

Model Portfolio Market Ends Q1 2020 Sized at \$3 Trillion USD, According to Broadridge

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Growth Driven by ETFs and Shift by Advisors to Holistic Financial Planning

NEW YORK, July 1, 2020 /PRNewswire/ -- A new report from **Broadridge Financial Solutions, Inc.** (NYSE: BR), a global Fintech leader, has revealed that there were \$3 trillion USD in assets under management (AUM) in model portfolios at the end of Q1 2020. The majority of assets were in advisor-led model portfolios (53%), followed by home-office model portfolios (30%) and third-party model portfolios (17%). Derived from a proprietary algorithm developed by Broadridge, the report found that model portfolio assets contracted 16% in Q1 2020 from a record high of \$3.5 trillion in Q4 2019 as a result of the selloff related to Covid-19.

The market environment has disrupted model portfolios' asset mix, with equities tanking and bonds spiking in Q1 2020. Bond funds have grown the fastest since 2018 at an 18% annual growth rate, followed by mixed assets at 4%, while equity funds' growth streak has halted. Bond funds gained a 5% share in model portfolios at the expense of equity funds in Q1 2020, as the pandemic wiped out nearly \$180 billion of equity assets.

ETFs Continue to Drive Model Portfolios Growth as Asset Mix Shifts

Model portfolio popularity has been increasingly driven by ETFs, which rose to 43% of assets from 36% in Q1 2018. By comparison, ETFs comprise 30% of the retail intermediary marketplace.

Mutual fund-only model portfolios accounted for 42% of all model portfolios in Q1 2020, while ETF-only model portfolios grew fastest at 36%, representing one-third of all model portfolio types. Hybrid strategies blending mutual funds and ETFs accounted for 25% of all model portfolio strategies. Active mutual fund share held steady for the quarter at 53%, despite having steadily eroded over the past two years.

"The low-cost and tax-efficient nature of ETFs continues to be particularly appealing as asset managers build model portfolios," said Andrew Guillette, Senior Director of Americas Distribution Insights at Broadridge Financial Solutions. "As a result of the market environment caused by Covid-19 in the latter half of Q1 2020, we expect strategists at centralized research groups, as well as advisors running their own model portfolios, to rebalance their asset mix in the months ahead."

The model portfolio industry became more concentrated in Q1 2020, with 64% of assets controlled by the top 10 asset managers, up from 62% at the end of 2019. The industry's top 10 model portfolios collectively represent \$74 billion, or 7%, of the total \$1.0 trillion invested in model portfolios directly tracked by Broadridge, with home-office model portfolios dominating this segment.

How Model Portfolios are Addressing Industry Challenges

The popularity of model portfolios among younger advisors underscores a broader industry shift to holistic financial planning. According to separate survey research conducted by Broadridge, current financial advisors under the age of 40 have nearly 60% of their fee-based advisory assets in model portfolios. In two years from now, those same respondents expect their fee-based advisory assets to be 66% in model portfolios. Twenty-six percent of respondents under 40 expect to have 100% of their fee-based advisory assets in model portfolios within two years, allowing for an increased focus on client service.

Similarly, 53% of advisors believe that in three years they will be able to devote more time to growing and scaling a practice, compared to 40% today.

Sixty-eight percent of financial advisors would like to allocate more time to client acquisition, while 66% would like to spend more time on client-facing activities.

Methodology

Broadridge's proprietary algorithm provides transparency on model portfolio activity across \$14 trillion of directly sourced mutual fund and ETF assets. Sample dimensions tracked include model type (home-office, third-party, advisor-led), investment style, active versus passive, and mutual fund versus ETF. Analytics are available at the industry, channel, distributor and city level.

The Broadridge survey research included within this press release was conducted by 8 Acre Perspective to assess the world of financial advice and guidance. A total of 300 financial advisors across wire, regional, IBD and RIA channels completed the survey, which was fielded from February 21 to March 1, 2020.

For further details on methodology, please contact a Broadridge media representative.

About Broadridge

Broadridge Financial Solutions, Inc. (NYSE: BR), a \$4 billion global Fintech leader, is a leading provider of investor communications and technology-driven solutions to banks, broker-dealers, asset and wealth managers and corporate issuers. Broadridge's infrastructure underpins proxy voting services for over 50% of public companies and mutual funds globally, and processes on average more than \$7 trillion in fixed income and equity securities trades per day. Broadridge is part of the S&P 500® Index and employs over 11,000 associates in 18 countries.

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