

The Changing Sentiment Around Wealth

Disruptive Forces in Investing

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Anu Rajakumar: The Great Wealth Transfer is a phenomenon associated with baby boomers shifting towards retirement and planning to pass down wealth to the next generation. According to Cerulli, from 2023 through 2045, baby boomers in the US will be transferring a projected \$84 trillion to millennials and Gen Xers. But as times and sentiments have changed, how might the wealth management industry need to adjust its approach?

My name is Anu Rajakumar, and today I'm delighted to be joined by Stephanie Luedke, head of Neuberger Berman Private Wealth, to share her thoughts on the seismic shift across generations. Stephanie, it's great to have you back on the show.

Stephanie Luedke: Thanks, Anu. It's great to be here.

Anu: So Stephanie, let's start with an overview about what kind of impact you believe the Great Wealth Transfer is going to have on the wealth management industry.

Stephanie: Right. So first of all this is one of the most highly anticipated and widely discussed trends in wealth management. And as you noted, we are talking about the transfer of \$84 trillion in wealth, from one generation to the next generation. This it's hard to even get your-head around the size of that figure.

Of course, we can see it coming a mile away because this is all driven by demographics. But I do have some facts and figures to share to try to contextualize what we're talking about. So currently, as of this year, about half of all household wealth in the United States is with baby boomers. And baby boomers were, of course, born between 1946 and 1964, which means today their age range is between 57 and 75 years old.

Out of the United States population today, which is around 300 million, approximately 72 million are baby boomers. That's 21% of the total population in the United States today are baby boomers. And they, of course, entered the workforce during one of the strongest economic booms in modern history. The value of a dollar, for example, invested in 1980 would be \$129 today. That's 12,901% return, or almost 12% annualized.

Another example can be seen by looking at real estate, which is often a significant asset for individuals. And also for that same time period going back to the 1980s, home values have grown by 500%. So this is a huge portion of our population during a time where there's been an incredible amount of wealth creation, both in the markets and stocks and in real estate, but also in innovation in this country.

So naturally, the wealth management business over the past several decades has really been built for these boomers, if you think about it. And now, as the boomers age and pass along their wealth, the industry has to adapt to this next generation. Anu, this really is one of the most disruptive forces in wealth management and likely the most disruptive trend many of us will face in our careers.

Anu: That's a great background to start off with, Stephanie, thank you so much. You know, as you were speaking particularly about real estate and that 500% growth in home value since the 1980s to present day, I was really thinking about that as a millennial, hearing those numbers, it's why my parents always believed that real estate was such an important asset to have. But now, as a millennial sitting here today, it's just been such a different story for us, having gone through the great financial crisis, COVID, et cetera, and real estate doesn't seem to have that same huge exponential, growth opportunity. But again, that's my perception as a millennial. I was wondering if you could share some more color about differences between boomers and other generations. What are you seeing from a societal perspective?

Stephanie: Right. So bringing your perspective like that, Anu, is exactly a perfect example of what we're talking about. If you think about the time period during which, millennials such as yourself and even Gen Xers to some extent, what you all have lived through has changed the mindset in some respects around wealth. And I know we'll get to that today. But up until this point, really,

boomers have certainly dominated the landscape of wealth management. And it is interesting to look ahead to see what will, and honestly what really already is, changing with the next generation of clients. So let's talk about that next generation.

For starters, it's important to recognize that the next generation of clients is much more female. And I would think about these women in two categories. First, there's the surviving spouse, and why are we focused on women as being the surviving spouse? Well, on average, women outlive their male spouses by at least five years. It's really 5 to 10 years. And this means that women will inherit 70% of global wealth over the next two generations. Most notably, and this statistic always amazes me, 70% of women change their wealth advisor within one year of the death of their spouse.

Anu: Wow. Yeah.

Stephanie: It's really surprising, especially considering what someone's going through during those-

Anu: Sure. Absolutely.

Stephanie: -those 12 months. So, at any rate, focusing on these women is really important. The second group of women that I always want to make sure we're highlighting, it's not just about surviving spouses, but they're also increasingly more and more women as their own wealth creators. Many women in the future generations are creating their own wealth and are independently wealthy and are also contributing significantly to their household's wealth.

Just last year, the Forbes list of billionaires included 327 women, a number that keeps increasing over time. And then more recently I learned, and this also was interesting and wanted to share, is that young women are entering the workforce, and entering college, for example, more women than men right now. But more young women are entering the workforce and out earning their male counterparts in some really significant cities in the United States including New York City where we're filming this today, and Washington DC. So in some respects, the future is much more female-

Anu: Okay. Yeah.

Stephanie: -for wealth management than it has been historically.

Anu: Sure. Well, that's, music to my ears. I have a very strong-willed young daughter, and, she would agree with that sentiment as well. And this is a great topic. We spoke about it last time that you were on the show back in, it was March 2021, that episode for those who are interested was called, *What Are Women Doing About Wealth?* I'm curious, since that time, are there any trends that you and your team have identified, in what women are looking for when it comes to their behavior and preferences as it pertains to wealth management?

Stephanie: Absolutely. So we certainly know what our clients value, and clients from all walks of life. But it's important to understand the unique tendencies and preferences of female clients vis-a-vis male clients, which is what we talked about a couple years ago. And there are some important differences.

Before I get into it, I do like to make this big disclaimer. I am generalizing, which can be awkward at times, and so it's important to know, one, we value every individual as a person, first and foremost, regardless of gender. That being said, there is a substantial amount of research and a lot of personal experience that I've had, and we've had throughout NB Private Wealth, that really does indicate that there are different tendencies and preferences that women demonstrate by and large. So what are those?

Women tend to want to engage with their advisors differently. For example, we know that relative to men, women are more focused on the quality of service. They're more, focused on transparency, and they're more focused on privacy and the security of their own information and their family's information. I believe, personally, that this comes from general experience and confidence when it comes to dealing with these matters. And numerous studies have shown that women tend to be less confident than men in their investing abilities and feel less equipped to make major financial decisions. Now, I hope personally, and for society, that that's going to change over time, and I think it will as we go through this change. But there is a real tendency toward relationships and valuing service and transparency.

Anu: Actually, just one follow-up question, Stephanie: there's a thought that women tend to have lower risk tolerances when it comes to investing.

Stephanie: Yeah.

Anu: Is that something you've seen play out as well, or is that a misnomer?

Stephanie: So, the research is actually mixed on that. By and large, yes. But there is some research that indicates that women maybe are more appropriate about their—or more in tune with and in touch with their risk level.

Anu: Mm-hmm. Sure.

Stephanie: And it's not necessarily about being risk averse. But it's an interesting question. I think we'll have more data on that as we move forward. I think some of this also speaks to communication styles and how women receive information, and the types of communication styles that resonate with women. And as I always say, this isn't about painting the lobby at your office pink, right? It is about connecting with women and communicating both conveying information in all different forms, but also receiving information, *which means listening*, in a manner that resonates.

I can touch on two other trends or tendencies that we see with women. One is the tendency to prioritize advice and planning over discrete investment opportunities. And here, you could pick a survey, there's a bunch of them. But in a recent survey, the data shows that women really do prioritize value add services like retirement planning, inheritance planning, legal and tax consultation, things like that. More so than their male counterparts. And frankly, stepping away from the data for a minute, we see it every day. Very frequently the women in the room are focused on these matters and in particular things like planning for their children, planning for their family and their philanthropic interests. We see it each and every day in the work that we do.

And then finally, another tendency that we're seeing which I think is very exciting looking into the future, is that women also tend to want to invest in a manner that aligns with their values. And this is also very similar to what we see with younger generations and in particular with millennials.

Anu: Yeah, that's great. I'd love to actually dig into that a little bit further. I know Neuberger has also put in resources to expand our philanthropy expertise as well, which is really important. So, I'd like to hear a bit more, what makes millennial generation of wealth owners different from those that preceded them? And it sounds like values is just one element. I'm sure there are others as well.

Stephanie: Yeah. So, I guess I would describe it really as a changing sentiment around wealth that we're observing in the younger generations. We see a different set of values taking center stage in a way that younger clients view their wealth and the responsibilities that come with their wealth. The rising generation doesn't measure success as much by accumulating wealth as much as the previous generations really have, but rather by how they can meaningfully invest their wealth and the positive impact that they can have with their wealth. I would describe this as a shift in focus more toward the legacy they can leave the world and less toward what they leave their heirs and how they benefit from their wealth. Let's call it sort of the *"less about me and more about we"* mentality that we're seeing a lot with younger generations.

Anu: That's a good slogan to put on a t-shirt or a mug *"less about me and more about we"* [laughs]. Now, Stephanie, between, you know, we've highlighted a lot of differences here between generations and female investors, let's talk a lot about where these groups overlap and how that plays out when you're thinking about wealth management.

Stephanie: Yeah, it's interesting. What we're seeing and feeling is, and when working in this space and running a wealth management business is helpful, is that these two sets of people who are increasingly becoming more and more meaningful parts of the people with whom we work. Their preferences are really converging. And so, we see also a number of sub-trends here that I'd highlight, but really now we can talk about this sort of next gen as women and younger generations together. And so, the types of things that we're seeing across all of these groups of clients, one is what I mentioned before, reflecting values or intentions via an investment strategy.

So, interestingly here, 79% of millennials, but also 57% of Gen Xers indicate a strong interest for investing in ESG themes (ESG being environmental, social and governance considerations), and when those are factors that are considered in an investment process. And in another study, 87% of women surveyed indicated that they would prefer to invest in a manner that is aligned with their values.

So, there's a lot of interesting ways to do this. It becomes very client-specific very quickly, but think about the emergence of ESG investing, for example. There's also impact investing where there is a specific outcome or impact that the investment is looking to achieve. And there's a bunch of flavors in between. I know you've covered this topic on your series before, so I won't get into too many of the details, but there is a lot of innovative ways to invest this way, and I see the concepts really resonating with younger generations.

The second area here you mentioned earlier is philanthropy. There's just an overall tendency to be more strategic and more programmatic about how to donate one's resources: one's time and one's wealth. And there's also a ton of thought going into even identifying appropriate organizations to support and things of that nature.

So, you know, believe it or not, I've seen the next gen much less interested in their family's wealth, and focusing on philanthropy together can be an effective way to engage the next generation. So sometimes we work with clients, and there's a huge amount of responsibility, there's significant family wealth that's going to transfer from the older generation to the younger generation. And the older generation struggling with even engaging the next generation in this. And they have found that that area of commonality or the thing that they can get the next gen excited about has been philanthropy.

So working together on family causes and maybe running a family foundation or identifying philanthropic interests together has been one way to engage the next gen and also, frankly, to pass along family values. And it's a very exciting part of the work that is done for families in the wealth management industry.

Anu: Oh, totally. That resonates with me very strongly. You know, at Neuberger, I'm part of an employee resource group, that's dedicated to parenting and family life and one of the events that we're putting on, you know, for the benefit of Neuberger employees, in the Fall is going to be centered around philanthropy with your family. And speaking with our Head of Philanthropy, there's so many elements of philanthropy that make this really interesting, not just from donation and volunteering, there's so many things you can do to integrate philanthropy with family life and we're looking forward to sharing that with our clients as well.

So just to segue to the next question, Stephanie, how do you see wealth advisors changing their approach to guide clients like these in these circumstances? Are there any recommendations that you are giving advisors at Neuberger Berman as well as their clients as they consider how to plan for the next, you know, 5, 10, 20 years from now?

Stephanie: Absolutely. And just what you commented on personally right there and thinking through philanthropy and then how many different avenues there are to go down and then how that ends up being linked with one's assets, one's investible assets, that's the crux of where the wealth management industry is today. So to the advisors or really from a business perspective, it's critical to be adding expertise in the areas we've talked about today.

So adding expertise and planning to complement expertise in investing. And by planning here, it's traditional expertise such as wealth strategy or financial planning, as well as trust and estate planning. It also means expertise in philanthropic advisory and family governance like we were just talking about. So that's one critical part of being well-positioned to serve the next generation well.

I would also say that ensuring teams working with clients are empathetic to needs and preferences of future clients. This is a part of ensuring that teams have diverse skills, diverse perspectives, and diverse communication styles. We often talk about diversity and how important diversity is and how important diversity is to business. This is a perfect example. Teams need to be diverse, and our client base is diverse, and diversity comes in-in lots of shapes and forms, and certainly, expertise in a variety of areas. I would also say that having the necessary tools to engage clients digitally, we haven't talked a lot about that. It's sort of a given now how the next generation wants to engage with any provider.

Anu: We need an app [laughs].

Stephanie: And you need to be able to do it on your device 24/7.

Anu: Yep.

Stephanie: So we could do an entire episode on that, the digitization of-

Anu: Yeah. Sure.

Stephanie: -wealth management someday, but, in terms of a baseline, it's making sure that those tools and that focus is there so that the value-added services beyond that human to human, take a different form. And then finally, I recommend to everyone leaning into and embracing the investment strategies that consider environmental, social, and governance factors, as well as other ways to reflect personal values and desire to impacts through investment strategies and deploying personal wealth.

And, you know, this is a topic that sometimes I get challenged on. I'm happy to get challenged on. Part of it's because we haven't seen a ton of assets flow into those categories yet. Part of it has been around understanding the definitions and the nomenclature in that part of investing in all the innovation that's gone on in investing in that part of what we do, but I am still a very big believer that we are going to see a lot more of our clients'—given everything we've talked about today—assets, invest along those lines in the future. So for advisors, lean in and learn about it. And learn what's available to your clients and learn about the possibilities and be able to guide your clients toward what they will value in that regard.

Anu: Yeah. Because part of relationship building is understanding what your clients' values are and finding ways that their investments can align with those values. And I think that's not a new concept. Clients have always had strong values and interest in supporting those values, through their time or through their treasure. What would you say to clients as well?

Stephanie: Right. So, I would say to clients, first and foremost, find an advisor and a team that fits well for you and your family. All of the necessary expertise and capabilities should be there, and they should be considered table stakes. But beyond that, it's about the relationship. Just as you just described, Anu. Don't settle until you get what you need. I really look at the relationship with an advisor as a deeply personal relationship. You want your team to be with you, helping you navigate all of life's milestones and inflection points and births, marriages, divorces, moves, education, sadly deaths, all of those things have something to do with individual and family wealth management at some level. And that's why that relationship is so deeply personal.

So look, delivering world-class investment solutions and positioning clients to have the highest probability of meeting long-term objectives are still central to wealth management. That's not changing, and I don't mean to suggest that it is, but it's about what needs to be done around investments and integrated with investments to meet broader objectives. I don't think it's rocket science, but change takes intention; and the industry really needs to be very intentional about meeting the needs of the next generation. And at the end of the day, it's about meeting clients where they are and providing a great client experience.

Anu: Well, that is a wonderful place to end on, providing client excellence is what we strive for every day here at Neuberger Berman. Stephanie, we spent a lot of today's episode discussing different generations. So for today's bonus question that I'm going to ask you--

Stephanie: Oh, dear. [laughs]

Anu: It's coming. I would love it if you could just share some sentiments, perhaps about someone in your family from a previous generation who has been a particular source of inspiration for you.

Stephanie: Oh my goodness. Um, I guess what pops into mind is more than one individual. I have some very remarkable women in my family, my mother and my two aunts, one, my dad's sister, one, my mom's sister, they are all, of the oldest boomers or "cuspers," as you say, into the silent generation, but have been in their own right sort of female pioneers in various different careers and avenues that they've gone down in life. And so I think that has inspired me very much to serve women.

And so, I'm particularly excited about being in this industry in this moment where it is becoming more female. And I feel like I have a lot of female role models in my family. So I think about the women we are here to work with and serve throughout their lifetimes. And so, that's what comes to mind and brings me inspiration.

Anu: It sounds like you come from a line of trailblazers, so thank you for sharing.

Stephanie: I think I secretly do. [laughs]

Anu: Thank you, Stephanie, for being on the show today. The Great Wealth Transfer, as you mentioned, is an unprecedented phenomenon. And why this may require a different playbook, from a wealth management perspective, you know, making sure that advisors and clients are really aligned on their values, and advisors really focus on developing trust and deep relationships with their clients.

And two things that you mentioned that I wanted to just end on is, you know, that intentionality and empathy from advisors to their clients to really help forge that absolutely critical bond. Hopefully, folks from varying generations will have something to take away from this conversation. I know I certainly have. Many thanks again for joining us on the show, and we look forward to having you on again soon.

Stephanie Thank you, Anu. It's always a pleasure to be here.

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