Mercer

New sources of value in managing wealth

Findings from the 2022 Global Wealth Management Investment Survey

September 2022

welcome to brighter

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Foreword

We were excited to write this foreword to Mercer's first *Global Wealth Management Investment Survey* findings, and we'd like to thank all our participants for contributing their time and insights.

This survey showcases a vibrant global wealth management sector focused on providing clients with the best possible experience. In the face of an uncertain political and investment landscape, respondents are committed to elevating service and engagement models. Margin pressure, higher fixed costs and increasing regulatory requirements have resulted in many exploring outsourcing/insourcing or strategic alliances as potential solutions.

Perhaps unsurprisingly, the biggest challenges for wealth managers over the next two years relate to how they manage their clients' investments and meet return objectives with an acceptable level of volatility. Wealth managers place great importance on being responsible stewards of their clients' wealth, with an emphasis on capital preservation.

Private markets

With equities and bonds unlikely to provide the same returns of the past decade, wealth managers are seeking to diversify away from these asset classes in pursuit of new sources of potential return, specifically in private markets. Our findings confirm that 73% of respondents are either currently invested or considering investing in illiquid assets over the next 12 months.

Private markets assets were historically challenging to invest in for many due to the administrative burden, liquidity characteristics, difficulty accessing opportunities and regulatory restrictions. With the help of technological innovation and the so-called democratization of private markets, these asset classes are now much more available and are providing additional tools for improving diversification and potentially enhancing returns.

Sustainability

After two years of an economically challenging pandemic and ongoing market volatility, it's exciting to see allocations continue to grow into sustainable investment opportunities. Earlier in the pandemic, there were worries that environmental, social and governance (ESG) issues would take a back seat as investors shifted their focus to generating positive returns. But the survey results suggest the opposite has taken place: An overwhelming majority say demand for ESG products has increased over the past year, and, in practice, investors are looking for ESG to be integrated into all their asset exposures.

For 64% of those surveyed, clients are choosing ESG in response to changing societal sentiment toward climate change, social issues and corporate governance, while 46% say their clients are also seeking to minimize reputational risk. This suggests many are considering ESG as a way of "doing the right thing."

Strikingly, only a small minority of respondents say their clients are pursuing ESG investments to increase investment returns and reduce risk. However, one-third say their clients continue to believe ESG investments mean compromising on returns and diversification benefits. This suggests a lack of understanding of the potential benefits of sustainable investing among wealth managers' clients, and additional client education is needed. In our experience, ESG integration isn't just critical from a societal perspective; wealth managers need to consider and integrate it into their risk management frameworks.

Business strategy

Along with highlighting changing investment trends, the survey indicates that wealth managers are increasingly turning to outside help to enhance operations and provide better service. Along with a sizeable number of wealth managers outsourcing elements of portfolio construction and governance, many are seeking help from third-party providers as they further integrate ESG into their investment processes. A majority of respondents are using external providers for help with research, reporting and risk monitoring, and just over one-third also outsource the research process for making decisions on investing or manager selection.

Wealth managers have a challenging task ahead. They also need to continue to improve their client experience while streamlining operations and maintaining or potentially increasing margins. Private markets and sustainable investments are specialisms that require additional resources and expertise.

Wealth Management Team


Amit Popat, Europe and IMETA


Gregg Sommer, US


Luke Fitzgerald, Australia


Janet Li, Asia

Key findings summary

Positioning portfolios for increasingly unforgiving markets

57% of survey respondents say inflation is the leading investment challenge at a global level over the next two years.

50% of wealth managers expect investment returns to be lower in the next two years.

59% of respondents believe the biggest investment opportunity is in diversifying portfolios away from traditional equities and bonds.

Learn more →

Accessing return and liquidity in alternatives

73% of respondents are either currently invested in illiquid assets or are considering investing in them over the next 12 months.

85% cite the search for better yields or enhanced investment returns as the main reason for making allocations to illiquid assets.

71% identify concerns about long lock-in periods as a reason for not investing.

Learn more →

Placing a priority on client experience and business growth

78% of respondents say their priority is to improve the client experience over the next two years.

53% believe regulatory challenges are the biggest threat to their organizations' growth.

45% want to outsource elements of their portfolio operations governance or seek third-party assistance — especially where it concerns enhancing ESG investment offerings and integration.

Learn more →

Meeting growing client demand for sustainable solutions

82% of respondents say client demand for ESG investments has increased over the past year.

64% cite societal sentiment as the top driver of their clients' appetite for ESG investments, followed by reputational risk considerations.

20% of respondents — a surprisingly low number — selected generating active return as one of the top two reasons for strengthening their exposure to ESG investments.

Learn more →

01 Positioning portfolios for increasingly unforgiving markets

The pandemic accelerated several key global macro trends that were already gaining momentum before 2020, namely lower expected investment returns and increased market volatility. Additionally, the pandemic brought inflation to the forefront. Here are some recommended actions to consider in an unforgiving market environment.

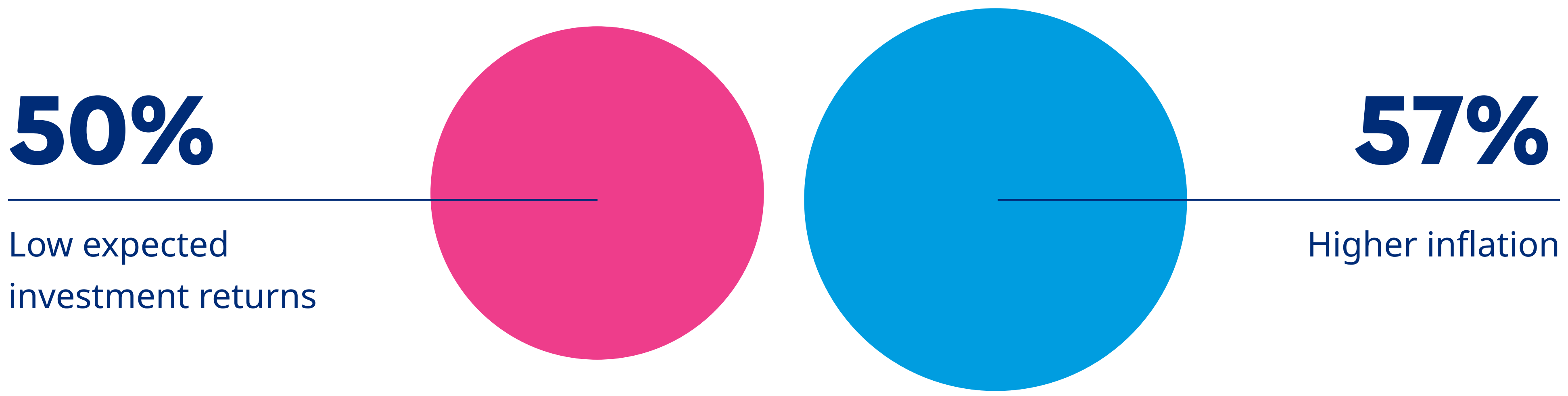
- Review how the assets in your client portfolios are likely to perform in a period of sustained high inflation. Which asset classes offer protection against inflation?
- Consider blending assets likely to perform well in an environment of rising interest rates as central banks seek to rein in inflation.
- Consider diversifying client portfolios beyond equities and bonds from developed markets. Think about the potential benefits of allocating to private markets, infrastructure, real estate, hedge funds, inflation-linked bonds and emerging markets assets.
- Adapt your investment approach to consider climate change as a systemic risk (and investment opportunity), and integrate this into your asset allocation and risk management process.

As markets emerge from the haze of the initial pandemic years, Mercer's *2022 Global Wealth Management Investment Survey* sought to capture a snapshot of an industry managing wealth in a changed world.

Conducted during the first quarter of 2022, the survey uncovered a strong commitment to client service and an ongoing willingness to embrace investment risk as the industry prepares for a continuation of the challenges that were present in markets before the pandemic and have now become even more pressing.

Rather than presenting new challenges for the industry, the pandemic accelerated key trends long established before it began. Concerns surrounding low expected investment returns and market volatility remain the leading preoccupations of the industry as it looks out over a two-year horizon.

Higher inflation — The leading investment challenge globally over the next two years



Market volatility and intra-day volatility can be a challenge for clients as it directly affects the typical 60/40 portfolio, which can be highly correlated to the index. Today's marketplace seems to focus on the largest names, pulling the equity market up or down more violently.

To address these fears we are providing constant updates on capital market assumptions and re-engaging clients to determine if they are long term investors or just looking to make quick profits. If necessary, we might look to reallocate to more defensive assets, such as T-Bills, or add diversification through the use of alternatives, such as private equity.

Paul Mirabella, City National Private

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Each of the three regions covered by the survey displays varying degrees of focus on these market challenges, with the Americas proving most concerned about low investment returns, Europe/UK citing high inflation and Asia-Pacific, market volatility.

Roll over the buttons below to reveal chart data

- **Global**
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- **Europe/United Kingdom**
- **Americas**

What, in your view, are your organization's top two investment challenges over the next two years?

Global

50%	38%	57%	6%	24%	12%	8%	6%
Low expected investment returns	Market volatility	Higher inflation	Inability to access private assets	Increased regulation	ESG reputational risk	Climate-related risk (e.g., water security and decarbonization)	Other

Source: Mercer's *2022 Global Wealth Management Investment Survey.* Respondents selected two options.

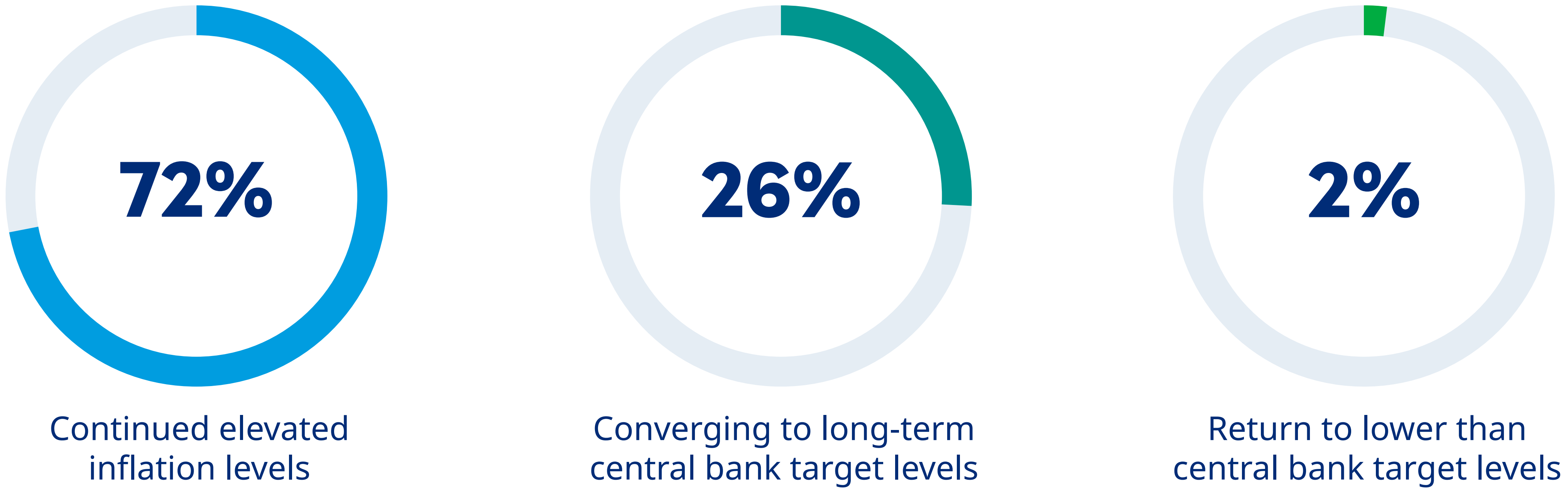
The regions are, however, united in the belief that these challenges are likely to get worse before they get better. Seventy-two percent of respondents predict that inflation will remain elevated over the next 12 months, and 88% expect US Federal Reserve interest rates to rise between 1% and 2% over the same period.

Nearly unanimous expectations have already been realized by the Federal Reserve hikes this year, and it is highly likely that the increase will be greater than 2% by the end of the 12-month period.

While markets are pricing an additional 150-basis-point increase to the Fed Funds Rate before the end of the year, our team believes there is potential downside risk if US macro data disappoints and inflation continues to cool over the next four months. We think this combination could put significant pressure on real rates of interest.

Erin Lefkowitz, Fixed Income Portfolio Manager, Mercer

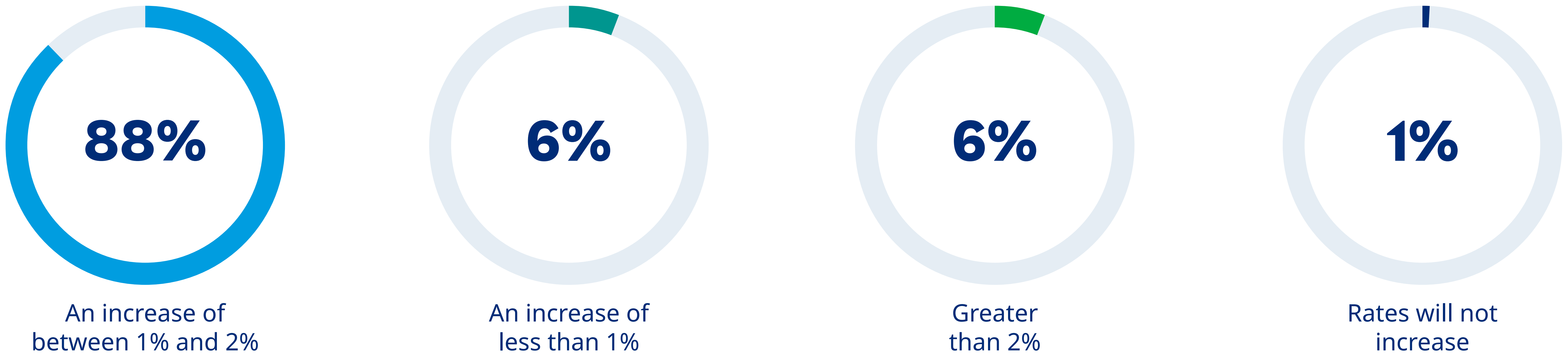
What do you think is the outlook for inflation in developed markets over the next 12 months?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

72% of respondents predict that inflation will remain elevated over the next 12 months.

What is your expectation for US Federal Reserve interest rates in 12 months' time?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Rethink diversification

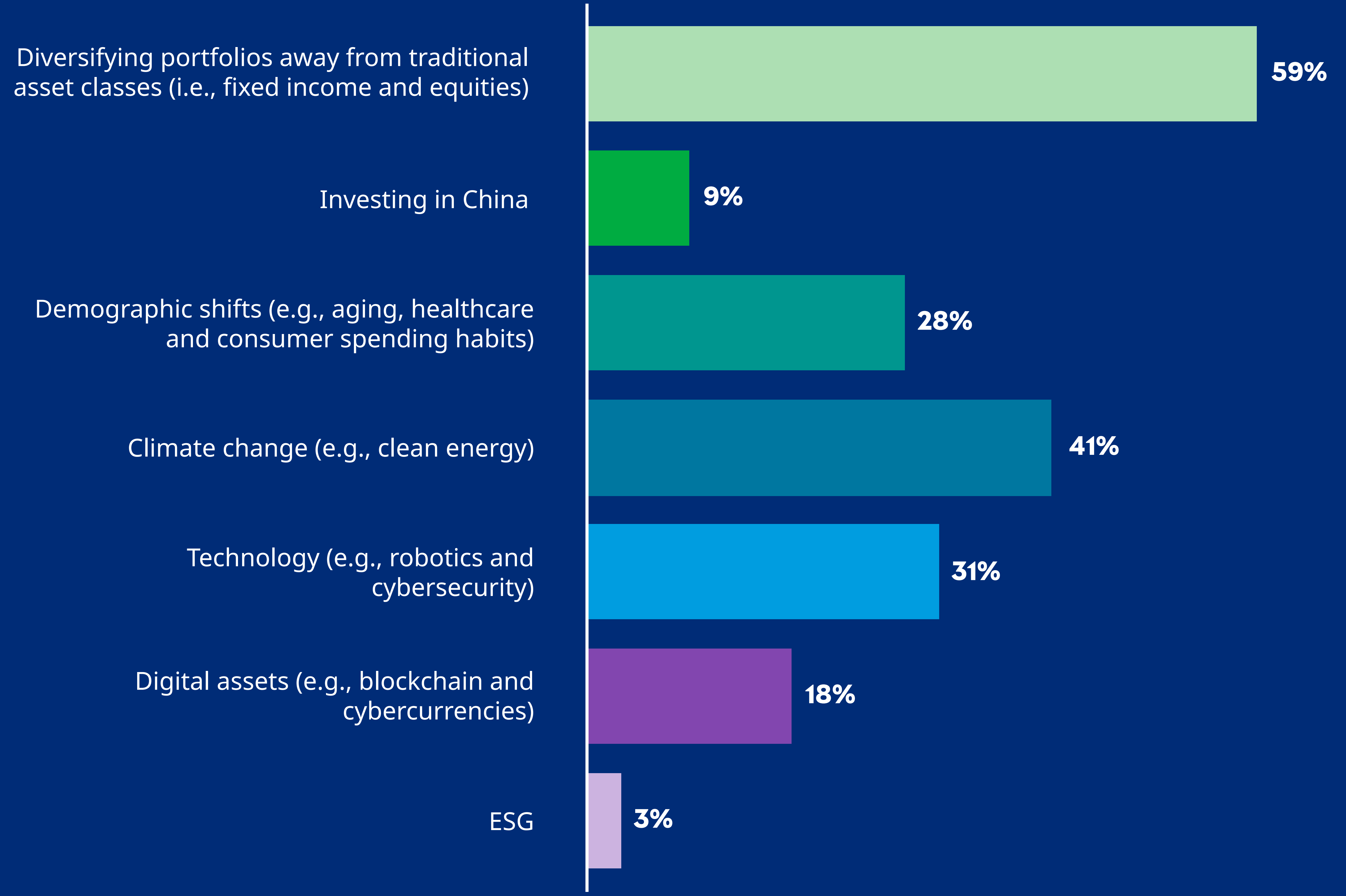
The survey uncovered a clear correlation between what wealth managers see as their main challenges and what they believe are their biggest opportunities.

Concerns about low investment returns are evident in what the market is seeing as the biggest investment opportunity over the next two years — diversifying away from traditional asset classes.

Although opportunities related to climate change also ranked highly, it is notable that key media talking points — investing in China and cryptocurrency — were two of the lowest-ranked opportunities for wealth managers.

From a regional perspective, respondents based in the Americas are the least inclined to see climate change as an opportunity (34%), compared to 45% in Europe and 39% in Asia. The Americas are, however, most likely to cite diversifying away from traditional asset classes as a top opportunity, with 76% of respondents (compared to 52% among Europeans and 61% among Asia wealth managers) selecting it as a leading opportunity.

What, in your view, are your organization's top two investment opportunities over the next two years?



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

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Global

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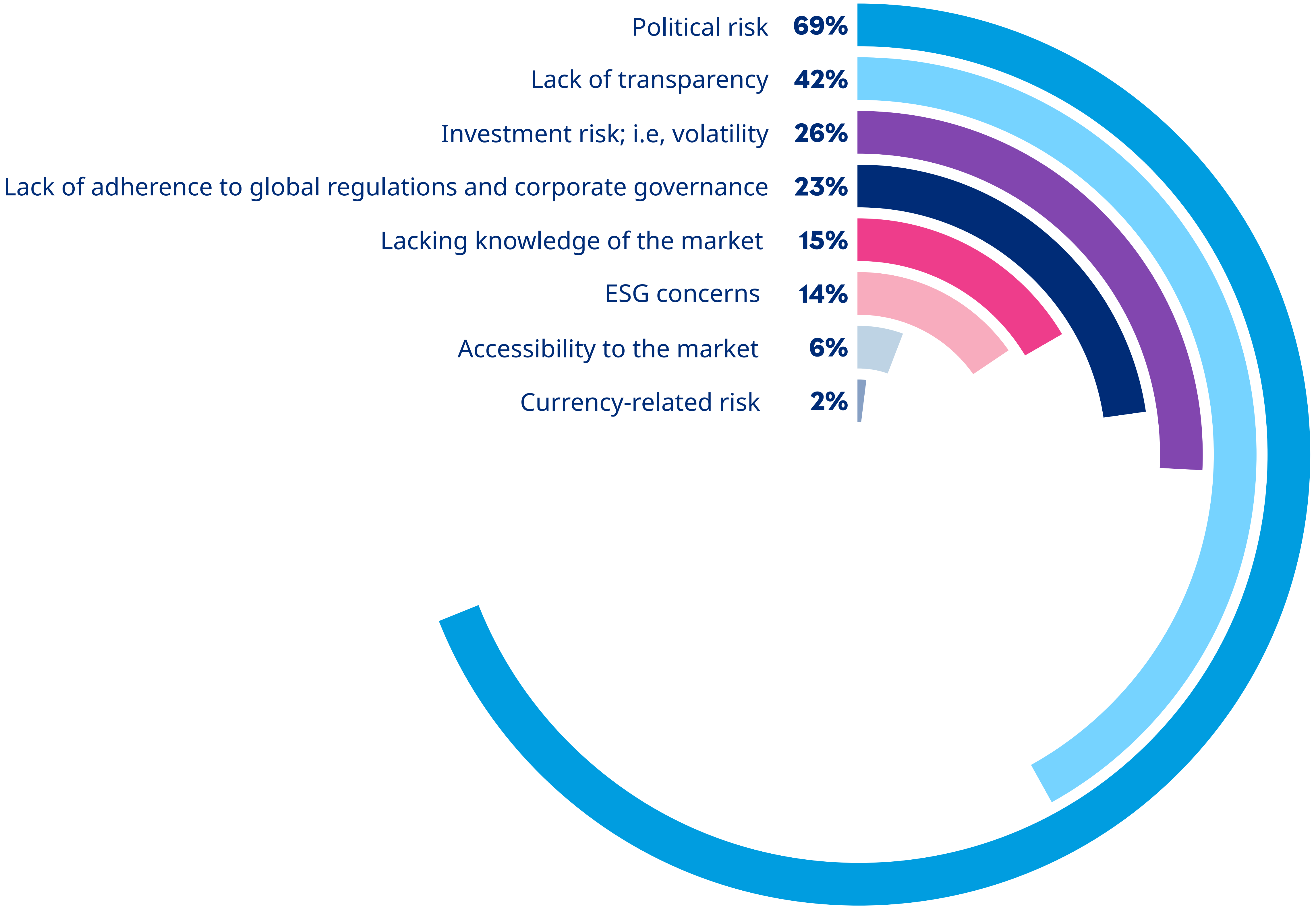
Europe/United Kingdom

Americas

The first half of 2022 has clearly been very challenging for multi-asset managers. We continue to seek incremental diversification opportunities in our multi-asset portfolios to protect investors against rising inflation and from the risk of a material slowdown in economic growth.

Bank of Ireland Investment Markets

Which two of the following factors are your clients most concerned about with regard to investing directly in China?

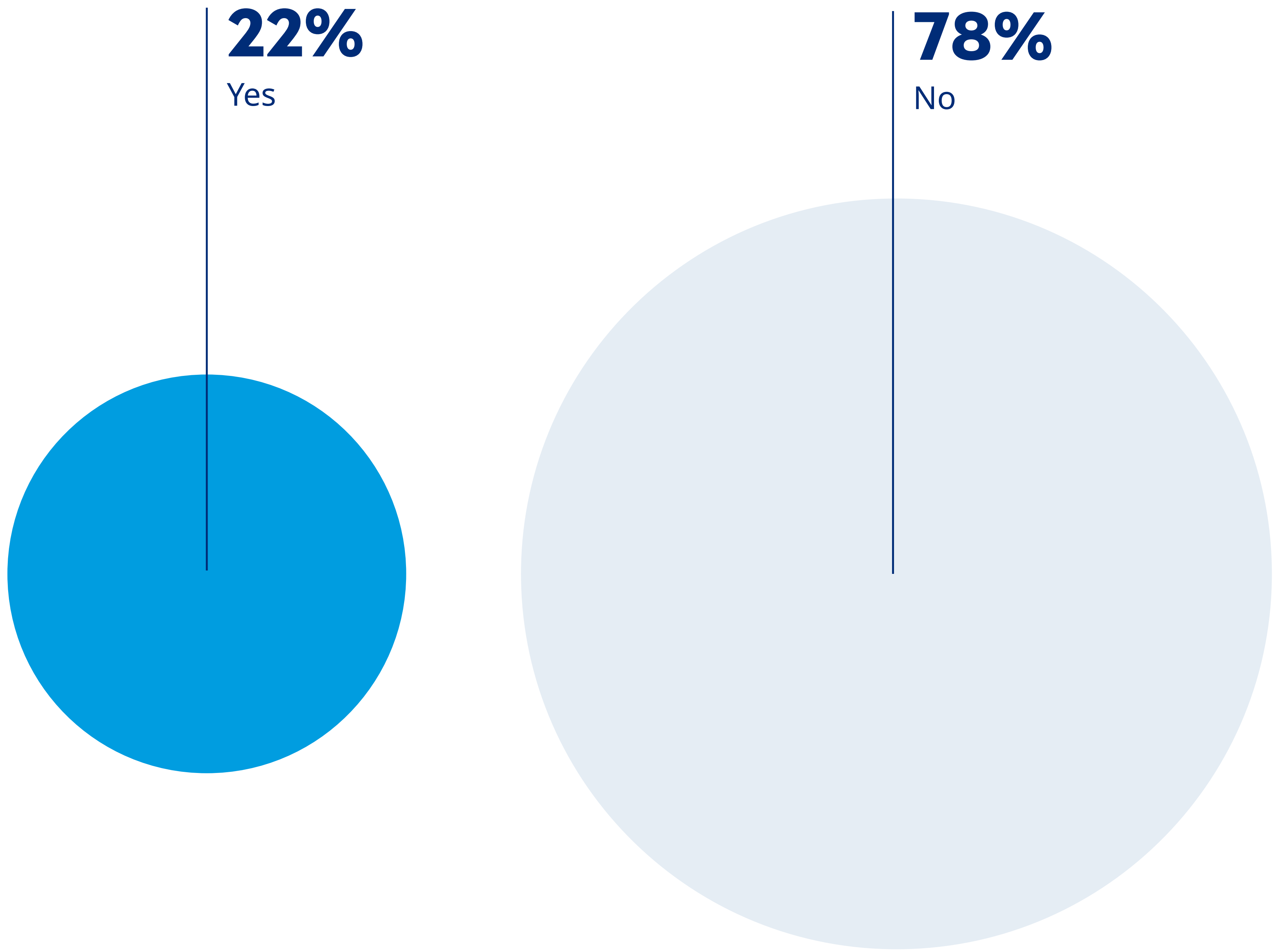


China

Despite the scale, size and investment opportunities offered by the Chinese domestic market, the associated risks and barriers to entry remain too high for many wealth managers. Sixty-two percent of survey respondents do not have dedicated China equity funds distinct from their wider EM allocations. The most cited reason for this is political risk, with 69% of respondents selecting it as one of their top two concerns. This was followed by lack of transparency, about which 42% of respondents were highly concerned. Of the 38% of participants that do have a dedicated China offering or are considering one in the next 12 months, the majority (61%) are gaining exposure to the market through active A-shares or H-shares.

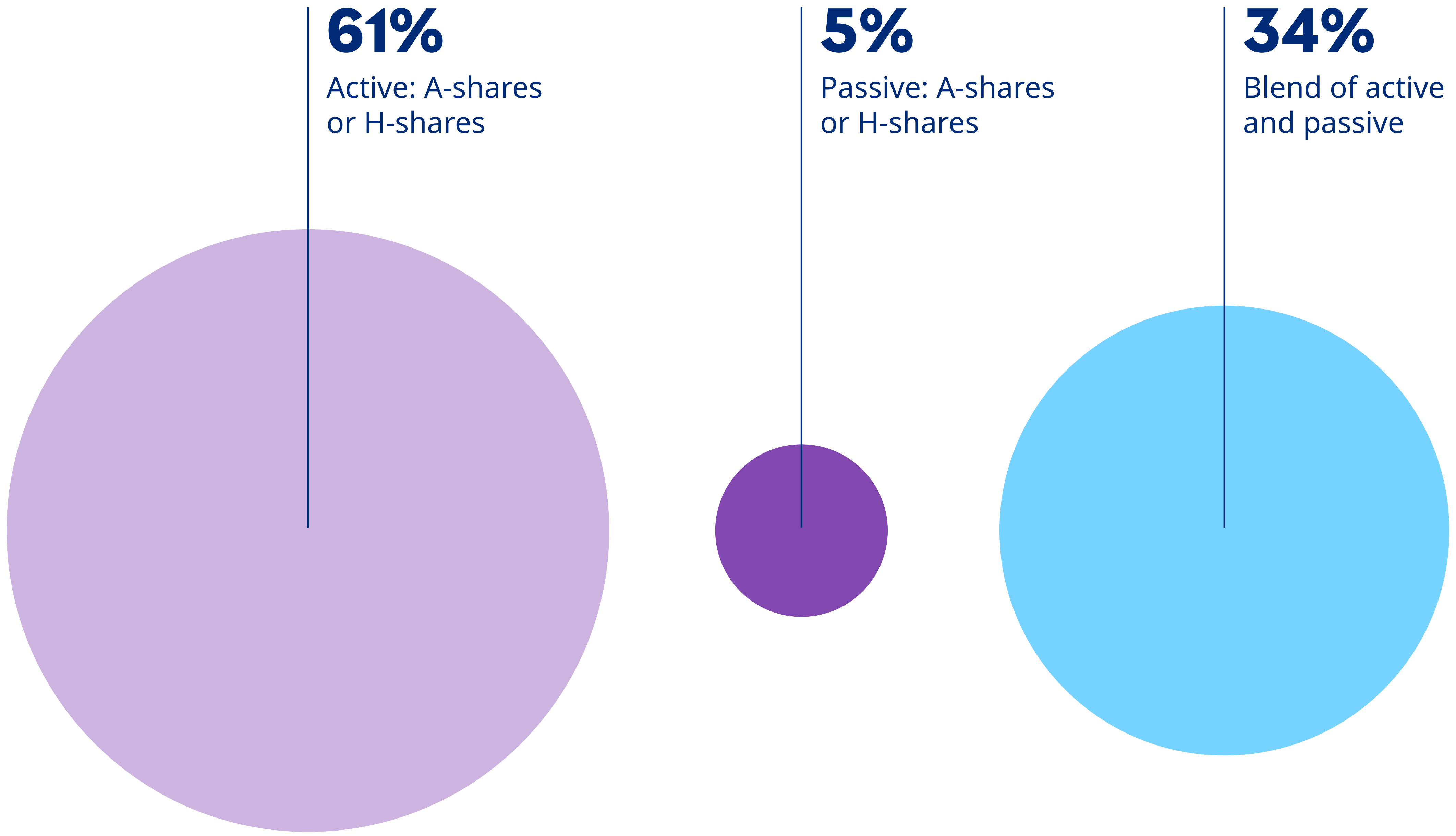
Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

Are your clients hedging their exposure to the Chinese currency?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Through which vehicles do your clients hold direct investments in China?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Cryptocurrencies

The survey attracted some impassioned views on cryptocurrencies as the gulf continues to widen between speculators and the professional investment community on this highly polarizing theme. Ninety-two percent of survey respondents do not invest in cryptocurrency on behalf of clients for reasons that include lack of regulation, lack of transparency and education, and high volatility. However, when asked how likely it is that crypto will become an institutional-grade investment in the next five years, 44% of respondents agree that this is likely or highly likely. An equal number of respondents believe it is unlikely or highly unlikely to be the case, with 13% saying they do not know.

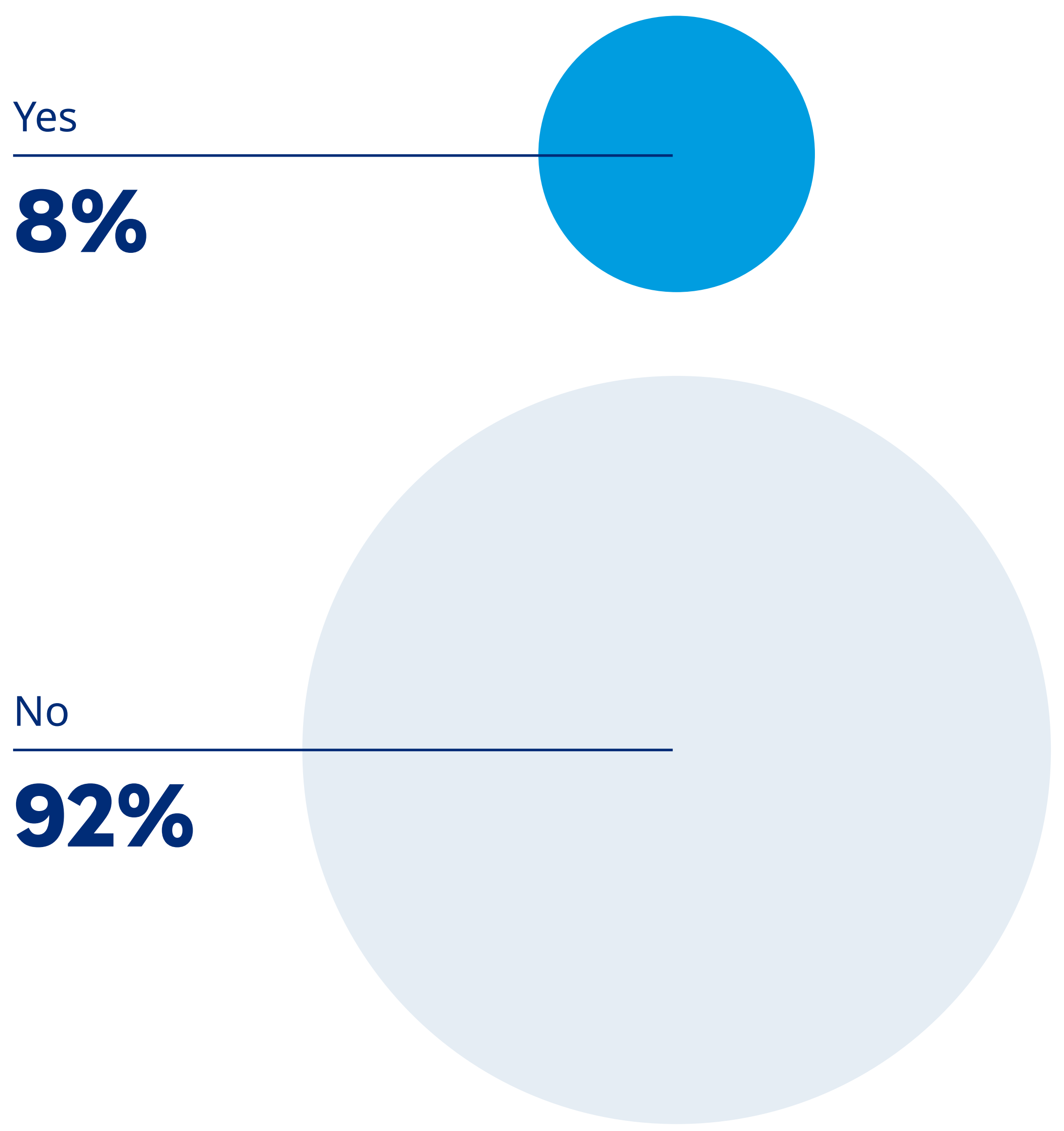
A small portion of European wealth managers do invest in cryptocurrency in client portfolios, which may be explained by historical tendency in the region to invest in non-US-dollar assets and currencies.

One reason for the low-priority ranking of digital assets may be that private banks and asset managers continue to focus on traditional and established alternative asset classes. In the past few months, we have also experienced a 'crypto winter,' with a massive loss of market capitalization, resulting in a negative sentiment for digital assets.

On the other hand, wealthy investors may already use a new breed of service providers in the area of crypto and digital assets. Despite the low priority of cryptocurrencies for respondents, I believe the tokenization of traditional, illiquid and nonfungible assets will lead to widespread use of these digital assets in the forms of both fungible asset tokens, especially for private equity, and nonfungible tokens (NFTs) for illiquid assets. The adoption will depend on regulatory clarity and the institutional uptake by banks and asset managers offering relevant digital- and crypto-asset services.

Urs Bolt, Product Manager,
Digital Banking and Wealth Management

Do you invest in cryptocurrency on behalf of your clients?



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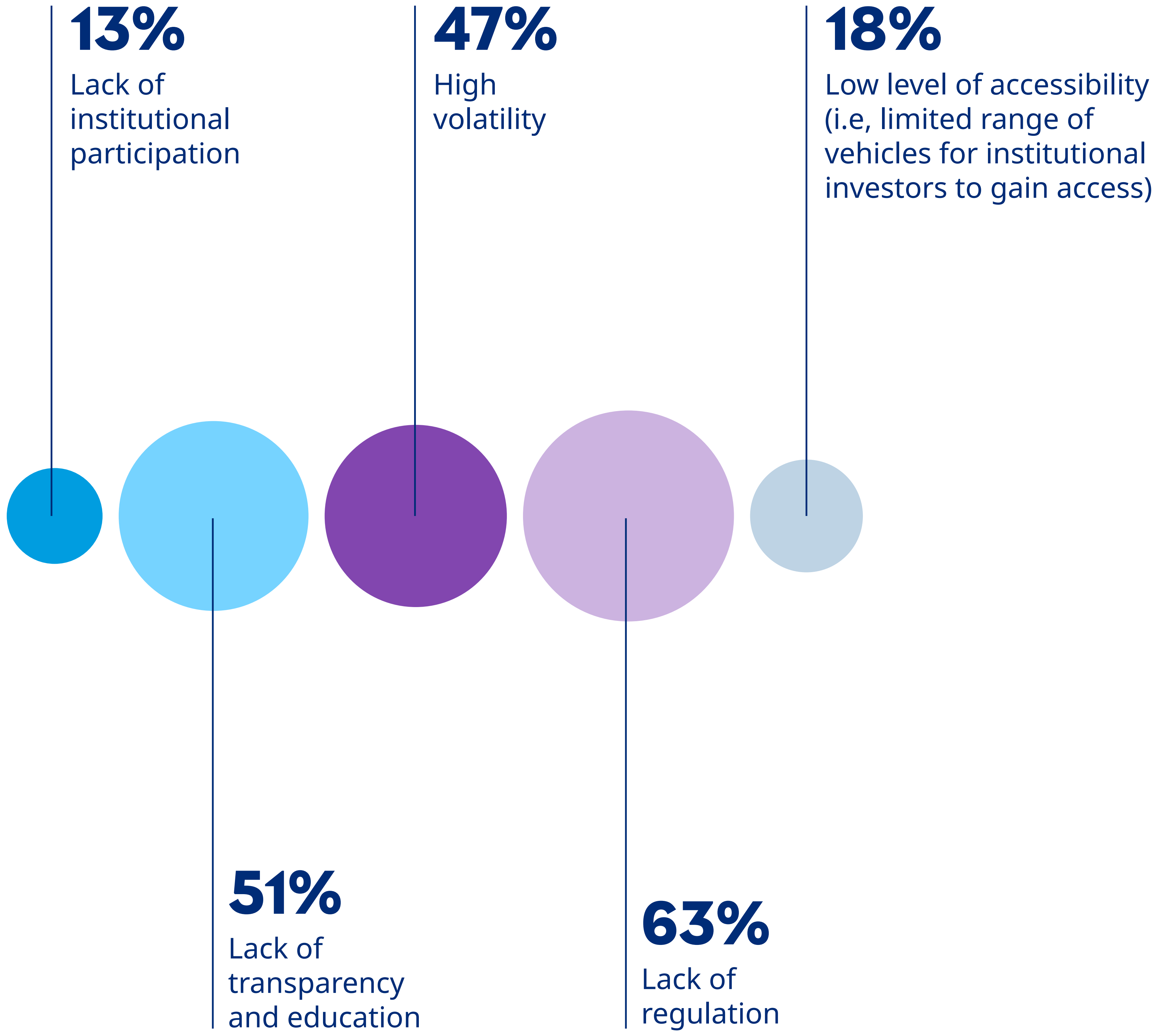
Americas

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

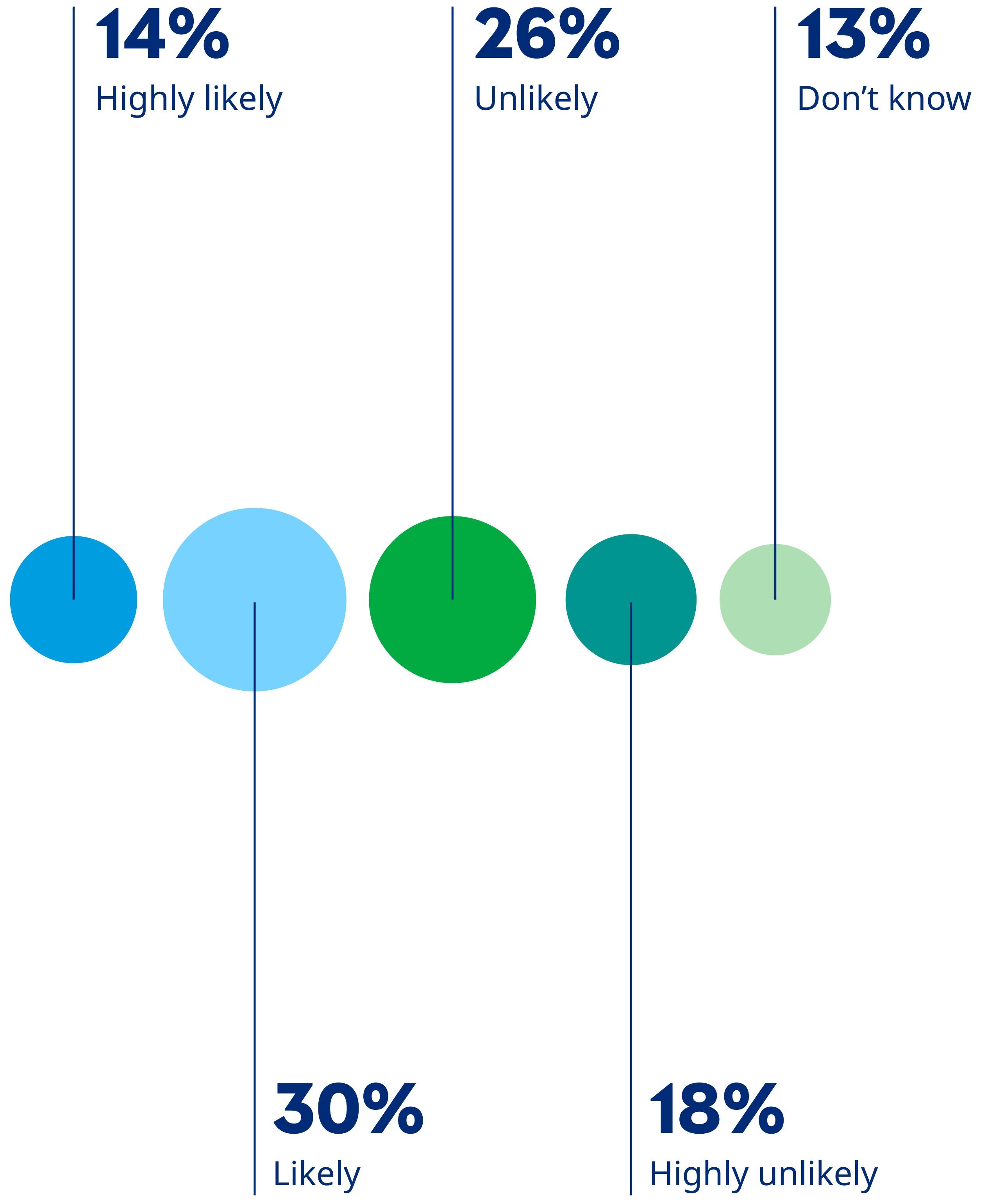
44% believe cryptocurrency is likely to become an institutional-grade investment in the next five years.

With regard to investing in cryptocurrency on behalf of your clients, which of the following characteristics of cryptocurrency investing are you most concerned about?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.
Respondents selected two options.

How likely do you think it is that cryptocurrency will become an institutional-grade investment in the next five years?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Regulation remains both a possible sword and a possible savior for cryptocurrency. Intermediaries are rightly reluctant to recommend unregulated/unauthorized products to clients, from both both a duty of care and a liability standpoint. Regulators could either slash and burn cryptocurrencies or bring them into the fold.

Matt Scott, Investment Research, Lead Specialist, Mercer

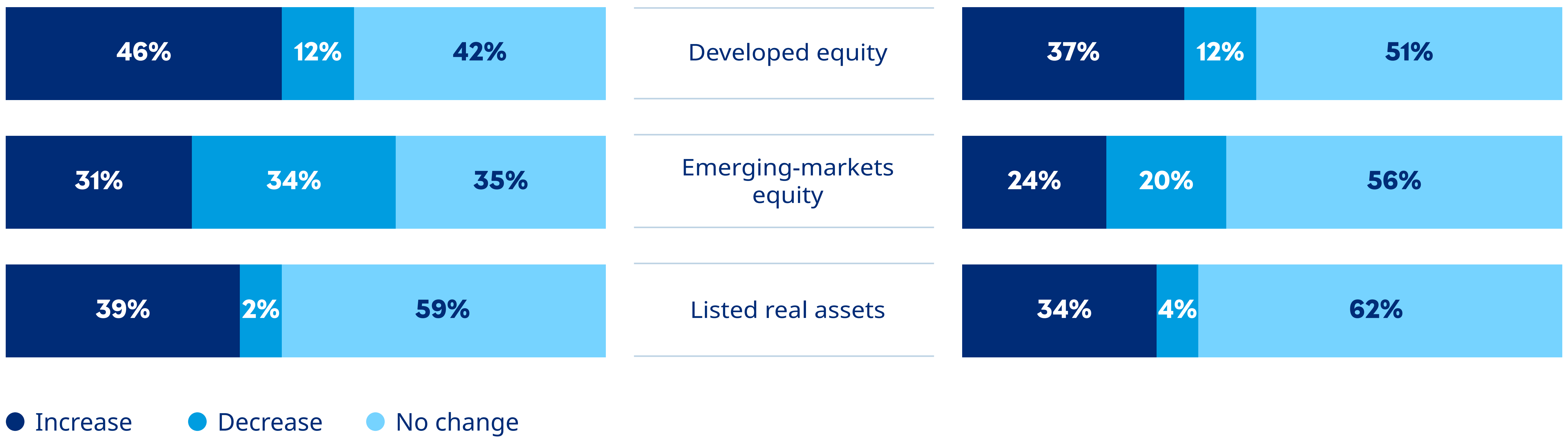
Asset allocation

The industry's asset allocation decisions over the past three years show that wealth managers are using portfolio positioning as their number-one weapon in an increasingly unforgiving market. Private markets and inflation-linked bonds attracted the highest inflows as the industry sought solutions to the challenges of sustained low yields and rising inflation. Developed-market equities also saw a strong upswing in allocation during the period (2019–2022).

How has the strategic asset allocation of your investment portfolio changed over the past three years?

Equities

How do you expect the strategic asset allocation of your investment portfolio to change over the next 12 months?



Roll over the buttons below to reveal chart data

Global

Asia-Pacific

Europe/United Kingdom

Americas

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Positioning in fixed income

Inflation-linked bonds are the only segment of the asset class that have the potential to see any meaningful inflows over the next 12 months. With regard to other subcategories, while 23% of survey respondents expect to increase their allocations to government bonds, another 23% are planning to decrease allocations to the sub-asset class over the same period. The survey found similar trends across corporate bonds, high-yield and emerging-markets debt, with near-equal numbers of respondents planning to decrease and increase allocations over similar time horizons.

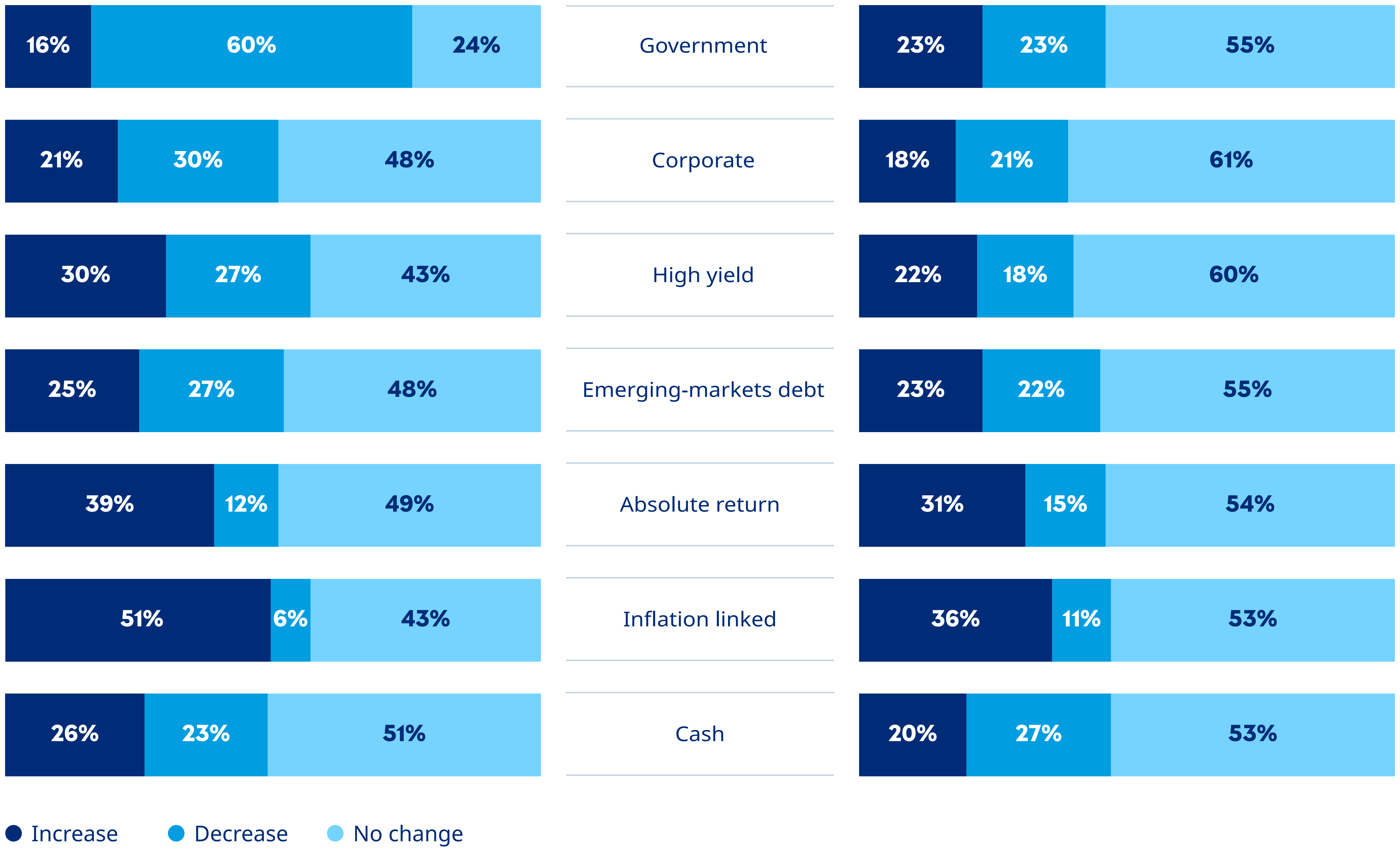
Although market volatility remains a key concern, we are seeing little movement out of cash. The 27% of investors that say they will reduce the level of cash in their portfolios is in contrast to the 20% that intend to increase cash exposure over the next 12 months. At the same time, 53% of respondents intend to keep the existing level of cash in their portfolios unchanged.

The sharpest regional variation in allocation appears in emerging-markets debt, where 27% of Asia-Pacific-based wealth managers and 33% of Americas-based managers are planning to decrease allocations. This is in contrast to the 36% of respondents in Europe that plan to increase exposure to the sub-asset class over the next 12 months.

How has the strategic asset allocation of your investment portfolio changed over the past three years?

Fixed income

How do you expect the strategic asset allocation of your investment portfolio to change over the next 12 months?



Roll over the buttons below to reveal chart data

- Global
- Asia-Pacific
- Europe/United Kingdom
- Americas

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Asset allocation over the next 12 months

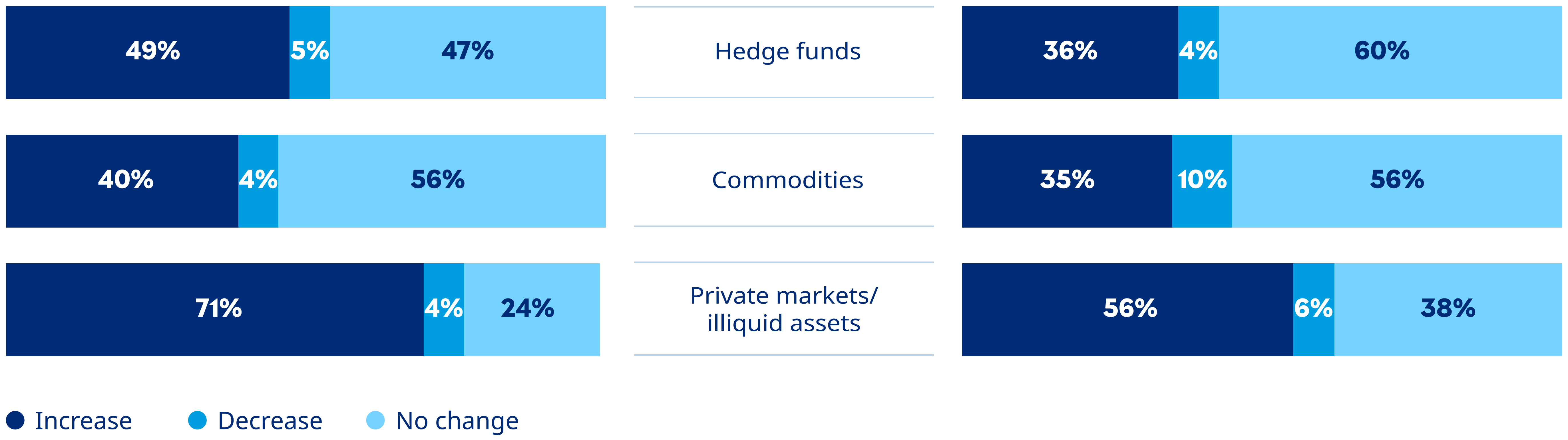
In another sign that the pandemic has added rocket fuel to trends that were unfolding long before 2020, portfolio-positioning changes witnessed over the past three years are expected to persist unchanged over the next 12 months.

Private markets, developed equity, listed real estate and inflation-linked bonds remain the most favored sub-asset classes for future inflows across the industry. Increased allocations to these areas of the market are likely to be funded from cash and, unsurprisingly, traditional fixed income. The latter is likely to bear the brunt of outflows from the industry over the next 12 months.

How has the strategic asset allocation of your investment portfolio changed over the past three years?

Alternatives

How do you expect the strategic asset allocation of your investment portfolio to change over the next 12 months?



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Americas

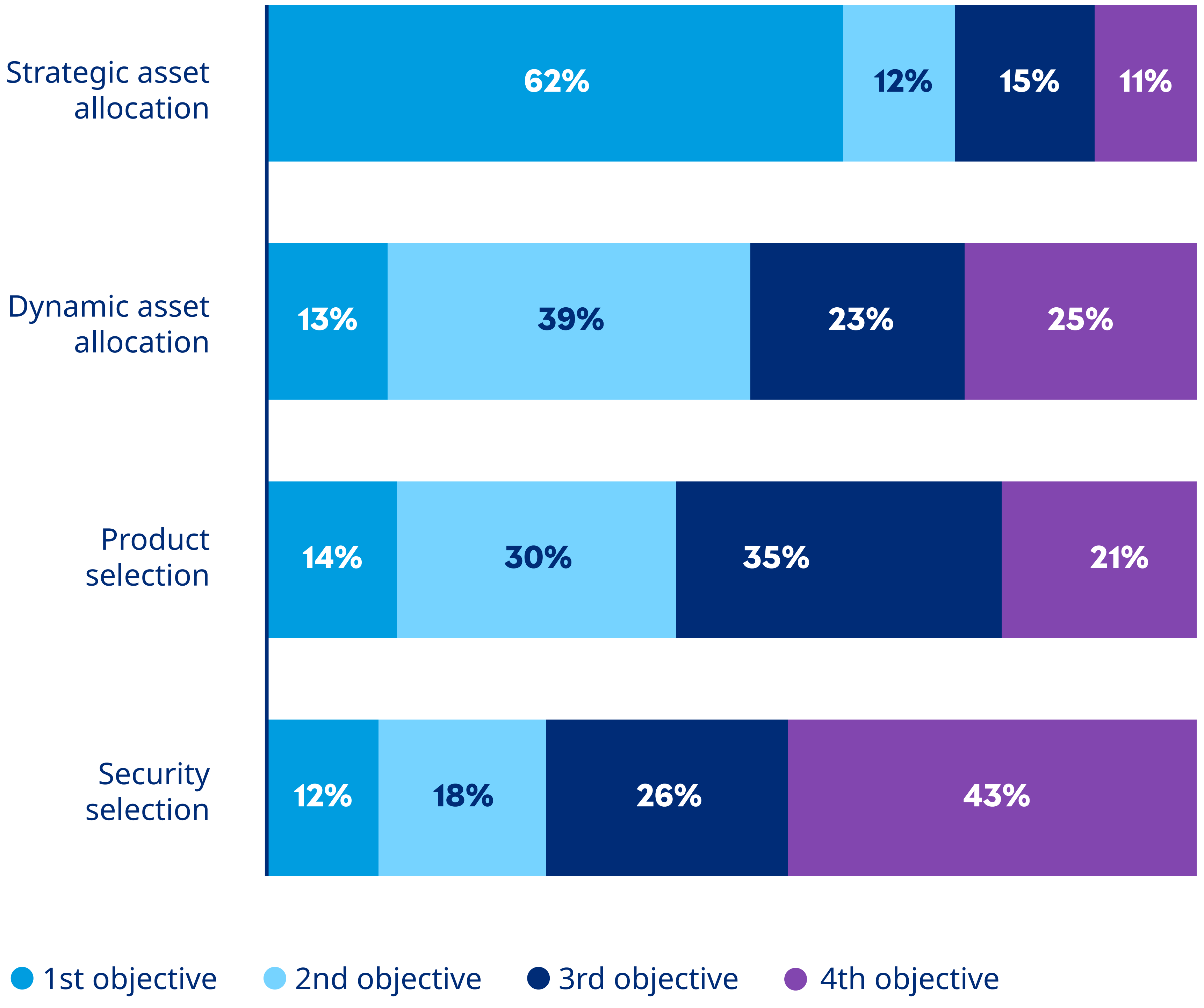
One indication of the potential of digital assets is the anticipation that there will be a continued shift of investments from public to private markets and into illiquid assets. In this area, the tokenization of private assets can prove its benefits and lead to a higher adoption rate without the regulatory uncertainty of native crypto assets and cryptocurrencies.

Urs Bolt, Product Manager, Digital Banking and Wealth Management

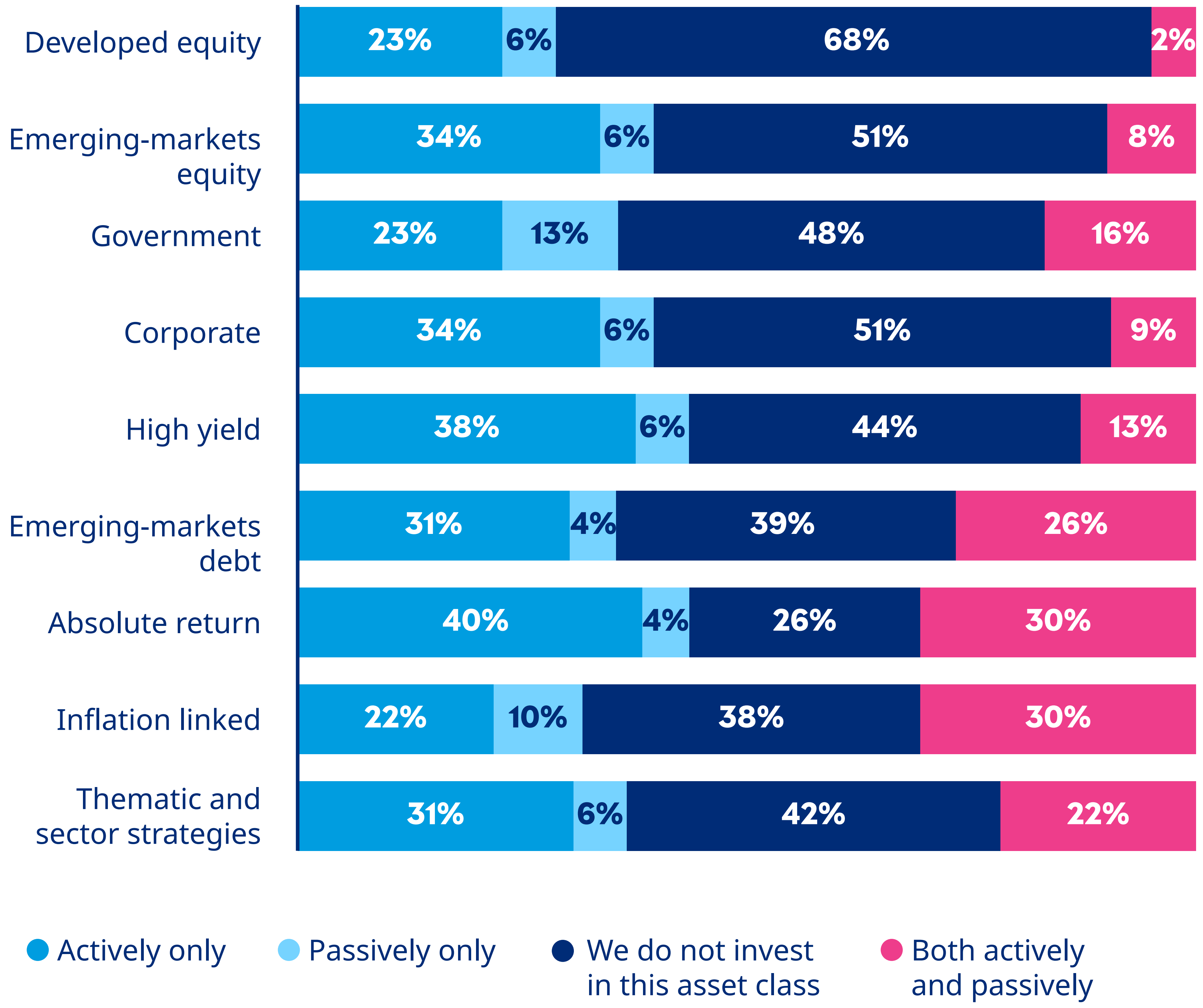
Source: Mercer's *2022 Global Wealth Management Investment Survey*.

The results are in line with our belief that a strong governance framework that begins with establishing long-term strategic allocations with ongoing oversight and periodic rebalancing best enables investors to meet their long-term goals and objectives without reacting to short-term trends in the marketplace.

Rank the following factors in order of their importance to your portfolio construction



Do you invest actively or passively across the following asset classes?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

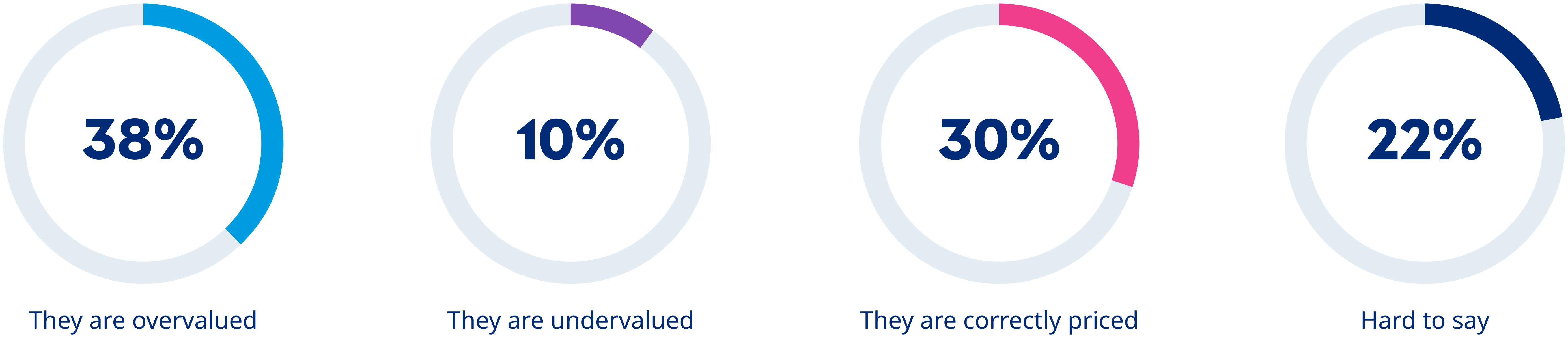
Positioning in equities

Among equities, developed markets are poised to attract markedly higher inflows than their emerging-markets counterparts over the next 12 months according to the survey, despite 38% of respondents asserting that developed-market equities are overvalued. Thirty-seven percent of respondents say they will increase allocation to developed-market equity, compared to 24% for emerging-markets equity. Asia-Pacific is leading the charge for developed-market equities, with 53% of respondents in the region planning to increase exposure, compared to 40% of respondents in the Americas and 28% in Europe.

Despite concerns about high valuations among developed-market equities, the number of respondents that believe developed-market equities will be higher in the next 12 months (30%) is nearly identical to those that believe the market will go down (29%).

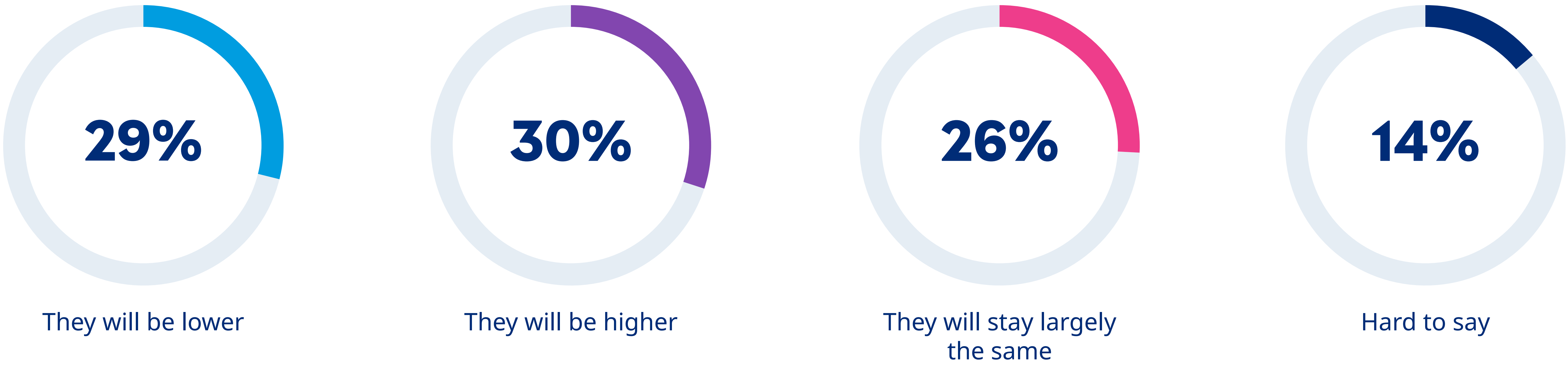
Since we surveyed respondents at the end of Q1 this year, developed global equity markets have broadly stayed in line with markets, declining approximately 15% in Q2 and up approximately 9% QTD.[1]

What is your opinion about developed-market equity valuation?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

How do you think developed-market equities will perform over the next 12 months?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

[1] As of August 19, 2022.

Time to look beyond the 60/40 portfolio?

Against a backdrop of ever-falling interest rates, most asset classes delivered impressive returns over the past 10 years.

In fact, it's among the best decades ever for the traditional 60/40 equity-bond portfolio, which means many wealth managers adopting such allocations have been able to sit back and enjoy the ride. But with inflation picking up — and proving longer-lasting than had been expected — central banks in many regions have raised and are expected to continue to raise interest rates. This makes risky assets less attractive because the return they need to achieve to outperform current rates becomes higher.

The upshot is that we expect a 60/40 equity-bond portfolio to earn significantly less over the next decade than it has over the past 10 years. So now could be a good time for wealth managers with such portfolios to rethink their asset allocations and add some much-needed resilience.

We believe part of the answer lies in exploring other types of asset classes and strategies. These can include private assets — particularly those that can act as a hedge against inflation, such as infrastructure and real estate. This is because their income streams tend to rise in line with inflation. Liquid alternatives, such as hedge funds, will also have a role to play.

From the results of this year's survey, we see wealth managers point to similar concerns, with 50% citing low expected future returns as their biggest challenge over the next two years. However, with 57% identifying diversification away from traditional asset classes as their biggest opportunity over a similar timeframe, it appears this shift has begun for many.

Regional diversification could also be important. Although we generally prefer to let specialist asset managers make regional allocation decisions, an allocation to China could significantly boost a balanced portfolio's diversification, as China is currently easing monetary policy at a time when the rest of the world is tightening. Due to the specific characteristics of the Chinese economy and financial markets, we believe active management is especially important, along with using asset managers with a focus on stewardship and engagement. Meanwhile, investing in frontier markets — the next generation of emerging markets — could provide some much-needed extra return potential.

Inflation has different implications within asset classes. In fixed income, for example, longer-duration bonds have performed best in recent years. But with interest rates rising, different strategies are likely to come to the fore. Shorter-duration bonds now look more attractive, and absolute-return fixed-income strategies, which typically start from a zero-duration position, could also be interesting options. Within credit, active managers may choose to invest in high-quality firms with strong balance sheets. These firms should be able to weather any economic downturn and continue to pay their coupons. Private debt, which involves lending money directly to corporations, also tends to have low duration and is often floating rate, so this could be another attractive investment in a rising-interest environment.

Now could be a good time to look to active management. With markets rising strongly over the past decade, passive exposure was all that was needed to take part in the gains. But in the coming years, active specialist asset managers may have a bigger role to play by eking out extra returns and navigating what looks set to be a more challenging environment.

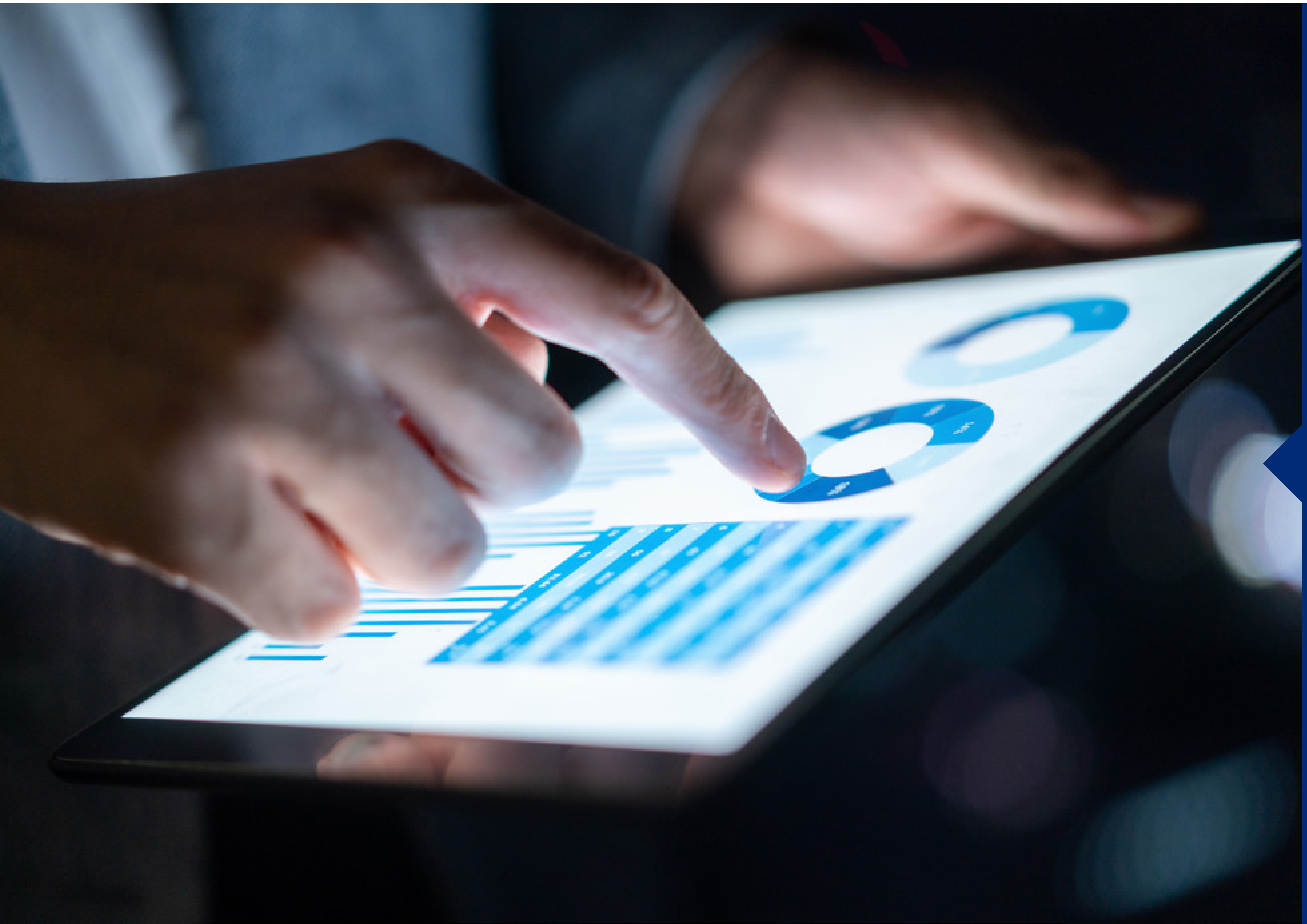
ESG and the transition to a net-zero-carbon economy will continue to gain prominence over the coming years as the global community seeks to reduce its reliance on carbon. This will have significant implications for investment portfolios. And it's important to remember that the road toward net zero isn't about imposing restrictions on portfolios or doing the right thing — it's going to lead to better portfolio risk management as well as potentially attractive investment opportunities. But active management will be needed to navigate this changing landscape.

Diversification, diversification, diversification!

In summary, we believe diversification will be hugely important over the next decade as the various asset classes, sectors and regions are likely to face different challenges at different times. The challenge of diversifying, of course, is complexity. Bringing in an outside expert to help navigate a more complex and challenging investment environment could provide big benefits.

Hooman Kaveh
Global Chief Investment Officer

02 Accessing return and liquidity in alternatives



Given the prospect for lower investment returns in the coming years, wealth managers are keen to explore alternatives — in particular, private markets — to provide further diversification and in seeking to enhance investment returns. However, these objectives must be carefully balanced with client liquidity needs. Here are some recommended actions for accessing these opportunities.

- Determine the private markets allocations most appropriate for client portfolios, and compare potential benefits against client objectives, including liquidity.
- Consider the potential benefits and drawbacks of different private markets assets and how they can improve diversification and potentially reduce risk.
- Allocate to private markets where they provide a clear benefit in line with your clients' objectives and offer the right blend of additional yield in exchange for the risk being taken.
- Seek expert assistance in identifying and researching asset classes and with manager selection and investment implementation.

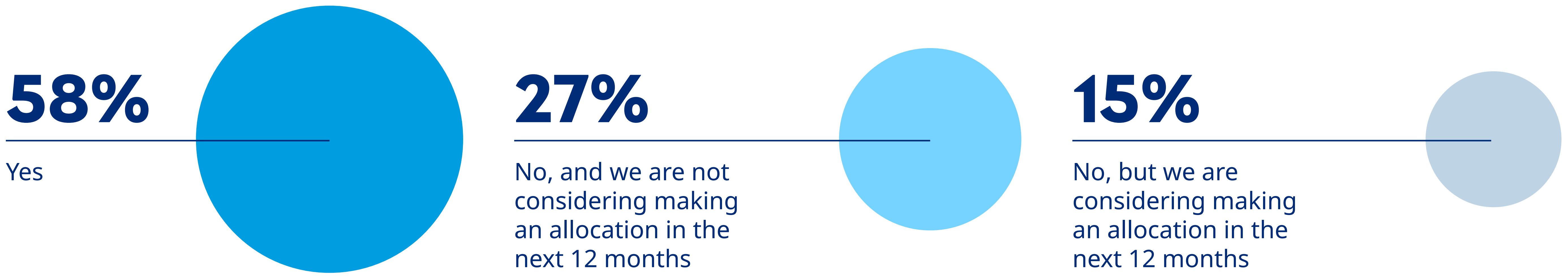
59% selected diversifying away from traditional asset classes as one of their top two investment opportunities.

Wealth managers are broadening the search for yield, with 73% of respondents globally either currently invested or considering investing in illiquid assets over the next 12 months.

Respondents cite enhanced return and better diversification as the main reasons for this continued shift from public to private markets. Within the spectrum, private equity continues to attract the highest proportion of demand, followed by real estate and private debt.

Regionally, respondents based in the Americas maintain the highest existing exposure to illiquid assets (76%). However, European and Asia-Pacific respondents — 51% and 54%, respectively — are likely to narrow the gap over the next 12 months as a large proportion of wealth managers in these regions are planning a major migration into the asset class.

Do you invest in illiquid assets?



Roll over the buttons below to reveal chart data

Global

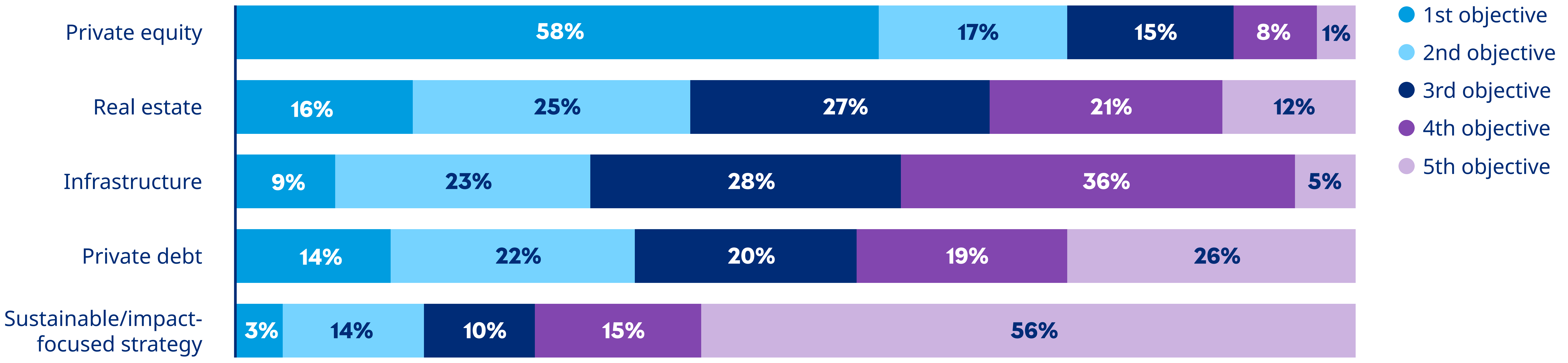
Asia-Pacific

Europe/United Kingdom

Americas

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

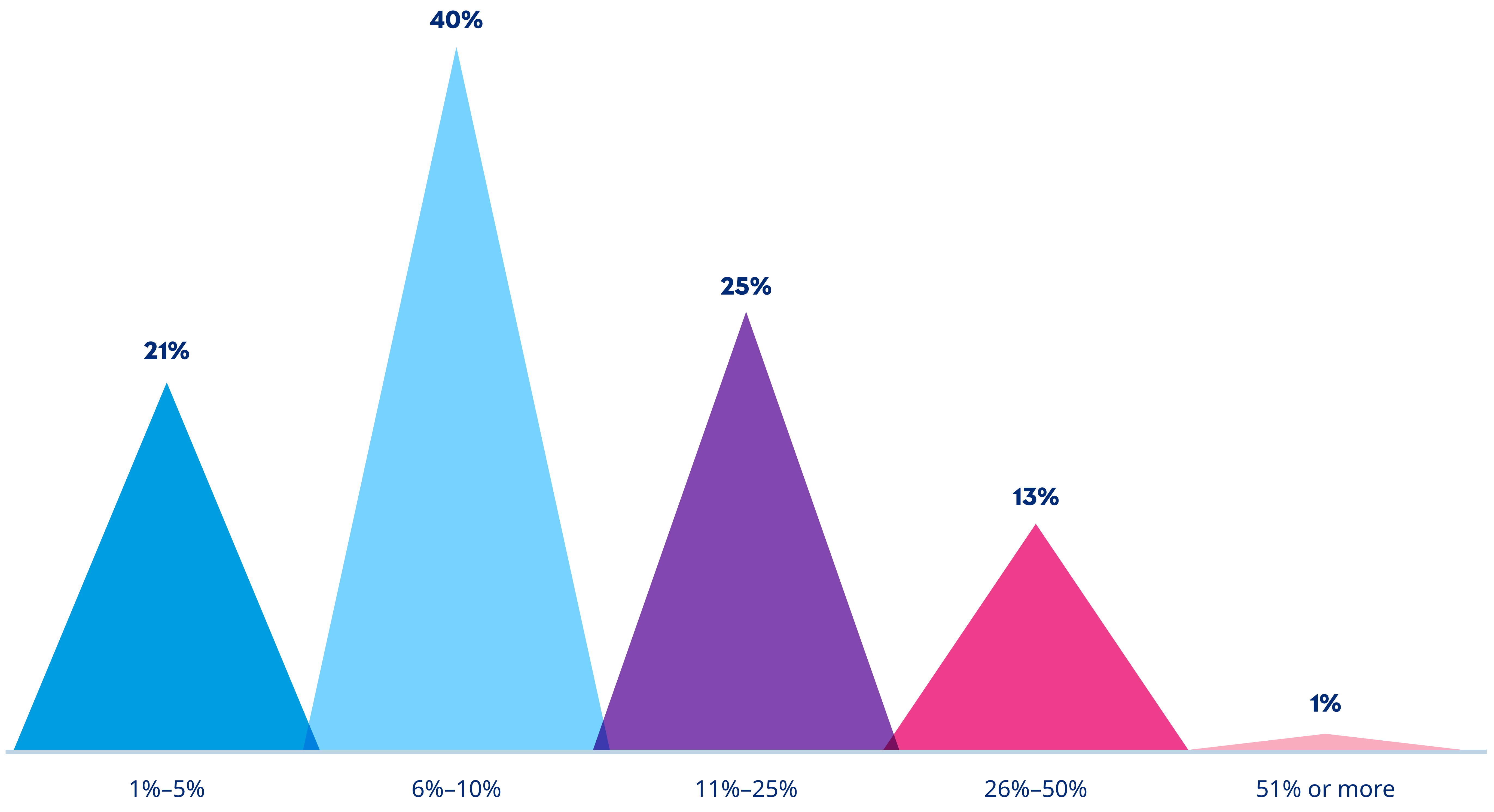
What private markets/illiquid assets strategy do you anticipate client demand coming from over the next 12 months?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Meanwhile, Asia could yet emerge as the more bullish of the three regions; 27% of respondents are willing to allocate up to 50% of their portfolios to illiquid assets, compared to their European and US counterparts keeping allocations to under 10% of the overall strategic asset allocation (SAA). We would not be surprised to see this number increase over the next few years.

What is the current strategic allocation to illiquid assets in portfolios?



Roll over the buttons below to reveal chart data

Global
Asia-Pacific
Europe/United Kingdom
Americas

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

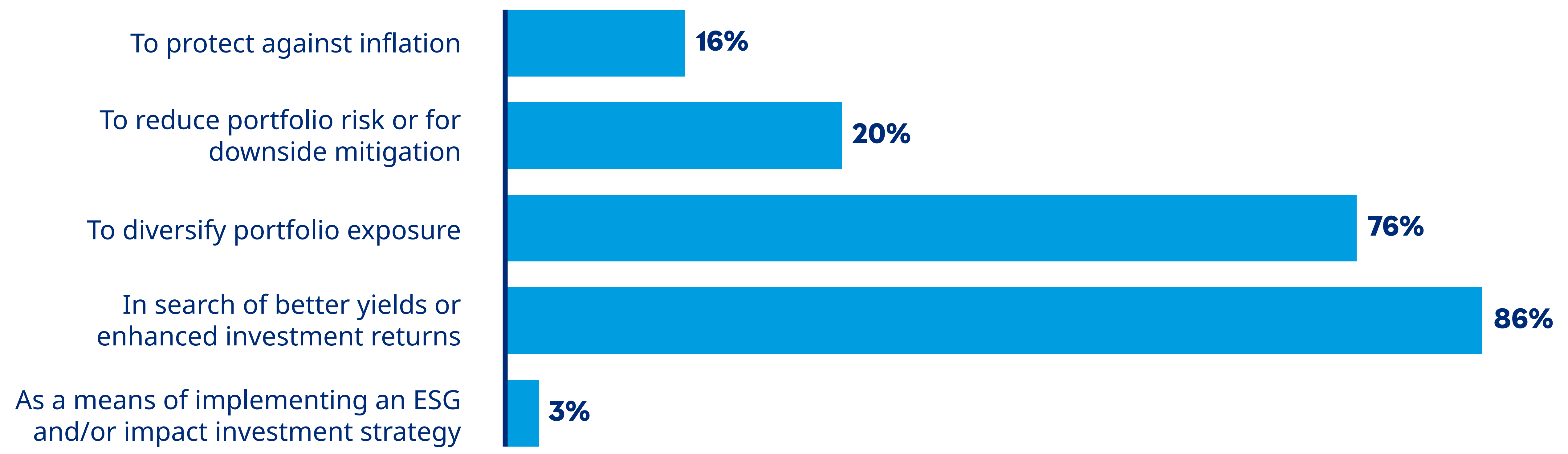
European wealth managers — for whom inflation remains the key market concern — are most likely to invest in illiquid assets for inflation protection. The same pattern is visible in the Americas and Asia, where wealth managers are turning to illiquid assets to address the biggest concerns in their home markets (low yield and volatility, respectively).

From an AUM perspective, respondents with US$10 billion or less under management are more likely to invest in illiquid assets for downside protection.

We have continued to see strong demand from our clients for illiquid assets. Given the current market environment, the enhanced returns and diversification potential of illiquid allocations are increasingly attractive and becoming a fundamental component of a suitable client portfolio. We expect this trend to grow and to be supported by the development of innovative ways for clients to access alternatives, which take into consideration the specific needs of the private wealth universe vs. traditional formats, which have historically been more commonly used in the institutional market. This applies across not only private equity but also real assets, private debt and hedge funds.

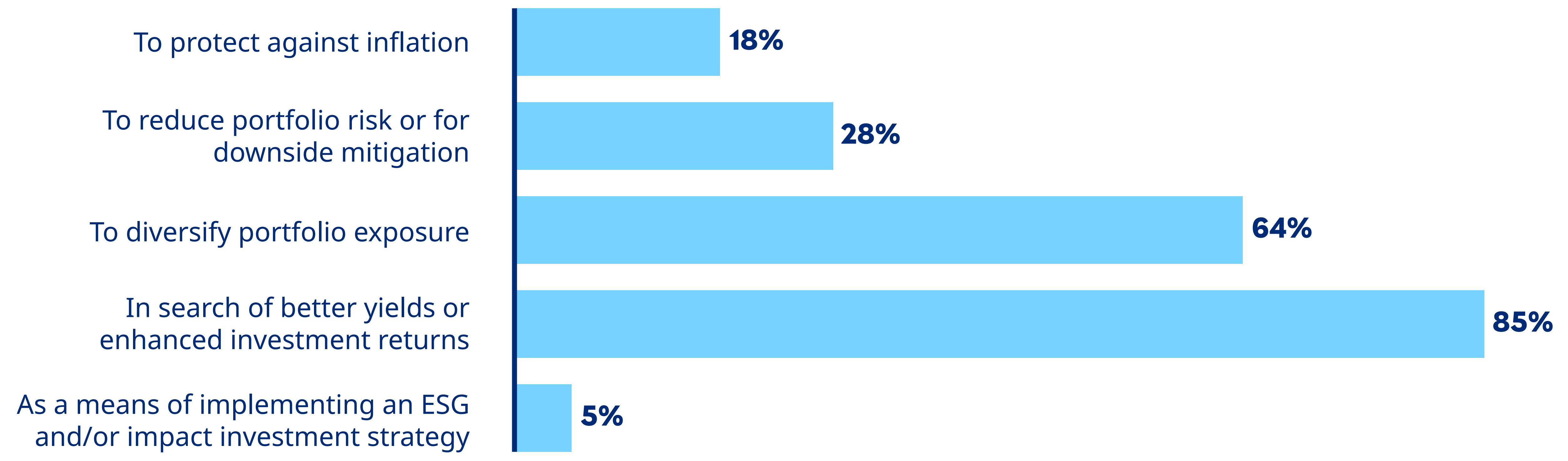
Isidro Fernandez, Director of Alternative Investments, Santander Private Bank

What are the two main reasons your clients look to make an allocation in illiquid assets?



Roll over the buttons below to reveal chart data

- Global
- Asia-Pacific
- Europe/United Kingdom
- Americas



Roll over the buttons below to reveal chart data

- US$10 billion or less
- US$10 billion to US$100 billion
- US$100 billion+

Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

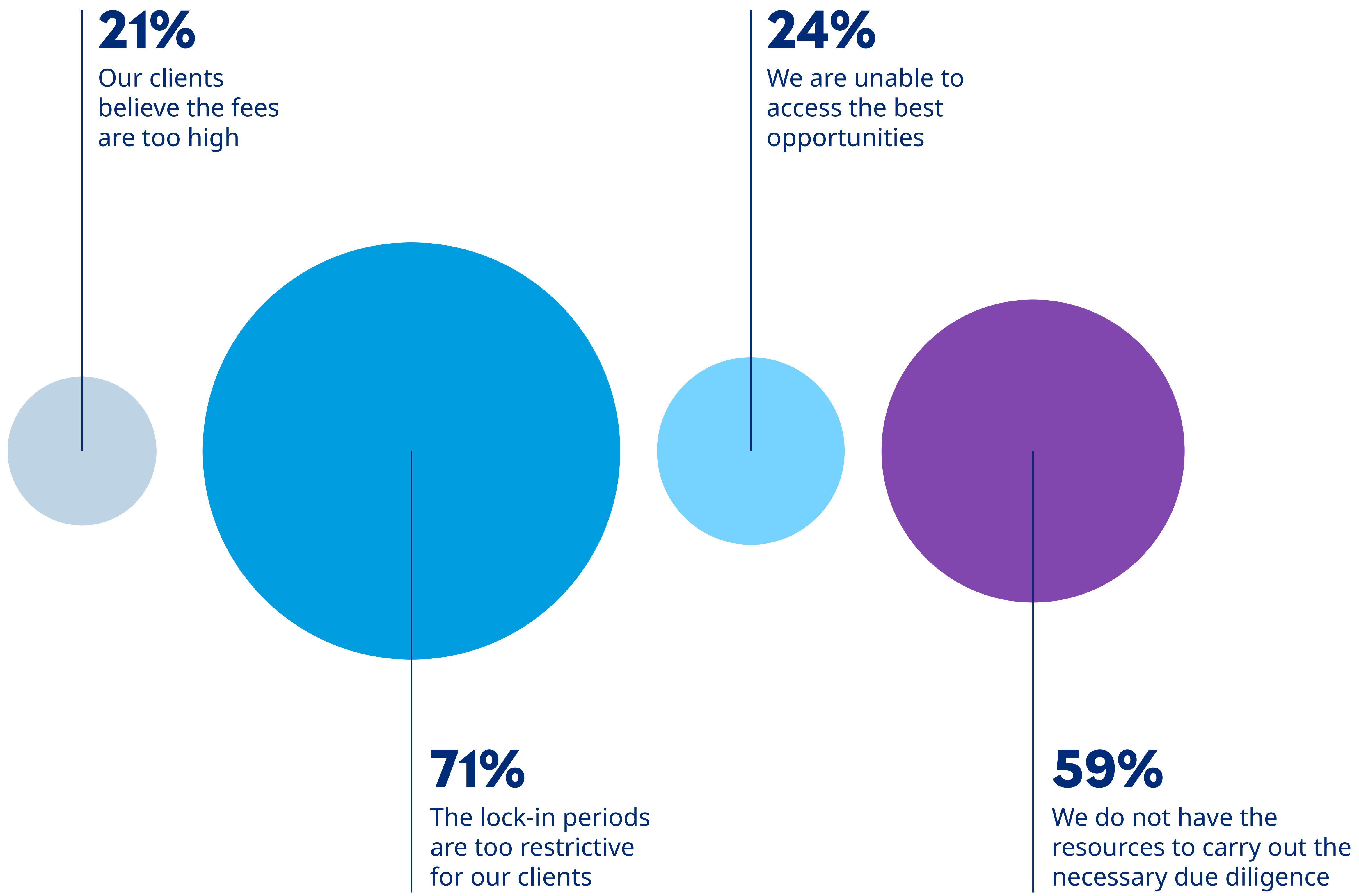
Globally, of the 30% of respondents that currently have no illiquid exposure, respondents with an AUM of US$100 billion+ are significantly more concerned about fees, whereas an inability to tolerate the required lock-in periods is the main reason smaller wealth managers are not investing in the asset class.

Regionally, fees emerged as a dominant concern among wealth managers in the Americas on many fronts, reflecting what appears to be a trend toward fee sensitivity in the region.

In spite of these concerns, 68% of respondents intend to increase exposure to illiquid assets over the next five years, suggesting a widening recognition of the importance of a diversified source of return.

> *68% of respondents intend to increase exposure to illiquid assets over the next five years.*

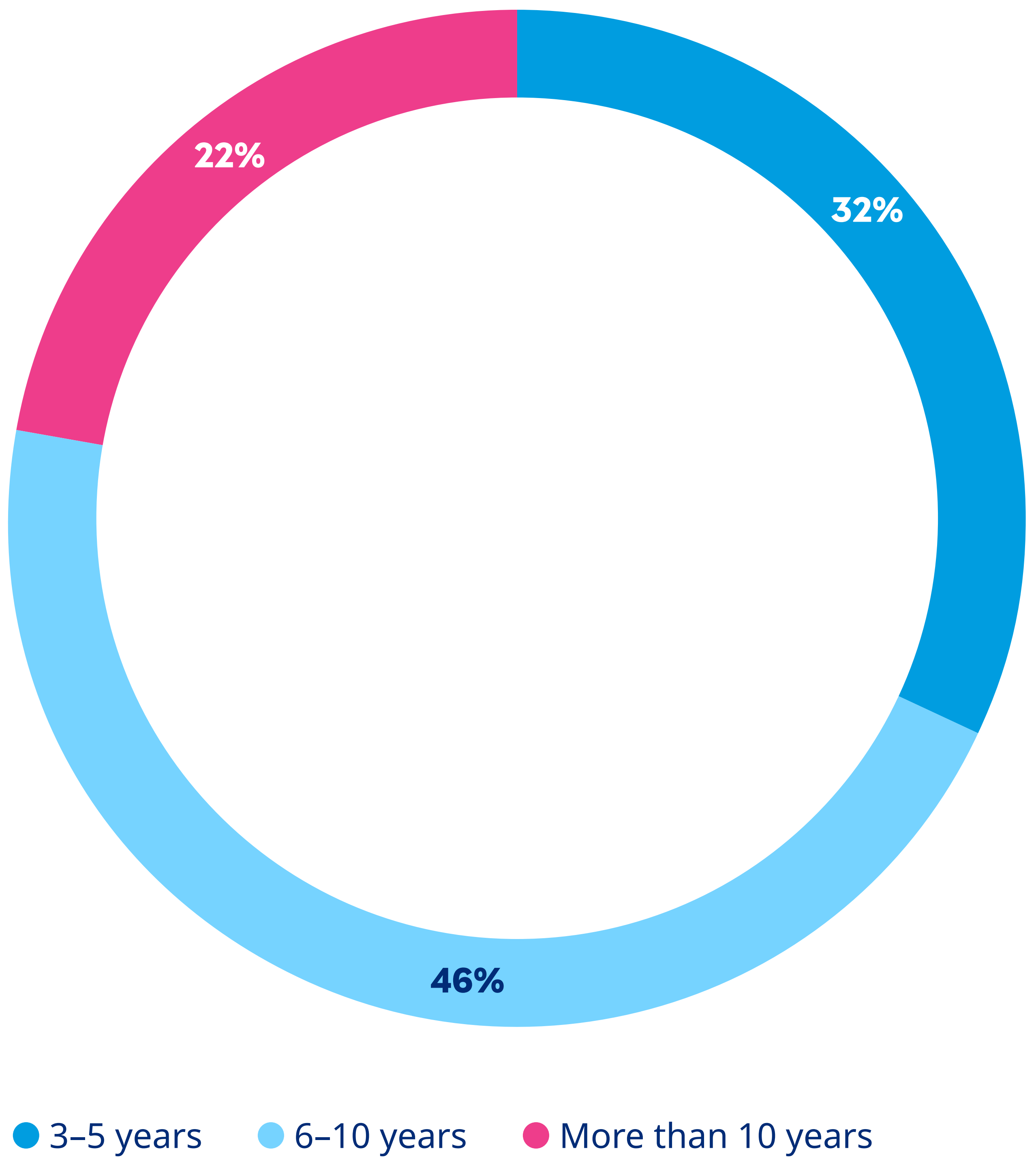
Which of the following statements best describes your organization's current reason for not allocating to illiquid strategies on behalf of your clients?



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

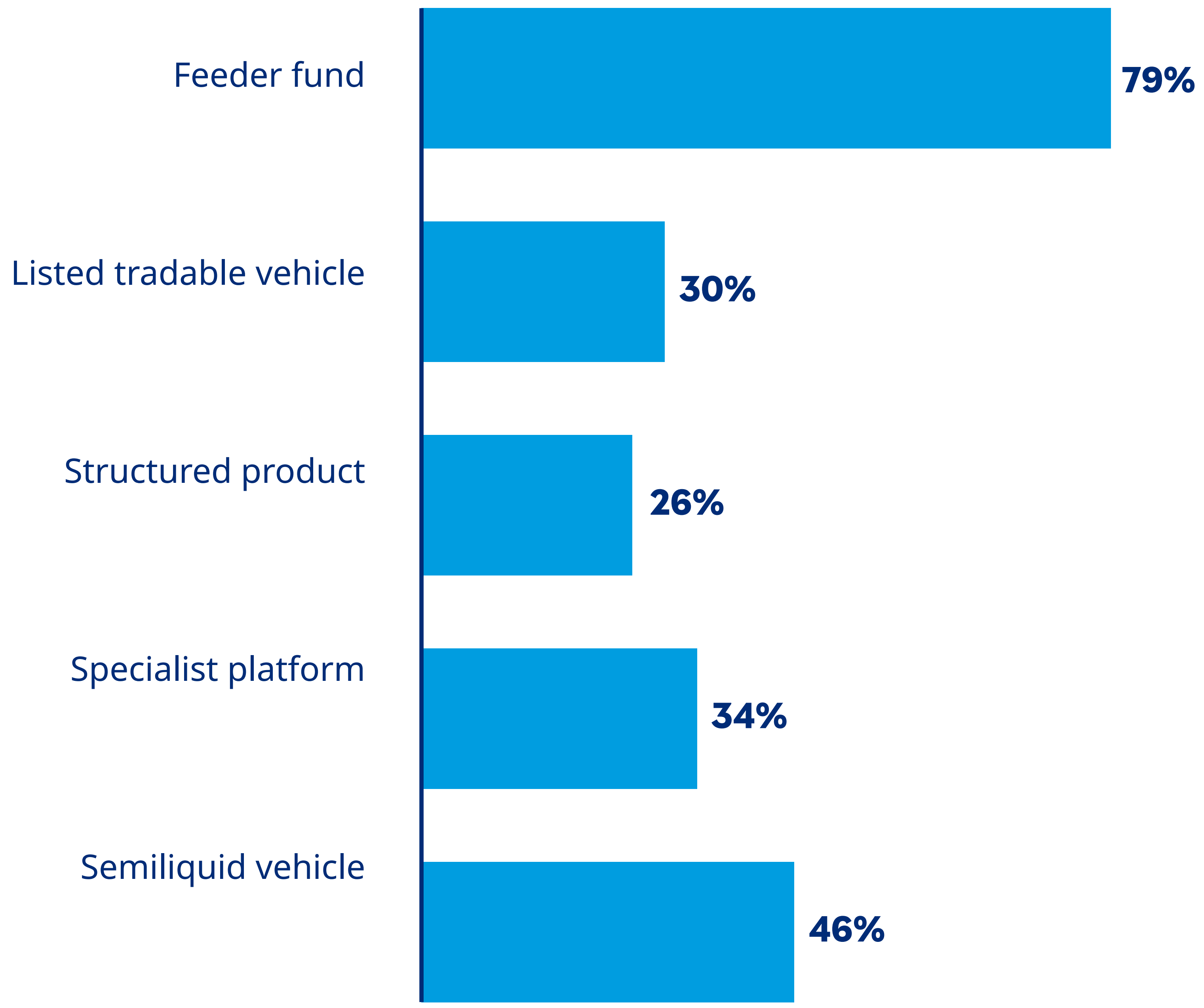
> **Illiquid asset classes remain appealing for wealth managers. However, restrictive liquidity profiles and lock-in periods have been cited by many as the reason for not using more illiquid investment strategies in their portfolios. The investment industry is evolving and seeking to address this challenge in a number of different ways, including advances in solution design, technology, fund structures and even regulations, which are helping to make illiquid strategies more accessible. Education is also essential to help investors understand the benefits and trade-offs of an allocation to less liquid strategies as part of their total portfolio.**
>
> **Garvan McCarthy**, CIO, Europe and AMEA, Mercer

What is the maximum lock-in period your clients are willing to commit to?



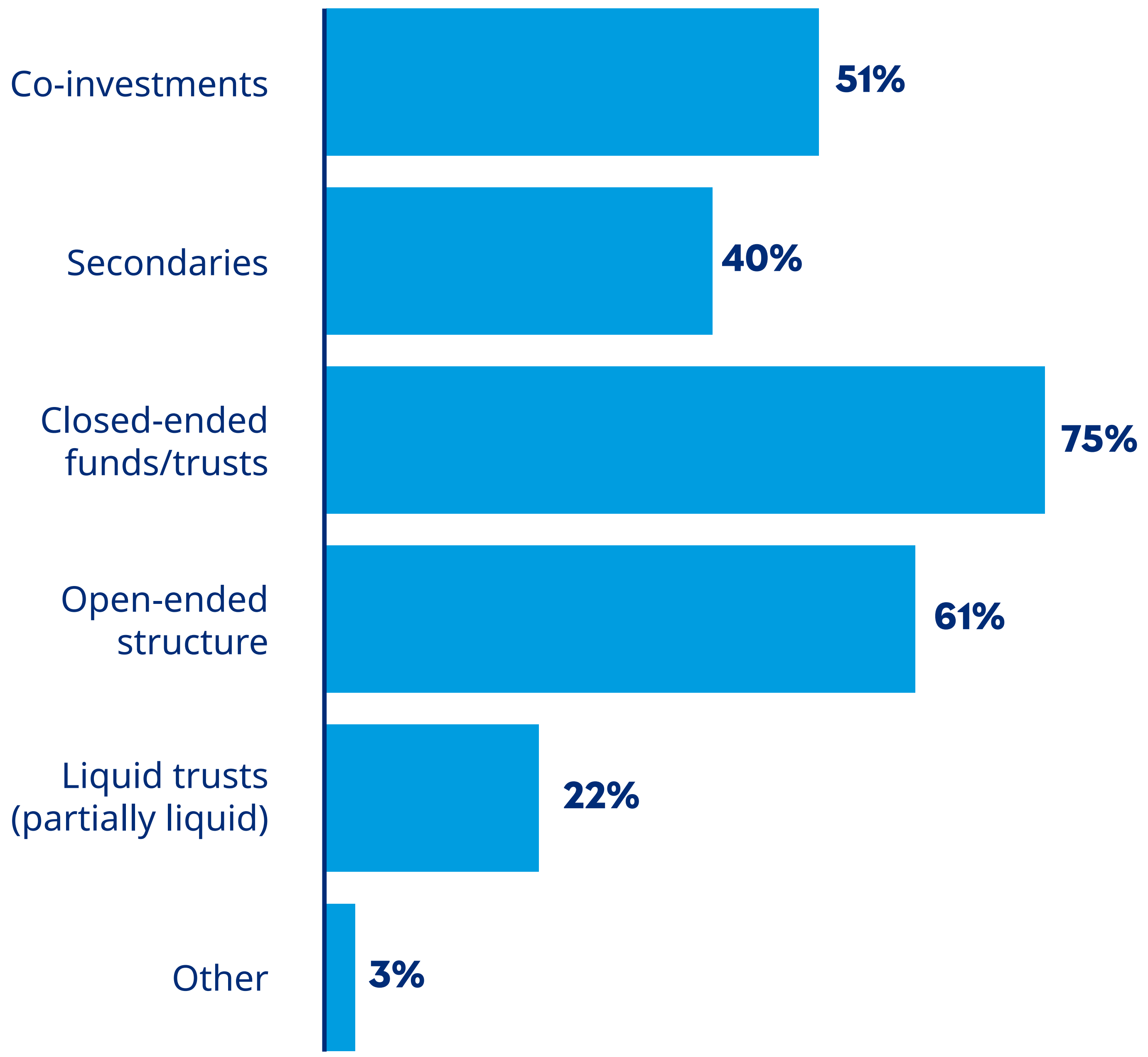
Source: Mercer's *2022 Global Wealth Management Investment Survey*.

What investment vehicle structure are you using to access illiquid assets?



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected all that applied.

Which investment structure do you use to access illiquid assets?

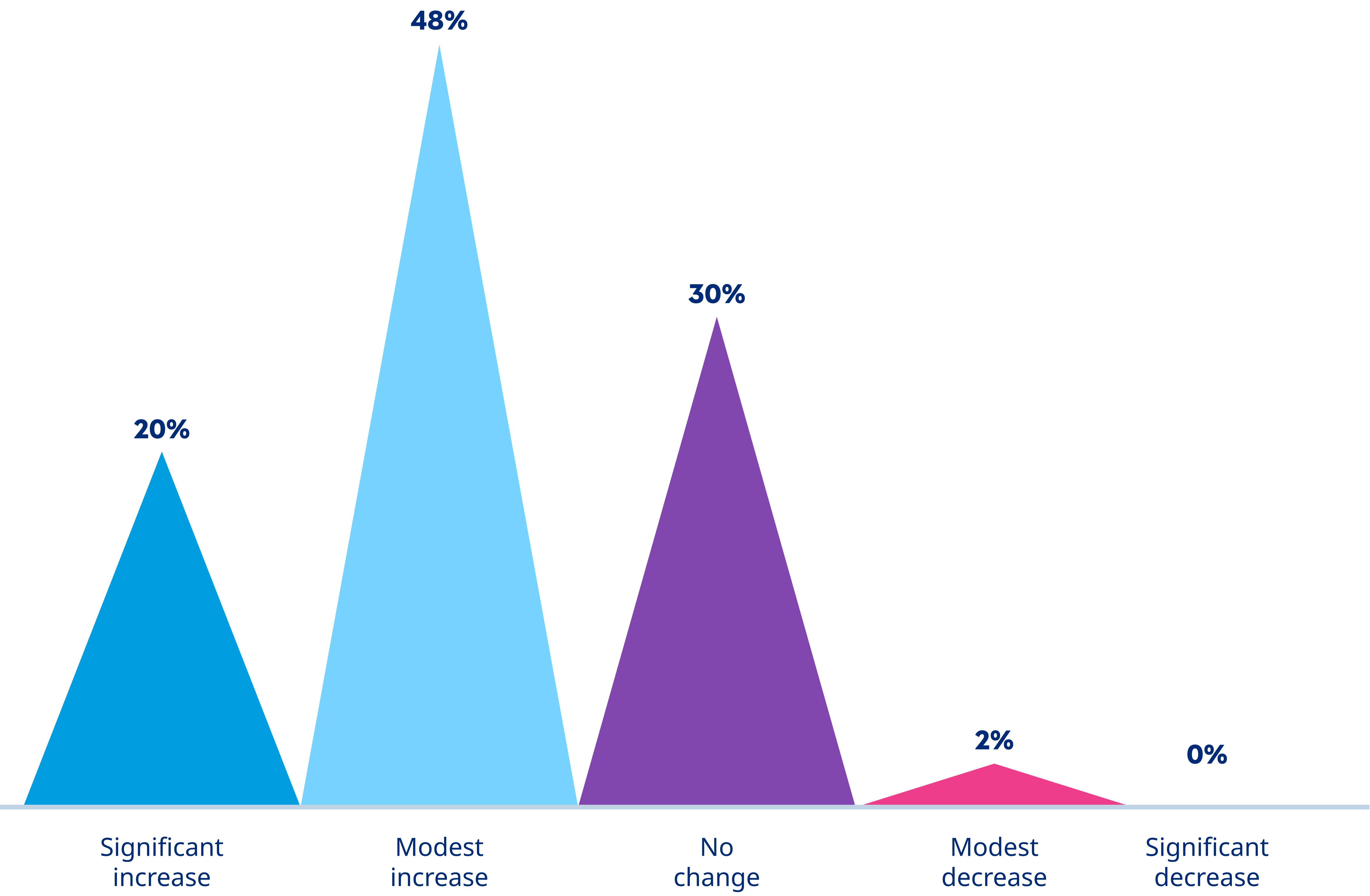


Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected all that applied.

The fact that 68% of respondents plan to increase their allocation to illiquid assets aligns with our discussions with our wealth management clients. With future returns for liquid assets expected to be lower and illiquid assets becoming more accessible, conversations are increasingly focused on how and where to allocate private markets assets.

Amit Popat, Head of Wealth Management Europe and IMETA, Mercer

How do you think your allocation to illiquid assets will change over the next five years?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Hedge funds — The comeback kid

Hedge funds remain a polarizing part of the market; however, more wealth managers (24%) intend to increase their exposure to the asset class over the next 12 months, predominantly for potential downside protection and diversification.

Among those already invested in the asset class, 53% are satisfied with the return they've received, 76% are satisfied with the level of diversification it has delivered and 73% are satisfied with the liquidity.

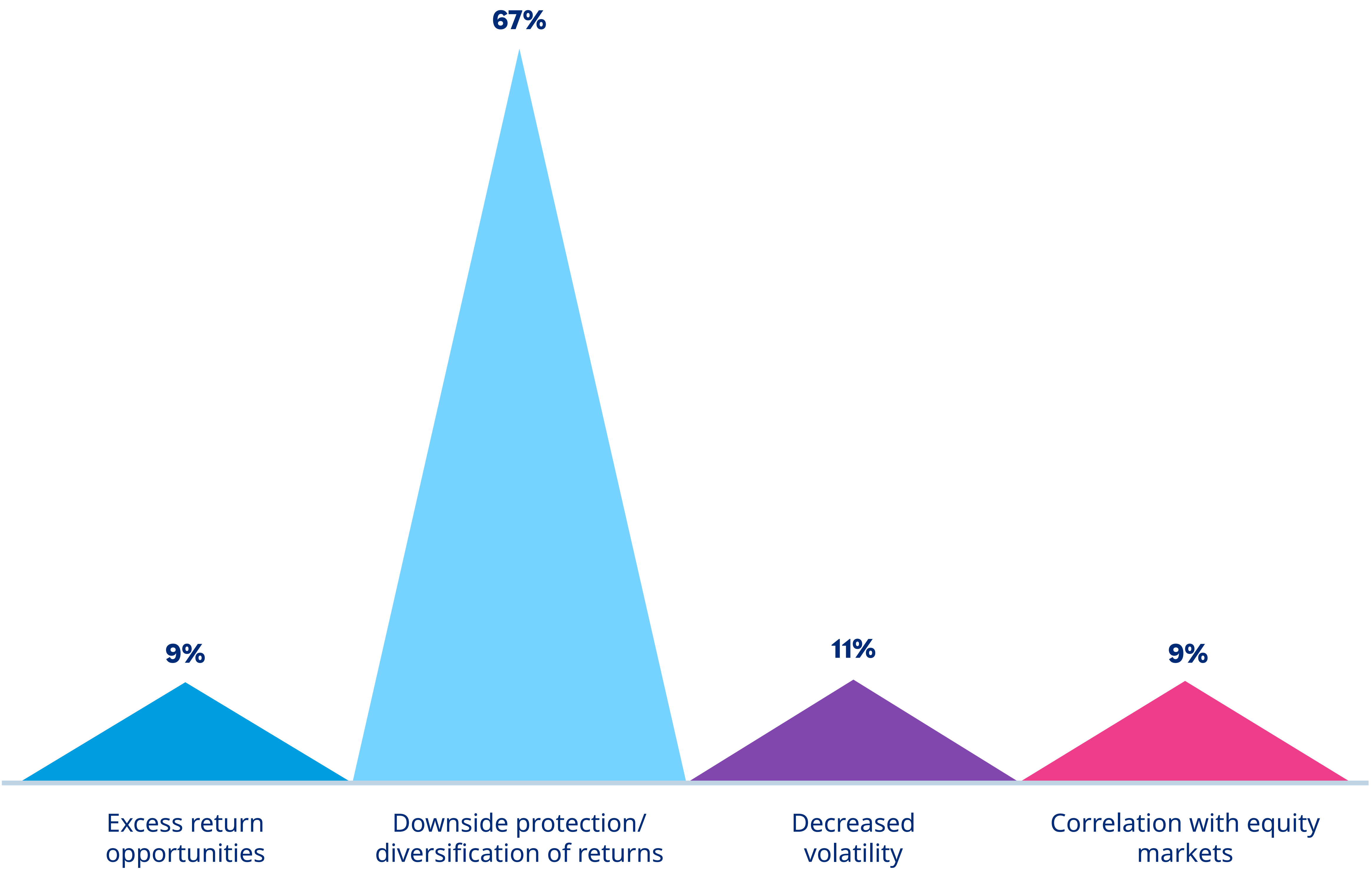
We asked those not invested in hedge funds what changes would attract them into the asset class. Lower fees and improved liquidity (shorter lock-in periods) are the most-cited changes investors want to see.

It's good to challenge hedge funds, but be open-minded, and have a fresh look at whether they can add value in a more treacherous macro environment.*

Dr. Sushil Wadhwani, Chief Investment Officer, PGIM Wadhwani

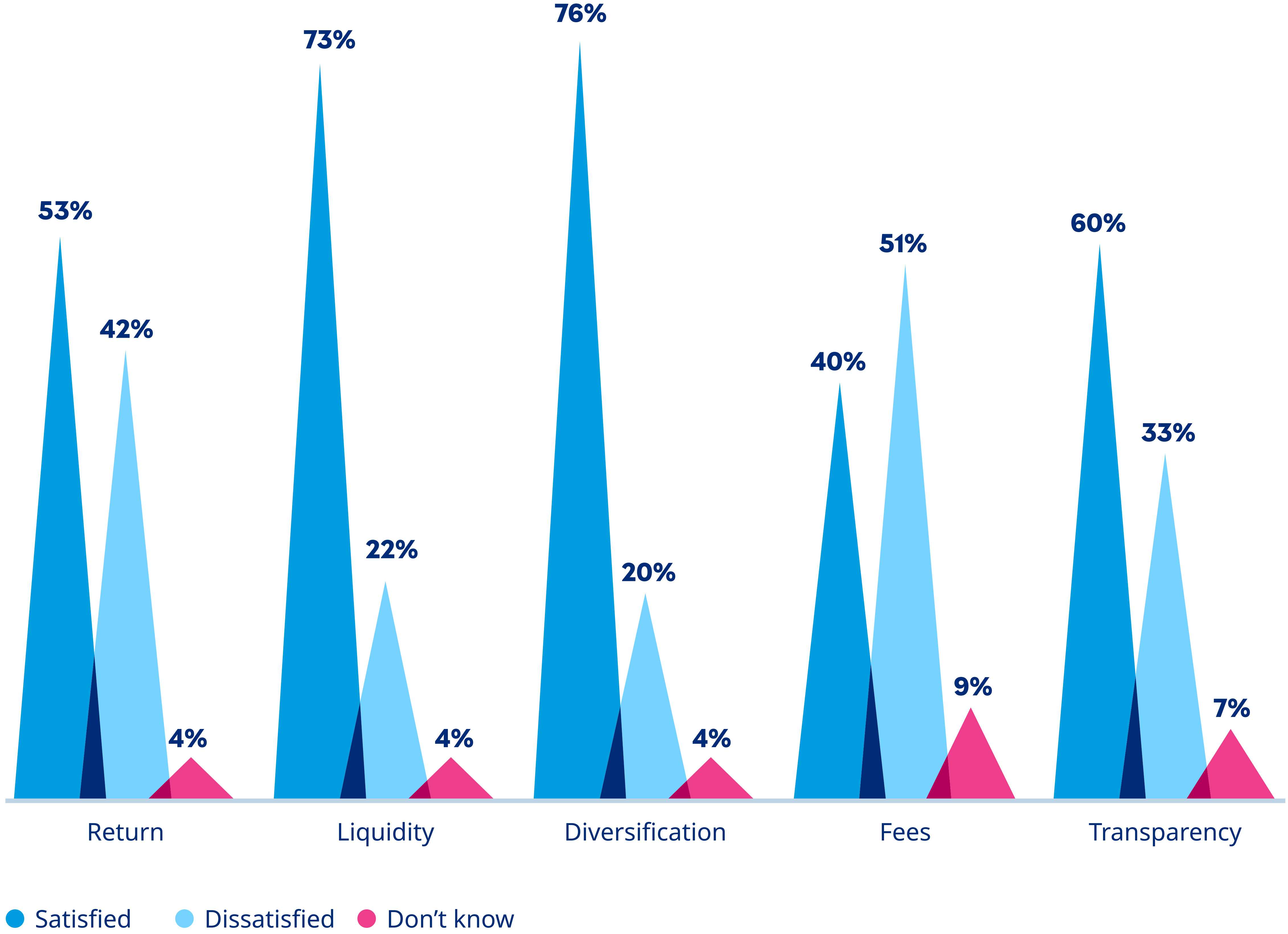
* *Critical Thinking, Critical Issues* podcast, May 2022.

What is your primary reason for investing in hedge funds on behalf of clients?



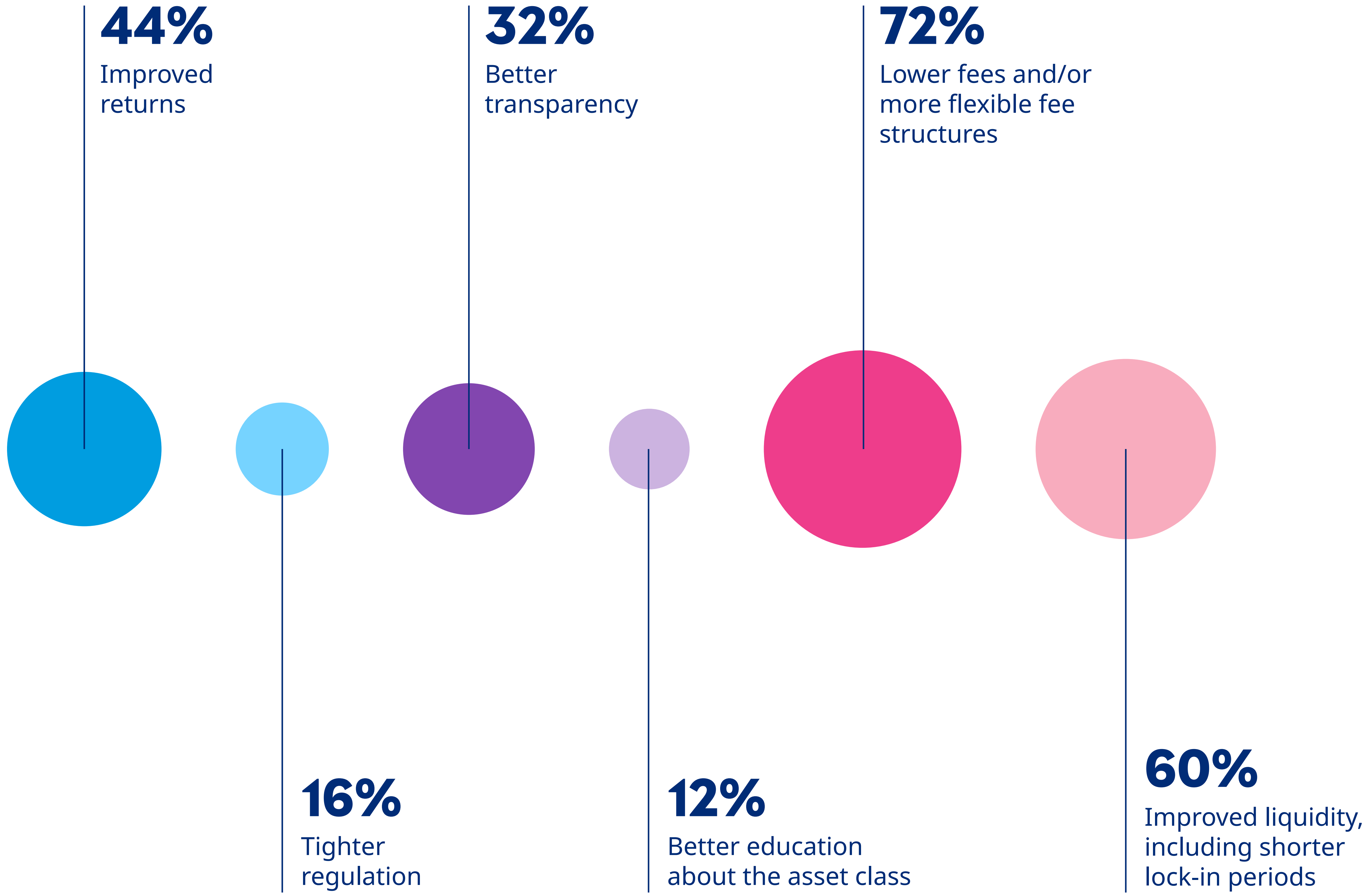
Source: Mercer's *2022 Global Wealth Management Investment Survey*.

How satisfied are you with the following outcomes of your hedge fund investments?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

What do you think needs to change with regard to hedge funds in order for your organization to consider investing in this asset class?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.
Respondents selected all that applied.

Private markets becoming a portfolio mainstay

Our survey results are consistent with what we've been seeing over the past decade — wealth managers are increasing their allocations to private markets.

The industry's asset allocation decisions over the past three years show that wealth managers are using portfolio positioning as their number-one weapon in an increasingly unforgiving market. Our survey showed private markets attracted the highest inflow as the industry sought solutions to the challenges of sustained low yields and rising inflation.

Of course, wealth managers have to fund these increases from somewhere. This funding has most likely come from cash and fixed income, and a previous trend was funding increases by reducing exposure to hedge funds, which hadn't been producing expected returns. However, this trend now seems to be reversing as hedge fund performance improves and wealth managers look for asset classes with a low correlation to equities given expectations of lower future returns.

Private equity used to be seen as cutting edge, but, more recently, it has come to be viewed as a mainstream asset class. That said, investors are becoming more adventurous in how they access the asset class. When they had small allocations, they tended to invest in their home countries and stuck to things like buyouts, but as their allocations have grown, they have increasingly entered more complex areas, such as venture capital, Asia, secondary investments and co-investments. Many have needed external help to understand the issues specific to these areas and gain access to the best opportunities.

Wealth managers are broadening their search for yield and are becoming more interested in private markets due to enhanced return and better diversification. Private equity continues to attract the highest proportion of demand, followed by real estate and private debt. Wealth managers looking to protect against higher inflation are turning to private debt with steady yields that are positively correlated with inflation.

Wealth managers remain interested in real estate, but they don't want to own retail spaces or offices. With people working from home and shopping online in growing numbers, investors want to own warehouses and data centers instead, which are not among the traditional sectors covered by core real estate. And there are new opportunities. One example is a fund that is building studio space for independent content producers that need somewhere to make content for Netflix and the like. This shows that wealth managers are moving into different markets and asset classes, but they still want the same attributes — assets that provide a degree of protection from inflation and add some alpha to their portfolios.

Within private equity, one area we like at present is continuation funds. That's not to say that the entire universe of continuation funds is attractive, but we believe the best ones have the potential to offer the opportunity to invest in high-quality companies with strong operational momentum run by well-aligned general partners — often with lower fees than a wealth manager would have paid in the underlying fund. We think this is an enormous opportunity, but it's vital to invest with high-quality managers. Outsourcing or seeking help from an external specialist can help you find the best managers in what can be a difficult market to navigate. If you can align yourself with the right vehicle, I believe continuation funds hold huge potential.

We've seen a growing trend in clients looking for support from external parties to build and implement their private markets portfolios, even among wealth managers that have been involved in the asset class for years. When they move into niche areas in which they may not have the necessary expertise or contacts, it makes sense to seek external support, and it can also save a lot of time. You can have the resources you need overnight rather than building them up internally over time, and many wealth managers see this as much better value for money.

Finally, for wealth managers looking to make an impact, certain funds can enable them to target areas that may be aligned with their organizations, whether through financial inclusion or funding the energy transition. It's good to remember that by investing in private markets, you can help make the world a better place.

Michael Forestner
Global Co-Chief Investment Officer, Private Markets

03 Placing a priority on client experience and business growth

As wealth managers prepare for a challenging period, investors' expectations continue to grow, with regulation becoming more prevalent, and there is a significant focus on improving client experience. Wealth managers are also concerned that their growth prospects will be blunted by increased regulatory challenges, continued fee and margin pressure, and disruptive technology. Here are some recommended actions for improving the client experience.

- Review your operational framework regularly to ensure it continues to be fit for purpose and supports your client-service objectives.
- Regularly review your third-party providers to ensure they continue to meet your needs and are offering value for money.
- Consider engaging third-party help to supplement in-house resources, whether for portfolio construction and investment research or for ESG resources and expertise to seek improved client outcomes.
- Consider third-party expertise to develop sustainable and "net zero" portfolio solutions to meet growing client demand in this area.

78% say improving the client experience is the leading business priority over the next two years.

As the wealth management industry braces itself for what is likely to be a challenging period ahead, we asked respondents what their main business priorities were for the next two years.

The most commonly selected area of focus is — by a wide margin (78%) — the improvement of the client experience. The second-most-cited priority is to enhance firms' ESG offerings (42%). Regionally, the latter is of less importance in the Americas (28%) compared to managers in Europe (54%) and Asia-Pacific (32%).

Which of the following are business priorities for your organization over the next two years?

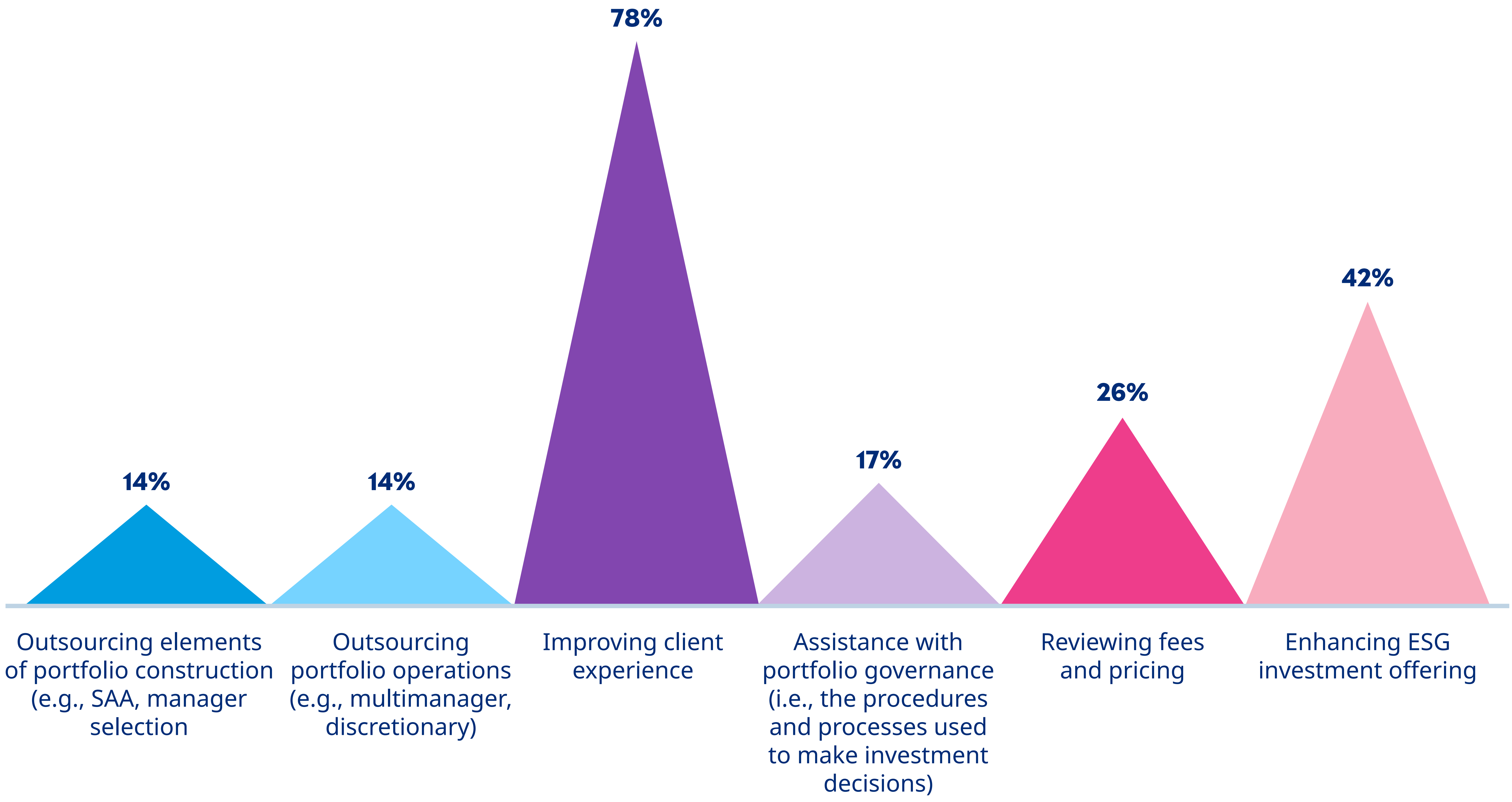
Roll over the buttons below to reveal chart data

Global

Asia-Pacific

Europe/United Kingdom

Americas



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

The increased focus on client experience aligns with what respondents say have been the most successful drivers of growth over the past five years: increasing AUM of existing clients (57%) and attracting new clients (66%). The latter approach has proved particularly successful in the Americas, where 83% of respondents report that “attracting new clients” was the most effective means of generating growth over the period, compared to 63% for Europe and 54% for Asia-Pacific.

It’s no surprise to me that client experience is a top priority among respondents.

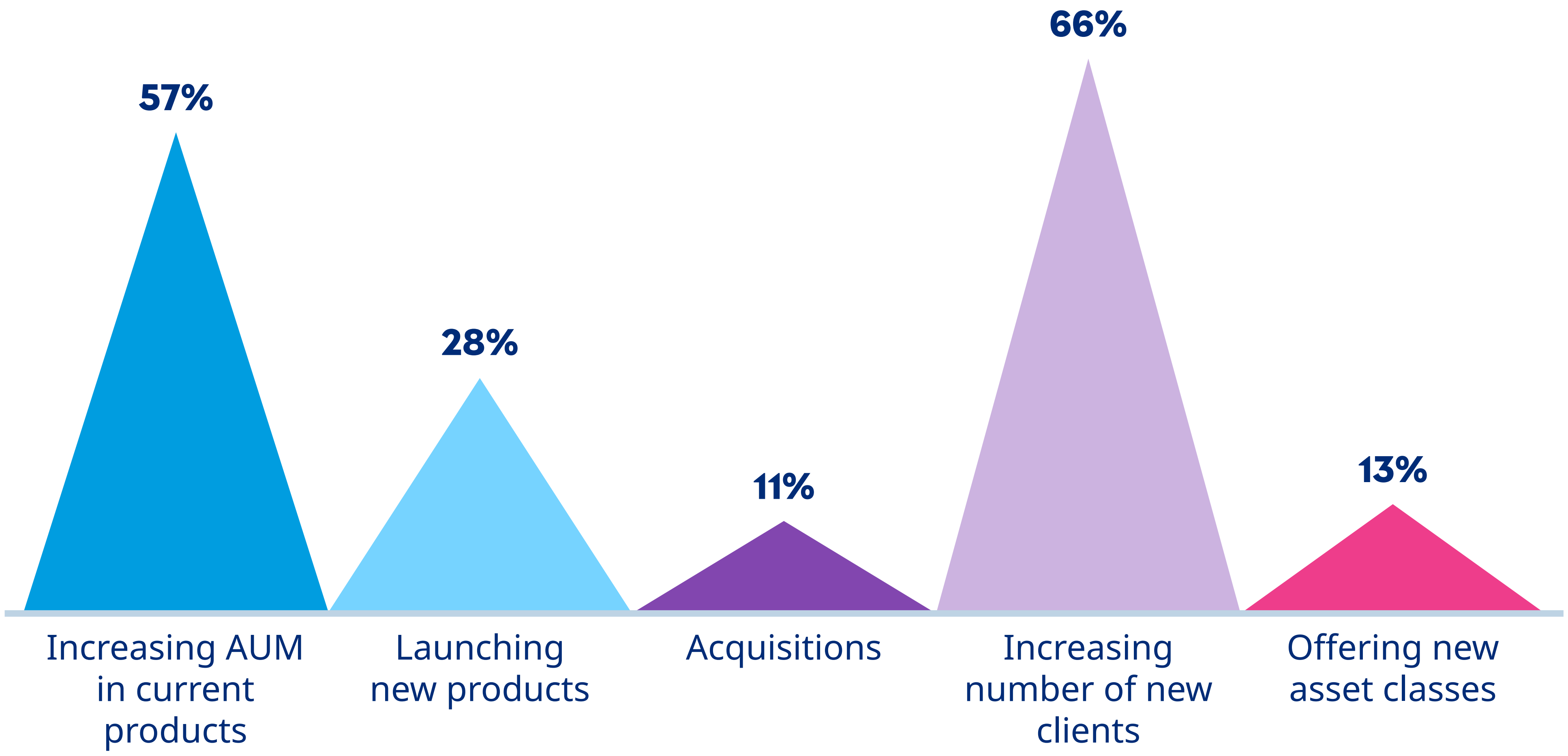
An important part of client experience is now defined by a digital user experience. By implementing leading-edge technology and integrating it into the customer journey, private banks and wealth managers can increase customer loyalty and satisfaction. This will not only help with retaining clients but also in acquiring new ones.

I believe the large majority of wealthy clients still appreciate a personal interaction and engagement with their private bankers. The implementation of suitable technology and services has a clear impact on acquiring new customers and satisfying existing ones, which leads to a bigger share of wallet and results in higher assets and transaction fees. Examples of services include digital onboarding and account opening, digital marketplaces and transaction platforms, financial planning, etc.

Banks and wealth managers can now choose from a wide range of offerings from vendors, consultants and user-experience designers.

Urs Bolt, Product Manager, Digital Banking and Wealth Management

Which approaches have been most successful in achieving growth for your organization in the past five years?



Roll over the buttons below to reveal chart data

Global
Asia-Pacific
Europe/United Kingdom
Americas

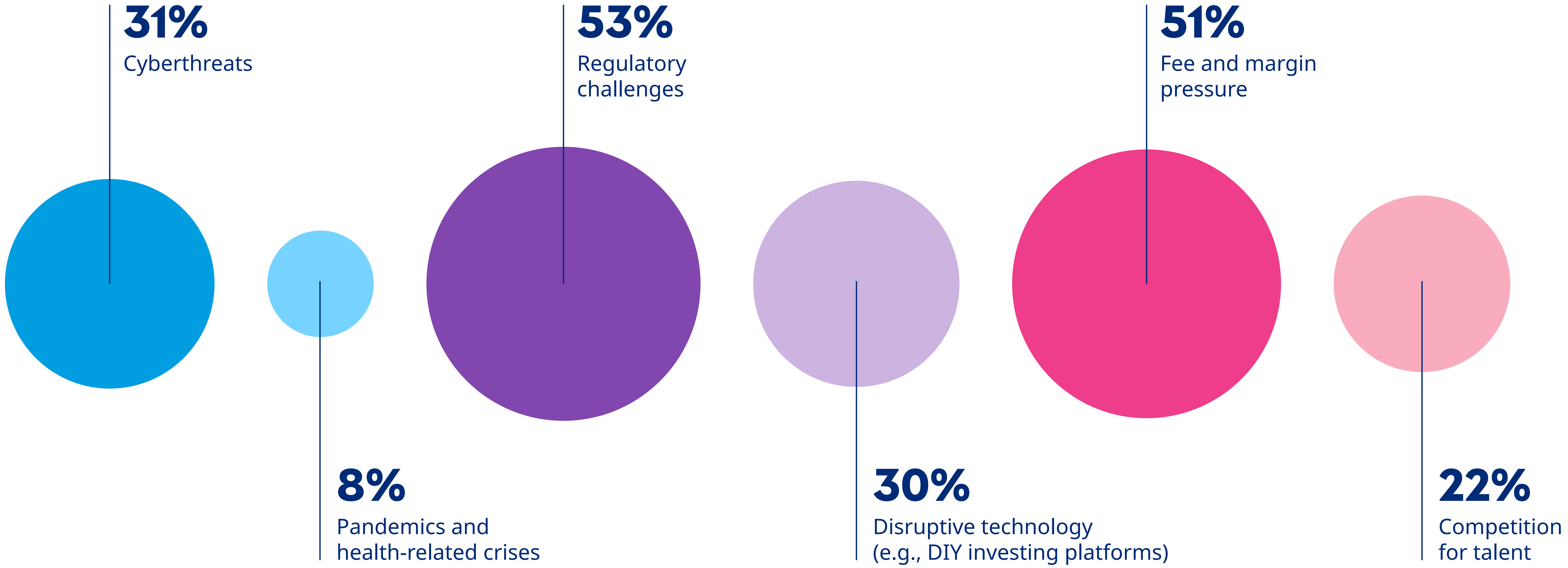
Source: Mercer’s *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

With client experience and AUM growth firmly at the top of the industry's agenda, we asked respondents what barriers they believe are most likely to stand in the way of delivering on these priorities. Regulatory changes are the biggest perceived threat to business strategy, cited by 53% of respondents.

This is followed closely by fee and margin pressure, which 51% of respondents cite as a leading concern.

We have continued to see wealth management firms significantly enhance their compliance and operations teams to meet increasing regulatory burdens, leading to decreased profitability.

Which two threats to your organization's growth prospects are you most concerned about?



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

As we are a wealth manager that receives our revenue from financial planners' advice fees, the way we grow is by increasing the number of financial planners in our network.

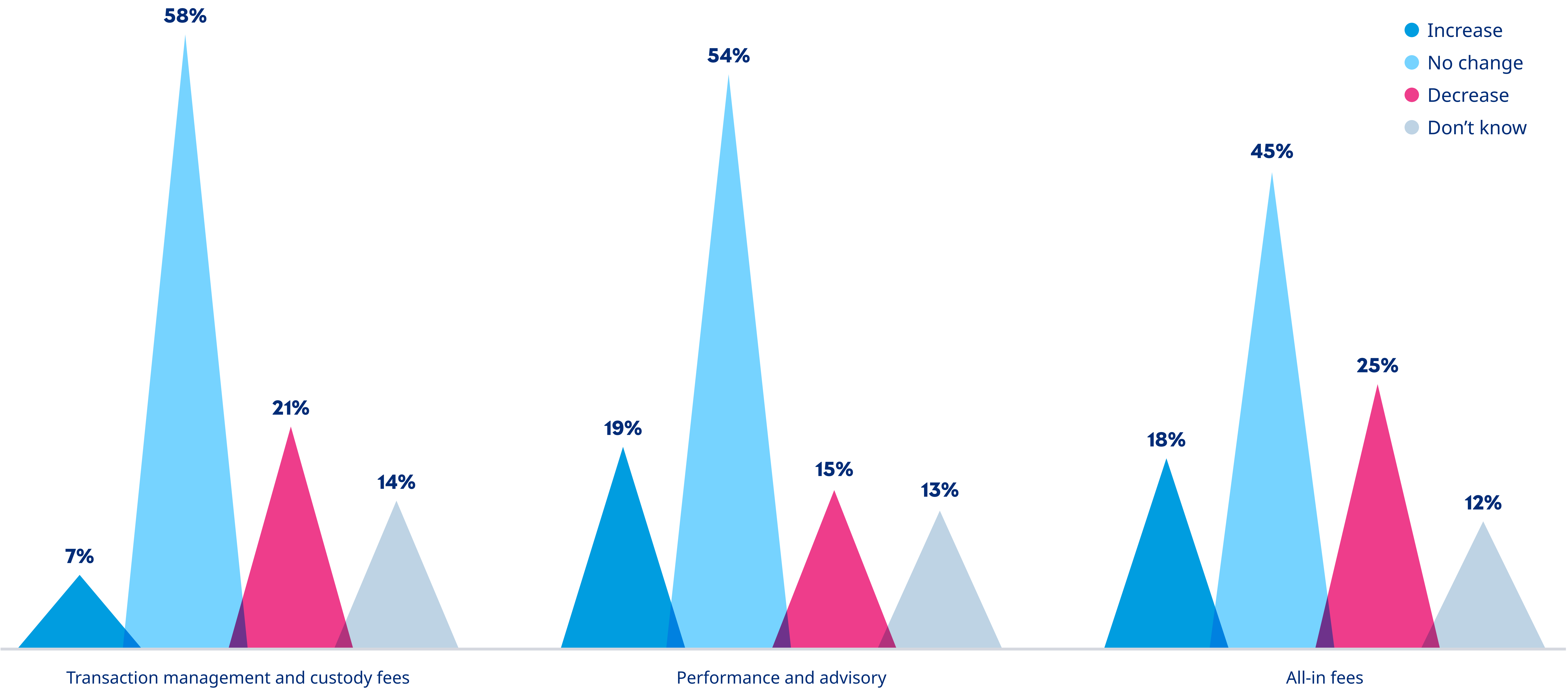
The key risk to a wealth manager's services now and in the future is regulatory changes that have triggered a reduction in financial planner numbers across the industry as a whole, and we expect a further reduction by 2026 based on tighter reeducation requirements. As a result of a recent High Court decision, we are further occupied by increased initiatives centered on cybersecurity.

Sam Rubin, Affinia Financial Advisers, Australia

Against the challenging backdrop for margins, the majority of respondents have no near- or medium-term plans to change their pricing models. Approximately 15%–25% of respondents, however, say they are likely to decrease fees in some form in the next two years.

This suggests a balance between managers' aim to preserve profitability and industry-wide client pressure to pay lower fees. Performance and advisory fees are exhibiting the least pressure as wealth managers can still justify the intellectual capital and value they bring to their clients.

How is your pricing model for clients likely to change in the next two years?

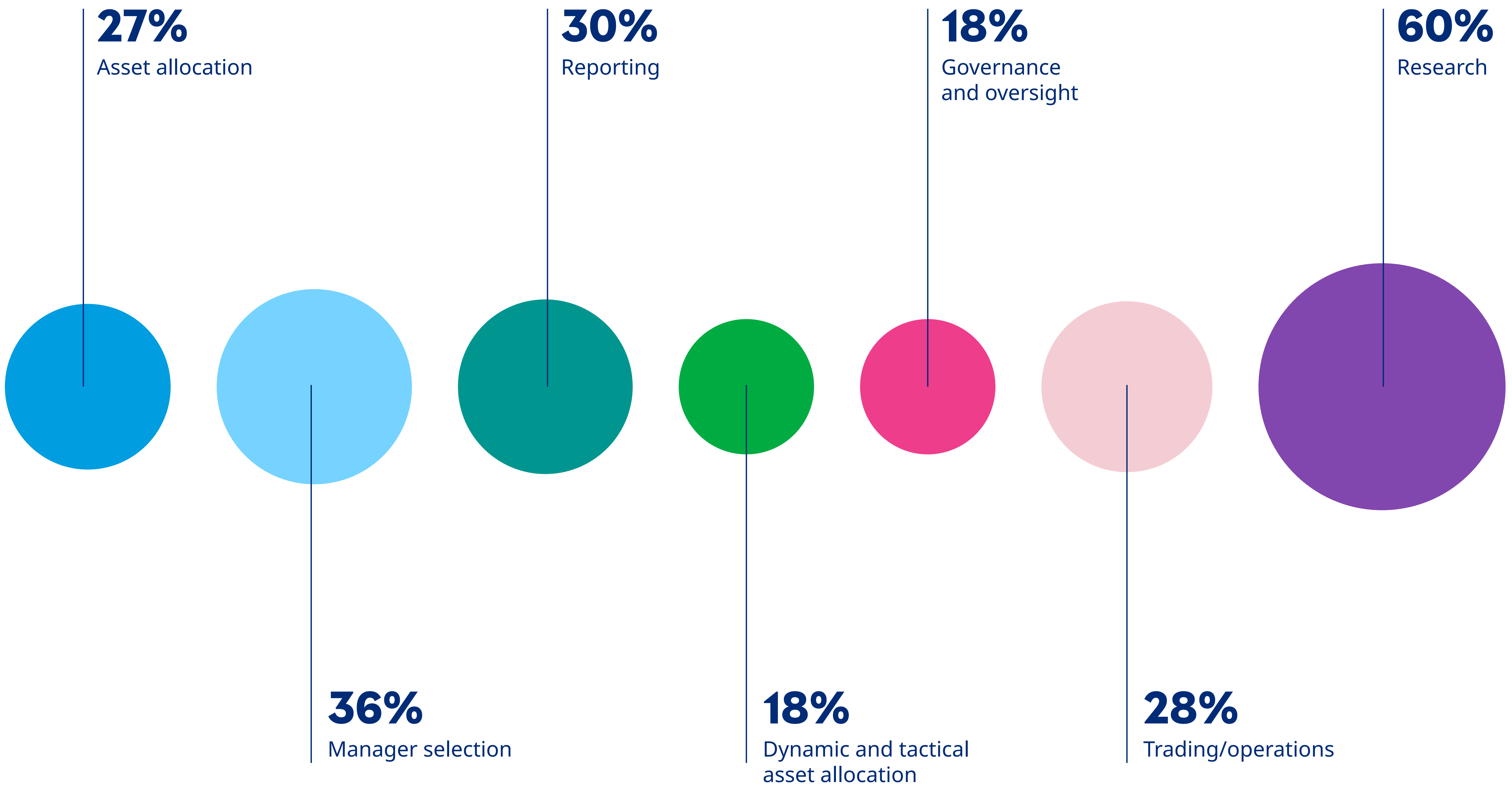


Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Outsourcing: Navigating the future with the right support

Rising demand for ESG-focused investments, coupled with a challenging market environment, has led more wealth managers to seek third-party expertise. Sixty percent of respondents say they are specifically using external providers to help with research, and 30% are using them to help with reporting.

On which parts of your investment proposition are you working with a third-party provider?

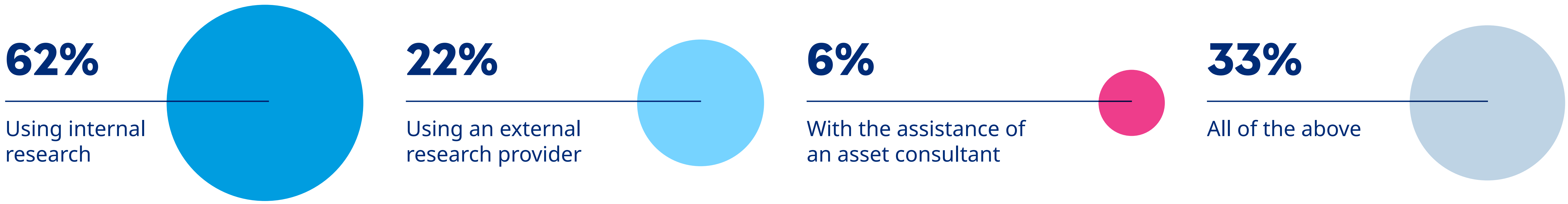


Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected all that applied.

Although the majority of respondents use internal research to make investment or manager-selection decisions (62%), the survey found that 36% use third-party providers for this purpose.

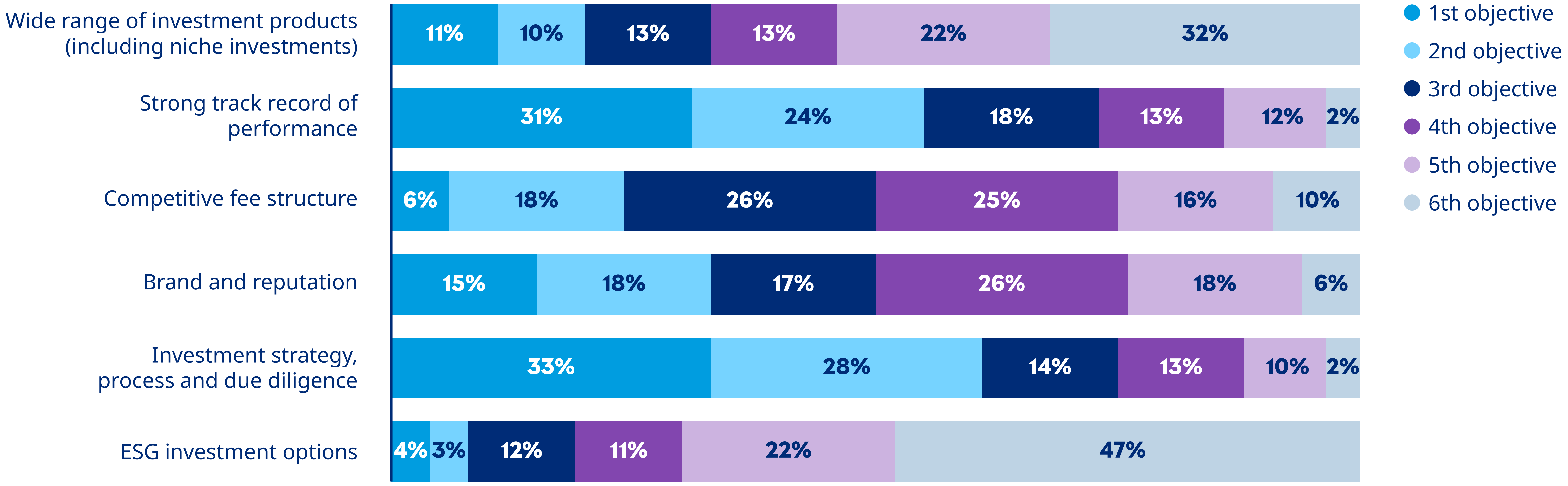
When choosing a third-party provider, the most important selection criteria are investment strategy, process and due diligence, followed by a strong track record.

How does your organization make investment or manager-selection decisions?



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected all that applied.

Which factors are most important to you when selecting a third-party investment service provider?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Outsourcing momentum continues to grow

Wealth managers have had to deal with a huge increase in complexity since the global financial crisis.

They have adapted to new regulatory demands and diversified their range of investments in response to the crisis, which increased portfolio robustness but also complexity. Indeed, while wealth managers had traditionally invested in developed-market equities and government bonds, in recent years, they've broadened their scope to include assets such as high-yield debt, emerging fixed income, emerging equities and small caps.

More recently, they've had additional investment-related complexities and challenges to contend with — such as investing in private markets as a new source of potential higher return and diversification, the increased urgency to achieve net zero, and a sharp increase in market volatility.

Diversifying the mix of assets in client portfolios was the right thing to do, but it has put a lot of pressure on governance, oversight and operational day-to-day management. In some cases, it has also increased costs.

Looking forward, as the wealth management industry braces itself for what is likely to be a challenging period, our survey found the main business priority for the next two years, by a wide margin, is improving the client experience. The second-most-cited priority is to enhance ESG offerings. Regionally, the latter is of less importance in the Americas when compared to wealth managers in Europe and Asia.

Outsourcing may provide some big benefits. It can help wealth managers achieve tasks more quickly and cost effectively. By delegating some of their day-to-day operational management and execution, they have more time to focus on key investment issues, enhancing the client experience, and growing and differentiating the business. Outsourcing is often considered to involve delegating everything, but it certainly doesn't need to. Wealth managers can choose which activities they wish to outsource based on their individual requirements. What's more, external specialists work as extensions of your team, so you don't need to make expensive internal hires to manage the increased complexity.

ESG and sustainability are clearly major focuses for wealth managers and their clients. Although the reputational risks associated with ESG and climate change did not score highly on wealth manager top challenges over the next two years, the opportunities related to climate change and ESG did. Weighing the risk of climate change — and the associated changes in government policy and corporate activity — is essential when assessing risk within client portfolios. There are many ways to integrate ESG factors into your investments, and, for those aiming for a net-zero portfolio, doing so can be challenging and time consuming. It involves setting plans, measuring progress and gaining access to high-quality data.

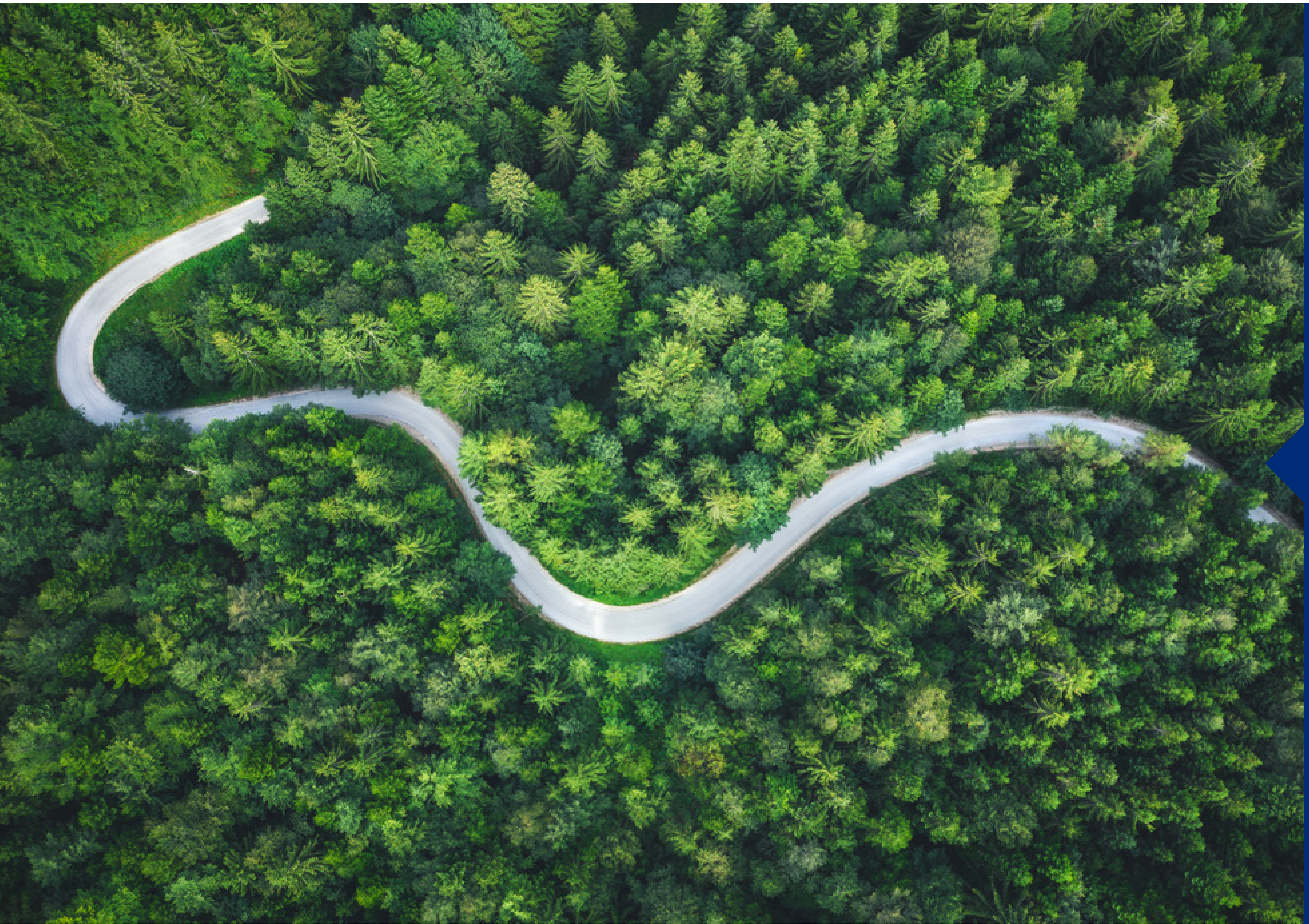
Wealth managers can make full use of outsourcing for this journey. This is not a case of adding another layer of costs that is passed to clients. In fact, third-party providers often have the economies of scale and size to help wealth managers reduce overall costs.

Of course, outsourcing isn't for everyone. But our research shows that many firms that outsource various aspects of their operations have been able to face the growing number of challenges without a significant impact on their resources. Those that have reviewed their governance arrangements have found the changes they've made to be very positive.

With the challenges and opportunities outlined by our clients, we believe governance, effective execution and monitoring are critical to successful outcomes. We work closely with our clients to amplify their in-house expertise through the full continuation of engagement models; that is, traditional consulting, extension of staff and a fully outsourced model.

Michael Dempsey
President, Investments
and Retirement, Mercer

04 Meeting growing client demand for sustainable solutions



It's clear that ESG-focused investments aren't simply a fad — they're part of a paradigm shift. With client demand for sustainable investments on the rise, wealth managers are seeking to integrate ESG considerations further into their processes while balancing the needs of key stakeholders with a scalable product proposition. Here are some recommended actions for meeting this growing demand.

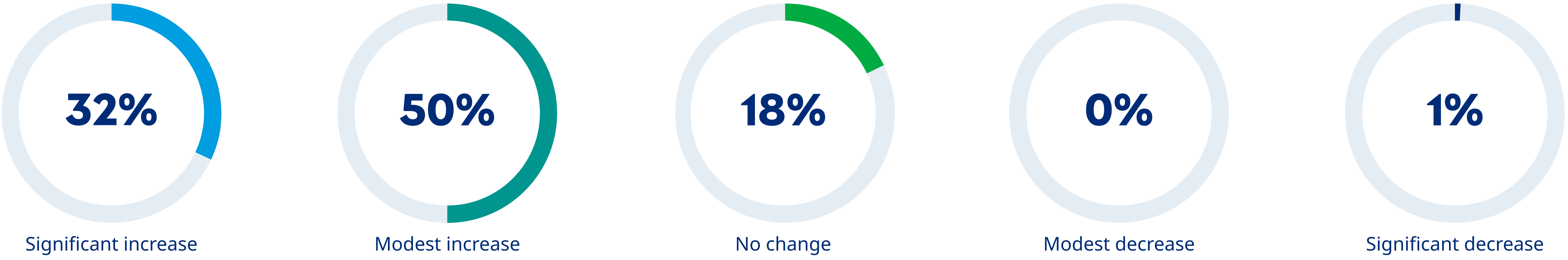
- Develop a clear responsible investing policy for all your organization's stakeholders, and share this with your clients. It should cover issues such as your mission; diversity, equity and inclusion; and climate risk.
- Establish clear parameters for integrating ESG considerations into your investment process and your client portfolios. This can include manager selection, investing in thematic strategies, positive and negative investment screens, impact strategies, and net zero.
- Consider moving beyond exclusions from portfolios and instead offer your clients investments focused on thematic or impact strategies with measurable stewardship and engagement outcomes.
- Use data and insights that provide evidence of meeting sustainability commitments for your clients and regulators.
- Improve transparency, and provide clients with a clear view of your investment process and the holdings in your portfolios.

The onset of the pandemic put the industry's ESG conversation on pause as wider market woes took precedence among concerned investors.

Over the past year, however, as the world has been learning to live with COVID-19, wealth managers — and their clients — have redoubled their commitments to ESG investing. Eighty-two percent of respondents to the survey say that client demand for ESG products has increased over the past 12 months. The industry is seeking to meet this demand predominantly by integrating ESG considerations at security-selection level and into the due diligence of external managers.

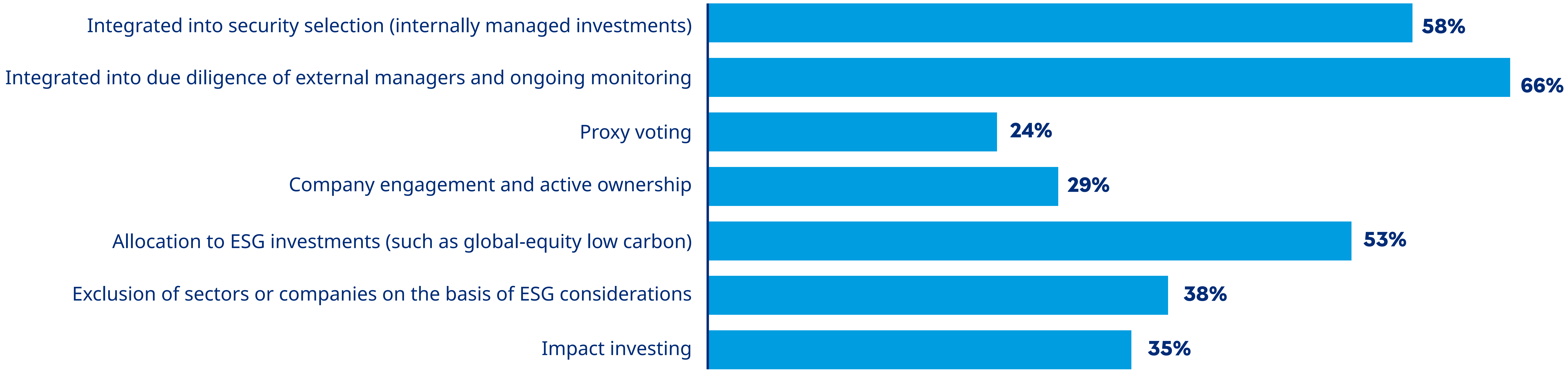
> ***82% say client demand for ESG products has increased over the past 12 months.***

How would you describe the change in client demand for your organization's ESG investment solutions over the past 12 months?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

How does your organization incorporate ESG considerations into investment decisions?



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

ESG investment rationale

Although the sector's commitment to ESG is strong across the board, the rationale for this positioning is far from clear cut. When asked why their clients want to incorporate ESG into their portfolios, most respondents say it is in response to changing societal sentiment and to minimize reputational risk. Only 20% of respondents believe that strengthening their exposure to ESG investments will enhance opportunities to generate active return on investments. Similarly, only 22% believe it will help reduce investment risk.

The Americas stood out as the least likely region to cite "enhanced potential return" as a key driver of ESG client demand. Instead, wealth managers in the region believe that demand in their market is predominantly driven by societal sentiment around key ESG issues. At Mercer, we expect societal views to become a more significant driver of investment positioning and performance as a new generation of investors enters the market.

What do you believe are the top two reasons driving your clients' appetite for ESG investments?

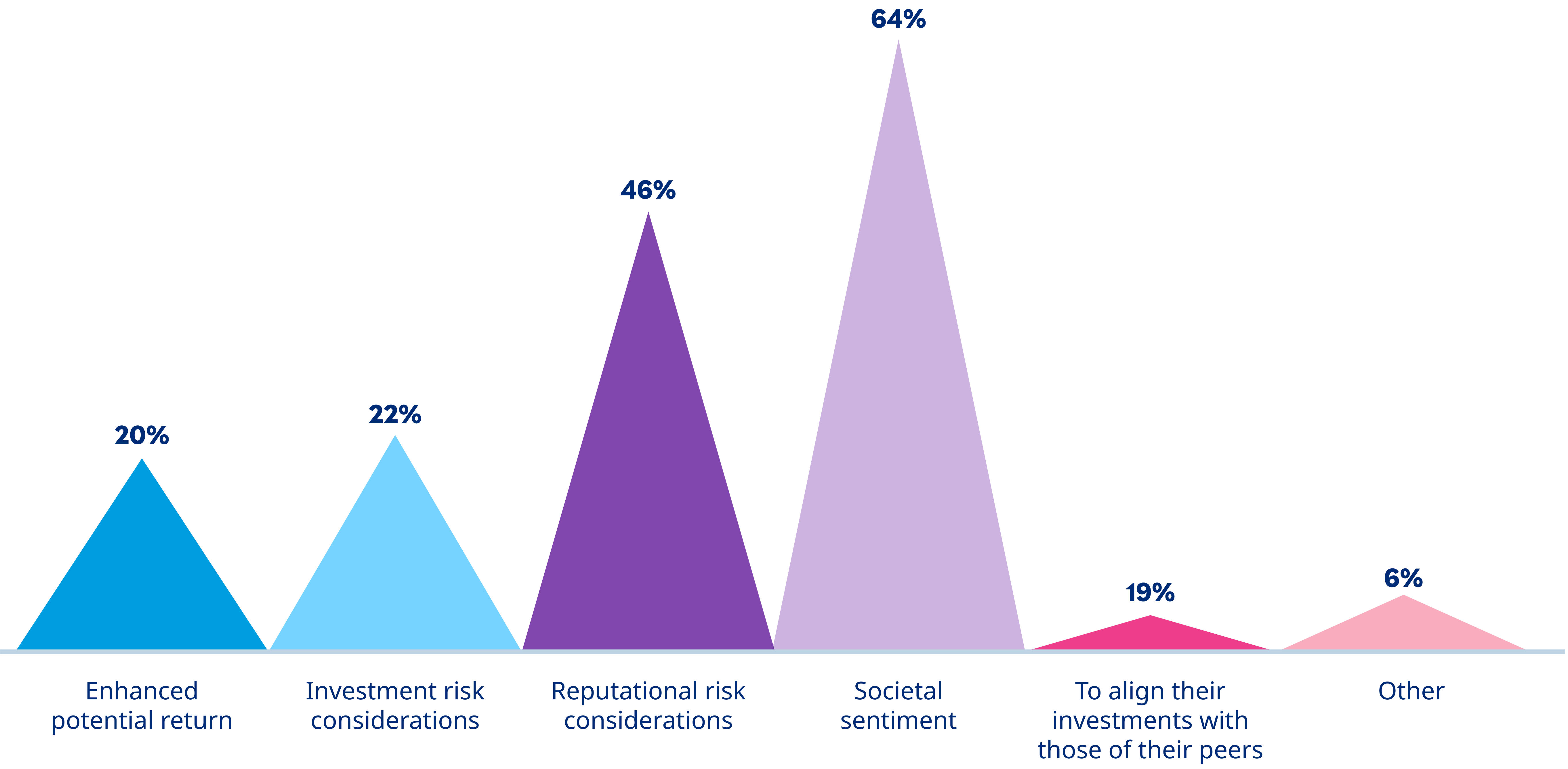
Roll over the buttons below to reveal chart data

Global

Asia-Pacific

Europe/United Kingdom

Americas



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

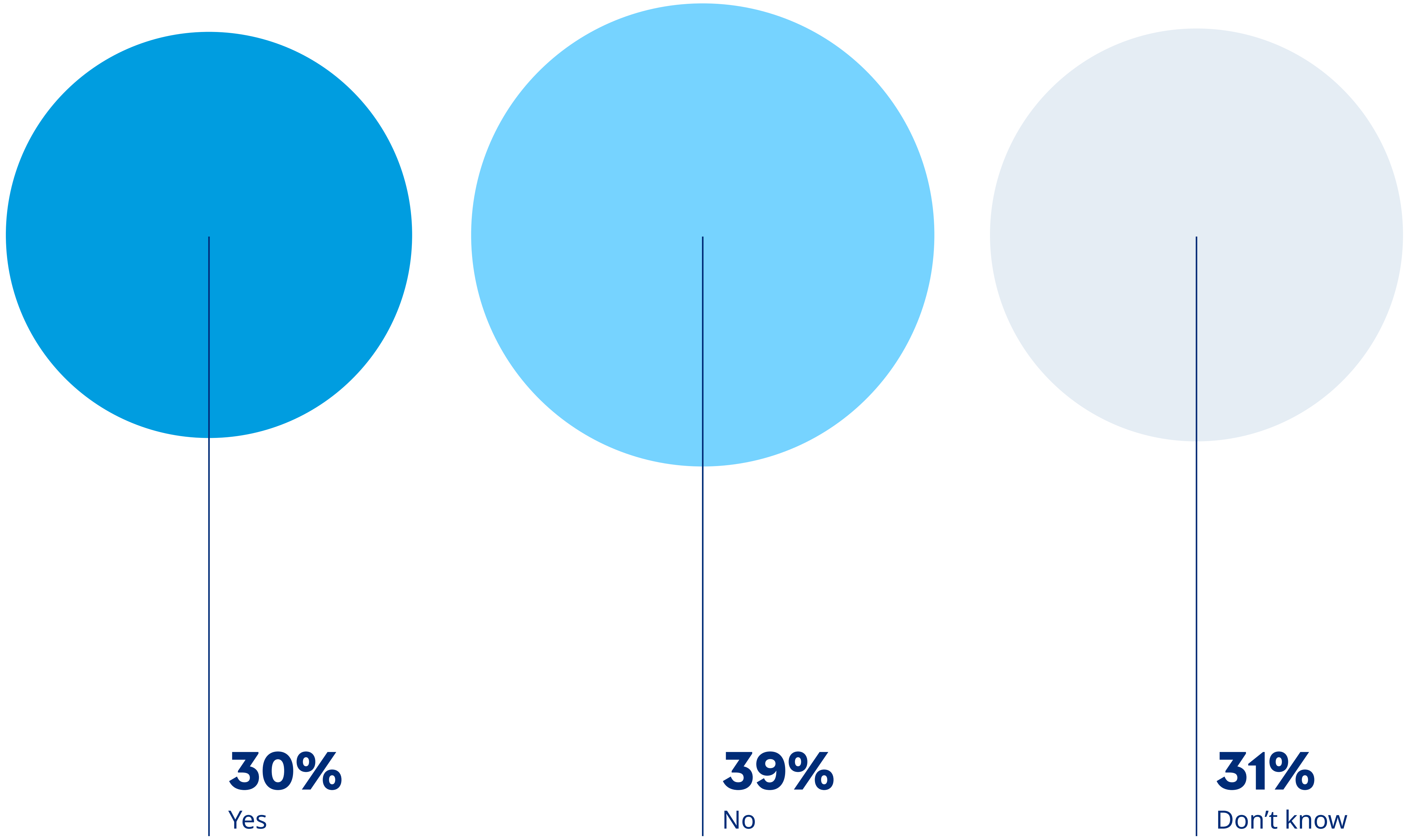
This result did surprise me. There is a lot of academic research[1] supporting the notion that ESG integration has a positive effect on corporate financial performance and increases shareholder value.

Amit Popat, Head of Wealth Management Europe and IMETA, Mercer

Do your clients believe they will have to compromise to achieve their ESG investment goals?

Roll over the buttons below to reveal chart data

- Global
- Asia-Pacific
- Europe/United Kingdom
- Americas



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

[1] McKinsey. "Five ways that ESG creates value" November 2019; RBC Wealth Management. "Will ESG investing hurt my returns? Debunking the myths".

73% believe they will need to compromise on absolute return objectives.

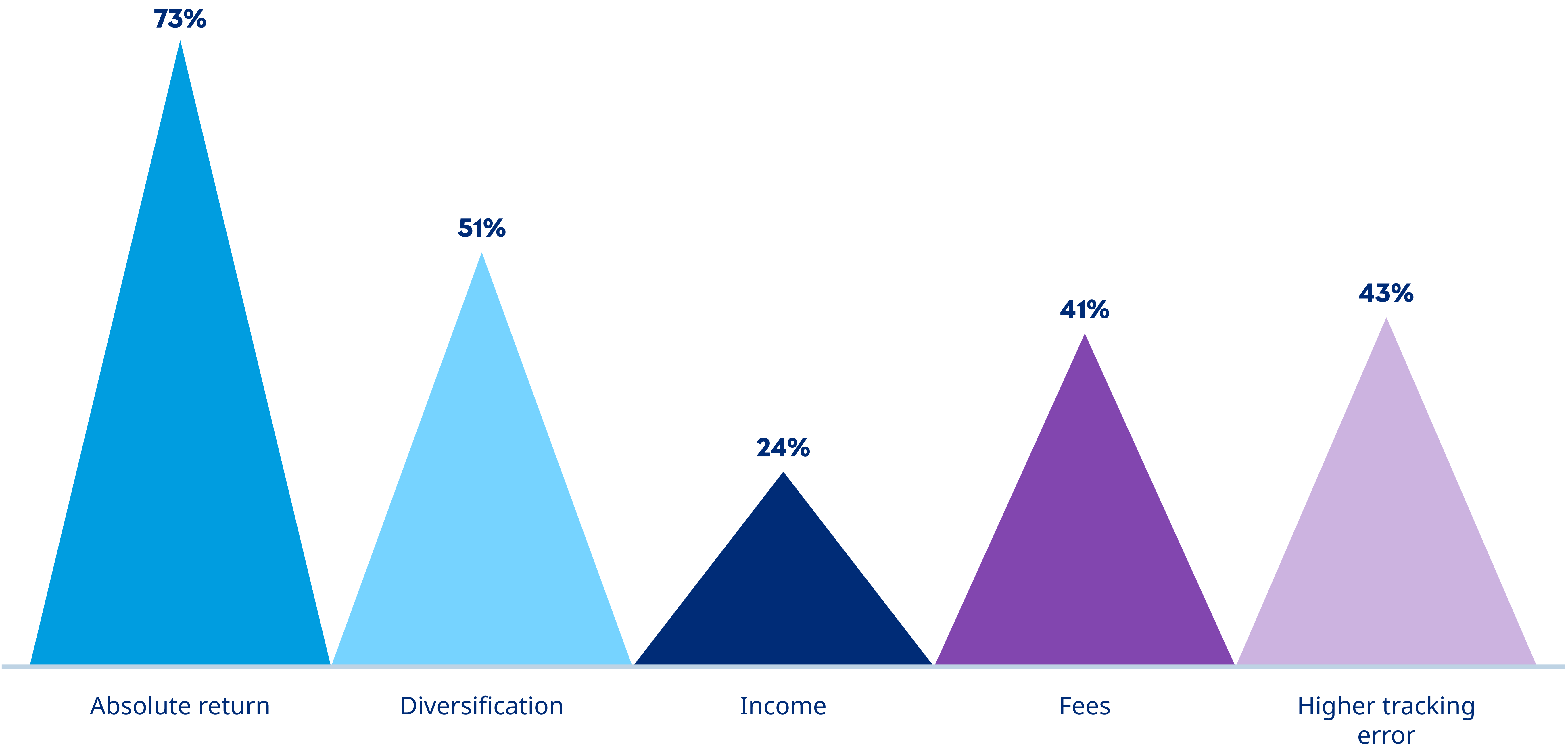
This finding suggests that the industry and its clients see ESG investing predominantly as a vehicle through which they may "do the right thing" and have yet to be convinced of the investment benefits of the approach. A similar sentiment arose when we asked participants if they believed they would have to compromise in order to meet their ESG investment objectives. Thirty percent of respondents believe they will have to make compromises, and, of that group, 73% believe they will have to compromise on absolute return, 51% believe they will have to compromise on diversification and 43% believe ESG investments will increase the portfolio tracking error.

In line with a wider trend we're seeing in the region, respondents in the Americas are significantly more concerned about having to compromise on fees (83%) than their Asian (13%) and European (39%) counterparts.

In order to incorporate ESG into their investments, what do your clients believe they will have to compromise on?

Roll over the buttons below to reveal chart data

Global
Asia-Pacific
Europe/United Kingdom
Americas



Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected two options.

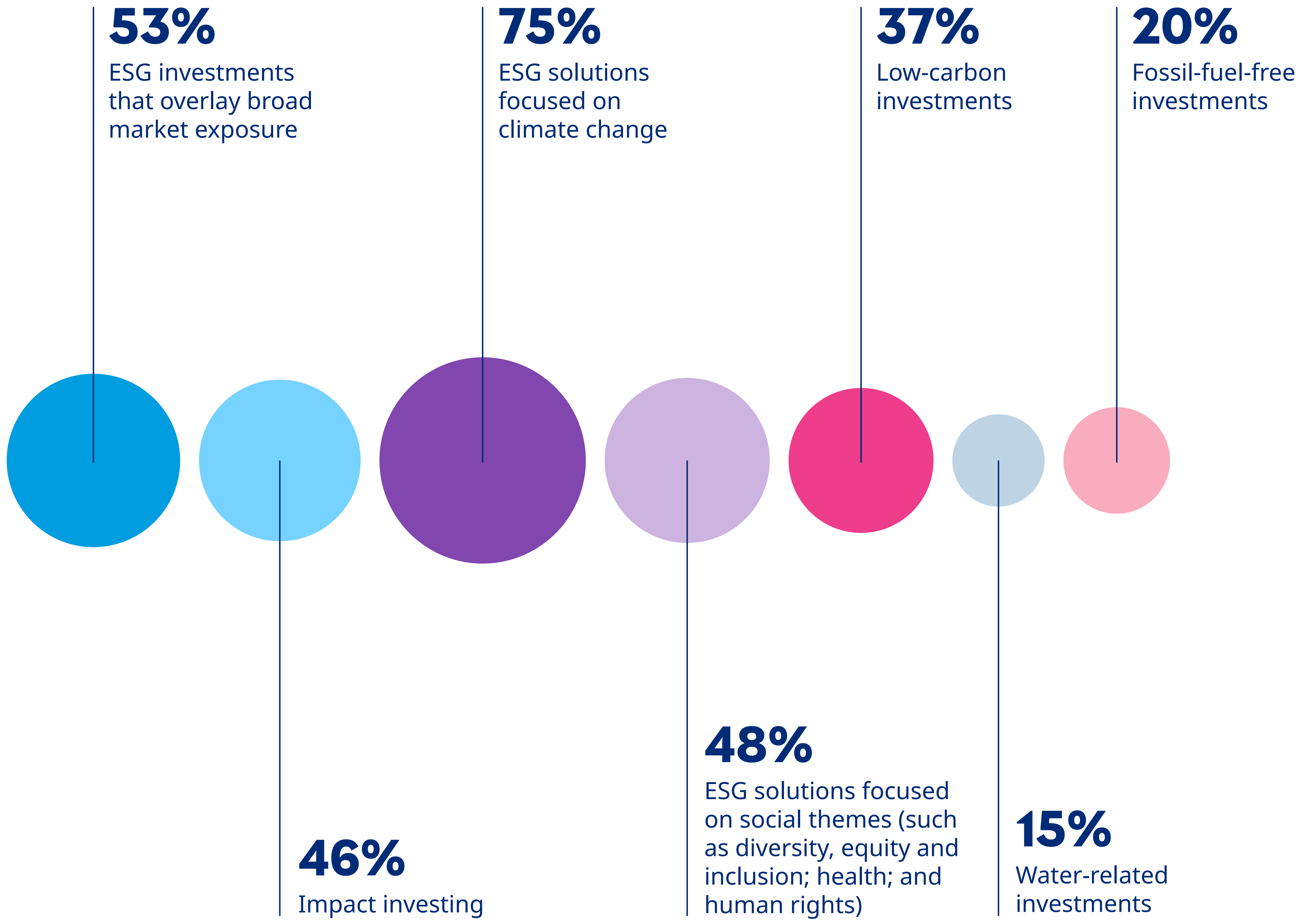
Climate change was voted the second-biggest investment opportunity among respondents over the next two years. This was evidenced across all regions.

ESG themes

The survey helped us develop a clearer picture of the ESG issues about which wealth managers and their clients care most. Reflecting the wider conversation, climate change is the leading investment theme for 75% of respondents. Forty-eight percent cite social themes, such as diversity, equity and inclusion; health; and human rights. At the same time, impact investing saw a notable 46% of investment interest, suggesting this burgeoning investment area is fast gaining traction in the industry.

Of the options presented, water-related investments were the least cited among investors, with 15% currently having exposure to the theme. This finding is in line with wider evidence that Mercer has gathered suggesting that investors are not considering the impact of their investments on water. Despite intensifying concerns about water scarcity globally, as a theme, it is — at present — rarely factored into investors' ESG decision-making.

What type of ESG solutions are you seeing most client demand/enquiries about?



We believe in high correlation between the quality of companies and the ESG rating. We want to invest in companies that act responsibly, not only because of sustainability concerns but also with a view to achieving excess returns in the long term. From the industry perspective, we believe there is still some way to go 'define' responsible companies in a way that clients that can easily identify with. This will play an important part on the journey to educating clients on the long-term positive investment impact and societal benefits of strong ESG integration.

Jarle Sjo, Norcap

Source: Mercer's *2022 Global Wealth Management Investment Survey*. Respondents selected three options.

90% believe there is at least some degree or even a significant amount of greenwashing in the industry.

The market's desire to align itself with the most popular ESG themes is giving rise to continued worries about greenwashing. Ninety percent of respondents believe the practice exists within the industry; 49% believe it is happening on a significant scale. Managers with an AUM of US$10 billion or less are more concerned about greenwashing (53%) compared to 27% of respondents with an AUM of US$100 billion+.

Which of the following best describes your view on the extent of greenwashing in the investment industry? In this survey, the term "greenwashing" is defined as the promotion of a company or product as having environmentally friendly credentials that it does not truly possess.

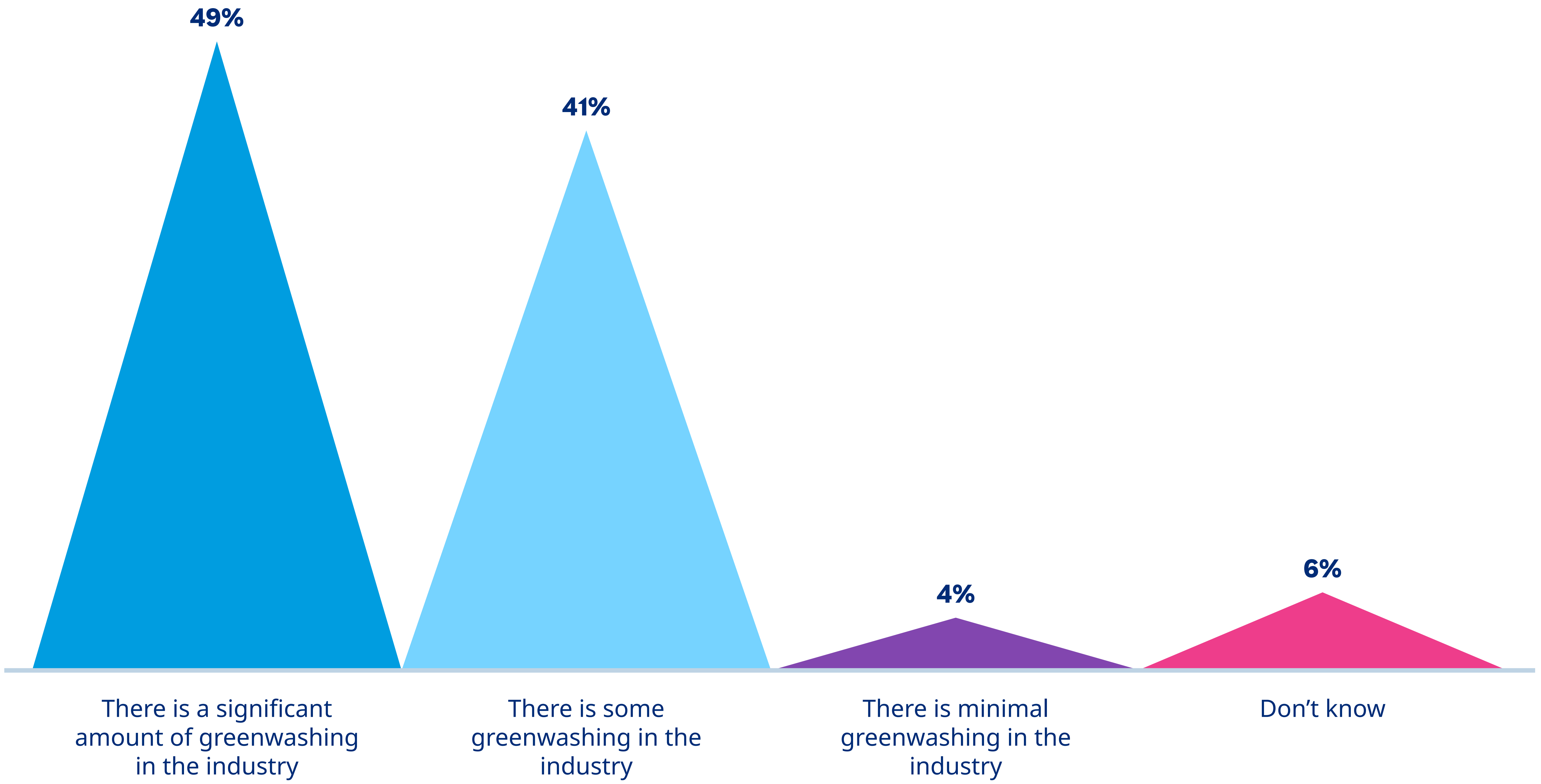
Roll over the buttons below to reveal chart data

All respondents

US$10 billion or less

US$10 billion to US$100 billion

US$100 billion+

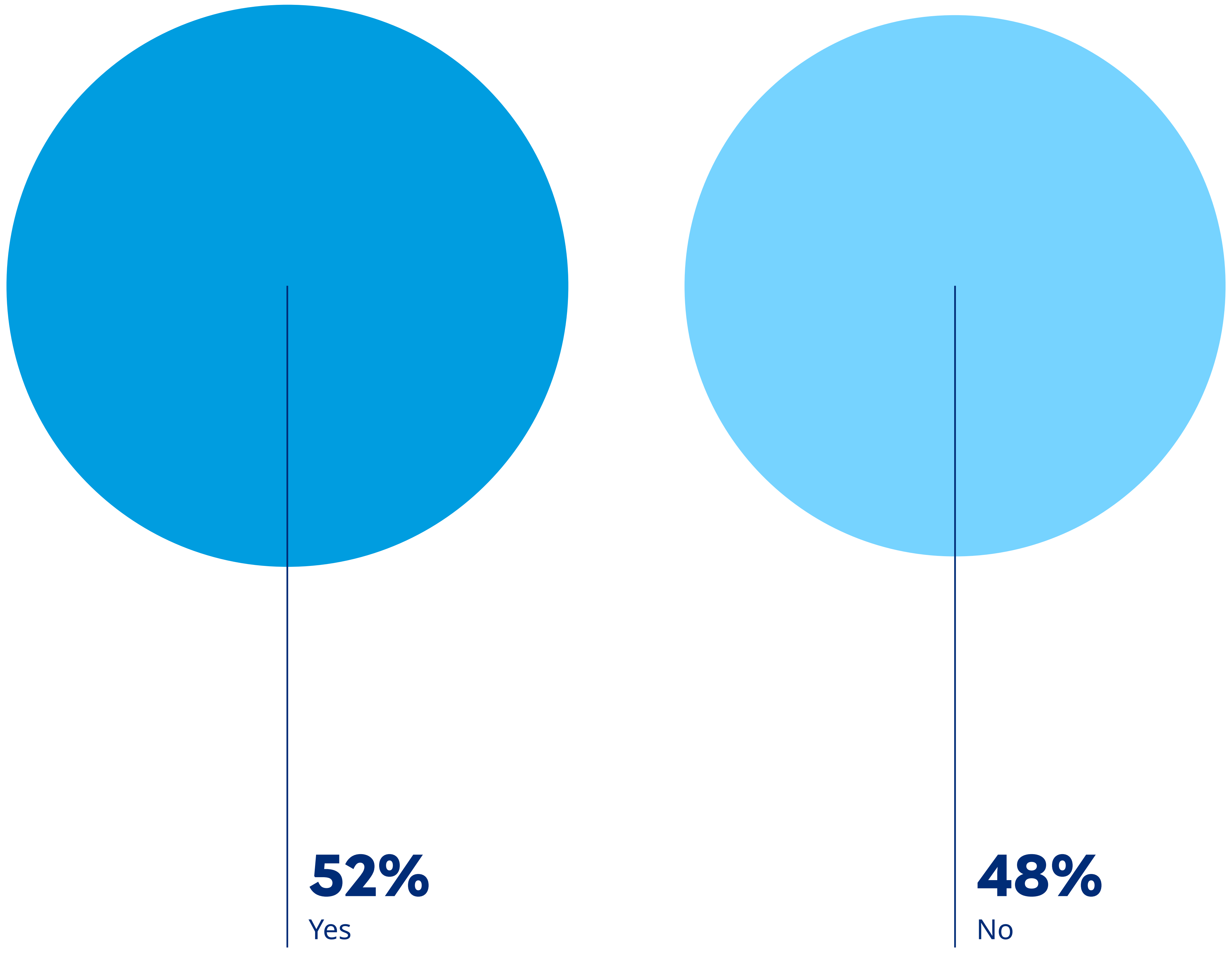


Source: Mercer's *2022 Global Wealth Management Investment Survey*.

The EU, by introducing the Sustainable Finance Disclosure Regulation (SFDR), hopes to partially address greenwashing concerns by improving transparency in the market for sustainable investment products. The survey found that 66% of European respondents are adjusting their product offerings in response to SFDR; however, interestingly, 11% of respondents in Asia are also adjusting their offerings in response to Europe's new regulation.

The combined forces of regulation and client demand kept ESG central to the discussion as the survey sought to explore the industry's business priorities and strategies for growth going forward.

Are you adjusting your product offering following the introduction of the European Sustainable Finance Disclosure Regulation (SFDR)?



Roll over the buttons below to reveal chart data

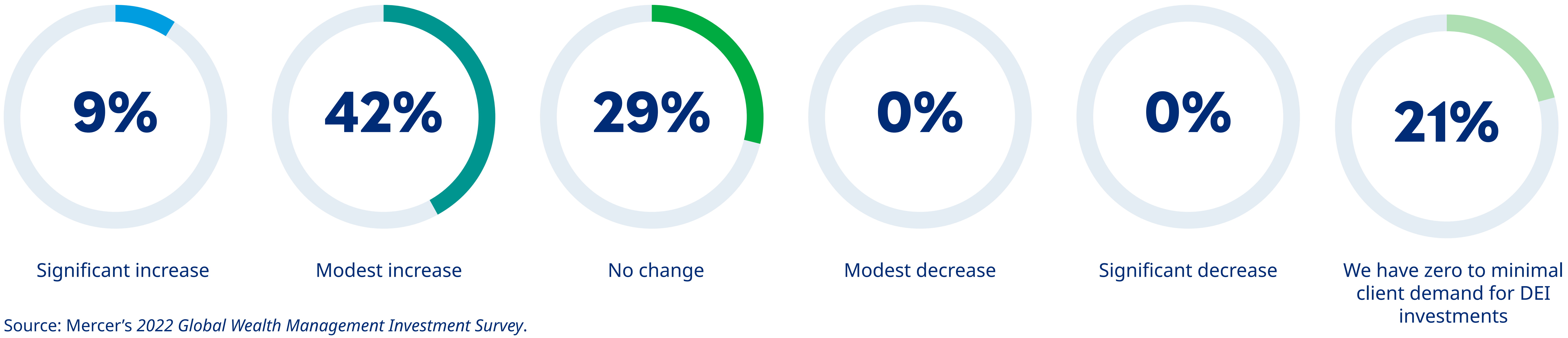
- All respondents
- US$1 billion or less
- US$10 billion to US$100 billion
- US$100 billion+

Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Diversity, equity and inclusion (DEI)

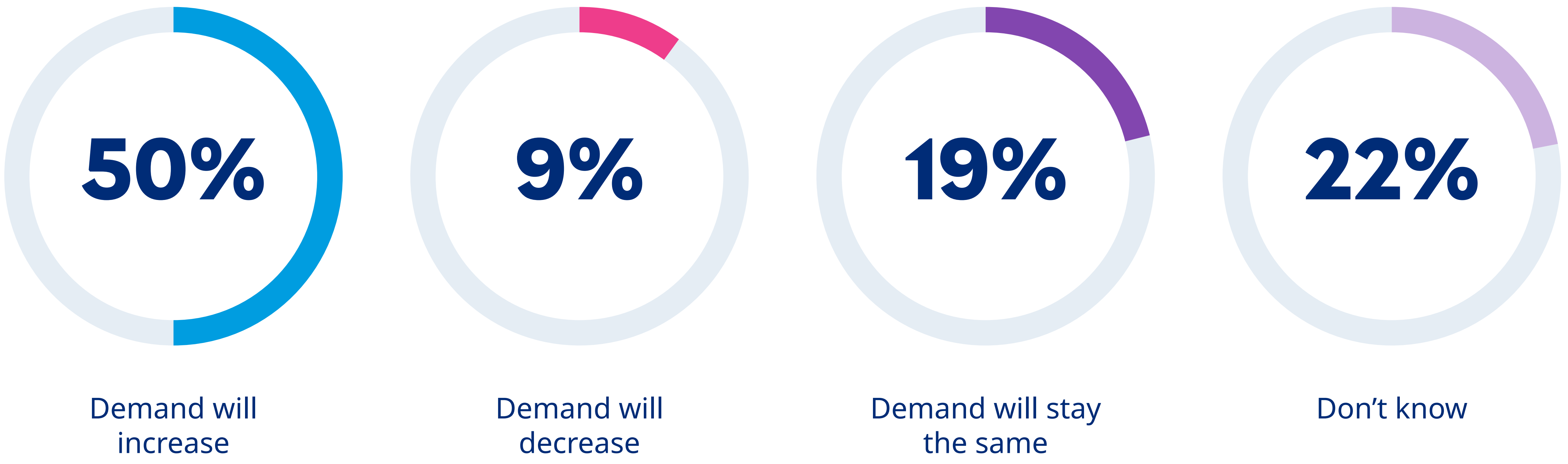
DEI has become an increasingly important topic for society and markets, and we are seeing the early stage of the theme in investment decision-making. Fifty-one percent of respondents have witnessed an increase in client demand for DEI-aware investments over the past two years. The trend is expected to gather pace, as 50% of respondents believe demand will increase further in the next two years.

How has your client demand for diversity, equity and inclusion (DEI)-aware investments trended over the past two years?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

How do you expect demand for DEI-aware investments to trend over the next two years?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

The evolution of sustainable investing

Given the attention sustainable investing is receiving, it's perhaps surprising to see that relatively few respondents to our survey cite generating returns or mitigating risks as one of their main reasons for choosing sustainable investments.

Although the wealth management sector's commitment to ESG is strong across the board, the rationale for this positioning is far from clear cut. When asked why their clients want to incorporate ESG into their portfolios, the largest proportion of respondents say it is in response to changing societal sentiment and to minimize reputational risk. Only 20% of respondents believe that strengthening their exposure to ESG investments will enhance opportunities to generate active return on investments. Similarly, only 22% believe it will help reduce investment risk.

This finding suggests that the industry and its clients see ESG investing predominantly as a vehicle through which they may "do the right thing" and have yet to be convinced of the investment benefits of the approach.

There has been a major evolution in how investors have approached ESG over the years. It began with negative exclusions on a few ethical topics before moving on to ESG integration and recognition that ESG issues can affect risk and return. Integrating ESG, originally for financial reasons, is now largely a so-called hygiene factor for wealth managers. Consequently, we see a trend toward investing in sustainability themes, such as low carbon and gender equality, for the return opportunities.

Investors are looking to wealth managers to gain a better understanding of their corporate positions on environmental and social issues, and there is expectation that these organizations will "do the right thing" in seeking greater investment returns.

When asked about where they intend to focus their investments over the coming year, survey respondents still prioritize climate change (78%). What is very interesting, and encouraging, is that nearly 50% of respondents are seeing client demand for impact investing and solutions focused on social themes (DEI, health, equality, etc.)

Investors making net-zero commitments need to be able to back them up and demonstrate how they're being implemented. One of the biggest reasons we hear for not making a commitment is that the data just aren't there to be able to do so. We recognize that moving toward net zero isn't a straight line and data can be challenging, particularly for asset classes such as private markets. However, the data shouldn't be an excuse.

Given the urgency of the issue, much can still be achieved by allocating to managers that are investing in climate solutions and getting involved as active owners to urge companies to improve their transition practices. We don't recommend that wealth managers simply sell their holdings with high emissions and say their portfolios are on the road to net zero as a result. We believe there are better alternatives for driving change, and we have supported many clients in establishing frameworks to develop, execute and monitor policies and processes.

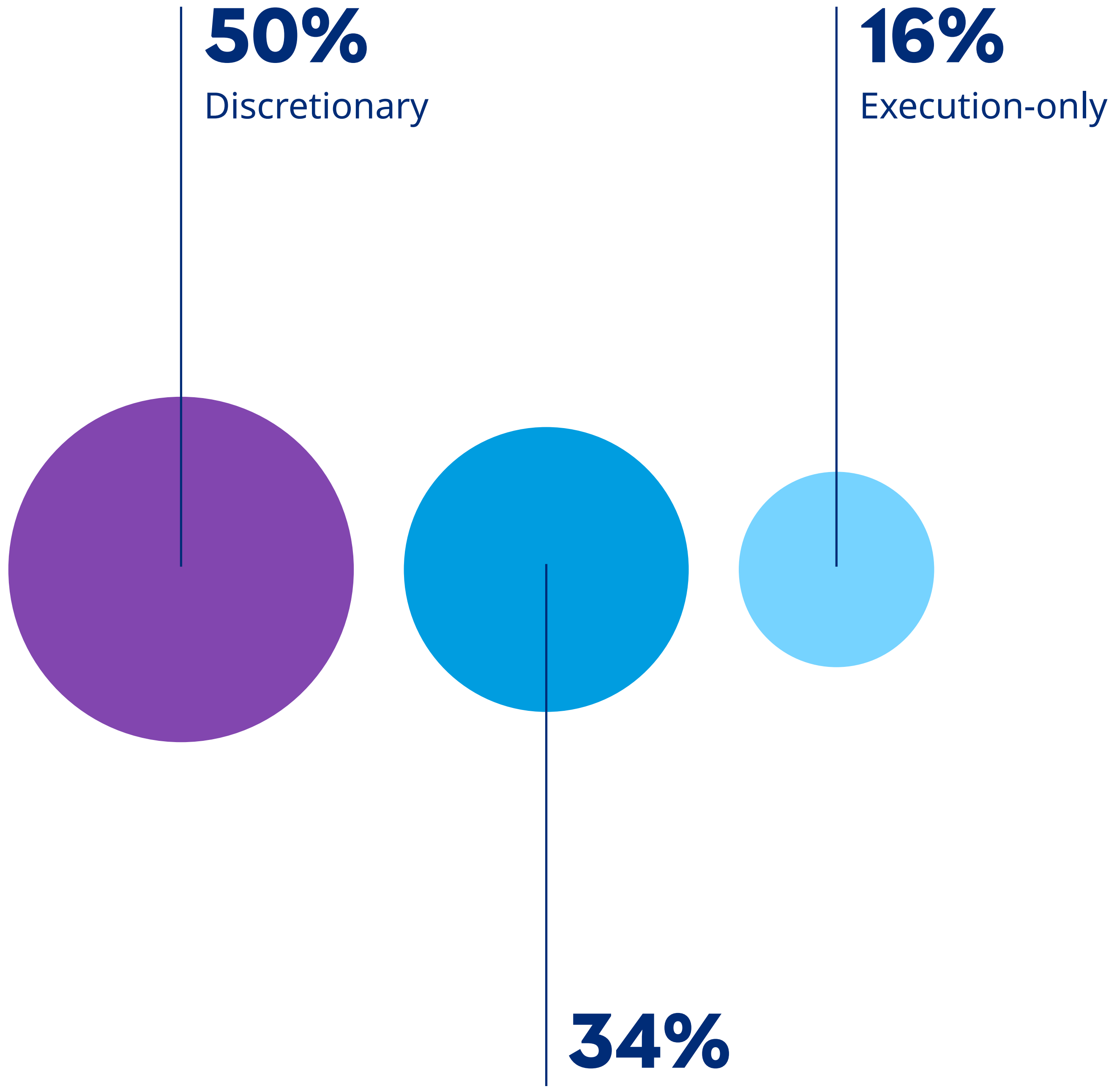
Investments to help mitigate climate change remain paramount, but the reality is that wealth managers will also need to turn their attention to adapting to climate change. In other words, they need to consider the physical effects of climate change on their holdings' operations and how real assets are prepared for extreme weather events. It will also be important to recognize the effects on people in that process.

Jillian Reid
Partner, Sustainable Investment

About this survey

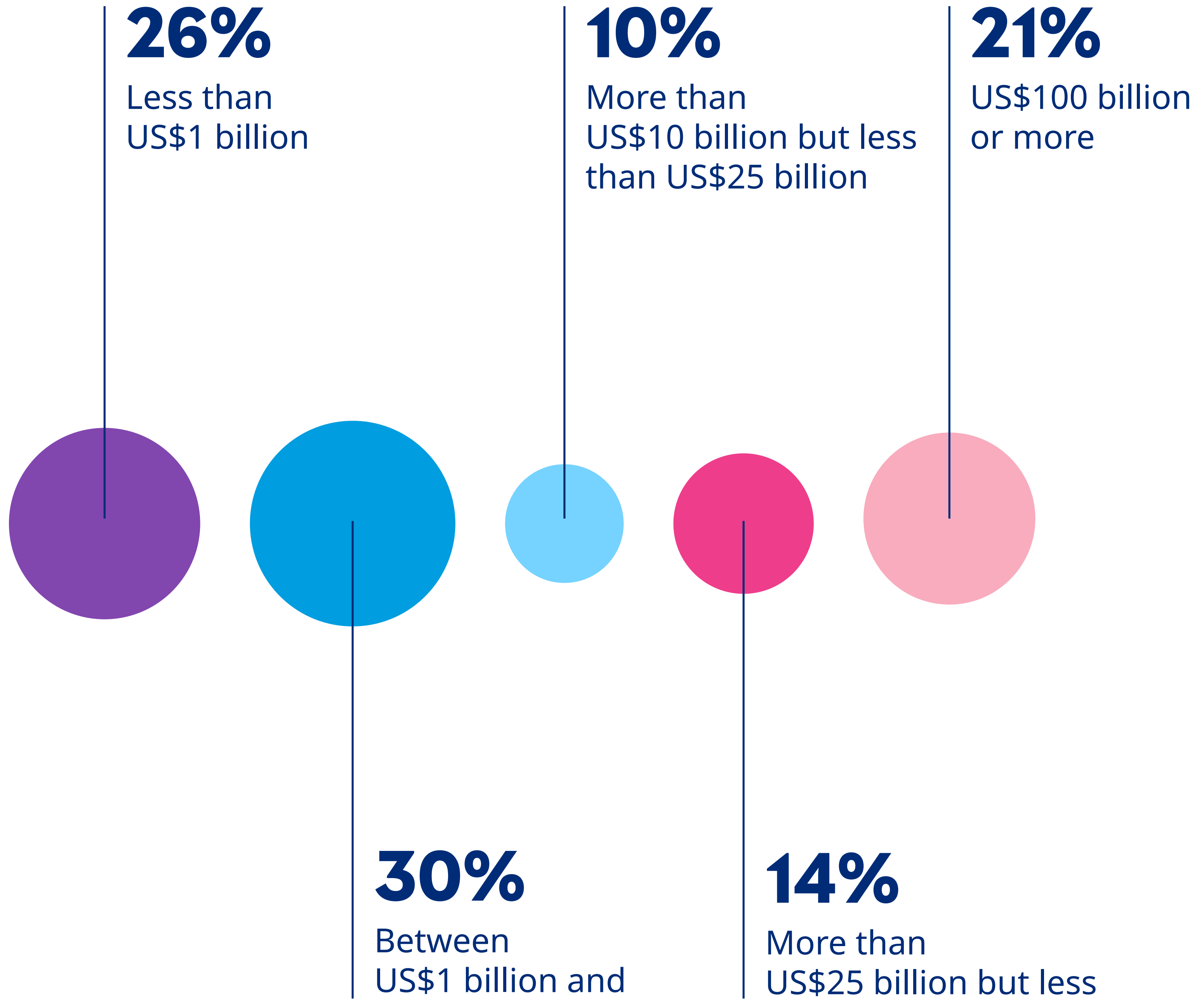
The survey, conducted by Mercer in the first quarter of 2022, was completed online by 125 participants.

What is the approximate split between discretionary, advisory and execution-only assets?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

What is the overall AUM of your organization?



Source: Mercer's *2022 Global Wealth Management Investment Survey*.

Survey parameters:

125	26	06
Participants	Countries	Regions*

Mercer sought to vary participants across the following categories:

Organizational type | Investment portfolio size | Geography

* Regions: Asia-Pacific, UK/Europe and Americas.

Contact us

If you would like to discuss the findings within this report in more detail or how we may be able to support your organization, please feel free to contact your local wealth management representative. Alternatively, visit www.mercer.com/wealthmanagementsurvey or email us at mercerinvestmentsolutions@mercer.com.

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