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ADVISOR PRACTICE MANAGEMENT | ADVISOR Q&A

Onur Erzan: Taking the Reins at AllianceBernstein's Wealth Unit

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Many wealth management firms today like to tout their pure-play wealth manager status: They don't manufacture products, so there's no pressure to use in-house funds. AllianceBernstein 's wealth management chief, Onur Erzan, thinks using his company's proprietary solutions in client portfolios is actually a plus. "If we underperform, there's not another manager to blame," he explains. "It's our in-house asset management that has underperformed."

Erzan, who already was in charge of AllianceBernstein's global client group, became head of the wealth business, Bernstein Private Wealth Management, six months ago. Speaking with Barron's Advisor, he recounts his path from his native Turkey to a two-decade career with consulting firm McKinsey, and finally to the upper echelons of a $100 billion-asset firm. He also lays out a medium- to long-term goal: making Nashville-based AllianceBernstein a top-three independent wealth manager for high-net-worth and ultrahigh-net-worth clients around the world.

Where are you from and how did you get into the industry? I was born and raised in Turkey and came to New York in 1999 for business school. I was always fascinated by capital markets and finance, and I always thought New York looked good on the screen in movies. I had never been to the U.S. before going to Columbia Business School. I earned my M.B.A. there with a concentration in finance. Then I had a great summer experience with McKinsey. I enjoyed the problem-solving and dealing with a diverse set of clients and problems. So that attracted me to a full-time position with McKinsey in New York, even though my first instinct had been to go to Wall Street.

I did start with the corporate finance practice, so my passion for finance carried over. Over time, I migrated to serving financial-services clients, and within that, I specialized over time in asset and wealth management. My last seven years or so at McKinsey, I was coleading the asset and wealth management practice. That obviously created a very easy transition into the industry, because I was already well plugged in to what's happening and had a good appreciation of different institutions.

What motivated you to leave McKinsey after nearly two decades? I enjoyed being an advisor and working on great business problems with world-class institutions. I learned a ton, and I always cared about impact, hopefully making a difference for my clients with the work we do. I thought it was time to get on the field and start throwing the ball. I was eager to see the impact of ideas and insights, and going from being an advisor to being an operator was a good challenge. I wanted to take that challenge somewhat in the middle of my career, because I wanted to have another long path ahead of me. So here I am.

Obviously, I had some flexibility and choice. I came to AllianceBernstein for two reasons. One, I really enjoyed my interactions and I enjoyed the culture; I thought the fit was good. Two, I thought the platform provided the right foundation for further growth and expansion. I thought we had great capabilities, great reputation, and a lot of upside. It was the right combination of culture, capabilities and runway for growth.

Bernstein Private Wealth Management is one of three business lines within AllianceBernstein, alongside asset management and research. How significant is wealth management within the company? Wealth management contributes roughly one-third of our revenue. It's less than a third from an assets-under-management perspective, but it's very core to our business, both strategically and in terms of revenues. We serve both U.S. clients and global families.

You joined the company as head of the global client group and added the title head of private wealth in July. What are your business goals for wealth management? Given that it's been a very challenging market in 2022, we would like to continue to deliver on the client expectations. We cannot change the direction of markets, but we would like to continue to deliver best-in-class investment advice and wealth planning services and make sure our clients stay on track for their long-term financial goals, whether it's their philanthropic goals, wealth transfer goals for their next generation, etc. Maintaining client centricity, staying close to the clients, delivering on the promises is key.

In terms of strategic objectives, we believe growth is an unbiased measure of client success, so we would like to continue on our organic growth trajectory. We need to deliver consistent organic growth, which we measure as net flows as a percentage of our AUM. And we would like to continue to expand in the ultrahigh-net-worth space, including global family offices, and continue to win with specific demographics, including women and some of the diverse markets within that demographic.

Where do you see untapped opportunity for the business? Given our legacy and the fact that we are a very trusted brand, we believe there's tremendous upside. We think, as we saw during the Covid experience, that financial advice needs are greater than ever. We are in an inflationary environment, there are risks of recession, and there's more volatility than in any recent period. This was a time when advice and planning will play a major role. And that's in our DNA.

We are a pure-play investment and wealth platform. We're not an insurance company, we are not a bank. Those are the capabilities that we are invested in, and that's where we will shine.

With the continued wealth formation in the United States and the globalization of wealth, there are more business owners, entrepreneurs, and increasingly, more women as the main decision maker in the household. I think we have a good proposition to offer and can expand our brand and legacy into a much larger audience and accelerate our growth.

Can you provide numerical growth targets? We don't necessarily see precise numbers as the true measures of success in a cyclical business. But in terms of the metrics that I monitor, I definitely want to see several percentage points of organic growth. We can't control the markets, but I want to see our AUM growing through net flows. We can always expand our service area in terms of the number of clients we serve by adding more financial advisors. So I would like to see our advisor head count increasing on a net basis by mid-single digits. And over the medium to long term, the goal is to be a top-three independent wealth manager oriented toward high-net-worth and ultrahigh-net-worth clients. That is our north star.

What would you say to advisors or clients who are wary of working with a company that is both an asset manager and a wealth manager? We have a "proprietary plus" model. By that we mean we have our active strategies that come from the AllianceBernstein asset management side. But at the same time, where it makes sense, we add complementary third-party capabilities, whether it's defined-outcome ETFs—investment products that mimic an index and provide reduced downside in exchange for limited upside, or certain alternative strategies, like private equity, private equity with a focus on real estate, impact, venture capital and the like. So in our view, our platform is quite complete.

Some advisors might like models with more access to any solution; you could argue that model has pros and cons as well. We believe there's a strong proposition in our model, for two reasons. One, in the active strategies and in the alternative strategies we manufacture, like private credit, we have intimate access to our portfolio managers and what's happening in our portfolios. Having those deep portfolio insights is, I think, quite important, and our clients benefit from that visibility and access to deep portfolio insights. There's also a certain degree of accountability. If we underperform, there's not another manager to blame, it's our in-house asset management that has underperformed. So we have that alignment of interests and that strong connection.

Two, we have a unified fee structure, and integrated fee model that, in our view, is quite competitive; our advice fee includes the proprietary product fee so clients don't pay extra product fees for the majority of the holdings with us. So I think our proprietary model offers significant benefits in a number of ways. I recognize that some advisors would want the full open access as their number-one priority, and there's nothing wrong with that. But we believe there are plenty of advisors who see the value in our model, and as a result, we should be able to compete for and attract the right talent.

AllianceBernstein was an early adopter of alternative investments in its wealth management practice. What's next for the platform? Yes, alternatives have been part of our advice, and we have been allocating client assets to alternative strategies long before it became more common. We have been very successful in onboarding a number of our in-house strategies, whether it's private credit, middle-market lending, or real estate lending, in addition to our hedge fund strategies, as well as adding third-party alternative solutions like secondaries [those sold on the secondary market], real estate equity, etc.

As we move forward, we will continue to expand our alternatives platform, like we did with our recent acquisition of CarVal Investors, a manager of global private alternatives. We will add probably more third-party managers in private equity and real estate equity, direct investment and co-investment opportunities from our different investment teams, growth equity categories. So the platform will continue to expand.

As a longtime student of the industry, what do you find to be the most interesting trends unfolding across the wealth management landscape right now? One, obviously, is the adoption of technology. I think technology has become much more mainstream in the wealth management industry when it comes to client servicing and client reporting. That has been a pretty important shift in the way the industry works. While technology continues to modernize client service, I think human financial advice remains critical. It has probably become more important, actually, with all the recent volatility and the circumstances that individuals have had to deal with. As a result, the demand for human financial advice, in my opinion, has been structurally validated.

Our clients obviously want advice on their investments, but particularly the clients with more complex needs want advice on many different things, whether it's family governance, wealth planning for multigenerational families or tax planning for both U.S. families and global families. So the nature of advice continues to grow, and I think that creates a great opportunity and a challenge for wealth management players.

How do you relax and recharge outside of work? Spending time with my wife and our kids is definitely a big priority. In terms of fun activities, I recently went back to tennis after a long time away. I'm not a good player, but I enjoy the exercise. Listening to books is something that I picked up during Covid while cleaning the apartment with my wife. And, good news and bad news: I enjoy a good meal, I really like the food experience. So that's why I have to keep up with the exercise.

Thanks, Onur.