



With fewer addressable clients, lower account balances, and more frustrated clients, the high-net-worth (HNW) and ultra-high-net-worth (UHNW) landscape has changed dramatically in the past 18 months. This annual report helps firms better understand the HNW (NW>\$5 million) and UHNW (NW>\$50 million) marketplace by examining client demographics, vehicle usage, market sizing, distribution strategies, advisor retention, and technology trends.

This report helps asset managers and wealth providers:

- Understand the size and characteristics of the HNW and UHNW markets
- Assess changes in risk tolerance, spending, and concerns of wealthy clients
- Learn how to attract new clients
- Effectively use technology to improve efficiency
- Retain clients and understand top reasons clients leave
- Attract talented wealth managers in transition
- Adjust fee schedules to retain profitability
- Use technology to track advisor time allocation, client communication, and compliance

This report contains 150 exhibits and 189 pages. It includes the following chapters:

1. High-Net-Worth Client Demographics
2. Wealth Preservation
3. Industry Players and Marketshare
4. Mergers and Acquisitions
5. Compensation and Retention
6. Fees and Pricing
7. Business Development
8. Technology and Operations
9. Open-Architecture Trends
10. Asset Allocation and Performance

Table of contents, user examples, and sample exhibits are included in this attachment.

INSIDE LOOK:

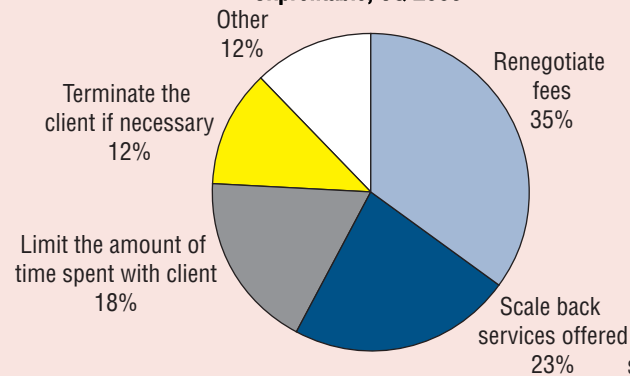
Key findings:

- More than 27% of individuals with over \$10 million in investable assets use four or more financial advisors, compared to 11% a year ago.
- With \$3.1 trillion in HNW client assets, wirehouses control 55% of the HNW market and manage on average \$72 million per advisor.
- HNW and UHNW individuals highly value firms with open-architecture approaches and will seek firms that offer best-of-breed solutions.
- Amidst industry layoffs, 42% of wealth managers reported an increase in staff size in 2009.
- Multi-family offices are projected to grow the fastest of all wealth managers—reaching \$461 billion by 2013.

Exclusive data:

- Fee structures and best practices
- Pending regulatory changes and the effect on HNW investors
- Current and projected high-net-worth provider AUM through 2013
- Services provided by HNW providers
- Average client AUM per advisor by HNW provider type
- Asset-allocation trends by provider type

Sample Exhibit: HNW Providers Report Most Effective Approach Taken When Clients Become Unprofitable, 3Q 2009



Source: Cerulli Associates



CERULLI ASSOCIATES

Report purchase includes:

- 5 hardcopies
- Online access
- Exhibits in Excel format
- Key findings in PDF format
- PowerPoint presentation of highlights
- Web recording of analyst presentation

For pricing, please contact: Marketing & Business Development

CMarketing@cerulli.com
+1 617-437-0084

WWW.CERULLI.COM

New in 2009: Quantitative Updates are now subscription-based and include online access to a database of prior annual releases of this report, related Thematic Reports, and a data supplement updating select exhibits.

See page 3 for more details.

Cerulli Associates
Boston • Singapore • London

December 2009



USER EXAMPLES:

The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: A broker/dealer is focused on making their firm more profitable in the wake of the market turmoil. They want to understand how other wealth providers have cut costs. *Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net-Worth Markets* answers the following questions:

- What type of services are typically outsourced, and what the benefits of outsourcing?
- If a client becomes unprofitable, what are the options other than cutting the client?
- What type of technology can be implemented to save money?
- What are some different ways of charging clients other than strictly asset-based fees?

Scenario 2: A multi-family office (MFO) is trying to recruit advisors who are dissatisfied with their current employer. The MFO wants to better understand wirehouses and private client groups. *Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net-Worth Markets* answers the following questions:

- What type of HNW individuals do wirehouses and private client groups typically serve?
- How do HNW providers differ in their portfolio-construction techniques?
- What percentage of accounts at private client groups and wirehouses are open architecture?
- How much in assets does the average HNW advisor control?

Scenario 3: An asset manager wants to better understand the needs of HNW individuals and providers so they can potentially distribute to this client base. *Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net-Worth Markets* answers the following questions:

- How many assets does each type of provider control?
- Which HNW providers are the most amenable to third-party managers?
- How have investing styles of the HNW changed in the past 18 months?
- How many providers do HNW typically have?

MORE INFORMATION:

To learn how to apply this report to your firm's unique needs, please contact:

Marketing & Business
Development
+1 617-437-0084
CAmarketing@cerulli.com



CERULLI QUANTITATIVE UPDATE SUBSCRIPTION

HIGH-NET-WORTH AND ULTRA-HIGH-NET-WORTH MARKETS 2009

Report purchase includes:

- 5 hardcopies
- Online access
- Exhibits in Excel format
- Key findings in PDF format
- PowerPoint presentation of highlights
- Web recording of analyst presentation

NEW: Quantitative Updates are now subscription-based. Your purchase includes online access to a database of prior report releases, related Thematic Reports, and a data supplement.

A subscription to *Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net-Worth Markets 2009* remains active through 3/15/2011 and includes online access to the five related reports below at no cost. See the green Purchase tab on www.cerulli.com for more information on these reports.

- Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net- Worth Markets 2008
- Private Wealth Groups 2006
- Hedge Funds: The Market for Absolute Return 2005
- Wealth Transfer: Product and Advice Solutions 2004
- Asset Management: Private Client Groups 2003

Please contact me about this report.
Fax completed form to +1 617-437-1268.

Name: _____

Title: _____

Email: _____

Phone: _____

Firm: _____

Division or Business Unit Name: _____

Please contact **Marketing & Business Development** to learn more about pricing.
+1 617-437-0084
CAmarketing@cerulli.com

CERULLI ASSOCIATES

One Exeter Plaza
Boston, MA 02116
Tel: +1 617 437 0084

28 Maxwell Road
Singapore 069120
Tel: +65 6327 4045

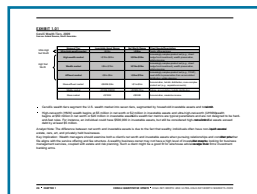
11-15 Betterton Street
London WC2H 9BP
Tel: +44 20 7470 8817

WWW.CERULLI.COM

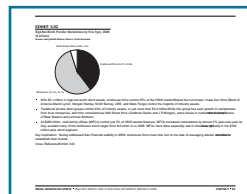
Special Feature:

To view a thumbnail view of the contents of this report, please visit our website at www.cerulli.com.

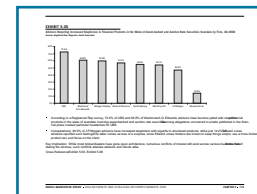
Go to Reports and click on 'view' next to the report title.



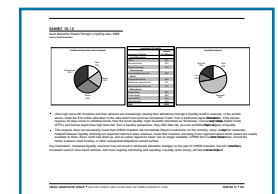
Page 26



Page 69



Page 119



Page 183

TABLE OF CONTENTS

TABLE OF CONTENTS - OVERVIEW

INTRODUCTION & METHODOLOGY	10
KEY THEMES & PROGNOSIS	11
CHAPTER 1: HIGH-NET-WORTH CLIENT DEMOGRAPHICS	25
CHAPTER 2: WEALTH PRESERVATION	49
CHAPTER 3: INDUSTRY PLAYERS AND MARKETSHARE	67
CHAPTER 4: MERGERS AND ACQUISITIONS: IMPACT ON THE WEALTH MANAGEMENT INDUSTRY ..	107
CHAPTER 5: COMPENSATION AND RETENTION	114
CHAPTER 6: FEES AND PRICING	130
CHAPTER 7: BUSINESS DEVELOPMENT	139
CHAPTER 8: TECHNOLOGY AND OPERATIONS	147
CHAPTER 9: OPEN-ARCHITECTURE TRENDS	155
CHAPTER 10: ASSET ALLOCATION AND PERFORMANCE	170

TABLE OF CONTENTS - EXPANDED

SECTION I: THE HIGH-NET-WORTH CLIENT MARKETPLACE	
CHAPTER 1: HIGH-NET-WORTH CLIENT DEMOGRAPHICS	25
MARKET SIZING	
Exhibit 1.01. Cerulli Wealth Tiers, 2009	26
Exhibit 1.02. Distribution of U.S. Households by Net Worth Range, 1989-3Q 2009E	27
Exhibit 1.03. Distribution of U.S. Households by Investable Asset Range, 1989-3Q 2009E	28
Exhibit 1.04. Distribution of Investable Assets by Net Worth Range, 1989-3Q 2009E	29
Exhibit 1.05. Distribution of Investable Assets by Investable Asset Range, 1989-3Q 2009E	30
Exhibit 1.06. Household Non-Financial Assets by Asset Type and Net Worth Range, 3Q 2009E	31
Exhibit 1.07. Household Non-Financial Assets by Asset Type and Investable Asset Range, 3Q 2009E	32
ASSETS AND LIABILITIES	
Exhibit 1.08. Retail Addressable Markets, 3Q 2009E	33
Exhibit 1.09. High-Net-Worth Source Comparison: Federal Reserve vs. Capgemini/ Merrill Lynch World Wealth Report, 2009	34
Exhibit 1.10. Household Liabilities by Liability Type and Net Worth Range, 3Q 2009E	35
Exhibit 1.11. Household Investable Assets by Asset Type and Investable Asset Range, 3Q 2009E	36
Exhibit 1.12. Household Investable Assets by Asset Type and Net Worth Range, 3Q 2009E	37

Exhibit 1.13. Advisor Product Mix by Core Market, 2009	38
Exhibit 1.14. Household Net Worth Composition by Investable Asset Range, 2007-3Q 2009E	39
CHANGING CLIENT ATTITUDES: RISK TOLERANCE AND CLIENT SATISFACTION	
Exhibit 1.15. Household Risk Level by Investable Asset Range, August 2008, December 2008, and June 2009	40
Exhibit 1.16. Household Satisfaction with Primary Provider by Investable Asset Range, August 2008 vs. December 2008	41
Exhibit 1.17. Household Satisfaction with Primary Provider by Primary Provider Channel, August 2008, December 2008, and June 2009	42
Exhibit 1.18. Reasons for Satisfaction with Primary Provider by Investable Asset Range, June 2009	43
Exhibit 1.19. Households' Trust of Financial Firms, December 2008 vs. June 2009	44
Exhibit 1.20. Number of Financial Advisors Used by Investable Asset Range, August 2008 vs. June 2009	45
Exhibit 1.21. Desire for Written Financial Plan by Investable Asset Range, August 2008 vs. June 2009	46
Exhibit 1.22. Reason for Switching Primary Provider, August 2008, December 2008, and June 2009	47
Exhibit 1.23. Bank Advisors: Reasons for Clients Leaving, 1Q 2009	48
 CHAPTER 2: WEALTH PRESERVATION	 49
PRESERVATION IN THE FACE OF EROSION	
Exhibit 2.01. Understanding the Family Dynamic, 3Q 2009	50
Exhibit 2.02. The Natural Destruction of Wealth, 2009	51
Exhibit 2.03. Forbes' Cost of Living Extremely Well Index vs. CPI, 1976-2009	52
Exhibit 2.04. Sustaining Family Wealth, 2009	53
Exhibit 2.05. Federal Estate Taxes, 2002-2011	54
Exhibit 2.06. Average Tax Savings if Estate Tax is Repealed in 2011	55
Exhibit 2.07. Selected Wealth Transfer Vehicles, 2009	56
Exhibit 2.08. Impact of Pending Tax Reforms, 2009	57
Exhibit 2.09. Impact of Pending Advisory Reforms, 2009	58
Exhibit 2.10. Directors' and Officers' Purchase of Fiduciary Coverage, 2008	59
Exhibit 2.11. Bank Trusts: Factors That Drive Interest in Trust Services, 1Q 2009	60
Exhibit 2.12. Decline of the Jet-Set: Year-Over-Year Comparison of Business Jet Activity, July 2009	61
PHILANTHROPY	
Exhibit 2.13. Four Ways to be Philanthropic, 2009	62
Exhibit 2.14. Philanthropic Considerations, 2009	63
Exhibit 2.15. Top-10 Donors: America's Most Generous Philanthropists, 2008	64
Exhibit 2.16. Money Given to Charities Compared to 18 Months Ago, May 2009	65
Exhibit 2.17. Foundations: Scaling Back Giving, April 2009	66

SECTION II: THE HIGH-NET-WORTH PROVIDER COMPETITIVE LANDSCAPE

CHAPTER 3: INDUSTRY PLAYERS AND MARKETSHARE	67
INDUSTRY PLAYERS AND MARKETSHARE	
Exhibit 3.01. Service Provider Spectrum, 2009	68
Exhibit 3.02. High-Net-Worth Provider Marketshare by Firm Type, 2008	69
Exhibit 3.03. High-Net-Worth Provider Marketshare and Growth by Segment, 2008	70
Exhibit 3.04. Top U.S. Wealth Managers, 2Q 2008 - Part 1	71
Exhibit 3.04. Top U.S. Wealth Managers, 2Q 2008 - Part 2	72
Exhibit 3.05. Top U.S. Wealth Managers, 2Q 2009 - Part 1	73
Exhibit 3.05. Top U.S. Wealth Managers, 2Q 2009 - Part 2	74
Exhibit 3.06. Top-10 Multi-Family Offices by Assets, 2008	75
Exhibit 3.07. Boston Area Law Firms with RIA Affiliates, March 2009	76
Exhibit 3.08. Consulting Firms Advising Wealthy Clients, Ranked by Total Assets Under Advisement, 2008	77
Exhibit 3.09. Declining Private Bank and Trust Marketshare, 1995-2008E	78
Exhibit 3.10. High-Net-Worth Providers: Differentiating Factors, 3Q 2009	79
Exhibit 3.11. Projected High-Net-Worth Provider AUM by Firm Type, 2005-2013E	80
WEALTH MANAGER PROFILES	
Exhibit 3.12. Wealth Manager Profile: Goldman Sachs, 2009	81
Exhibit 3.13. Wealth Manager Profile: JPMorgan Chase, 2009	82
Exhibit 3.14. Wealth Manager Profile: Bank of America Merrill Lynch, 2009	83
Exhibit 3.15. Wealth Manager Profile: Wells Fargo Advisors, 2009	84
Exhibit 3.16. Wealth Manager Profile: Morgan Stanley Smith Barney, 2009	85
Exhibit 3.17. Wealth Manager Profile: AllianceBernstein, 2009	86
WEALTH MANAGERS' BUSINESS METRICS/SERVICE OFFERING	
Exhibit 3.18. Research Participants by Firm Type, 3Q 2009	87
Exhibit 3.19. Wealth Managers: Breakdown of Clients' Net Worth, 2008	88
Exhibit 3.20. Average Survey Respondents' Total High-Net-Worth AUM, 3Q 2009	89
Exhibit 3.21. High-Net-Worth Providers' Minimum Account Size, 2008	90
Exhibit 3.22. High-Net-Worth Providers' Client Account Averages, 2008	91
Exhibit 3.23. Primary, Secondary, and Outsourced Services Offered at High-Net-Worth and Ultra-High-Net-Worth Providers, 3Q 2009 - Part 1	92
Exhibit 3.23. Primary, Secondary, and Outsourced Services Offered at High-Net-Worth and Ultra-High-Net-Worth Providers, 3Q 2009 - Part 2	93
Exhibit 3.24. Advisor Core Market by Channel, 2Q 2009	94
Exhibit 3.25. Percent of Clients Receiving Services by Channel, 2Q 2009	95
Exhibit 3.26. High-Net-Worth Provider Time Allocation by Function, 3Q 2009	96
Exhibit 3.27. Recent Changes in Client Communication, by Advisor Practice Growth, 4Q 2008	97
Exhibit 3.28. Ways in Which the Tone of the Conversation has Changed, 3Q 2009	98
BRAND AND INDUSTRY PERCEPTION	
Exhibit 3.29. Wealth Manager Brand Status, 2Q 2009	99

Exhibit 3.30. Industry Professionals' Perception of Best Brand Among High-Net-Worth Investors, May 2009	100
Exhibit 3.31. Bank Trusts: Reasons Investors Do Not Use a Bank or Trust Company as a Primary Advisor, 1Q 2009	101
Exhibit 3.32. Bank Trusts: Reasons Clients Should Work With a Bank or Trust Company, 1Q 2009	102
Exhibit 3.33. Top-25 Failed FDIC Institutions, October 2009	103
Exhibit 3.34. Bank Trusts: Impact of Financial Crisis on Trust Business, 1Q 2009	104
Exhibit 3.35. Common Explanations for Lower-Than-Expected Client Turnover at Wall Street Firms, 2009	105
Exhibit 3.36. Rising Stars: Beneficiaries of Wirehouse Struggles, 2009	106
CHAPTER 4: MERGERS AND ACQUISITIONS: IMPACT ON THE WEALTH MANAGEMENT INDUSTRY	107
Exhibit 4.01. Wealth Management M&A Metrics, 1998-2008	108
Exhibit 4.02. Wealth Management M&A Metrics by Firm Type, 2003-2008	109
Exhibit 4.03. Selected Wealth Management Transactions, 2008	110
Exhibit 4.04. Stated Objective for Select M&A Activity, 2008-2009	111
Exhibit 4.05. Bank of America: Selected Mergers and Combinations, 1998-2009	112
Exhibit 4.06. Potential Merger Pitfalls, 2009	113
CHAPTER 5: COMPENSATION AND RETENTION	114
Exhibit 5.01. Average Number of Relationship Managers at Family Offices, Wirehouses, and Traditional Private client Groups, 3Q 2009	115
Exhibit 5.02. Wealth Managers: Changes in Size of Staff, 3Q 2009	116
Exhibit 5.03. Wealth Managers: Changes in Outsourced Services, 3Q 2009	117
Exhibit 5.04. Wealth Managers: Changes in Average Level of Compensation, 3Q 2009	118
Exhibit 5.05. Advisors Reporting Increased Skepticism in Financial Products in the Wake of Asset-Backed and Auction Rate Securities Scandals by Firm, 3Q 2008	119
Exhibit 5.06. Advisors' Reported Effects of Broker/Dealer Mortgage-Related Write-downs on Client Relationships by Firm, 3Q 2008	120
Exhibit 5.07. Morgan Stanley Smith Barney Advisor Payout, 2009	121
Exhibit 5.08. 2008 Barron's Top-100 Advisors That Changed Firms in 2008	122
Exhibit 5.09. Primary Reason Advisor Switched B/Ds by Current Channel, 2Q 2009	123
Exhibit 5.10. Primary Reason Advisor Switched B/Ds by Current Channel, 2Q 2009	124
Exhibit 5.11. Destination of Advisor Leaving a Firm by Channel, 1999-2003 and 2004-2008	125
Exhibit 5.12. Destination for Recent Wirehouse Departures by Channel, 2009	126
Exhibit 5.13. Advisor Age by Channel, 2Q 2009	127
Exhibit 5.14. Percent of Clients Moving with Advisor by Channel, 2009	128
Exhibit 5.15. Wealth Managers' Plans for Changing Remuneration Structure in Next Two Years, 3Q 2009	129
CHAPTER 6: FEES AND PRICING	130
Exhibit 6.01. High-Net-Worth Providers' Gross Revenue Breakdown, 3Q 2009	131

Exhibit 6.02. Private Wealth Providers' Revenue and Profitability Trade-Off, 2008	132
Exhibit 6.03. Wealth Managers: Changes in Level of Fees, 3Q 2009	133
Exhibit 6.04. Wealth Managers: Fee Breakpoints based on Clients' Level of Wealth, 3Q 2009	134
Exhibit 6.05. Wealth Managers: Most Effective Approach Taken When Clients Become Unprofitable, 3Q 2009	135
Exhibit 6.06. High-Net-Worth Providers' Concerns, 3Q 2009	136
Exhibit 6.07. Factors Utilized for High-Net-Worth Providers' Client Segmentation, 3Q 2009	137
Exhibit 6.08. Willingness to Pay for Advice by Investable Asset Range, August 2008 vs. June 2009	138
CHAPTER 7: BUSINESS DEVELOPMENT	139
Exhibit 7.01. High-Net-Worth Providers' Approach to Increasing Profitability, 3Q 2009 - Part 1	140
Exhibit 7.01. High-Net-Worth Providers' Approach to Increasing Profitability, 3Q 2009 - Part 2	141
Exhibit 7.02. Effectiveness of High-Net-Worth Providers' Business Development Methods, 3Q 2009	142
Exhibit 7.03. Where the Forbes 400 Make Their Money, 2009	143
Exhibit 7.04. Best-Paid Hedge Fund Managers, 2008	144
Exhibit 7.05. Bank Advisors: Most Effective Means to Develop Business Relationships with Client's Children, 1Q 2009	145
Exhibit 7.06. Wealth Managers: Reasons for Client Departure, 2008	146
CHAPTER 8: TECHNOLOGY AND OPERATIONS	147
Exhibit 8.01. High-Net-Worth Providers' Reasons for Outsourcing Technology and Operation Functions, 2009	148
Exhibit 8.02. Wealth Managers Having Plans to Develop or Adopt New Technology This Year, 3Q 2009	149
Exhibit 8.03. Factors Influencing High-Net-Worth Providers' Technology Purchases, 3Q 2009	150
Exhibit 8.04. High-Net-Worth Aggregation and Reporting Systems, 2009	151
Exhibit 8.05. Wealth Managers: Methods of Client Account Aggregation, 3Q 2009	152
Exhibit 8.06. Wealth Managers' Average Distribution Costs, 2009	153
Exhibit 8.07. Advisor Satisfaction with Technology by Source of Technology, 2009	154
SECTION III: INVESTMENTS: OPEN ARCHITECTURE, ASSET ALLOCATION AND PERFORMANCE	
CHAPTER 9: OPEN-ARCHITECTURE TRENDS	155
Exhibit 9.01. Open Architecture Estimates Across Private Wealth Channels, 3Q 2009	156
Exhibit 9.02. High-Net-Worth Provider AUM with Third-Party Managers, 2008	157
Exhibit 9.03. Addressable Retail Assets per Channel and Advisor, 2008	158
Exhibit 9.04. Performance of Selected Brokerage Firms' Focus Lists, 2008	159

Exhibit 9.05. Gray Matter: How Open is Open Architecture, 2009	160
Exhibit 9.06. Retail Manager: Third-Party Distributed Channel Profitability Rankings, 2009 ...	161
Exhibit 9.07. Open Architecture, Overall Trust Data, 2001-2008	162
Exhibit 9.08. Top-50 Banks by Third-Party Personal Trust and Agency Assets, Adjusted, 2008 ..	163
Exhibit 9.09. Bank Advisors: Change in the Usage of Third-Party Managers During the Past Three Years, 1Q 2009	164
Exhibit 9.10. Bank Advisors: Most Important Factors When Choosing Managers, 1Q 2009 - Part 1	165
Exhibit 9.10. Bank Advisors: Most Important Factors When Choosing Managers, 1Q 2009 - Part 2	166
Exhibit 9.11. Bank Trusts: Soft Issues When Considering Third-Party Managers, 1Q 2009 ...	167
Exhibit 9.12. Bank Advisors and Trust Professionals: Best Practices of Investment Managers, 1Q 2009	168
Exhibit 9.13. Bank Trusts: Impediments of Moving to Open Architecture, 1Q 2009	169
CHAPTER 10: ASSET ALLOCATION AND PERFORMANCE	170
Exhibit 10.01. Changing Approach for Manager and Market Research, 3Q 2009	171
Exhibit 10.02. Change in Asset Allocation, 3Q 2009	172
Exhibit 10.03. Products and Vehicles Expected to be Used More Frequently in 12-24 Months, 3Q 2009	173
Exhibit 10.04. High-Net-Worth Investor Financial Assets by Asset Class, 2007-1010E	174
Exhibit 10.05. Selected Endowment Allocations and Performance, 2008-2009	175
Exhibit 10.06. Global Single-Manager Hedge Fund Assets, 1998-2008	176
Exhibit 10.07. Global Single-Manager Hedge Funds by Sector/Strategy, 2004-3Q 2009	177
Exhibit 10.08. Global Fund-of-Hedge-Funds Assets, 2004-2008	178
Exhibit 10.09. Global Fund-of-Hedge-Funds Assets by Segment, 2004-3Q 2009	179
Exhibit 10.10. Fund-of-Hedge-Funds Performance, 1999-3Q 2009	180
Exhibit 10.11. Global Single-Manager Hedge Fund Assets, 2008-2013E	181
Exhibit 10.12. Global Fund-of-Hedge-Funds Assets, 2008-2013E	182
Exhibit 10.13. Asset Allocation Viewed Through a Liquidity Lens, 2009	183
Exhibit 10.14. Manager Risk Aversion, 4Q 2008-2Q 2009	184
Exhibit 10.15. Performance of Art as an Asset Class, 1Q 2009-2Q 2009 YTD	185
Exhibit 10.16. Applying an Asset-Liability Framework to Wealth Management, 2009	186
Exhibit 10.17. Importance of ETF Attributes by Core Market, 2Q 2009	187
Exhibit 10.18. Advisor ETF Usage for Strategic and Tactical Allocations by Core Market, 2Q 2009	188
Exhibit 10.19. Performance of Selected Long-Short Mutual Funds, 2008-2Q 2009 YTD	189

INTRODUCTION & METHODOLOGY

Cerulli Quantitative Update: High-Net-Worth and Ultra-High-Net-Worth Markets 2009 is the second in a series of annual CA reports focusing on the high-net-worth and ultra-high-net-worth marketplaces. Intended for U.S. wealth managers (wirehouses, brokerages, trust companies, private banks, multi-family offices and Registered Investment Advisors) and asset managers (mutual fund companies, hedge funds, institutional, and separate account managers), this report examines the current state of U.S. high-net-worth and ultra-high-net-worth markets with respect to client demographics, services offered, vehicle usage, market sizing, competition, distribution strategies, advisors retention, client satisfaction, and technology trends. The report profiles several types of business models offered, running the gamut from trust companies relying exclusively on in-house management, to multifamily offices offering open architecture in investments, as well as other services (e.g., legal advice, risk management).

A proprietary survey of family offices, wirehouses, brokerages, trusts, private banks, and high-end RIAs is the foundation of this report. For information on participating in this survey, and other recurring CA surveys, please visit the following website: (www.cerulli.com/surveys)

In addition to proprietary survey data, CA analysts compiled information from numerous third parties, publications and government entities, such as the Federal Reserve's Survey of Consumer Finance. This year, given the tremendous turmoil in the marketplace, our research also draws on investor satisfaction data collected through a partnership with Phoenix Marketing International, as well as broker turnover and related trends detailed in *The Cerulli Report, Advisor Migration: the Changing Landscape of Retail Distribution*.

In general, CA's opinions and perspectives are shaped by a robust methodology that includes:

- **Industry understanding:** All Cerulli analysts come to the firm with background shaped by relevant experience at leading financial services firms, which contributes to the internal pool of industry knowledge fed by more than 15 years of proprietary research and consulting
- **Quantitative analysis:** CA maintains an online, password-protected survey engine as part of a voluntary, information-sharing relationship whereby participants complete confidential surveys in exchange for an aggregate summary of key findings. All information is presented in aggregate form and proprietary survey information is not directly attributed to participants. Where possible, or where required by the need for information on a specific niche or demographic, we also draw upon relevant third-party data.
- **Qualitative research:** Cerulli analysts conduct background research interviews with industry executives and advisors in a confidential manner, which allows for candid commentary regarding the state of the U.S. private wealth landscape and major trends driving change.

SAMPLE SECTION

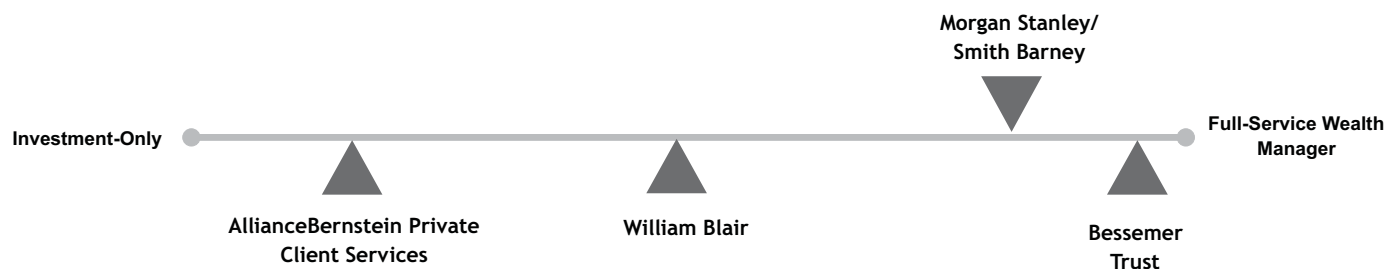
from

**CERULLI QUANTITATIVE UPDATE:
HIGH-NET-WORTH AND ULTRA-HIGH-NET-WORTH MARKETS 2009**

EXHIBIT 3.01

Service Provider Spectrum, 2009

Source: Cerulli Associates



- **Competitors in the wealth management space vary dramatically in terms of the scope of their service offering.** For example, AllianceBernstein primarily fits the “money manager” or “investment counsel” mode, focusing on tax-aware investment management for high-net-worth (HNW) clients. Though the firm does provide some ancillary services, the model is closed architecture, and driven largely by the strength of the proprietary offerings. Wealth managers in this mold tend to have lower potential revenues, but higher levels of profitability.
- **At the other extreme lie multi-family offices (MFOs) such as Bessemer Trust, which offer a full suite of services, including trust services, business planning, legacy planning, and family wealth-stewardship.** Some of these services require a very high-touch approach, and demand that the wealth manager retain experts with a very deep knowledge base.
- **In between these two extremes (AllianceBernstein and Bessemer Trust) are business models such as that of William Blair or wirehouse firms (Morgan Stanley).** The former offers investment banking services, and in recent years, developed an open-architecture investment offering. For wirehouse firms, financing and capital markets capabilities are very extensive. In addition, wirehouse firms have built out or acquired multi-family offices, which cater to UHNW investors. However, the services offered by wirehouse family offices tend not to be available to the general HNW client base.

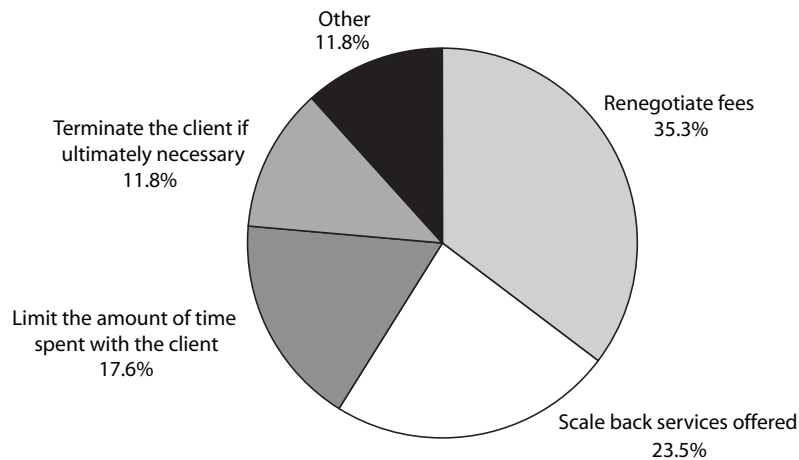
Key Implication: Fee model, addressable client base, and profitability will hinge largely upon the extensiveness of the wealth manager’s service offering.

Cross Reference: Exhibit 3.10, Exhibit 3.16, Exhibit 3.17, Exhibit 3.19, Exhibit 3.20, Exhibit 3.21, Exhibit 3.22, Exhibit 3.23

EXHIBIT 6.05

Wealth Managers: Most Effective Approach Taken When Clients Become Unprofitable, 3Q 2009

Source: Cerulli Associates



- **Over one-third (34%) of HNW providers will attempt to renegotiate their fees if a client becomes unprofitable. Firms should regularly examine the time and money it takes to service each client by keeping careful records,** reassessing fees on a yearly basis with the client to validate the resources they are using.
- **Roughly one-quarter (24%) of wealth managers deal with unprofitable clients by scaling back the services offered.** Eliminating some services can be a mutual decision and the client can decide to use external providers for specialized services such as concierge and bill pay.
- **Just 12% of providers terminate unprofitable clients.** This is a drastic decision, and most providers told Cerulli that they only follow through with this action if all other options have been explored. Wealth managers also reported that most of the clients they terminate are difficult ones.

Key Implication: Wealth managers should tread carefully when making exceptions or pricing relationships based on the promise of expected future liquidity events. Best practices include structuring the initial account agreements with higher fees coupled with temporary fee waivers which expire after a certain date. Building in contingent waivers at the outset of the relationship may be preferable to the awkward conversations that occur when a client fails to bring over promised additional assets.