Asia-Pacific Wealth Report

2010

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Asia-Pacific Wealth Report

TO OUR READERS,

Capgemini and Merrill Lynch Global Wealth Management are pleased to present the 2010 *Asia-Pacific Wealth Report*, our fifth annual in-depth look at the high net worth (HNW) marketplace in the region. The report builds on the success of the *World Wealth Report*, now in its 14th year. Both reports are the result of an extensive collaboration between our two firms, studying the key trends that affect high net worth individuals (HNWIs).

The past year, 2009, saw a resurgence in the number and wealth of Asia-Pacific HNWIs that few might have predicted just a year before. But while many Asia-Pacific markets surged back to life in 2009, the fallout from the crisis is evident in HNWIs' new investment behaviors and attitudes.

This report examines the post-crisis shifts in HNWIs' asset allocations, reflecting an easing of crisis fears and a cautious return to markets. But it also looks behind these specifics at the more fundamental changes in HNWIs' investment priorities.

We find that Asia-Pacific HNWIs, much like their counterparts globally, want to better understand exactly what they are investing in, where it is held and how it is valued, and they are demanding more value-added advice and investment options that properly align with their risk profiles and investment goals. For wealth management firms, these needs translate into new demands—and create challenges that are unique to the Asia-Pacific region.

We look in particular at how new HNW-client demands are putting intense pressure on product and service offerings and client servicing models—and underscoring the critical shortage of wealth management capabilities in the region.

Managing this pressure, and implementing new client-driven strategies effectively, will be critical as wealth management firms position themselves to capture the enormous potential that still lies ahead in Asia-Pacific.

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

Sallie Krawcheck
President, Global Wealth &
Investment Management
Bank of America

Bertrand Lavayssière
Managing Director
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Capgemini

State of Asia-Pacific Wealth

- **Asia-Pacific's population of high net worth individuals (HNWIs[1]) grew substantially in size and wealth in 2009, rebounding beyond levels seen in 2007 before the financial crisis.** The HNWI population and its wealth gained 25.8% and 30.9% respectively, since 2008. By the end of 2009, there were some 3.0 million Asia-Pacific HNWIs, equaling the number in Europe for the first time, and their wealth totaled US$9.7 trillion.
- **Hong Kong and India, which experienced the world's largest declines in HNWI population and wealth in 2008, experienced the strongest resurgence in 2009.** The population of HNWIs grew 104.4% in Hong Kong, almost reaching pre-crisis levels, and 50.9% in India. HNWI wealth in Hong Kong and India jumped 108.9% and 53.8% respectively amid strong growth in both market and macroeconomic drivers of wealth.
- **The Asia-Pacific HNWI population and wealth remain highly concentrated.** Japan, China and Australia together accounted for 76.1% of Asia-Pacific's HNWI population in 2009, down only slightly from 77.4% in 2008. Japan and China commanded around 65% of total Asia-Pacific HNWI wealth.

ASIA-PACIFIC HNWI POPULATION RECOUPED CRISIS-RELATED LOSSES

Asia-Pacific HNWI Segment Showed Substantial Gains

The Asia-Pacific HNWI population grew 25.8% to some 3.0 million in 2009 (see Figure 1), catching up with Europe for the first time, after falling 14.2% in 2008. HNWI wealth rose 30.9% to US$9.7 trillion, more than erasing 2008 losses, and surpassing the US$9.5 trillion in wealth held by Europe's HNWIs in 2009. The recovery was fueled by strength in both macroeconomic and market drivers of wealth (*see "2009 in Review"*).

Regional-specific findings for 2009 included the following:

- The HNWI populations of all major Asia-Pacific HNWI markets except Hong Kong more than recouped the sharp losses of 2008 to end the year at levels just above those seen in 2007.
- The three Asia-Pacific markets that witnessed the largest gains in HNWI wealth were Hong Kong (108.9%), India (53.8%) and Taiwan (49.6%).
- Hong Kong and India witnessed the strongest HNWI-population growth (104.4% and 50.9% respectively), followed by Taiwan (42.3%), recovering most of the losses made in 2008. In 2008, the HNWI populations of Hong Kong and India had experienced the largest percentage declines in the region.
- Japan and China still have the largest HNWI populations in the region. Japan alone accounted for 54.6% of Asia-Pacific HNWIs, down only marginally from 56.8% in 2008.

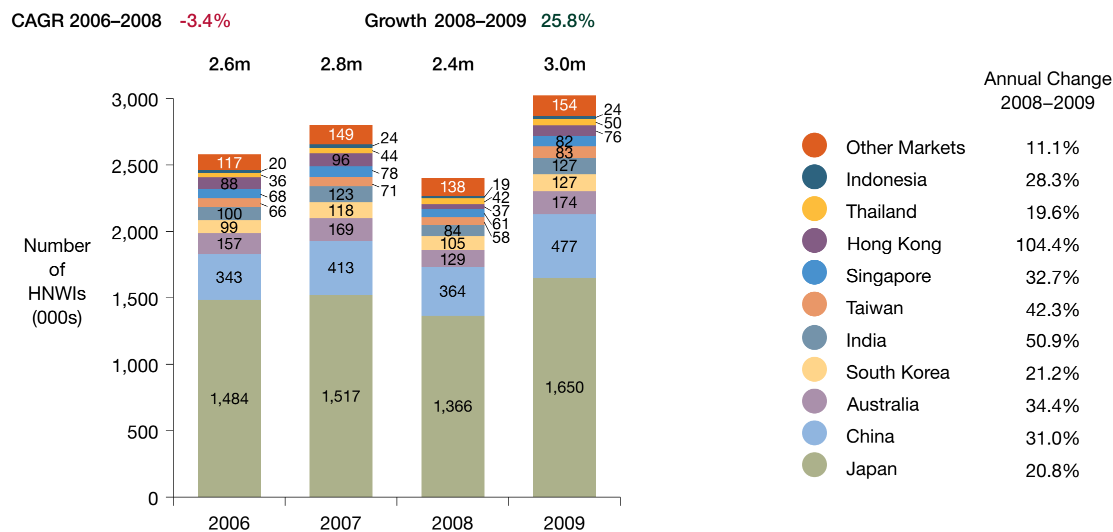
Region's HNWIs and Their Wealth Are Still Highly Concentrated

The top three markets—Japan, China and Australia—accounted for 76.1% of the Asia-Pacific HNWI population and 70.0% of its wealth in 2009 (see Figure 2). Japan and China together accounted for 70.4% of total Asia-Pacific HNWI population and 64.6% of its wealth at the end of 2009, up from 51.8% and 62.8% respectively a year before.

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

FIGURE 1. Asia-Pacific HNWI Population, 2006–2009 (by Market)

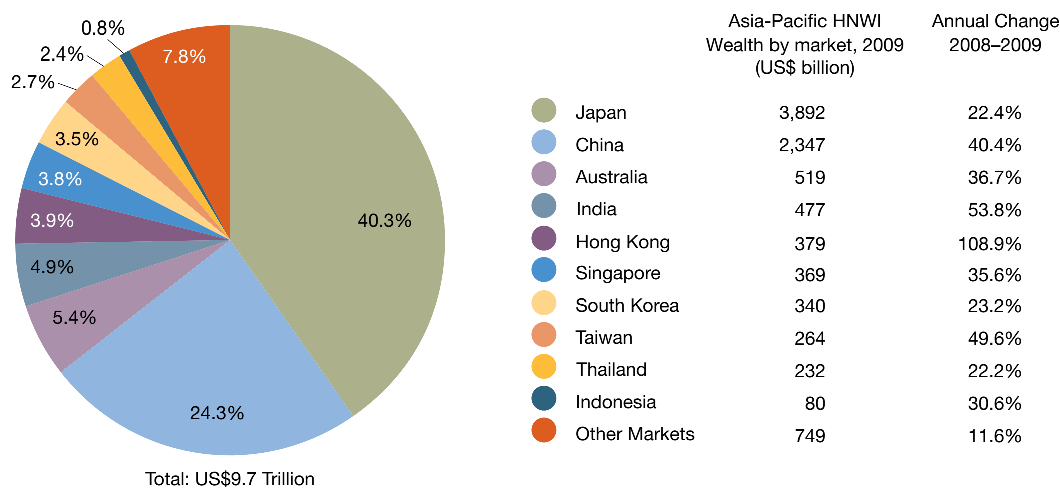
(000s)



Note: (a) All chart numbers are rounded; (b) "Other Markets" includes Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka and Vietnam
Source: Capgemini Lorenz curve analysis, 2010

FIGURE 2. Distribution of Asia-Pacific HNWI Wealth, 2009 (by Market)

(%)



Note: (a) All chart numbers are rounded; (b) "Other Markets" includes Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka and Vietnam
Source: Capgemini Lorenz curve analysis, 2010

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Japan is by far the largest single HNWI market in Asia-Pacific. Alone it accounted for 54.6% of the Asia-Pacific HNWI population and 40.3% of its wealth at the end of 2009. However, growth in Japan's HNWI segment was modest compared with other markets in the region, due to the slowdown in Japan's macroeconomic growth and the relatively weak performance of its stock markets. Japan's equity-market capitalization rose just 6.1% in 2009 compared with an average of 87.9%[2] across other Asian markets. The HNWI population grew 20.8% to 1.7 million and wealth rose 22.4% to US$3.9 trillion.

China remained the second-largest HNWI base in the region, with 477,000 HNWIs, up 31.0% from the previous year. Stock-market capitalization in China soared more than 100% in 2009, as the economy grew at a rapid 8.6% pace.

Australia, which still has the third-largest HNWI population among Asia-Pacific markets, bounced back in 2009 after many of those who had fallen into the "mass affluent"[3] category in 2008 regained their HNWI status. Movement in and out of the HNWI category is relatively frequent in Australia, where 91.1% of all HNWIs are in the lowest (US$1 million–US$5 million) wealth band.

In India, the HNWI population and its wealth grew 50.9% and 53.8% respectively in 2009, more than recouping the losses of 2008, with resurgent stocks helping to drive the recovery. India's stock-market capitalization more than doubled in 2009 after dropping 64.1% in 2008. Importantly, though, HNWI wealth was also driven in India by the strength in the underlying economy, which grew 6.8% in 2009.

Taiwan's HNWI population also showed one of the sharpest growth rates in the region (42.3%) after Taiwan Stock Exchange capitalization jumped 84.5%. That sharp increase was fueled by news that Taiwan and China were negotiating a financial memorandum of understanding (MoU) that would lead to greater cross-straits cooperation on trade and investment and liberalization of financial markets.

Hong Kong Saw Strong Gains but Could Not Recoup the Record Losses of 2008

The HNWI populations of Hong Kong and India experienced the strongest growth in numbers and wealth in the world in 2009, but those gains had followed the world's largest declines in 2008. In India, the HNWI population and its wealth fully recovered to pre-crisis levels, but in Hong Kong, the number of HNWIs at the end of 2009 was still only 79% of the number at the end of 2007, because the staggering declines of 2008 outweighed the hefty gains of 2009.

Hong Kong's HNWI recovery in 2009 followed significant gains in the key market drivers of wealth, particularly equities and real estate. Hong Kong's population of HNWIs is especially sensitive to price movements in these asset classes for a number of reasons. For one thing, they hold most of their wealth in these two asset classes. In fact, of all Hong Kong HNWI assets in 2009, 52% was held in either equities or real estate—and another 6% was in the form of alternative investments. All three of these asset classes tend to be volatile, resulting in potentially large swings in HNWI wealth levels.

Hong Kong's HNWI numbers also tend to fluctuate widely because a significant number of Hong Kong HNWIs are in the US$1 million–US$5 million wealth band. As a result, when asset prices plunged in 2008, many HNWIs in this lower band quickly dropped into the "mass affluent" bracket—but then just as quickly regained their HNWI status as asset prices recovered in 2009.

Ultra-HNWI Ranks and Wealth Showed Hefty Gains in 2009

The Asia-Pacific Ultra-HNWI[4] population and its wealth expanded 36.7% and 42.6% respectively in 2009 (see Figure 3), posting gains that far exceeded the average growth among the general HNWI population.

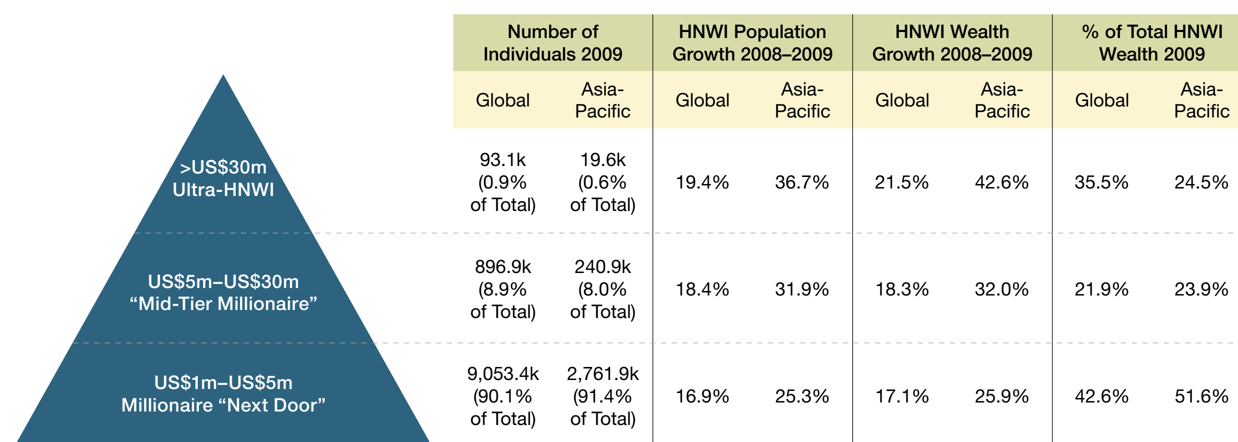
At the end of 2009, Ultra-HNWIs represented only 0.6% of the total Asia-Pacific HNWI population, close to the global Ultra-HNWI/HNWI ratio, but accounted for 24.5% of total HNWI wealth in Asia. That is less than the global average of 35.5%, but is consistent with historical trends. Of the region's Ultra-HNWIs, 57.0% were from Japan and China.

[2] World Federation of Exchanges, 2010; Capgemini analysis, 2010

[3] The "mass affluent" are defined as individuals with investable assets of US$100,000 to US$1,000,000

[4] Ultra-HNWIs are defined as those having investable assets of US$30 million or more, excluding primary residence, collectibles, consumables, and consumer durables

FIGURE 3. Number of HNWIs by Wealth Band, 2008–2009 (Global and Asia-Pacific)



	Number of Individuals 2009		HNWI Population Growth 2008–2009		HNWI Wealth Growth 2008–2009		% of Total HNWI Wealth 2009	
	Global	Asia-Pacific	Global	Asia-Pacific	Global	Asia-Pacific	Global	Asia-Pacific
>US$30m Ultra-HNWI	93.1k (0.9% of Total)	19.6k (0.6% of Total)	19.4%	36.7%	21.5%	42.6%	35.5%	24.5%
US$5m–US$30m "Mid-Tier Millionaire"	896.9k (8.9% of Total)	240.9k (8.0% of Total)	18.4%	31.9%	18.3%	32.0%	21.9%	23.9%
US$1m–US$5m Millionaire "Next Door"	9,053.4k (90.1% of Total)	2,761.9k (91.4% of Total)	16.9%	25.3%	17.1%	25.9%	42.6%	51.6%

Source: Capgemini Lorenz curve analysis, 2010

China and India Are Expected to Be the Fastest-Expanding Asia-Pacific HNWI Segments in Coming Years

Emerging Asia (China, India, Indonesia and Thailand) is fast becoming the main engine of growth in the Asia-Pacific region (*see "2009 in Review"*), and its HNWI population showed robust growth of 33.2% in 2009, with wealth up 40.4%. Going forward, China and India are likely to remain the fastest-growing HNWI segments in the world, based on the positive outlook for market and macroeconomic drivers of wealth for those economies and the Asia-Pacific region as a whole.

Faster economic growth and the resultant improvement in business conditions should propel expansion in the HNWI segment since business ownership and income together account for the majority (73%) of all HNWI wealth in Asia-Pacific excluding Japan.

Elsewhere in Asia-Pacific, **Newly Industrialized Asia** (Singapore, Hong Kong, Taiwan and South Korea) saw the fastest growth in HNWI population and wealth in 2009 (40.4% and 49.2% respectively), mostly because of Hong Kong and Taiwan. The growth in the Newly Industrialized economies is likely to moderate somewhat, and be outpaced by the growth in HNWI wealth in Emerging Asia. In **Industrialized Asia** (Australia, Japan and New Zealand), the HNWI population and its wealth are likely to keep growing, but at a slower pace than in the rest of the region. In 2009, the HNWI population in Industrialized Asia grew 21.9%, while its wealth rose 23.8%.

2009 in Review: Asia-Pacific Showed Resilience in the Face of the Global Downturn

- The economic crisis pervaded the globe in 2009, demonstrating the interdependence of the world's economies, but **Asia-Pacific proved to be the most resilient, helped in particular by strong gross domestic product (GDP) growth of 8.6% in China and 6.8% in India**.[5] In fact, GDP across Emerging Asia grew 7.4% in 2009, significantly more than in the other economies of the region and world.
- **Fiscal-stimulus measures were widespread** as governments worldwide boosted expenditures to support their economies. Most sizable in Asia-Pacific was the US$586 billion in stimulus commitments by China—an amount that was second only to the U.S. stimulus package (US$787 billion) in absolute terms.
- **Key market drivers of wealth rebounded strongly in 2009, with Asia-Pacific equity-market capitalization surging 73.6%**, compared with aggregate global growth of 47.1%, as fears over the financial crisis began to abate and investors cautiously returned to markets. China, Indonesia and India each doubled its equity-market capitalization during the year, and the region's emerging markets showed superior growth overall, even in the first half of 2009 when developed markets had yet to revive.
- **In 2010 and 2011, aggregate Asia-Pacific growth is likely to outpace the world economy, as relatively resilient domestic demand and intra-regional trade help to offset any ongoing weakness in exports to advanced economies.** Emerging Asia and Newly Industrialized Asia are expected to post GDP growth of 8.9% and 6.6% respectively, in line with pre-crisis levels. Asia-Pacific is likely to experience faster GDP expansion than the rest of the world, although the nature of the recovery is likely to differ by market.

ASIA-PACIFIC ECONOMY KEPT GROWING IN 2009, ALBEIT MORE SLOWLY THAN IN 2008

Asia-Pacific Economy Excluding Japan Grew 4.6% in 2009 despite the Contraction in World GDP

Asia-Pacific as a whole proved resilient in 2009, despite the 2.0% contraction in World GDP.[6] GDP grew 4.6% in Asia-Pacific excluding Japan, less than the 5.6% in 2008, but a strong pace nevertheless. However, Emerging Asia was the primary driver of growth, with the standouts being China and India, where real GDP grew 8.6% and 6.8% respectively.[7] Many other economies in Asia-Pacific actually contracted, including three of the four Newly Industrialized economies and two of the three countries in Industrialized Asia (see Figure 4).

Asia-Pacific growth was undermined, however, by the slowdown in exports of goods and services across most markets. Exports dropped 19.5% in Industrialized Asia in 2009, significantly more than the 9.0% decline across the rest of Asia-Pacific,[8] because Industrialized Asia is heavily dependent on trade with developed nations, which were suffering from the economic slowdown. Japan, for example, saw exports plunge 24.1% in 2009, hit especially hard by the drop in auto demand from the United States and Europe. India and China were the only two major Asia-Pacific countries in which industrial production actually rose in 2009, as they enjoyed a more diversified export market and broader domestic demand.

[5] The Economist Intelligence Unit, Regional Data, June 2010
[6] Ibid
[7] Ibid
[8] Ibid

Asia-Pacific Joined Global Stimulus Drive to Stave Off Crisis Effects

Many Asia-Pacific countries joined the global stimulus drive in 2009, seeking to refuel their economies.

China and South Korea were among the most aggressive in implementing fiscal stimulus. China's initiatives were worth 2.6% of GDP,[9] and China's government-led investment surged by nearly 6% of GDP in 2008,[10] helping to support the domestic economy. The South Korean government implemented stimulus amounting to about 3.0% of GDP[11] as it sought to sustain the country's recovery. The Ministry of Strategy and Finance (MOSF) also established in early 2009 a US$17.3 billion fund to help shore up banks and encourage them to lend.[12] It has since extended that initiative until the end of 2010.

Most Asia-Pacific countries also provided monetary stimulus throughout 2009 by keeping interest rates low—making it possible for individuals and businesses to borrow cheaply, and keeping down the interest costs on debt.

For example, Japan, New Zealand and Indonesia all kept their interest rates low through 2009 and have so far deferred any decision to raise rates again. Cognizant of their dependence on exports, governments in countries such as these are also keeping interest rates down to try to spur domestic consumption—and counterbalance weak global demand.

Some other countries, however, moved promptly to tighten monetary policy as market sentiment and performance improved. By Q4 2009 and Q1 2010, several Asia-Pacific central banks—including those of Australia, China, India and Malaysia—had started to raise interest rates.

If global economic activity shows further signs of accelerating in 2010, some emerging-market governments are likely to plan a gradual withdrawal of both fiscal and monetary stimulus. However, they will remain cognizant that rapid credit expansion can create asset-price bubbles and overheat economies.[13] Indeed, large capital inflows raised alarms during the first half of 2010 in some countries about the potential for asset bubbles. However, with a moderate slowdown expected in Asia-Pacific and world economic recovery, these inflows are likely to slow.

FIGURE 4. Real GDP Growth Rates, 2008–2010F

[a] Composition of "Emerging Asia," "Newly Industrialized Asia" and "Industrialized Asia" is as per International Monetary Fund definitions
Source: The Economist Intelligence Unit, June 2010

9 "The Effects of Fiscal Stimulus: A Cross-Country Perspective," Executive Office of the President: Council of Economic Advisors, September 10, 2009

10 "Emerging Stronger from the Crisis," World Bank East Asia and Pacific Economic Update 2010, Volume 1

11 "The Effects of Fiscal Stimulus: A Cross-Country Perspective," Executive Office of the President: Council of Economic Advisors, September 10, 2009

12 The Economist Intelligence Unit, Country Reports, February and April 2010

13 Ibid

National Savings Rate Dipped Slightly

In 2009, national savings[14] as a percentage of GDP dipped to 38.3% from 38.5% in Asia-Pacific excluding Japan,[15] driven by increased government expenditures tied to the fiscal-stimulus measures implemented to stave off damage from the economic crisis.

The decline was only marginal in Asia-Pacific as a whole, and the region still had the world's highest national savings rate. However, the decline in national savings was more significant in Industrialized Asia (-16.5%) than the declines in Emerging Asia and Newly Industrialized Asia. This could signal fewer funds will be available for future investment in those economies.

Growth in Private Consumption Slowed in 2009

The rate of growth in private consumption slowed across most of Asia-Pacific in 2009, but the aggregate level of private consumption still rose from 2008, largely because gains in China and India more than offset weakness elsewhere.

The outright level of private consumption[16] rose to US$4.1 trillion from US$3.9 trillion in Asia-Pacific excluding Japan, but the region still only accounts for about 14% of global private consumption. Nevertheless, this was the second straight year of healthy gains in private consumption in the region, helped by resilient consumer confidence. In fact, consumer confidence was surging in Asia-Pacific by the second half of 2009,[17] buoyed in part by optimism over the employment outlook. Business and consumer sentiment has continued to thrive since, and consumer confidence in India and China has been especially strong, helping to boost both retail sales and business spending.

Real government consumption meanwhile rose 10%, from US$1.0 trillion in 2008 to US$1.1 trillion[18] in Asia-Pacific excluding Japan, as governments in the region increased their efforts to stimulate growth and boost the financial system while the global economy sought to right itself from the effects of the financial crisis.

ASIA-PACIFIC LED WORLDWIDE REBOUND IN MARKET AND OTHER DRIVERS OF WEALTH

In 2009, Asia-Pacific market drivers of wealth regained significant ground after hefty losses in 2008. Major asset classes, especially equities and real estate, rebounded sharply. The following were among the notable market developments in Asia-Pacific in the last year or so:

- **Equity-market capitalization surged 73.6% to US$16.0 trillion** in 2009,[19] rebounding from a 53.5% decline in 2008 (see Figure 5) as investors returned to the markets amid waning financial-crisis fears. The 2009 Asia-Pacific rebound was far stronger than the 47.1% increase in global equity-market capitalization, and was led by China, Indonesia and India. In fact, emerging markets in the region showed stellar growth as a whole (34.1%[20]), and even managed to make gains in the first half of 2009 when more developed markets had yet to revive. The pace of that growth slowed somewhat in the second half of 2009 when developed markets started to rebound more strongly, but Asia-Pacific equity-market capitalization had nevertheless returned to near pre-crisis levels by the end of 2009, while global markets had recouped only three of the five years' worth of losses they suffered in 2008.
- **Housing prices recovered across much of Asia-Pacific** after incurring heavy losses during the crisis. The strongest gains were in Hong Kong, where housing prices rose 20.8% in 2009,[21] driven partly by a massive influx of buyers from mainland China. In China itself, housing prices and sales got a direct boost from government action to reverse many of the policies (e.g., on taxation and lending) that it had used to restrain the market when it was overheating in 2007. Increased investment demand also helped boost prices in China, as well as in Taiwan, which posted an 18.3% gain[22] in housing prices. Australia also saw a significant rebound in housing prices, due to increased investor activity and renewed interest from buyers of second and third homes.[23]

[14] National savings = GDP – [private consumption + government consumption]

[15] The Economist Intelligence Unit, Regional Data, June 2010

[16] Ibid

[17] MasterCard Worldwide Index of Consumer Confidence, http://www.masterintelligence.com, accessed May 2010

[18] The Economist Intelligence Unit, Regional Data, June 2010

[19] World Federation of Exchanges, market capitalization statistics, http://www.world-exchanges.org/statistics, accessed March 2010

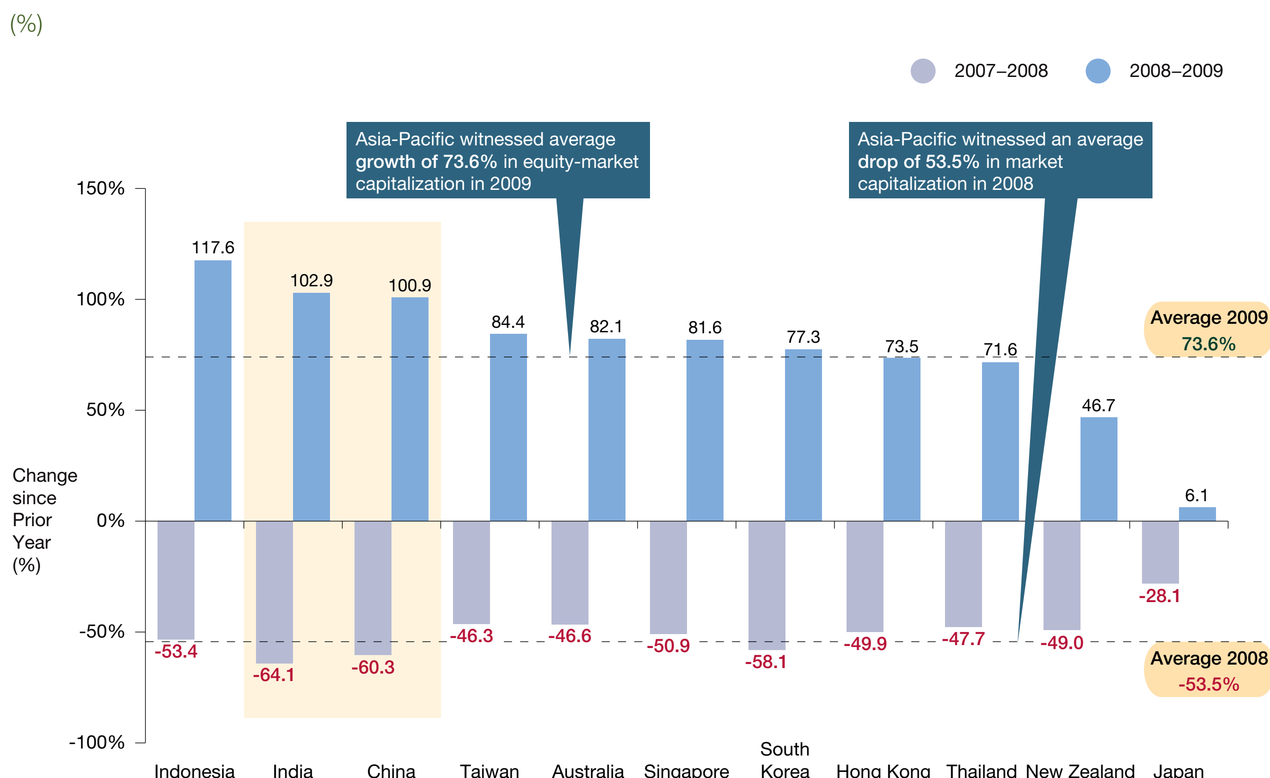
[20] MSCI Global Indexes for Select Regions, www.mscibarra.com, January 1, 2009 - December 31, 2009

[21] "Global Property Guide," variation of monthly prices adjusted for inflation for December 2008-December 2009

[22] Ibid

[23] Australian Bureau of Statistics

FIGURE 5. Percentage Change in Equity-Market Capitalization, 2007–2009 (by Country)



Source: World Federation of Exchanges, June 2010

The Dow Jones Global Select REIT Index ended the year with total returns of 32.2%, with Singapore emerging as the region's top performer with a gain of 83.7%.[24] Asia-Pacific real estate (commercial and residential) is expected to show sustained growth in 2010 in a revival of demand. Capital inflows and loose credit conditions boosted sales and prices across the region during Q1 2010, especially in the Newly Industrialized economies and Vietnam.[25] In China's large cities, moreover, average property prices in February 2010 were already 30% higher than a year earlier.[26] Meanwhile, the volume of commercial real-estate investments transacted in Asia-Pacific increased by 37% from US$28.2 billion in Q4 2009 to US$38.6 billion in Q1 2010, with the main investment markets of Japan, Australia and Singapore witnessing increased investment.[27] Nonetheless, experts are watching this sector with some caution.

- **Asia hedge funds posted returns beyond the global average.** The Eurekahedge Asian Hedge Fund Index delivered an annualized return of 26.7% in 2009, significantly more than the Global Hedge Fund Index return of 19.7% for the same period.[28] Growth in the number of Asia-Pacific hedge funds has been somewhat constrained to date by regulatory and other barriers, but the superior performance of these funds, and the rising interest in emerging market investment in general, is luring more capital. This trend is expected to accelerate as regulators increase oversight of hedge funds in developed markets and fund managers seek greater exposure to the Asia-Pacific region.[29]
- **The U.S. dollar remained volatile during the year.** Globally, investors bought dollars in Q1 2009 amid demand for a safe haven while stocks remained in decline. By April, however, investors began to move

[24] Dow Jones, Dow Jones Global Select REIT Index, http://www.djindexes.com, accessed February 4, 2010
[25] "Emerging Stronger from the Crisis," World Bank East Asia and Pacific Economic Update 2010, Volume 1
[26] Ibid
[27] David Green-Morgan, DTZ Research, "Investment Market Update Asia-Pacific, Q1 2010"
[28] Eurekahedge Hedge Fund Indices, http://www.eurekahedge.com/indices/default.asp, accessed May 10, 2010
[29] Saeed Azhar and Parvathy Ullatil, "Seeking Less Scrutiny, Hedge Funds Flock to Asia," Reuters, May 17, 2010

away from the dollar as central banks around the world stepped up efforts to support their economies. The dollar's slide was compounded by the relative weakness of the U.S. economic recovery. By Q3 2009, some countries including Australia were even raising interest rates, while the U.S. Federal Reserve maintained key rates near zero. Encouraged by the availability of cheap money, investors borrowed dollars to buy stocks, gold, commodities and other currencies. At the end of the year, the dollar was down against most major currencies, especially the Brazilian real (-25.2%), Canadian dollar (-14.3%) and British pound (-9.9%).[30] Within Asia-Pacific too, most currencies (with the exception of the yen, Vietnamese dong and Hong Kong dollar) appreciated against the U.S. dollar as renewed capital flows were accompanied by a sharp drop in yields on local-currency bonds in 2009.[31]

- **Commodities posted strong gains in 2009, though they did not recoup all the 2008 losses.** The Dow Jones-UBS Commodity Index (DJUBS) rose 18.7% in 2009 after a 36.6% drop in 2008.[32] The 2009 commodity rally was driven by metals as hopes of a global economic recovery spurred demand, and fears of inflation encouraged hedging. The MSCI All Country Asia excluding Japan Commodity Producers Index posted 89.6% return for the year.[33] Globally, copper recorded gains of 139% as industrial demand soared, and ended the year at US$3.3275/pound,[34] which was around 18% less than the highs of 2008. Silver prices rose steadily to end 2009 with a gain of 57.5%.[35] Strong demand from automakers increased global demand for platinum, which is used in catalytic converters, and lead, which is used in car batteries. Platinum prices rose 63.3% to end the year at US$1,466/oz,[36] and lead more than doubled in price to US$2,416/metric ton. In Asia-Pacific in particular, strong commodity prices and robust demand in Q1 2010, especially from China,[37] is likely to drive increased private investment in resource-rich economies such as Australia, Indonesia and Malaysia.

Gold prices soared in 2009, fueled by broad investor demand. Gold prices increased steadily throughout 2009, registering a total increase of 26.9% for the year.[38] The price of gold peaked in early December at US$1,212/oz, but dropped to US$1,104/oz at the end of the year amid profit-taking. The challenging economic conditions impacted industrial and jewelry demand for gold, which dropped 16.0% and 20.0% respectively in 2009.[39] However, gold saw hefty buying globally by funds and individual investors alike, seeking insurance against possible inflation and a declining dollar. Notably, the central banks of China and India were net buyers of gold in 2009 after decades of selling. China, the world's second largest consumer of gold in 2009, is expected to increase its gold consumption even more in the next few years, driven by near-term inflationary expectations and rising income levels.[40] Jewelry demand from India was up 27% from a year earlier in Q4 2009 at 137.8 metric tons.[41] Gold prices, which remained strong in the first half of 2010, could face downward pressure later in the year, due to expectations that interest rates will rise around the world.

Oil prices ended 2009 at US$79.4/barrel, a gain of 78.0% on the year.[42] Prices more or less tracked the global economy, falling at the beginning of the year before moving higher as fears about the financial crisis began to ease. Prices also rose on expectations of long-term demand, especially from emerging markets like China. However, the outlook for that demand is not certain. China, for instance, is one of the world's largest consumers of crude oil, but it is not clear exactly what percentage of its total oil demand is being diverted into reserves. China is also making large investments into alternative energies so as to reduce its future dependence on oil. About a third of the investment-based stimulus package in China during 2009 was for "green investments".[43]

[30] Ozforex, historical data for select currencies against the U.S. dollar, http://www.ozforex.com.au, accessed February 2, 2010

[31] "Regional Economic Outlook: Asia and Pacific: Leading the Global Recovery, Rebalancing for the Medium Term," International Monetary Fund, April 2010

[32] Dow Jones, Dow Jones Commodity Index (DJUBS), http://www.djindexes.com, accessed January 29, 2010

[33] MSCI Commodity Index Total Returns, http://www.mscibarra.com, accessed June 1, 2010

[34] Carolyn Cui, "Metal Rally Has Legs to Keep Running," Wall Street Journal, January 3, 2010

[35] Kitco, London PM FIX Prices, http://www.kitco.com, accessed February 11, 2010

[36] Ibid

[37] "Regional Economic Outlook: Asia and Pacific: Leading the Global Recovery, Rebalancing for the Medium Term," International Monetary Fund, April 2010

[38] Kitco, London PM FIX Prices, http://www.kitco.com, accessed February 11, 2010

[39] World Gold Council, "Gold Demand Trends: Fourth Quarter and Full Year 2009," February 17, 2010

[40] World Gold Council, "Gold Investment Digest," April, 2010

[41] Ibid

[42] U.S. Energy Information Administration, Cushing, OK WTI Spot Price FOB, http://www.eia.doe.gov, accessed January 28, 2010

[43] "Emerging Stronger from the Crisis," World Bank East Asia and Pacific Economic Update 2010, Volume 1

ASIA-PACIFIC GROWTH IS LIKELY TO OUTPACE GLOBAL ECONOMY IN 2010 AND 2011

Asia-Pacific economic growth is likely to outpace World GDP expansion in 2010 and 2011, as fairly resilient domestic demand and intra-regional trade help to offset ongoing weakness in exports to developed economies that are still recovering after the crisis.

China is expected to concentrate on rebalancing its economy over the next few years by focusing on boosting the service sector and private consumption. China announced in mid-2010 it was making its exchange-rate policy more flexible, but it is too soon to say how widely the yuan will be allowed to move against other currencies, and what the impact might be on domestic spending power and consumption.

Other countries such as India, Indonesia and Singapore are likely to prioritize capital investment and skills development to better position themselves to boost exports.

Employment levels in Asia-Pacific are also expected to rebound. Jobless rates in the region remain higher than before the crisis, but are still lower than the global average. Ultimately, data are expected to show 2009 unemployment rates of 4.4% for East Asia, 5.6% for Southeast Asia and the Pacific, and 5.1% for South Asia—levels below initial forecasts.[44]

Aggregate indicators aside, not all of Asia-Pacific's economies will grow in the same way or at the same pace. In 2010, Emerging Asia and Newly Industrialized Asia are expected to experience GDP growth rates of 8.9% and 6.6% respectively, in line with pre-crisis levels, with Emerging Asia—led by China and India—spearheading the region's economic growth and expansion of industrial production. Industrialized Asia meanwhile is likely to grow just 2.8% during 2010, a markedly slower pace than the other segments within Asia-Pacific, but in line with other mature economies around the globe.

China's real GDP is expected to expand 9.9% in 2010,[45] the fastest rate of growth in the region. However, that expansion is being boosted by the extensive fiscal stimulus implemented by the government in 2009—which fueled infrastructure investment and helped to revive expenditures on property development. That expansion was initially fueled too by monetary expansion, but China has been gradually tightening monetary policy since early 2010, and continued monetary tightening is likely to slow down the rate of economic growth. In 2011, China's rapid GDP growth is expected to slow a little to 8.3%.[46] Going forward, China is expected to focus on rebalancing its economy by boosting the service sector and driving private consumption.

By contrast, India's growth is expected to keep accelerating, with GDP forecast to expand 8.1% in 2011 after a gain of 7.8% in 2010,[47] due to the significant expansion of private consumption and investment. In fact, its central bank, the Reserve Bank of India (RBI), is expected to tighten monetary policy progressively in 2010 to make sure its economy does not overheat as the global financial crisis recedes.

The Asia-Pacific business outlook generally remains promising, making the region a likely magnet for global companies and private investment. And while the environment in some heavily trade-exposed Asia-Pacific economies like Singapore and Hong Kong looks less rosy for future investment than in the pre-crisis years, the outlook for China and India is especially bright. For instance, China's business outlook for 2009–2013 shows a huge improvement over 2004–2008,[48] reflecting the relative strength of the country's underlying economy.

Ultimately, the financial crisis has demonstrated the interdependence of the world's economies and shown that Asia-Pacific is not immune to economic weakness in other parts of the region and world. However, Asia-Pacific has proved more resilient than other regions and is expected to continue to fare well as part of the global recovery supported by robust private demand, strong intra-regional trade and favorable consumption levels—which should help to offset weakness in exports.

[44] "Global Employment Trends – Update," International Labour Organisation, January 2010
[45] The Economist Intelligence Unit, April, May and June 2010
[46] Ibid
[47] Ibid
[48] As measured by the Economist Intelligence Unit's Business Environment Rankings (BER)

Asia-Pacific HNWIs Favored Equities and Real Estate in Portfolios in 2009

- **Asia-Pacific HNWI investors ended 2009 with 27% of their assets held in equities, up from 23% a year earlier**, as they headed back into the equity markets and equity-asset values rose, especially in emerging markets. **The allocation to real estate also rose among Asia-Pacific HNWIs, to 26% from 22%**, as real-estate prices recovered across major markets in the region.
- **The proportion of Asia-Pacific HNWI assets allocated to cash-based instruments dropped to 22% in 2009 from 29% in 2008**. That level was still far higher than the 17% global average, as is consistent with long-term behavior, but the decline reflected the unwinding of some safe-haven cash holdings acquired at the height of the crisis. **Fixed-income investments accounted for only 20% of assets**, unchanged from 2008. This was far below the 31% global average, but consistent with long-term trends.
- **Asia-Pacific HNWIs remained primarily invested in their home regions in 2009, though the proportion invested outside the region rose to 36% from 33% a year earlier**. Home-region allocations in China and India stood at 85% and 82% of total assets respectively, amid surging growth in those markets and economies. Japanese HNWIs, by contrast, maintained quite geographically diversified portfolios.
- **By 2011, Asia-Pacific HNWIs' allocations to equities and fixed-income instruments are expected to increase and relative holdings of cash-based and real-estate holdings are expected to decline** as HNWIs seek to rebalance their portfolios. Home-region allocations are expected to decline as Asia-Pacific HNWIs pursue returns and opportunities elsewhere, especially in the emerging markets of Latin America and Africa.

ASIA-PACIFIC HNWIs HAD MORE THAN HALF THEIR ASSETS IN EQUITIES AND REAL ESTATE BY END 2009

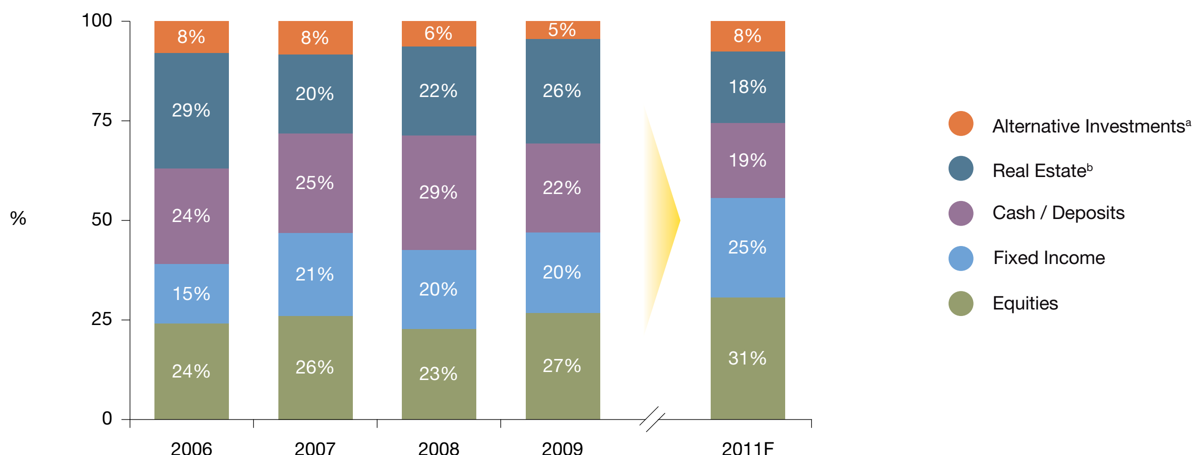
Asia-Pacific HNWIs had 53% of their assets in either equities or real estate by the end of 2009 (see Figure 6) as a result of both increased investment and asset appreciation during the year. This brought allocations back to pre-crisis levels and reversed the crisis-driven flight to cash-based instruments. In fact, the strength in the markets and economies of Asia-Pacific—and its emerging markets in particular—meant the asset allocations of the region's HNWIs had shifted tangibly by the end of 2009.

The major shifts included the following:

- Equities accounted for 27% of all Asia-Pacific HNWI assets by the end of 2009, up from 23% in 2008, as the region's booming markets attracted investors and boosted asset values. The equity allocation, however, was still below the average of 29% among HNWIs globally.
- The share of assets dedicated to real estate rivaled equities—at 26%, up from 22% and considerably above the 18% global average—as the region's property boom encouraged buying and inflated prices.
- Cash-based holdings dropped to 22% from 29%, but that level was still above the 17% global average. Asia-Pacific HNWIs tend to favor liquid assets when the economic and financial environment is uncertain.

FIGURE 6. Breakdown of Asia-Pacific HNWI Financial Assets, 2006–2011F

(%)



[a] Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity and 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 total 100% due to rounding
Source: Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008, March 2009 and March 2010

- Asia-Pacific HNWIs had only 20% of their holdings in fixed-income instruments in 2009. That is much lower than the 31% global average, but is not unusual as emerging markets such as India have underdeveloped bond markets, so there are fewer investment options than in more developed markets.

HNWIs' Exposure to Equities and Real Estate Rose as Those Markets Rallied

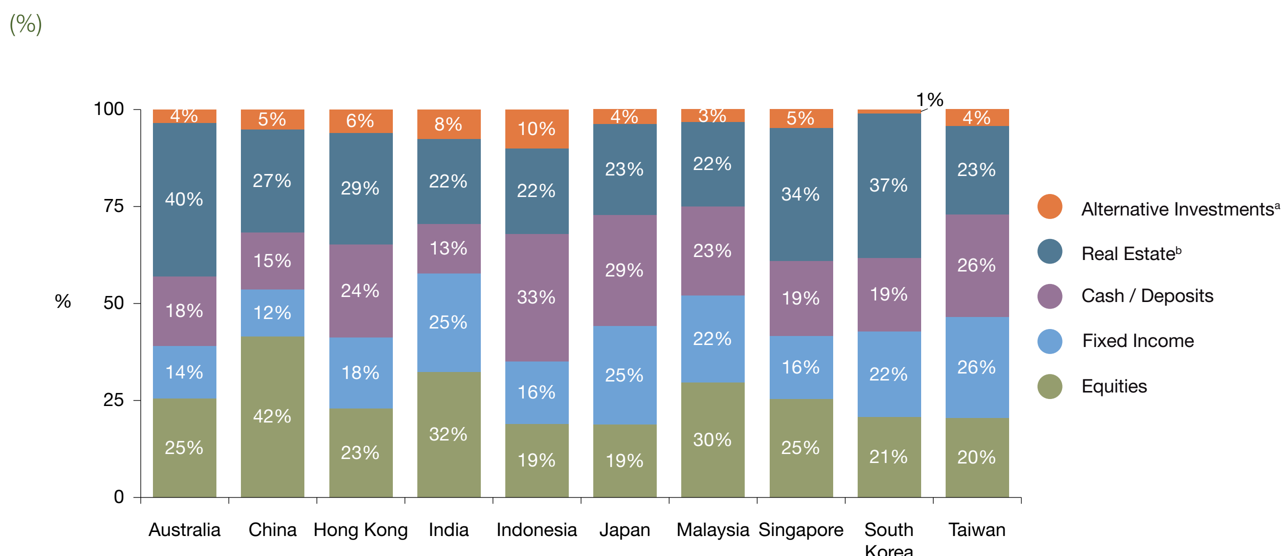
The proportion of HNWI assets held in equities jumped to 27% in 2009 as equity-market capitalization gained globally and surged in home-region markets like China and India (*see "2009 in Review"*). This allocation was higher than the corresponding 2007 figure when the crisis had not fully emerged. In Japan, Taiwan and Indonesia, however, HNWIs maintained relatively low equity allocations of 19% or 20%. These markets have well-established bond markets, and HNWIs have traditionally favored fixed-income and real-estate investments over equities. This held true in Taiwan and Indonesia in 2009 even though the domestic stock markets soared. In Japan, the stock market returned a tepid 6.1% in 2009, so did not draw undue buying interest.

The equity allocation was highest among HNWIs in China (see Figure 7), where 42% of all HNWI assets were tied up in stocks at the end of 2009, and in India (32%). HNWIs from China have become increasingly drawn to domestic equities markets, which have consistently outperformed global markets, and they increased their allocations to equities in 2009 by 13 percentage points. That was the largest increase among HNWIs in any Asia-Pacific market. India's HNWIs, meanwhile, were driven to invest in equities by rising asset values and signs of underlying economic growth. India's GDP grew nearly 7% in 2009, while the combined market capitalization of the National and the Bombay Stock Exchanges more than doubled to end 2009 at US$2,531.3 billion.

Asia-Pacific Ultra-HNWIs were slightly more heavily invested in equities (30%) than the region's HNWIs overall, which is consistent with that group's tendency to pursue risk and returns more aggressively given their greater levels of disposable income.

FIGURE 7. Breakdown of Asia-Pacific HNWI Financial Assets, 2009 (by Market)

(%)



[a] Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity and 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 total 100% due to rounding
Source: Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008, March 2009 and March 2010

HNWIs' real-estate holdings also jumped in 2009. Of all Asia-Pacific HNWI assets, 26% was held in real estate in 2009, heading back toward pre-crisis levels as the region's property markets continued or renewed their gains.

More specifically:

- Of all real-estate assets, the share dedicated to residential real estate[49] rose slightly to 60% from 59% among HNWIs from Asia-Pacific excluding Japan. That percentage is 53% when including Japan. For many in the region, residential property remains a highly attractive investment because tight supply and strong demand persist in most prime locations. The prices of luxury residences in Asia-Pacific grew by 17.1%[50] in 2009, with prices in cities like Hong Kong, Shanghai and Beijing surging by more than 40%[51] to reach record global levels.[52] China's HNWIs especially favor residential real estate, which accounts for 70% of all their real-estate holdings.
- Commercial real estate is steadily gaining popularity in the region, but the allocation to this category of real estate (24% among HNWIs in the region as a whole) remains short of the 27% global average. The allocation is highest (58%) among HNWIs from South Korea for a variety of reasons specific to that market, including landlord-friendly leasing systems and stable vacancy rates.
- Investment in real estate investment trusts (REITs) remains low across Asia-Pacific, because the market is still very small and the product is not available in all markets. In fact, Japan, Singapore and Hong Kong together account for 91% of total REIT-market capitalization in the region, and Japanese HNWIs' allocation to REITs is by far the highest in Asia-Pacific (23% of all real-estate holdings). However, REIT investment is expected to broaden in the future because other countries—including booming China—are preparing to launch REITs. Governments hope REITs will ease the upward pressure on housing prices by providing an alternative to direct real-estate investment, and Asia-Pacific investors are becoming more willing to consider these types of asset classes.[53] Asia-Pacific REITs also achieved stellar returns in 2009 as economic conditions improved and expansionary credit conditions supported real-estate markets. The S&P Asia-Pacific REIT Benchmark Index rose 36.0% in 2009, marginally more than the S&P Global REIT Index, which gained 33.7%.[54]

[49] Not including primary residence
[50] Knight Frank's Prime International Residential Index
[51] Knight Frank, "The Wealth Report 2010," http://www.knightfrank.com
[52] Kay Coughlin, President and CEO, Christie's Great Estates, interview by Capgemini, April 2010
[53] "China Poised to Add REITs to Cool Down Simmering Property Market," China Daily, April 26, 2010
[54] S&P Indices Market Attributes, Global Property and REIT (Q4 2009)

Asia-Pacific HNWIs' Holdings of Alternative Investments Remained Limited

Holdings of alternative investments were little changed among Asia-Pacific HNWIs at 5% of the aggregate portfolio in 2009 vs. 6% in 2008. This percentage is much the same as the average among HNWIs globally, but Asia-Pacific holdings tend to be concentrated in structured products and foreign currency. Other options such as venture capital, private equity and venture capital funds are relatively few in Asia-Pacific, because regulation has so far slowed their development. Many investors are also unfamiliar or uncomfortable with the associated risks of these alternatives, so tend not to favor them.

Structured products were the most popular alternative-investment category, accounting for 23% of all alternative investments among HNWIs in Asia-Pacific excluding Japan. The relative holdings are higher (33%) among HNWIs in Japan, where interest rates have been low for an extended period, encouraging investors to pursue a variety of options with potentially higher returns.

Foreign currency was also a popular alternative investment for Asia-Pacific HNWIs, which had 24% of alternative-investment holdings in that category by the end of 2009, compared with the global HNWI average of just 13%. That allocation, which generally reflects attempts to hedge against local currency fluctuations, was sharply higher among HNWIs from Indonesia (46%), where the rupiah outperformed every other Asian currency to gain 16% in 2009 against the U.S. dollar.[55]

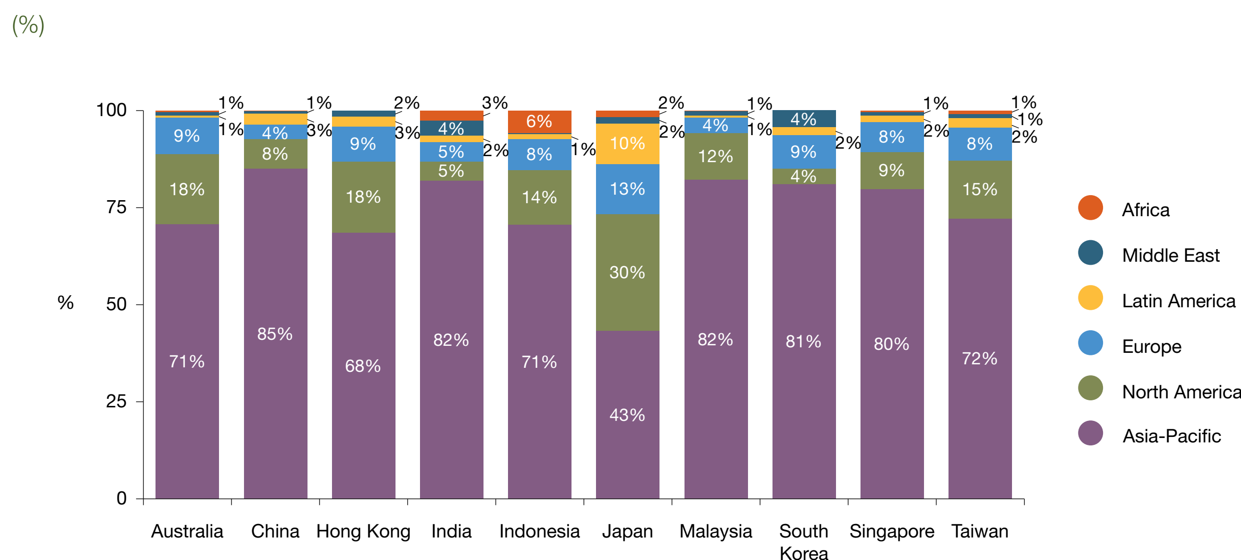
Hedge-fund allocations were also far lower among Asia-Pacific HNWIs (14% of all alternative investments) than the global HNWI average (27%). Investors have fewer hedge-fund choices in Asia-Pacific because of various regulatory and other barriers, and the region currently accounts for less than 10% of total global hedge-fund assets. However, existing hedge funds in the region rose nearly 40% in 2009, clearly outpacing the growth in U.S. and European hedge funds.[56] If this performance is sustained, Asia-Pacific HNWIs might well increase their allocations to hedge funds in the future.

Asia-Pacific HNWIs Still Favored Home-Region Investments in 2009

Asia-Pacific HNWIs concentrated 64% of all their investments in their home region in 2009, but they nevertheless sought new opportunities elsewhere too, especially in the emerging markets of Latin America and the Middle East. As a result, home-region allocations dropped by 3 percentage points (see Figure 8 for by-market detail).

FIGURE 8. Breakdown of Asia-Pacific HNWI Geographic Asset Allocation, 2009 (by Market)

(%)



Note: Percentages may not total 100% due to rounding
Source: Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008, March 2009 and March 2010

[55] "Rupiah Is Asia's Top Performing Currency for 2009 as Growth Draws Investors," Jakarta Globe, January 1, 2010

[56] "Asia Set to Grab a 5th of Global Hedge Fund Flows," Reuters, March 1, 2010, http://www.reuters.com/article/idUSTRE6201HJ20100301

Among home-region investments, HNWIs from Asia-Pacific excluding Japan invested 36% in China, 19% in Hong Kong and 10% in India, attracted by the early rebound in those equity markets in 2009. Japan's HNWIs continued to favor domestic investments (63% of all home-region holdings), but were the most geographically diversified HNWIs in the region. Asia-Pacific HNWIs' allocations to the developed markets of North America and Europe rose only slightly—up just 1 percentage point to 28% of all investments—amid the slow economic rebound in those regions.

By 2011, Asia-Pacific HNWIs' Allocations to Equities and Fixed-Income Are Likely to Rise

Looking ahead to 2011, allocations to equities and fixed-income investments are expected to rise among Asia-Pacific HNWIs to 31% and 25% respectively of all holdings. This increase will likely be fueled by strong economic growth in the region and a strong desire among HNWIs to rebalance their portfolios. However, the relative share of real-estate holdings is expected to decline, by 8 percentage points to 18%, as HNWIs look to liquidate some of their holdings and take profits after the run-up in prices.

Home-region allocations are also expected to decline as Asia-Pacific HNWIs pursue returns and opportunities elsewhere, especially in the emerging markets of Latin America and Africa. For instance, investments in Latin America are expected to rise to 9% of all holdings by 2011 from 6% in 2009. Allocations to the developed regions of North America and Europe are expected to remain little changed from 2009 levels (19% and 9% respectively) as Asia-Pacific HNWIs seek to maintain diversified portfolios.

Real Estate Was a Preferred Financial Investment for Asia-Pacific HNWIs in 2009

Real estate remains a major asset class for Asia-Pacific HNWIs across the region. Indeed, by the end of 2009, Asia-Pacific HNWIs held 26% of their portfolios in real-estate assets, far above the global average of 18%, and up from 22% a year earlier. Why is this so? The recovery in real-estate prices certainly fueled investment in 2009, but that was only part of the dynamic.

Investment options in Asia-Pacific are more limited than in mature North American and European markets, so HNWIs frequently pursue real estate—both bricks and mortar ("direct" investments) and other real-estate assets—as an important form of financial investment. Also, real estate provides Asia-Pacific HNWIs with an opportunity to invest in familiar markets, while still diversifying their holdings. As a result, domestic and home-region buyers dominate Asia-Pacific real-estate investment, unlike other regions of the globe in which one may see more overseas real estate investors.

Asia-Pacific real estate was not immune to the effects of the global economic downturn, especially in the first half of 2009. However, prices recovered sharply in the second half as economic conditions improved and many governments in the region pursued expansionary policies to keep borrowing rates low. Additional fiscal measures in the form of stimulus spending also funneled monies into property and infrastructure across the region, supporting real-estate prices.

In fact, some property prices escalated so quickly, especially in China, that observers have voiced concern that a housing bubble may be looming. Others, however, argue rising prices are not likely to turn into a fully fledged bubble as Asia-Pacific governments tend to intervene directly in their real-estate markets. In fact, some governments—China and Singapore in particular—have already acted to cool prices (see below).

More generally, though, the market conditions for Asia-Pacific real estate depend on a variety of factors, from macroeconomic and political conditions to regulations and capital costs. Accordingly, HNWIs prefer one type of real estate over another in any given market largely because of domestic market conditions, such as interest rates and regulation, and specifics like leasing laws. In fact, individual real-estate markets in Asia-Pacific can differ markedly from one another, creating different levels of investment interest.

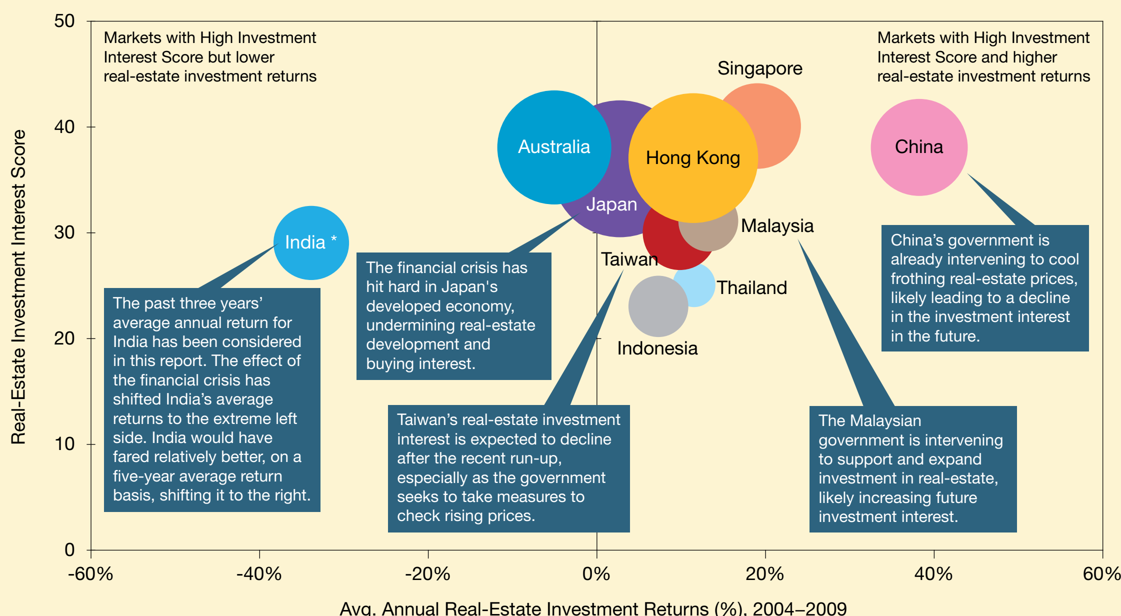
REAL ESTATE MARKETS IN ASIA-PACIFIC DISPLAY DIFFERENT LEVELS OF INVESTMENT INTEREST

Figure 9 offers a graphical representation of the investment interest and returns in different Asia-Pacific real-estate markets over the past five years. We scored the strength of various factors that drive investment interest in real estate, including product and capital availability, government policies, regulations and macroeconomic factors.

Figure 9 shows the relative size of real-estate markets in Asia-Pacific (the size of the "bubbles" reflects market capitalization), the level of interest in those markets and the returns (y and x axis respectively). Not surprisingly, Hong Kong, Japan, Australia and China experienced the greatest level of interest in real estate investment, nonetheless with distinct differences among markets. In taking a closer look at some key markets, we see the following:

- In **China**, the 2009 real-estate recovery was more pronounced than in any other market in the region. Urbanization and economic reforms helped to drive up prices, spurring strong domestic demand for both residential and commercial real estate. The real-estate allocation of China's HNWIs rose to 27% at the end of 2009 from just 18% a year earlier, putting HNWI real-estate allocations among the highest in the region. However, while the China real-estate segment is expected to remain strong, the government regularly intervenes in the domestic market, using policies on taxation, lending, investment and housing to discourage or encourage buying. It took a more expansionary approach in early 2009 in a bid to offset the effects of the global economic crisis. By December 2009, however, it was already moving to cool prices and discourage speculation by returning to more restrictive policies it had deployed when the real-estate market showed signs of overheating before the crisis. Moreover, the government continues to keep barriers to foreign investment high, with regulations increasing the complexity and costs of any real-estate transaction. Amid these constraints, investment interest in China real estate will likely stay strong, but prices could waver.
- **Hong Kong**, conversely, has fairly simple and liberal real-estate laws and is a relatively transparent market—certainly compared with mainland China. In fact, the strong gains in housing prices in 2009 were driven partly by an influx of wealthy mainland Chinese, who made up 18.1% of luxury home buyers.[57] Concerned about a possible asset bubble, the Hong Kong government tried to counter the market's upswing by tightening lending practices. It

FIGURE 9. Asian Real Estate Markets – Levels of Investment Interest, 2009



Note: (a) *Average annual return for India has been considered for last three years due to unavailability of data; (b) Average annual real-estate returns (%) for various Asian markets as per the S&P Global Property Index
Source: Capgemini analysis, 2010; S&P Global Property Index, "S&P Indices Market Attributes, Q4 2009"

[57] Property Wire, "Wealthy Chinese Snap Up Luxury Property in Hong Kong," February 5, 2010

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Bank of America Corporation

also raised stamp duties, particularly for luxury property transactions.[58] More broadly, though, the real-estate market is underpinned by fairly limited supply and steadily growing demand, resulting in some of the highest real-estate prices in the world. As the Hong Kong real-estate market is relatively open to domestic, Asia-Pacific and foreign investors, investment interest is expected to stay strong.

- In **Singapore**, the real-estate market is also developed and transparent, with a stable socio-political environment helping to attract investment. The share of Singapore HNWIs' portfolios dedicated to real estate jumped to 34% of all holdings at the end of 2009 from 24% a year earlier as property prices rallied after a brief crisis-related downturn. Direct real-estate investment also reflected strong buying interest from HNWIs within the region and from foreign investors, who face few barriers to entry. Singapore is also the second-largest REIT market in Asia-Pacific after Japan, and REITs recovered strongly after the financial crisis. Like China, though, Singapore moved quickly to cool the frothing real-estate segment by, for example, increasing taxes and stamp duties.[59] Nevertheless, investment interest is likely to remain high, given the underlying stability in the market.
- **Australia** is considered one of the world's most transparent real estate markets,[60] making it a preferred location for foreign investors. Recent government-policy changes promise to enhance cross-border investment even further. During the crisis, to ensure a stable market, the government lowered interest rates and increased infrastructure-related stimulus spending. At the end of 2009, Australian HNWIs held 40% of all their holdings in real-estate assets, little changed from a year earlier, and up from 28% at the end of 2007. Going forward, real estate prices are expected to keep rising given the rapidly growing population and limited housing supply.
- In **Taiwan**, HNWIs' real-estate holdings accounted for 23% of portfolios at the end of 2009, up from 15% a year earlier. Real estate in Taiwan got a boost from monetary easing and improving regional economic conditions, as well as news that Taiwan and China were designing a financial memorandum of understanding that could boost cross-straits trade and investment. Real-estate investment interest is expected to decline in the future, however, due to government measures intended to check prices, which are perceived to be overvalued.
- **Malaysia** is a market in which investment interest is expected to grow, fueled by government measures that will support the real-estate sector. These include favorable real-estate regulations, low interest rates and liberalization of foreign-ownership limits.
- **Japan** has a very large and well-developed real-estate market, but transparency is relatively low despite its economic maturity, which can deter investment interest. The Japanese economy was hit hard by the financial crisis, undermining real-estate development and buying interest. As a result, experts anticipate a cooling of investment interest in that market.[61]

CONCLUSION: REAL ESTATE TO REMAIN A KEY FINANCIAL ASSET CLASS IN ASIA-PACIFIC

Since the height of the crisis, Asia-Pacific HNWIs have allocated more to real-estate investments on a global as well as regional basis. Real estate is expected to remain a top asset category for Asia-Pacific HNWIs and HNW investors will increasingly be looking to advisors and wealth management firms to handle and integrate their real-estate holdings into an overall portfolio discussion—especially as they seek to diversify and optimize risk-adjusted returns.

As HNW investors look to fully integrate and understand the entirety of their portfolios in the risk analysis process, wealth management firms will need to develop their offerings to cater to these demands. Firms will need to focus on three imperatives in particular:

- **Product innovation.** Firms will need to provide better accessibility, advice, products and services around real estate, not just locally, but regionally and globally. This extends beyond the obvious financing aspects and into managing indirect investment opportunities, including private equity real estate, funds of funds, etc. Firms will succeed if they can provide innovation and accessibility to this important asset class, while navigating changing regulations and market conditions across the region. Demand for real-estate assets is expected to remain high so while some major global institutions may have centers of excellence in real estate, local and regional firms may need to shore up their product availability and services around real estate.
- **Specialization.** Firms may need to involve specialists/advisors in their advisory and product-development processes. Advisors will also need to be well-informed about regulations, tax implications and other issues contingent to buying and selling

[58] Joyce Li, "Luxury Property Buoyant in Hong Kong," Wall Street Journal, March 17, 2010
[59] Property Wire, "Demand Soaring in Singapore Real Estate Market," March 17, 2010
[60] Global Real Estate Transparency Index, Jones Lang Lasalle, 2010
[61] Global Real Estate Transparency Index, Jones Lang Lasalle, 2010; Global Property Guide, "The State of Japan's Real Estate Market," October 29, 2009; NuWire Investor, "Japan Unveils New Stimulus To Boost Struggling Economy," December 09, 2009

real-estate assets in any given market. Increasingly, strategic partnerships between global advisory and local consulting firms are springing up to provide specialized services in this field.

- **REITs.** The Asian REIT market, while still developing, has nevertheless seen capitalization grow to US$70 billion in 2009 from just US$2 billion in 2001.[62] With many more markets considering REIT legislation, including China, investment demand is expected to rise. Deregulation in countries such as Malaysia could also make it easier for both domestic and foreign investors to buy REITs. Firms have a good opportunity to transfer knowledge from more developed REIT markets into their Asia-Pacific operations, and develop regional REIT platforms/strategies in line with local REIT legislation to provide customized offerings to their HNWI clients.

Asia-Pacific HNWIs Seek Out Tangible-Asset Investments

Luxury goods makers and auction houses are reporting booming demand from Asia-Pacific as the region continues to see HNWI wealth grow faster than in other regions. However, these purchases by HNWIs are indicative of the broader affinity Asia-Pacific investors have for tangible goods—and the established role of physical assets in financial-investment strategies.

In the 2010 *World Wealth Report*, we looked at an emerging global trend in which some HNWIs are approaching their passion investments as "investor-collectors."[63] These HNWIs see purchases of Art, Jewelry, Gems and Watches and other categories of tangible assets[64] as good alternatives to purely financial investments, and they acquire tangible assets partly for their potential to gain value. This is certainly part of the psyche for Asia-Pacific HNWIs, who have long pursued physical investments such as gold and jewelry because of their tangible value, proven returns and relative safety—and their potential to hedge against financial pressures such as inflation and currency risk.

In fact, while many financial markets around the globe have begun to recover after the crisis, Asia-Pacific HNWIs have continued to broaden their interests in investments outside of financial markets. HNWIs' interests in tangible assets now include a wide range of passion investments, including Art, Wine and many Other Collectibles. Notably, though, while Asia-Pacific HNWIs are acting partly as "investor-collectors"[65] in making these acquisitions, they also have a long-standing affinity for tangible assets as part of a diverse portfolio.

HNWIs ARE DRIVEN TO INVEST IN TANGIBLE ASSETS BY MORE THAN ECONOMICS

Economic considerations, such as financial returns, fear of inflation and currency risk, have clearly contributed to the increase in HNWI investments in tangible-asset classes worldwide. Some Asia-Pacific markets also lack the array of investment options available in more developed markets, making tangible assets an easy choice. But some sociocultural factors also drive the partiality Asia-Pacific HNWIs have for some of these assets. For example:

- In some parts of Emerging Asia (China, India, Indonesia and Thailand), the wealthy are wary of sophisticated financial instruments and are more conservative in their investment strategies. Investing in tangible assets is also key to ensuring true diversification and protecting against certain forms of risk for many HNWIs in markets where the financial markets are more volatile or less predictable.
- Rising affluence in the region has boosted demand for all types of tangible assets in recent years, attracting more auction houses and luxury goods retailers to sell a broader array of assets into the market, and providing more options for Asia-Pacific HNWIs.
- Among the newly wealthy, status is often revered, prompting some HNWIs to acquire luxury assets such as Art, luxury automobiles, etc., to enhance their reputation and provide a means to display their wealth.
- Traditions and cultural underpinnings influence the buy-and-hold approach of gold investments from HNWIs in countries such as India and China.

[62] Asian Public Real Estate Association (APREA), 2010 – excludes figures from Australia

[63] Michael Plummer and Jeff Rabin, Artvest Partners, interviewed by Capgemini, New York, April-June 2010

[64] Categories of passion investment researched for the World Wealth Report series

[65] Michael Plummer and Jeff Rabin, Artvest Partners, interviewed by Capgemini, New York, April-June 2010

GOLD HOLDS SPECIAL APPEAL FOR ASIA-PACIFIC HNWIs

Asia-Pacific HNWIs have long valued gold because it is a relatively liquid asset and has the potential to hedge against inflation and currency risk, but it also holds special cultural appeal. It is widely used in celebrations, including weddings and religious observances in certain countries, which fuels continual demand. In India, for instance, gold is equated with fortune, and despite meager per-capita income levels, the population has hoarded up to 18,000 tons of gold—more than 40 times the amount held in the country's central bank.[66]

In fact, Asia-Pacific[67] is the largest gold-consuming region in the world, accounting for 44% of the world's consumer demand in 2009. India and China together accounted for more than one-third. Notably, while 72% of global consumer demand is for jewelry, Asian HNWIs also invest heavily in bullion (bars and coins), which can be easily stored yet readily bought or sold.

This also reflects the general preference Asia-Pacific HNWIs have for buying physical assets, rather than exchange-traded funds (ETFs) or gold options, even though these alternatives are available. Asian HNWIs, more so than their global counterparts, are more likely to take physical delivery of gold.

HNWIs FROM DEVELOPING ASIA PREFER "JEWELRY, GEMS AND WATCHES" AS A CATEGORY; THOSE FROM INDUSTRIALIZED ECONOMIES FAVOR "LUXURY COLLECTIBLES"

Asia-Pacific HNWIs' preference for durable, tangible investments is evident too in their purchases of passion investments. Of Asia-Pacific HNWIs' total such investments in 2009, 61% was dedicated to the categories of Jewelry, Gems and Watches, Art and Other Collectibles, up from 52% in 2006.[68] However, preferences are not uniform across Asia-Pacific.

For example, HNWIs from the Industrialized economies in Asia-Pacific (e.g., Australia, Japan) favor Luxury Collectibles such as jets, yachts and luxury automobiles. Those from Emerging Asia are more likely to esteem Jewelry, Gems and Watches (see Figure 10).

Notably, HNWIs from the Newly Industrialized economies of Hong Kong, Singapore and Taiwan allocated as much as 20% of their passion investments in 2009 to Other Collectibles, the category that includes wines, coins, memorabilia, antiques, etc.

In 2009, auction houses from all over the world also reported strong buying interest from Asia-Pacific HNWIs for tangible assets such as high-end jewelry, gems, Art, and Fine Wine. That buying interest has increased so much that both Sotheby's and Christie's now count Hong Kong as their No. 3 auction center, following London and New York. Indeed, Asia-Pacific investors have clearly become a force in these markets, as evidenced by the following:

- While Hong Kong is still the region's predominant buyer of polished diamonds, retail demand is surging in China, where diamonds have become revered as wedding tokens and sought after by the young and newly wealthy. For example, Belgian officials recently said they expected one in every two polished diamonds from Antwerp to be sold to a Chinese buyer within five years.[69] (Antwerp is a major global distribution center for diamonds.)
- China has become the third-largest Art auction market globally after increasing its share from 7.2% of the global Fine Art auction market in 2008 to 17.4% in 2009.[70] Elsewhere in Asia-Pacific, other Art markets are smaller in size, but have been growing steadily. India's market, for example, grew 6% in 2009.[71] Traditionally, Art markets in Asia-Pacific have largely been confined to China, India, Indonesia and more recently Hong Kong. However, recent auctions in Singapore have been very successful and with good government support for Art, Singapore is increasingly becoming the hub of South East Asia Art auctions.
- Sotheby's Asia reported that 57% of the wine sold at its auctions in 2009 was acquired by Asian buyers, mostly from mainland China. Wine is an attractive category for many new "investor-collectors" as it has a lower entry point and is more readily accessible.

TANGIBLE ASSETS OFFER NEW OPPORTUNITY FOR WEALTH MANAGEMENT FIRMS

Asia-Pacific HNWIs have clearly become serious buyers of all kinds of tangible assets in recent years, giving wealth management firms an opportunity to offer more services related to these asset classes, including storage services, diversification services and advice on regulatory and tax implications.

For wealth management firms, the main challenge lies in building requisite expertise, since their experience with these services has often been limited to date. Some firms have started to offer more advice on investments such as art and gold as a way for

[66] Brook Larmer, "The Real Price of Gold," National Geographic, January 2009

[67] Refers only to India, China, Hong Kong, Taiwan, Japan, Indonesia and Vietnam

[68] Capgemini analysis, 2010

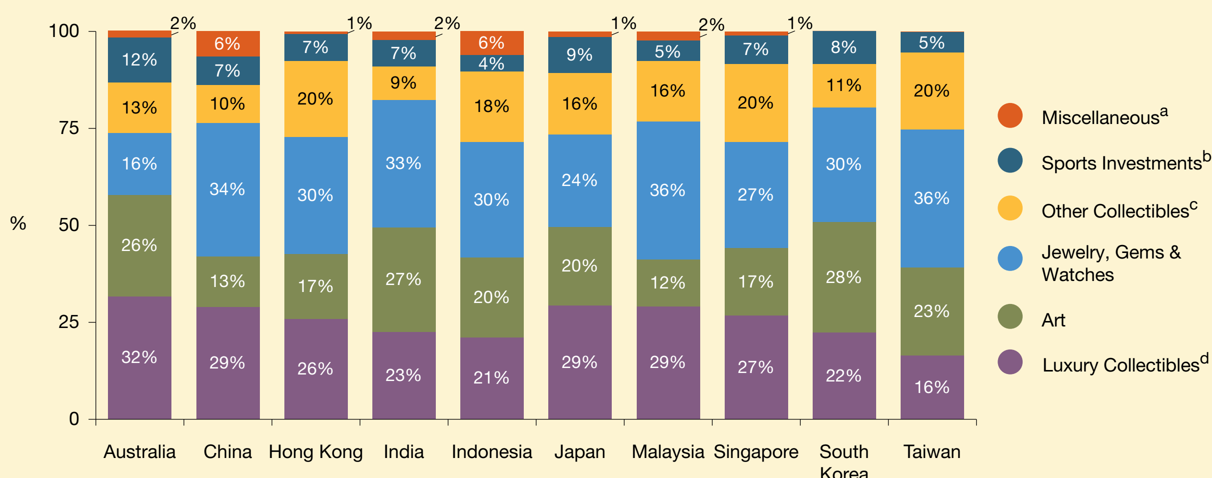
[69] "Antwerp Diamond Day Celebrated," China Daily, June 8, 2010, http://www.chinadaily.com.cn/china/2010expo/2010-06/08/content_9947489.htm

[70] "2009 Art Market Trends," March 2010, Artprice.com

[71] The International Art Market 2007-2009, Trends in Art Trade during Recession, TEFAF

FIGURE 10. Breakdown of Asia-Pacific HNWI Passion Investments, 2009 (by Market)

(%)



[a] "Miscellaneous" represents club memberships, travel, guns, musical instruments, etc. [b] "Sports Investments" represents sports teams, sailing, race horses, etc.
[c] "Other Collectibles" represents coins, wine, antiques, etc. [d] "Luxury Collectibles" represents automobiles, boats, jets, etc.
Note: Percentages may not total 100% due to rounding
Source: Capgemini/Merrill Lynch Financial Advisor Survey, March 2010

investors to diversify their portfolios and hedge against risks such as inflation and currency exposure. But this is new territory for many of them, as HNWIs have typically turned to domain experts in the past to manage their specific tangible-assets interests. An associated challenge for firms is the measurement and attribution of portfolio performance. As tangible-asset holdings become more diverse, for instance, it becomes more difficult to value these holdings, and incorporate those valuations into portfolio-performance tracking.

Ultimately, wealth management firms may consider establishing stronger partnerships with auction houses, storage facilities and trading firms to expand their offerings in this area. Indeed, the Singapore FreePort, which has its own state-of-the-art maximum-security vault, equipped to house collections and other valuables, offers even non-residents and investor-collectors a place to store valuables, collections and other tangible assets.

Asia-Pacific HNWIs are likely to continue investing in tangible-asset classes to diversify their portfolios in coming years, even as financial markets eventually recover. Wealth management firms need to plan their strategy for serving these clients well—especially since the ranks of the wealthy are likely to expand given the region's positive economic outlook and rising levels of wealth.

In particular, firms will need to:

- Understand the drivers of demand (cultural, financial, etc.) and the role of tangible assets in HNWI portfolios (diversification, safety, hedge, etc.).
- Take proper account of tangible assets in portfolio measurement and management, as well as in diversification strategies.
- Make sure advisors are properly educated on these issues so as to provide appropriate and value-added products and services to the right HNWI segments.
- Consider partnerships with third parties (auction houses, freeports, storage facilities) to ensure client access to value-added services.
- Stay abreast of the regulatory and tax implications of buying and selling tangible assets in different markets.

While financial markets may be recovering, tangible assets will continue to be a preferred asset class for Asia-Pacific HNWIs for reasons that go far beyond economics. And importantly, while some tangible assets may have particular cultural significance, others are simply seen by HNWIs as preferred alternatives to sophisticated and opaque financial products—products that many associate directly with the financial meltdown. Wealth management firms will need to understand the enduring role of these tangible assets to serve Asia-Pacific HNWIs effectively.

Spotlight:

WEALTH MANAGEMENT FIRMS IN ASIA-PACIFIC FACE UNIQUE CHALLENGES IN ADAPTING THEIR STRATEGIES TO MEET NEW CLIENT DEMANDS

Asia-Pacific HNWIs, like their counterparts globally, have been forever changed by the effects of the global financial crisis. But as wealth management firms try to adapt their strategies to meet the new needs of HNW clients, they face issues of investor diversity, industry maturity, market evolution and regulation that are unique to the region, and which make it challenging to implement strategic change.

NEW TRAITS EMERGE IN ASIA-PACIFIC HNWIs POST-CRISIS

The recent global financial crisis marked the sudden end of a long bull market in Asia-Pacific. This was a stunning development for the region's HNWIs, who had come to expect significant returns on almost any investment strategy. Moreover, few had fully realized the extent to which the fate of Asia-Pacific's markets was connected to other regions of the world.

In the aftermath of the crisis, Asia-Pacific HNWIs were forced to reevaluate their investment goals, strategies, asset allocations and risk profiles. And much like investors around the world, Asia-Pacific HNWIs have developed a heightened sensitivity to risk, are generally more cautious about investing, are keen to achieve more balanced asset allocations in their portfolios and are more engaged in their relationships with wealth management firms and advisors.

In fact, while many of Asia-Pacific's stock markets rebounded sharply in 2009, Asia-Pacific HNWIs generally did not rush headlong into the recovery. Rather, post-crisis, Asia-Pacific HNWIs are:

- **More sensitive to the threat of losses than the hope of returns.** While stock markets across Asia-Pacific surged in recovery, many HNWIs did not plunge back into the markets as they might have pre-crisis when returns seemed almost guaranteed. This caution illustrates the new awareness among Asia-Pacific HNWIs that any upward market trend can be fleeting given the staggering losses many markets suffered during the crisis, and short-term strategies in pursuit of returns might not be the best track, given some clients' longer-term financial goals. This more discerning and goal-based approach to investing marks a distinct shift in psyche among Asia-Pacific HNWIs compared with before the crisis.
- **More aware of their true risk appetite.** Risk awareness was less pronounced during the bull market, when Asia-Pacific HNWIs may have taken risks that exceeded their actual risk appetite but seldom questioned those investment decisions as portfolios generally generated good returns anyway.
- **More engaged in interactions with advisors and wealth management firms.** Before the crisis, firms and advisors were able to satisfy clients with a relatively limited selection of products—generally those produced in-house. Now, Asia-Pacific HNW clients want a wider choice of products, yet more customization, as well as more due diligence. They are taking longer to commit, prolonging the investment cycle.
- **More focused on balanced asset allocation.** When markets were continually rising, the main focus of Asia-Pacific HNW investors was on pursuing returns, rather than achieving balanced asset allocations or liquidity in portfolios. But those who were highly leveraged lost the most wealth during the crisis, and realized their portfolios lacked adequate liquidity. Now, wealth management firms are helping HNWIs to reevaluate how to achieve more balance in their asset allocations so as to meet longer-term objectives, such as funding their retirement or other financial goals, such as capital preservation vs. creation.

The post-crisis attitudes of Asia-Pacific HNWIs reflect their fundamental need to better understand what they are investing in, where it's held and how it is valued, as well as their desire for value-added advice and investment choices that are consistent with their risk profiles and investment goals. For wealth management firms, these needs translate into new demands in three critical areas:

- **Transparency and Simplicity.** Many HNW clients felt blindsided by crisis-related losses because they had not fully understood the products, valuations, risks,

performance, and fee structures in which they were involved. Now, they expect fuller product disclosure statements, so they know exactly what they are investing in, and they expect better and more frequent reporting of portfolio activity and performance.

- **Value of Advice.** As HNW clients consider their investment choices in more detail, they increasingly expect specialized and objective investment advice and want to be sure the proposed investment strategies align with their financial goals and risk profile.
- **Portfolio and Risk Management.** After the losses of the crisis, Asia-Pacific HNWIs are especially keen to understand where the risks lie in their portfolios and to achieve more balanced asset allocations. As a result, they want more evidence (e.g., risk-scenario analysis) to guide their investment decisions.

Notably, Asia-Pacific HNWIs' expectations are very similar to those of their HNW counterparts worldwide, but their demands create special and challenging implications for wealth management firms in Asia-Pacific. As firms seek to adapt their strategies to serve HNWIs more effectively, new client demands are especially exerting intense pressure on **product and service offerings** and **client servicing models**. In the process, the critical shortage of wealth management **talent** in the region is becoming very evident.

Asia-Pacific Wealth Management Firms Are Tackling Challenges in Products and Services, Client Servicing Models and Talent

Wealth management offerings are constantly evolving, but there was little reason for Asia-Pacific firms to change radically during the extended bull market, when investment returns could be found fairly easily, and HNW clients were widely accepting of the product choices proposed by firms—even though offerings relied heavily on in-house products.

Post-crisis, however, Asia-Pacific wealth management firms will need to work hard to satisfy the new and evolving needs of their HNW clients. In seeking to deliver a proposition that meets HNWIs' elevated standards, firms will need to reevaluate the products and services they offer, and the way in which they interact with and service clients—as well as the operational support needed to deliver on that proposition. This task is not easy in a region where markets are highly diverse, and strategy execution can vary widely between sub-regions and even types of firms within sub-regions.

Products and Services

Meeting Asia-Pacific HNWIs' demands for an expanded or specialized product offering may sound easy enough, but shifting product and service offerings defy the status quo among many wealth management firms. Regional Firms in particular have continued to rely on proprietary products long after Firms in more developed markets have embraced open architectures and high-end services to deliver to niche segments or broaden their offerings.

Some Asia-Pacific firms were not motivated to veer far from proprietary products in the past, because they could protect margins and fees (which are higher on in-house products) without displeasing HNW clients. In fact, clients were generally happy with their returns in the region's boom years and were largely indifferent to competing products. Now, however, Asia-Pacific firms could lose HNW clients if they cannot provide them with access to a more comprehensive and relevant offering that truly aligns with their individual risk and asset allocation priorities—regardless of whether the products are sourced from in-house or from third parties.

Other firms, recognizing that reality, are already gravitating toward open architectures and product partnerships to widen their product offerings and/or supplement expertise. But while these approaches are proven in developed markets, there are significant repercussions in Asia-Pacific where business models, people, organizations, processes and technology have long been aligned behind the proprietary-product approach. Some Global Firms in the region have already started leveraging a "guided" open architecture, in which products are preselected from the "open market" and templated to fit various risk scenarios, much like model portfolios. This is designed to take the guesswork out of the equation for less experienced advisors. However, given the financial crisis, these same firms recognize they need to adopt a more holistic and tailored approach to deliver what clients are now demanding.

As a result, adopting an open architecture, for instance, has various consequences that present numerous challenges to Asia-Pacific firms, including:

- **Client reporting and due diligence.** If one firm offers another's products, it will need to meet reporting and compliance standards around those third-party products as well as its own. For a firm reliant on proprietary products, this will mean changing processes and protocols to capture additional legal disclaimers and disclosures, valuations and performance tracking, etc.

They will also need to be able to show reporting on potential volatility attributed to those products on client statements and records.

- **Advice on third-party products.** Firms will need to train advisors to be proficient in discussing product specifics and risks, including ways in which in-house and third-party products compare and contrast in meeting a client's financial goals and risk appetite.
- **Risk modeling.** To properly manage risk and balance asset allocations, firms will need to be able to value third-party products accurately, track their performance and properly understand the correlations to in-house and other third-party products in a client's portfolio. This will require new models and new capabilities.
- **Other operational issues.** Platforms will need to be integrated to ensure seamless access to third parties and their products, as well as the information (e.g., disclosures) around the products.

Even if firms can overcome the challenges of implementing open architectures and partnerships, these strategies cannot overcome all the challenges of designing comprehensive product and service offerings in Asia-Pacific. After all, different markets are at different stages in their development, and regulation may limit key products and services in a given firm's offering.

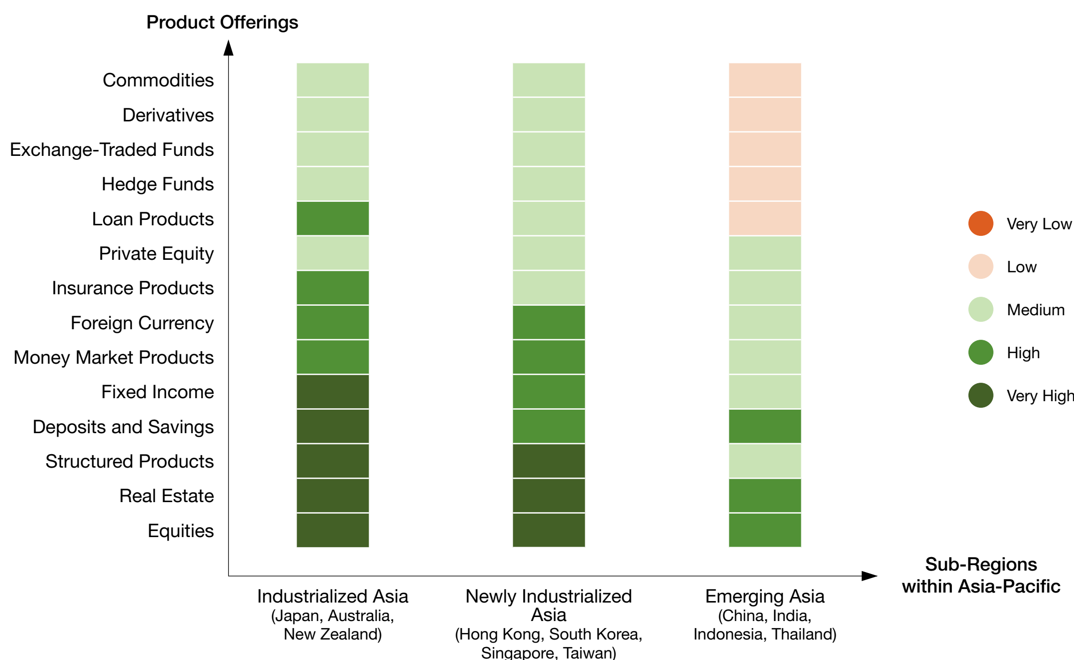
For example, the product range (see Figure 11) is manifold in Industrialized Asia (Japan, Australia, New Zealand), but medium to low, depending on the product, in the markets of Newly Industrialized Asia (Singapore, Hong Kong, South Korea and Taiwan) and Emerging Asia (China, India, Indonesia and Thailand).

This creates challenges for firms when their HNW clients have sophisticated product needs, but offerings are limited by the maturity of a country's financial system or by product-specific regulation. In Japan, for example, HNWIs show considerable interest in succession planning, but regulation prohibits trust services that might be commonly found in North America or Europe. Thus, firms need to work within the regulatory framework to find alternatives for clients.

In countries like India, REITs, fixed-income instruments and commodities markets are still underdeveloped. Additionally, the activities of certain wealth management firms (e.g., foreign vs. regional vs. local) may also be limited by regulation.

Nevertheless, it is clear that to meet the post-crisis needs of Asia-Pacific HNWIs—and to cater effectively to HNWIs as the region's markets mature and the level of affluence rises—wealth management firms need to position themselves now to grow successfully. To operationalize their strategies for expanding and

FIGURE 11. Maturity of Wealth Management Product Offerings in Various Sub-Regions within Asia-Pacific



Source: Capgemini analysis, 2010

customizing products, services and related advice, many firms are focusing on necessary and related changes in their client servicing model.

Client Servicing Models

Product and service strategies have consequences for other aspects of wealth management operations. As firms move to open architectures, for example, not all their people may be knowledgeable enough to address client concerns about product choice and suitability. To operationalize product and service strategies, some firms are therefore moving to client servicing models that pool their specialists (e.g., product, risk, sector/industry experts) centrally.

The specialist pool can support advisors in their interactions with HNW clients when advisors might otherwise be ill-equipped to help clients understand the array of products, or explain how the product choices align with a client's portfolio strategies and financial goals.

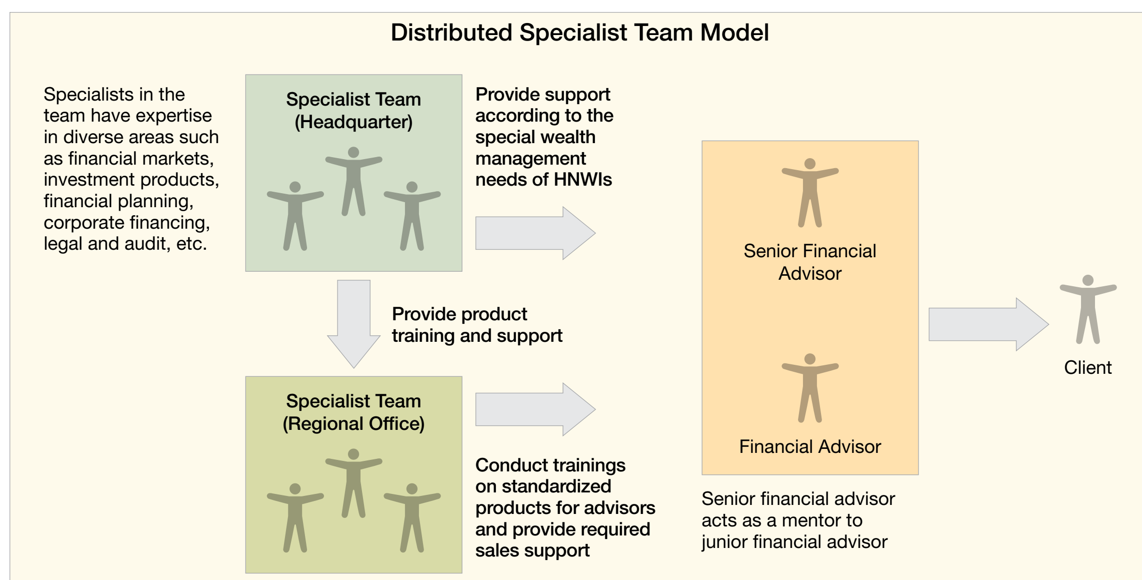
Post-crisis, team-based advisory models are gaining prominence over individual advisory models, because they deliver benefits that align well with the changing needs of Asia-Pacific HNWIs, especially:

- **Asset Allocation and Risk Management Expertise.** Investment and Portfolio Specialists can help HNWIs to achieve more balanced portfolio allocations in line with their investment goals and risk appetites. They can also make sure to provide clients with adequate detail on specifics such as liquidity, lock-up periods, returns, etc., and offer in-depth research on the risk particulars of both in-house and third-party products, scenario analysis and product volatility.
- **Specialized, Consistent, Value-Added Advice.** The specialists are domain experts and the model enables the Firm to deliver consistent advice even if the client-facing advisor changes. The model also provides for a dedicated advisor to maintain the client relationship, with help from the specialists as needed. The model allows HNWIs to interact with specialists and discuss investment choices more thoroughly, demonstrating the value of advice.

Firms can also adapt these team models according to the size of their talent pool, the firm's size, geographic reach, target segment, etc. For example, some firms use the core-team specialists only for specific client needs that cannot be met by the front-line advisor alone. By bringing in a specialist on an ad hoc basis, advisors can provide clients with access to a team of experts and specialists that are directly relevant to their needs at a given time.

Global banks might use another adaptation that makes available a team of specialists at the head office and at the regional level (see Figure 12). This provides an even wider set of specialties to the HNW client (e.g., experts across more markets, industry sectors and investment

FIGURE 12. Core Team Model, Adapted to Suit Firms with a Large Geographic Footprint



Source: Capgemini analysis, 2010

products, and in more areas, such as corporate financing, legal and audit). A variation of that model provides senior advisors as mentors to less-experienced team members, encouraging knowledge transfer.

Notably, though, these client servicing models have inherent challenges. For one, specialists often prefer to be out in the field, and don't necessarily want to be "pooled" behind the scenes. There are also compensation issues to tackle, because only the relationship manager has direct access to the client, but client profitability is clearly the result of the pool's efforts.

Moreover, firms using a specialist-pool model still need to ensure they deliver against other priorities for Asia-Pacific HNWIs, including **transparency**. HNW clients increasingly expect transparency from firms as well as the products offered, risk attributes, details on fee structures, firm disclosures, etc. So firms will need to train their client servicing organization to understand and communicate about products, risks and fee structures, and deliver appropriate and frequent updates on portfolio status and performance.

In fact, the team models require a critical mass of specialists to even function, let alone be effective. Not all firms in Asia-Pacific have (or can acquire) enough talent to organize themselves in this way—or in general to meet the more exacting post-crisis standards of HNW clients.

Talent Management

Adapting to new HNW needs is actually creating intense pressure on the "people" strategy at Asia-Pacific wealth management firms. Post-crisis, for example, advisors must understand asset allocation and risk management principles, provide due diligence on products and explain competitors' offerings. But expertise is in short supply in Asia-Pacific, where many advisors are relatively young and inexperienced.

Data[72] show that nearly 60% of advisors in Asia-Pacific excluding Japan are no more than 40 years old. By contrast, 85% of advisors in North America and 50% in Europe are over age 40. Moreover, the average advisor in Asia-Pacific excluding Japan has just 9.3 years of experience and has been at his/her wealth management firm for less than six years. This compares with an average in North America of 23.8 years of experience and 20 years of tenure.

Not surprisingly, then, the most urgent need of Asia-Pacific wealth management firms today is to train and develop front-line advisors to meet new client expectations. Specifically, industry executives believe the areas in which advisors most need additional training and support are advisory skills, domain knowledge and product knowledge (see Figure 13).

Indeed, firms are already investing significantly in training their advisors, because they see advisor competency as a differentiator in today's markets. Firms are employing mentoring systems to share knowledge and partnering experienced advisors with more junior staff. Budgets are increasing to ensure advisors are properly qualified and can demonstrate the competencies now expected by HNW clients, including specialist knowledge of products (including those from a third party), risk management and other specifics of investing strategies (e.g., behavioral finance). Graduate training and/or internship programs are being designed internally or in alliance with local universities to tap into a wider base of future talent.

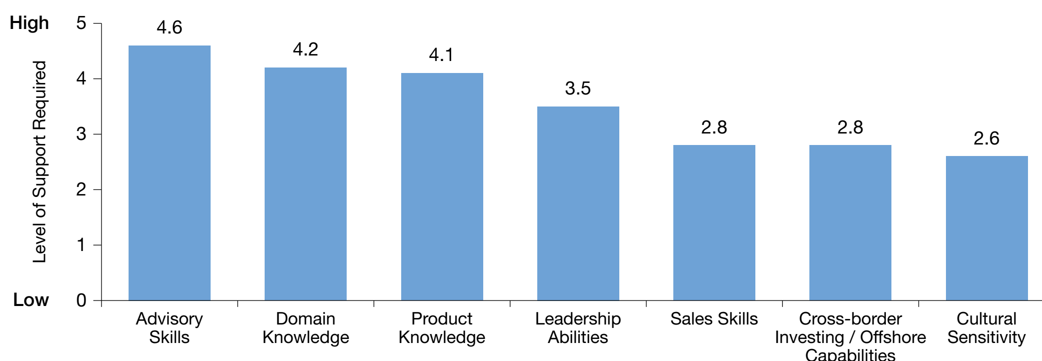
But to fill the talent pipeline, firms are also looking at hiring internally from different functions within the wider organization, and not just hiring from competitors—the strategy on which most firms still rely. And in the highly competitive market, firms also need a proactive strategy for retaining talent. Advisor retention is easier for a firm perceived to have a good brand name. Advisors are also more likely to stay at a firm that supports them with a wide range of product offerings for clients, and provides them with a defined career path and opportunities for development. Nonetheless, compensation and other remuneration remain important criteria, although organizational culture (such as work/life balance) is also a factor.[73]

Devising strategies such as these to acquire, develop and retain advisor talent for the longer term will be the key to successful growth for wealth management firms in Asia-Pacific, as talent is already scarce and demand is expected to keep growing. And critically, any broader attempt to improve operations, including product and service offerings and client servicing models, will be threatened if the requisite skills and competencies are lacking.

[72] Capgemini/Merrill Lynch Financial Advisor Survey, 2010

[73] Capgemini Executive Interviews, July 2010

FIGURE 13. Areas Where Financial Advisors in Asia-Pacific Require Additional Training and Support



Source: Capgemini Executive Interviews, July 2010

Conclusion: Firms Will Need to Manage Holistically the Operational Impacts of Their New Client-Driven Strategies

After the financial crisis, Asia-Pacific HNWIs have reevaluated their approach and priorities around investing—much like their global counterparts. But despite financial-market recovery and a positive economic outlook for the region, Asia-Pacific HNWIs remain cautious, and want to be given a choice of suitable products and services that properly align to their true risk profiles and help achieve a more balanced asset allocation across their portfolio.

These demands are evident among the newly wealthy and HNWIs of long standing, and are expected to be part of the fabric of wealth management services as the region's HNWI ranks grow in coming years. Wealth management firms therefore need to decide now how to position themselves to keep delivering a proposition in which Asia-Pacific HNWIs see value.

For firms, this means identifying and confirming the HNW segments they plan to serve, and operationalizing their chosen client strategies while navigating the operational and regulatory hurdles, shrinking margins and talent shortage that accompany the industry in Asia-Pacific.

The path each firm takes will naturally depend on its identity (size, geographic footprint, target segments, etc.) but to operationalize their new client-driven strategies, wealth management firms will need to reevaluate business models, capabilities, processes and technology.

For most, this will mean:

- **Business models** will need to change, as firms decide whether and how to leverage third-party expertise and offerings, and how to manage associated margin pressure.
- **People** capabilities will need to be developed, creating stronger advisor competencies, especially in the areas of advisory skills and product and domain knowledge. Firms can no longer rely on poaching talent from competitors, and will need long-term strategies for acquiring, developing and retaining talent. They will also need to decide which organizational models best leverage their specialists and encourage knowledge sharing and transfer.
- **Processes** will need to be adapted to back up the necessary changes in product and service offerings and client servicing models. Expanded portfolio reporting, risk analysis, comprehensive investment advice and asset allocations will need to accommodate third-party products as the trend toward open architecture continues.
- **Operations and Technology** will similarly need to adapt to front-office changes around client servicing models. Platforms will also need to be integrated.

Post-crisis, the wealth management industry in Asia-Pacific is clearly under pressure as HNW clients become more demanding and exacting. Nevertheless, firms can position themselves to capture the longer-term opportunities in this expanding market if they embrace product and service diversity, innovate client servicing models and build capabilities. However, these initiatives are inextricably linked—with a move in one sphere creating repercussions for others. The key will be taking a holistic approach to managing these moving parts.

Methodology

The 2010 *Asia-Pacific Wealth Report* focuses on 12 core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Malayasia, New Zealand, Singapore, South Korea, Taiwan and Thailand. These markets together account for more than 95.0% of the region's GDP. The market-sizing model includes 18 countries and territories in its Asia-Pacific coverage. The Economic Review section covers 11 of these core markets excluding Malaysia. The Asset Allocation covers 10 markets excluding New Zealand and Thailand. The Real Estate sidebar covers 10 of these core markets excluding New Zealand and South Korea.

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. In conjunction with the Economist Intelligence Unit's efforts to provide the most accurate data, select historical figures have been updated since publication in previous reports.

In 2005, we revised the methodology to move from reporting only annual regional findings to include country-level information. Wealth distribution, which differs by country, is based on formulized relationships between wealth and income. Data on income distribution is provided by the World Bank, Global Insight, 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.

Our financial asset wealth figures include the values of private equity holdings stated at book value as well as all forms of publicly quoted equities, bonds, funds and cash deposits. It excludes 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 results. The translation to U.S. dollars is made using a yearly average exchange rate. The WWR model calculates cumulative wealth in U.S. dollar terms using a time series of data going back over 100 years, so the impact of a sharp currency appreciation for a year or two has a negligible impact.

The information contained herein was obtained from various sources; we do not guarantee its accuracy or completeness nor the accuracy or completeness of the analysis relating thereto. This research report is for general circulation and is provided for general information only; any party relying on the contents hereof does so at its own risk.

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Capgemini's wealth management practice can help firms from strategy through to implementation. Based on our unique insights into the size and potential of target markets across the globe, we help clients implement new client strategies, adapt their practice models, and ensure solutions and costs are appropriate relative to revenue and profitability expectations. We further help firms develop, and implement the operational infrastructures—including operating models, processes, and technologies—required to retain existing clients and acquire new relationships.

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