State Street Global Advisors (SSgA) 31
SunTrust 120
TD Ameritrade 111, 121, 122
The Colony Group 64, 75
Towers Watson 103
Twitter 62
U.S. Bank 70
UBS 24, 141, 143, 158, 177, 186, 189
Valuation Associates 39
Veritable 77
Wells Fargo 24, 48, 81
Wurts & Associates 103