

Platform Made Perfect

A Wealth Manager's Guide
to Optimizing Product and
Service Platforms for
High-Net-Worth Clientele



An Industry
Intelligence
Report By

3C Financial
Partners

Over the past decade, the number of millionaire and billionaire investors has doubled to over 8 million individuals. During this same time, third-party investment product and service platforms designed to help financial institutions serve these investors have undergone a dramatic evolution. This report was created to help investment product manufacturers and distributors – increasingly known as Wealth Managers – capitalize on the high-net-worth market and understand the role Third-Party Platforms (TPPs) can play in this success.

Platform Made Perfect addresses the size and growth of the Millionaire Market, defines Wealth Management, and outlines industry-, firm-, and client-level financials for this attractive and lucrative investor segment. Most importantly, this report delivers strategic conclusions and provides the tools and tactics to help firms assess Third-Party Platform opportunities, evaluate vendors, and implement a product and service platform solution that will ensure industry leadership for the coming decade.



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About 3C Financial Partners

3C Financial Partners (3C) provides merchant banking services to visionary financial services companies and the executives that manage them. The firm was founded in 2001 and is headquartered in Southern California. **3C's** merchant banking services consist of three components: investment banking, strategy consulting, and private equity services. **3C** delivers these services through customized engagements, research reports, executive seminars, and conference presentations. These services have been specifically designed to help executives conduct transactions and implement new and innovative strategies.

3C is the only merchant bank focused exclusively on the developers and distributors of investment products and services as well as the related technology and service companies. **3C's** clients range from small investment advisory practices to global financial institutions and from startups to firms with more than 100 years of history. Their clients share one common bond—the desire to work with a firm that has a deep and thorough understanding of their **Company**, their **Clients**, and their **Competitors**.

Organization

This report offers executives at wealth management firms, most notably private bank and trust (PB&T) companies, the backdrop, support, and insight into identifying, evaluating, and delivering the right product and service platforms to satisfy the diverse needs of wealthy investors. **Platform Made Perfect** is organized into the following sections:

1. **The Millionaire Market**—details the number and assets levels of each of the tiers of high-net-worth investors and the companies that service the market.
2. **Platform Specifications and Profitability Metrics**—provides insight into Third-Party Platform solutions to help companies generate additional penetration and profitability in serving wealthy clientele.
3. **Platform Benefits, Evaluation, and Implementation**—outlines the benefits of Third-Party Platforms as well as the key to success in platform evaluation and implementation.

Primary Research Methodology and Secondary Research Sources

In developing this innovative guide, **3C Financial Partners** conducted thousands of hours of interviews with over 100 executives across the spectrum of the investment value chain. The firm performed this primary research with strategic leaders of private banks, investment management firms, family offices, and registered investment advisors, focusing on the concepts of wealth management, the High-Net-Worth market, and specifications for product and service platforms. In addition, in the course of its business, **3C** has vetted over 400 investment opportunities in the wealth management space, specifically evaluating the financial, marketing, and operational aspects of each venture.

3C also gathered and analyzed a significant amount of secondary research specifically for the development of this report. This information was used to supplement 3C's proprietary research and includes the following sources: U.S. Bureau of the Census, Internal Revenue Service, Federal Reserve Board's: Survey of Consumer Finances, Merrill Lynch/Cap Gemini Ernst & Young, CEG Worldwide, VIP Forum, Investment Company Institute, Company Reports, Money Management Institute, and Institute for Private Investors.

Industry Conventions and Myths

The High-Net-Worth Market - Because many reports on the high-net-worth (HNW) space only address the U.S. market, it is important to note that this report defines the HNW market as the total number of global HNW investors with greater than \$1MM in financial assets (i.e., real estate assets are not included). These investors are largely concentrated in North America (30%), Europe (29%), and Asia-Pacific (23%).

Platform Definitions – Platforms are often called TAMPs (Turnkey Asset Management Platforms), TPV's (Third Party Vendors) or TPPs (Third Party Platforms). TAMPs typically service registered investment advisors and financial institutions that employ various types of financial advisors. TPPs and TPVs typically service financial institutions exclusively and usually do so only on a private label basis.

Common Myths – 3C's research and analysis provides a contrarian view to a number of widely-held beliefs regarding the HNW market, private banks, and product platforms. This report helps to make myths out of the following concepts:

1. Closed architecture (defined as offering only proprietary products and services) affords the greatest means for growth and profitability.
2. Proprietary asset management divisions will suffer financial losses if Third-Party Platforms are introduced into the institutions in which they reside.
3. Once a firm has targeted the millionaire market, further customer segmentation and targeting is not necessary.
4. "One size fits all" when it comes to product and service platforms designed for the High-Net-Worth market and there is not a need to develop separate offerings for sub-segments of the market.
5. The top 1% of affluent investors controls the vast majority of assets and is the best target market to pursue.
6. The larger the client the higher the profit margin.

Questions...2 Perfection

At the end this report, 3C asks the reader important questions to facilitate the development of a company-level self assessment related to the topics covered. The answers to these questions should serve as the foundation for the internal analysis required to develop the optimal platform to meet each firm's unique needs and to maximize profitability.



2 Questions...
Perfection

Executive Summary

Historically, private bank and trust companies have experienced problems understanding, evaluating, and implementing Third-Party Platform solutions to serve high-net-worth clientele. In creating **Platform Made Perfect**, **3C Financial Partners** now offers these firms a guide to help them take advantage of and offer optimal product and service platforms to improve profitability and raise assets. Each section of the report details specific strategies and solutions to help firms find this success.

Finding Success with the Millionaire Market

Firms often fail to appropriately segment the HNW market and this section provides this framework and background to help them target this very attractive group of investors. Key findings include:

- ▶ The top 1% of HNW investors account for only 18% of HNW assets.
- ▶ The number of HNW investors is projected to eclipse 11 million and total \$44 trillion by 2010—each experiencing dramatic annual growth.
- ▶ Private Banks need to take a more aggressive approach to platform development and architecture to attract and gain market share.
- ▶ Third-Party product and service platforms have evolved and now offer valuable elements to help deliver wealth management solutions to HNW clients.
- ▶ These platforms will help firms offer the right number of products and services to complement proprietary offerings.

Platform Specifications and Profitability Metrics

The section details the optimal model to best match products and services with the entire range of HNW investors. Key findings include:

- ▶ Firms need to develop a new model to balance the right mix of products and services to each HNW market segment.
- ▶ There is a huge pool of potential revenue (\$300 billion) for firms that serve the HNW space.
- ▶ First-tier millionaires (\$1-5 million in assets) represent 71% of the total HNW revenue pool.
- ▶ Economies of scale offered by a Third-Party Platform can increase profits by 30-50% and can help to improve margins for each HNW market segment.
- ▶ For a firm with \$100 billion in assets, implementing a 65% proprietary and 35% third-party product and service mix can boost enterprise value by \$236 million and can increase margins by over 11%, adding an additional \$22.5 million in profits.

Platform Benefits, Evaluation, and Implementation

The section walks firms through the key value drivers of Third-Party Platforms and offers insight into how to appropriately evaluate and implement the right platform solution. Key findings include:

- ▶ A Third-Party Platform will deliver significant value to product and service depth, breadth, and quality.
- ▶ The right platform will help firms overcome gaps in current product and service line-ups, providing valuable protection and tools for risk management.
- ▶ Firms that are too heavily weighted in proprietary products and services open themselves to additional fiduciary risk, reduced competitiveness, and lower levels of profitability.
- ▶ Private banks often fail to perform adequate internal due diligence in evaluating third-party vendors—a detailed analysis will help firms find the right partner.
- ▶ Successful Third-Party Platform implementation requires the support and involvement a wide range of departments within the firm.

Private bank and trust companies that are able to find the right Third-Party Platform partner will find additional success and profitability in serving HNW investors. The process involves performing significant internal analysis, client segmentation, and developing the right target marketing strategies, but offers powerful benefits to innovative and forward-thinking firms. A Third-Party Platform will help firms to get more involved with the powerful industry trends towards true wealth management. Firms that implement the solutions offered in **Platform Made Perfect** will take valuable strides towards offering optimal products and services to HNW investors.

3C Financial Partners

3C Financial Partners (3C) provides merchant banking services to visionary financial services companies and the executives that manage them. The firm was founded in 2001 and is headquartered in Southern California. **3C** assists *Wealth Managers* seeking additional growth and profitability in the following ways:

What We Do

- ▶ **Investment Banking:** Execution of Buy-Side and Sell-Side M&A, M&A Advisory, Capital Raising, and Valuation
- ▶ **Consulting:** Financial Management, Strategic Advisory, Outsourcing, and New Venture Consulting
- ▶ **Research:** Develop, Publish, and Distribute Detailed Research & Analysis, Provide Executive Seminars
- ▶ **Private Equity Services:** Advise VC's and Private Equity Funds on Investments and Portfolio Companies

What Sets Us Apart

- ▶ **Investment Industry Focus:** 3C focuses exclusively on the developers and distributors of investment products, and the related financial technology and service companies.
- ▶ **Multi-Disciplinary Team and Approach:** 3C's professionals and processes bring together the best practices of leading VC firms, investment banks, strategy consultants, and legal advisors.
- ▶ **Strategic Decision Making through Finance:** 3C employs financial techniques to help executives achieve industry leadership and make the most of their precious capital and human resources.
- ▶ **Extensive, Industry-Specific Databases and Contacts:** 3C leverages its vast proprietary resources and relationships to consummate transactions and make powerful introductions.

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