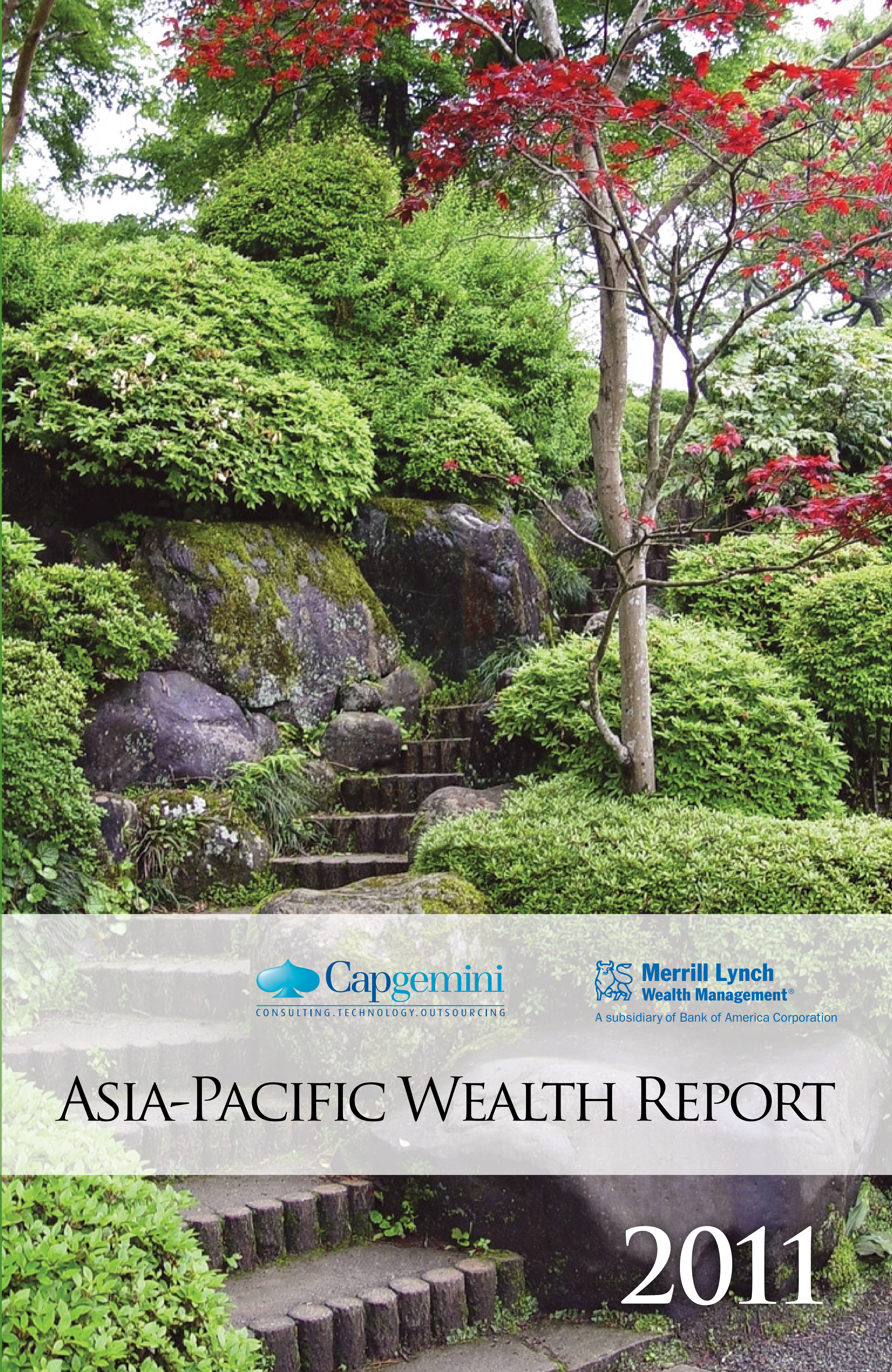

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Merrill Lynch
Wealth Management®
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Asia-Pacific Wealth Report

2011

Contents

Asia-Pacific Wealth Report

TO OUR READERS,

Capgemini and Merrill Lynch Global Wealth Management are pleased to present the *2011 Asia-Pacific Wealth Report*, our sixth annual in-depth look at the high net worth (HNW) market in the region. The report builds on the success of the *World Wealth Report*, now in its 15th year. Both reports are the result of an extensive collaboration between our two firms, studying the key trends that affect high net worth individuals (HNWIs).

Asia-Pacific's HNW segment recovered further in 2010, as investment markets continued to rebound from crisis-related losses. In fact, the HNWI population in Asia-Pacific exceeded that of Europe for the first time in 2010, and is nearing that of North America. HNWI wealth in the region had already surpassed Europe's in 2009, and fueled by its fast-growing emerging markets, Asia-Pacific has become a large and rapidly growing HNW market.

As such, Asia-Pacific presents enormous opportunity for wealth management firms, but the challenges are also significant, especially since so much of the wealth in Asia-Pacific is newly generated. In fact, the demographics of HNWI wealth in Asia-Pacific are quite unique in that two segments—entrepreneurs and Ultra-HNWIs—feature very prominently, and yet many of the wealthy are first- or second-generation HNWIs.

Many HNWIs in Asia-Pacific therefore require sophisticated and multifaceted services, but have limited experience with—or access to—the scope or scale of services that exist in highly developed markets. Moreover, the region's HNWIs as a whole are starting to consider more complex strategies than in the past in order to achieve returns and yet maintain balance in their portfolios.

Given these realities, Firms must carefully consider how to craft the most relevant proposition for Asia-Pacific HNWIs. Some are experimenting with Enterprise Value approaches that leverage capabilities from across different business units in order to differentiate in meeting client needs. The key for many will be to leverage expertise from other regions while recognizing the unique needs in Asia-Pacific.

This year's Report discusses the special needs of Asia-Pacific HNWIs and looks at how Firms are responding to their demands. As always, the Report also provides detail on trends in the region's HNWI populations, wealth, and asset allocations, and outlines some of the key macroeconomic and market factors that helped to drive growth in the region's HNW segment in 2010.

It is a pleasure to present this year's Report, and we hope you draw value from its insights.

Michael Benz
Head of Asia Pacific Wealth Management
Merrill Lynch Global Wealth Management

Jean Lassignardie
Global Head of Sales and Marketing
Global Financial Services
Capgemini

Asia-Pacific HNW Segment Extended Post-Crisis Recovery in 2010

The Asia-Pacific population of high net worth individuals (HNWIs[1]) and their wealth expanded again in 2010, pushing further beyond the 2007 pre-crisis highs.

- **The Asia-Pacific HNWI population grew 9.7% to 3.3 million in 2010**, exceeding that of Europe, and is now nearing that of North America. The HNWI population had grown 25.8% in 2009, and is now 18.3% larger than in 2007, before the worst of the global financial crisis.
- **HNWI wealth in Asia-Pacific** had already overtaken that of Europe in 2009, and extended that gap in 2010, when the region's HNWI wealth grew 12.1% to US$10.8 trillion, which was faster than the 7.2% rate of growth in Europe. HNWI wealth ended 2010 up 14.1% from 2007 levels.
- **Japan remains the single largest HNW segment in Asia-Pacific**, accounting for 52.5% of the region's HNWIs, followed by China (16.1%), and Australia (5.8%). However, the combined share that those three markets held was down to 74.4% in 2010, from 77.4% in 2008.
- **Asia-Pacific is home to many of the world's fastest-growing HNWI populations.** In 2010, eight of the 20 fastest-growing HNWI populations were in Asia-Pacific markets, including Hong Kong, Vietnam, Sri Lanka, Indonesia, Singapore, and India.

HNW SEGMENT IN ASIA-PACIFIC EXTENDED POST-CRISIS RECOVERY IN SIZE AND WEALTH

The Asia-Pacific HNW segment again performed well in 2010, and extended its recovery from the crisis-driven decline of 2008. The number of HNWIs in the region grew to 3.3 million in 2010, from 3.0 million in 2009, making the HNWI population 18.3% larger than in 2007 (see Figure 1).

As a result of that growth, the Asia-Pacific HNWI population also became the second-largest in the world, overtaking Europe (which had 3.1 million HNWIs in 2010), and nearing that of North America (3.4 million). Globally, the population of HNWIs grew 8.3% in 2010, to reach 10.9 million.

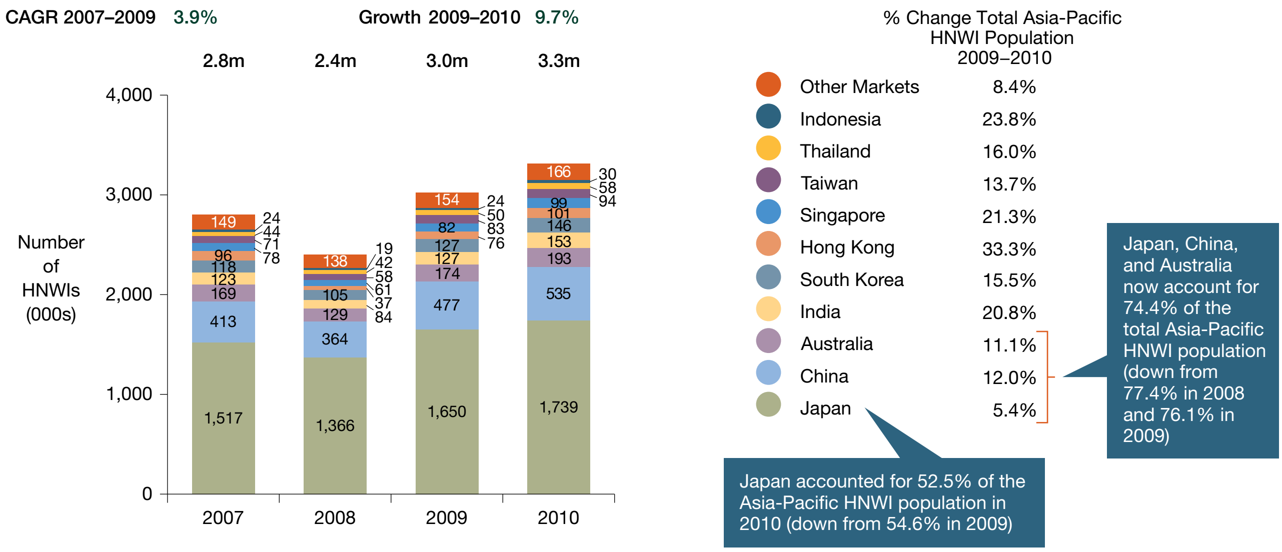
While the HNWI populations of all regions are now back above the pre-crisis highs of 2007, the Asia-Pacific HNWI population has grown the most since 2007—by 18.3%. That is more than in emerging regions such as Latin America (up 14.2%), the Middle East (up 11.3%), and Africa (up 15.3%). And the HNWI populations in North America and Europe, by contrast, are barely bigger than in 2007 (up 2.6% and 2.4% respectively).

Asia-Pacific HNWIs' wealth also grew for a second straight year in 2010; rising 12.1% to US$10.8 trillion (see Figure 2). The wealth increase was much smaller than the 30.9% increase in 2009, but the gains nevertheless left the region's HNWI wealth up 14.1% from 2007 levels. That is less than the 18.1% relative growth for Latin America, but more than the rebound in Africa (up 11.0%). Wealth among HNWIs is still down from 2007 in the Middle East (by 0.9%), which is the other largely emerging region. Wealth is also still below pre-crisis levels in North America (down 0.8%, at US$11.6 trillion), and Europe (down 4.4%, at US$10.1 trillion). Globally, HNWI wealth rose 9.7% to US$42.7 trillion in 2010, putting it 4.9% above 2007 levels.

[1] HNWIs are defined as those having investable assets of US$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

FIGURE 1. Asia-Pacific HNWI Population, 2007–2010 (by Market)

(000s)

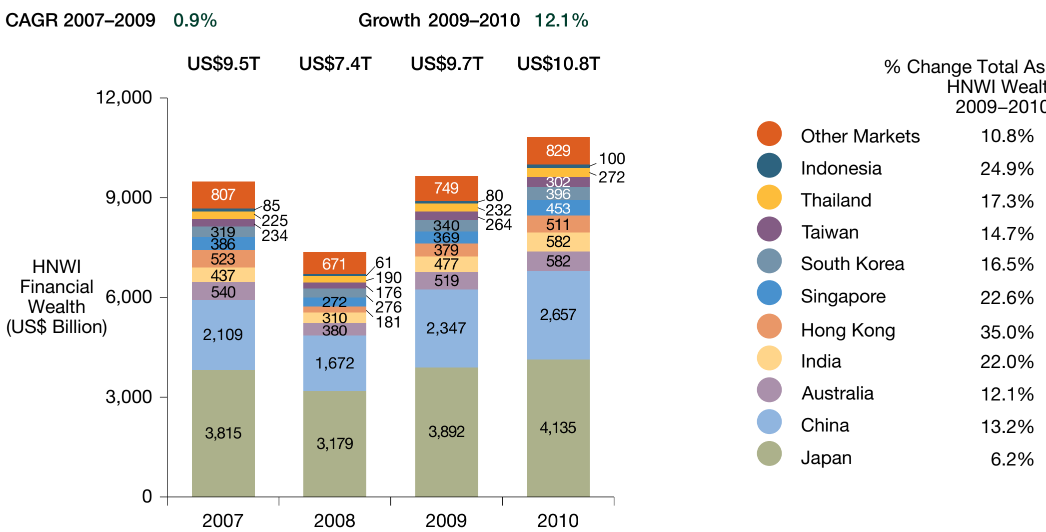


Note: Chart numbers and quoted percentages may not add up due to rounding; "Other Markets" include Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam

Source: Capgemini Lorenz curve analysis, 2011

FIGURE 2. Asia-Pacific HNWI Financial Wealth, 2007–2010 (by Market)

(US$ Billion)



Note: Chart numbers and quoted percentages may not add up due to rounding; "Other Markets" include Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam

Source: Capgemini Lorenz curve analysis, 2011

Within Asia-Pacific, many markets had managed to recoup their 2008 wealth losses in 2009, but Australia, Singapore, and Indonesia only surpassed 2007 levels in 2010, and Hong Kong has yet to do so. Wealth held by Hong Kong's HNWIs declined a staggering 65.4% in 2008, so even the huge gains of the last two years (35.0% in 2010, and 108.9% in 2009) have not been able to eradicate those losses. Still, the level of wealth is nearing 2007 highs.

JAPAN AND CHINA ARE STILL THE LARGEST HNWI MARKETS, BUT OTHERS ARE CATCHING UP

Japan is the behemoth HNWI market in Asia-Pacific, home to 1.7 million or 52.5% of the region's HNWIs. Next largest, and far behind, are China (535,000, or 16.1%) and Australia (193,000, or 5.8%). Still, other HNWI markets are clearly growing—especially in developing and emerging economies, contributing to very gradual fragmentation. The combined share of Asia-Pacific's HNWI population held by Japan, China, and Australia has declined from 77.4% in 2008, to 74.4% in 2010.

Notably, though, HNWI wealth in the region is heavily concentrated in very few hands (as these economies are by definition still "emerging," so wealth is not broadly distributed). As the aggregate levels of wealth in these markets rise, it is likely that the HNWI populations will naturally expand and diversify over time, but in 2010, mid-tier and Ultra-HNWIs accounted for nearly 50% of the region's HNWI wealth, while comprising less than 10% of the total Asia-Pacific HNWI population.[2]

Different market-specific developments occurred in Asia-Pacific during 2010:

- **Hong Kong** HNWIs are known to be aggressive in pursuit of returns, and their preference for equity and real estate investments has driven both the demise and the recovery of the segment during the turbulent years since 2007. Wealth held by Hong Kong's HNWIs surged 35% in 2010, after huge gains (up 108.9%) in 2009, but wealth had sunk a staggering 65.4% in 2008, so even the recovery of the last two years has yet to push the level of HNWI wealth above 2007 highs—though it neared the 2007 level in 2010.
- **Other growth markets** such as Singapore, India, and China have seen the expansion of HNWI populations and wealth, fueled by strong macroeconomic growth (evidenced in indicators such as gross national income [GNI] and national savings) and by market performance (especially equities and real estate).
- **The more mature markets** of Australia and Japan have seen a more moderate pace of recovery—in their financial markets, economies, and HNW segments.

In 2010, eight of the world's 20 fastest-growing HNWI populations were Asia-Pacific markets, including Hong Kong, Vietnam, Sri Lanka, Indonesia, Singapore, and India. Asia-Pacific will very likely remain the source of many of the world's fastest-growing HNWI populations in the future, but the pace of their growth will depend heavily on both the macroeconomic course of emerging markets and the strength of demand from mature markets.

Looking forward, the outlook is unclear for many of the key asset classes that have driven wealth creation for Asia-Pacific HNWIs (see next chapter, "2010 in Review"), particularly real estate and equities. Also, governments face numerous challenges that could constrain economic expansion in the coming years.

[2] Mid-tier HNWIs are defined as those having investable assets of US$5 million to US$30 million, excluding primary residence, collectibles, consumables, and consumer durables, and Ultra-HNWIs have more than US$30 million.

2010 in Review[3]

Asia-Pacific Thrived in 2010, Fueling Global Growth

- **Gross domestic product (GDP) in Asia-Pacific excluding Japan expanded by 8.3% in 2010, almost double the 4.2% increase in 2009.** The region's emerging markets powered the global economy out of recession in 2010, with gains in domestic demand, industrial output, and exports, especially in China, India, and Indonesia.
- **Japan also returned to growth in 2010**, swinging to 4.0% growth from a 5.2% contraction in 2009. The outlook for Japan's economy is uncertain, however, as the market continues to tackle the aftereffects of the massive earthquake and nuclear crisis that first struck in March 2011, a rising yen, and potential deflation.
- **International capital flows to Asia-Pacific increased substantially in 2010** as investors were drawn to the region's strongly performing economies. These inflows created concerns of overheating and prompted some governments to start pushing up interest rates, often citing the need to contain rising inflation pressure. These inflows also contributed to widespread currency appreciation against the U.S. dollar.
- **Asia-Pacific equity, real estate, and other markets rose in 2010**, driven by investment interest and demand for raw materials. Regional equity-market capitalization rose 19.2%, and real estate prices surged in markets such as China, Hong Kong, and Singapore, fueling concerns of an asset-price bubble.
- **Asia-Pacific economic expansion is likely to abate slightly in 2011 and 2012**, as economies absorb the withdrawal of fiscal and monetary stimulus, rising inflation, constrained capacity, and the macroeconomic imbalances prompted by large foreign-capital inflows. As a result, GDP growth in Asia-Pacific excluding Japan is expected to slow to 6.9% in 2011, and 6.8% in 2012.

[3] Unless otherwise specified, all macroeconomic data and projections are based on Economist Intelligence Unit Regional and Country Reports from January, February, and March 2011.

ASIA-PACIFIC EMERGING MARKETS DROVE ECONOMIC EXPANSION IN 2010

GDP grew 8.3% in Asia-Pacific excluding Japan in 2010, almost double the pace of 2009, as economies such as China, India, and Singapore enjoyed strong domestic demand and a rebound in trade. The 2010 Asia-Pacific GDP growth rate was by far the fastest pace of regional growth in the world, and it helped drive world GDP to expand by 3.9%, when economic growth in more developed regions was only modest (see Figure 3).

China and India have been the most consistent drivers of Asia-Pacific growth over the last couple of years, but all of the major economies within Asia-Pacific registered positive growth in 2010—including those such as Hong Kong and Japan, which had seen their economies contract in 2009. Singapore posted GDP growth of 14.8% in 2010, after a 2.0% contraction in 2009, in the starkest example of the broader dynamics in Asia-Pacific in which industrial production surged to meet rising demand. Many economies also continued to experience the benefits of fiscal and monetary stimulus measures initially implemented by governments seeking to blunt the effects of the global financial crisis.

Japan managed to achieve 4.0% GDP growth in 2010, after contracting 5.2% in 2009. However, Japan's short-term future GDP growth is expected to suffer due to the aftereffects of the massive earthquake and nuclear disaster, which first struck in March 2011. The earthquake—among the major economic developments in the region in recent months (see Figure 4)—damaged a substantial number of industrial and production facilities, thus affecting the supply side of the economy. Japan must also manage the impact of a rising yen and ongoing deflation. The government is responding by adopting monetary and fiscal policies to prop up the economy.

New Zealand also suffered a major earthquake—in February 2011. The market had weathered the global financial crisis relatively well compared with other developed economies. It posted growth of 1.7% in 2010 on the back of strong export growth in agricultural commodities, particularly to China. However, reconstruction spending after the earthquake could dampen economic growth by contributing further to the country's existing deficit.

Australia also rebounded quickly from the initial effects of the financial crisis, largely due to the strong performance of its mining sector and rising commodity exports to China and India.

Exports Rebounded in Asia-Pacific as Global Industrial Activity Regained Momentum

Strong domestic demand from markets such as China and India, and resurgent activity in some industrialized markets, helped to boost Asia-Pacific exports in 2010, with intra-regional trade being especially strong. The biggest exporters were China—with exports valued at US$1,455.5 billion in 2010—though Japan (US$742.2 billion), Singapore (US$390.9 billion), and India (US$263.0 billion) were significant exporters as well.

Japan's exports rose 24.2% in 2010, partly due to increasing import demand from China. India's exports rose 13.3% in 2010, even as the government temporarily banned exports of certain food items in order to control rising food inflation. New Zealand's exports grew 3.0%, partly because rising demand from emerging markets such as China and India pushed up food and dairy shipments. Taiwan's exports surged 25.6% in 2010, with China continuing to be its biggest overseas market.

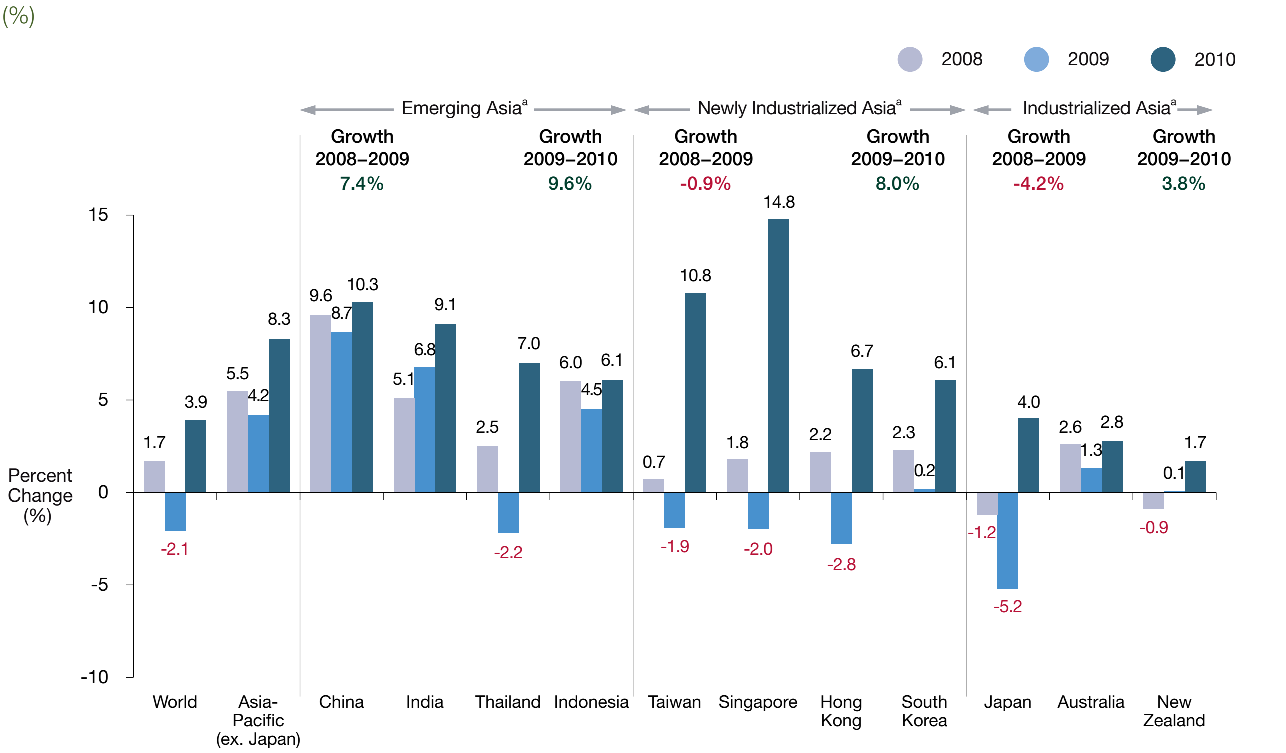
Notably, while exports have been strong from and within the region, the competitiveness of Asia-Pacific exporters has been somewhat threatened by the currency appreciation that many developing Asia-Pacific economies have experienced in the last year.

National Savings Gained, and Private and Government Consumption Both Rose Sharply in 2010

Asia-Pacific excluding Japan saw an aggregate gain of 1.8% in the level of national savings as a percentage of GDP in 2010, with Taiwan and Singapore seeing the largest gains—of 16.2% and 11.1% respectively. Overall national savings, at 39.3% in 2010, remains the highest in the world in Asia-Pacific excluding Japan, with savings most recently rising as governments withdrew fiscal stimulus measures and central banks began to raise interest rates.

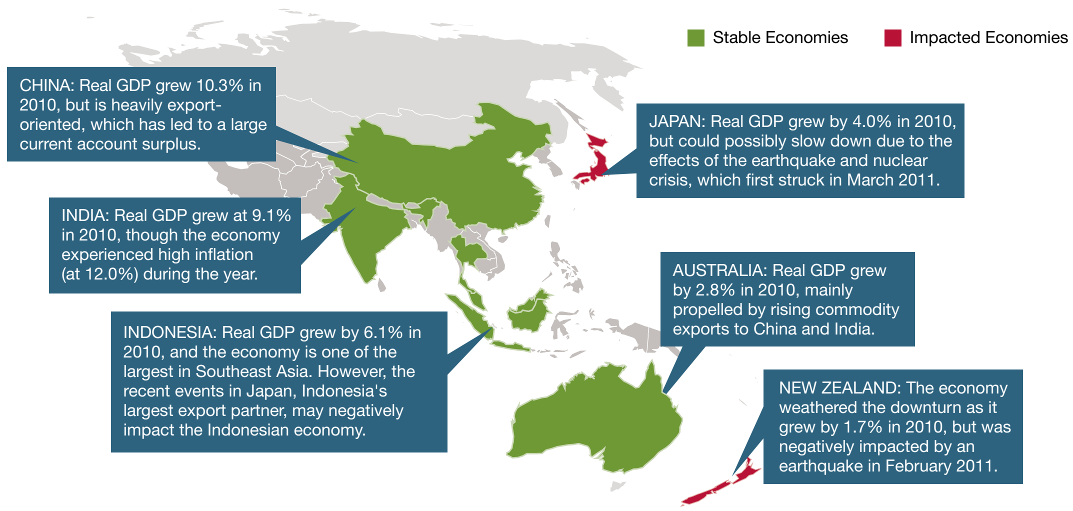
Private consumption also rose significantly in 2010, by 10.0% in Asia-Pacific excluding Japan, led by robust domestic demand in China, India, and Indonesia. Consumers in emerging Asia-Pacific have seen income rise due to the resilience of their domestic economies and the added effects of fiscal stimulus designed to keep their economies expanding despite the crisis. Consumer confidence has rebounded smartly throughout Asia-Pacific, but has been tempered in Japan by the rising yen. A strong yen could further impact the industrial sector, which is already suffering due to deflation.

FIGURE 3. Real GDP Growth Rates, 2008–2010 (by Market)



[a] Composition of "Emerging Asia," "Newly Industrialized Asia" and "Industrialized Asia" is as per International Monetary Fund definitions
Source: Capgemini Analysis, 2011; Economist Intelligence Unit, March 2011 (Real GDP variation over previous year)

FIGURE 4. Asia-Pacific Economic Hotspots, 2010 and Q1 2011



Source: Capgemini Analysis, 2011; EIU Country Reports, March 2011

Government consumption also rose sharply, by 9.1% in Asia-Pacific excluding Japan, to reach US$1.2 trillion in 2010, as governments continued to spend in order to keep economic recovery on track. Many governments, however, are likely to pursue policies aimed at reducing government deficits and debt ("fiscal consolidation") in the near term.

CAPITAL FLOWS SURGED INTO ASIA-PACIFIC IN 2010, CREATING CONCERNS OF OVERHEATING

Investors were drawn to strongly performing Asia-Pacific economies in 2010, and foreign capital flowed into many markets in pursuit of yields. In fact, investors poured nearly US$96 billion more into East Asia and the Pacific[4] in 2010 than they had in 2009, according to the World Bank (see Figure 5). This put net private and official equity and debt capital inflows into East Asia and the Pacific at US$287 billion.

The rise in capital inflows pushed stock markets up across the region. Indonesia recorded one of the highest growth rates in equity-market capitalization (up 67.7%), and many other equity markets were also propelled higher by foreign-capital inflows (See Figure 6). These inflows, however, created concerns of overheating and prompted some governments to begin taking steps to ensure macroeconomic stability.

In particular, governments in many emerging economies started to increase interest rates in 2010, often citing the need to contain the rising inflation pressure that is pushing up both prices and wages. Central banks in most developed economies have kept interest rates low, by contrast, in a bid to ensure economic recovery is sustained.

The capital inflows were also a factor in the widespread appreciation in Asia-Pacific currencies in 2010. Against the U.S. dollar, the yen ended the year up 13.8%, the Malaysian ringgit up 11.5%, the Thai baht up 10.9%, the Singaporean dollar up 8.9%, the New Zealand dollar up 5.9%, the Indonesian rupiah up 4.7%, and the Indian rupee up 3.5%.

While currency appreciation of such scale boosts domestic purchasing power, helping drive domestic demand and growth, it also undermines exporter competitiveness. As a result, government responses to currency appreciation have, and will, depend on broader economic priorities. China, for example, has been criticized by the International Monetary Fund (IMF) and others for keeping the yuan artificially low to enhance its trade competitiveness. The yuan did rise in 2010—by 3.4%—and China now seems more willing to allow the currency to appreciate, moving more in line with economic growth while combating imported inflation. Other governments are likely to allow currency appreciation to discourage the significant capital inflows coming in from abroad, and to fight imported inflation.

EQUITY, REAL ESTATE, AND OTHER MARKETS PERFORMED WELL IN 2010

Domestic, intra-regional, and foreign interest boosted many Asia-Pacific investment markets in 2010, though gains were generally more moderate than those experienced during the sharp bounce-back of 2009. Equity and many other financial instruments rose, and real estate prices rebounded, albeit unevenly, as investors sought returns. The price of commodities rose amid strong demand for raw materials from industrially active emerging economies.

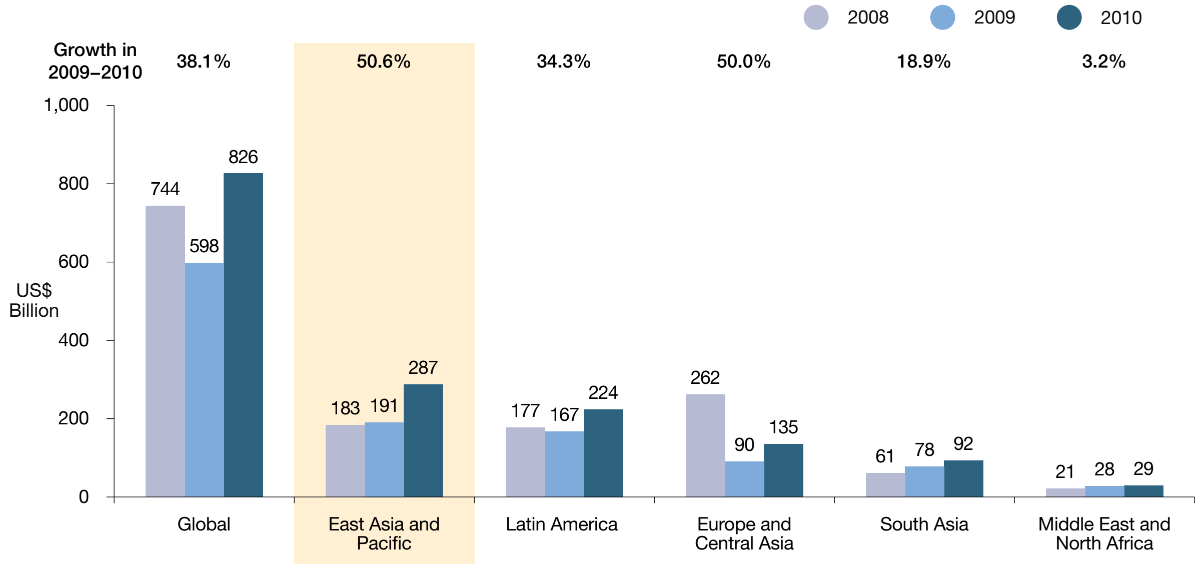
The following trends were evident among financial markets that heavily impact wealth:

- **Asia-Pacific equity-market capitalization** grew 19.2% in 2010 to $17.4 trillion, nearing the pre-crisis high of 2007 and eclipsing the size of the EMEA market by 13.7%. Emerging Asia-Pacific equity-market capitalization expanded even faster in the second half of 2010, at a rate of 23.8%, as compared to a fall of 4.9% during the first half. Trading volumes also increased in Asia-Pacific during 2010, a reversal from 2009 that reflected the broad nature of the advances.
- **Asia-Pacific real estate recovered further on aggregate in 2010,** but the price gains were uneven across different markets. The outlook for the sector is still uncertain, given the overhang of real estate debt in some markets, and fears in others that governments may move to deflate asset bubbles. Trends in real estate prices were far from uniform across the region, as evidenced by the varied performance of housing prices across markets. Indeed while housing prices rose 19.5% in Hong Kong and advanced broadly in many Southeast Asian economies, prices in Japan and New Zealand fell in 2010. Housing prices also slipped 0.3% in South Korea, prompting the government to begin removing controls established in 2009 to restrain the early signs of a housing bubble.
- **World commodity prices rose broadly in 2010,** fueled by strong demand from consumers and industrial producers in Asia-Pacific emerging markets, especially China and India. Some investors also bought commodities as less risky, safer alternate investments during bouts of instability, including the Eurozone debt crisis, Mideast unrest, and the Japanese earthquake.

[4] "East Asia and the Pacific" is a regional grouping used by the World Bank in its "Global Economic Prospects" reports. Among the countries included in that group are China, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

FIGURE 5. Global Capital Inflows into Developing Economies, 2008–2010

(US$ Billion)

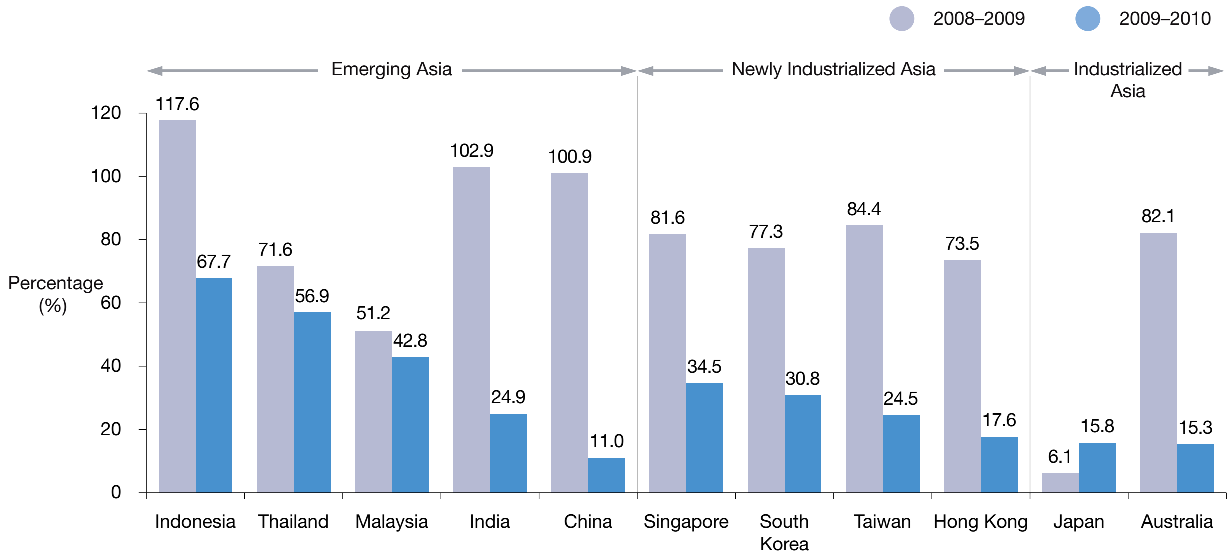


Note: Chart numbers and quoted percentages may not add up due to rounding; As classified by the World Bank, markets included in "East Asia and Pacific" are China, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam; European countries included in "Europe and Central Asia" include the developing countries of Europe, and markets such as Croatia and Ukraine

Source: Capgemini Analysis, 2011; "Global Economic Prospects," the World Bank, January 2011

FIGURE 6. Percentage Change in Equity-Market Capitalization, 2008–2010 (by Market)

(%)



Note: Exchanges included: Indonesia (Indonesia SE); Thailand (Thailand SE); Malaysia (Bursa Malaysia); India (Mumbai SE), China (Shanghai and Shenzhen SE); Singapore (Singapore Exchange); South Korea (Korea Exchange); Taiwan (Taiwan SE Corp.); Hong Kong (Hong Kong Exchanges); Japan (Tokyo SE); Australia (Australia SE); comparable New Zealand equity-market capitalization figures are not available for 2010

Source: Capgemini Analysis, 2011; World Federation of Exchanges, January 2011; "Global Economic Prospects," the World Bank, June 2011

Gold prices rose 27.7% in 2010 to end the year at a record $1,410.3 per ounce amid demand from hedge funds, individual investors, and central banks—which were all looking to diversify holdings and seek a safe-haven investment during socioeconomic turbulence, such as the ongoing civil unrest in the Middle East. From January to October 2010, 209.7 metric tons of gold bullion was imported into China, compared with 45 metric tons in all of 2009. Gold demand from Indian consumers alone hit 963.1 metric tons in 2010.

Platinum prices gained 18.1% to end the year at $1,731 per ounce. Renewed demand from the world's automobile industry and increased emission standards for farm equipment and other off-road equipment are helping to boost platinum demand. (For instance, platinum and palladium are used in car parts, including the catalytic converters that are used to reduce the toxicity of exhaust emissions.)

Silver outperformed most asset classes in 2010 by gaining 80.3% amid huge global demand. Silver is used in many industrial processes, including electronics, solar-power production, and water purification, as well as jewelry fabrication. Global demand for silver for solar panels and hybrid cars is also set to grow, due to increasing investments in the green energy markets. Apart from industrial demand, silver is seen as a good hedging instrument as well. As a result, Chinese net imports of silver nearly quadrupled in 2010—to more than 3,500 metric tons—and demand for silver in both China and India is expected to rise further in 2011.[5]

Oil prices reached US$91.4 per barrel by the end of 2010, as consumption rose in Asia-Pacific due to the strong economic activity. In the first quarter of 2011, oil prices rose further, due to unrest in the Middle East region, and crossed the psychologically key US$100 per barrel. Going forward, rising oil prices could undermine Asia-Pacific economic growth by further contributing to rising inflation.

ECONOMIC CHALLENGES ARE LIKELY TO CONSTRAIN ASIA-PACIFIC EXPANSION IN 2011

Asia-Pacific excluding Japan is expected to remain the engine of global economic growth in 2011 and 2012, but increasing capacity constraints are likely to slow the rate of expansion, keeping GDP growth to an estimated 6.9% in 2011 and 6.8% in 2012. This, in turn, is likely to restrain global GDP growth to an estimated 3.2% in both 2011 and 2012.

The expansion of industrial production in fast-developing Asia-Pacific economies is also likely to be slower in 2011 and 2012 than it was in 2010, as some governments start to pursue policies designed to reduce their deficit and debt burdens (fiscal consolidation), even at the expense of economic growth.

Higher interest rates are also increasingly likely as central banks try to contain inflationary pressure, particularly in food and fuel prices, which is most intense in fast-growing emerging economies. Core inflation also remains high due to structural factors and capacity constraints. China has already let its currency appreciate to fight 'imported inflation,' which will help China to reduce its import bill for food and fuel. India too is facing persistently high inflation, due to rising prices of crude oil and food grains.

CONCLUSION

The economic recovery in Asia-Pacific has been driven by both domestic demand, primarily in China and India, and rising exports—from Taiwan, Singapore, Indonesia, New Zealand, Japan, and Australia. This economic strength attracted capital from developed economies in 2010, which led to rising commodity and asset prices, and caused upward pressure on regional currencies. Central banks in the region have responded to these inflationary pressures with monetary and fiscal tightening. The resultant rise in interest rates may lead to a tempering of the economic expansion in 2011. At the same time, the rising price of oil, the Middle East crisis, and the ongoing effects of the earthquake in Japan are all adding to concerns about the sustainability of the region's growth rate.

More broadly, the macroeconomic divide between Asia-Pacific's fast-developing emerging economies and the world's mature markets has only increased since the financial crisis. Each faces its own economic and structural challenges going forward, but both will need to wean their economies from crisis-related stimuli, and manage inflationary pressures. It is clear Asia-Pacific will continue to be the engine of global growth through 2012 at least, but the actions Asia-Pacific governments take to restrain inflation, control foreign-capital inflows, and deflate potential asset bubbles will certainly affect the pace of that expansion.

[5] Sahit Muja, "Metals: Silver demand in China and India is set to rise 30 percent in 2011," wsj.com, May 1, 2011.

Asia-Pacific HNWIs Continued to Favor Equities and Real Estate in 2010

- **Asia-Pacific HNWIs remained most heavily invested in real estate and equities in 2010.** Of all HNWI assets, 27% was in real estate, far above the global average of 19%. Another 26% was in equities, significantly lower than the 33% global average. The allocation to fixed income instruments rose to 22% from 20%, but was still far below the 30% global average. Allocations to cash/deposits remained unchanged at 22%.
- **Japan's HNWIs remained more conservative than those in the rest of Asia-Pacific.** Japanese HNWIs allocated far less to equities than the global average (19% vs. 33%), despite rebounding global equity values. They allocated more to fixed income than the regional average (25% vs. 22%). At the same time, Japanese HNWIs also held 29% of all their assets in cash/deposits in 2010, far more than the 16% among HNWIs elsewhere in the region.
- **The majority of Asia-Pacific HNWIs' holdings remained in their home region in 2010,** though the allocation fell to 57% from 64%. Of all holdings, 25% was in North America, up from 19% a year before. In Malaysia, China, and India, the allocations to home-region investments remained high at around 85%, while Japanese HNWIs maintained far more geographically diversified portfolios.
- **Looking ahead to 2012, Asia-Pacific HNWIs are expected to be more heavily invested in equities and fixed income instruments than they are today,** with those allocations expected to increase to 31% and 26% respectively. The allocations to real estate and cash/deposits are expected to decline further, as HNWIs broaden their risk appetite while also securing predictable cash flows. By 2012, Asia-Pacific HNWIs are also expected to trim their exposure to North America, as they turn to the emerging markets of Latin America in search of higher returns.

ASIA-PACIFIC HNWIS BALANCED THE NEED FOR STABILITY AND THE SEARCH FOR RETURNS IN 2010

The 2010 investing preferences of Asia-Pacific HNWIs were consistent with recent trends in which the region's HNWIs have assumed a discriminating stance on investing—acquiring some assets for their stable returns and others for their potential to return higher yields.

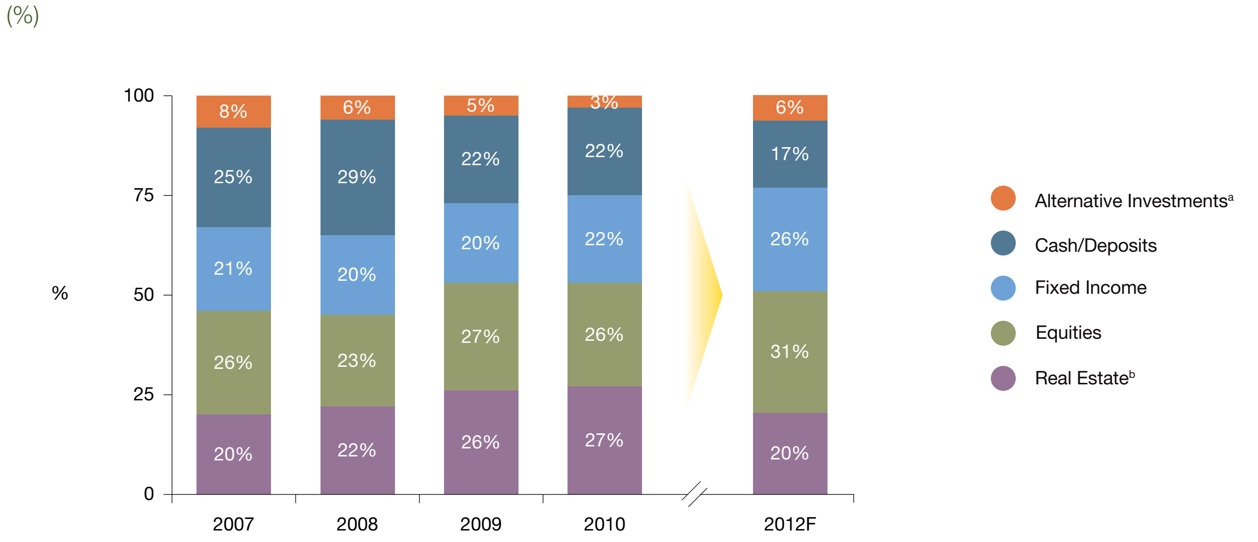
Indeed, HNWI asset allocations in 2010 showed caution still reigned among the HNW segment, although Asia-Pacific HNWIs are regaining confidence in the markets as the financial crisis subsides:

- **Real estate and equities,** which have generated superior returns in the region in recent years but can be volatile investments, together accounted for 53% of all the assets held by Asia-Pacific HNWIs in 2010 (see Figure 7).
- **Fixed income allocations,** considered to be relatively lower risk, totaled 22%, up from 20% in 2009.
- At the same time, **cash/deposit holdings** remained higher than the global average (22% vs. 19%), largely because Asia-Pacific HNWIs favored the liquidity of such instruments, even though the returns cannot keep pace with the region's rising inflation.
- **Alternative investments** accounted for just 3% of all Asia-Pacific HNWIs' assets, but the most popular form of those investments was **foreign currency** (26% of all Alternative Investments), far more than the 15% global average. Like most investors, Asia-Pacific HNWIs acquire foreign currencies to seek yield, particularly from countries with a strong economic growth outlook.

Notably, at the market level, HNWIs in Japan held 34% of all their alternative investments in foreign currency, far more even than the regional average, as the yen surged against the U.S. dollar. Foreign currency products are particularly popular in Japan after years of very low interest rates.

Structured products accounted for the next largest share of alternative investments (24%), while HNWIs from the region allocated only 16% to hedge funds, which is far less than the relative average globally (24%). Hedge funds are more popular in the more developed markets, such as Hong Kong (25%) and Singapore (19%), but investors have fewer hedge-fund choices in Asia-Pacific as a whole, keeping those allocations low on aggregate.

FIGURE 7. Breakdown of Asia-Pacific HNWI Financial Assets, 2007–2012F



[a] Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity, and venture capital
[b] Includes commercial real estate, REITs, residential real estate (excluding primary residence), undeveloped property, farmland, and other real estate
Note: Percentages may not add up to 100% due to rounding
Source: Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Surveys, 2008, 2009, 2010, and 2011

Real Estate Remains Significant in Asia-Pacific HNWIs' Investment Strategies

Many Asia-Pacific markets lack the diversity of investment choices available to investors in more developed markets, so Asia-Pacific HNWIs have long favored real estate—both bricks and mortar and other real estate assets such as real estate investment trusts (REITs)—as an important investment vehicle. As a result, Asia-Pacific HNWIs hold far more of their assets in the form of real estate than the global average (27% vs. 19% in 2010). HNWIs in Japan and Hong Kong, however, have access to a relatively wider selection of investment options, and this may perhaps be one reason why allocation to real estate in these markets is amongst the lowest in the region (See Figure 8).

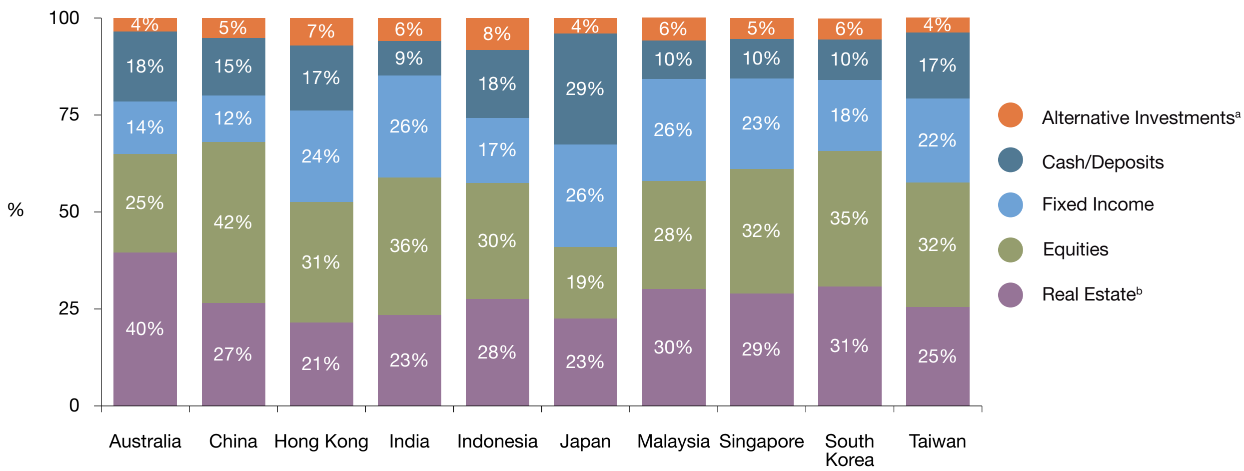
Across Asia-Pacific, the majority of HNWIs allocated the largest single share of real estate holdings to residential investments. In Asia-Pacific excluding Japan, the residential share averaged 51%, though that was down from 60% in 2009, and markets performed unevenly across the region. HNWI allocations were similarly varied. In China, for instance, HNWIs had 70% of real estate holdings in residential investments, while that number was just 27% in South Korea, where commercial real estate accounted for 44% vs. the 33% average. In Asia-Pacific excluding Japan, HNWIs had 37% of real estate assets in commercial holdings, the most in the world, and even Japanese HNWIs allocated 29% to commercial, more than the 27% global average.

China's real estate market has been a prime beneficiary of investment liquidity created by monetary stimulus that began in late 2008 to stave off the effects of the financial crisis. State-directed lending has ultimately funded real estate purchases, development, and speculation—even amid uncertain market fundamentals, and growing fears of an asset bubble. Real estate investment in Australia, by contrast, reflects a fundamental flight to quality, as foreign funds seek shelter in the mature and tangible property sector of that market's thriving commodity-based economy.

REITs are only available in a few Asia-Pacific markets (mainly Japan, Singapore, Hong Kong, and Australia), so the regionwide exposure to REITs by HNWIs is small. Among Japan's HNWIs, however, 23% of all real estate holdings were in REITs in 2010, above the global average of 15%. Many other Asia-Pacific markets for REITs are likely to emerge in the future as markets such as China hope to launch REITs as an alternative to direct real estate investment, providing another outlet for the demand that has been fueling surging real estate prices.

FIGURE 8. Breakdown of Asia-Pacific HNWI Financial Assets, 2010 (by Market)

(%)



[a] Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity, and venture capital

[b] Includes commercial real estate, real estate investment trusts (REITs), residential real estate (excluding primary residence), undeveloped property, farmland, and other real estate

Note: Percentages may not add up to 100% due to rounding

Source: Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

Equities Remain a Key Investment Option for HNWIs

Equities are also widely available and well-established as a critical component of investment strategy for Asia-Pacific HNWIs, but the share of the aggregate HNW portfolio allocated to equities (26%) remains significantly lower than the global average (which was 33% in 2010).

Equity investors have faced turbulent times in recent years, with many Asia-Pacific markets suffering massive losses in 2008, only to rebound sharply in 2009. By the end of 2010, Asia-Pacific equity-market capitalization had recovered to US$17.4 trillion, but still had not returned to the pre-crisis high of US$17.9 trillion, reached in 2007. The aggregate share of HNWIs' assets allocated to equities was little changed in 2010 from 2009 (26% vs. 27%). However, this apparent stability belied significant underlying buying interest, as investors slowly returned to bargain-hunting for securities that were still undervalued after the financial crisis.

The HNWI preference for equities also varies by market, and depends on local market conditions (including the availability of other investment choices), as well as investor sentiment. In fact, the aggregate numbers for Asia-Pacific conceal the fact that HNWIs in certain markets are highly exposed to equities. In 2010, for example, China's HNWIs had 42% of their holdings in the form of equities, far more than the global average, and far higher than the 19% in Japan. HNWIs from India and South Korea had around one-third of their holdings in equities, also a far higher level than in Japan.

While Japanese HNWIs are more conservative than most, they have become accustomed to searching around for superior yields with acceptable risks during a prolonged period (more than a decade) of low domestic interest rates. And Japanese HNWIs have plenty of investment options available in their mature market. As a result, HNWIs seeking investments beyond simple equities can opt instead for any number of instruments, including the more esoteric structured products, which accounted for 26% of alternative investments by Japan's HNWIs in 2010, more than the 22% average.

HOME-REGION ALLOCATIONS ARE STILL LARGEST, BUT FELL FROM 2009

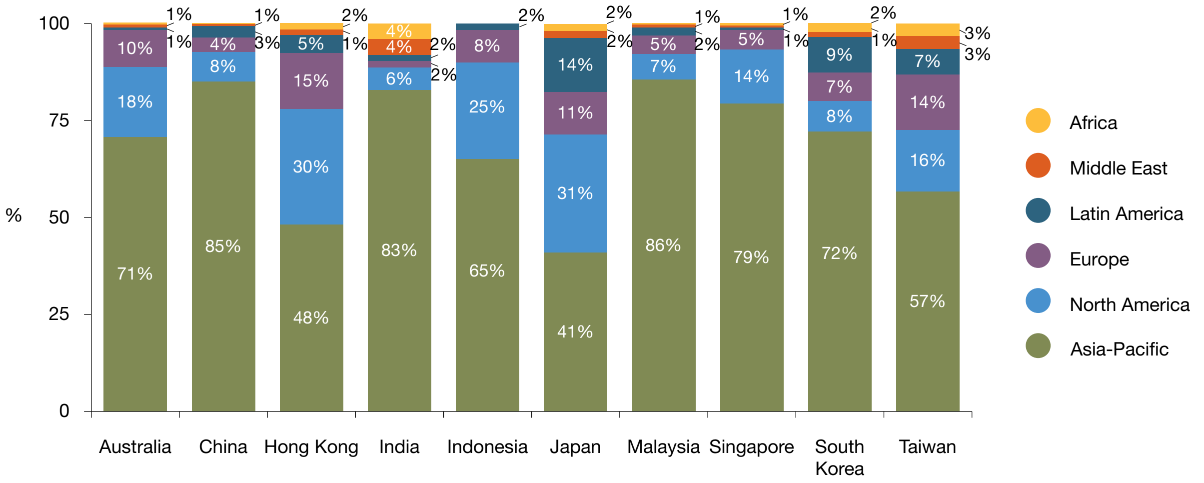
Around the world, HNWIs generally invest foremost in their home regions, and then into North America. Asia-Pacific HNWIs are no exception, but their home-region allocations did decline in 2010—to 57% from 64% in 2009. That share had jumped in 2008 to 67% from 53% in 2007, as the crisis prompted investors to favor investments closer to home. 2010's allocations therefore reflect the ongoing reversal of some of that repatriation, and the return to investments in North America, which grew to 25% of all HNWI holdings from 19% in 2009.

However, it was not until the end of 2010 that U.S. investments became relatively more attractive. This followed a concerted monetary easing by the U.S. Federal Reserve in September, which nudged investors into higher-yielding investments such as equities, and the unveiling of new U.S. fiscal stimulus in December, which boosted investor confidence—at a time when signs emerged that consumer spending was also picking up. In just three weeks in December, investors globally reallocated US$22 billion into U.S. stock funds, according to EPFR Global estimates.

Japanese HNWIs were the most geographically diversified in the region in 2010, with 41% of holdings in Asia-Pacific, 31% in North America, 11% in Europe, and 14% in Latin America (see Figure 9). This reflects the long history of direct and indirect foreign investment by Japanese investors. Malaysian HNWIs were the least diversified, holding 86% of assets in home-region investments.

FIGURE 9. Breakdown of Asia-Pacific HNWI Geographic Asset Allocation, 2010 (by Market)

(%)



Note: Percentages may not add up to 100% due to rounding
Source: Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

BY 2012, ASIA-PACIFIC HNWIS ARE LIKELY TO INCREASE EQUITY EXPOSURE AND REDUCE REAL ESTATE

In the next couple of years, Asia-Pacific HNWIs are expected to continue balancing their search for yields and stability, resulting in ongoing shifts in the distribution of their portfolios.

By 2012, the region's HNWIs are likely to increase their exposure to equities (from 26% to 31%) and fixed-income holdings (from 22% to 26%), while reducing the amount held in cash/deposits (from 22% to 17%—see Figure 7). They are also expected to reduce their relative holdings of real estate (to 20% in 2012), amid concerns that the rising property prices in many Asia-Pacific markets are due for a major correction.

At the same time, Asia-Pacific HNWIs are expected to reduce their North American holdings to 22%, mostly as they instead pursue returns in the emerging markets of Latin America. Investment in Europe could also edge higher, as Asia-Pacific HNWIs seek geographic diversification even in mature-market holdings. Home-region allocations are expected to remain at 57%.

Many Asia-Pacific HNWIs Used Investments of Passion as a Diversification Tool in 2010

- **Asia-Pacific HNWIs' appetite for investments of passion increased in 2010,** especially in emerging markets that suffered less than developed economies in the global downturn. Portfolio diversification has emerged as a strong driver of such demand by HNWIs in Asia-Pacific.
- **Luxury Collectibles were the most widely held investments of passion in 2010,** accounting for 30% of all such holdings among Asia-Pacific HNWIs. This was followed by the Jewelry, Gems, and Watches category (24%), which continued to be favored as a hedge against inflation and currency risk, as well as for aesthetic and cultural appeal.
- **HNWIs from China, India, Singapore, and Hong Kong were especially active in the investments of passion space in 2010,** though there was exponential growth in buyer participation from Asia-Pacific in general. For instance, Christie's New York reported Chinese purchases across categories as diverse as Impressionist, Modern, and Asian Art, as well as European Decorative Arts and Furnishings.

ASIA-PACIFIC HNWIS FAVORED LUXURY COLLECTIBLES AND JEWELRY, GEMS, AND WATCHES IN 2010

Luxury Collectibles (e.g., luxury automobiles, boats, jets) remained the primary investment of passion among Asia-Pacific HNWIs in 2010, with 30% of all investments of passion falling into this category. That percentage was in line with the 29% held in Luxury Collectibles among HNWIs globally.

Impressive sales figures by luxury car makers were indicative of such spending. Mercedes-Benz, for example, said its sales in China (including Hong Kong) jumped 112% in 2010, and Ferrari reported China sales in 2010 surged nearly 50% from 2009, marking its best ever year. Ferrari added that the "Greater China Area" (including Hong Kong and Taiwan) is now one of its top five international markets.

Jewelry, Gems, and Watches continue to hold economic and cultural appeal for Asia-Pacific HNWIs. The aggregate allocation to this category was 24% in Asia-Pacific in 2010 vs. 22% globally, and 23% in 2009. In the diamond market, high-end demand appears to be largely from Russia and the Middle East, but interest from Chinese and other Asia-Pacific investors is also growing at a rapid pace.[6] Indeed, Christie's International reported that its 2010 fine and rare watch auctions saw "exponential growth in buyer participation from Asian countries, led primarily by China and Hong Kong."

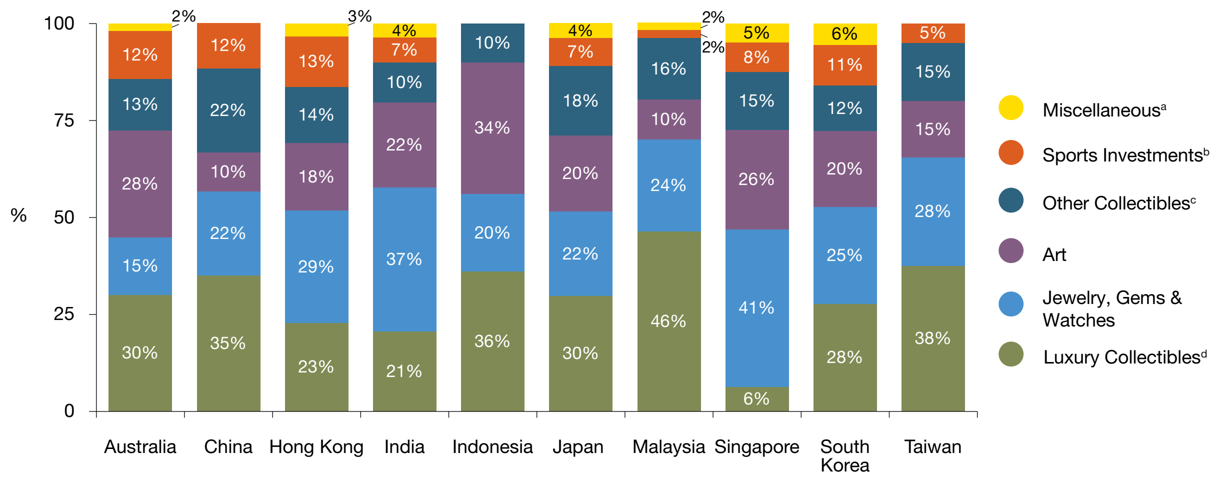
The proportional share of the Jewelry, Gems, and Watches category was highest in Singapore and India (41% and 37% respectively), where it accounted for the single largest share of investments of passion—eclipsing Luxury Collectibles, which accounted for 6% in Singapore and 21% in India (see Figure 10).

The share of investments of passion that Asia-Pacific HNWIs held in the form of **Art** was noticeably lower than the global average (18% vs. 22%), and was down from 22% in the region in 2009. Nevertheless, Art is the most likely of all investments of passion to be acquired by Asia-Pacific HNWIs as a financial investment. In fact, 37% of Advisors say they believe their HNW clients invest in Art primarily for its potential to gain

[6] Koncept Analytics, "Global Gem and Jewelry Market Report," 2010.

FIGURE 10. Breakdown of Asia-Pacific HNWIs Allocation to Investments of Passion, 2010 (by Market)

(%)



Market	Luxury Collectibles	Jewelry, Gems & Watches	Art	Other Collectibles	Sports Investments	Miscellaneous
Australia	30%	15%	28%	13%	12%	2%
China	35%	22%	10%	22%	12%	
Hong Kong	23%	29%	18%	14%	13%	3%
India	21%	37%	22%	10%	7%	4%
Indonesia	36%	20%	34%	10%		
Japan	30%	22%	20%	18%	7%	4%
Malaysia	46%	24%	10%	16%	2%	2%
Singapore	6%	41%	26%	15%	8%	5%
South Korea	28%	25%	20%	12%	11%	6%
Taiwan	38%	28%	15%	15%	5%	

[a] "Miscellaneous" includes club memberships, guns, musical instruments, etc.
[b] "Sports Investments" includes sports teams, sailing, race horses, etc.
[c] "Other Collectibles" includes coins, wine, antiques, etc.
[d] "Luxury Collectibles" includes automobiles, boats, jets, etc.
Note: Percentages may not add up to 100% due to rounding
Source: Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

value, while 24% say the same for investments in Jewelry, Gems, and Watches. Within the region, Art holdings were highest in Indonesia (34%), Australia (28%), and Singapore (26%).

While the proportional share of Art holdings declined overall in 2010, Asia-Pacific buyers were certainly evident in world markets, and the aggregate value of their holdings was probably higher than in 2009. Newly wealthy Chinese buyers were widely reported to be keen bidders and buyers at galleries and auction houses around the world, especially when acquiring the fast-diminishing supply of works from native artists. As an illustration, in April 2010, *Bright Road* by Liu Ye, a contemporary Chinese artist, was auctioned for US$2.45 million, almost three times the pre-auction estimate. Chinese demand was also reported to be strong for European Art and Fine Arts, and Chinese collectors were said to be aggressive bidders on many lots at the late-2010 sales at major New York auction houses.

Separately, Asia-Pacific HNWIs held 18% of their investments of passion in the form of **Other Collectibles** (wine, rare coins, etc.)—the same relative share as was held in the form of Art. The Other Collectibles category was up from 14% in 2009, and above the 15% global average. Chinese interest was also evident in this category, including aggressive interest in Chinese artifacts.

Sports Investments accounted for 9% of all investments of passion in 2010, up slightly from 8% in 2009, with HNWIs in Asia-Pacific showing increasing interest in foreign sports operations. In late 2010, for example, the owners of Indian poultry company Venky's (India) Ltd. completed the purchase of U.K. soccer team Blackburn Rovers. There were also several other instances of sports investment from Asia-Pacific HNWIs during 2010.

Investments of passion hold appeal for all HNWIs, both for their aesthetic appeal and their potential to gain in value. However, Asia-Pacific HNWIs are especially drawn to invest in tangible assets because their choice of financial instruments is generally more limited than in developed markets, but their need for portfolio diversification and liquidity is just as strong—especially since the financial crisis. Investments of passion are therefore likely to remain key to Asia-Pacific HNWIs' holdings, and buying interest will only grow as the ranks of the wealthy continue to expand at a brisk pace.

Spotlight

Enterprise Value[7] Provides Wealth Management Firms with New Opportunities to Serve the Growing HNWI Population in Asia-Pacific

- **Two segments feature prominently among Asia-Pacific HNWIs: entrepreneurs and Ultra-HNWIs.** Both segments require sophisticated and multifaceted services—even as HNWIs in the region are in general starting to consider more complex products as a way to generate returns.
- **Enterprise Value could prove to be a critical differentiator for Firms,** given the Ultra-HNWI and entrepreneurial demographics, and the emerging needs of HNWIs in the region.
- **Certain elements of Enterprise Value are already being executed quite effectively,** with HNWIs in Asia-Pacific voicing more satisfaction than HNWIs in other regions with regard to specific, highly sought-after elements of Enterprise Value ("value levers"). Such levers include cross-enterprise expert advice teams, unique investment opportunities, preferred financing, and advice/expertise from private and investment banks during the wealth-creation process. Despite these successes, Asia-Pacific Firms still lag those in other regions in implementing Enterprise Value overall, so significant opportunity remains to build out these capabilities and offerings.
- **Implementing a comprehensive Enterprise Value approach in Asia-Pacific will require iteration** to capture market-specific opportunities, especially in fast-growing emerging markets. Among the key components will be Firm-wide accountability, appropriate incentives, and integrated IT. Most importantly, Firms will need to hone the strategy for each market, and not impose arbitrary standards from highly developed markets.

FAST-GROWING ASIA-PACIFIC HNW SEGMENT PRESENTS GREAT POTENTIAL AND UNIQUE CHALLENGES FOR WEALTH MANAGEMENT FIRMS

The number and wealth of Asia-Pacific HNWIs have grown faster than the global average in recent years, with the main contributors being rapid economic growth in several of the region's markets, the high savings rate, and the generally robust performance of real estate and equity markets. The region's HNW segment also proved more resilient than those in the world's most mature economies, which were hit hardest by the financial crisis.

India and China have also demonstrated sustained and rapid economic growth in the last ten years. This has fulfilled predictions made in 2001 that global economic power would over time shift away from the developed G7 economic powers and toward emerging countries—specifically the BRIC countries (Brazil, Russia, India, and China).

Moreover, the favorable economic and demographic conditions point to a continued and significant expansion of wealth in Asia-Pacific over the coming years, positioning the region to become the world's largest HNWI market if it continues to outperform.

Firms Still Need to Overcome Barriers to Capture Potential in Asia-Pacific

For wealth management firms, Asia-Pacific clearly presents an enormous opportunity. Not only do the economics and demographics point to significant growth in demand for HNWI services, but regulatory reforms mean several Asia-Pacific markets, including India and China, are becoming more open to foreign financial institutions and capital. Moreover, established markets such as Singapore and Hong Kong have positioned themselves as international financial centers, attracting significant inflows of offshore funds from other regions and from other markets within Asia-Pacific.

[7] Enterprise Value: The ability to leverage capabilities from across different business units in order to differentiate in meeting client needs.

However, to capture the enormous and growing potential of the Asia-Pacific HNW segment, Firms will need to overcome certain challenges, including:

- **Increased competition:** As more international wealth management firms enter Asia-Pacific, the increasing competition could impact client retention and reduce profit margins.
- **Expertise:** Wealth managers in Asia-Pacific have generally had less exposure to the range of sophisticated capabilities and products that are typically part of the HNW proposition in highly developed markets—especially because the HNW segment itself has only expanded relatively recently. That expertise could be imported, but those professionals might then lack the requisite knowledge of local markets.
- **Income and margin pressure:** Investors are still cautious after the financial crisis, and hence the trading volume, and by extension, the fee income and margins in several markets may still lag pre-crisis levels.

ENTERPRISE VALUE COULD BE THE KEY TO HIGHER LEVELS OF SERVICE AND SATISFACTION

For Firms to distinguish themselves in meeting the evolving needs of Asia-Pacific HNWIs, they may also need to consider some important realities about the Asia-Pacific HNW segment, including the following:

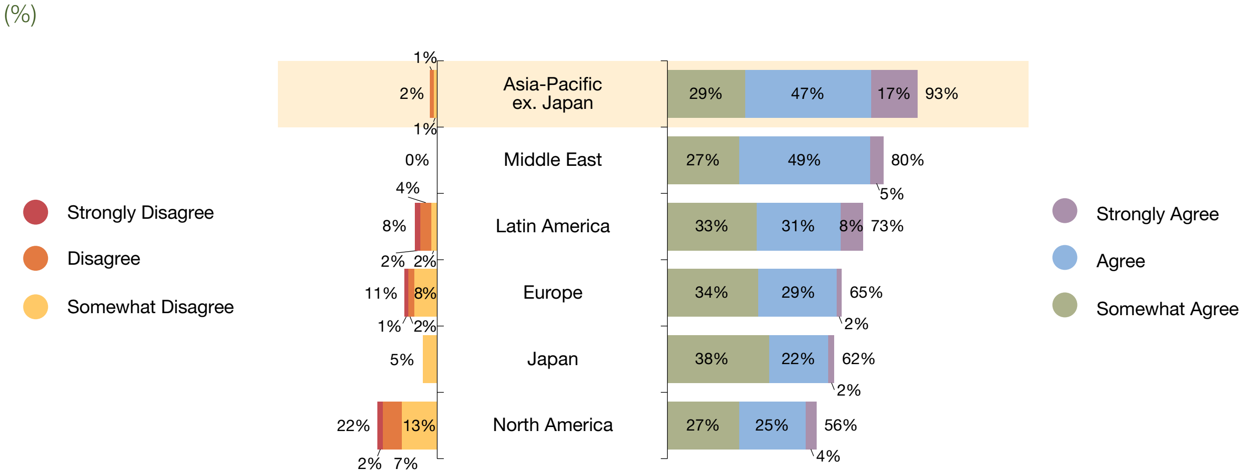
- The majority of HNWIs in Asia-Pacific source their wealth from business ownership.
- Ultra-HNWIs account for a disproportionately large share of HNWI wealth in Asia-Pacific, making them a critical constituency for Firms.
- Asia-Pacific HNWIs are increasingly exploring the use of more complex investing strategies as they seek to balance their desire for yield and stability post-crisis.

Given these realities, one critical differentiator could be the ability of Firms to call on additional capabilities from other business units, such as investment and corporate banking—i.e., leverage Enterprise Value.

Our research shows that a greater proportion of HNWIs in Asia-Pacific than in any other region believe it is important for Firms to fully leverage Enterprise Value (and fewer say it is unimportant—see Figure 11), so Enterprise Value could potentially create higher levels of service and client satisfaction in the region.

The fact that more HNWIs in Asia-Pacific agree on the importance of Enterprise Value than elsewhere may itself be a reflection of the region-specific demographics we have described, i.e., the disproportionate voice of entrepreneurs and Ultra-HNWIs.

FIGURE 11. HNW Clients' Level of Agreement That Fully Leveraging Enterprise Value Is Important, 2010 (by Region)[a]



[a] Survey asked: "Please indicate to what extent you agree or disagree that leveraging of full enterprise value is important to your clients."
Note: Percentages may not sum to total due to rounding
Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

High Levels of Business Ownership among Asia-Pacific HNWIs Have Implications for Firms' Approaches

Compared to global averages, more HNWIs garner their wealth from business ownership in Asia-Pacific than in other regions.

Globally, 46% of HNWI wealth was derived from business ownership in 2010 (see Figure 12), little changed from 47% in 2009. But in Asia-Pacific excluding Japan, 57% of HNWI wealth was derived from business ownership in 2010, up from 48% in 2009, and 23% of HNWI wealth was inherited, up from 11%.

For Firms, the relevance of entrepreneurialism lies in the variety of different banking services that business owners need over the lifetime of a business. For example:

- **At the business start-up stage:** Business owners need to finance assets and inventory, and may need loans and credit lines, at least until the business has a steady cash flow. These kinds of services involve corporate banking.
- **As the business grows:** Entrepreneurs looking to expand may need working capital facilities (via the corporate bank) or may opt to assume debt, issue equity shares, or make an acquisition (using investment banking services).
- **Running a profitable business:** Once the business is successful, entrepreneurs may want to invest the wealth earned from business and income, or plan for succession or death. Depending on the specifics, a business owner might therefore need a combination of corporate and investment banking, and wealth and asset management services.

Since an entrepreneur has to rely on different banking services over the lifetime of a business, it would certainly seem that a successful Enterprise Value strategy could facilitate relationship-building for Firms, providing an added degree of convenience for their entrepreneurial clients in Asia-Pacific.

Enterprise Value Is Well-Suited for Asia-Pacific Ultra-HNWIs

In 2010, the population and wealth of Ultra-HNWIs grew even faster (14.9% and 16.8% respectively) than the overall Asia-Pacific HNW segment. And ultimately, despite accounting for only 0.7% of the total HNWI population in Asia-Pacific, the 23,000 Ultra-HNWIs held over 25% of the region's HNWI wealth. The concept of Enterprise Value is especially compelling for this segment given the unique needs and characteristics of the ultra-wealthy, which include:

- The large scale and scope of their wealth and investments, spanning regions and asset classes.
- Their potential need for both investment banking services (especially if they are also entrepreneurs) and wealth management services.
- The complexity of their needs, requiring custom, personalized solutions—most likely from across business units.
- Their desire for a holistic view of their wealth, perhaps provided by a single Advisor who can function as a single point of contact for a wider, multifaceted organization.

Asia-Pacific HNWIs Broadened Investment Options As Global Markets Stabilized in 2010

In 2010, only 16% of HNWI assets in Asia-Pacific excluding Japan were in the form of "simple" assets, such as cash, a relatively straightforward investment for which professional support/advice is rarely needed (see Figure 13). That is down sharply from 27% in 2008, and coincides with an increase in the relative share of asset classes that typically require advisory input.

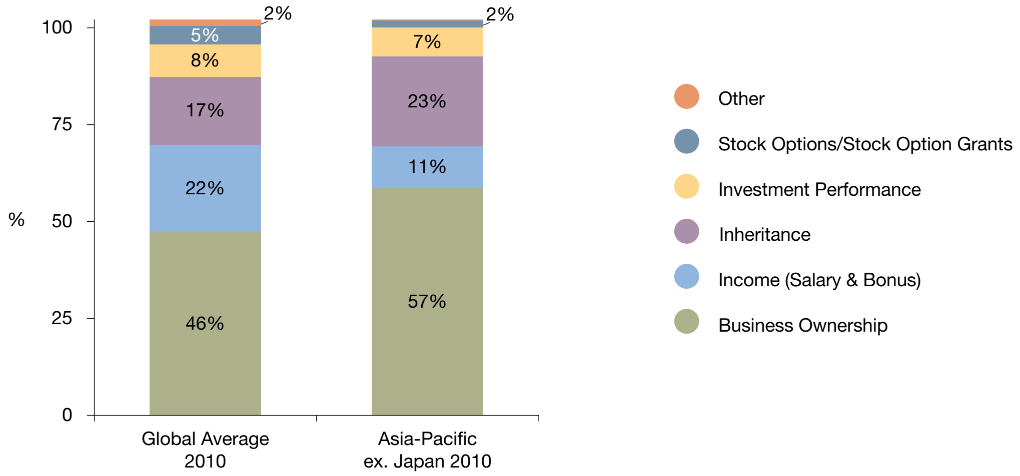
At the same time, 69% of HNWI assets in Asia-Pacific excluding Japan were in assets for which professional support/advice is generally needed, up from 58% in 2008. Such assets include residential real estate, undeveloped real estate, fixed income assets, and complex equity products such as initial public offerings.

These data show a gradual but tangible shift, which probably reflects an increasing level of comfort among Asia-Pacific HNW investors when investing in more complex assets in search of returns as the global markets show signs of stabilizing after the financial crisis.

While the shift to more complex assets is nascent, it seems likely to continue as the Asia-Pacific HNW segment grows and investors increasingly search for returns. This will create greater demand for more sophisticated services and advice—and potentially more need for an Enterprise Value response from Firms.

FIGURE 12. Breakdown of HNWIs' Sources of Wealth, 2010

(%)

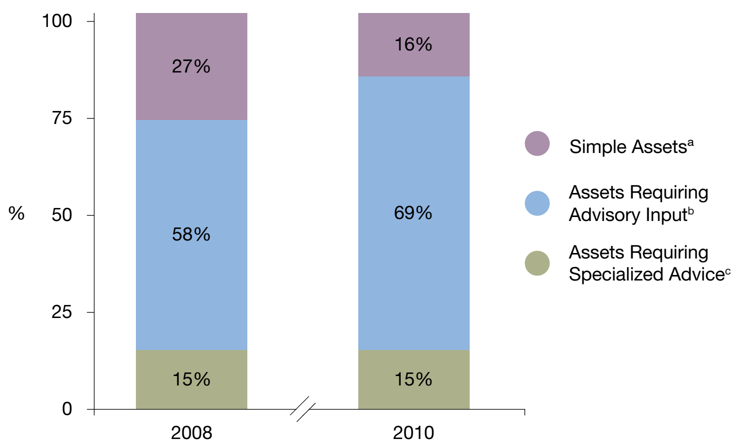


Note: Percentages may not add up to 100% due to rounding

Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

FIGURE 13. Breakdown of HNWI Financial Asset Complexity in Asia-Pacific ex. Japan, 2008–2010

(%)



[a] Simple assets are those in which investment making is relatively straightforward and professional support/advice is generally not required. In the current analysis, this category includes cash and farmland real estate investments.

[b] Assets requiring advisory input are those in which investment making benefits from professional support/advice. In the current analysis this category includes undeveloped real estate, residential real estate, fixed income assets, and equities (as equities can be simple, such as ETFs, or complex, such as IPOs).

[c] Assets requiring specialized advice are those in which specialized advice is normally needed and recommended when making investments. In the current analysis, this category includes alternative investments, REITs, and commercial real estate.

Note: Percentages may not add up to 100% due to rounding

Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Surveys, 2010 and 2011

DESPITE THE GROWING IMPERATIVE FOR ENTERPRISE VALUE IN ASIA-PACIFIC, FEW FIRMS YET HAVE A WINNING STRATEGY

Enterprise Value may be in growing demand partly because of the robust growth in Asia-Pacific's HNWI population. Newly minted HNWIs may also perceive more value in advice and investment management capabilities than do HNWIs in more mature markets, where there is a more extensive history of investing, and investment options are available.

But our research shows that while an Enterprise Value approach is considered important to Firms seeking to better serve HNW and Ultra-HNW clients in the region, Firms are not yet able to leverage the approach to the same extent in Asia-Pacific excluding Japan as in other regions—even though Enterprise Value is more highly valued than in those other regions (see Figure 14).

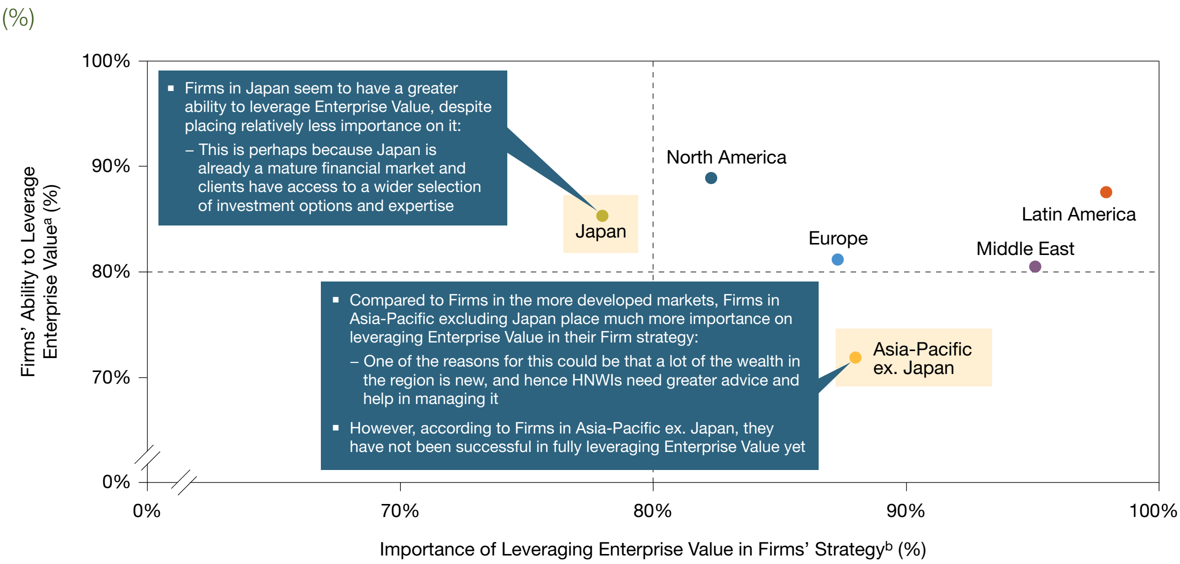
Notably, within Asia-Pacific, India and South Korea are the markets in which the need and ability to leverage Enterprise Value is the highest (see Figure 15).

ASIA-PACIFIC HNWIS ARE MORE SATISFIED WITH KEY "VALUE LEVERS" THAN THOSE IN OTHER REGIONS, BUT STILL WANT MORE

There are numerous Enterprise Value linkages that are especially important to HNW clients, and our research shows HNWIs in Asia-Pacific are more satisfied than HNWIs in other regions with several of the most highly sought-after elements of Enterprise Value ("value levers"). These levers include cross-enterprise expert advice teams, unique investment opportunities through the investment bank, preferred financing for entrepreneurs, and advice/expertise from private and investment bank during the wealth-creation process (see Figure 16).

Importantly, however, there is still significant room for Firms to improve client satisfaction around these levers, because a palpable gap remains between the levels of satisfaction attained so far and the elevated level of importance attributed to these and other value levers.

FIGURE 14. Importance to and Ability of Firms to Leverage Enterprise Value for HNW Client Benefit, 2010 (by Region)

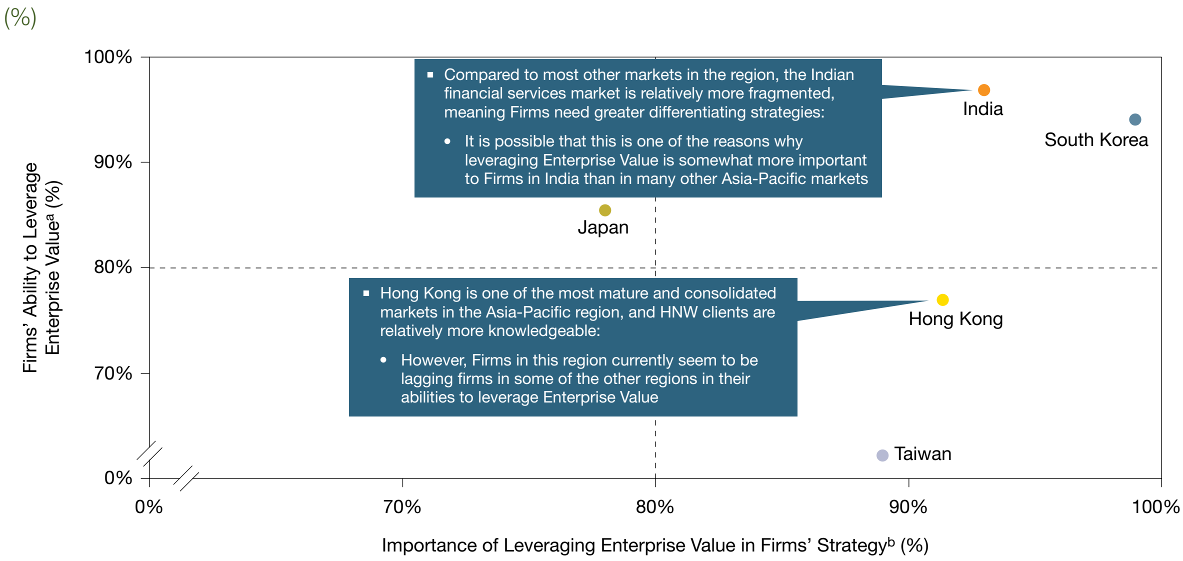


[a] Survey asked: 'Please rate to what extent you feel your firm is currently able to leverage Enterprise Value for client benefit'. Responses considered were 'strongly agree', 'agree', and 'somewhat agree'.

[b] Survey asked: 'Please rate how important better leveraging the full Enterprise Value is in your firm's approach to better serve its HNW and UHNW clients' Responses considered were 'extremely important', 'important', and 'somewhat important'.

Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

FIGURE 15. Importance to and Ability of Firms to Leverage Enterprise Value for HNW Client Benefit, 2010 (by Market)

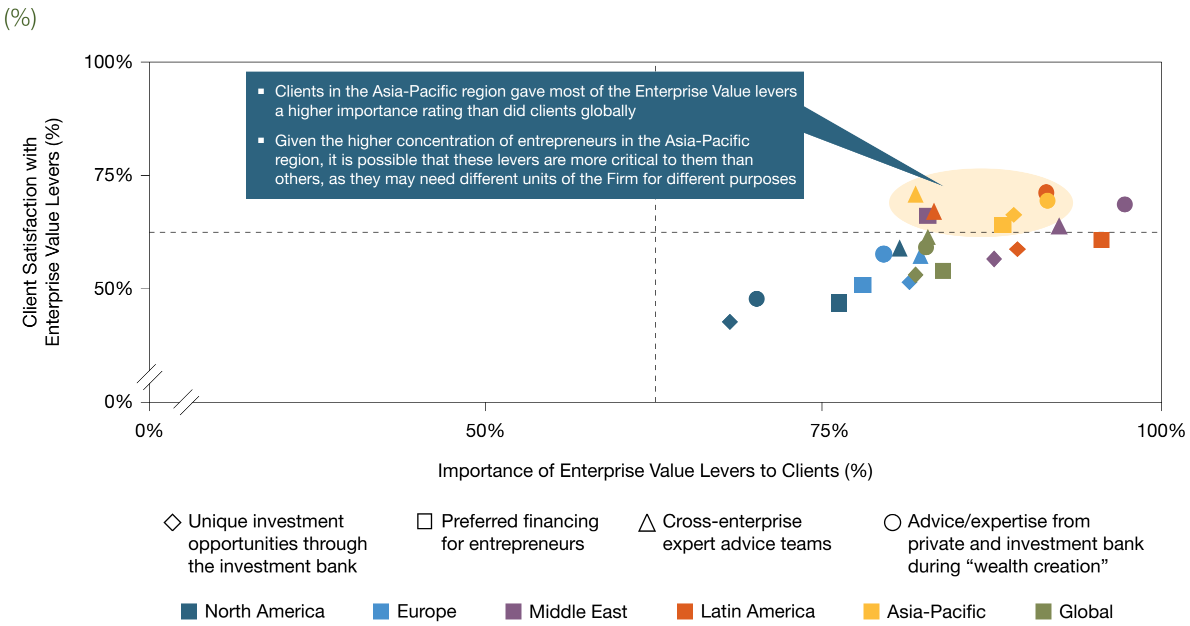


[a] Survey asked: 'Please rate to what extent you feel your firm is currently able to leverage Enterprise Value for client benefit'. Responses considered were 'strongly agree', 'agree', and 'somewhat agree'.

[b] Survey asked: 'Please rate how important better leveraging the full Enterprise Value is in your firm's approach to better serve its HNW and UHNW clients' Responses considered were 'extremely important', 'important', and 'somewhat important'.

Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

FIGURE 16. Importance of and Satisfaction with Enterprise 'Value Levers' among Global HNW Clients, 2010 (by Region)[a]



[a] Enterprise Value levers are defined as the specific linkages from across the enterprise that allow wealth management firms to leverage full enterprise value and meet client needs; the four most important global value levers are considered here: 'Unique investment opportunities through the investment bank', 'Preferred financing for entrepreneurs', 'Cross-enterprise expert advise teams', 'Advice/expertise from private and investment bank during "wealth creation"

Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

Notably, HNW clients in India are among the markets most satisfied with Enterprise Value levers—which is consistent with the fact that Firms in India are able to leverage Enterprise Value to a greater extent than most. As noted, Enterprise Value is also a greater priority for HNW clients in India, perhaps because of the higher number of entrepreneurial HNWIs (54% of HNWIs derived their wealth from business), and their need for services for multiple business units. India has also witnessed rapid growth in wealth over the last few years, so the need for professional services and advice is expanding briskly.

By contrast, Japan's HNWIs perceive Enterprise Value levers to be less important than do HNWIs in the rest of the region. This could be because business income is the primary source of wealth for fewer HNWIs there, and because Japan is a more mature market, so naturally it affords HNWIs a wider range of advice, expertise, and investing options.

ENTERPRISE VALUE CAN DELIVER TANGIBLE BENEFITS TO BOTH FIRMS AND HNW CLIENTS

While Firms are being challenged to leverage Enterprise Value in Asia-Pacific, it is important to remember there are potential benefits for both Firms and their clients.

For Firms, the benefits include:

- **Economies of scale:** Different entities of a Firm working with the same HNW client can reduce their information-collection costs by sharing the client's information internally. By using a common technology platform across teams, Firms can also reduce their IT costs.
- **Increased wallet share:** Firms leveraging Enterprise Value could cater to the many different financial needs of a client (corporate banking, wealth management, investment banking), which would in turn help them capture a greater share of any client's potential business.
- **Client acquisition and retention:** A Firm serving an HNW client in multiple ways would have extensive customer information that could be mined to improve customer service (e.g., by offering flexible and customized features) and increase HNW client acquisition, referrals, and retention.
- **Financial benefits:** By integrating activities across business units, Firms can smooth out the effects of more volatile businesses, and thus optimize funding costs, internalize margins, and boost trading flows (potentially generating additional trading revenues).

For clients, the benefits include:

- **Consistent service:** Clients that have multiple needs serviced through the same organization are likely to enjoy consistent service from all units and touch-points.
- **Greater convenience:** A Firm that has implemented Enterprise Value could act as a single source of multiple services for HNW clients, and thereby increase the level of convenience for clients—offering a single point of contact and a global overview of a client's entire wealth (personal and business).
- **Help in raising cash:** Entrepreneurs in particular may be seeking cash for business expansion. Firms that have implemented Enterprise Value could provide clients with access to investment banking facilities that these HNWIs could not normally access as individuals.

FIRMS WILL NEED TO DEAL WITH VARIOUS OBSTACLES TO IMPLEMENTING ENTERPRISE VALUE

While the potential benefits of Enterprise Value are many, obstacles also exist. As mentioned, Firms already face unique challenges in Asia-Pacific, including growing competition, a shortage of talent, and income/margin pressure. But implementing an Enterprise Value approach presents its own set of challenges, and four potential obstacles stand out in particular:

- **Incentive structures.** It is complicated for Firms to implement an incentive structure that encourages Advisors to refer clients from one part of the Firm to another (and vice versa), while ensuring all units follow through with high levels of service. Still, monetary incentives will be critical to back up the cultural changes needed to break down traditional business-unit silos, and ensure collaborative energies can be routinely captured across the Firm. Without such incentives, different business units—each of which may have functioned with discrete management, business goals, and priorities—could be slow to cooperate and coordinate to the degree necessary for the Enterprise Value approach to work effectively. Without that cooperation, heterogeneous offerings and approaches could make service levels and interactions inconsistent for clients.

- **Relationship management issues.** Given the silo issue, and the potential for inconsistent levels of expertise, some business units might actually prefer to refer clients outside the Firm to ensure comprehensive and superior service. As Firms develop their Enterprise Value strategy, they will need to weigh the potential risks to client relationships if consistent service cannot be guaranteed across all business units.
- **Regulation and compliance.** Enterprise Value implementation is likely to involve complex and detailed flows of both money and information across business units. Firms will need to make sure they comply with relevant country-level regulations, and avoid any potential conflicts of interest (real or perceived) between units.
- **Lack of regional policies.** Firms will need to strive for (and accept) an approach that balances the broad, global principles of the Enterprise Value approach with the specific needs of the local market. They also need to acknowledge that the dynamics and standards of business in Asia-Pacific are likely to differ from those in more developed markets. For example, the cutoffs for acceptable deal sizes are likely to be lower for investment banking units in Asia-Pacific than for those in highly developed markets where the scale and scope of business is already far greater.

SOME FIRMS HAVE ALREADY SHOWN SUCCESS WITH ENTERPRISE VALUE INITIATIVES

While the challenges to implementing Enterprise Value are considerable, and few Firms in Asia-Pacific are yet leveraging Enterprise Value to any great extent, some have made early progress—often dealing directly with some of the specific challenges we have outlined. Notable examples of early moves and successes include:

- **One leading global wealth management firm introduced hard dollar incentives** for referring clients across business units in Asia-Pacific. It has helped to overcome employee resistance to inter-unit cooperation, and has led directly to an increase in client referrals among business units.
- **One leading global financial services company leveraged its strong Asia-Pacific presence and expertise in wealth creation** to connect its wealth management, corporate, and private banking units, using joint servicing teams. The Firm has also placed a special focus on having the corporate banking unit refer international and other entrepreneurial corporate banking clients. The efforts have helped increase referrals to the private banking unit (which saw US$26 billion in new inflows from 2007 to 2010). The family office unit, most of whose clients are from emerging markets and already have an account with the private bank, has also seen a significant uptick in Ultra HNW clients. The majority of the private banking unit's trades have also been internalized, and they trade through the global banking and markets unit.
- **The private banking unit of one global financial services firm deploys a specialist team** to create customized solutions for Ultra-HNW clients in Asia-Pacific—borrowing a formula already tested successfully in developed markets. With a deep understanding of the investment banking and asset management businesses, the team is adept at leveraging all the capabilities of the Firm to create sophisticated and customized solutions for the bank's Ultra-HNW clients. The initiative immediately yielded revenues from the collaboration among private banking, investment banking, and asset management divisions. In 2010, the firm's Asia-Pacific investment banking unit credited the private banking unit for referring several clients that contributed significant revenues.
- **Another global firm is also developing a specialist team** to meet the evolving needs of clients in Asia-Pacific in a fast and direct manner. The team brings together product experts from wealth management, investment banking, and asset management to develop new products and offerings based on client preferences. All the specialists are accountable to both the wealth management and investment banking units. The Firm's Ultra-HNW clients have a single point of contact at the team, but have access to the entirety of the Firm's product range, regardless of their location. The firm is expecting this strategy to attract a greater number of clients (and wallet share) and create scale for the business—which is especially important now that margins and fees are under pressure.
- **One global financial services company is setting up a new unit to act as a bridge between its private banking and wholesale banking units in Asia-Pacific.** The unit is particularly targeting the business owners among its private banking clients, primarily to ensure that private clients with corporate and investment banking needs receive customized solutions in line with their wider business and wealth management goals—and provide access to facilities normally reserved for commercial and investment banking clients.

THE WAY FORWARD: DEVELOPING AN APPROACH THAT BALANCES ENTERPRISE VALUE AND THE SPECIFIC NEEDS OF HNWIS IN EMERGING ASIA-PACIFIC

Regional regulations and market differences will probably mean Firms in Asia-Pacific have to develop their Enterprise Value approach in an iterative way: tailoring a broader approach as necessary to deal with market-specific obstacles.

As a result, Firms will need to prioritize their business needs and leverage IT to shape and evolve an adaptable Enterprise Value strategy—perhaps rolled out across different markets in the region over time.

This type of approach will have many components, but the following will be among its key elements:

- **Accountability:** Firms will need to ensure there is broad accountability for implementing the Enterprise Value approach in their organization, and develop a concrete set of supporting measures, including KPIs that offer senior business leaders visibility into the success and progress of the approach.
- **Regional policies:** Firms will need to tailor Enterprise Value policies for local markets, and those policies may differ from those in other regions and other markets within Asia-Pacific.
- **Employee awareness:** Educating employees about the capabilities of other business units will help Firms to demonstrate ways in which other teams can deliver additional value to their clients.
- **Effective incentive structures:** Firms will need to make sure they have relevant incentive structures (from recognition to compensation) to encourage internal client referrals.
- **Integrated IT systems:** Having a unified IT platform across the Firm can provide all teams with access to the same, integrated customer data, track client interactions and referrals, help ensure unified reporting, and support a variety of performance-management initiatives. It can also provide Advisors with much-needed consolidated data on client portfolios, and help Firms to track client and fund-flow activity to ensure compliance with local regulations.

These components can all help to provide Firms with the flexibility they need to develop an Enterprise Value strategy that balances an integrated approach with the needs of the local market. To determine exactly how much customization will be required for each market, Firms will need to identify and understand which value levers are most sought after by the HNW clients, and which of those value levers are poorly served to date. Then Firms will need to decide what the priority should be in addressing the most important, underserved value levers—aligning those priorities with the Firm's broad business goals and ambitions to ensure the Enterprise response is both relevant and viable at the local level.

Unique Demographics Are Creating Significant Demand for Succession Planning in Asia-Pacific

- **Business ownership and inheritance are the largest sources of HNWI wealth in Asia-Pacific, and relatively little wealth extends beyond one or two generations.** As a result, it is only now that the demand for succession-planning services is starting to grow significantly. Importantly, this new demand also reflects a cultural shift, as Asia-Pacific HNWIs have traditionally been uneasy discussing wealth-transfer issues openly.
- **Unique social, cultural, and generational factors still create challenges for Firms in this space.** Most notably, many HNWIs fear the next generation will not be able to properly manage inherited wealth. In fact, to be successful, Firms must often help HNWIs to manage not only the financial implications of succession planning, but the different attitudes among HNW families about the whole concept of wealth transfer.
- **Several leading firms have adopted innovative approaches to address the succession-planning challenges in Asia-Pacific,** in particular seeking to engage and educate the next generation of HNW clients, and aiming to optimize HNWI wealth during the succession-planning and wealth-transfer processes.

MOST ASIA-PACIFIC HNWIS ARE ENTREPRENEURS OR HEIRS, AND MANY HAVE EARNED WEALTH RELATIVELY RECENTLY

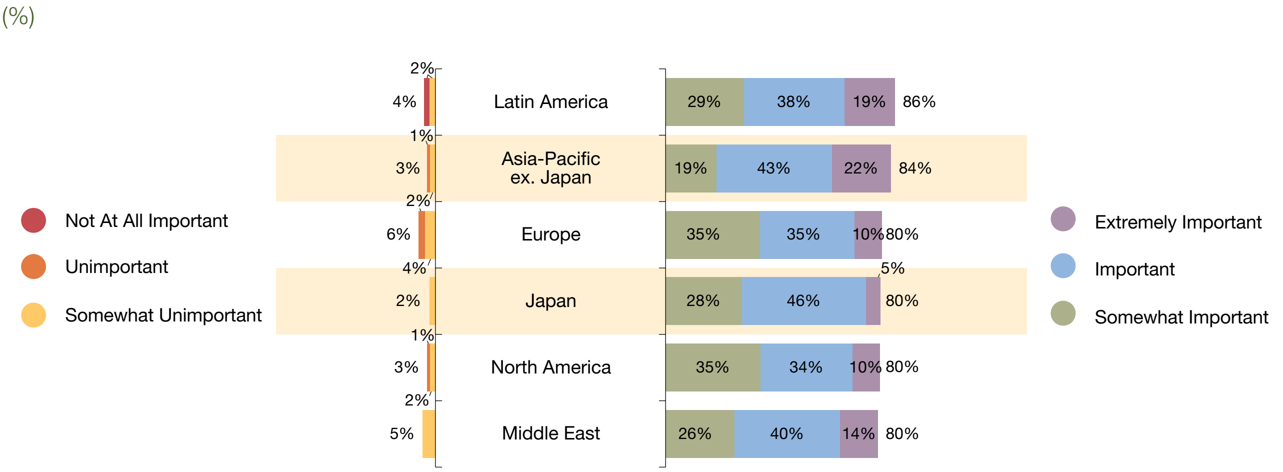
Succession planning is getting increased attention in Asia-Pacific, with a large number of HNW clients now acknowledging the need for such services. In fact, our research shows succession-planning services are now deemed to be "important" by more HNWIs in Asia-Pacific than in most other regions. And succession planning is deemed "extremely important" by 22% of HNWIs in Asia-Pacific excluding Japan, more than in any other region (see Figure 17).

Of course, the financial crisis has made Asia-Pacific HNWIs more aware in general that poor (or non existent) succession planning can put wealth at risk, but our research also shows demographics are a major factor in the succession-planning space in the region. In particular:

- Of all HNWI wealth in Asia-Pacific excluding Japan, 57% is derived from business ownership, and another 23% is inherited. At the same time, much of the HNWI wealth in the region is still a first- or second-generation phenomenon, unlike the wealth in many developed Western markets, where HNW families have endured for four or five generations, and have already invested much of that wealth in institutional forms (trusts, bonds, insurance, etc.).
- Age demographics are also a factor: 68% of all HNWIs in Asia-Pacific excluding Japan are relatively young (31–55 years of age), while Japan's HNWI population is relatively old (47% are over 66, and 15% are over 75). This suggests there could be a first wave of wealth transfer in Japan (which has the most HNWIs above 66 years of age), and a potentially large second wave over the next decade in the rest of the region, where the HNWI population is much younger.

The demographics are aligned, then, to give Firms and Advisors a significant opportunity to serve their HNW clients in Asia-Pacific by providing well-structured wealth-transfer plans.

FIGURE 17. Importance of Succession Planning Capabilities to HNW Clients, 2010 (by Region)[a]



[a] Survey asked: "How important are the following to your clients?"
Note: Percentages may not sum to total due to rounding
Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

CULTURAL ISSUES CAN COMPLICATE SUCCESSION PLANNING IN PRACTICE

Cultural sensitivities can complicate the succession-planning process in any market, depending on the ability of families to discuss death and inheritance openly, the existence of family "traditions" (such as sons automatically succeeding fathers in the family business), the desire of elders to control their legacies, and a family's preference for confidentiality.

In Asia-Pacific, it is fair to say some of the "taboos" around succession planning may be stronger even than in developed Western markets, but the real challenge for wealth management firms lies in the fact that the wealth being transferred by HNW clients has very often been earned by those individuals. As a result, the conflicts over intergenerational wealth transfer can be especially complicated and emotionally charged.

In fact, the primary concern of Asia-Pacific HNWIs hinges on the ability of the next generation to manage the family's wealth, with 88% of HNW clients in Asia-Pacific excluding Japan, and 75% in Japan, believing the next generation will not be able to adequately manage inherited wealth (see Figure 18).

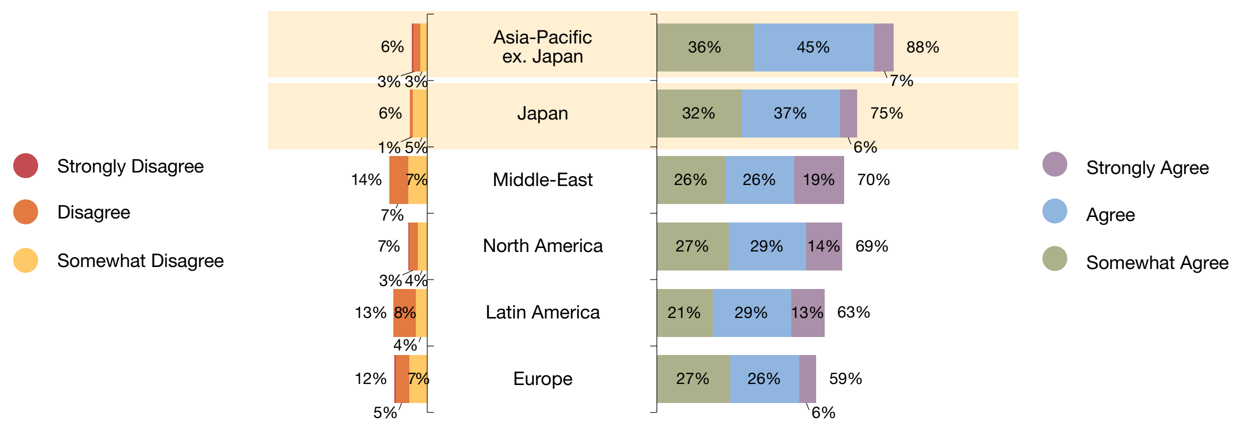
These fears may be well-founded given some of the statistics on of succession planning in Asia-Pacific: About 30% of family businesses survive into a second generation, and a mere 10% into the third; and family disputes and sibling rivalry are the most frequent causes of a family business's demise.[8]

Importantly, the potential for family conflict can be of particular concern to HNWIs in Asia-Pacific, where families are traditionally tight-knit across generations—and older generations might fear that finances could cause irreparable family rifts.

Asia-Pacific HNWIs have at least become more comfortable in recent times with seeking advice on succession planning, having traditionally been loath to discuss such issues openly. Nevertheless, for Advisors and Firms, dealing with HNWIs' emotional and cultural concerns may ultimately be as big a part of the succession-planning process as crafting a sound financial plan for wealth transfer.

FIGURE 18. Level of Agreement That Next Generation Is Unable to Manage Family Wealth, 2010 (by Region)[a]

(%)



[a] Survey asked: "Please indicate to what extent you agree or disagree that there is an inability in the next generation to manage family wealth."
Note: Percentages may not sum to total due to rounding
Source: Capgemini Analysis, 2011; Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey, 2011

[8] INSEAD/ABN AMRO, http://www.insead.edu/facultyresearch/centres/WICFE/research_cases/docs/MillionaireAsia_ABNAMRO-Jan07_000.pdf.

FIRMS ARE INNOVATING TO TACKLE THE SUCCESSION-PLANNING CHALLENGES IN ASIA-PACIFIC

Leading Firms have taken innovative approaches to overcoming some of these challenges, most importantly seeking to engage and educate the next generation of HNW clients and to optimize HNWI wealth during succession planning/wealth transfer.

Engaging and Educating the Next Generation of Asia-Pacific HNW Clients

Firms are trying to prepare next-generation HNWIs in Asia-Pacific for the succession-planning process, both financially and philosophically, so as to align the goals and needs of the different generations in wealth-transition planning and implementation. For example:

- **One boutique wealth management firm has started personalized family-by-family sessions**, tailor-made to the needs and situations of each family, an education program for the heirs of HNW clients, and a forum for HNW families to discuss issues surrounding the transition of family wealth.
- **The private banking arm of one leading global bank started a "legacy" seminar series** to bring together HNW clients and their heirs to discuss issues such as family business succession and governance, the generational responsibilities of family wealth, investment principles and dynamics, family philanthropy and foundations, and market trends.
- **The private banking arm of another leading global bank has launched a summer business school program** to educate young potential heirs (aged 18–25) on strategic thinking, problem-solving skills, teamwork, and professional etiquette to better prepare them to discuss wealth transfer.
- **The wealth management arm of a leading global bank runs a two- to three-week summer program** for the adult children of HNW clients in Hong Kong and Singapore to provide education on investing and managing wealth. The bank remains in touch with these individuals, inviting them for periodic alumni gatherings, and offering additional services once these individuals inherit wealth.

Optimizing HNWI Wealth and Assets during Succession Planning

Firms are using various succession-planning tools, including wills/shareholding agreements to determine the division of financial assets, tax optimization structures (e.g., trusts, foundations) to maximize after-tax returns, and specialists (e.g., accountants, lawyers) to develop tailored solutions. For instance:

- **One leading global wealth management firm has launched family office services in Asia-Pacific to advise families** on succession planning, family governance, wealth transfer, and investments. The Family Office also provides office, IT infrastructure, systems, security, and administrative support to wealthy Asia-Pacific families.
- **The private banking arm of one leading global bank has expanded its global wealth structuring** ("trust") operations in Asia-Pacific to cater to the wealth preservation and transfer needs of HNW clients. Its services include establishing and managing private investment companies; custom, charitable, and bundled investment trusts; private trust companies; and wealth-transfer planning. Favorable tax laws, coupled with established and evolving trust legislation, have prompted a growing number of global players to locate trust businesses in Asia-Pacific.
- **The private banking arm of another leading global bank has opened a wealth planning and fiduciary services division** to support the private bank's Advisors in their commercial efforts, and to guide HNW clients in the legal and fiscal structuring of financial assets. The division functions as a global center of expertise that supports and delivers the best solutions to Advisors and clients.

CONCLUSION

The demographics of the HNWI population in Asia-Pacific, especially in some of the fast-emerging markets, are creating a growing need for succession-planning services, but Firms will need to cater to the significant differences between markets in the region.

Global Firms in particular will need to acknowledge the considerable differences between the needs of the newly wealthy in Asia-Pacific and the HNWIs they serve in more developed markets. From a purely financial perspective, investing options and preferences—and the relatively recent acquisition of wealth—means an enormous amount of Asia-Pacific HNWIs' wealth tends to be tied up in operating businesses, liquid assets, and real estate, both inside and outside the region, so managing a succession plan for those assets will take region-specific experience. Then, as noted, there are the cultural issues to address.

While some Firms have already undertaken specific initiatives to reach out to HNW families, and help them work through both the cultural and financial issues related to succession planning, Firms themselves also face a significant shortage of expertise in this space.

As a result, many are now investing in rigorous recruitment, training, and talent-acquisition strategies to bolster their Advisors skills, groom new talent, and develop a talent pipeline for succession planning in the region—to position themselves better for the potential growth in this segment.

These initiatives will be an important part of Firms' strategies to develop the right balance of region-specific and segment-specific expertise to do well in succession planning in Asia-Pacific. As always, there will be no one-size-fits-all approach to serving these needs, but Firms will certainly have to be cognizant of all types of local customs and priorities to serve Asia-Pacific HNWIs effectively.

Appendix: Methodology

The 2011 Asia-Pacific Wealth Report focuses on 11 core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Thailand, and Taiwan. These markets together account for 95.7% of the region's gross domestic product (GDP). The market-sizing model includes 18 countries and territories in its Asia-Pacific coverage.

We estimate the size and growth of wealth in various regions using the Capgemini Lorenz curve methodology, which was originally developed during consulting engagements with Merrill Lynch in the 1980s. It is updated on an annual basis to calculate the value of HNWI financial wealth at a macro level.

The model is built in two stages: first, the estimation of total wealth by country, and second, the distribution of this wealth across the adult population in that country. Total wealth levels by country are estimated using national account statistics from recognized sources such as the International Monetary Fund and the World Bank to identify the total amount of national savings in each year. These are summed over time to arrive at total accumulated country wealth. As this captures financial assets at book value, the final figures are adjusted based on world stock indexes to reflect the market value of the equity portion of HNWI wealth.

Wealth distribution by country is based on formulized relationships between wealth and income. Data on income distribution is provided by the World Bank, the Economist Intelligence Unit and countries' national statistics. We then use the resulting Lorenz curves to distribute wealth across the adult population in each country. To arrive at financial wealth as a proportion of total wealth, we use statistics from countries with available data to calculate their financial wealth figures, and extrapolate these findings to the rest of the world. Each year, we continue to enhance our macroeconomic model with increased analysis of domestic economic factors that influence wealth creation. We work with colleagues around the globe from several firms to best account for the impact of domestic, fiscal and monetary policies over time on HNWI wealth generation.

The financial asset figures include the value of private equity holdings stated at book value as well as all forms of publicly quoted equities, bonds, funds and cash deposits. They exclude collectibles, consumables, consumer durables and real estate used for primary residences. Offshore investments are theoretically accounted for, but only insofar as countries are able to make accurate estimates of relative flows of property and investment in and out of their jurisdictions. We account for undeclared savings in the report.

Given exchange rate fluctuations over recent years, especially with respect to the U.S. dollar, we assess the impact of currency fluctuations on our results. From our analysis, we conclude that our methodology is robust and exchange rate fluctuations do not have a significant impact on the findings.

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