BlackRock

Seizing the next model moment.

A guide for model asset managers

Four pillars to unlock growth through customization, active strategies and private markets

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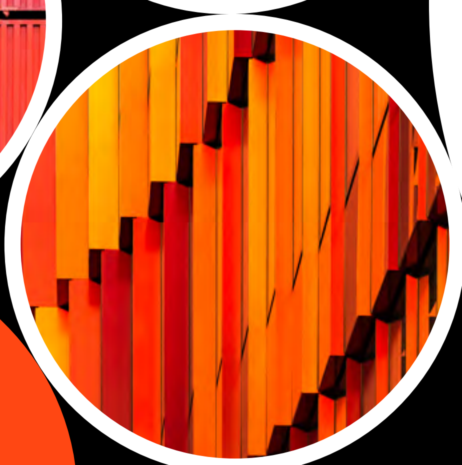

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Foreword

Model portfolios have become foundational in how advisors deliver value, deepen relationships and scale their practices. As the industry shifts toward more customized, scalable solutions, the opportunity to deliver differentiated value has never been greater. Advisors are looking for partners who can help them simplify practice management, unlock new sources of return and serve clients with precision and purpose.

This model moment calls for more than innovation — it calls for collaboration. We believe success is most likely to come from those who build and distribute with intention, and most importantly, from those who partner deeply across the ecosystem. Whether it's integrating private markets, enabling customization or simplifying implementation, the future of models will be shaped by those who work together to meet advisors where they are.

Thank you to our clients, partners and peers for your continued trust and insight. Your feedback and partnership are what make this work meaningful — and what will drive the next wave of growth.

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Head of the Americas
Institutional Business

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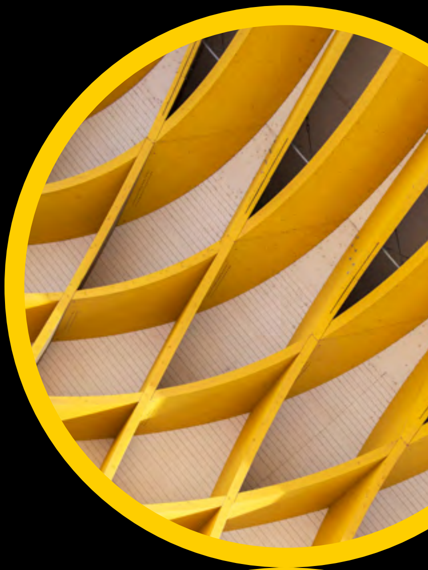
Executive summary

The model portfolio market is both vast and nascent. Despite thousands of models and many established leaders, we believe the real opportunity for asset managers is just beginning.

In the early days, simply launching a model was often enough — "if you build it, they will come." Today, that adage no longer applies. The market is crowded, competitive and saturated with undifferentiated offerings. Advisors and their clients now expect portfolios tailored to individual goals, risk tolerances, investment preferences and tax circumstances.

The next wave of growth will go to those who build the *right* models — solutions that stand out through true customization, thoughtful differentiation and effective distribution.

We outline four key pillars for model providers looking to win and retain assets in today's market, where customization is no longer a feature — it's the foundation.

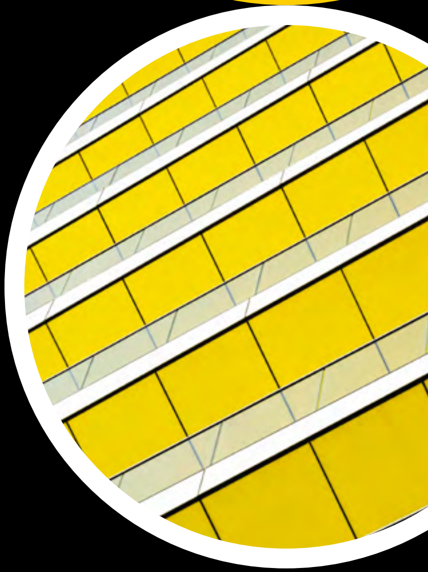


1 Accelerate growth with customization

2 Differentiate with active strategies

3 Unlock value with evergreen private markets vehicles

4 Turn implementation into a competitive advantage

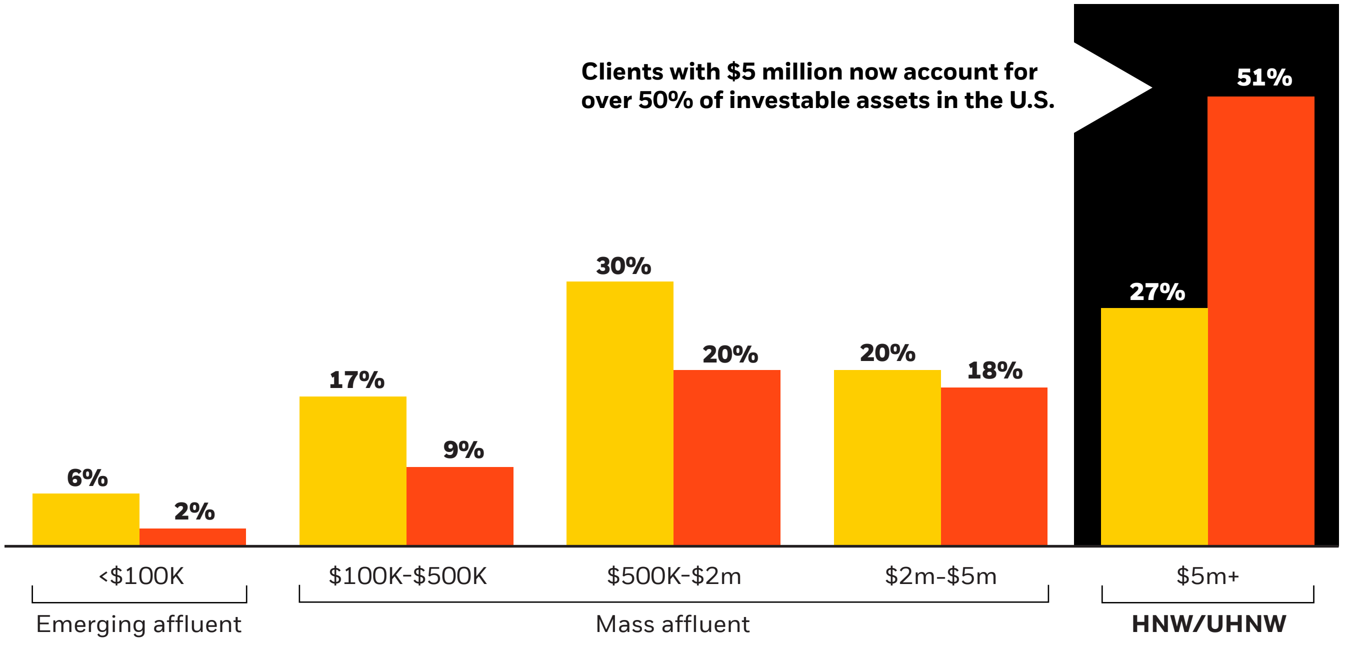


Accelerate growth with customization

Customization has evolved from niche to necessity. Just in the last three years, custom model assets have nearly quadrupled, driven by independent broker-dealers and RIAs seeking to attract a growing high-net-worth client segment with personalized solutions.[1]

Investors with over $5 million now account for over 50% of investable assets in the U.S. It's equally important to focus on where assets are moving. A staggering $105 trillion in wealth is expected to be transferred to heirs by 2048 and this next generation has a fundamentally different mindset on portfolios and investing than their parents.[2] They have less confidence in public markets alone and expect customized solutions that tap into different investment vehicles, including active and private markets.

Figure 1
Investable assets by investor net worth segments[3]



1 Source: Cerulli, "U.S. Asset Allocation Model Portfolios 2024," Cerulli, "U.S. Asset Allocation Model Portfolios 2021" and BlackRock. 2024 figures based 2023 year-end asset values, and 2024 flow and asset growth estimates. **2** Cerulli U.S. High-Net Worth and Ultra High-Net Worth Markets, 2024. GDP data sourced from World Bank: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD. **3** Cerulli U.S. High-Net Worth and Ultra High-Net-Worth Markets, 2024.

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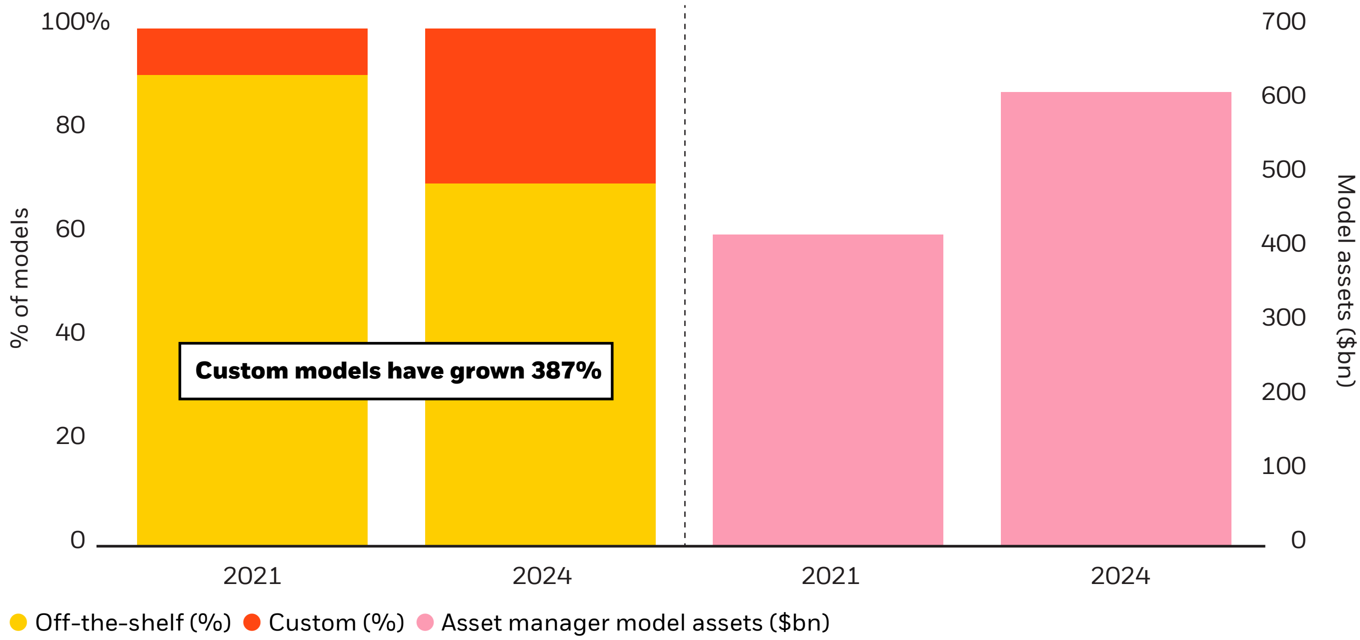
Figure 2
Off-the-shelf and custom model 3-year growth rates and assets[4]



For end investors, customization means portfolios aligned with their unique goals and constraints. And for model providers, it means deeper relationships, stickier assets and a competitive edge.

The nature of customization and how we define custom models are also evolving to meet investor preferences. What began with tax overlays and vehicle swaps has matured into a more sophisticated toolkit — blending manager capabilities, integrating new asset classes and enabling a more modular form of portfolio construction.

"Custom Model Portfolios have seen remarkable growth, and we see this driven by providers who have the ability to co-develop portfolios with advisors through the use of advanced technology, and co-brand the marketing support around their services."

Alessio de Longis, CFA
Head of Asset Allocation, Senior Portfolio Manager
Invesco

"Along with this massive transfer of wealth is a fundamental shift in the investor mindset, which is largely driven by a skepticism in the return potential for traditional stock and bond asset classes. Customized models that tap new sources of alpha, particularly alternative investments, will be essential to match what's important for this next generation of HNW investors."

Jeff Saef, CFA
Global Head of Model Portfolios
BlackRock

4 Source: Cerulli, "U.S. Asset Allocation Model Portfolios 2024," Cerulli, "U.S. Asset Allocation Model Portfolios 2021" and BlackRock. 2024 figures based 2023 year-end asset values, and 2024 flow and asset growth estimates.

So, what are custom models?

1

Tailored to advisor or client needs: Built to reflect the specific investment goals, risk tolerances, tax considerations and preferences of a particular advisor or client segment – going beyond one-size-fits-all solutions.

2

Enabled by open architecture and technology: Include a blend of proprietary and third-party investment products, allowing for modular construction and easy customization (e.g., ticker swaps, tax overlays).

3

Tools to enable the advisor: Help advisors deepen client relationships and seek to scale their business by offering scalable personalization with unique exposures (such as private markets or active strategies) while maintaining efficient implementation.

The average asset manager model taps four different firms for building blocks and the average weight to non-proprietary funds is 70%.[5] This reflects both a growing trend of traditional asset managers going open architecture to enhance their model offerings, and third-party strategists playing a meaningful role in the models space.[5]

> **"Open architecture has become pivotal for meeting the next wave of demand for highly customized and scalable models, enabling advisors to efficiently deliver the level of personalization investors require, whether that's aligning with their financial goals, risk tolerance or even their personal values."**
>
> **Michael Gates, CFA**
> Head of Model Portfolio Solutions in the Americas
> BlackRock

5 Source: Morningstar and BlackRock, as of 12/31/2024. Based on models in the Moderate Allocation Category. Number of firms used based on count of Branding Names of mutual funds and ETFs held in models.

Fixed income: Innovation meets a model opportunity

Years of constant fixed income innovation have empowered model providers to navigate today's markets and build portfolios for a new investment era.

Yields are at levels not seen in decades, and fixed income ETFs have moved beyond broad market exposures to precise granular duration or sector cuts, more niche and non-core sectors, term maturity products and a broad spectrum of actively managed exposures.

In 2024 alone, 420 bond ETFs were launched and the category is on pace for another record year of inflows. Globally, the segment has the highest organic asset growth (20%) of any other asset class or investment vehicle. Innovation in private debt access is also allowing for new sources of return and higher levels of income.[6]

This notable market opportunity and ongoing innovation means fixed income ETFs and private market wrappers will continue to transform custom model portfolio construction, introducing new avenues to differentiate, expanding fixed income-only models and improving outcomes for end investors.

“The shift to a world with structurally higher inflation, unreliable stock/bond correlation and rising volatility has redefined the role of fixed income in investors' portfolios. The products and portfolios that worked a decade ago are not the same that work today or that will work tomorrow. The rapid innovation in fixed income ETFs gives model builders the expanded toolkit to differentiate and position portfolios for future growth.”

Gargi Pal Chaudhuri
Chief Investment and Portfolio Strategist for the Americas
BlackRock

6 Source: Morningstar and BlackRock, as of 12/31/2024. Based on models in the Moderate Allocation Category. Fixed Income ETF allocation calculated as model's exposure to Fixed Income ETFs as a percentage of total Fixed Income allocation held in funds.

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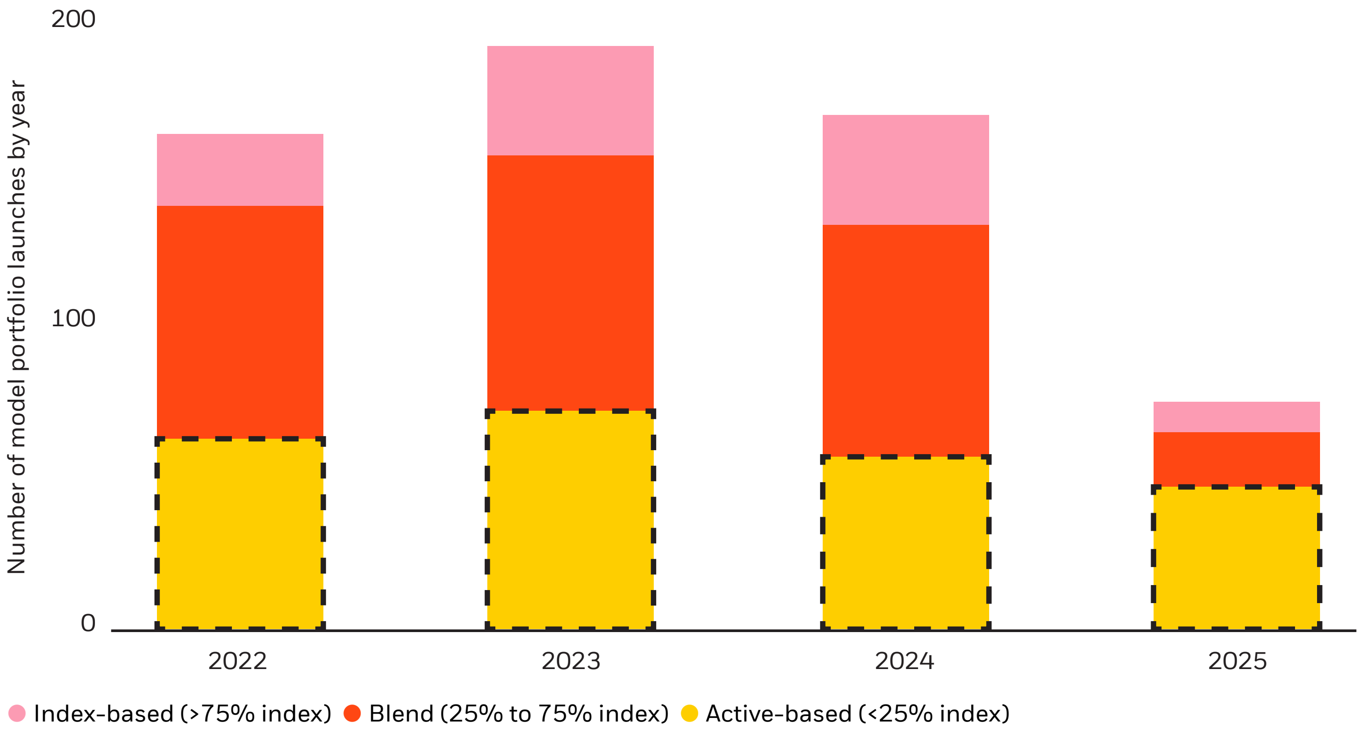
Differentiate with active strategies

In today's crowded model portfolio landscape, we believe one of the most effective ways to differentiate is by incorporating actively managed funds, including the rapidly growing universe of active ETFs. 2025 has seen a surge in new model launches that primarily feature active strategies, reversing the prior trend toward blended or index-based allocations.[7]

The increasing usage of active ETFs in models mirrors trends across the financial advisor community, with active ETFs now represented in 50% of advisor models, up from 35% a year ago.[8]

> **Active ETFs in models have emerged as an effective tool to help deliver the right strategic allocation, both in the equity and fixed income portions of client portfolios. We view them as particularly important for goals-based portfolios when portfolio turnover or trading costs can be a limitation, either at the advisor or end-client level. They can give advisors the ability to efficiently offer customization, diversification, risk mitigation or income solutions while at the same time complementing index-based holdings and aiming to deliver incremental returns and tax efficiency."**
>
> **Scott Ladner**
> Chief Investment Officer
> Horizon

Figure 3
Number of model portfolio launches by year
Models that allocate mostly to active strategies are outpacing others by over two times in 2025[9]



7 Morningstar, 2025 Model Portfolio Landscape, 2025. **8** BlackRock as of 6/30/2025. Analysis includes the 23,058 advisor models collected by BlackRock in the 12 months ending 6/30/2025. Allocations are calculated using only models that contain at least one product from that category. **9** Morningstar, 2025 U.S. Model Portfolio Landscape, 2025.

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This shift is driven by both advisor and client demand for models that can deliver unique sources of alpha, risk management and access to specialized asset classes, with model providers and asset managers increasingly viewing the inclusion of active management as essential for standing out and meeting evolving investor needs.

Allocation models have pivoted decisively toward active ETFs. In 2021, just 26% of models held an active ETF; by 2024, that number had climbed to 40%.[10]

Depth of exposure is on the rise too. Active ETFs now represent 10% of moderate model portfolio weight, up from 6% in 2021.[10] This shift has meaningful implications for the end investor — delivering both improved total and risk-adjusted performance.[11]

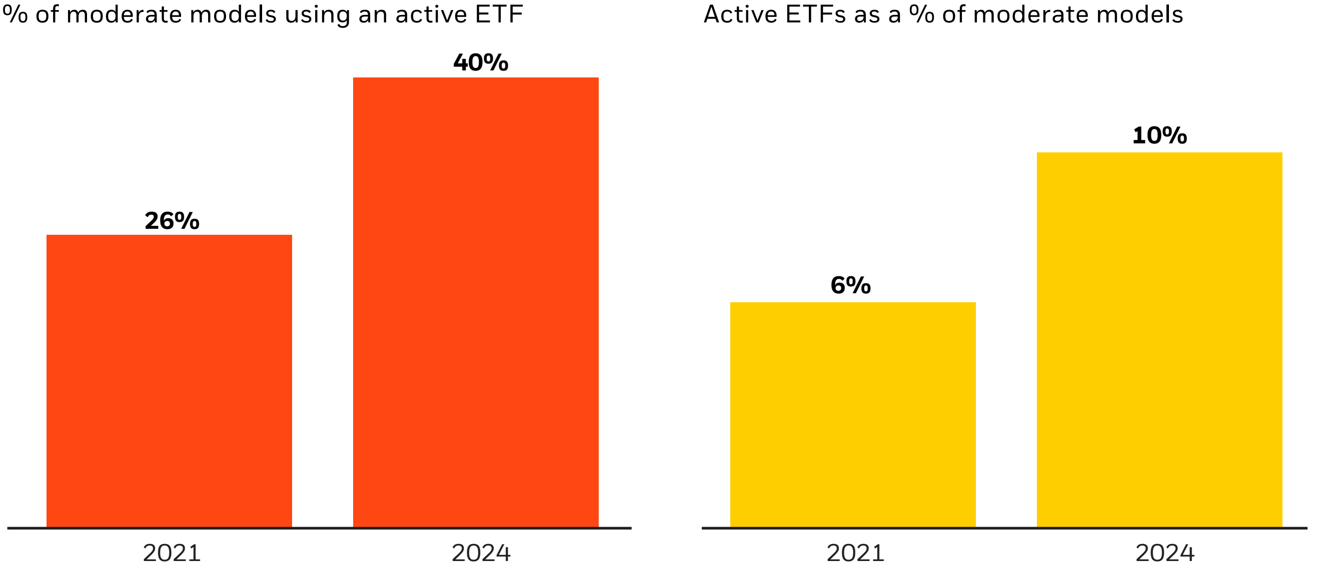
Moderate models combining active and index exposures have outperformed their index-only counterparts over the past five years.[12]

Differentiation isn't just about performance. It's about flexibility and the ability to deliver unique exposures — especially as advisors seek to blend active and passive, public and private, liquid and illiquid.

"Active ETFs in models have emerged as an effective tool to deliver the value of active management in a cost effective and tax-efficient manner. They play a crucial role in model portfolio customization and diversification and can complement index-based holdings."

Erin Garrett, CAIA
Portfolio Manager,
Model Portfolios
T. Rowe Price

Figure 4
Active ETFs in allocation models[10]



10 BlackRock & Morningstar as of 12/31/2024. Allocation models defined by Morningstar Category and include conservative, moderately conservative, moderate, moderately aggressive, and aggressive. BlackRock removed certain models from the peer groups based on the following criteria: *Real assets models, risk parity models, models with insufficient holdings coverage in the BlackRock Aladdin Risk model and models that had not disclosed holdings as of the study date. This should not be taken as a complete representation of the Morningstar models universe.* **11** Source: BlackRock and Morningstar, as of 12/31/2024. Ex-ante active risk is the standard deviation of the difference between portfolio returns and the custom benchmark portfolio returns. Active risk is in excess of the model's custom benchmark, which is constructed by minimizing the active risk of the client's portfolio to a pre-defined set of indices. There may be material differences between the Model's Benchmark and the Custom Benchmark including without limitation index provider, holdings, methodology, and performance. **12** BlackRock & Morningstar as of 6/30/2025. Blended models using active and index products defined by underlying model holdings.

Unlock value through evergreen private markets vehicles

Private markets are no longer the exclusive domain of institutions. As advisors seek new sources of diversification and ways to attract high-net-worth investors, the inclusion of private assets in model portfolios is accelerating.

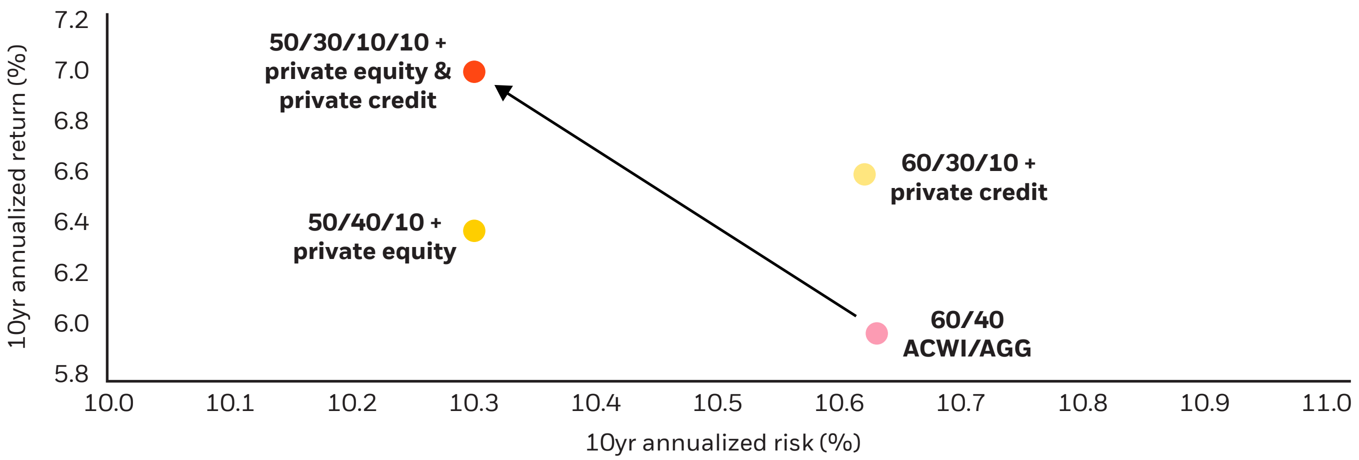
Adding private market exposures — particularly private credit and private equity — can unlock value for investors by improving both performance and Sharpe ratios, and by reducing correlation.

A 10-year risk/return scatter plot shows that private credit and private equity have delivered materially higher returns per unit of volatility than their public market counterparts.[13] In a traditional 60/40 framework, that can improve portfolio-level risk-adjusted returns and increase diversification benefits.

> **Private markets are becoming increasingly important, especially with the generation of investors who are driven by the prospect of generating yields that exceed what they're getting in public markets, their low correlation with public market price volatility, and their increasing availability though vehicles like model portfolios."**
>
> **Patrick Jamin, CFA, FRM**
> CEO & CIO
> NorthCoast Asset Management

Figure 5

Private credit and private equity returns per unit of volatility[13]



13 BlackRock, Morningstar, and Preqin from 3/31/2015 to 3/31/2025. Performance shown is hypothetical, as the portfolio analysis for the relevant time period assumes all allocations were held in the weights shown in the chart. Historical asset allocation changes are not reflected in the hypothetical performance shown. From a portfolio management perspective, these portfolios were assumed to be rebalanced on a quarterly basis. Hypothetical data results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for risk factors that may affect actual portfolio performance. The performance of actual client accounts may differ from the performance shown for a variety of reasons, including but not limited to: Implementation of trades in the client accounts; differences in market conditions; client-imposed investment restrictions; the timing of client investments and withdrawals; fees payable by such accounts; cash flows into or out of such accounts; and/or other factors. Preqin index data was manually unsmoothed by BlackRock to mitigate appraisal smoothing and improve comparability to liquid securities. The resulting series is model-based, non-investable, and differs from the official Preqin index. For illustrative purposes only; you cannot invest directly in an index. **Past performance is not indicative of current or future returns.**

Today, fewer than 30% of third-party asset manager models hold any alternatives within the portfolio, yet more than 90% of advisors say they plan to increase alternative exposure within the next two years.[14] While liquid alternatives have seen a modest uptick in use within off-the-shelf models, very few, if any, incorporate true private markets exposures. This is not a reflection of managers choosing to not allocate to the full stack of capital markets, but a result of integration challenges. Implementation has historically been hampered by illiquidity, infrequent valuations and operational complexity.

Enter evergreen private markets — vehicles such as interval funds, tender-offer funds and non-traded Business Development Companies. These structures can offer a "best of both worlds" solution: Institutional-quality exposures with periodic liquidity, making them accessible to a broader range of investors.

Why evergreen private markets vehicles matter in modern model portfolios

Access

Lower minimums and periodic (may be restricted) liquidity open private markets to more investors.

Expanded opportunity set

Public markets are shrinking while private markets are rapidly expanding: 81% of global companies with over $100M in revenue are now private,[15] and the number of U.S. private firms with 100+ employees is up 46% since the late 1980s.[16] Private markets tap this growing universe, offering access to unique issuers and return streams that public markets may no longer capture.

Performance potential

Evergreen structures offer more than operational ease — they unlock access to private markets in a format designed to deliver long-term alpha. With higher yield profiles and differentiated exposures relative to public markets, evergreen vehicles give advisors a powerful tool to enhance portfolio outcomes and meet client objectives with greater precision.

14 CAIS-Mercer survey Connected perspectives: The state of alternative investments in wealth management. Survey based on a select group of 550 independent financial advisors, asset managers and other industry professionals as of October 2024. **15** Capital IQ, BlackRock as of 12/31/2024. **16** Source: U.S. Census Bureau – Statistics of U.S. Businesses, The World Bank World Federation of Exchanges database as of December 2023. Represents the latest data available.

In a world where hundreds of model portfolios cluster around similar risk profiles, semi-liquid alternatives offer a path to true differentiation.

Types of investment vehicles

Feature	Liquid	Semi-Liquid	Drawdown
Typical vehicles	ETFs Mutual funds	Interval funds Tender offer funds Non-traded BDCs/REITs	Traditional PE/VC
Suitability	No accreditation	Accredited or lower	Qualified purchaser (QP)
Redemption frequency	Daily	Monthly/quarterly (with restrictions)	None (7–12 years lockup)
Private markets exposure	Low/none	Moderate to high	High
Minimum investment	Low/none	Low/moderate	High
Capital deployment	Immediate	Immediate (fully funded at start)	Gradual (capital called over years)
Valuation frequency	Daily	Monthly/quarterly blend	Quarterly

Implementation as a competitive advantage

As models evolve to include private markets and semi-liquid alternatives, effective implementation is another critical strategic differentiator.

Evolving the 60/40 portfolio with private markets

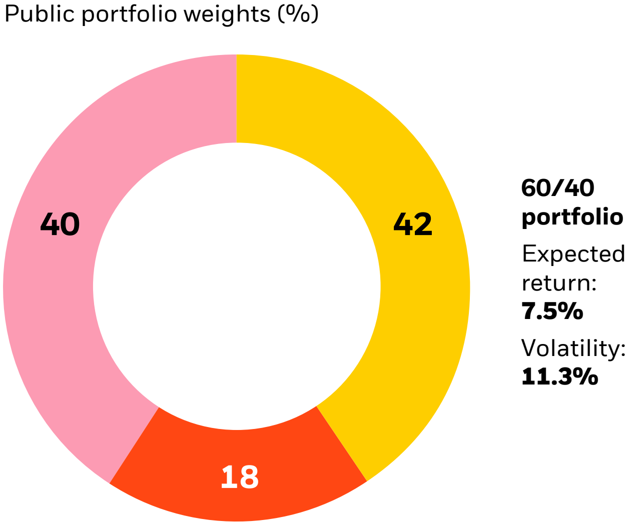
Modern model portfolio implementation begins with thoughtful portfolio design. With the assumption that private markets offer a compelling risk/return profile relative to the public markets, we illustrate how a legacy 60/40 portfolio can provide a useful starting point.

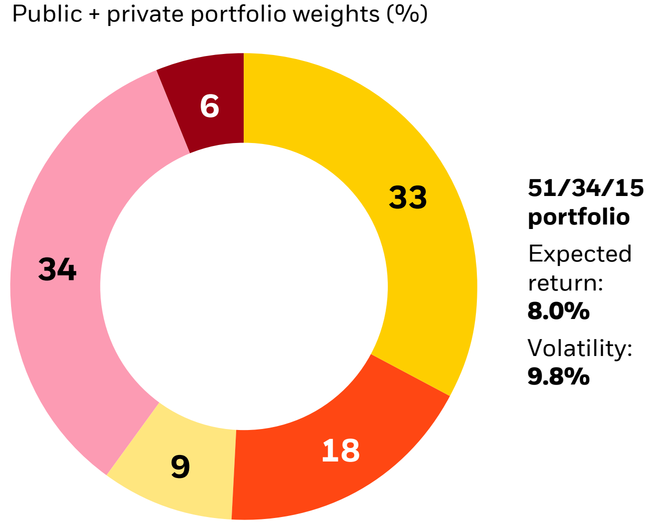
By funding a private equity allocation from the traditional equity portfolio and private credit from the fixed-income portfolio, the model gains the desired private market and risk factor exposures without materially altering the broad asset allocation.

For example, a 51/34/15 blend — where private equity is funded from public equity and private credit from fixed income — can both enhance expected return and reduce volatility. This approach maintains the integrity of the overall allocation while introducing differentiated exposures.

Figure 6

Private markets risk/return profile relative to the public markets[17]





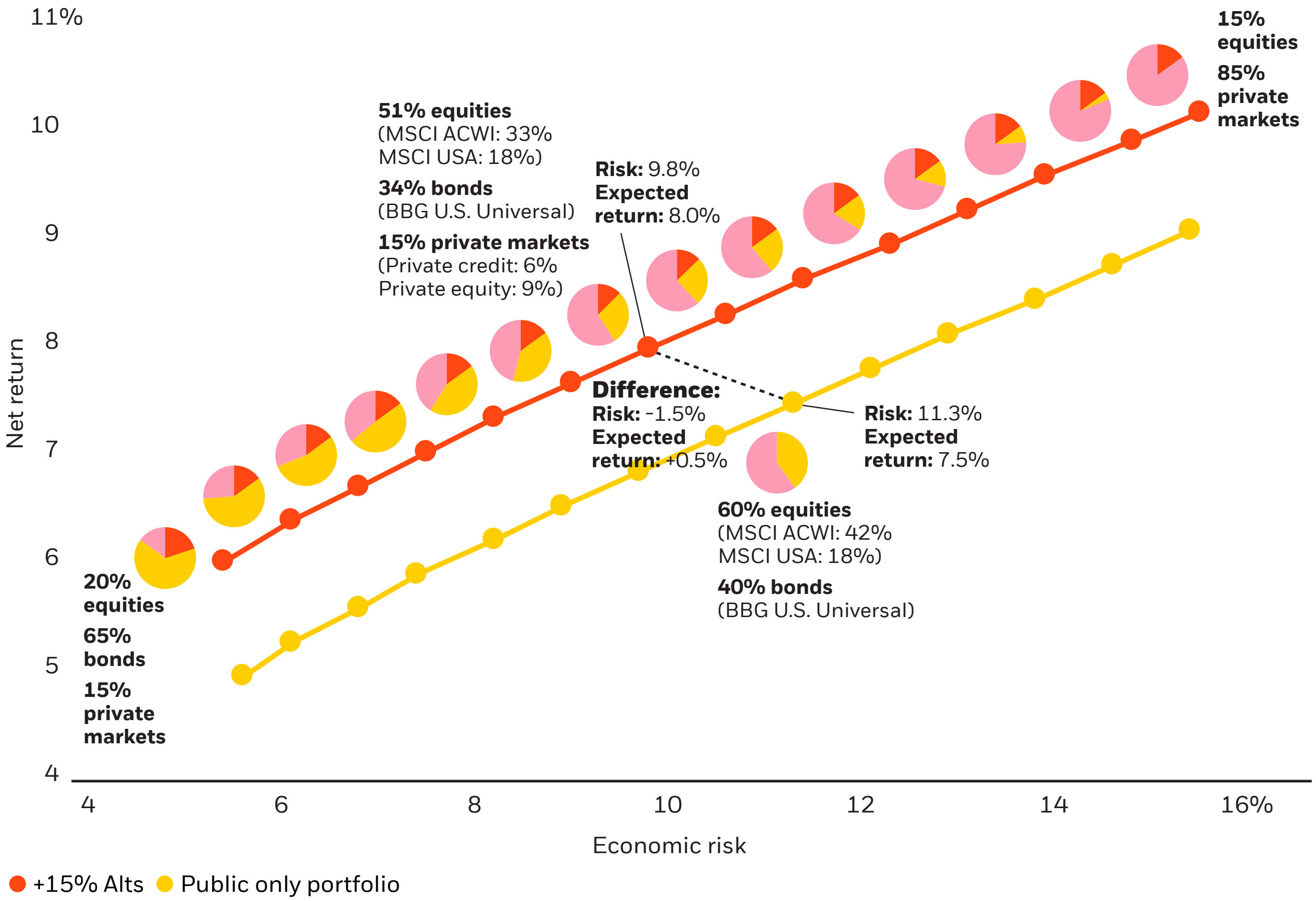
17 Risk is calculated using 195 months of equal weighted return data from 12/31/2007 to 3/28/2024. This timeframe was used because it is representative of a wide variety of market cycles. Private Equity benchmark represented by Burgiss Private Equity Index and Private Credit benchmark represented by Cliffwater Direct Lending Index. Expected returns methodology: Expected returns are computed based on a combination of historical returns for the asset class and track record of the underwriting teams, while accounting for the current market environment. Historical returns are track records are from Preqin, as of 3/31/2024. Current market environment is sourced from the BlackRock Capital Market Assumptions. To note, where the funds hold liquid credit as a means of managing liquidity, we utilize BlackRock Capital Market Assumptions for this sleeve. The targeted performance is provided for illustrative purposes only and is subject to significant limitations.

Efficient frontier: Enhancing outcomes with private allocations

Integrating evergreen private markets vehicles into models can shift the efficient frontier. For example, a portfolio with 15% private markets — split between private credit and private equity — demonstrates a higher expected return and lower volatility than a traditional 60/40 mix.

Importantly, these allocations are structured to be practical — they are designed to offer quarterly liquidity, lower minimums and operational ease, making them suitable for model delivery. They aim to deliver consistent exposure to private markets without the lockups and capital call complexities often seen in traditional drawdown structures.

Figure 7
Portfolio impact analysis: Efficient frontier[18]



18 BlackRock Alternative Portfolio Solutions: Risk is calculated using 195 months of equal weighted return data from 12/31/2007 to 3/28/2024. This timeframe was used because it is representative of a wide variety of market cycles. Private Equity performance and risk metrics represented by Burgiss Private Equity Index. Private Credit performance and risk metrics represented by Cliffwater Direct Lending Index. Expected returns methodology: Expected returns are computed based on a combination of historical returns for the asset class and track record of the underwriting teams, while accounting for the current market environment. Historical returns are track records are from Preqin, as of 3/31/2024. Current market environment is sourced from the BlackRock Capital Market Assumptions. To note, where the funds hold liquid credit as a means of managing liquidity, we utilize BlackRock Capital Market Assumptions for this sleeve. For illustrative purposes only. There is no guarantee that any forecasts made will come to pass. Diversification and asset allocation may not fully protect you from market risk. Private Markets expected returns are based on proprietary capital market assumptions from the BlackRock Alternative Portfolio Solutions team.

Empowering advisors means equipping them with direct access to Sales and Portfolio Management Specialists, as well as providing custom, timely commentary tailored to each model portfolio. Advisors value tools and support that streamline client communication and simplify portfolio management — freeing up time for high-value client engagement.

Custom commentary, automated reporting and on-demand expertise are now essential, while AI-driven analytics are beginning to help advisors personalize recommendations and anticipate client needs.

Differentiate by empowering the advisor and innovating the client experience

Platform and distribution enablement

In our view, modern model portfolio implementation increasingly depends on the evolution of platform infrastructure, especially as advisors integrate private markets into their offerings. We believe today's platforms should go beyond simple access; they must support seamless execution across a wide range of investment vehicles, from public ETFs to semi-liquid alternatives.

Asset managers who can offer these solutions on a platform that integrates with firms like iCapital and CAIS will likely be well-positioned to lead the industry in public private model growth. These platforms offer solutions tailored to advisors' preferences — whether they favor standardized models or seek to express highly customized asset allocation views. This flexibility is essential for scaling personalized investment strategies across diverse advisor networks.

Effective distribution enablement also requires minimizing friction throughout the investment lifecycle. Platforms must have the technology to unify custodians, administrators, transfer agents, tax preparers and advisors into a single operating system that simplifies reconciliation, compliance and reporting.

We find that a major advancement is the ability to incorporate private market exposures alongside public assets within a single portfolio. When wrapped in strategic asset allocation, this integration represents a major advancement in portfolio construction.

Furthermore, the inclusion of advanced tools such as tax overlays, option overlays and structured products broadens a platform's capabilities and sets the stage for future innovation. These features empower advisors to customize while preserving operational efficiency. As private market allocations rise, platforms that support both customization and scale will be indispensable. This shift is not merely about access — it's about enabling advisors to fully leverage capital markets to deliver superior client outcomes.

"As model portfolios grow increasingly sophisticated, successful implementation – particularly the integration of private market funds with daily-liquid ETFs – has become a defining feature when customizing these models."

Steve Houston
Managing Director, Co-Head
iCapital Solutions

"Our goal is to enable advisors to capitalize on the full power of capital markets – and that includes private markets. But private markets can be hard to implement, which is why it's so important to access them in a single unified managed account."

Eve Cout
Head of U.S. Wealth
Advisory Solutions
BlackRock

Conclusion

The right model for the next model moment

The model portfolio market is at a second inflection point. The next wave of growth will not go to those who build the most models, but to those who build the right models — solutions that are customizable, differentiated and distributed through the right channels.

As the landscape continues to evolve, model providers who embrace partnership, customization, operational excellence and strategic distribution will be best positioned to capture the opportunity ahead.

Because in today's market, it's no longer "if you build it, they will come." Capturing the next way of growth comes down to building it right.

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