PHOENIX WEALTH & AFFLUENT MONITOR

U.S. Wealth Management Market

Key Findings

2017

-EXCERPTS-

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Wealth Management Reports

Starting in January, 2017, the Phoenix *Wealth & Affluent Monitor (formerly called GWM)* moved from a Q4 to Q3 offset survey cycle to a calendar year cycle. This move aligns more accurately with reporting needs of most clients, and provides a more succinct frame of reference.

The Phoenix *Wealth & Affluent Monitor* Wealth Management reports are intended to provide a yearly trended summary of affluent and high net worth households' investment, financial, and lifestyle behaviors, needs and attitudes. The report is in two parts: *Key Findings & Trends*, which highlights the key findings and implications of the current year's data; and *Charts & Tables*, which includes all supporting data.

This report includes 12 month trends for three periods:

- 2014-15 (Q4 2014 - Q3 2015)
- 2015-16 (Q4 2015 – Q3 2016)
- 2017 (Q1 – Q4)

Weighting and Statistical Significance

All data are weighted by age, income and investable assets to reflect the actual distribution of U.S. affluent and HNW households.

IA = Investable Assets: includes education/custodial accounts, individually-owned retirement accounts, stocks, options, bonds, mutual funds, managed accounts, hedge funds, structured products, ETFs, cash accounts, annuities, and cash value life insurance policies.

In this report, where appropriate, three year trends are indicated by the following symbols:

⬇⬆ 3-Year Trend

Noteworthy data are indicated as:

Statistical Significance – 95% confidence

Significantly higher than total market

Significantly lower than total market

Key Affluent and HNW Segments

Total Affluent Market
- Investable Assets: $100k+
- 2017 sample: 10,474

Investable Assets: includes education/custodial accounts, individually-owned retirement accounts, stocks, options, bonds, mutual funds, managed accounts, hedge funds, structured products, ETFs, cash accounts, annuities, and cash value life insurance policies.

High Net Worth
- Investable Assets: $1mm+
- 2017 sample: 4,317

Mass Affluent
- Investable Assets: $250k-$999k
- 2017 sample: 5,114

Emerging Affluent
- Age: < 45
- HH Income: $125k+
- Investable Assets: <$250k
- 2017 sample: 1,693

Affluent Boomers

$100k+ IA / Born 1946-64

2017 Sample: 2,551

Affluent GenX

$100k+ IA / Born 1965-79

2017 Sample: 2,999

Affluent Millennials

$100k+ IA / Born 1980-2000

2017 Sample: 4,785

Strategic Insights

The following are the key wealth management trends we followed in the 2017 Wealth & Affluent Monitor.

Digitally-led advice is becoming the norm for meeting the needs of the Next-Gen client.

Wealth managers must re-tool their client-facing platforms to meet the tech-driven needs of younger clients.

New financial complexities will drive new needs among affluent Millennials.

Measuring and monitoring financial wellness is becoming integral to a holistic approach to wealth management.

Continued concentration of wealth can constrain economic growth .

While the fate of the DOL Rule is uncertain, affluent client needs for transparency is not.

Meeting client expectations is among the many challenges facing advisors.

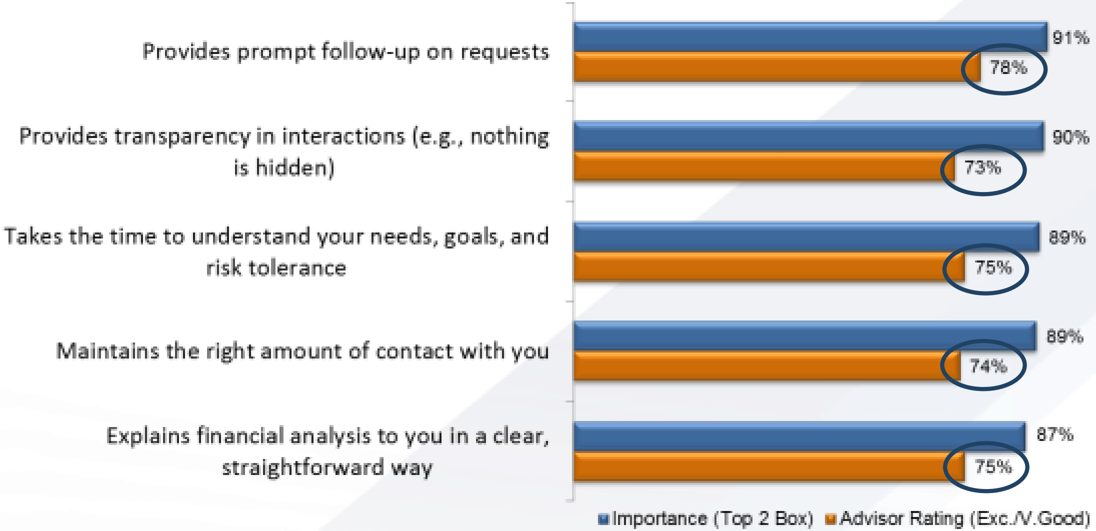
Perspective

Wealth management firms and the advisors who work with them are facing challenges on multiple fronts: disruption from digital alternatives, declining fees, and slower growth. At the same time, they also face increased expectations from their affluent clients, who place high importance on prompt follow-up, transparency, and personalized advice and contact. As the data *in Fig 1a* clearly shows, many advisors are not meeting client expectations for these critically important elements of the client relationship.

Client Expectations Vs. Advisor Delivery

Top 5 Elements of Client-Advisor Relationship Based on Importance and Ratings of Primary Advisor – Total Affluent 2017

Fig 1a.



Younger investors are very receptive to digital alternatives.

Perspective

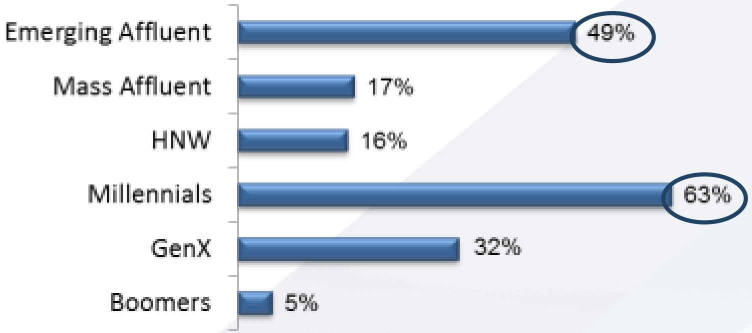
The potential disruption of automated online investment services, or Robo Advisors, cannot be over-stated, especially among younger investors. Nearly half of Emerging Affluent and over 60% of affluent Millennials would be likely to consider a Robo-Advisor. (Fig. 1b.)

In fact, eleven percent of Millennial households already have accounts with a Robo Advisor. The appeal of these services to younger investors lies in their ease of use, lower costs, and automation (including automated portfolio rebalancing).

Robo-Advisor Consideration

Very / Somewhat Likely To Consider A Robo Advisor
Q1 2017

Fig 1b.



Retiring Boomers clients are adding to pressures on advisors.

Perspective

Adding to the pressures of advisors, many of their long-tenured Baby Boomer clients are recently or soon-to-be retired (Fig 1b.). As they move into this phase of their lives, many affluent Boomers are increasing the depth of their relationship with their wealth management professionals. For example, 51% of affluent Boomers are now in the *Advisor-Oriented* category, up ten points from 2014-15 (Fig. 1c.). Additionally, their interest in financial planning and willingness to pay for advice have also increased significantly over the past three years (Fig 1d.).

To succeed amidst these multiple pressures, wealth management firms cannot scale using traditional methods. Success will require an embrace of new digital solutions that will enable advisors to provide each client with a personalized experience.

Affluent Boomers

Retirement, Advice Orientation and Key Attitudes

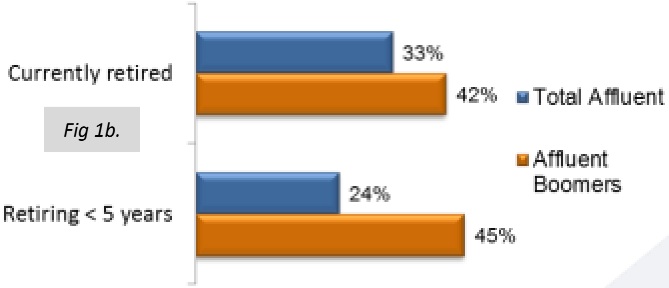


Fig 1b.

Advice Orientation
Affluent Boomers

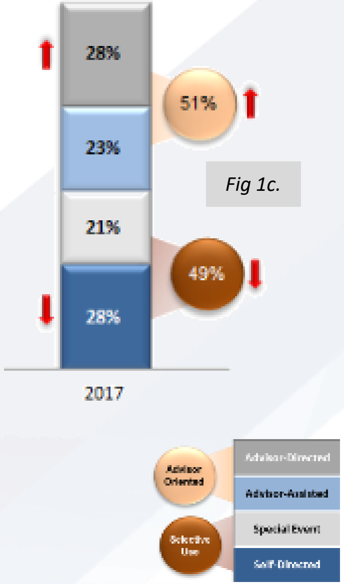


Fig 1c.

Three-Year Attitude Trends (top 2 box agree)	Affluent Boomers
"It is important to me to have a written financial plan"	⬆ 10 pts to 45%
"I am willing to pay for advice regarding my financial investments"	⬆ 12 pts to 56%

Fig 1d.

The hybrid model is becoming the preferred platform.

Perspective

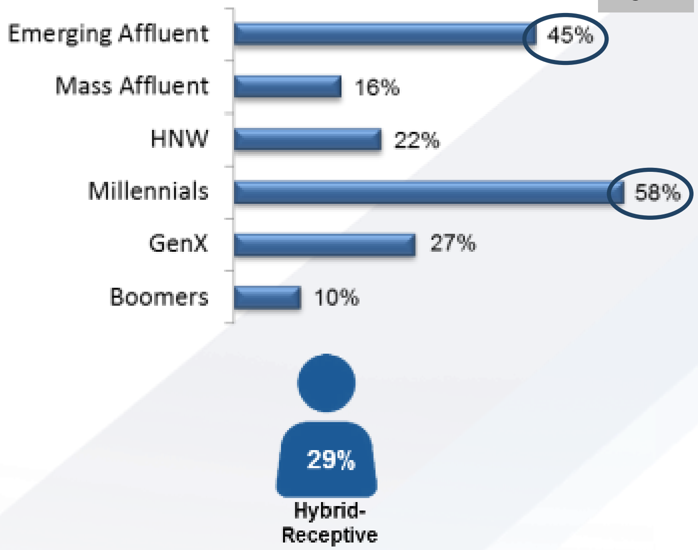
Consideration of a Hybrid, or advisor-assisted digital wealth management platform, is also very strong among Emerging Affluent and affluent Millennials (Fig. 1e). Overall, our analysis estimates that as of mid-2017, about 29% affluent households would be receptive to a hybrid offer by their wealth manager.

More and more wealth managers are shifting resources towards digital alternatives, with digitally-led, hybrid advice fast becoming the platform of choice. While a hybrid solution offers the potential to scale advice and service based on client need, much work is needed to determine the right frequency, type and content of client communications in this new model.

Hybrid: Advisor-Assisted Digital Wealth Manager Consideration

Very / Somewhat Likely To Consider A Hybrid Advisor Q1 2017

Fig 1e.



Lower costs coupled with advisor-access drive Hybrid receptivity.

Perspective

For Hybrid-Receptive investors, the main appeal of this platform was lower costs (Fig. 1f.). The promise of a blend of human and digital services was also appealing, as was the ease of use.

Hybrid-Receptive investors perceived high fees as the main drawback of the traditional wealth management platform. Hybrid-Receptives' drawbacks to the pure-play Robo-Advisor model were related to the lack of human interaction and personal service.

Access to and interaction with a human advisor was highly important to Hybrid-Receptive investors. Developing a written financial plan was also integral in their wealth management priorities. Hybrid-Receptive households were also very comfortable using technology in their financial affairs. Most conduct their own research to confirm advice provided by their advisor, and nearly half have access to online financial advice (Fig 1g.).

The Hybrid-Receptive Affluent Household

Appeal of Hybrid Platform

1. Lower costs	62%
2. Digital + human	36%
3. Ease of use	35%

Fig 1f.

	Hybrid-Receptive	Total Affluent
"It is important to me to have a written financial plan"	63%	59%
"Prefer to interact with a human rather than use the latest technology tools"	80%	73%
"I usually conduct my own research to confirm the advice by my advisor"	66%	60%
"I have access to online financial advice"	48%	40%

Top 2 box agree with statement

Fig 1g.

NextGen investors are leveraging technology to collaborate with advisors.

Perspective

As we have noted so-called "NextGen" investors (Emerging Affluent and Millennials) have excelled at adopting the latest technology to foster convenience and efficiencies in most aspects of their lives, including their finances. Instant access to data regarding the management of their wealth is both embraced and expected by these younger investors.

While most Emerging Affluent and Millennials strongly prefer a *Selective Use* approach towards advisors, when they do seek professional advice they increasingly expect to collaborate with their advisor using the most current tools. When they engage with advisors, NextGen investors will be well-prepared, conducting their own research in advance and often using other sources of advice such as social media and peer groups (Fig. 2a.).

Advice Validation Through Technology

Attitude Statements (Top 2 box agree with statement)	**Emerging Affluent**	**Millennials**	**Total Affluent**
"I look to multiple sources of advice including professionals, peer groups and social media."	60%	71%	41%
"I usually conduct my own research to educate myself before speaking with investment professionals."	69%	75%	59%
"I conduct my own research to confirm the advice given to me by my advisor."	62%	72%	52%

Fig 2a.

Transparency, efficiency and accessibility are keys for a successful collaboration.

Perspective

In collaborating with their advisors, NextGen investors expect their advisors to employ technology to provide transparency in interactions, highly efficient service, anticipation of problems, and robust accessibility (Fig. 2b.).

To adjust to these needs of their young clients, wealth managers must:

- Provide service and communications through multiple channels, including social media;
- Continually train their advisors on the latest digital tools, and provide platforms to empower their advisor teams;
- Anticipate client needs to provide a more collaborative experience.

Top 5 Most Important Elements of Advisor Relationship

Top 2 Box Importance

Emerging Affluent & Millennials - 2017

	Client – Advisor Relationship Element	Emerging Affluent	Millennials
1	Provides transparency in interactions (e.g., nothing is hidden)	88%	86%
2	Provides prompt follow-up on requests	86%	86%
3	Keeps an eye on your portfolio and lets you know when there are problems or opportunities	86%	85%
4	Takes the time to understand your needs, goals, and risk tolerance	85%	85%
5	Maintains the right amount of contact with you	85%	85%

Fig 2b.

Added financial complexities will drive new need for Millennial households.

Perspective

Millennial households that have reached the definition of "affluent" ($100k+ investable assets) now number over five million households.

Inevitably, each generation moves into a new stage of life, and the much-discussed Millennial generation is no exception. Thirty-five percent of affluent Millennial households are now over the age of 35. (Fig. 3a.)

Many affluent Millennials have moved into a family-building stage of life. Over 80% of affluent Millennials are married, a level equal to their GenX counterparts. And these Millennial households are having children (81% have children living at home).

These lifestage changes add new layers of financial complexity for Millennial households, with attendant opportunities for financial providers to offer solutions, ideally tailored to the unique needs of these consumers.

Key Demographics

Affluent Millennials: 5.3 million households (2017)

	Affluent Generations		
	Millennials	GenX	Total Affluent
Age Groups			
< 35	65%	0%	9%
35-44	35%	42%	13%
45-54	0%	58%	18%
55-64	0%	0%	29%
65+	0%	0%	31%
Average Age	33	45	56
Marital Status			
Married	82%	82%	78%
Never Married	16%	13%	11%
Children			
Have children living at home	81%	61%	31%

Fig 3a.

Millennial financial goals showcase ways to engage them.

Perspective

A review of the key financial goals of a particular consumer segment is often illustrative of both the level of complexity of their needs, as well as how complementary the goals are. In the case of Millennials, their financial needs have indeed become more complex, but these goals are often in conflict with one another:

- Given their young age, these households want to aggressively growth wealth (20% rated it first in importance), but they also want to improve cash flow to maintain their lifestyle (20%), finance college education (11%), or get a better handle on market risk (7%). (Fig. 3b.)

These conflicting needs present opportunities for wealth management professionals to develop solutions for affluent Millennials that can help manage cash flow and provide an appropriate amount of risk protection, but also provide robust portfolio growth opportunities.

Most Important Financial Goals
2017

Categories	Affluent Generations		
	Millennials	GenX	Total Affluent
Assure comfortable standard of living in retirement	20%	40%	43%
Protect current level of wealth	13%	11%	24%
Aggressively grow wealth	20%	15%	9%
Improve household cash flow	20%	13%	8%
College education financing	11%	12%	5%
Leave an estate for heirs	3%	2%	4%
Minimize income and capital gains taxes	4%	2%	3%
Better manage market risk	7%	4%	3%
Charitable giving	2%	1%	1%

Fig 3b.

And their product purchase intentions support ways to work with them.

Perspective

The enhanced financial complexity of many affluent Millennials has indeed prompted them to increase investments or open new accounts in financial products that address life-stage needs.

For example, to help manage risk, 13% of Millennials have opened a new cash value life insurance policy and 37% have added to an existing policy. For their children's education, 25% have opened an education or custodial account, and 20% have increased investments in these accounts. (Fig. 3c.)

Notable Financial Product Investments – Past 6 Months

2017

Product Category	Action	Affluent Generations		
		Millennials	GenX	Total Affluent
Education / Custodial	Opened account	25%	6%	6%
	Increased investments	20%	12%	7%
Foreign / Global Equities	Opened account	11%	2%	2%
	Increased investments	20%	9%	7%
Foreign / Global Fixed Income	Opened account	13%	3%	3%
	Increased investments	16%	7%	5%
Cash Value Life Insurance	Opened account	13%	3%	3%
	Increased investments	37%	33%	27%
Employer-Sponsored Retirement	Opened account	19%	3%	4%
	Increased investments	39%	33%	23%
Primary Residence	Purchased	31%	8%	7%

Fig3c.

Millennial real estate allocations may constrain their asset growth objectives.

Perspective

Affluent Millennial asset allocations show that many are indeed aligning their financial goals with their investments:

- Relatively strong exposure to foreign and global equities and fixed income to provide portfolio diversity;
- Very strong allocations to cash accounts to provide necessary cash flow for their families;
- Increasing allocations to educational and custodial accounts to provide security to their children. (Fig. 3d.)

A cautionary note for wealth managers: about 42% of the assets of affluent Millennials are allocated to a primary residence and other real estate (Fig. 3e.). This is about 10 points higher than the average affluent household, which means that only 44% of their assets are in liquid or investable accounts. In designing solutions tailored to their Millennial clients, financial professionals need to include ways to leverage assets that are tied up in real estate holdings.

Asset Allocations

2017

Investable Asset Classes	Affluent Generations		
	Millennials	GenX	Total Affluent
Educational/Custodial Accts	5.13	3.81	1.88
Retirement Accounts (Excl. Employer)	23.49	40.70	39.06
US Equities	13.30	15.09	17.58
Foreign/Global Equities	4.96	2.95	2.53
US Fixed Income	5.96	3.39	4.65
Foreign/Global Fixed Income	3.53	1.21	1.19
Liquid Alternative Investments	2.00	1.05	1.08
Cash Accounts	23.95	16.97	15.98
Fixed and Variable Annuities	4.99	3.84	7.24
Cash Value Life Insurance	12.69	11.00	8.82

Fig 3d.

Total Asset Allocation	Affluent Generations		
	Millennials	GenX	Total Affluent
Employer-Sponsored Retirement Accounts	11.37	16.26	12.33
Business Investments	2.24	2.02	1.52
Other Non-Liquid Investments	1.62	1.27	1.33
Primary Residence	30.35	30.06	26.51
Other Real Estate	10.23	6.58	6.60
Investable Assets (% of Total Assets)	44.18	43.80	51.71

Fig 3e.

Financial wellness will increasingly be a key component of client experience.

Perspective

As client experience becomes more of a key differentiator, wealth managers will be required to take a more holistic approach towards their clients' finances. And the level of importance that most affluent households place on the ability of their advisor to look at their entire financial picture (82% rate it "extremely" or "somewhat" important), points to the importance of measuring the financial wellness of their clients on a regular basis.

In 2017, the Wealth & Affluent Monitor introduced a new question battery designed to create a financial wellness measurement for each survey respondent. Seven attributes were included in the question battery (Fig. 4a.). An overall Financial Wellness Score was indexed on a scale of 0 to 100.

Financial Wellness Measures

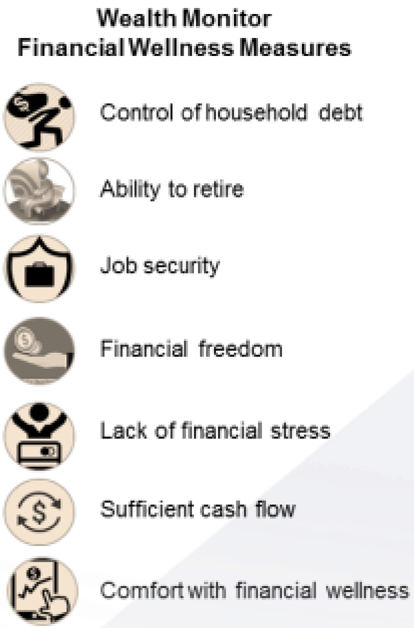


Fig 4a.

Most affluent households were comfortable with their level of financial wellness.

Perspective

The majority of affluent household rated their comfort level with their overall Financial Wellness as positive. Fully, 57% of affluent households reported their Financial Wellness comfort level to be in the top 2-box on a 7-point scale. (Fig. 4b.)

- Based on responses to the six wellness attributes, affluent households received an overall wellness score of 64.
- The wellness attributes that received the highest ratings were “controlling household debt” and “household cash flow”.
- Sixty-eight percent gave “control of household debt” a positive rating; 59% indicated top 2-box for “household cash flow”.

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Financial Wellness Ratings Summary
Total Affluent

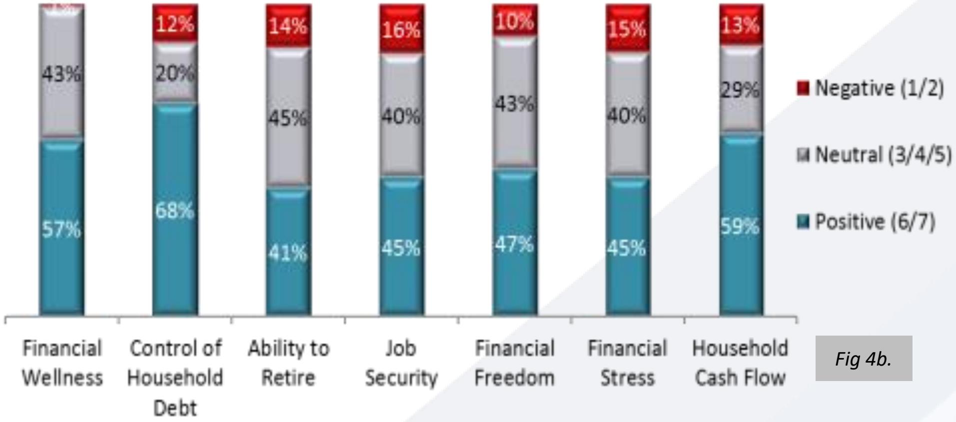


Fig 4b.

Average Financial Wellness Score = 64

The sum of the seven financial wellness elements is indexed to a 0 to 100 scale where a score of "0" equals all low ratings and a score of "100" equals all high ratings for the seven elements.

Most affluent households were comfortable with their level of financial wellness.

Perspective

Ownership of a Financial Wellness plan increases with wealth.

- Almost three-fifths (58%) of HNW investors reported having a formal Financial Wellness plan.
- Although less than one-quarter (23%) of the Emerging Affluent reported having a plan, 44% of those without one have given thought to a Financial Wellness plan. (Fig. 4c.)

Ownership of Financial Wellness plans is typically initiated by the financial advisor/provider. Among HNW investors, typically the financial professional initiated the plan (53%). (Fig. 4d.)

Financial Wellness Plan Ownership & Advisor Communication

Financial Wellness Plan Ownership	Affluent Segments			
	Emerging Affluent	Mass Affluent	HNW	Total Affluent
I have a Financial Wellness Plan	23%	35%	58%	40%
I have given thought to a Financial Wellness Plan but do not currently have one	44%	34%	18%	31%
I have no plans for a Financial Wellness Plan	33%	31%	23%	29%

Fig 4c.

Communication with Advisor	Affluent Segments			
	Emerging Affluent	Mass Affluent	HNW	Total Affluent
My financial advisor/provider initiated a Financial Wellness plan with me	32%	34%	53%	39%
I initiated a Financial Wellness plan with my financial advisor/provider	11%	15%	23%	17%
None of the above	57%	51%	24%	44%

Fig 4d.

The growth in HNW households continued unabated in 2017.

Perspective

Over the past four decades, wealth and income have increasingly been flowing to the top tiers of affluence, so-called “HNWIs”. This trend is supported by the robust growth in the number of HNW households in the U.S., particularly following the financial downturn of 2008-09. Since then, their numbers have increased by about 40% to over 7.1 million households. (Fig. 5a.)

This concentration of wealth has caused a level of inequality not seen in their country since the Great Depression.

Client Expectations Vs. Advisor Delivery

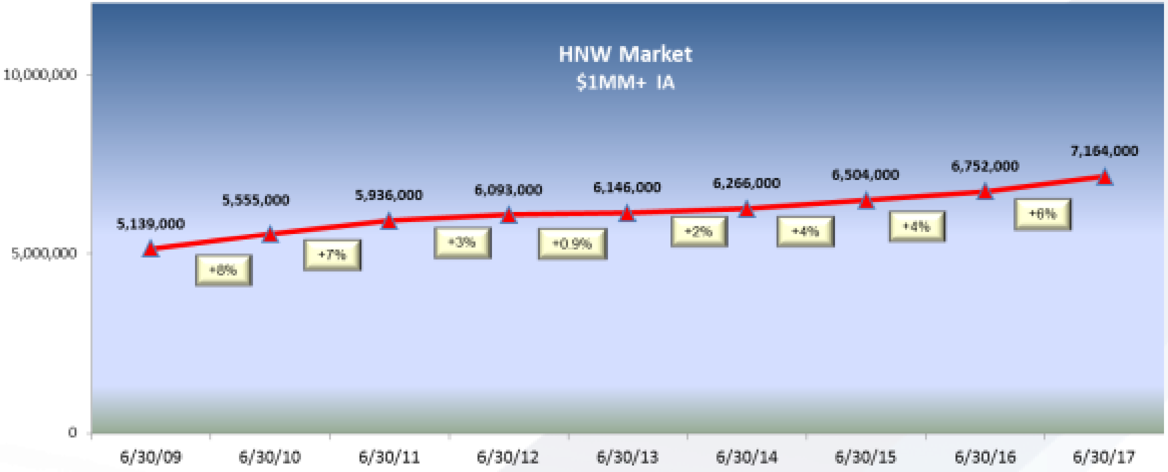


Fig 5a.

The biggest gains in wealth occurred at the very top of the affluent pyramid.

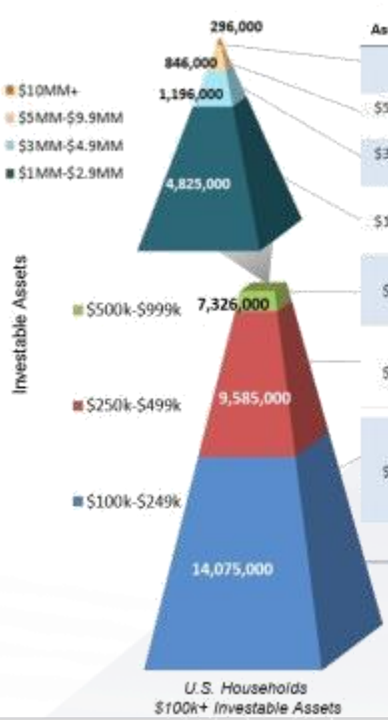
Perspective

From mid-year 2016 through mid-year 2017, affluent household wealth in the U.S. grew by an estimated $2.5 Trillion, or 8.1%. U.S. affluent now control nearly $33.8 Trillion in liquid wealth.

- The greatest one-year gain in liquidity occurred among Deca-Millionaires, households with $10 million or more in investable assets (IA).
- Deca-Millionaire wealth grew 52% over this one year period, adding over $1.3 Trillion to their accumulated assets (now totaling over $3.8T).

Investable Asset Averages, Total Wealth Controlled, One Year Growth

2017



Investable Asset Segments	Aver IA	Total IA $ Trillion	1 Year Estim Asset Growth
$10MM+	$12.9 MM	$3.8	$1.3T
$5MM-$9.9MM	$6.9 MM	$5.9	$278B
$3MM-$4.9MM	$3.8 MM	$4.6	$163B
$1MM-$2.9MM	$1.7 MM	$8.2	$469 B
$500K-$999K	$704K	$5.2	$199B
$250K-$499K	$368K	$3.7	$231B
$100K-$249K	$174K	$2.4	($116 B)
	Total	*$33.8T*	*$1.9T*

Fig 5b.

Inequality of wealth can constrain economic growth.

Perspective

In 2017 the concentration of wealth in the U.S. continued to accumulate at the top of the wealth pyramid. Overall, U.S. affluent households (those having $100k+ investable assets) numbered some 30% of all households (38.1 million) but controlled over 91% of wealth.

- The wealth disparity is even more acute among the 1% (households with $5mm+ in investable assets): they control over one-quarter (26.2%) of the liquid wealth in the U.S.

Economic studies have shown that continued concentration of wealth in fewer and fewer hands depresses economic growth. Further, high levels of wealth inequality are destabilizing, contributing to increased levels of social tensions.

Affluent & HNW: Percent of U.S. Households Vs. Percent of Liquid Wealth Owned

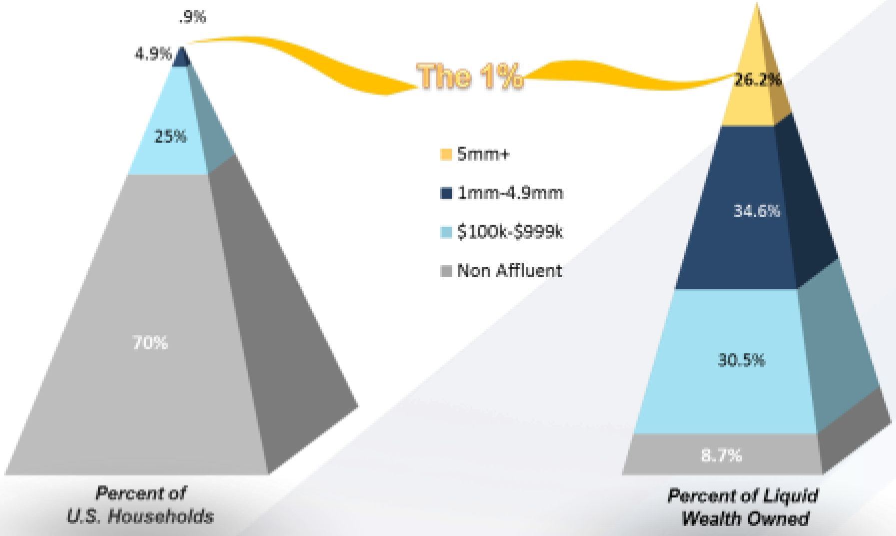


Fig 5c.

The DOL Rule spoke directly to the importance of transparency.

Perspective

On the 9th of June, 2017, the wealth management industry saw one of the greatest regulatory requirements in history go into effect – the Department of Labor Fiduciary Rule ("DOL Rule") – affecting over $3T of wealth management assets. Central to the DOL Rule is that investor interests be prioritized over and above those of the intermediary, e.g. financial advisor, institution, etc. In March of 2018, the 5th Circuit Court of Appeals vacated the DOL fiduciary rule, but the future of this legislation is still up in the air.

At mid-year 2017, Affluent investors who have a designated primary professional advisor were asked, unaided, for their level of familiarity with the DOL Fiduciary Rule. Overall , half of affluent investors had never heard of the DOL Fiduciary Rule.

- Familiarity with the DOL Rule was highest among HNW investors (23% "very" familiar), and lowest among Mass Affluent (only 7% "very" familiar). (Fig. 6a.)

Familiarity with the DOL Rule

Level of Familiarity	Affluent Segments			
	Emerging Affluent	Mass Affluent	HNW	Total Affluent
Very familiar	13%	7%	23%	12%
Somewhat familiar	27%	18%	25%	21%
Slightly familiar	11%	21%	11%	17%
Never heard of it	49%	54%	41%	50%

Base = have primary professional advisor – N=627

Fig 6a.

Most advisors communicated with their clients about the DOL Rule.

DOL FIDUCIARY RULE

Perspective

Close to two-thirds (63%) of affluent investors had communicated with their primary advisor regarding the Fiduciary Rule. HNW investors were most likely to have had communications with their advisor about the Rule (68%). The communication was largely driven initially by the primary advisor (69% overall).

- The exception: Emerging Affluent, where the majority (58%) said that they reached out to their advisor first about the Fiduciary Rule.

While it is too soon to determine the future of the DOL Rule legislation, the importance of transparency in affluent client dealings with their financial advisors will not diminish over time. Most wealth managers took this legislation very seriously, and should be well-prepared to respond to whatever form it takes once the issue is settled.

Communications With Advisor About The DOL Rule

Communicated With Advisor	Affluent Segments			
	Emerging Affluent	Mass Affluent	HNW	Total Affluent
Yes	60%	61%	68%	63%
No	29%	36%	28%	33%
Not sure	11%	3%	4%	4%

Fig 6b.

Reaching Out	Affluent Segments			
	Emerging Affluent	Mass Affluent	HNW	Total Affluent
My advisor reached out to me first	42%	79%	63%	69%
I reached out to my advisor first	58%	21%	37%	31%

Base: had communications with advisor about the Rule

Fig 6c.