

Embracing an Integrated Wealth Management Approach

Practice Innovation Index



Invesco

| Powered by



**CERULLI
ASSOCIATES**

Foreword

The Practice Innovation Index is a digital analytics tool that benchmarks key traits and characteristics of financial practices across four key areas: business development, wealth management, client service, and practice management. Its methodology leverages more than 10 years of Cerulli Associates (Cerulli) survey data to analyze where your practice ranks among peers and provides a customized roadmap designed to help you expand your business. This innovative tool goes beyond benchmarking your practice based on its assets and revenue; it evaluates your practice holistically with the goal of identifying relative strengths and opportunities to help you deliver better business and client service outcomes.

The Practice Innovation Index was created by bringing together the power of Cerulli's leading research and the strength of Invesco's robust financial professional business building programs. As your practice is faced with increasing business complexity and client demands, Invesco is committed to being your partner of choice to help you strengthen your practice, so that you can focus on your clients. It is all part of Invesco Total CX—the total client experience—an all-in-one platform of tools, coaching, and content designed to help you connect with clients, enhance your business, and optimize portfolios.

Our latest report includes the following noteworthy data:

- 47% of independent RIA clients have a completed comprehensive wealth management plan that is reviewed annually, outpacing wirehouses (40%) and national regional B/Ds (39%).
- Nearly half (49%) of all wealth managers leverage model portfolios for their clients, compared to 57% for practices with greater than \$500 million in AUM.
- Wealth managers across all channels allocate 62.9% to mutual funds, ETFs, and separate accounts, while allocating only 3% alternative assets.

A Focus on Innovative Wealth Management

The latest trends in our industry are indicating that financial professionals need to be more innovative in their approach to wealth management. We believe a comprehensive wealth management plan with a deep client discovery process is imperative for all wealth managers, as well as utilizing unique solutions such as model portfolios and alternative strategies in an effort to help manage their time more efficiently and to help support clients' goals and objectives.

While the research shows wealth managers have adopted comprehensive goals-based planning questions and a risk profile and analysis of financial assets as part of their

onboarding process, we believe a core component of the wealth management plan also requires a deep discovery process and a highly personalized investment proposal that aligns clients' goals and risk tolerance. Wealth managers should therefore implement a comprehensive process by integrating a robust checklist that includes an extensive discovery process, wealth management and investment gap analysis, and a portfolio management implementation process. Establishing a repeatable and scalable process not only potentially helps clients better understand risk but may also ultimately help them stay more committed to their long-term strategies.

As noted in the Cerulli data, we have also seen a growing number of financial professionals transitioning to a "models-based practice." Using model portfolios may help wealth managers streamline their portfolios, their teams, and their overall practices. This is important to note and encouraging as an industry because financial professionals continue to face growing demands on their time and need to deliver more personalized services. Many wealth managers appear to be realizing that moving to a models-based practice may assist them with being more efficient with their time. Using model portfolios not only potentially frees up time to better serve their valued clients, but it may also help to scale their practice to focus on other value-add activities designed to enhance client experiences and strengthen relationships.

Finally, we believe today's wealth managers may differentiate their approach to wealth management, attract affluent clients, and retain assets by offering an expanded set of alternative investment strategies. The data indicates wealth managers currently only allocate a mere 3% to alternatives. This presents an opportunity for financial professionals to use a unique product strategy built to help achieve client outcomes, including the potential for enhanced returns, greater income potential, and diversification, all while enhancing their business through the use of alternatives. We believe this positions wealth managers to stay ahead of the curve as early adopters.

We further explore these specific insights in this quarter's report and offer actionable ideas to address these industry-wide trends.

As always, Invesco is dedicated to helping you manage your practice and the uncertainties that come with it. To learn more about how we can help solve your practice challenges and support your growth, contact your Invesco representative.

Email Invesco Global Consulting at pii@invesco.com



Practice Innovation Index

Powered by Cerulli Associates

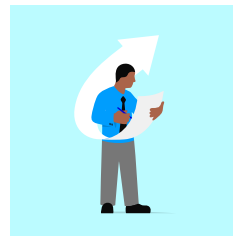
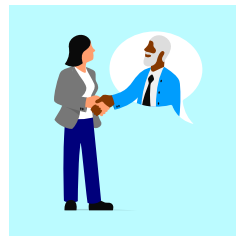
Wealth Management

How does it work? Your practice through the lens of a house

New Business Development

Create a consistent flow of new clients through:

- Strategic partnerships
- Consistent client referrals
- Social prospecting



Wealth Management

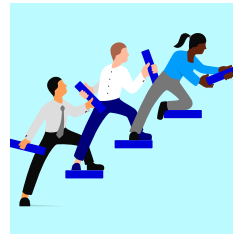
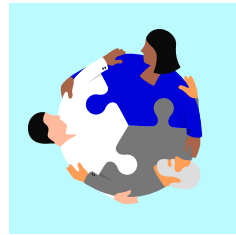
Implement a comprehensive wealth management strategy by integrating:

- Deep discovery processes
- Wealth management implementation
- Comprehensive annual review structure

Client Service

Craft an exceptional client experience by implementing:

- Segmentation strategy
- Service stratification model
- Client communication structure



Practice Management

Construct a high-performance practice by instituting:

- Synergistic team structure
- Collaborative culture
- Long-term succession planning

May
2024

Methodology

The Practice Innovation Index begins by assessing the financial practice, benchmarking the top-performing financial professionals within four key areas of their practice. Responses are scored and benchmarked by the Practice Innovation Index's proprietary methodology, powered by Cerulli's data of financial professionals. Each question is scored against the benchmark, and results are shown for each of the four categories and in aggregate, highlighting how the financial practice ranks among peers. Financial professionals are then shown a customized roadmap designed to leverage their strengths and address opportunities for improvement. As of year-end 2023, approximately 2,250 financial professionals across

all channels and practice types have participated in the Practice Innovation Index since July 2021. Key findings from these validated participant responses are presented throughout this white paper. This white paper also draws from Cerulli's financial advisor survey, which is administered across multiple channels, including wirehouses, national and regional broker/dealers (B/Ds), independent B/Ds, independent registered investment advisors (RIAs), hybrid RIAs, retail bank B/Ds, and insurance B/Ds.

All information collected is presented in aggregate form, and proprietary survey information is not directly attributed to participants or their firm.



To learn more, and benchmark your business against other Practice Innovation Index participants by taking the assessment, please visit the [Practice Innovation Index](#) website and the [Invesco Total CX page](#).

Table of Contents



Section 1:
Holistic Financial
Planning
Page 5 →



Section 2:
Personalized
Investment
Management
Page 8 →



Section 3:
Asset Allocation
and Alternative
Investments
Page 11 →



Executive Summary

- Financial planning has become a core service deliverable for leading practices across the wealth management industry. Almost two-thirds (66%) of Practice Innovation Index respondents' clients receive targeted or comprehensive financial planning.
- More financial professionals are using model portfolios to free up time to better serve their clients, scale their business, and focus on advanced planning capabilities. Almost half (49%) of Practice Innovation Index respondents' clients leverage model portfolios, compared to 57% for practices with greater than \$500 million in assets under management (AUM).
- According to Practice Innovation Index respondents, only one-third (34%) of clients have a written investment philosophy and/or personalized investment proposal. Given the significance of investment management in a comprehensive wealth management plan, it's important for financial professionals to engage in a deep discovery process and articulate a personalized investment proposal that aligns with each client's goals and risk tolerance.
- Wealth managers may differentiate their practices, attract HNW clients, and retain assets by offering an expanded set of alternative investment strategies. According to Practice Innovation Index data, wealth managers allocate an average of 3% of their client assets to alternative investments, compared to 7% for practices with an average client size greater than \$10 million.



Holistic Financial Planning

Financial planning has become a core service deliverable for leading practices across the wealth industry, yet long-term implementation has lagged. Financial professionals can develop business practices and tools built to offer financial planning effectively without becoming over-encumbered by the offering.

Key Findings

- Almost two-thirds (66%) of Practice Innovation Index respondents' clients receive targeted or comprehensive financial planning, and less than one-quarter do not receive formal financial planning.
- On average, Practice Innovation Index respondents have an annually reviewed comprehensive wealth management plan for 40% of their clients. This figure rises to 46% for practices with greater than \$500 million in assets under management (AUM).
- According to Practice Innovation index respondents, 45% of financial professionals ask multi-generational planning questions in their discovery process. This increases to 62% for practices with \$500 million or more in AUM, highlighting the need for scale when delivering expertise-driven financial planning solutions.

Nominal Planning:

Clients receive limited or no financial planning.

Targeted Event Planning:

Modular financial planning that addresses a specific client need, such as retirement income, education funding, or tax planning.

Comprehensive Lifestyle Planning:

A complete financial plan based on an extensive analysis of assets and liabilities, covering a client's entire financial situation.

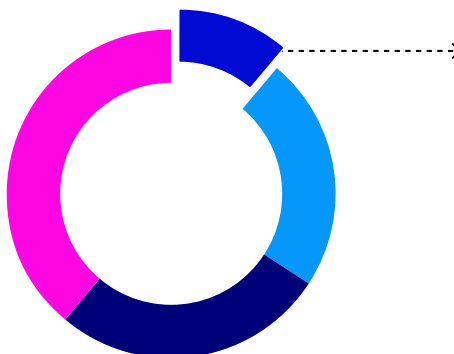
Multi-Generational Protection and Transition Planning:

A fully monitored plan for multi-generational wealth preservation and transfer often involves additional family members, other professionals, and sophisticated services (e.g., governance, business transition consulting).

Practice Innovation Index Data

Financial Planning Offering, 2024

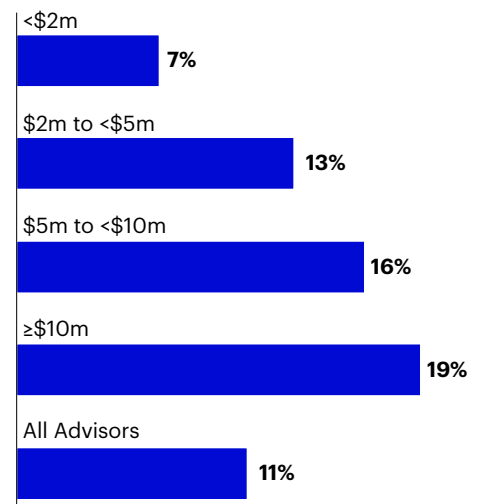
All Advisors



Multi-generational protection and transition planning	11%
Nominal planning	23%
Targeted event planning	27%
Comprehensive lifestyle planning	39%

Multi-generational protection and transition planning

Average AUM per Client



Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, "What percentage of your clients receive the following financial planning services?"

The industry-wide shift toward holistic financial planning has become in Cerulli's view the hallmark of advancement and growth for wealth management. Financial professionals are now largely encouraged to implement financial planning in their practices and move from the sales-focused relationships of the past. Building a financial planning offering within a practice may inspire a renewed energy, amplifying existing relationships and creating avenues for new ones. According to Practice Innovation Index data, almost two-thirds of wealth managers' clients are receiving a form of financial planning. While some choose to offer targeted planning focused on specific client needs (27%), 39% of clients receive comprehensive lifestyle planning. Almost one-quarter of wealth managers define their planning services as nominal, with clients receiving limited to no planning. The most complex offering, multi-generational protection and transition planning, is offered to just 11% of clients—representing not only the smallest cohort but also those with the greatest need.

Implementing a multi-generational planning process can be complex, necessitating significant discovery

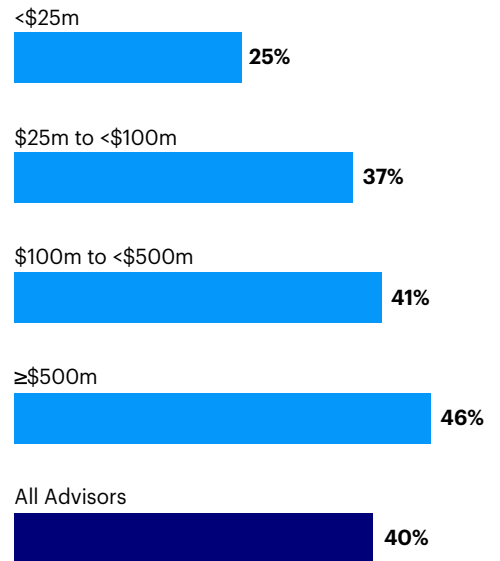
research and multiple evolving discussions with clients. This process allows clients an opportunity to better understand the true scope of their wealth and goals. Practice Innovation Index data indicates that wealth managers' applications of multi-generational planning tend to increase as their average client size grows: from offering the services to 7% of clients with less than \$2 million in investable assets, cresting to almost one-fifth (19%) of clients with more than \$10 million. As the industry completes its shift toward financial planning, practices with the capabilities to meet the needs of significant wealth will likely find themselves better positioned to retain assets during wealth transfer events and experience organic growth. The opportunities abound for wealth managers that have yet to tap into this service offering. As investors become more aware of their needs, Cerulli believes practices that can offer these services are positioned to deepen their relationships with clients, opening doors to increase walletshare and creating opportunities to advance their practices upmarket.



Practice Innovation Index Data

Comprehensive Wealth Management Plan, 2024

Practice AUM Tier



Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, "What percentage of your clients have a completed comprehensive wealth management plan (includes financial planning) that is reviewed annually?"

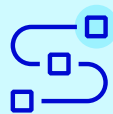
47%
of independent RIA clients have a completed comprehensive wealth management plan that is reviewed annually. This is the highest cohort of any channel, outpacing the wirehouses (40%) and national regional B/Ds (39%).

Financial Planning Advantages:



Expanding walletshare

The financial planning process often uncovers external assets (e.g., held-away accounts, retirement plans) that clients are willing to consolidate as they dive deeper into developing their financial goals. This process gives the wealth manager a broader perspective of the client's situation and may enable them to provide more complete guidance. Meanwhile, it also supports financial plan implementation, a challenging task when wealth managers lack visibility into all areas of wealth.



Moving upmarket

Financial planning may broaden a practice's horizons by establishing it as an active partner to existing clients and signaling to potential clients that it possesses the necessary capabilities to support their personalized wealth needs. As the needs of complex wealth grows, wealth managers that develop expertise in nuanced planning topics or employ dedicated planning staff are best suited to capitalize on the growing need for financial planning guidance. Potential areas of heightened focus include concentrated stock position management for closely-held business owners or executives, advanced tax planning, and estate planning, all areas where the expertise of a wealth manager may make a significant impact.

Holistic financial planning is a resource-intensive offering that requires financial professionals to spend additional time with their clients in order to help ensure they progress toward their goals. As part of the Practice Innovation Index, just 40% of financial professionals report that their clients have a completed wealth management plan that is reviewed annually. Across these insights, mega-team practices, those with \$500 million or more in assets under management, are more likely to have clients with an annually reviewed plan, at 46%. This disparity suggests that while the industry has shifted toward financial planning as a core offering, the ongoing oversight of the financial plan post-implementation has likely not gone as far as possible. Offering a time-intensive service such as financial planning requires practices to develop strong servicing models that encourage an ensemble-style approach. Defining roles within the practice may optimize the delivery of financial planning and, as the offering develops, create new career paths for junior employees and support staff in the practice.

The initial onboarding phase with a client sets the foundation for a long-term partnership, and practices should take this time to introduce processes and workflows that encourage the client to share and build rapport. As part of their onboarding process, 87% of Practice Innovation Index respondents ask comprehensive goals-based planning questions during the discovery stage with a new client; yet only 57% ask values-based planning questions. Practices with more than \$500 million in AUM are more likely to ask comprehensive planning questions (95%) and are more likely to pose values-based and multi-generational planning questions during the discovery process (71% and 62%, respectively).

Developing a deeper understanding of the client and their goals is a critical opportunity during the financial planning process. By leveraging internal tools such as checklists or guidebooks as part of these early meetings, a practice may introduce efficiencies to the planning process. More sophisticated mega-teams may design comprehensive planning experiences that focus on capturing an understanding of the client across the spectrum of their wealth and inform subsequent meetings with the details they gather. In the absence of support staff, Cerulli believes consistent processes and areas of efficiency are vital to introducing scalability into a practice. Workflows such

as a repeatable onboarding experience may support new client acquisition without drawing resources from other similarly business-critical operations. Furthermore, as part of the ongoing planning experience, regular check-ins with clients may reinforce the value of having a financial plan. Structuring conversations around the client's existing and potentially evolving needs and aspirations may better connect them to the design and implementation of the plan. While financial professionals can work to help guide clients through times of economic uncertainty, the financial plan is an effective tool to demonstrate progress toward a client's goals, regardless of market conditions.

According to Cerulli's advisor research, the total number of planning services across wealth management sits at 7, on average—including 4.5 financial planning services and 2.5 advanced planning services. The incremental addition of new services can potentially be a changemaker for practices looking for their next stage of organic growth. Deepening a service offering centered around the client often means broadening the image of a client beyond investments and understanding their entire financial picture. By offering services that are closely tied to client need and the capabilities of a wealth manager such as income tax planning, estate planning, and business planning, practices may be able to connect with clients in areas where they need the partnered support of a professional.

Cerulli Data: Financial Planning Services, 2023

All Advisors

Financial Planning Services	
Retirement income planning	95%
Retirement accumulation planning	88%
Insurance (e.g., life, health, disability)	69%
Education funding	68%
Cash management or budgeting	60%
Intergenerational planning	42%
Elder care planning	33%
Number of financial planning services offered	4.5

Source: *The Cerulli Report-U.S. Advisor Metrics 2023*



Practice Innovation Index Data

According to results from the Practice Innovation Index, most wealth managers have adopted comprehensive goals-based planning questions and a risk profile and analysis of financial assets as part of their onboarding process.

Multi-generational planning questions



Values-based planning questions



Risk profile and analysis of financial



Comprehensive goals-based planning



■ Practice AUM: ≥\$500m ■ All Advisors

Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, "Which of the following describes your practice's discovery process when onboarding a new client?" and could select all that applied to their practice.

60%

of wirehouse advisors have implemented multi-generational planning questions into their onboarding process.

95%

of practices over \$500 million in AUM offer comprehensive goals based planning.



Personalized Investment Management

Key Findings

➤ Investment management is a core component of the wealth management plan and requires a deep discovery process and personalized investment proposal that aligns with each client's goals and risk tolerance. According to Practice Innovation Index respondents, only one-third (34%) of clients have a written investment philosophy and/or personalized investment proposal.

➤ According to the Practice Innovation Index, more than four-fifths (83%) of wealth managers implement a strategic asset allocation approach, followed by manager selection (59%), tactical asset allocation (57%), and dynamic asset allocation (37%).

➤ More financial professionals are using model portfolios in order to free up time to better serve their clients, scale their business, and focus on advanced planning/investment capabilities. According to Practice Innovation Index data, wealth managers leverage model portfolios for nearly half (49%) of their clients, compared to 57% for practices with greater than \$500 million in AUM.

Portfolio management remains at the core of a well-designed wealth management plan and requires a personalized and continuous deep discovery process. If done successfully, not only should client outcomes improve, but practices may also create efficiencies and differentiate their businesses.

Developing a personalized investment management strategy is in Cerulli's view a core element of a comprehensive wealth management plan that maps out what solutions may help clients meet their long-term goals. Wealth managers need to account for each client's unique situation and risk tolerance, and then determine the optimal asset allocation and customized solutions that may help clients reach their financial planning objectives. The starting point of any investment strategy is developing a written investment philosophy or proposal statement that provides guidance throughout the wealth implementation process. According to Practice Innovation Index respondents, only one-third (34%) of clients have a written investment philosophy and/or personalized investment proposal. This step can be done before developing a formal Investor Policy Statement (IPS) and can serve as an agreed-upon approach between the financial professional and the client.

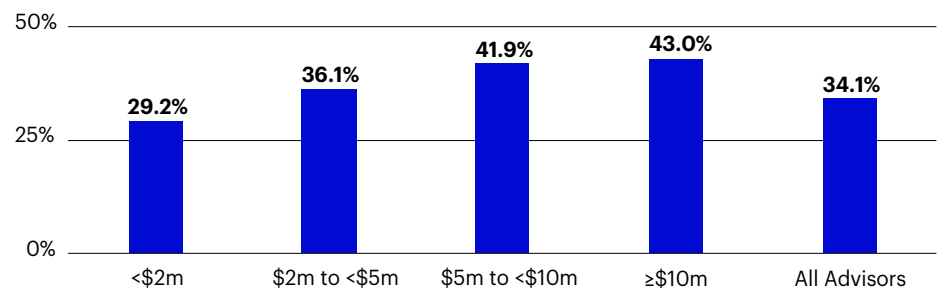
A personalized investment proposal should be provided during the onboarding stage, functioning as a roadmap that outlines the client's stated goals and helps ensure that wealth managers and their clients are well aligned.

The primary goal of the investment proposal is to establish guidelines and set expectations for how portfolios are managed based on each client's individual goals and risk tolerance. Developing a personalized proposal statement for each client should be a highly collaborative process, requiring a thoughtful approach that provides the client with an understanding of why certain investment decisions are being made and how their investment strategy fits into their overall financial plan. Involving the client in the drafting process may give them a sense of control and ownership and may help them better understand how certain strategies contribute to their overall financial plan. The investment proposal should be personalized to each client,

Practice Innovation Index Data

Personalized Investment Proposal, 2024

Average AUM per Client



Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, "What percentage of your clients have a written investment philosophy and/or personalized investment proposal?"

providing clients with a foundation that helps them stay focused on their long-term goals rather than short-term market fluctuations. When creating a proposal statement, Cerulli believes wealth managers must go through a deep discovery process to understand each client’s specific situation, purpose of wealth, and devise a personalized portfolio that suits the individual client.

Portfolio Implementation

Once an investment proposal statement is established, it should dictate the appropriate asset classes and investment strategies throughout the portfolio implementation process. Wealth managers report using a variety of portfolio construction approaches. According to the Practice Innovation Index, 83% of wealth managers leverage a **strategic asset allocation** approach by using historical/forecasted risk assessments to determine a long-term asset allocation. Strategic portfolio allocations tend not to change based on short-term market conditions and provide a disciplined and structured approach to portfolio implementation. Generally, strategic allocations encourage a longer-term perspective, helping clients focus on their financial goals and avoid reacting

to short-term market volatility. Additionally, more than half (57%) of Practice Innovation Index respondents leverage a **tactical asset allocation** approach, typically more of an active investment management style through which portfolio allocations are adjusted based on short-term market conditions.

While financial professionals generally start with strategic allocations, they typically overlay other investment styles throughout the portfolio construction process. According to the Practice Innovation Index, more than one-third (37%) of wealth managers leverage a **dynamic asset allocation** approach using various asset classes and exposures across both public and private markets. By frequently evaluating portfolio weightings across various market cycles, wealth managers may be able to increase risk-adjusted returns and differentiate their practice. However, dynamic asset allocation requires more frequent monitoring and a higher level of portfolio management, investment research, and due diligence expertise to make informed decisions. Taking the time to monitor markets and actively identify investment opportunities is a time-intensive process. In many cases, wealth managers outsource the portfolio construction process

to their home-office or to a third-party asset manager or model provider.

A strategic, tactical, and/or dynamic asset allocation approach—or combination thereof—all have a unique place in the portfolio construction process, and it ultimately depends on the individual client preferences and wealth manager to determine the best portfolio construction path. Most importantly, wealth managers should have a systematized portfolio implementation strategy that is built to keep them and their clients in check during periods of heightened volatility. While the portfolio construction approach may be unique to each client based on their specific needs and risk profile, there are opportunities to scale these solutions via strategic and tactical model portfolios. Wealth management practices may benefit from outsourcing the portfolio construction process to a third-party with access to more sophisticated portfolio management systems, technology, and due diligence capabilities.

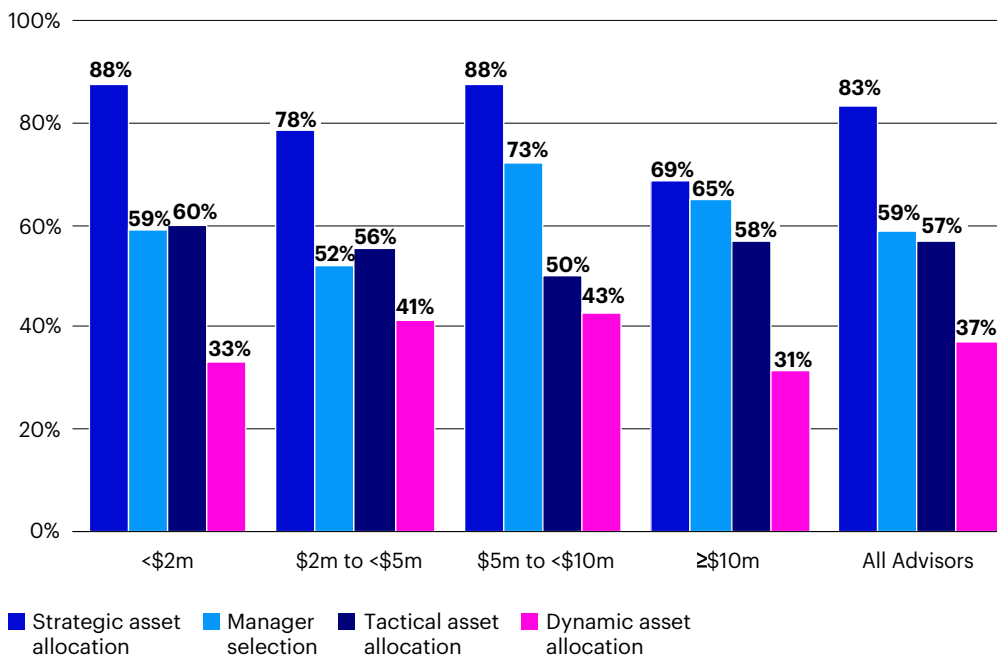
Model Portfolio Adoption

As wealth managers face growing demands on their time and need to deliver more personalized services, they increasingly leverage model portfolios to solve for portfolio construction. According to Practice Innovation Index respondents, wealth managers leverage model portfolios for nearly half (49%) of their clients. The largest wealth management practices with size and scale are more pronounced users of model portfolios. Practices with greater than \$500 million in AUM (defined as mega-teams) indicate that more than

Practice Innovation Index Data

Portfolio Construction Implementation Strategy, 2024

Average Client Size



Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, “Which of the following describes your practice’s portfolio construction implementation strategy?”



Incorporating model portfolios has allowed me to free up capacity to focus on other value-add activities, including financial planning, which has enhanced the client experience and deepened client relationships.”

– Independent RIA Practice

half (57%) of their clients leverage model portfolios. Whether building models within their practice or relying on their firm's home office, advisory turnkey asset management provider (TAMP), or third-party asset manager, model portfolios may create additional efficiencies and more predictable client outcomes, reduce regulatory risk, and free up time to provide greater value to clients through differentiated services.

Model portfolios have historically been used more often among practices that serve the mass-affluent market for smaller client accounts with less complex portfolios. Wealth managers focused on HNW/UHNW investors are less likely to rely exclusively on model portfolios given the degree of customization required. According to the Practice Innovation Index, practices with an average client size above \$10 million leverage model portfolios for only one-third (38%) of their clients. Cerulli doesn't expect wealth managers that adopt model portfolios to service the HNW/UHNW segments without heavily customizing portfolios, given

these clients' unique needs. However, Cerulli anticipates the average client size for wealth managers that adopt model portfolios to grow as they scale and increase their overall practice by having more time to focus on client engagement and new business development.

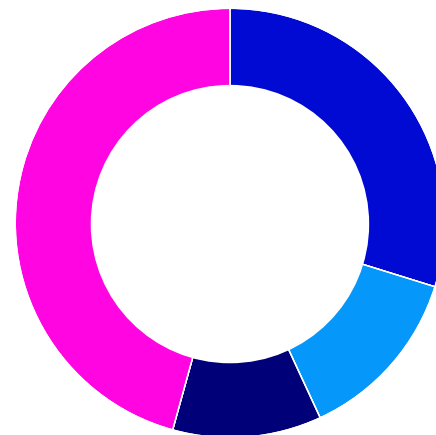
Effectively leveraging model portfolios may create a competitive advantage by allowing financial professionals to increase productivity, service more clients, and deepen existing client relationships. For practices focusing on comprehensive wealth management, including financial planning and other advanced planning capabilities (e.g., estate planning, tax planning), adopting model portfolios may free up time and capacity to deliver on differentiated services. Cerulli expects the use of model portfolios to continue to grow as practices evaluate the time and cost of portfolio construction and home offices continue to encourage comprehensive wealth management services.



Practice Innovation Index Data

According to the Practice Innovation Index, wealth managers leverage model portfolios across the following ranges:

<20%	29.8%
20% to <40%	13.3%
40% to <60%	11.2%
≥60%	45.7%

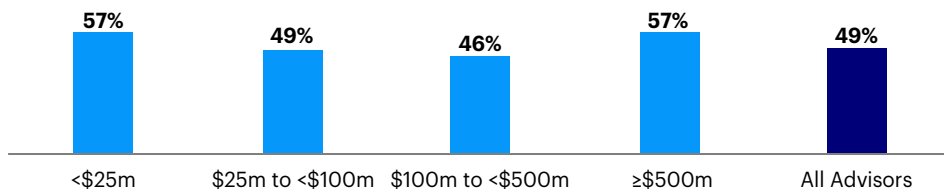


Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, "What percentage of your clients currently leverage model portfolios?" Model portfolios include third-party provider models, firm/home-office models, and/or internal portfolio management team models.

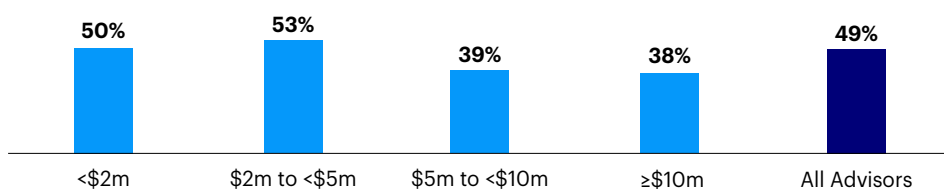
Model Portfolio Use, 2024

Practice Innovation Index Data

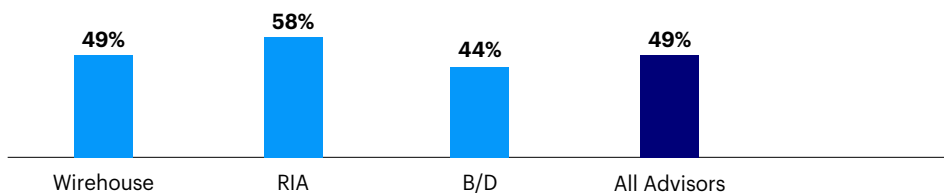
Practice AUM Tier



Average AUM per Client



Channel



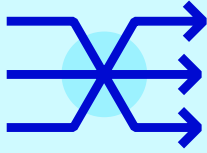
Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Participants were asked, "What percentage of your clients currently leverage model portfolios?" Model portfolios include third-party provider models, firm/home-office models, and/or internal portfolio management team models. The B/D channel includes National/Regional Broker Dealers and Independent Broker Dealers

\$500M+ Practices

in AUM, leverage model portfolios for more than half (57%) of their clients.

RIA Practices

(58%) are most likely to leverage model portfolios for their clients, compared to wirehouse (49%) and B/D (44%) practices.



Asset Allocation and Alternative Investments

Key Findings

- As wealth managers look to scale their investment processes via model portfolios, they can potentially save time to focus on differentiated solutions, including alternative investments.
- According to Practice Innovation Index data, wealth managers allocate an average of 3% of their client assets to alternative investments, compared to 7% for practices with an average client size greater than \$10 million.
- While alternatives adoption remains relatively low across the retail wealth management market, Cerulli data indicates that allocations are positioned to accelerate as product access and availability increase.
- Wealth managers may differentiate their practices, attract HNW clients, and retain assets by offering an expanded set of alternative investment strategies.

Wealth managers that can streamline investment processes via model portfolios will likely have more capacity to provide additional value to their clients. Cerulli believes one of the key ways that wealth managers may provide value and differentiate their practice is by incorporating alternative investments.

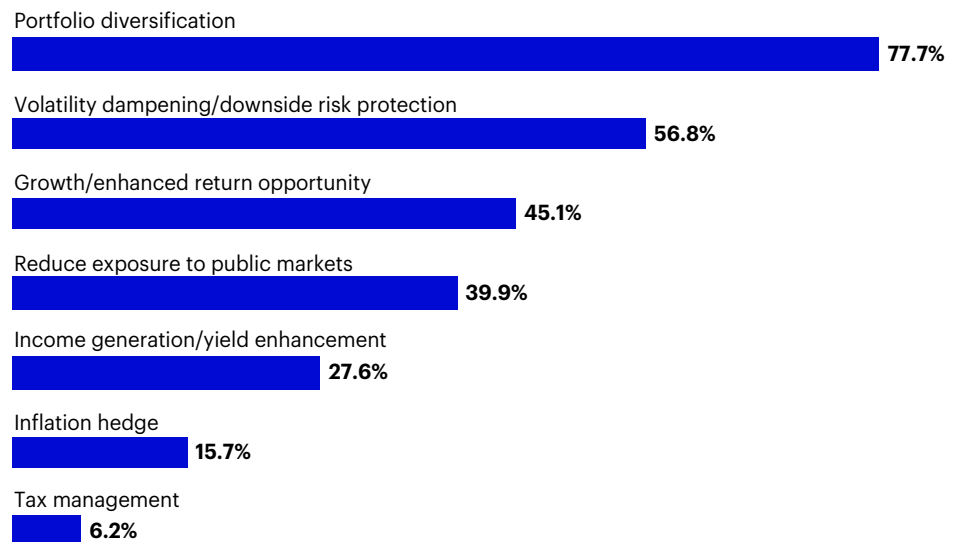
Asset Allocation and the Role of Alternative Assets

Amidst an evolving market environment, wealth managers appear to have begun shifting away from the traditional 60/40 portfolio to include a broader range of private assets. On the back of innovative product development, alternative assets including private equity, private credit, and private real estate are becoming more appealing to investors. Wealth managers now have access to an expansive range of alternative solutions and product types. As product minimums have come down, many alternative strategies are now available to retail investors beyond

only those who meet HNW criteria. Intermittent liquidity products (e.g., interval funds), business development companies (BDCs) and non-traded REITs (NTRs) have seen increased demand as investors look to access private markets and real estate exposures. Financial professionals who can provide their clients with access to private investments may enhance their investment management offering and successfully differentiate their practice.

As part of the portfolio construction process, wealth managers should evaluate various investments' role in clients' portfolios and how they may fit into their long-term financial plans. In the case of alternative investments,

Alternative Investments' Portfolio Objectives, 2023



Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute
 Analyst Note: Advisors were asked to select the top-three investment objectives they are looking to realize with alternative investments.

these exposures provide investors with portfolio diversification, volatility dampening, downside risk protection, growth, income, and inflation hedging. By defining the objective of each asset class and investment strategy, wealth managers may better manage expectations and improve client outcomes. While the benefits of alternative investments are apparent, they are generally more complex and require greater education on behalf of wealth managers to understand the potential advantages and features of these products. In Cerulli's view, financial professionals should carefully evaluate alternative products and fully consider the potential challenges and benefits in helping clients reach their long-term goals.

While allocations remain relatively low across retail wealth segments, alternative investments continue to garner attention from wealth managers, particularly those serving HNW/UHNW investors. According to data from the Practice Innovation Index, wealth

managers allocate an average of only 3% of their client assets to alternatives (excluding liquid alternatives)—however, practices with an average client size of \$10 million or greater allocate an average of 7% to alternatives. Wealth managers serving the HNW market tend to have higher alternative allocations as they seek to diversify client portfolios, reduce volatility, generate yield, and provide enhanced returns. HNW clients typically have a longer-term investment horizon and have generally allocated to a wider range of non-traditional asset classes, including private equity, private credit, venture capital, hedge funds, and private placements. Providing access to high-quality alternative strategies and exclusive private placement opportunities may differentiate practices looking to attract the higher end of the wealth market.

Certain retail channels are ahead of the curve in terms of alternative adoption, given varying levels of client sophistication and home-office acceptance. According to Practice Innovation Index data, wealth managers



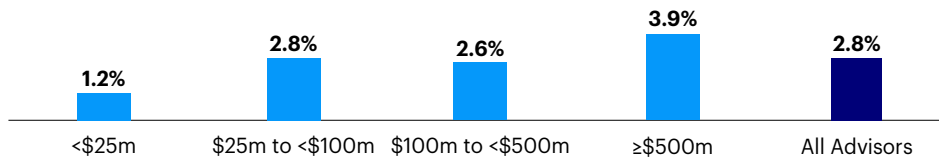
We were pursuing a prospective HNW client and decided to include our alternative investment capabilities as part of our pitch at the last minute. We ended up winning the business and later learned that it was mentioning alternatives that was the deciding factor in hiring us as their advisor over another competitor.”

– Wirehouse Practice

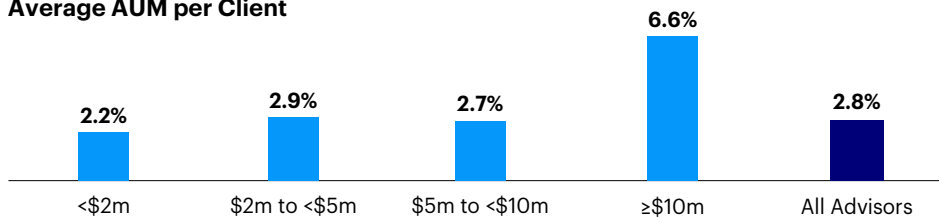
Allocation to Alternative Assets, 2024

Practice Innovation Index Data

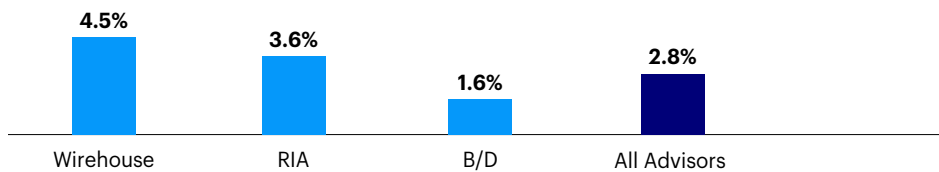
Practice AUM Tier



Average AUM per Client



Channel



Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: The B/D channel includes National/Regional Broker Dealers and Independent Broker Dealers. Respondents were asked, "What is the distribution of your practice's client assets by product type?" Alternative assets excludes liquid alternatives

within the wirehouse channel are currently allocating 4.5% of client assets to alternatives, followed by RIAs (3.6%) and broker/dealers (B/Ds) (1.6%). Despite relatively low allocations, Cerulli does expect to see greater adoption of alternative assets across retail channels given greater product access and home-office support. Wirehouse and B/D home offices are providing greater resources and portfolio construction support to help wealth managers incorporate alternatives into their client portfolios, while increased product innovation, technology, and access via third-party alternative platforms are driving adoption among RIAs. Additionally, some firms are beginning to incorporate alternative strategies in their model portfolios. Although this practice remains in the early stages, it could be a potential catalyst as alternatives and model portfolios are more widely embraced.

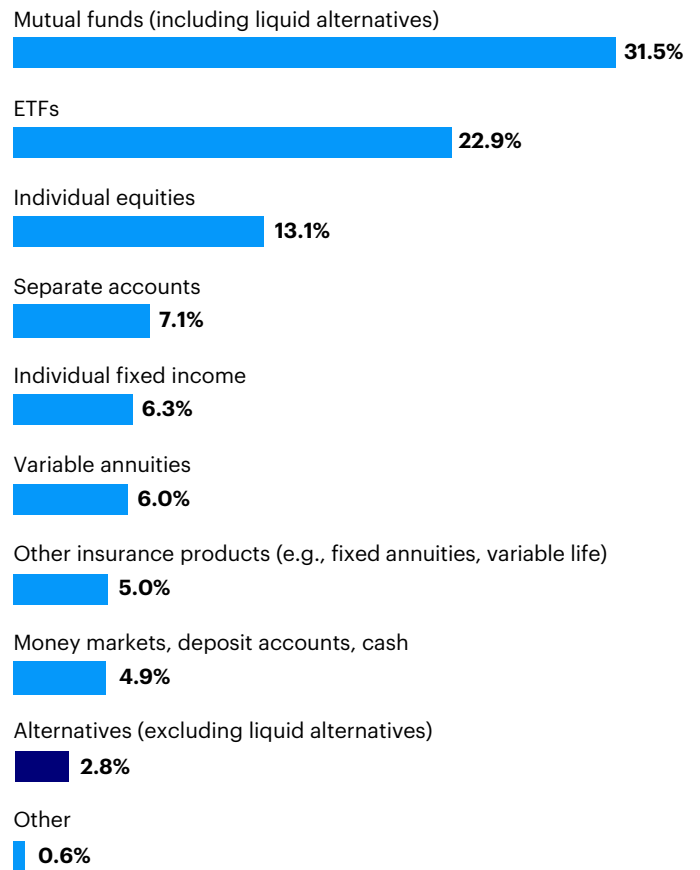
Investing in alternative assets may be a key point of differentiation for wealth management practices, although it requires more significant investment expertise, due diligence, and operational support. While allocations appear poised to accelerate, operational hurdles and due diligence challenges remain a key barrier to adoption and will likely require additional education. Practices remain challenged with sourcing and conducting due diligence on alternatives assets, as well as dealing with the operational burden that comes along with these types of exposures (e.g., onboarding paperwork, K-1 tax filings, capital calls). According to a recent study conducted by Invesco, IWI, and Cerulli, lack of liquidity (56%), educating clients (44%), and product complexity/due diligence burden (39%) are the main factors preventing greater adoption¹. However, the same study also found that incorporating alternatives provides an opportunity for wealth managers to enhance their value proposition, differentiate their practice, attract HNW clients, and grow their practice. Despite remaining challenges, Cerulli is encouraged to see greater adoption and product availability at the home-office level and believes that alternative assets will continue to gain relevance across the broader retail market for years to come.

¹Study conducted 09/23. Invesco Distributors, Inc. is affiliated with neither IWI (Investments & Wealth Institute), Cerulli Associates nor Cerulli, Inc.



Practice Innovation Index Data

According to the Practice Innovation Index, the most common product/vehicle types include:



Sources: Practice Innovation Index diagnostic survey results of 2,250 participants, 7/13/2021-12/31/2023; Invesco and Cerulli Associates | Analyst Note: Respondents were asked, "What is the distribution of your practice's client assets by product type?"

62.9%

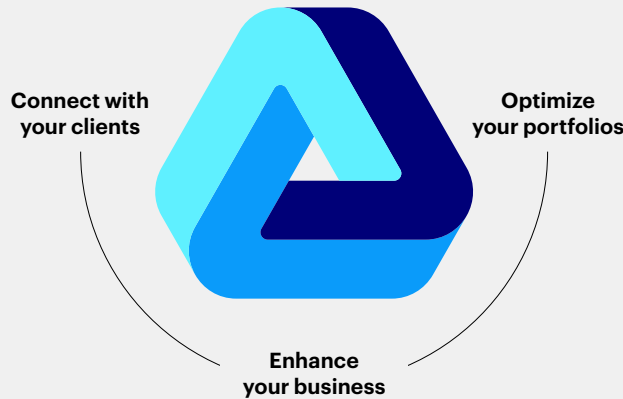
percentage that Wealth Managers across all channels currently allocate to mutual funds, ETFs, and separate accounts, while allocating only 3% alternative assets.

Wealth Managers

in the wirehouse channel allocate the highest percentage to alternatives (5%), followed by RIAs (3.6%) and Broker/Dealers (1.6%).

Invesco Total CX

Invesco Total CX — the Total Client Experience™ — is a powerful platform and partnership with the tools, coaching, and content designed to help you achieve greater possibilities — all in one place and tailored to your specific needs.



Connect with your clients

Choose the right words with resources designed to deepen trust and client scripts backed by studies on effective language.

Build client confidence with resources designed to help clients adopt sound investing principles and stick with their plans.

Share market insights on the latest trends and policies impacting global markets.

Enhance your business

Benchmark your practice with our first-of-its-kind¹ diagnostic - the Practice Innovation Index - powered by Invesco and Cerulli Associates.

Create a reliable new business pipeline with research-based processes designed to help you drive referrals and cultivate new business.

Drive efficiency in your practice with leading resources designed to create capacity, motivate your team, and develop a succession strategy.

Optimize your portfolios

Strengthen your investment process with tools and expertise designed to help you craft portfolios that sync your clients wealth plan and purpose.

Manage with conviction using our proprietary frameworks, asset class views, and portfolio management tools.

Draw from a range of potential solutions, including 1000+ investment strategies across asset classes and vehicles.

Contact us

National Wirehouse
1 800 998 4246

Independent and Broker Dealer
1 800 421 0807

Registered Investment Advisor (RIA)
1 800 421 4023

Retirement
1 800 370 1519

Insurance/Third Party
1 800 410 4246

Bank and Trust
1 800 421 4023

¹Cerulli Associates. Used with permission. Invesco Distributors, Inc. is affiliated with neither Cerulli Associates nor Cerulli, Inc.

The "Practice Innovation Index" program is based on Invesco Global Consulting's work with Cerulli Associates. Invesco Distributors, Inc. is affiliated with neither Cerulli Associates nor Cerulli, Inc. The Cerulli Associates logo is used with permission.

Invesco Global Consulting programs are for illustrative, informational and educational purposes. We make no guarantee that participation in any programs or utilization of their content will result in increased business for any financial professional..

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Alternative products typically hold more non-traditional investments and employ more complex trading strategies, including hedging and leveraging through derivatives, short selling and opportunistic strategies that change with market conditions. Investors considering alternatives should be aware of their unique characteristics and additional risks from the strategies they use. Like all investments, performance will fluctuate. You can lose money.

The model portfolio information shown herein is for illustrative purposes only. Model portfolios are available through an affiliate of Invesco Distributors, Inc. Invesco Distributors, Inc. is the US distributor for Invesco's Retail Products and Collective Trust Funds. Invesco Advisers, Inc. provides investment advisory services and does not sell securities. Both are indirect, wholly owned subsidiaries of Invesco Ltd.

Diversification/asset allocation does not guarantee a profit or eliminate the risk of loss.

Please note that the term "partnership" herein does not signify a formal legal relationship. It is simply intended to describe a mutual, informal relationship among professionals.

This program is neutral to the practice of fee-sharing with other professionals. This program espouses the potential benefits of using indirect financial incentives as one of the ways to build your business and should be considered in conjunction with your firm's overall review of its business practices for potential conflicts.

It is important to remember that any outside business activity including referral networks be conducted in accordance with your firm's policies and procedures. Should you have any questions on these programs, please consult your branch manager and/or compliance representative for additional information.

It is important to remember that social media activities must be conducted in accordance with your firm's policies and procedures. Before proceeding, please consult your branch manager and/or compliance representative for additional information.

Holistic wealth is a concept that elevates and emphasizes the importance of collecting experiences (as opposed to just money), engaging in meaningful work, and having more control over your daily life. Holistic wealth also includes developing financial savvy and independence, leading a life of purpose, and establishing a spiritual practice.

Invesco Distributors, Inc. does not offer all products/services referenced herein.

There is no guarantee that any stated outlooks will come to pass.

The opinions expressed are those of the author and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

Cerulli Associates defines high-net-worth (HNW) as \$5 million or greater in investable assets and ultra-high-net-worth (UHNW) as \$20 million or greater in investable assets.

Cerulli Associates utilizes the term "advisor(s)" instead of "financial professional(s)."

Practice Innovation Index diagnostic survey results cover participant responses from 07/13/2021-12/31/2023.

Other data herein is from *The Cerulli Report—U.S. Advisor Metrics 2023*.

Testimonials: These are the personal views of financial professionals interviewed by Cerulli Associates. Their testimonials do not constitute investment advice or a recommendation to buy or sell any investment security, and they are not necessarily the views of Invesco. The testimonial may not be the experience of others and is no guarantee of future performance or success. These financial professionals were not paid any fee for their testimonials.

TCX = Invesco Total CX — the Total Client Experience™

All data created by Invesco Global Consulting unless otherwise noted.

Note: Not all products, materials or services available at all firms. Financial professionals should contact their home offices.

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should contact their financial professionals for a prospectus and/or summary prospectus or visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus).