January 2025

MSCI Wealth

ENTER

Emerging Trends in Wealth Management

Personalization, transparency and technology

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Mapping the future of wealth management

Powerful, transformative forces at work in the world today have the potential to change our global economy, business landscape and society. We can expect these trends to be long term in nature, with the potential to span decades, influencing multiple sectors and entire industries. Typically referred to as megatrends, examples include technological advancements, demographic shifts, increasing urbanization, evolving consumer behaviors and the impacts of climate change or resource scarcity.

These forces can be expected to impact global financial markets and the way investors interact with them. Financial advisers and wealth-management firms stand to benefit from understanding how these trends may impact the global investment opportunity set and what that could mean for their clients.

Four megatrends forging global change

We believe four megatrends — transformative technologies, environment and resources, health and health care, and society and lifestyle — are likely to be critical influences on the future of investing. Each has its own set of downstream impacts.

- Transformative technologies
- Environment and resources
- Health and health care
- Society and lifestyle

Transformative technologies

Technological advancements — artificial intelligence (AI), blockchain and the Internet of Things (IoT) — are sweeping across most industries, transforming how businesses operate and interact with their customers. Technology is also influencing consumers, who increasingly expect and demand almost every experience to be personalized, from shopping and entertainment recommendations to banking services, including investment and wealth management.

Many newly launched tech companies begin life as small venture-backed start-ups, fueling the private-equity markets. Technology has even altered the capital markets through the rise of new asset classes such as digital assets.

Environment and resources

Climate change and sustainability are becoming a critical focus of governments, businesses and communities and, as such, important considerations for investors from the standpoint of seeking opportunities and managing risks. One area of emphasis is the transition to a low-carbon economy, which has driven demand for renewable energy, energy-efficient technologies and sustainable practices.

Health and health care

Advances in technology along with demographic shifts are having profound impacts on health and health care. An aging population in developed countries is leading to higher demand for health-care services. Concurrently, improvements in medical technology that help people live longer are feeding the phenomenon of older for longer and supporting the demand and supply of services and products for this population segment. Many of these improvements are expected to disrupt the life sciences, biotechnology and pharmaceutical industries. Some investors are seeking opportunities related to these changes.

Society and lifestyle

In addition to the aging populations of developed countries, an expanding middle class in China, India and other emerging markets is boosting demand for consumer goods, financial services and real estate.[1,2] This new source of demand has the potential to affect trade patterns and investment flows. As businesses respond, investors may find new investment opportunities that support their long-term financial goals.

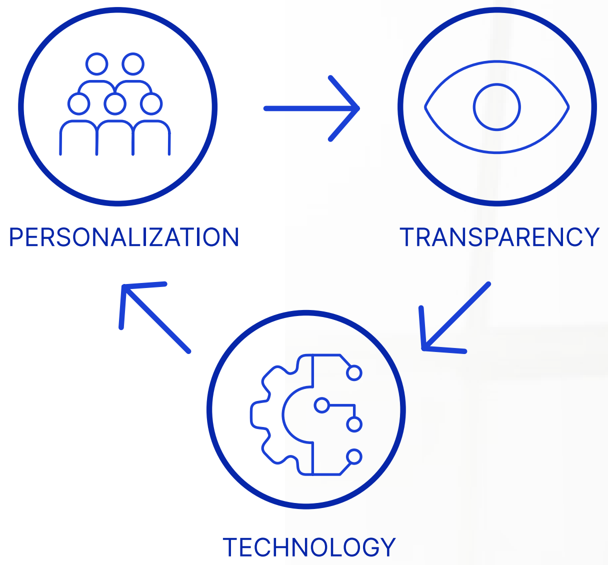
Over the next 20 years, the Silent Generation and aging Baby Boomers are expected to pass to their heirs the largest intergenerational transfer of wealth in history.[3] Dubbed the "Great Wealth Transfer," it should put significant assets in the hands of younger investors, who typically have a different set of needs and preferences than the average (older) individual investor of today.

These four secular forces are impacting not only the business landscape, but also the needs and preferences of individual investors. In our view, they are combining to influence the practice of wealth management, giving birth to three broad trends with the power to transform the industry: personalization, transparency and technology.

[1] 'Emerging markets could hold the key to growth in the face of macroeconomic storms', World Economic Forum, Jan 4th, 2023.
[2] "The future of the middle class in emerging markets," Oxford Economics, Oct 2024.
[3] Joseph Coughlin, "The Great Wealth Transfer Is Happening But Not In The Way You Think," Forbes, June 26, 2024.

Interaction between trends - the flywheel effect

As we examine the key trends of personalization, transparency and technology in wealth management, it becomes clear these forces do not operate in isolation. Instead, they form a powerful, interconnected system in which each trend supports and amplifies the others, creating a self-reinforcing cycle of innovation and transformation in the industry.



Personalization: The new imperative

Personalization is perhaps the most fundamental of the three trends and can be thought of as the starting point that gets the flywheel turning.

In the past, personalization in wealth management was primarily a niche offering, reserved for a select group of high-net-worth (HNW) clients. While some firms saw it as a differentiator, it was not a widespread industry focus due to the high costs and labor-intensive nature of tailored services, but technological advancements have begun to dramatically reduce costs and allow for efficient and scalable solutions. As a result, wealth managers can more readily offer bespoke portfolios to a much broader client base than before, effectively transforming personalization from a niche luxury to an industry standard — called by some the democratization of wealth management.[4]

The shift toward greater portfolio customization is not just about meeting client expectations but about staying competitive in an evolving marketplace. No longer a luxury add-on, personalization has become a critical demand as clients come to expect the same personalized experiences they enjoy in other aspects of their lives, from e-commerce to streaming services.

Transparency: The trust builder

In the interconnected world we live in today, clients are increasingly conscious of how their investments affect society and the environment. They are no longer satisfied to focus only on financial returns; they want to ensure their portfolios align with their personal values. Transparency today goes beyond the traditional monthly statement of account positions. It involves analysis to show the client's investment preferences have been implemented as requested. This shift in perspective is manifesting in a demand for detailed information about the companies they invest in. Such analysis could assess the environmental impact of the portfolio, its exposures to specific sectors or countries and a "look-through" of any positions in private assets.

Clients also are seeking transparency in areas such as executive compensation, board diversity and other aspects of corporate governance. The trend toward transparency is reshaping how wealth-management firms operate, requiring them to provide more detailed, holistic views of investment portfolios and their impacts.

Technology: The great enabler

Technology plays an integral role in the success of the other two trends in the flywheel. It makes it possible to gather, analyze and act upon the vast amount of market and portfolio data that empower wealth managers in delivering personalized services at scale. Simultaneously, it provides the tools necessary to offer unprecedented levels of transparency, helping managers dive deep into their clients' portfolio compositions, performance metrics and impact assessments.

Technology can be viewed as the cornerstone supporting the transformation of the wealth-management industry. Advancements in AI, data analytics and mobile technology are not only driving growth in the tech sector but are also revolutionizing how wealth-management services are delivered.

These technological innovations are creating new asset classes, such as digital assets, and opening new areas for growth and investment. They are also changing how clients interact with their advisers. Young, tech-savvy investors expect the same level of digital engagement from their wealth managers as they get from their other service providers. Such demands are spurring the development of mobile-friendly solutions and digital platforms that allow clients to engage with their financial information anytime, anywhere.

But technology is a double-edged sword in wealth management. On the one hand, it allows for processes to be automated, reports to be generated more efficiently and personalized services to be offered at scale. On the other hand, it creates new regulatory challenges, particularly around data privacy and the use of AI in financial advice. In our opinion, wealth-management firms that can stay agile and leverage technology to adjust as the needs of their clients and advisers change will be best positioned to succeed. To satisfy clients' expectations and adhere to more complex regulatory demands, firms will need to ensure their advisers have the right technology and tools at their fingertips.

From theory to practice: What does the industry say?

To move beyond the theoretical and gain a better understanding of how personalization, transparency and technology are manifesting in practice, we conducted an extensive survey of key stakeholders in the wealth-management industry to capture a broad view of the industry's current state and future direction. The survey results not only confirm the significance of these trends but also provide valuable insights into the implications, challenges and opportunities they represent in the real world.

Our survey was conducted in June 2024 and sampled 220 wealth-industry professionals, including investment teams, portfolio managers and financial advisers. The survey reflects the opinions of the professionals themselves, not their clients, although the opinions of financial advisers may be strongly influenced by past conversations with clients. Half of the respondents were based in the U.S., with about a quarter each in the EMEA and APAC regions. We found notable differences in the responses across the geographic regions. About three-quarters of the respondents were affiliated with a fee-based financial adviser or private bank. The remainder were mainly from independent broker-dealers or custodians.

Within a wealth-management firm, a few different teams work together to support the client. The financial adviser is the main point of contact with the client, who is responsible for ensuring the client's needs are well understood across all the teams that support them. Advisers use model portfolios to streamline investment strategies in a consistent and efficient way. Portfolio managers use model portfolios as a blueprint to guide the allocation of assets within the funds they oversee, aiming for optimal performance against benchmarks. The CIO team oversees the broader investment strategy of their organizations and employs model portfolios to test and refine overarching investment theses, ensuring alignment with long-term objectives and risk-tolerance levels.

A wealth-management professional's role influences their priorities and areas of focus. Advisers are closest to the client and are most likely to reflect the client's perspective, whereas portfolio managers and the CIO team have a broader concern — overseeing all portfolios across the firm's entire client base. This divergence in perspective is reflected in the respondents' answers.

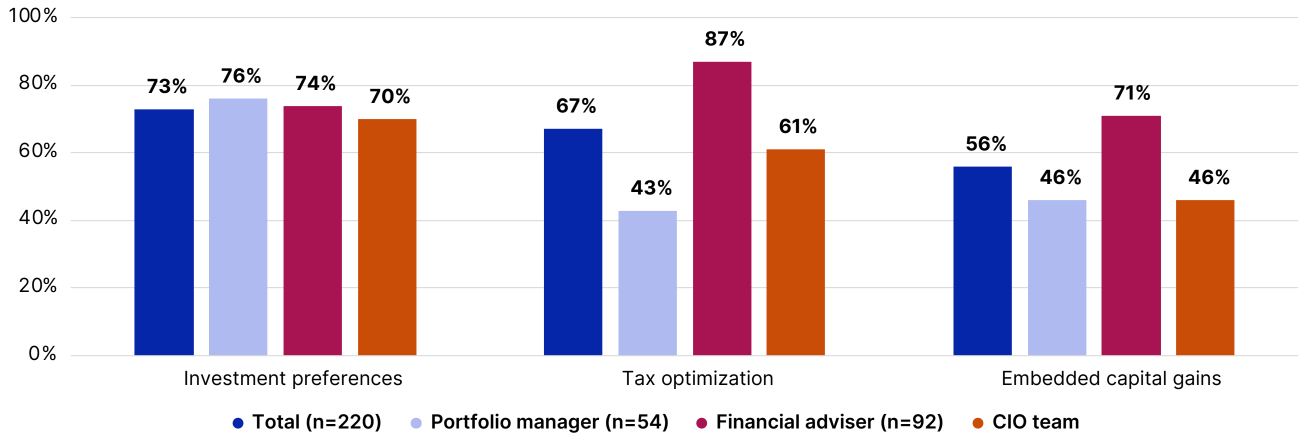
In the following sections, we dig into the key findings of our survey, examining how industry professionals are experiencing and responding to the forces of personalization, transparency and technology. These empirical insights help validate our observations and provide a roadmap for navigating the evolving landscape of wealth management.

Personalization

As noted earlier, personalization is quickly becoming a requisite offering of wealth managers rather than the differentiator it has been in the past. To personalize a portfolio, the wealth manager combines their knowledge of the markets with an understanding of their clients' needs and tailors an investment solution appropriate to each. Often this involves customizing a model portfolio. Sixty percent of survey respondents expect the majority of their HNW client portfolios require some degree of personalization, or customization, now or will in the near future.[5]

Seventy-three percent of respondents named personal investment preferences as a prime reason wealth clients are seeking more personalized portfolio solutions. Tax considerations, such as the desire to avoid realizing taxable losses or an unwillingness to realize taxable gains, were the next most-common reasons for customization.

Exhibit 1: Investment preferences and tax optimization are top drivers of personalization



One option wealth managers have for addressing a client's unique financial situation, risk tolerance and long-term objectives could be a custom index. Custom indexes are designed to incorporate a client's investment preferences as well as their exclusions and restrictions and can be used both as an investment universe and performance benchmark for the client's personalized strategy.

Tax management often requires deviating from the model

In our survey, financial advisers reported tax optimization (87%) and the impact of embedded gains in existing positions (71%) as the most significant drivers of portfolio personalization. As mentioned previously, the adviser is more likely than other roles within a wealth-management firm to hear directly from clients about their concerns, such as reducing their tax liability. While investment preferences may also play a role for clients with these tax-related concerns, their tax situation alone may motivate the decision to customize.

[5] The 60% figure is composed of 39% who expect that 51-75% of the HNW portfolios they manage will require customization and 21% who expect that greater than 75% will need customization.

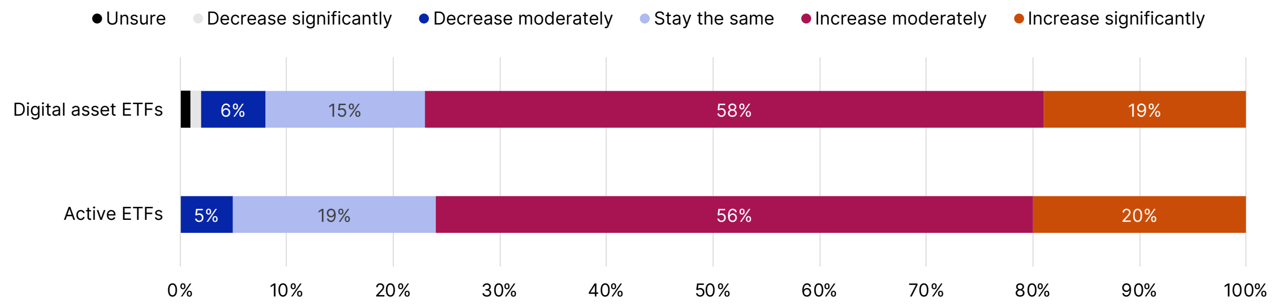
The focus on tax optimization varies across countries based on their tax laws. Where the tax code allows netting of gains and losses across asset classes, such as in the U.S., more benefit can be gained from tax optimization, particularly in regard to private-asset classes.[6] In other tax regimes, such as the EU, tax optimization produces fewer benefits because netting across asset classes is not permitted; hence, loss harvesting is less useful both in terms of managing capital gains and in realizing losses in these regimes.

Assuming clients want to minimize their tax bill regardless of their domicile, the inherent individuality of each client's tax situation calls for a personalized solution, even before investment preferences are considered.

Interest is growing in active ETFs and digital assets

Our survey showed that wealth managers expect to increase allocations to active ETFs over the next three years, an investment vehicle not typically included in model portfolios at present. Interest in active ETFs appears to be heating up because they combine the transparency and low transaction costs of the ETF structure but also allow for active bets in lieu of passive exposures.[7] Wealth managers also anticipate higher allocations to digital-asset ETFs over the next three years.

Exhibit 2: Nearly 20% of wealth managers expect significant increase in digital-asset and active ETFs

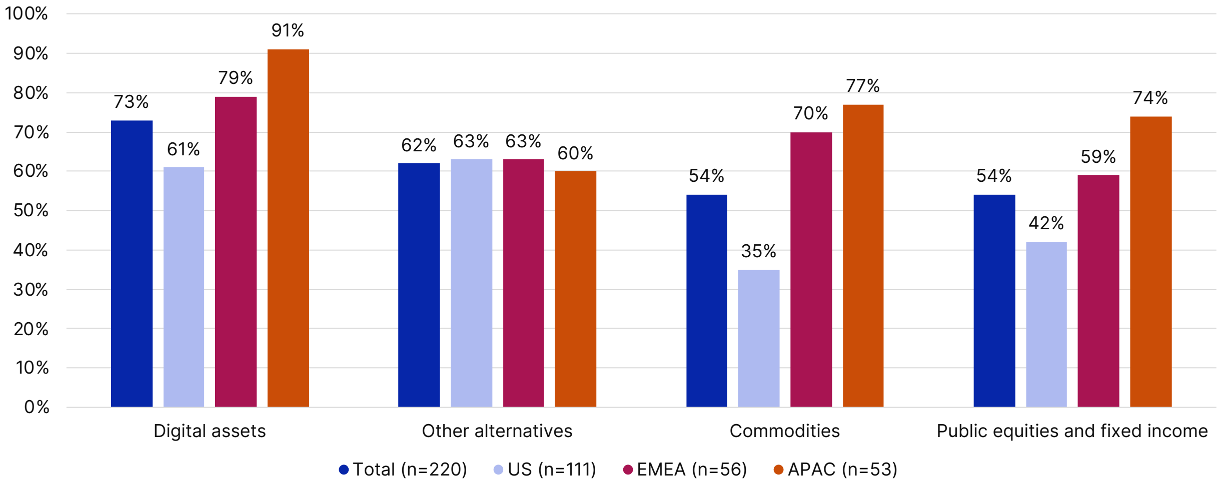


Horizon is the next three years.

The active-ETF market is an emerging yet rapidly expanding market segment, particularly in the U.S., where growth has been driven by mutual-fund conversions. Gaining visibility into these ETFs' holdings and strategies, and educating clients about them, are important steps toward increasing allocations.

The survey showed strong interest in digital assets across all regions (73%, on average). The APAC region showed the most interest, with 91% of respondents anticipating higher allocations over the next three years. The much lower interest of 61% in the U.S. created a noticeable gap. That gap was also evident in commodities and the public equity and fixed-income markets.

Exhibit 3: Strong interest in digital assets, especially in the APAC region



Horizon is the next three years. Other alternatives include hedge funds.

[6] Wealth managers can use the concept of tax alpha to help explain a client's after-tax performance. We have proposed two approaches to measuring tax alpha.
[7] Ashish Lodi, Rohit Gupta, 'Unpacking Active ETFs'

This marked difference in interest for digital assets could be influenced by respondents' clients' average age. China, for example, has the second-largest millionaire population in the world after the U.S.[8] The average age of its HNW population is much younger (the proportion of Chinese millionaires under 40 years old increased to 49% in 2021)[9] than the average age of a U.S. millionaire at 61 in 2022.[10]

Seventy-four percent of APAC respondents expected to increase allocations to public equities and fixed income, compared with only 42% in the U.S. and 59% in EMEA. This difference could be explained by home bias and the relative maturity of the public markets in each region. Non-U.S. investors may currently hold a higher allocation to U.S. markets, given the latter's mature and liquid financial markets, which could lead to relatively lower allocations to their home markets. Past outperformance of the U.S. market relative to other markets may also have contributed to a U.S. overweight. Consequently, wealth managers may sense an investment opportunity or are simply acknowledging a preference by their APAC clients to move more capital into the region as these markets grow in depth and breadth.

The challenges related to personalizing model portfolios

Wealth-management firms have often turned to model portfolios as an effective way of offering a range of investment strategies to their clients. As the degree and frequency of customization increases, however, managing and reporting against a standard model that has been customized to an individual client's needs becomes more challenging for the investment team. The alternative of building and managing a custom model for each client would be equally daunting. One possible solution would be a rules-based approach to manage and monitor an array of customized model portfolios.

Regardless of the approach adopted, maintaining a slate of model portfolios to support a high degree of customization is a challenge for many wealth firms. The survey data reflects this with 55% of respondents reporting an increasing demand for model modification, and 58% believing it is easier to build a new custom model than modify any existing one.

[8] Anthony Shorrocks, James Davies, Rodrigo Lluberas and Daniel Waldenström, Global Wealth Report 2023, UBS, June 14, 2023.
[9] "Rich Chinese and their wealth increasing at slower rate, with higher proportion under age 40," Digital Banker, Sept. 4, 2023.
[10] "Survey of Consumer Finances," Board of Governors of the Federal Reserve System, Oct. 18, 2023.

The demand for personalization within the context of model portfolios has created frictions in an approach designed for operational efficiency and placed limits on easy scalability. Rather than assessing the differences between client and model portfolios on the basis of their respective holdings, wealth managers could assess the portfolios behavioral differences using a factor-based analysis.

An important element in successfully scaling a wealth-management firm is having a clear and efficient means of measuring each client's performance against their respective model. Also important is measuring the impact of client customization against a market-cap-weighted index, which can help an adviser explain to the client how their investment preferences have contributed to performance differences between their portfolio and the market or an index benchmark.

Transparency

As personal preferences gain importance in the composition of wealth portfolios, clients are likely to seek assurance that their portfolios are aligned with their values. Satisfying this need requires going beyond the investment information traditionally reported by wealth managers to their clients and finding ways to provide greater visibility into what the client's capital is funding in both public and private markets.

Am I funding my values?

More than 80% of investors aged 40 and older would like to express their personal values through their investment choices, and for investors between 24 and 30, that number jumps to over 90%.[11] Our survey results showed that investment preferences took top billing in the move toward greater customization at 73%, versus 67% and 56% for the motivations of tax optimization and managing embedded capital gains, respectively. Values are as unique as the clients themselves and are as wide ranging as minimizing the carbon footprint associated with the portfolio, investing in companies with sustainable business models (which includes their supply chains), gun control, assuring a company adheres to fair labor standards or avoiding exposure to a particular country.

An integral part of fulfilling clients' expectations about greater transparency is reporting the underlying exposures of individual securities as well as mutual funds and other investment vehicles.

Acquiring the necessary visibility can be challenging for investments such as hedge funds, but techniques such as returns-based style analysis can help parse the exposures of these types of instruments without requiring any reporting from the fund managers. Analysis that uncovers a portfolio's exposures to geographic revenue sources, themes and factors also can provide the additional information clients are seeking.

Gaining clarity into private-asset classes

Across all regions, wealth managers anticipate making larger allocations (82%, on average) to private assets — such as private equity, venture capital, private credit and private real estate — over the next three years, with the greatest interest coming from the APAC region at 92%. Almost 75% of all respondents plan to raise their clients' allocations by a moderate amount (59%) or a significant amount (23%).

As interest grows in private markets, advisers (21%) and portfolio managers (40%) view their current solutions for this asset class as insufficient, compared to 59% of investment teams. Addressing this gap in satisfaction for advisers and portfolio managers represents a significant opportunity for technology to add value by enhancing transparency and analysis capabilities for these traditionally opaque investments.

Exhibit 4: Greater interest in private assets shown by APAC and EMEA vs. US

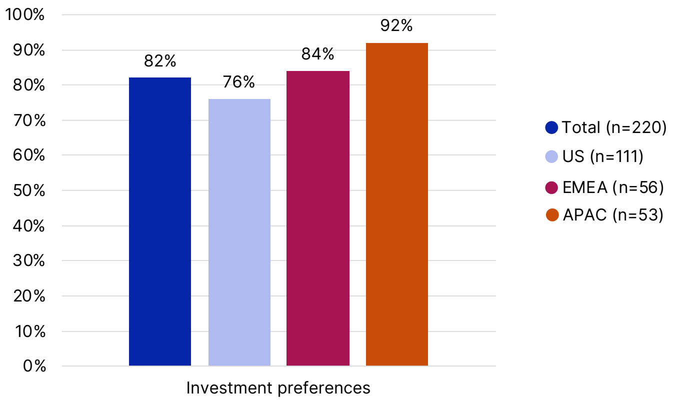
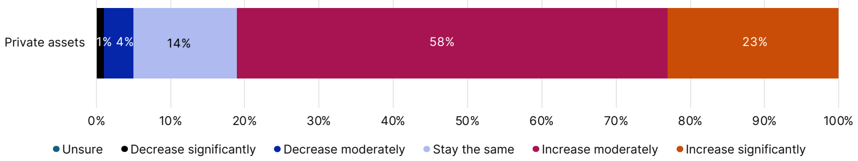


Exhibit 5: Majority of respondents plan to raise allocations to private assets

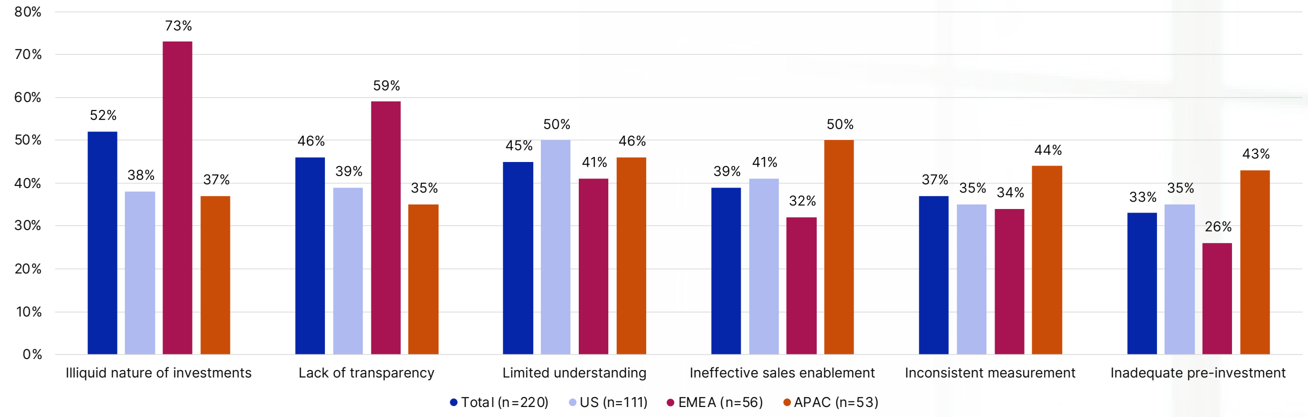


Horizon is the next three years. Private assets include private equity, venture capital, private credit and private real estate.

[11] Zach Conway, "Adding Values to Portfolios Can Make Investing More Engaging," Forbes, July 22, 2022.

Although the survey showed that respondents planned to raise allocations to private assets over the next three years, barriers remain that could hamper the desired progress. Roughly half of all respondents reported a limited understanding of private assets, and lack of transparency into the asset class may be a contributing factor. Another notable barrier was the illiquid nature of the investment.

Exhibit 6: Several barriers could frustrate higher allocations to private assets



Technology

Technology is at the heart of enabling transparency and personalization, but our survey results showed that respondents feel many of their current technology solutions need to be upgraded to allow them to satisfactorily deliver on HNW clients' expectations.

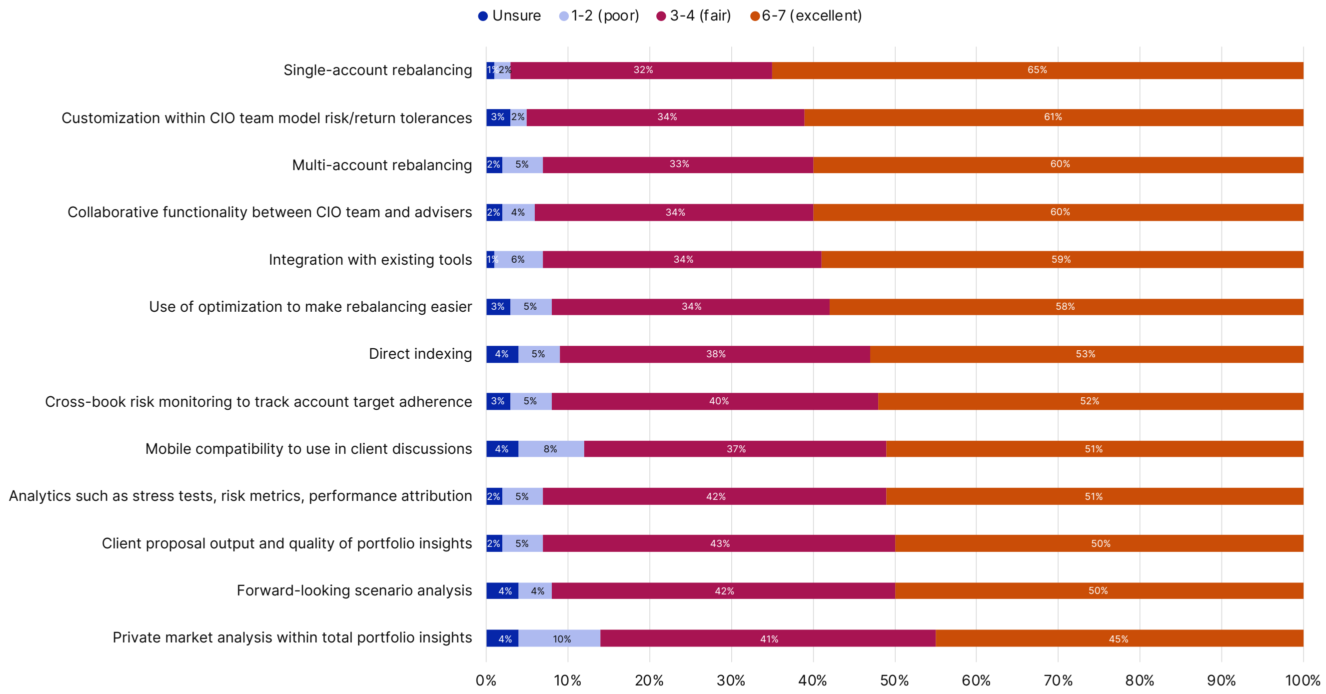
Some current platforms and capabilities fall short

Although respondents rated many characteristics of their current portfolio-management solutions as excellent (ranging from 65% to 45%), others viewed them as only fair or poor. Current technological solutions are not fully serving the wealth industry, creating an opportunity for solution providers.

Our survey showed that only 51% of respondents rated their firm's current level of mobile support for clients as excellent, indicating a need for improved mobile solutions in wealth management, and 15% of advisers rated their mobile compatibility with clients as totally unsatisfactory. Moreover, 39% of respondents cited a lack of dynamic, user-friendly interfaces as a key limitation of their current platforms. Integrating mobile platforms and applications into the wealth-advisory process is no longer optional, as clients increasingly rely on them for more convenient and timely financial interactions.

As a firm's client base grows, scalability becomes a central concern. Respondents pointed to multi-account rebalancing as a top priority, with 60% marking it as crucial. This characterization underscores the need for technology that offers efficient multi-account management and optimized rebalancing capabilities to ease adviser workloads and improve service quality.

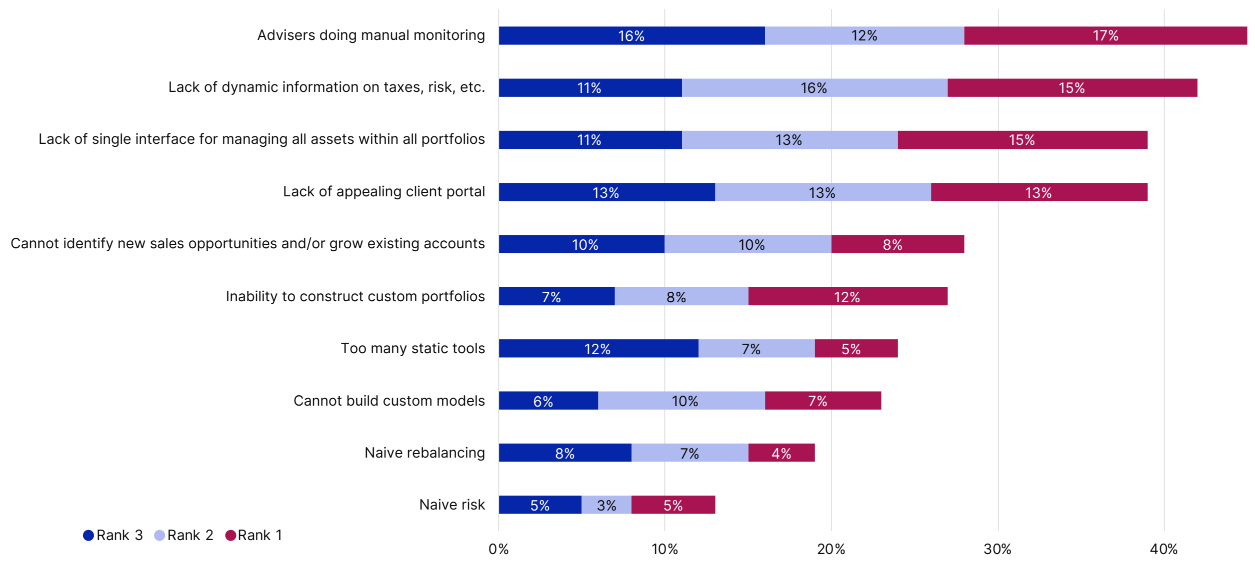
Exhibit 7: Better solutions needed for mobile capability and private-market analysis



Four top areas for improvement

We asked respondents to rank the areas in which their current technology solutions fall short. The top response at 45% was that advisers are doing manual monitoring of client portfolios, and the second-highest response at 42% was a lack of dynamic insights on taxes, risk and other elements that impact decision making.

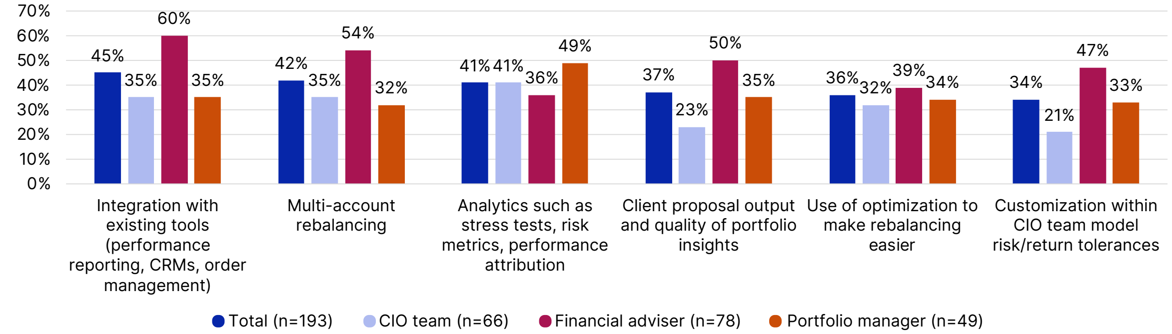
Exhibit 8: Manual monitoring and lack of dynamic tax information are frustrations



Wealth managers are also eager for a platform that can provide a single interface to manage all assets within all portfolios (39%) and, of equal interest, is to design an appealing client portal (39%).

Our survey shows that analytics capabilities, including stress tests and risk metrics, are a top concern for 49% of portfolio managers. This result points to the increasing demand for personalized, data-driven advisory services that are not only scalable but also capable of delivering a high degree of customization.

Exhibit 9: Integration with existing portfolio-management solutions is a critical need



Technology also provides opportunities for integration. About 45% of respondents identified integration with existing tools — such as performance reporting, CRMs and order management — as one of the most important capabilities for a new portfolio-management solution. Integration of these systems is crucial for improving operational efficiency, allowing wealth-management firms to seamlessly integrate existing data streams and tools. Fifty percent of financial advisers highlighted the need for high-quality client-proposal outputs and integration with existing tools

Our findings suggest that, to remain competitive, wealth-management firms may begin taking bigger steps to improve their technological capabilities related to client engagement and service delivery. Widespread adoption of advanced analytics, such as AI-driven insights and dynamic data visualization, are likely to disrupt traditional business models by significantly improving efficiency and transparency in portfolio management. Companies that leverage these technologies stand to gain a competitive edge by providing better service and more sophisticated data-driven insights.

MSCI Wealth: Meeting the modern needs of wealth managers

In an era defined by rapid change and evolving client expectations, wealth managers need robust, versatile tools to navigate the complexities of modern investment landscapes. MSCI Wealth stands at the forefront of this challenge, offering an extensive suite of solutions designed to empower wealth managers in capitalizing on emerging opportunities while mitigating risks.

Some current platforms and capabilities fall short

Although respondents rated many characteristics of their current portfolio-management solutions as excellent (ranging from 65% to 45%), others viewed them as only fair or poor. Current technological solutions are not fully serving the wealth industry, creating an opportunity for solution providers.

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As a firm's client base grows, scalability becomes a central concern. Respondents pointed to multi-account rebalancing as a top priority, with 60% marking it as crucial. This characterization underscores the need for technology that offers efficient multi-account management and optimized rebalancing capabilities to ease adviser workloads and improve service quality.

1. **Personalization at scale:** MSCI Wealth's portfolio-construction tools enable wealth managers to build bespoke portfolios that are designed to align with each client's unique preferences and risk tolerance. Incorporating elements such as ESG considerations and exposure to transformative sectors, these tools allow for true personalization without sacrificing efficiency. Our survey revealed that wealth managers are eager for a platform with a simplified interface for portfolio monitoring and management, coupled with dynamic insight capabilities. MSCI Wealth's solution aims to answer this call, allowing advisers to scale their processes and manage a larger number of clients without compromising on personalized attention

2. **Enhanced transparency:** In response to growing demands for transparency, MSCI's insights and reporting tools offer clear, extensive views of portfolio composition and performance. These tools help wealth managers articulate the impact of global trends on their clients' investments, fostering trust and facilitating more informed decision making. Whether explaining exposure to sustainable technologies or detailing the risk-mitigation strategies in place, MSCI's solutions provide the clarity clients increasingly expect.

3. **Technological integration:** MSCI's advanced risk-management tools, powered by cutting-edge technology, help wealth managers identify and mitigate risks associated with global megatrends. From climate change to geopolitical instability, our solutions aim to ensure portfolio resilience in an ever-changing environment. Moreover, our data and technology solutions are designed to streamline operations and reduce costs, allowing wealth managers to focus more on client relationships and strategic decision making.

4. **Extensive asset coverage:** Recognizing the growing importance of private assets, MSCI has developed solutions to address this critical area. Our survey highlighted that incorporating private asset analytics within total portfolio analysis was a significant concern, with 10% of respondents rating their current solution poorly. MSCI's integration of Barra factor models with its Private Capital data provides an extensive, fully integrated approach to analyze both public and private investments within a single framework.

By leveraging MSCI's resources, wealth managers gain more than just tools — they gain a trusted ally in navigating the complexities of modern wealth management. Our solutions provide a deeper understanding of global trends and their investment implications, empowering wealth managers to:

- Deliver truly personalized services at scale
- Provide unprecedented transparency to clients
- Make data-driven decisions with confidence
- Efficiently manage diverse asset classes, including private investments
- Align with regulatory changes and emerging risks

In an industry where complexity is the norm, MSCI brings clarity. And clarity drives action. Our extensive solutions through MSCI Wealth cut through the noise, providing wealth managers the insights they need to act decisively and confidently. Whether it's seizing new opportunities, mitigating emerging risks or delivering unparalleled client experiences, MSCI Wealth empowers you to take informed, impactful action.

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