Perspective from
Franklin Templeton Industry Advisory Services

The role of networks and community in high-touch advisory

High-touch advisory for ultra-high-net-worth individuals and institutions focuses on community to foster intra-network connectivity and benefits

December 2024

This is the 11th article in the Future of Investing series, drawing insights from our annual industry-wide survey.[1] The Overview summarizing the top 10 key findings can be found here along with the entire series of articles exploring the key findings.

Today's platforms that support bankers and advisors in their attempts to deliver high-touch services to their ultra-high-net-worth (UHNW) clients and family offices have significant shortcomings. Most investment offerings remain focused on equities and bonds, and while many of these platforms can handle private funds, these funds are not well integrated into reporting and performance attribution systems. The documents that lay out the terms and covenants required to administer private funds, margin accounts and derivatives are often handled manually and not built into automated workflows. Tools that could help clients model potential portfolio impacts and analyze performance across the breadth of their asset exposures are mostly lacking. There is little interactivity beyond basic chatbots and—in some instances—video-conferencing abilities. The gap is widening between service demands and the portfolio and experience that can be delivered to these higher-wealth clients.

Like institutional investors, the wealthiest individual investors are creating more complex portfolios that utilize a range of investment techniques to leverage, hedge, tilt and structure their asset holdings. They are co-investing with private fund managers and are pursuing direct investment opportunities. They are securing funding to support new opportunities and looking to manage private credit arrangements and private loans. Rather than any type of standard portfolio, these investors need to have their assets managed as bespoke "portfolios of one."

> **“For Gen Z and beyond, there is a different perception about wealth. They view it as inherited wealth that someone made and gave to them. There is much more of a fiduciary and an entitlement aspect to the money. I have spoken to many individuals in this situation, and they ask themselves, ‘can I really think of this as my money?’”**
>
> **Hedge Fund**
> Private Investment Manager

This is creating challenges for UHNW clients and their families. More UHNW individuals are setting up family offices as the patriarchs and matriarchs reach retirement (80% of single-family offices are first-generation).[2] Rather than this being a single point-in-time exercise, there is typically a reduction in the older generation’s participation and a ramping up of the next generation’s involvement. This increases the communication challenges of managing the family’s money as multiple stakeholders may want their voices heard and views taken into account on any decision.

Broadening the decision-maker pool also increases the likelihood that there will be a greater diversity of investment opportunities put in front of the family and that sub-groups may choose to invest in certain initiatives, while others may choose to forego participation. Since many families are aligned through business and social connections, the generational turnover of wealth also encourages a more “club-like” mentality. Generational peers from different families may bring opportunities to each other and choose to invest together, particularly around opportunities that touch on shared passions.

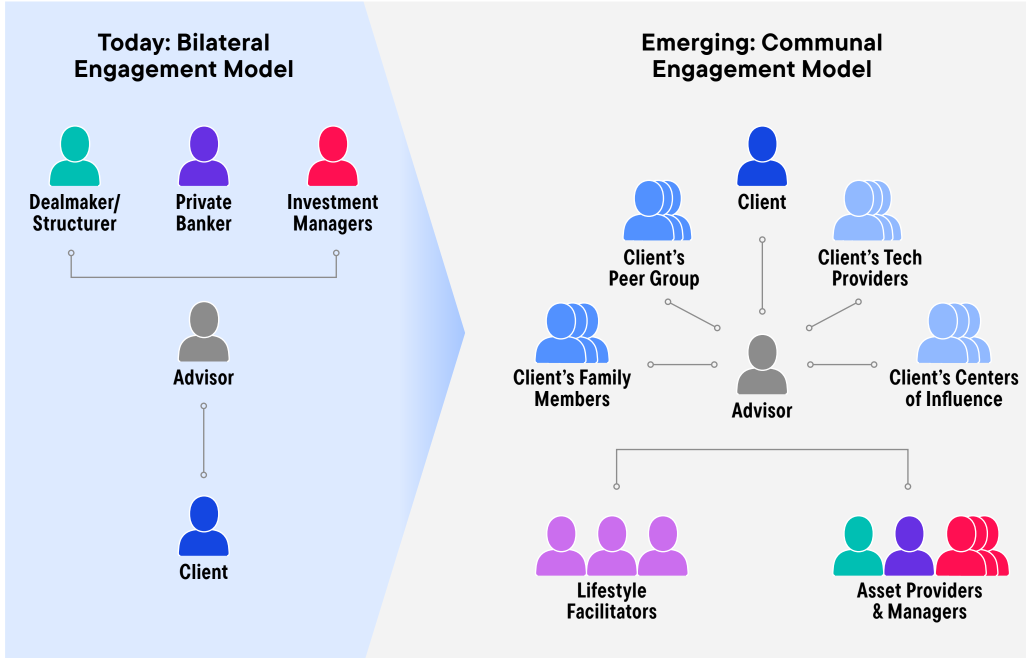
The result has been a growing trend toward wealthy individuals and their families joining multi-family offices or hiring their own chief investment officer or investment team, and even creating their own technology. Survey participants noted that some of these platforms combine bespoke messaging and voting apps to help coordinate a complex set of familial and peer relationships. They also feature customized accounting and reporting systems to address the fragmentation and complexity of the family’s overall and sub-portfolios. Often, families that have made these investments are opting to share their technology with each other, removing these opportunities from the traditional private-banking and wealth platforms.

> **“Family offices are using new structures to invest in new things: credit litigation, digital VC, crypto, direct investment in infrastructure and more.”**
>
> **Asset Manager**
> <US$500 billion

Reaching and servicing these clients requires greater engagement with their teams, seamless integration with their technology, an ability to understand and monitor activities across their personal connections, and a demonstration of alignment with their values and mission. It involves embedding advisory just as the collection model seeks to accomplish, but the integration target is more bespoke. The financial needs are more complex, the anticipation of values-based outcomes higher and the demands more aligned with a luxury lifestyle.

The advisory relationship that used to be bilateral is becoming multilateral. The client becomes the focal point in a way that was previously not the case, or even possible, and the banker or advisor needs to engage across a broader set of touchpoints. This is illustrated in Exhibit 1.

Exhibit 1: Evolution in High-Touch Investing Engagement Model



Source: Franklin Templeton Industry Advisory Services. For illustrative purposes only.

> **"They have to stop putting the adviser at the center and start putting the client at the center."**
>
> **Wealth Manager**
> >US$500 billion

There are three new ways of engaging that would define this multilateral approach:

- **Delivering resources, not just advice:** Bankers and advisors can tout their access to a range of top-tier investment managers, dealmakers, structurers and financiers. These are high-value relationships that are traditionally intermediated on the client's behalf by the banker or advisor but could be more directly integrated into the new communal environment. Bankers or advisors could facilitate access to enable more data and information flow, idea generation, client engagement and analysis from these resources.
- **Tapping into "centers of influence":**[3] UHNW individuals and families are typically supported by a network of professional providers—such as accountants, private attorneys, insurance brokers, property managers and personal assistants—who collectively enable their complex, multi-jurisdictional lifestyles. Creating targeted events, thought leadership and education for these constituents becomes a pathway to better understand client needs and behaviors, and to potentially gain access to these providers' broader range of clientele to enhance client acquisition.
- **Engaging social peers:** We noted earlier that the role of a banker or advisor is evolving into a lifestyle facilitator. Rather than embedding advisory-as-a-service in third-party offerings, the high-touch, exclusive community that the wealth advisor builds could enable key third parties to embed their organization's services or products into the banker's or advisor's network. This approach allows for the creation of bespoke and valued offerings within the wealth manager's network, providing preferential access to events, products and services that can be shared with friends and family. This strategy creates more stickiness in the client relationship by delivering exclusivity, personalization and emotional connection that are crucial to its success.

> “Some wealth groups offer family office services, which is called lifestyle management. They will hire house staff, manage rental properties, find assisted living, and retrofit houses. It has expanded beyond wealth management into lifestyle management.”
>
> **Wealth Manager**
> < US$500 billion

This exclusive lifestyle advisory hub would plug into the client’s individual ecosystem—and in some cases may even over time provide a framework to integrate the existing system—engaging UHNW individuals and families within their own environments. These clients often spend their lives with a narrow set of peers. According to Altrata’s 2023 Billionaire Census, over a third of those connected to billionaires are billionaires themselves and many others are ultra-wealthy.[4]

Creating technologies and curating experiences that embed the banker or advisor into this very restricted group, while building it in a way that reflects their social dynamics and privacy preferences, is crucial. These individuals and families socialize, travel, network and attend events together. Offering private communication channels for investors to post and share within their network, along with collaborative social calendaring and planning tools, embeds the advisor in the client’s network, yielding access to valuable relationship data for behavioral modeling. Forging partnerships with key third parties to enhance the client’s travel, shopping, collecting, philanthropy and expense management further streamlines the investor’s life, adding efficiency and value.

Delivering curated experiences—with luxury brands, renowned chefs, artists, performers and other experts—offers advisors a way to further embed their offerings into the client’s life, and to potentially access a larger segment of the client’s peer network. Events can be designed for maximum appeal. For example, Angelina Jolie’s “Atelier Jolie” in New York provides a space for creative people to collaborate with skilled tailors, pattern-makers and artisans from around the world to design their own clothing.[5] Another example is luxury sports travel packages, such as GR8’s NBA Stars Basketball experience, which pairs a client with a top NBA All-Star for an entire day. The experience includes free play, a one-on-one basketball clinic, and an exclusive dinner with the player open to the recipient’s friends and family.[6]

> “You want to be a trusted confidante, part of the inner circle. That all means different things. Trust is the currency that will determine success or failure.”
>
> **Wealth Manager**
> >USD$1 trillion

Digital experiences are increasingly becoming a crucial part of the broader strategy to engage wealthy individuals, particularly Next Gen. According to a new Obsess and Coresight Research study, more than half of US brands and retailers (55%) across categories will “definitely” increase their investments in immersive experiences over the next three years. Top offerings include virtual events/fashion shows, social shopping that allows individuals to invite friends, design avatars and shop together to replicate real-life shopping interactions online. Gamified shopping is also available that features points and rewards, challenges and missions, virtual currency and interactive quizzes and polls.[7]

Leveraging the power of community and creating more value for clients are also possible at an institutional level and can embed the consultant inside these networks as a key facilitator, making their venue a hub for investors. This is another form of “network alpha.”

Advisory is already highly attuned to mid- and small-sized institutional investors. These clients have long been serviced via an advisory model that looks at their individual goals and portfolio requirements. Asset managers have been competing head-to-head with investment consultants for several years to win such business. Platforms already exist that support increased portfolio complexity, growing use of private funds, and rising participation in co-investing or direct investing.

> **“We continue to grow because we have massive amounts of relevance to clients. You’ve got to help the business model of the advisor or pension fund or add dramatic value or alpha; otherwise, life is going to be tough.”**
>
> **Asset Manager**
> >US$1 trillion
> with OCIO offering

Outsourced chief investment officer offerings (OCIOs) and solutions teams from both investment managers and a growing set of industry consultants leverage these advanced asset management platforms to support their bespoke engagement. Market leaders are synthesizing learnings from their advisory work and building segment-specific institutional solution templates to speed up the provision of advisory services. Enabling portfolio-risk transfers and wind-down services for corporate pensions, creating equity completion portfolios to enhance the diversification of insurance company general accounts, and creating a liability matching program for a public pension are early examples of the segment-based, templated solutions approach.

Although OCIOs and solutions teams mine the intelligence generated via activity on their platforms to enhance their delivery, few have used this data to create case studies and share lessons learned more broadly with their clients. Moreover, most institutional advisors still deliver these services on a bilateral, as opposed to a multilateral, basis and not in any systematic way. They have not yet tapped into the latent power of the community of investors they service. Opportunities to leverage and strengthen the connectivity across these participants—and position the advisor as the facilitator of these interactions—offers a pathway to mimic some of the benefits envisaged for the UHNW and family-office segment. However, the benefits designed for the institutional community would focus less on appealing to investors’ social identities and more on addressing their business needs and missions.

Long-term stewards of institutional capital already engage via an informal network of relationships. The relatively limited size of the community, and the regular cadence of institutionally focused conferences throughout the year, give investors an ability to meet and compare notes, models and structures. They can leverage their relationships to solicit input and guidance from peers when facing challenges. However, this is incumbent on the institution to do such outreach and typically depends heavily on individual relationships. An advisor who facilitates and encourages proactive knowledge-sharing across their client base via their platform could greatly enhance this approach.

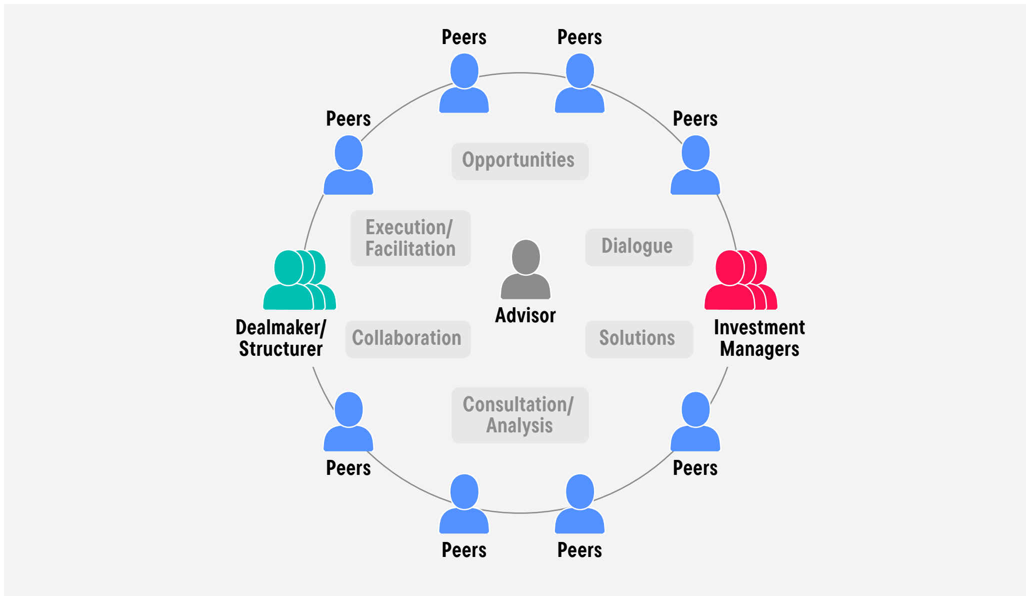
> **“One of the challenges is to get access to the best products. We hired a consultant to get capacity and access to constrained managers and vehicles, particularly in the alternatives space and focusing on hedge funds.”**
>
> **Corporate Pension**

Formal collaboration across the institutional ecosystem is also on the rise. For example, APG from the Netherlands and Japan’s GPIF pension recently announced a partnership to invest in large-scale infrastructure deals. APG had previously entered similar arrangements with South Korea’s largest pension fund NPS and the New Zealand Super Fund. The Nordic pension sees the collaborative model as beneficial and aims to further expand its preferred partnerships. APG notes that unlike general partners that look for an exit, investing with other asset owner partners creates a greater alignment of interest and ability to hold assets for longer time horizons.[8]

While large, well-funded institutions with their own investment teams can pursue these types of arrangements on a bilateral basis, smaller and mid-sized organizations may struggle to identify and structure deals with partners. The relatively smaller tickets that they can write also make it harder for these institutions to participate in co-investments and direct investment. This presents another opportunity for advisors looking to service the institutional audience to bring their community together, facilitate affiliations and partnerships, and enable these smaller organizations to scale the size of their potential investments.

Finally, there is a need for many institutions that have allocated significantly to private assets to rebalance their portfolios, create more liquidity and manage cash flows. This is especially true for pensions that had locked in liability-driven investments before the recent rise in interest rates. Secondaries market transaction volumes grew in 2023 to US$114 billion from US$103 billion in 2022. This was during a challenging time for fundraising and is evidence of the appetite for this type of deal structuring.[9] Arranging for the sale of LP interests, the takeover of co-investment shares, or the transfer of direct investments to other institutions serviced or selected by the advisor can be a third opportunity to engage their community, offer value and potentially facilitate client-to-client negotiations. This new type of advisor-sponsored exclusive institutional community is illustrated in Exhibit 2.

Exhibit 2: Advisor-Sponsored Institutional Communities



Source: Franklin Templeton Industry Advisory Services. For illustrative purposes only.

The shift from a high-touch bilateral approach to a communal and multilateral one, for both institutional investors and the wealthiest individuals, marks a significant evolution in the delivery of advisory services. The potential added value across the investor set, by greater involvement of their peers and more facilitation and leverage of their collective assets, offers a vision for a more compelling wealth offering that would embed the advisor in the client's network. This would create an unprecedented level of stickiness.

It also offers a vision of how new AI technologies can be used to dynamically model behaviors, extract insights and apply learnings that could enable advisors to better target and engage clients. The cost and complexity of building such offerings, and the need to secure the right third parties to enhance the communal experience, may limit how many advisory firms can go down this path. This might potentially lead to more consolidation in the industry, but the payoff for those that can deliver on this vision may be considerable.

We hope this series of short articles on the Future of Investing, sharing some of our key findings from our latest interview series, have been stimulating and have opened up some new perspectives. As we stated in the Overview that started this series, our aim is to help you better navigate the changing future. We look forward to the opportunity to share the insights and understanding gleaned through our ongoing work with you in more detail in the coming months.

For more information or to request a presentation on the 2024/25 Future of Investing findings, please contact your Franklin Templeton representative or reach us directly at *industryadvisoryservices@franklintempleton.com*.

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Endnotes

1. On an annual basis, Franklin Templeton's Industry Advisory Services team conducts off-the-record, unscripted interviews of leaders across the financial services industry. This year, we were fortunate enough to hear from 85 leading thinkers controlling over US$50.1 trillion of assets under management across the financial services industry about their views on the future of investing between March and September of 2024. Input came from a broad cross-section of the industry—asset owners, private banks, wealth managers, consultants, investment managers, crypto firms, academics, industry leaders and fintech firms. Conversations took place formally as part of free-ranging, qualitative, off-the-record, survey interviews, and informally during one-on-one sessions where the implications and plans for each organization are discussed and explored. Each of these inputs added to an emerging picture of an industry that is changing rapidly and across multiple dimensions. Interviews were conducted globally with about two-thirds of discussions held with leaders of firms based in the United States, and the other third spread between Europe and Asia.
2. Source: "Family Offices: Global Landscape and Key Trends." Instead. April 22, 2020.
3. Source: Bowen, John. "The Art Of Winning Ultra-High-Net-Worth Clients." Financial Advisor. November 16, 2024.
4. Source: Younge, Georgie. "Engaging Luxury Brands with UHNW Women." Quintessentially Experiences. April 11, 2024.
5. Source: Riley, Grace. "Angelina Jolie Discusses Designing Atelier Jolie, Finding Her Style." Us Weekly. September 27, 2023.
6. Source: "Basketball All Star Experience." The gr8experience. Accessed September 19, 2024.
7. Source: Stambor, Zak. "Exclusive—Retailers rank immersive experiences near the top of their investment priorities." emarketer. October 24, 2023.
8. Source: White, Amanda. "Giants APG and GPIF collaborate on infra." Top 1000 Funds. April 18, 2024.
9. Source: Lovells, Hogan. "Secondary Portfolio Sales–A Guide to Pension Funds Selling Fund Interests." JDSupra. January 31, 2024.

Curated glossary of relevant terms

Cryptocurrency

Cryptocurrency is a form of digital or virtual currency that uses cryptographic techniques to ensure security, making it nearly impossible to counterfeit or double-spend. Most cryptocurrencies operate on decentralized networks powered by blockchain technology, which is a distributed ledger maintained by a network of computers. Cryptocurrencies typically not issued by any central authority, making them theoretically resistant to government interference or manipulation.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Companies in the **technology sector** have historically been volatile due to the rapid pace of product change and development within the sector. **Artificial Intelligence** is subject to various risks, including, potentially rapid product obsolescence, theft, loss or destruction of cryptographic keys, the possibility that digital asset technologies may never be fully implemented, cybersecurity risk, conflicting intellectual property claims, and inconsistent and changing regulations.

Blockchain and cryptocurrency investments are subject to various risks, including inability to develop digital asset applications or to capitalize on those applications, theft, loss or destruction of cryptographic keys, the possibility that digital asset technologies may never be fully implemented, cybersecurity risk, conflicting intellectual property claims, and inconsistent and changing regulations. Speculative trading in bitcoins and other forms of cryptocurrencies, many of which have exhibited extreme price volatility, carries significant risk; an investor can lose the entire amount of their investment. Blockchain technology is a new and relatively untested technology and may never be implemented to a scale that provides identifiable benefits. If a cryptocurrency is deemed a security, it may be deemed to violate federal securities laws. There may be a limited or no secondary market for cryptocurrencies.

Digital assets are subject to risks relating to immature and rapidly developing technology, security vulnerabilities of this technology (such as theft, loss, or destruction of cryptographic keys), conflicting intellectual property claims, credit risk of digital asset exchanges, regulatory uncertainty, high volatility in their value/price, unclear acceptance by users and global marketplaces, and manipulation or fraud. Portfolio managers, service providers to the portfolios and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the portfolio and their investors, despite the efforts of the portfolio managers and service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the portfolios and their investors.

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