



WORLD WEALTH REPORT

2011

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World Wealth Report

TO OUR READERS,

Capgemini and Merrill Lynch Global Wealth Management are pleased to present the *2011 World Wealth Report*. Our two firms have been working together for more than 20 years to study the macroeconomic and other factors that drive wealth creation and to better understand the key trends that affect high net worth individuals (HNWIs) around the globe.

In 2010, many global financial markets performed well, albeit growing at more modest rates than the sharp rebounds seen in 2009 after 2008's staggering losses. The number of HNWIs and their wealth also grew moderately, with HNWIs remaining more conservative than before the crisis but willing to be opportunistic in seeking yield. The global economy returned to growth, driven by strong activity in emerging economies, most notably fast-growing Asia-Pacific nations such as China and India.

Many nations are still working through the after-effects of the financial crisis, as evidenced by the still-simmering sovereign-debt crisis in Europe and the large fiscal deficits in many nations, which have been made worse by crisis-related stimulus.

HNW clients are very aware of these and other risks, including the political turmoil in the Middle East and the humanitarian and nuclear crises in Japan. In these uncertain times, HNWIs are keen to preserve capital and expect their financial strategies to help them achieve life goals, not just arbitrary investment benchmarks.

Wealth management firms and Advisors are being challenged to consider all these HNWI priorities, while managing the growing margin pressure and competition in their own industry.

Fortunately, Firms and Advisors have regained the trust of their HNW clients since the crisis so their focus can center on justifying that faith with a resonant, responsive and flexible proposition. For many, that will necessitate an enterprise response, one that rallies capabilities beyond wealth management—from investment and corporate banking for instance—to make sure HNWIs' complex post-crisis needs can be fully met in a way that delivers value to the client and the Firm.

It is a pleasure to provide you with our findings, and we hope you find continued value in the WWR's insights.



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World's Population of HNWI's and Their Wealth Continued to Expand in 2010

The world's population of high net worth individuals (HNWI's) expanded in 2010, as did their wealth, but the growth was more moderate than in 2009 when many markets ricocheted back from the significant crisis-related losses of 2008.

- **Globally, HNWI's financial wealth grew 9.7%** in 2010 to reach US\$42.7 trillion, surpassing the 2007 pre-crisis peak. **The global population of HNWI's grew 8.3%** to 10.9 million. Regionally:
 - **The population of HNWI's in Asia-Pacific, at 3.3 million individuals, is now the second-largest in the world** behind North America, and ahead of Europe for the first time. The combined wealth of Asia-Pacific HNWI's had already topped Europe's in 2009, and that gap widened in 2010.
 - **Europe's HNWI wealth** totaled US\$10.2 trillion after growing 7.2% in 2010, while Asia-Pacific HNWI wealth was US\$10.8 trillion, up 12.1%.
 - **North American HNWI wealth** hit US\$11.6 trillion in 2010, up 9.1%.
 - **Latin America** saw another modest gain (6.2%) in its HNWI population in 2010 and HNWI wealth rose 9.2%. The Latin America HNWI segment has proved relatively resilient and stable in recent years (the number of HNWI's shrank just 0.7% in 2008) and HNWI wealth is now up 18.1% from 2007.
- **India's HNWI population entered the Top 12 for the first time** and Australia edged up another notch to No. 9. Over time, the HNWI population is very gradually becoming more fragmented across the globe, but its geographic distribution in 2010 was much the same overall as it has been, and 53.0% of the world's HNWI's were still concentrated in the U.S., Japan, and Germany.
- **Ultra-HNWI's² posted slightly stronger-than-average gains in their numbers and wealth.** The global population of Ultra-HNWI's grew by 10.2% in 2010 and its wealth by 11.5%. As a result, Ultra-HNWI's accounted for 36.1% of global HNWI wealth, up from 35.5%, while representing only 0.9% of the global HNWI population.

HNW SEGMENT RETURNED TO MODERATE GROWTH AFTER TWO TURBULENT YEARS

HNW Segment Grew at a More Moderate Pace Than in 2009

The world's population of HNWI's grew 8.3% in 2010 (see Figure 1), moderating to a more sustainable pace than the 17.1% increase seen in 2009. The growth in HNWI's financial wealth also slowed to 9.7% (see Figure 2). This was still a healthy rate, but was less than the 18.9% jump in 2009 when there was a sharp rebound from the hefty crisis-related losses of 2008. The 2010 increase was still enough to push global HNWI financial wealth up to US\$42.7 trillion, beyond the pre-crisis high of US\$40.7 trillion in 2007.

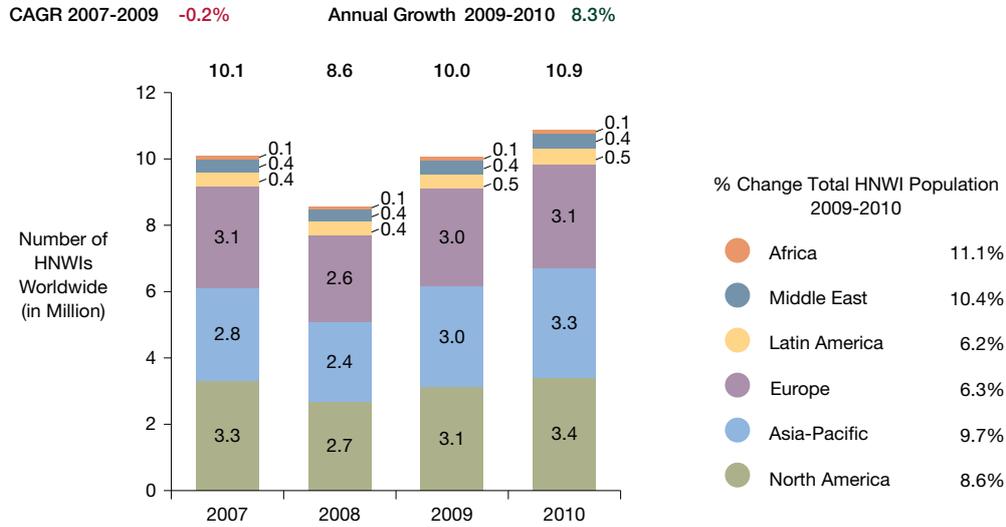
Asia-Pacific again posted a robust rate of HNWI population growth. As a result, while the size of its HNWI wealth had already overtaken Europe in 2009, Asia-Pacific has now surpassed Europe in terms of HNWI population too.

¹ HNWI's are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

² Ultra-HNWI's are defined as those having investable assets of US\$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

FIGURE 1. HNWI Population, 2007 – 2010 (by Region)

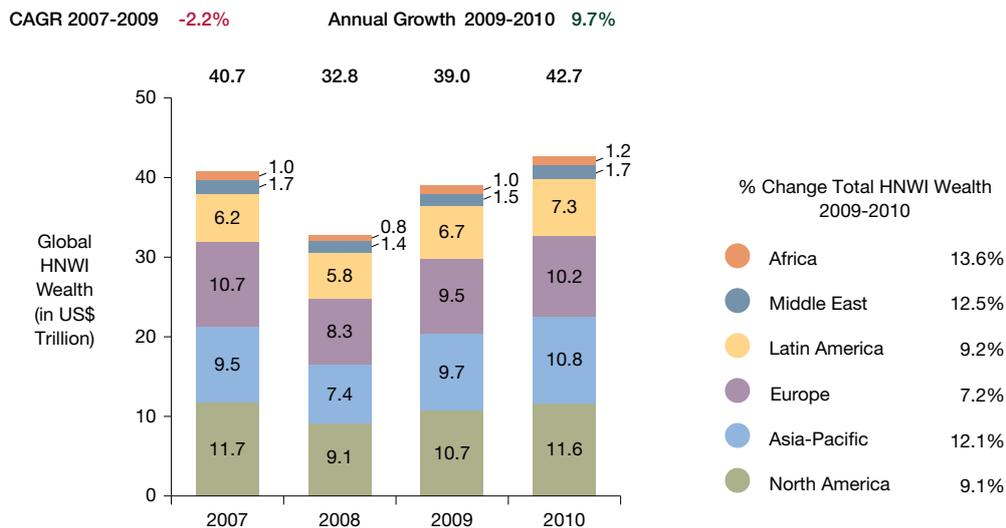
(in Million)



Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Lorenz curve analysis, 2011

FIGURE 2. HNWI Wealth Distribution, 2007 – 2010 (by Region)

(US\$ Trillion)



Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Lorenz curve analysis, 2011

Other region-specific findings include:

- The **Asia-Pacific** HNWI population expanded 9.7% to 3.3 million, while **Europe's** grew 6.3% to 3.1 million. Asia-Pacific HNWI's wealth gained 12.1% to US\$10.8 trillion, exceeding the US\$10.2 trillion held by HNWI's in Europe, where the wealth increase was 7.2% in 2010. Overall, HNWI's wealth in Asia-Pacific is now up 14.1% since the end of 2007—despite the significant crisis-related losses incurred in the interim. North America and Europe have yet to fully recoup those losses so have negative growth over the same period.
- The population of HNWI's in **North America** rose 8.6% in 2010 to 3.4 million, after rising 16.6% in 2009. Their wealth rose 9.1% to US\$11.6 trillion. The U.S. is still home to the single largest HNWI segment in the world, with its 3.1 million HNWI's accounting for 28.6% of the global HNWI population.
- In **Latin America**, the general population of HNWI's is still small, numbering under 0.5 million. However, the prevalence of Ultra-HNWI's multiplies the aggregate level of HNWI wealth, which grew 9.2% to US\$7.3 trillion in 2010. The Latin American HNWI segment was quite resilient at the height of the crisis (the number of HNWI's shrank just 0.7% in 2008) and the HNWI population has grown modestly since, gaining 8.3% and 6.2% respectively in 2009 and 2010. The disproportionate number of Ultra-HNWI's has also contributed to the gains in HNWI wealth, which is now up 18.1% since 2007.
- In the **Middle East**, the size of the HNWI population gained 10.4% in 2010 to 0.4 million, while their wealth jumped 12.5% to US\$1.7 trillion. This helped the region's HNWI segment to compensate for a relatively poor showing in 2009 when the growth in the HNWI population and its wealth lagged all other regions.

HNWI Ranks, While Still Heavily Concentrated, Are Fragmenting Gradually Over Time

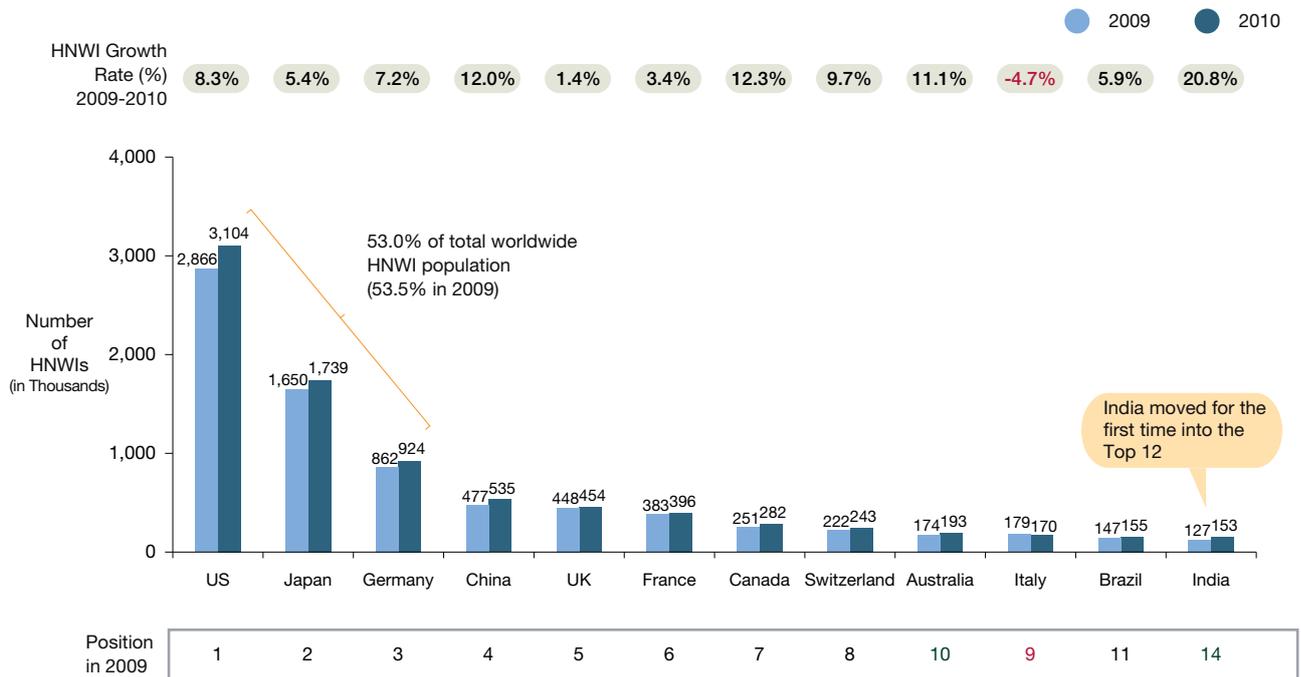
The global HNWI population is still dominated by the U.S., Japan, and Germany, but the ranks are fragmenting gradually over time. In 2010, those three countries accounted for 53.0% of the world's HNWI population, down from 54.7% in 2006. Their share will continue to erode if the HNWI populations of emerging and developing markets continue to grow faster than those of developed markets.

At present, Asia-Pacific continues to contribute the greatest year-on-year additions to global HNWI ranks. In 2010, the HNWI populations increased significantly in Hong Kong (by 33.3%), Vietnam (33.1%), Sri Lanka (27.1%), Indonesia (23.8%), Singapore (21.3%) and India (20.8%). In general, the strength of those HNWI segments reflected robust macroeconomic indicators such as gross national income (GNI), and strength in other key wealth drivers such as equity-market performance. Several of these markets, most notably Hong Kong and India, had also been big gainers in 2009 after falling significantly in 2008.

Still, most of these HNWI populations remain comparatively small and have yet to feature among the largest HNWI markets globally. However, India's HNWI population (at 153k) became the world's twelfth largest in 2010 (see Figure 3) as it switched places with Spain (which dropped to fourteenth). Australia also gained a notch in 2010 as its HNWI population rose to 193k, besting Italy for the No. 9 spot.

FIGURE 3. HNWI Population by Country, 2010

(in Thousands)



Note: Chart numbers and quoted percentages may not add up due to rounding
 Source: Capgemini Lorenz curve analysis, 2011

Ultra-HNW Segment Showed Strong Gains in Population and Wealth for the Second Straight Year

The global population of Ultra-HNWIs grew 10.2% to 103k in 2010, and their wealth jumped by 11.5%, after surging 21.5% in 2009.

A disproportionate amount of wealth remains concentrated in the hands of Ultra-HNWIs. At the end of 2010, Ultra-HNWIs represented only 0.9% of the global HNWI population, but accounted for 36.1% of global HNWI wealth. That was up slightly from 35.5% in 2009.

North America still has the largest regional number of Ultra-HNWIs. At the end of 2010, the number of Ultra-HNWIs there totaled 40k, up from 36k in 2009 (but remains down from 41k in 2007). Regionally, Latin America still has the highest percentage of Ultra-HNWIs relative to the overall HNWI population—2.4%, compared with the global average of 0.9%.

2010 in Review³

GLOBAL ECONOMY RETURNED TO GROWTH AND MARKETS PERFORMED SOLIDLY

- **Normalcy began to return in 2010, but legacies of the crisis were evident in financial hotspots and gaping fiscal deficits.** Financial 'hotspots' flared, such as the sovereign debt crisis in the Eurozone, and many governments grappled with how to pursue both economic growth and fiscal consolidation. The 2010 U.S. fiscal deficit was the largest among advanced economies at 10.6% of gross domestic product (GDP).⁴
- **Emerging economies remained the key drivers of the global economy in 2010 and global GDP returned to growth.** Real GDP expanded by 3.9% in 2010, after contracting 2.1% in 2009, largely due to 8.3% GDP growth in Asia-Pacific excluding Japan, and 5.7% growth in Latin America. The U.S., Europe, and Central Asia experienced modest growth, rebounding from contraction in 2009.
- **Equity, commodity, and other markets performed well in 2010.** Global equity-market capitalization rose by 18.0% in 2010 despite losses in certain markets where hotspots flared, but that was a far smaller gain than in 2009. Many commodity prices ended the year higher due to robust demand for raw materials from fast-developing economies and strong buying interest from investors. Real estate prices rose, but unevenly. Prices in Asia-Pacific increased enough to spark intervention by some governments fearing an asset bubble.
- **Looking ahead, the global economy faces short-term risks and an uneven recovery.** Global GDP growth is expected to slow to 3.2% in 2011 and stay there in 2012, due largely to capacity constraints in fast-growing developing economies such as China and India. However, risks to the global recovery remain, including turmoil in the European and Middle East economies and the destabilizing impact of high capital inflows into emerging markets.

THE FINANCIAL CRISIS HAS ABATED BUT ITS LEGACY WAS EVIDENT IN HOTSPOTS AND FISCAL DEFICITS IN 2010

As Normalcy Began to Return, Crisis-Related Hotspots Still Emerged across the Globe

The global effects of the financial crisis receded in 2010, but aftershocks still materialized in many forms, including the sovereign debt crisis in Europe and the growing burden of a gaping fiscal deficit in the U.S. These types of shocks showed the fragility of the economic recovery and could still pose an obstacle to growth in 2011.

In the Eurozone in 2010, sovereign debt crises culminated in the rescue of Greece and Ireland by the European Union/International Monetary Fund (EU/IMF). In early-2011, Portugal was also on the verge of bankruptcy and other economies remain at risk, especially Spain. Given the enormity of the crisis, the EU has voted to establish a European Stability Mechanism to eventually replace the temporary bailout mechanism (the European Financial Stability Facility). The sovereign crisis and subsequent bailouts have threatened the solidarity of the EU and still threaten the stability and health of the financial markets.

In the U.S., the political and economic imperative to tackle the country's fiscal deficit (see next section) is creating an additional burden on already cash-strapped local governments. This has led to concerns over the ability of states and municipalities to service their debt.

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.

⁴ International Monetary Fund, "Shifting Gears: Tackling Challenges on the Road to Fiscal Adjustment," Fiscal Monitor, April 2011.

The Middle East faced its own financial problems in 2010 as Dubai struggled to manage the effects of the late-2009 failure of state-owned conglomerate Dubai World, which had been hit by slumping real estate prices. Fears that the conglomerate's demise could cause sovereign-debt problems initially tightened credit conditions in international financial markets, but the situation was resolved to the market's satisfaction, with no lasting effect on investing conditions in the region.

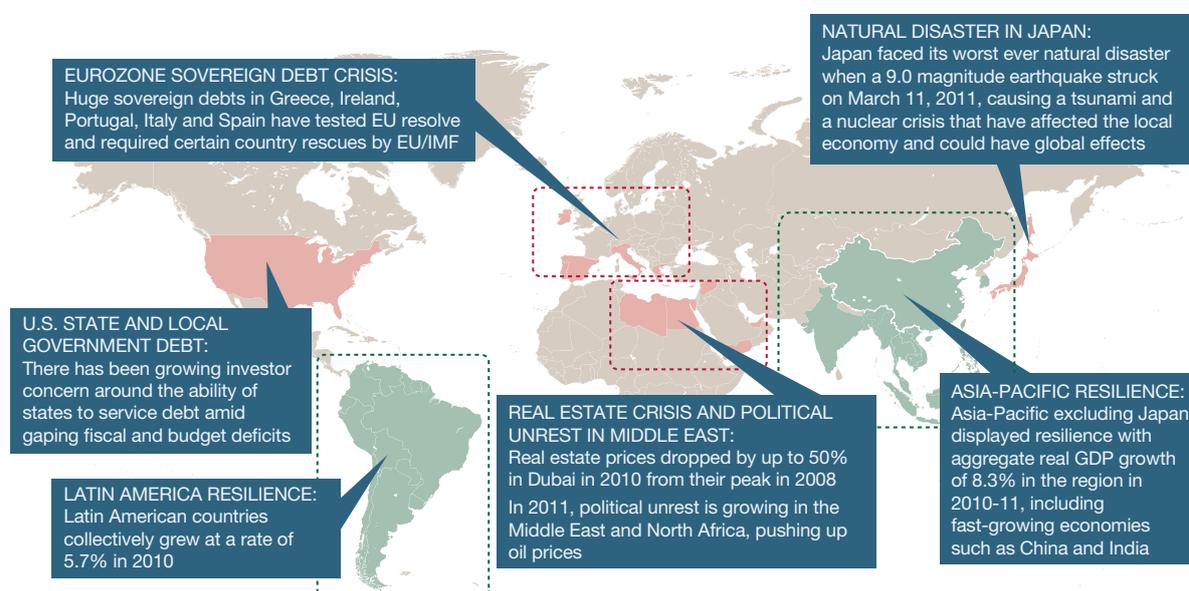
Many of these financial hotspots have their roots in the global financial crisis, but political turmoil and natural catastrophes in early-2011 offered other examples of how the recovery of the global economy could still be slowed or derailed (see Figure 4).

For one, political turmoil spread throughout the Middle East. A popular uprising began in Tunisia in mid-December 2010 and similar revolts have since occurred in many nations in Northern Africa and the Middle East, including Egypt, Syria, Libya, Bahrain, and Yemen. These

events have created widespread uncertainty about the region among global investors, and have pushed oil prices sharply higher, threatening both the regional economic recovery and the health of oil-dependent economies.

And in March 2011, Japan suffered a 9.0 magnitude earthquake, the largest in the country's history. The quake and consequent tsunami also caused a nuclear emergency when a nuclear plant in the quake zone began to leak radioactive gas and water. The crisis in Japan initially disrupted supply chains and trade, as well as investment activity in the region. The Bank of Japan reported in early-April that the disaster has caused widespread concern about business conditions among Japanese companies. However, it is not yet known what the broader impact might be on global economic growth.

FIGURE 4. Financial and Economic Hotspots around the World, 2010 and Q1 2011



Source: Capgemini Analysis, 2011

Post-Crisis Fiscal Deficits Also Remained a Major Challenge in 2010

The financial crisis and economic downturn have also worsened fiscal deficits and public debt levels, especially in developed countries where economic activity has been slower to recover. In 2010, public debt as a percentage of GDP was close to 200% in Japan, topped 80.0% in Germany and France, and rose 12.9% in the U.K. to 77.0%. In the U.S., that ratio jumped 16.4% in 2010 to 62.3% and gaping fiscal deficits at the federal and state level threaten to undermine the economic recovery.

For many economies, it became a significant challenge in 2010 to pursue both economic growth and policies aimed at reducing government deficits and debt (“fiscal consolidation”). In 2010 at least, developed economies tended to favor growth over consolidation. The U.S. and Japan, for instance, adopted new stimulus measures, further delaying fiscal consolidation. As a result, their fiscal balances (tax revenues plus proceeds from asset sales, minus spending) were in deficit by 10.6% and 9.5% of GDP respectively in 2010.⁵ The 2010 U.S. fiscal deficit was the largest among advanced economies, and while down from 12.7% in 2009, the deficit is expected to expand again to 10.8% of GDP in 2011 due to the ongoing effects of stimulus measures.⁶

In many emerging markets, however, governments were sensitive in 2010 to signs of overheating as capital flowed in seeking returns, and signs of inflation grew. Many central banks raised interest rates, potentially reducing aggregate demand and slowing growth, and providing governments with fewer resources to cut deficits. Still, the average fiscal deficit across emerging nations in the G20 was still less than the average among advanced economies in the G20 (-3.6% of GDP vs. -8.2% of GDP).⁷

WORLD GDP RETURNED TO EXPANSION, LED BY ASIA-PACIFIC

Domestic Demand in Developing Economies Provided Fuel for Global Growth in 2010

Despite ongoing challenges, the world economy grew at an annual real rate of 3.9% in 2010, but developing economies were the real engines of expansion. This dynamic was much the same as in 2009, when growth in developing economies had limited the contraction in global GDP to 2.1%.

In 2010, every region delivered positive economic growth, including those regions such as Europe, North America, and Japan that had suffered sizeable contractions in 2009 (see Figure 5). However, the driving force was again Asia-Pacific excluding Japan, where strong domestic demand in markets such as China, India, and Singapore helped to boost GDP by 8.3%. Japan also posted a strong recovery, growing 4.0% in 2010 after a 5.2% contraction in 2009. GDP growth in North America and Western Europe was far more moderate than in emerging economies in 2010 at 2.9% and 2.0% respectively.

The recovery in Latin America was also considerable, with the region posting GDP growth of 5.7% in 2010 after a contraction of 2.4% in 2009.

Globally, Private and Government Consumption Rose Slightly

Consumer confidence edged back up globally in 2010, prompting a slight rise (3.1%) in personal consumption. But again, Asia-Pacific excluding Japan saw the strongest personal-consumption recovery (up 10.0%), while the developed regions of North America and Western Europe saw little or no change.

In the U.S., personal consumption increased by 2.0% and consumer confidence was little changed as unemployment remained high and post-crisis stimulus measures wound down. In Europe, private spending was static amid ongoing worries about the sovereign debt crisis.

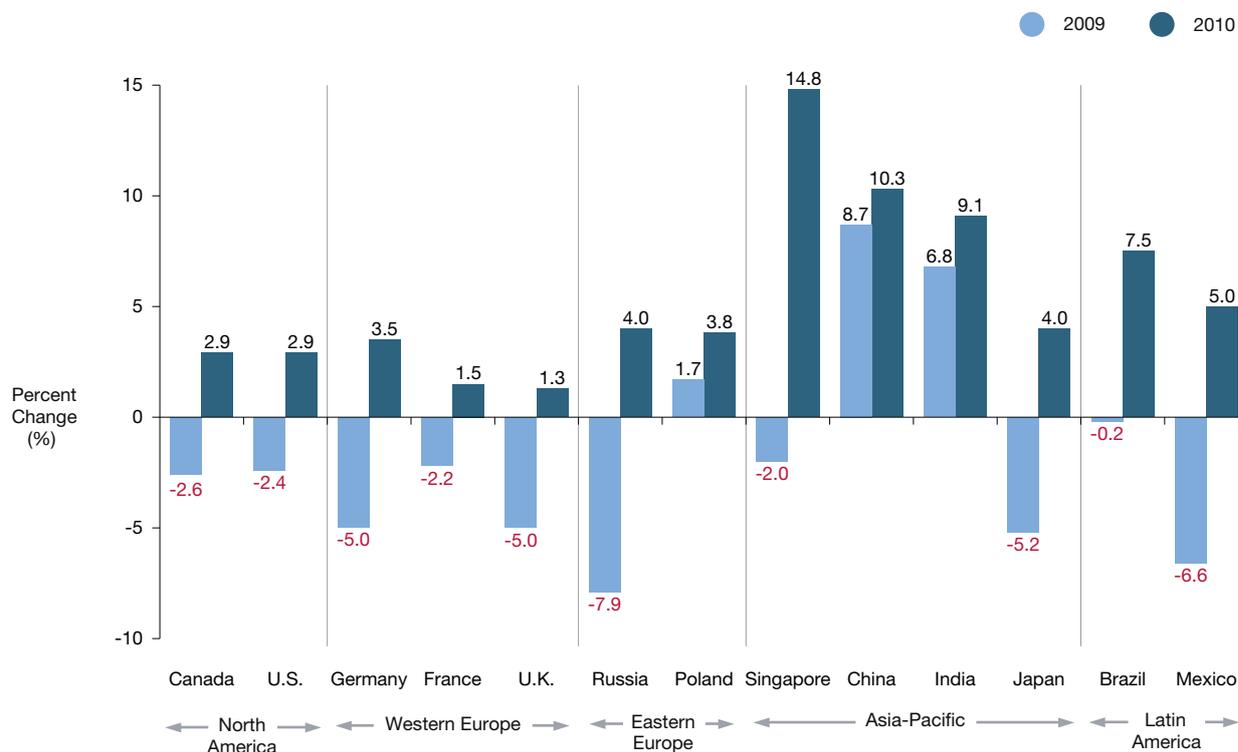
⁵ International Monetary Fund, “Shifting Gears: Tackling Challenges on the Road to Fiscal Adjustment,” Fiscal Monitor, April 2011.

⁶ Ibid.

⁷ Ibid.

FIGURE 5. Real GDP Growth Rates, 2009 – 2010

(%)



Source: Capgemini Analysis, 2011, Economist Intelligence Unit, March 2011 (Real GDP variation over previous year)

Global government consumption expanded 2.2% in 2010. That followed a 3.4% increase in 2009 and reflected the ongoing efforts by many governments to use stimulus measures to blunt the effects of the financial crisis. Mature economies still account for the largest share of total spending by governments globally. Government consumption remains highest in Western Europe and North America (US\$3.2 trillion and US\$2.8 trillion respectively in 2010), though the economies of Asia-Pacific and Latin America also increased public spending significantly in 2009-10 (by 9.1% and 25.0% respectively) to support the ongoing economic recovery.

National Savings Increased but Household Savings Declined

In 2010, national savings increased in all regions except Sub-Saharan Africa. As a percentage of GDP, national savings edged up to 22.2% globally from 21.3% in 2009, but the rate remains highest in Asia-Pacific excluding Japan (39.3%) and lowest in North America (10.9%).

Household savings as a percentage of disposable household income dropped in most G7 economies in 2010 due to ongoing problems such as high unemployment, decreased consumer confidence, and ongoing financial stresses in the EU region. Going forward, household savings rates are likely to rise again if and when central banks start to tighten monetary policy, which will lead to more attractive interest rates on deposits.

KEY MARKET AND OTHER DRIVERS OF WEALTH CONTINUED TO RISE IN 2010

The performance in many markets helped to contribute to the growth in wealth in 2010. Equity and other asset classes rose in value, though not at the exuberant pace of 2009's bounce-back. Commodities and real estate ended the year higher as did many hedge funds. Higher interest rates in some developing economies attracted investor capital from lower-rate developed economies.

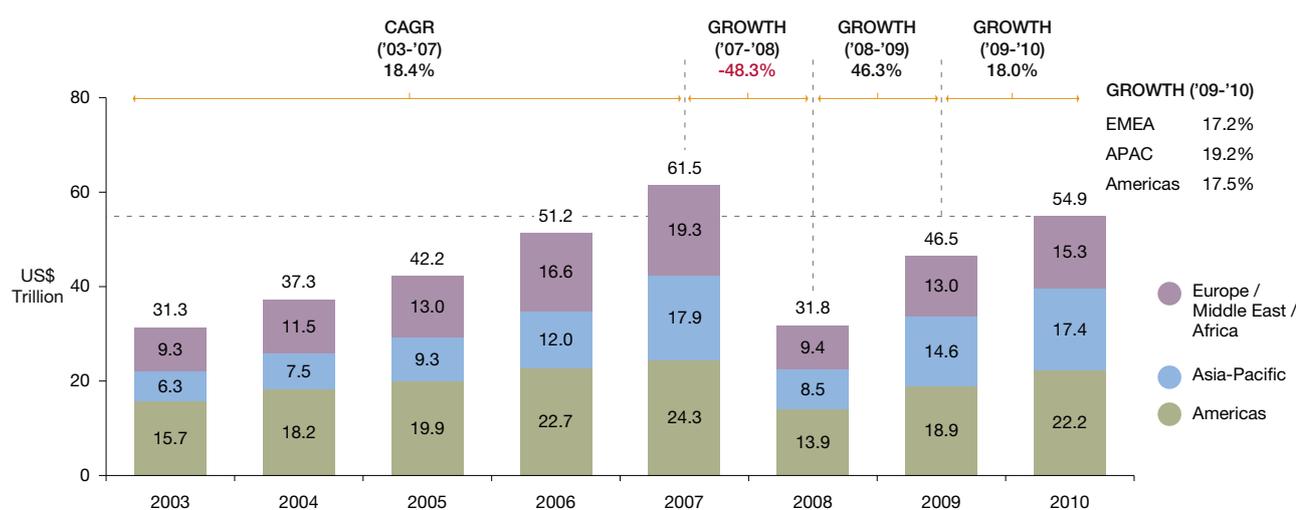
The following developments were notable among those markets that heavily impact global wealth:

- Global equity market capitalization rose 18.0%**⁸ despite the weak global recovery and sporadic economic and political turmoil around the world. Market capitalization ended the year at US\$54.9 trillion, which was still below the 2007 high of US\$61.5 trillion (see Figure 6).⁹ Equity market prices remained underpinned by ongoing government stimulus measures. The U.S., for instance, implemented a Treasury-purchase program in order to keep interest rates from rising, which made equities relatively attractive as an investment. Global equity-market volatility remained higher than pre-crisis levels, and spiked mid-year as concerns about the EU sovereign debt crisis flared (see Figure 7).

- International debt markets grew in size in 2010** as investor confidence returned to financial markets, providing more demand and liquidity for financial institutions, corporations, and governments looking to issue debt. Prices of over-the-counter (OTC) derivative contracts and credit default swaps (CDS) declined. However, investors remained cautious about investing in those kinds of instruments given their demise during the crisis.
- Interest rates in emerging markets rose, attracting dollars.** Most developed economies kept interest rates low in 2010 so rising rates in many emerging economies lured capital inflows. In the process, the currencies of many emerging markets rose. By the end of 2010, the U.S. dollar had depreciated by 4.6% against the Brazilian real, 3.4% against the Indian rupee and 3.3% against the Chinese yuan. The U.S. dollar gained ground, however, against the British pound (up 5.2%) and the euro (up 8.1%).
- Commodity prices rallied broadly.** Commodities were in strong demand both as raw materials and as investments in 2010 (see Figure 8). Demand for agricultural products and metals, especially from fast-developing nations such as China and India, pushed prices of many commodities to new highs and further increases are likely in 2011. Investor demand for gold and silver was evident from hedge funds and other institutional investors, individuals, and central banks. The Dow Jones-UBS Gold Sub-Index jumped 28.6% and silver outperformed most asset classes given that prices surged nearly 80.3%¹⁰.

FIGURE 6. Equity Market Capitalization, 2003 – 2010 (by Region)

(US\$ Trillion)



Source: Capgemini Analysis, 2011, World Federation of Exchanges, January 2011

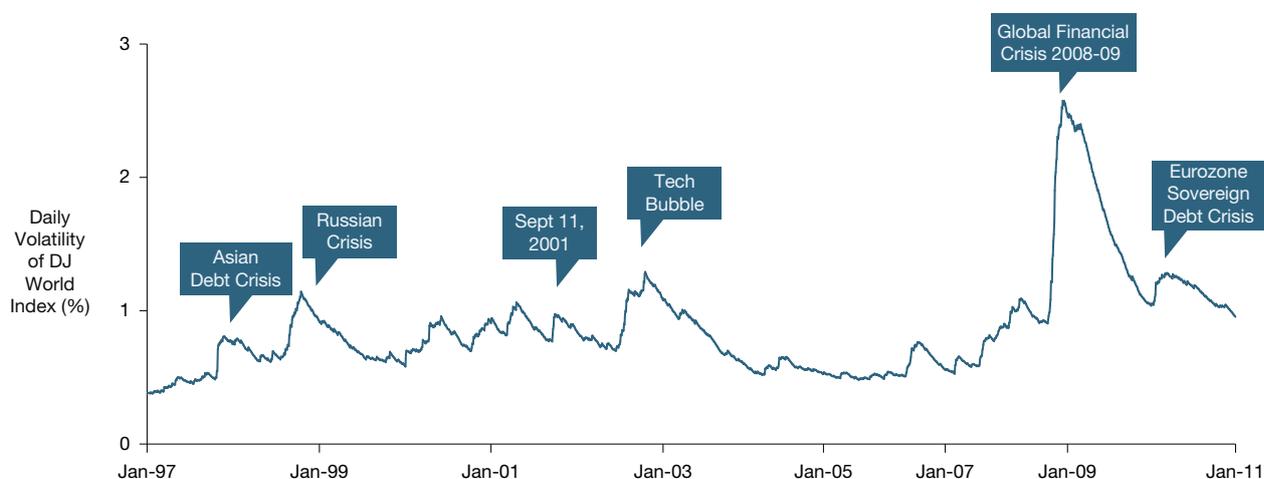
⁸ Capgemini analysis.

⁹ Ibid.

¹⁰ London PM FIX prices, www.kitco.com.

FIGURE 7. Daily Volatility of DJ World Index, January 1997 – December 2010

(%)



Source: Capgemini Analysis, 2011, Dow Jones World (W1) Index – Daily close values from January 1, 1997 to December 31, 2010

FIGURE 8. Performance of Select Commodity Indices, December 2009 – March 2011

(December 31, 2009 = 100)



Source: Capgemini Analysis, 2011, Dow Jones-UBS Daily Values for Commodities Index (DJUBS), Gold Sub-Index (DJUBSGC), Wheat Sub-Index (DJUBSWH3), and Corn Sub-Index (DJUBSCN)

- **Oil prices had increased significantly by the end of 2010.** Oil prices traded in a fairly narrow range for much of 2010, underpinned by strong demand from fast-developing economies. By December, though, supply constraints had started to show, and the price of crude oil rose to end the year at US\$91.4 per barrel, up from US\$79.4 a year earlier. In mid-December 2010, political unrest broke out in Tunisia and instability spread in early-2011 to many other Middle East nations. The turmoil pushed oil prices even higher and further gains are possible.
- **Hedge funds rose in line with equities.** The Dow Jones Credit Suisse Hedge Fund Index finished 2010 up 11.0% and above end-2007 levels. Hedge funds had experienced hefty redemptions and sharp declines in asset values during the crisis but net inflows started to pick up significantly in the second half of 2010. During the year, equity strategies generally outperformed fixed-income funds, but funds invested in mortgage-related securities were among the best-performing of any category. The volatility of hedge fund performance also declined in 2010 as markets continued their recovery. However, oversight of the industry has increased and any negative publicity or changes in regulations could undermine investor confidence.
- **Real-estate investment rose.** Global investment in real estate rose as markets such as the U.S. stabilized and others such as the U.K. bounced back quite sharply. However, the near-term prospects for real estate investment are uncertain. In the U.S. and U.K., government initiatives to support housing have largely expired so demand and prices could languish. In Asia-Pacific, real-estate prices have jumped in many markets and the policy focus in several countries is now on restraining a possible asset-price bubble. Real estate prices in Hong Kong jumped 19.5% in 2010¹¹ amid strong economic growth and heavy buying interest from mainland China. The Dow Jones Global Select REIT Index rose 18.6% in 2010 after gaining 23.8% in 2009.

WORLD ECONOMY IS ON THE ROAD TO RECOVERY BUT DOWNSIDE RISKS REMAIN

Global GDP growth is expected to slow to 3.2% in 2011 and stay there in 2012 as rapidly growing developing economies such as China and India face capacity constraints and developed economies tackle fiscal imbalances. However, the path to global recovery will likely be uneven and various risks remain. Among them:

- **Many governments must still tackle their fiscal deficits.** Deficits and debt levels pose short-term risks and longer-term structural challenges for many governments and, in turn, for the global economy. Crisis-related government stimulus has boosted borrowing by many major economies and raised government debt levels. Nevertheless, fiscal consolidation among the advanced G20 nations is projected to be less than 0.25% of GDP in 2011, while the average debt ratio is expected to rise to 107% of GDP.¹² Many developed nations will need to deal with long-term structural issues such as entitlements (e.g., pensions, medical care, education) as they seek to get a grip on fiscal deficits—and they will need to do that while remaining supportive of economic growth. The fiscal outlook has worsened too for many fast-developing emerging markets, which have started to focus on restraining overheating and inflation.
- **Inflation is rising in both mature and emerging economies.** Food and fuel prices are rising in both developed and emerging economies, but it is fast-growing emerging markets that have experienced the fastest inflation pace because of capacity constraints (see Figure 9). The Asian Development Bank estimates that inflation averaged 4.4% in 2010 in Developing Asia (which includes China and India) and will rise to an average 5.3% in 2011. U.S. inflation, by contrast, averaged just 1.5% in 2010. However, inflation pressure is clearly rising across the globe, especially given surging oil prices, and many emerging economies are already increasing interest rates to moderate the trend. The global approach to managing inflation pressure could, however, have an impact on the pace at which economic recovery proceeds.

¹¹ "Global Property Guide," January 2011.

¹² International Monetary Fund, "Shifting Gears: Tackling Challenges on the Road to Fiscal Adjustment," Fiscal Monitor, April 2011.

- Loose monetary policies are contributing to macroeconomic volatility.** Central banks in developed economies have kept interest rates low to support economic recovery while many emerging economies have started to push interest rates up to cool their economies down. This has led to a flight of capital from developed to developing economies in pursuit of higher returns. Large foreign capital inflows have caused the currencies of most of the developing economies to appreciate, undermining the competitiveness of their exports and destabilizing their macroeconomic health.
- High unemployment remains a concern.** The developed economies of the U.S. and EU still face high levels of unemployment, even though jobless rates have shown early signs of abating. In 2010, headcount and wages had yet to show significant growth, and the International Labour Organization reports global unemployment was essentially unchanged at 205.0 million or 6.2% in 2010. The speed of the jobs recovery will be a key factor in the strength of personal-consumption growth, especially as households in

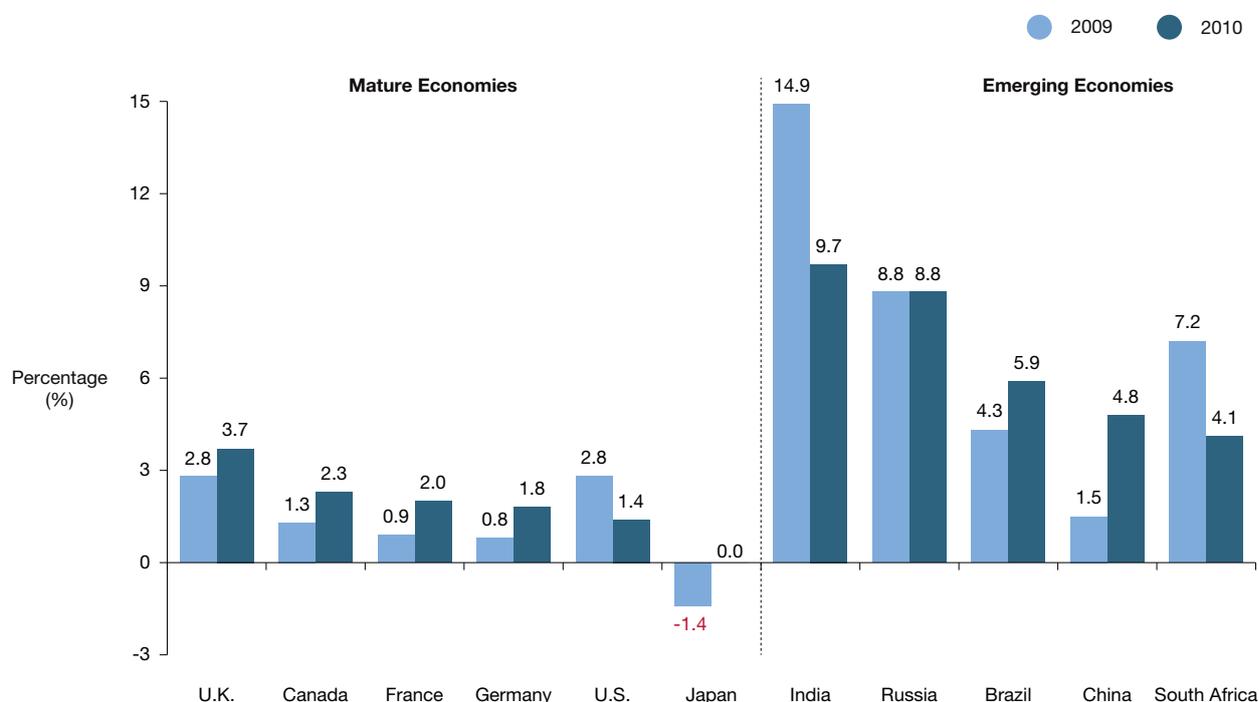
developed economies are still deleveraging. (Household debt is more than 125.0% of disposable income in the U.S., Canada and Japan and is highest in the U.K. at 170.6%).

Conclusion

The macroeconomic imbalances between mature and developing economies have increased since the financial crisis, as evidenced by the greater-than-average growth in Asia-Pacific HNWI wealth. In the coming year or so, each government will need to manage the country-specific effects of these imbalances on economic growth, including employment levels, interest rates, fiscal and trade deficits. At the same time, many are expected to wean their economies from crisis-related stimulus to reduce gaping fiscal and current account deficits, and many will need to manage inflation pressures. The resultant government actions will affect the pace of global recovery, and determine the extent to which Asia-Pacific and other emerging economies remain a target for global investors seeking high-growth returns.

FIGURE 9. Rate of Inflation,^a Select Mature and Emerging Economies, 2009 – 2010

(%)



^a Inflation is measured as the percentage change in consumer price index (end-period), over previous year
Source: Capgemini Analysis, 2011, Economist Intelligence Unit, March 2011

HNWIs' Equity Allocations Rose in 2010 and Emerging Markets Provided Profit Opportunities

- **HNWIs further shifted their holdings toward equities in 2010 while slowly reducing their holdings of cash/deposits and fixed-income instruments.**

These moves reflected a continued but gradual easing of crisis-related concerns and a guarded search for returns. By the end of 2010, HNWIs held 33% of all their investments in equities, up from 29% a year earlier.

- **Emerging markets provided profit opportunities.** At the end of 2010, HNWIs held about the same portion of their assets in emerging markets as they had a year earlier, but that comparison belies significant activity during the year. In the first 11 months, investors poured record amounts into emerging-market stock and bond funds before selling to capture profits as the year ended and after the value of many emerging-market investments topped pre-crisis highs.
- **HNWIs are expected to increase their equity allocations even more in 2012,** especially if the global economy shows clear signs of a sustained recovery. At the same time, HNWIs overall are expected to keep reducing their allocations to real estate and cash/deposits. Regional preferences are less certain as the extent of emerging-market opportunities will depend on whether those markets can push to new highs while economies are being weaned of government stimulus.

HNWIS ASSUMED CALCULATED RISK IN SEARCH FOR BETTER RETURNS IN 2010

Many HNWIs took on more risk in 2010 as markets continued to rebound from crisis-related losses. As a result, aggregate portfolio holdings shifted further toward equities and away from cash/deposits and predictable fixed-income instruments. However, HNWIs continued to favor specific asset classes based on market opportunity and/or long-standing preferences. For example:

- **HNWIs from North America** have long favored equities as an asset class and they held 42% of all holdings in equities at the end of 2010, up from 36% at the end of 2009 and above the global average of 33%. The increased exposure to equities largely reflected growing investor confidence as the U.S. and global economies showed signs of improvement.
- **HNWIs in Asia-Pacific excluding Japan** continued to pursue returns in real estate, which accounted for 31% of their aggregate portfolio at the end of 2010, up from 28% a year earlier and far above the 19% global average. Residential real estate remains especially attractive and lucrative for these HNWIs given the strong fundamentals in the region, where the growing middle classes in emerging economies are straining the relatively tight supply of high-quality residential real estate.
- **HNWIs from Japan** remained the most conservative in the world and held 55% of their aggregate portfolio in fixed-income and cash/deposit vehicles at the end of 2010, up from 48% a year earlier and above the global average of 43%.

Overall, HNWIs Moved Further into Equities and Edged Away from Fixed Income and Cash/Deposits

- HNWIs were keen to capture a piece of the 2010 run-up in stock prices, which saw global equity-market capitalization rise 18% after a 49% jump in 2009.¹³ As a result, HNWIs ended 2010 with 33% of their assets in equities, up from 29% a year earlier. At the same time, their allocation to cash/deposits dropped to 14% from 17% and the share held in fixed-income investments dipped to 29% from 31% (see Figure 10).
- The prominence of equities in 2010 reflected the search for returns and the desire of HNWIs to recoup more of their crisis-related losses. Going forward, the equity share of overall HNWI holdings is expected to expand by another 5 percentage points to 38% by the end of 2012 as investor confidence and risk appetites solidify and grow. The allocation to more predictable fixed-income investments is expected to hold steady at 29%, but the share held in cash/deposits is expected to drop to 11% from 14%.

¹³ Capgemini analysis.

Globally, HNWI's Real Estate Holdings Were Little Changed but Allocations to REITs Rose

The global allocation of HNWI's to real estate was 19% by the end of 2010 versus 18% a year earlier but declining commercial property rates and high residential inventory levels created uncertainty in the real estate markets of developed markets.

HNWI's exposure to residential real estate dipped to 46% of all real estate holdings from 48% in 2009. Residential was still the single largest sub-segment of real estate in 2010, but it clearly felt the effects of declining prices and the uncertain economic and housing outlooks. Overall, HNWI's exposure to commercial real estate was little changed at 26% of all real estate holdings in 2010 versus 27% in 2009.

Holdings of residential real estate were proportionally greatest among HNWI's from Asia-Pacific excluding Japan, but their residential assets still declined to 51% of all real estate holdings from 60%.

The commercial share of real estate holdings rose among HNWI's in Asia-Pacific excluding Japan to 37% from 24% and in the Middle East to 34% from 29%. Commercial real estate is still perceived as an opportunity in the emerging

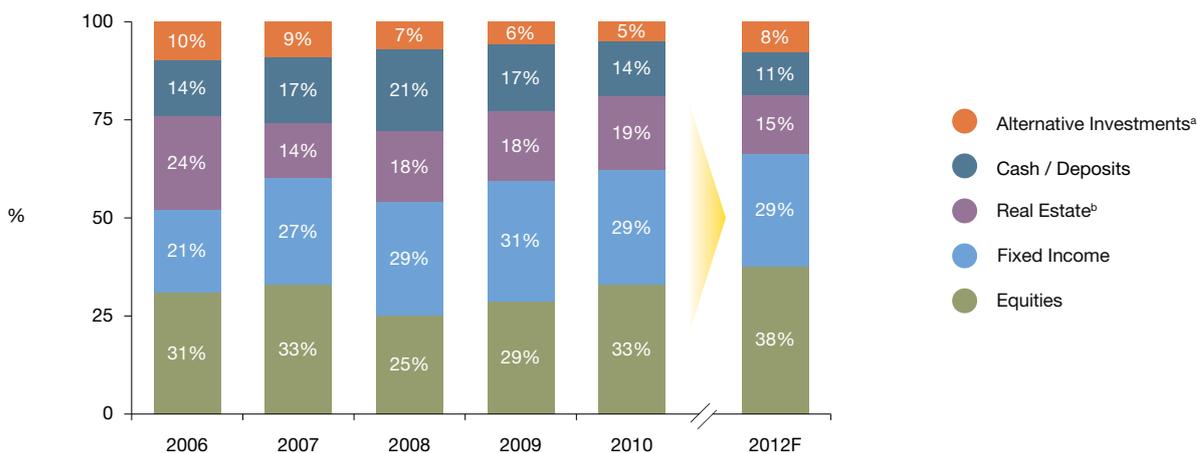
markets of these regions but is languishing in more developed markets. In the U.S., commercial vacancy rates neared historic highs in 2010, averaging around 10.9% for retail space and 17.6% for office space across the country.¹⁴ Among North American HNWI's, commercial property accounted for just 20% of real estate holdings in 2010. That compared with 30% among HNWI's in Europe, where illiquid markets have made it difficult to offload commercial assets.

Overall, HNWI's REIT holdings rose to 15% of all real estate investments at the end of 2010 from 12% a year before as the Dow Jones REIT index gained 24%. REIT allocations were proportionally higher in North America and Japan (24% and 23% respectively), largely because REIT vehicles are more readily available and more widely accepted among investors in those markets.

By the end of 2012, HNWI's real estate holdings overall are expected to decline to 15% of all assets from 19% at the end of 2010. Investment interest is expected to remain strong in certain real estate segments, and especially in emerging markets, but many HNWI's remain apprehensive about real estate given the sector's generally slow recovery from hefty crisis-related losses.

FIGURE 10. Breakdown of HNWI Financial Assets, 2006 – 2012F

(%)



^a Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity, venture capital.

^b Comprises commercial real estate, real estate investment trusts (REITs), residential real estate (excluding primary residence), undeveloped property, farmland and other.

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

Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Surveys 2007, 2008, 2009, 2010, 2011

¹⁴ Reis, Inc. analysis.

Among Alternative Investments, Many HNWI's Favored Foreign Currency and Commodities

Globally, the allocation of HNWI assets to alternative investments¹⁵ dipped to 5% of all holdings at the end of 2010 from 6% a year earlier, but various shifts occurred among component categories:

- **Commodity** investments accounted for 22% of all alternative investments in 2010, up from 16% in 2009. Prices of many commodities rose to all-time highs during the year as rapidly growing economies such as China and India spurred demand for raw materials such as base metals, platinum and palladium (used in car parts) and crude oil, and investors flocked to gold amid volatility in both the dollar and the euro.
- **Foreign currency** holdings increased to 15% of all alternative investments in 2010 from 13% as investors bought into currencies where country interest rates were higher than in the developed markets of the U.S. and Europe.
- **Hedge-fund** holdings declined proportionally to 24% from 27%. The Dow Jones Credit Suisse Hedge Fund Index rose 11.0% in 2010 and the Hedge Fund Research, Inc. (HFRI) Fund Weighted Composite Index gained 10.5%. However, HFRI noted most of the gains were posted at the end of the year, and it was only late in the year that inflows picked up—pushing total industry assets to US\$1.9 trillion, near the historical peak set in the second quarter of 2008.

Alternative investment preferences also varied by region. HNWI's from North America and Latin America held more commodities than average (30% and 26% respectively). HNWI's in Japan allocated 34% to foreign currency versus the 13% global average and 26% to structured products, which was more than HNWI's in any other region. HNWI's in Asia-Pacific excluding Japan allocated 22% of alternative investments to structured products compared with the global average of 17%. Hedge funds were still an important vehicle for HNWI's in Latin America, where they accounted for 35% of all alternative investments but that portion was down substantially from 49% a year earlier.

Going forward, HNWI's allocations to commodities and foreign currency are expected to keep rising, underpinned by the demands of fast-developing economies. Hedge-fund interest could be undermined by ongoing regulatory scrutiny of funds. Negative headlines or new oversight measures could lead HNWI's to allocate less to such funds.

¹⁵ Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity, venture capital.

ASIA-PACIFIC IS KEY IN REGIONAL DISTRIBUTION OF HNWI ASSETS

Around the world, HNWI's invest foremost in their home regions and then North America. (North American HNWI's invest first at home and then in Europe.) However, the regional distribution of assets shifts as HNWI's seek a balance between the search for yield and the need to diversify. This dynamic was evident during 2010 and is expected to continue to drive regional asset re-distribution by HNWI's in the coming year or so.

On aggregate, the regional distribution of HNWI assets was very similar at the end of 2010 to the year before. For example, 39% of global HNWI assets were held in the form of North American investments, up from 38%, while 21% was in European assets, down from 23%. The proportions held in Asia-Pacific (22%), Latin America (13%), and the Middle East (3%) were all the same as the year before. However, that apparent stability belies some important intra-year shifts.

During the first 11 months of 2010, investors poured a record US\$80 billion into emerging-market stock funds and US\$34 billion into emerging-market bond funds according to EPFR estimates. The returns on many of those assets surged and surpassed pre-crisis highs during that time. The MSCI Emerging Market Index, for example, was up 104% since 2008 while the MSCI Developed Market Index was up 39%. By the end of the year, however, many investors took profits on emerging-market assets, especially as the opportunity in other markets started to improve.

For one, U.S. investments became relatively more attractive as 2010 wore on. The Federal Reserve initiated a concerted monetary easing in September, which nudged investors into higher-yielding investments such as equities. In December, the U.S. government unveiled new fiscal stimulus, which boosted investor confidence, and more signs emerged that consumer spending was picking up. In just three weeks in December, investors re-allocated US\$22 billion into U.S. stock funds, according to EPFR estimates.

Asset-Distribution Strategies Also Differ by HNWI's Home-Region

At the end of 2010, North America HNWI's had 76% of their assets in home-region investments, unchanged from a year earlier (see Figure 11), but that figure is expected to drop to 68% by the end of 2012 as North American HNWI's re-distributed assets toward emerging markets to capture higher returns and toward alternative developed markets to diversify their risks.

This trend is already evident among European HNWI, where home-region allocations in 2010 dropped to 56% from 59% while North American holdings rose to 23% from 21% and the emerging-market share also edged up. By 2012, European HNWI's home-region allocation is expected to slide another seven percentage points to 49% while North American and emerging-market assets become even more prominent.

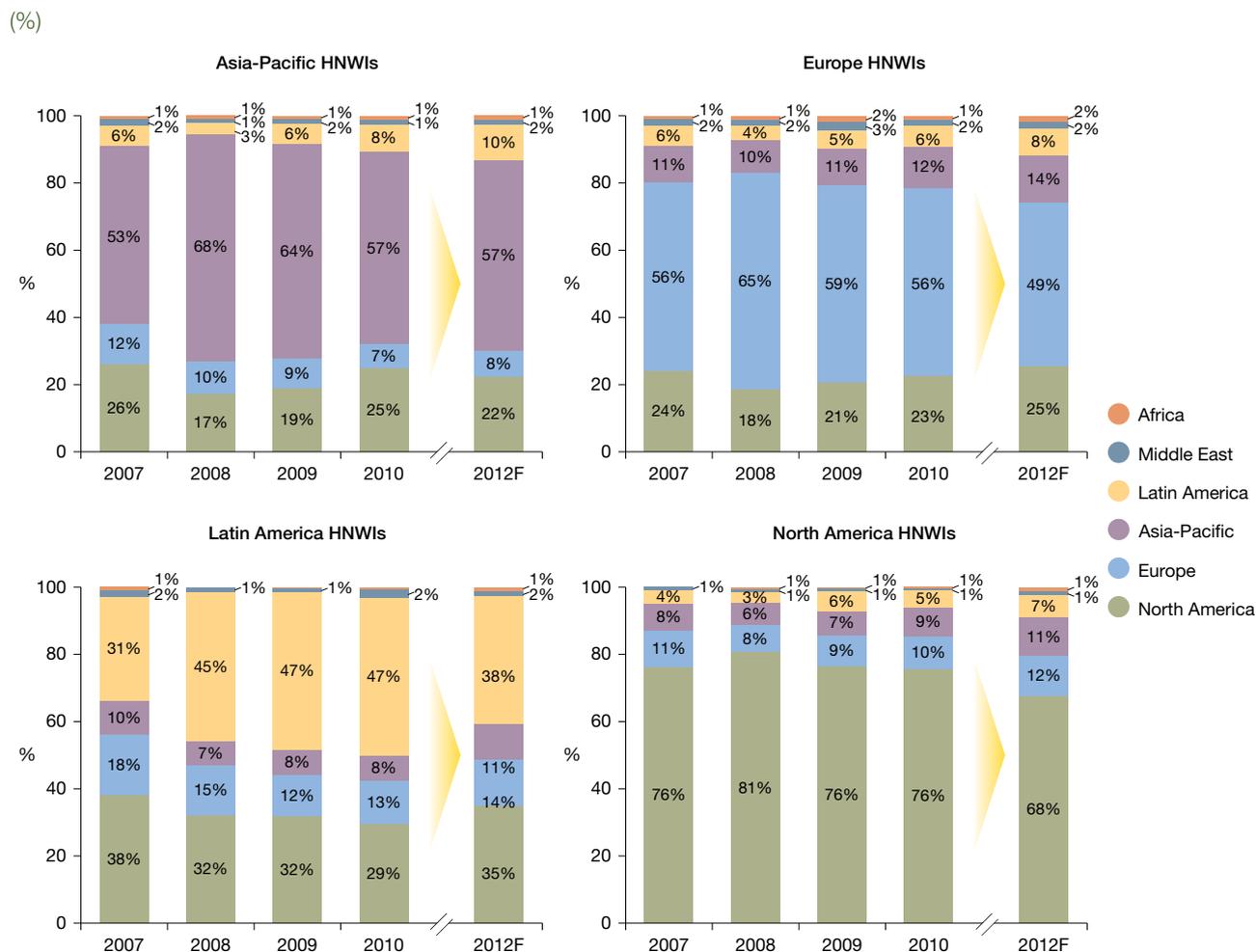
Among Asia-Pacific HNWIs, home-region allocations also dropped in 2010, to 57% from 64%, as North American investments bounced back from 19% to 25%, near pre-crisis levels. Those home-region allocations are expected to be much the same in 2012, but North American investments are likely to dip proportionally as Asia-Pacific HNWIs seek opportunities in other emerging markets.

Latin-America HNWIs' investment allocations were little changed in 2010, but significant shifts are expected in 2012, when home-region allocations are expected to drop while investment in North America rises.

Despite these shifts, the global distribution of HNWI assets will likely look much the same at the end of 2012 as it does now as investors wait for the global economy to work more thoroughly through its post-crisis recovery phase.

There is likely to be a greater proportion of HNWI assets held in Asia-Pacific in 2012 (24% versus 22%), but the extent of the shift toward emerging markets in general will depend in part on whether those markets can push to new highs while their economies are being weaned of government stimulus. HNWIs' North American holdings are expected to dip to 38% while the proportions held in other regions stay the same.

FIGURE 11. Breakdown of HNWI Geographic Asset Allocation, 2007 – 2012F



Note: Percentages may not add up to 100% due to rounding; Data for the Middle East is not depicted but showed the same trend toward increased investment outside of the home region
 Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Surveys 2008, 2009, 2010, 2011

HNWI Demand for Investments of Passion Rebounded as Wealth Grew in 2010

■ HNWI's appetite for investments of passion increased in 2010 as

the global economy rebounded and HNWI wealth levels grew again (after the strong growth of 2009). The value of many categories of investments of passion rose and HNWIs made acquisitions for the aesthetic and emotional appeal and their potential to return value. Collectibles such as Art, which are deemed to have a low or negative correlation with mainstream financial investments, continued to have portfolio-diversification appeal.

■ Growing wealth from emerging economies helped to spur a revival in markets for investments of passion. The

exponential growth in the number of emerging-market HNWIs and their level of wealth is expanding the global market for investments of passion, and broad demand from Chinese buyers is widely reported for all sorts of investments.

DEMAND FOR ALL TYPES OF INVESTMENTS OF PASSION GREW IN 2010

Individual preferences play a large part in HNWIs' decisions to commit to investments of passion, especially given emotive variables such as aesthetic value and lifestyle/status appeal. But HNWIs also view many investments of passion as alternative vehicles for preserving and appreciating their capital over time, diversifying their portfolio exposure or even capturing short-term speculative gains.

As wealth levels rebounded in 2010, interest in all forms of investments of passion also revived. HNWIs' relative allocations to those investments changed very little from 2009, but new and growing demand was discernible from emerging markets.

The following were among the developments in major categories of investments of passion in 2010:

■ **Luxury Collectibles** (e.g., luxury automobiles, boats, jets) remained the largest single segment (29%) of investments of passion. Demand for luxury cars rebounded broadly in 2010, but especially from emerging economies in Asia-Pacific, Russia, and the Middle East. Mercedes-Benz, for example, said its worldwide sales rose 15% in 2010, while sales in China including Hong Kong jumped 112% and sales in other emerging markets including India, Brazil, and Russia also rose sharply. Ferrari reported China sales in 2010 were up nearly 50% from 2009, 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.

■ **Art** accounted for 22% of investments of passion overall, but that share was higher among European HNWIs (27%) and highest among Latin American HNWIs (28%). Art is also most likely to be seen as a form of financial investment. In fact, 42% of Advisors say they believe their HNWI clients invest in Art primarily for its potential to gain value.¹⁶

While it is hard to generalize about Art values, auctions in early 2010 certainly generated headlines when two world records were broken for artworks sold at auction—first a Giacometti painting sold for US\$104.3 million in February, then a Picasso sold for US\$106.5 million in May. Later auctions were less ebullient, but auction houses report demand remains strong for high-quality pieces.

Newly wealthy Chinese buyers are widely reported to be keen bidders and buyers at galleries and auction houses, especially to acquire the fast-diminishing supply of works from native artists. 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. That sale was part of a Sotheby's auction of contemporary Asian art, which yielded US\$18.7 million, topping the pre-auction estimate by about US\$2.5 million.¹⁷ Chinese demand is also reported to be strong for European art and Fine Arts, and Chinese collectors were said to be aggressive bidders on many

¹⁶ Capgemini/Merrill Lynch Global Wealth Management Financial Advisor Survey 2011.

¹⁷ <http://www.nytimes.com/2010/04/07/business/global/07auction.html>.

lots at the late-2010 sales at major New York auction houses. Estimates put the total sales of Chinese arts at just over \$4 billion between 2000 and 2009.¹⁸

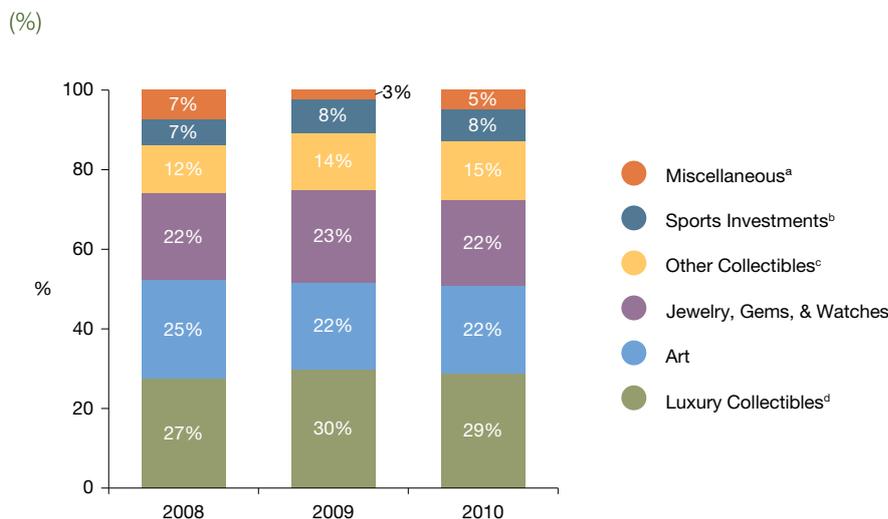
- **Jewelry, Gems and Watches** also accounted for 22% of all investments of passion in 2010. Middle East HNWI had the highest share at 29% but that was down from 35% in 2009. Record prices for diamonds at international auctions in 2010 exemplified the growing trend among the world's HNWIs to see large diamonds as a safe and high-growth investment alternative. Current demand at the highest end of the market appears to be largely from Russia and the Middle East, but demand from Chinese and other Asia-Pacific investors is also growing fast.¹⁹ Demand for fine and rare watches is also evident, with Christie's International posting a record US\$91.2 million in such auction sales in 2010 and reporting "exponential growth in buyer participation from Asian markets, led primarily by China and Hong Kong".
- **Other Collectibles** (e.g., wine, antiques, coins, memorabilia) accounted for 15% of all investments of passion in 2010. Rising gold prices helped to buoy demand for rare coins in 2010, with many pieces in auctions such as the Spink Ancient, English and Foreign Coins and Commemorative Medals sale garnering far more than pre-sales estimates. Sales of fine wine also surged in 2010. For example, Sotheby's sold US\$88.3

million in wine at global sales, more than double the 2009 total, and the highest in the company's 40 years of wine auctions. Sales from its Hong Kong wine auction were up 268%.

- **Sports Investments** accounted for 8% of HNWI's investments of passion overall but that number was higher among Middle East HNWIs (13%) and those from Asia-Pacific excluding Japan (10%) and Latin America (10%). In recent years, numerous soccer franchise deals have been made by HNWIs from emerging regions, including Russia, India, and the Middle East. Notable among sports investments by HNWIs during 2010 was the purchase by U.S. entrepreneur Stan Kroenke of St. Louis Rams American football team. Kroenke's other sports holdings include stakes in U.S. basketball, soccer, ice hockey, and lacrosse teams and a U.K. soccer team. U.S. basketball icon Michael Jordan also bought a controlling interest in the Charlotte Bobcats basketball team in 2010.

HNWIs are clearly motivated to acquire investments of passion by more than financial considerations, and the amount of money flowing into this category tends to rise and fall with overall levels of wealth. However, many investments of passion are also solid financial investments and will continue to play a role in HNWI portfolios, especially for HNWIs seeking investments with a low correlation to global financial markets.

FIGURE 12. HNWI Allocations to Investments of Passion, 2008 – 2010



^a "Miscellaneous" includes club memberships, travel, 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 Advisor Surveys 2009, 2010, 2011

¹⁸ Ibid

¹⁹ Konzept Analytics, "Global Gem and Jewelry Market Report 2010."

Demographic Profile of HNWI's Shows Slight Shift but the Impact Will Likely Be Gradual

- **The HNWI demographic is gradually becoming more diverse over time.** For example, younger HNWI's (aged 45 or younger) made up only 17% of the population in 2010, but that was up from 13% just two years earlier. Similarly, women made up 27% of the global HNWI population in 2010, up from 24% in 2008.
- **Emerging demographics may have different needs than long-standing HNWI clients.** Firms and Advisors cannot assume their existing value propositions will continue to resonate as demographics change, and they must be careful to avoid generalizing about the needs of growing demographic segments based on the historical demands of the majority.
- **Demographic shifts are gradual and require firms to make balanced adjustments rather than a full-scale, instant transformation.** These shifts in demography have been small in absolute size so far, but over time could result in a very different industry landscape. Being aware of the potential impact of these trends can help Firms to utilize initiatives, such as blended team-based approaches and education of potential clientele, to help them remain responsive as these shifts evolve over time.

FIRMS COULD LOSE AUM IF THEY FAIL TO MEET THE NEEDS OF EMERGING HNWI DEMOGRAPHICS

There may be no such thing as an “average” HNWI, but in 2010, 83% of all the world's HNWI's were over 45 years of age (and 59% were over 55) and 73% of all HNWI's were male. While older men may be in the majority today, the HNWI population is gradually becoming more diverse as global demographic, cultural, and business shifts challenge any broad generalizations about who HNWI's are and how they acquire, manage and utilize their wealth.

Demographic diversification is naturally gradual so it does not require the same kind of urgent response or fundamental transformation that could be needed to address post-crisis changes in HNWI priorities and behaviors (see Spotlight on Enterprise Value). However, a look at just two key shifting demographic trends—female and younger HNWI's—illustrates how Firms may need to fine-tune their service models over time to accommodate specific needs.

Notably, this strategy is consistent with the empathetic approach Firms and Advisors have had to assume since the financial crisis. Firms and Advisors have already seen their HNWI clients become more conservative as they focus first on fulfilling life goals rather than chasing short-term returns as many were keen to do before the crisis. HNWI's' changing post-crisis demands have required many Firms and Advisors to hone their propositions, and demographic shifts will require a similar and long-term focus on individual needs.

Of All HNWI's, Fewer than One in Five Is 45 or Younger but Those Numbers Vary by Region

HNWI's aged 45 and under represented just 17% of all HNWI's in 2010, but that was up from 13% just two years earlier. Of all HNWI's, 41% were 55 or under, up from 37%. However, the numbers vary by region (see Figure 13), reflecting a variety of factors—from the make-up of the broader population and economy to household size and formation and differences in wealth-transfer practices. For example:

- In Asia-Pacific excluding Japan, where fast economic growth has created a whole new breed of entrepreneurs, 41% of HNWI's are 45 or younger.

- In the Middle East, more than 50% of the total population is estimated to be below 25 and the HNWI population is also younger than average: 21% are 45 or under and 56% are 55 or under.
- In Japan, which has one of the fastest ageing populations in the world, 80% of HNWIs are over 55 and only 8% are 45 or under.
- In North America, where the population is also aging—as it is in most post-industrialized economies—68% of HNWIs are over 55.

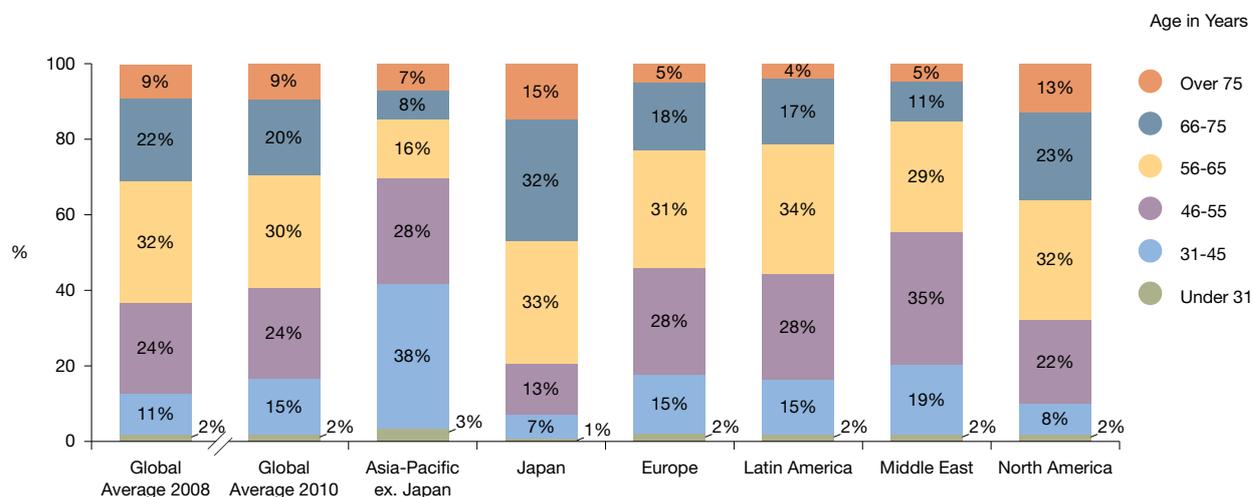
While the number of young HNWIs is unlikely to rise precipitously, the trends show that Firms and Advisors cannot afford to ignore the younger demographic, whether the younger element represents existing HNWIs or recipients of wealth transferred from older generations.

Currently, Advisors lose an estimated 49% of assets under management (AuM) during generational wealth transfer. The financial crisis may have made it even tougher to retain those assets—and to attract newly minted HNWIs—because the younger demographic is more likely to focus on the difficulties of the crisis years and to be unsure that partnering with an Advisor is in their best interests.

As a result, next-generation HNW clients may need a more global and holistic approach from their Firms and Advisors—one that includes a broad array of advice on overall finances (including taxes), investment opportunities in faster-growing international markets, and partnerships with wealth-transfer attorneys and accountants. Younger HNWIs may also be more demanding of their Firms and Advisors in terms of transparency, efficiency, technology and convenience in everyday interactions, as many favor predominantly real-time digital media for communications and transactions.

FIGURE 13. Age Breakdown of HNWI Population, 2010 (by Region)

(%)



Note: Percentages may not add up to 100% due to rounding
 Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Surveys 2009, 2011

More than One in Four HNWI Is Female

Women accounted for 27% of the global HNWI population in 2010, up from 24% in 2008 (see Figure 14). Again there are differences by region, most often reflecting cultural and business trends, but the number of female HNWIs is quite likely to rise as the number of female entrepreneurs and high earners continues to expand.

In North America, where women are well-established in the business world, women already account for 37% of the total HNWI population. In the Middle East, 86% of HNWIs are men, but Sharia law protects women's assets, creating a specialized need for wealth-management services for female HNWIs.

Again, Firms and Advisors will need to consider whether the value proposition they offer to female HNWIs is apt to retain and attract AuM. At present, for example, Firms initially retain a seemingly impressive 66% of all assets transferred to a woman from a man, but the question is whether they can retain that AuM for the longer term.

Women need to plan for the same wide variety of possible life events as men—from the sale of a business to a job loss, marriage, divorce, long-term care, and generational

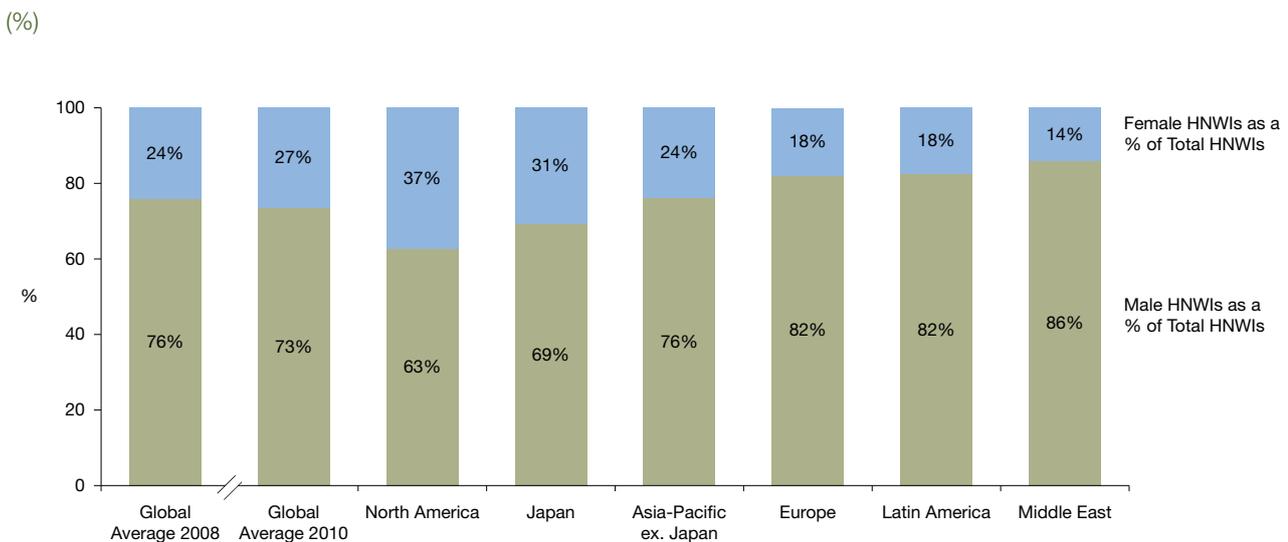
bequests—but they live longer on average. It is important for Advisors to understand a female HNWI's economic priorities, risk appetites, and other investment goals as they may differ significantly from the average male HNWI client when, for example, she has outlived a spouse or a trust has already been established for heirs.

Advisors will also need to comprehend fully the “network of influence” on which their female HNWI clients rely in making such financial decisions. Firms could, for example, leverage team-based approaches to combine complementary strengths and different perspectives to iterate their response to the complex needs of female HNWIs.

Conclusion

Demographic changes do not happen overnight, but they do represent an inexorable move away from the status quo. As such, these changes need to be on the radar as Firms and Advisors continue to rebalance their HNWI value propositions over time. Most critical will be the need to stay relevant to individual HNWI clients, using tools and techniques that resonate—with emerging segments, including (but not limited to) the female and younger demographics as well as to existing HNWI clients.

FIGURE 14. Gender Breakdown of HNWI Population, 2010 (by Region)



Note: Percentages may not add up to 100% due to rounding
 Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Surveys 2009, 2011



Spotlight

Wealth Management Firms Can Leverage Enterprise Value²⁰ to Better Address HNWI's Complex Post-Crisis Needs

- **Wealth management firms and Advisors have overwhelmingly regained the trust and confidence of HNWI clients** since the financial crisis, so the imperative for Firms and Advisors is to help HNWI clients manage the complex mix of goals, concerns, and priorities they now face. The task is complicated by the fact that HNWI clients still lack trust in regulators and, to a lesser extent, financial markets.
- **Firms could drive significant HNWI client satisfaction by leveraging “Enterprise Value” to deliver an integrated response to HNWI's complex post-crisis needs.** The highest priority will be to deliver a relevant enterprise proposition in areas where HNWI's see substantial value but are less than satisfied to date. Key examples of sought-after cross-enterprise capabilities (or “value levers”) are: Cross-enterprise expert advice teams; unique investment opportunities through the investment bank; preferred financing for entrepreneurs; and advice/expertise from the private bank and the investment bank during the wealth-creation process.
- **Today's post-crisis, client-driven Enterprise Value paradigm is very different from yesterday's Firm-driven search for synergies.** Many financial services firms have tried to capture and leverage Enterprise Value before, typically seeking the benefits of synergies, but those attempts have often fallen short. Now, forward-thinking Firms need to build Enterprise Value strategies and investment programs from a client-benefit perspective. This will still mean facing up to the significant challenges that exist in doing so, from ensuring strategic commitment to managing incentives and establishing support mechanisms.
- **The Enterprise Value approach could be an especially important differentiator for Firms** that need to be more responsive in today's highly competitive market. It could also help Firms to position themselves better to respond to longer-term shifts in the demographics of the HNWI segment. At the same time, there is still potential for Firms to capture financial benefits. Enterprise Value is a long-term evolution and commitment, however, not a short-term fix.

HNWI'S HAVE REGAINED TRUST IN ADVISORS AND FIRMS BUT ARE MORE CONSERVATIVE AND MORE VIGILANT POST-CRISIS

HNWI's Faith in Advisors and Wealth Management Firms Has Slowly Been Restored

In 2010, as financial markets and economies rebounded across the globe, 98% of HNWI clients are believed to have trust and confidence in their wealth management Advisors and 88% in their wealth management firms (‘Firms’). This endorsement stood in stark contrast to 2008, when nearly 50% of HNWI clients were losing trust in their Advisors and Firms (see Figure 15, pg. 26). Trust and confidence in regulatory bodies and institutions is far from restored, however. Only 44% of HNWI clients had faith in oversight bodies in 2010 and nearly one-third still actively distrusted these institutions.

This mixture of trust and misgivings reflects a long and sometimes painful journey for HNWI's in which they have rethought their investment goals and weighed heavily the amount of risk they are willing to assume to reach those goals. The process has also caused HNWI investors to be newly demanding of their Firms and Advisors. This presents a significant opportunity for leading Firms that are able to address the breadth and complexity of client needs, particularly if they can leverage against their broader enterprise capabilities.

²⁰ Enterprise Value: The ability to leverage capabilities from across different business units in order to differentiate in meeting client needs.

HNWI Asset Allocations Are Still More Conservative than before the Crisis, Partly due to Diminished Trust in Markets and Regulators

Asset allocations at the end of 2010 showed a continued easing of crisis-related concerns and a cautious search for returns by HNWIs, but HNWIs still held US\$18.6 trillion or 43.5% of all their assets in conservative instruments (fixed-income and cash/equivalents)—even though global equity-market capitalization had risen 18.0% in 2010 and 46.3% in 2009.

The fact that HNWIs still hold a significant portion of their assets in low-yielding instruments clearly demonstrates the effects of the crisis on the investor psyche:

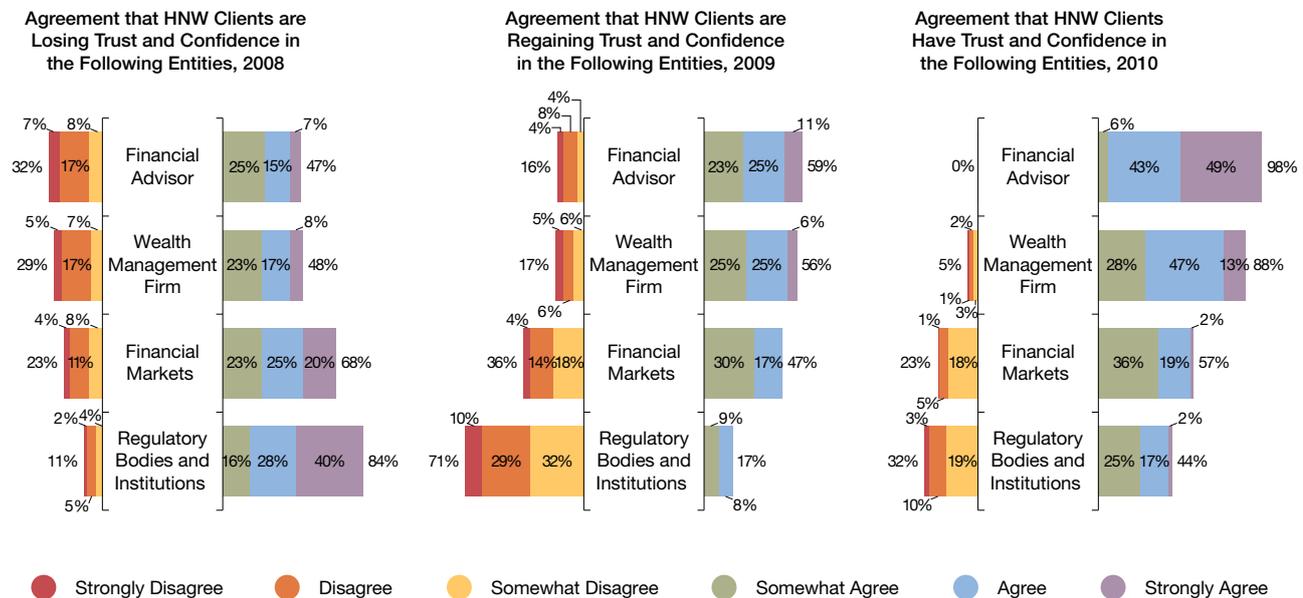
- HNWIs remain uncertain that markets will remain stable and that the financial crisis is over, and they fear that new and unforeseen systemic shocks could emerge.
- HNWIs are cognizant that global politics and economics are converging in decisions about interest rates and many other policies, which could affect future market returns.

- HNWI clients are heavily focused on attaining specific life-goal benchmarks, not just arbitrary investment goals. As a result, many are committed first and foremost to preserving capital built to fund their life goals.
- HNWI investors are not easily convinced that alternative or emerging opportunities are worth the risk—or at least not as easily convinced as during the bull-market years when all investments seemed to return some type of positive yield.

In this post-crisis environment, Firms and Advisors must remain mindful of client concerns but cannot disregard their fiduciary responsibilities. In 2011, for example, Advisors could soon need to discuss with HNWI clients whether they are being overly conservative, especially as rising inflation eats into already low returns on certain asset classes. This conversation will be necessary whether clients are looking to preserve capital or capture higher yields, and it will require Advisors to have a sophisticated understanding of their clients so as to deliver a viable strategy that resonates.

FIGURE 15. HNWI Client Trust Levels, 2008 – 2010

(%)



Note: Questions asked each year were slightly different, but the message remains clear – Firms and Advisors are well-trusted by clients globally but regulators and markets are less so
 Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Surveys 2009, 2010, 2011

HNWIs Are Sensitive to the Effects of Macro Trends and Taxes on Investment Performance and Goals

Client conversations will obviously depend on individual needs, but it is clear the crisis has generally made HNWI investors more sensitive to the potential for macro trends to undermine the performance of their own portfolios and their ability to meet specific investment and life goals.

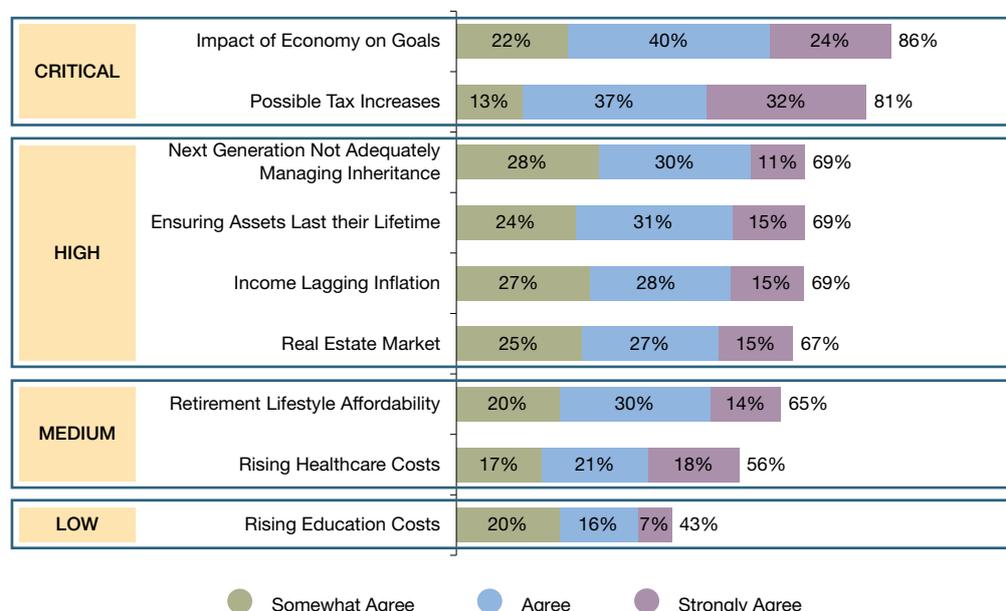
The financial crisis resulted in an economic downturn in developed economies that has played out very publicly—as have the efforts by governments around the globe to offset the effects and put their economies on a balanced-growth trajectory. This has left HNWI with a whole swath of new concerns (see Figure 16). Most critical are the general unease about the impact of the economy on financial goals and fears that tax rates will be hiked, reducing income and net portfolio returns and potentially making the movement of assets across jurisdictions more inefficient and costly.

HNWIs' other major concerns include worries that assets will not last their lifetime, that the next generation will not be able to properly manage their inheritance, and that income will not keep up with inflation.

HNW clients have lived in recent years through both bull-market run-ups and staggering losses, so the breadth and depth of their concerns is hardly surprising. Still, it will be a challenge for Firms and Advisors to develop a proposition that resonates in this environment—where HNWIs have clear life and investment goals but may be fearful of risking capital to generate returns to fund those goals.

FIGURE 16. Major Concerns of HNWI Clients, 2010

(%)



Note: Percentages may not add up to totals due to rounding; Question asked: "Please indicate to what extent you agree or disagree with the following statements about which concerns your HNWI and UHNWI clients are most worried about"

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

HNWIs Want to Preserve Capital, Demand Expertise

After the rollercoaster ride of recent years, nearly all HNWI (97%) say capital preservation is important to them and a large number (42%) say it is extremely important (see Figure 17). Similarly, effective portfolio management is deemed important by 94% of HNWI and extremely important by 30%. The crisis has not only made these needs more acute, it has raised or created the priority for newer issues, including specialized advice (important to 93%) and transparency on statements and fees (93%).

As HNWI look to attain life goals, they are also even more engaged in their financial affairs than in times past. This engagement itself creates new demands. For example, many HNWI (84%) say more frequent / innovative communication is now important to them. And while the frequency of advisor contact is likely to bolster investor satisfaction, HNWI also expect choice in the means of communication, including tools such as digital media and mobile applications. The underlying imperative, though, is to make sure HNWI clients feel their Firms and Advisors are fully accessible to them—whether the client wants to be proactively involved in managing their assets or simply wants to check in.

Many HNWI (82%) also say succession-planning capabilities are important to them—another indicator that HNWI do not want to jeopardize their legacy in the search for investment returns.

FIRMS FACE A NEW INDUSTRY REALITY

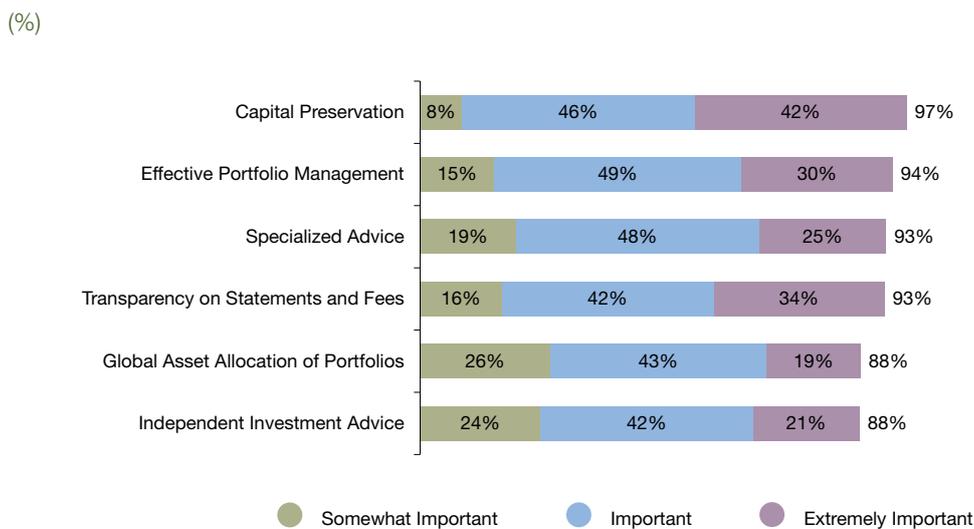
As Firms and Advisors work to respond effectively to the evolving needs of HNWI, it is important to note they also face changing economics and operating demands in their own industry. These dynamics mean Firms cannot afford to do more of the same to satisfy HNWI clients going forward.

Wealth Management Profit Margins, While Resilient, Have Been Gradually Declining

Within diversified financial services firms, wealth management profit margins have been more stable than those of the broader financial services organization. Among a select group of major financial services institutions (FSIs) that report wealth management profits separately, the aggregate pre-tax profit margin from wealth-management units dropped more than 300 basis points from 2006 to 2009. But that compares with a massive decline during that period of more than 3,000 basis points for the FSI enterprises overall. That slump was due largely to losses in investment banking and asset management.

However, despite their relative resilience, wealth management margins have been steadily eroding each year since 2006, and dropped 320 basis points in 2010. This decline occurred as Firms absorbed increased costs from compensation (recruiting and retention) and regulations (new burdens in processing, IT and training) while investors remained heavily invested in conservative instruments that generate limited fees.

FIGURE 17. Top Six Priorities of HNWI Clients, 2010



Note: Percentages may not add up to totals due to rounding; Question asked: "How important are the following to your clients?"
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

These dynamics illustrate the added pressure on Firms to demonstrate a value proposition for which HNW clients are willing to pay. Developing such a proposition will be critical to the sustainable growth of Firms going forward and will require a move beyond 'more of the same' into innovations such as 'true' Enterprise Value (versus basic synergy seeking).

Wealth management certainly remains an important and fairly stable cash-revenue stream for FSIs, which may face new regulatory limits on other revenue generators such as proprietary trading. At the parent-firm level, FSIs must also set aside more capital in reserves than in the past, restricting the amount of capital on which they can generate returns.

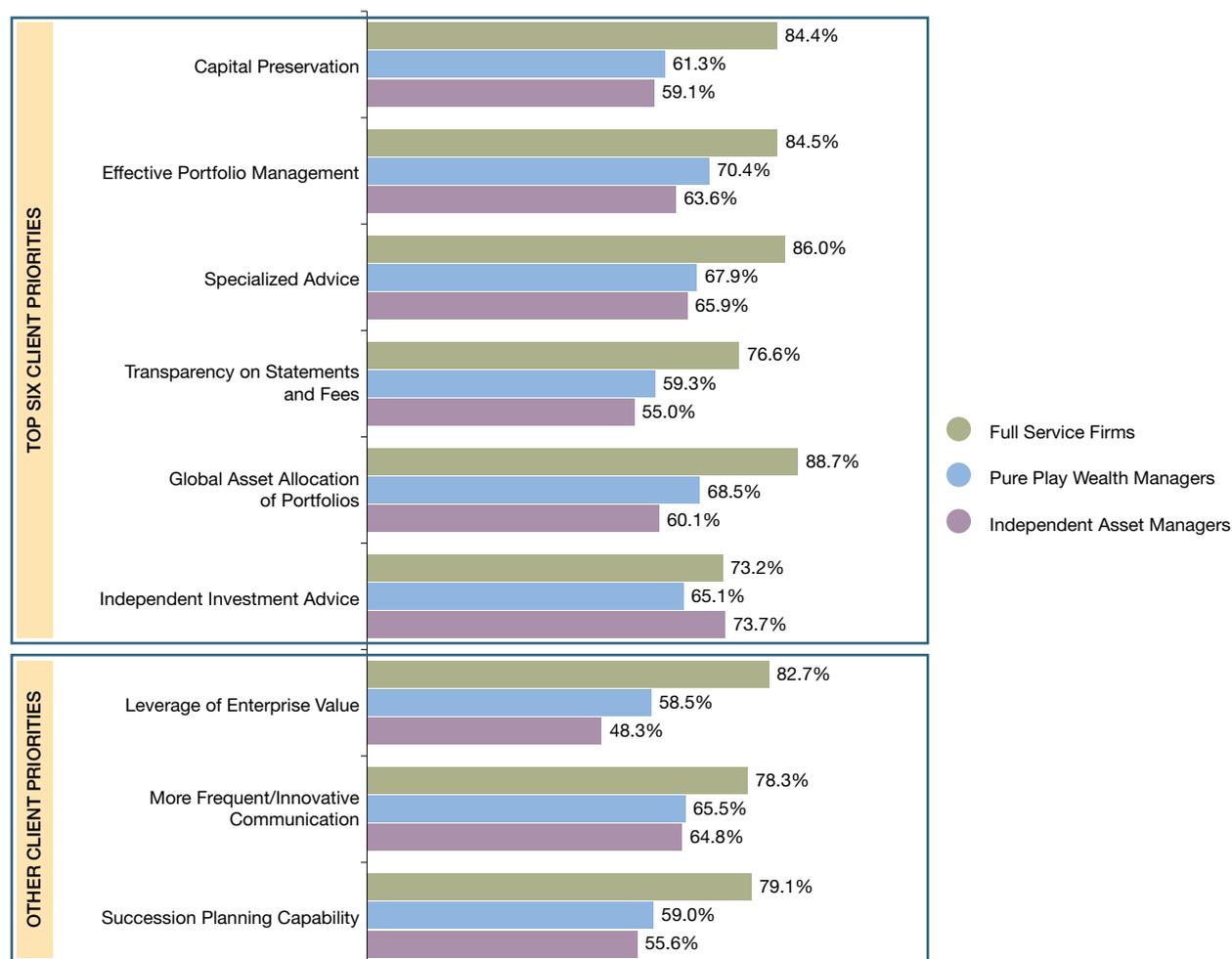
FULL-SERVICE FIRMS ARE LIKELY TO BE BETTER POSITIONED TO WEATHER CLIENT AND INDUSTRY SHIFTS

Well-capitalized, experienced, full-service Firms are likely to be well-positioned to address many of the new industry and client realities discussed (see Figure 18), and may have the scale to adapt.

More specifically, full-service Firms are perceived to be far better positioned than pure-play wealth management firms or independent asset management (IAM) firms to meet current HNW client priorities such as capital preservation and effective portfolio management, specialized advice, and more frequent/innovative communication. Not surprisingly,

FIGURE 18. Advisor Perceptions of Which Firms Are Well-Positioned to Address HNW Client Priorities, 2010

(%)



Note: Question asked: "Please rate to what extent you feel the following firm types are well positioned to meet new client demands"
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

given their global scale and broad capabilities, they are also perceived to be in a better position to leverage Enterprise Value and provide global asset allocation needs.

IAMs, a nascent industry segment that grew during the low-trust crisis years, are generally felt to be least positioned to manage the complex needs of HNWI's today. Independent advice is one area in which IAMs are well-positioned by definition. However, IAMs must be able to demonstrate to HNWI clients the value of paying extra to outsource asset management. They must also manage rising industry costs—which all participants face but IAMs must absorb across a smaller-scale enterprise.

For full-service Firms to make the most of their natural strengths, however, they may need to offer a fully integrated response that leverages the value of the broader enterprise to meet HNWI needs. Enterprise Value could be even more relevant to Firms serving or trying to enter certain segments, including Ultra-HNWIs and entrepreneurs.

ENTERPRISE VALUE COULD BE KEY FOR FIRMS AND HNWI'S IN THE POST-CRISIS PARADIGM

The challenge for the industry then is how to adapt and target a relevant post-crisis value proposition for HNWI's while margin pressure is growing. One critical differentiator could be the ability of Firms to rally additional capabilities from other business units such as investment and corporate banking—i.e., leverage Enterprise Value.

Visions of Enterprise Value are not new, but the iteration discussed here—and scantily practiced so far—is a direct response to the fact that HNWI clients expect their relationships with Firms and Advisors to create more sustained and broad value than in the pre-crisis years when HNWI's focused heavily on chasing yield. Firms therefore need to design a balanced Enterprise Value approach that can, in this environment, create value for the client and financial dividends for the Firm.

Firms Should Think about Enterprise Value from the Client Perspective

Previous attempts by Firms to leverage Enterprise Value have yielded some strategic and bottom-line benefits, primarily cost synergies and easier access for one business unit into the client base of another (though that was often viewed from a short-term return on investment (ROI) perspective). Firms can still garner those benefits today. They can, for example, tap into the realm of HNWI's who have created their wealth through investment banking and acquire them as wealth-management clients. But despite the Firm benefits, the Enterprise Value concept today links directly to the growing complexity of HNWI demands.

From the perspective of HNWI clients, Enterprise Value could help deliver some important benefits, including:

- A more global overview of wealth, which could be especially important to HNWI's with extensive business interests who might need corporate or investment banking services.
- Potential access to investment opportunities once reserved for institutional clients.
- A more harmonized and consistent service offering.
- Access to a wider range of resources and complex capabilities through one point of contact.

If Firms can deliver such benefits, their HNWI clients are likely to perceive more value in the relationship. It is hardly surprising then that the potential of Enterprise Value has already started to pique the interest of HNWI's and Advisors. In fact, 89% of surveyed Advisors said 'better leveraging the full value of integration across investment and corporate banking, asset and wealth management' is an important part of their Firm's approach/strategy for HNWI and UHNWI clients. However, only 57% agreed that their Firm was able to leverage Enterprise Value for client benefit.

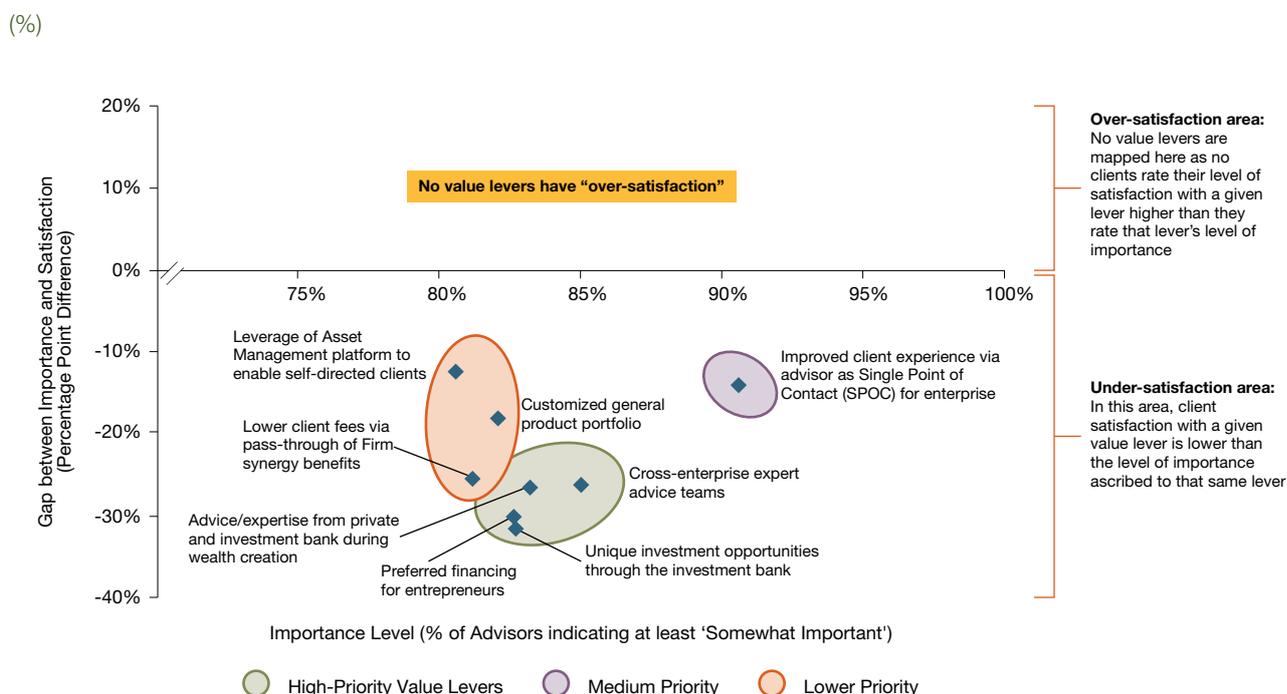
The key for Firms is to focus on the specific linkages that create value for HNWI clients. This requires a kind of flexibility and responsiveness that represents a significant shift for many Firms. But it could also be a great opportunity for astute Firms to demonstrate their commitment and value to HNWI clients, and to draw a visible distinction between their post-crisis proposition and the pre-crisis years.

HIGHEST PRIORITY FOR FIRMS IS HNW “VALUE LEVERS” THAT ARE IMPORTANT BUT POORLY SERVED

There are numerous Enterprise Value linkages that are important to HNW clients and our research shows HNW clients are currently less than satisfied with all such enterprise “value levers”. This suggests Firms have a significant amount of work to do if they hope to leverage Enterprise Value successfully.

To start out, though, Firms and Advisors could focus on those value levers in which client priority is high but satisfaction is not. We found four value levers in particular that fall into this category (green bubble on Figure 19): 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.

FIGURE 19. Importance of and Satisfaction with Enterprise ‘Value Levers’ Among Global HNW Clients, 2010



Note: Questions asked: “Please rate the importance to HNW clients of the following enterprise ‘value levers’” and “Please rate the satisfaction of HNW clients with the following enterprise ‘value levers’”
 Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

In asking senior wealth management executives about their ability to deliver against the highest priority value levers, the responses revealed the opportunities in these areas, and highlighted some of the challenges:

Cross-enterprise expert advice teams

Executives say it is critical for HNW clients to retain a single point of contact with the Firm but that everyone in the Firm should be willing and able to participate in expert advice teams. This would make Firm-wide expertise more accessible, since it can currently be hard to find and tap into. Executives acknowledge, though, that the behavior may need to be incentivized through accreditations and other measures. They also note the need for such teams becomes more critical with certain client segments, including Ultra-HNWIs, where more sophisticated or complex solutions are highly valued.

Advice/expertise from private and investment bank during the wealth-creation process

Executives see significant value in being able to tap certain experts on an ad hoc basis and report particular success when experts become engaged early in the wealth-creation process. These interactions, they say, are not utilized widely enough at present, but will become increasingly important going forward to keep trust, confidence, and satisfaction high among HNW clients.

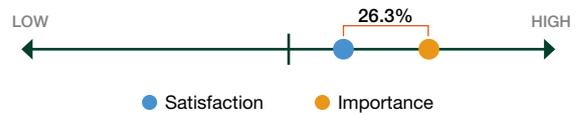
Preferred financing for entrepreneurs

Preferred financing is obviously relevant only to certain HNWIs, but these facilities (mostly likely via the corporate bank) can generate and improve “stickiness” in those HNW client relationships, because they represent a differentiator. Entrepreneurs are typically highly demanding clients and they value services they cannot get elsewhere. Executives say that by providing financing facilities, Firms may improve their chances of getting more of the entrepreneurial HNWI’s business. But they also recognize that, especially in the current environment, Firms have limited lending capacity and will need to think through carefully the risks they assume when extending financing to entrepreneurs.

Unique investment opportunities through the investment bank

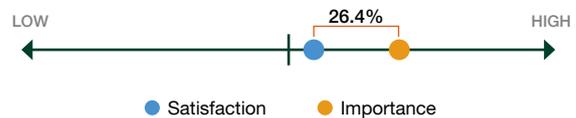
Many Firms already provide certain high-value segments (e.g., Ultra-HNWIs) with access to products and services that are not available to the broader HNWI or general investing populations. However, executives say there could be more opportunity for Firms to leverage Enterprise Value to direct certain clients to specific opportunities based on their investing and risk appetites and goals. This could generate value for both the Firm and the client, but these interactions are by definition highly individualized.

FIGURE 20. HNW Client Importance/Satisfaction Gap for ‘Cross-Enterprise Expert Advice Teams’



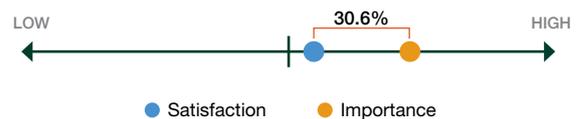
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

FIGURE 21. HNW Client Importance/Satisfaction Gap for ‘Advice/Expertise From Private and Investment Bank During the Wealth-Creation Process’



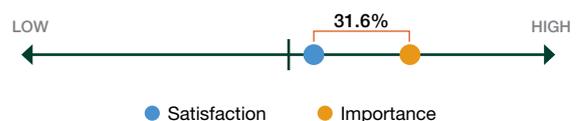
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

FIGURE 22. HNW Client Importance/Satisfaction Gap for ‘Preferred Financing for Entrepreneurs’



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

FIGURE 23. HNW Client Importance/Satisfaction Gap for ‘Unique Investment Opportunities Through the Investment Bank’



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

FIRMS STAND TO REAP SIGNIFICANT BENEFITS AFTER OVERCOMING CHALLENGES

In the post-crisis paradigm, Enterprise Value clearly has potential to create value for HNWI clients and Firms. It could also help Firms to position themselves better to remain responsive as the demographics in the HNWI population shift, changing still further the needs and expectations of clients (see Demographic Sidebar).

The challenges of delivering Enterprise Value, however, remain extensive—from the need to ensure appropriate strategic commitment at the Board and CEO-level to managing incentives and establishing support mechanisms. Regulation is a newly critical factor since the separation of certain activities may be mandated. Even when it is not, clients may prefer to see distance between business units after seeing the contagion effects of the crisis.

To leverage Enterprise Value effectively, Firms will certainly need to understand the benefits and challenges at each level of the broader enterprise and advisory relationship, and make a determination as to the net effects. Some of the key considerations include the following:

At the parent level:

- **Benefits** include the potential for a lower cost-of-funds and higher trading flows delivered from wealth management into other business units. Firms have to respect strict regulations regarding asset and liability management, but there is nevertheless room to capture such benefits. The parent can also internalize margins via use of wealth management as a distribution platform to help optimize enterprise financial management. The potential for client referrals also remains an important dividend. Secondary synergies include cost-sharing (e.g., on real estate and services). Firms that deliberately position Enterprise Value as a differentiator could enable sustained success, especially if their wallet share can be expanded by diversifying the options available to clients who value new opportunities via other business units.
- **Challenges** include the potential for reputational risk to the wealth management brand if scandals or losses are reported in units with which wealth management has promoted a close association. Legal risk could also

result as some acts and regulations prohibit use of funds across different business units and if conflicts of interest (real or perceived) are not properly managed with firewalls and other measures it could lead to further challenges. Risk management will also be critical as Firms may need to assume more risk on their balance sheets to enable some of the Enterprise Value levers. Many Firms could also face capability gaps, since few can deliver the same solutions and experience in each region (because of regulation and customer preferences). And many Firms will also need to address cultural issues since Enterprise Value requires a new level of cooperation and coordination and the culture of one business unit may be very different from another—especially if units have been acquired rather than organically grown.

At the business-unit level:

- **Benefits** include extra revenue and easier market entry. One leading global Firm estimated that for every US\$100 of revenue that entered its private bank in 2007, a further US\$37 was generated for other business units. Leveraging existing corporate-banking relationships (which are often long-standing, trusted relationships) can also be an efficient way to quickly build a private banking client base, as well as leveraging the investment bank for IPOs and other capital raising activities.
- **Challenges** include motivation and incentives. Investment bankers, for example, are used to dealing in hundreds of millions of dollars (rather than the millions often managed in private banking), so they will need to be adequately incentivized to serve HNWIs. Relationship management is also a key concern, because Advisors must ensure HNWI clients are not handed off from one unit to another, but are rather shepherded through a series of highly professional, integrated interactions. A dedicated relationship manager will almost certainly need to monitor all their clients' interactions and mitigate emerging risks if other units fail to be responsive. This could be a significant undertaking as those interactions may also take place across a large number of sub-units, such as the rates, currency and commodity trading desks, which might be actively but indirectly involved in executing a HNWI client's strategy.

At the distribution level (Advisors and Advisors' managers):

- **The main benefits** are improved relationships and positive perceptions among HNW clients that the Firm is positioned to manage their needs and expectations, however expansive, at any time.
- **Challenges** include the need to offer a wide array of products to HNWIs—many of whom now want to be fully engaged in the process of choosing products on their own merits. (The rise in open-source platforms has anyway been driving a move away from purely proprietary products.) Advisors will also need to develop their own relationships with other business units and trust in their ability to partner in providing an integrated proposition to HNW clients.

SOME FIRMS ARE ALREADY DEPLOYING INNOVATIVE ENTERPRISE VALUE TACTICS

There are already some creative examples of client-driven Enterprise Value in practice in the wealth management industry. While a few Firms are taking a strategic approach to building a comprehensive Enterprise Value proposition, many Firms' early forays are more tactical. Still, these tactics offer some innovative solutions to Enterprise Value bottlenecks as Firms decide whether and how to implement more broadly.

Examples include:

- **A 'bank-within-a-bank' approach**, in which a Firm creates a dedicated investment bank to serve HNW clients rather than force the HNW relationship onto the existing investment bank. The major benefit is that the Firm skirts implementation challenges such as motivating a corporate investment banker to raise US\$20 million for an entrepreneurial HNWI. The bank-within-a-bank can use its own criteria to serve the HNW client, probably at a lower fee than the client would pay elsewhere, while ensuring long-term follow-through and service quality. The major challenge with this approach is ensuring profitability for the bank-within-a-bank, which is obviously a microcosm of the main investment bank and may be unable to operate (at least at any real scale) outside its home region.
- **Partnerships:** There may be times when no incentives will convince an investment bank to respond to a HNWI's request (in times when initial public offerings are booming, for instance, the minimum IPO size may be far above the HNW client's IPO). Rather than

simply turning the client away, some Firms opt to present them with a 'Partnership Panel' of other Firms. This service provides the HNW client with some options (though none is recommended specifically), and helps to keep the client relationship intact, improving the chances that the client will return post-IPO with assets to be managed.

- **Incentives** to encourage co-operation. Some Firms are seeking to provide mechanisms to ensure cooperation is consistent. At least one is centralizing client-relationship oversight into a unit charged specifically with identifying and executing collaboration opportunities consistently. The effort is driven from the top (the CEO's Office), but supported by incentives such as negotiated revenue-sharing among business units and sub-units such as trading desks. The incentives are greater for sustained interactions than for one-off referrals, and the unit works actively to educate and incorporate the concepts into multiple layers of the business (incentivizing directors, vice-presidents, associates, etc.)
- **Use of applications targeted to popular technologies.** Many Firms have started to offer technologies to appeal to their tech-savvy clients, but these technologies potentially give HNW clients greater access to Enterprise Value too. For example, some Firms have launched mobile technology applications that allow HNWIs to see portfolio statements integrated across business units, download research, and execute asset re-allocations.

While these initiatives are useful short-term, many are tactical fixes that only give Firms the semblance of an Enterprise Value approach, so Firms will need to articulate and execute a more comprehensive strategy to succeed on this path for the long term.

PRIORITIES IN ENTERPRISE VALUE IMPLEMENTATION ARE COMMUNICATION, INCENTIVES, AND SUPPORT EXCELLENCE

Since Enterprise Value is now a client imperative, the chances of success are arguably much greater than when Firms primarily sought synergies from integration. However, the approach still involves significant challenges that span strategy, culture, regulation, processes and business-model economics. Enterprise Value represents a form of transformation that will require commitment and patience, and attention to three distinct priorities:

1. **Communication.** Firms will need from the outset to articulate a strong and consistent message in support of Enterprise Value, because implementation could challenge the corporate culture of participating business units. The strategy will need to be mobilized from the Board and CEO-level down to regional and business unit CEOs and beyond. And it will need to draw on the insights of all stakeholders to set and incorporate realistic long-term targets and benchmarks for success, and provide people with the construct in which to effect real change.
2. **Incentives.** Firms will need to create and implement an Enterprise Value model that can be profitable. Key considerations will include issues such as which business units and which HNW segments or clients are in scope (it is unlikely to be financially viable for every HNW client). The way in which incentives are structured and negotiated among business units and sub-units (e.g., trading desks) will be critical (see below for more detail).
3. **Excellence in enabling functions.** Enabling functions such as IT will need to be evaluated, monitored and perhaps revised. Key will be the need to provide a consistent global experience for IT systems (at both the regional and capability levels) while mitigating compliance and conflict-of-interest risks. Scalability will be another consideration given the protracted term of the transformation.

Incentives and Other Remuneration Practices Have to Be Tackled Proactively

Incentives are arguably the thorniest element of Enterprise Value enablement, and could pose a stumbling block if not handled proactively. Two initiatives are already emerging as viable tactics:

- **'Hard dollar' incentives** align well with commission-based compensation models prevalent in the broker/dealer advisory model, and tie payouts to the value added by the contributing individual or unit. The financial dividend for collaborators can be a powerful tool if payout ratios are designed properly, but those ratios are complicated to establish and must take account of direct stakeholders such as investment bankers as well as sub-unit participants such as desk traders.
- **Dual (or shadow) accounting** is simpler than the 'hard dollar' approach to implement (there is less negotiation up-front for example) and it aligns incentives across the entire organization as all participating units recognize the full revenue. This system also works well with 'salary-plus-bonus' compensation schemes seen in some

European wealth management firms, as well as in boutique Firms. However, back office processing can be complex, and the protracted payment schedule may curb the enthusiasm of stakeholders.

Notably, some Firms are also providing non-financial rewards through accreditation and internal-recognition programs to help inculcate the Enterprise Value culture more deeply into the organization. Moreover, they are targeting not only senior stakeholders but lower-level employees who are likely to ascend to more influential positions in the longer term.

Conclusion

The concerns and priorities of HNW clients have been made more complex by the financial crisis, and Firms need to find ways to remain highly relevant as HNW investing behaviors continue to evolve. The post-crisis environment requires a higher degree of responsiveness and flexibility than in the past and more often requires Firms and Advisors to bring to the table capabilities that reside in other business units/entities. Many Firms will therefore be challenged to keep delivering a value-added proposition, especially amid industry headwinds such as lower margins, higher fixed and variable costs and increased regulation.

Firms that can successfully leverage Enterprise Value to meet the needs of their HNW clients will be differentiating their brands in this highly competitive and challenging environment—and doing justice to the considerable faith HNW clients now place in their Advisors and Firms.

But focusing on Enterprise Value is a transformation, taking time and patience and an eye for longer-term ROI measures. Continuity is critical since HNW clients will want to be assured the proposition will remain throughout business and investment cycles. Firms will need to position themselves carefully, bearing in mind how Enterprise Value aligns with business goals, strategy and ambitions, and how viable in scale and scope it is across locations and segments.

Appendix A: Methodology

The World Wealth Report 2011 covers 71 countries in the market-sizing model, accounting for more than 98% of global gross national income and 99% of world stock market capitalization.

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 formalized 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 we publish 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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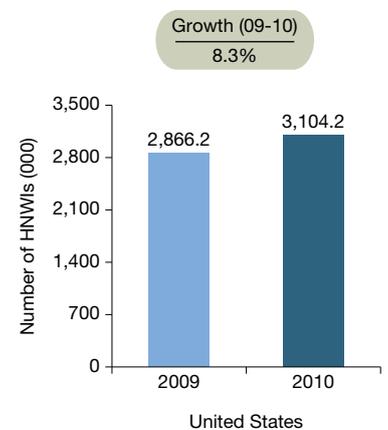
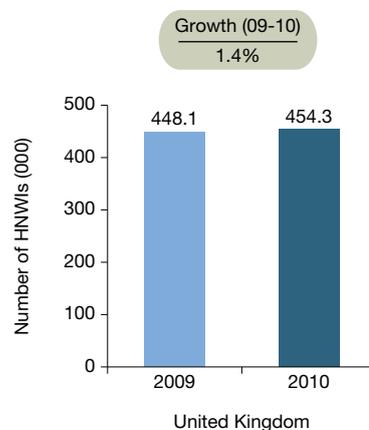
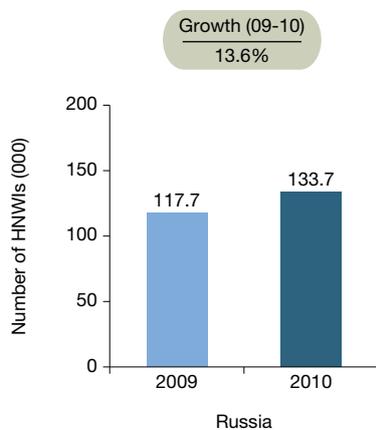
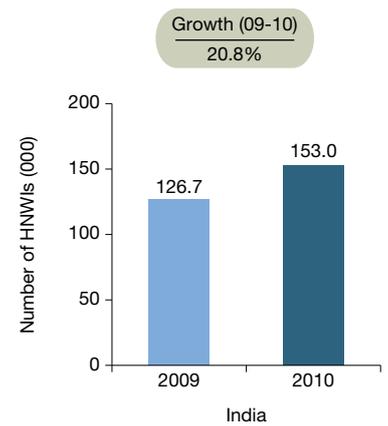
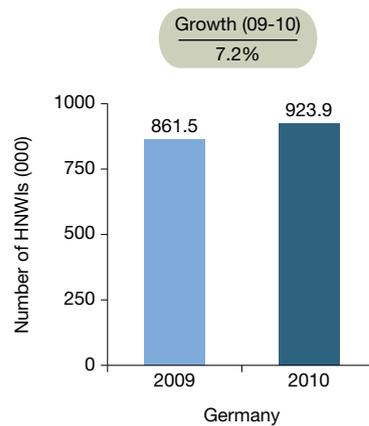
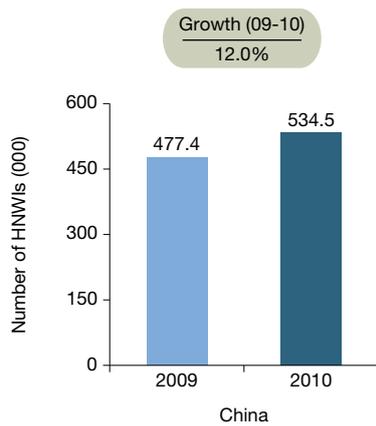
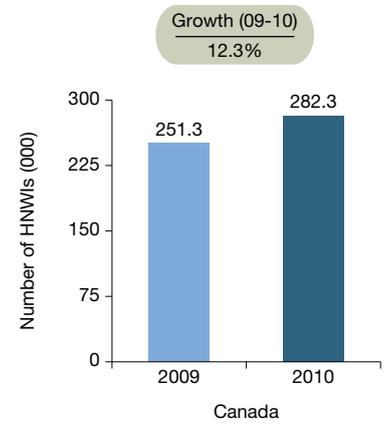
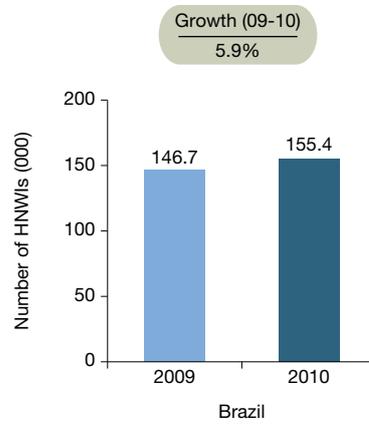
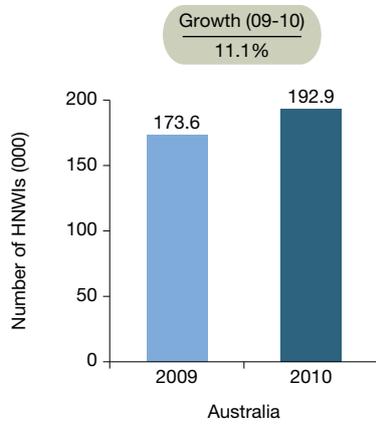
We extend a special thanks to those Firms that gave us insights into events that are impacting the Wealth Management Industry on a global basis as well as those that participated in this year's Advisor Survey.

The following firms are among the participants that agreed to be publicly named:

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Appendix B: Select Country Breakdown



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Bratislava	+421 2 444 556 78	New York	+1 212 314 8000
Brussels	+32 2 708 1111	Oslo	+47 2412 8000
Bucharest	+40 21 209 8000	Paris	+33 1 49 67 30 00
Budapest	+36 23 506 800	Prague	+420 222 803 678
Casablanca	+212 5 22 46 18 00	São Paulo	+55 11 3708 9100
Chicago	+1 847 384 6100	Singapore	+65 6224 6770
Copenhagen	+45 70 11 22 00	Stockholm	+46 853 68 5000
Dubai	+971 4 433 56 90	Sydney	+61 292 93 4000
Dublin	+353 1 639 0100	Taguig City	+63 2 667 6000
Frankfurt	+49 69829 010	Taipei	+886 2 8780 0909
Helsinki	+358 9 452 651	Toronto	+1 416 365 4400
Krakow (BPO Center)	+48 12 631 6300	Utrecht	+31 306 89 0000
Lisbon	+351 21 412 2200	Vienna	+43 1 211630
London	+44 207 7936 3800	Warsaw	+48 22 4647000
Madrid	+34 91 657 7000	Zagreb	+385 1 6412 300
Mexico City	+52 5585 0324 00	Zurich	+41 44 560 2400

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Within Merrill Lynch Global Wealth Management, the Private Banking & Investment Group provides tailored solutions to ultra affluent clients, offering both the intimacy of a boutique and the resources of a premier global financial services company.

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Select Merrill Lynch Global Wealth Management Offices

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Atlanta	+1 404 231 2400	Milan	+39 02 655 941
Bahrain	+973 17 530 260	Montevideo	+598 2518 2602
Bangkok	+662 685 3548	Mumbai	+91 22 6632 8000
Beirut	+961 1 983 004	New York City	+1 212 236 5500
Beverly Hills	+1 800 759 6066	Panama	+507 263 9911
Boston	+1 800 937 0866	Paris	+33 1 5365 5555
Chicago	+1 800 937 0466	Pasadena	+1 626 817 6888
Dubai	+9714 425 8300	San Francisco	+1 415 693 5500
Dublin	+353 1 243 8877	Santiago	+562 370 7000
Geneva	+41 22 703 1717	São Paulo	+5511 2188 4100
Hong Kong	+852 2844 5678	Seoul	+82 2 3707 0400
Houston	+1 713 658 1200	Shanghai	+86 21 6132 4888
Istanbul	+90 212 319 95 00	Singapore	+65 6331 3888
Jakarta	+62 21 515 0888	Taipei	+886 2 2376 3600
London	+44 20 7628 1000	Tel Aviv	+972 3 607 2000
Los Angeles	+1 213 627 7900	Tokyo	+81 3 6225 8300
Luxembourg	+352 49 49 111	Washington, D.C.	+1 202 659 7222
Madrid	+34 91 432 9900	Zurich	+41 44 297 7800

Source: Bank of America. Merrill Lynch Global Wealth Management (MLGWM) represents multiple business areas within Bank of America's wealth and investment management division including Merrill Lynch Wealth Management (North America and International), Merrill Lynch Trust Company, and Private Banking & Investments Group. As of March 31, 2011, MLGWM entities had approximately \$1.5 trillion in client balances. Client Balances consists of the following assets of clients held in their MLGWM accounts: assets under management (AUM) of MLGWM entities, client brokerage assets, assets in custody of MLGWM entities, loan balances and deposits of MLGWM clients held at Bank of America, N.A. and affiliated banks. This reflects a change in calculation methodology effective March 31, 2011.

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