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BLUEPAPER

Asset & Wealth Management

The AI Tipping Point

Gen AI will transform the way the industry operates, but it is just one part of an integrated strategic approach to drive growth and build resiliency.

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Executive Summary

Despite the market rebound in 2023, the asset and wealth management industries are still facing a long-term shift in the macroeconomic environment. For nearly 15 years since the Global Financial Crisis, a period of low, stable inflation and strong markets, buoyed by supportive monetary and fiscal policies, reigned over most of the developed world. This goldilocks period was disrupted in 2022, when central banks aggressively raised interest rates to tame inflation, leading to a simultaneous pullback in equity and fixed income markets. The continued shift toward protectionism, nationalism, and multipolarity has further exacerbated these macroeconomic challenges, ushering in a world order characterized by more restrictive central banks, less fiscal flexibility, and greater geopolitical instability that will likely take a toll on global growth and wealth creation.

Given these macro headwinds, our outlook for the asset management industry is tempered. We forecast total externally managed assets to grow at 7% from 2022 to 2027, or a more normalized rate of 3.6% when measured from 2021, driven mainly by private markets. Core active is expected to continue to lose share, especially to passive strategies, while the recent rapid growth in money markets should slow, assuming the bulk of interest rate increases are behind us. Fee compression is set to continue, particularly among traditional asset classes, albeit at a moderated pace. As a result, we project industry revenue to grow at a slightly slower pace of 5.2% versus 7% of AuM for the same period, but with a pronounced shift toward private markets and select hedge fund strategies, which will constitute more than half of the total revenue pool of the industry by 2027. We expect retail/wealth growth to continue to outpace institutional at 7.9% vs. 5.5%, propelling it to over 60% of global third-party managed AuM by 2027.

We forecast global household financial wealth to grow at 6% from 2022 to 2027, led by APAC and the Middle East, as well as the ultra-high net worth individual (UHNWI) segment. After the long bull market, the wealth management industry is now encountering a more challenging market environment, with structural headwinds hitting both the revenue and cost sides. The recent decrease in revenues has been largely driven by drops in AuM and loan volumes, as well as a significant reduction in transaction volumes as clients have pulled back trading activities relative to the elevated levels during COVID-19. This revenue slowdown, combined with strong wage inflation driving costs up, has intensified profitability headwinds.

Despite these headwinds, we expect that the asset and wealth management industries will continue to be among the most profitable in the financial services sector, generating relatively attractive returns on equity (RoE). However, the combination of lower top line growth and a stubborn fixed cost base that threatens to rise faster than revenue highlights the fragility of the industries' operating model, where every future market downturn will be that much more punishing.

In working with leading asset and wealth managers around the globe, as well as in our interviews with senior industry executives[1] we conducted to help inform this report, one thing has become clear, however: Leading managers are embracing these challenges and using them to galvanize their firms' commitment to reexamining their strategies, reimagining their operating models, and embracing new capabilities like generative artificial intelligence (Gen AI) to drive value and build resiliency in their businesses.

Asset managers: Getting on the "right" side of the "Big Sort." Three actions to drive profitable growth and operational resiliency

The combination of persistent stress on asset manager operating models, the fading of macroeconomic tailwinds that have benefitted all firms, and revolutionary changes being ushered in by Gen AI has created conditions that will raise the competitive bar and prompt a "Big Sort," causing a large gap to emerge between leaders and laggards. The leaders will be those that not only invest in and position their businesses to take advantage of faster-growing areas, but also take a set of specific actions to drive profitable growth and build operational resiliency. Specifically:

1. **Fuel the active management engine to win share:** We see a large opportunity for active managers to capture share from flows among actively managed funds, which we estimate to be *3x that of flows from active to passive.* While delivering investment outperformance (i.e., performance alpha) will remain a critical driver of flows, it is not the only one: Managers that can deliver sources of "alpha" via product innovation, distribution and service, and fee structures will also be able to win share.

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1 We want to thank the industry executives who agreed to be interviewed for this report, whose firms collectively manage and advise on over $21 trillion in assets. Their comments provided valuable perspectives and insights that have helped inform and validate the views expressed herein.

2. **Optimize pricing to capture more of the economics in the institutional segment:** Fee pressure, most notably on traditional strategies, has been relentless as institutional investors continue to switch core exposures to passive while consolidating the number of managers they utilize, giving them additional leverage to negotiate larger, volume-based fee discounts. Managers are not helping themselves, with many having large pricing dispersions across their managed accounts, leading to massive profitability skews. We see significant revenue uplift, on the order of $50 million for a typical $500 billion institutional manager for those that adopt a more disciplined and robust pricing framework.
3. **Reset the operating model to build resiliency and provide a platform for growth:** We see four primary sets of "levers" that asset managers can pull to improve operating margins and free up resources to invest in growth: de-scoping, organizational effectiveness and simplification, workforce management, and third-party cost management. Many asset managers have announced cost saving targets of 5-15%. Indeed, we contend that asset managers adopting more aggressive strategies can achieve cost savings of 20-40% by making difficult choices to trim their structural cost base, and by embracing a "virtual" model, relying more on remote work and technology to power the business.

Two plays for wealth managers to unlock net new money and drive profitable growth

For wealth managers, we see two groups of initiatives that can unlock net new money and drive profitable growth:

1. Crack the WM–CIB enigma to win with key client segments:

Family Office and Entrepreneurs & Executives: These segments represent a revenue opportunity of over $200 billion for wealth managers who can offer a proposition that combines wealth management (WM) with corporate and investment banking (CIB) products. Family offices serve complex investment needs and require customized investment solutions, as well as access to exclusive investment opportunities. Entrepreneurs and business owners, who make up half of HNWIs globally, have unique financial needs, combining business and personal needs. Successful collaboration across WM and CIB is key to winning in these segments. Joint capability and coverage teams that holistically address client needs are the most effective approach.

2. Elevate capabilities to capture a greater share of new money:

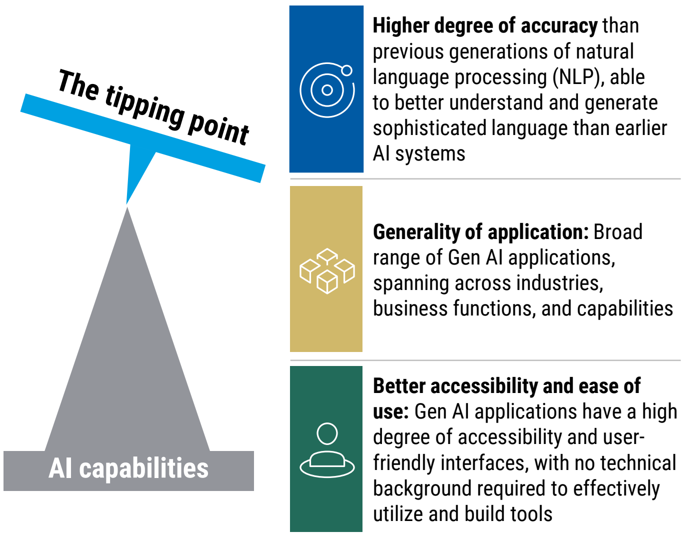
Workplace Wealth: Estimated at $35-50 trillion in assets, the modern workplace presents a significant opportunity for wealth managers to gain "early access" to a gold mine of retail clients. Once the workplace relationship is established, wealth managers can aim at the whole client relationship through its retail wealth management arm. Advising on defined contribution (DC) assets represents a revenue opportunity of $70-100 billion on $16 trillion assets, and also the opportunity to advise on $15-25 trillion assets held away by participants. Stock recordkeeping can be a different avenue to the same destiny: By recordkeeping part of the $6-8 trillion vested and unvested assets worldwide, wealth managers can also aim to advise the $15-25 trillion assets held away of the workplace. While in its early stages, providing liquidity to private stock holders accounted for $60 billion in transaction volume in the last four years, and can be differentiating for wealth managers with investment banking capabilities targeting private firms.

"Moneyball" for advisor growth: In the US alone, advisors switching employers represent $2-3 trillion in assets each year. With the potential of bringing $120 billion in new assets every year, wealth managers adopting a data-driven approach to enhance their advisor recruitment efforts can build a significant edge. By focusing on three key areas — establishing the right ambition, prioritizing the right advisor cohorts, and focusing on the right markets — wealth managers can improve the effectiveness of their recruiting efforts.

The AI "Tipping Point" and the Rise of the Generative AI (Gen AI) Machines

Gen AI isn't a separate growth driver in itself. It has the potential to supercharge efficiency gains across the operating model, which can free up even more resources to invest in profitable growth areas. While the technology underlying Gen AI has been around for several years, we believe we are now at a "tipping point" in terms of its ability to be deployed on a widespread basis across asset and wealth managers.

Exhibit 1: AI Tipping Point



Source: Oliver Wyman

While experimentation and piloting are widespread, leaders are already deploying and extracting tangible benefits from Gen AI

Firms that have already successfully implemented Gen AI solutions have focused on areas where it has the greatest "fit" potential, namely where there is abundant information to interpret and synthesize, a need to generate moderately customized or creative content, and where the activities involve routine tasks. When properly deployed, Gen AI can lead to significant productivity gains across the value chain. While it is still quite early in the adoption of this technology, our estimates of potential productivity gains reflect views of industry executives on the expected benefits of fully ramped-up AI tools over time. We expect these initial estimates to evolve as more asset and wealth managers adopt AI at scale and the range of benefits become clearer. Our current research suggests the following:

In **sales and client service,**Gen AI can enhance sales or advisors' ability to engage existing clients and enable better identification and conversion of prospective clients. By freeing up time spent on administrative tasks, helping prepare more customized insights about clients and tailored answers to inquiries, we estimate that Gen AI can lead to potential *productivity gains of 30-40% for sales and advisors.*

In **product development,** Gen AI can accelerate routine tasks, such as report drafting and market research, potentially *enhancing productivity for asset managers by 25-35%* and allowing for faster time to market with products better tailored to market demand.

In **investment & research,** Gen AI can empower portfolio managers in investment research and risk analysis by replacing information collection, summary, and data cleaning tasks with higher-value validation and idea generation activities, *resulting in up to 30% productivity gains.*

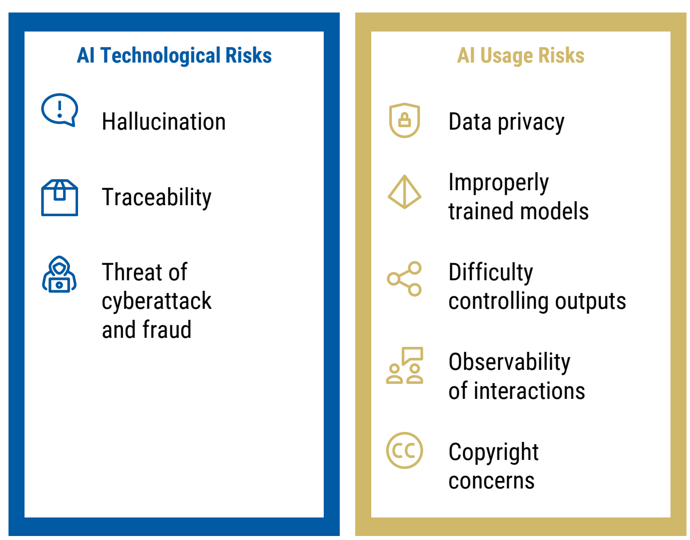
For **mid- & back-office** functions, Gen AI can improve efficiency for legal, compliance, and operational tasks, and democratize ability to code, *saving 25-50% of employee time.*

The initial focus for Gen AI is overwhelmingly on driving efficiency gains over directly expanding new revenue streams or driving alpha. Part of the reason for this is that efficiency gains help to deliver the incremental budget for AI. It is important to note, however, that efficiency gains free up time and resources that can be reallocated to higher-value activities to support revenue-generating activities, enable better investment decisions, or improve client engagement and experience. As part of generating these efficiency gains, firms have not (yet) been utilizing Gen AI to replace resources. Rather, the technology has been used as more of a copilot, or a tool that enhances human capabilities, often by shifting the balance of activities away from basic content creation and synthesizing to reviewing, validating, and further customizing outputs.

The transformative power of Gen AI doesn't come without risks

Some 10 years ago, the famous physicist Stephen Hawking said, "Success in creating AI would be the biggest event in human history. Unfortunately, it might also be the last, unless we learn how to avoid the risks." As the deployment of Gen AI becomes increasingly prevalent, organizations must carefully assess and mitigate the unique risks and limitations inherent in the technology, which fall into two main categories: "technological" and "usage."

Exhibit 2: AI Technical and Usage Risks



Source: Oliver Wyman

Responsible deployment of Gen AI tools requires that all stakeholders understand that Gen AI is a capability in need of significant oversight. So far, the industry seems to be responding to these challenges, with many firms **maintaining a "human-in-the-loop" approach to AI adoption** — whereby a human is involved in the decision-making process alongside AI, so that AI operates with human oversight, intervention, and validation.

Firms that will benefit most from deploying Gen AI in their businesses will satisfy seven key success factors

Successful implementation of Gen AI requires a thoughtful and strategic approach by asset and wealth managers to maximize impact and manage risks. We have identified seven imperatives for managers to effectively harness Gen AI's potential. Some of these we see as "table stakes"— firms looking to get any meaningful benefit from deploying Gen AI technology should adopt these actions. Others are potential sources of competitive differentiation — firms that can successfully execute on these will be able to extract the most benefits, driving outsized efficiency gains, improving investor outcomes and client experiences, and delivering industry-leading value to all their stakeholders.

Exhibit 3: Key Success Factors for Implementation of Gen AI

Competitive differentiators

- Deploy proprietary data as a strategic asset with the right data environment
- Adopt a holistic or systems-based approach
- Reimagine operations to exploit possibilities of AI

Table stakes

- Identify whether Gen AI is the right solution for specific business problem
- Evolve talent strategy and develop right teaming models
- Maintain trust and transparency
- Strike the right balance of in-house capabilities and outsourcing

Source: Oliver Wyman

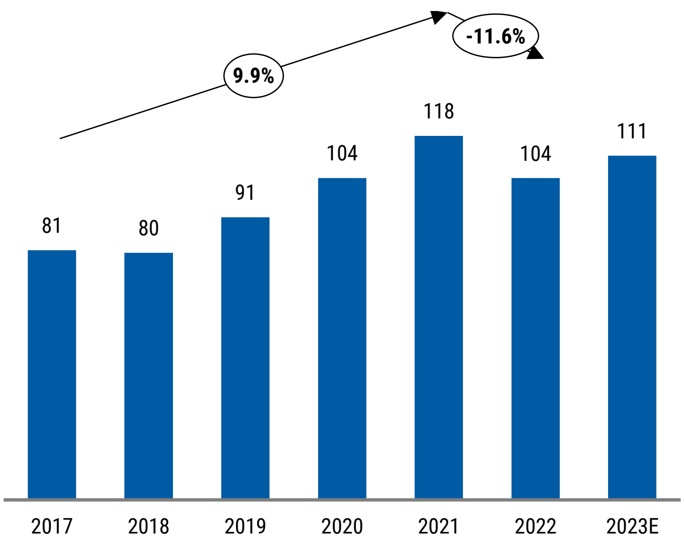
From our project work and conversations across the industry, firms are at very different points in terms of how well they are satisfying these success imperatives, but everyone is trying to move as fast as possible given the range of constraints the asset and wealth management industries face. The bar to even compete — much less win — is being raised every day. Figuring out how to best deploy these capabilities will be a crucial determinant of an organization's long-term success.

1. State of the Industry

1.1. Global Asset Management Outlook

The broad-based sell-off in 2022 cut $14 trillion from global externally managed assets under management (AuM), dropping it from $118 trillion to $104 trillion after years of steady growth.[2] The challenges of 2022 have faded to some extent, with the S&P 500 Index up nearly 16% through the first half of 2023, largely propelled by a tech-led (especially AI-related) rebound that has helped lift global externally managed AuM close to its previous high.

Exhibit 4: Global Externally Managed AuM
$TN, 2017-23E



Source: Oliver Wyman Global Asset Management Model

Looking ahead, we expect a 7.0% compound annual growth rate (CAGR) from 2022 to 2027 in AuM when measured off a lower end-of-year (EOY) 2022 base; measuring from 2021 suggests a more normalized growth rate of 3.6%. That growth will not be equally shared by each market segment.

Private markets: We expect private markets to continue fueling global AuM growth, but at a slower rate relative to past years (from a 19% CAGR in 2017-22 to a 13% CAGR in 2022-27E) as signs of private equity fundraising struggles have emerged in 2023 and as institutional allocations slow from peak. Nevertheless, it should still outgrow other segments, ultimately accounting for 16% of global AuM by 2027 versus 12% in 2022.

Democratization of private markets for retail investors remains a key growth driver over the coming five years given improved access enabled by product innovation (e.g., interval and tender offer funds, BDCs and other semi-liquid fund offerings), advancements in technology (e.g., fund distribution and administration platforms), and increased commitment by GPs to educate advisors to help them sell these more complex products.

Within private markets, the relative growth outlook varies across the different asset classes.

Private equity (64% of private markets AuM[3])

- Compared to the boom years following COVID-19, when low rates, massive global stimulus, favorable public market environment, and frenetic deal-making characterized the market, corporate private equity has since experienced fundraising challenges in 1H23 as these factors reversed.
- Falling public markets in 2022 meant some institutional investors brushed up against allocation limits, reducing their demand for private equity products.
- As this allocation effect fades and retail/wealth investors continue to channel capital into PE offerings, the longer-term outlook remains bullish, particularly for the largest, most well-renowned, and resourced firms who have the fundraising capabilities and global footprints to tap into the most attractive pockets of growth.

Real estate (13% of private markets AuM)

- After record years pre-2022, the outlook remains challenged over the short to medium term as the real estate sector undergoes a period of repricing across investment styles, including core and core-plus strategies in A-locations, and the commercial real estate sector works through refinancing challenges.
- The outlook is linked with broader economic activity, with a positive outlook for new sectors like data centers, as well as opportunistic strategies that monetize current repricing and expected restructuring cases.

2 Global AuM size of 1H23 was not available at the time of publishing due to institutional AuM being reported with a time lag.

3 Source: Preqin.

Private credit (12% of private markets AuM)

- The private debt total addressable market is estimated at ~$23 trillion, but only ~6% is currently penetrated by private credit managers, leaving plenty room for growth. This is particularly prominent across Europe and APAC, where banks still play an important role, but alternative lenders have learned how to partner with them.
- Higher rates and refinancing risk are potential headwinds, but lack of traditional bank financing, particularly in the riskier segments, has given managers pricing power, making the yields on offer even more attractive to investors and positioning private credit to be one of the fastest-growing segments.

Infrastructure (9% of private markets AuM)

- Tailwinds are generated by asset owners' climate commitments and massive government spending programs to finance decarbonization plans and the energy transition, helping to offset some more recent fundraising challenges caused by the impact of higher rates, valuation levels, and some natural reversion from a red-hot 2022.
- Investors continue to express interest in growing their infrastructure allocations. Some value lower risk, consistent yield, greater downside protection, and inflation-hedging characteristics; others want to participate in more speculative investments focused on the energy transition and advanced technologies.
- The strongest growth areas are expected across new investment themes, including clean energy, battery storage, carbon management, waste management, and energy transmission.

Natural capital (2% of private markets AuM)

- Historically, natural capital investments, which are predominantly in forestry and land, have been viewed as niche asset classes, primarily attracting the interest of large institutional investors and family offices.
- The growing interest in climate solutions suggests that the asset class is at an inflection point, with a rising number of investors directing capital toward investments related to carbon sequestration, biodiversity, and carbon credits.

Hedge funds: The challenging macroeconomic and financial market conditions that characterized 2022 have provided an "alpha rich" opportunity for those who have been able to take advantage of the volatility. In particular, the performance of some multi-strategy and global macro strategies has been resilient. As the economy and financial markets reeled from the shock of COVID-19 and the subsequent policy responses, these strategies have been able to generate relatively strong flows. We expect demand to remain strong for these liquid, non-correlated sources of alpha that have a proven ability to navigate these complex market and global paradigm shifts.

Passive: Looking forward to 2027, we expect the growth of passive strategies in developed markets, particularly fixed income, to remain robust. Investors will likely continue to seek out cost-efficient investments to replace their traditional core active assets, which have struggled to outperform despite the opportunity to demonstrate value-add in the difficult markets of 2022. Passive funds have also become increasingly popular within APAC and emerging markets; however, penetration will remain comparatively low due to less efficient capital markets and relatively nascent index-tracking infrastructure.

Core active: Without strong outperformance over benchmarks, traditional active managers will continue to bleed assets to passive. Yet the future for core active strategies is not entirely bleak. The best performing managers in capacity-constrained strategies will continue to attract flows, and there are bright spots in thematic and responsible investing.[4] Vehicles such as active ETFs, retail separately managed accounts (SMAs) and collective investment trusts (CITs) will also be attractive opportunities due to lower all-in costs and greater flexibility. We also see scope for inflows into fixed income strategies as rates peak out and asset owners lock in current attractive yields ahead of any future rate cuts. At the overall industry level, however, we expect the unfavorable secular flow and fee dynamics to remain in place, meaning that for a given manager, growth will hinge on their ability to gain share of a shrinking pie and optimize the value of what is available.

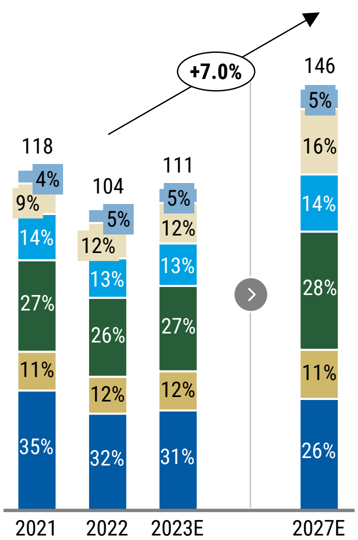
Solutions/multi-asset class: We expect solutions to grow faster than the overall market. This will primarily be driven by increasing demand for outsourced CIO solutions from institutions, bespoke and personalized portfolios for HNWIs and family offices, and the continued flow into retirement solutions like target date funds (TDFs) and (semi-) guaranteed payoff structures that have become more attractive at higher rate levels.

4 Includes Screened – Sustainability/thematic investment, Screened – Best-in-Class & Positive screening, Screened - Impact investing, Embedded – Exclusions, Embedded – Integration/Engagement according to categorization by Broadridge.

Money market: We expect money market funds to benefit from higher interest rates in the short term. However, with some banks offering rates similar to those available in money market funds, competition is heating up. Any acceleration in loan growth or increase in quantitative tightening could drive banks to increase their deposit rates, weighing on money market flows to the extent the interest rate gap narrows. Moreover, if rates start to fall back as inflation cools and capital switches to longer-duration fixed income to lock in attractive yields in advance of potential rate cuts, money market demand could suffer. Weighing these factors, we expect the medium-term outlook for money market funds to be positive but tempered.

Exhibit 5 shows our five-year projection of AuM across these main product categories, taking into consideration our view of expected relative flows across products and industry consensus forecasts for market returns. Exhibit 6 shows our projection in dollar terms.

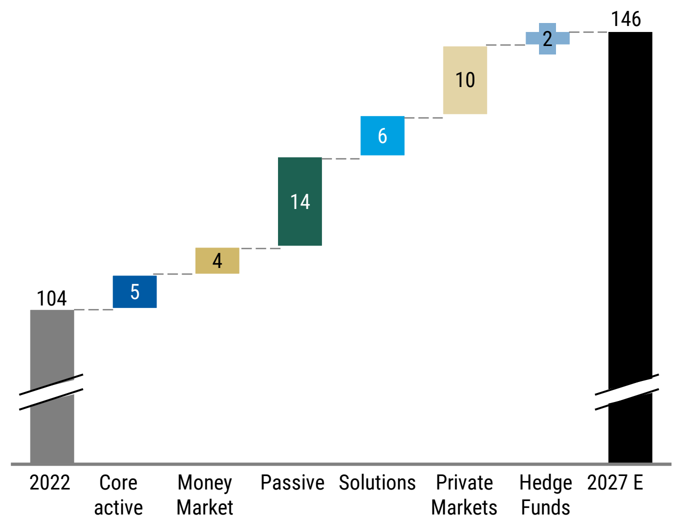
Exhibit 5: Global AuM Breakdown by Product
$TN, 2021-27E



Product	CAGR 22–27E
Hedge Funds	7.6%
Private Markets	13.2%
Solutions	7.8%
Passive	8.4%
Money Markets	5.8%
Core Active	2.9%

Source: Oliver Wyman Global Asset Management Model

Exhibit 6: Global AuM Growth Breakdown by Product
$TN, 2022-27E



Source: Oliver Wyman Global Asset Management Model

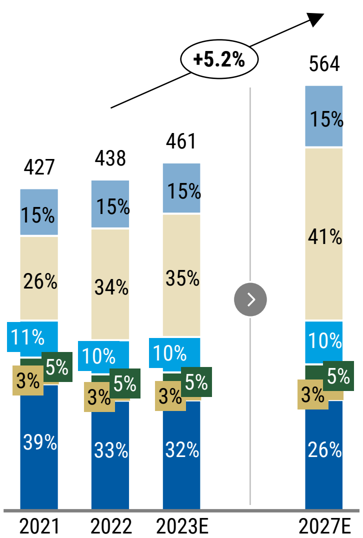
We expect revenue to be slower than overall AuM growth (5.2% revenue CAGR in 2022-27E vs. 7.0% AuM CAGR, or a more normalized 4.7% revenue when measuring from 2021) due to: 1) some slowing of private markets AuM growth and slight mix shift to lower fee debt strategies; 2) persisting fee compression across most asset classes, particularly core active and passive, albeit at a moderated pace; and 3) additional mix shift impact from a rotation to lower-fee fixed income strategies. Looking beneath the headline number, we note the following:

Private markets and hedge funds: Private markets have been the growth engine for many years, with revenues increasing consistently each year, despite the broader market sell-off in 2022, which was felt overwhelmingly by public markets managers. Looking ahead to 2027, we expect alternative assets (including both hedge funds and private markets) to surpass half of global revenue, as the AuM growth outlook remains strong and average management fees hover around 100bps. We expect mixed dynamics on fees: Headwinds include lower forecast returns, greater bargaining power of investors for volume discounts as managers compete for capital, large institutional investors' preference for co-investments, and the increasing allocation toward lower-fee private debt strategies. These are balanced to some extent by tailwinds from the retail/wealth sector, where negotiating leverage is limited and investors look to address the historical under-allocation to private markets now that access has improved.

Passive, core active, and solutions: We expect fee compression across traditional products to ease slightly at the industry level. For passive funds, there is still room to cut fees further, albeit at a moderate pace and magnitude, especially on an asset-weighted basis across the industry. For active funds, the pressure is likely to continue, especially with the increasing popularity of lower cost active ETFs. As most products are simply a composite of passive and core active products, the fee story on solutions is largely a consequence of the dynamics of the underlying strategies.

Money market: We expect fee compression to slow for money market funds. During the prolonged low interest rate environment, money market fees dropped the fastest relative to other products, due to widespread adoption of expense waivers. However, rising interest rates have increased expected money market returns, enabling asset managers to remove expense waivers and revert to higher fee levels. Over the next 2-3 years, we expect a normalized interest rate environment to prevail, allowing managers to maintain higher fee levels.

Exhibit 7: Revenue Growth Projections by Product
$BN, 2021-27E



Product	CAGR 22–27E
Hedge Funds	5.1%
Private Markets	9.1%
Solutions	5.2%
Passive	6.8%
Money Markets	5.8%
Core Active	0.1%

Source: Oliver Wyman Global Asset Management Model

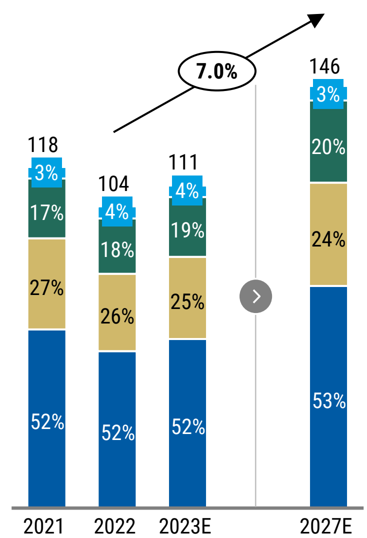
From a regional perspective, we expect emerging markets to have the highest growth rate. The typical growth engine, China, however, will slow to some extent given the combination of geopolitical tensions with the West, lingering cyclicality in the capital markets, and less aggressive pro-growth policies. While the growth picture is not as robust as reported in years past, China still represents an opportunity for asset managers who can take advantage of favorable trends (for example, approval of wholly foreign-owned mutual fund firms and reforms in the DC retirement market to grow third-pillar private pension).

India is emerging as the next epicenter of growth, with its large, expanding population, favorable younger demographics with greater tendency to save and invest, and growth-oriented economic policies. The opportunities promise continued momentum for those already there and will garner rising interest from global asset managers looking to build a foothold in the market. Yet while the headline trends look positive, the dominance of large captive players creates challenges for global managers looking to win locally. Success will require understanding of market nuances and client needs, as well as developing tailored propositions for specific client segments.

Southeast Asia and the Middle East are expected to continue benefiting from favorable demographic trends and the supply chain shift away from China, and for exporting countries, windfalls from the rise in oil prices. However, it is hard to treat the market as monolithic as there are varying degrees of penetration of international investment strategies across countries, and each market will require asset managers to formulate tailored strategies that meet local needs, especially in more nascent markets like Indonesia.

North America will continue to outpace Europe, with more favorable demographics, investment preferences, and wealth creation dynamics.

Exhibit 8: Global AuM Breakdown by Region
$TN, 2021-27E



Region	CAGR 22–27E
Rest of World	3.6%
APAC	8.3%
Europe	6.0%
North America	7.2%

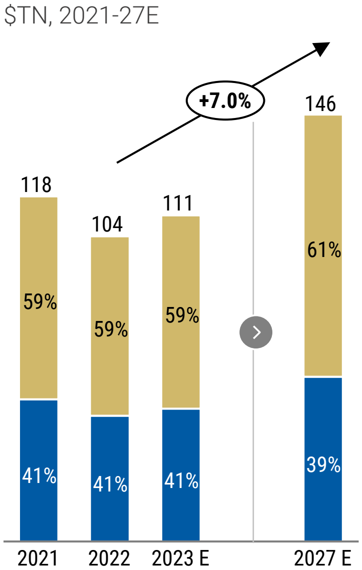
Source: Oliver Wyman Asset Management Model

As has been the case for some time, retail channels will continue to outpace institutional in terms of AuM growth. We project the retail/wealth segment will account for 61% of global externally managed AuM by 2027. While partly driven by the democratization of alternative assets, as mentioned previously, this $24 trillion opportunity (the change in retail AuM 2022-27E) also represents growing global wealth, led by the HNWI and UHNWI segments, which tend to have better access to world-class investment advisory services and more sophisticated products than the affluent segment. Major emerging markets remain committed to the liberalization and professionalization of their asset and wealth management ecosystem over the medium term, with a growing retail and middle-class looking for professionally managed investments. A combination of the above factors will lead to growth of externally managed retail AuM at a 2% faster rate annually than global total wealth (projected to grow at 6% from 2022 to 2027E, as shown in Exhibit 10).

Our forecast of institutional AuM growth is 5.5% for 2022-27E, which has increased slightly versus last year (2021-26E growth rate is 1.9% this year vs. 1.5% last year). This change reflects the increased expected outsourcing of insurance exposures to third-party specialists offering private credit and other high-yielding asset classes. Pensions presents a mixed picture; increasing demand for professionally managed solutions from DC pension reforms in emerging markets will be balanced by declining contribution rates in developed markets, while recovering funding levels of DB plans could drive increased use of buyout strategies, transferring AuM on to internally managed insurance balance sheets.

Historically, fees are richer in the retail/wealth channel (especially globally), and we expect this premium versus institutional to persist, driving an even greater revenue opportunity for those that can build the distribution, servicing, operational infrastructure, and distinctive value propositions required to compete in a highly heterogenous market.

Exhibit 9: Global AuM Breakdown by Institutional vs. Retail
$TN, 2021-27E



Group	CAGR 22–27E
Retail	7.9%
Institutional	5.5%

Source: Oliver Wyman Global Asset Management Model

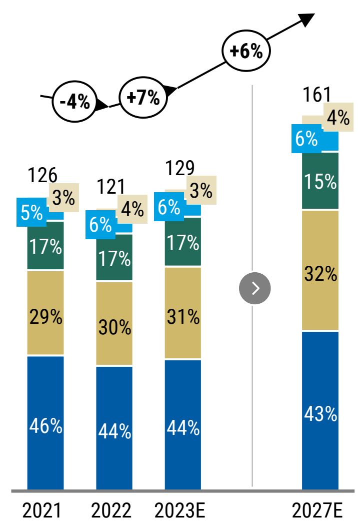
1.2. Global Wealth Management Outlook

Shrinking global wealth for the first time in more than a decade, but rapid rebound expected

For the first time in over a decade, global household wealth shrank in 2022. Inflation, rising interest rates, heightened geopolitical tensions, and uncertainty regarding economic growth negatively affected wealth growth, leading to a decrease of 4% in 2022.

Looking forward to 2027, we expect global financial wealth to grow at 6% (2022-27E) annually, with a strong rebound in 2023 (Exhibit 10). We expect the Middle East & Africa, APAC, and Latin America to lead, with growth rates of 8.2%, 7.4%, and 6%, respectively. Within APAC, Japan's growth will remain slow relative to the rest of the region, at 2.9% (2022-27E). Furthermore, while China remains one of the main growth drivers in APAC, recent uncertainty has brought its outlook more in line with the rest of the region, at 7.6% (2022-27E). In absolute terms, North America and APAC are expected to drive >75% of worldwide new wealth creation until 2027.

Exhibit 10: Global Household Financial Wealth by Region
$TN, 2021-27E



Region	Growth 21–22	CAGR 22–27E	CAGR 23–27E
Latin America	6.0%	6.0%	6.0%
Middle East + Africa	7.0%	8.2%	8.3%
Europe	-3.6%	4.0%	4.0%
APAC	-0.8%	7.4%	6.9%
North America	-8.0%	5.1%	5.0%

Notes: Wealth is defined as investable personal financial assets including investable assets (deposits, equities, bonds, mutual funds and alternatives), excluding assets held in insurance policies, pensions and direct real estate or any other real assets. Numbers for all years were converted to $ at the year-end 2022 exchange rates to exclude the effect of currency fluctuations. Excludes low mass affluent segment (<300 K). Source: Oliver Wyman Wealth Pools Model

Wealth creation is expected to be led by UHNWIs, with >$50 million in assets, which is the fastest-growing segment, forecast to increase at 7% annually in the next five years. This translates to an increase of around $25 billion in new revenues from 2022 to 2027, or more than a third of total global wealth growth (Exhibit 11). Although UHNWIs are projected to experience the highest growth, affluent clients (with <$5 million in investable assets) still constitute the largest revenue pool (~57%) due to notable margin differences compared to

UHNWIs. Consequently, the relevance of the "Wealth Management 3.0" concept introduced in last year's Morgan Stanley Oliver Wyman Blue Paper (link) remains strong for managers targeting lower wealth bands.

Exhibit 11: Global Household Financial Wealth and Revenue Pools by Client Segment
2022-27E

	Affluent/Low-HNWI USD 0.3–5 MM	**HNWI** 5–50 MM	**UHNWI** >50 MM
Total wealth 2027E, TN	50 / 60	30 / 45	40 / 60
CAGR (22–27E)	5%	6%	7%
Share of total	39%	27%	34%
Total revenue 2027E, BN	210 / 270	100 / 135	50 / 75
CAGR (22–27E)	5%	6%	7%
Share of total	57%	28%	15%

2022 | 2023–2027E

Source: Oliver Wyman Global Wealth Pools Model

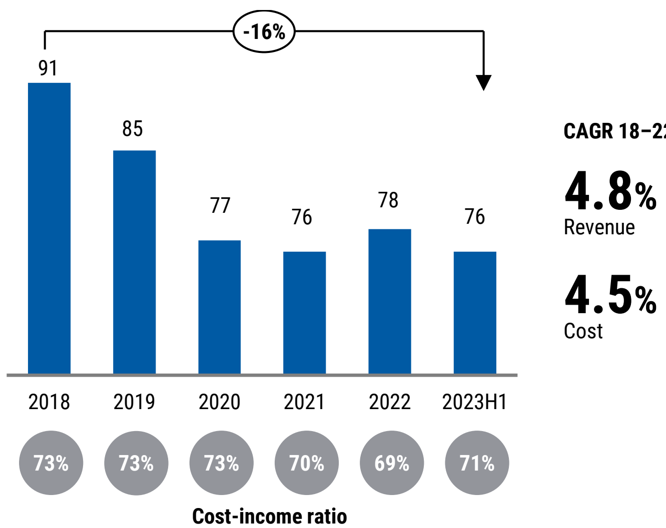
Profitability facing structural headwinds given wage inflation and recent AuM pullback, coupled with higher funding costs

After a decade-long bull market, the wealth management industry is now encountering a more challenging market environment, with structural headwinds hitting both the revenue and cost sides. The recent decrease in revenues has been largely driven by drops in AuM and loan volumes, as well as a significant reduction in transaction volumes as clients have remained on the sidelines. This revenue slowdown, combined with strong wage inflation driving costs up, has accelerated profitability headwinds. Capturing net new money (NNM) is critical to winning in this environment.

Higher rates are a double-edged sword that the wealth management industry needs to actively manage. Recent increases in interest rates and continued market uncertainty have led to a shifting of client sweep deposits into higher-yield liquidity products like high-yield savings, money market funds, and Treasury bills, which has slowed net interest income (NII) growth or reduced NII as funding pressure accelerates. Of course, retaining these flows internally is critical, and revenues can be recaptured as fees. We recommend that wealth managers whose funding over-indexes to low-cost sweep deposits ensure they are prepared for a higher-for-longer interest rate environment as deposit betas tend to rise until the Fed cuts rates. Additionally, this cycle could drive higher-for-longer deposit betas given that the Fed is engaging in quantitative tightening that is shrinking deposits by ~3% a year, which was not a feature in prior rate hike cycles.

Over the past several years, the majority of wealth managers have done a good job managing through a declining revenue margin environment, keeping expense growth just below revenue growth, driving down the cost/income ratio (Exhibit 12). Considering the uncertainty of the current market environment creating the "perfect storm" on both the revenue and cost sides, the majority of wealth managers will likely face lower profitability margins going forward and will need to focus not only on retaining flows but on attracting NNM to compensate for rising costs, be it higher funding cost-driven expenses or higher labor expenses. Additionally, a key focus on costs, incrementally benefiting from economies of scale and leveraging technology and AI, will be key.

Exhibit 12: Revenue Margin and Cost-Income Ratios
Sample of large global wealth managers (>$200 billion AuM) across Europe, North America, and APAC
Simple average, bps (for revenue margin)



Note: Sample includes 15 of the world's largest wealth managers with >$200BN AuM, a focus on HNW clients and headquarters across Europe, North America and APAC.
Source: Oliver Wyman Wealth Management Benchmarking Model

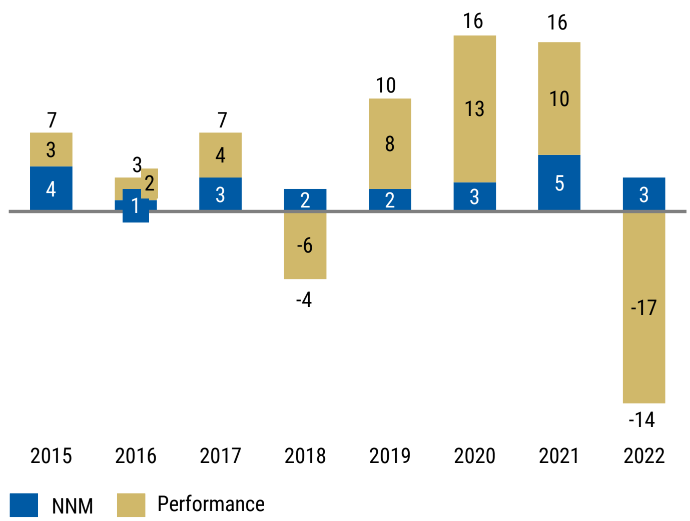
Looking forward, following recent interest rate hikes we expect a continued pickup in deposit betas that exceed prior cycles. This cycle's unique funding challenges include an increase in loan growth fueled by inflation, combined with an outflow of deposits fueled by quantitative tightening. In addition, the wealth management industry faces increased competition in the market, as well as the focus on high net worth (HNW) and quasi-institutional ultra-high net worth (UHNW) clients who expect a greater pass-through of rate increases. While overall deposit betas across the banking landscape in Europe have remained relatively low, going forward we expect this trend will likely limit the upside available to the majority of global wealth managers from rate hikes. In fact, we are already seeing headwinds picking up in the first half of 2023 and taking away cyclical NII tailwinds.

Market performance remains a primary driver of growth for the wealth management industry

The bear market in 2022 serves as a strong reminder that the wealth management industry must take a more proactive role in steering its course of growth. Leading wealth managers will have a multipronged strategy for generating NNM growth. Between 2015 and 2022, NNM contributed ~70% of overall AuM growth for a sample of large global wealth managers (i.e., with AuM >$200 billion). This is primarily driven by the large negative asset performance in 2022. Throughout the period, net inflows were positive but relatively low, averaging a mere ~2.5% to the growth of AuM each year (Exhibit 13). While leading wealth managers have been working to generate NNM to reduce their dependence on market volatility, data suggests that a lot more needs to be done across wealth industry firms to reduce the impact of market performance on growth.

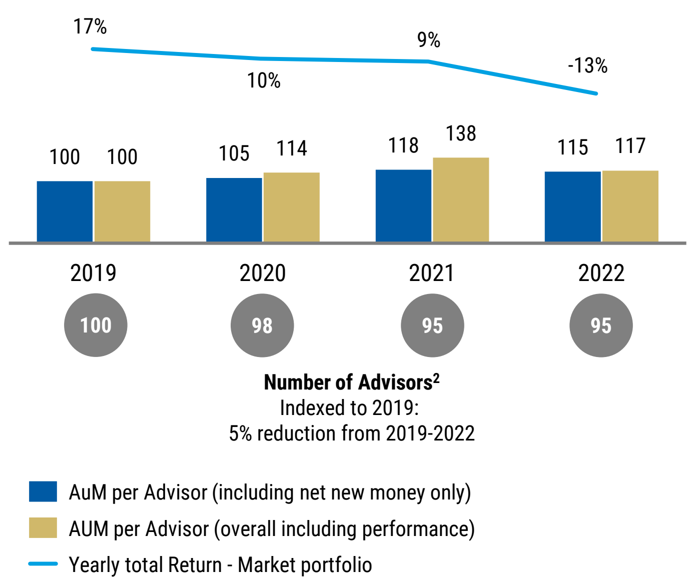
The consequence of this dependency is that the industry's performance and productivity face pronounced pressures during market downturns. Based on the same sample of wealth managers, analysis of advisor productivity reveals that advisor loading in terms of AuM has also largely been driven by market performance, as opposed to NNM (Exhibit 14). Amid this dynamic, leading wealth managers are embarking on initiatives that empower them to exert greater control over their growth trajectories.

Exhibit 13: Global AuM Growth Composition
Sample of large global wealth managers, %



Note: Sample includes 15 of the world's largest wealth managers with a focus on HNW clients and headquarters across Europe, North America and APAC.
Source: Oliver Wyman Wealth Management Benchmarking Model

Exhibit 14: Advisor Productivity
Sample[1] of large global wealth managers, indexed to 2019



Notes: 1. Sample includes 15 of the world's largest wealth managers with a focus on HNW clients and headquarters across Europe, North America and APAC. 2. Represents total number of advisors for in-scope wealth managers indexed to 2019 to show how advisor numbers have changed from 2019-2022 on a relative basis.
Source: Oliver Wyman Wealth Management Benchmarking Model

2. Getting on the 'Right' Side of the 'Big Sort': Asset Managers

The combination of persistent stress on asset manager operating models, the fading of macroeconomic tailwinds that have benefitted all, and revolutionary changes ushered in by Gen AI has created conditions that will raise the competitive bar and prompt a "Big Sort," causing a large gap to emerge between leaders and laggards. The market rebound in the first half of 2023 has provided some relief from the sharp dip in 2022, and helped to pad the results of all firms, but the structural challenges in the industry remain. Profitability is highly susceptible to future market turbulence, ongoing fee compression, and rising operational costs, while organic growth remains elusive for many. Being on the "right" side of the "Big Sort" means addressing the structural fragilities of the operating model to build resiliency while taking targeted actions to drive profitable growth. We see three key plays:

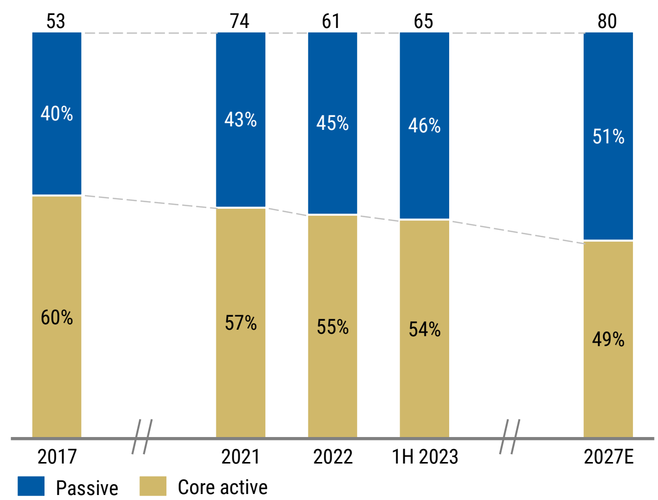
1. Fuel the active management engine to win share
2. Optimize pricing to capture more of the economics in the institutional segment
3. Reset the operating model to build resiliency and provide a platform for growth

It is worth noting that Gen AI (assuming the technical infrastructure, governance, and resource models necessary to fully exploit its transformative power is built) could help supercharge the impact of these actions. We discuss this in detail in Section 4 , where we explore success criteria, key use cases, and potential benefits that Gen AI can bring to asset managers as they integrate these capabilities into their businesses.

2.1. Fuel the Active Management Engine to Win Share

The rise of passive investments at the expense of active management has been the single most disruptive trend to the asset management industry over the last 20 years. The trend has largely continued unabated, with core active steadily losing share to passive, falling from 60% of traditional long-only AuM in 2017 to 55% at the end of 2022 (excluding money market funds). We expect this trend to continue, with core active assets falling below 50% by 2027 for the first time in history amid the persistence of underlying drivers across retail and institutional channels, including scrutiny on fees and value for money, lack of demonstrable alpha on average across the industry, and the shift to core passive-satellite constructs. The bright spots in core active management have been limited, with positive inflows in some fixed income strategies due to higher rates, top-performing equity strategies, as well as in APAC markets, which tend to be less efficient and mature in their index-tracking infrastructure.

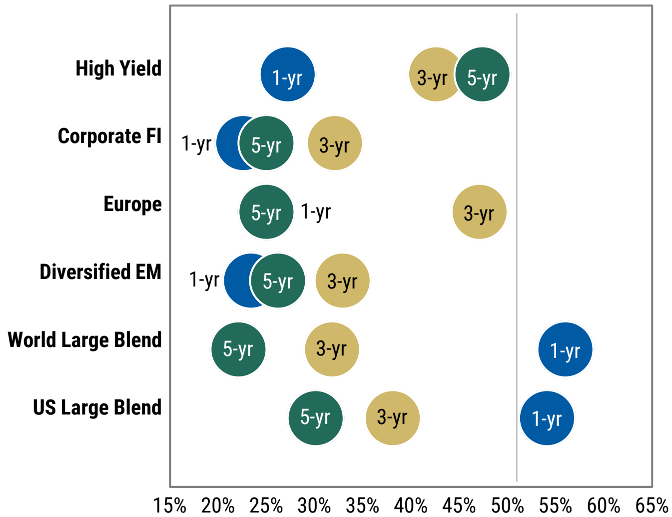
Exhibit 15: Shift in Proportion of Assets from Core Active to Passive
$TN



Note: Excludes money market funds, solutions, private markets and hedge funds.
Source: Oliver Wyman Asset Management model

The relentless trend toward passive has been driven by many factors; chief among them is that active management has not been able to consistently demonstrate its value-add. While specific firms and strategies have performed well, the overall industry has not been successful, which can tarnish the reputation of active management and perpetuate the movement toward passive. As Exhibit 16 shows, on average, for nearly all major strategy categories, actively managed products have struggled to beat passive equivalents across 1-, 3-, and 5-year horizons at an overall industry level, with only two exceptions over the last year.

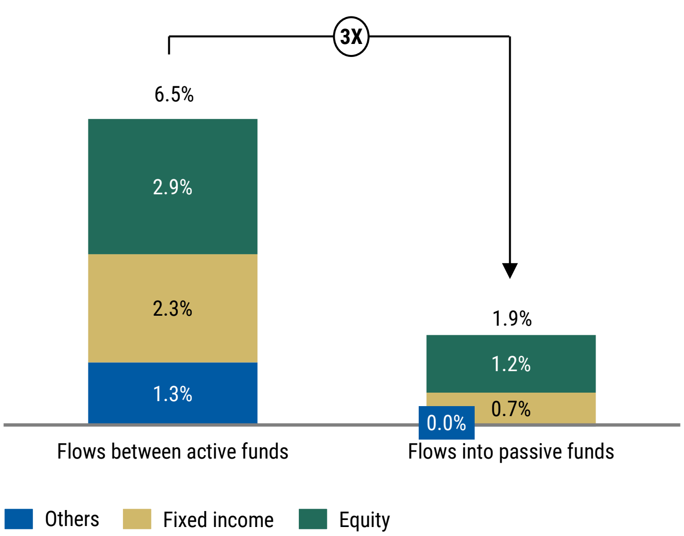
Exhibit 16: Actively Managed Funds vs. Passive Funds
As of Dec. 2022, % of actively managed funds that outperformed corresponding passive strategies



Source: Morningstar, Oliver Wyman analysis

That said, we see significant opportunity ahead for firms that can capture share despite persisting secular challenges. Money-in-motion (i.e., reallocations within the active space) create a battlefield for active asset managers that cannot be ignored. According to our analysis, we estimate that the flows between core active funds **are more than three times that of net flows into passive funds** (Exhibit 17). In other words, for every $1 outflow to a passive fund from an active fund, there are approximately $3 in flows *between* core active funds available to be captured by active managers.

Exhibit 17: Flows Between Funds (Flows Between Core Active Funds vs. Inflows into Passive)
2021-22, % of 2022 industry AuM



Source: Broadridge, Oliver Wyman analysis

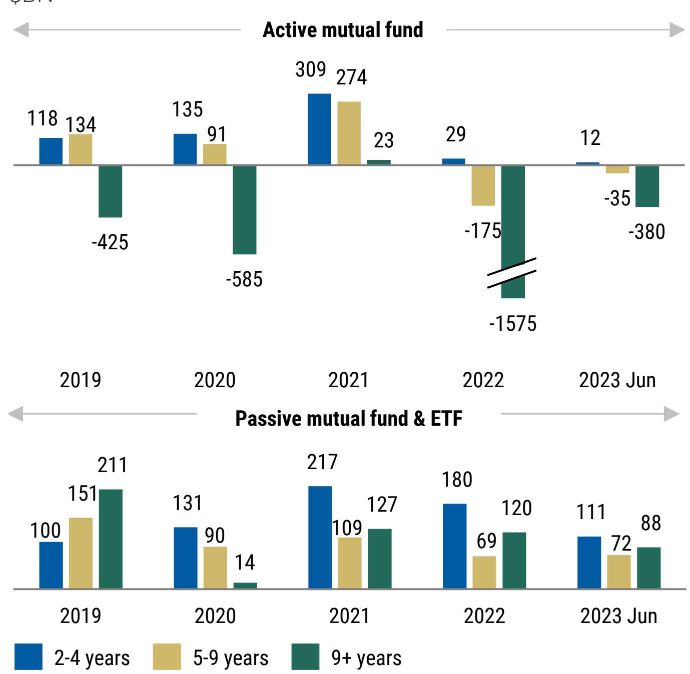
While common wisdom is that performance drives flows — and there is certainly a lot of truth to this — it is not the sole factor. Our research shows that, in addition to "performance alpha," there are several other sources of "alpha" that managers can generate to drive stronger flows, namely:

- "Product innovation alpha"
- "Distribution and service alpha"
- "Fee alpha"

Product Innovation Alpha

In the active fund world, youth is king. In our analysis of total active fund industry flows, we find that younger funds consistently attract more inflows (Exhibit 18), while this trend is less prominent for passive funds. This could be driven by a few factors, including focused marketing efforts, targeted distribution incentives and support, ability of newer funds to meet current investor demand gaps, and the inherent advantages of not having a back book that could suffer from large redemptions.

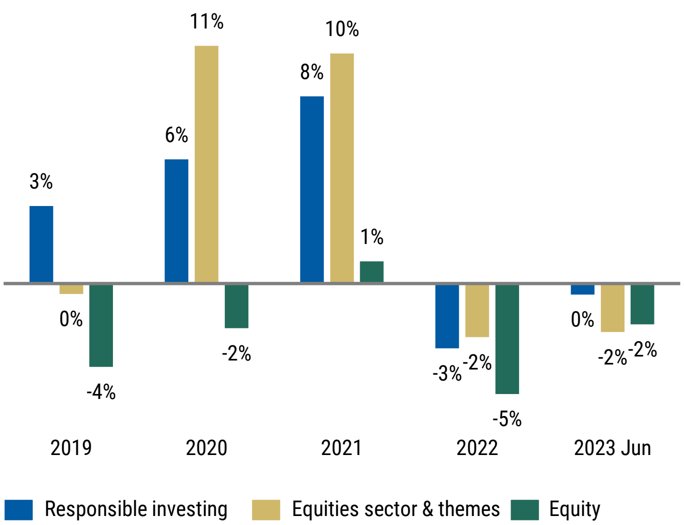
Exhibit 18: Global Active Mutual Fund Net Flows by Age of Funds, excl. Money Market Funds
$BN



Source: Broadridge, Oliver Wyman analysis

A good example of this dynamic played out in 2020 and 2021 as innovation in responsible investing and thematic funds saw significant market share gain at the expense of broader core active. Inflows into responsible investing and thematic funds relative to traditional equity funds widened as investors switched from conventional funds to newer, in-demand strategies (Exhibit 19). These were, of course, unique times in terms of the demand for responsible and thematic funds, but managers able to bring credible products to market clearly had a leg up in meeting this spike in demand. While the regional variations in flows to ESG products between the Americas (where the topic has become politicized and flows are weaker) and Europe (where policy support and flows continue to be strong) have been well documented, investors everywhere remain keen to weave risks and opportunities, such as energy transition and energy security, into their portfolios. Managers stand to reap significant benefits if they can innovate and get credible products to market quickly that address this demand.

Exhibit 19: Global Active Mutual Fund Net Flows over AuM by Strategy, excl. Money Market Funds
% out of year-end AuM of each strategy



Source: Broadridge, Oliver Wyman analysis

Looking forward, active ETFs, while not new, may be at an inflection point in terms of growth. Active ETFs are still small in absolute size (~1% of total fund market), but they have grown at a CAGR of 35% from 2020 to 1H23. Given the relative nascency of the market, there is also greater opportunity for early innovators to differentiate themselves and capture share. Relative to the passive ETF market, which is highly concentrated in just a handful of providers (the top 3 account for 61%), the active ETF market is more fragmented, with the top 3 providers accounting for only ~18%.[5]

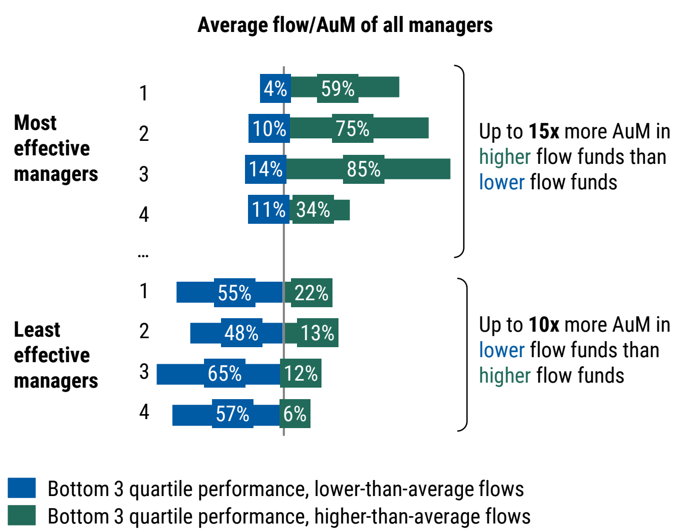
Central to an organization's ability to create innovative products and get them to market is the strength of its product management function. As the "bridge" between distribution and portfolio management, this function combines insights about client demands from the field with an understanding of portfolio management capabilities. Leading product management functions bring these two sides together to rapidly conceive, design, seed, and launch products into the market to drive flows and capture the "product innovation alpha" that comes from being in the market at the right time with the right product.

Distribution and Service Alpha

Very few firms can consistently deliver top performance, so winning share requires most managers to enhance their "softer" capabilities, particularly around distribution and client service. Our analysis of individual asset managers reveals large variations in flows that are not accounted for by performance differences. In other words, after controlling for performance, some managers are still significantly stronger in terms of the flows they are able to generate (or retain).

To assess this, we looked at the active mutual funds of 10 major strategies from a large number of managers and analyzed the recent flows of funds that were in the lower three-year performance quartiles. We then divided their AuM into those that had higher-than-average and lower-than-average flows. The disparity among managers was clear: Those that were most effective had a much higher proportion of AuM in funds that attracted better-than-average flows despite low performance, while the least effective were largely losing flows to others, as shown in Exhibit 20 .

Exhibit 20: Sample of Asset Managers' Active Mutual Fund AuM by Fund Performance and Flows
% of total 2022 AuM of each select managers, across 10 major strategies



Note: 10 major strategies include Global Equity Large Cap, Global Fixed Income, US Equity Large Cap Blend, US Equity, Small Cap, US Fixed Income, Europe Equity Large Cap, Europe Fixed Income, Global Emerging Markets Equity, Emerging Markets Fixed Income, Moderate Allocation.
Source: Morningstar, Oliver Wyman analysis

5 Source: Broadridge

There are potentially many underlying factors driving these results. Based on our experience, however, a few factors can have a very significant influence on capital allocation and retention decisions, driving a significant amount of "distribution and service alpha"; these include coverage quality of intermediary networks, depth of relationships with investment consultants, ability to offer enhanced advisory "solution" services across wealth and institutional channels, and having captive distribution or strategic distribution relationships.

Fee Alpha

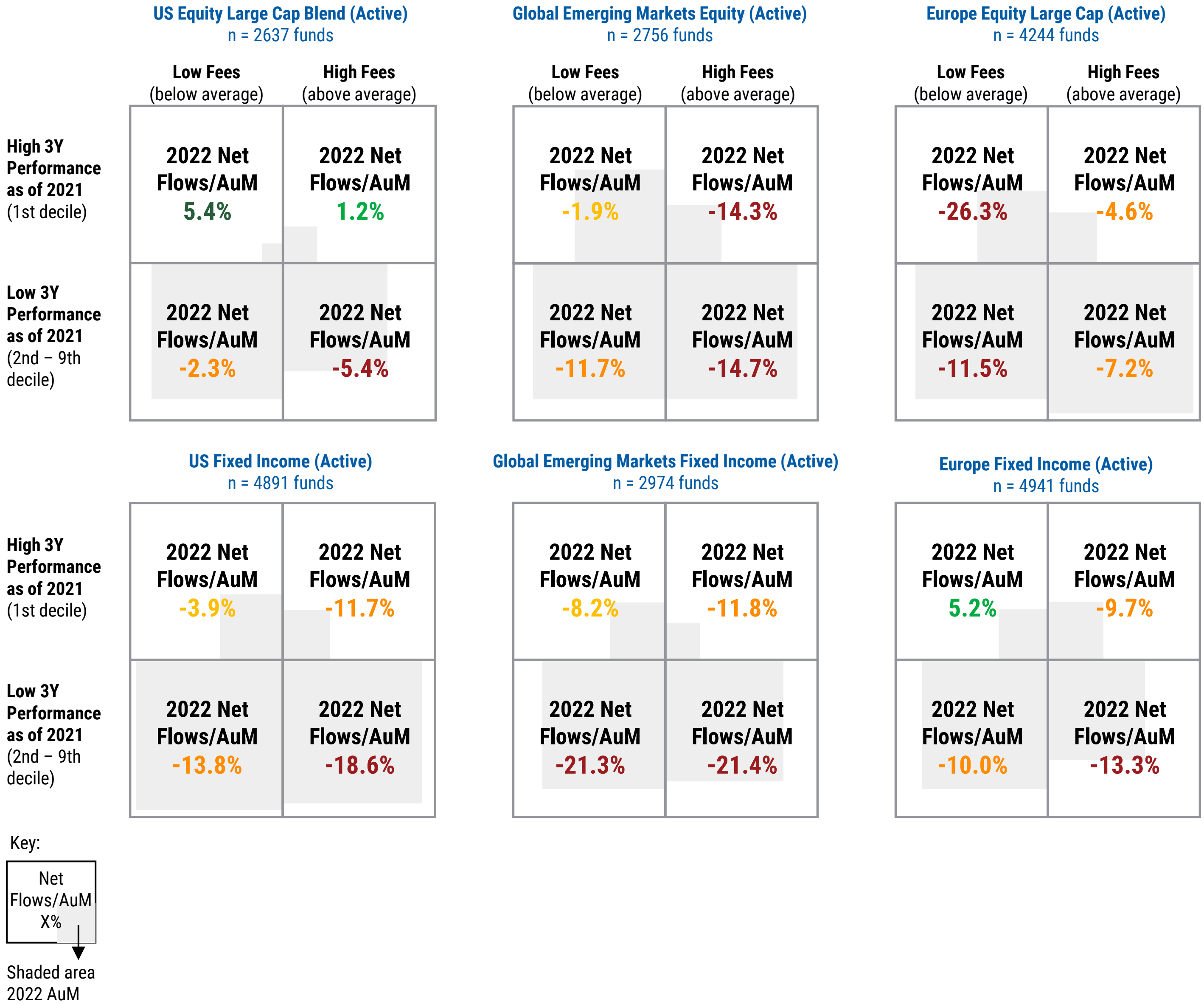
Asset managers have long been judged on their ability to outperform benchmarks, and ex-post net returns remain a crucial criterion for investors. Indeed, according to Morningstar data, only active mutual funds with the highest Morningstar rating of 5 were able to achieve positive inflows or close-to-zero outflows on an aggregated basis over the last one year and three years.[6] Investors seem to have little hesitation in pulling out from active funds that underperform.

Beside ex-post net performance, data suggests that investors are increasingly factoring in fee levels when deciding to invest and/or redeem. When comparing active mutual funds within the same strategy and in the same performance deciles, funds with lower fee levels tend to attract more flows or defend outflows better than those with higher fees. This trend is largely consistent across the major fund strategies globally, as highlighted in Exhibit 21.[7] The analysis compares 2022's net flows relative to total AuM for funds by their fee levels and three-year performance decile as of year-end 2021 (with the logic being that flows in 2022 were, in part, determined by the prior three-year performance track record from 2018 to 2021). This phenomenon may be driven by an investor psychology that prefers ex-ante certainty of "fee alpha" today relative to the uncertain ex-post potential of investment performance alpha tomorrow.

6 From 2022 to 1H23, and 2020 to 1H23, respectively

7 The one exception is Europe Equity Large Cap where very high inflation, the Russia-Ukraine War, and tightening monetary policies caused investor sentiment to change and resulted in steep outflows from some large funds focused on growth investing.

Exhibit 21: Net Flows and AuM Split by Performance and Fees by Selected Strategy



Source: Morningstar, Oliver Wyman analysis

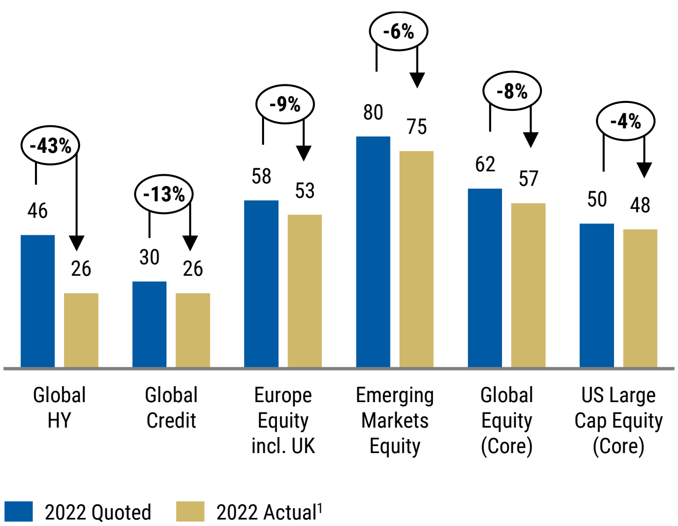
This is obviously a balancing act. Discounting fees may drive or help retain future flows, but it also reduces profitability. In an environment of net negative flows to core active strategies at the industry level, however, the calculus is relatively clear: Given mediocre-to-poor performance, reducing fees up to the point of generating negative margins may be a winning strategy (at least at an individual firm level, on a relative basis) as the flow benefit (either in attracting net inflows or preventing outflows) can offset margin compression. Those with higher-performing funds need also to consider the trade-offs between potentially greater flows by lowering fees and the impact to margins and the capacity available across different fund strategies.

2.2. Optimize Institutional Pricing: Strategic Pricing Can Lead to Material Gains in Revenue Capture

The average fee levels across mutual funds and ETFs have seen significant declines over the past decade, primarily driven by investors increasingly switching to cheaper index/ETF-based products and funds cutting fees. This switching to lower-fee passive funds was pronounced in 2022, as many active fund strategies underperformed passive equivalents. Institutional segregated mandates have also faced fee pressures over the past decade. Given the negotiated nature of institutional mandate pricing (Exhibit 22 highlights quoted segregated mandate fees against actual fees paid by institutional investors), we see significant opportunity for revenue uplift by applying a more disciplined, optimized approach.

At first glance, the reduction in asset managers' quoted segregated mandate fees appears less pronounced than for mutual funds/ETFs. However, as highlighted in Exhibit 22 , this excludes the impact of discounting that is commonplace as asset managers compete for growth.

Exhibit 22: 2022 Median Fees of Active Strategies, bps for $100 Million Segregated Mandates



Note: 1. '2022 Actual' figures are an average of fees paid by institutional investors based on data gathered by the investment consultant, Mercer, '2022 Quoted' figures are rack rate quotes from asset managers.
Source: Mercer Fee Surveys, Mercer Insights, Oliver Wyman analysis

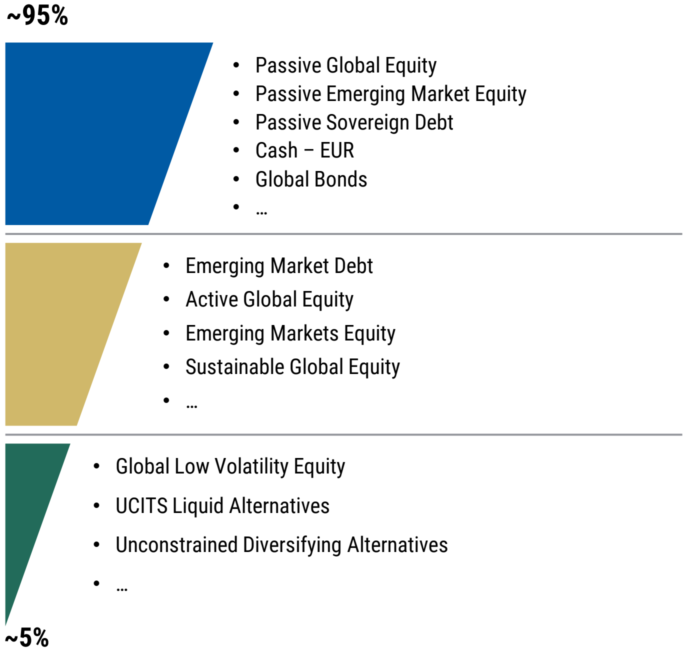
There are several pricing considerations asset managers assess to "seal the deal," including:

1. **Capacity of the investment strategy:** Where high-capacity strategies, (e.g., global equities, sovereign bonds, etc.) are discounted on a sliding scale (i.e., larger mandate = larger discounts).
2. **Client scale:** Larger clients that can bring scale are more cost-effective to serve (e.g., lower marketing costs, lower sales costs, lower operational complexity of managing single client accounts versus a broad set of smaller accounts, etc.). This makes them desirable targets, with asset managers offering significant discounts to attract them.
3. **Cross-selling/stacking:** Similar to client scale, servicing a single client across products is more cost-effective, with some of those cost benefits passed on to clients as part of cross-selling efforts.
4. **Product nascency:** New product launches, or products from asset managers with limited track records, are typically discounted to attract initial flows.
5. **Market/geography nascency:** As with new product launches, entering new markets/geographies can initially be challenging for asset managers, who frequently offer introductory fee discounts as they build credibility and a track record.
6. **Product demand:** In challenged markets, or in cases where there has been a dip in performance, asset managers may offer reduced fees to attract flows.

The scale and extent to which these pricing considerations are applied can vary widely, with rack rate discounts ranging from 5% to 95%, depending on strategy, as illustrated in Exhibit 23 . This is primarily driven by the underlying competitive intensity and cost structure of the strategies. For example:

- Passive strategies face fierce pricing competition, while also benefiting from economies of scale, allowing asset managers to offer significant fee discounts (90%+ in some cases, or even free mandates).
- Emerging market strategies come with cost considerations for asset managers (e.g., the need to have on-the-ground teams across various geographies to source, assess, and manage investment opportunities), limiting the scale of discounts offered.
- Liquid alternatives are generally more capacity constrained with higher demand, which limits investor bargaining powers in some cases, negating the need for asset managers to offer significant discounts.

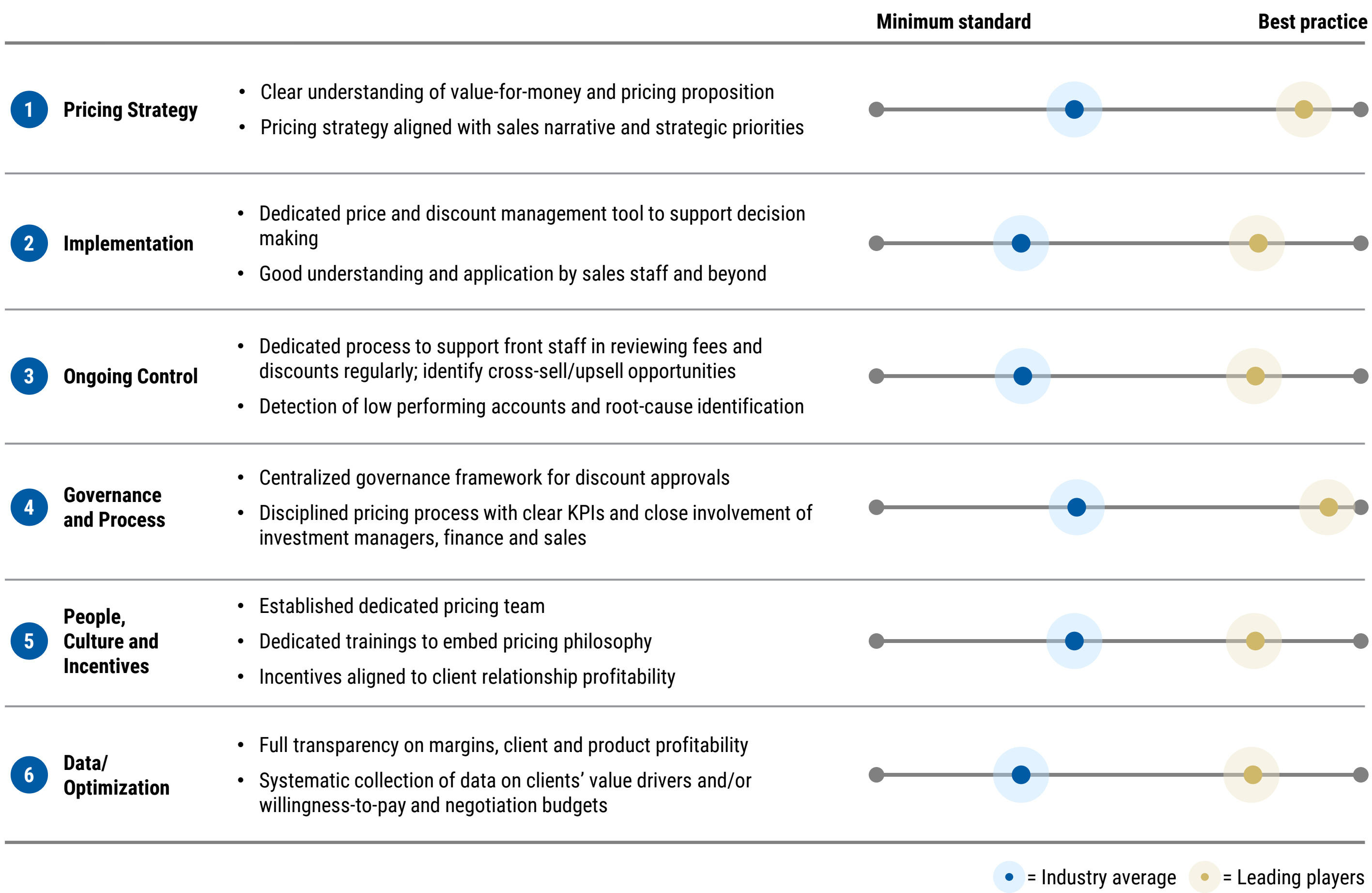
Exhibit 23: Extent of Fee Discounts by Strategy



Source: Mercer OCIO

Managers are at different ends of the spectrum in terms of their abilities to incorporate the factors above into a robust pricing framework. Managers, particularly those with larger institutional client bases, who have faced persistent price deflation and service-level inflation, need to adopt more analytical and systematic approaches to help them counter these challenges. We see six key components to a best-in-class pricing capability that can help asset managers improve pricing discipline and revenue capture (Exhibit 24).

Exhibit 24: Components of a Best-in-Class Pricing Capability at Asset Managers



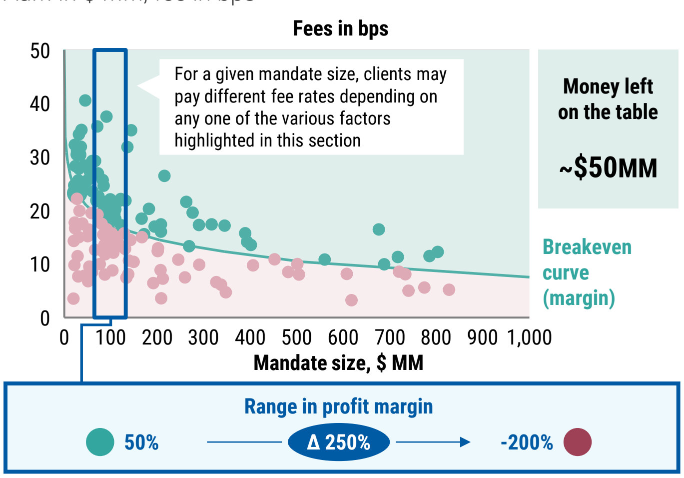
Source: Oliver Wyman

To help institutionalize the process, leading asset managers have established dedicated pricing teams who run disciplined pricing processes with clear KPIs and engage closely with investment managers, finance, and sales. They also support ongoing post-sale monitoring to detect lower-performing accounts and identify cross-sell/upsell opportunities. Sales teams, meanwhile, are supported by pricing and discount management tools that leverage data on clients' value drivers and willingness to pay.

Many asset managers, especially the least disciplined when it comes to pricing, have large pricing dispersions across their managed accounts. The fees charged for the same institutional mandate strategy can vary widely across client accounts (e.g., profit margin ranging from 50% to -200%), as illustrated in Exhibit 25 . Asset managers are leaving money on the table. While there will always be an element of dispersion given the different pricing considerations enumerated earlier, more disciplined application would suggest a much narrower band. Taking the example of a generic $500 billion manager that has an unnecessarily large dispersion, and extrapolating a subset of the manager's mandate data to cover its entire portfolio, suggests that applying the more disciplined, optimized approach noted in Exhibit 24 could yield a ~$50 million revenue uplift. We acknowledge this assumes the manager can successfully renegotiate the back book across all mandates toward a breakeven curve (i.e., at margin); that task could be challenging to accomplish entirely, but even partial success could make a meaningful difference.

Exhibit 25: Illustrative: Segregated Mandate Fees for a Select Strategy

AuM in $ MM, fee in bps

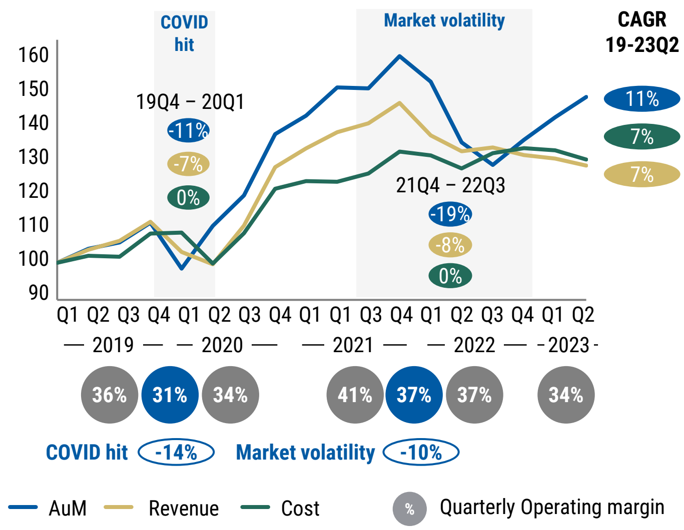


Source: Oliver Wyman analysis

2.3. Reset the Operating Model to Build Resiliency and Provide a Platform for Growth

The immediate sell-off that occurred at the onset of the COVID-19 pandemic in 2Q20, while short-lived, serves as a cautionary tale for asset managers by highlighting the fixed nature of their cost base. The rapid rebound following the start of the pandemic hid underlying fragilities as asset managers quickly shifted their focus to new ways of working. The 2022 market downturn once again showed that asset managers continue to face the same challenges: tremendous downside exposure to markets on the revenue side, but with stubbornly high/growing cost bases. Exhibit 26 illustrates this relationship for North American and European traditional asset managers, with profit margins dropping from 41% in 4Q21 at the market peak to 37% in 1Q22, a 10% drop in a matter of months.

Exhibit 26: AuM, Revenue, and Cost of Traditional Asset Managers Indexed to 1Q19 2019-2Q23; based on 28 publicly listed traditional asset managers in Europe and North America

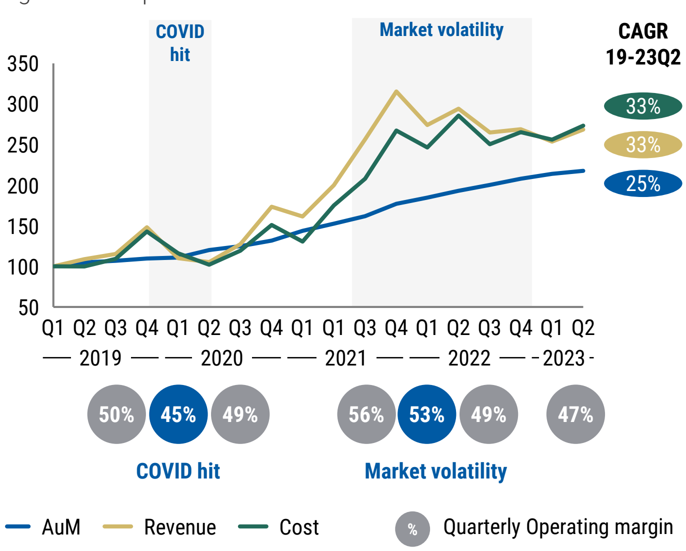


Source: S&P CapIQ, Morgan Stanley, Company Filings, Oliver Wyman analysis

These cost challenges are driven by several factors. Post-COVID-19 competition for employees intensified, causing a steady increase in employee wages, and at the same time, many asset managers increased salary bands in line with or close to inflation (300-400 bps compression on operating margins). Inflation further affected other contracted services, including outsourced middle-/back-office services (30-40 bps impact on costs) and data (20-30 bps impact on cost), where fees tend to increase with inflation. Additionally, in preparation for several emerging regulatory requirements across jurisdictions, asset managers have invested in enhancing operating models (at a cost). For example, several emerging sustainability disclosure requirements, such as the UK's Sustainability Disclosure Requirements (SDR), the EU's Corporate Sustainability Reporting Directive (CSRD), and the United States' Enhancement and Standardization of Climate-Related Disclosures for Investors, will require global asset managers to acquire the necessary ESG data and develop new reporting and compliance processes to comply with these reporting standards.

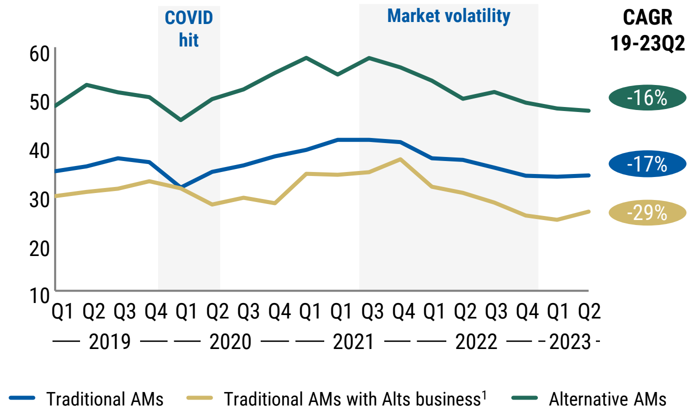
In comparison, private market asset managers have enjoyed relatively consistent fees and growing revenues. This is principally a benefit of AuM not being affected by mark-to-market (MtM) fluctuations that traditional asset managers contend with and the steady market demand they have enjoyed. However, as depicted in Exhibit 27 , private market asset managers' overhead costs and fee-related expenses have risen at the same rates as revenues excluding carry, highlighting both the aggressive investments these firms are making to pursue growth opportunities and the hurdles they face in scaling. Additionally, private market asset managers were not immune from the recent market volatility, with operating margins decreasing to 47% in 2Q23 (close to what they were at the depths of COVID-19), highlighting the delayed market impact on private market players' financials versus traditional peers that were affected more immediately.

Exhibit 27: AuM, Revenue, and Cost of Private Market Asset Managers Indexed to 1Q19
2019-2Q23; based on 9 publicly listed private market asset managers in Europe and North America



Source: S&P CapIQ, Morgan Stanley, Company Filings, Oliver Wyman analysis

Exhibit 28: Operating Margin Evolution of Asset Managers
2019-2Q23; based on 37 publicly listed asset managers in Europe and North America



Note: 1. Where an Asset Manager has minimum >10% of total AuM in Alternative assets.
Source: S&P Cap1Q, Morgan Stanley, Company Filings, Oliver Wyman Analysis

Interestingly, traditional asset managers who have built meaningful alternatives businesses (assumed to be where >10% of AuM is in alternatives) as part of their strategy to enhance profitability, look worst in terms of operating margin (refer to Exhibit 28).

While we do not suggest that firms stop pursuing faster-growth and higher-margin business segments, such as private markets, we believe that successfully evolving operating models with public and private businesses carries inherent complexity, particularly when built up through acquisition. Hence, we see some cases where such models have not delivered the desired growth or profitability improvements. This trend may be an idiosyncrasy of the specific firms covered in our analysis, as many traditional players that are pursuing the alternatives businesses face some of the biggest challenges with their legacy businesses. Nevertheless, it is still indicative of what we have witnessed in the market, as these combined models can be inhibited by several issues:

1. **Increased operational complexity:** Alternatives often encompass a wide range of investment strategies, with unique operational and reporting requirements, due diligence processes, and risk management considerations, which tend to limit the ability to consolidate corporate and support functions (e.g., risk, legal, accounting).
2. **Increased technology/systems costs:** No single system handles both liquid and illiquid asset classes seamlessly, resulting in more disjointed technology stacks, increased data and vendor costs, more complex data environments, and typically a lot of end-user computing-based solutions (i.e., spreadsheets).

3. **Lack of cultural cohesion and disjointed go-to-market approach:** Silos and fiefdoms tend to proliferate between different parts of the business, making collaboration and standardization more difficult. The need (or preference) to maintain multiple distribution organizations (as sales teams of traditional managers are often not equipped to effectively sell private market products) and even distinct recruiting efforts can increase complexity and costs.

Embarking on operational efficiency and cost programs to reinvest in growth

Asset managers will always be beholden to market performance to some extent; however, a key question for managers is how to construct their operating model such that for any level of the market, operating margins remain as high and as resilient as possible. Therefore, it is not surprising to see many organizations announcing ambitious operational efficiency and cost programs with cost saving targets of 5-15%. Indeed, we contend that asset managers adopting more aggressive strategies can achieve cost savings of 20-40% by making difficult choices to trim their structural cost base, such as exiting underperforming markets and segments, and by embracing a "virtual" model, relying more on remote work and technology to power the business. While a key benefit is operational efficiency, these programs will also allow asset managers to reinvest some of the savings in growth areas, like building out private market capabilities or investing in nascent technologies like Gen AI that have the potential to further boost efficiency and free up capacity to drive incremental revenue.

As illustrated in Exhibit 29 , asset managers have four primary sets of "levers" they can pull to optimize their business to structurally increase operating margins and build greater resilience in their operating models. We provide estimates of the potential that each of these primary sets of levers can have in optimizing the respective cost base, based on our experience working with asset managers.

Exhibit 29: Four Primary Sets of "Levers" to Drive Operational Efficiency and Decrease Costs

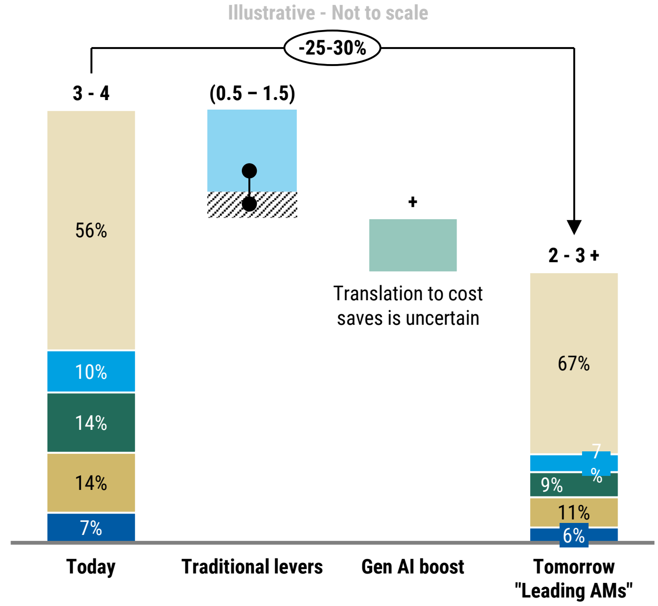
	Sales and client service	Investment and research	Mid and back office	Overall cost[1] *(average, bps)*
Typical cost structure	20 - 40%	30 - 40%	30 – 40%	Tra 25 / Mix 30 / PM 70
				Typical cost save range[2]
De-scoping	Introduce client/service level tiering	Simplify/scale back underperforming products	Reduce discretionary roles e.g., PMO, change, business management	5 – 10%
		Cut tail-end funds/share classes	Rationalise IT applications e.g., consolidate to fewer applications and sun-set legacy applications	
	Increase internal end-user self-service e.g., tools, training, policy summaries, FAQs ('Wiki' tool)			
	Simplify legal entity structure e.g., close or merge underutilised legal entities to reduce operational complexity, regulatory licensing fees			
	Exit underperforming business unit/client segment/region			
Organisational effectiveness/ simplification	Streamline front to back processes e.g., product and client onboarding, reporting (MI, client), handoffs between departments/international businesses, automation tools to enhance efficiency of teams to focus on value-add services/client interactions			5 – 10%
	Headcount reduction where activities/roles are no longer required, or where a function is overstaffed based on current/planned activities			
	Eliminate hierarchy inefficiencies and increase spans of control e.g., merging teams, reducing micro-teams (Managers of none/one)			
	Eliminate duplicative roles within divisions or cross-divisions e.g., centralise trade execution, marketing, procurement, etc.			
Workforce management	Reassess employee location model e.g., shifting non-client facing roles to lower cost locations		Reassess employee location model e.g., shifting middle/back-office roles to lower locations	~5%
			Outsource non-critical services to capable providers and optimise resource model	
	Seniority adjustments/reduce overall cost per seat e.g., keeping roles in the organisation, but reducing the management level those roles would typically command			
Third party cost management			Rationalise data providers and review existing contracts; establish single source market, trade, client and reference data	5 – 15%
			Optimise sourcing/utilities model and consolidate vendors where feasible	
			Review terms of existing managed capacity relationships and negotiate competitive terms	
	Optimise real estate footprint e.g., sub-let underutilised footprint, renegotiate new lease terms, closure of offices			

Notes: 1. Based on 37 publicly listed asset managers in Europe and North America. 2. Realized cost saves (excluding potential benefits from Gen A1), as percentage of respective costs, through application of a range of levers within each bucket; based on project experience.
Source: Oliver Wyman

Within these four sets, there are specific levers that asset managers can pull to achieve targeted operational efficiencies and cost improvements. Some of these are firmwide (e.g., exiting underperforming business units/products/regions), while others are targeted to specific areas of the business (e.g., reducing discretionary roles, such as PMO, change, and business management).

Given the complexity of some asset managers' organizations, a single lever (e.g., spans and layers or nearshoring) is rarely sufficient to reap the full efficiency potential. In our experience, asset managers need to use a wide set of levers to meet their efficiency goals. While one lever may be right for some functions, it may not work for others. In Exhibit 30 , Exhibit 31 , and Exhibit 32 , we've estimated the cost savings available to asset managers that can successfully pull a combination of levers across the value chain. Note that we have also added a view on where we believe the revolutionary capabilities of Gen AI can further supercharge "traditional" levers, which we believe will be weighted more toward front-office activities. We discuss use cases and the potential impacts of Gen AI on the industry in greater detail in Section 4 .

Exhibit 30: Estimated Cost Savings: Sales and Client Service
Based on typical AM with ~$500BN AuM
Bps of average AuM

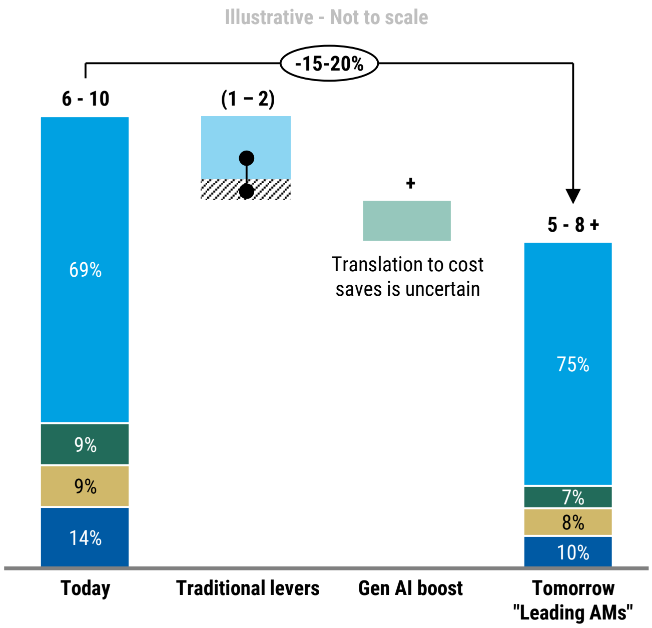


25 - 30% cost saves	
Sub function	**Cost saves (%)**
Sales	5 – 15
Sales support & client service	40 – 60
Marketing	40 – 60
Product development & mgmt.	30 - 50
Other (e.g., business dev.)	30 - 50

+ Efficiency boost from Gen AI explored in Section 4

Source: Oliver Wyman analysis

Exhibit 31: Estimated Cost Savings: Investment and Research
Based on typical AM with ~$500BN AuM
Bps of average AuM



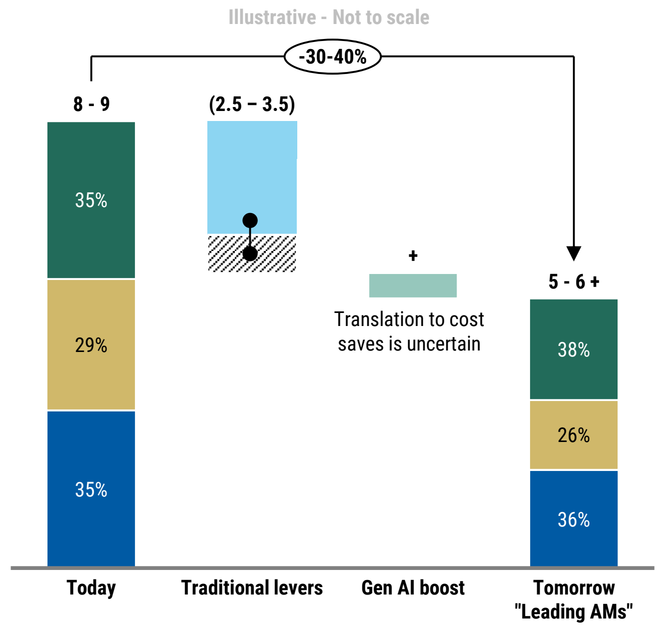
15 - 20% cost saves

Sub function	Cost saves (%)
Portfolio mgmt.	5 – 15
Research analysis	30 – 50
Trading	20 – 30
Other (e.g., Admin, PMO)	30 – 50

+ Efficiency boost from Gen AI explored in Section 4

Source: Oliver Wyman analysis

Exhibit 32: Estimated Cost Savings: Mid- and Back Office
Based on typical AM with ~$500BN AuM
Bps of average AuM



30 - 40% cost saves

Sub function		Cost saves (%)
Tech.	App. development	10 – 30
	App. support & help desk	30 – 40
	Network and Data	20 – 30
	Other (e.g., PMO)	40 – 50
	Client onboarding	40 – 60
Ops.	Trade, sett. & custody	30 – 50
	Servicing and reporting	30 – 50
	Other (e.g., change)	40 – 50
Business mgmt./Support	Risk & Compliance, Audit	10 – 20
	Finance	20 – 30
	Human Resources	20 – 30
	Other (e.g., facilities)	40 – 50

+ Efficiency boost from Gen AI explored in Section 4

Source: Oliver Wyman analysis

It is a challenge to run an operational efficiency and cost program that results in sustainable change, as asset managers look to effectively navigate the ship in business as usual (BAU) mode while implementing transformative change at the same time. In our experience, the imperatives for a sustainable operational efficiency and cost program include:

Use top-down targets informed by benchmarks to set the North Star for functions: Rapidly align on overall ambition and how to meet it; affirm the areas you want to grow and invest in and get executive level buy-in.

Use bottom-up detailing to verify top-down targets: Swiftly fill cost/investment targets with concrete ideas on how to get there; challenge management to ensure "no stone is unturned" and feel responsible for delivery.

Consider synergies across functions and avoid planning and executing in silos: Use workshops to drive cross-function alignment on synergies (cost and investment) and align functions front-to-back on areas where you want to invest to grow and reflect these in the target operating model (TOM).

Ensure the operating model works front-to-back by designing it "clean slate": Avoid merely shifting cost from one owner/location to another and optimize processes front-to-back to support your strategic goals.

Develop the right culture and behaviors with aligned communication: Set the culture roadmap and plan for culture and behavioral interventions where the transformation might stall. Consistently communicate from the top the need for sustainable cost-out to reinvest in growth priorities.

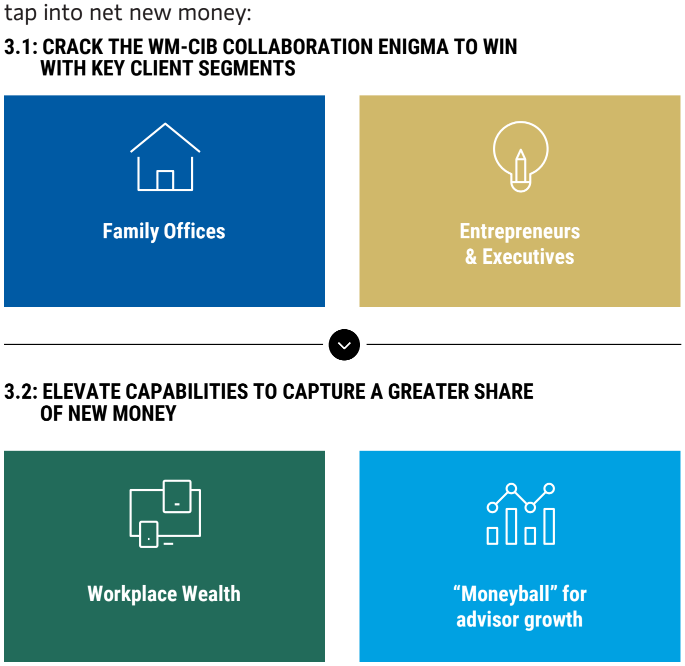
Embed the tools and mindset to manage for cost in BAU: Develop transparency across cost drivers, including warning indicators in BAU. Empower each management layer to challenge cost creep, even if revenues rapidly increase.

By addressing these challenges head-on, asset managers can steer their organizations toward enhanced efficiency and greater operational resiliency, freeing up resources to invest in the most attractive growth areas.

3. Taking the Steering Wheel on Driving Growth: Wealth Managers

The market downturn in 2022 revealed vulnerabilities in the operating models across most wealth managers. While market cycles will always drive AuM and profitability, leading managers are taking matters into their own hands by identifying attractive sources of growth. This involves a strategic focus on capturing or winning a larger share of net new money (NNM) to offset the adverse effects of market downturns. Concurrently, leading wealth managers are investing in capabilities to enhance advisor productivity, enabling advisors to capitalize on market upswings and effectively navigate the challenges posed by downturns.

Leading wealth managers are transitioning from being mere passengers to proactive navigators in the industry's growth journey. Market performance will invariably drive financial results, but the ability to capture a larger slice of NNM and empower advisors to be more effective will be the distinguishing factor of those who rise above the volatility and chart a course toward more sustained growth. We highlight two groups of initiatives that wealth managers can pursue to tap into net new money:



3.1. Crack the WM-CIB Collaboration Enigma to Win with Key Client Segments

Together, family offices (FO) and entrepreneurs & executives (E&Es) represent a revenue opportunity greater than $200 billion

As highlighted in Section 1 and last year's Morgan Stanley Oliver Wyman Blue Paper (link), the affluent and low-HNW client segments (wealth ranging from $300,000 to $5 million) are expected to generate approximately $60 billion in new revenues and make up around 60% of the total wealth management (WM) revenue pool by 2027.

This remains an attractive opportunity for those that can tap into an existing large affluent client base, or that can win new clients at a low customer acquisition cost to service them profitability (e.g., through a retail banking feeder channel). Yet for several firms, the biggest opportunity sits at the other end of the wealth spectrum. This is especially appealing for wealth managers possessing a premium brand and access to robust corporate and investment banking (CIB) capabilities, as it opens substantial opportunities within the HNW and UHNW client segments. Among these segments, FOs and E&Es have historically presented great growth potential. However, these client segments have complex needs that span beyond WM to include CIB services. To comprehensively serve these clients and unlock the full potential of this opportunity, wealth managers must be able to offer a proposition that combines WM with CIB products. Together, the FO and E&E segments represent a revenue opportunity of more than $200 billion across traditional WM and sophisticated WM and CIB solutions (Exhibit 33).

Exhibit 33: Client Needs and Global Revenue Pools by Segment[1]

		Traditional	Family Offices	Entrepreneurs & Executives	
Client segments		Individuals with >$300K in investable assets; generally with no associated business to support/grow	Handles investment and wealth mgmt. for a wealthy family (usually with >$100MM in investable assets)	Entrepreneurs and business owners who need support with business growth and expansion considerations	**Total revenue pool**
Needs	**Traditional WM services**	**~$300 BN**	**<$10 BN**	**~$75 BN**	**~$385 BN**
	Sophisticated WM solutions as well as CIB products	*Not applicable*	**~$10 BN**	**~$110 BN**	**~$120 BN**
	Total revenue pool	**~$300 BN**	**~$20 BN**	**~$185 BN**	**~$500 BN**

Note: 1. * Traditional, Family Office, and E&E represent distinct client segments
Source: Oliver Wyman analysis;

On their own, pure play wealth managers will be limited to providing traditional WM services to their clients, and consequently can only tap into the corresponding revenue pools across the two client segments (~$85 billion globally). Sophisticated WM solutions as well as CIB products require CIB capabilities, and therefore can be served only by either 1) wealth managers with CIB divisions in-house or 2) wealth managers that have partnerships with CIB houses. Wealth managers that have the necessary CIB capabilities can access an additional ~$120 billion of revenues globally.

FOs typically serve UHNW individuals or families, with the primary objective of managing and growing family wealth over multiple generations. These offices can be structured in a variety of ways and offer a range of services, including investment management, tax planning, estate planning, philanthropy, and other financial advisory services. Globally, there are tens of thousands of FOs, a number that has grown significantly in recent years as more UHNW families seek to establish dedicated WM entities to manage their assets and navigate the increasingly complex investment landscape. Estimates suggest that, as of today, about $10 trillion in financial assets are managed via FOs.

FOs require customized investment solutions for their complex investment needs, as well as access to exclusive investment opportunities. Additionally, they require sophisticated prime services support for trading and execution, lending, risk management, and estate planning services. The revenue pool stemming from this client segment is estimated to be around $20 billion; of that, less than 50% is driven by traditional WM services, with the other half coming from more sophisticated services. Wealth managers who can offer a comprehensive suite of services to FOs will be well positioned to capture a significant share of this revenue opportunity.

Half of HNW individuals globally are entrepreneurs and business owners, presenting a sizable client segment where personal and business financial needs are often interlinked. This client segment is highly diverse, with various subsegments that have unique financial needs, depending on the life stage and growth trajectory of the entrepreneur and company. For instance, entrepreneurs of hypergrowth companies in the tech or healthcare space have a higher demand for corporate finance services, as well as financing solutions for themselves and their companies to fuel continued growth. Owners of more established businesses have a focus on different needs and typically require services to support the operation of their business, such as cash flow financing, payments, and cash management. There are many more nuances and subsegments within this broader segment, all requiring a mix of WM and CIB capabilities.

Exhibit 34: Deep Dive on Client Needs by Segment

	Needs	Traditional	Family Offices	Entrepreneurs & Executives
Traditional wealth management services	E.g., investment advice, products, Lombard lending, etc.	✓	✓	✓
Sophisticated wealth management solutions as well as CIB products	Sophisticated investment services	✓	✓	✓
	Customized lending		✓	✓
	Corporate banking			✓
	Corporate finance			✓

Source: Oliver Wyman analysis

Successful collaboration across WM and CIB are key to success in these segments

To fully capitalize on the potential of the FO and E&E segments, wealth managers must establish successful collaborations with corporate and investment banks. This can be achieved either in-house as part of larger banking institutions or through partnerships with external entities in the case of pure-play wealth managers.

While larger financial institutions with in-house WM and CIB divisions have a natural advantage to establish proper collaborations, we have seen successful partnerships being established by pure-play wealth managers with CIB firms. The latter has been especially successful when the strategy is focused on specific geographical markets and local reach is combined with global expertise. However, players that pursue the partnership route will never capture 100% of potential revenues due to the need to share revenue with their partners.

Leading players have realized up to 10-15% of CIB revenues and >20% of net new WM AuM resulting from successful WM-CIB collaborations focused on these segments.

The intersection of WM and CIB presents a range of revenue synergies and opportunities. CIB capabilities can not only help increase the penetration of existing WM clients but are also essential for any WM franchise targeting FO and E&E clients.

To enable coverage of these client segments, a product range that combines best-in-class corporate banking and investment products is crucial. Financing options, including access to corporate/SME lending and more sophisticated lending (such as pre-IPO debt with equity warrant embedded with unconventional collateral such as shares of non-listed companies) are also key enablers. Additionally, the provision of linkages/relationships to potential investors, such as financial sponsors, is important.

Over time, collaboration approaches have evolved. Initially, most collaborations were focused on wealth managers routing all client flows through their CIB divisions. This shifted toward product-based collaborations and is now progressing to more jointly integrated capability and coverage team setups. Some leaders are rolling out the next frontier, consisting of leveraging and monetizing CIB technology and capabilities with WM clients as the natural evolution to address more sophisticated lending, reporting, and risk management client needs.

Leaders have set up integrated capability and coverage teams

Leading financial services firms have recognized the importance of serving sophisticated client segments, such as FO and E&E, and have invested significantly in organizational initiatives to bring together complementary groups across WM and CIB.

Ad hoc–driven collaboration models have not proven to be an effective way to capitalize on the opportunities presented by these client segments. Instead, leading firms have found that joint capability and coverage teams that holistically address client needs are the most effective approach. While formalized referral models and embedded coverage models still prevail in the majority of financial services firms with WM and CIB divisions, these models do not provide the same level of effectiveness as joint capability and coverage teams.

By bringing together experts from both WM and CIB, joint capability and coverage teams are able to provide a more comprehensive and tailored approach to serving the needs of FO and E&E segments. This approach has proven to be more effective than traditional referral models, which may not fully address the complex needs of these sophisticated client segments. Joint capability and coverage teams also overcome the common challenge of mistrust between WM and CIB teams rooted in the fear of damaging client relationships and ineffective individual incentives (e.g., individual allocation of shared revenues may be indirect, unclear, or too small, reducing the overall incentive).

Many firms that have the necessary capabilities to serve the needs of these client segments face a significant obstacle to success: onboarding processes. In most banks, clients must be onboarded in both the WM and CIB divisions to access the full range of capabilities. However, the necessary CIB onboarding processes are often cumbersome and not tailored to these client segments, resulting in onboarding processes that can take longer than 90 days. To address this issue, leaders have established joint WM-CIB onboarding processes that are rigorous and more tailored to these client segments. Effective governance, including the requirement for a single decision-maker accountable for outcomes, is a critical driver of success. Additionally, clear revenue booking logics across the WM and CIB divisions that are fair and provide the necessary incentives for both divisions are essential.

Exhibit 35: Strategic Direction of Collaboration

	Independent	Collaboration	Integration
Strategy	• Some players are divesting or scaling back WM or CIB businesses in specific Geos or Segments • Other "monolines" choosing to remain stand-alone	• Most firms are pursuing structured collaboration to cross-sell existing clients, via referral models	• Advanced players are investing significantly in organizational initiatives to bring together complementary groups across CIB and WM
Objectives	• Cultivate brand of independent advisory, marketing this actively to clients • Use lack of cross-sell as an advantage when recruiting bankers (i.e., keep rolodex private)	• Incrementally grow share of existing client wallet and net new business through better cross-sell between CIB and WM • Optimize within existing footprints	• Service new client segments by fundamentally changing product offering • Improve client service by aggregating existing capabilities under a single go-to-market approach

Source: Oliver Wyman

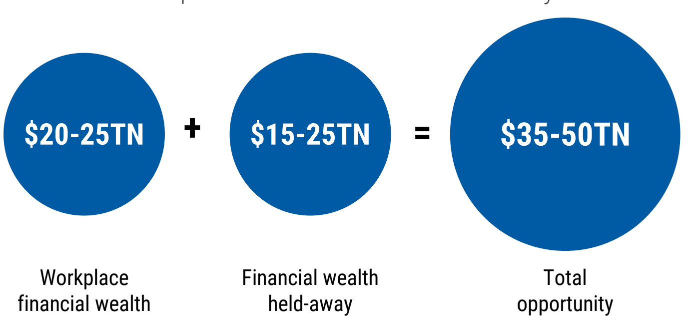
3.2. Elevate Capabilities to Capture a Greater Share of New Money

Workplace Wealth

The workplace can unlock a $35-50 trillion wealth opportunity for wealth managers with a comprehensive set of financial services capabilities.

The modern workplace, where a substantial portion of affluent individuals dedicate the majority of their waking hours, presents a significant opportunity for the WM industry. The rationale is compelling: By establishing relationships with employers, wealth managers can enjoy "early access" to a gold mine of potential retail clients.

Exhibit 36: Workplace Wealth and Assets Held Away



Source: Oliver Wyman analysis

Workplace wealth is frequently associated with wealth accumulated on defined benefit (DB) or defined contribution (DC) plans. These plans are vast ($21 trillion and $16 trillion, respectively, in wealth globally), highly competitive, and growing at single digits. Recordkeeping these assets, and the associated rollovers, has been the flagship offering of firms in this segment. Besides this flagship offering, we see promising opportunities for wealth managers, including two major ones: financial advice on DC plans and stock-based compensation recordkeeping. Additionally, there are two complementary opportunities in executive financial counseling and private stock liquidity. As mentioned, these opportunities provide not only access to wealth accumulated in the workplace but the potential to win the whole client relationship with assets held away, totaling a $35-50 trillion opportunity for wealth managers.

Financial advice for DC plans: Given the vast amount of assets managed at DC globally ($16 trillion) the opportunity to deliver financial advice is very large. We see a set of models suitable for this segment, from digital advisory models to serve mass and mass-affluent clients, which can generate $12-18 billion in annual revenue, to hybrid and full-service offerings for affluent or wealthier clients, which can bring $60-80 billion in annual revenue. In the UK, we observe firms addressing this need with a financial wellness proposition, which enables wealth conversations with employees via seminars and education. In the US, tech-enabled players have started to partner with recordkeepers to serve this market, but a minority of DC accounts are managed. Once an advisory relationship is established, wealth managers can aim to also advise on assets held away of the DC plan, which we estimate at $15-25 trillion globally, on top of the $16 trillion in DC assets. In continental Europe, DC recordkeepers are uniquely positioned to offer financial advice on DC assets and manage wealth held away from participants at attractive price points, potentially threatening traditional wealth managers.

Stock-based compensation: Recordkeeping of stock-based compensation allows firms to be aware of stock grants and liquidations, which can generate a substantial number of qualified leads to the retail wealth arm. We estimate $2-3 trillion in stock-based wealth at public firms, and $4-5 trillion at private firms globally, with annual flows of around $500 billion. Leading wealth managers should aim to retain 20-40% of the stock being liquidated, but also strive to capture wealth held away, competing for the $15-25 trillion pool mentioned above. As with DC recordkeeping, stock recordkeeping can provide a sizable position and a center of gravity around which wealth managers can build their workplace offering.

Executive financial counselling: Wealth managers with institutional relationships (e.g., corporate banking, investment banking) should be in an ideal position to advise an organization's senior executives. These individuals present a complex financial picture (e.g., multi-dimensional compensation, public exposure, legal restrictions to trade the firm's stock), so wealth mangers with comprehensive capabilities should be well positioned to serve this segment. We estimate a global addressable market of $200-300 billion in financial wealth. In the US, we estimate $120-140 billion in financial wealth and $2 billion in annual revenue.

Private stock liquidity: Private firms looking to attract or retain talent are increasingly using solutions to liquidate employee-owned stock. In the US, we estimate approximately $60 billion in liquidity volume and revenues of $2 billion from 2019 to 2022. Since this service is perceived as differentiating, large wealth managers with institutional relationships and investment banking capabilities should carefully consider this opportunity.

"Moneyball" for Advisor Growth

Embedding advanced data and analytics into advisor recruitment (i.e., "Moneyball" for advisor growth) represents an opportunity of up to $600 billion in client assets over five years and a revenue opportunity of $3-5 billion.

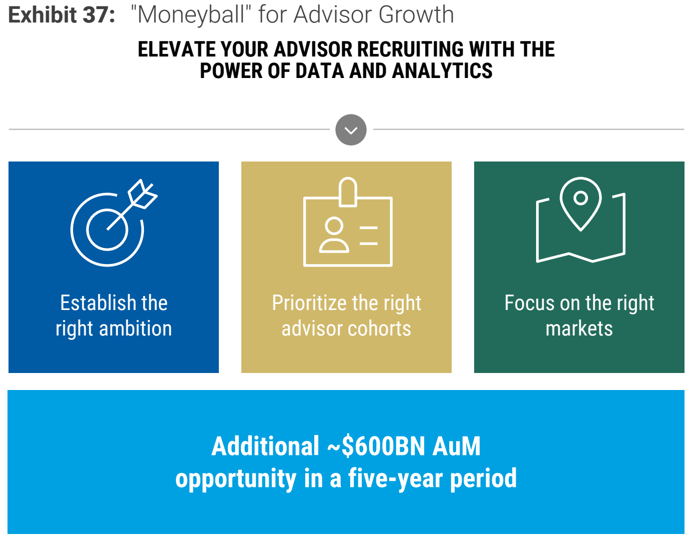
Thousands of advisors switch jobs each year, often taking their clients with them. In the US specifically, we observed 25,000 to 30,000 advisor moves per year (around 10% of the US advisor force), translating to an estimated $2-3 trillion in client assets in motion. Wealth managers adopting a strategic, data-driven approach to advisor recruiting can enhance the likelihood of success at capturing assets in motion. We have dubbed this the "moneyball" for advisor growth.

We have identified three key levers that can help wealth managers build a competitive advantage by using data and analytics to supercharge recruiting efforts:

- **Establish the right ambition** by using the right benchmarking data
- **Prioritize the right advisors** by analyzing advisor-in-motion cohorts and track record of success
- **Focus on the right markets** by understanding advisors-in-motion volumes and relative recruiting strengths by wealth market

Wealth managers applying these principles can reap significant benefits anywhere in the world. We estimate that a large wealth manager (i.e., with more than 6,000 advisors) that adopts the moneyball methodology has the potential to capture an extra ~$600 billion in client assets over five years. For medium-sized firms (3,000-6,000 advisors), size may become a limiting factor, but we estimate a ~$300 billion opportunity in five years. Some markets, like the US, enjoy better data availability, which makes this analysis more actionable. For firms in markets with less readily available information, a larger effort to produce comparable data or find suitable proxies should be considered given the potential upside. Wealth managers who choose not to actively participate in advisor recruitment require additional tools and strategies to attract net new money relative to their peers. Regardless of appetite for recruitment, advisor retention remains an important consideration for wealth managers in order to grow sustainably.

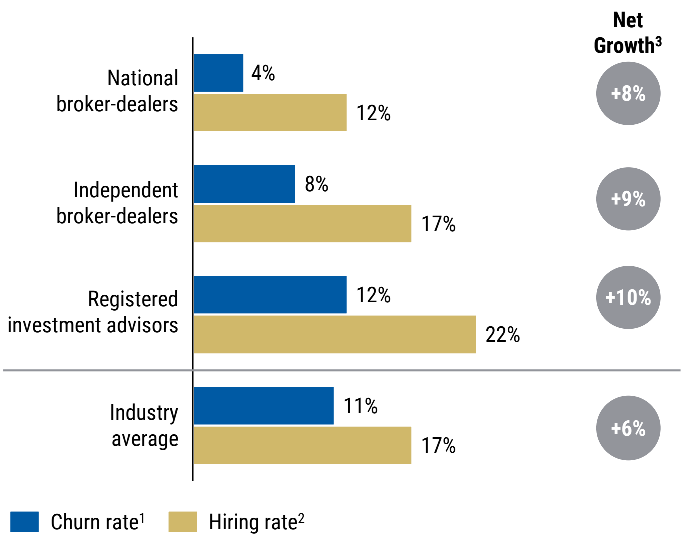
Exhibit 37: "Moneyball" for Advisor Growth



Note: Based on a large-sized wealth manager (i.e., with more than 6k advisors):
Source: Oliver Wyman Epiphany Wealth model

Establishing the right ambition: By regularly reviewing market data, wealth managers can right-size their recruitment targets and set top-down metrics to assess performance. For example, Exhibit 38 illustrates the average churn, acquisition, and net growth rates for a sample of US distribution channels. With access to this data, a national broker-dealer (BD) satisfied with maintaining average performance would be content with net advisor growth of 8% per year. However, a more ambitious practice striving to be the best among its peer group would need to target a rate well into the double digits. Leading firms should leverage data and analytics to gauge their ambitions relative to their peer set.

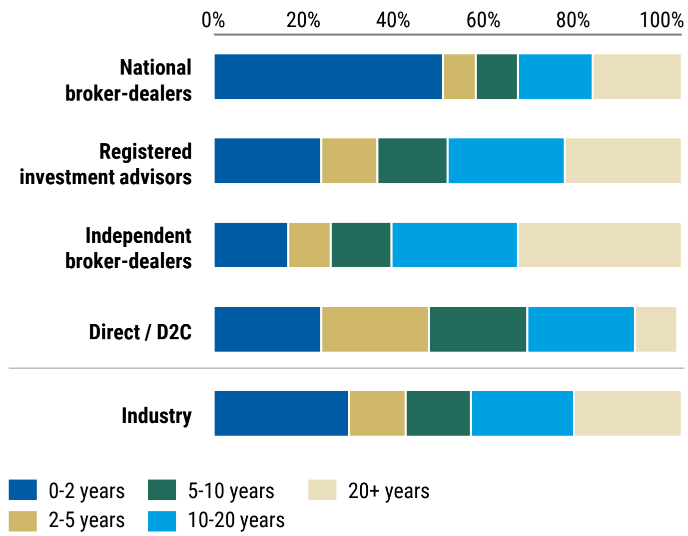
Exhibit 38: Average Hiring and Churn Rate of Advisors Across Select US Channels
2018-22, US only



Notes: 1. Calculated as average Lost advisors / prior period advisors (2018-2022). 2. Calculated as average new advisors hired / prior period advisors (2018-2022).
Source: Oliver Wyman Epiphany Wealth model

Prioritize the right advisor cohorts: Looking at recruiting results by advisor cohort versus the advisor-in-motion mix can help firms make better strategic decisions about which advisor cohorts to prioritize. For example, Exhibit 39 shows that US national broker-dealers are over-sampling in recruiting advisors with les than five years of experience — ~50% of advisors recruited from 2018 to 2022 have less than five years of experience, whereas this experience cohort constituted only ~30% of industry advisors-in-motion during this period — and under-sampling advisors with 10 or more years. While perhaps beneficial in the long-run as it creates a valuable advisor pipeline, in the short-run this may lead to a decrease in asset share over time if competitors are pulling in longer-tenured advisors with larger books of business. Additionally, wealthy clients and prospects demand advisors with more experience, potentially making it more challenging for firms skewing toward younger advisors to attract or retain these clients. In contrast, independent broker-dealers are sampling a greater share of advisors with more than 20 years of experience given the observed trend of experienced advisors joining the independent channel. By analyzing recruiting outcomes by advisor cohort versus advisor-in-motion cohorts, wealth managers can ensure their advisor force is aligned with business priorities and target client segments.

Exhibit 39: Advisor Hiring Mix by Years of Experience Across Select US Channels
2018-22, US only



Note: "Industry" represents overall number of advisors-in-motion from 2018-2022 grouped by advisor experience cohort. Figures for different channels represent aggregated view of channel hiring results for the same period grouped by advisor experience cohort.
Source: Oliver Wyman Epiphany Wealth model

Focus on the right markets: Wealth managers should consider markets with high volumes of advisors-in-motion and where they have a relative strength versus competing channels. As an example, the top 25 US wealth markets account for around 60% of advisors-in-motion, while the top 50 account for approximately 80%. Firms looking to edge competitors for growth should focus their efforts on these markets. In addition, relative strength is an important dimension to consider, as Exhibit 40 shows. While a firm's ability to hire is correlated with its absolute size, there are relative spikes in certain US markets for particular types of players. For example, US wirehouses dominate traditional wealth markets like New York and Miami, where they benefit from an established presence and have captured 33% and 35%, respectively, of advisors-in-motion in the 2018-22 period. Registered investment advisors (RIAs), who are looking to strike a balance between markets where wealth is being created and level of competition, show relative spikes in emerging wealth markets like Dallas and Denver, where they are dominant given their local strength.

Exhibit 40: Share of Advisors-in-Motion Hired by Channel Across Select US Markets

2018-22, US only

	New York	Miami	Dallas	Phoenix	Denver	Phila.
Wirehouses	33%	35%	18%	22%	13%	20%
Independent broker-dealers	9%	6%	7%	12%	11%	11%
Registered investment advisors	20%	21%	36%	22%	28%	25%
National broker-dealers	3%	5%	6%	8%	6%	5%
Insurance broker-dealers	16%	11%	18%	20%	21%	22%
Bank broker-dealers	10%	9%	8%	5%	7%	10%
Direct / D2C	4%	4%	3%	5%	11%	3%
Others	5%	9%	4%	5%	4%	4%

>25% 15%-25% 5%-15% 0%-5%

Source: Oliver Wyman Epiphany Wealth model

Buying the book of business is an attractive alternative to advisor recruitment, especially for US firms.

An equally interesting option instead of direct advisor recruitment is buying the book of business. In the next decade, we estimate this opportunity at $10-20 trillion in financial assets globally, which translates to a $70-150 billion revenue opportunity.

So, how should firms approach this "market" and be successful? As with advisor recruiting, building a specialized, data-driven capability with depth of expertise in this type of transaction can set firms apart. This capability can help wealth managers in several fronts:

1. **Identify advisors at the brink of a sale:** In the US alone, there are 80,000 advisors with 25+ years of advisory experience, half of them concentrated in the top 15 wealth markets. Getting in conversations with these advisors early can prove to be an advantage for wealth managers.
2. **Find the "best next owner" of the book:** Advisors value continuity for their clients, and finding the right candidate to acquire the book is important. Firms can use data to characterize books from retiring advisors around key dimensions, like client focus (e.g., HNW, UHNW), advice needs (e.g., retirement, intergenerational wealth), or investment focus (e.g., equities, fixed income, alternatives). An AI-driven algorithm can find the next best owner — advisors with similar book characteristics and advice profile. This "market-making" activity can be an important way to acquire or retain assets within firms.
3. **Finance the transaction:** Wealth managers can lend to the advisor buying the book from the retiring advisor. Acquiring books of business generally comes with a multiple; in the US, this multiple is typically 1-2 times the last 12 months of revenue, with large books focused on HNW and UHNW clients carrying a multiple of 3-4. Assuming a multiple of 2, the US lending opportunity stands at $140 billion in lending balances, or a revenue opportunity of $3-4 billion.
4. **Coinvest:** For wealth managers, retaining clients and advisors is essential. Coinvesting with the advisor inheriting the book can help firms impose conditions on the future of the clients being acquired, such as lower advisor compensation, commitment to stay in the firm for a certain period, or inability to take clients if advisor chooses to leave.

4. The Gen AI Revolution and What It Means for Asset and Wealth Managers

4.1. The Gen AI Revolution

What is AI?

AI is loosely defined as a field of computing dedicated to building machines, or models, that have the ability to solve probl ems otherwise requiring human intelligence. There are several types of AI cutting across a rich history of evolution, from simpli stic natural language processing (NLP) models developed in the 1960s like ELIZA, which aimed to simulate simple conversations with a therapist; to random forest models that can predict the next best actions for sales; to the most recent cutting -edge large language models (LLMs) like GPT-4, which can process up to 25,000 words in a few seconds, understanding the specific nuances of language, and generate sophisticated responses.

There are two common types of AI: discriminative and generative. Discriminative AI has been deployed in asset and wealth management for years, with typical applications focused on predictive analytics that can support use cases like “next best action.” In contrast, generat ive AI, which is enabled by a new class of powerful models such as LLMs, is relatively new and is just beginning to be implemented within the industry.

	Discriminative AI *– the detective*	**Generative AI** *– the artist*
Training	Learns by **understanding rules** and identifying the **boundaries that differentiate things** so as to use the boundaries to classify new ones.	Learns by **understanding patterns** so as to use those patterns to **create new and unique things** that resemble those seen before.
	Supervised ML: Requires the use of manually labelled data where each input is associated with a correct output; labelling is done by humans (domain experts).	**Un- or semi-supervised ML:** Trained on unlabelled data. Does not require humans to do manual labelling, the model self-learns patterns in data.
Outputs	Classification or prediction of next outcome.	Novel content generation in a variety of mediums (text, data, image, code, etc.).

Common AI terms

Artificial Intelligence (AI): The capability of machines to imitate intelligent human behavior or to perform tasks that typically require human intelligence.

Machine Learning (ML): A subset of AI where machines learn from data, allowing them to improve their performance over time without being explicitly programmed for every task.

Deep learning: A subset of ML inspired by the structure and function of the brain, specifically neural networks with many layers.

Artificial Neural Networks (ANNs): Computational models inspired by the human brain's network of neurons. They are foundational to deep learning.

Algorithm: Step-by-step procedures or formulas for solving problems. In AI, algorithms determine how models learn and make decisions.

Natural Language Processing (NLP): A branch of AI that focuses on the interaction between computers and human language, enabling machines to understand and generate human language.

Large Language Models (LLMs): AI models, typically based on deep learning, that are trained on massive amounts of text data and can generate human-like text based on the input they receive.

Generative Pre-trained Transformer (GPT): A specific type of large language model that uses transformer architecture. "Pre-trained" means it's trained on vast amounts of data before being fine-tuned for specific tasks.

If asked to describe their experience with Gen AI, many people would likely cite OpenAI's ChatGPT, the widely adopted AI-powered chatbot released in 2022. Accumulating over 100 million users in just two months, it was one of the fastest-growing consumer applications in history.[8],[9] AI has been around for 60 years, so what's different this time? Does Gen AI have the power to truly transform industries and society?

We believe that answer is a resounding "Yes."

The view that Gen AI has the power to fundamentally transform the world is widely shared, with many hailing the introduction of ChatGPT an "iPhone moment." In a recent blog post, Vice Chair and President of Microsoft Brad Smith wrote:

"Looking back at the history of our industry, certain watershed years stand out.… [I]nternet usage exploded with the popularity of the browser in 1995 and smartphone growth accelerated in 2007 with the launch of the iPhone. It's now likely that 2023 will mark a critical inflection point for artificial intelligence.… [T]he opportunities for people are huge."[10]

While Gen AI builds on existing machine learning technologies underpinning natural language processing (NLP) models, the current generation large language models (LLMs) represent a "tipping point" in terms of capabilities. This "tipping point" has three key aspects:

1. **Higher degree of accuracy (than previous generations of NLP):** Perhaps the most astounding progression is LLMs' ability to understand nuances of human language and generate content that is relevant and more accurate than before. OpenAI's latest version, GPT-4, demonstrates human-level intelligence when tested on a range of benchmarks. For example, GPT 3.5 scored in the 10th percentile on the bar exam; just a year later, GPT-4 is able to score in the 90th percentile.[11] According to Bridgewater Associates CIO Greg Jensen, when tested on Bridgewater's entry-level investment analyst exams, GPT-4 was able to score in the 80th percentile, significantly better than GPT-3.5.[12] Imagine the transformative power of having a technology that can, in a matter of seconds, produce domain-specific, accurate answers and insights that would otherwise take an entire group of highly trained (and paid) investment professionals to develop.
2. **Generality of application:** There is a broad range of applications of Gen AI, spanning industries, business functions, and capabilities. The power of AI models can be harnessed to write code for developers, draft articles and create images for marketing, summarize documents or search for information on the internet for analysts, and even provide psychological counselling to employees, among many other use cases of the technology. As a leading asset manager put it:

   "Gen AI benefits everyone from deal teams to engineers. If we can make our engineers 15-20% more efficient, we can deliver more value back to the business. For the deal teams, if we can use language models to look through datasets, it results in more deals and higher quality deals getting done."

   — *Private discussions with manager*
3. **Better accessibility and ease of use:** One of the most significant attributes of Gen AI applications built on LLMs, particularly chatbots such as ChatGPT and Google's Bard, is their high degree of accessibility and user-friendly interfaces. No technical background or domain-specific expertise is required to productively use the tools, allowing for widespread adoption. As some have put it, "The hottest new programming language is English."[13]

This is not an evolution, but a revolution.

And it is a revolution that is well under way. Gen AI will fundamentally transform how we live and work. It is certainly the case for asset and wealth management, where leading firms have already started deploying and extracting tangible benefits from Gen AI across a broad array of use cases, investing in the necessary infrastructure and talent to extract maximum value. Those still stuck in planning phases are already being left behind — the time to implement is now.

8 ChatGPT was not used in the writing of any of this report apart from the "Common AI Definitions" in the box note. The specific prompt used was: "Write short definitions for the following terms that are suitable for someone with basic knowledge of the artificial intelligence field: artificial intelligence, machine learning, deep learning, artificial neural networks, algorithms, natural language processing, large language models, generative pre-trained transformed models."

9 Source: UBS

10 Source: Microsoft Blog, Feb. 2, 2023

11 Source: OpenAI

12 Source: Bloomberg Radio, Jun. 30, 2023

13 Attributed to Andrej Karpathy, research scientist, founding member of OpenAI, and former Senior Director of AI at Tesla.

4.2. Key Use Cases that Asset and Wealth Managers Are Experimenting with, and Where to Place Bets

Gen AI has rapidly transitioned from the realm of academic tinkering to practical testing and deployment in a broad array of industries, including asset and wealth management. Through our experience, research, and first-hand conversations with over 20 leading asset and wealth managers globally, we have developed an up-to-date view of how managers are deploying Gen AI in their businesses today and their vision for tomorrow.

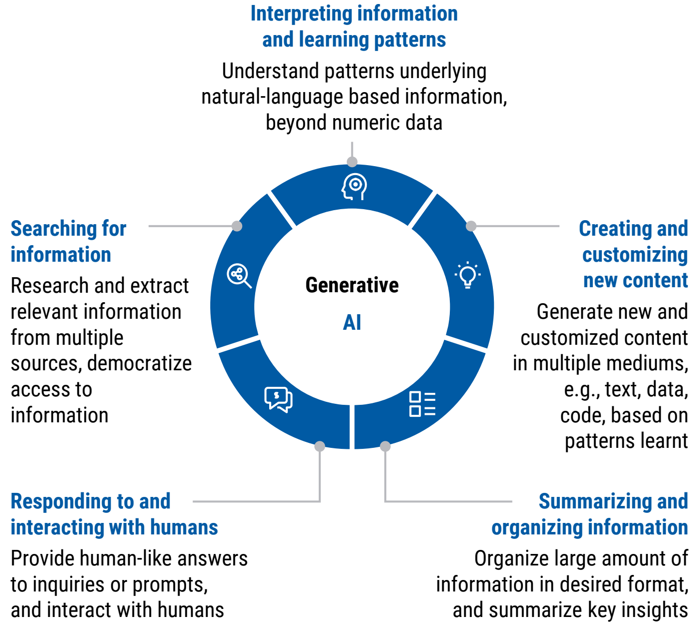
Among the firms that have successfully deployed Gen AI, the initial focus has been almost exclusively on driving efficiency gains across the activity chain. Use cases that aim to directly expand new revenue streams or drive alpha through Gen AI are less common, although it is important to note that efficiency gains free up time and resources that can be reallocated to higher-value activities to support revenue-generating activities, enable better investment decisions, or improve client engagement and experience. Importantly, firms have not been utilizing Gen AI to replace resources. Rather, the technology has been used more as a copilot or a tool that enhances human capabilities, often by shifting the balance of activities away from creating and synthesizing to reviewing and validating outputs.

"In the short term, benefits of Gen AI are concentrated in efficiency gains. Large Language Models are good for large and routine tasks ... and can help gain speed on internal processes, research papers, RFPs, essentially anything around research, interpretation, and summarization. As we move to the future, I think there could be more revenue opportunities.... Alpha potential from Gen AI is still unclear."

— *Private discussions with manager*

In determining how Gen AI can be used across the asset and wealth management value chains, it is first helpful to classify the different types of capabilities that it provides. These can be broken down into five core capabilities:

Exhibit 41: Core Capabilities Gen AI Enables



Source: Oliver Wyman

In theory, these capabilities could support an infinite number of use cases. Indeed, firms have compiled hundreds of ideas involving these core capabilities. However, deploying it indiscriminately, without fully understanding how well suited (**Suitability**) a given capability is for addressing a specific business problem or how feasible (**Feasibility**) the implementation is, can waste valuable resources and drive disappointing returns on investment (ROIs). While experimentation in such a nascent field needs to be encouraged, it cannot be indiscriminate "tinkering." The leaders that have successfully deployed Gen AI solutions, and have a strong pipeline of promising applications, have adopted a systematic approach to carefully characterizing and prioritizing how Gen AI capabilities can be best utilized. Exhibit 42 shows an example of a Gen AI Use Case Assessment Framework that can help prioritize Gen AI investment and implementation efforts. Particularly important in assessing potential use cases is understanding the first dimension around "Gen AI Fit." Gen AI is not the ideal solution for all problems; there are specific conditions where Gen AI capabilities have the highest "fit" potential.

Exhibit 42: Gen AI Use Case Assessment Framework (Illustrative; Not Exhaustive)

Gen AI Use Case Assessment Framework			
Cat.	**Dimension**	**Consideration**	**Assessment**
Suitability	Gen AI "fit"	Abundance of information to interpret and synthesize	
		Need to generate moderately customized or creative content	
		Routineness of task	
	Impact potential	Potential impact on productivity, efficiency, revenue, or other business objective	
	Technology advantage	Extent of Gen AI's differentiated advantage versus alternative solutions	
	Ethical and regulatory	Ethical implications and regulatory compliance	
Feasibility	Cost	Cost of implementation, including hardware, software, people, etc.	
	Skill and expertise	Internal availability of necessary expertise or ability to source it externally	
	Integration complexity	Complexity of integrating Gen AI into existing systems and workflows at scale	
	Timeline of implemen-tation	Time to implement versus urgency of business need	
	Risk	Alignment with risk appetite or ability to mitigate within tolerance	

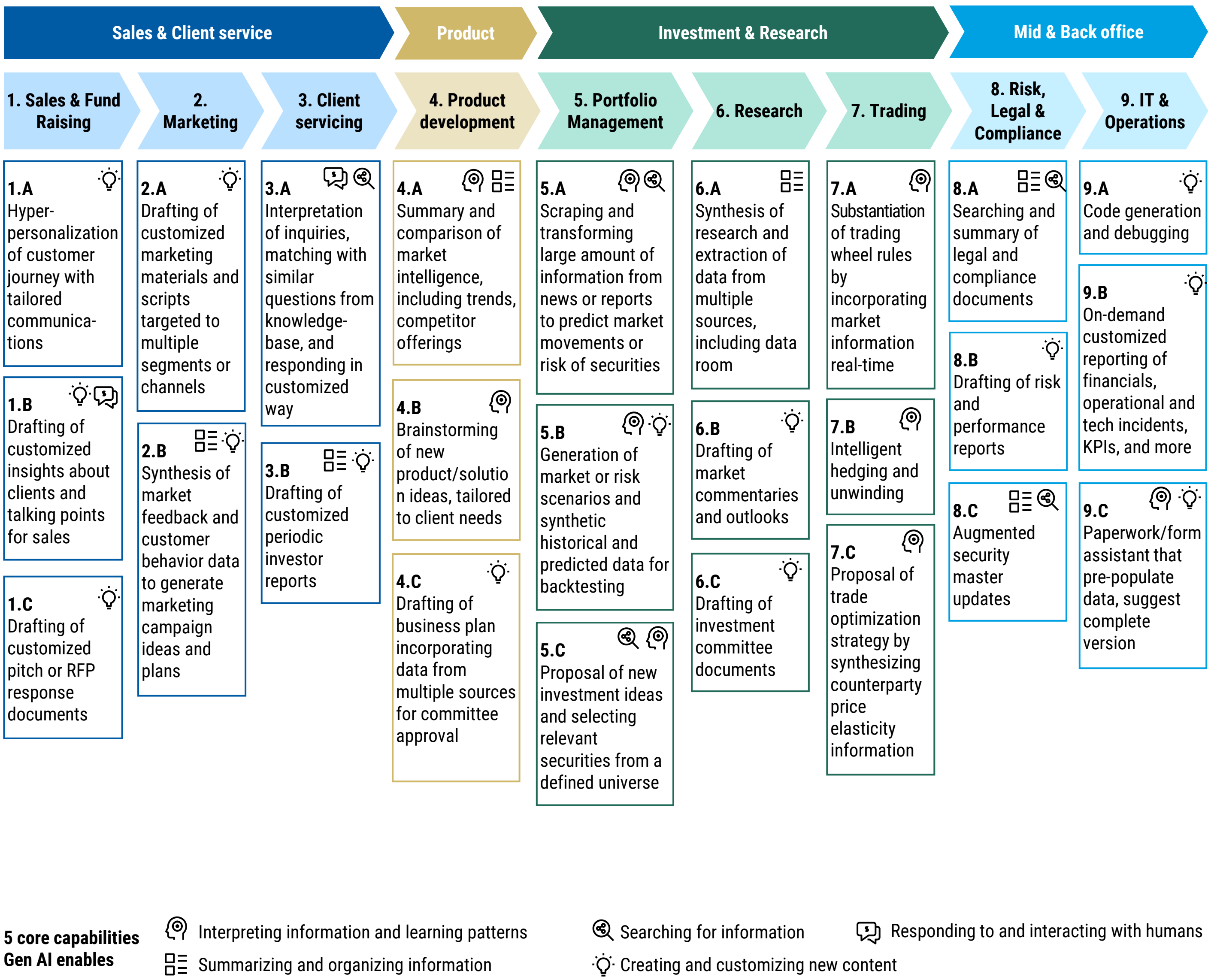
Source: Oliver Wyman

In the sections below, we explore a range of Gen AI use cases for asset and wealth managers that score highly on the "fit" dimension. Many of these are being implemented today by leading firms; others represent more of a look at future interesting possibilities.

Gen AI Use Cases in Asset Management

Gen AI technology can be applied across the asset management activity chain. Based on our conversations and engagement with early movers in the space, we have identified 25 key use cases where we see Gen AI having a high “fit.”

Exhibit 43: Gen AI Use Cases Across Asset Management Value Chain (Not Exhaustive)



Source: Oliver Wyman

Each one of these use cases has the potential to drive significant positive impacts through exploiting one or more of the core capabilities of Gen AI. But not all use cases will have the same level of impact, and the timeframe over which they might be implemented varies. We have estimated the relative impact and implementation timeline for each use case from a broad industry perspective, which we highlight in Exhibit 44 .

Exhibit 44: Gen AI Use Cases by Impact Potential vs. Timeline of Implementation

Source: Oliver Wyman

While it is still extremely early days in the adoption of this technology, our estimates of impact potential are primarily a reflection of productivity gains based on a triangulation of interviews, industry studies, anecdotal evidence, and our understanding of how Gen AI might alter the underlying processes. We think nine use cases merit highlighting in greater detail as we are already seeing them being deployed or actively tested in the industry. The relatively more advanced state of these use case deployments allows us to provide more specific ranges of efficiency gains/cost reductions that organizations are beginning to see or anticipate. We summarize these nine "deep dives" in the table below.

Stage in Value Chain	Problem Statement & Conventional Approach	Gen AI Use Case and Their Potential Impact on Asset Managers	Gen AI capabilities
Sales & Client Service	Sales receiving next-best actions for an account from a rule-based engine, and subsequently manually preparing engagement materials and sales scripts.	Use case 1B. Drafting of customized insights about clients and talking points for sales. Automatically drafting "smart nuggets" as talking points or supporting discussion materials before or even during client conversations, e.g., reasoning for updates to SMA portfolio, drivers of performance against benchmarks. Sentiment alerts based on records of prior interactions or live conversations, allowing for prioritization of client outreach (e.g., to minimize client attrition risk). Impact potential: +20% upsell hit ratio for institutional clients targeted with tailored conversations; up to +30% NNM in wholesale based on successfully placed products on distributors' fund buy list; -20% AuM attrition through proactive engagement.	Creating and customizin new content. Responding to and interacting with human.
	Client service chatbots or self-service engines providing standard but often irrelevant answers according to keywords entered by clients or employees.	Use case 3A. Interpretation of inquiries, matching with similar questions from knowledgebase, and responding in customized way. Understanding inquiries from clients or client service personnel, matching with similar questions in a defined knowledgebase, and responding with accurate answers in a human-like way. Such responses are customized to the firm's internal data and service personnel's tonality. Impact potential: +60% faster response time on prioritized client requests; +20% increase in self-service adoption.	Responding to and interacting with human. Searching for information.
	Tedious process spent by client-servicing teams preparing for periodic reports on portfolio performance and commentaries that are often standardized across clients.	Use case 3B. Drafting of customized periodic investor reports. Preparing drafts of detailed and well-formatted reports, with comprehensive summaries or comparison of market and portfolio performance, while offering personalized insights tailored to investor preferences and guidelines. Allowing portfolio and account managers to review and enhance the reports instead of spending time writing them from scratch. Impact potential: Up to 80% of (semi-) annual client investment committee materials generated via bots; up to 20% reduction in performance attribution team; up to 50% FTE reduction in market commentary department.	Summarizing and organizing information. Creating and customizin new content.

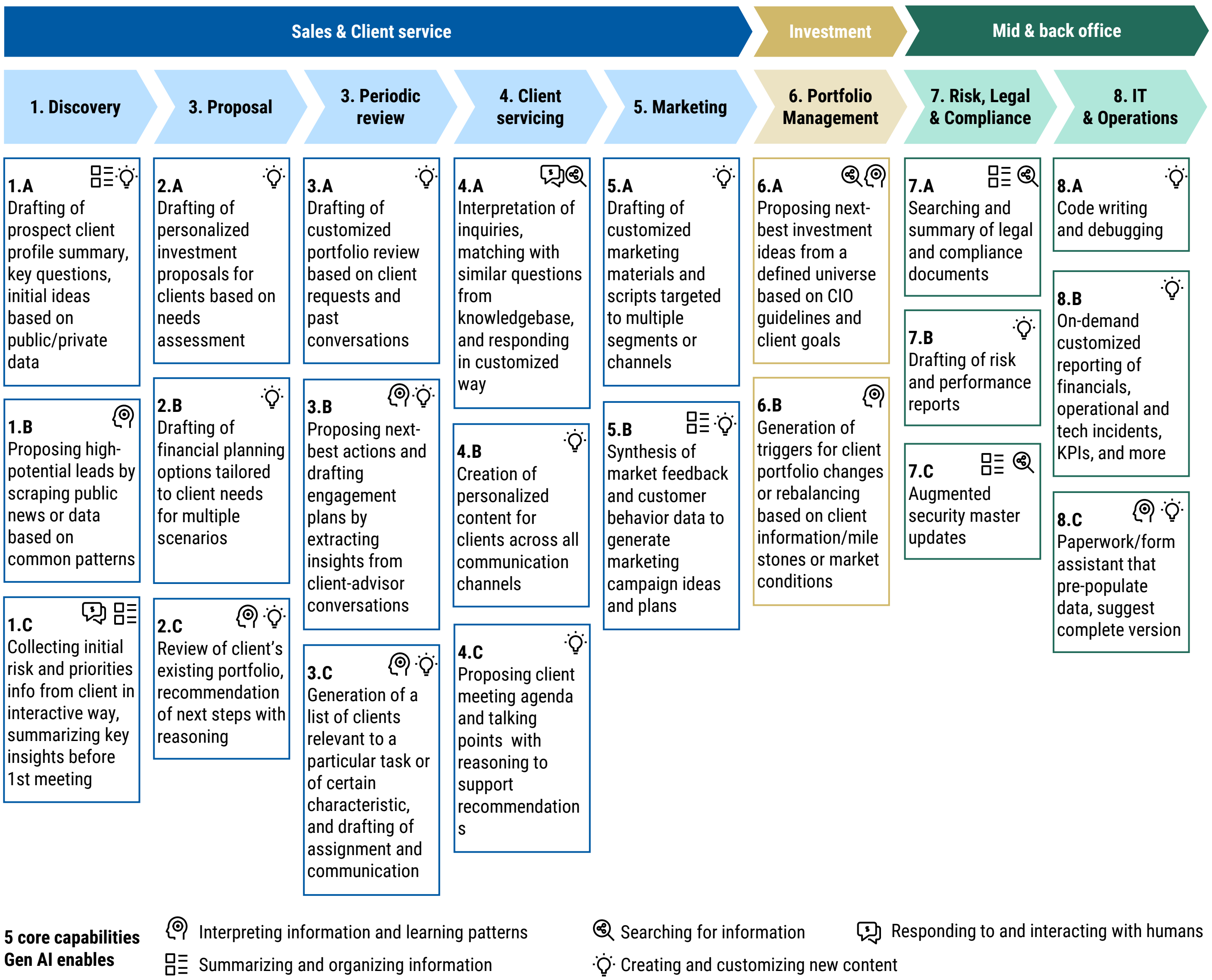
Stage in Value Chain	Problem Statement & Conventional Approach	Gen AI Use Case and Their Potential Impact on Asset Managers	Gen AI capabilities
Product	Long process, from months to a few years, spent by product specialists/managers on conducting market and competitor research for new product development.	Use case 4A. Summary and comparison of market intelligence, including trends, competitor offerings. Scraping large amount of market reports, competitor product prospectuses and filings, news and social media posts to summarize and compare intelligence around trends, competitor offerings and pricing. Helping product specialists identify gaps in the market and inform design of new products that meet market demand. Impact potential: 60% of new product approval documentation automatically generated; faster time to market for new product launches.	Interpreting information and learning patterns. Summarizing and organizing information.
Investment & Research	Portfolio managers using structured data (e.g., financial statements and market data) and manual effort to assess risk. Challenge is timeliness of financial reporting, lack of market data for private entities, low efficiency and accuracy of processing large amounts of unstructured information in real time.	Use case 5A. Scraping and transforming large amount of information from news or reports to predict market movements or risk of securities. Identifying and interpreting broader range of public information that indicate change in underlying risks of a security (e.g., impact on creditworthiness or climate risks) or market environment. Impact potential: Up to 30% productivity gains across analyst roles by processing information at speed and scale that were not possible before.	Interpreting information and learning patterns. Searching for information.
	Research analysts manually summarizing key takeaways from digital transcripts of earnings calls and searching across multiple files in different locations to extract relevant data for analysis	Use case 6A. Synthesis of research and extraction of data from multiple sources, including data room. Automatically synthesizing insights about a security from a large number of digital transcripts from investor conferences and Q&A calls, documents, and data sources in a short timeframe. Allowing research analysts to review and enhance the insights instead of spending time gathering and cleaning information. Impact potential: Productivity gain and discovery of niche insights in bigger volume that were not possible through human research before; up to 30% productivity gains across research and analyst roles.	Summarizing and organizing information.

Stage in Value Chain	Problem Statement & Conventional Approach	Gen AI Use Case and Their Potential Impact on Asset Managers	Gen AI capabilities
Mid- & Back Office	Legal professionals using basic search engine to find and compare legal and compliance documents, manually read through and extract key learnings.	Use case 8A. Searching and summary of legal and compliance documents. Scanning through multiple documents at one time to locate the right documents or paragraphs; allowing for comparisons between new drafts with historical documentations (especially for transaction business in private markets). Impact potential: Up to 95% of private market legal documentations are unchanged, allowing legal team to focus on sections that matter; reduction of legal negotiations periods by 20-30%.	Summarizing and organizing information. Searching for information.
	Security master enhancements done manually based on security documentations (e.g., derivatives).	Use case 8C. Augmented security master updates. Library of security documentation allowing for reuse of existing codes and parameters, minimizing the need for new attributes; automated mapping of attributes across various sources inside and outside the data hub. Impact potential: 95% accuracy and 75% reduction in the need for any manual codification; freed up 20-30% of operations staff in the respective department.	Searching for information. Summarizing and organizing information.
	Automation of repetitive tasks or processes with human-written code by software developers.	Use case 9A. Code generation and debugging. Automatic writing and debugging of code according to specific problems or desired attributes as defined by human prompts, e.g., developing and implementing trading algorithms, automating ESG data cleaning and refresh. Enabling nontechnical employees to automate workflows efficiently, saving developer resources for high-value tasks. Impact potential: Up to 25-50% time saved.	Creating and customizin new content.

Gen AI Use Cases in Wealth Management

Across the wealth management value chain, there are numerous activities ripe for the application of Gen AI. In Exhibit 45 we provide an overview of 22 promising use cases that we think are of a high fit and relevance for wealth managers globally.

Exhibit 45: Gen AI Use Cases Across Wealth Management Value Chain (Not Exhaustive)



Source: Oliver Wyman

Exhibit 46: Gen AI Use Cases by Impact Potential vs. Timeline of Implementation

Source: Oliver Wyman

In developing these examples, similar to what we have done for asset management, we assessed the characteristics of different activities across the wealth management activity chain and evaluated how different Gen AI capabilities could enhance or replace those activities based on considerations of impact and time to implement, as shown in Exhibit 46 .

From our research and engagement with wealth managers, it is clear to us that leaders are aggressively implementing many of these use cases, particularly those focused on sales & client service. While just about all organizations are, to some extent, in a mix of planning and experimentation phases, we would characterize those that have yet to get at least some of these experiments out of the lab as being meaningfully late to the game. Given the investments, expertise, partnerships, data engineering, and upskilling required, those that do not move forward now with conviction could potentially end up permanently behind.

Case study: How Gen AI can transform how advisors do their job

Gen AI is poised to reshape how advisors do their job. We believe Gen AI tools can empower advisors in two ways:

1. **Enhancing the ability to serve clients,** e.g., reducing time spent on routine or administrative tasks, feeding them with deeper insights about clients, helping them better explain concepts to and convince clients.

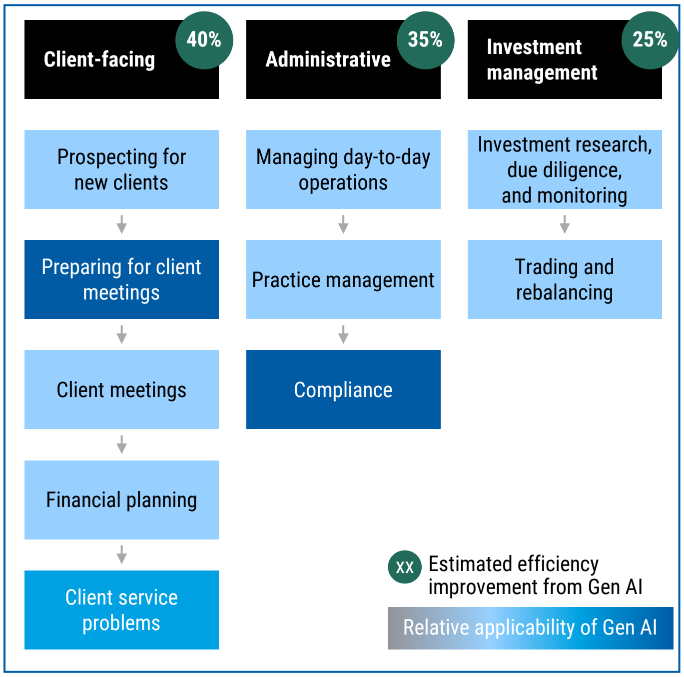
2. **Enabling better identification and conversion of prospective clients,** e.g., discovering and targeting the right leads to convert. Success in serving existing clients also means that they are more likely to refer new clients, which will lead to higher NNM and new client acquisition.

Gen AI should not replace human advisory altogether. Rather, it should be used to liberate advisors' time from routine or administrative tasks, allowing them to focus on building deeper connection with clients or service more clients with the same resources, which can subsequently drive greater revenue.

Wealth managers expect to increase productivity by 30-40% with Gen AI.

Exhibit 47 provides an overview of a range of advisory activities in which Gen AI can be applied. Our analyses and industry discussions suggest that applying Gen AI to support the daily activities of advisors can lead to productivity gains of more than 30-40% for specific processes.

Exhibit 47: Leveraging Gen AI in the Job of Advisors



Source: Oliver Wyman

Relationship managers and advisors stand to benefit the most from Gen AI for client-facing and administrative tasks.

Today, client-facing activities account for more than 50% of advisors' time. Gen AI can help advisors prepare for first and subsequent meetings with deeper insights and more tailored recommendations, and maximize not only the time that can be spent with clients but also the value thereof. Practical examples include:

1. collecting initial risk and priorities info from client in interactive way and summarizing key insights (use case 1C),
2. proposing next-best actions and drafting engagement plans by extracting insights from client-advisor conversations (use case 3B),
3. drafting client meeting agenda and talking points with reasoning to support recommendations (use case 4C).

Advisors can reduce the time spent on preparing for client meetings and improve the preparation. Better preparation often leads to more productive meetings, frontloading tasks that used to be done during the meetings and reducing the need for back-and-forth conversations. In addition, Gen AI tools that propose high-potential leads by scraping public news or data based on common patterns (use case 1B) and draft personalized investment proposals for clients based on needs assessment (use case 2A) can expand the pipeline of prospect clients and increase conversion rate.

Administrative tasks account for more than 20% of advisors' time. By having Gen AI take over the traditional "legwork" and expediting these activities (such as report preparation, compliance tasks, etc.), advisors can allocate more time to client-facing and investment management tasks that have a direct revenue impact. For example, Gen AI can quickly generate a list of clients relevant to a particular task or of a certain characteristic, such as meeting the legal age for retirement distribution, and subsequently draft assignment and communication to relevant clients (use case 3C).

4.3. Risks and Limitations of AI Technology

In the words of Stephen Hawking, "Success in creating AI would be the biggest event in human history. Unfortunately, it might also be the last, unless we learn how to avoid the risks." It has been nearly a decade since Hawking admonished his listeners of the dangers of AI, but as the buzz around Gen AI grows stronger, his words have scarcely been more relevant.[14]

Technological risks and limitations:

1. **Hallucination:** Gen AI models are known to sometimes generate false or misleading outputs framed with a high level of confidence (i.e., "hallucination") as they are trained to replicate patterns in prior data, not logical relationships. Under certain conditions, hallucination could lead to the spread of misinformation on an unprecedented scale; it can result in substandard investment decisions, incorrect code that could damage key systems, and poor client recommendations, among other consequences. The risk of hallucination can be minimized by ensuring that models are trained on quality data and outputs are screened before investment or business decisions are made based on AI recommendations.

14 Source: Stephen Hawkins, University of Cambridge, Oct. 19, 2016.

2. **Inability to trace underlying logic:** An inherent limitation of Gen AI models is that they are considered "black box" systems as the underlying logic in generating outputs is not traceable or clearly explainable. Managers and advisors may rely on AI outputs to inform investment or other client-facing recommendations and then, if asked, find it difficult to explain the logic underlying their decision-making; this could potentially lead to a loss in client trust. However, with sufficient fine-tuning of AI models for specific use cases, firms can engineer models to explain drivers of outputs to an extent acceptable to clients. For example, NewsTrack is an Oliver Wyman Gen AI model that has been fine-tuned to predict credit default events of securities; the model is "self-explainable" in that it can point to underlying news articles that contributed to a particular score.

3. **Threat of cyberattacks and fraud:** The complexity of Gen AI models can potentially provide new opportunities for cyberattacks, such as an emerging practice of hackers called "prompt injection" in which user inputs are crafted in a way that manipulates AI models to generate biased or malicious outputs, bypassing programmed safeguards. Such attacks can negatively impact investment or business decisions by providing analysts with incorrect, and even inappropriate, outputs to prompts. Related to this, AI technology has increased the threat of deep fakes, impersonation, phishing, and fraud. Firms must protect against these risks or client relationships could be affected, particularly in the wealth management space.

Usage risks and limitations:

4. **Data privacy:** The use of ChatGPT or another public model can lead to leakage of investment strategies, trade secrets, client records, and other proprietary information. A recent cautionary tale is the case of Samsung, which established a company-wide ban on Gen AI tools in the aftermath of employees leaking sensitive data through ChatGPT.[15] Due to this, many companies have chosen to adopt ring-fenced, protected environments and to run private versions of Gen AI models, which can be fine-tuned without risk of feeding proprietary data into public models.

5. **Improperly trained models:** While the risk of biased algorithms has always been present in machine learning, Gen AI raises the stakes as models trained on incomplete or biased data can lead to incorrect and/or undesired outputs on a larger scale. Moreover, fine-tuning models means introducing new information, which can unintentionally disrupt parameters and have a damaging effect on the model's functioning, a phenomenon known as "model drift" that increases the risk of inaccurate outputs. If outputs are biased and/or incorrect, this could lead to reputational damage for firms, and potential legal implications.

"If you train models on a corpus of data that is biased, the answers you get will be biased. Data in will inform data out. People are so enchanted by large language models that they forget there is a body of data on which the model has been trained and you have to be sensitive of that."

— Private discussions with manager

6. **Difficulty to control outputs:** As outputs from Gen AI models cannot be easily controlled to adhere to specific rules or firm values, especially in the case of client-facing chatbots, direct communication with clients in the absence of human oversight should be limited. If clients receive incorrect or inappropriate correspondence, this could potentially damage relationships and/or create legal disputes.

"AI is no different than employees.… [F]irms have an obligation to train and supervise AI just like analysts, ensuring the quality of inputs and outputs.… We're not just going to let a junior person write and publish, it's going to have to be edited by a senior person."

— Private discussions with manager

7. **Observability of interactions:** Automatic speech recognition (ASR) models, which can automatically convert spoken words into text transcript, have been around for some time, but the capabilities of Gen AI may augment the benefits of such models. Firms may be incentivized to record all client conversations as Gen AI can effectively summarize data. Yet this can increase liability for firms by heightening the observability of interactions between advisors/managers and clients. Trivial, run-of-the-mill mistakes could thereby become bigger issues, putting firms at legal or reputational risk as conversations could be tracked by regulators or manipulated by nefarious parties against firms in the future. To prevent against this, firms should be careful about what data are stored and for how long.

8. **Copyright concerns:** AI-generated content can potentially infringe on existing copyright or trademarks, and in many cases, firms may not own assets generated from public models, such as ChatGPT. As copyright law is still catching up with the rapid development of Gen AI models, there is ambiguity around ownership over AI outputs, creating a difficult regulatory landscape for firms to navigate and potentially leading to legal disputes.

15 Source: Mashable, Apr. 6, 2023

Regulators have taken note of the limitations and risks posed by Gen AI and are developing new regulatory guidelines to ensure they can be contained (Exhibit 48). Asset and wealth managers must establish robust controls to ensure that Gen AI applications adhere to the specific regulatory requirements of each jurisdiction in which they operate, safeguarding investor interests and complying with local laws. Meanwhile, fundamental principles around "fit for purpose" and marketing suitability of financial products and services remain paramount, requiring significant human oversight in the decision-making processes that involve Gen AI.

Exhibit 48: Regulatory Landscape of Gen AI (Not Exhaustive)

United States

- The United States has yet to issue any federal regulations, but the White House has released a "blueprint" for an AI Bill of Rights that provides non-mandated guidance on the safe development and deployment of Gen AI.
- Seventeen states have passed specific, state-level AI-related legislation, mainly around limiting the role of AI in consequential decisions such as hiring, education, and social welfare.
- In July 2023, the Securities and Exchange Commission (SEC) proposed rules mandating conflict of interest management for AI use by broker-dealers and advisors.
- In September 2023, the Consumer Finance Protection Bureau (CFPB) issued legal requirements for lenders to provide specific and accurate reasoning for credit denial based off AI models.

Europe

- In June 2023, the European Parliament passed the AI Act, setting the precedent for Gen AI regulations. The measure
  - evaluates uses of AI based on "risk," banning certain AI that creates an "unacceptable risk" and
  - establishes that "foundation models," such as LLMs before fine-tuning, are to be regulated separately; developers are mandated to publish all copyright-protected data used in training and required to train models with safeguards to prevent against generating law-breaking content.

China

- In July 2023, the Cyberspace Administration of China (CAC) issued "interim measures" and mandated security assessments for all Gen AI "accessible to the general public within China."
- Rules include using legitimate sources for data training, obtaining consent for personal information processing, and adding tags to AI-generated content, among others.
- No regulation pertaining to enterprise-facing Gen AI, or non-public service providers has been passed.

Source: Oliver Wyman

It is imperative that all stakeholders understand that Gen AI models lack goals and desires, memory of prior interactions, self-awareness to separate fact from fiction, or real understanding of words beyond linguistic patterns. While Gen AI is rapidly evolving and will surely revolutionize the way we do business, without sufficient acknowledgment and mitigation of these risks and limitations, Hawking's warning will become reality: the biggest, and the last.

4.4. Key Success Factors that Will Distinguish Winning Asset and Wealth Managers

Successful implementation of Gen AI necessitates a thoughtful and strategic approach by asset and wealth managers to maximize impact and manage risks. We have identified seven imperatives for managers to effectively harness Gen AI's potential. We believe the first three will be potential sources of competitive differentiation for firms that can successfully execute on them. The next four we see as "table stakes" — any firm that wants to effectively deploy Gen AI across their business will need to adopt these actions.

1. **Deploy proprietary data as a strategic asset with the right data environment:** Maximizing leverage from public instances of LLMs is essential to stay competitive, but it offers little differentiation. True value lies in "tuning" these commoditized models to understand the specific operating context, and incorporating unique research approaches, frameworks, and even how organizations communicate. Managers must engineer the necessary data environment (data storage, warehouse, analytics, APIs, visualization) and employ good data management practices (governance, quality, controls) to effectively feed and enable AI models. Additionally, data engineering must address the challenge of securely handling sensitive data, while enabling comprehensive integration of proprietary internal data and external datasets with a single source of truth. Firms that have good amount of valuable proprietary data and foundation will be best positioned, while those that lag will have a difficult time competing.

"It took us 7 years to create a single source of truth within our organization that links every single data attribute seamlessly. Having good quality, consistent and accurate data is critical for scaling Gen AI."

— Private discussions with manager

2. **Adopt a holistic or systems-based approach:** It is crucial for asset and wealth managers to have a holistic, systems-based mindset and develop a consistent AI strategy across the organization, rather than focus solely on individual use cases. This involves considering how AI initiatives fit within the organization's broader business strategy, such as purchasing enterprise cloud storage that would allow AI models to easily integrate data from multiple sources. By taking a comprehensive view, organizations can better understand how to

fund, organize, and prioritize AI deployment, and even how AI can be integrated into helping the organization better manage the various initiatives themselves.

3. **Reimagine operations to exploit the possibilities of AI:** Gen AI in isolation is not a guaranteed solution for cutting costs, driving productivity enhancements, or contributing to revenue gains. Instead, winning managers will need to reimagine what's possible, rearchitecting workflows to realize the advantages of the technology. For example, if Gen AI–enabled outputs, such as market commentaries, still require review prior to public consumption, then creating centralized functions into workflows that are better equipped to perform quality checks will allow the organization to distribute outputs at scale. This would also mean that managers need to rethink their staffing models — in some cases, where Gen AI is able to replace routine tasks, smaller teams would be sufficient; in core data engineering and governance functions, team size may need to expand.

4. **Identify whether Gen AI is the right solution for the specific business problem:** It is important to identify clear use cases where Gen AI can drive tangible value within the five application areas. There are many use cases where AI is possible in application but is not the right solution after considering suitability and feasibility versus existing or alternative solutions (as shown in Exhibit 42). The *Gen AI Use Case Assessment Framework*, or similar frameworks, can help decision makers conduct thorough assessments of use case suitability and feasibility.

5. **Evolve talent strategy and develop right teaming models:** Gen AI is reshaping the way organizations view talent acquisition, employee training and development, and organizational structure. More specifically, utilizing Gen AI effectively means building up data engineering and data science capabilities to design and support the required data environment, optimize model-tuning and build fit-for-purpose applications that can be seamlessly integrated into existing business processes. It also means cultivating AI prompt engineering resources, building on their understanding of the underlying technology, while instilling a deeper understanding of the business. Equally important is upskilling current employees to effectively use AI tools, whether it be through bringing in outside experts, anointing internal AI champions to serve as advocates and trainers, or creating self-service study programs. In support of these efforts, organizational models and processes will likely need to change to ensure effective collaboration and cross-fertilization of knowledge between business and technology professionals.

"The tech IQ throughout the industry will have to increase to meet this need. There is a growing need for a new class of engineers … specifically those involved in data stewardship and data management, which are capabilities implied in the outcome of good data. And the staffing model across all business lines is subject to change. Firms that change will be better positioned in this new world."

— *Private discussions with manager*

6. **Maintain trust and transparency:** This includes organizations clearly communicating how AI is used with customers, employees, and other stakeholders, addressing any concerns and demonstrating commitment to ethical AI use. Customers have a right to know how AI applications utilize data and when they consume information generated by AI. Moreover, it is crucial that employees understand and can explain the rationale behind AI-based decision-making that affects customers. For example, many firms are **maintaining a "human-in-the-loop" approach to AI adoption,** whereby a human is involved in the decision-making process alongside AI, so that AI operates with human oversight, intervention, and validation. This is particularly important in use cases where there is a need for human judgment, expertise, or ethical considerations that AI may not be able to handle reliably, such as customer selection and risk profiling.

7. **Strike the right balance between in-house capabilities and outsourcing:** Building AI capabilities in-house offers customizability, deeper understanding, and greater control over AI models and data security. However, it demands significant investments in talent, infrastructure, and time, which is generally feasible only for larger managers. Partnering with external providers grants quicker access to expertise and ready-made solutions, reducing development time and costs. The right balance between in-house and external approaches depends on specific use cases. For instance, writing and debugging code can be effectively achieved by plugging in proven vendor solutions. In contrast, more sophisticated Gen AI applications, like content production in an advisor's voice, will require substantial fine-tuning done by in-house teams to make sure that model features and functionalities are tailored to solve the organization's unique business problems. Many asset and wealth managers are adopting a "buy-to-build" hybrid approach, leveraging foundational AI models to develop their private versions. This allows customization with proprietary data within a secure environment, tailored to meet distinct business requirements.

By evaluating "Gen AI readiness" in line with these success dimensions and proactively addressing any identified gaps, asset and wealth managers can create a comprehensive blueprint for harnessing AI effectively. Exhibit 49 provides an overview of distinguishing factors between leaders and laggers.

Exhibit 49: "Gen AI Readiness" from Leaders to Laggers in Asset and Wealth Management

		LAGGING	FOLLOWING	LEADING
1	**Deploying proprietary data as a strategic asset with the right data environment**	Working on establishing foundational data infrastructure and data management practices	Revisiting data management practices; in-flight initiatives to use proprietary data to finetune Gen AI models	Coherent, robust data environment and management; proprietary data integrated within Gen AI models
2	**Adopting a holistic or systems-based approach**	Limited consideration of Gen AI-enabled solutions	Initial POCs developed in silos by various functions	Harmonization of digital and AI initiatives across organization to achieve synergy in benefits and effort
3	**Reimagining operations to exploit the possibilities of AI**	No change to BAU	Existing workflows augmented with Gen AI to achieve more efficiency	Proactively exploring new workflows to exploit possibilities of AI
4	**Identifying whether Gen AI is the right solution for the specific business problem**	Limited consideration of Gen AI-enabled solutions	Some identification and prioritization of Gen AI use cases with early POCs being tested; but feasibility/validation study is in progress	Carefully considered where Gen AI is most suitable and feasible in the business and prioritized use cases; test and learn, and "tuning" ongoing
5	**Evolve talent strategy and develop right teaming models**	No talent model evolution plan or training offered	Basic trainings offered on how to use Gen AI tools properly	Having strategic view on talent model evolution in the long run; starting to train initial cohorts of key functions
6	**Maintaining trust and transparency**	Made internal communications that Gen AI is on leaderships' radar	Published initial guidelines and FAQs around usage of AI tools within the organization	AI and model governance framework established; "Human-in-the-loop" approach adopted
7	**Striking the right balance of in-house capabilities and outsourcing**	Limited in-house data and model teams, and having preliminary discussions with external tech vendors	Relying on limited in-house team and exploring collaboration with tech vendors on initial POCs and use cases	Active engagement between in-house teams and external tech vendors in co-creation of AI-enabled solutions, but driven by in-house expertise

Source: Oliver Wyman

Firms that can move more to the right of the spectrum will be able to extract the full benefit from deploying Gen AI capabilities at scale throughout their organizations. Getting there requires senior leaders take a moment to pause and ask themselves three essential questions:

1) Where are we on the spectrum across each action?

2) Where are our biggest gaps preventing us from successfully deploying this technology at scale?

3) How confident are we in our plan to close these gaps?

The AI Tipping Point is here. Which side will your organization fall on?

5. Messages from Our Proprietary Survey

Key takeaways from our meetings with senior executives of asset and wealth managers with over $21 trillion of combined assets under management.

State of the Industry: Growth Opportunities

Outlook for alternative assets remains strong despite fundraising challenges and concerns about a potential downturn.

Private credit:

- Despite uncertainty about whether they've reached the bottom of the cycle, asset managers still have an appetite for deploying capital and money continues to flow in.
- Asset managers are navigating a more challenging fundraising environment, especially in the US; however, they can still advance investments where they have conviction.
- Investment levels are gradually increasing, but managers are taking a cautious approach to evaluations and exits.

Infrastructure:

- Some firms are doubling down on energy transition, pursuing opportunities with energy companies that must transition from brown to green, as well as opportunities with newer alternative energies.
- Impact and sustainability investing is evolving into a genuine value-creation tool for select asset managers — no longer just a marketing tactic but a science-based approach that balances risk and reward.
- While asset managers choose not to label them as impact strategies, they are addressing demand through their investment approach.

Real estate:

- Some firms noted that money is not in motion and real estate is seeing challenges, especially on the commercial side.

Retail/wealth channel:

- Broadly recognized as a very large opportunity with significant resources focused on building the teams, infrastructure, products, and services to compete, e.g.:
    - making products more retail-friendly and easier to sell on platforms
    - building capabilities to support/train wealth managers' to enhance their ability to sell to end clients

Asset managers remain bullish on the growth potential of emerging Asia markets.

- Asset managers are generally less concerned about geopolitical tensions and are focusing on the underlying demographics, growth potential, and stable financing environment of the region.
- While there is some hesitancy about investing long-term in China due to concerns about facing sanctions, the concerns have started to abate, and asset managers anticipate some growth in short-duration equity markets.
- Several executives now view India as a more promising market than China. While India has previously been somewhat overlooked in favor of China's growth, asset managers are starting to take note of the country's potential. However, India is considered a relatively harder place to invest.

The rise of passive and direct indexing is expected to continue, with some firms reshaping their business in response to this trend.

- Most asset managers expect passive investing will remain a strong growth area as investors continue to seek low-cost, diversified investment options.
- Direct indexing is becoming an increasingly important component for asset managers to have in their toolkit.
- In the short term, there is growth in fixed income and money market funds, as investors seek safer choices in a particularly volatile investment environment.

Some wealth managers are pursuing growth in the (U)HNW segment by offering solutions for more complex needs.

- Several firms acknowledged that in dealing with the (U)HNW segment, they have to offer a broad spectrum of solutions. We think winners in the space will be managers that are able to integrate all of the "puzzle pieces" efficiently, with limited friction.
- Some wealth managers noted a bifurcation in client thinking between investment-orientated (e.g., "Can I access a private equity fund?" and "What are my five-year returns?"), and wealth optimization-orientated (e.g., "How best can I steward capital for generations?").
- Within the (U)HNW segment, corporate executives, multi-generational, next generation, women, and entrepreneurs were cited as fast-growing opportunities.

- Some wealth managers view the workplace as a significant alternative entry point to establish relationships with the (U)HNW, or soon-to-be-HNW, segments.
- While a strong digital experience is important, most firms maintained that human connection is paramount for this segment, noting scalability challenges when serving complex clients.

A more challenging macro backdrop is motivating firms to invest in operational efficiencies.

- Several asset and wealth managers we interviewed are actively engaged in reviewing and standardizing internal processes to enable automation and improved scalability.
- Firms are not necessarily in pure cost-reduction mode, but the focus is on simplification and rationalization.
- Common examples mentioned include near-shoring and outsourcing, footprint rationalization, and closing or merging of subscale funds.
- There is an increased focus on prioritizing locations and segments where the manager has a right to win.

Generative AI

Asset and wealth managers are deploying tools and extracting tangible benefits from Gen AI.

- All firms we interviewed indicated the initial focus of Gen AI use cases is overwhelmingly on productivity gains.
- Some firms view the primary advantage of Gen AI as reducing the time needed to search for proprietary historical data; they expect efficiency gains similar to the introduction of search engines.
- Asset and wealth managers see less near-term opportunity in alpha generation — the bar throughout industry will be raised and firms will need to be competitive and find 2nd or 3rd order factors because lower-hanging fruit will be commoditized.
- The alpha opportunity is reaped indirectly through Gen AI as an assistant to human portfolio managers that augments existing research and portfolio management capabilities.
- Wealth managers we interviewed noted advantages including extracting more insights, bridging the gap between advisor and firm knowledge, and improving the client-advisor relationship.
- A few managers we interviewed are already seeing tangible productivity benefits from implementing Gen AI tools in their workflow, with some use cases achieving up to 90% time saved for a particular task.

Firms with significant amounts of proprietary data, supported by robust data management and governance, appear most likely to win.

- Data will be valuable to asset and wealth managers to the extent it is proprietary, differentiated, and vetted for high confidence.
- The top challenge mentioned by managers we interviewed is building the right data environment enable Gen AI tools.
- The quality of AI-generated output is influenced by the quality of data input — how data are stored, extracted, transformed, and quality controlled requires significant thought and investment. Gen AI models require high-quality data to reduce hallucination — several managers noted it can take years to build the necessary environment.
- Data privacy, model biases, and copyright laws are key concerns of the firms we interviewed.

Leading managers highlighted that Gen AI will have long-lasting impact on talent strategy and staffing models.

- As with every round of technological revolution, new roles will emerge (e.g., Gen AI prompt engineer), while some traditional roles will become less relevant.
- With Gen AI tools becoming increasingly better at doing routine desktop work, organizations need to rethink how to train and upskill their junior-level employees to conduct more value-adding jobs that require critical thinking and validating the outputs from Gen AI tools.
- Technology talent is increasingly a focus of many of the firms we interviewed, with several noting that experienced data scientists and engineers are a hot commodity.
- While asset and wealth managers are not in the business of developing their own large language models, in-house expertise is necessary to fine-tune Gen AI models for firm-specific problems or to develop private versions of vendor solutions.
- Some asset managers are focused on attracting and fostering “bilingual talent” that combines technology proficiency with investment expertise.

We would like to thank the firms and individuals who took the time to meet with us.

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1350	37%	281	43%	21%	608	39%
Equal-weight/Hold	1673	46%	303	46%	18%	709	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	608	17%	68	10%	11%	225	15%
Total	3,634		652			1543	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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