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The rise of the digital wealth manager:
Next stop the UK?

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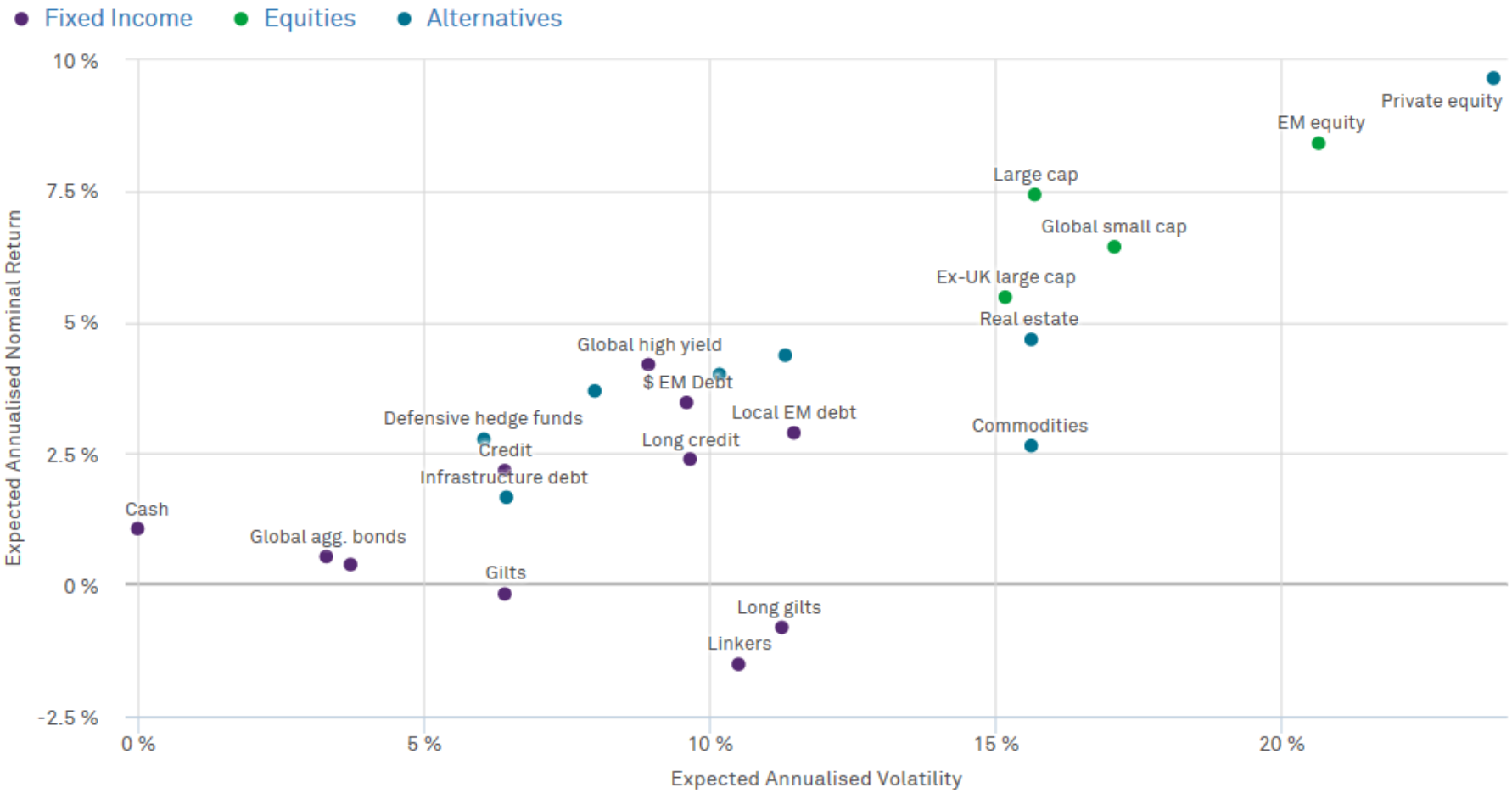
October 2016

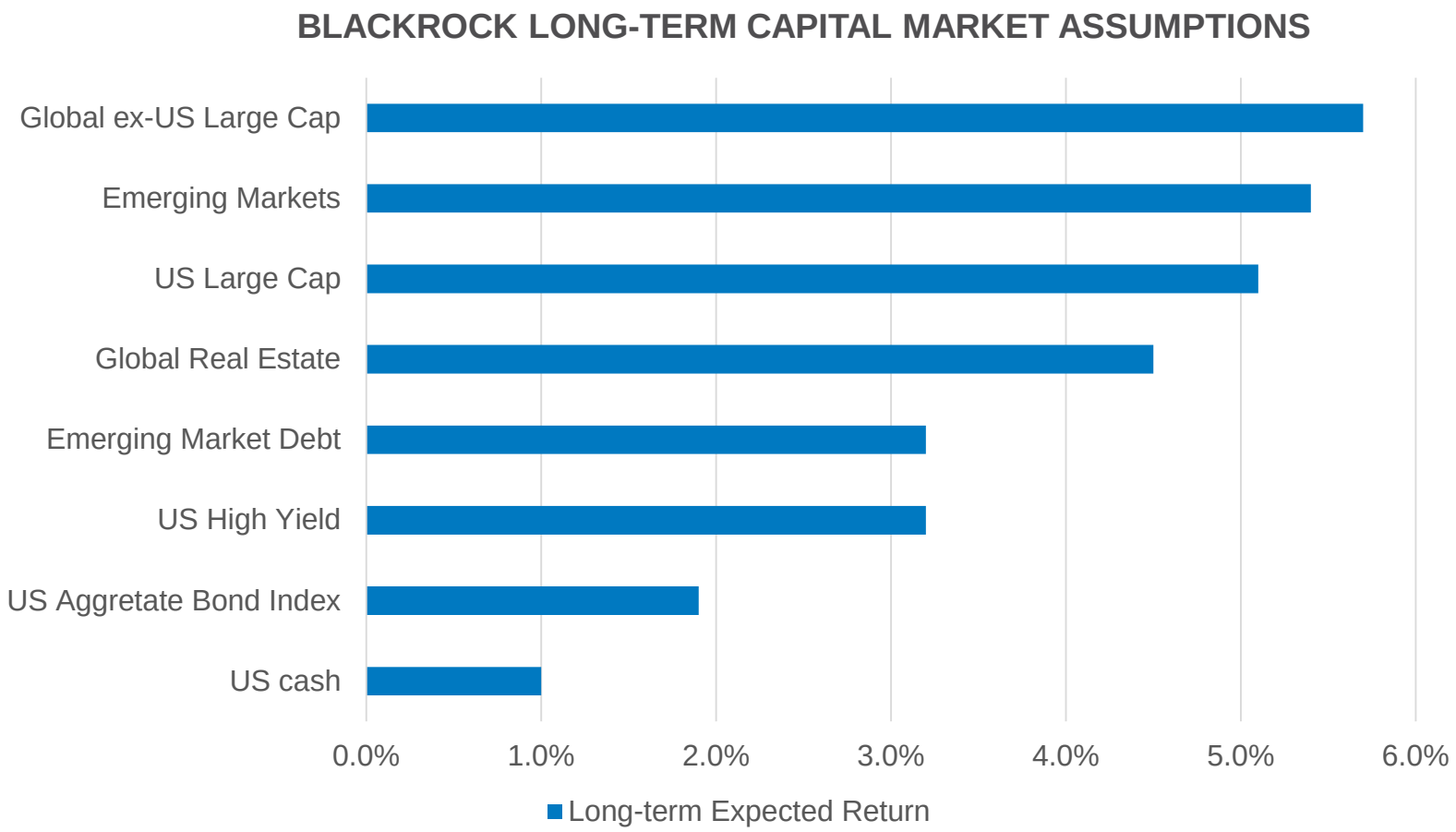
Forward looking expectations



Source: BlackRock Investment Institute, April 2016.
Notes: Five-year and long-term equilibrium annualised return assumptions are in arithmetic terms. Return assumptions are total nominal returns. Return assumptions for all asset classes are shown in hedged terms, with the exception of EM equity and local-currency EM debt. We use long-term volatility assumptions. We break down each asset class into factor exposures and analyse those factorsâ€™ historical volatilities and correlations over the past 15 years. We combine the historical volatilities with the current factor makeup of each asset class to arrive at our forward-looking assumptions. This approach takes into account how asset classes evolve over time. Example: Some fixed income indices are of shorter or longer duration than they were in the past. Our forward-looking assumptions reflect these changes, whereas a volatility calculation based only on historical monthly index returns would fail to capture the shifts. We have created BlackRock proxies to represent asset classes where historical data is either lacking or of poor quality.

Low expected returns may challenge investors

Innovation is key when constructing portfolios



Source: BlackRock Investment Institute, July 2016.
Notes: Long-term equilibrium annualized return assumptions are in geometric terms. Return assumptions are total nominal returns. Return assumptions for all asset classes are shown in unhedged terms, with the exception of global ex-US treasuries. We use long-term volatility and correlation assumptions. Global equities are represented by the MSCI World ex USA Index in our correlation assumptions; global treasuries by the BofA Merrill Lynch Global Government ex US Index. We break down each asset class into factor exposures and analyze those factors' historical volatilities and correlations over the past 15 years. We combine the historical volatilities with the current factor makeup of each asset class to arrive at our forward-looking assumptions. This approach takes into account how asset classes evolve over time. Example: Some fixed income indices are of shorter or longer duration than they were in the past. Our forward-looking assumptions reflect these changes, whereas a volatility calculation based only on historical monthly index returns would fail to capture the shifts. We have created BlackRock proxies to represent asset classes where historical data is either lacking or of poor quality.

Increased regulation of wealth management globally aims to improve transparency and ensure alignment of interests

Higher fiduciary standards

Greater transparency

Challenge to fee sharing

Shifts in landscape post regulation

Assets shifting to

- Fee-based models
- Managed solutions
- Passive

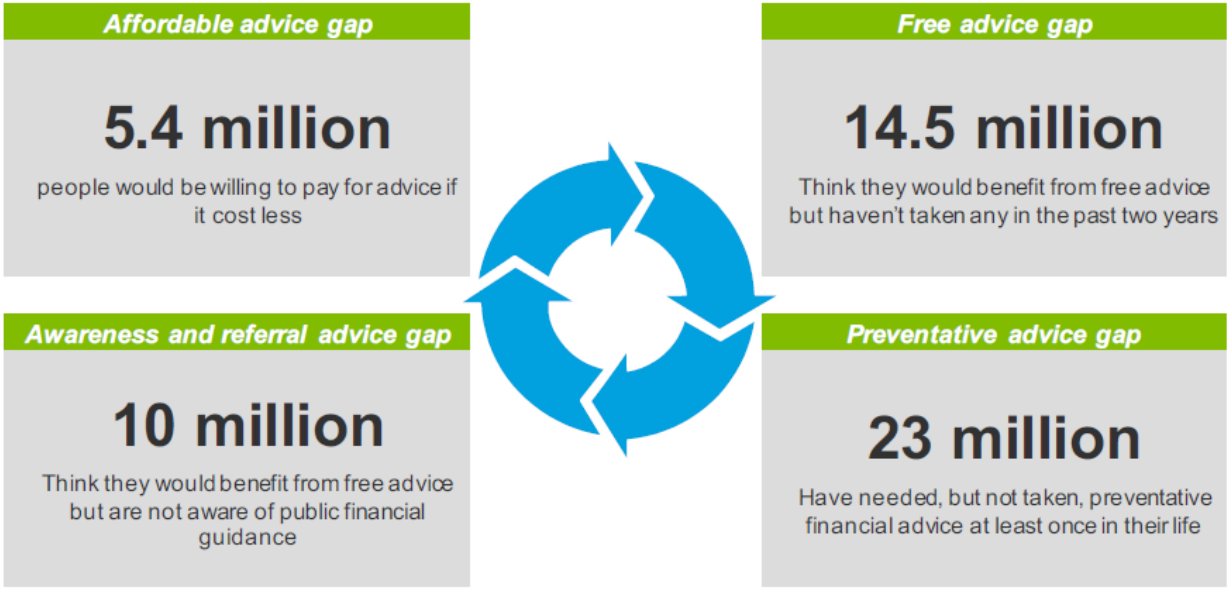
Distributors changing business models

- Developing broader “wealth” value propositions
- Re-energizing captive managers and asset allocation
- Reducing AM partners

Lower end of market getting squeezed

- Less advice for small clients
- Small advisors squeezed
- Increased focus on digital solutions

Post RDR a widespread advice gap has developed in UK…



Source: Deloitte, Citizens Advice data as of October 2015

Technology is re-engineering distribution

Distribution innovators in financial services

Lessons from innovators

- What can be automated will be
- Price compression
- Consumer experience redesigned
- Brands matter
- Increasing pie
- Leapfrog opportunities

Reference to the names of each company mentioned in this communications is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies.

1 Impact on Products

Pushing assets away from traditional "Core Active" products…

	AUM 2015	NNB* 2012-15	AUM 2015	NNB* 2012-15
Specialty Active[1]	*$5.0tr*	*$450bn*	*$4.8tr*	*$1,100bn*
Core Active[2]	*$4.3tr*	*($390bn)*	*$1.6tr*	*$110bn*
ETFs/ Index	*$4.3tr*	*$1,375bn*	*$1.1tr*	*$350bn*

*Net New Business
1 Specialty Active – includes multi-asset, retail alternatives and all active fixed income and equity products not included in Core Active
2 Core Active – US: large/mid/small cap equity funds and core Fixed Income & Municipals. Europe: core developed market equity and fixed income mutual fund
Source: Simfund 2015. Data excludes money market funds and FOF's., includes cross-border and EMEA domestic market mutual funds

Business model's need to adapt – the world is changing

Old World

Traditional (human)

Advisor providing telephone, face to face meetings etc

New World

Evolution of model

Degree of automation

Hybrid (human + robo)

Offering provides efficient online interface and access to an human advisory - one-off advice available when required

Robo

Online service only, automatically recommends or provides guidance on investment products

For illustrative purposes only.

Opportunity not just for Robos

Many clients of all generations will want a digital experience

The question is, *with whom*?

- Factors for a firm to win:
  - Scale
  - Capital
  - Brand
  - Tolerance for regulation
  - Technological agility

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