Morgan Stanley | RESEARCH
OLIVER WYMAN
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Wealth Management | Global

After the Storm

Covid-19 has permanently changed the way Wealth Managers deliver advice and serve their clients. To drive outperformance over the next 5+ years, firms should double down on technology investments, strategically cut costs, build differentiated product offerings and consider inorganic opportunities.

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Elevator Pitch: What's New in Our Blue Paper

Commentary on securities throughout this report solely reflects the views of Morgan Stanley Research, not Oliver Wyman

Wealth management, despite top line challenges, remains one the most attractive businesses in finance. Lower interest rates and the need to invest in technology present a challenge, but we think firms have idiosyncratic potential to shine over the medium to long term if management teams have the right mindset and strategy. Given Wealth Managers' relatively capital light models and PBT margins that remain high, returns are reaching ~25% ROE on average. Wealth Managers may have to play defense on the revenue front, but have the ability to play offense on the cost and digitalization side. And let's not forget, wealth growth globally is structural.

What industry changes lie ahead? The wealth management industry has historically been stubbornly fragmented and, on average, not as aggressive as retail banks in technology investments. Part of the reason is that generational wealth transfer is expected to be slow. In the US, we estimate total wealth today is ~$100 trillion. We expect that over the next 20 years, nearly $70 trillion of wealth will change hands, with $20 trillion handed down from the Silent Generation and $40 trillion from Baby Boomers – a process that will take a generation. Given this slow change of hands, investors ask us, why should we see a major shift in industry dynamics? What will be the catalyst to get more high net worth (HNW) and ultra high net worth (UHNW) clients comfortable using digital channels to transact and communicate with their advisors? Will it take 20-30 years of generational wealth transfer to Gen X and Millennials? With most of the world having lived under Covid-19 lockdowns for several months, we have an answer.

We now see a massive shift to digitalization and industry consolidation over the next several years, with a pace faster than investors expect. Why? Wealth management clients just participated in a 7-10x increase in digital channel usage during the Covid-19 crisis in 1Q20, including a 4-5x increase in digital research consumption, a 3-4x increase in the number of client facing webinars and a 2-3x increase in the number of virtual client meetings. We think this will translate in to a significant upward shift in client expectations of their wealth manager's digital capabilities as more clients shift to transacting with their wealth managers digitally. As a result, C-Suites must be able to balance offering traditional advisor communication channels while also re-designing the advice delivery model of the future and accelerating digitalization efforts.

Financial Advisors and Relationship Managers (FAs/RMs) that deliver value far beyond do-it-yourself trading are critical in a successful digitalized wealth management model. Even prior to the pandemic, HNW clients polled in a proprietary Oliver Wyman survey were nearly three times more likely to value advice from an advisor than from an algorithm capable of investment decisions. FAs provide far more complex service to their clients than an algorithm can across a wider range of assets, including asset allocation across stocks, bonds and private market opportunities, more complex tax planning, gifting and inter-generational wealth management to name a few. They also can support them with financing for investments and their businesses, income and health care protection products for themselves and their employees, and, in some markets, insurance products. They often manage other financial service providers as well. We see the value of the FA increasing as the recent market crisis shone a spotlight on the skilled FAs who were able to protect client assets and accelerate generational wealth transfer plans during the brief period of severe market stress. This crisis highlighted how nimble investors need to be, as it came with a very narrow window of opportunity for portfolio reallocation and wealth transfer in many asset classes. We expect clients to have a stronger appreciation for those FAs who were able to guide them successfully and swiftly through the turbulence. On the other hand, FAs tied to systems with less functionality may be incentivized to move to firms with more sophisticated tech and cyber security capabilities in order to maximize their value proposition to clients.

We believe the digitalization era will enhance the value of FAs for HNW clients. First, digitalization tools enable more robust risk/reward analysis across a wide range of asset classes. "What if" analysis is critical for setting up portfolios effectively and Covid-19-induced volatility has increased HNW client demand for this type of analysis. The richer insights that FAs can discuss with their clients is a key input to deliver the desired results for their clients' investable assets portfolio, giving strategies, and generational wealth planning. Second, digitalization tools can provide clients with intuitive dashboards to track performance against their goals across the wide range of asset classes and funding sources that HNW clients have. Third, digitalization tools should also enable FAs to connect more seamlessly with clients via secured chat or face-to-face virtual meetings in addition to email or phone. Secured virtual meetings are critical in this era of social distancing. FA's leveraging best-in-class technology that enables seamless real time virtual face-to-face meetings will be advantaged in acquiring and retaining clients.

This investment effort likely leads to an accelerated bifurcation between the haves and have nots, as firms need to have the right culture and strategy to successfully execute digital transformation initiatives. Scale helps too, particularly for sub-scale players outside of our coverage group and for independent broker dealers that need to compete with large and midsize firms investing billions of dollars annually in technology. As a result, we expect a wave of consolidation as sub-scale managers seek to integrate into larger, more sophisticated platforms. We expect this to be the case particularly in the US as equity market appreciation over the last decade largely masked the need to rein in expenses – a potential problem for smaller firms that now face near-term market headwinds combined with a growing need to invest in tech. In APAC, we expect less consolidation than the US as organic AuM growth should remain relatively strong and overseas players may focus on JVs with local banks (as seen at UBS and Julius Baer).

Expense management will remain critical – this has been long under way for many Wealth Managers but is now amplified as the economic impact of Covid-19 results in lower asset values. Digitalization can help here for firms that have invested – we have seen that over the last dozen years at Northern Trust (NTRS). It has invested in its Private Passport digital offering and remote virtual advising strategy while reducing office count by a third. This has enabled it to generate a best-in-class pretax margin of 41%. If every firm in our coverage generated the same pretax margin as NTRS, we would see a $17 billion release in expenses. This is even more critical for firms to do now under a lower interest rate environment, and we already see some management teams beginning to execute swiftly. At Credit Suisse, the transformational cost journey through restructuring in 2016-19 has delivered 4% average positive operational jaws for its global private bank. Julius Baer presented a new Strategic Plan in February 2020, with management outlining a blueprint for efficiency gains worth 40% of 2019 PBT.

What are the organic growth opportunities of the future? We see four major product buckets that provide growth opportunities for Wealth Mangers: sustainable investing capabilities; private markets access as we expect illiquid/alternatives UHNW assets to increase to $24 trillion by 2024 (an annualized growth rate of 8%); digital assets solutions; and protection products such as health insurance advice, health savings accounts in the US, life insurance and P&C insurance. We dig into each of these in this report, and find that Wealth Managers that can deliver a holistic suite of products and meet client needs across the full chain of assets, funding, and services with a sophisticated yet intuitive digital interface and delivery are well positioned to take share.

Our global team would be delighted to discuss our work with you in more detail. Please let us know if you would like to set up time for a call.

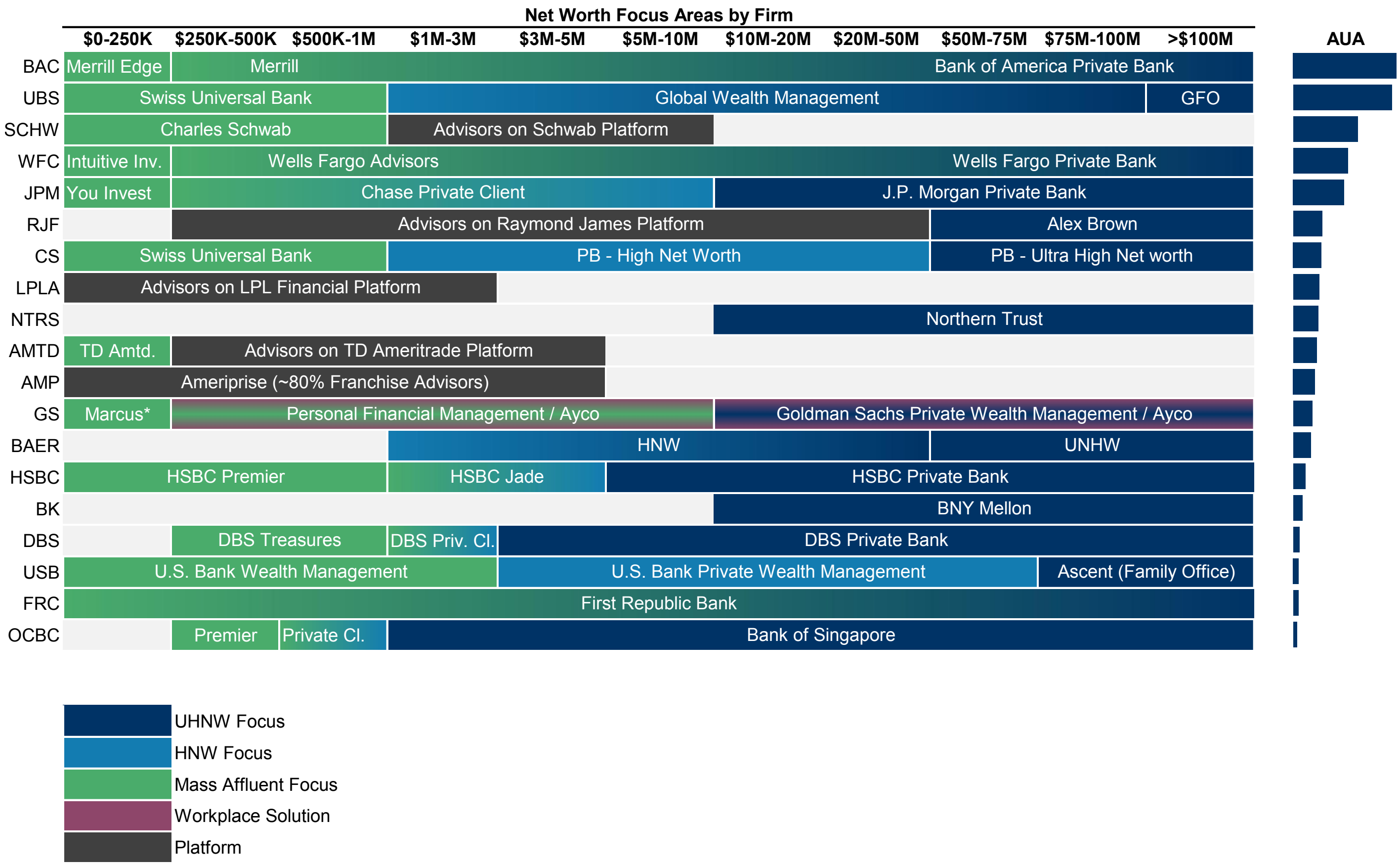
What's New in Our Blue Paper?

- Our call for a rapid shift in client technology expectations. This call is out of consensus as most stakeholders view wealth management clients as slow to embrace the digital revolution. We think winning wealth firms will need to act like software companies.
- Our call for consolidation in the US and Switzerland. While we have seen a few high profile deals in the US over the last year, the industry has remained stubbornly fragmented. Mega-trends of technology evolution, aging advisors, fee pressure, expanding client expectations and the increasingly complex regulatory environment are all driving greater need for scale, capital and capabilities to survive and thrive. We expect advisors will increasingly join/affiliate with advisor networks that can offer access to capital to grow/facilitate generational transfer of practices, and provide technology capabilities to improve efficiency/productivity of advisor practices to help them scale. Beyond M&A, we also see advisors increasingly joining and affiliating with advisor networks that can offer access to capital to grow. We expect further consolidation in Switzerland, largely addressing scale deficiencies.
- Our US wealth transfer model estimates $70 trillion, of over $100 trillion today, will transfer over two decades. We have built a bottom-up wealth model leveraging the Fed's Survey of Consumer Finances. Our model projects about a $70 trillion transfer of wealth to younger generations occurring over the next two decades, with the lion's share coming from Baby Boomers. Despite some pull forward from pandemic-driven turbulence, this unprecedented wealth transfer will nonetheless take longer than many expect, as Baby Boomers both live longer and stave off retirement longer than any other previous generation.
- Our firm-by-firm mobile app scoring grid. Our scoring of mobile apps spans across the wealth spectrum and takes into consideration Apple Ratings, Google Play Ratings, Features List, and iOS update frequency. We find that while many Wealth Managers have rich product and service offerings, they would benefit from investing to get the seamless service provided by FinTechs, many of which update their apps on a weekly basis. If Wealth Managers do not, this leaves them vulnerable as clients' need for information delivered virtually increases.
- Our SOTP valuation of wealth management segments by firm. Our work shows that efficiency is critical to deliver increasing shareholder value. This is important. Wealth is not just about asset flows. Investors are rewarding Wealth Managers that have been delivering increasing efficiencies with higher P/Es. However, we do not yet see a correlation between multiple and scale. This may shift as scale benefits increase.
- Our stock calls:
  - Ways to Play Consolidation:
    LPL Financial (LPLA.O, Overweight)
    Raymond James Financial (RJF.N, Overweight)
  - Ways to Play Efficiency:
    Julius Baer (BAER.S, Overweight)
    Credit Suisse (CSGN.S, Overweight)
    Charles Schwab Corp (SCHW.N, Overweight)
    Northern Trust (NTRS.O, Equal-weight)

Our Blue Paper in 10 Charts

Exhibit 1:

Our Blue Paper focuses on wealth management across the wealth spectrum, from firms targeting Mass Affluent clients up to Family Offices targeting Ultra High Net Worth families.



Note: 1) Chart is intended to show the focus area for each firm; wealth managers will typically have some clients with net worth above or below these ranges. 2) * = coming soon. 3) For UBS, GFO is illustrative, as there is no explicit AuM cutoff. 4) AUA as of year end 2019.
Source: Company Data, Morgan Stanley Research estimates.

How do we define the different wealth segments?

Drawing the line between degrees of wealth is an art not a science, but throughout this report we use the following terminology:

Mass Affluent Clients are defined as having less than $1 million net worth.

High Net Worth (HNW) Clients are defined as having $1 million+ net worth.

Ultra High Net Worth (UHNW) & Family Office Clients are defined as having $100 million+ net worth. These accounts often span multiple generations and require high-touch services such as Family Office, bespoke solutions and philanthropy.

Exhibit 2:

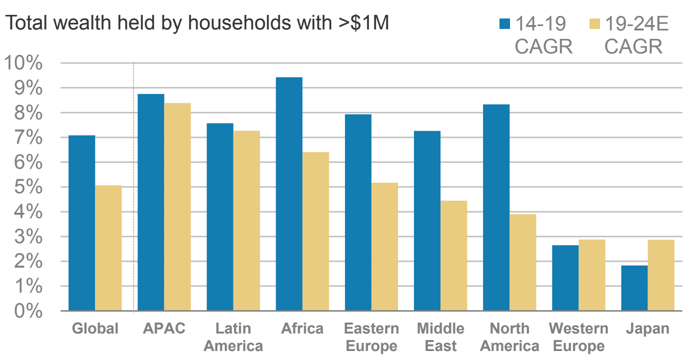
Organic growth comes from offering a full suite of products, including high growth areas like sustainable investing capabilities, private markets access, digital assets solutions and protection products. All firms have room to improve their app experience and expand their product offerings.

	BAC	UBS	SCHW	WFC	JPM	RJF	CS	LPLA	NTRS	AMTD	AMP	GS	BAER	BK	DBS	USB	FRC
2019 Market Position																	
Wealth AUA ($B)	3,048	2,909	1,908	1,611	1,504	855	835	764	739	686	643	561	516	266	181	162	151
AUA ('19/'14 CAGR)	4%	5%	11%	0%	7%	13%	4%	10%	7%	16%	8%	9%	5%	2%	12%	8%	23%
# Advisors (Thousands)	19.4	10.0	ND	13.5	2.9	8.1	3.0	16.5	ND	ND	9.9	ND	1.5	ND	ND	ND	ND
Advisors ('19/'14 CAGR)	2%	-2%	ND	-2%	0%	5%	-1%	3%	ND	ND	0%	ND	5%	ND	ND	ND	ND
2019 Efficiency																	
Pretax Margin	29%	22%	49%	21%	26%	13%	36%	13%	41%	47%	23%	20%	27%	29%	ND	40%	24%
Product Offerings																	
Stock, Bonds, Liquidity	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Portfolio Management	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Family Office	●	●	●	●	●	●	●		●	●		●	●	●	●	●	
Tax Optimization	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Generational Planning	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Sustainable Investing	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●
Alternative Investments	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Digital Assets													●				
Life Insurance		●		●		●					●				●	●	●
Health Insurance / HSA	●		●					●		●	●				●		
P&C Insurance				●													●
Technology																	
App Rating	4.6	4.1	4.8	4.8	4.5	2.7	4.2	1.7	3.9	4.3	3.5	3.2	2.7	3.6	NA	2.7	4.8
# App Features	15	8	11	8	9	7	5	2	9	12	7	5	10	4	14	3	12
# iOS Updates LTM	14	8	15	17	15	8	12	1	2	18	16	3	3	3	1	1	14

Source: Company data & company websites, App Annie, Morgan Stanley Research estimates

Exhibit 3:

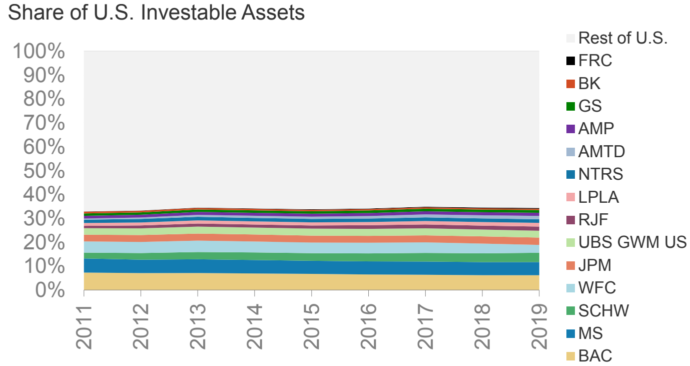
Inorganic growth and expense management become more critical as the Covid-19-related crisis has slowed organic growth in most geographies



Source: Oliver Wyman analysis

Exhibit 4:

Although the wealth management industry has been stubbornly fragmented, we expect inorganic growth to accelerate, particularly in the United States. Mega-trends of technology evolution, aging advisors, fee pressure, expanding client expectations and the increasingly complex regulatory environment are all driving greater need for scale, capital and capabilities to survive and thrive.



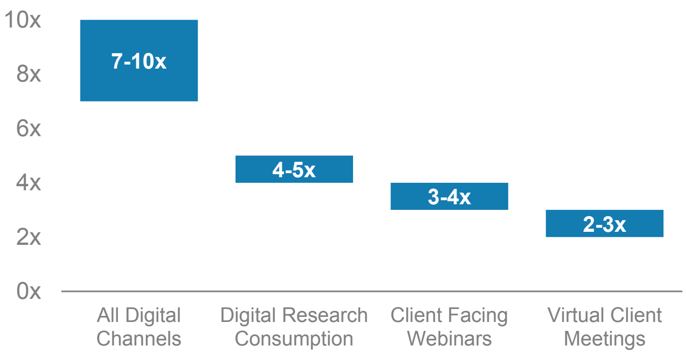
Note: BAC AUA includes Private Bank Client Assets of $490bn.
Chart uses a total US investable asset market of $49tn in 2019.
Source: Federal Reserve Z.1 data, company data for historical AUA.

Exhibit 5:

Now that clients have been pulled into digital communication and transactions due to social distancing and other Covid-19-related concerns, we expect demand for seamless digital service will only accelerate from here. The resulting need for tech and scale likely drives further consolidation.

1Q20 Increase in Digital Engagement

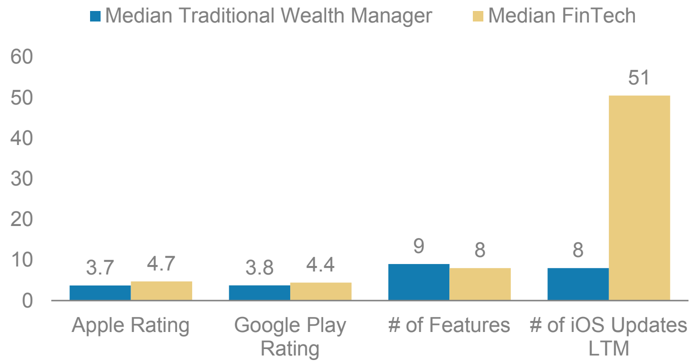
For Select Leading Wealth Managers



Source: Oliver Wyman analysis

Exhibit 6:

Wealth Managers would need to update their apps weekly to stay on pace with FinTechs

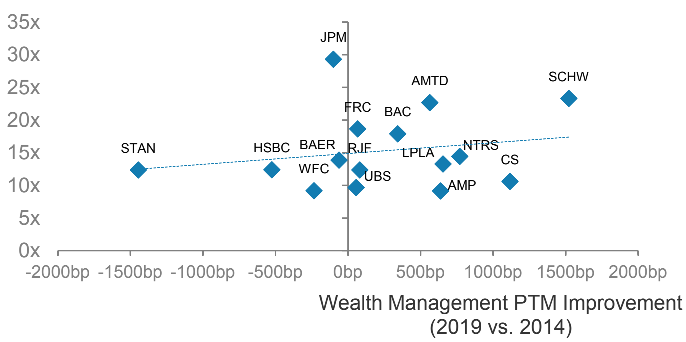


Note: FinTechs include Robinhood, Wealthfront, Betterment and Personal Capital.
Source: Company Data, Apple Store, Google Play, App Annie, Morgan Stanley Research estimates

Exhibit 7:

Investors reward Wealth Managers that have been getting more efficient with a higher multiple...

Wealth Management 2021 PE

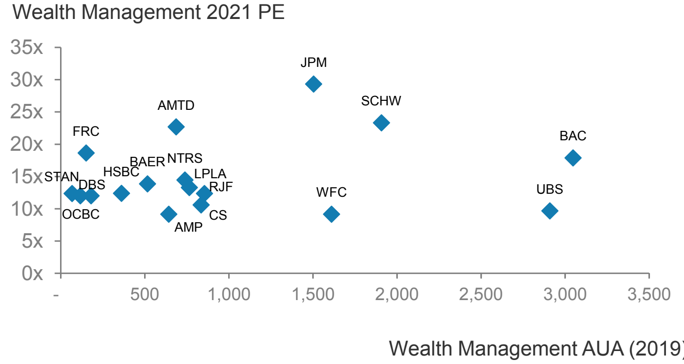


Note: Priced as of June 5, 2020.
Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Exhibit 8:

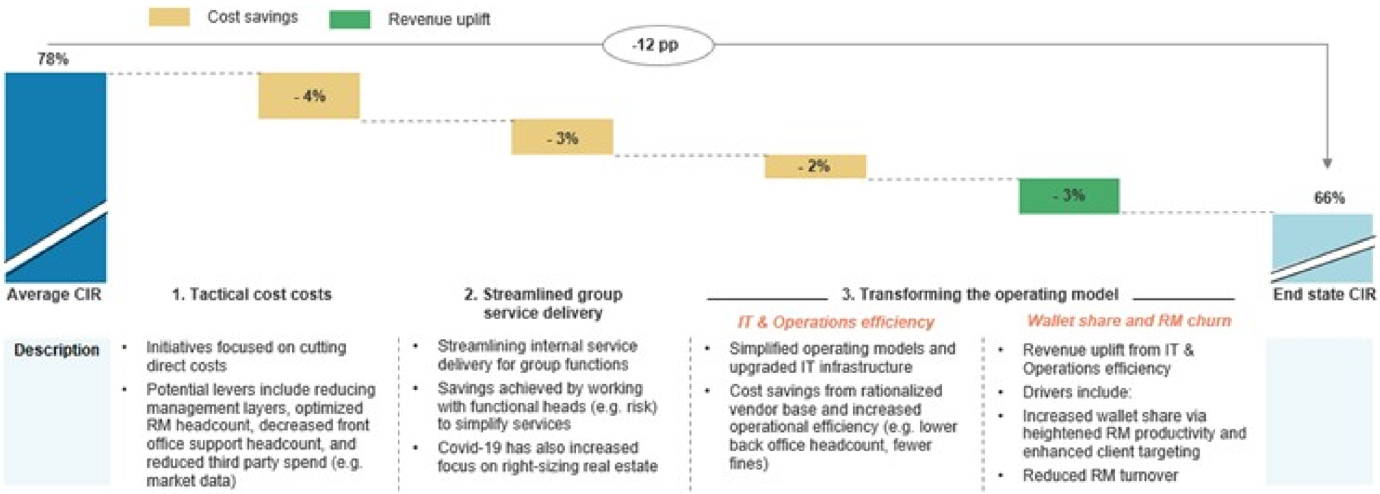
...but are not yet rewarding firms with higher scale. We expect this to shift as scale enables faster digitalization, driving both top and bottom line efficiencies

Wealth Management 2021 PE



Note: Priced as of June 5, 2020
Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Exhibit 9:
We estimate that the industry can reduce average cost income ratios by up to 12 gross percentage points over time, through a combination of targeted efficiency plays and directly related revenue uplift opportunities



Note: This exhibit isolates the direct impact from targeted efficiency plays and does not incorporate other changes to industry revenues.
Source: Oliver Wyman analysis

Exhibit 10:
Ways to Play

Ways To Play	
Consolidation	**Efficiency**
LPL Financial (LPLA.O) Raymond James (RJF.N)	Credit Suisse (CSGN.S) Julius Baer (BAER.S) Charles Schwab (SCHW.N) Northern Trust (NTRS.O)

Source: Morgan Stanley Research

Messages for the C-Suite

Covid-19 has fundamentally changed the Wealth Management industry, evolving client demands and diminishing outlooks for top-line growth. However, Wealth Managers have so far risen to the challenge, with integrated Wealth Managers proving to be a stable anchor to group valuations, and they can continue to earn a high multiple relative to other Financial Services sectors if management teams have the right strategy. As senior banking leaders determine the future shape of their firms, Wealth Managers should be central to the discussion.

The global economy has entered a period of significant uncertainty, with Covid-19 presenting a dramatically changed reality. Our base case sees global high net worth (HNW) wealth lose more than a year of growth versus pre-Covid-19 forecasts before rebounding to growth in 2021. We see HNW wealth declining by 4 percent or $3.1 trillion in 2020, a major departure from the previous decade's consistent annual growth trajectory.

The full impact of Covid-19 on Wealth Managers' economics is yet to show. While management teams should prepare for a more challenging revenue outlook in the near term, we think pretax margins can expand idiosyncratically over the medium and long term. Wealth Managers have previously benefited from strong growth in high net worth (HNW) client wealth, which has offset declining revenue margins and masked operating model inefficiencies. With this tailwind gone for the immediate future, Wealth Managers need to act now to position their business for growth in the "new normal".

Priorities for the C-Suite

This bluepaper identifies several imperatives for Wealth Managers to win in the new environment:

- **Adapt to the new normal:** With digital engagement increasing 7-10x across leading Wealth Managers following the onset of the pandemic, Covid-19 has altered clients' expectations for financial advisor (FA)/relationship manager (RM) interaction, while also underscoring the value of human advice. Wealth Managers must move quickly to design an omni-channel advice delivery model and accelerate their digitization efforts. The advice delivery model of the future will see RMs remaining central to client relationships, supported with strong digital capabilities.

- **Defend business economics:** Costs will be in the spotlight as bottom lines are pressured by diminished growth and challenged revenue margins. Wealth Managers must improve their approaches to cost management to deliver positive operating leverage. We estimate that efficiency plays can reduce average industry cost income ratios by up to 12 percentage points through focus on three key areas:
  - Tactical cost cuts (short term) – Despite recent efforts to address the additional complexity created post the global financial crisis, there remains ample room for tactical cost cuts through removal of excessive management layers, optimization of RM headcount or reduction in front office support headcount
  - Streamlined group service delivery (short to medium term) – Streamlined group service delivery, especially from second line functions, Finance, Human Resources (HR), Legal and Operations
  - Transforming the operating model (medium term) – Transformations to operating models and associated IT infrastructure driving both cost savings and incremental revenues. Although these transformations have the potential to deliver significant CIR improvement, they are a complex undertaking for any player and can introduce significant risk.

- **Consolidate share and drive growth:** Wealth Managers who can act from a position of strength should move to consolidate share and increase growth by enhancing their product offerings and footprints through organic and inorganic means.
  - Wealth Managers must develop differentiated propositions to protect and grow their revenue base. Management teams should focus on four key priorities:
    - Wealth Managers that can credibly build out their sustainable investing offerings will be positioned to grow wallet with a highly attractive and often younger client segment. We project HNW and ultra-high-net-worth (UHNW) sustainable investments to grow by 18 percent each year to a total of $9 trillion by 2024.

- Wealth Managers should significantly expand their private markets offerings to recapture UHNW wallet lost to disintermediation over previous years. By 2024 we expect illiquid/alternatives UHNW assets to increase to $24 trillion from $16 trillion today, representing an annualized growth rate of 8 percent. The opportunity is lower for HNW, given suitability challenges and reduced HNW interest in alternatives following Covid-19.
- Adding protection offerings like life insurance, health insurance and P&C insurance can firmly cement Wealth Managers' position at the center of client financial needs while capturing low-hanging incremental revenues. We estimate that offering protection products can provide a top-line uplift of ~4 percent and defend client relationships against further encroachment by insurers that are expanding into the investments space. Wealth Managers should also consider larger ecosystem plays.
- Wealth Managers should consider developing digital assets offerings to differentiate their proposition and to attract a potentially high-value client segment.

- Management teams should have a renewed look at inorganic growth opportunities, as Covid-19 has challenged the organic growth outlook and repriced some potentially interesting targets. Certain markets, like the US, the UK and Switzerland, are the most ripe for consolidation and we expect to see a continuation of activity in the coming years. While management teams should continue to consider traditional mergers and acquisition (M&A) plays, strategic partnerships are emerging as the new M&A, particularly for cross-border expansion.

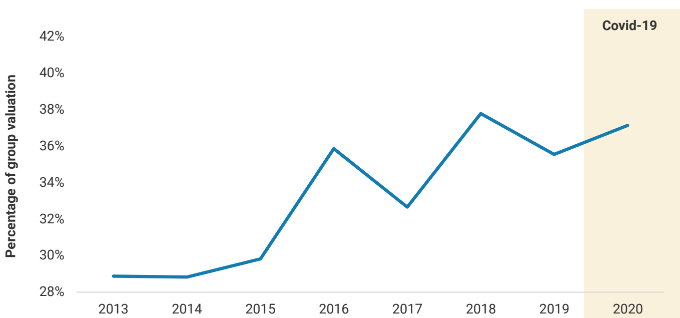
Executive Summary

During Covid-19, integrated Wealth Managers have proven to be a stable anchor to group valuations

As senior banking leaders assess their business portfolio on the back of Covid-19, Wealth Managers should be central to the discussion. Global bank-owned Wealth Managers have contributed an increasing share of group valuations since 2013. As Covid-19 puts pressure on businesses such as corporate lending, consumer lending and investment banking, the more stable Wealth Management business once again increases in attractiveness on a relative basis.

Exhibit 11:

Average Wealth Management unit valuation as a percentage of total group valuation (2013-Q1 2020, average of leading bank-owned Wealth Managers)

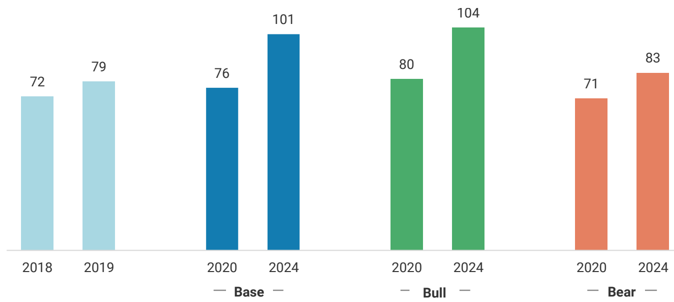


Source: Oliver Wyman analysis

- Our bull case, "Accelerated rebound", sees only modest upside to our base case, with a stronger near-term rebound in asset prices leading to a significantly improved picture for wealth in 2020. Longer-term, the economic outlook and asset price path remain largely in-line with our base case.
- Our bear case, "Sustained downturn", sees policy measures unable to support the global economy, with a significant downturn in 2020 and a slow recovery thereafter.

Exhibit 12:

Global HNW wealth: base, bull, and bear case (2018-2024, USD Trillion)



18–19' Growth	19-20E' Growth	19-24E' Growth	19-20E' Growth	19-24E' Growth	19-20E' Growth	19-24E' Growth
10.0%	-4.0%	5.1%	0.9%	5.6%	-10.2%	1.0%

Note: HNW investors are defined as households with financial assets greater or equal to USD 1 million. HNW wealth represents financial assets owned by HNWIs, 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. Source: Oliver Wyman Wealth Management Model

Covid-19 represents a new reality; given the uncertainty we model three scenarios for global HNW wealth growth

After a golden decade in which Wealth Managers benefited from more than 8 percent annual wealth growth on average, Covid-19 has introduced a different reality. The global economy has entered a period of significant uncertainty. As a result, we have modelled three scenarios for HNW wealth growth:

- Our base case, "Recession and rebound", sees policy responses effective in containing the pandemic, while rate cuts and fiscal stimuli support the economy to drive a U-shaped or similar recovery.

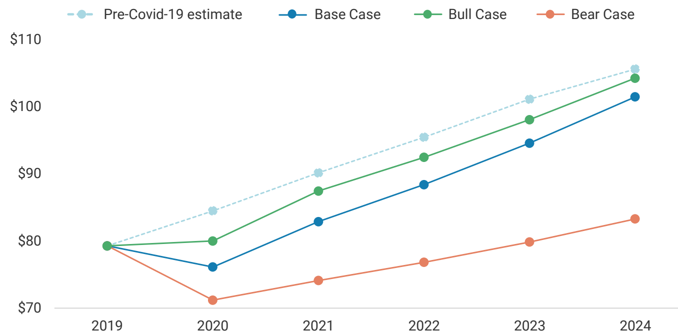
For the purposes of this report, we focus our analysis on our base case, "Recession and rebound". However, given the high degree of uncertainty in the current environment, Wealth Managers must adopt flexible, scenario-based approaches to strategic planning. Institutions that have not invested in building flexible forecasting processes are facing pressures internally and externally to answer increasingly complex what-ifs for their businesses. Traditional planning processes are often manual, labor intensive, and disconnected from financial resource considerations. With economic conditions uncertain and volatile, nimble planning infrastructure is crucial to inform strategic decisions and management actions amidst uncertainty.

Our base case sees global HNW wealth lose more than a year of growth vs. pre-Covid-19 forecasts

In our base case we expect global HNW wealth to fall by 4 percent in 2020, before rebounding to growth in 2021. Oliver Wyman's pre-Covid-19 estimates saw wealth growing consistently at 6 percent from 2019 onward. As a result, we expect Covid-19 to represent roughly one lost year of wealth growth.

Exhibit 13:

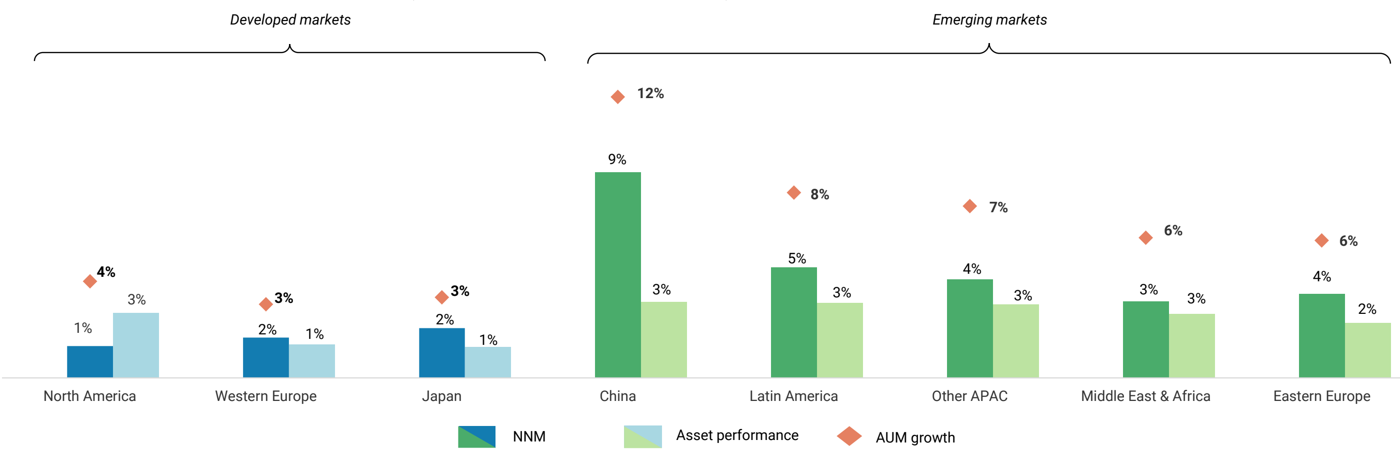
Global HNW wealth: base, bull, and bear cases vs. pre-Covid-19 estimate (2019-2024, USD Trillion)



Note: Pre-Covid-19 estimate made based on inputs (GDP growth, asset performance, etc.) retrieved at year-end 2019. Post-Covid-19 forecast based on inputs retrieved beginning of April 2020. Source: Oliver Wyman Wealth Management Model

Exhibit 14:

AUM performance vs. NNM – base case (2019-24 CAGR, percent of AUM)



Source: Oliver Wyman Wealth Management Model

The growth outlook for assets under management (AUM) in developed markets is slower

As global wealth recovers from this lost year, we expect the AUM growth outlook to shift further away from developed markets. While industry AUM grew 7 percent annually in developed markets in the five years prior to Covid-19, we expect slowed growth of 3-4 percent annually in these markets from 2019-24. Amplifying the impact of reduced asset performance, we anticipate that bankruptcies, along with muted executive pay, will impair overall NNM growth. By contrast, emerging market AUM growth is likely to slow in the short-term, but we expect a stronger rebound relative to developed markets driven primarily by NNM on the back of gross domestic product (GDP) growth.

The concentration of AUM growth in emerging markets will have a meaningful impact on priorities for the industry. Notably, global Wealth Managers should continue to assess opportunities to participate in emerging market growth, particularly in China. Within developed markets, we expect asset performance to drive North American growth ahead of Western Europe and Japan, despite slightly lower NNM.

The full impact of Covid-19 on industry economics is yet to show, and while wealth management remains an attractive industry, management teams should prepare for a more challenging revenue outlook in the near term

We expect Wealth Managers' gross revenue margins to continue to fall at an industry level as Covid-19 accelerates the decline in net interest income (NII) margins, while the structural forces compressing fee and commission (F&C) margins and trading margins are sustained. Although F&C margins saw a strong uptick in the first quarter of 2020, this was because fees were yet to fully reflect the market sell-off. In the longer term, we expect F&C margins to continue to shrink due to more aggressive pricing and the shift towards larger mandates, a traditionally lower margin business. We expect continued pressure on NII, particularly for players with high USD exposure in the zero-rate environment. Trading margins saw a noticeable uptick in Q1 on the back of significant market volatility which resulted in higher client activity and a surge in demand for structured products and hedging solutions. As market volatility reduces, we expect trading margins to fall below pre-Covid-19 levels as competitive pressure from zero commissions accelerates and expands beyond North America.

Management teams must act to position their business to shine after the storm

Wealth Managers have previously benefited from strong growth in HNW client wealth, which has offset declining margins and masked operating model inefficiencies. With this tailwind gone for the immediate future, Wealth Managers need to act now to position their business to capture longer-term growth in the "new normal".

To succeed, Wealth Managers must:

- Adapt to the new normal by rolling out new advice delivery models and accelerating digital use cases
- Defend business economics by finding operating leverage through improved approaches to cost
- Consolidate share and drive growth via differentiated product offerings and inorganic opportunities

Adapt to the new normal

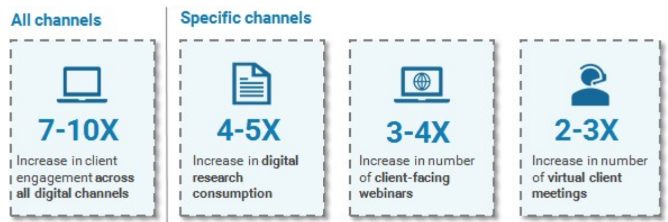
Build the advice delivery model of the future today with RMs firmly at the center

The market turmoil prompted by Covid-19 has highlighted the clear value clients place on high-quality human advice. Even prior to Covid-19, more than 85 percent of HNW investors polled in a proprietary Oliver Wyman survey said they valued the ability to talk with an advisor, versus less than one third who valued advice delivered via robo-advisors. The surge in complexity, diversity and urgency of client requests during Covid-19 has only underscored the value of having access to human advisors.

Covid-19 has also precipitated a forced transition to new remote ways of working and required advice to be delivered through multiple channels. As detailed in **Exhibit 15**, client engagement has increased significantly across all channels as a result of the Covid-19 lockdown and market turmoil.

Exhibit 15:

Digital engagement for select leading Wealth Managers in Q1 2020



Source: Oliver Wyman analysis

The existing advice delivery model has proved somewhat resilient, but its limitations have also been exposed. In particular, large bank-owned Wealth Managers have found greater success leveraging channel upgrades made over recent years, while smaller independent Wealth Managers have had more difficulty managing client engagement due to a lack of remote working protocols and digital client engagement infrastructure.

Wealth Managers need to design the advice delivery model of the future, which will have to be 'omni-channel', marrying the expertise and emotional reassurance provided by an RM, with the efficiency, convenience and scalability of digital solutions.

Our estimate of anticipated use of channels by clients in 2024 and their potential role is highlighted in **Exhibit 16**.

Exhibit 16:

Anticipated use of channels by clients and their potential role (2024)

Source: Oliver Wyman analysis

Wealth Managers need to develop a clear channel strategy that reflects the client personas they serve, including their needs and channel preferences, and prioritize actions to improve the client experience accordingly.

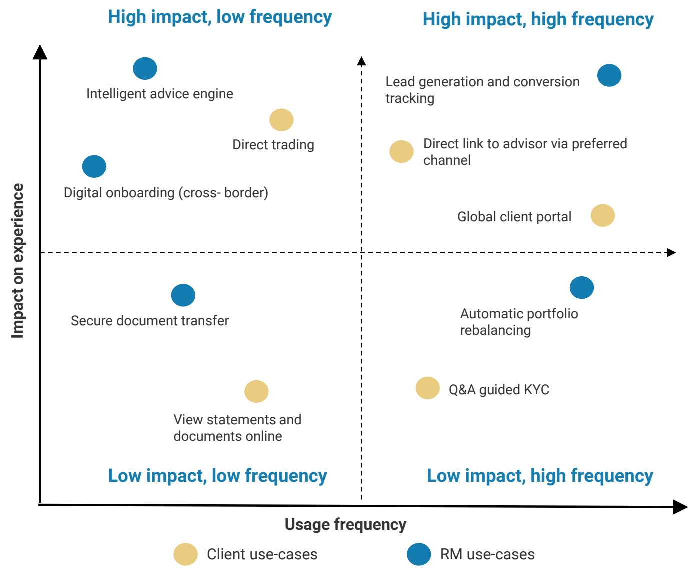
Accelerate digital implementation efforts to improve effectiveness in the new operating environment

Despite some successes, Wealth Managers have showcased little consistency in digital use case prioritization and implementation to date. As a result, their technological capabilities remain immature relative to other Financial Services industries. Our proprietary analysis shows that mobile apps by Wealth Managers are updated only half as frequently as retail banking apps, and only 20 percent as frequently as digital-only challengers, underscoring the lack of focus on digital investment. As other Financial Services providers continue to improve their digital experience, clients will naturally expect a similar level of experience from their Wealth Managers.

To meet client and RM demands, Wealth Managers need to step back and assess their digital portfolio. Since achieving best-in-class digital experiences at each step of the value chain remains unfeasible given capital and resource constraints, Wealth Managers need to prioritize the use cases that are most valued and impactful for their clients following a consistent prioritization approach, such as that shown in **Exhibit 17** .

Exhibit 17:

Prioritization framework to assess digital use cases (theoretical example)

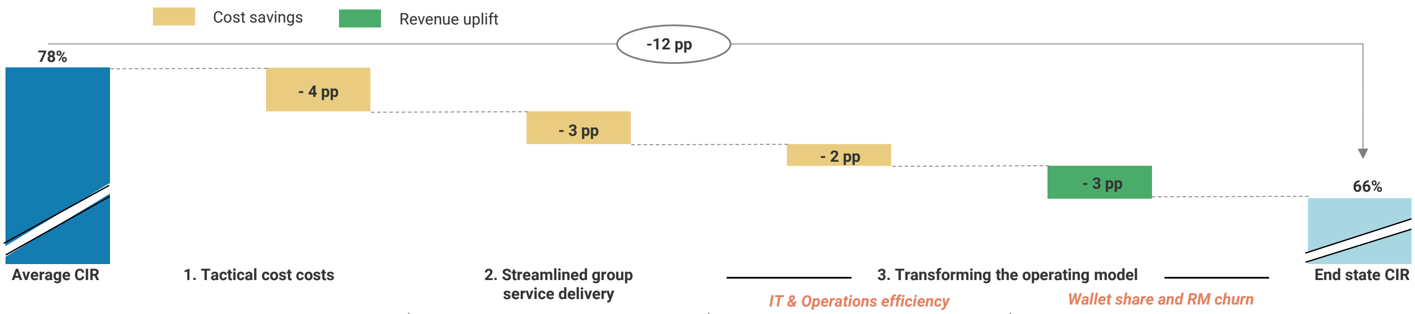


Source: Oliver Wyman analysis

They also need to develop a comprehensive impact framework to measure digital use case success. This will ensure the right prioritization of the various competing digital opportunities.

Exhibit 18:

Cost-income ratio impact by category through improved approaches to cost (gross percentage point change)



	1. Tactical cost costs	2. Streamlined group service delivery	3. Transforming the operating model – IT & Operations efficiency	3. Transforming the operating model – Wallet share and RM churn
Description	• Initiatives focused on cutting direct costs • Potential levers include reducing management layers, optimized RM headcount, decreased front office support headcount, and reduced third party spend (e.g. market data)	• Streamlining internal service delivery for group functions • Savings achieved by working with functional heads (e.g. risk) to simplify services • Covid-19 has also increased focus on right-sizing real estate	• Simplified operating models and upgraded IT infrastructure • Cost savings from rationalized vendor base and increased operational efficiency (e.g. lower back office headcount, fewer fines)	• Revenue uplift from IT & Operations efficiency • Drivers include: - Increased wallet share via heightened RM productivity and enhanced client targeting - Reduced RM turnover

Note: This exhibit isolates the direct impact from targeted efficiency plays and does not incorporate other changes to industry revenues. Source: Oliver Wyman analysis

Defend business economics

Deliver positive operating leverage through improved approaches to cost

With Covid-19 dampening the outlook for AUM and revenue growth, Wealth Managers faced with challenged profitability will need to address their cost base in order to protect economics.

We estimate that the industry can reduce average cost income ratios by up to 12 percentage points, through a combination of targeted efficiency plays and directly related revenue uplift opportunities.

We see three key focus areas across the short and medium term for achieving this outcome:

1. Tactical cost cuts (short term)
2. Streamlined group service delivery (short to medium term)
3. Transformative changes (medium term)

Tactical cost cuts – we estimate that tactical cost cuts can lower cost income ratios by 4 percentage points. Despite recent efforts to address the additional complexity created following the global financial crisis, there is still ample room for Wealth Managers to action the usual tactical cost cutting levers such as removal of excessive management layers, optimization of RM headcount and reduction in front office support headcount. Additionally, Covid-19 has introduced an opportunity to cut other expense lines, like travel and entertainment (T&E), further than before.

Streamlined group service delivery – we estimate 3 percentage points in cost income ratio improvement can be unlocked through streamlined group service delivery, particularly second line functions, Finance, HR, Legal and Operations. Additionally, reduced needs for physical office space may allow for lower real estate costs in the medium-term.

Wealth Managers should engage their functional counterparties in understanding how strategic decisions contribute to cost. Successful engagement will involve constructive discussions on where services should be performed, and whether they are critical vs. 'nice-to-have'.

Transforming the operating model – transformations to operating models and associated IT infrastructure has the potential to decrease cost income ratios by 5 percentage points in the medium-term.

Although there are numerous opportunities for business process redesign and modernization of technology infrastructure, not all will translate into improved bottom line performance. The crux for Wealth Managers is in identifying the changes that will drive RM effectiveness and increase satisfaction for both end-clients and RMs. API-driven technology transformation approaches can rapidly improve client experience and avoid risks associated with typical large-scale technology programs.

Consolidate share and drive growth

Develop differentiated propositions to protect and grow revenues

As a reaction to the challenged industry growth outlook, Wealth Managers must develop differentiated propositions to protect and increase their revenue base.

We see four ways in which they can do this.

Strengthen sustainable investing offerings to grow wallet with a highly attractive and often younger client segment

Investor interest in sustainable investing has grown significantly. In 2019, we estimate that HNW and UHNW clients had ~$4 trillion invested in sustainable investments.

The structural drivers supporting growth will persist. The next generation of clients, who are on average more interested in sustainable investing than previous generations, will become an increasingly important demographic for Wealth Managers. The Covid-19 pandemic may well accelerate this as clients further engage with the broader societal impact of their investments. We estimate sustainable investments will grow 18 percent annually to a total $9 trillion by 2024.

Wealth Managers that develop a more sophisticated proposition that assists clients throughout their sustainable investment journey will be the winners in this space. We see four broad roles that Wealth Managers can play for clients, shown in Exhibit 19 . Beyond developing investment capabilities, it is also crucial for Wealth Managers to effectively brand their offerings to establish ownership of the space. This may lead to a positive impact on flows as clients consolidate wallet with perceived champions in the space.

Exhibit 19:
Role of Wealth Manager in sustainable investing

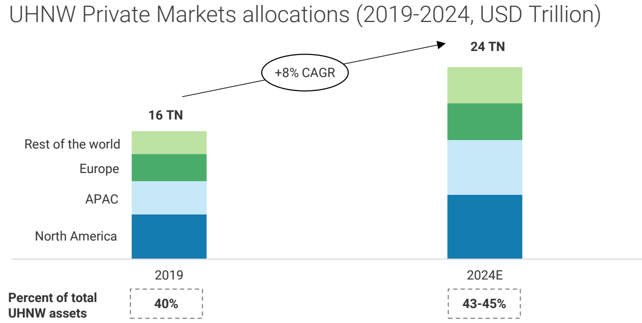
Source: Oliver Wyman analysis

Expand private markets offerings to recapture lost UHNW wallet

UHNW investor interest in private market investments has grown substantially in recent years, a trend we expect to continue despite near-term headwinds from Covid-19. Over the next 5 years, we see illiquid/alternative UHNW investments growing by 8 percent annually to $24 trillion by 2024. We believe direct investments in illiquid/alternative asset classes are primarily an opportunity relevant for UHNW clients, given suitability challenges for HNW investors due to significant minimum capital commitments, long lock-up periods, and regulation like the Alternative Investment Fund Managers Directive (AIFMD) in Europe.

In the short term, we expect investment allocations to private markets to remain stable, or even fall. The current market volatility on the back of Covid-19 may limit clients' appetite for investments that are by-definition illiquid, difficult to mark-to-market/compute NAVs, and with multi-year lock-up periods. However, we expect this to be a temporary phenomenon. Our long-term outlook builds on our research that finds that UHNW clients remain structurally under-invested in illiquid/alternative assets relative to their target allocations.

Exhibit 20:
UHNW Private Markets allocations (2019-2024, USD Trillion)



Note: UHNW investors are defined as households with financial assets greater or equal to USD 100 million. Source: Oliver Wyman analysis

Most Wealth Managers recognize strong demand for illiquid/alternative asset classes but have only partial offerings in place. This is not enough for more sophisticated clients, who are choosing to source investments directly, and has resulted in a significant loss of wallet share.

To play a meaningful role in the space, Wealth Managers need to deliver ongoing access to high quality direct investment opportunities as part of their UHNW propositions.

Wealth Managers that are part of universal banking groups are best-placed to capture the opportunity and should create formal collaboration structures or dedicated teams to leverage their expertise across the deal value chain.

Add protection offerings to defend Wealth Managers' position at the center of client financial needs

Developing a protection offering allows Wealth Managers to firmly cement their position at the center of clients' financial needs and to quickly boost revenues by ~4 percent, which can help them offset some of the revenue pressures on their core business.

Covid-19 could cause many clients to re-evaluate their current insurance levels and residual risk appetite. This may drive an increased demand for a "trusted advisor" that can help them navigate the insurance products landscape, as clients decide they are currently underinsured, or, more likely, have unmet needs.

Wealth Managers are naturally positioned to play this role, as the industry moves towards holistic advisory. However, our primary research indicates that Wealth Managers' current offerings are severely lagging, with only 9 percent of HNW survey participants reporting that they were satisfied with their Wealth Manager's protection offerings. We see three different participation options that can be used to develop protection offerings, including in-house referrals (for groups with Insurance capabilities), trusted partnerships, and open-market brokerage.

Forward looking Wealth Managers can move beyond simple product offerings and consider broader ecosystem plays. For example, Wealth Managers could orchestrate a Healthcare ecosystem play by partnering with leading medical groups to create preferred access programs. While creating an ecosystem-based offering would require that Wealth Managers build credibility with clients to move beyond their core offerings, it would result in a truly differentiated proposition and a firmly cemented value to clients.

Consider developing digital assets offerings to further differentiate

Digital assets are currently a niche asset class for HNW and UHNW investors, however we expect asset structures to evolve and the market to mature, driving greater client demand and adoption.

Digital assets could become a unique selling point for a certain segment of clients. Asset tokens could be a market-disrupting opportunity that permits digital assets to become a sizable share of client AUM. However, for such a scenario to materialize, it would require a consortium of leading Wealth Managers to jointly develop the market given the high cost and long timelines to implementation and market adoption.

There is not a 'one size fits all' path and Wealth Managers need to choose how to participate based on their own view of the outlook. Wealth Managers who believe that digital assets will become a major market should aim to become 'full-service providers', whereas others should consider lower effort participation choices.

Evaluate inorganic opportunities to reset the growth trajectory

Covid-19 presents a unique trigger point in which inorganic growth is likely to rise to the top of management agendas for those players that can act from a position of strength. M&A and strategic partnerships can act as a means to compensate for the lower organic revenue growth outlook the industry faces. As assets have repriced, acquisitions are often more compelling now than during previous boom years, especially for targets in the product or technology space. Certain markets that remain heavily fragmented, like the US, the UK and Switzerland, are the most ripe for consolidation and we expect to see a continuation of activity in the coming years.

Exhibit 21 outlines the four usual archetypes of inorganic growth plays. In contrast to previous periods of significant deal activity, partnerships may prove to be the new M&A.

Exhibit 21:
Examples of partnership opportunities across four inorganic growth plays

Source: Oliver Wyman analysis

Given historical challenges to entering new markets overall and a poor track record of entering through M&A, Wealth Managers are increasingly exploring large scale partnerships with established local champions as the means to enter new markets. While partnerships may well be the new M&A in this regard, they are not without their own challenges. To succeed, management teams on both sides must develop a detailed understanding of the partnership scope and roles and design a robust revenue (and cost) sharing structure that is transparent and can evolve over time.

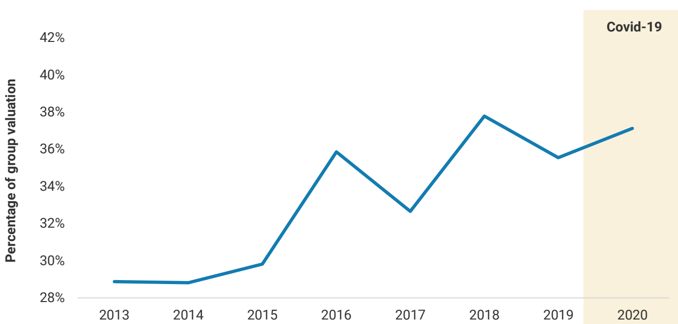
State of the Industry

During Covid-19, integrated Wealth Managers have proven to be a stable anchor to group valuations

As senior banking leaders assess their business portfolio on the back of Covid-19, Wealth Managers should be central to the discussion. Global bank-owned Wealth Managers have contributed an increasing share of group valuations since 2013. Even in the severe market shock due to Covid-19, Wealth Managers have remained a significant anchor to broader financial services groups. As Covid-19 puts pressure on businesses such as corporate lending, consumer lending, and investment banking, the more stable Wealth Management business once again increases in attractiveness on a relative basis.

Exhibit 22:

Average Wealth Management unit valuation as a percentage of total group valuation (2013-Q1 2020, average of leading bank-owned Wealth Managers



Source: Oliver Wyman analysis

Covid-19 represents a new reality; given the uncertainty we model three scenarios for global HNW wealth

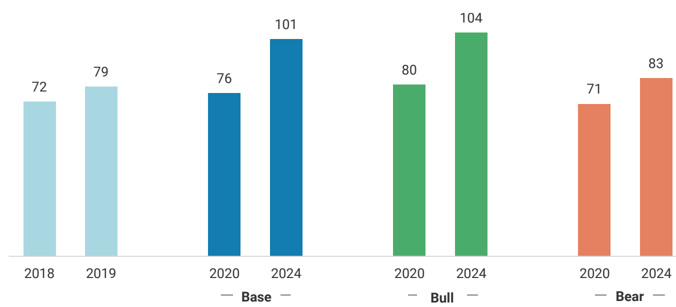
After a golden decade in which Wealth Managers benefited from more than 8 percent annual wealth growth on average, Covid-19 has introduced a different reality. The global economy has entered a period of significant uncertainty: assets have re-priced, interest rates have dropped, and market volatility has increased. As a result, Wealth Managers' underlying revenue drivers face significant challenges.

The duration of the pandemic, the policy response, and the extent to which it causes lasting economic damage is uncertain. As a result, we have modelled three scenarios for the growth of HNW wealth over the next five years:

- Our base case, "Recession and rebound", sees policy responses effective in containing the pandemic, while rate cuts and fiscal stimuli support the economy to drive a U-shaped or similar shaped recovery. In this scenario, Covid-19 will set back global HNW wealth levels by more than a year from our pre-Covid-19 forecasts.
- Our bull case, "Accelerated rebound", sees only modest upside to our base case, with a stronger near-term rebound in asset prices, due to prolonged central bank support, leading to a significantly better picture for wealth in 2020. After 1 percent wealth growth in 2020, the longer-term economic outlook and asset price path remain largely in-line with our base case.
- Our bear case, "Sustained downturn", sees policy measures unable to support the global economy. This outlook anticipates a significant downturn in 2020 with a slow recovery thereafter. This scenario would imply a four-year horizon before global HNW wealth returns to 2019 levels, with HNW wealth decreasing 10 percent in 2020.

Exhibit 23:

Global private HNW wealth: base, bull, and bear case (2018-2024, USD Trillion)



18–19' Growth	19-20E' Growth	19-24E' Growth	19-20E' Growth	19-24E' Growth	19-20E' Growth	19-24E' Growth
10.0%	-4.0%	5.1%	0.9%	5.6%	-10.2%	1.0%

Source: Oliver Wyman Wealth Management Model

For the purposes of this report, we focus our analysis on our base case, "Recession and rebound". However, the high levels of uncertainty in the macroeconomic outlook increase the importance of developing flexible planning approaches for Wealth Managers.

At most Wealth Managers, strategic planning and budgeting processes are behind the times, relying on resource-intensive, often disconnected manual processes. Given the uncertain outlook, these processes have taken on increased importance from management teams and regulators asking for answers to important what-if questions. This exacerbates the demand on already-burdened resources and puts management teams at risk of flying blind.

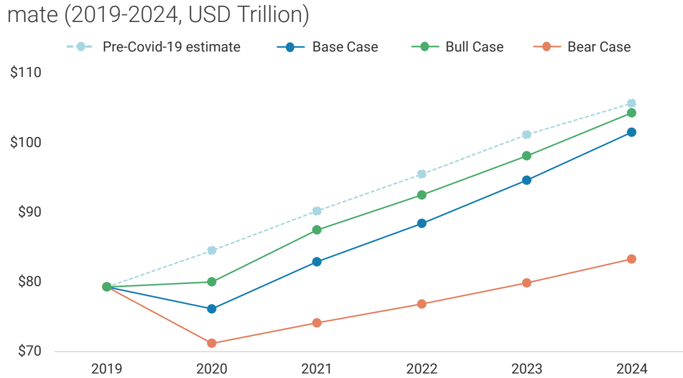
Given this rapidly evolving landscape, the planning infrastructure that informs management agendas must adapt to be equally nimble. This requires a shift from static forecasting approaches to a continuous planning process where forecasts are constantly up to date. It also requires investment in integrated planning infrastructure, bringing forecasting models and calculations online to enable drivers-based analysis of internal and external impacts to the business – for example, those outlined later in this report. To move forward, Wealth managers should assess their current planning capabilities, accelerate their in-flight capability upgrades, and define a long-term path to transform their planning approaches.

Our base case sees global HNW wealth lose more than a year of growth vs. pre-Covid-19 forecasts

In our base case we expect global HNW wealth to fall by 4 percent or $3.1 trillion in 2020 before rebounding to growth in 2021. Oliver Wyman's pre-Covid-19 estimates saw wealth growing consistently at 6 percent from 2019 onward, with HNW wealth reaching $85 trillion in 2020. Our base case now projects wealth to reach only $83 trillion in 2021. As a result, we expect Covid-19 to represent roughly one lost year of wealth growth.

Exhibit 24:

Global HNW wealth: base, bull, and bear cases vs. pre-Covid-19 estimate (2019-2024, USD Trillion)



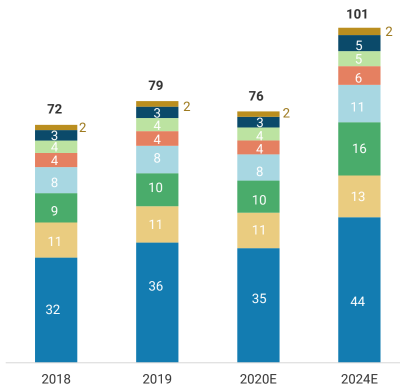
Note: Pre-Covid-19 estimate made based on inputs (GDP growth, asset performance, etc.) retrieved at year-end 2019. Post-Covid-19 forecast based on inputs retrieved beginning of April 2020. Source: Oliver Wyman Wealth Management Model

Our base case sees that growth will return, but from a lower base, supported by emerging markets

While we expect growth will ultimately return, it will be from a lower base following a contraction in 2020. Our base case projects 5 percent annualized wealth growth for the next 5 years. This represents a marked decline from the 7 percent annual growth seen in the last five years, reflecting the significant impact of Covid-19.

Exhibit 25:

Global HNW wealth by major region - base case (2018-2024, USD Trillion)



	19-20E' Growth	19-24E' Growth
North America	-5%	4%
Western Europe	-3%	3%
China	-3%	10%
Other APAC	-4%	6%
Middle East & Africa	-5%	5%
Japan	-1%	3%
Latin America	-7%	7%
Eastern Europe	-5%	5%
Total	-4%	5%

Source: Oliver Wyman Wealth Management Model

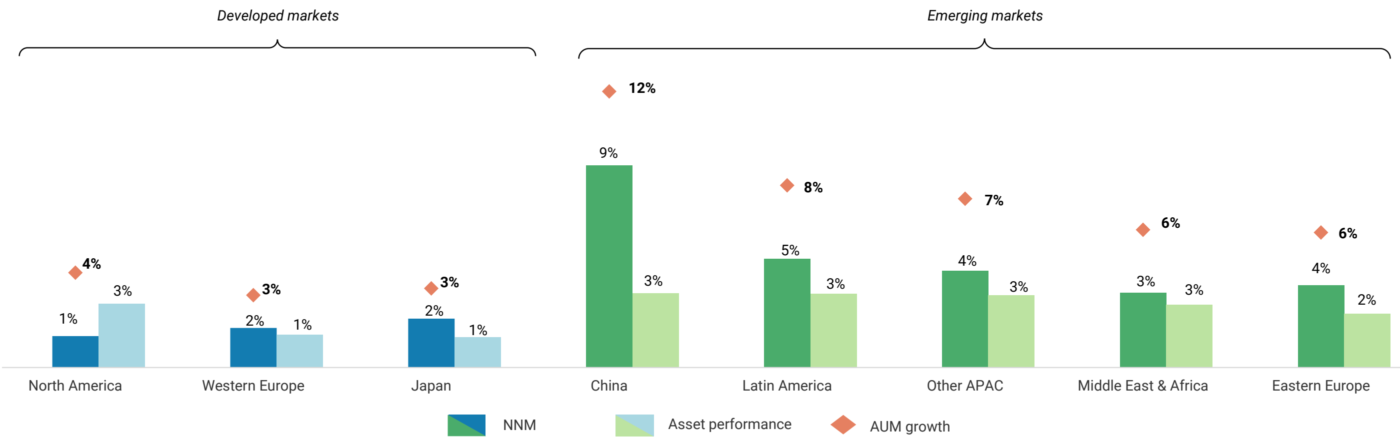
As in pre-Covid-19 forecasts, we continue to project significant variation in wealth growth between regions. As equity markets have fallen due to the economic impacts from the pandemic and collapsing global oil prices, we expect steep declines in HNW wealth in North America and Latin America where wealth levels are most strongly linked to equity markets.

As expected, these impacts to HNW wealth will have a knock-on effect on Wealth Manager AUM. While industry AUM grew 7 percent annually in developed markets in the five years prior to Covid-19, we expect slowed growth of 3-4 percent annually in these markets from 2019-24. We expect lower asset performance will be coupled with dampened NNM due to bankruptcies and muted executive pay.

Within developed markets, we expect asset performance to drive North American growth ahead of Western Europe and Japan, in spite of strains from a lower savings rate which are expected to cause North American NNM growth to trail other developed markets. In the medium to long-term, as HNW wealth resumes its growth trajectory, our base case favors emerging markets.

Exhibit 26:

AUM performance vs. NNM – base case (2019-2024 CAGR, percent of AUM)



Source Oliver Wyman Wealth Management Model

Emerging market AUM growth will slow in the short-term, but we expect a stronger rebound relative to developed markets driven primarily by NNM. We project NNM growth of 4-9 percent per annum for emerging markets as opposed to 1-2 percent per annum for developed markets. High rates of NNM in emerging markets are attributable to two factors: new investable wealth creation due to overall GDP growth, accounting for the majority of NNM, and HNW investors increasing the share of investable assets placed with Wealth Managers. Complementing the uplift from NNM, we expect higher asset performance for emerging markets AUM, reflecting greater risk premia for assets in these geographies.

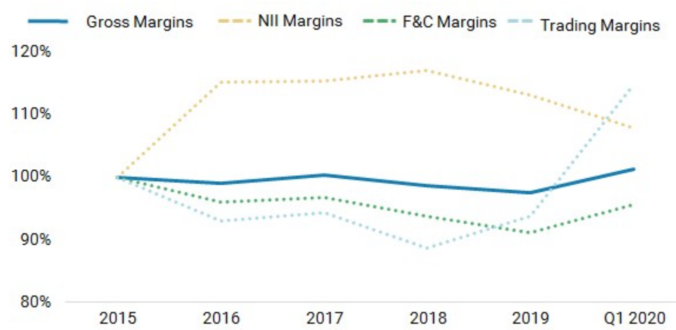
The concentration of AUM growth in emerging markets will have a meaningful impact on priorities for the industry. Notably, global Wealth Managers should continue to assess opportunities to participate in emerging market growth and, in particular, growth in China.

The full impact of Covid-19 on industry economics is yet to show, and while wealth management remains an attractive industry, management teams should prepare for a more challenging revenue outlook in the near term

We expect Wealth Managers' gross revenue margins to continue to fall at an industry level as Covid-19 accelerates the decline in net interest income (NII) margins, while the structural forces compressing fee and commission (F&C) margins and trading margins are sustained. Wealth Managers' Q1 2020 results, although not a perfect proxy given that the pandemic arrived in March, can help inform the long-term outlook.

Exhibit 27:

Margin trends by revenue line (2015-Q1 2020, indexed to 100 in 2015, sample of leading Wealth Managers)



Source: Oliver Wyman analysis

Fees and commissions have been significantly pressured in recent years due to increasing competition and greater transparency requirements. While F&C margins saw a strong uptick in Q1, this was because fees were yet to fully reflect the market sell-off, which only began in late March. In the longer term, we expect F&C margins to continue to shrink due to significant structural headwinds. Most notably, we anticipate increased competition among Wealth Managers will lead to more aggressive pricing while the shift towards larger mandates, a traditionally lower margin business, will provide further headwinds.

NII margins, which have served as the strongest anchor for Wealth Manager returns over the past five years, began to falter at the end of 2019 due to falling interest rates. NII margins declined further in Q1 on the back of central bank actions, surging deposit levels, and negative loan growth as a result of Covid-19. We expect continued pressure on NII, particularly for players with high USD exposure in the zero-rate environment. Over the longer term, we expect loan growth to resume and loan-to-deposit ratios to stabilize as market volatility normalizes. As such, we expect NII margin pressure to be partially relieved on a five-year horizon, particularly given the likelihood of rate hikes once the pandemic has faded.

Trading margins saw a noticeable uptick in Q1 on the back of significant market volatility which resulted in higher client activity and a surge in demand for structured products and hedging solutions. In particular, demand for instruments with downside protection drove significant growth in transaction revenues. As market volatility reduces, we expect trading margins to fall below pre-Covid-19 levels as competitive pressure from zero commissions accelerates and expands beyond North America.

Management teams must act now to position their business to shine after the storm

Wealth Managers have previously benefited from strong growth in HNW client wealth, which has offset declining margins and masked operating model inefficiencies. While we expect wealth growth to resume after this lost year, Covid-19 has led to significant AUM declines in the short-term and reinforced margin challenges in the long-term. With tailwinds from wealth growth gone for the immediate future, Wealth Managers need to act now to position their business for growth in the "new normal".

Imperatives for Wealth Managers

Emerging from Covid-19, we see three primary dimensions for management teams to consider, with leaders able to successfully act across all three:

- Adapt to the new normal by rolling out new advice delivery models and accelerating digital use cases
- Defend business economics by finding operating leverage through improved approaches to cost
- Consolidate share and drive growth via differentiated product offerings and inorganic opportunities

Adapt to the new normal

Build the advice delivery model of the future today with RMs firmly at the center

Covid-19 highlighted the constraints of the existing advice delivery model

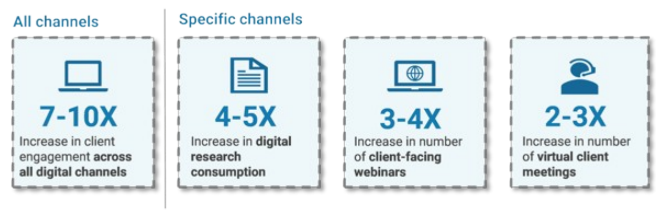
The extraordinary levels of uncertainty and severe market turmoil prompted by Covid-19 have highlighted the importance and value of high-quality human advice. Clients have sought increasing levels of reassurance during this turbulent period, which has drawn on RMs' capacity as financial experts and as trusted advisors. Even prior to Covid-19, more than 85 percent of HNW investors polled in a proprietary Oliver Wyman survey said they valued the ability to talk with an advisor. By contrast, less than a third of these respondents valued advice delivered via robo-advisors. The surge in complexity, diversity and urgency of client requests has only underscored the value of having access to human advisors, given the challenges of servicing bespoke requests without human support.

Covid-19 has also represented a forced transition to remote ways of working and required advice and information to be delivered through multiple channels. Video conferences have replaced face-to-face meetings for client discussions and financial planning. Clients have also increasingly engaged through digital 'self-serve' channels such as apps, websites and live chat to access information.

Exhibit 28 shows measures of different types of digital engagement during the crisis, far in excess of what they were prior to the pandemic.

Exhibit 28:

Digital engagement for select leading Wealth Managers (Q1 2020)



Source: Oliver Wyman analysis

The existing advice delivery model has proved somewhat resilient. In particular large bank-owned Wealth Managers have found greater success leveraging advice delivery channel upgrades made over recent years.

Yet the Covid-19 crisis has also exposed the model's limitations. The rise in client engagement during the turmoil has stressed the capacity of RMs specifically in smaller independent Wealth Managers that have had more difficulty serving clients due to a lack of remote working protocols and digital client engagement infrastructure, causing RMs to operate at their capacity limits. Self-serve channels like self-directed trading and portfolio monitoring have helped to pick up the slack but have often lacked the appropriate functionality to be fully effective.

Wealth Managers need to design the advice delivery model of the future which will have to be omni-channel, marrying the expertise and emotional reassurance provided by an RM, with the efficiency, convenience and scalability of digital. It will need to be flexible according to client preferences and with seamless handoffs between channels.

The advice delivery model of the future will be RM-centered, but omni-channel

We strongly believe that the human RM will remain central to the client relationship and to delivering a strong Wealth Management experience. However, there will be a step change as clients emerge from the pandemic with their muscle memory for digital and remote interactions intact, with many recognizing and preferring the convenience of remote channels for routine business.

Face-to-face interactions will remain crucial for building deep, trusted relationships, but their usage frequency will decrease as we expect video conferencing to be a growing medium for more frequent check-ins with RMs. We also expect the usage of phone calls and emails to decrease as live chat, website, and app services grow in sophistication and functionality, and clients increasingly use these self-serve channels to monitor portfolios and valuations, conduct simple transactions, or receive technical support.

CIO organizations within Wealth Managers will also leverage webinars and presentations, either for cohorts of like-minded clients, or open to all, to present investment ideas. This will increase client engagement and enable them to more efficiently use portfolio managers' time.

Our anticipated use of channels by clients in 2024 and their potential role is highlighted in **Exhibit 29** .

Exhibit 29:

Anticipated use of Wealth Managers' advice delivery channels (2024)

Source: Oliver Wyman analysis

We acknowledge that clients will vary significantly in their channel preferences, which will be related to client age, geography, sophistication, attitude and investment complexity. Certain client segments will be hesitant or disinclined to transition to a new means of communication, whereas others will demand it. Yet the direction of travel is clear.

Wealth Managers need to build the advice delivery model of the future today

Wealth Managers need to take a number of actions with regard to advice delivery:

1. Develop a channel strategy – Wealth Managers should begin by identifying the key client personas they serve today and the ones they intend to serve in the future, for example millennial tech-wealth or older generations preparing for wealth transfer. Wealth Managers must evaluate the needs of each persona and the role of each channel in fulfilling these needs in the target-state, then determine how each channel can be developed or improved to do this. This is not just about digital channels and could include, for example, guidance on when RMs should speak directly to their clients, and when clients should be referred to client support professionals.
2. Further accelerate digital use cases – given its importance, this topic is discussed later in this report. The channel strategy will emphasize the need to build or improve existing digital channels
3. Enact change in RM behaviors – successful strategies will segment clients according to their channel preferences and will encourage RMs to adapt their behaviors accordingly. This will require rigorous client segmentation and training and may involve the migration towards persona-specific advisor and client service teams
4. Offer differentiated propositions and pricing – Wealth Managers should consider developing differentiated pricing based on channel preferences and use, and consider developing separate, graduated digital-led propositions for lower value clients that cannot be profitably served by the existing model

Overall, to win in the future state, Wealth Managers must invest in digital advice delivery channels and redesign the client experience to enable a multi-channel approach with seamless handoffs between channels.

Accelerate digital implementation efforts to improve effectiveness in the new operating environment

Wealth Managers have had varying levels of success in their digitization efforts, but lag behind retail banks

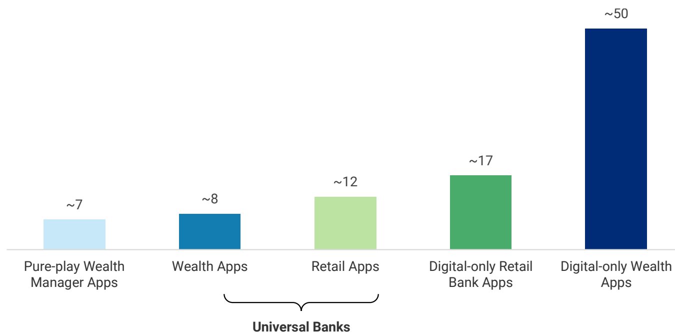
Wealth Managers have pursued a broad array of digital use cases over the recent years, but investments have been made on a somewhat opportunistic basis, without a clear view of their expected impact or a framework for measuring success, and with limited ability to articulate an overall digital strategy. Some success has been achieved on the back of their digital efforts in recent years. For example, significant progress has been made in digitizing the advice value chain, improving the experience for both RMs and end clients.

Despite these successes, Wealth Managers have showcased little consistency in digital use case prioritization and implementation to date. The industry's technological capabilities remain immature relative to other financial services industries, especially in comparison to retail banks. Improvement in retail banks' client-facing digital capabilities has been driven by evolving client expectations and a strong need to reduce cost-to-serve to protect profitability. Wealth Managers have not yet experienced similar levels of urgency. As a result, their digital offerings are less well-developed.

We can demonstrate this by looking at the number of updates institutions make to their mobile applications, which represents a reasonable proxy for the level of effort and focus devoted to digital across providers. The contrast, showcased by **Exhibit 30** , between retail banks and Wealth Managers, is stark – with retail banks updating their applications almost twice as frequently as pure-play Wealth Managers in 2019. For universal banks with both a retail bank and Wealth Management division, on average, retail applications are updated almost 50 percent more frequently than the Wealth Management applications. As retail banks continue to pour effort into their digital offerings to improve the end-client experience, clients will naturally expect a similar level of experience from their Wealth Managers. However, both groups lag significantly behind online-only banks and pure-play digital challengers, who have robust development pipelines to fix bugs and introduce new functionality on up to a weekly basis.

Exhibit 30:

Average number of iOS mobile application updates by type of institution (2019)



Source: Oliver Wyman analysis

Though Wealth Management and retail banking clients have distinct use cases, Wealth Managers that are a part of universal banking groups can significantly benefit from their retail divisions' digital advancements. They can leverage the retail division's core use cases, customize where appropriate, and reduce future costs by co-building common use cases, thereby freeing up investment budget to develop those use cases that are truly Wealth Management specific.

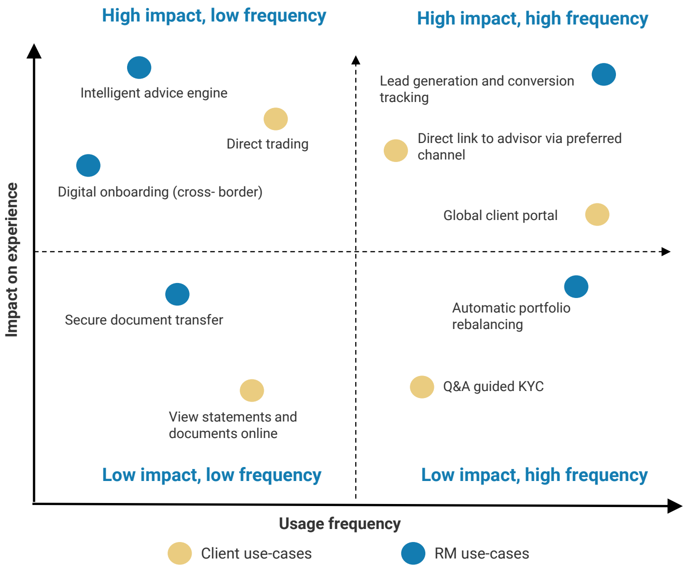
Wealth Managers need to develop a framework to effectively prioritize their digital investments

Covid-19 has significantly increased client digital engagement along the value chain and provided Wealth Managers with rich data to understand which use cases clients truly value.

Therefore, Wealth Managers need to take a step back to assess their as-is and future state digital portfolio. Achieving best-in-class digital experiences at each step of the value chain remains unfeasible for any Wealth Manager given capital and resource constraints. Hence, Wealth Managers need to prioritize the use cases that are most valued and impactful for their end clients or RMs, so they can deliver the biggest bang for the buck.

We have developed a proprietary prioritization framework, **Exhibit 31** , to support this evaluation. We consider client usage frequency and impact on customer experience as the two primary dimensions. The use cases that can deliver transformational impact are those that significantly improve the client experience and with which they interact frequently.

Exhibit 31:
Prioritization framework to assess digital use cases (theoretical example)



Source: Oliver Wyman analysis

Of course, Wealth Managers also need to evaluate use cases against the cost and complexity to implement. The more innovative Wealth Managers frequently use partnerships to minimize development costs and accelerate implementation timelines. For example, an Asian Wealth Manager partnered with a technology company to use its chatbot technology to enable automated client communications, increasing client self-service while avoiding substantial in-house development cost. As another example, a consortium of smaller Wealth Managers have partnered with a technology and infrastructure provider to enhance their cloud-computing capabilities and improve performance of their client-facing mobile applications on an accelerated timeline.

Wealth Managers also need to consider how the implementation of their digital portfolio will position them against peers. Chief Digital Officers need to engage senior management with a digital planning framework that simulates different future states based on risks taken today and enables Wealth Managers to understand how each scenario positions them relative to peers and client preferences.

Finally, Wealth Managers need to develop a comprehensive impact framework to measure digital use case success. Success can be defined in a number of ways, like client engagement, satisfaction, direct revenue uplift, or cost savings. Wealth Managers need to be clear on their definition and choose consistent metrics, such as number of log-ins, promoter score, RM time saving, or product revenue created through the use case. Such a framework will allow for smarter prioritization of the various competing digital opportunities and other business priorities.

Defend business economics

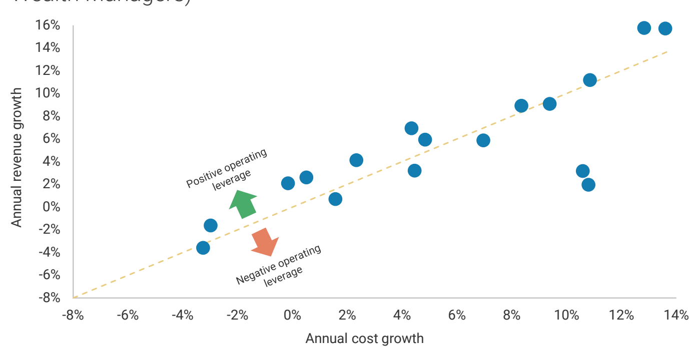
Deliver positive operating leverage through improved approaches to cost

With ongoing cost journeys struggling to produce positive operating leverage, we see potential for leaders to reduce CIR by 12 percentage points

With Covid-19 dampening the outlook for AUM and revenue growth, Wealth Managers faced with challenged profitability will need to address their cost bases in order to protect economics. This will dictate an immediate focus on residual short-term tactical cost cuts. Beyond this, players should focus on unlocking additional value by streamlining delivery of group services and enacting transformative changes to their operating models and IT infrastructure.

Most players across the industry have been focused on cost for some time, and many Wealth Managers are already on multi-year cost journeys. While the levers available to reduce costs are well known, success in actioning these levers has been mixed, with many players encountering implementation challenges. A representative sample from Oliver Wyman's proprietary database demonstrates the difficulty Wealth Managers have had in generating positive operating leverage. Between 2015 and 2019, most players saw costs and revenues grow broadly in line, despite a significant number undertaking publicly announced major cost-cutting programs during the same time period. That this occurred in a period in which the industry enjoyed structural tailwinds in terms of strong NNM and asset growth further emphasizes the difficulty of successfully becoming leaner.

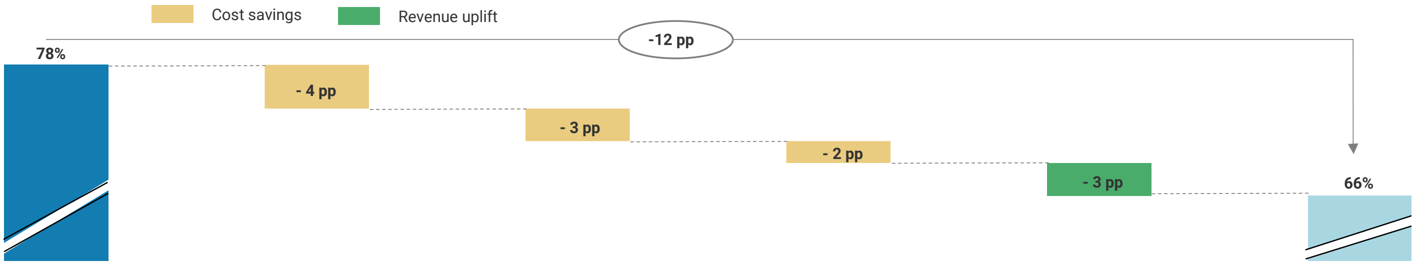
Exhibit 32:
Revenue growth vs. cost growth (2015-2019, percent YoY, sampling of Wealth Managers)



Source: Oliver Wyman analysis

Exhibit 33:

Cost-income ratio impact by category through improved approaches to cost (gross percentage point change)



Average CIR	1. Tactical cost costs	2. Streamlined group service delivery	3. Transforming the operating model: *IT & Operations efficiency*	3. Transforming the operating model: *Wallet share and RM churn*	End state CIR
Description	• Initiatives focused on cutting direct costs • Potential levers include reducing management layers, optimized RM headcount, decreased front office support headcount, and reduced third party spend (e.g. market data)	• Streamlining internal service delivery for group functions • Savings achieved by working with functional heads (e.g. risk) to simplify services • Covid-19 has also increased focus on right-sizing real estate	• Simplified operating models and upgraded IT infrastructure • Cost savings from rationalized vendor base and increased operational efficiency (e.g. lower back office headcount, fewer fines)	• Revenue uplift from IT & Operations efficiency • Drivers include: - Increased wallet share via heightened RM productivity and enhanced client targeting - Reduced RM turnover	

Note: This exhibit isolates the direct impact from targeted efficiency plays and does not incorporate other changes to industry revenues. Source: Oliver Wyman analysis

Looking ahead, Wealth Managers will need to exercise a disciplined approach to cost in order to effectively and consistently generate positive operating leverage and improve cost income ratios. We see three key focus areas across the short and medium term for achieving this outcome:

1. Tactical cost cuts (short term)
2. Streamlined group service delivery (short to medium term)
3. Transforming the operating model (medium term)

We estimate that the industry can reduce average cost income ratios by up to 12 percentage points, through a combination of targeted efficiency plays and directly related revenue uplift opportunities. Opportunity size will vary based on a variety of factors including operational complexity and the degree of completion on current cost journeys. For example, for players in the United States, this will generally mean greater opportunity given the higher starting point of cost income ratios which remain well above the 78 percent global average for some players.

Tactical cost cuts

Despite recent efforts to address the additional complexity created following the global financial crisis, there remains ample room for Wealth Managers to pursue further tactical cost cutting initiatives. While tactical cost cutting efforts during the past decade have achieved some success, reducing the total opportunity size moving forward, we estimate that further tactical cost initiatives could lower cost income ratios by 4 percentage points. In particular, for players that have not yet aggressively pursued cost cutting programs, there is still significant value to be realized.

Most initiatives will likely focus on the usual levers which include:

- Removal of excessive management layers – today's best-in-class global leaders operate with only three to four levels of management
- Optimization of RM headcount – through right-sizing of geographic footprint and selective managing out of underperformers
- Reduction in front office support headcount – through greater sharing of sales support and automation of manual functions, such as fielding client requests
- Procurement review of third-party spend – focusing on high-value contracts managed directly by the business such as market data

These measures often face challenges along multiple fronts, including cultural resistance, which is why they have not yet been fully exhausted by the industry. Covid-19 has also introduced opportunities to take tactical cost cutting further in some areas. For example, while T&E expenses will be undoubtedly lower in 2020 due to lockdowns, Wealth Managers can reduce longer-term T&E costs by leveraging remote advice delivery channels, as described later in this report.

Streamlined group service delivery

We estimate 3 percentage points in cost income ratio improvement can be unlocked through streamlined group service delivery from second line functions, like Finance, HR, Legal and Operations. This is an under-explored area for most Wealth Managers, which have traditionally been focused on revenue growth and direct cost, rather than seeking to optimize service delivery and indirect cost.

Several dynamics make indirect costs difficult to address. Wealth Managers that are part of a group, often struggle to receive a clear rationale for cost allocations and understand the levers for reducing underlying drivers of cost. Additionally, most centralized services have been developed as a result of historical business needs, so reducing indirect costs must also include a thorough review of business requirements and comes at the expense of reduced service delivery.

Despite these hurdles, Wealth Managers can meaningfully reduce their short-term to medium-term cost base by engaging their group service delivery providers in understanding how strategic decisions contribute to cost. Successful engagement will involve constructive discussions on where services should be performed, such as within the Wealth Management unit or within functional groups, in order to maximize efficiency. Similarly, conversations should focus on which services provided are critical vs. 'nice-to-have', and where there are product or service complexities which do not stand-up against rigorous cost-benefit analysis.

For example, bespoke client and RM reporting requests have led to a proliferation of customized reporting, placing a high burden on operations teams. While some customization may be value additive, especially for high-value and mostly UHNW clients, not all would clear the cost-benefit hurdle when analyzed closely. Similarly, Wealth Managers' willingness to serve the needs of a minority of clients through complex products often drives an increased operational burden on the risk function that outweighs top line benefit.

Covid-19 has also brought real estate of Wealth Managers in the spotlight as an additional lever. The current crisis could prompt some Wealth Managers to reduce physical office presence, depending on the ability of the business to work remotely. Savings on real estate costs could be applied to fund part of the digital agenda, specifically investments that expand or enhance the advice delivery model.

These are just a few examples, and in our experience, there are many more, as outlined in **Exhibit 34** . Wealth Managers who engage with functional groups to understand the drivers of allocated costs and align on a course of action to minimize these costs will unlock the full savings potential. Success demands new ways of working including co-design across stakeholder groups and agile project management so as to reduce burden on internal functions.

Exhibit 34:

Typical underlying cost drivers to be discussed by internal function

Internal function	% total cost base	Typical underlying drivers of cost to be discussed
Marketing	1-5%	• Level of direct marketing support and advertising • Number of marketing events
Risk & Compliance	3-5%	• Complexity and breadth of product suite • Number of countries with active operations
Operations & IT	10-25%	• Complexity and breadth of product suite • Diversity of application base • Location of cyber security and tech services teams • Number of countries with active operations
Property, Facilities, & Other	5-15%	• Office footprint • Travel spend, catering, and hospitality
Finance	1-5%	• Customization in financial reporting • Systems maturity and sophistication
HR	1-5%	• Number of countries with active operations • "Self-serve" ability of individual business units • RM recruitment needs
Legal	1-3%	• Complexity and breadth of product suite • Use of external counsel

Source: Oliver Wyman analysis

Transforming the operating model

Transformations to operating models and associated IT infrastructure can drive the most meaningful improvements to Wealth Managers' bottom lines, with the potential to decrease cost income ratios by 5 percentage points over a multi-year horizon. Although these initiatives represent the most significant lever available for Wealth Managers to drive profitability, they also present the most significant challenges to effective execution.

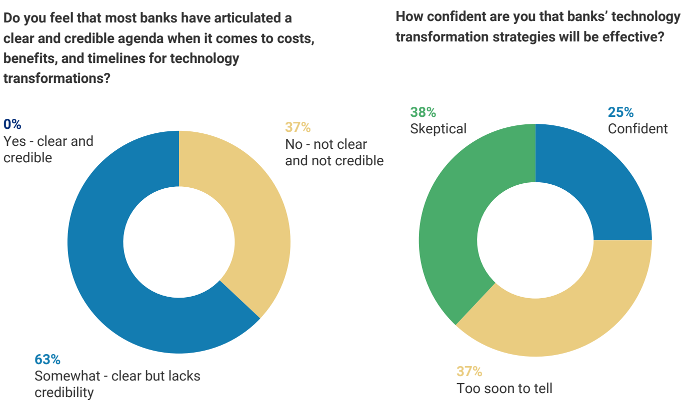
Historically, increasing business scope for Wealth Managers has translated into greater operational demands and oftentimes tangled IT infrastructure. The ratio of RMs to support staff headcount can serve as a litmus test for operational inefficiency. While industry leaders currently maintain a one to three staffing ratio between RMs and front-office support staff, other Wealth Managers operate with a ratio of one to six or more. Though this benchmark can vary based on scale and complexity, most Wealth Managers rely on costly and time-consuming manual interventions to fill gaps where systems and processes are failing.

Operating models and IT infrastructure have evolved over time to become inextricably linked. Networks of processes and underlying technology have grown in complexity, which has ultimately become unwieldy and difficult to unravel. In turn, this operational complexity has introduced significant pain points for RMs and clients, decreasing RM effectiveness and increasing turnover, with a direct impact on Wealth Managers' bottom lines.

Although transformations to operating models and IT infrastructure have the potential to deliver significant improvement for both revenues and costs, these programs are a complex undertaking for any player. Large-scale technology programs also face a great deal of skepticism both internally and externally. As outlined in **Exhibit 35** , a proprietary Oliver Wyman survey found that 37 percent of investors across banks felt that agendas for these transformations lacked both clarity and credibility. Similarly, only 25 percent of investors expressed confidence that these technology transformations would effectively drive value. Some of this reputation is deserved based on track records for large programs, like re-platforming core banking systems, which tend to be overwhelming and unable to meet stakeholder expectations. They also introduce significant risk to the business in terms of profitability and corporate reputation. However, there are alternatives to re-platforming that allow Wealth Managers to significantly improve front-end capabilities while also reducing CIR and minimizing risk.

Exhibit 35:

Investor survey on technology transformations

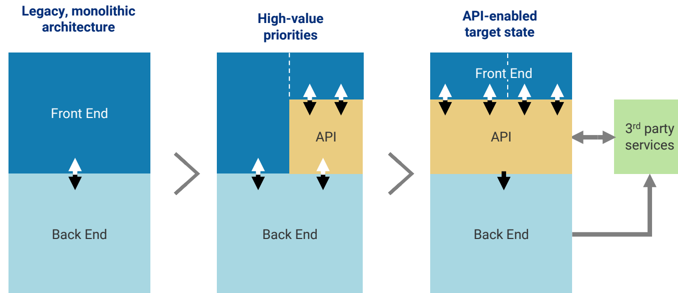


Source: Oliver Wyman and Procensus investor survey, November 2019

API-led transformations offer the best route to quickly upgrade technology capabilities. In the example in **Exhibit 36** , an analysis of business value by Oliver Wyman's specialist technology partner DMW determines where delivery teams use APIs to open up monolithic, legacy systems. The end state provides an API-enabled architecture to generate new capabilities, delivers an improved experience to clients and introduces the ability to leverage third parties to innovate, such as performing enhanced data analysis or utilizing standard services at a reduced cost.

Exhibit 36:

API-led transformation approach



Source: DMW group

Identifying the highest-value areas for development is a critical step in this process. The crux for Wealth Managers is in identifying the investments that will drive RM effectiveness and increase both RM and end client satisfaction, which is not easily done with current management information.

While many Wealth Managers currently have a reporting process to surface individual KPIs related to operational efficiency, few have unified these metrics to provide a holistic view of their technology and operational landscape. For example, while RM exit interviews can be an important source of information for RM pain-points, these are rarely combined with other data like failure rates and platform utilization metrics to build a front-to-back picture of problem areas. Wealth Managers will need to aggregate these key metrics across operations, IT, and the front-office as part of an ongoing, systematic process for senior leadership to review performance and invest in the right operating model improvements.

Managed effectively, operating model transformations can drive top line growth through increased wallet share, a biproduct of both heightened RM productivity and improved effectiveness in targeting services to individual clients. Additional revenue uplift can be expected from lower RM turnover as a result of increased job satisfaction. We expect meaningful cost savings to also accompany these transformations as Wealth Managers rationalize their vendor base and reduce charges related to operational inefficiencies, like lowering headcount, increasing productivity and minimizing fines.

Exhibit 37:

Taxonomy of sustainable investing approach

Level of direct ESG impact

Sustainable investing				Emerging niche strategies	
ESG screening		ESG Integration			
Negative screening (exclusions)	**Positive or norms-based screening**	**ESG integration to manage risks and identify opportunities**	**ESG integration for sustainability and responsibility**	**Thematic investing**	**Impact investing**
Exclusion of companies or sectors from the investment universe based on the specific criteria (e.g. aversion to tobacco, oil)	Focusing on investments in companies complying with international norms or performing better than peers against ESG criteria	Consideration of qualitative ESG criteria in investment process alongside financial analysis, to assess long-term risk and opportunities of assets	Integration of ESG criteria in investment decision-making to assess companies behaving in sustainable and responsible way	Focusing on investments relating to specific environmental or social themes	Investing with the intention of generating positive social and/or environmental impact

Source: Oliver Wyman analysis

Consolidate share and drive growth

Develop differentiated propositions to protect and grow revenues

As a reaction to the challenged industry growth outlook, Wealth Managers must develop differentiated propositions to protect and increase their revenue base.

We see four ways in which management teams can do this.

Strengthen sustainable investing offerings to grow wallet with a highly attractive and often younger client segment

We expect HNW sustainable investments to grow by 18 percent annually to a total of $9 trillion by 2024, primarily due to growing interest from the next generation of clients. The Covid-19 pandemic may well accelerate this growth as existing clients further engage with the broader societal impact of their investments. This increased interest has not gone unnoticed by Wealth Managers, however, most of their sustainable investing offerings are to-date relatively simplistic. Wealth Managers need to develop a more sophisticated proposition to differentiate themselves and to capture a larger wallet share of attractive and often younger client segment.

HNW client interest in sustainable investments has grown steadily, a trend we see accelerating in the coming years

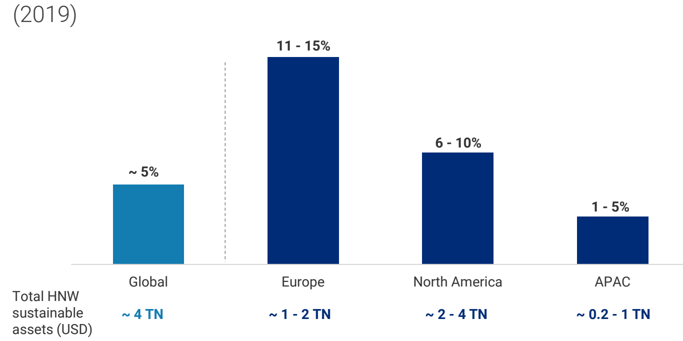
The term "sustainable investing" encompasses a number of different types of investment strategies. In this report we include strategies from across the spectrum, from negative-screening to the integration of environmental, social and governance (ESG) factors, through to impact investing.

We estimate that HNW clients had ~$4 trillion invested in sustainable investments at the end of 2019. This growth has been due to a number of factors, including an increasing awareness and concern for global sustainability challenges, in particular climate change and a changing investor landscape with a new, younger generation of clients. Perhaps most importantly, there is a growing body of evidence that clients can build portfolios with positive ESG attributes without compromising investment returns. One such example is a recent Morningstar report that analyzed returns from stocks over a 10-year period and concluded that clients can build global ESG-aligned portfolios without sacrificing risk or returns.

This growth has not been uniform across regions however, and in particular we see that European HNW clients have the highest allocations to sustainable investments at 11-15 percent of their portfolios, with North America and APAC allocations lower at 6-10 percent and 1-5 percent respectively.

Exhibit 38:

HNW sustainable investments as a proportion of total assets by region (2019)



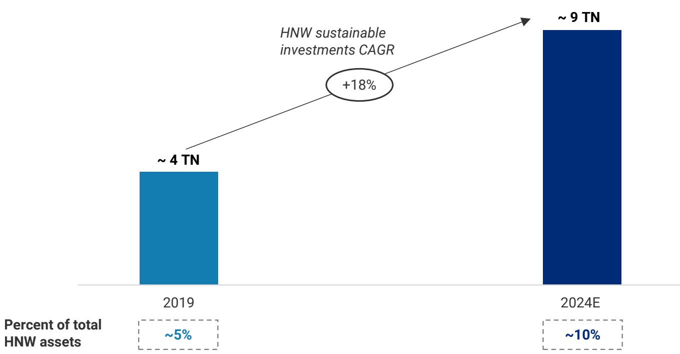
Source: GSIA, Oliver Wyman Wealth Management Model

The structural drivers supporting growth will persist. The next generation of clients, who are on average more interested in sustainable investing than previous generations, will become an increasingly important demographic for Wealth Managers. The active discussion around companies' contributions to wider society and in particular climate change will only continue, and we expect existing clients to show greater consideration for how their investments impact and contribute to society, in addition to generating a financial return.

Further, the Covid-19 pandemic may well accelerate interest in the objectives and impact of investments beyond pure portfolio return. We therefore project sustainable investments to grow by 18 percent each year to a total of $9 trillion by 2024.

Exhibit 39:

Projected HNW sustainable investments growth (2019-2024, USD trillion)



Source: Oliver Wyman Wealth Management model

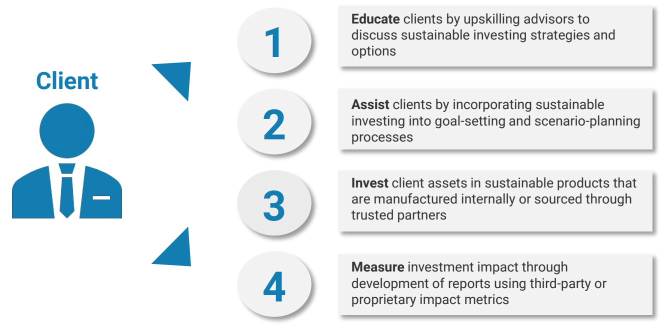
Many Wealth Managers have responded to this increased investor interest by developing sustainable investing propositions. Most progress has been made in developing sustainable-badged investment portfolios, which typically use a combination of screening approaches and ESG-labelled funds. Yet these approaches are often relatively simplistic, and do not seek to embed investor's sustainability goals in either the planning or reporting phases of the investment process. In our view, no Wealth Manager has yet developed a truly market leading end-to-end sustainable investment proposition.

Wealth Managers can play four main roles to help clients invest sustainably

We see the potential for clear leaders to emerge if they develop differentiated offerings that can recognize client needs and assist clients throughout their sustainable investment journey, from initial advisory to the investment process to tracking and reporting of impact. Particularly, we see four broad roles that Wealth Managers can play.

Exhibit 40:

Role of Wealth Managers in sustainable investing



Source: Oliver Wyman analysis

To start, Wealth Managers can help clients define their sustainable investing goals and objectives. Are they looking for strategies that screen out poorly performing companies, or consider ESG factors as part of broader investment criteria? Does the whole portfolio need to be sustainable, or just part of it? Is the investor interested in "impact" investing? In this part of the process Wealth Managers should communicate to clients the data they use and how it is factored into decision-making.

Wealth Managers can then help clients implement these goals and objectives in their portfolio. As previously mentioned, this is where progress has already been made, but Wealth Managers can go further in providing a product offering that covers the breadth of asset classes and sustainable investing approaches clients wish to use.

In particular, we expect some Wealth Managers to offer specific investment opportunities to clients who are looking to make a tangible impact beyond financial return. This is often referred to as "impact investing". Wealth Managers looking to lead in this area should leverage their institutional relationships to source proprietary investment opportunities from which clients can choose, based on the themes with most relevance to them. Finally, Wealth Managers can report on key metrics, including their own proprietary metrics that they have developed, to demonstrate the impact alongside the financial performance of clients' investments. For example, Wealth Managers can allow clients to set goals and receive specific reports on impact investments, like the number of micro-loans extended, while also reporting on other sustainability metrics on a portfolio level, like carbon-offset achieved.

Beyond developing investment capabilities, it is also crucial for Wealth Managers to effectively brand their offerings to establish ownership of the space. This may lead to a positive impact on flows as clients consolidate wallet with perceived champions in the space. There is no one-size-fits all answer about how Wealth Managers should think about participating in the sustainable investing space: Wealth Managers must consider their target clients, current capabilities, and ability to invest. Nevertheless, delivering a sophisticated sustainable investment proposition is crucial to enable them to capture the growing share of client wallet that is moving towards sustainable investing, and a key way in which they will be able to differentiate themselves.

Expand private markets offerings to recapture lost UHNW wallet

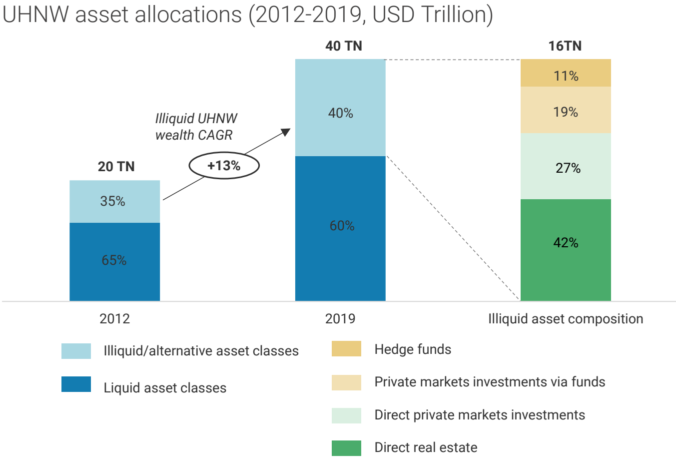
We project UHNW allocations to illiquids/alternatives will grow to $24 trillion by 2024

UHNW investor interest in private market investments has grown substantially in recent years, a trend we expect to continue despite near-term headwinds from Covid-19. Over the next 5 years, we see illiquid/alternative investments growing by 8 percent annually to $24 trillion by 2024.

Direct investments in illiquid/alternative asset classes are primarily an opportunity relevant for UHNWs, given suitability challenges for HNWs due to significant minimum capital commitments, long lock-up periods, and regulations like AIFMD in Europe. Since 2012, UHNW clients have increased their allocation towards illiquid/alternative assets, which now represent 40 percent of their total investable assets, or $16 trillion. Within this, direct real estate and direct private markets investments represent the most significant sub-asset classes.

Exhibit 41:

UHNW asset allocations (2012-2019, USD Trillion)



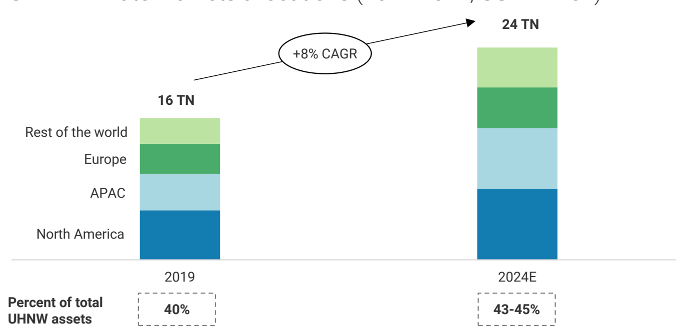
Source: Oliver Wyman analysis

In the short-term, we expect investment allocations to private markets to remain stable, or even fall. The current market volatility on the back of Covid-19 may limit clients' appetite for investments that are by-definition illiquid, difficult to mark-to-market/compute NAVs, and with multi-year lock-up periods. However, we expect this to be a temporary phenomenon, and in the medium-long term we expect UHNW investors to drive a significant rebound in demand.

Our long-term outlook builds on our research that finds that UHNW clients remain structurally under-invested in illiquid/alternative assets relative to their target allocations. Principally, this has been due to difficulties of accessing high-quality investment opportunities. Additionally, a recent survey by Preqin indicated that 92 percent of investors plan to maintain or increase their alternatives exposure in the long term. As such, on a five-year horizon we anticipate robust growth across regions in total alternative assets held by UHNW investors, with global allocations increasing to 43-45 percent of total assets by 2024.

Exhibit 42:

UHNW Private Markets allocations (2019-2024, USD Trillion)



Source: Oliver Wyman analysis

Wealth Managers should develop more sophisticated and scalable private markets offerings that, where possible, draw upon group capabilities

Most Wealth Managers recognize strong demand for illiquid/alternative asset classes but have only partial offerings in place. These typically extend only to facilitating access to third-party alternatives asset managers or offering selective direct investment opportunities to their highest value clients, but on an opportunistic basis. This is not enough for more sophisticated clients, who are choosing to source investments directly.

The inability of Wealth Managers to consistently fill UHNW investors' demand for illiquid/alternative assets has resulted in a significant loss of wallet share. As a result, Wealth Managers need to develop more sophisticated private markets offerings that are scalable to demand and will allow them to recapture the lost revenues due to clients going direct.

To achieve this, Wealth Managers need to deliver ongoing access to high quality direct investment opportunities as part of their standard UHNW propositions. Wealth Managers that are part of universal banking groups, with in-house investment banking and asset management arms, are potentially best-placed to deliver a compelling end-to-end private markets proposition, as these institutions have capabilities along the entire private markets investor journey.

For these Wealth Managers, capturing the opportunity will be a cross-divisional play requiring strong collaboration across business units. A gold-standard offering would see Wealth Managers leveraging the deal origination and structuring capabilities from the investment bank, their own advisory and wealth structuring expertise, as well as financing where required, and the ability of the asset management division to package a solution where required and to provide ongoing servicing and reporting.

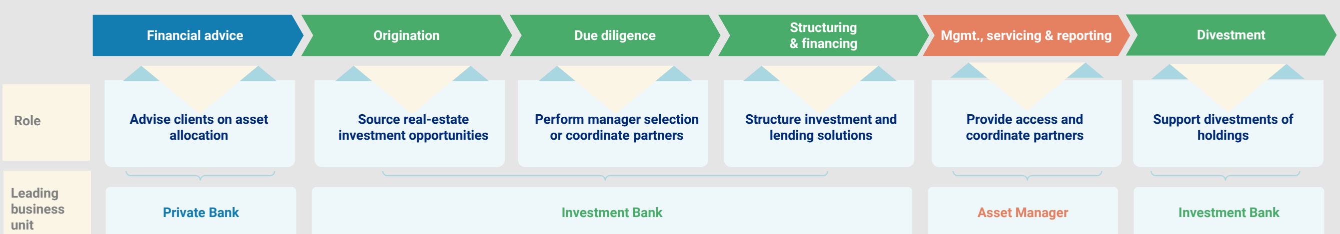
Below we show a case study on how these capabilities are leveraged by a boutique European Private Bank for real estate investments. In addition to coordinating the other group business units, the Private Bank orchestrates the various external parties in the transactions. This provides an additional means to form partnerships with commercial intermediaries and agencies that can provide a pipeline of potential deals in the future, ultimately allowing the Private Bank to create an ecosystem around the opportunity space.

Case study: Private Banking real estate play

A European boutique private bank has combined cross-divisional capabilities in order to provide clients with an end-to-end private markets real estate proposition. While financial advice and the end-to-end coordination of the transaction are handled by the private bank, sourcing of real estate investment opportunities, manager selection, investment structuring, and divestments are supported by the investment bank. Similarly, the asset management division assumes responsibility for coordinating partner services such as property management and administration. As a result, the bank has seen strong inflows into the proposition over the last 3 years.

Exhibit **43:**

Overview of Real Estate Value Chain



Source: Oliver Wyman analysis

We see five archetypes for increased private markets participation, ranging from partnerships to integrated offerings

We see five operating model options for private market businesses under a Wealth Management umbrella, highlighted in **Exhibit 44** . These range from models that rely heavily on external partnerships to models that are fully integrated.

truly holistic understanding of client needs and match this with the ability to find and thoroughly vet high quality investment opportunities. Wealth Managers can create additional value by creating a provider ecosystem across the value chain. Wealth Managers able to develop a compelling, scalable offering will capture greater share of wallet and develop stronger relationships with their clients.

Exhibit 44:

Overview of Wealth Managers operating models for accessing Private Markets

External partnerships ⟷ *Internally integrated*

External AM Partners	External IB Partners	Ad Hoc Internal Collaboration	IB-Led Access	WM-Led Access
• Clients of standalone Wealth Manager offered privileged access to investment products in the private markets space • Product access provided via third party Asset Manager with relevant offerings	• Clients of standalone Wealth Manager offered privileged access to investment bank deal flow • Deal flow access provided via third party, boutique investment bank	• Clients offered access to private markets space via collaboration between all divisions (PB, IB, and AM) within a universal banking group • Teams engage on an as needed basis with collaboration initiated by any party	• Clients of Wealth Manager within universal banking group channeled to late stage financing and investment opportunities • Connection of clients with investment opportunities led by private markets team within the investment banking division	• Clients of Wealth Manager within universal banking group offered access to full suite of bank's opportunities across private markets • Connection of clients with investment opportunities led by dedicated team within the Wealth Management division

Source: Oliver Wyman analysis

The relevant options vary for Wealth Managers according to whether they are part of universal banking groups. For Wealth Managers that are part of universal banking groups, we see three models for leveraging the internal capabilities of the bank. In the least integrated of these, the wealth, investment banking and asset management divisions would collaborate through assigned channels on an ad hoc basis. More formally, the private markets team in the investment bank could have a designated process for directing financing and investment opportunities to wealth clients. Finally, a dedicated team within the Wealth Management division could be created to provide access to private market opportunities across the universal banking group's entire footprint. In all models facilitating effective collaboration across different units will be key.

Pure-play Wealth Managers can also offer stronger private markets offerings either through partnerships with external asset Managers, or privileged access to the deal flow of boutique investment bank partners. Effective implementation will require careful partner selection, well-designed agreements, and careful ongoing management of the relationship. Regardless of the specific operating model chosen, it is crucial for Wealth Managers to be able to scale their offering. Real estate, the example given earlier, may be the most logical asset class to start, as it is well-understood and forms ~40 percent total illiquid/alternatives assets held by UHNW clients.

In all cases, the role of the Wealth Manager is crucial in demonstrating value to the end-client. Wealth Managers need to show a

Add protection offerings to defend Wealth Managers' position at the center of client financial needs

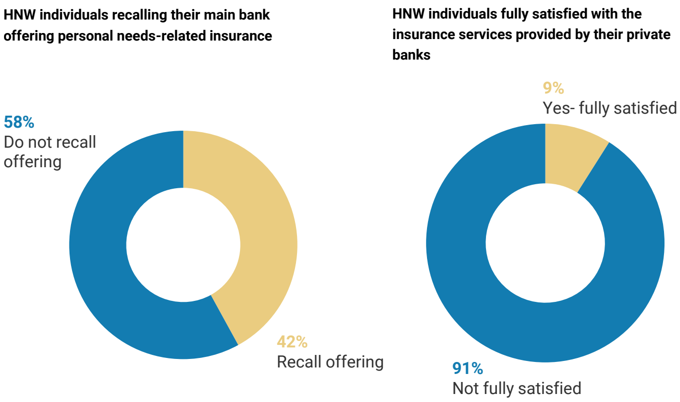
Developing a protection offering can allow Wealth Managers to firmly cement their position at the center of client financial needs and to achieve a revenue uplift of ~4 percent. HNW clients currently source and navigate often complex protection offerings direct from insurers or insurance brokers. They have a need for a trusted adviser who aids in the identification of protection needs and selection of appropriate providers and products.

Covid-19 could cause many clients to re-evaluate their current protection levels and residual risk appetite. This may drive an increased demand for protection products if clients decide they are currently under-insured or, more likely, precipitate greater switching between providers as clients re-evaluate their existing positions. Wealth Managers seeking to position themselves as trusted advisors need to enhance their protection offerings. Wealth Managers have already begun advising their clients on protection topics, like healthcare costs in the US, and we expect this trend to continue in order to further solidify relationships. However, a larger opportunity for incremental revenue can be generated by offering insurance products, something few Wealth Managers have done effectively today.

According to an Oliver Wyman survey of APAC HNW individuals, 58 percent said that they did not recall their private banks offering personal-insurance products, and only 9 percent said they were fully satisfied with the private bank's offerings. We expect to find similar, if not the same, sentiment among global HNW individuals.

Exhibit 45:

HNW individual survey regarding Private Bank's protection offerings (2019, APAC)

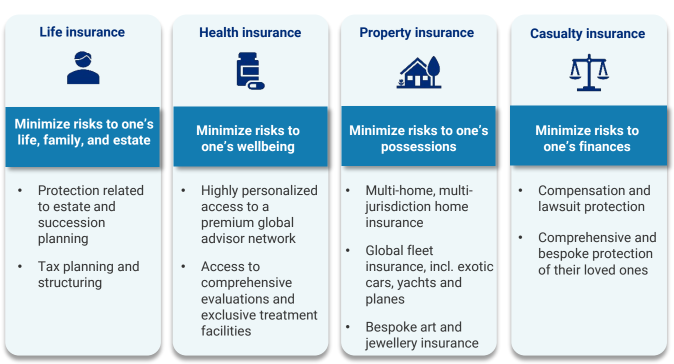


Source: Oliver Wyman APAC HNW survey, 2019

HNW clients have specific insurance needs, shown in **Exhibit 46**. Wealth Managers could play a natural role in the protection space as the industry moves towards a more holistic advisory approach that helps clients' address their comprehensive needs, of which protection is one of the key pillars. As such, protection products should be embedded into the financial planning process, with Wealth Managers offering scenario simulation tools for RMs to demonstrate the impact of incorporating protection into client financial plans. Wealth Managers do not need to self-manufacture the products and can consider a range of participation options.

Exhibit 46:

Core protection needs for HNW clients



Source: Oliver Wyman analysis

There is a strategic need to act quickly as Covid-19 has provided the industry with a window of opportunity to meet strong inbound client demand.

Protection participation options differ by geography, with EMEA offering the greatest opportunity for Wealth Managers

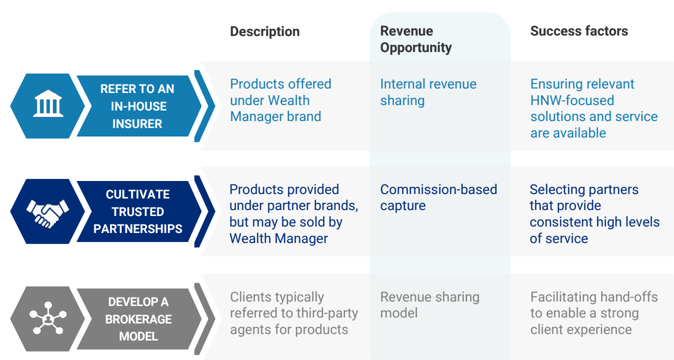
Developing protection offerings presents an opportunity for Wealth Managers to lift their revenues by ~4 percent globally, though the product capabilities required vary by geography.

In all geographies we see significant opportunity in Life insurance, given its importance for estate planning. Health insurance is a significant opportunity in APAC and in some parts of Europe, but the opportunity is limited in North America as it is typically provided through clients' companies and UHNW individuals often self-insure. However, in the US, health savings accounts (HSA) can be a fast-growing opportunity for Wealth Managers. P&C may be an opportunity in North American and European markets as clients may benefit from convenience of sourcing from their Wealth Managers. We do not see significant opportunity for P&C in APAC, given low penetration of these products today. As a result, the total revenue uplift opportunity we see for Wealth Managers is highest in EMEA at ~6 percent, and lowest in the US at ~2 percent.

Wealth Managers need to decide how to participate in the value chain. We see three broad options for participation, laid out in **Exhibit 47**. Wealth Managers can refer clients to an in-house insurer, cultivate a small number of trusted partnerships, or broker access to the open market. Each option has a different revenue model and success factors. Not all are available for all geographies. For example, the brokerage model is not a relevant option for the US market, and some are faster to implement than others.

Exhibit 47:

Participation options for Wealth Managers to develop protection offerings



Source: Oliver Wyman analysis

Perhaps most difficult to achieve, Wealth Managers will need to enact a mindset shift among RMs to prioritize protection as a core part of their client service offering. Wealth Managers can overcome this challenge through strong senior executive leadership and education as to the benefit of providing protection for RMs and end clients. Wealth Managers can also consider altering or improving economics of protection sales for RMs to further incentivize buy-in.

Forward looking Wealth Managers should move beyond product offerings and consider broader ecosystem plays. For example, they could orchestrate a Healthcare ecosystem play by partnering with leading medical groups to create preferred access programs. Creating an ecosystem-based offering would require that Wealth Managers build credibility with clients to move beyond their core offerings. However, the development of such offerings would allow Wealth Managers to truly differentiate themselves, while firmly cementing their value among their clients.

Consider developing digital assets offerings to differentiate

Digital assets represent a niche that could provide Wealth Managers with an edge in the market

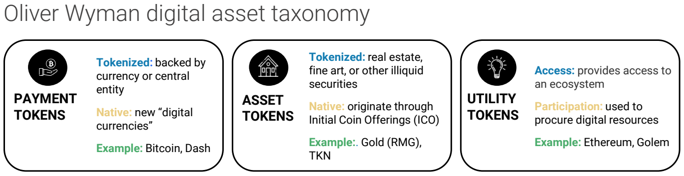
Digital assets remain a niche asset class with relevance for only a small proportion of HNW and UHNW investors at present, and Wealth Managers do not offer them as part of their broader investment proposition. As asset structures evolve and the market matures, a credible proposition may emerge that solves real client needs. While we expect digital assets to remain a niche market, at least in the short term, they could represent a differentiating feature for Wealth Managers who do offer some capability. Therefore, Wealth Managers need to decide if and how to participate.

Digital assets are currently not widely invested in by HNW individuals, though the space is rapidly evolving

Digital assets often refer to a broad range of asset types. For the purposes of this report, we focus on client-facing tokens that represent ownership and value of an asset and facilitate funding, movement, trading, and custody. While no global standard exists, we classify these into three broad asset types:

Exhibit 48:

Oliver Wyman digital asset taxonomy



Source: Oliver Wyman analysis

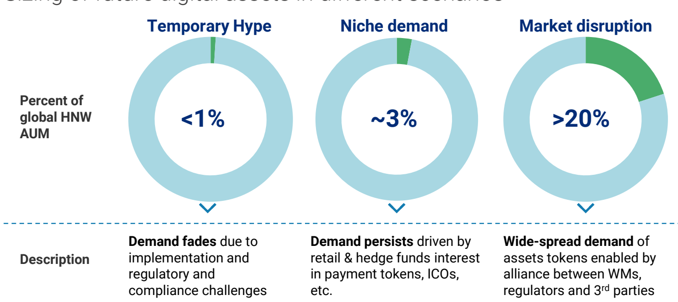
Digital assets are currently a niche asset class, representing a total market size of ~$194 billion as of April 2020 according to Bloomberg. The proportion of HNW and UHNW investors who hold such assets is currently low. Wealth Managers are in the early stages of participation, though several early adopters have emerged through either partnership with third parties or internally developed offerings.

We expect asset structures to continue to evolve and the market to mature, driving greater client demand and adoption. Consensus is starting to develop around specific functional applications for Wealth Managers, like automated securities servicing and near real-time settlement.

We see three potential scenarios for the future of digital assets, highlighted in Exhibit 49 . In the most pessimistic outlook, demand will fade due to implementation and regulatory challenges, with digital assets not exceeding 1 percent of client AUM. We see a more likely scenario being the continued steady adoption of digital assets, driven by niche client interest, eventually reaching 3 percent of total HNW AUM in the next 10 years.

Exhibit 49:

Sizing of future digital assets in different scenarios



Source: Oliver Wyman analysis

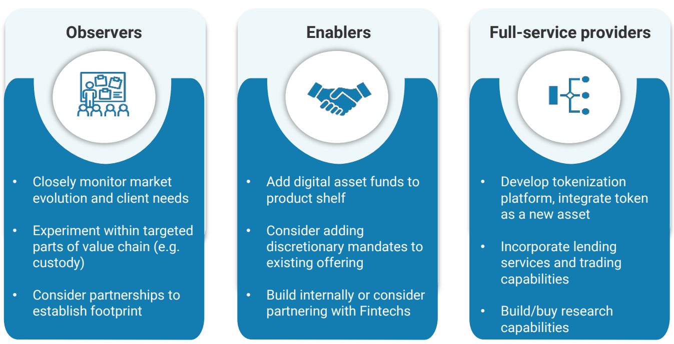
Asset tokens could provide an opportunity that allows digital assets to cause a market disruption and grow AUM beyond the 3 percent projected above, although we find this unlikely today. For such a scenario to materialize, it would require a consortium of leading Wealth Managers to jointly develop the market given the high cost and long timelines for implementation and market adoption.

Wealth Managers need to decide on their approach to digital assets – for those that do participate, it can be a differentiating feature

Given the expected evolution of the space, Wealth Managers need to closely monitor how the market evolves and respond accordingly. We see three major participation options for Wealth Managers: observers, digital asset-enabled Wealth Managers, and leading full-service providers.

Exhibit 50:

Wealth Managers' digital assets participation options



Source: Oliver Wyman analysis

Wealth Managers who believe that digital assets will become a major market should aim to become full-service providers, whereas others should consider lower effort participation choices.

In the short-term, Wealth Managers who want to participate should start with offerings in targeted parts of the value chain where the case for using digital assets is strongest, such as asset custody. The ability to participate lightly and on a trial basis makes the level of investment required relatively low and should adoption increase such capabilities may represent a differentiating feature for Wealth Managers that offer them.

Wealth Managers should also continue to closely monitor technology developments, track client demand, and consider increased investment if use-cases proliferate and adoption increases. Digital assets could become a unique selling point for a certain segment of clients, and there may be significant upside to early investments made in this space.

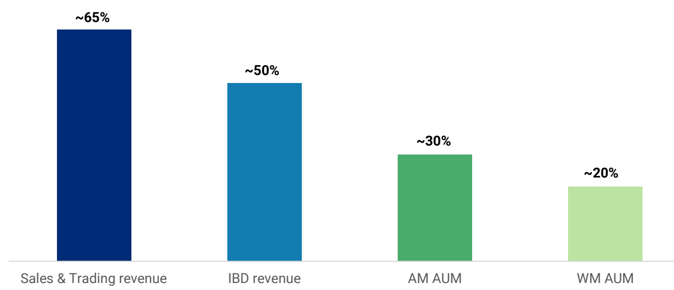
Evaluate inorganic opportunities to reset growth trajectory

Inorganic growth will rise to the top of management agendas

Inorganic growth is always on the radar of Wealth Managers' leadership teams and 2019 saw the announcement of several transformational deals – particularly in the US. However, the Wealth Management industry remains far more fragmented than other financial services industries, as most wealth players have focused on organic growth.

Exhibit 51:

Market share of Top 10 global firms by key business line (2017-2019)



Source: Coalition proprietary analysis, Oliver Wyman analysis

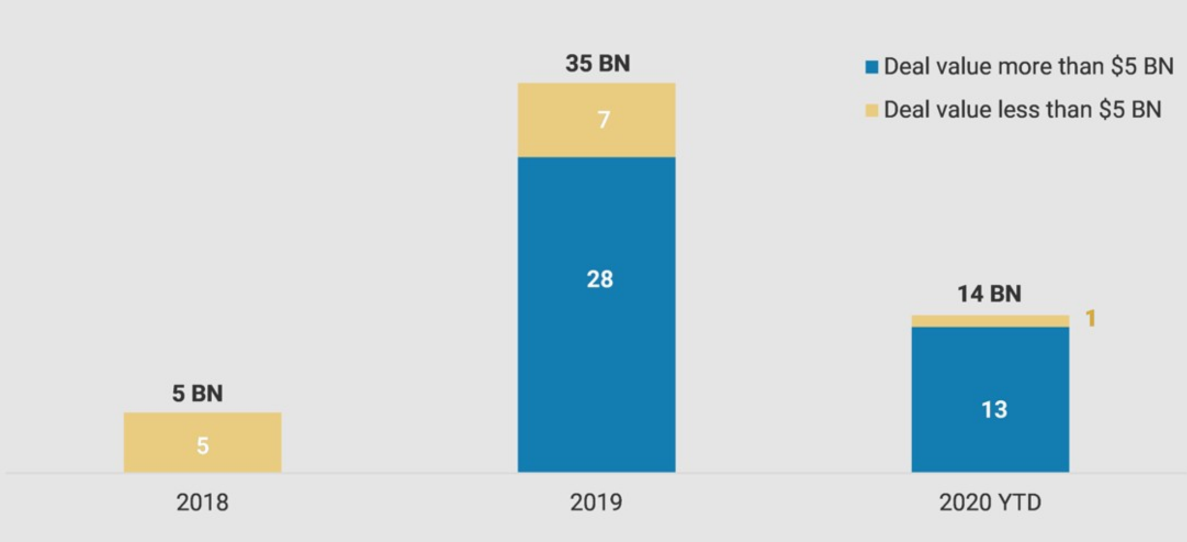
Covid-19 presents a unique trigger point in which inorganic growth is likely to rise to the top of management agendas for those players that can act from a position of strength. As target assets have repriced, acquisitions may appear more compelling than during previous boom years, especially for targets in the product or technology space. M&A may also be the means to offset the lower organic revenue growth outlook the industry faces overall. Certain markets that remain heavily fragmented, like the US, the UK and Switzerland, are likely to see a continuation of activity in the coming years.

Case Study: US Consolidation

We expect the US market to continue to consolidate following the onset of Covid-19. The past 12 months saw the announcement of several high-profile deals for the industry, including Schwab's $28 billion pending acquisition of TD Ameritrade. While these mega-deals drove significant increases in total deal volume, deals valued at less than $5 billion also increased more than 20 percent during 2019 before Covid-19 interrupted 2020 deal activity in early March.

Exhibit **52:**

US Wealth Management Deal Volume (2018-2020 YTD, USD Billions)



Source: Dealogic, Oliver Wyman analysis
1. Includes announced deals with publicly disclosed values above $50 million for US-domiciled targets across Wealth Management and Wealth Management tech. 2020 YTD as of June 1

Moving forward, we see several drivers of consolidation activity as market confidence is restored. Specifically, Wealth Managers will look towards consolidation plays in order to:

1. Compensate for challenges to organic growth by expanding client acquisition channels and accessing new segments. For example, Schwab's $1.8 billion acquisition of USAA Investment Management makes it the exclusive provider of wealth management services for USAA members.

2. Enable larger-scale investment in technology, especially for smaller firms seeking scale and increased capital to deploy. For example, Advisor Group's $565 million merger with Ladenburg Thalmann brings further scale to its network of independent wealth management firms.

3. Battle ongoing margin pressures by broadening product offerings and increasing pricing power. For example, Schwab's $28 billion acquisition of TD Ameritrade increased the firm's competitive advantages in the affluent segment owing to significant scale.

However, many of the well-known challenges associated with Wealth Management M&A, like RM overcompensation and attrition, will continue to exist, meaning management teams must focus their efforts on the most impactful opportunities for their businesses.

Partnerships may prove to be the new M&A

In contrast to previous periods of significant deal activity, partnerships may prove to be the new M&A this time around. **Exhibit 53** outlines the four usual archetypes of inorganic growth plays.

Exhibit 53:

Examples of partnership opportunities across four inorganic growth plays

Source: Oliver Wyman analysis

In particular, when considering how to best access new geographies, large scale strategic partnerships are emerging as an attractive alternative to M&A. Historically, building presence in local onshore markets via acquisitions has proven challenging for many Wealth Managers, given differences ranging from operations to culture. Rather than fueling growth, many acquisitions– in particular, in emerging markets – have introduced significant integration challenges and have ultimately failed to deliver value.

Local champions in high-growth emerging markets, often traditional retail and corporate banks, are the most natural partners for Wealth Managers in this construct, as their existing distribution footprint and large captive client base offers immediate opportunities to create value. In this type of partnership, global Wealth Managers generally contribute the investment proposition and the local partner retains the client relationship.

Beyond accessing new geographies, Wealth Managers have found success in partnering with firms to access new client segments, offer new products, or co-develop new technologies. While partnerships are proving attractive relative to M&A, they are not without their own challenges. To succeed, management teams on both sides must develop a detailed understanding of the partnership scope and role of each partner and design a revenue (and cost) sharing structure that is transparent and aligns incentives. With time, partnership agreements must evolve to ensure both parties remain incentivized to contribute to the partnership's success.

Investment Implications

Commentary on securities throughout this report solely reflects the views of Morgan Stanley Research, not Oliver Wyman

Exhibit 54:
Ways to Play

Ways To Play	
Consolidation	**Efficiency**
LPL Financial (LPLA.O) Raymond James (RJF.N)	Credit Suisse (CSGN.S) Julius Baer (BAER.S) Charles Schwab (SCHW.N) Northern Trust (NTRS.O)

Source: Morgan Stanley Research

Top Picks: Growth & Consolidation

LPL Financial (LPLA.O), Overweight: *Covered by Michael Cyprys*

Pressures from Covid-19 should catalyze a wave of advisor network consolidation, boosting LPLA's growth outlook over the next 12-18 months. We believe LPLA can deliver 13% EPS CAGR in 2020-22e, while M&A could drive >20% EPS upside. LPLA has invested aggressively into its platform capabilities and business solutions offerings to help advisors maximize their value to clients, which is increasingly relevant in a post Covid-19 world. A superior platform is enabling LPLA to take market share in a fragmented independent advisor industry, while recruitment becomes easier as highly levered competitors struggle. The increasing need for digital capabilities heightens the challenges for sub-scale and highly levered competitors, which could result in a pick-up in M&A activity as market volatility subsides. LPLA has the appetite and the capital capacity to pursue smaller deals or a single larger transaction. Our new work sizes potential for M&A accretion of 11-22% to EPS, which is not in our estimates or current valuation (see our report here). We see attractive valuation with the shares trading 13.3x our 2021 adj EPS, a discount to the historical avg of 15.9x multiple, despite accelerating organic asset growth and an earnings profile that is at cyclical trough levels.

Raymond James (RJF.N), Overweight: *Covered by Manan Gosalia*

We expect RJF will be a key beneficiary of consolidation in the Wealth Management space. RJF's business model puts advisors first, giving them the flexibility of associating with RJF at different levels according to the degree of support they need (ranging from a traditional employee to an independent contractor). Management has been ramping up tech spend, with the tech budget rising from $250mn in 2017 to $400mn in 2019, or from 5.5% of wealth management revenues to 7.5%, which is critical as we expect client expectations of their wealth manager's digital capabilities will increase in a post Covid-19 world. These advantages position RJF well for pursuing its strategy of organic and inorganic growth and retaining advisors as the industry consolidates. Management's conservative capital actions in the past give them firepower of at least $1.4bn in excess capital and $2bn in liquidity to take advantage of lower valuations and consolidation in the industry.

Top Picks: Efficiency

Credit Suisse (CSGN.S), Overweight: *Covered by Magdalena Stoklosa*

CS's restructured business post 2018 is significantly more resilient, as Switzerland and global ex-US Private Bank and Asset Management drive 70% of group PBT. The group's clear strategic focus has led to steadily improving profitability, at the same time that it has significantly de-risked the business. Even more importantly, the bank has re-allocated capital towards non-IB business, now at ~60% of leverage and edging higher.

The significantly reduced operating cost base, with a much lower break-even point, allows for continuing cost efficiencies, with the 2020e cost base likely again 8% below 2019. CS's proven restructuring track record on costs since 2015, and ~5% built-in cost flexibility in a challenged environment, give us even more confidence. Both Advisory and Markets operations are embedded into the Wealth offering. CS has been gaining market share across cash equities and FICC over the past 12 months by monetizing its "ITS" platform.

CS shares are trading on 0.5x 2020e P/BV – a material discount to EU/US peers, despite the conservative 7.5% ROTE we have pencilled into 2021 recovery. After several years of significant RWA inflation, CS has substantially rebalanced the key Swiss regulatory capital metrics at 35% risk density – a target level of Swiss TBTF regime. We see the bank dipping to 11.7% CET1 ratio in 2020 and recovering to >12% in 2021 – both levels that we are comfortable with. Revenue resilience along with a proven track record in cost management positions CS as our top pick in European wealth managers. For a more detailed investment thesis for Credit Suisse, please see European Banks: Navigating the Cycle.

Julius Baer (BAER.S), Overweight: *Covered by Izabel Dobreva*

Cost and revenue initiatives should help Baer remain resilient. The company's new strategy has outlined an efficiency blueprint worth 40% of 2019 PBT. The bank aims to reduce costs by CHF 200mn and unlock CHF 150mn in revenue gains. It plans to boost revenues by increasing focus on fee-based mandates, deepening product capabilities and implementing systematic reviews of client opportunities. We already see management executing on these objectives and view this as supportive to the stock. Bespoke mandates, tailored advisory pricing, structured products and thematic investing are all revenue opportunities from here.

Cost initiatives include headcount reduction, simplifying the group organizational structure, and streamlining general/admin expenses. On a gross basis and pre-Covid-19, the initiatives would have released c.10pp of cost-income (2019 p/f) – an ambitious target compared to an industry opportunity set of c 12pp, especially given Baer's already above-average starting efficiency. Its RM/support staff ratio is c.3.5x, in line with best-in-class industry leaders. Management is also seizing the digitalization opportunity, and plans to grow IT spend by 20% pa in 2020 and 2021. As a result, we expect that even in the new economic environment, its cost-income ratios can be well defended at around current levels.

Overall we see an attractive risk-reward profile, with the stock at c12x PE for 20% ROTE in 2022e and a best-in-class capital and asset quality position. For details see Julius Baer: Strategy Reboot: Upgrade to Overweight.

Charles Schwab (SCHW.N), Overweight: *Covered by Michael Cyprys*

We view SCHW as an attractive play on the secular trend towards low cost DIY investing and secular shift towards independent financial advice. The business is growing new customer assets organically at 6-7% annualized pace, with new accounts growing at a similar clip. This should translate in to customer deposit growth in high single digit to low teens. While SCHW is navigating a cyclically lower interest rate backdrop that makes it more challenging to monetize customer assets, at this point in the cycle we see a number of levers that are not yet in the price and are in SCHW's control, including; 1) developing new revenue pools, 2) pulling the expense lever – after years of reinvesting aggressively into the business we see an opportunity to harvest benefits from efficiencies and cost saves, and 3) closing a number of acquisitions including the TD Ameritrade deal, which we expect will generate significant earnings accretion. The shares are trading at an attractive valuation, at under 14x pro forma earnings reflecting the AMTD acquisition, well below SCHW's historical multiple of 20-30x when rates were last at zero.

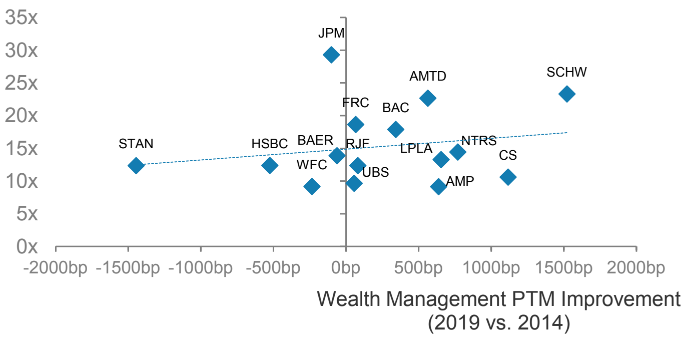
Northern Trust (NTRS.O), Equal-weight: *Covered by Betsy Graseck*

Northern Trust is well positioned to expand in a digitalized world, a unique position among firms focused on the HNW and UHNW client set. NTRS was already a leader in virtual advising pre-Covid-19, concentrating its digital advising strategy in small to mid-size metropolitan areas with no branches, such as Louisville, Birmingham and Kansas City. As a result, NTRS's client AUA per office has more than doubled over the past dozen years from $2bn to $5bn, outpacing total NTRS AUA growth. We think NTRS has more room to expand this strategy as its digital capabilities to service UHNW clients remotely are already in place. NTRS is trading 3 turns below its 5-year historical average.

What Drives Wealth Segment Valuation?

Exhibit 55:
Investors reward Wealth Managers that have been getting more efficient with a higher multiple...

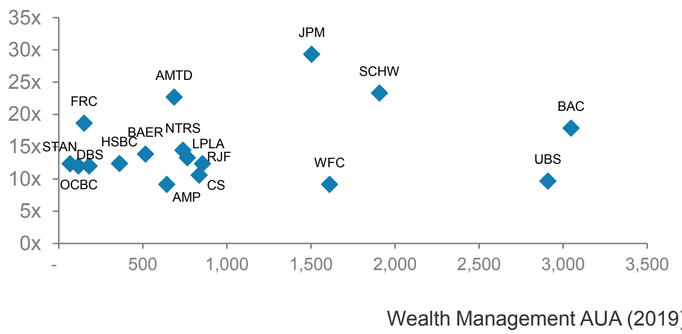
Wealth Management 2021 PE



Note: Priced as of June 5, 2020.
Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Exhibit 56:
...but are not yet rewarding firms with higher scale. We expect this to shift as scale enables faster digitalization, driving both top and bottom line efficiencies

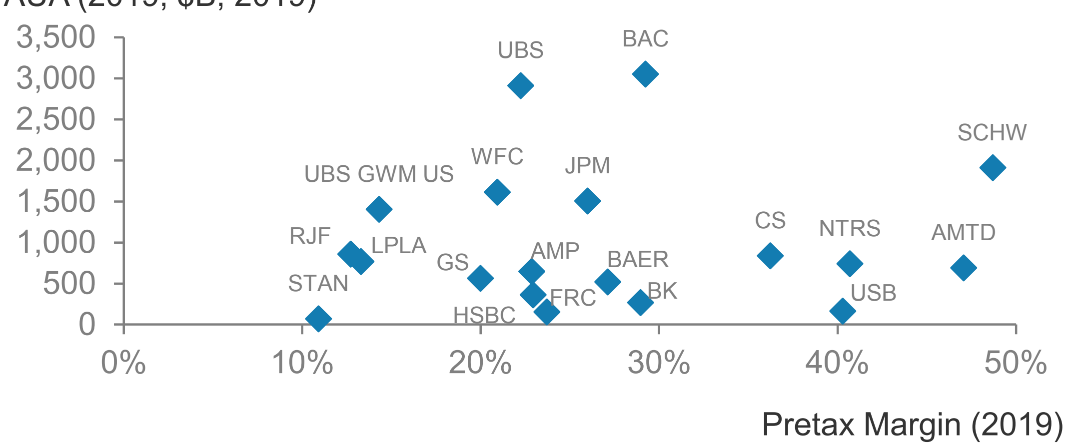
Wealth Management 2021 PE



Note: Priced as of June 5, 2020
Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Exhibit 57:
While scale should help drive higher pretax margin going forward, we've seen low correlation thus far as 1) digital channel usage was lighter pre-Covid-19 and 2) our coverage universe is skewed to larger, scale banks and not the tail, many of which are not publicly traded.

AUA (2019, $B, 2019)



Note: USB includes investor services.
Source: Thomson Reuters, Company Data, Morgan Stanley Research estimates

Digitalization Drives Consolidation, Particularly in the US

Wealth Managers entered the Covid-19 lockdowns offering a wide range of digital capabilities. Some full service firms like BAC offer a full suite of products integrated seamlessly across the wealth and bank offering and generate high user ratings, while other banks' offerings have significant room to improve. For smaller firms outside of our coverage, some do not even offer a mobile app yet, particularly in the independent advising space. These are likely the Wealth Managers that will seek to join an at-scale platform over the next several years.

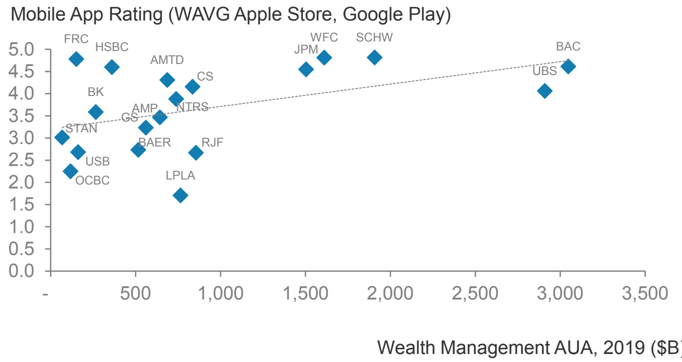
How might this lead to consolidation in the US? Technology drives a greater need for scale, capital and capabilities. We see this increased demand for digital capabilities as the tipping point, magnified by other mega-trends such as aging advisors, fee pressure, expanding client expectations and the increasingly complex regulatory environment.

In APAC, we expect less consolidation than in the US as organic AUM growth should remain relatively strong and overseas players may focus on JVs with local banks.

In Europe, we see some room for consolidation particularly in fragmented markets like the UK and Switzerland, although these markets are less fragmented than the US.

Exhibit 58:

Scale helps in delivering strong wealth technology



Source: App Annie, Company Data, Morgan Stanley Research estimates

Where does our coverage stand? We show a grid of mobile app offerings below, with our scoring methodology assigning a 50% weight to ratings and a 50% weight to the number of features. While all wealth firms have room to improve, we think even just having an app and having cyber security controls in place positions our coverage group well to build out functionality over the next several years. Many smaller firms and independent advisors cannot yet offer this level of functionality.

Exhibit 59:

There's a wide range in app ratings and in the available features

		50% of MS SCORE	50% of MS SCORE	High Value Add								Core Features						
	MS SCORE 50% Rating 50% Features	WAVG Apple Store & Google Play Rating	# of Features	Performance Analysis	Connect with advisor	Tailored Advice	Intraday Monitoring	External Account Aggregation	Self Directed Trade	Mobile Check Deposit	Access Research or Educational Materials	Customized Alerts	Access News	View Historical Transactions	View Statements & Documents	Apple Watch Support	Face ID	Touch ID
BAC (Merrill Edge)	4.81	4.61	15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
BAC (MyMerrill)	4.69	4.71	14	●	●		●	●	●	●	●	●	●	●	●	●	●	●
Fidelity	4.53	4.73	13	●	●		●		●	●	●	●	●	●	●	●	●	●
FRC	4.39	4.78	12		●		●	●	●	●	●	●	●	●	●		●	●
HSBC (Hong Kong)	4.30	4.60	12	●	●		●		●	●	●	●	●	●	●		●	●
SCHW	4.24	4.81	11	●					●	●	●	●	●	●	●	●	●	●
Vanguard	4.17	4.67	11	●				●	●	●	●	●	●	●	●		●	●
AMTD	4.15	4.30	12	●			●		●	●	●	●	●	●	●	●	●	●
Personal Capital	4.13	4.60	11	●	●	●		●			●	●		●	●	●	●	●
Robinhood	4.03	4.72	10	●			●		●			●	●	●	●	●	●	●
JPM	3.77	4.55	9		●		●			●		●	●	●	●		●	●
WFC	3.74	4.81	8				●			●		●	●	●	●		●	●
TROW	3.47	4.61	7	●							●	●		●	●		●	●
NTRS	3.44	3.88	9				●			●	●	●	●	●	●	●		●
Wealthfront	3.40	4.80	6	●		●		●						●			●	●
UBS	3.36	4.06	8	●		●	●					●	●	●	●			●
STAN	3.34	3.01	11	●	●		●		●	●		●	●	●	●		●	●
Betterment	3.34	4.67	6	●		●						●		●		●		●
OCBC (Singapore)	3.29	2.25	13	●		●	●		●	●	●	●	●	●	●	●	●	●
BAER	3.03	2.73	10	●	●	●	●		●		●	●	●	●	●			
C	2.92	2.83	9	●	●		●				●	●	●	●	●			●
CS	2.91	4.15	5	●			●					●		●	●			
AMP	2.90	3.46	7		●			●		●	●	●	●	●				
Edward Jones	2.83	2.66	9	●	●					●		●	●	●	●		●	●
BAC (Private Bank)	2.76	3.85	5	●	●						●		●	●				
Bessemer Trust	2.63	4.25	3		●						●			●				
RJF	2.50	2.66	7	●			●				●			●	●			●
BK	2.46	3.58	4							●				●			●	●
GS (Private Wealth)	2.45	3.23	5		●						●	●	●	●				
USB	1.84	2.68	3						●				●	●				
PNC	1.47	1.95	3	●				●						●				
GS (Ayco)	1.45	1.90	3		●	●						●						
LPLA	1.16	1.70	2											●	●			
DBS (Singapore)	NA	NA	14	●	●	●	●		●	●	●	●	●	●	●	●	●	●

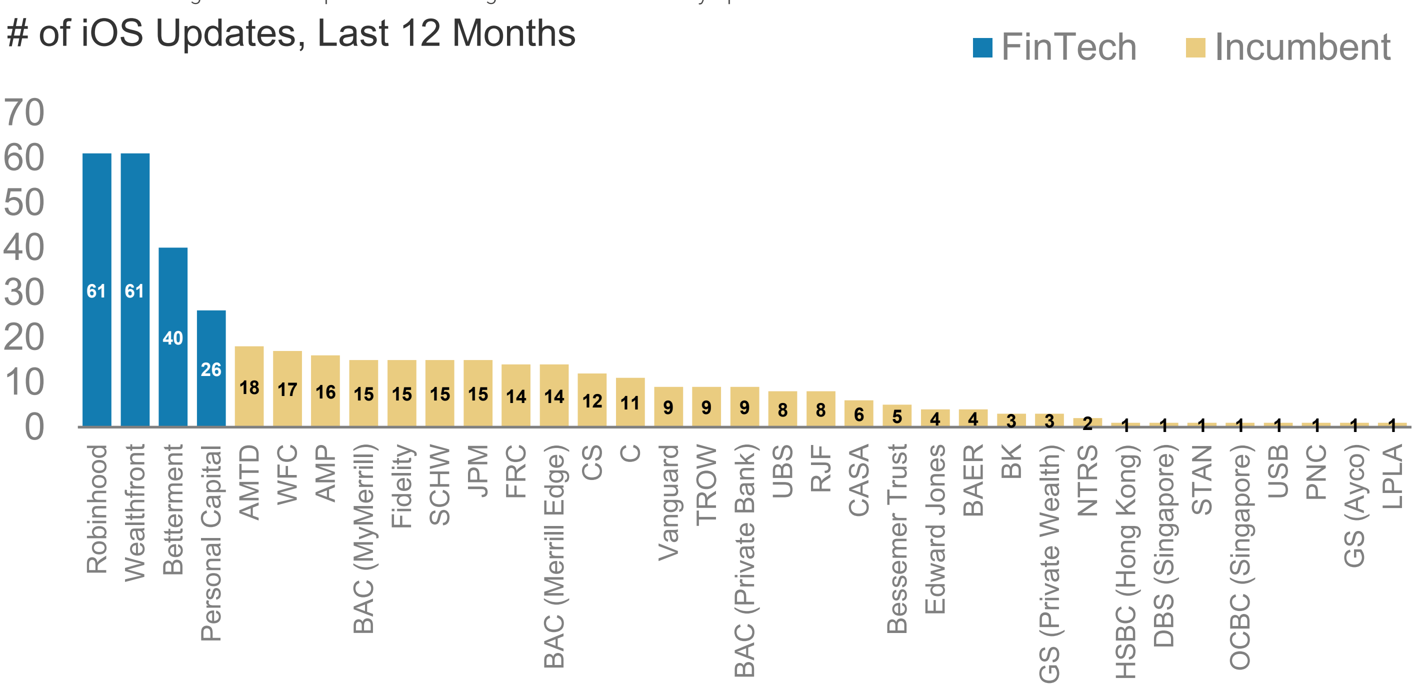
Note: 'MS Score' is 50% WAVG app rating across the Apple Store & Google Play and 50% Number of Features, with the highest number scaled to 5. Source: Company Data, Apple Store, Google Play, App Annie, Morgan Stanley Research estimates

How strong are Wealth Managers' back-end systems? While we don't have total visibility into this, we think that the frequency of app updates provides a window into the adaptability of firms' back-end systems. This assumes companies with robust back-end systems are more quickly able to update their app to respond to client demands.

We find that traditional wealth firms lag significantly behind FinTechs, which update their apps on a weekly basis (Exhibit 60). While the firms in our coverage and the FinTechs in our chart do not necessarily compete for the same clients, we think FinTechs provide a bar for Wealth Managers to reach. While clients may be using the FinTechs for a different purpose than their Wealth Manager, the ease of use, frequency of updates and relatively intuitive interface at FinTechs likely sets high customer expectations for financial services apps more broadly.

Exhibit 60:

FinTechs are raising the bar in a post-Covid-19 digital world with weekly updates



Note: Data as of May 14, 2020
Source: Company Data, Apple Store, App Annie, Morgan Stanley Research estimates

Layering in iOS updates into our scoring, we find FinTechs take the lead (Exhibit 61). This assumes a scoring methodology that is 33% app ratings, 33% number of iOS updates LTM and 33% number of Features.

Exhibit 61:

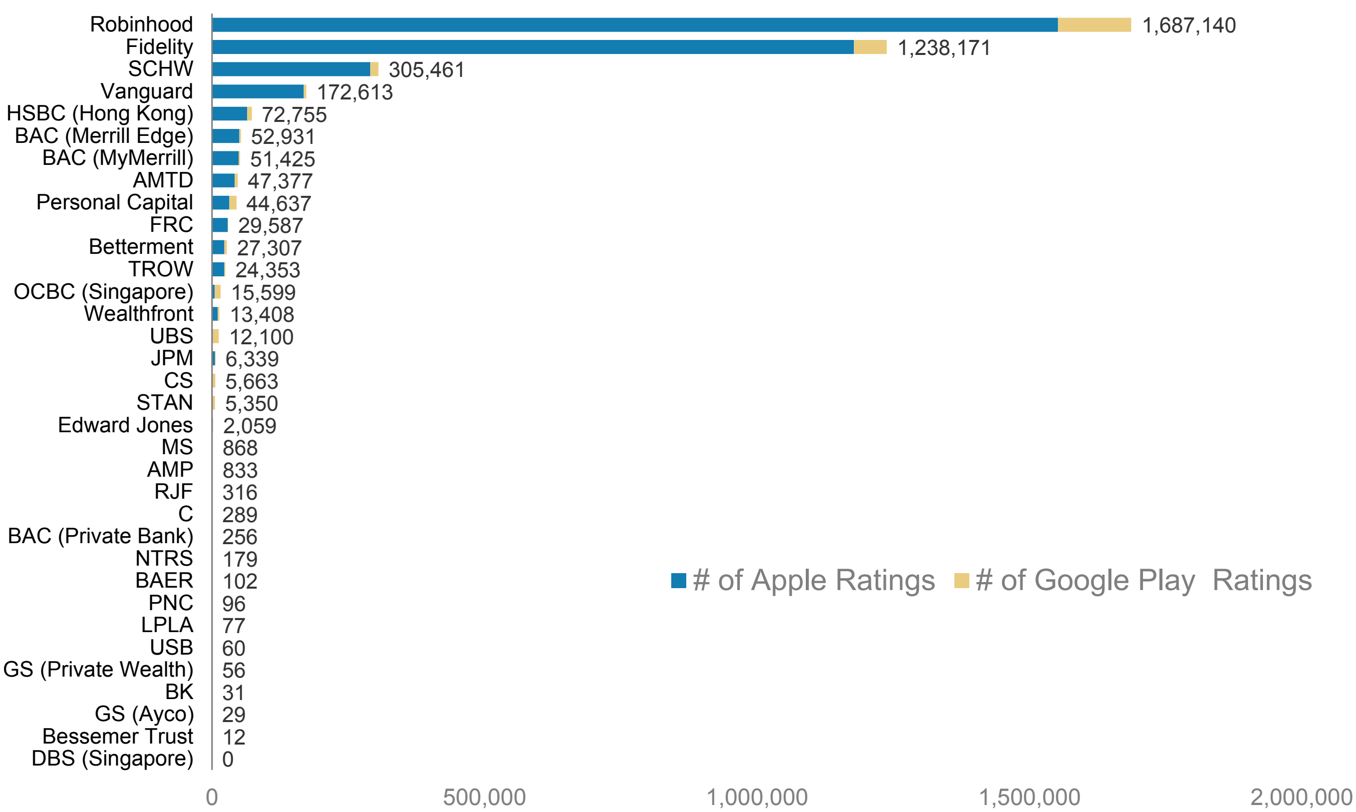
Layering in iOS updates, FinTechs take the lead

		33% of MS SCORE	33% of MS SCORE	33% of MS SCORE	High Value Add								Core Features						
	MS SCORE 33% Rating 33% Updates 33% Features	WAVG Apple Store & Google Play Rating	# of iOS Updates LTM	# of Features	Performance Analysis	Connect with advisor	Tailored Advice	Intraday Monitoring	External Account Aggregation	Self Directed Trade	Mobile Check Deposit	Access Research or Educational Materials	Customized Alerts	Access News	View Historical Transactions	View Statements & Documents	Apple Watch Support	Face ID	Touch ID
Robinhood	4.35	4.72	61	10	●			●		●			●	●	●	●	●	●	●
Wealthfront	3.93	4.80	61	6	●		●		●						●			●	●
BAC (Merrill Edge)	3.59	4.61	14	15	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
BAC (MyMerrill)	3.53	4.71	15	14	●	●		●	●	●	●	●	●	●	●	●	●	●	●
Personal Capital	3.47	4.60	26	11	●	●	●		●			●	●		●	●	●	●	●
Fidelity	3.43	4.73	15	13	●	●		●		●	●	●	●	●	●	●	●	●	●
Betterment	3.32	4.67	40	6	●		●						●		●		●		●
FRC	3.31	4.78	14	12		●		●	●	●	●	●	●	●	●	●		●	●
AMTD	3.26	4.30	18	12	●			●		●	●	●	●	●	●	●	●	●	●
SCHW	3.24	4.81	15	11	●					●	●	●	●	●	●	●	●	●	●
Vanguard	3.02	4.67	9	11	●				●	●	●	●	●	●	●	●		●	●
WFC	2.96	4.81	17	8				●			●		●	●	●	●		●	●
JPM	2.92	4.55	15	9		●		●			●		●	●	●	●		●	●
HSBC (Hong Kong)	2.89	4.60	1	12	●	●		●		●	●	●	●	●	●	●		●	●
TROW	2.56	4.61	9	7	●							●	●		●	●		●	●
UBS	2.46	4.06	8	8	●		●	●					●	●	●	●			●
AMP	2.37	3.46	16	7		●			●		●	●	●	●	●				
NTRS	2.35	3.88	2	9				●			●	●	●	●	●	●	●		●
CS	2.27	4.15	12	5	●			●					●		●	●			
STAN	2.25	3.01	1	11	●	●		●		●	●		●	●	●	●		●	●
C	2.24	2.83	11	9	●	●		●				●	●	●	●	●			●
OCBC (Singapore)	2.22	2.25	1	13	●		●	●		●	●	●	●	●	●	●	●	●	●
BAER	2.10	2.73	3	10	●	●	●	●		●		●	●	●	●	●			
BAC (Private Bank)	2.08	3.85	9	5	●	●						●		●	●				
Edward Jones	2.00	2.66	4	9	●	●					●		●	●	●	●		●	●
Bessemer Trust	1.89	4.25	5	3		●						●			●				
RJF	1.88	2.66	8	7	●			●			●	●			●	●			●
BK	1.72	3.58	3	4							●				●			●	●
GS (Private Wealth)	1.71	3.23	3	5		●						●	●	●	●				
USB	1.25	2.68	1	3						●				●	●				
PNC	1.0	1.95	1	3	●				●						●				
GS (Ayco)	0.9	1.90	1	3		●	●						●						
LPLA	0.8	1.70	1	2											●	●			
DBS (Singapore)	NA	NA	1	14	●	●	●	●		●	●	●	●	●	●	●	●	●	●

Note: 'MS Score' is 33% WAVG app rating across the Apple Store & Google Play, 33% number of iOS updates LTM and 33% number of Features, with the highest number of iOS updates / number of Features scaled to 5.
Source: Company Data, Apple Store, Google Play, App Annie, Morgan Stanley Research estimates

Exhibit 62:

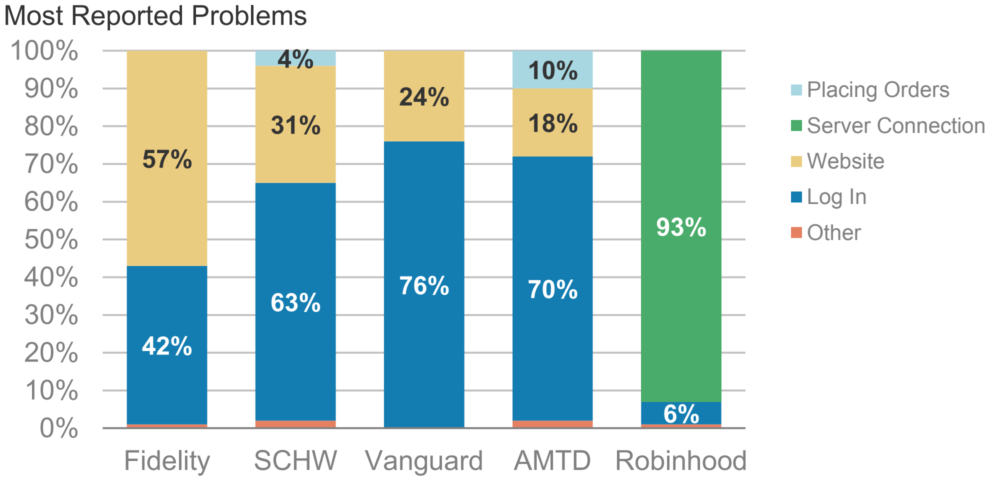
FinTechs get significant feedback from the Mass Affluent Market they target



Note: WFC Retail App is combined with Wealth App and has 4.9M Ratings
Source: Company Data, Apple Store, App Annie, Morgan Stanley Research estimates

Exhibit 63:

Most common tech complaints are related to Log-In's and Websites



Source: Downdetector

Product Mix Also Drives Organic Growth

What can drive organic growth? Getting creative in differentiated products. This includes sustainable investing capabilities, private markets access, digital assets solutions and protection products.

Exhibit 64:

Organic growth comes from offering a full suite of products, including high growth areas like sustainable investing capabilities, private markets access, digital assets solutions and protection products. All firms have room to improve here.

	BAC	UBS	SCHW	WFC	JPM	RJF	CS	LPLA	NTRS	AMTD	AMP	GS	BAER	BK	DBS	USB	FRC
2019 Market Position																	
Wealth AUA ($B)	3,048	2,909	1,908	1,611	1,504	855	835	764	739	686	643	561	516	266	181	162	151
AUA ('19/'14 CAGR)	4%	5%	11%	0%	7%	13%	4%	10%	7%	16%	8%	9%	5%	2%	12%	8%	23%
# Advisors (Thousands)	19.4	10.0	ND	13.5	2.9	8.1	3.0	16.5	ND	ND	9.9	ND	1.5	ND	ND	ND	ND
Advisors ('19/'14 CAGR)	2%	-2%	ND	-2%	0%	5%	-1%	3%	ND	ND	0%	ND	5%	ND	ND	ND	ND
2019 Efficiency																	
Pretax Margin	29%	22%	49%	21%	26%	13%	36%	13%	41%	47%	23%	20%	27%	29%	ND	40%	24%
Product Offerings																	
Stock, Bonds, Liquidity	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Portfolio Management	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Family Office	●	●	●	●	●	●	●		●	●		●	●	●	●	●	
Tax Optimization	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Generational Planning	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Sustainable Investing	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●
Alternative Investments	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Digital Assets													●				
Life Insurance		●		●		●					●				●	●	●
Health Insurance / HSA	●		●					●		●	●				●		
P&C Insurance				●													●
Technology																	
App Rating	4.6	4.1	4.8	4.8	4.5	2.7	4.2	1.7	3.9	4.3	3.5	3.2	2.7	3.6		2.7	4.8
# App Features	15	8	11	8	9	7	5	2	9	12	7	5	10	4	14	3	12
# iOS Updates LTM	14	8	15	17	15	8	12	1	2	18	16	3	3	3	1	1	14

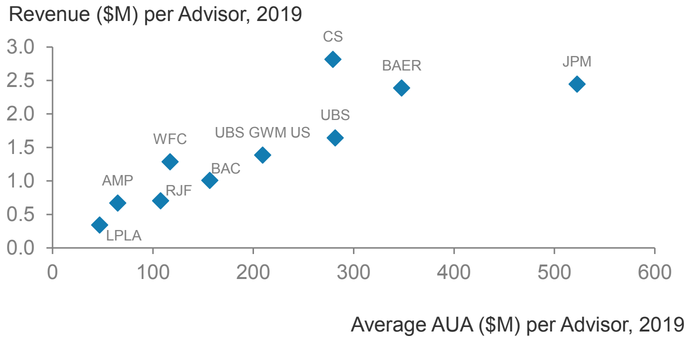
Source: Company data & company websites, App Annie, Morgan Stanley Research estimates

Efficiency in Focus

How much can digitalization drive efficiency in wealth management?

Exhibit 65:

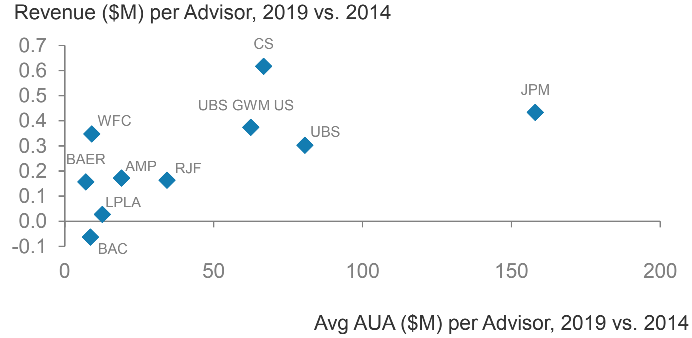
CS, JPM, BAER lead in Advisor efficiency



Source: Company data, Morgan Stanley Research estimates

Exhibit 66:

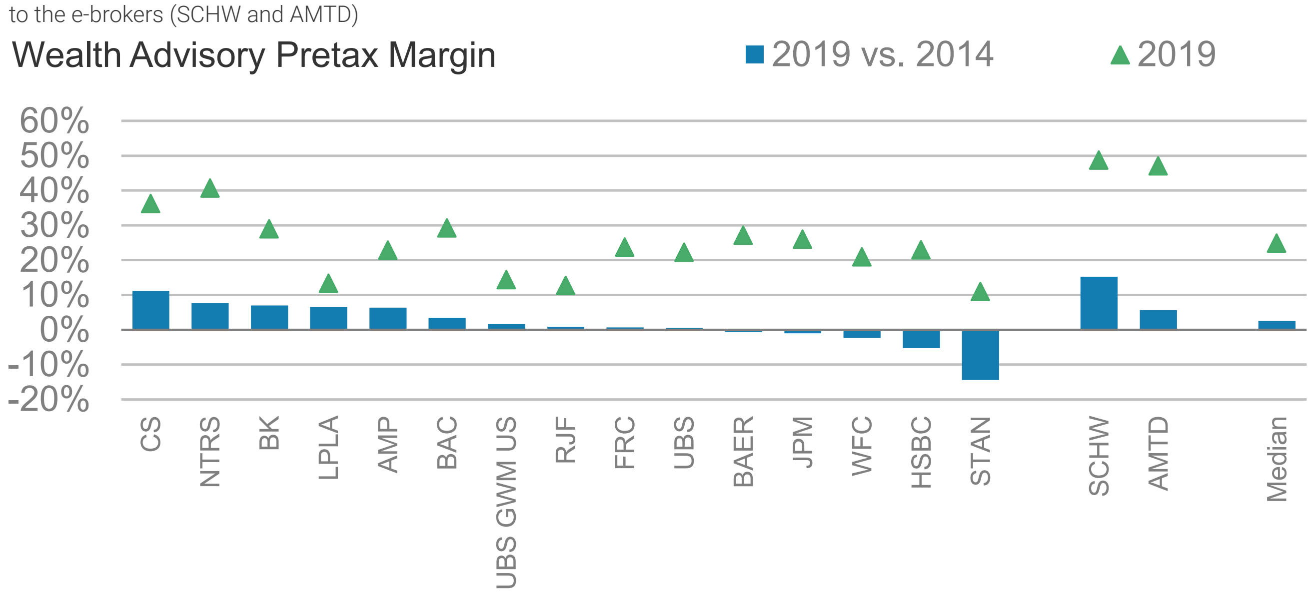
CS has increased its revenue per advisor the most over the last 5 years, while JPM has increased AUA per advisor the most



Source: Company data, Morgan Stanley Research estimates

Exhibit 67:

Pursuing a digital strategy has allowed NTRS to reduce a third of its office count over the last cycle, generating a pretax margin similar to the e-brokers (SCHW and AMTD)



Source: Company data, Morgan Stanley Research estimates

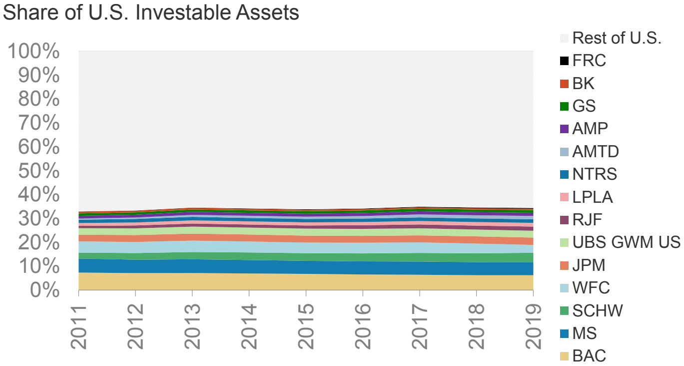
Key Trends in the US

Covid-19 to accelerate consolidation of fragmented industry. Mega-trends of technology evolution, aging advisors, fee pressure, expanding client expectations and the increasingly complex regulatory environment are all driving greater need for scale, capital and capabilities to maximize an advisor's value proposition. We expect advisors will increasingly join/affiliate with advisor networks that can offer access to capital to grow and facilitate generational transfer of practices, and to provide technology capabilities to improve efficiency/productivity of advisor practices to help them scale.

Exhibit 68:

Although the wealth management industry has been stubbornly fragmented, mega-trends of technology evolution, aging advisors, fee pressure, expanding client expectations and the increasingly complex regulatory environment are all driving greater need for scale, capital and capabilities to survive and thrive.

Share of U.S. Investable Assets

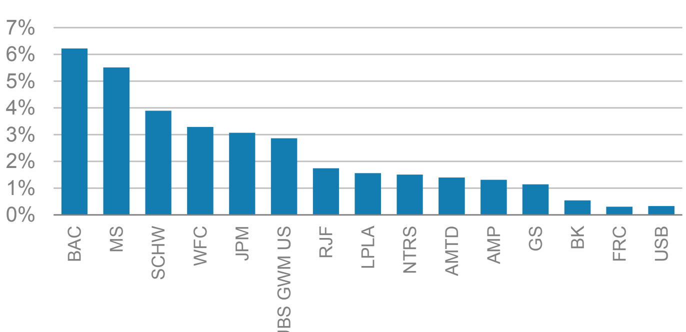


Note: BAC AUA includes Private Bank Client Assets of $490bn.
Chart uses a total US investable asset market of $49tn in 2019.
Source: Federal Reserve Z.1 data, company data for historical AUA.

Exhibit 69:

No firm has more than 7% of US investable assets

Share of U.S. Investable Assets



Note: BAC AUA includes Private Bank Client Assets of $490bn.
Chart uses a total US investable asset market of $49tn in 2019.
Source: Federal Reserve Z.1 data, company data for historical AUA.

The overall $49 trillion wealth management industry has been growing at a 6% CAGR over the past 5 years, and at an 8% CAGR over the past 3-years. The $49 trillion industry includes about $20 trillion of advisor managed assets under various affiliation models, including $5 trillion of independent broker-dealer and hybrid advisors, which is likely the sweet spot for consolidation given industry challenges.

We view LPLA and RJF as attractive plays on consolidation in a fragmented independent advisor industry in the US

Given LPLA's strong capital capacity and the technology investments it has made to enhance platform capabilities, we view LPLA as an attractive consolidator. This comes as smaller firms are likely to struggle to make necessary investments in technology and capabilities to keep pace. LPLA wants to pursue M&A opportunities to complement organic growth and post Covid-19, we see an increased probability of it participating in industry M&A as deal pricing likely becomes more rational. In recent years, LPLA has been selective with M&A as the environment has been competitive with higher private valuations in part driven by private equity executing deals with large amounts of leverage. Participation by private equity in the IBD and hybrid RIA marketplace bid up pricing into low-mid teens EBITDA multiples, and funded deals with high levels of leverage in the 6-7.5x range. In such an environment, LPLA largely remained on the sidelines given its disciplined approach to M&A that targets 6-8x purchase price multiples and an operating target of 2-2.75x leverage; both are well below where private equity transacted in the marketplace. Post Covid-19, the underlying drivers of consolidation are likely to accelerate, which could lead to more rational pricing/deal structures, and ultimately increased probability of LPLA's participation.

While RJF continues to actively look for M&A opportunities, it has focused more on recruiting in recent years, as valuations in the industry have made M&A too expensive. Over the past 5 years, higher interest-related income and the absence of M&A opportunities have allowed RJF to accrete $1.4bn in excess capital, supplemented with $2bn in liquid cash plus a $500mn revolver facility. We expect pressures on pretax margins from lower rates should drive management to put this excess capital to work. Moreover RJF spends ~$400mn annually on technology and has 1,300 employees that support and develop the platform. The group's focus has been on making its platform both customizable and secure to enable widespread adoption among its advisor base, helping boost productivity. Technology has been one of the key reasons RJF has been able to recruit advisors in the past, and positions it well for acquiring independent broker dealers and retaining advisors as the industry consolidates.

US Generational Wealth Transfer Will Take A Generation

The next great generational transfer of wealth is under way… Today US households hold more than $100 trillion of wealth. Baby Boomers, or individuals between 56-76 years old, are the key driver of wealth transfer over the next two decades, as they account for more than half of total household wealth in the US and have begun to enter retirement. In total, we estimate that nearly $70 trillion of wealth will be transferred to younger generations over the next 20 years; we expect Baby Boomers to hand down $40 trillion of this amount to younger generations, either via proactive wealth planning or mortality.

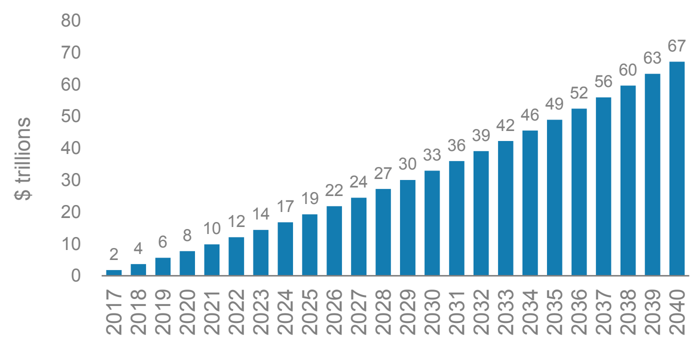
…but wealth transfer will take longer than many expect. Asset value declines driven by the Covid-19 pandemic are accelerating wealth and tax planning among the wealthiest households. Those in the highest tax brackets can take advantage of depressed prices to move assets to younger generations at a lower cost basis and with a more efficient tax strategy. But this pull forward of asset transfer is still only a small percentage of total dollars that we expect to change hands in the next two decades. In our view, this transfer will nonetheless takes some time as Baby Boomers 1) are working and avoiding retirement longer than any prior generation and 2) average life expectancy in the US remains close to all-time highs, at nearly 79 years old.

High Net Worth households the key. Families with more than $10 million of net worth represent only ~1% of US households, but about half the wealth transfer we expect over the next two decades in our US wealth transfer model. At these levels of wealth, tax and estate planning become even more instrumental, and represent a key area of focus for wealth managers/planners in the coming years.

Exhibit 70:

We expect nearly $70 trillion of US household wealth to transfer to younger generations over the next 20 years...

Cumulative Wealth Transfer

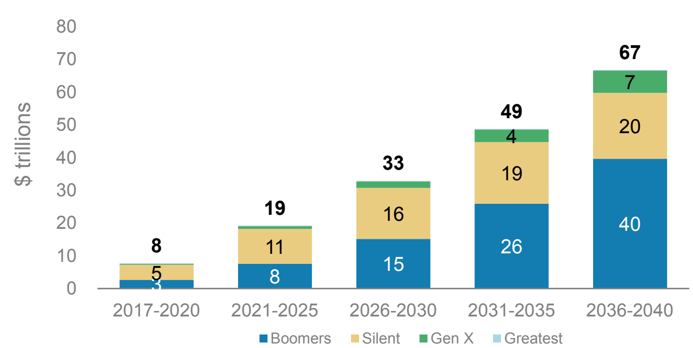


Source: Federal Reserve, Morgan Stanley Research estimates

Exhibit 71:

...with the lion's share coming from Baby Boomers

Cumulative Wealth Transfer (Generation Leaving)

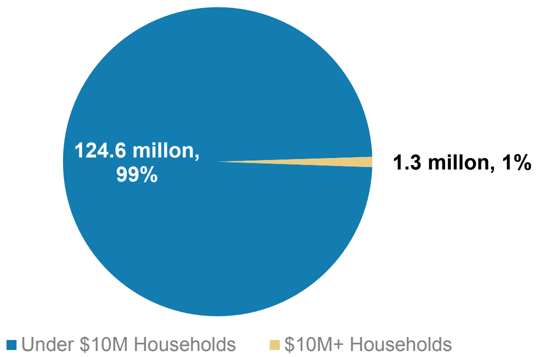


Source: Federal Reserve, Morgan Stanley Research estimates

Exhibit 72:

$10m+ households account for only 1% of total...

Number of Households

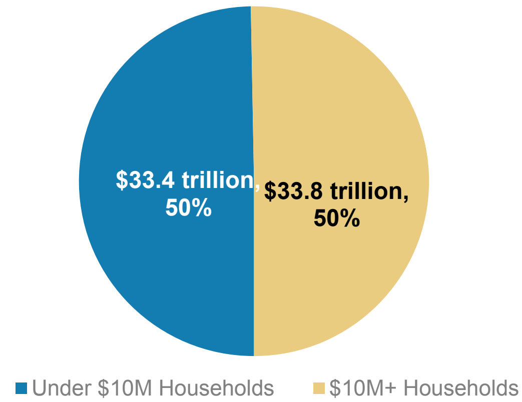


Source: Federal Reserve, Morgan Stanley Research estimates

Exhibit 73:

...but half of the wealth transfer we expect in our US wealth transfer model between 2017 and 2040

Wealth Transfer Expected



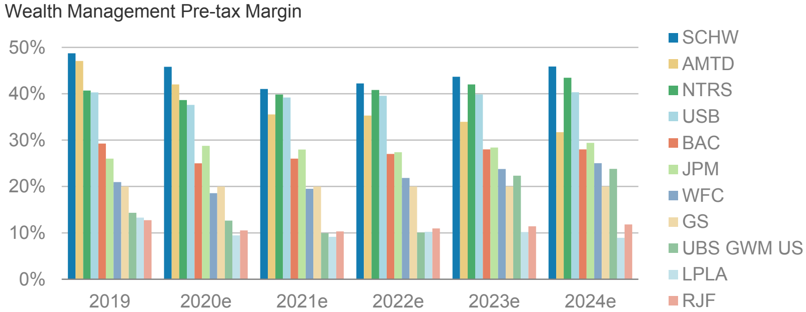
Source: Federal Reserve, Morgan Stanley Research estimates

Key Forecasts

Exhibit 74:

Pre-tax margin reflects the different business models in the US, with e-brokers in the lead followed by NTRS

Wealth Management Pre-tax Margin

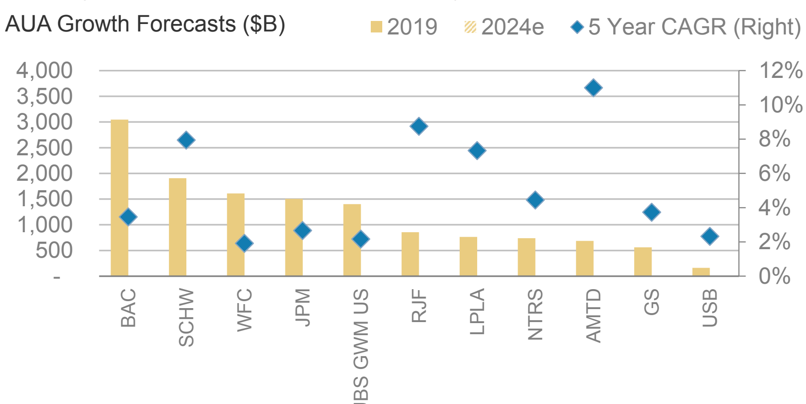


Note: USB includes Investment Services.
Source: Company data, Morgan Stanley Research estimates

Exhibit 75:

AUA to grow fastest at e-brokers and advisor platforms

AUA Growth Forecasts ($B)



Source: Company data, Morgan Stanley Research estimates

Swiss Global Private Banks: Still in the Sweet Spot

Exhibit 76:

Swiss banks see their earnings returning to 2019 levels by 2022

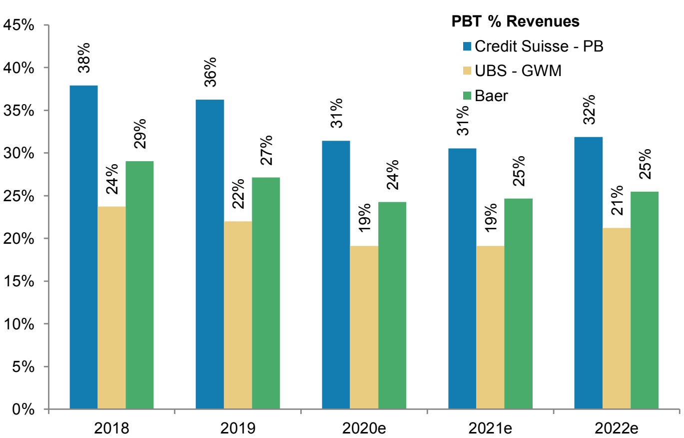
	2019	2020e	2021e	2022e	3Y CAGR (2019-22e)
EPS Growth, YoY %					
BAER	-4%	-11%	3%	9%	0%
CS	20%	-33%	41%	18%	4%
UBS	-5%	-23%	12%	15%	0%
Europe	**-0.4%**	**-47.7%**	**43.6%**	**62.5%**	**-2.5%**
Eurozone	**0.2%**	**-51.0%**	**28.1%**	**98.1%**	**-2.6%**
RoTE (%)					
BAER	24%	19%	18%	19%	-511 bps
CS	8%	6%	8%	8%	21 bps
UBS	10%	8%	8%	9%	-102 bps
Europe	**9.8%**	**4.2%**	**5.8%**	**8.1%**	**-169 bps**
Eurozone	**8.7%**	**2.7%**	**4.0%**	**6.9%**	**-178 bps**

Source: Company Data, Morgan Stanley Research Estimates

Wealth management, despite the profitability challenges, remains one of the most attractive businesses in finance. Swiss banks have spent the last decade building the entire group offering around private banking, which has proven to be a stable anchor to group valuations. The capital-light model of Swiss banks, with both offshore and onshore capabilities, stands out in the competitive world of global private banks. While Wealth Managers will play defense on the revenue front, they have an opportunity to play offense on the costs and digitalization side. The Covid-19 pandemic has reinforced a few fundamental premises for us – the value clients place on human advisors and the accelerated acceptance of digital service, which also comes with higher expectations of what is digitally possible. Swiss banks are in the minority among banks in Europe as we see them returning to 2019 earnings by 2022, despite our punitive loan loss assumptions in the sector. We see the rest of the sector returning to 2019 earnings by 2023 at the earliest.

Exhibit 77:

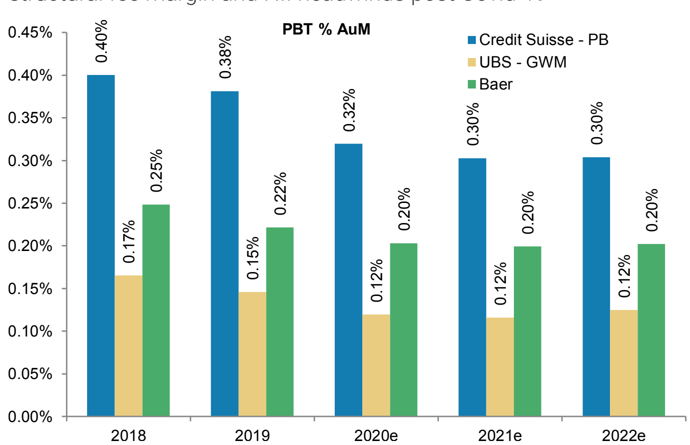
We expect PBT margins as % revenues to stay broadly resilient, thanks to the focus on costs



Source: Company Data, Morgan Stanley Research estimates. Note: CS Private Banking (PB) includes SUB PB, IWM PB and APAC WM&C

Exhibit 78:

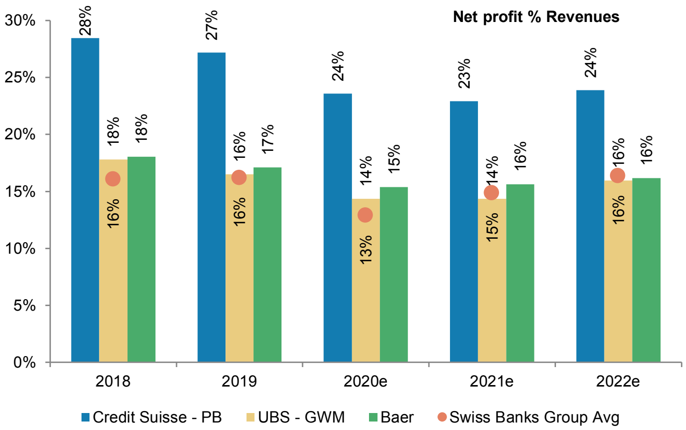
We expect PBT margins as % AUM to see some deterioration, due to structural fee margin and NII headwinds post Covid-19



Source: Company Data, Morgan Stanley Research estimates. Note: CS Private Banking (PB) includes SUB PB, IWM PB and APAC WM&C

Exhibit 79:

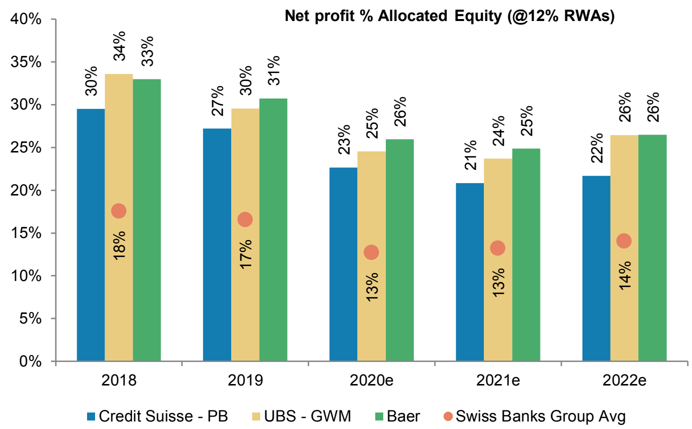
Net profit margins average at c.16% for Swiss banks



Source: Company Data, Morgan Stanley Research Estimates. Note: CS Private Banking (PB) includes SUB PB, IWM PB and APAC WM&C

Exhibit 80:

Return on allocated equity averages 17% across the group



Source: Company Data, Morgan Stanley Research Estimates. Note: CS Private Banking (PB) includes SUB PB, IWM PB and APAC WM&C

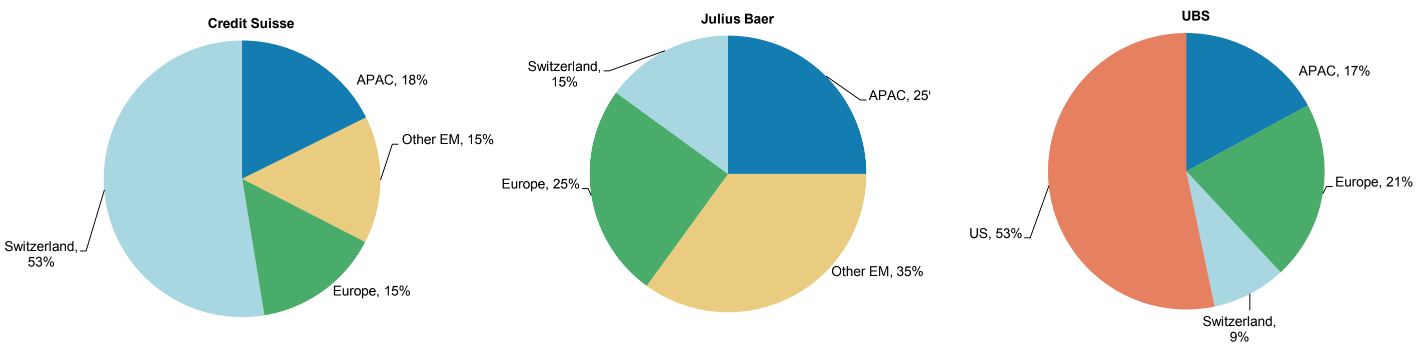
Revenue trajectory structurally challenged; NNM, AUM growth still robust

Our wealth growth assumptions are still strong at ~5% annual growth, with Covid-19 costing the industry one year of growth. AUM will lag, growing at 3-4% in DM, yet stronger in EM at 5-10% CAGR 2019-24.

We price in our still-constructive AUM and NNM forecasts across geographies, particularly in Asia and EM. The concentration of AUM growth in emerging markets will have a meaningful impact on priorities of the global industry and reinforce the strategic choices of Swiss banks. Swiss banks are the #1, #2, and #4 largest private banks in Asia by assets – a theme we explored at length in our 2019 Blue Paper (Asset Managers & Wholesale Banks: Searching for Growth in an Age of Disruption). Swiss banks have invested for years to build out a strong offering in emerging markets, both onshore and offshore. This has historically come with ups and downs for the business. Yet in aggregate, their EM presence has been a significant revenue and AUM contributor, outweighing the asset regularization clean-up finalized in 2018 and the KYC clean-up in singular markets, such as the recent downsizing of Julius Baer's Latin American business. The Swiss banks' strategies in emerging markets have shifted over time and are now a combination of hub presence (around Hong Kong, Singapore, Switzerland, New York (for UBS)) and direct country presence in larger economies of Europe, CEE, MENA. Partnerships, particularly aimed at client access in large Asian markets, have been executed by UBS (Japan) and Julius Baer (Japan and Thailand). Credit Suisse has concentrated on product access partnerships.

Exhibit 81:

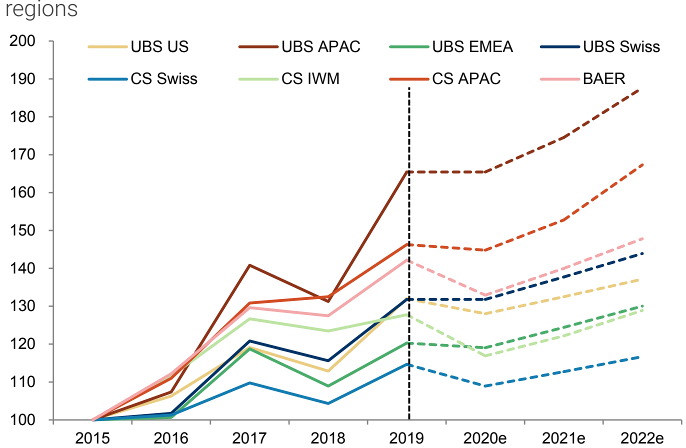
AUM Split by Geography across Swiss banks: Julius Baer most geared to Asia and EM growth



Source: Company Data as of 1Q2020, Morgan Stanley Research

Exhibit 82:

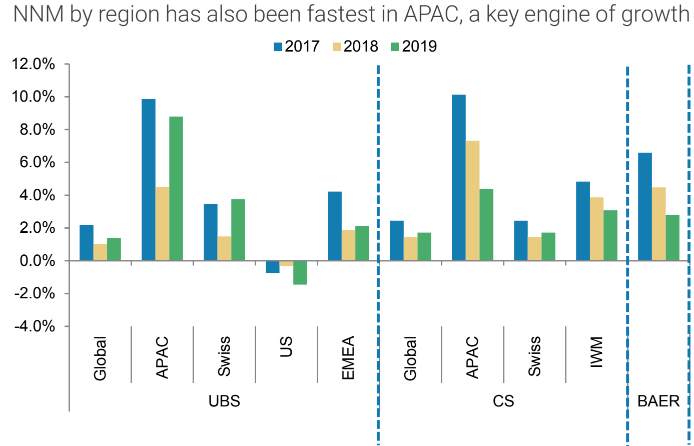
APAC growth at Swiss banks has outpaced AUM growth in other regions



Source: Company Data, Morgan Stanley Research

Exhibit 83:

NNM by region has also been fastest in APAC, a key engine of growth



Source: Company Data, Morgan Stanley Research

Exhibit 84:

Summary of AUM performance and our forecasts by bank and by region, 2015-22e

	2015	2016	2017	2018	2019	2020e	2021e	2022e	2015 - 19	2020 - 22
AuM									**Average**	
UBS	**1,967**	**2,060**	**2,403**	**2,257**	**2,633**	**2,585**	**2,693**	**2,814**	**2,264**	**2,697**
US	1,063	1,130	1,266	1,200	1,403	1,361	1,409	1,458	1,212	1,409
APAC	272	292	383	357	450	450	475	510	351	478
EMEA	459	462	545	500	552	546	571	597	504	571
Swiss	173	176	209	200	228	228	238	249	197	238
CS	**630**	**682**	**772**	**755**	**808**	**763**	**798**	**846**	**729**	**802**
Swiss	190	192	208	198	218	207	214	221	201	214
IWM	290	323	367	358	370	339	354	373	341	355
APAC	150	167	197	199	220	218	230	252	187	233
BAER	**300**	**336**	**388**	**382**	**426**	**398**	**420**	**443**	**366**	**420**
AuM Growth									**CAGR**	
UBS		**5%**	**17%**	**-6%**	**17%**	**-2%**	**4%**	**5%**	**8%**	**4%**
US		6%	12%	-5%	17%	-3%	3%	4%	7%	4%
APAC		7%	31%	-7%	26%	0%	5%	8%	13%	6%
EMEA		1%	18%	-8%	10%	-1%	5%	4%	5%	4%
Swiss		2%	19%	-4%	14%	0%	4%	4%	7%	4%
CS		**8%**	**13%**	**-2%**	**7%**	**-6%**	**5%**	**6%**	**6%**	**5%**
Swiss		1%	8%	-5%	10%	-5%	4%	4%	3%	4%
IWM		12%	14%	-3%	3%	-9%	5%	5%	6%	5%
APAC		11%	18%	1%	10%	-1%	5%	10%	10%	7%
BAER		**12%**	**16%**	**-2%**	**12%**	**-7%**	**5%**	**6%**	**9%**	**5%**
NNM (%)									**Average**	
UBS	**0.0%**	**2.2%**	**2.2%**	**1.0%**	**1.4%**	**0.2%**	**1.6%**	**2.0%**	**1.6%**	**1.3%**
US	2.1%	1.5%	-0.8%	-0.3%	-1.5%	-1.0%	1.0%	1.0%	-0.1%	0.3%
APAC	5.1%	7.6%	9.9%	4.5%	8.8%	2.0%	3.0%	5.0%	6.4%	3.2%
EMEA	0.0%	2.1%	4.2%	1.9%	2.1%	1.0%	2.0%	2.0%	2.0%	1.6%
Swiss	2.0%	2.9%	3.5%	1.5%	3.8%	2.0%	2.0%	2.0%	2.7%	1.9%
CS	**1.6%**	**0.1%**	**2.4%**	**1.4%**	**1.7%**	**-3.0%**	**1.0%**	**1.0%**	**3.8%**	**2.0%**
Swiss	1.6%	0.1%	2.4%	1.4%	1.7%	-3.0%	1.0%	1.0%	1.4%	-0.4%
IWM	-0.9%	5.4%	4.8%	3.9%	3.1%	1.5%	2.0%	3.0%	3.1%	2.2%
APAC	11.8%	9.7%	10.1%	7.3%	4.4%	2.0%	3.0%	7.0%	7.8%	3.9%
BAER	**4.2%**	**4.0%**	**6.6%**	**4.5%**	**2.8%**	**2.4%**	**2.8%**	**3.1%**	**4.0%**	**2.7%**

Source: Company Data, Morgan Stanley Research

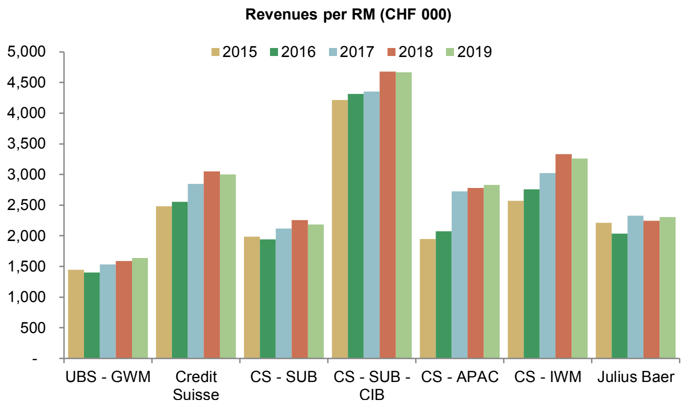
With diminished expectations for top-line growth, given rates and structural fee compression, Swiss banks have been focusing on further differentiated propositions to protect their revenue base. Mandate penetration, lending strategies, insurance wrappers, better client segmentation, cross-sell strategies between Wealth and Asset Management or the Investment Bank have all been deployed over the last few years, slowing down the pace of gross margin contraction. Pressure across NII continues in line with the march down of global rates. Swiss banks have continued charging for deposits in EUR and CHF to reduce the drag of interest rates. Now, however, low USD rates will bring another wave of NIM pressure to what are predominantly dollarized loan portfolios in the Americas (UBS), Asia and parts of EM. To protect revenue levels, we see further targeted deposit charging, growing the direct bank offering, structured products penetration, and RM productivity improvements as key actions for both Credit Suisse and UBS.

Tackling the negative interest rate drag is still largely confined to Swiss and Eurozone business, yet thresholds for charging negative rates have gone down significantly to ~$1mn equivalent on average from $5mn back in 2018, affecting many more clients. Further, charging for EUR and CHF deposits prompts a discussion with clients about their asset allocation and putting the excess cash to work as mandates, direct investments, real estate. Private markets offering continues to be an attractive allocation – a theme we feature prominently in this report as we run through direct investment opportunities.

More recently, in Q1 gross margins expanded strongly across the Swiss banks, helped by the boost in volatility up until April. While margin developments to date across the group are encouraging, it was mainly driven by higher trading/transaction income results (at UBS/CS wealth trading revenues were up 30-45% yoy). We expect that Swiss banks' gross margins will normalize, due to (1) lower NII, and (2) F&C and trading margins facing structural re-pricing pressures. As market volatility reduces, we expect trading margins to fall below pre-Covid-19 levels as some competitive pressure from zero commissions for mass affluent spills over to HNW beyond North America.

Exhibit 85:

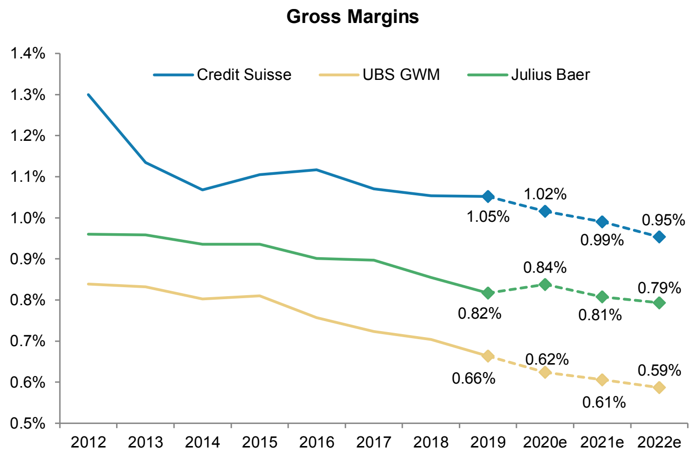
Revenues per RM vary across Swiss banks, a result of geographical and product mix



Source: Company Data, Morgan Stanley Research

Exhibit 86:

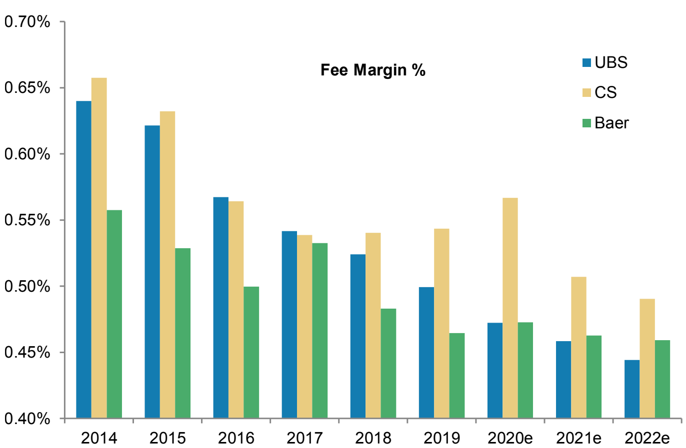
We see gross margins compressing in the next 3 years



Source: Company Data, Morgan Stanley Research estimates Note: CS refers to Private Banking (PB) which includes SUB PB, IWM PB and APAC WM&C

Exhibit 87:

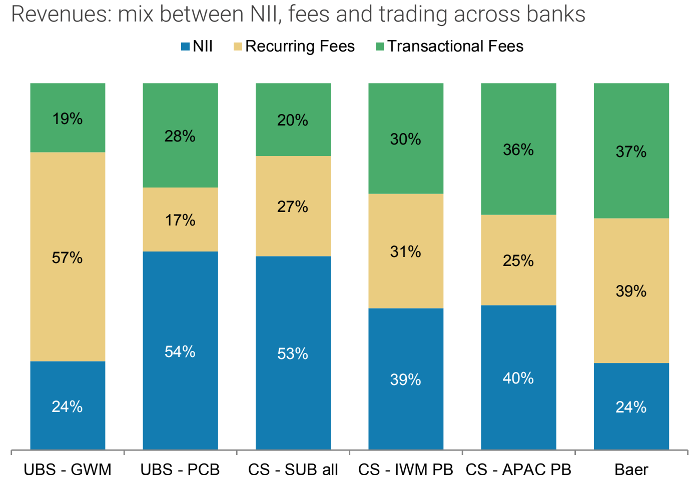
We expect fee margins to see continued cyclical and structural headwinds



Source: Company Data, Morgan Stanley Research estimates Note: UBS refers to UBS GWM segment; CS refers to Private Banking (PB) which includes SUB PB, IWM PB and APAC WM&C

Exhibit 88:

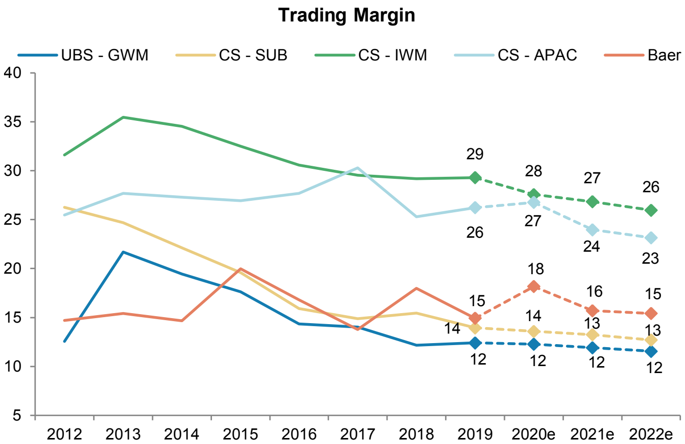
Revenues: mix between NII, fees and trading across banks



Source: Company Data, Morgan Stanley Research

Exhibit 89:

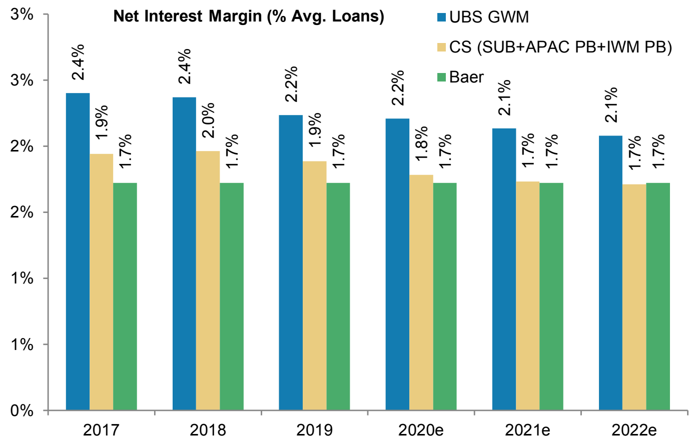
Trading margins to come down, post a strong 2020e



Source: Company Data, Morgan Stanley Research estimates

Exhibit 90:

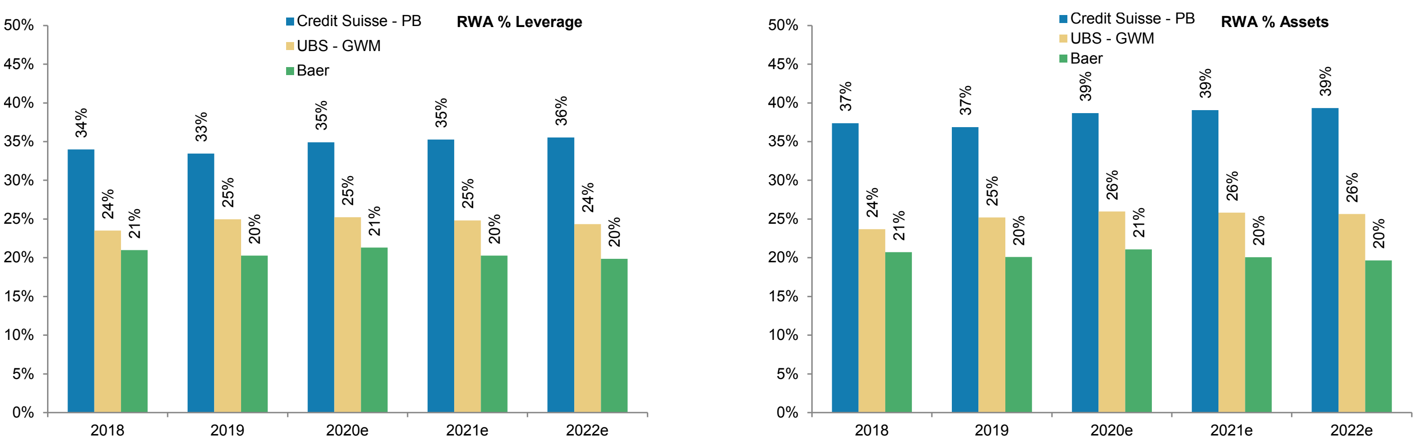
NIMs gradually come down, following the trajectory of rates



Source: Company Data, Morgan Stanley Research estimates

Exhibit 91:

Higher RWA density drives higher revenue margins at CS



Source: Company Data, Morgan Stanley Research estimates. Note: CS refers to Private Banking (PB) which includes SUB PB, IWM PB and APAC WM&C

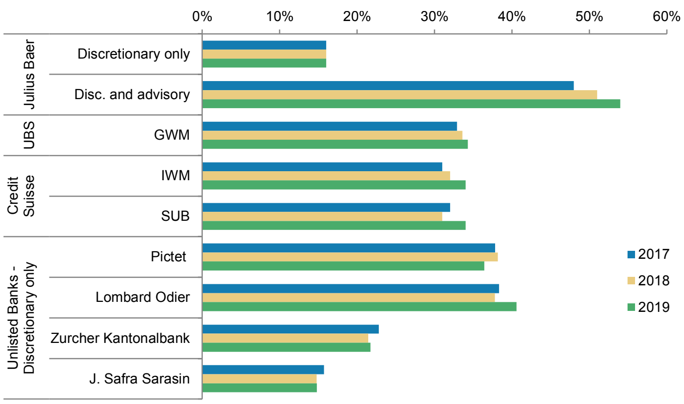
Given the structural margin pressures we have discussed, pricing as an organizational capability will be even more important. We see it across Swiss banks, as customer segmentation, value proposition, pricing structure and realization are constantly realigned, with our newest example being Julius Baer.

Julius Baer case study: A strategy to protect margins

Management's newest strategy aims to combat structural fee pressures through a portfolio of revenue initiatives worth SFr 150mn (=4bps of AUM). Examples include enhancing the offering of fee-based mandates, deepening markets capabilities and implementing systematic reviews of client opportunities, as well as more tailored pricing.

Exhibit 92:

Increased discretionary mandates penetration offers margin support



Source: Company data, Morgan Stanley Research. Note: definitions of mandates vary across banks. Credit Suisse IWM and SUB refer to the Private Banking subdivisions

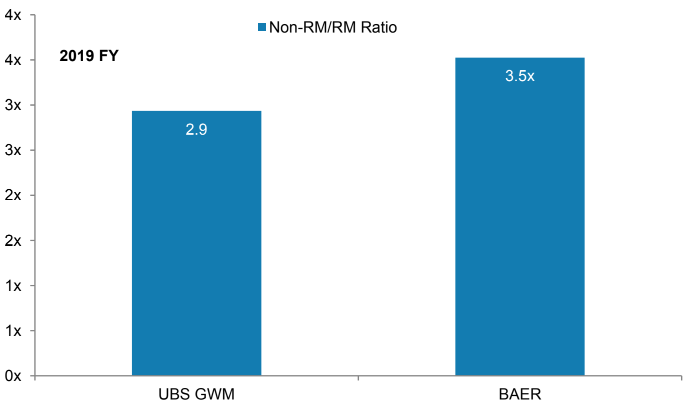
The strategy here is to invest in technology, to make discretionary mandates more modulated and therefore more accessible. IT investments will increase by 20% for 2020/21e; areas of spend include predictive analytics on client retention, targeted scaling of tailored mandates, investments in robotics and automation of administrative workflow, freeing up more of an RM's time.

Having recently completed a deep client audit, 'Project Atlas', the bank is well-placed to increase 'same client' AUM wallet share. In our view, the group is now better positioned to employ data and analytics to deliver increased tailored product penetration and amplify advisor impact, for example by having more comprehensive information given to the RMs on product exposures and risk preferences. Other areas of product innovation include: 1) digital asset offering in collaboration with SEBA Bank to help clients benefit from future tokenization of assets and access cryptocurrencies; 2) structured lending/risk transfer solutions for UHNW (e.g., cash flow based/pre IPO lending); 3) growth in impact investment/sustainability range, with product launches in the pipeline for this year.

Cost base still to be tackled

Exhibit 93:

The ratio of RMs to support staff headcount can serve as a litmus test for operational inefficiency. While industry leaders currently maintain a one to three staffing ratio between RMs and front-office support staff, other Wealth Managers operate with a ratio of one to six or more.



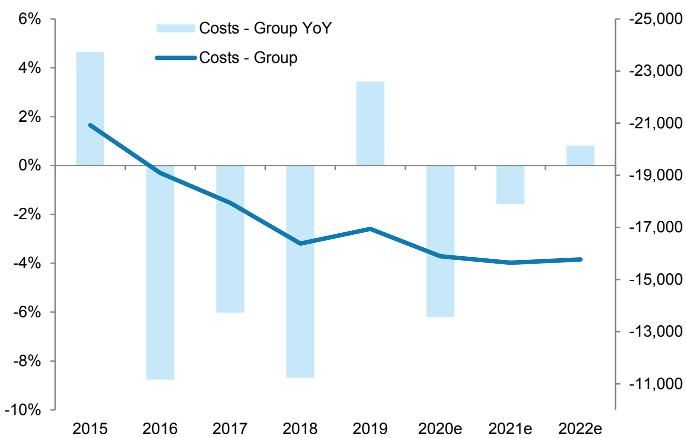
Source: Company Data, Morgan Stanley Research. Note: Total FTEs adjusted for allocations from corporate center for UBS GWM .

Costs continue to be in the spotlight as revenue pressure continues, a trend that is familiar in the asset management world. Yet given still strong through-the-cycle profitability, the urgency to tackle costs has recently intensified. We see Swiss banks as being in different cost modes: (1) At UBS, tactical cost cuts are more short term, such as removal of excessive management layers, optimization of RM headcount in the US, optimization of incentive frameworks for RMs and reduction in front office support. (2) Julius Baer, under new leadership, is embarking on achieving more streamlined group service delivery and optimization of not only the front line but also second line functions (finance, HR, legal, operations). (3) Credit Suisse, despite continuing to pursue further efficiencies, is reaping the benefits of transformative model changes established over the last four years.

Some parts of future cost optimization will come from the classic business restructuring book, however some will be much more strategic in nature, as the crux for the banks will be in identifying what will drive RM effectiveness to the highest end client satisfaction. We have seen examples of high RM effectiveness improvements – at Credit Suisse IWM: targeted hiring, better representing the opportunity set (shifting the mix of RMs from 50%/50% EM/DM in 2015 to 60%/40% in 2018) led to a 25% RM productivity increase over 4 years in terms of AUM and revenues.

Exhibit 94:

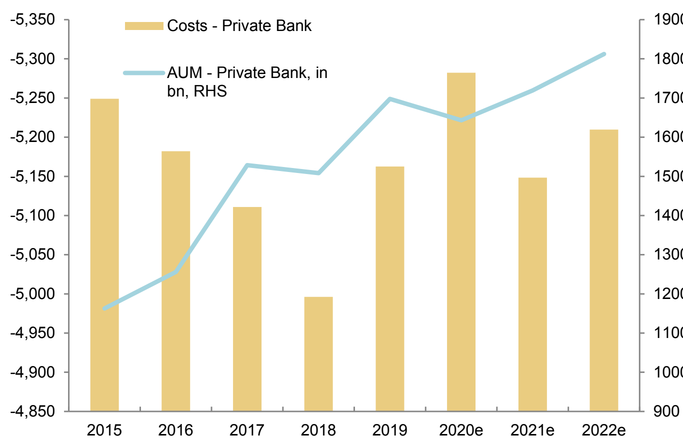
CS group costs are down 20% cumulatively since 2015



Source: Company data, Morgan Stanley Research estimates

Exhibit 95:

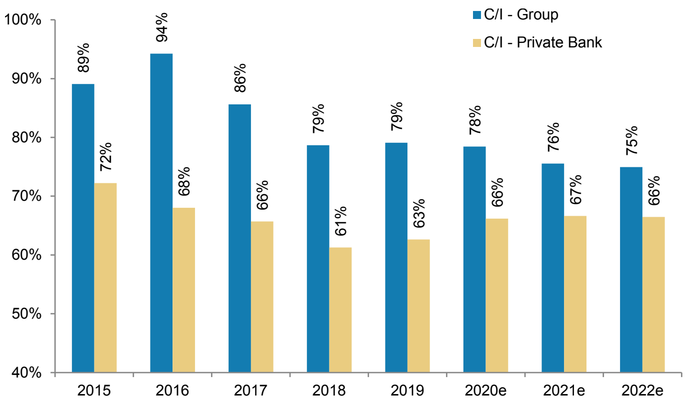
Over the same period, Wealth costs are down 2% while AUM has grown substantially, up 46% cumulatively



Source: Company data, Morgan Stanley Research estimates

Exhibit 96:

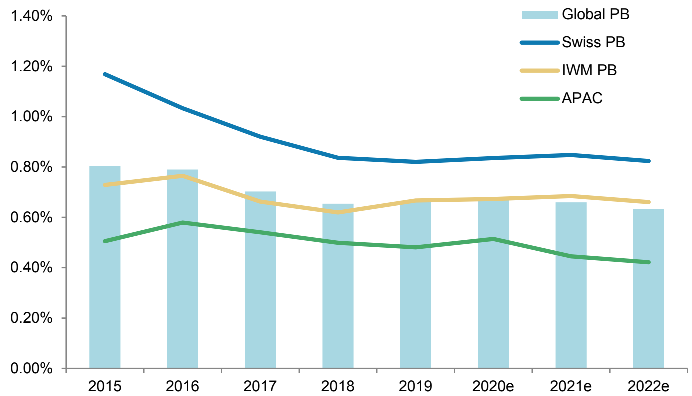
Cost income ratio in the PB is best in class at 63%, group C/I down 10pp since 2015



Source: Company data, Morgan Stanley Research estimates

Exhibit 97:

Costs/AUM margins have been improved across divisions, particularly in Swiss PB



Source: Company data, Morgan Stanley Research estimates

We see structural savings initiatives across four themes for Swiss private banks (1) operating model, (2) workforce composition, (3) automation and (4) real estate footprint. Workforce composition optimization has been on the agenda of all three Swiss banks, as they have balanced out captive vs. outsourced footprint mix globally; they have also been improving the footprint and aligning it with the revenue opportunity, at the same time reducing occupancy in high cost locations. The need for physical presence in branches/offices and corporate headquarters may be reduced in the post-Covid-19 world. Sweeping operating model changes have so far only been implemented at Credit Suisse – its rationalization of divisional/corporate function teams by promoting and consolidating processes into commonly shared platforms across producers, support and risk functions has been unique across European banks, enabling further efficiencies even after taking the group cost base from CHF20bn to CHF16bn in four years.

While we estimate that the global industry can reduce average cost income ratios by up to 12 percentage points, through a combination of targeted efficiency plays and directly related revenue uplift opportunities, Swiss banks that operate global structures will have a smaller opportunity here. This is a function of (1) already high multi-year cost optimization focus (particularly at Credit Suisse); (2) European and Asian tilt which structurally carries a higher expense profile given market fragmentation, and different legal and regulatory regimes. We see cost income ratios coming down by 2-3%pt over the next 5 years in net terms.

Julius Baer presented a new Strategic Plan in February 2020 targeting efficiency gains worth 40% of 2019 PBT. The bank aims to reduce costs by CHF 200mn and unlock CHF 150mn in revenue gains through various initiatives including headcount reduction, simplifying the group organizational structure, and streamlining general/admin expenses. On a gross basis and pre-Covid-19, the initiatives would have released c.10pp of cost-income (2019 p/f), an ambitious programme in an industry context. Given the growing importance of digital investments, Baer is also prioritizing IT investment, with spend targeted to increase 20% pa in 2020 and 2021. As a result, management targets were for -4pp C/I reduction to <67% pre-Covid-19 and we expect that even in the new economic environment, C/I ratios can be well defended at around current levels. The bank began executing on its new cost programme in February and a disposal of the Bahamas booking centre has been secured. The leadership team has been simplified from 15 to 9 members, and the regional client servicing model has been streamlined into fewer geographical fronts.

The market turmoil prompted by Covid-19 has highlighted the clear value clients place on high-quality human advice.

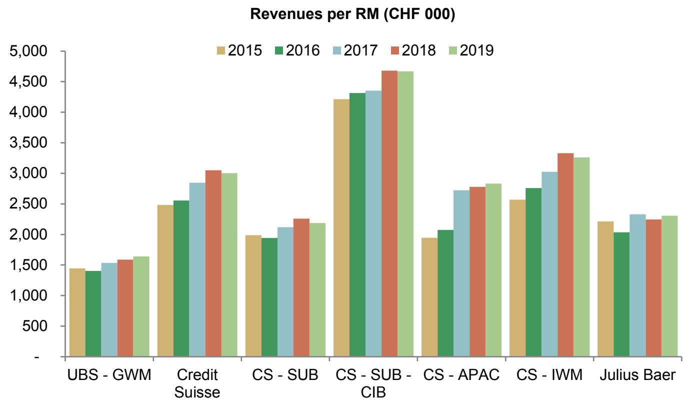
Even prior to Covid-19, more than 85 percent of HNW investors polled in a proprietary Oliver Wyman survey said they valued the ability to talk with an advisor, versus less than one third who valued advice delivered via robo-advisors. The surge in complexity, diversity and urgency of client requests during Covid-19 has only underscored the value of having access to human advisors.

Given our view that the advice delivery model of the future will see RMs remaining central to client relationships, supported with strong digital capabilities, we believe Swiss banks will leverage their domestic offering to look for attractive solutions. Both UBS and Credit Suisse have built out attractive direct offerings, which now serve as their international blueprint. Credit Suisse has accelerated roll-out of new digital offerings across private clients over the last three years, driving digital adoption rate and automation (while its domestic retail offering has focused on creating the Direct Bank). Covid-19 has also forced a transition to new remote ways of working and required advice to be delivered through multiple channels. Future client engagement, we believe, will continue to increase across all channels.

Increasing RM productivity is also a clear focus area across banks. If we benchmark the productivity of Julius Baer's advisors vs those of UBS/CS, we see scope to improve wallet shares of the existing client base. Average AUM per Julius Baer advisor stands at ~SFr282mn, screening as mid-pack, with productivity gains of +9% since 2017. Post restructuring, we expect RM productivity to increase, courtesy of deep IT investments that will free up advisor time and inject a fresh amount of operating leverage into the business. Levers to achieve this include adding more support staff and bringing in specialists/experts around RMs, in order to free up advisor time; investing in robotics/automation of administrative tasks; and importantly changing the RM compensation structure in order to incorporate the new KPIs.

Exhibit 98:

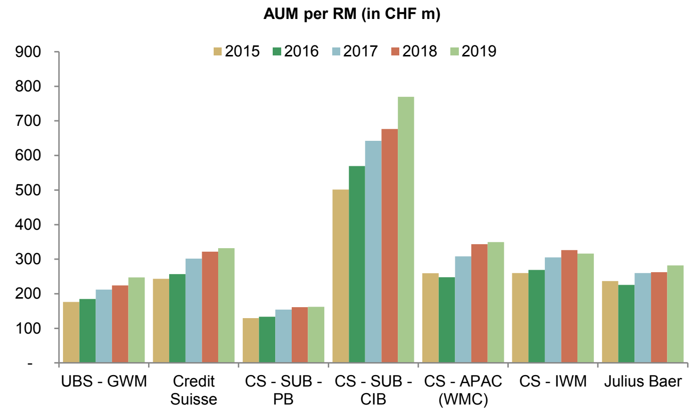
Revenue per RM across Swiss banks



Source: Company Data, Morgan Stanley Research

Exhibit 99:

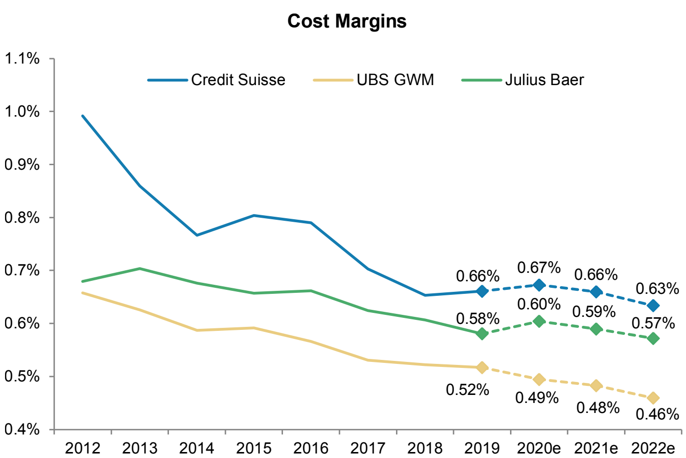
AUM per RM across Swiss banks



Source: Company Data, Morgan Stanley Research

Exhibit 100:

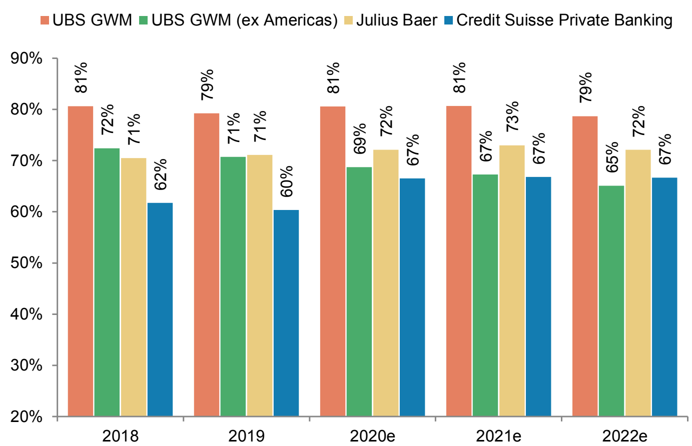
We see cost margins improving to ~46bps by 2022



Source: Company Data, Morgan Stanley Research Estimates. Note: CS refers to Private Banking (PB) which includes SUB PB, IWM PB and APAC WM&C

Exhibit 101:

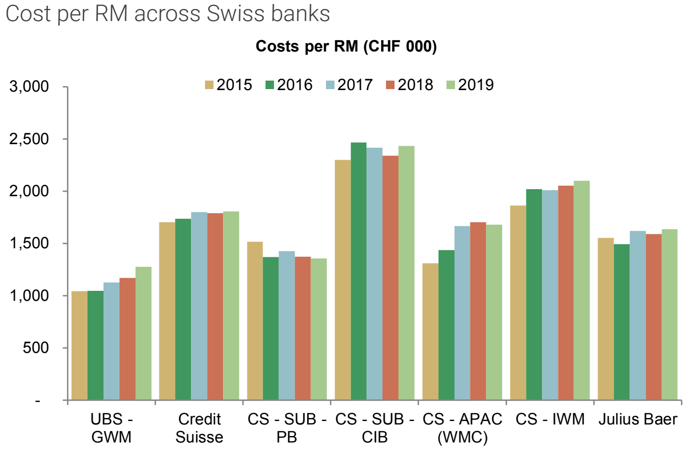
Cost income ratios across Swiss private banks



Source: Company data, Morgan Stanley Research

Exhibit 102:

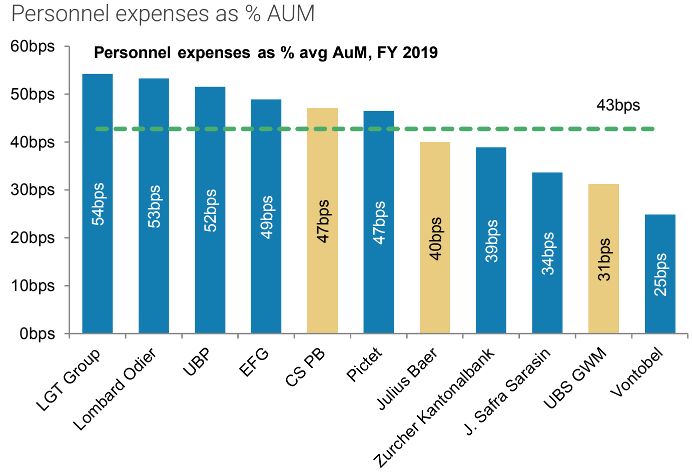
Cost per RM across Swiss banks



Source: Company Data, Morgan Stanley Research Estimates

Exhibit 103:

Personnel expenses as % AUM



Source: Company data, Morgan Stanley Research estimates. Note: CS Private Banking (PB) includes SUB PB, IWM PB and APAC WM&C

Revenue defence: (1) spotlight on sustainability, (2) private markets, (3) protection offering

(1) Sustainability is key in attracting Net New Money, higher allocation and asset retention levels

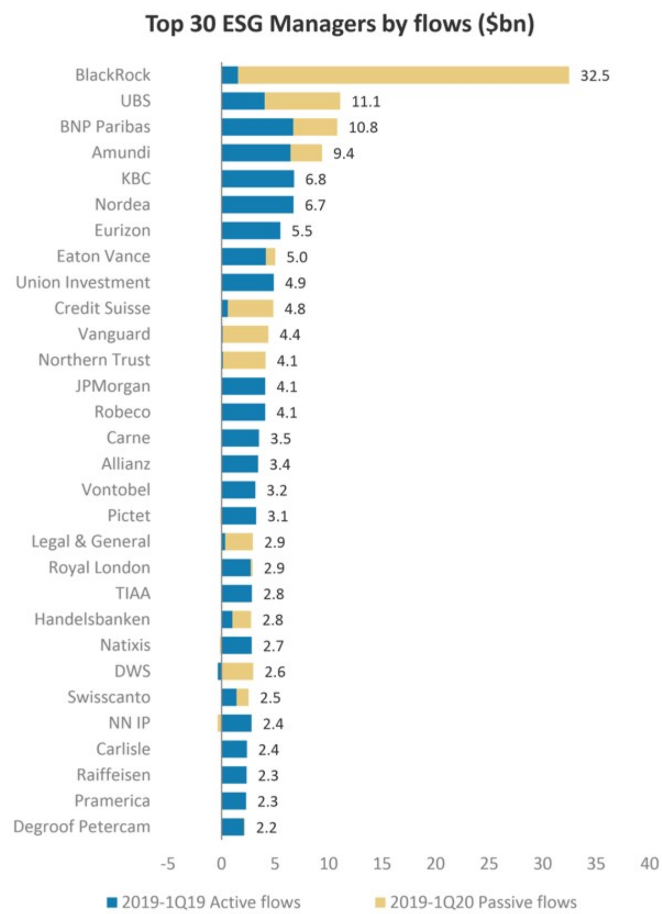
Interest in sustainable investing has grown significantly across the private banking space. In 2019, Oliver Wyman estimates HNW and UHNW investors had $4-6 trillion invested in sustainable investments, with the highest allocation in Europe at 10-12% of portfolio wealth. This should increase to a global total of $9 trillion by 2024. A greater focus on stewardship is already pushing Wealth Managers to redefine their product offering and value proposition. The Millennial client cohort values governance even more, including the positive societal impact. We see an acceleration of the trend towards full ESG integration vs. simple screening and exclusion. We also expect interest in thematic and impact categories to increase as well.

CS: Sustainable/Impact investing has been a key area of focus for Credit Suisse. As at FY19 end, assets invested according to ESG criteria at the bank rose to over CHF 44bn. Credit Suisse's SDG-oriented and Impact Investing business includes more than $8bn Assets under Administration of which over US$4 billion is in the area of impact investing. Impact investing activities at Credit Suisse include investments in SMEs with a social or environmental mission and the development of financial products.

UBS's sustainable investing assets, as of FY19, represented $488bn/~14% of total invested assets, by far the largest among the Swiss banks – $206bn are GWM ESG and ESG integration mandates. It is also the leading provider of sustainable investment products with ~20% market share among asset and wealth managers in the Swiss market. We have recently singled out UBS AM capabilities across the ESG space, from the perspective of product range, flows and performance. Globally UBS was second only to Blackrock in net sales of ESG funds in 2019-1Q2020. These institutional capabilities are likely to translate into further ESG growth outperformance on the Wealth side. For more details, please see our note Global Asset Managers: Who is Best Placed if Covid-19 Accelerates ESG Trends?

Exhibit 104:

Strongest net sales across ESG/Sustainable mutual funds per Morningstar – BlackRock, UBS, BNP, Amundi and KBC comprise the top 5

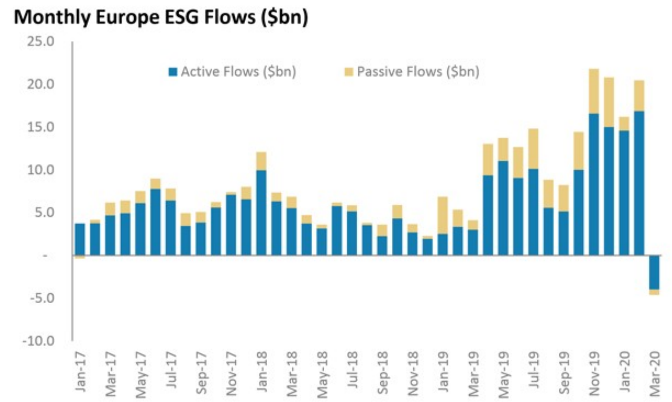


Source: Morningstar, Morgan Stanley. Note: Data to end March 2020

Julius Baer has already made strides in this area and offers a full range of sustainable portfolio solutions, diversified across asset classes. Its sustainable investment universe covers equities and bonds as well as parts of the alternative investment segment and related products, enabling diversified, individually structured portfolios. In 2019 relationship managers reported a noticeable increase in demand for sustainable investing, especially from younger investors. Currently, 12.7% of AUM is in assets with ESG integration (CHF 45bn), up from 11.4% a year ago and the number of discretionary sustainability mandates has grown to SFr 1.625bn, a +24% increase YoY (for Switzerland).

Exhibit 105:

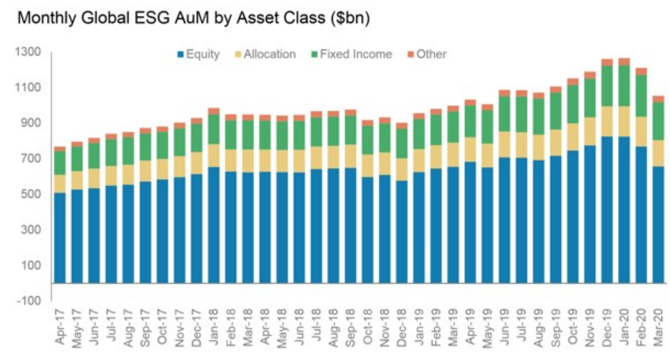
European ESG Active/Passive Mutual fund flows account for the majority of global inflows into ESG at ~$175bn since start of 2019



Source: Morningstar data, Morgan Stanley Research

Exhibit 106:

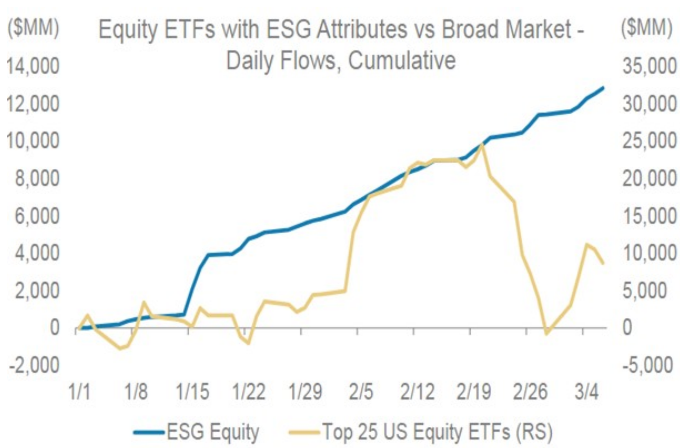
Europe accounts for ~75% of ESG mutual funds globally, though we see growth building in all regions



Source: Morningstar data, Morgan Stanley Research

Exhibit 107:

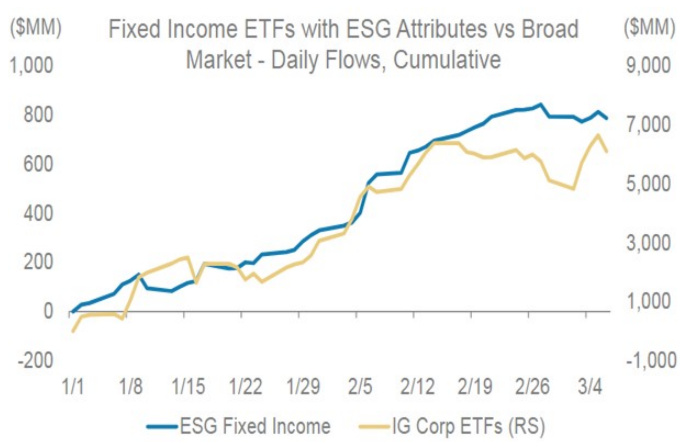
Flows into Equity ETFs: ESG vs Market



Source: Morgan Stanley Research, Bloomberg

Exhibit 108:

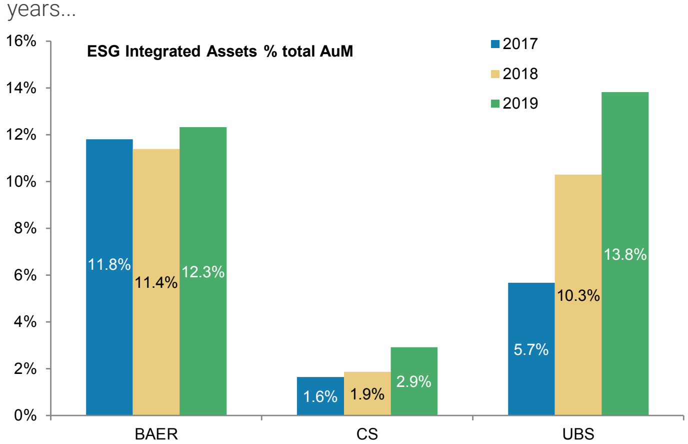
Flows into Fixed Income ETFs: ESG vs Market



Source: Morgan Stanley Research, Bloomberg

Exhibit 109:

Swiss banks have been catching up on the ESG trend in the last 3 years...



Source: Company Data, Morgan Stanley Research

Exhibit 110:

...with a meaningful part of their total AUM integrated with ESG criteria

	2019		
	BAER	CS	UBS
ESG Assets	CHF 52bn	CHF 44bn	$489bn
Total AuM	CHF 426bn	CHF 1,507bn	$3,536bn
Esg Assets % AuM	12.3%	2.9%	13.8%

	2018		
	BAER	CS	UBS
ESG Assets	CHF 44bn	CHF 25bn	$313bn
Total AuM	CHF 382bn	CHF 1,345bn	$3,041bn
Esg Assets % AuM	11.4%	1.9%	10.3%

	2017		
	BAER	CS	UBS
ESG Assets	CHF 46bn	CHF 23bn	$182bn
Total AuM	CHF 388bn	CHF 1,376bn	$3,199bn
Esg Assets % AuM	11.8%	1.6%	5.7%

Source: Company Data, Morgan Stanley Research

(2) Access to private markets is key to UHNW investors in particular, so it is time to address lost market share, direct investment in private equity, real estate and venture capital funds

An enhanced private market offering can help Wealth Managers capture and retain HNW and UHNW wallet. UHNW investors (>$100mn in AUM) remain structurally under invested in illiquid/alternative assets relative to their target allocations. While in the short term, we may see limited appetite for new commitments, longer term, we expects UHNW assets to increase to $24 trillion from the current $16 trillion.

Over the last few years, we have seen UHNW clients choosing to source investments directly, resulting in a loss of share of wallet for Wealth Managers. Yet Swiss banks tend to capture the opportunity better than most. For example, the Investment Banking and Asset Management businesses at UBS and CS (in particular with strong sponsor business) have dedicated functions that straddle both divisions to oversee the origination and distribution of private investment opportunities for their UHNW and family office clients. Julius Baer, as a pure-play wealth manager, offers private market access through partnerships with external asset managers.

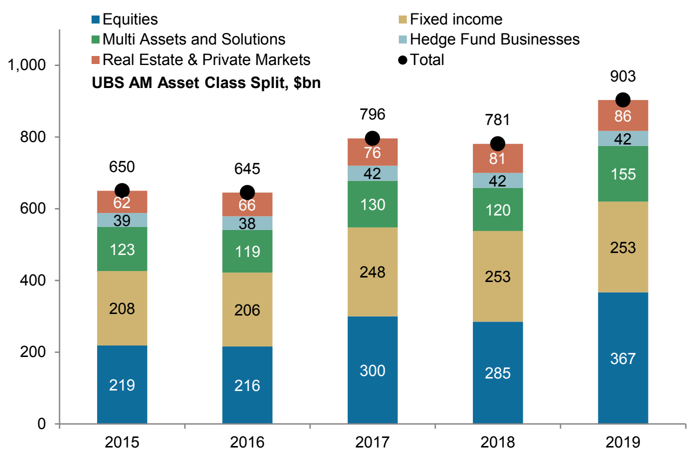
Growing access to private markets – Private markets are becoming an increasingly important part of the capital markets landscape. In developed markets, especially the US, the number of publicly listed companies has materially declined and private equity AUM (considering direct / co-investment and general partner-managed AUM) has outpaced growth in public market equity capitalization. Additionally, AUM in private debt and other real assets has risen rapidly too as investors have started to supplant bank lending, particularly in structured and sub-investment grade lending, a theme we explored in detail in our Blue Paper (Asset Managers & Wholesale Banks: Searching for Growth in an Age of Disruption).

Up to now, much of the AUM growth has been driven by increasing allocation to private assets by established institutional segments (namely endowments, sovereign wealth funds and defined benefit pension plans). They have been attracted by access to growth, illiquidity premiums and the potentially lower mark-to-market volatility of private assets. However, over the next 3-5 years, we expect that a growing proportion of AUM inflow will come from segments that currently are under-allocated to private markets – namely HNW individuals, defined contribution pension plans and insurers. We see structural growth drivers that are likely to correct private market under-allocation across wealth clients, as we believe the current recession is unlikely to stress the permanent capital structure of the industry, and will drive increased allocations on the back of this recession. Here is why:

1. Low interest rates incentivizing longer-duration investing to achieve targeted returns
2. Outperformance vs. public markets
3. Less volatility with lack of mark to market accounting risk
4. Diversification with lower correlation to public markets
5. Access to small enterprise value companies, via Venture Capital funds
6. Private market asset deployment has room to run in key addressable markets: private equity, real estate, infrastructure and private credit (see Global Asset Managers: Searching for a Winning Strategy).

Exhibit 111:

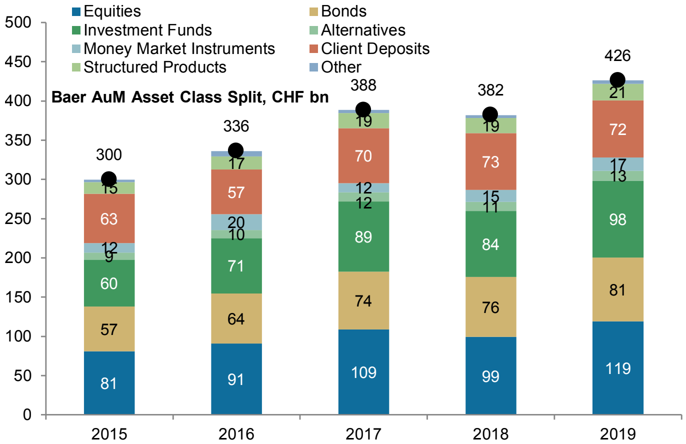
UBS Asset Management AUM split by asset class



Source: Company Data, Morgan Stanley Research

Exhibit 112:

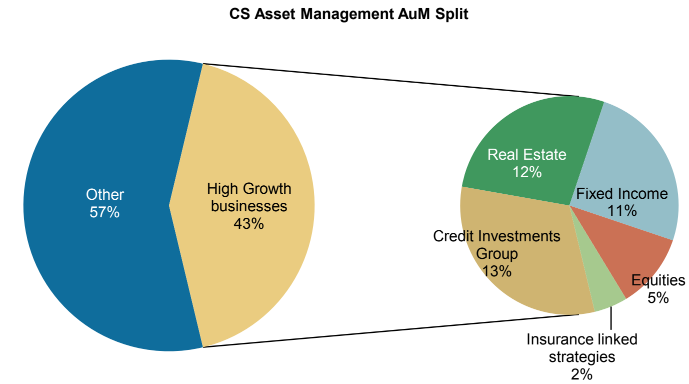
Baer's AUM split by asset class



Source: Company Data, Morgan Stanley Research

Exhibit 114:

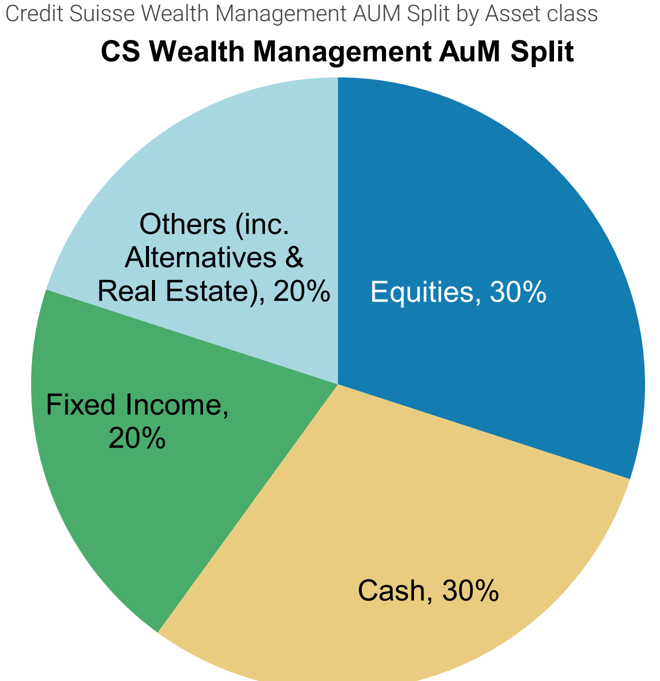
Credit Suisse Asset Management AUM Split by Asset class



Source: Company Data, Morgan Stanley Research. Note: Split as of Sep-18

Exhibit 113:

Credit Suisse Wealth Management AUM Split by Asset class



Source: Company Data, Morgan Stanley Research. Note: The disclosure of split from Credit Suisse' presentation at 2019 Morgan Stanley European Financials Conference

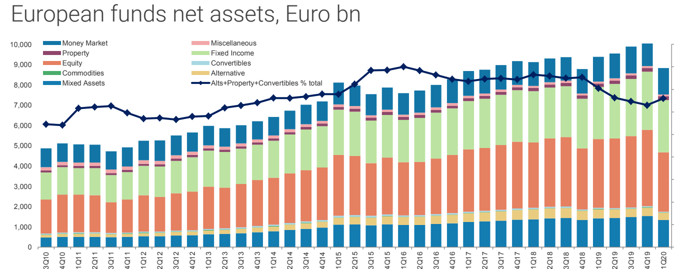
Exhibit 115:

Credit Suisse: Examples of Alternatives Product Suite

Source: Company data

Exhibit 116:

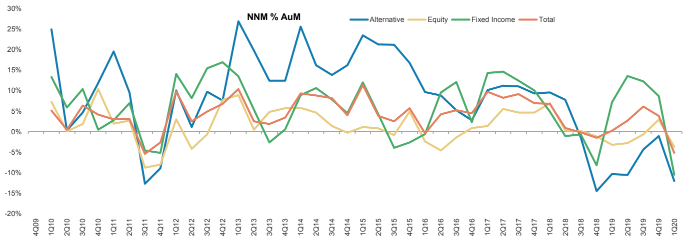
European funds net assets, Euro bn



Source: Morningstar, Morgan Stanley Research

Exhibit 117:

European funds net flows %AUM



Source: Morningstar, Morgan Stanley Research

(3) Analysis of insurance levels and residual risk appetite may lead to more holistic re-evaluation of client needs and higher demand for protection, health products.

Building out their protection offering should allow Wealth Managers to remain at the center of client financial needs and help offset some revenue pressures. Covid-19 could cause many clients to re-evaluate their current insurance levels and residual risk appetite. This may drive an increased demand for a "trusted advisor" that can help them navigate the insurance products landscape, as clients decide they are currently under-insured, or, more likely, have unmet needs.

Swiss domestic M&A a scale game, globally Swiss see enough organic growth

Focused M&A may become a tool for resetting the growth trajectory, particularly as scale becomes key in attractive, yet still fragmented markets – such as the US, the UK and Switzerland. We expect to see further consolidation as market valuations have fallen, making investment theses more compelling than during previous boom years.

Strategic M&A may not necessarily be transformational in Wealth, yet can lead to business optimization. We see a number of drivers of consolidation: (1) to access new clients by type or geography; (2) to expand the product toolkit (particularly in private markets/ESG/ impact investing); (3) to improve scale. What we increasingly see across the industry is client expansion (e.g., clients working in specific industries) or moving higher or lower along the wealth spectrum (e.g., acquiring multi-family office offering to make inroads into UHNW) through tie-ups with smaller boutique or focused advisory shops. New markets are tested by a combination of organic growth, large-scale partnerships, or targeted acquisitions.

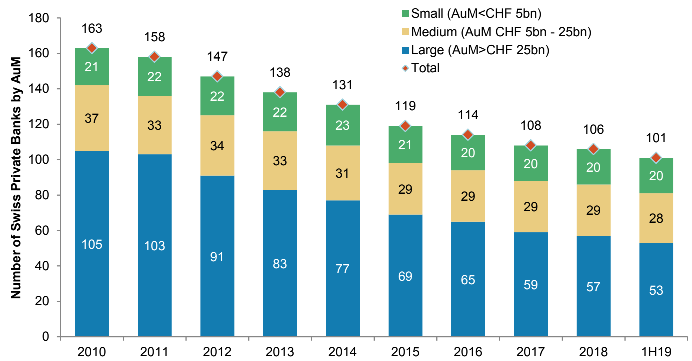
Strategic partnerships are a key way to gain distribution access and scale in new markets. We have seen examples of strategic business combinations with UBS and Japanese Sumitomo Mitsui and, on a smaller scale, with Julius Baer and Siam Commercial Bank in Thailand. We are watching the UBS/SuMi combination with interest, as we believe it could serve as a blueprint for mega-banks' co-operation (both institutions' market cap is at $37-39bn). The joint venture (announced in mid 2019 and ultimately 51% owned by UBS) will combine UBS's global capabilities in wealth management with SuMi's UHNW and HNW client distribution as Japan's second largest banking group. The first stage of the partnership started operating in January this year, with the fully fledged JV to start in 2021. Julius Baer's strategy in Thailand and Japan follows a similar pattern – distribution access for product expertise. Since 2018, Julius Baer has had a joint venture with Siam Commercial Bank in Thailand (the largest commercial bank in the country). In Japan, Nomura bought a 40% stake in Julius Baer's subsidiary in the country to more closely align incentives between the two banks.

Swiss domestic M&A is a possible route for UBS, CS, BAER, who can take on the role of consolidators, as a way of extracting further cost savings and reaping scale advantages. Over the past 3 years, Swiss private banking margins across the industry have compressed by -5bps, a similar level to that seen at the listed Swiss banks. Fees are under pressure due to a combination of cyclical and structural factors: lower trading volumes, dampened volatility, competition in the mandate space, negative rates – to name a few. NII margins also likely to contract. Against this backdrop, we see a long tail of domestic Swiss private banks that may be better served by consolidation, as effective management of the cost layer is ever more important.

Deal activity in the Swiss private banking industry is well documented, with ~20 deals announced in 2019 (six in 1H19) and the number of banks falling to 100 today vs 160 in 2010. Within that, the number of small banks has been declining to 53 from 105 in 2010. A record M&A wave over 2017-19 is likely to carry forward, if small banks' performance deteriorates further. Looking at deal activity by type, acquisitions abroad are fairly active, particularly with a focus on acquiring assets in growth markets (Asia and Latam), although domestic consolidation is also present among the smaller banks.

Exhibit 118:

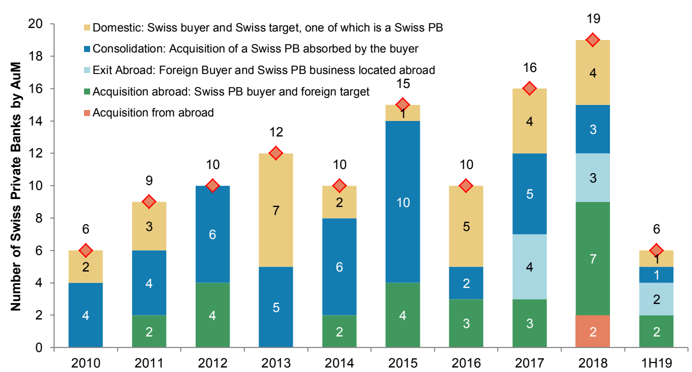
Number of Swiss private banks by AUM



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research

Exhibit 119:

M&A deals where Swiss Private Banks are a counterparty



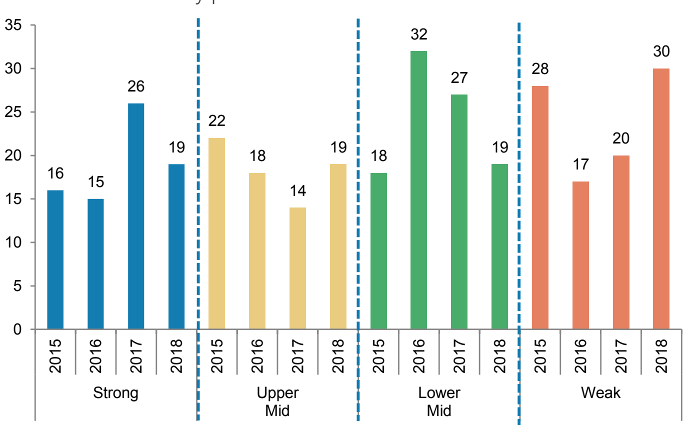
Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research, Morgan Stanley Research

A question of scale. Mergers have been gaining prominence, as banks seek to expand their regional presence and strengthen their offering in existing regions. Interestingly, industry data shows that all banks involved in recent mergers had AUM below CHF5bn and ranked as Weak or Lower Mid performers. Analyzing performance by size cluster, Large Swiss private banks (i.e. the powerhouses) tend to have the lowest C/I ratios at 74% at industry level and highest net margins at 18bps, due to scale. They were the only size cluster to achieve ROE of c10%, covering the cost of capital. Mid banks with average AUM of CHF256bn had mixed performance, with average C/I of 82% and net margin of 15bps. The majority of these banks in Switzerland are subsidiaries of foreign owned banks.

Finally small banks, with average AUM of CHF114bn, were the weakest performers with C/I of 87% and net margin of 12bps. In the new environment, small banks' performance may deteriorate further, rendering the business model unsustainable. We would expect to see a round of consolidation with either small banks merging together, or larger banks absorbing smaller players. The poor performance of small banks currently is primarily explained by an inability to reduce cost bases further, due to IT investment pressures and lack of scale, which can be addressed via M&A.

Exhibit 120:

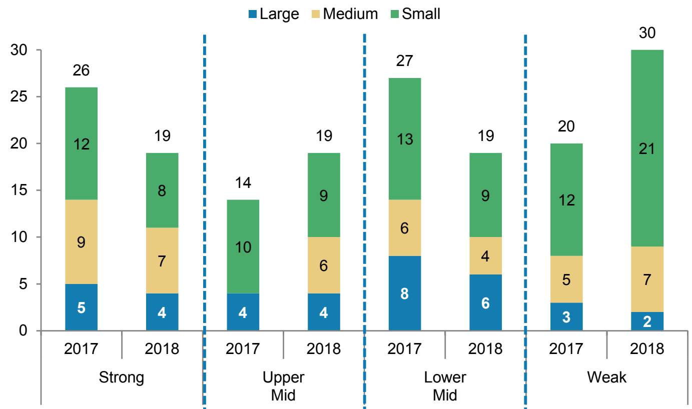
Number of banks by performance cluster



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research

Exhibit 121:

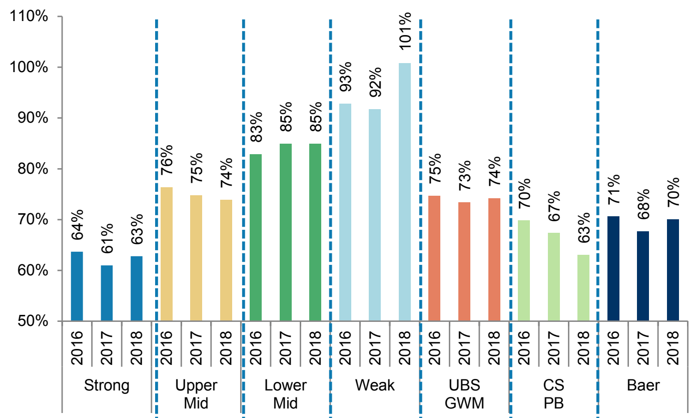
Breakdown of private banks by performance cluster



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research

Exhibit 122:

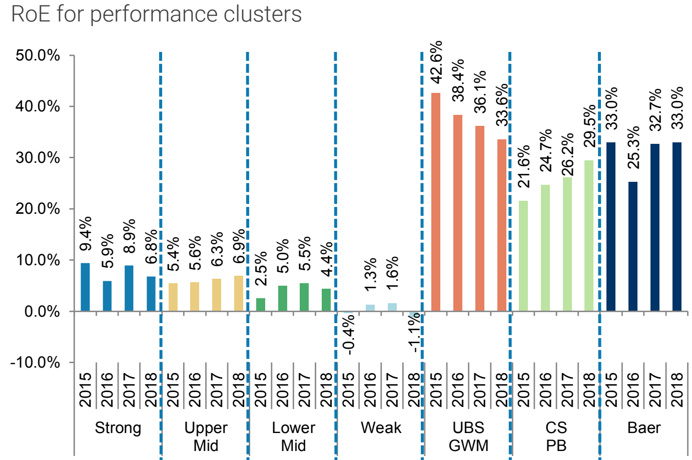
Cost-income ratio for performance clusters



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research

Exhibit 123:

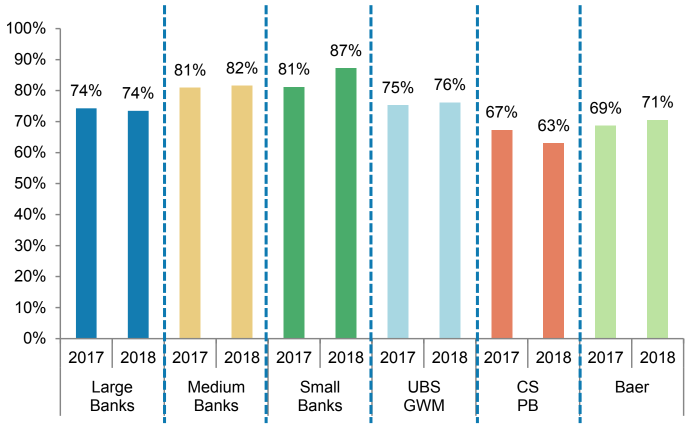
RoE for performance clusters



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research. Note: ROE for CS, BAER and UBS calculated as Net Profit / Allocated equity (@12% of RWAs). CS PB includes SUB PB, IWM PB and APAC WM&C.

Exhibit 124:

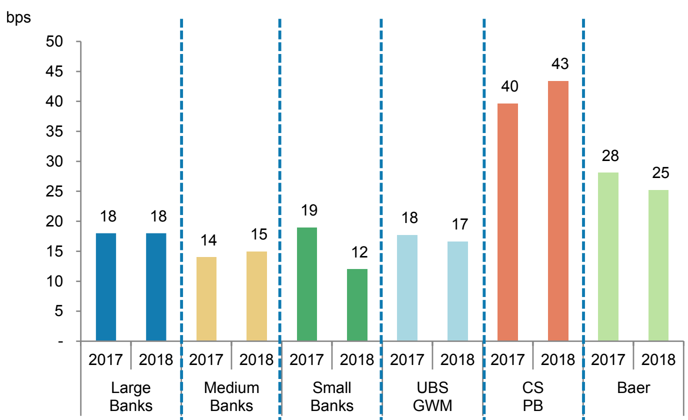
Cost-income ratio by scale of bank



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research

Exhibit 125:

Net margin by scale of bank



Source: KPMG: Clarity on performance of Swiss Private Banks, Morgan Stanley Research

Exhibit 126:

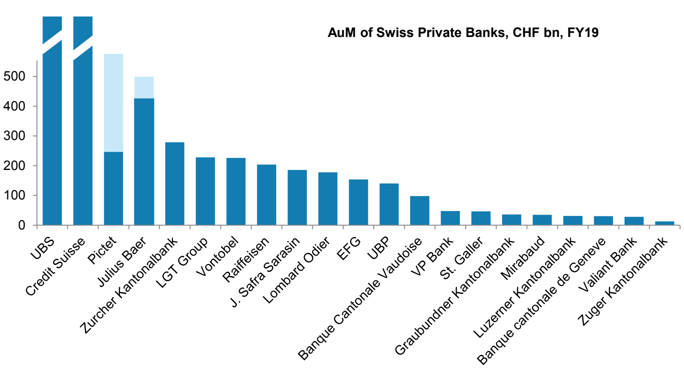
Selected Private Banking Precedent Transactions

Date	Buyer	Target	Deal Value (CHF)	Ownership (%)	Acquisition Multiples: P/AuM (%)	P/BV LTM (x)	P/E LTM (x)	Goodwill/AuM (%)
May-18	Vontobel	Notenstein La Roche	700	100%	4.1%	1.4x	NA	1.8%
Oct-17	Banca Zarattini	Banca Intermobiliare di Investimenti e Gestioni (Suisse)	40	100%	NA	NA	NA	NA
Oct-17	Safra Sarasin	Hapoalim PB Switzerland & Luxembourg	NA	100%	NA	NA	NA	NA
Sep-17	Arca Investments	Wiener Privatbank	49	100%	NA	NA	NA	NA
Feb-17	Julius Baer Group	Wergen & Partner Vermoegensverwaltung	NA	100%	NA	NA	NA	NA
Dec-16	LGT	ABN AMRO (Asia PB business)	NA	100%	NA	NA	NA	NA
Dec-16	CBH	Fibi Bank Schweiz	66	100%	7.5%	NA	NA	NA
Apr-16	OCBC Bank	Barclays (Asia PB business)	305	100%	NA	NA	NA	NA
Apr-16	KBL	Insinger de Beaufort	67	100%	0.5%	NA	NA	NA
Feb-16	EFG International	BSI SA	1,328	100%	1.5%	0.9x	11.8x	NM
Dec-15	Julius Baer Group	Commerzbank Luxembourg	73	100%	2.3%	2.7x	NA	1.4%
Sep-15	Vontobel	Finter	80	100%	5.0%	1.3x	NM	1.1%
Mar-15	UBP	Coutts International	350	100%	1.1%	0.3x	NM	NM
Jul-15	Fosun	Hauck & Aufhaeuser	221	100%	1.0%	NA	NA	1.0%
Jan-15	VP Bank	Centrum Bank of Vaduz	69	100%	1.0%	0.6x	19.5x	NM
Jul-14	Julius Baer Group	Bank Leumi	65	100%	NA	NA	NA	0.9%
Jul-14	BTG Pactual	BSI SA	1,500	100%	1.7%	NA	NM	NA
Mar-14	DBS Group	Societe Generale (Asia PB/Trust business)	194	100%	NA	NA	NA	1.75%
May-13	UBP	Lloyds International PB	144	100%	NA	NA	NA	1.3%
Aug-12	RHJ International	BHF Bank	461	0%	1.1%	0.8x	NM	NM
Aug-12	Julius Baer	BoAML (WM International)	860	100%	1.2%	NA	NA	1.2%
Aug-12	Raiffeisen	Notenstein (exc. Wegelin)	560	100%	NA	NA	NA	2.7%
Nov-11	Safra Group	Sarasin	1,043	46%	2.2%	1.9x	19.2x	1.0%
Oct-11	Precision Capital	KBL European Private Bankers	1,297	100%	2.2%	1.5x	15.5x	0.7%
Aug-11	Union Bancaire Privee UBP (2)	ABN AMRO Bank (Switzerland)	188	100%	4.0%	1.7x	NM	1.7%
Sep-10	PKB Privatbank (3)(4)	Banca Gesfid	124	100%	7.8%	1.3x	10.4x	2.0%
Aug-10	Oddo & Cie	Banque d'Orsay	103	100%	3.2%	0.7x	8.4x	NA
May-10	Hinduja Group(8)	KBL epb	1,950	100%	2.9%	1.4x	11.3x	0.8%
Oct-09	Deutsche Bank	Sal. Oppenheim jr. & Cie.	1,507	100%	0.7%	NA	NA	NA
Oct-09	OCBC Bank	ING Asia Private Banking	1,525	100%	9.3%	1.6x	16.6x	3.5%
Oct-09	Julius Baer	ING Bank (Switzerland) Ltd	520	100%	3.5%	1.4x	13.9x	0.9%
Sep-09	LGT	Dresdner Bank (Schweiz) AG	293	100%	3.6%	1.1x	10.2x	0.4%
Jul-09	Vontobel (5)	Commerzbank (Schweiz)	124	100%	2.9%	1.6x	5.2x	1.2%
Dec-08 (6)	Aabar Investment PJSC	AIG Private Bank	288	100%	1.4%	1.0x	9.2x	0.0%
Nov-07	BSI	Banca del Gottardo	1,775	100%	4.9%	1.9x	18.0x	2.4%
Apr-07	Rabobank	Sarasin	1,849	72%	3.5%	2.5x	18.3x	2.1%
Jun-04	Raiffeisen	Vontobel	225	13%	3.7%	1.9x	17.7x	1.8%
Average (2004–2010)					**3.5%**	**1.4x**	**12.5x**	**1.5%**
Median (2004–2010)					3.3%	1.4x	12.6x	1.5%
Average (2011–YTD)					**2.6%**	**1.3x**	**16.5x**	**1.4%**
Median (2011–YTD)					1.9%	1.3x	17.4x	1.2%

Source: Morgan Stanley estimates. Notes: 1. Only includes transactions for which multiples are publicly disclosed. 2. Based on Morgan Stanley estimates. 3. Based on transaction value of CHF124.4 MM and AUM of CHF1.6 Bn as stated in press release. 4. Based on transaction value of CHF124.4 MM and 2009A financials stated in the "Economic Figures" report of the Association of Foreign Banks in Switzerland. 5. Net income based on 2008 financials. 6. Purchase price revised from CHF317 MM announced in December 2008 to CHF288 MM announced in April 2009. 7. 0.90% upfront and 40 bps over 2 years based on retention. 8. Announced on 21 May 2010; aborted on 15 March 2011

Exhibit 127:

Swiss Private Banks by AUM



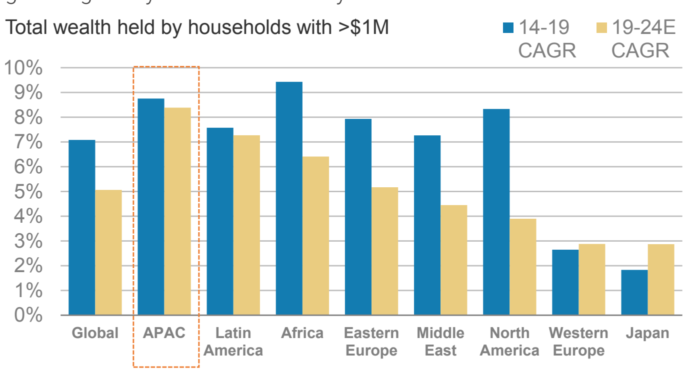
Source: Company data, Morgan Stanley Research. Note: UBS and Credit Suisse AUMs based only on Global Wealth management/Private Banking Divisions respectively. *Light blue shading indicates estimated custody assets. Figures are presented as reported and definitional differences between 'AUM' may exist relating to inclusion of custody assets / asset management funds / double counting

In Asia, Expansion of the Wealth Industry Is Still a Work in Progress

In Asia, the wealth management industry is still in the growth phase. Our expectation is that it will experience some of the fastest AUM growth globally over the next five years. In light of a low interest environment and elevated credit costs, we also expect it to be one of the faster areas of growth for the Asian regional banks. Whilst we are in this phase, the 'land grab' is still the most important driver of strategy and we are seeing this in terms of high competition for relationship managers in the region as well as start up of private banking units by local banks. We expect a wide range of competitors in the space during this time.

Exhibit 128:

Our expectation is that Asia will experience some of the fastest AUM growth globally over the next five years



Source: Oliver Wyman analysis

In our view, wealth management is likely to make the most meaningful contribution to the banks in the regional hubs of HK and Singapore. HSBC, Standard Chartered, DBS and OCBC are the banks most exposed to the HNWI markets; however, even for these banks, the contribution of wealth (15-30%) is still modest relative to wealth plays in Europe and North America. In our view, it will still be some time before wealth will be a major driver of the share price, although continued strong growth in AUM will shift this over time. For now, we see three dynamics within the industry.

- Regional Asian banks in HK and Singapore will continue to invest to build up capabilities in private banking. They will exploit their cost advantage by leveraging off their local retail bank capabilities. Where they are unable to create product capabilities, they will buy in from outside suppliers. For the Singapore banks in particular, we see them as willing consolidators of books of business as sub-scale players withdraw from the markets.
- Local banks are building wealth capabilities driven by the growing wealth needs of their retail and SME customers. Not all of these entrants will be successful and over time they may find they need to move more towards a JV with global wealth managers to better serve these clients. Siam Commercial Bank's JV with Julius Bar could serve as a template. Alternatively, they could sell their businesses to regional, or global competitors.
- Faced with margin pressure at home, global players will continue to look towards Asia as a growth market. Global branding, product offering and connectivity will be their key advantages; however, relative to the regional banks, they will be at a cost disadvantage.

Key Takeaways for Each Stock

US

Ameriprise

(AMP.N, Equal-weight, PT $130)

- **We are Equal-weight AMP.** The investment thesis for Ameriprise revolves around the growth of its advice and wealth management operations while also aggressively redeploying capital through stock repurchases. The company has a solid capital position, and is one of the few within the life insurance space that is continuing share repurchases in 2020. However, we expect margins to be challenged by low short-term interest rates impacting net investment income in the near term. Net flows in the asset management segment have been better than expected so far in 2020, but they remain under pressure. Although we believe Ameriprise's fundamentals remain solid, we see it as fairly valued.
- **Wealth Management AUA (2019)**: $643bn
- **# of Advisors (2019):** 9,871
- **Wealth as a % of Revenues (2019):** 55%
- **Target Client:** Mass Affluent and HNW are the key target markets for Ameriprise.
- **Expect margins to face some headwind due to interest rates:** We expect the Advice and Wealth Management margin to stay under pressure due to the low short-term interest rate environment. Excluding the bank build out, we expect G&A growth will be near 2%.

Bank of America

(BAC.N, Overweight, PT $23)

- **We are Overweight BAC.** Tighter underwriting standards post global financial crisis and strong credit quality limit downside relative to peers in a recession. BAC has one of the lowest loan loss ratios under the Fed stress test severely adverse case. We expect BAC can offset some of the revenue/credit headwinds by keeping expenses flat, with room to do more if the environment remains tough. BAC's best-in-class consumer interface with its #1 ranked mobile app offers customer convenience as more branches are closed temporarily throughout the country.
- **Wealth Management AUA (2019)**: $3,048bn
- **# of Advisors (2019):** 19,440
- **Wealth as a % of Revenues (2019):** 21%
- **Target Client:** BAC offers services across the wealth spectrum, with Bank of America Private Bank and Merrill Lynch PWM targeting HNW to UHNW families, Merrill Lynch GWM targeting Mass Affluent to HNW, and Merrill Edge targeting Mass Market.
- **Expect BAC to focus on tech investments and efficiency improvement:** BAC is seeing both clients and RMs embrace digital technology, with a 5 year leap forward in adoption amid Covid-19-related disruption. We expect BAC will use part of its large $10bn annual firmwide tech spend to bring in more efficiency in the wealth management business, and reduce costs in the middle and back office.

BNY Mellon

(BK.N, Underweight, PT $42)

- **We are Underweight BK.** BK's revenue drag from lower long end rates is among the highest in the group.While BK guided to flat expenses in 2020, we think it will resume ramping up reinvestment spend in 2021 to slow attrition and drive up client satisfaction.
- **Wealth Management AUA (2019):** $1,173bn
- **Wealth as a % of Revenues (2019):** 7%
- **Target Client:** HNW, UHNW, Family Office, Multi-Generational Wealth
- **BNY Mellon's wealth management business comprises only 7% of revenues.** BK also has a significant RIA custodian platform, Pershing, which comprises 19% of revenues and is an additional growth focus area for the firm.

Charles Schwab

(SCHW.N, Overweight, PT $48)

- **We are Overweight SCHW,** which we view as an attractive play on the secular trend towards low cost DIY investing and the secular shift towards independent financial advice. The business is growing organically new customer assets at 6-7% annualized pace, with new accounts growing at a similar clip. This should translate to customer deposit growth in high single digit to low teens. While SCHW faces challenges around monetization of customer assets in the current low rate backdrop, we see multiple levers for SCHW to pull that could drive growth and are not reflected in the share price. Specifically, SCHW could develop new revenue pools, increase expense efficiency and execute on a number of recent acquisitions including the TD Ameritrade deal.
- **Advisor Services AUA (2019):** $1,908bn
- **# of Advisors (2019):** n/a
- **Advisor Services Revenues as a % of Total (2019):** 29%
- **Target Client:** SCHW's clients in their Advisor Services business are Registered Independent Advisors (RIAs) who serve High Net Worth Individuals. SCHW's Investor Services direct to consumer business targets mass market, mass affluent and lower end of the High Net Worth market place.
- **We see potential for greater expense efficiency to boost earnings.** In recent years, SCHW has reinvested aggressively into the business, and we see opportunities to dial back, and to harvest benefits from efficiencies and costs saves.

First Republic Bank

(FRC.N, Equal-weight, PT $115)

- **We are Equal-weight FRC.** We expect mid-to-high teens loan growth at FRC, given its niche focus on high-net worth clients, and for it to deliver this strong growth while maintaining pristine credit quality, given its peer-leading through-the-cycle average NCO ratio of just one basis point. Its wealth management growth paired with significant investments in digital offerings to target "next gen" clients for long-term growth could result in a stable if not slightly increasing efficiency ratio, which pressures profitability. While FRC deserves to trade at a premium valuation, we believe the shares are fully valued and see limited upside. We would wait for a relative pullback before getting more positive on the shares.
- **Wealth Management AUA (2019):** $151bn
- **# of Advisors (2019):** 191
- **Wealth as a % of Revenues (2019):** 18%
- **Target Client:** First Republic offers wealth management services across the full wealth spectrum.
- **Rapid growth in Wealth Management given improved integration with the core bank:** First Republic's Wealth Management business has been one of the key selling points in the overall FRC investment thesis. The company has been developing closer ties between its wealth advisors and its relationship managers at the bank, including co-locating wealth mangers and bankers and providing an incentive structure that favors collaboration, which has greatly improved their ability to cross sell products over the last decade. Since 2010, AUM has increased more than 8x, totaling $138bn as of 1Q20, while its contribution to total revenues has more than doubled to 17.9%. Moreover, wealth deposits represent just under 10% of the bank's total deposits of $93.7bn.

Goldman Sachs

(GS.N, Equal-weight, PT $164)

- **We are Equal-weight GS.** Weaker capital markets are a near-term headwind – while GS is in the middle of a multi-year strategic shift, a majority of the business still skews to capital markets. We expect an 8% y/y decline in revenues in 2020, as lower share prices, macro uncertainty and higher spreads drive markdowns in the debt/equity investments portfolios, and also drive weaker M&A/IPO activity. We expect the stock remains range-bound in this macro environment, which drives our Equal-weight rating.
- **Wealth Management AUA (2019):** $561bn
- **# of Advisors (2019):** ~1,400
- **Wealth as a % of Revenues (2019):** 12%
- **Target Client:** GS offers services across the wealth spectrum, with GS Personal Financial Management (previously United Capital) targeting Mass Affluent to HNW and GS Private Wealth Management targeting HNW to UHNW families. Ayco is GS's workplace offering, and provides corporate clients and their employees a holistic wealth offering. GS is also working to expand into the Mass Market space under its Marcus brand.
- **Wealth management is one of the four main expansion areas for Goldman**, as it makes a strategic shift toward more annuity-type recurring revenues. GS completed the acquisition of United Capital in 2019, and recently announced the acquisition of a boutique WM custodian and tech company called Folio Financial. We expect GS will make additional bolt-on acquisitions in the space.

JPMorgan Chase

(JPM.N, Overweight, PT $101)

- **We are Overweight JPM.** JPM's fortress balance sheet, careful credit extension and high investment levels position the stock well to weather a downturn. Industry-leading tech investments of $12bn are shrinking costs, enabling JPM to lower pricing and gain share across all the segments it competes in. All in, we expect JPM to generate best-in-class ROTCE of 15% in 2022. This is important as upside surprises in ROE and operating leverage are the two biggest alpha generators for banks.
- **Wealth Management AUA (2019):** $1,504bn
- **# of Advisors (2019):** 2,890
- **Wealth Management Revenues as a % of Total (2019):** 6%
- **Target Client:** JPM offers services across the wealth spectrum, with JPMorgan Private Bank targeting UHNW families, Chase Private Client targeting Mass Affluent to HNW, and YouInvest targeting Mass Market.
- **We think JPM's scale and breadth of wealth management services position it well for growth.** JPM's industry-leading tech investments of $12bn are shrinking costs, enabling JPM to lower pricing and gain share across all the segments it competes in, including wealth management.

LPL Financial

(LPLA.O, Overweight, PT $100)

- **We are Overweight LPLA,** We believe LPLA will drive outsized growth from Covid-19 induced acceleration of industry trends that should catalyze a wave of advisor network consolidation. This supports acceleration of organic recruiting and net new asset growth, particularly given LPLA's improved competitive positioning (particularly vs highly levered and sponsor owned firms). We believe LPLA can deliver 13% EPS CAGR in 2020-22, well ahead of consensus expectations driven by accelerating client asset growth of 13% CAGR. This more than offsets rev compression from lower cash sweep yields.
- **Wealth Management AUA (2019):** $700bn
- **# of Advisors (2019):** 16,464
- **Wealth as a % of Revenues (2019):** 100%
- Target Client: **Independent and Hybrid RIA**
- **We view as an attractive play on consolidation of advisor networks.** LPLA's unique model is increasingly resonating in the marketplace, with accelerating organic asset and advisor headcount growth. We think the recent uptick in growth is sustainable and poised to accelerate driven by a superior platform that will increasingly resonate in the market place given challenges facing advisors operating at firms with suboptimal capabilities for which Covid is now the catalyst for change. Further, LPLA is positioned to recruit from weakened competitors. M&A could drive significant upside to estimates as LPLA has capital capacity to pursue smaller deals or a single large transaction as increased need for digital capabilities heighten the challenges for sub-scale and highly levered advisory platforms.

Northern Trust

(NTRS.O, Equal-weight, PT $92)

- **We are Equal-weight NTRS.** We stay on the sidelines as rate pressure is greater for NTRS than the average large cap bank due to its high earning asset skew to securities (47% of IEA), excess reserves at central banks (17% of IEA), and short securities duration (2 years).
- **Wealth Management AUA (2019):** $739bn
- **Wealth as a % of Revenues (2019):** 42%
- **Target Client:** HNW, UHNW, Family Office, Multi-Generational Wealth
- **Northern Trust is well positioned to expand in a digitalized world**, a unique position among firms focused on the UHNW client set. NTRS was already a leader in virtual advising pre-Covid-19, concentrating its digital advising strategy in small to mid-size metropolitan areas with no branches such as Louisville, Birmingham and Kansas City. As a result, NTRS's client AUA per office more than doubled over the last cycle from $2bn to $5bn, outpacing NTRS's AUA growth. We think NTRS has more room to expand this strategy as its digital capabilities to service UHNW clients remotely are already in place. NTRS is trading 3 turns below its 5 year historical average.

Raymond James Financial

(RJF.N, Overweight, PT $95)

- **We are Overweight RJF:** RJF's business model, tech platform and strong excess capital/liquidity positions it well to take advantage of consolidation in the Wealth Management space. We expect the stock to re-rate as recruitment accelerates and M&A opportunities start coming through.
- **Wealth Management AUA (2019):** $855bn
- **# of Advisors (2019):** 8,060
- **Wealth as a % of Revenues (2019):** ~75%
- **Target Client:** Broad based, ranging from Affluent to HNW on the Raymond James platform and UHNW on the Alex Brown platform.
- **We expect RJF will be a key beneficiary of consolidation in the Wealth Management space.** RJF's business model puts advisors first, giving them the flexibility of associating with RJF at different levels according to the degree of support they need (ranging from a traditional employee to an independent contractor). Management has been ramping up tech spend, with the tech budget rising from $250mn in 2017 to $400mn in 2019, or from 5.5% of wealth management revenues to 7.5%, critical as we expect client expectations of their wealth manager's digital capabilities will increase in a post-Covid-19 world. These advantages position RJF well for pursuing its strategy of organic and inorganic growth and retaining advisors as the industry consolidates. Management's conservative capital actions in the past give them firepower of at least $1.4bn in excess capital and $2bn in liquidity to take advantage of lower valuations and consolidation in the industry.

US Bancorp

(USB.N, Underweight, PT $43)

- **We are Underweight USB.** Revenue headwinds in 2020 from the challenging macro environment and less excess capital heading into the economic downturn drive our Underweight call. It has been selectively expanding into new markets with a digital-led, branch-light model, starting with Charlotte NC in the summer of 2019. We expect this to enhance organic balance sheet growth once the strategy takes hold.
- **Wealth Management AUA (2019):** $162bn
- **Wealth as a % of Revenues (2019):** 4%
- **Target Client:** USB offers wealth management to the full spectrum. USB's Ascent focuses on UHNW/Family Office.
- **We expect USB to leverage its digital DNA to drive growth in Wealth.** USB is in process of digitalizing its entire plant, led by Derek White, Chief Digital Officer. This is in addition to the digital transformation that USB has already executed for its wealth customer experience, adding data analytics capabilities, data aggregation and reporting, as well as robo-advising all over the past 3 years. Its clients like it. Wealth management digital interactions have grown at a 33% CAGR since 2015. We expect USB to use a portion of its $2.5bn annual tech spend to further enhance its digital capabilities in Wealth, driving revenue growth and bringing additional efficiency into the business.

Wells Fargo

(WFC.N, Equal-weight, PT $29)

- **We are Equal-weight WFC.** The ability to exit the Fed consent order and reduce expenses will be a key driver for the stock. The strategic objectives of the new CEO will also provide clarity for investors around longer-term expectations. In the near term, we expect negative operating leverage in 2020, given needed investments in risk and compliance and pressures on top line growth from macro headwinds. Longer term, we estimate WFC can drive its expense ratio down ~240bps to 64.5% by 2023 on reduced risk and compliance spend, operational efficiencies, and branch optimization
- **Wealth Management AUA (2019):** $1,611bn
- **# of Advisors (2019):** 13,512
- **Wealth as a % of Revenues (2019):** 21%
- **Target Client:** WFC offers products catering to the full wealth spectrum, from Intuitive Investor aimed at Mass Affluent to Wells Fargo Advisors aimed at HNW and Wells Fargo Private Bank aimed at UHNW.
- **Wealth is critical for Wells but investment size and focus is to be determined given the banks is in search of a new head of Wealth.** Wealth is 21% of revenues for Wells, and 39% of fees. At $1.6 trillion of AUA, Wells is the third largest provider of wealth management services in the US. The Wealth business is highly integrated into the banking business, as evidenced by its app which runs on the same platform as the retail bank app. Like other business lines, Wealth & Investment Management is undergoing strategic reviews. Unlike other business lines, Wells is currently searching for a new executive to lead Wealth. CEO Charlie Scharf recently commented they plan to complete these reviews by the end of 2020, at which point investors should receive clarity on the future direction and goals of the Wealth business. We expect a new head will be appointed by then.

Europe

Credit Suisse

(CSGN.S, Overweight, PT CHF 11)

- **We are Overweight CS:** We view the business model as more resilient than others', as non-IB profits drive 70% of the group, among which a profitable SUB franchise.
- CS has been gaining market share across cash equities and FICC over the past 12 months by monetizing its "ITS platform".
- The bank offers further diversification through structured products underwriting and ~50% of markets revenues comes from fee-based products. CS's restructuring track record on costs since 2015 and ~5% built-in cost flexibility for 2020e in a challenged environment give us confidence.
- We see CS making ~7.5% ROTE in 2021e, with the shares trading on 0.6x – a material discount to EU/US peers, despite a strong CET1 of ~13% at the end of 2019.
- **Private Banking AUA (2019):** $835bn
- **# of Advisors (2019):** 3,030
- **Wealth as a % of Revenues (2019):** 37%
- **Target Client:** Credit Suisse provides private banking and wealth management services across different geographies and divisions with retail and UHNW investor offerings through SUB division, UHNW offerings through IWM and through its Wealth Management & Connected in APAC region, which leverages the product offering in collaboration with the IB business.
- **Strong revenue margins and synergies from ITS platform integration to be key drivers for CS**: Credit Suisse leads its Swiss peers with gross margins at ~100bps for the next 3 years, on our estimates. Robust ITS revenues are complemented by continued momentum with wealth clients, which we expect to drive better trading margins. Revenue resilience along with a proven track record in cost management positions CS as our top pick in European Wealth Managers.

Julius Baer

(BAER.S, Overweight, PT CHF 53)

- **We are Overweight Julius Baer:** Baer offers one of the most profitable and resilient balance sheets in European banks, with returns at 22% ROCET1 and 14% capital in 2020e. Asset quality risk is much lower vs peers, with the book made up predominantly of lombard loans, no investment bank, and no seed investments. Given materially better balance sheet visibility over the next 12 months, we expect the shares to outperform.
- **Wealth Management AUA (2019):** $441bn
- **# of Advisors (2019):** 1,467
- **Wealth as a % of Revenues (2019):** 100%
- **Target Client:** Baer works with HNW individuals/families offering a range of wealth management services such as discretionary mandates, investment advisory mandates, wealth planning and global custody services .
- **Management's cost and revenue initiatives to help Baer** remain resilient: The company's new strategy aims to reduce costs by CHF 200mn and unlock CHF 150mn in revenue gains through various initiatives such as increased fee-based mandates focus, deepening markets capabilities and implementing systematic review of client opportunities, as well as more tailored pricing. We already see management executing on the objectives and view this as supportive for the stock. Private markets, ESG and higher discretionary mandates are all opportunities from here.

UBS

(UBSG.S, Equal-weight, PT CHF 11)

- **We are Equal-weight UBS:** The stock has outperformed CS YTD, down 13% vs Credit Suisse down 30% and the sector down 34%. We are Equal-weight on valuation grounds, with better value elsewhere. Catalysts are longer dated too as the litigation uncertainty lingers.
- **Private Banking AUA (2019):** $2,633bn
- **# of Advisors (2019):** 9,977
- **Wealth as a % of Revenues (2019):** 57%
- **Target Client:** With an AUM of $2.6tn, UBS is one of the largest wealth managers in the world. Through its Global Wealth Management division it provides all-encompassing wealth services across geographies to retail, HNW and UHNW clients. The Global Family Office specifically handles the UHNW client segment – investors/families with >$150mn in wealth.
- **GFO partnership strategy and expanded client offering to drive the value proposition for UBS**: UBS has started executing its strategy to collaborate Global Family Office and IB resources, which is already bearing fruit through increased lending and product offering such as structured products. We believe successful execution of the strategy will put UBS in a unique position vs peers.

Asia-Pacific

DBS Group Holdings

(DBSM.SI, Equal-weight, PT S$22.4)

- **We are Equal-weight DBS:** A low interest rate environment and elevated loan loss charges will keep RoE subdued over the next two years and this will continue to weigh on the share price. Whilst we expect DBS will continue to pay its S$1.32 dividend in cash, the high payout ratio will keep yield high.
- **Wealth Management AUA (2019):** US$181bn
- **Wealth as a % of Revenues (2019):** 21%
- **Target Client:** HNW individuals across Greater China and S and SE Asia.
- **DBS will continue to grow its regional private banking business taking advantage of being based in Singapore**. Singapore is an expanding regional private banking hub and benefits from its reputation of being well regulated and for sound capital and liquidity positions. DBS also benefits from Singapore's AAA rating, allowing it to fund cheaply in US$.

HSBC Holding plc

(HSBA.LN/0005.HK, Underweight, PT £4.30/HK$42)

- **We are Underweight HSBC:** We expect that HSBC's share price will continue to underperform peers as returns remain under pressure. Falling near-term returns are a consequence of a persistent low interest rate environment in its key markets and an uncertain outlook for credit costs. Longer term, we see increased competition in its core HK market from the new digital banks, this will limit RoE rebound, even when rates begin to rise – we expect RoTE of ~9% in 2022e.
- **Wealth Management AUA (2019):** US$361bn
- **Wealth as a % of Revenues (2019):** 16%
- **Target Client:** Broad based across key global markets. Emerging HNW investors across Asia is a focus.
- **We expect HSBC will continue to invest in building its wealth management capabilities** taking advantage of its exposure to higher income groups across several key geographies and its ability to offer a broad range of cross border banking services and products. In addition to the normal range of wealth products and services, HSBC owns it own insurance business.

OCBC

(OCBC.SI, Equal-weight, PT S$9.60)

- **We are Equal-weight OCBC:** A low interest rate environment and elevated loan loss charges will keep RoE subdued over the next two years and this will continue to weigh on the share price. We expect that OCBC will remain strongly capitalised, but do see the risk of it re-introducing its scrip dividend policy.
- **Wealth Management AUA (2019):** US$117bn
- **Wealth as a % of Revenues (2019):** 32%
- **Target Client:** HNW individuals mainly focussed in its core Asian markets.
- **OCBC will continue to invest in growing its wealth management franchise** not only via its OCBC branded entities in Singapore, HK, China, Malaysia and Indonesia but also via its private bank brand, Bank of Singapore and its life assurance subsidiary, Great Eastern. Similar to DBS, OCBC is looking to benefit from its Singaporean heritage, and Singapore's reputation for being well regulated and for sound capital and liquidity positions.

Standard Chartered Bank

(STAN.L/2888.HK, Equal-weight, PT £4.50, HK$46)

- **We are Equal-weight Standard Chartered:** Headwinds from falling rates and rising credit costs will keep RoTE subdued over the next two years. The decision by the PRA to ask UK regulated banks to suspend dividend accruals and share buybacks for the remainder of 2020 puts capital management on pause for now.
- **Wealth Management AUA (2019):** US$67bn
- **Wealth as a % of Revenues (2019):** 12%
- **Target Client:** HNW individuals across its global EM franchise.
- **Standard Chartered will continue to invest in its wealth management franchise**, and we expect it will benefit in particular from the growth potential in its Asian markets. We expect that wealth management will become one of the group's key revenue drivers.

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(as of May 31, 2020)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1220	38%	317	43%	26%	550	37%
Equal-weight/Hold	1433	45%	336	46%	23%	687	47%
Not-Rated/Hold	5	0%	1	0%	20%	4	0%
Underweight/Sell	554	17%	79	11%	14%	227	15%
Total	3,212		733			1468	

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.

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