2024 ADVISOR SUMMIT

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Value Creation through Wealth Management

Hosted by: Jon White
& Sam Lawhon

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Agenda

- Attracting and winning HNW Clients
- Use of Alternatives in Portfolios, why?
- Using the Investments Tool Kit
- Economic Update & 2024 Themes

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What are Investors Looking for?

$19T High net worth investors ($2-$25 million) make up $19 trillion in investable assets.[1]

70% 70% of high net worth investors said their biggest consideration is having full financial planning to ensure they don't run out of money in retirement.[1]

41% 41% of investors are seeking an advisor who will collaborate with them to create a financial plan that boosts their confidence.[2]

50% Approximately 50% of investors with at least $5M in assets consolidate banking and wealth relationships.[2]

46% Wealthy investors are estimated to allocate 46% of their portfolio to businesses actively pursuing environmental, social, and corporate governance (ESG) policies by the end of 2021.[3]

Source: EY

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How do you stand out?

1 | Differentiate

Offering quality private market exposures can differentiate an advisor's practice from direct platforms and geographic competitors. By targeting specific client needs (e.g., greater income potential, volatility mitigation), advisors demonstrate that they are sensitive to their clients and fine-tune portfolios to help meet their objectives. Advisors also recognize that their clients are savvier and have a better understanding of financial products and what is available to them versus direct platforms (e.g., Schwab and Fidelity)—creating a need to offer exposures and other services to investors would not be able to access on their own. Having a strong alternative product shelf with exposures that investors can't access themselves, but are simultaneously high-quality exposures from managers they trust, will likely prove a strong differentiator.

2 | Attract HNW Clients

Conversations with advisors suggest that sophisticated clients value having access to institutional-type, cutting-edge products and may be drawn to a practice for its ability to access high-quality private market offerings. Many advisors have recognized the opportunity to leverage alternative investments in a bid to position their practices to an upmarket client base. According to one advisor at a bank broker/dealer, "One of the main selling points of alternatives is to give HNW/UHNW clients a wider range of investment options to choose from. Many of our wealthier clients prefer to invest in non-traditional asset classes given their source of wealth and get excited when they hear about the 'new shiny thing' or new investment opportunities; this has been one of the benefits of bringing clients new alternative investment offerings that they otherwise wouldn't have access to."

3 | Consolidate Assets

Some advisors interviewed perceive that clients are leveraging other advisors for segments of portfolios, particularly wealthy clients seeking support with private market exposures. Offering high-quality private markets exposures can enhance the wallet share of an advisor. "Its very common for clients to have assets at different places, but we provide a very high level of service and have a good track record of not only gathering more assets, but gathering all assets," a bank advisor managing $$6 billion in assets tells Cerulli.

4 | Retain

In addition to opening new client segments, advisors report that offering alternatives can serve as a tool for retention as their clients' wealth and portfolio complexity increase. Alternative investment allocations are most commonly advisor-driven (versus client-driven). However, in cases where it is the clients who are initiating conversations and expressing interest, it may be the wealthier-tier clients the advisors most wants to retain. Clients are more likely to stay with an advisor who has an expanded investment menu or has a tier of options best suited for similar investors. Investing in private markets allow advisors to help clients with more complex needs, making assets stickier.

BEFORE THE MEETING

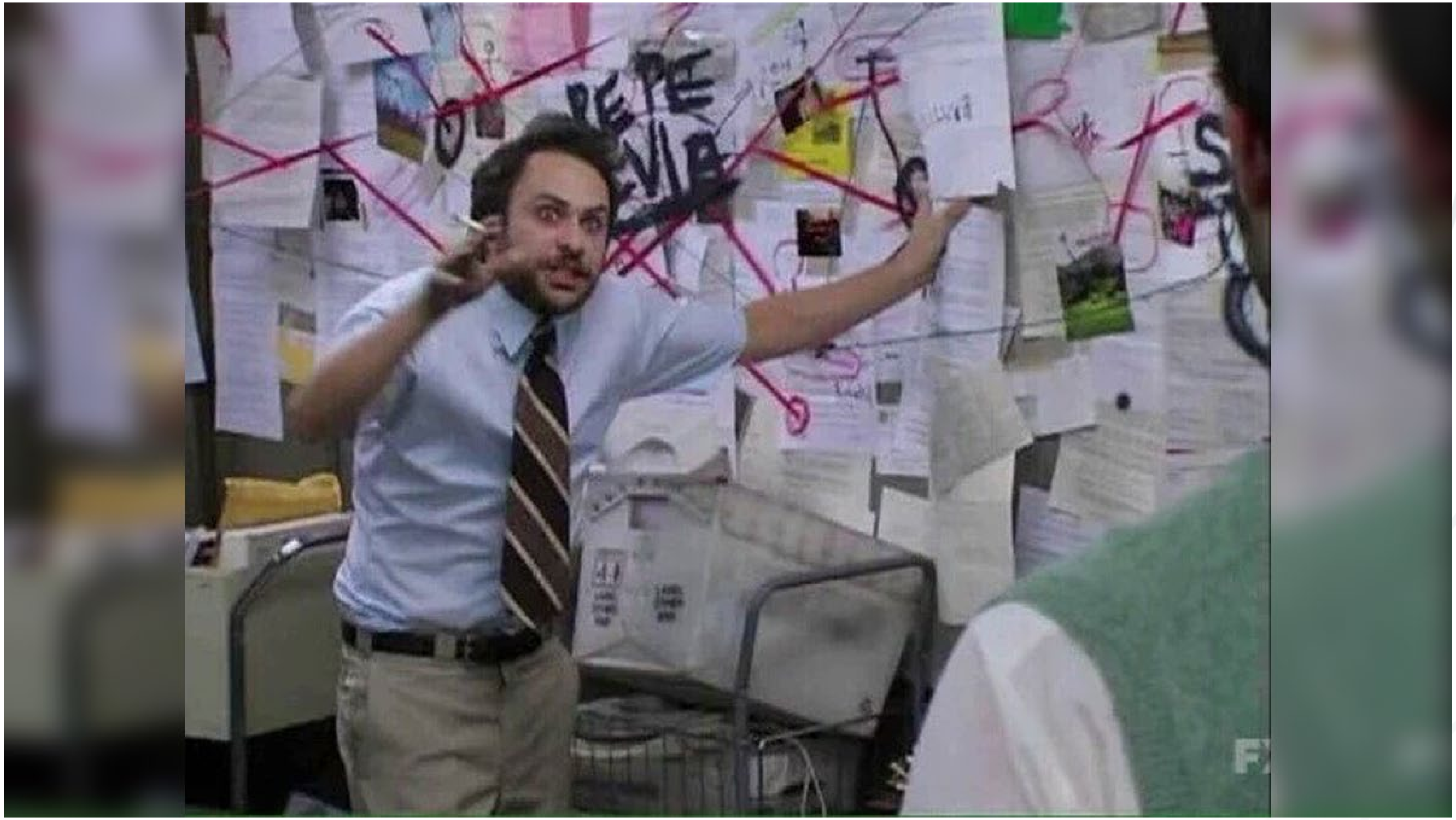
Know Your Audience

High net worth investors want more. We believe they value:

- Deeper relationships
- Increased personalization
- High-touch service
- Clear communication
- Clear and Comprehensive Plans

It's your job to demonstrate you can deliver on these things in your pitch.

Lots of planning, no direction



BEFORE THE MEETING

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BEFORE THE MEETING

Get More than Data

Questions to ask ahead of the meeting and why it matters:

- **Will a spouse/partner be attending?**
  - 70% of married women will become widows, and 70% of widows will change financial advisors within a year of their partner's death. (1)
- **Should other family members attend?**
  - 71% of baby boomers have never discussed wealth transfer with their financial advisor. 64% of wealthy investors have not talked with family members about passing wealth – only 117% say their heirs are very well informed about it. (2)

Source: "Women as the next wave of growth in U wealth management." McKinsey & Company, July 2020.
The Decade of Generational Wealth, Fidelity Institutional

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AT THE MEETING

- **Appearances matter**
  - Use a ring light or high-quality webcam and find a quiet location for your meeting.
- **Be personal.. but not too personal**
  - Be mindful of how often you're sharing your screen and allow adequate time to be on camera, enabling prospects to see your face.
- **Stay in the moment**
  - Request permissions to record the meeting for note-taking purposes to help you focus on the conversations and ensure you don't miss important information
- **Evaluate**
  - Go back and watch the meeting to see what went well and what could have gone better.

Communication tips: What if the meeting is virtual?

High net worth investors place a high value on relationships. Even in a virtual setting, there are ways to establish trust.

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Don't be ***that*** guy

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AT THE MEETING

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Trends in Alternatives

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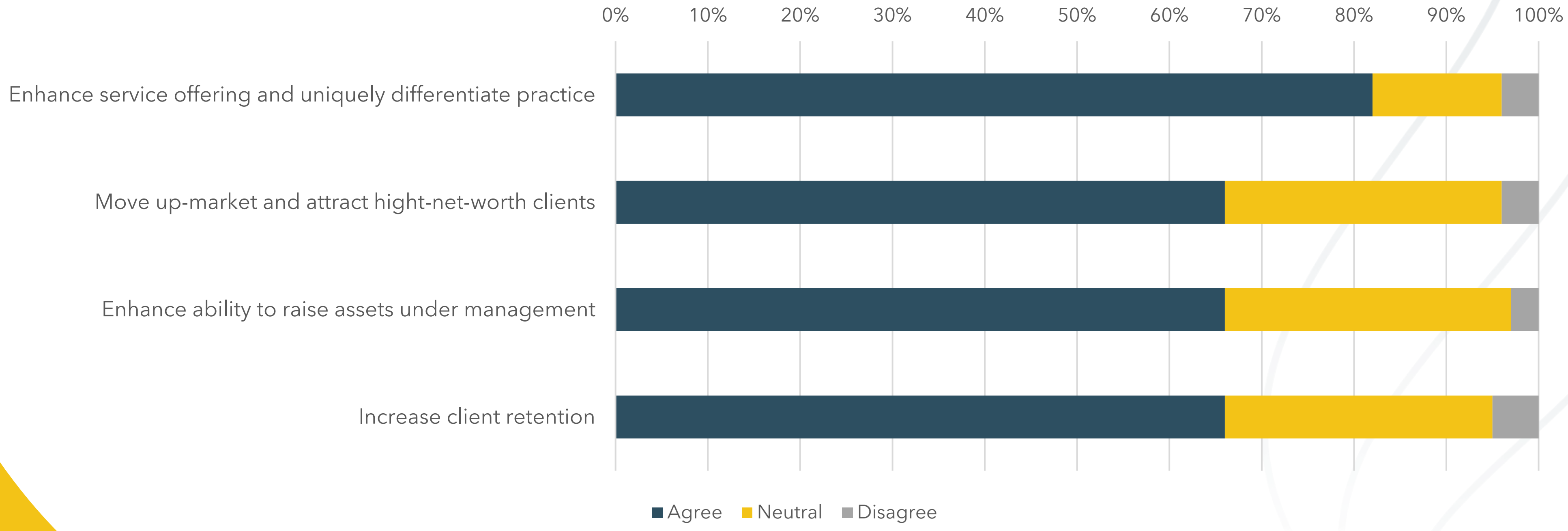
Focus on

Alternatives can help advisors stand out from their competitors

Advisors identified four keyways that an expanded shelf of alternative investments could help enhance their business: by differentiating their practices, attracting high-net-worth clients, consolidating assets of clients who have alternative exposure elsewhere, and retaining the assets of clients with complex needs.



Source: Invesco

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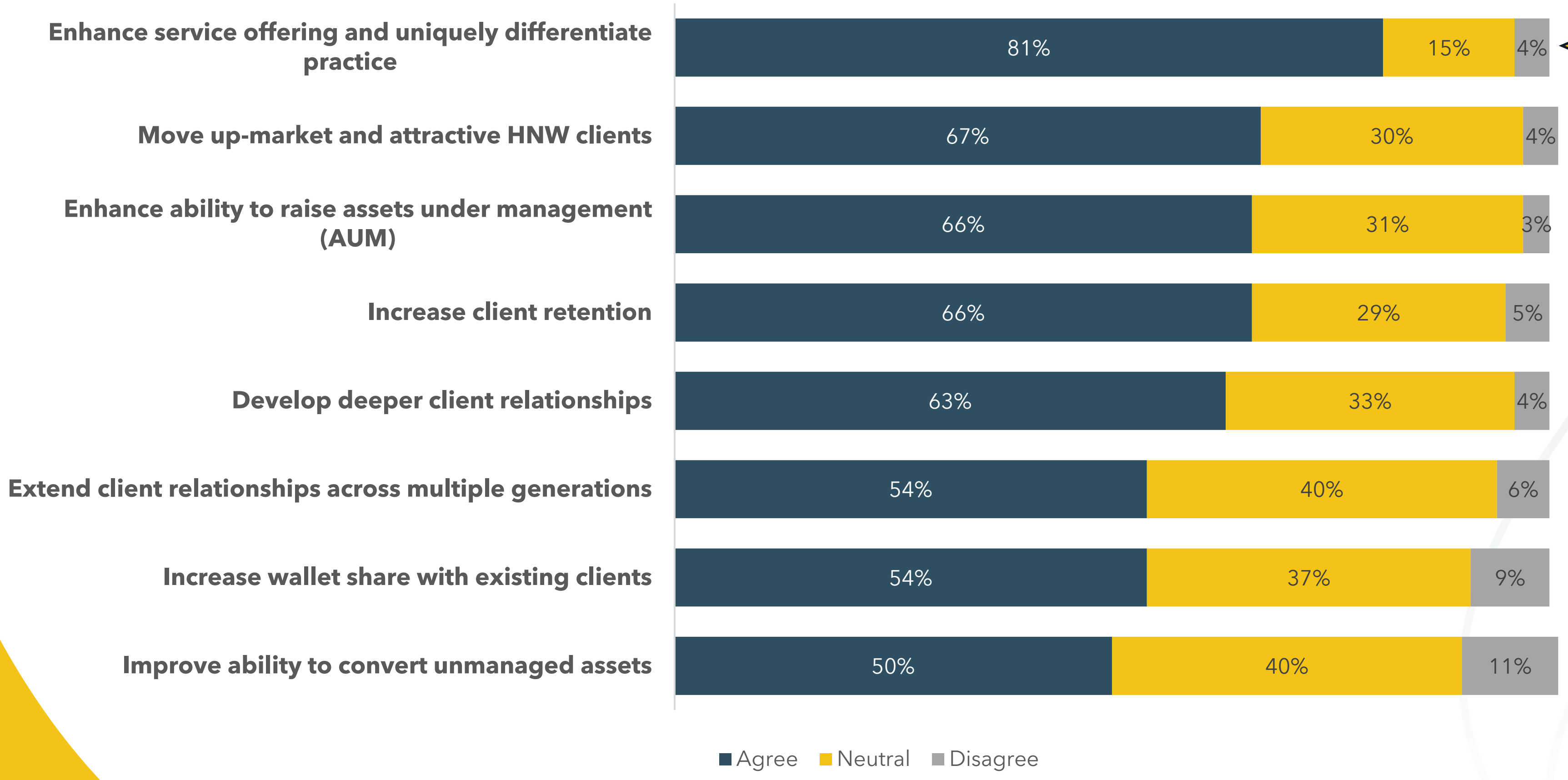
Business Impact of Incorporating Alternative Investments



81% of advisors agree that offering alternative investments helps them differentiate their practice

About two-thirds agree that alternatives help them attract HNW clients, raise AUM, increase client retention, and develop deeper client relationships.

Source: Invesco

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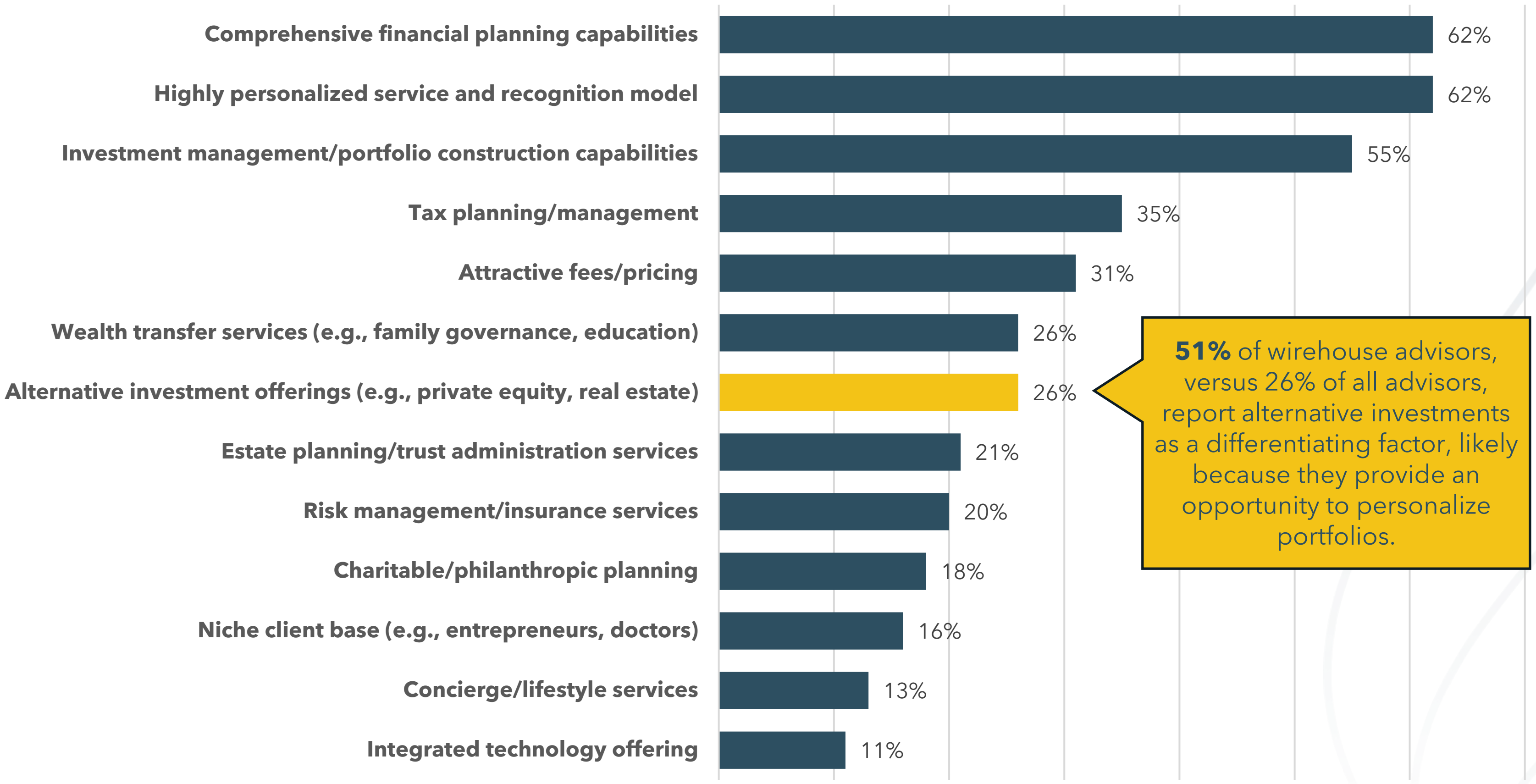
Cont'd

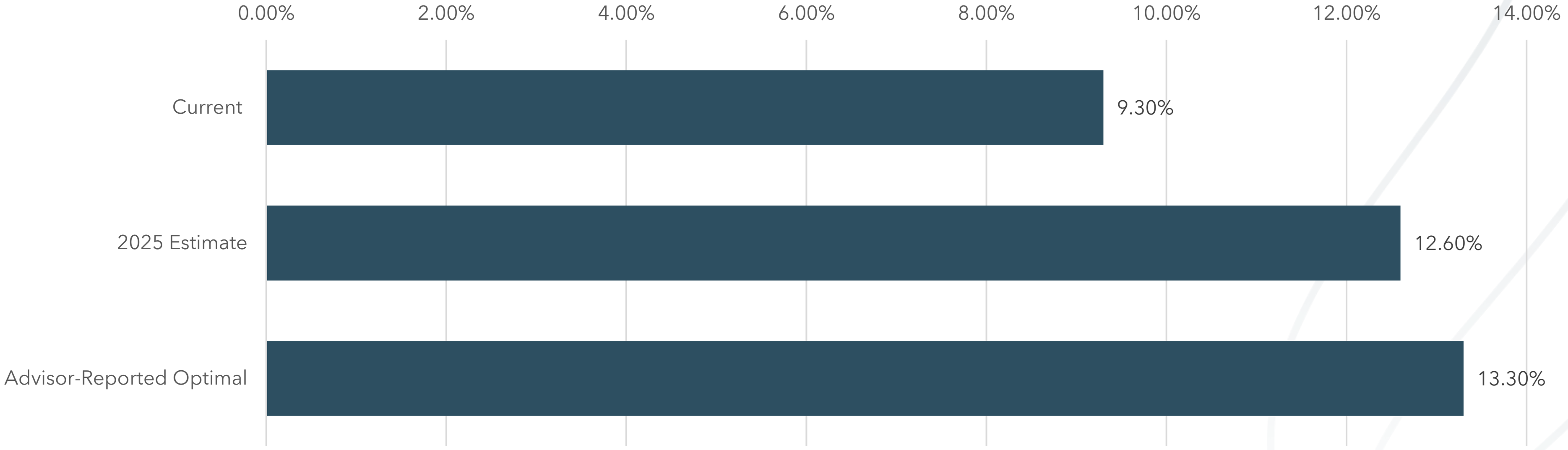
Top Factors Differentiating Advisor Practices, 2023



Source: Invesco

What are your peers doing?

Advisors say that they are planning to increase allocations to alternative investments, with the optimal portfolio allocation for alternatives cited at 13%. The primary portfolio objectives mentioned by advisors include diversification, volatility dampening, and enhanced return opportunities.



Source: Invesco

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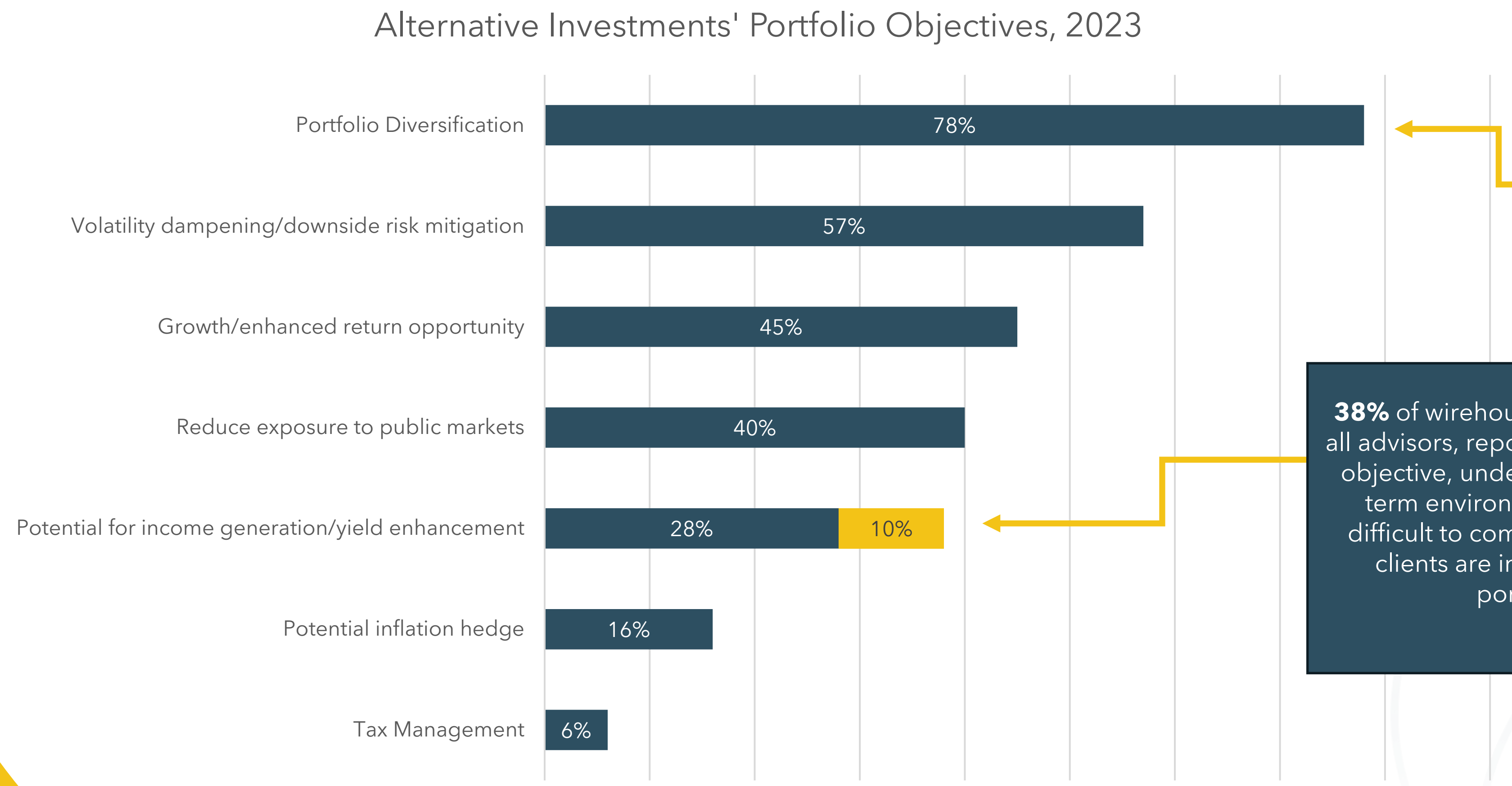
Alternative Investment Portfolio Objectives



78% of advisors report portfolio diversification as a primary objective for alternatives, followed by volatility dampening and enhanced return potential

38% of wirehouse advisors, versus 28% of all advisors, reported income as a top-three objective, underscoring that after a long-term environment where yields were difficult to come by, even the wealthiest clients are interested in generating portfolio income.

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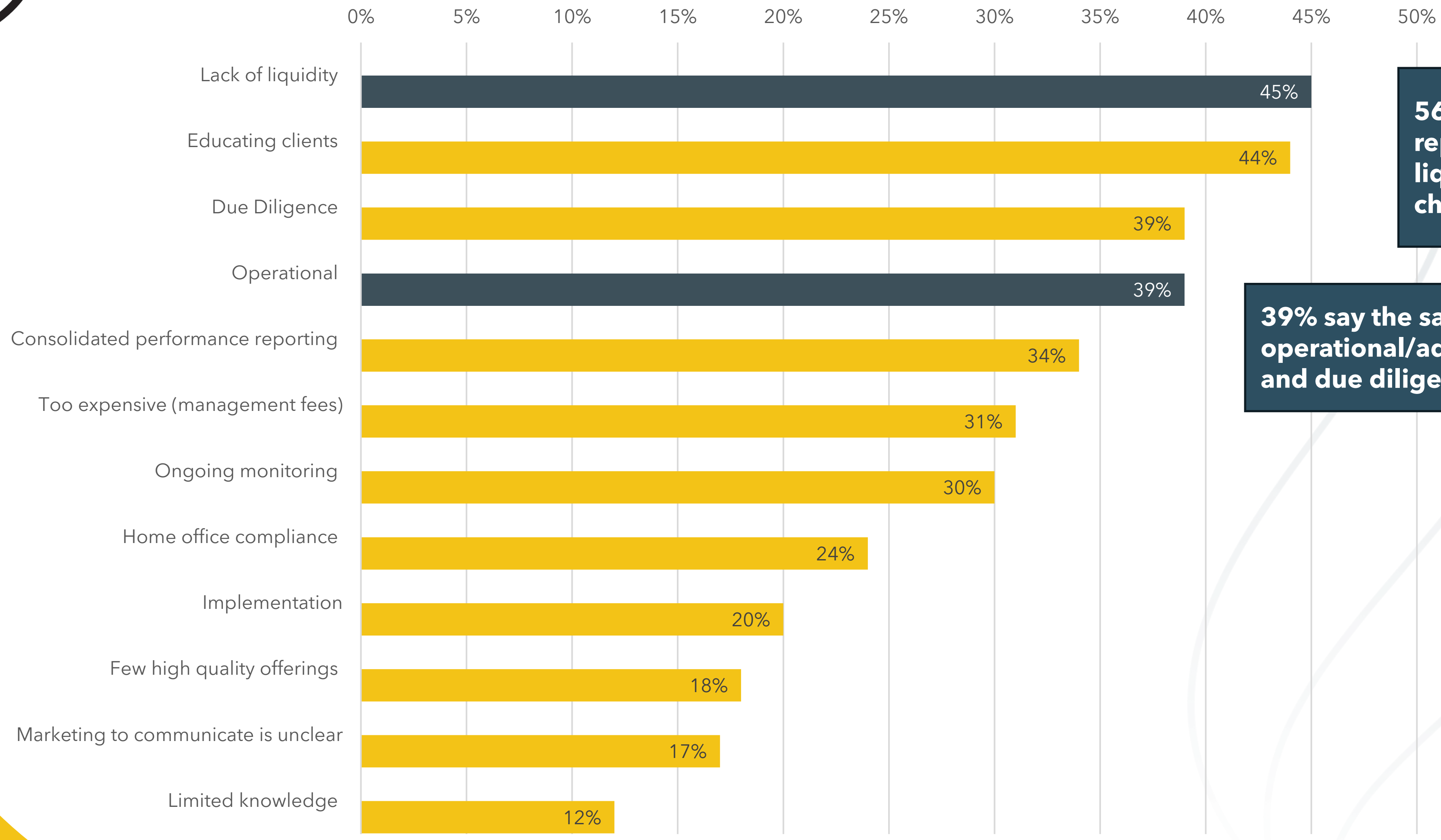
Source: Invesco

Challenges to Investing in Alternative Investments

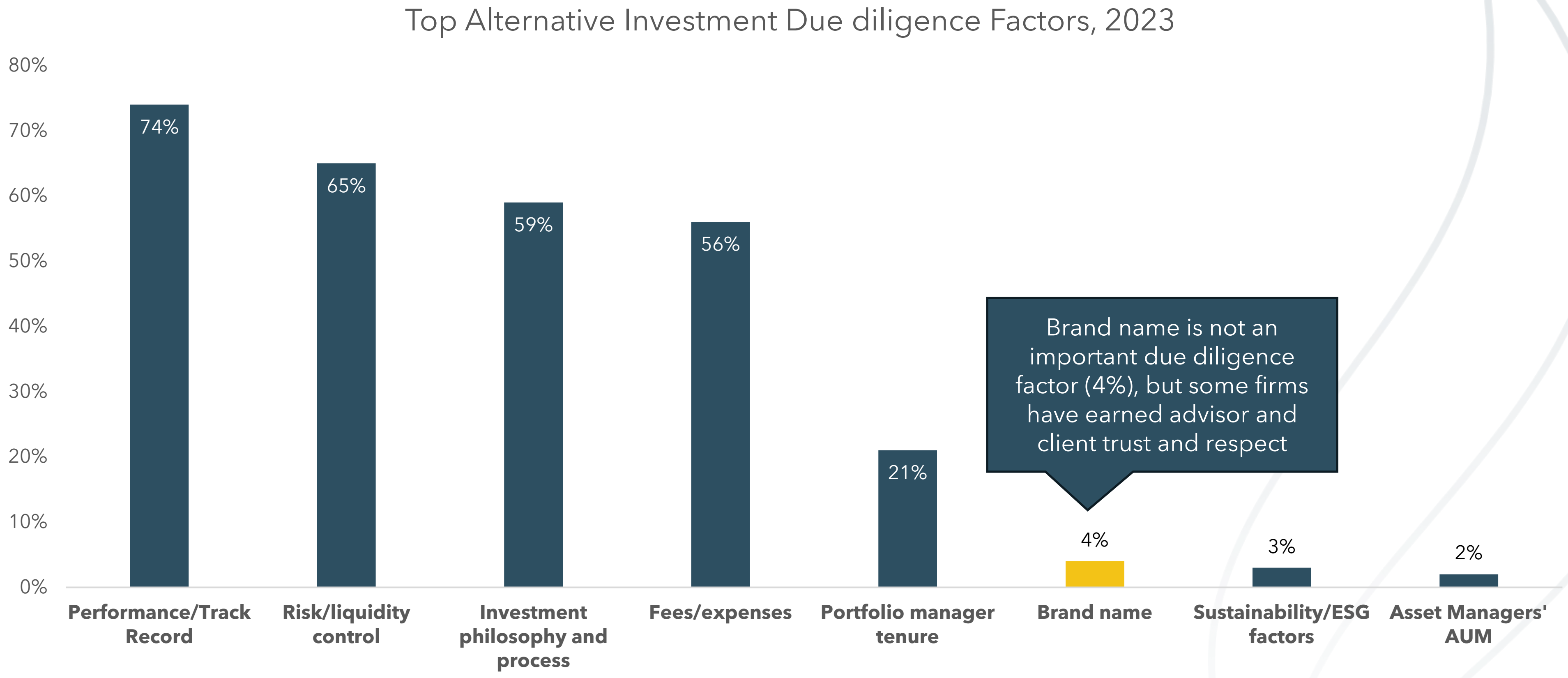


56% of advisors report a lack of liquidity as a key challenge

39% say the same for the operational/administrative and due diligence burdens

Source: Invesco

Top Alternative Investment Due Diligence Factors



Source: Invesco

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Underwriting Deals

UNDERWRITING DEALS

Return profile
(higher underwritten returns higher risk)

Importance of sponsor

Fees

Alignment of interest

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Utilizing the Tool Kit

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Strategy Tool Kit

Investment Category	Investment Options	Primary Objectives	Advisor Selling Points	Holdings
Private Markets	Real Estate, Hedge Funds, Private Credit, Private Equity	Long-Term Growth, Tax Efficiencies, Income Generation	Differentiate your practice	Varied
SMAs	Long-Term Growth	Minimize Fees	Lower overall cost	Single Stocks
Direct Indexing	Varied	Tax Efficiency	Low Cost, Tax Benefits	Single Stocks
Thematic Sleeves	Varied	Thematic Exposures	Differentiation & Customization	Single Stocks, ETFs, Mutual Funds
Options Overlay	Covered Call, Put-Write, Hedging	Yield Enhancement	Higher Yield, Risk Mitigation	Options
Asset Allocation	Strategic - Tactical	Long-Term Growth	Balanced Portfolio	Mutual Funds, ETFs

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Utilizing the Strategy Tool Kit

Initial Portfolio/Client Consultation

Prospect portfolio analysis

Ongoing meeting support

Concierge education & resources

Annual client reviews with investments team

Case Study

Using the investment tool kit with HNW clients

Case Facts

- $16.65M in liquid assets – 60% NQ/40% Qualified
- Long-term time horizon
- Significant capital gain issues on NQ portion
- Aggressive Risk Tolerance
- Prefers single stocks, particularly dividend paying

Case Study

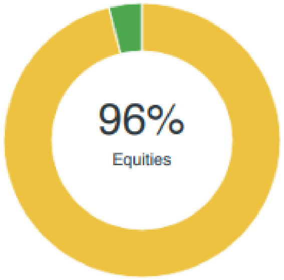
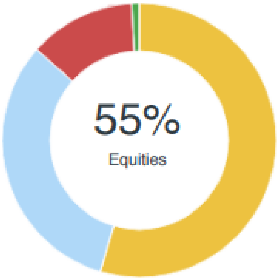
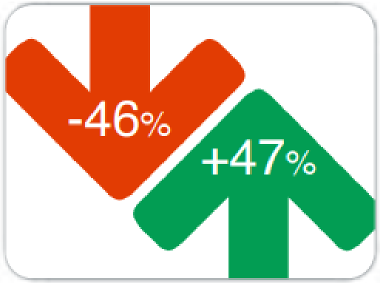
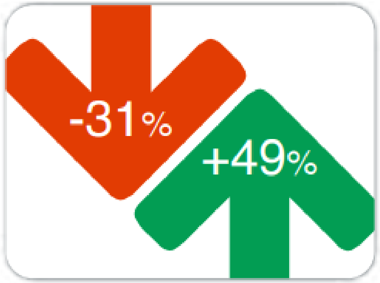
Using the investment tool kit with HNW clients

Case Solutions

- Utilize Opportunity Zone Investments to minimize tax impact
- Increase expected return with private real estate
- Reduce overall expected volatility, increase expected return with Protego
- Increase tax efficiency while also providing similar exposures using direct indexing
- Reduce overall fees through SMAs

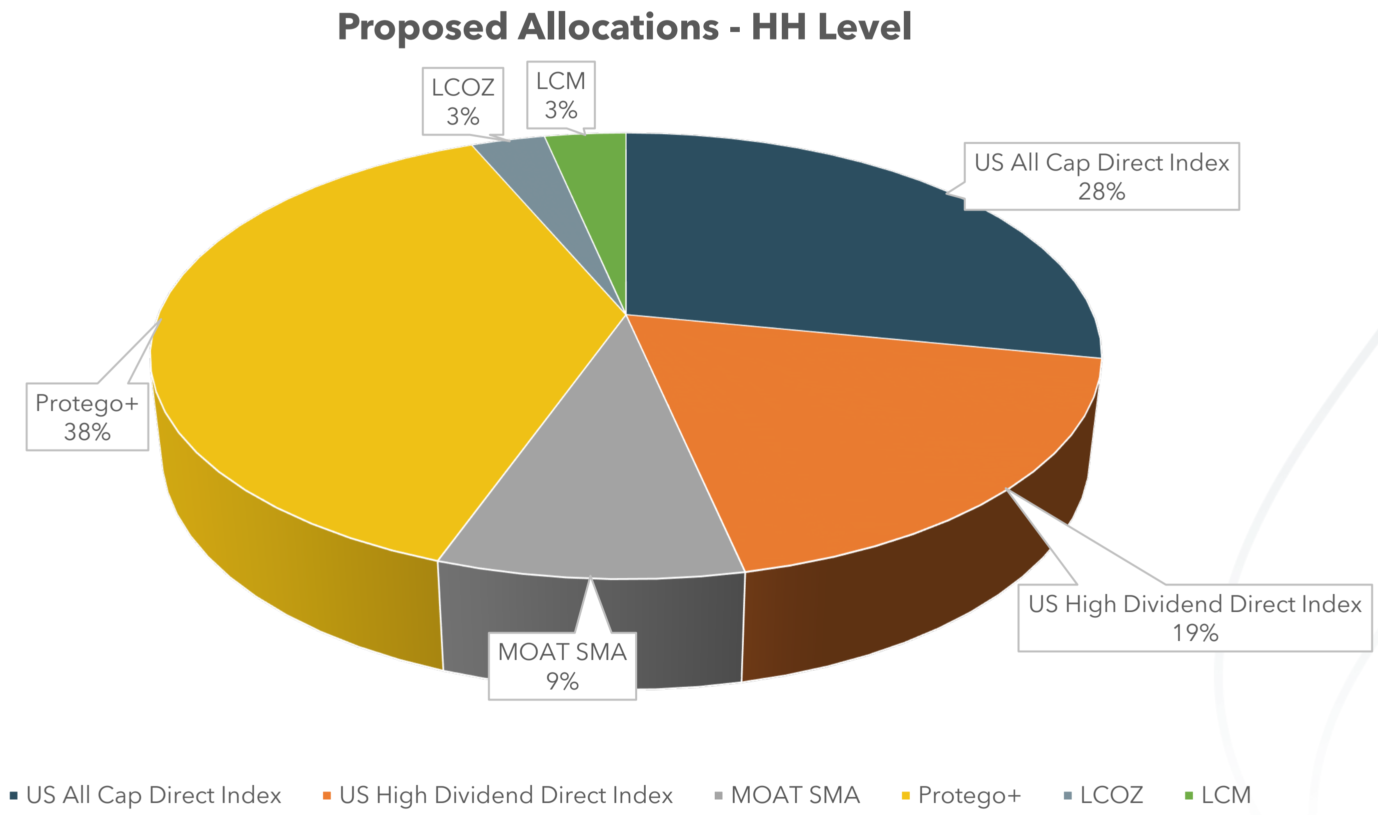
Case Study

Reduce Expected Risk / Increase Expected Total Return

	[redacted] Holdings [redacted]	[redacted] Recommendation [redacted]
Asset Allocation	 96% Equities · 4% Cash · 0% Fixed Income · 0% Alternative	 55% Equities · 32% Fixed Income · 13% Alternative · <1% Cash
Risk/Return	Potential Downside: -$7.74M  Expected Return (5Yr): +$7.92M	Potential Downside: -$5.10M  Expected Return (5Yr): +$8.22M

Case Study

Using the investment tool kit with HNW clients



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Economic Update

Where we were and where we are going

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Economic Dashboard

Economic Dashboard			
Metric	1 Year Ago	Current	Change
Federal Funds Rate	3.78%	5.33%	1.55%
S&P 500 Index	4,080	4,567	487
Personal Savings Rate	3.30%	4.10%	0.80%
Personal Interest Payments	$395.6B	$564.4B	$168.80B
Unemployment Rate	3.60%	3.70%	0.10%
US Gas Prices	$3.54	$3.23	$ (0.31)
Jop Openings (thousands)	10,746	8,733	(2,013)
Median Home Price	$479,500	$431,000	(48,500)
PCE	6.87%	5.40%	-1.47%
Core CPI	7.13%	3.12%	-4.01%
Headline CPI	6.00%	4.00%	-2.00%
Average 30 Year Mortgage Rate	6.34%	6.83%	0.49%
Wage Growth	6.40%	5.20%	-1.20%

Source: Bloomberg

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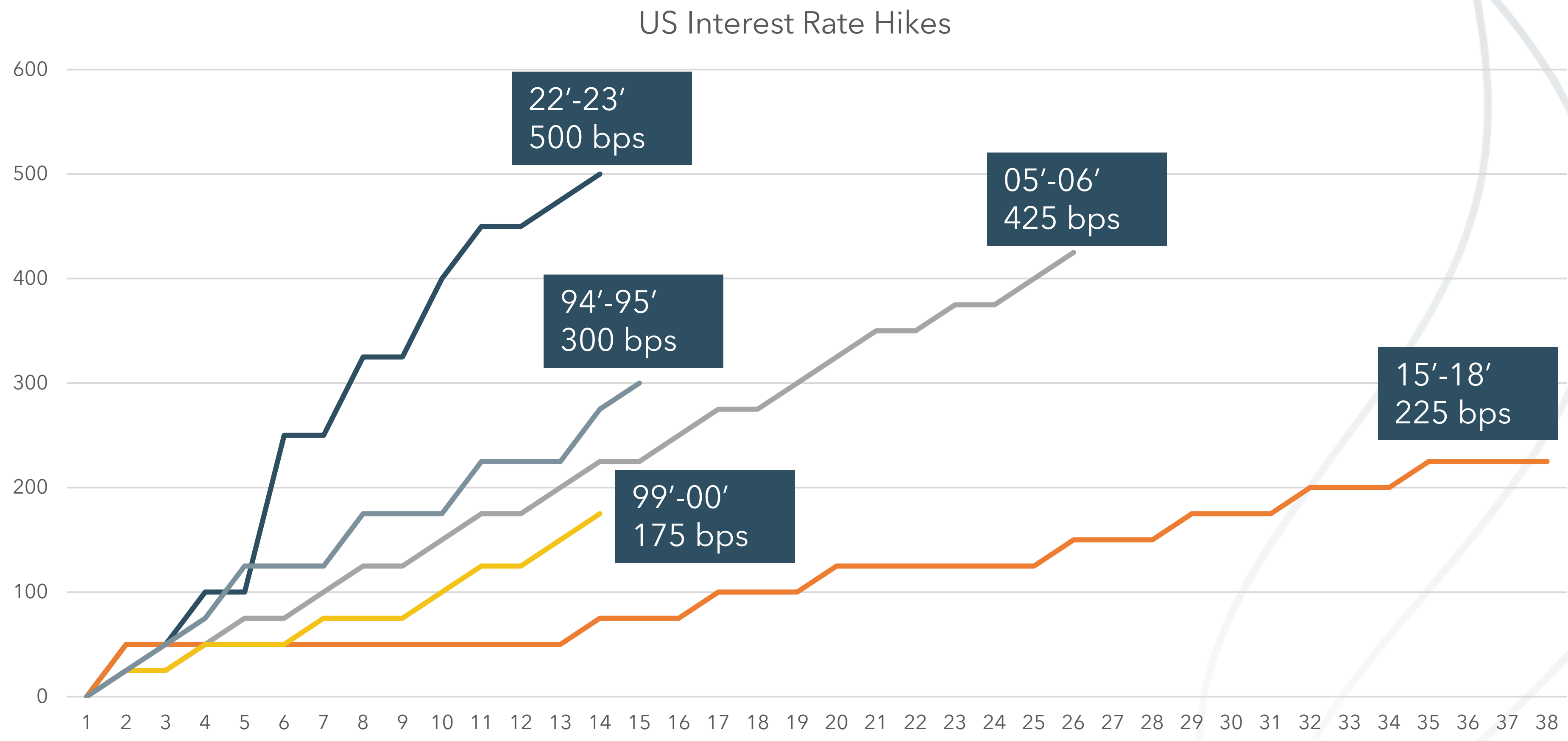
Rates are rising faster than any other time in recent history



Source: FRED

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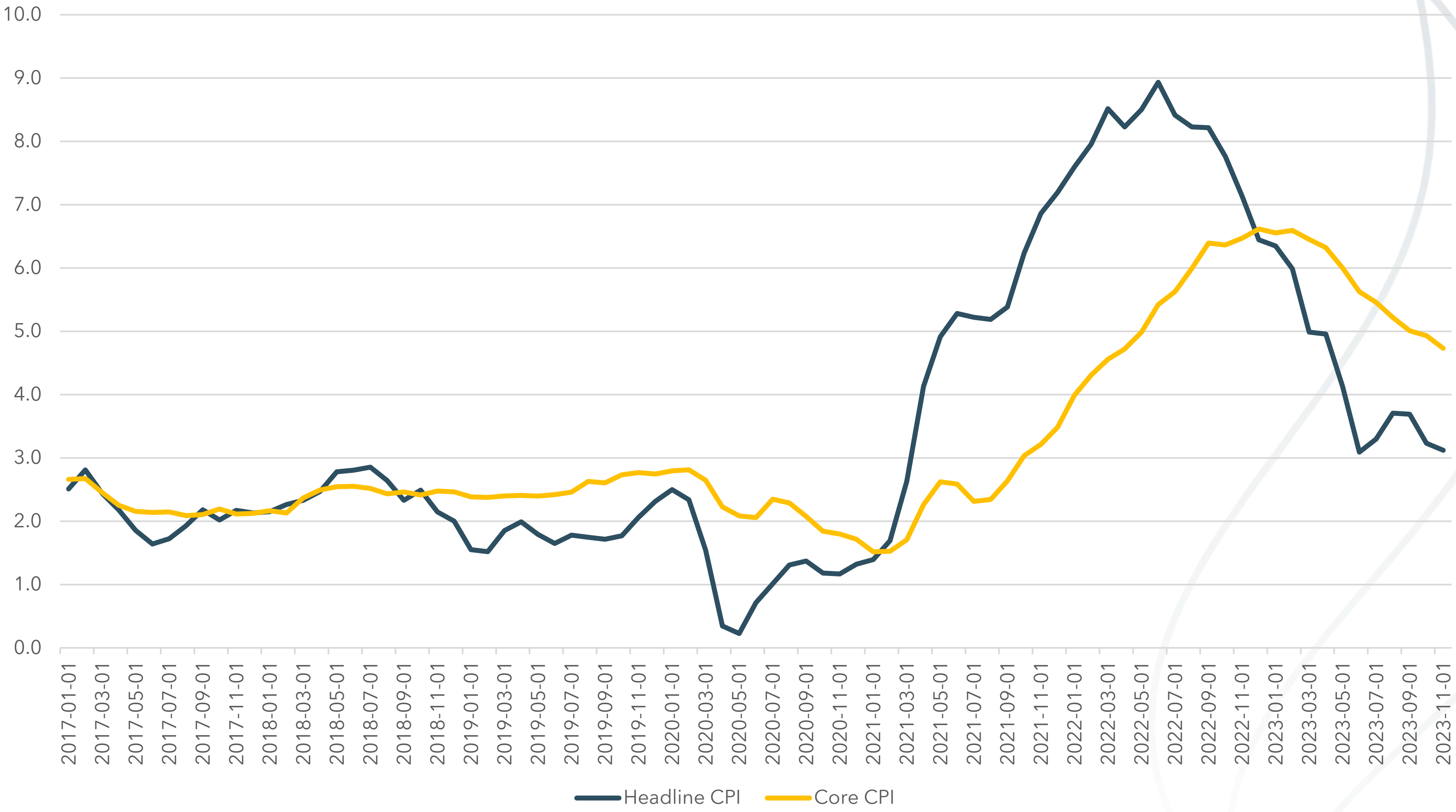
Headline vs Core CPI



Source: FRED

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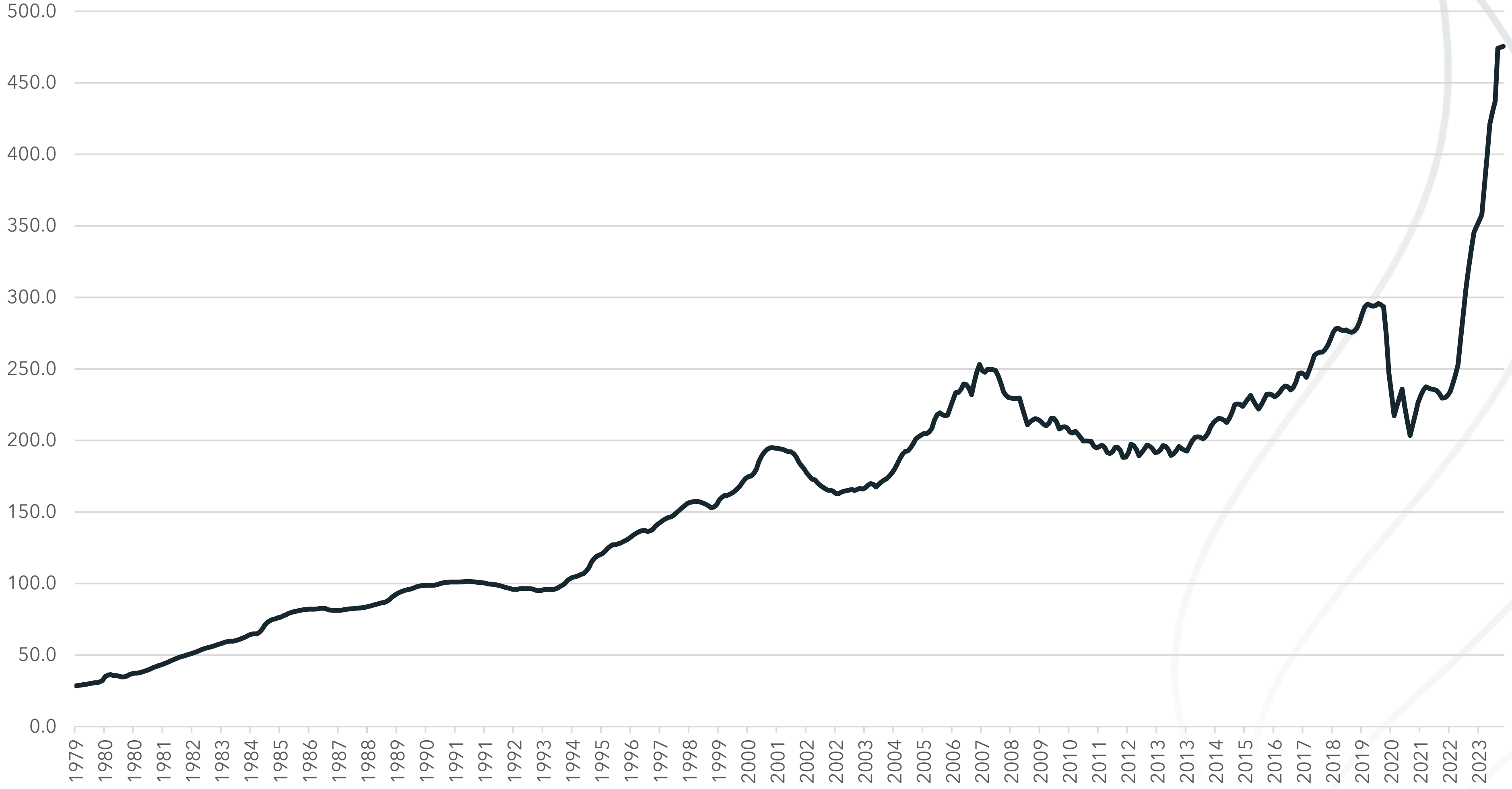
Personal Interest Payments



Source: FRED

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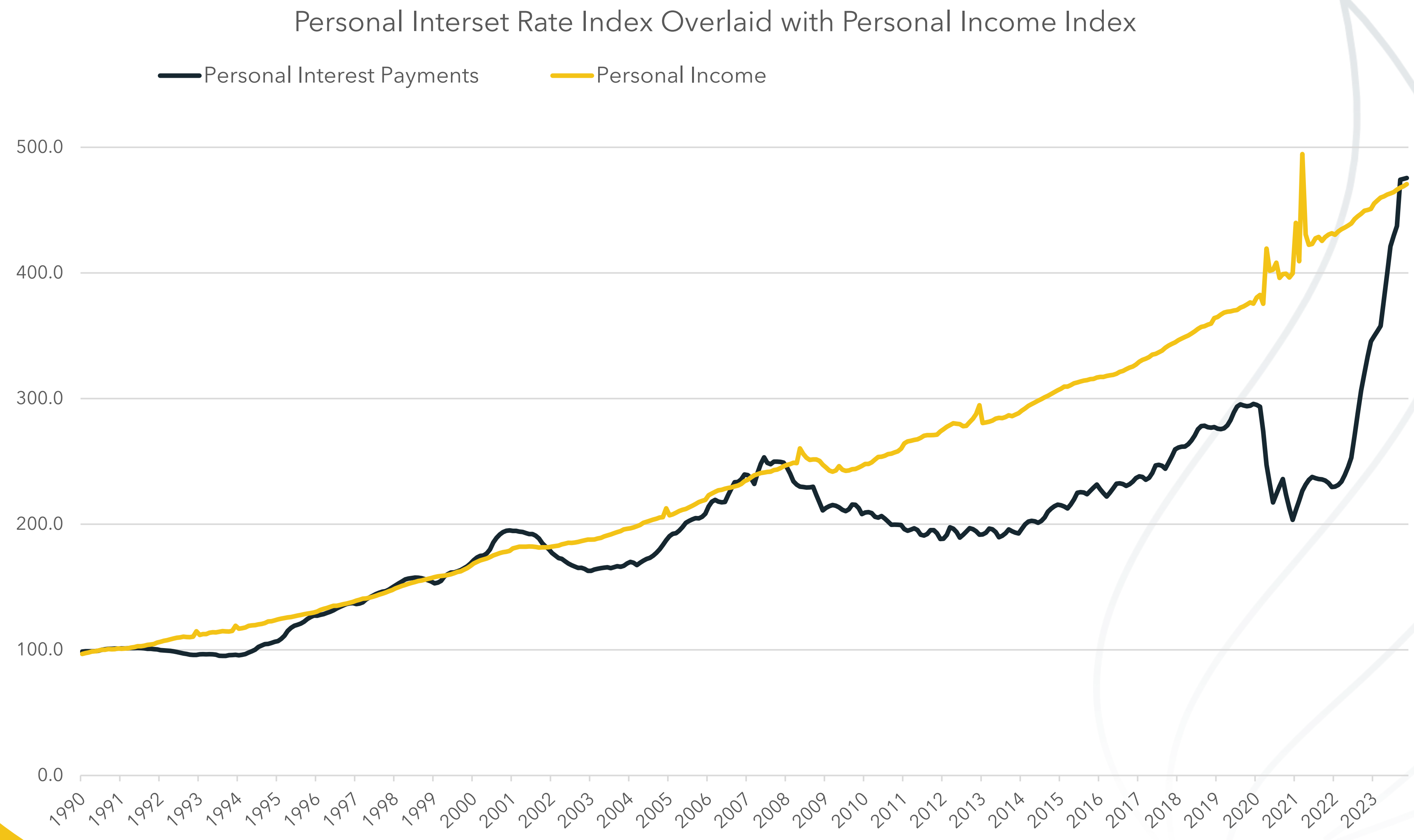
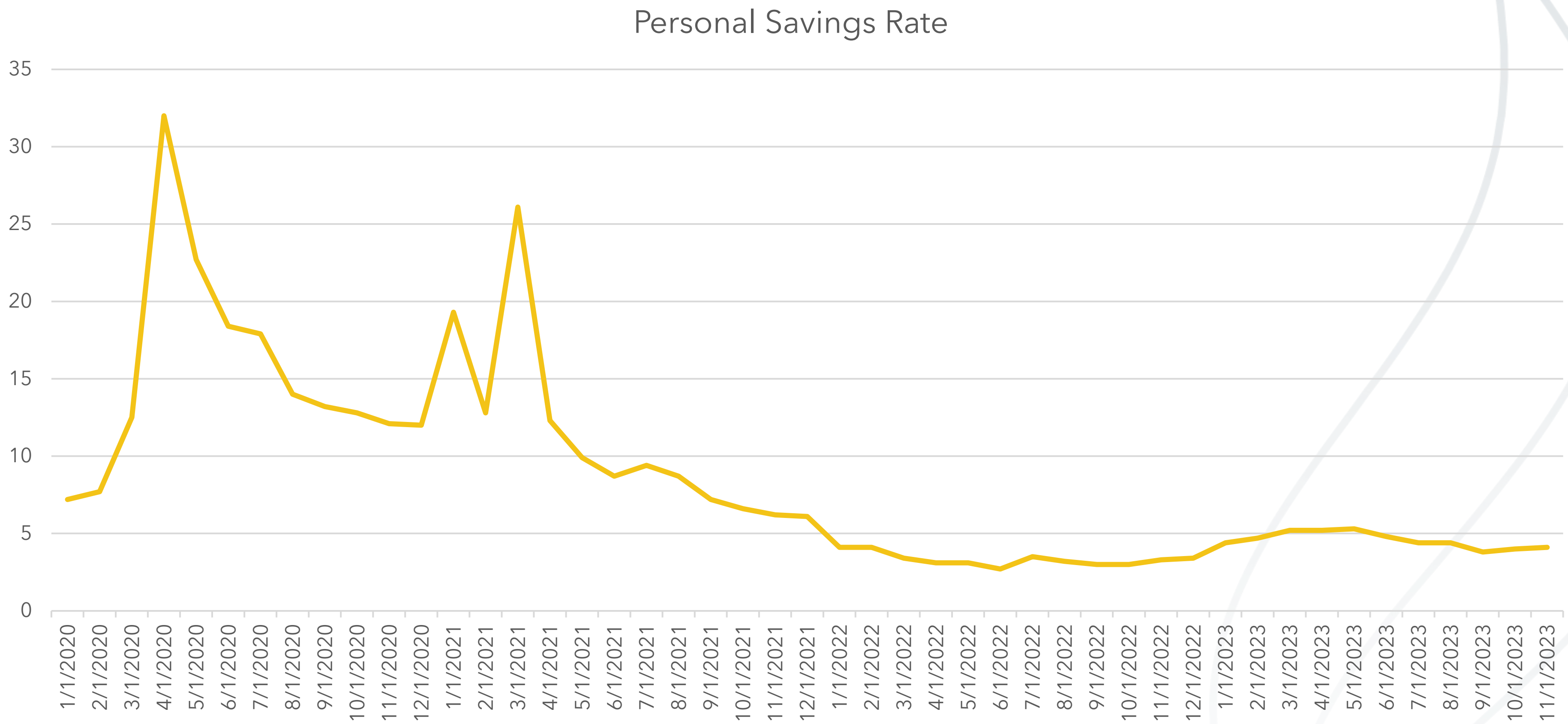
PIP… In Context



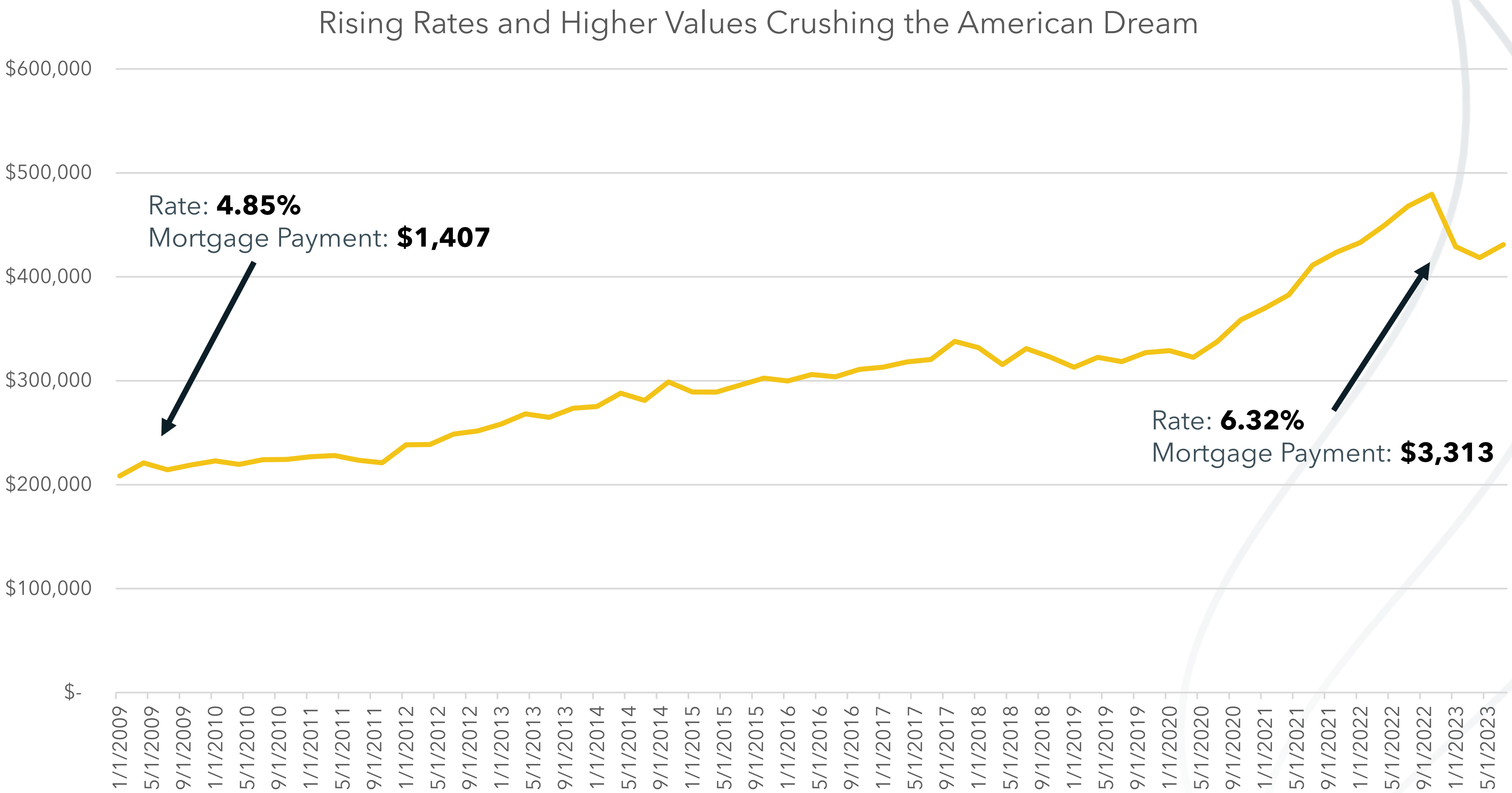
Source: FRED

Personal Savings



Source: Ycharts

Rising Rates Impact on Mortgage Payments



Source: FRED

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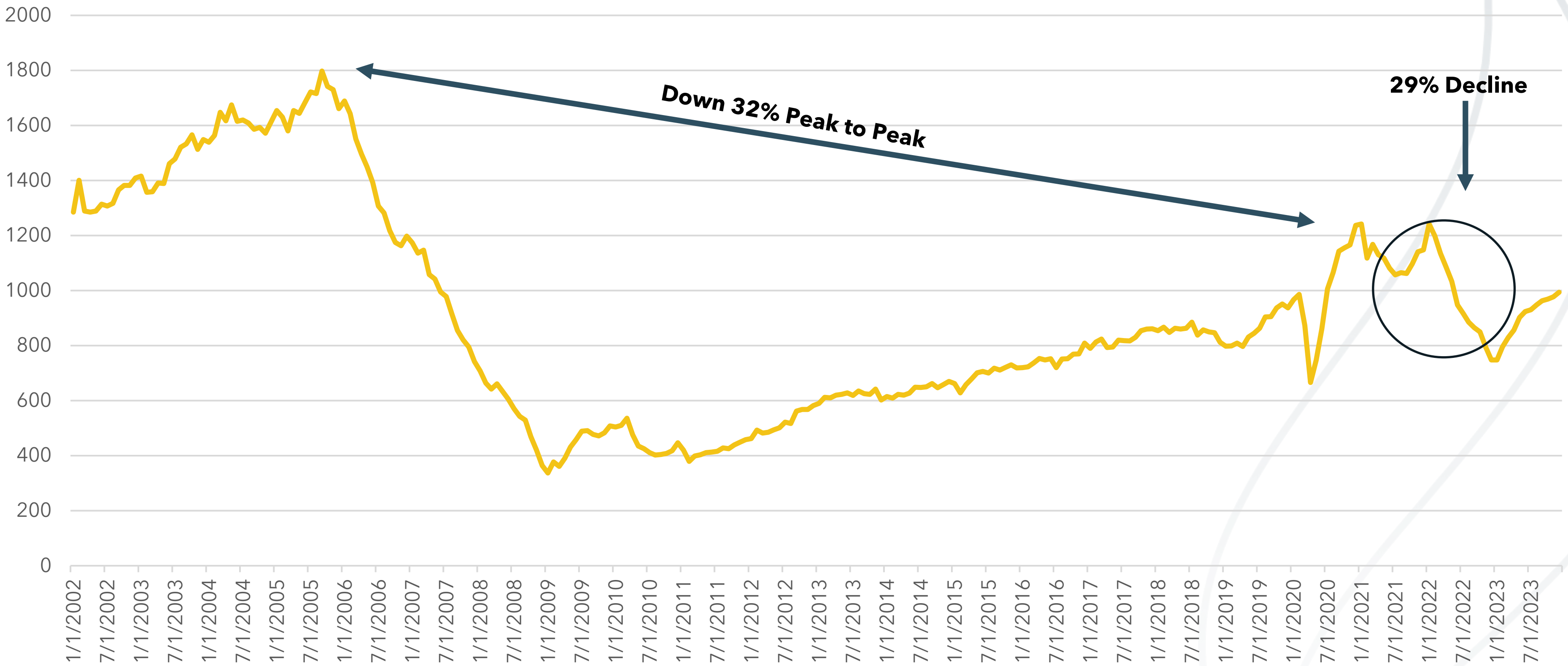
Single Family Housing Permits Dropping Quickly and Never Recovered From Peak

Homebuilder Sentiment is Bearish



Source: Bloomberg

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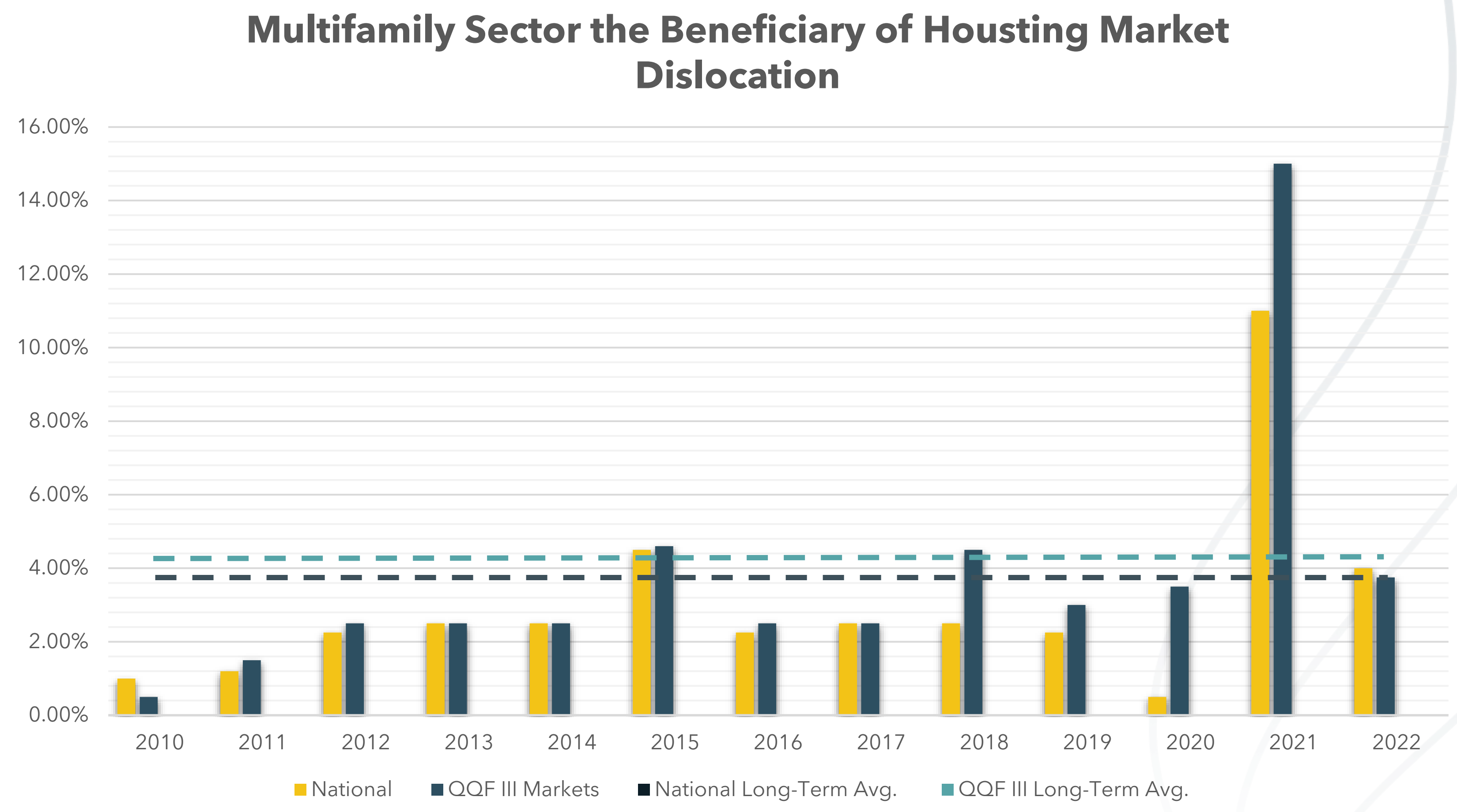
Multifamily Fundamentals Remain Strong



Source: Bloomberg

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2024 Themes

01

Messy Middle

Inflation range bound between 2% - 5%

02

Prepare Not Predict

Recession & market timing futile. Own more fixed income

03

Concentrated Consequences

Narrow leadership creates both fragility and opportunity

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Messy Middle

	Terminal Fed Funds Rate		Rate of Inflation
May-74	13.00%	←	10.10%
May-81	20.00%	←	10.00%
Aug-84	11.75%	←	4.20%
Feb-84	9.75%	←	4.70%
Feb-95	6.00%	←	2.80%
May-00	6.50%	←	3.10%
Jun-06	5.25%	←	4.20%
Dec-18	2.50%	←	2.20%
Sep-23	5.50%	←	3.70%

With inflation stuck in the messy middle, that means rates have room to move lower.

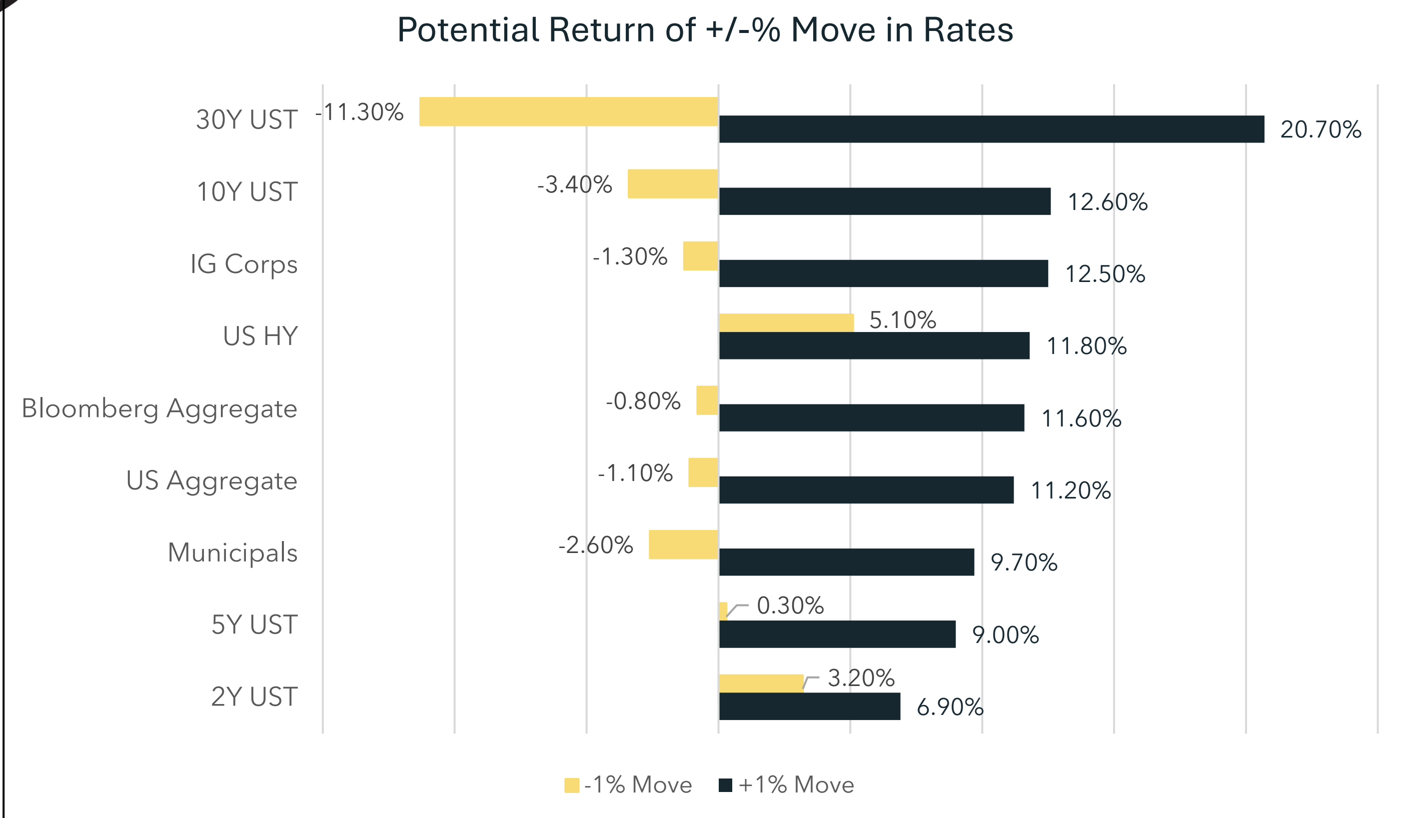
Since 1954 the average real Federal Funds Rate (FF less annual inflation) is 1.01%. Today the real Fed Funds rate is 1.8%. Moreover, this restrictive stance has grown even though the Fed has paused as inflation continues to fall. This signals to us not only do we believe the Fed is at the end of its hiking campaign, but there is room to cut.

The prevailing view is lower rates are achieved from an economic slowdown in which the Fed could cut meaningfully. However, that is not the only case. A soft landing in which the Fed simply reduces its current restrictive stance could also move rates down producing multiple paths lower.

Portfolio Impact

In a moderating inflation scenario, our 2024 portfolio updates are well-supported, with a focus on real assets for diversification and increasing more U.S. investment-grade intermediate fixed income.

Prepare, Don't Predict



As we outlined in the messy middle, range bound inflation offers multiple opportunities for interest rates to move lower. Examining the skew of potential return with lower and higher rates reveals the opportunity at hand.

Higher current yields mitigate downside risk through current income. However, the benefit to the upside in return from a fall in rates disproportionately favors longer duration assets. Moreover, if the catalyst for rate cuts comes from economic contraction the move down could be meaningful.

Portfolio Impact

The return gap between equities and investment-grade fixed income has narrowed significantly, with fixed income now offering comparable returns but with far less volatility.

It is important to not lose sight of long-term goals when factoring in the attractiveness of fixed income.

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Concentrated Consequences

Largest Market Cap Securities by Decade

1980: Peak Oil	1990: Japan Dominance	2000: Tech Bubble	2010: Rise of China	2020: US Tech	Current
IBM U.S. | Technology	NTT Japan | Technology	Microsoft U.S. | Technology	Exxon Mobil U.S. | Energy	Microsoft U.S. | Technology	Apple U.S. | Technology
AT&T U.S. | Communications	Bank of Tokyo-Mitsubishi Japan | Financial	General Electric U.S. | Industrial	PetroChina China | Energy	Apple U.S. | Technology	Microsoft U.S. | Technology
Exxon U.S. | Energy	Industrial Bank of Japan Japan | Financial	NTT DoCoMo Japan | Communications	Apple U.S. | Technology	Amazon U.S. | Consumer Dis.	Amazon U.S. | Consumer Dis.
Standard Oil U.S. | Energy	Sumitomo Mitsui Banking Japan | Financial	Cisco Systems U.S. | Technology	BHB Billiton U.K. | Energy	Alphabet U.S. | Technology	Nvidia U.S. | Technology
Schlumberger U.S. | Energy	Toyota Motors Japan | Automotive	Wal-Mart U.S. | Consumer Dis.	Microsoft U.S. | Technology	Facebook U.S. | Communications	Alphabet U.S. | Technology

Portfolio Impact

At the risk of overemphasizing recent high performers and market fragility, we're slightly reducing but still favoring U.S. small-cap and non-U.S. securities. Higher quality and duration fixed income can also help offset potential risk.

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2024 Allocation Updates

Fixed Income	U.S. Bonds	⬆⬆	Increased yields, attractive return potential relative to global equity and a Fed policy path that has increasing potential to moderate or move lower makes intermediate investment-grade bonds more attractive.
	TIPS	⬇	High real yields and inflation forecasts above the Fed's target of 2% make TIPS compelling, but higher yields and less overall interest rate risk make U.S. Bonds more so, therefore we are reducing TUPS modestly year over year.
	Dynamic Bonds	=	Given broader interest rate volatility and the potential for more credit relative events in the future, flexibility remains an attractive trait, but we are not compelled to shift allocations at this time.
	High Yield Bonds	⬇	While yields are high relative to recent history, spreads (the yield above Treasuries) are modest. Coupled with our view that credit risk will rise in the coming years we are reducing our allocation to credit risk broadly.
	Global Bonds	⬇	The outlook for global bonds remains attractive, but on a risk-adjusted basis slightly less than U.S. Therefore, we are modestly reducing the position.
	Muni Bond	⬆	Increased yields, attractive return potential relative to global equity and a Fed policy path that has increasing potential to moderate or move lower makes munis attractive, however, duration has also extended for this asset class compelling smaller year over year change compared to U.S. Bonds.
	Muni High Yield	=	While yields are higher relative to recent history, spreads (the yield above Treasuries) are below average. Coupled with our view that credit risks may rise in the coming year we're slightly reducing allocations to high yield munis.

1) Dynamic bonds are a blend of 33% Cash, 33% Corp HY, and 34% Global Bonds. 2) Tax Equivalent yield based on highest marginal Federal tax rate (37%). 3) Broad Real Assets is 20% REITS, 20% Global Infrastructure, 20% Commodities, 20% US Bonds, 15% Corp High Yield, 5% TIPS

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2024 Allocation Updates

Global Equity	U.S. Large Cap	↑	We remain underweight U.S. large cap stocks based on the relative opportunity to U.S. small and international equities. However, we have reduced that underweight based on the significant percentage incresae in U.S. equities in global indices
	U.S. Mid/Small Cap	↓	We remain overweight U.S. small cap securities. The dispersion between U.S. large and small cap stocks driven by a handful of securities has produced near-all time relative valuation differences. Additionally, small cap securities may benefit from easing rate policies. However, we have reduced that underweight based on the significant percentage increase in U.S. large cap equities in U.S. indices.
	Int/l Developed Equities	↓	Non-U.S. equity remains attractive and an overweight within our portfolios, but risk management compels us to temper how far to extend that view. Therefore, we are reducing our overweight slightly to non-U.S. equities. Valuations remain compelling both relative to the U.S. and their own 20-year history. However, geopolitical risks remain elevated and, in some way, have expanded over the course of 2023.
	Emerging Markets	↓	
Real Assets & Alternatives	Real Estate	↓	Our overall level to real assets will remain the same year over year given our view of inflation remaining in the "messy middle". A 2% - 5% range offers compelling opportunities within the overall category. However, our mix is shifting away modestly from real estate and toward assets that can benefit form a wider variety of factors
	Broad Real Assets	↑	

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Next Session starts at 4:30pm

"Who is STL Resources?" Hosted by:
Mike Hermann and Will Dressel

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