SIFMA Insights

The 2022 Private Client Conference Debrief

Perspectives & Key Themes from Market Participants

April 2022

Recently, SIFMA hosted our annual Private Client Conference. With two days of presentations and events and around 200 participants, we gained insights into top-of-mind topics for market participants. Inside this note, we recap just some of what was seen and heard, including:

- The Industry Outlook – top priorities/themes with survey, post-pandemic changes, new normal for office/branches
- The Regulatory View – remote work supervision regulations and attracting/maintaining talent
- The ESG Perspective – a wealth management view of ESG investing, with survey
- More on Market Themes – digital engagement, technology enhancements, crypto

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SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

The Industry Outlook

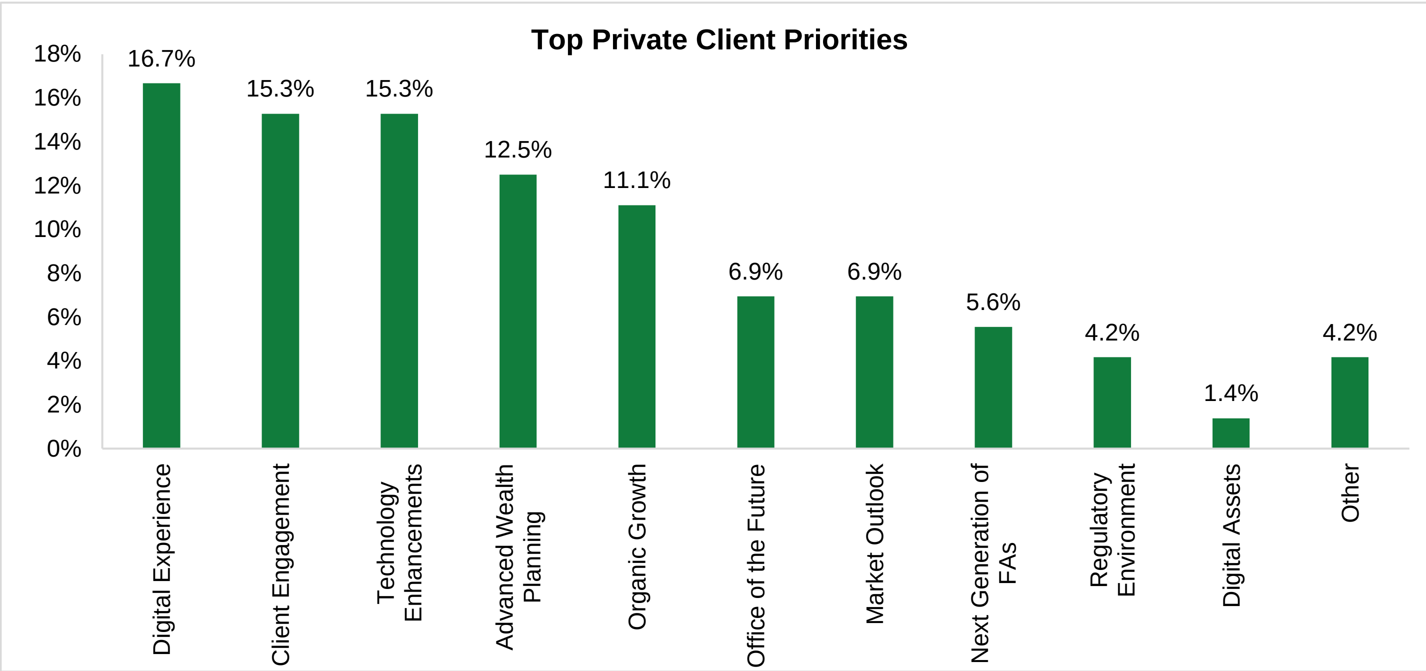
Top Sector Themes

To set the scene of the conference, we surveyed attendees and select SIFMA members on the top member-identified priorities for the year. As various perspectives arose during the conference, it was a reminder of the importance of market participants coming together to discuss best practices as well as pain points that the industry must work together to overcome.

A number of the identified priorities addressed digital experience and client engagement, including (see chart on the following page):

- Digital experience – Making it easier to do business with us, integrated and cohesive client experience, client access (online) functionality, client digital capabilities, client engagement post pandemic, digitizing and enhancing, increasing digital marketing/engagement to attract/retain new clients
- Client engagement – Consistency, servicing, capabilities, adding/expanding product mix (additional alternatives), enhance product offering, banking, innovative products/services, utilizing more firm resources for client benefit, deepen client relationships by offering advice beyond investments, driving personalization
- Technology enhancements – Cybersecurity, Secure Vault for client documents, operational efficiencies, improving and enhancing technology (client portal, CRM, platform), enhance service and operations, ensuring tools, tech and offerings are continually enhanced, platform automation, streamline workflows
- Advanced wealth planning – Gaining more knowledge to meet clients' needs, addressing family and wealth planning, comprehensive financial planning, expand financial planning offerings, familial succession planning, changes due to COVID
- Organic growth – Improve profitability, grow the business, growth and recruiting
- Office of the future – In-person versus virtual, preparing our business for the future as client needs evolve, return to work
- Market outlook – Interest rate increases, level-set client expectations regarding market volatility, managing through an evolving industry environment, navigating inflation
- Next generation of FAs – Teaming and transitions, advisor succession, attracting next gen investors, next gen talent (clients and advisors)
- Regulatory environment – Navigate regulatory change
- Other – cross-company referrals, discovering networks, risk management

Survey Question: Please list your top three private client priorities for the year.



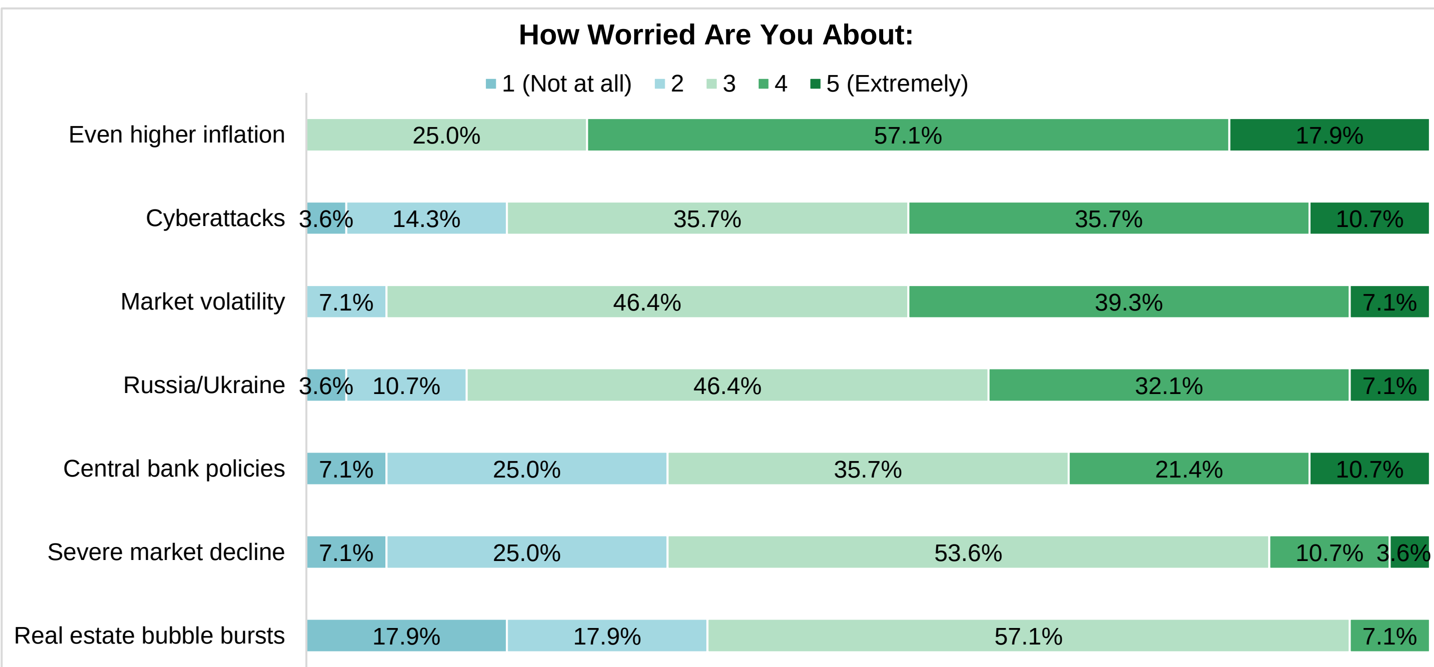
Source: SIFMA Insights pre-conference survey

Market Touchpoint: Industry Themes

Our pre-conference survey also sought to gauge respondents concerns around current geopolitical, economic and market events and trends. We highlight the following:

- For those responding extremely worried (a 5), even higher inflation ranked #1 at 17.9%
    - Followed by cyberattacks and central bank policies at 10.7% each
- For those responding worried (a 4), even higher inflation ranked #1 at 57.1%
    - Followed by market volatility at 39.3%
- A real estate bubble burst remains one of the least concerning issues – with 35.8% responding with a 1 or 2 – although 57.1% of respondents did rank it as somewhat worried (a 3)

Survey Question: What are you hearing from your firm's clients regarding their level of concern re? (on a scale of 1-5 where 1 = not at all, 5 = extremely worried)



Source: SIFMA Insights pre-conference survey

The Change Post Pandemic

Relationships are what matter in this business. As such, the industry – whether a retail firm, asset manager, or other institutional firm – remains focused on serving their clients' needs. The pandemic upended retire plans, with one panelist indicating over 40% of people do not feel they are on track for retirement. Investor priorities have also changed. Their focus shifted to health, family, and purpose, with their financial situation becoming a means to secure those ideals. This changed conversations between advisors and clients. Conversations have become richer, incorporating concepts like family values into the traditional holistic planning model. Advisors are asking questions they never asked before, deepening client relationships.

What investors value has changed. Younger and older generations have different attitudes towards investing. New products – ex: digital assets – bring new risks along with opportunities. There is a lot for investors to think about. Whether or not you think the bull market for stock performance is over, the post-pandemic environment has shown that the bull market for financial advice is alive and well, a trend panelists believe is only going to continue to grow.

The New Normal for the Office

The debate continues as to what will be the optimal office format moving forward. One panelist indicated that several employee categories have been created:

- Fully remote
- Hybrid – home-based (use hotel offices when in the office)
- Hybrid – office-based (in office more than two weeks per month, have their own office)
- Fully in office

This may give employees flexibility, but it could also lead to discrepancies in career development between those in the office and those working remotely. As we have written in the past, some managers continue to express concerns that employees not in the office could miss out on development and career opportunities.

The idea of going back to the office for purpose was discussed. One such purpose is maintaining a firm's culture. A new phrase caught on at the conference – changing Return to Office (RTO) to Return to Culture (RTC). Some managers believe firms will make the fastest progress when back in office together, gathering together in board rooms and offices to recapture culture.

On the other hand, panelists discussed that going virtual did not cause any loss of traction with clients. Instead, it created a relationship capital building exercise, with panelists repeatedly indicating that client relationships have deepened since the pandemic began. The focus of the conversation shifted to how clients were feeling, and advisors engaged clients on a more personal level.

Panelists noted that the virtual environment also enhanced the annual planning meeting and assisted advisors in engaging the younger generation in the wealth planning process. Advisors indicated it was much easier to gather multiple generations with the use of virtual meeting rooms than find a time for all to meet in person, as it had been done in the past.

The Branch Office of the Future

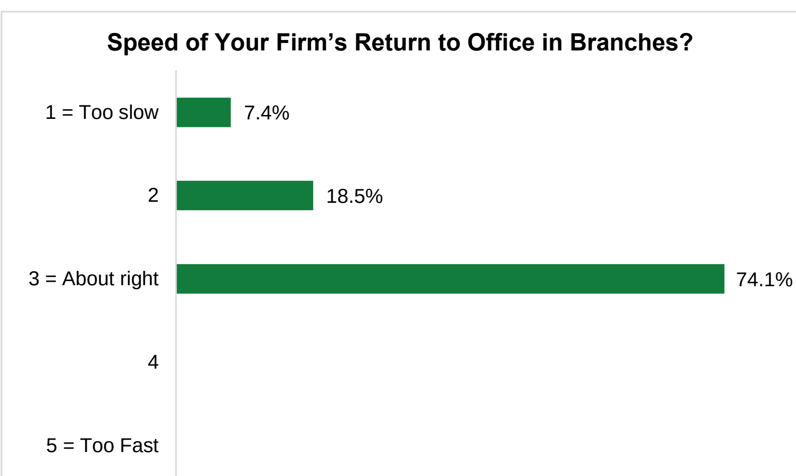
In light of the debate around the future of remote work schedules, panelists also discussed what the future of the branch office might look like. It was noted that the physical branch office was needed to establish the firm's position in the community. However, people are revisiting their real estate footprints.

The level of staffing in branch offices varies by not just firm but by location. In particular, firms are seeing lower levels of office occupation in large cities, where employees cite non COVID related safety concerns as to why they are hesitant to come into the office. As such, hybrid meetings are seen as the new normal for the foreseeable future. Some people will be in the office in conference rooms while others are in the virtual meeting room.

To accommodate, panelists commented on the creation of "Zoom rooms", building the feeling of everyone being together in one room better than when everyone is on their own computer. In addition to enhancements for employees, panelists discussed changes made to make clients more comfortable. One such idea was the development of wealth centers, where they can meet with clients in a more engaging environment than the traditional conference room setting.

Market Touchpoint: Return to Office

We used our pre-conference survey to gain a sense of how advisors felt about the speed of their firm's return to office in branches. 74.1% of respondents felt the speed was about right.



Source: SIFMA Insights pre-conference survey

The Regulatory View

Remote Work Supervision

As panelists discussed building the next generation of advisors, they noted the importance of attracting, engaging, developing, and retaining talent. Talent is key to this (and really any) industry, and firms need to be able to compete for talent. Some noted that the ability to offer employees the chance to work from home, at least on some level, is key to retaining and attaining talent.

As such, panelists noted the need for support and guidance from regulators at all levels – states, SRO level, SEC, FINRA, etc. Currently, firms are focused on enabling business to be done in a remote environment, while adhering to the existing regulatory framework. Panelists discussed the need for regulatory guidance to move forward and incorporate more permanent work from home schedules.

With guidance, they can set new policies to adhere to regulations and remain competitive in the fight for talent.

The ESG Perspective

A Wealth Management View of ESG Investing[1]

As discussed above, the focus of investors has changed since the pandemic began, with clients placing greater value on what is important to them in life. 77% of investors want an investment strategy aligned with their personal values. This presents an opportunity in the ESG/sustainable investment arena, albeit not without some hurdles.

To begin, U.S. consumers are already voting with their feet in the consumer space:

- 69% of investors support brands/industries that benefit environmental or social goals
- 76% of investors discontinue relationships with firms that treat the environment, employees, etc. poorly

However, U.S. investors are not quite there in the investing environment:

- 64% are <u>not</u> familiar with sustainable investing
- 23% <u>do</u> understand what ESG means

It has been hard for investors to understand what ESG and sustainable investing means. Definitions have been all over the place, with no one clear explanation. It is all ESG…the E is just climate change; no, it is all environmental challenges, opportunities, standards, etc.…it is green…it is sustainable. It is no wonder investors are confused. It is a hard concept to explain, and it encompasses a myriad of topics.

However, investors do not appear to be deterred:

- 73% of U.S. consumers think sustainable is an opportunity
- 70% of U.S. consumers are willing to switch to sustainable investing, all else equal

And advisors should be encouraged:

- 63% of ESG-minded investors prefer to give control to their advisor
- 71% of ESG-minded investors are willing to pay for advice

Now investors can act in the ESG/sustainable investing space in several ways. They can avoid investing in companies which do not support or contribute to their ESG goals, or investors can invest in companies that support these goals or drive change. Investing patterns include:

- Avoid – Reduce negative ESG/sustainable effects by limiting exposure to certain companies
- Benefit – Support companies with positive ESG/sustainable practices, which also enhance the potential for long-term financial returns

[1] Statistics based on an April 7, 2022 presentation by Jackie VanderBrug, Managing Director, Head of Sustainable & Impact Investment Strategy in the Chief Investment Office for Merrill and Bank of America Private Bank, “The moment is now: acquisition and growth through sustainable investing”

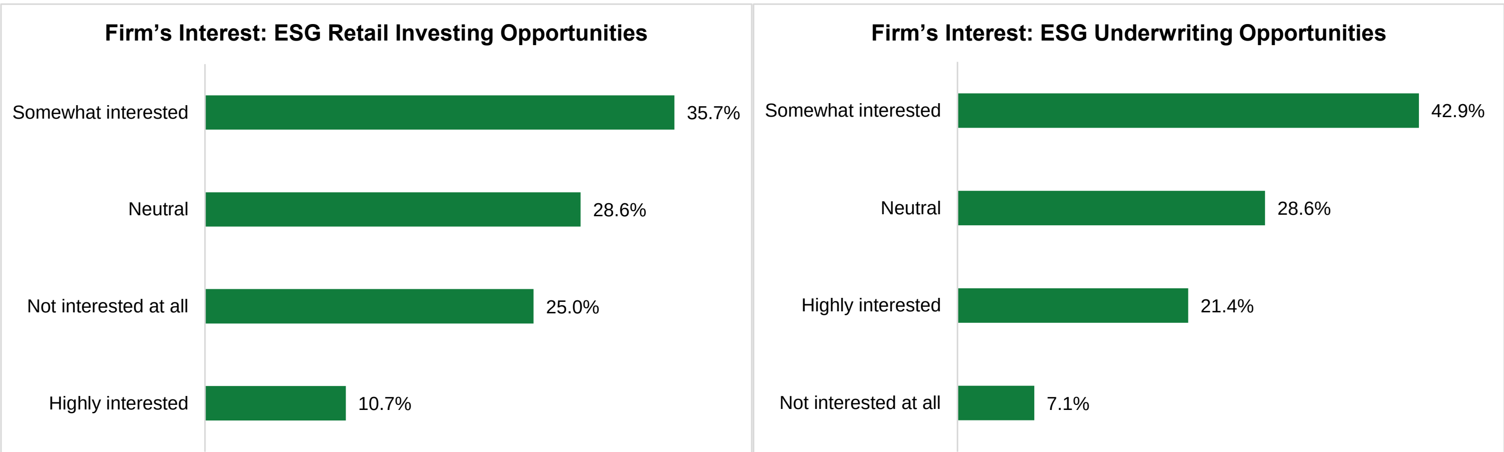
- Contribute – Support companies which advance positive, measurable ESG/sustainable outcomes, which become intrinsic to financial performance

There are multiple ways investors can incorporate ESG/sustainable investing into their portfolios. Their advisor can complement their existing portfolio with ESG/sustainable investments. The advisor can substitute existing assets in the portfolio with ESG/sustainable investments. Or the advisor can direct new or currently uninvested cash into ESG/sustainable investments. Regardless of the method, the data has shown that ESG is not concessionary. Not only is it good for businesses, investors do not have to give up risk-adjusted returns. The economics are what is bringing this to scale, according to one panelist. After all, investors are not interested in ethically losing money.

Market Touchpoint: ESG

We also used our pre-conference survey to gauge a hot topic for capital markets. We asked survey respondents to indicate their firm's interest for ESG and sustainable services and product offerings. We highlight the following:

- 35.7% of respondents replied their firm is somewhat interested in ESG retail investment opportunities
  - This was followed by 28.6% responding neutral
  - 25.0% were not interested at all
- When looking at ESG underwriting opportunities, 42.9% of respondents replied their firm is somewhat interested
  - This was followed by 28.6% responding neutral
  - 7.1% were not interested at all



Source: SIFMA Insights pre-conference survey
Survey Question: How do you rate your firm's interest in providing ESG/sustainable investing opportunities and products to retail customers?
Survey Question: How do you rate your firm's interest in providing ESG/sustainable underwriting opportunities?

More on Market Themes

Digital Engagement

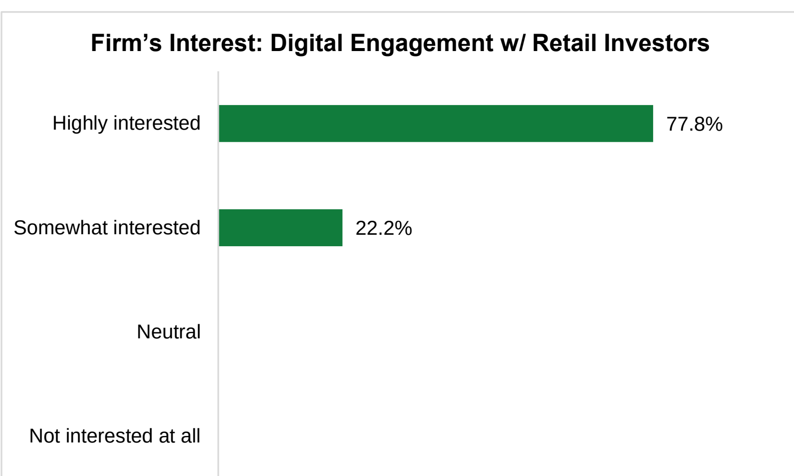
Clients value their financial advisor for more than just managing their investment portfolios. A panelist indicated we picked up ten years of technology adoption just during the pandemic period. Opportunities now exist for technology to enhance client relationships, not replace the human side of the relationship. Utilizing technology can assist advisors in climbing the value stack, broadening an advisors' reach and enabling the personalization (customization) of client portfolios.

Innovation allows advisors to go beyond traditional wealth management tools. Investors today – and we do not just mean the younger generation, as the older generations want more simplification and personalization as well – want bespoke relationships. They want to incorporate what they value into their investment portfolio, such as ESG investments. Advisors can utilize technology to understand clients' interests and then incorporate these into portfolio construction.

Many of the technological enhancements discussed were around tools to generate efficiencies for advisors (digital onboarding, CRMs, documentation) and improve the digital engagement experience for their clients (view their portfolio 24/7). Clients can self serve when they want and have access to their advisor when desired. Advisors will be able to use digital engagement technologies to scale their practice, broadening their reach and personalizing solutions.

Market Touchpoint: Digital Engagement

Heading into the conference, we asked respondents to rate their firm's interest in in digital engagement practices with retail investors. In general, 77.8% of respondents indicated they were highly interested. No one responded that they were not interested at all.



Source: SIFMA Insights pre-conference survey

Technology Enhancements

While the digitization trend was occurring pre pandemic, COVID accelerated trends and adoption of technologies. Many solutions exist, and firms are assessing where the wealth management workflow has gaps which leave room for fintech partnerships to serve client's needs.

Technology is a critical enabler. Yet, the technology platform is not just about the front end experience. It starts far before as an information platform. Firms need information pulled together – proprietary content, different generations of ESG information, financial planning data, etc. The platform must seamlessly and cohesively bring all of this together for clients, not loosely merge the data sets.

Additionally, technology platforms need to allow for personalization of client portfolios. This includes not just incorporating their values and interests as discussed above, but also the way clients view and receive data and updates on their investment portfolios. Customers engage with advisors differently, based on their preferences. This begins in the profiling and planning process. Technology platforms can be used to tailor the planning process, portfolio updates, and interactions with their advisors to the client's preferences.

Some of the technology enhancements discussed include:

- Customer relationship management software (CRM)
- Engagement platforms for compliant social media, texting and local websites
- Virtual meeting rooms
- Help desks for advisors
- Digital onboarding of clients
- Digital documentation for regulations
- Advisor and summer internship training programs

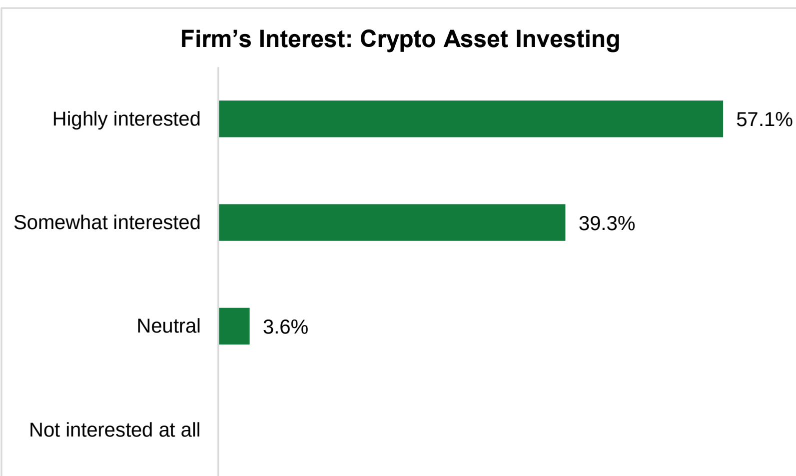
Market Touchpoint: Crypto

We also used our pre-conference survey to gauge a hot topic for capital markets. We asked survey respondents to indicate their firm's interest for crypto asset investing.

We highlight the following:

- 57.1% indicated they are highly interested
- Followed by 39.3% somewhat interested
- 0% of respondents were not interested at all

Survey Question: How do you rate your firm's interest in crypto asset investing?



Source: SIFMA Insights pre-conference survey

Appendix: SIFMA Insights Research Reports

Monthly Market Metrics and Trends: www.sifma.org/insights-market-metrics-and-trends

- Statistics on volatility, equity and listed options volumes, and market performance
- Also highlights an interesting market trend

SIFMA Insights Market Structure Primers: www.sifma.org/primers

- Capital Markets Part I: Global Markets & Financial Institutions
- Capital Markets Part II: Primary, Secondary & Post-Trade Markets
- Global Equity Markets
- Electronic Trading
- US Capital Formation & Listings Exchanges
- US Equity
- US Multi-Listed Options
- US ETF
- US Fixed Income
- SOFR: The Transition from LIBOR
- The Evolution of the Fintech Narrative

SIFMA Insights Equity Market Structure Analysis Series:

- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

SIFMA Insights: www.sifma.org/insights

- Market Structure Compendium
- Market Structure Survey: Volatility, Volumes, Market Levels & Retail Investor Participation
- SPACs versus IPOs
- A Look Back at 2020 Market Structure Themes
- US Capital Formation's 2020 Journey
- Market Structure Download: Post-Election Update
- Market Performance Around US Presidential Elections
- Market Volatility Around US Presidential Elections
- Market Structure Download
- A Deeper Look at US Listed Options Volumes
- The Cboe Trading Floor Reopened – Revisiting Volume Data
- NYSE Goes All Electronic – What Does It Mean?
- The NYSE Trading Floor Reopened – Revisiting Market Share Data
- COVID-19 Related Market Turmoil Recap: Part I (Equities, ETFs, Listed Options & Capital Formation)
- 2020, the Year of the SPAC
- The 2020 Market Madness

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