



Asia-Pacific Wealth Report

2008

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To Our Readers,

On behalf of Merrill Lynch and Capgemini, we are pleased to present the 2008 *Asia-Pacific Wealth Report*, our third annual in-depth look at the changes in the High Net Worth marketplace in the region. The Report builds on the success of the *World Wealth Report*, which is now in its 12th year.

As our Report highlights, 2007 was a transitional year that saw a sharp divergence between mature and emerging markets. The Asia-Pacific region displayed resilience to the North American economic slowdown, buoyed by robust GDP growth and solid stock market performances. As a result, the region continued to accumulate wealth on an unprecedented scale.

For the third consecutive year, Asia-Pacific dominated the list of the world's 10 fastest-growing markets for High Net Worth Individuals (HNWIs). The Report found that growth in Asia-Pacific economies, most notably India and China, attracted significant investment into the region. Moreover, diverse markets and the evolving behavior of HNWIs across the region present tremendous opportunities for wealth management providers worldwide.

While global economic conditions in the first part of 2008 also had an impact on the Asia-Pacific region, HNWIs are still optimistic about growth throughout the region, and are continually looking for new opportunities.

This year's *Spotlight* section focuses on the dynamics and potential of the Emerging-HNWI and Ultra-HNWI segments. We examine the unique characteristics of each segment and the growth potential they offer wealth management providers in the region.

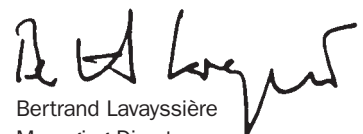
We are pleased to present you with this year's Report, and hope you will find continued value in our latest insights.



Robert J. McCann
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The State of Asia-Pacific's Wealth

- **The number of HNWI in Asia-Pacific grew by 8.7% in 2007, to 2.8 million, exceeding global HNWI population gains of 6.0%**
- **Asia-Pacific HNWI wealth expanded by 12.5% in 2007, to US\$9.5 trillion, exceeding both the 10.5% rate posted a year earlier and total world wealth growth in 2007 of 9.4%**
- **Asia-Pacific is home to 27.8% of the world's HNWI population and 23.3% of global HNWI wealth**
- **India, China and South Korea experienced the highest HNWI population growth within the region, gaining 22.7%, 20.3% and 18.9%, respectively**
- **Together, Japan and China accounted for 68.8% of the Asia-Pacific HNWI population and 62.4% of its wealth**
- **We forecast that Asia-Pacific HNWI wealth will total US\$13.9 trillion by 2012, growing at a projected annual rate of 7.9%, which slightly exceeds the 7.7% global rate**

Over the past five years, HNWI wealth has soared in the Asia-Pacific region. In 2007, five of the world's 10 fastest-growing HNWI populations were concentrated in Asia-Pacific markets, with India and China posting the largest gains. However, the slow growth of some of the larger Asia-Pacific HNWI populations, such as the 2.2% rate posted in Japan, kept overall regional growth levels at or near global averages. As a result, Asia-Pacific HNWI gains exceeded global averages but fell short of advances made in the very highest-growth regions, namely the Middle East and Latin America.

Real GDP and market capitalization continued to be key drivers of Asia-Pacific wealth generation, despite mixed results relative to 2006 performances. Two-thirds of the markets reported on² boasted real GDP growth above the 5.1% global average,³ while market capitalization in all of the Asia-Pacific economies analyzed, with the exception of Japan's, experienced strong, positive growth throughout 2007.

The global "story of two halves," as told in the 2008 *World Wealth Report*, accurately reflects 2007 trends evident in Asia-Pacific as well: Steady growth across the region defined the first half of 2007 whereas heightened volatility and a sharp divergence between mature and emerging economies characterized the second. Unlike some other parts of the world, the economic slowdown in the United States did not dampen overall 2007 Asia-Pacific gains. However, deteriorating global conditions over the course of the year heightened uncertainty regarding the global economic outlook and cast a shadow on many of the region's primary export markets. Further, while some Asia-Pacific economies were faced with slowing growth, high—and steadily

rising—inflation became the most pressing challenge for the entire region. This issue grew more pronounced in 2008, amid severely weakened Asia-Pacific equity markets, and drew attention to related policy-action decisions. Nonetheless, in 2007, rapidly rising domestic demand and improving socioeconomic and political fundamentals within the region, particularly among the emerging markets, buoyed growth in most Asia-Pacific economies.

The net result of strong growth in emerging markets and weak performances in mature markets was above-global-average gains for HNWI in the Asia-Pacific region. In 2007, the number of HNWI in the region grew by 8.7%, to 2.8 million. With those gains, Asia-Pacific ended the year hosting 27.8% of the world's 10.1 million wealthiest individuals, with the nine key markets studied accounting for 93.1% of the region's HNWI. During the same period, HNWI wealth in Asia-Pacific expanded by 12.5%, to US\$9.5 trillion, significantly exceeding gains of 10.5% in 2006. By year-end 2007, Asia-Pacific HNWI financial holdings accounted for 23.3% of the US\$40.7 trillion held by HNWI globally.

In 2007, the Ultra-HNWI⁴ population in Asia-Pacific grew by 16.4%, to 20,400 individuals—nearly double the 8.8% growth of the global Ultra-HNWI population and significantly higher than the 12.2% growth witnessed in the region a year earlier. Notably, Asia-Pacific's Ultra-HNWI segment accounted for only 0.7% of its entire HNWI population, less than in any other region. This trend has been consistent over the past few years and reflects how the Asia-Pacific HNWI population is weighted more heavily in the lower wealth bands than HNWI populations in other regions.

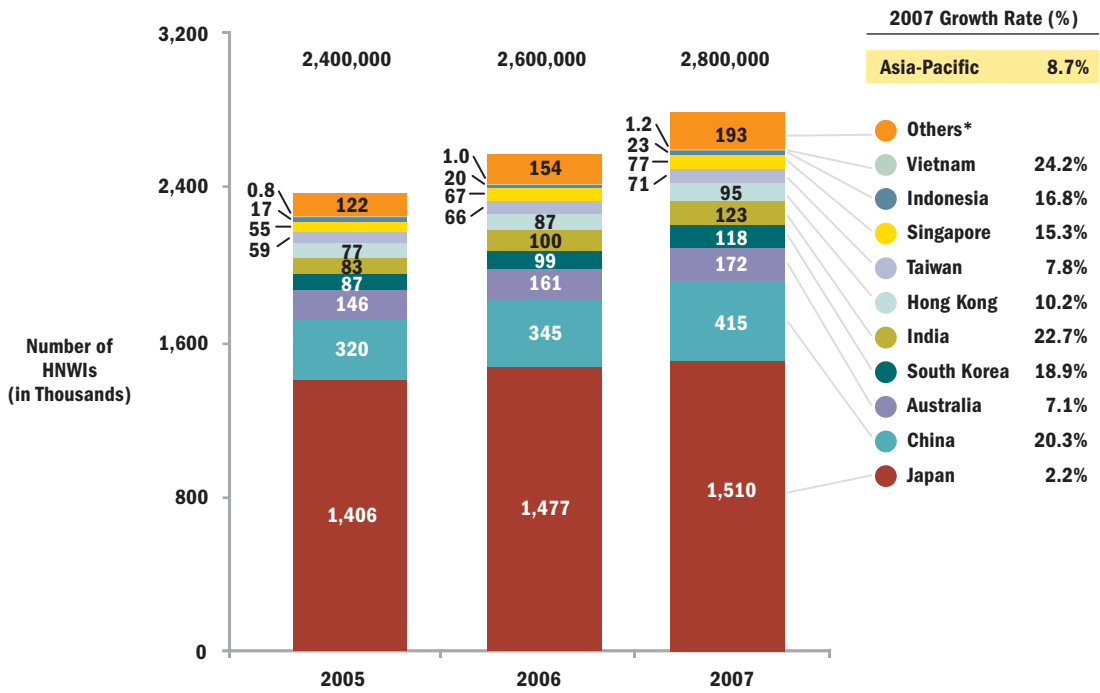
¹ High Net Worth Individuals (HNWIs) hold at least US\$1 million in financial assets, excluding collectibles, consumables, consumer durables and primary residences

² Australia, China, Hong Kong, India, Indonesia, Japan, Singapore, South Korea and Taiwan

³ The Economist Intelligence Unit, "Select Country Reports," December 2007 – May 2008

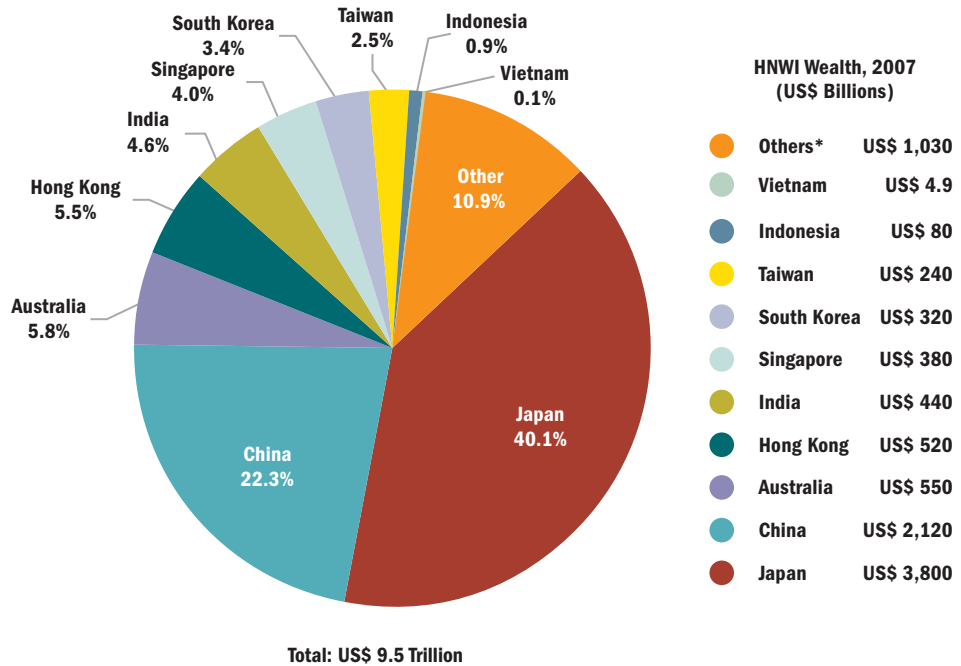
⁴ Ultra-High Net Worth Individuals (Ultra-HNWIs) hold at least US\$30 million in financial assets, excluding collectibles, consumables, consumer durables and primary residences

Figure 1. | Asia-Pacific HNWI's by Market, 2005 – 2007



Note: *Others category is comprised of eight markets: Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka and Thailand
 Some historical figures have been restated as the result of additional country-level data becoming available in 2007
 Chart numbers are rounded
 Source: Capgemini Lorenz curve analysis, 2008

Figure 2. | HNWI Wealth Distribution by Region, 2005 – 2007



Note: *Others category is comprised of eight markets: Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka and Thailand
 Chart numbers are rounded
 Source: Capgemini Lorenz curve analysis, 2008

Domestic Demand and Foreign Investment Drive Gains for Asia-Pacific HNWIs

While global real GDP growth decelerated in 2007, from 5.3% to 5.1%, growth in most Asia-Pacific economies exceeded that rate, building on strong domestic demand, increased public spending and rising foreign interest in the region's investment opportunities. In fact, six of the nine markets studied enjoyed real GDP growth above the global average, with growth rates of several emerging economies in the region ranking among the highest in the world.

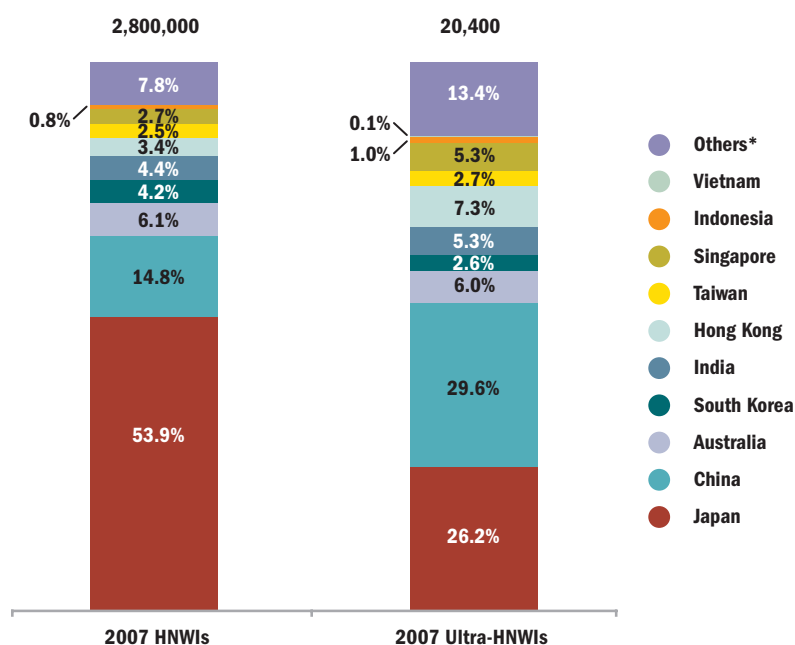
Similarly, Asia-Pacific produced some of the world's most impressive market capitalization performances in 2007, even with slowdowns evident in other regions of the world. The MSCI Asia-Pacific Index rose 12.3% in 2007—33.3% if Japan is excluded—a sign of the region's strong equity market activity and positive growth in economies at every stage of economic development. Furthermore, with the exception of Japan's contraction, all of the Asia-Pacific markets analyzed experienced double-digit market capitalization growth, which contributed strongly to regional HNWI gains.

Within Asia-Pacific, countries at varying stages of economic development responded differently to the downward evolution of global conditions over the course of 2007 and on into 2008. While economic performances varied significantly throughout the region, countries with comparable levels of market maturity (those being classified as *mature*, *developing* and *emerging*⁵) shared similar experiences.

External Conditions Weigh on Mature⁶ Economies, Yielding Mixed Results

Once again, **Japan** experienced a year of weak economic gains and poor equity market performances, generating only a modest 2.2% expansion of its HNWI population in 2007. While the country's shrinking trade balance was reversed after triggering concerns toward the end of 2006, a contraction in housing investment in 2007 weighed on real GDP growth, and held it to 1.8%. Accentuated by the U.S. economic slowdown and uncertain global outlook, low levels of consumer confidence limited private consumption growth to only 1.5%.⁷ At the same time, investor distrust of Japanese politics and lackluster public policy contributed to an outflow of foreign capital from Japanese equity markets, which often accounts for up to 60% of trading volumes. This led market capitalization to contract by 6.1% in 2007.⁸

Figure 3. | Asia-Pacific HNWIs and Ultra-HNWIs (%) by Market, 2007



Note: *Others category is comprised of eight markets: Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka and Thailand
Chart numbers are rounded

Source: Capgemini Lorenz curve analysis, 2008

⁵ Classification of countries as mature, developing and emerging is consistent with the definitions in the 2006 *Asia-Pacific Wealth Report*, *Spotlight* section

⁶ Qualitatively defined as holding high wealth density with highly developed capital markets, as noted in the 2006 *Asia-Pacific Wealth Report*, *Spotlight* section

⁷ The Economist Intelligence Unit, "Japan Country Report," December 2007 – May 2008

⁸ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008; World Federation of Exchanges, "Focus Report," January 2008

While internal factors inhibited Japan's growth, the U.S. economic downturn weighed directly—and indirectly—on the country's growth prospects. Despite Japanese financial institutions' relative insulation from troubled U.S. securities, the Nikkei 225 benchmark index contracted by 11.1% in 2007.⁹ Over the course of the year, turmoil in global financial markets shook Japanese investor confidence, while tight credit constrained real estate and related investments and private equity. Because Japan looks to its export sector to drive growth opportunities, receding demand in the United States—Japan's largest export market—over the course of 2007 further constrained the country's growth potential. However, diminishing U.S. support of Japanese growth in late 2007 was offset slightly by strong Japanese sales to Europe and Asia. As a result, export growth for the whole of 2007 still reached 8.8%.¹⁰

A bit isolated from global developments, **Australia** recorded strong economic gains and expanded its HNWI population by 7.1%, despite adverse conditions that weighed on many mature economies in the second half of 2007. Historically, global conditions impact the Australian economy with a six- to nine-month lag.¹¹ Consequently, strong performances prevailed through year-end and boosted Australian HNWI gains above the global average, but short of the Asia-Pacific rate. In addition, growth was supported by an 18.5% increase in market capitalization in 2007, a sharp increase in commodity prices and ongoing demand for Australian exports from emerging markets in the region. Real GDP, meanwhile, advanced 3.9% in 2007, exceeding 2.8% growth a year earlier, in large part due to a 4.1% upturn in private consumption.¹²

High and climbing interest rates, tightening credit conditions and mounting inflationary pressures weighed on Australian consumer and business confidence levels toward year-end, in contrast with the positive sentiment built on a strong currency and five straight years of 23% average market capitalization growth per annum.¹³ The impact of interest rate hikes was particularly sharp in the wake of several consecutive years of negative household savings rates. Still, overall 2007 performances were solid and translated into notable HNWI sector gains.

Hong Kong contested the downward trend that many mature economies around the world experienced in 2007, as healthy economic fundamentals propelled its HNWI population ahead by 10.2%, surpassing both regional and global growth rates. Real GDP grew by 5.7%, thanks to robust growth of private consumption, domestic demand and exports, up by 7.0%, 8.2% and 7.9%, respectively. The convergence of these factors resulted in a drop in the unemployment rate to 3.4% in the last quarter of 2007, its lowest rate since April of 1998.¹⁴

Market capitalization in Hong Kong expanded by 54.8% in 2007, fueled by strong regional activity—particularly in the booming markets of China and India—and sustained international interest.¹⁵ Resolute IPO and real estate performances, important drivers of Hong Kong market capitalization, upheld Hong Kong's role and reputation as a primary Asia-Pacific market. Furthermore, the Hong Kong dollar weakened over the course of 2007, as a result of its peg to the U.S. dollar. This increased its market appeal to international investors, particularly those from the Middle East and Southeast Asia.

Singapore outperformed the other mature economies analyzed in terms of real GDP and market capitalization growth and, as a result, realized the greatest HNWI sector gains among mature Asia-Pacific economies. Globally, Singapore ranked seventh, with 15.3% population growth. Exports and private consumption were the primary forces behind real GDP growth of 7.5%. Other notable drivers included: continued strength of the manufacturing sector; sound performances by the financial services and business sectors; and a drop in the unemployment rate to a nine-year low of 1.3%.¹⁶

Market capitalization growth in Singapore reached an impressive 40.3% in 2007, albeit down slightly from 2006 figures.¹⁷ Market activity was supported by measures sustaining high levels of foreign direct investment (e.g., corporate income taxes were lowered by two percentage points), growing demand for financial services and rising oil prices, which benefited Singapore via higher returns on refined petroleum products and oil rig maintenance services.¹⁸ At the same time, the country's current account surplus equaled 28.8% of GDP in 2007, allowing Singapore to accumulate a large stock of foreign assets.¹⁹

⁹ "Year-End Review of Markets & Finance," *The Wall Street Journal*, January 2, 2008; *Yahoo!Finance*, accessed February 13, 2008

¹⁰ The Economist Intelligence Unit, "Japan Country Report," December 2007 – May 2008

¹¹ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

¹² World Federation of Exchanges, "Focus Report," January 2008; The Economist Intelligence Unit, "Australia Country Report," December 2007 – May 2008

¹³ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008; The Economist Intelligence Unit, "Australia Country Report," December 2007 – May 2008

¹⁴ The Economist Intelligence Unit, "Hong Kong Country Report," December 2007 – May 2008

¹⁵ World Federation of Exchanges, "Focus Report," January 2008

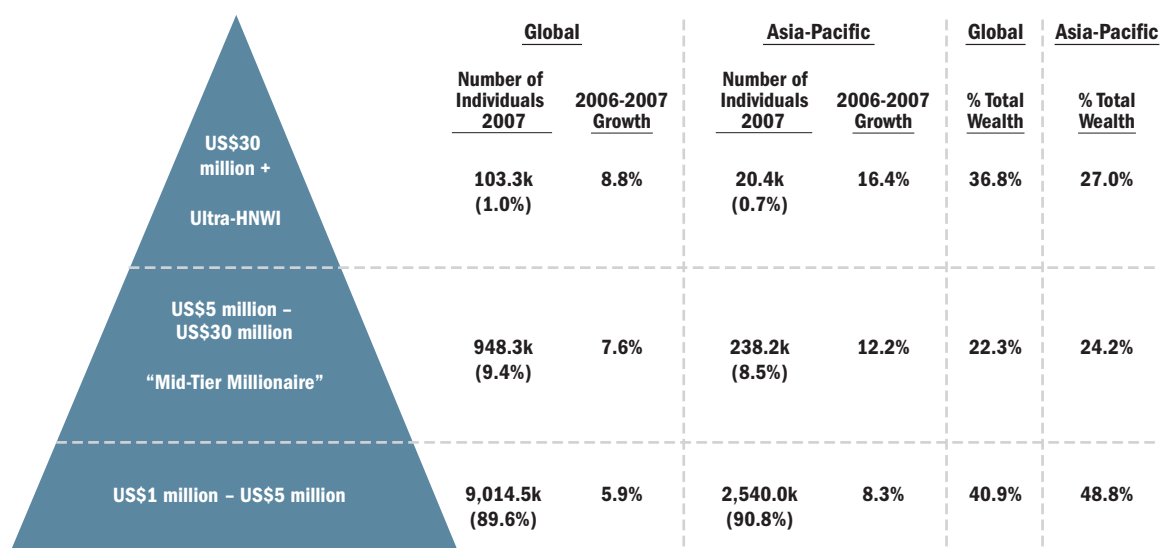
¹⁶ The Economist Intelligence Unit, "Singapore Country Report," December 2007 – May 2008

¹⁷ World Federation of Exchanges, "Focus Report," January 2008

¹⁸ "Economic conditions in Singapore and Vietnam: A monetary policymaker's report," *FRBSF Economic Letter*, Volume 2008, Issue 7, February 22, 2008

¹⁹ The Economist Intelligence Unit, "Singapore Country Report," December 2007 – May 2008

Figure 4. | **Global and Asia-Pacific HNWI Distribution by Wealth Band, 2007**



Note: Figures may not sum to 100% due to rounding
 Calculation adjusted for the inclusion of Bahrain and Qatar, which were added for the 2006 World Wealth Report
 Source: Capgemini Lorenz curve analysis, 2008; Capgemini/Merrill Lynch 2008 World Wealth Report

Developing²⁰ Economies Balance Global Slowdown with Asia-Pacific Strength

Taiwan's economy outpaced global averages by many measures, supported largely by the continued strength of its export sector and robust growth in China. Real GDP growth accelerated from 4.9% in 2006 to 5.4% in 2007, slightly ahead of the 5.1% global rate. Strong advances in gross fixed investment drove domestic demand while increases in both government and private consumption exceeded those in 2006. Taiwan's improving relations with China, its most important trading partner, and ongoing demand in Europe for alternative energy products (e.g., solar panels) helped exports grow by 8.8% for the year.²¹

Market capitalization growth in Taiwan eased to 11.6% in 2007, from 24.9% a year earlier, as a result of decreased trading activity, a net outflow of foreign capital and tightening credit conditions.²² The Central Bank of China (Taiwan's central bank) steadily raised interest rates while the U.S. Federal Reserve pursued rate cuts, highlighting how monetary policy favored controlling inflation over stimulating growth as the year wore on. Support to control import-induced inflation came from the New Taiwan dollar's appreciation against the U.S. dollar, albeit at the expense of downward pressure on export growth. The combined effect of strong growth in Asia-Pacific and waning demand in the United States meant that Taiwan's HNWI population expanded by 7.8%.

In 2007, **Indonesia** enjoyed impressive economic gains in terms of real GDP and market capitalization growth and expanded its HNWI population by 16.8%, the fifth-highest growth rate globally. Real GDP growth accelerated to 6.2%, its fastest rate since the Asian Financial Crisis of 1997.²³ Among the key factors driving growth: strong advances in government and private consumption, at 5.6% and 5.0%, respectively; an 8.0% gain in exports, as sharp price increases boosted commodity export revenues; and a 9.2% increase in gross fixed investment over the course of the year.²⁴ Indonesian market capitalization grew by 52.4% during the period, reflected by a 52.1% gain in the JSX Composite Index and robust increases in daily average transaction value and frequency.²⁵

Particularly dependent on trade synergies, Indonesia was negatively impacted by weak U.S. growth and deteriorating global conditions. Cooling external demand slowed exports to Japan—Indonesia's largest export market—and the

²⁰ Qualitatively defined as holding an established base of wealth and strengthening capital markets with selectively restrictive regulations, as noted in the 2006 Asia-Pacific Wealth Report, Spotlight section

²¹ The Economist Intelligence Unit, "Taiwan Country Report," December 2007 - May 2008

²² World Federation of Exchanges, "Focus Report," January 2008

²³ The Economist Intelligence Unit, "Indonesia Country Report," December 2007 - May 2008

²⁴ Ibid.

²⁵ World Federation of Exchanges, "Focus Report," January 2008; Indonesia Stock Exchange, January 2008

United States. Domestic consumption also eased as food and fuel prices persistently rose and interest rates stalled at their highest levels in six years.²⁶

South Korea's HNWI population jumped by 18.9% in 2007, the fourth-fastest rate globally, as the country enjoyed solid economic gains and very active financial markets. Real GDP grew by 5.0% in 2007, supported by exports that increased by 14.2% to a total US\$372 billion. This marked the fifth consecutive year of double-digit export growth.²⁷ Market capitalization growth more than doubled, to 34.5%, largely due to surging domestic trading activity.²⁸ Moreover, high levels of activity in the South Korean market contributed to year-over-year gains of 24.1% in the financial services sector in November.²⁹

The economic slowdown in the United States, South Korea's second-largest trading partner after China, weighed on South Korean growth. This, however, was offset by strong demand from high-performing Asia-Pacific economies. Weaker U.S. demand, despite the Korean won depreciating against the U.S. dollar, dampened Korean export growth in the second half of 2007. Still, robust real GDP and market capitalization growth in China lent strong support to activity throughout the Asia-Pacific region and boosted gains for South Korean HNWIs.

Emerging³⁰ Economies' Resilience Drives Growth in Asia-Pacific

In 2007, **China** was home to the world's second-fastest-growing HNWI population, which expanded 20.3% as robust economic gains fueled wealth generation over the course of the year. Real GDP grew by 11.4%, accelerating from 11.1% in 2006 to more than twice the global growth rate of 5.1%. High investment in public projects and infrastructure, alongside strong domestic demand, boosted government and private consumption by 8.4% and 8.3%, respectively. Even with high public spending, a 31.4% increase in tax revenue pushed the budget to a surplus for the first time in 20 years.³¹

Chinese market capitalization skyrocketed by 291%, driven primarily by organic price increases, and contributed strongly to HNWI wealth generation in 2007.³² High levels of market liquidity coupled with the low cost of borrowing accelerated investment spending and pushed IPO and venture capital activity to all-time highs. China alone accounted for over US\$60 billion in IPO proceeds and produced some of the world's largest offerings in 2007.³³

As growth in the global marketplace slowed, particularly among mature economies, China's economic strength proved to be a key source of support for the Asia-Pacific region and the world at large throughout 2007. However, the steady appreciation of the renminbi, particularly in the second half of 2007 amid weaker demand in the United States, Europe and Japan, weighed on Chinese exports and pulled the trade surplus down 14% from November to December.³⁴ Nonetheless, economic gains were robust and the HNWI sector expanded sizably.

Impressive economic gains and surging investment spending led **India's** HNWI population to experience the highest growth worldwide in 2007, expanding it by 22.7%. Robust growth of government and private consumption, at 10.8% and 5.7%, respectively, and a large fiscal budget dedicated primarily to rural infrastructure projects, health and education, fueled 7.9% real GDP growth in 2007.³⁵ Investment spending continued to be the fastest-growing GDP component.

India's market capitalization raced ahead by 118.4%, generating high returns for HNWIs.³⁶ The 47.1% advance in the Bombay Sensex benchmark catapulted the National Stock Exchange of India into the top-12 largest exchanges by the end of 2007.³⁷ Another key driver of growth was foreign institutional investments, which nearly doubled from 2006 levels, to an estimated US\$17 billion in 2007.³⁸

The U.S. economic slowdown and weakening global conditions in the second half of last year weighed on Indian growth, but strength in Asia-Pacific markets provided substantial support. Although exports accounted for only 17%

²⁶ The Economist Intelligence Unit, "Indonesia Country Report," December 2007 - May 2008

²⁷ The Economist Intelligence Unit, "South Korea Country Report," December 2007 - May 2008

²⁸ World Federation of Exchanges, "Focus Report," January 2008

²⁹ The Economist Intelligence Unit, "South Korea Country Report," December 2007 - May 2008

³⁰ Qualitatively defined as holding rapidly increasing wealth among massive populations amid developing capital markets, capital controls, currency inconvertibility and strict licensing requirements, as noted in the 2006 *Asia-Pacific Wealth Report, Spotlight* section

³¹ The Economist Intelligence Unit, "China Country Report," December 2007 - May 2008

³² World Federation of Exchanges, "Focus Report," January 2008

³³ "RMB 447 bln raised from IPOs on China's stock market in 2007," *Xinhua News Agency*, January 2, 2008

³⁴ The Economist Intelligence Unit, "China Country Report," December 2007 - May 2008

³⁵ The Economist Intelligence Unit, "India Country Report," December 2007 - May 2008

³⁶ World Federation of Exchanges, "Focus Report," January 2008

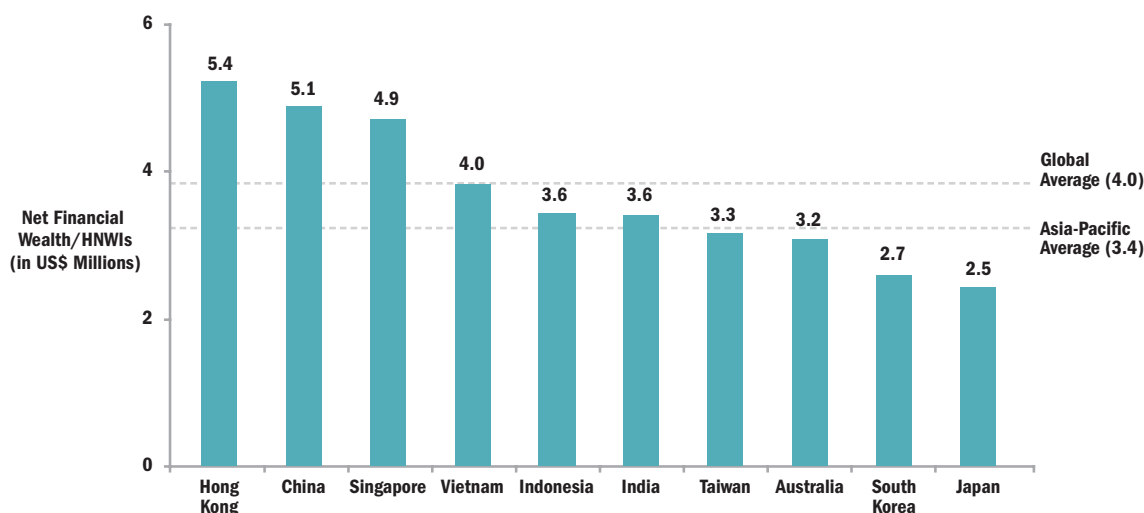
³⁷ *Ibid.*

³⁸ Mahesh Nayak, "Still Looking Good," *Business Today*, January 27, 2008

of India's GDP, easing U.S. demand negatively impacted Indian export growth, thereby compressing GDP.³⁹ Also, the appreciation of the Indian rupee against the U.S. dollar dulled relative export and investment attractiveness, albeit at the benefit of controlling inflationary pressures as run-ups in oil and commodity prices placed pressure on government expenditures and import bills. Ultimately, resilient activity in Asia-Pacific throughout 2007 fueled impressive performances in Indian markets and substantial wealth generation among HNWI.

With its market-sizing figures included for the first time in this year's report, **Vietnam** is a prime example of a small, up-and-coming Asia-Pacific economy. Since 2001, real GDP growth has hovered around 8%, market capitalization has enjoyed explosive increases, and notable advances have been made in reducing poverty levels and rapidly transitioning to a market-oriented economy.⁴⁰ In 2007, 8.5% real GDP growth and a near doubling of market capitalization fueled a 24.2%⁴¹ jump in Vietnam's HNWI population,⁴² earning the country its reputation as a new "Asian miracle." Future growth, however, will be tested by many of the same obstacles, such as high inflation and lack of technological progress,⁴³ that face other high-growth economies in the region.

Figure 5. | **Asia-Pacific HNWI's Average Net Worth by Market, 2007**



Source: Capgemini Lorenz curve analysis, 2008

2008 Update: Global Conditions Catch Up to Asia-Pacific Markets

The implications of weakened global growth in late 2007 and 2008, sparked initially by the U.S. housing market downturn and the ensuing tighter global credit conditions, took shape on two fronts. Slowing demand, mostly in mature economies, weighed on trade synergies around the world and dampened real GDP growth forecasts. At the same time, declining investor confidence and tightening credit conditions negatively impacted equity market performances.

As investors shifted funds away from troubled mature markets in favor of their stronger, emerging counterparts, high-growth Asia-Pacific markets welcomed increased investment activity in the second half of 2007 and enjoyed impressive gains. However, the same Asia-Pacific markets that experienced the highest growth in 2007 incurred the greatest losses through the first half of 2008. The MSCI country indexes for India and China lost roughly 42% and 27%, respectively, between January 1, 2008 and June 30, 2008, while the MSCI World Index fell only 12% over the same period. Given that dwindling investor confidence levels and the flight of foreign capital were primary drivers of such losses, it is logical that the most active Asia-Pacific markets in 2007 were hurt most in 2008—whereas last year's weaker Asia-Pacific markets, such as those in Taiwan and Japan, contained 2008 losses to more moderate levels.

³⁹ The Economist Intelligence Unit, "India Country Report," December 2007 – May 2008

⁴⁰ "Economic conditions in Singapore and Vietnam: A monetary policymaker's report," *FRBSF Economic Letter*, Volume 2008, Issue 7, February 22, 2008

⁴¹ It is important to note the substantially smaller absolute growth of Vietnam's HNWI population—the high growth rate is largely due to a small base HNWI population

⁴² The Economist Intelligence Unit, "Vietnam Country Report," May 2008

⁴³ "Economic conditions in Singapore and Vietnam: A monetary policymaker's report," *FRBSF Economic Letter*, Volume 2008, Issue 7, February 22, 2008

Many Asia-Pacific economies are export-driven and, as a result, are highly dependent on external conditions. Therefore, economic slowdowns in the United States and other markets weigh heavily on Asia-Pacific exports and inhibit growth. Furthermore, many Asia-Pacific countries import a large share of their natural resources requirements,⁴⁴ which has contributed to inflationary pressures given the sharp increases in food and energy prices. Indeed, authorities in China and India cited mounting inflationary pressures as being of primary concern as often as their counterparts in Taiwan, Hong Kong, Singapore and South Korea, and ultimately gave controlling it precedence over stimulating growth.⁴⁵

In fact, controlling inflation has become the foremost objective for 2008 in the vast majority of Asia-Pacific countries, with related pressures coming from many directions.⁴⁶ Rising oil and food prices, particularly through import-induced mediums where countries are dependent on external suppliers for natural resources, are among the most obvious sources of inflationary pressures. Additionally, many Asia-Pacific governments heavily subsidize some of the goods that have experienced the sharpest price increases, translating into rising import bills and government expenditures.⁴⁷ Finally, surging capital inflows to key markets in the region have led to excess market liquidity and, thereby, contributed notably to inflation.

While the direct impact of the U.S. economic slowdown on Asia-Pacific markets varied, the aftermath and resulting global implications of these developments resounded across the region. Moreover, the consequential effects of weakened trade synergies within Asia-Pacific will be tested throughout the remainder of 2008 and on into 2009. Finally, growth prospects in many Asia-Pacific economies will largely depend on the resilience of Chinese growth, which is forecast to decelerate in 2008 and 2009, but to remain at near-double-digit levels.

Based on 2007 Asia-Pacific performances and the weakening of global conditions in 2008, we project Asia-Pacific HNWI wealth will reach US\$13.9 trillion by 2012, growing at an annual rate of 7.9%. While growth prospects in the near term may be compromised by the global slowdown, the long-term potential is strong, and Asia-Pacific is expected to grow faster than the 7.7% projected global growth per annum through 2012. This will result in Asia-Pacific replacing Europe as the second-largest regional repository of HNWI wealth.

⁴⁴ For example, India imports roughly three-quarters of its oil requirement—"Inflation a global phenomenon due to rising oil prices," *The Press Trust of India Limited*, May 25, 2008

⁴⁵ The Economist Intelligence Unit, "Select Country Reports," May 2008

⁴⁶ Ibid.

⁴⁷ The Economist Intelligence Unit, "India Country Report," May 2008

New Opportunities within the Asia-Pacific Region: A Focus on Vietnam and Thailand

In recent years, both HNWIs and wealth management providers have focused their attention on many of the rapidly growing economies in the Asia-Pacific region. In 2007, China and India were again the standout performers in the region, achieving real GDP growth of 11.4%⁴⁸ and 7.9%,⁴⁹ respectively. Earlier this year, however, the Asia-Pacific region had started to experience the effects of the sub-prime and credit turmoil. While the long-term growth prospects of the region remain strong, HNWIs and wealth management providers are continually searching for new opportunities and the higher returns that many frontier⁵⁰ and emerging markets promise. It is not surprising then to find that both providers and their wealthy clients are looking to Vietnam and Thailand as the next areas of growth.

Financial Reforms Enable Strong Economic Growth

Following the Asian Financial Crisis in 1997, the Vietnamese and Thai governments embarked on a series of financial sector reforms. Thailand implemented a supervisory and regulatory framework and Vietnam implemented wide-ranging reforms, including increased transparency and tariff reductions, as a precursor to their gaining acceptance into the World Trade Organization, in January 2007. These governmental reforms contributed to gains in GDP growth, stock market performance, foreign direct investments and private sector ownership—all of which helped drive nationwide economic growth.

The liberalization of both the economy and the financial sector has fueled GDP growth. For example, reforms have enabled greater private enterprise participation in the economy, greater transparency and higher levels of investor confidence. In 2007, real GDP accelerated in Vietnam and Thailand by 8.5% and 4.8%, respectively.⁵¹ Vietnam's GDP growth rate outperformed that of all markets in the region, except for China, and is likely to hold steady over the next five years, advancing by an average of 8.0% each year.⁵²

Vietnam also experienced strong market capitalization growth in 2007, recording an impressive increase of 99.7%, which ranked it third in the region behind China and India. In neighboring Thailand, market capitalization growth expanded by 38.1% last year.⁵³

Foreign direct investment (FDI) in both markets also increased considerably in recent years. Between 2002 and 2006, FDI inflows to Thailand surged by 831.0%, significantly higher than many other Asia-Pacific markets, some of which actually experienced net outflows. Thailand received net FDI inflows from numerous international markets, including the United States, the United Kingdom and Saudi Arabia.⁵⁴ During the same period, net FDI in Vietnam nearly doubled from US\$1.2 billion to US\$2.2 billion.^{55,56}

A record number of initial public offerings (IPOs) in the region played a key role in market capitalization growth and FDI gains. Globally, US\$287 billion was raised from 1,979 IPO deals in 2007. The Asia-Pacific region accounted for 46.0% of these IPOs and for US\$91.8 billion of the capital raised.⁵⁷ In the same period, Vietnam and Thailand accounted for 3.6% of the total number of IPOs in the region, generating a total of US\$1.2 billion.⁵⁸

Many of these IPOs were tied to the privatization of state-owned enterprises (SOEs), which provided the presiding governments with capital to reinvest in their economies and unlocked wealth-creation opportunities for investors. A good example in Vietnam was the privatization of the Corporation for Financing and Promoting Technologies (FPT), which resulted in the company's 6,000 employees gaining two-thirds of the public offering. While the IPO price was US\$9, the stock debuted on the Ho Chi Minh Exchange at US\$24. The value of the shares rose steadily, peaking at US\$40 in March 2007, an increase of 445.0% from the issue price.⁵⁹ Despite a sharp 40.0% decline in IPO activity from 2006 to 2007,⁶⁰ due to market uncertainty, we anticipate that the number of IPOs will increase as market conditions become more favorable.

Wealth creation and accumulation in Vietnam and Thailand also are being driven by the proliferation of private businesses. Since 2000, Vietnam's Enterprise Law has fostered the creation of over 200,000 registered private domestic enterprises.⁶¹ A vast majority (40.0%) of HNWIs

⁴⁸ The Economist Intelligence Unit, "China Country Report," December 2007 – May 2008

⁴⁹ The Economist Intelligence Unit, "India Country Report," December 2007 – May 2008

⁵⁰ *Frontier markets* applies to the financial markets of smaller and less accessible countries in the developing world. These markets typically have a low correlation with more developed markets; however, they are beginning to display the liquidity levels and risk-and-return characteristics of more traditional emerging markets.

⁵¹ Capgemini Analysis (Strategic Research Group), 2008

⁵² The Economist Intelligence Unit, "Country Briefing: Vietnam," May 20, 2008

⁵³ Capgemini Analysis (Strategic Research Group), 2008

⁵⁴ World Bank, "Migration & Remittances Factbook 2008," February 2008

⁵⁵ United Nations, "World Investment Report," 2003

⁵⁶ United Nations, "World Investment Report," 2007

⁵⁷ Ernst & Young, "Growth During Economic Uncertainty: Global IPO Trends Report 2008"

⁵⁸ Capgemini analysis of "Asian Markets Equity Offerings Quarterly 2007," *Reuters*

⁵⁹ Trung Hung, "FPT Chief Knocked off Rich List Top Spot," *Vietnam Investment Review*, January 28, 2008

⁶⁰ Capgemini analysis of "Asian Markets Equity Offerings Quarterly 2007," *Reuters*

⁶¹ Department of Foreign Affairs, Australian Government, "Vietnam Country Brief," April 2008

in the region have built their wealth through business ownership. The rate is even higher in frontier and emerging markets, where 45.0% of HNWI's wealth can be traced to business ownership.⁶²

Harnessing Growth Potential

Positive economic conditions led to significant gains in the number and wealth accumulation of HNWI's last year: The population of wealthy individuals advanced by 24.2% in Vietnam and by 21.6% in Thailand, and their respective financial holdings increased by 25.8% and 23.4%. These local market growth rates were significantly higher than those of the overall region: The Asia-Pacific HNWI population grew by 8.7% and its wealth increased by 12.5% in 2007.⁶³ However, before the full potential of these markets can be realized, wealth management firms need to consider the impact their product offerings, service-delivery approaches, global mobility and branding are likely to have on their ability to meet local clients' needs.

Migration from Simple to Complex Products: There are significant differences in the types of products demanded by HNWI's in the Vietnamese and Thai markets. Wealthy clients in Vietnam favor simple financial products, such as life insurance and business-oriented products, which allow them to monetize the value of their businesses (such as IPOs or corporate bonds). In contrast, HNWI's in Thailand want products that facilitate offshore investments. Thai HNWI's also favor a higher allocation to fixed-income products, such as global bonds. Interestingly, in Vietnam, providers have a difficult time competing against local cash deposit rates and typically enter the market with commercial-lending products before leveraging their cash-equivalent or fixed-income products. Yet, despite these and other inter-regional differences, wealth management providers continue to use their existing product suites without extensive customization.

Analysis suggests that, over time, HNWI's in Vietnam and Thailand will shift their asset allocations to more complex investments, such as structured products and alternative investments, as they become more sophisticated and globally focused, and as the products and services offered by local wealth management providers become more advanced. Additionally, in Thailand, we expect to see renewed interest in offshore investments as the government further relaxes its restrictions on the operations of foreign providers.

Transition to Onshore Service Delivery: Wealth management providers are balancing their service-delivery approach against the size of the market and the specific opportunities therein. When entering a new market, some providers opt to utilize advisors from well-established offshore locations, such as Singapore or Hong Kong. Then, once they have achieved a sustainable footprint in the market, the provider will establish a local presence. For example, many providers are servicing HNWI's in Vietnam by traveling from offshore locations on a monthly or an as-needed basis. In contrast, global providers in Thailand, such as Merrill Lynch and other international wealth management firms, have established a local presence that leverages their offshore back-office capabilities.

These global firms are competing with local and regional providers that also recognize the growth opportunities offered by wealth management and are building wealth management departments to meet the needs of their affluent clients. Interestingly, these local firms are working with foreign financial institutions, such as Merrill Lynch, to source and offer offshore funds to their local clients.

Increasing Importance of Global Mobility: As wealthy expatriates return to Vietnam and Thailand, they are likely to bring with them expectations that align with those commonly found in more mature markets. This repatriation wave will likely help accelerate the maturation of providers' service-delivery models and the shift toward more sophisticated product offerings. However, this trend is still emerging and has yet to have a significant impact on wealth management providers in the region. To capitalize on this opportunity, leading providers are establishing relationships with expatriate HNWI's before they return home and are looking for opportunities to penetrate the social networks of these wealthy individuals.

Developing a Strong Brand: While global providers are able to leverage existing products and capabilities, they still must tailor their brands to suit the economic, cultural and political environments of each local market to achieve long-term credibility. In contrast, local providers are developing (or extending) their respective brands to differentiate themselves and better compete against new entrants. Local providers also are considering *white-labeling* or partnering with global providers to better achieve scale and gain market share.

Looking ahead, the growth rates and overall levels of wealth in Vietnam and Thailand are expected to track or exceed the forecasts for the Asia-Pacific region. In addition, Laos and Cambodia are emerging as markets that may offer potential growth to HNWI's and providers in the near future. To harness the potential of these and other markets, wealth management providers must continually reassess their market entry strategies to ensure that they align with the needs of their clients and prospects.

⁶² Department of Foreign Affairs, Australian Government, "Vietnam Country Brief," April 2008

⁶³ Ibid.

The Asia-Pacific High Net Worth Investor

- **Asia-Pacific HNWI's eased away from real estate, taking profits and shifting assets into equities and cash/deposits**
- **HNWI's held a higher percentage of their holdings in real estate in 2007 compared with global peers**
- **HNWI's capitalized on strong local-market performances by increasing their allocations to equities**
- **Asia-Pacific HNWI's also favored more conservative investment categories amid the financial market turmoil and economic uncertainty of the second half of 2007, and increased their allocations to cash-like assets**
- **Geographically, HNWI's favored investments in domestic Asia-Pacific markets on the basis of their remarkable performances and strong local currencies**

In 2007, HNWI's in Asia-Pacific reallocated their portfolios and moved part of their financial assets from real estate to equities and cash/deposits. Many investors took profits from increased real estate investment values during 2006 and 2007, and moved their money into other asset classes. Given the remarkable performances of Asia-Pacific equity markets in 2007, HNWI investors within the region reallocated part of their portfolios in favor of equities.

While the U.S. financial market turmoil and tightening credit conditions of the second half of the year minimally impacted market results in 2007, they likely affected HNWI confidence levels, prompting investors in key Asian markets to adopt more cautious strategies, as evidenced by their increased allocations to cash-like assets by year-end. Overall, cash/deposits and fixed-income securities accounted for 46% of Asia-Pacific HNWI financial assets in 2007, up seven percentage points from 2006.⁶⁴

Geographically, HNWI investors favored domestic Asia-Pacific markets. Allocations were driven by impressive local-market performances as well as appreciating local currencies, both of which made investing in markets outside Asia-Pacific less attractive.

HNWI Allocations to Real Estate Remain High

Real estate lost some momentum from 2006 to 2007: HNWI's in the Asia-Pacific region decreased their allocations to this asset class by nine percentage points, slightly less than their global peers, who decreased their allocations by 10 percentage points.⁶⁵ Across Asia-Pacific, this shift was mainly the result of HNWI's taking profits from increased real estate investment values and moving their money into other asset classes.

Whether inherited or acquired, real estate holdings have been a significant source of wealth in the region. As a result, HNWI's in Asia-Pacific traditionally have held a high portion of their financial assets in real estate. The year 2007 was no different: 20% of HNWI's holdings were allocated to this asset class—versus the 14% global average.⁶⁶ This trend also reflects the ongoing strong performances of the region's real estate investment markets.⁶⁷

⁶⁴ Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

⁶⁵ Ibid.

⁶⁶ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

⁶⁷ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

Asia-Pacific Commercial Real Estate Has Strong Year

Commercial real estate in Asia-Pacific experienced remarkable growth throughout the first and second halves of 2007.⁶⁸ The U.S. financial market turmoil and tightening credit conditions late in the year seemingly did not dampen performances. Direct commercial real estate investment reached a record US\$121 billion in 2007, up 27.4% over the previous year.⁶⁹ Japan, by far the largest market in the region, accounted for 50% of total transactions, while Australia followed with 15%.⁷⁰ Consistent with these strong results, HNWI's in Asia-Pacific increased their exposure to commercial real estate in 2007, while globally the portion of HNWI's financial assets allocated to commercial real estate remained unchanged.

Asian REITs Decline in the Second Half of 2007

In contrast to commercial real estate, Asian REITs were hurt by the U.S. financial market turmoil and tightening credit conditions in the last six months of the year. As a group, these REITs performed particularly well in the first half of 2007—during which time 11 new REITs were listed, more than in any other region.⁷¹ These new listings brought total REIT market capitalization to over US\$80 billion, roughly twice the size attained by the end of 2005.⁷² While evidence had suggested that Asia was becoming the new "REIT tiger,"⁷³ last year's unfolding global credit crisis led many investors in the region to adopt a more cautious approach. Indeed, the unsettled economic climate and significant market corrections caused Asian REIT market capitalization to contract, to US\$78.7 billion, yielding overall negative sentiment and undermining 2007 market results.⁷⁴ The year closed with a total of only 18 new REITs introduced, compared with 35 in 2006.⁷⁵ Consistent with these trends, HNWI's in Asia-Pacific slightly decreased their exposure to REITs between 2006 and 2007.

Real Estate Allocations Vary from Market to Market

As was the case a year earlier, HNWI's in South Korea allocated the largest percentage (40%) of their holdings to real estate, followed by

⁶⁸ Jones Lang LaSalle, "Global Direct Real Estate Investment Hits Record in '07 But Expected to Be Down at Least 30% in '08," April 10, 2008

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ CB Richard Ellis, "REITs Around Asia, 1H 2007"

⁷² Ibid.

⁷³ Ernst & Young, "Global REIT Report, REIT Market Overview," October 2007

⁷⁴ CB Richard Ellis, "REITs Around Asia, 2H 2007"

⁷⁵ Ibid.

those in Australia (28%) and Singapore (25%).⁷⁶ Traditionally, real estate has represented the major source of South Korean HNWI wealth and continued to do so in 2007.⁷⁷ There was, however, a two percentage point decrease from 2006 allocation levels,⁷⁸ in part the result of decreased market values.⁷⁹ The South Korean real estate market remains relatively illiquid and corresponding products are considered long-term investments, helping to explain why the allocation decrease was relatively mild. Furthermore, South Korean HNWIs tend to have limited international exposure to real estate compared with their Asian peers.⁸⁰ Consequently, HNWIs in South Korea were not as negatively impacted as other Asian investors by the U.S. financial market turmoil and tightening credit conditions in late 2007.

Australia Is a Lone Exception

Unlike most of their Asian peers who, from 2006 to 2007, reallocated their financial assets from real estate into other asset classes, Australian HNWIs slightly increased their allocations to real estate, by one percentage point, during the same time period.⁸¹ The Australian market as a whole was not immediately affected by the U.S. financial market turmoil; rather the global effects on the market were felt six to nine months later, during the first half of 2008.⁸² Consequently, investor behavior reported here reflects strong performances of the Australian real estate investment markets—especially among REITs—throughout 2007. Australian HNWIs were particularly attracted to the tax-incentive structure of these sophisticated investment vehicles and the higher yields REITs continued to offer throughout 2007 even when compared with the 6.5% prime cash rate, for example.⁸³

HNWIs Retrench to Cash-Like Assets, with a Preference for Cash over Fixed Income

Globally, HNWIs in 2007 favored more conservative investment categories, especially in the second half of the year. By year-end, HNWIs were reallocating assets in favor of cash/deposits and fixed-income securities in an effort to minimize their risk exposure in increasingly uncertain economic times. While the turmoil in mature markets had minimal impact on Asian market performances throughout 2007, it likely affected investor confidence, prompting HNWIs to adopt more cautious strategies. Overall, cash/deposits and fixed-income securities accounted for 46% of Asia-Pacific HNWI financial assets in 2007, up seven percentage points from 2006.⁸⁴

Compared with their peers in other regions, HNWI investors in Asia-Pacific led in allocations to cash/deposits, setting aside 25% for that asset class in 2007.⁸⁵ Historically, investors in Asia-Pacific have shown a higher preference for cash and cash-like products than HNWIs in other regions—a trend that becomes more pronounced during times of economic turmoil, when investors tend to seek greater portfolio liquidity and more flexibility in managing their assets.⁸⁶

As in 2006, Japanese HNWIs continued to hold the largest portion of their financial wealth in cash/deposits in 2007, allocating the highest percentage (34%) to this asset class compared with their Asian peers.⁸⁷ The Japanese historically have held their financial institutions in high regard, especially since World War II, when they played an active role in helping the Japanese economy recover, in part, by lending to small business owners.⁸⁸ As a result, local investors have viewed domestic banks as a safe haven in times of economic downturn, despite the nearly 0% yields they offer.⁸⁹ Given that the Japanese economy is relatively dependent on U.S. economic health, the U.S. economic downturn prompted Japanese investors to exhibit more cautious and conservative behavior. Japanese HNWIs consequently sought refuge in cash/deposits, and bolstered the Asia-Pacific average allocation to this asset class. Indeed, Japanese HNWI allocations weigh significantly on the Asia-Pacific aggregated average as they hold more than 40% of the overall region's HNWI financial wealth.

In 2007, HNWIs in Asia-Pacific allocated less (21%) to fixed income than the global HNWI average (27%).⁹⁰ Traditionally, fixed-income securities have not represented an important asset class to most Asian investors, as the higher risks associated with other less conservative investment vehicles have been rewarded, more often than not, with higher returns.

⁷⁶ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

⁷⁷ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁷⁸ Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

⁷⁹ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁸⁰ Ibid.

⁸¹ Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

⁸² Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁸³ Ibid.

⁸⁴ Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

⁸⁵ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

⁸⁶ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁸⁷ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

⁸⁸ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁸⁹ Ibid.

⁹⁰ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

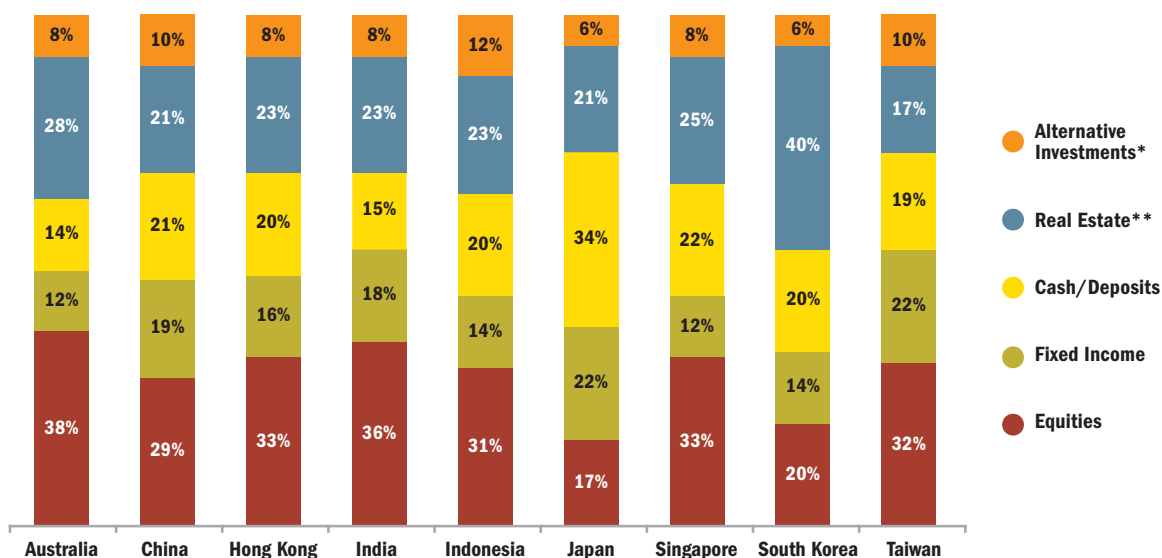
Chinese HNWIs, for instance, tend to favor alternative investments—and especially structured products—packaged around fixed income rather than directly investing in fixed-income securities. As an asset class, fixed income is less attractive to HNWIs in China given its lack of availability and diversity and relatively low returns.⁹¹ In fact, many Asian bond markets are still relatively underdeveloped compared with other regions, leading investors to look to the West when choosing to allocate to fixed-income investments.

Equity Allocations Gain in Light of Strong Performances

As was the case globally, Asia-Pacific HNWI allocations to equities continued to increase from 2006 to 2007—to 26% of HNWI holdings.⁹² However, on a regional basis, the increase was only a modest two percentage points.⁹³ Here, too, the average was held back by low HNWI allocations to equities in Japan (17%).⁹⁴ Indeed, as mentioned above, the regional average is weighted based on the net financial wealth of the individual markets within Asia-Pacific, and HNWI financial wealth in Japan represents more than 40% of the region's total.

With the exception of Japan, the remarkable performances of equity markets within Asia-Pacific were primary drivers of the HNWI equity allocation increase. The MSCI Asia-Pacific Index (excluding Japan) advanced 33.3% in 2007. In many ways, the U.S. financial market turmoil prompted many Asian HNWIs to reallocate their portfolios and shift financial assets away from real estate to equities—as well as cash-like assets—which continued to turn in a strong performance throughout the second half of the year.

Figure 6. | Asia-Pacific HNWIs' Allocation of Financial Assets by Market, 2007



Note: * Includes: Structured products, hedge funds, derivatives, foreign currency, commodities, private equity, venture capital, other (may include: structured credit, managed futures, investments of passion, etc.)

** Includes: Commercial real estate, REITs and other investment properties

Responses for India include both Resident and Non-Resident Indians

Source: Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

Compared with other investors in Asia-Pacific, HNWIs in Australia (38%), India (36%), Hong Kong (33%) and Singapore (33%) allocated the greatest percentages to equities.⁹⁵ While investors in Hong Kong and Singapore took advantage of opportunities outside of their local markets, most of their Indian and Australian peers invested mainly in their respective domestic equity markets—each for different reasons. Until recently, HNWIs in India

⁹¹ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁹² Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

⁹³ Ibid.

⁹⁴ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

⁹⁵ Ibid.

were very constrained by investment allowances to foreign markets: Since 2007, investors have been allowed to allocate US\$200,000 (per person⁹⁶) of their investments outside of India, up from US\$25,000 (per person⁹⁷). Australian HNWI investing behavior, on the other hand, was driven largely by robust performances of Australian financial markets—market capitalization expanded at a compounded annual growth rate of approximately 23% over the past five years—as well as attractive tax incentives, such as *franking*, i.e., tax credits on domestic stock dividends.⁹⁸

Alternative Investments Allocations Differ from Market to Market

In 2007, Asia-Pacific HNWIs allocated a slightly lower percentage (8%) of their holdings to alternative investments, compared with the global HNWI average (9%).⁹⁹ HNWI investing behavior differed significantly across the region, depending on cultural preferences, product access, investor sophistication and risk tolerance. For example, many Japanese HNWIs—who, in most cases, adopt a more conservative investing approach than their Asian peers—are still cautious about investing in hedge funds, which is still the most common alternative investment vehicle in Japan.¹⁰⁰ The relatively limited transparency of these products is a considerable inhibitor, especially in times of turmoil, as it plays against investor trust. HNWIs in Indonesia, on the other hand—who traditionally adopt investment strategies with higher risks¹⁰¹—increased their allocations to alternative investments in 2007, especially private equity.¹⁰² Additionally, as was the case a year earlier, HNWIs in Indonesia allocated the largest percentage (12%) of their holdings to alternative investments compared with their Asia-Pacific peers.¹⁰³ Despite these behavioral differences, alternative investments are still relatively nascent products in many Asia-Pacific countries.

Hong Kong and Singapore are two notable exceptions within the region. These two investment centers function as *de facto* hubs for hedge funds¹⁰⁴ as well as for financial product innovation in Asia-Pacific. As was the case at the global level, the popularity of alternative investments among HNWIs in Hong Kong and Singapore eased slightly in 2007, in response to growing market uncertainties in the second half of the year. For instance, certain structured products, such as equity accumulators, which were fairly popular with HNWIs in Hong Kong, performed well in 2006 and through the first half of 2007.¹⁰⁵ However, the heightened risk of these products in the second half of the year likely pushed investors away from the overall asset class.¹⁰⁶ Consistent with these results, HNWIs in Hong Kong slightly decreased their allocations to alternative investments by one percentage point from 2006 to 2007.¹⁰⁷

HNWIs Favor Domestic Asia-Pacific Markets on the Back of Strong Performances

Across all regions, including Asia-Pacific, the geographic distribution of HNWI investments changed significantly in 2007, with allocations to domestic markets gaining strong favor. Many HNWIs outside of the United States, for instance, moved to diminish their exposure to U.S. markets.¹⁰⁸

Asia-Pacific HNWIs increased their allocations to domestic markets by three percentage points from 2006 to 2007 in response to impressive returns from equity markets.¹⁰⁹ Furthermore, the appreciation of local currencies, such as the Australian dollar and the Japanese yen, against the U.S. dollar and the euro deterred HNWIs in Asia-Pacific from investing in other regions and reinforced a widespread “home bias.” The combination of global market uncertainty, tightening credit conditions and the weakening U.S. dollar in the second half of 2007 accelerated the “retrenching-to-domestic” trend in the Asia-Pacific region.¹¹⁰

As shown in Figure 7, HNWIs’ geographic distribution of their investments varied from market to market. Compared with other markets in Asia-Pacific, HNWIs in India and Australia invested the most in Asia-Pacific, at 75% and 61%, respectively, of their portfolios, with the majority of their investments focused on their respective domestic markets.¹¹¹

⁹⁶ For example: in the case of a household with four family members (including family dependents), the head of household may invest up to US\$800,000 (i.e., US\$200,000 per family member)

⁹⁷ For example: in the case of a household with four family members (including family dependents), the head of household may invest up to US\$100,000 (i.e., US\$25,000 per family member)

⁹⁸ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

⁹⁹ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁰⁰ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

¹⁰¹ *Ibid.*

¹⁰² Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

¹⁰³ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁰⁴ “Asian Hedge Fund Services 2008,” *Hedgeweek*, February 2008

¹⁰⁵ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

¹⁰⁶ *Ibid.*

¹⁰⁷ Capgemini/Merrill Lynch Financial Advisor Surveys, March 2007, April 2008

¹⁰⁸ *Ibid.*

¹⁰⁹ *Ibid.*

¹¹⁰ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

¹¹¹ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

While HNWI in Australia chose to increase investments domestically on the back of strong performances in the Australian equity markets and the growing strength of the Australian dollar against other foreign currencies, HNWI in India were restricted by local regulations on their foreign investment opportunities.¹¹²

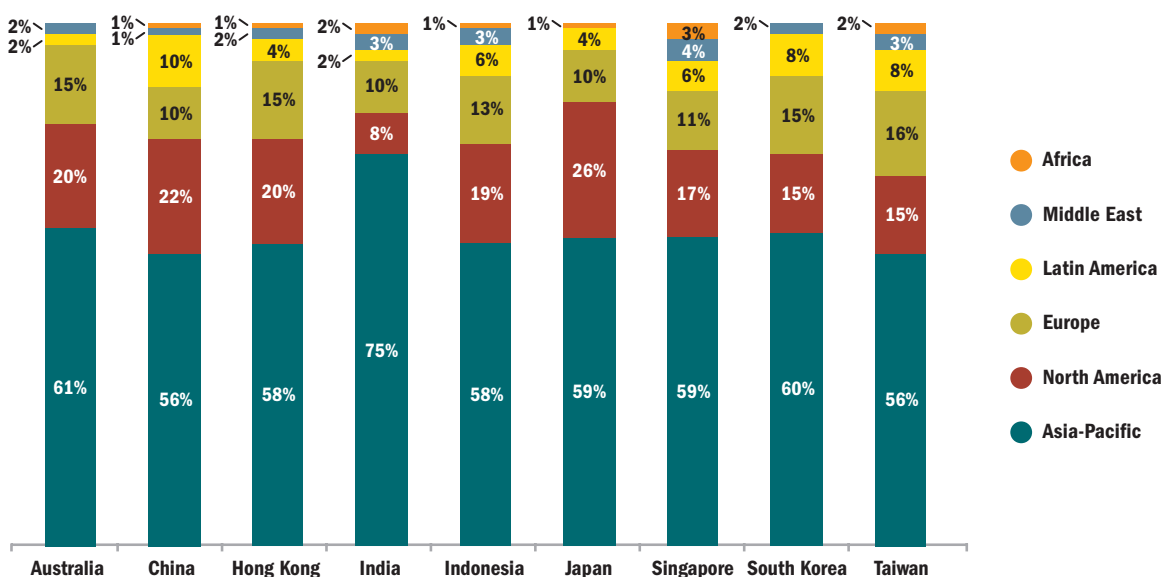
Outlook for 2009

Looking ahead to 2009, as global economic conditions continue to weaken and erode the previously strong equity market performances in Asia-Pacific, HNWI are likely to turn to fixed-income securities that can offer less volatile returns. More aggressive investors within the region, however, will likely wait for markets to rebound—protecting their financial assets, in the short term, with cash/deposits in order to increase portfolio liquidity and take advantage of buying opportunities in equity markets when they occur.¹¹³ We also project an increase in HNWI allocations to alternative investments¹¹⁴—primarily in the form of hedge funds or other investment products more suited to uncertain market conditions.¹¹⁵

HNWI investments in domestic markets are likely to decrease slightly by 2009.¹¹⁶ With increasing concerns about a possible economic slowdown in Asia-Pacific markets (especially in India and China), investors are likely to continue to allocate their investments to faster-growing/higher-return regions,¹¹⁷ such as Latin America and Eastern Europe.¹¹⁸

Furthermore, HNWI in specific markets, such as Australia and Indonesia, are likely to increase their allocations to North America eventually, as many investors believe the U.S. economy will fully recover, if not come back stronger, once the financial market turmoil dissipates.¹¹⁹

Figure 7. | **Geographic Distribution of Asia-Pacific HNWI's Financial Assets by Market, 2007**



Note: Responses for India are a combination of Resident and Non-Resident Indians
 Source: Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹¹² Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008
¹¹³ Ibid.
¹¹⁴ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008
¹¹⁵ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008
¹¹⁶ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008
¹¹⁷ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008
¹¹⁸ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008
¹¹⁹ Capgemini analysis based on interviews with industry experts, Asia-Pacific, July 2008

Spotlight: Opportunities at Opposite Ends of the Wealth Spectrum

- **Emerging-HNWIs, HNWI and Ultra-HNWIs share similar investment objectives, but differ in their investment strategies and product choices**
- **Wealth management providers have adopted a Priority Banking model to service the Emerging-HNWI segment and a Private Banking model to service the Ultra-HNWI segment**
- **Both domestic and foreign wealth management providers in the region are targeting specific wealth segments in the mature and emerging markets**

The Asia-Pacific region has been the world's fastest-growing economic region for over a decade. During this period, many wealth management providers have focused on the opportunities offered by the HNWI segment. However, in recent years, increased competition in the HNWI segment has prompted some providers to broaden their focus and pursue opportunities in the Emerging-HNWI¹²⁰ and Ultra-HNWI segments. In 2007, these two segments experienced significant growth in terms of the size of their populations and overall level of wealth. In addition, these segments are expected to continue growing in the years ahead.

However, before wealth management providers can capitalize on this potential they may wish to refine their market strategies to consider a range of variables, such as the potential offered by each market, the investment characteristics unique to each segment, and the optimal service-delivery model for meeting their clients' needs.

Asia-Pacific Hot-Spots: India, China and Japan

In 2007, the standout markets in the Asia-Pacific region were China and India, with the number of wealthy individuals, and their overall level of wealth, growing at a faster rate than the global averages. The Asia-Pacific Emerging-HNWI and HNWI populations experienced respective growth rates of 6.9% and 8.7%, outpacing the global growth rates of 5.2% and 6.0%. During the same period, the Ultra-HNWI population expanded by 16.4%—nearly double the global average of 8.8%.¹²¹

India: In 2007, the Indian market experienced the largest increases in HNWI wealth and population size in the region. The Emerging-HNWI, HNWI and Ultra-HNWI populations increased to 167,000—a 23.0% increase from the previous year. Although this growth was evenly distributed across all three wealth bands, the highest growth (26.6%) took place at the top end of the Ultra-HNWI segment (i.e., individuals with more than US\$100 million in investable assets).¹²²

The expanding size of the HNWI Indian population was matched by an increase in their level of wealth. In 2007, overall Emerging-HNWI

wealth increased by 22.1%, to US\$35 billion, and the Ultra-HNWI segment broke through the US\$100 billion barrier for the first time, with a 27.1% increase in total wealth, to US\$116 billion.¹²³

China: In 2007, the total level of wealth in China was the second largest in the region, at US\$3,149 billion, and China experienced population and wealth growth similar to that of India. China's Emerging-HNWI population expanded by 19.9% and also broke through the US\$100 billion barrier. In 2007, the number of Ultra-HNWIs in China eclipsed that of Japan for the first time, growing at a rate of 22.2%. In addition, the number of Ultra-HNWIs with more than US\$100 million expanded by 22.9% in 2007. In 2008, we expect the wealth held by Ultra-HNWIs to eclipse the US\$1,000 billion mark.¹²⁴

If the growth patterns in China and India remain on their current trajectory, their Ultra-HNWI populations will surpass the combined number of Ultra-HNWIs in all of the region's mature markets within the next five years. Similarly, if the growth rates for Emerging-HNWIs in emerging markets remain constant, we forecast this population will surpass the total number of Emerging-HNWIs in all the region's mature markets within the next decade.

The rapid population growth and level of wealth in China and India present wealth management providers with unique opportunities. For instance, wealth management providers should recognize that rapid growth is likely to accelerate the movement of clients along the wealth spectrum. This, in turn, will require firms to implement client-retention strategies that forge strong bonds with their clients so that both parties can grow together over the long term.

Japan: As the largest economy in the region and the second largest in the world, Japan remains an important Asia-Pacific market, despite its recent lackluster growth in wealth. In 2007, Japan accounted for more than one-third (36.7%) of the region's overall wealth and was home to more than half (55.6%) of the region's wealthy individuals. In fact, the country's Emerging-HNWI population was more than five times larger than that of China, which ranked a distant second in the region.¹²⁵

¹²⁰ *Emerging-High Net Worth Individuals* (Emerging-HNWIs) hold between US\$750,000 and US\$1 million in financial assets, excluding collectibles, consumables, consumer durables and primary residences

¹²¹ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹²² Capgemini Lorenz curve analysis, 2008

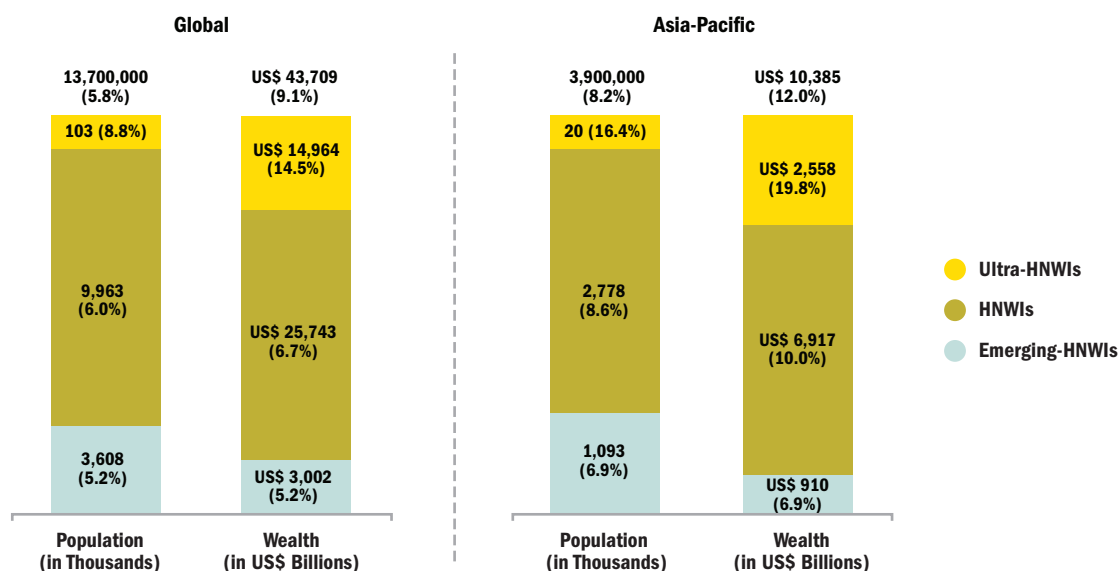
¹²³ Capgemini Lorenz curve analysis, 2008

¹²⁴ Ibid.

¹²⁵ Ibid.

Mature markets, such as Japan, present unique opportunities and challenges to wealth management providers. On one hand, such markets have large populations of wealthy individuals. On the other, the markets are characterized by intense competition from entrenched domestic and foreign players. Accordingly, providers should focus on maintaining their market share and assessing strategic partnerships, joint ventures or acquisitions as a means to rejuvenate or expand their service offerings.

Figure 8. | **High Net Worth Population and Wealth Distribution by Wealth Segment, 2006 – 2007**

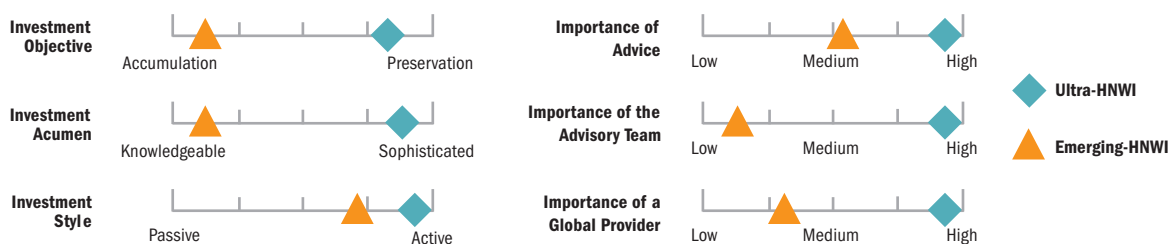


Note: Chart numbers are rounded
 HNWI figures exclude Ultra-HNWIs
 Source: Capgemini Lorenz curve analysis, 2008

Wealth Segments Display Unique Behaviors

There are clear differences in the behaviors and investment styles of Emerging-HNWIs and Ultra-HNWIs in the Asia-Pacific region.

Figure 9. | **Relative Importance of Select Investor Attributes & Behaviors by Wealth Segment, 2007**



Source: Capgemini Analysis, July 2008

Both segments are actively involved in the management of their investment portfolios. However, they employ different approaches. For instance, Emerging-HNWIs are generally more self-directed than Ultra-HNWIs, who prefer greater advisor involvement. Interestingly, between one-third and one-half of Emerging-HNWIs manage their own investments.¹²⁶ In addition, Emerging-HNWIs are more likely to use the Internet and other non-traditional resources to research products, execute transactions and monitor their investment portfolios.

¹²⁶ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

Leading wealth management providers are using new media to improve their communication capabilities, lower their distribution costs and gain a competitive advantage. Firms that ignore the potential of such e-channels are likely to find themselves at a disadvantage to providers that have a robust online capability.¹²⁷

While Emerging-HNWIs and Ultra-HNWIs both want investment advice, they seek it differently. Emerging-HNWIs typically use one or two financial advisors to help make investment decisions compared with Ultra-HNWIs, who use a dedicated financial advisor supported by a team of financial specialists, such as registered investment managers, chartered financial analysts and other experts.¹²⁸ Wealth management providers that are unable to offer a variety of specialist advisors to Ultra-HNWIs risk losing their business.

Broadly speaking, Ultra-HNWIs value the importance of a global wealth management provider that complements their international investment style. In 2007, Ultra-HNWIs allocated only half of their portfolios to the Asia-Pacific and the rest to other markets, such as Europe and North America.¹²⁹ In contrast, Emerging-HNWIs favored investing in their own home markets.

Typically, local providers that do not have the experience or the capability to service Ultra-HNWIs will forge a partnership or joint venture with a more experienced provider. For example, a prominent Indian-based domestic bank established a partnership with the recently acquired private banking arm of a large European financial services organization to extend its global reach because it lacked the right products and services to compete with global providers in the lucrative Non-Resident Indian segment.¹³⁰ This partnership also has been beneficial to the European bank, as it gave them access to the highly prized Indian market.

Wealth management providers should consider the unique behavioral traits of each wealth segment in order to develop targeted products or services that address these investors' current needs and future desires. In addition, the diverse behavioral characteristics among the three wealth segments underscore the need to focus on and better serve one group rather than broadly targeting all of them. This does not preclude providers from servicing the full wealth spectrum, as long as they recognize the importance of establishing partnerships with other firms to close gaps in their own service offerings.

Wealth Segments Exhibit Similar Investment Preferences

Typically, Ultra-HNWIs are early adopters of new investment products and more willing to enter new markets. In recent years, the asset allocation choices of HNWI have mirrored the preferences of Ultra-HNWIs—much the way the emerging-affluent have emulated the investment style of HNWI.

In 2007, Emerging-HNWIs mirrored the investment allocations of wealthier HNWI, albeit with simpler and less sophisticated products. For example, in Hong Kong, Emerging-HNWIs allocated a greater proportion of their portfolios to residential property rather than commercial real estate. Emerging-HNWIs also allocated a similar proportion of their portfolios to equities and fixed income. However, they primarily did so via mutual funds, Exchange Traded Funds (ETFs) and domestic bonds (rather than individual equity holdings, stock index futures or global bonds).¹³¹ Emerging-HNWIs and HNWI in the region are also taking advantage of leveraged products, such as contracts-for-difference (CFDs) and margin lending, to amplify returns in both up and down markets.

By emulating the investment allocations of higher wealth segments, Emerging-HNWIs and HNWI can be seen to be demonstrating a desire for more sophisticated products and services. Wealth management providers can capitalize on this up-tiering¹³² phenomenon by offering select products from higher wealth tiers to the segments below. This can enrich the provider's Emerging-HNWI offering and allow that firm to extend its existing product suites and wealth management platforms. The challenge, however, is for providers to maintain a differentiated proposition at each wealth tier as services trickle down to lower tiers. Accordingly, providers must remain at the forefront of product innovation and work diligently to invigorate the value proposition of their offerings to HNWI and Ultra-HNWI segments, as these set the standard for service and delivery excellence.

¹²⁷ Jessica Papini, "Mass-Affluent Largely Self-Directed, Web-Oriented," *Money Management Executive*, July 23, 2007

¹²⁸ Parajmit Mahil, "Investing Styles of the Ultra Rich," *Financial Planning*, March 2005

¹²⁹ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹³⁰ "ICICI: Fortis deal shows global wealth ambitions," *Datamonitor*, September 2005

¹³¹ Capgemini Focus Interviews, August 2008

¹³² *Up-tiering* is the process by which clients in one demographic segment aspire to a level of service they know (or strongly suspect) is being offered to the segment above them, Capgemini and Merrill Lynch, *Wealth: How the World's High-Net-Worth Grow, Sustain, and Manage Their Fortunes*, Wiley, 2008

Providers Employ Tiered-Service Models

Wealth management providers in the region typically have adopted a *Priority Banking* model to service the Emerging-HNWI segment and a *Private Banking* model to cater to the financial needs of Ultra-HNWIs.

Priority Banking for Emerging-HNWIs: A typical priority banking client receives financial planning services from a dedicated financial advisor and has access to a standard suite of investment products, which have been adapted to meet individual needs. In many cases, the products are comparable to those offered to HNWIs, but carry a higher premium (e.g., a three percent margin for Emerging-HNWIs, compared with one percent for HNWIs and private banking clients).¹³³

Emerging-HNWIs enjoy a greater level of attention than the mass-affluent segment. For instance, a global U.S.-based financial services firm has established a priority banking scheme where members benefit from an advisor-to-client ratio of 1:100, compared with a ratio of 1:175 for the mass-affluent clients at the same firm.¹³⁴ Another benefit of priority banking is access to a privilege program, which provides clients with preferential pricing on banking products and access to unique service offerings for certain client segments.

Wealth management providers typically have favored using an onshore network to deliver priority banking services to the Emerging-HNWI segment. Advisors operate from exclusive “priority centers” and draw upon local service teams and product experts to provide additional support. Their primary mode of contact is via remote channels, such as telephone and e-mail. However, clients also have access to a dedicated 24-hour telephone call center, which provides a secondary layer of support.

In contrast, some wealth management providers have shied away from the traditional priority banking model, opting to service Emerging-HNWIs from regional offshore hubs. This approach allows providers to leverage the same platforms to service both Emerging-HNWIs and HNWIs, albeit with less face-to-face contact for those in the lower wealth band. It also places less emphasis on the exclusivity associated with priority banking and focuses more on leveraging comparable products and services across wealth segments and enabling the up-tiering process.

Looking forward, we expect providers to refine the segmentation levels in their *Priority Banking* models. This will allow them to create a more differentiated client experience and introduce more specialized financial products and privilege programs, such as those designed to attract expatriates or business owners or Islamic clients with Shariah-compliant investment needs. Further segmentation also will allow providers to migrate traditional HNWI products and services, such as structured products, to other wealth segments. This, in turn, will encourage more flexible pricing within the segment and motivate providers to offer more sophisticated products and services to Emerging-HNWIs.

It would be advantageous for wealth management providers to reinvest in their relationship networks, product platforms and customer relationship management (CRM) systems to derive the full benefits of greater client segmentation. Additionally, the investment will prove beneficial if providers can deliver a unique experience and retain clients as they progress from one wealth band to the next.

Private Banking for Ultra-HNWIs: Private banking clients receive customized advice and have access to sophisticated products and services that are tailored to their individual needs. Ultra-HNWIs in the region enjoy an advisor-to-client ratio of 1:20 or 1:30,¹³⁵ allowing for high-touch relationships with the advisor and specialist teams. In Asia-Pacific, Ultra-HNWIs are asking their advisors to interact with a diverse group of external providers, such as estate attorneys (25.0%), private money managers (14.9%) and philanthropy managers (11.6%)¹³⁶ in a team-based approach.

While Ultra-HNWIs have access to a wide range of products and services, such as private equity and venture capital, wealth management providers are constantly looking for new ways to deliver a more holistic offering. Private investment banking is an emerging trend for this segment as it allows Ultra-HNWIs to monetize the wealth in their businesses through an IPO or similar transaction. Furthermore, 33.4% of advisors surveyed indicated that Ultra-HNWIs have asked them to interact with institutional/investment bankers on their behalf.¹³⁷ In Asia-Pacific, Merrill Lynch is piloting a partnership between its Private Bank and its Investment Bank to encourage advisors and investment bankers to work closely together as a team to identify and deliver specialized services to Ultra-HNWIs.

¹³³ Grace Ng, “Banks courting new segment of young, affluent professionals,” *Straits Times*, February 24, 2007

¹³⁴ *Ibid.*

¹³⁵ *Ibid.*

¹³⁶ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹³⁷ *Ibid.*

Typically, wealth management providers use an onshore capability to service Ultra-HNWIs in established markets, such as Japan, and adopt an offshore hub network to deliver private banking services to Ultra-HNWIs in smaller and less established markets. The private bankers are usually based in hub countries, such as Singapore and Hong Kong, and fly into other markets (e.g., Vietnam) as they are needed. These bankers typically are supported by a dedicated advisory team, consisting of an investment manager (for asset allocation), investment consultants (for execution) and global experts (for specialist advice). For instance, one global Swiss investment bank provides experts in three Ultra-HNWI sub-segments: family wealth management, owner-managed enterprises and independently wealthy individuals.¹³⁸

In recent years, it has become popular for the most affluent households and families, those with more than US\$100 million in investable assets, to establish a *family office* staffed by a dedicated team of wealth professionals and specialists in accounting, tax and legal services.¹³⁹ The family-office framework has been slow to gain traction in Asia-Pacific, primarily due to its high service costs and Asian families' historical preference for in-house administration of their personal affairs. However, of late, Asian Ultra-HNWIs have begun to gravitate toward these services,¹⁴⁰ especially as their Western-educated children return home and assume a more active role in managing the family's wealth.

Looking forward, we expect Ultra-HNWIs to leverage their personal experiences and contacts with other wealthy individuals and industry professionals to proactively identify investment opportunities and to solicit business proposals from multiple providers. Increasingly, the family office (or advisor) will be charged with selecting the best provider based upon predefined criteria, such as industry expertise or cost. Accordingly, the private banking contract between a client and his or her wealth manager(s) may become more egalitarian, and more conducive to a reverse-inquiry process by which clients either inspire product development or have such specific needs that a product virtually designs itself.¹⁴¹

Wealth management providers should also consider developing deeper relationships with their Ultra-HNWIs to ensure that they are top of mind and invited to participate in new investment proposals. At the same time, wealth management providers will be expected to be team players and, as such, willing to be part of the client's advisory panel.

Providers Target their Market Entry Strategies

In recent years, there has been a shift in the competitive landscape for wealth management providers in the Asia-Pacific region as local providers have introduced or expanded their wealth offerings to take advantage of the growth opportunities presented by the Emerging-HNWI and Ultra-HNWI segments. Accordingly, local providers are exerting a greater influence in the region compared with foreign providers.

Looking forward, wealth management providers in Asia-Pacific should adapt their market entry and growth strategies according to the economic-development level of their target market (mature, developing or emerging) and the wealth and sophistication levels of their target client (Emerging-HNWI, HNWI or Ultra-HNWI) in order to successfully compete against domestic and foreign providers. Domestic providers should leverage the large pool of Emerging-HNWIs in mature markets to expand their local footprints and gain market share, and both domestic and foreign providers should broaden their focus to include the emerging markets, which will continue to experience significant growth in the number of Emerging-HNWIs and Ultra-HNWIs in the coming decade.

Leveraging Current Strategies in Mature Markets: Emerging-HNWIs in mature markets typically are serviced by domestic commercial banks and wealth management providers, due to a combination of regulatory factors and competitive forces. Foreign providers typically acquired or formed joint ventures with local firms to extend their onshore networks and secure lucrative relationships with HNWI executives and entrepreneurs. For example, Merrill Lynch is leveraging its successful partnership with Mitsubishi UFJ Financial Group (MUFG) to extend its footprint in the Japanese market. In contrast, Ultra-HNWIs are serviced by both domestic and foreign providers, with the former leveraging their local footprints and the latter taking advantage of their global brands and depth of experience.

Japan has the largest population of Emerging-HNWIs (661,000) and the second-largest concentration of Ultra-HNWIs (5,300) in the Asia-Pacific region.¹⁴² Local banks and wealth management providers in Japan should focus on servicing the Emerging-HNWI segment and establish partnerships with global providers to supplement their offerings

¹³⁸ "Delivering the firm to ultra high net worth individuals", *UBS Quarterly Themes*, August 10, 2004

¹³⁹ Capgemini and Merrill Lynch, *Wealth: How the World's High-Net-Worth Grow, Sustain, and Manage Their Fortunes*, Wiley, 2008

¹⁴⁰ "Singapore financial institutions can tap into DIFC's family office framework," Channel NewsAsia, October 13, 2007

¹⁴¹ Capgemini and Merrill Lynch, *Wealth: How the World's High-Net-Worth Grow, Sustain, and Manage Their Fortunes*, Wiley, 2008

¹⁴² Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

to this target group. The opportunity for domestic and foreign providers is more balanced in other mature markets, given their relatively smaller Emerging- and Ultra-HNWI populations. For example, the collective Emerging-HNWI and Ultra-HNWI populations of Australia, Hong Kong and Singapore are less than 63,000 and 1,500, respectively.¹⁴³

Moving Quickly to Enter Emerging Markets: Emerging-HNWIs in emerging markets are serviced predominately by domestic commercial banks. In contrast, Ultra-HNWIs are serviced either by onshore providers or by offshore foreign firms that fly in bankers from regional hubs. This service model works for the Ultra-HNWI segment since these clients want access to global offerings that usually are not available locally. Not surprisingly, many foreign providers have focused their market entry efforts on the Ultra-HNWI segment.

Leading foreign providers also have used joint ventures with local firms to accelerate their market entry. Such arrangements leverage a local firm's already established relationships and their domestic-market knowledge. For example, Merrill Lynch established a joint venture with a local Indian investment bank and formed DSP Merrill Lynch in 1995 (and as of 2006 raised its stake to 90.0%). Successful partnerships are not a simple matter, and wealth management providers should adopt a rigorous partner-screening process to ensure there is an understanding of common objectives and complementary cultures.

Although the number of Emerging-HNWIs and Ultra-HNWIs in China and India is still relatively small, we expect these and other emerging markets to continue to grow at double-digit rates and, within 10 years, to surpass the mature markets. This will present significant opportunities for savvy wealth management providers in the region. Most notably, domestic commercial banks will benefit from expanding their priority banking services to "lock up" Emerging-HNWIs before new market entrants gain a foothold. In addition, domestic firms will be required to forge partnerships or take equity stakes in overseas wealth management providers to demonstrate their capabilities in the Ultra-HNWI segment. Recently, one of the four-largest state-owned commercial banks in China took a 30.0% stake in a Swiss hedge fund specialist to improve its wealth management skills and tap international private banking opportunities.¹⁴⁴

Growth Opportunities Abound

The rapid population growth and wealth accumulation of the region's Emerging-HNWIs and Ultra-HNWIs offers significant opportunities to wealth management providers. To capitalize on this potential, providers must gain a deep understanding of each market before deciding to enter it. Further, they must decide if they want to be a universal provider, servicing multiple client segments, or a niche provider, focusing on one or two segments. Ultimately, wealth management providers that can quickly identify and react to opportunities in the region will have the best chance of achieving success in the long term.

¹⁴³ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁴⁴ Bei Hu, "Bank of China Buys 30% Stake in Swiss Money Manager Heritage," *Bloomberg*, July 29, 2008

Key Forces Influencing the Wealth Management Industry

The Asia-Pacific wealth management industry is being reshaped by several powerful forces, whose impact varies according to the maturity of each locale. In emerging and frontier markets,¹⁴⁵ a growing class of HNWI entrepreneurs and the simultaneous movement onshore of providers' operating activities are triggering the greatest level of change. In contrast, in mature and developing markets, stepped-up government regulation and the transfer of intergenerational wealth are proving the most powerful forces. At the same time, the rapid growth of the region's HNWI population and their financial holdings are contributing to a shortage of advisory talent across Asia-Pacific.

Emerging and Frontier Markets

The Rise of the HNWI Entrepreneur: In recent years, Asia-Pacific's emerging markets have experienced an increase in the number of HNWIs and first-generation HNWI business owners. In 2007, these markets registered a 20.9% increase in HNWI growth, with 51.0% of these individuals attributing their wealth to business ownership.¹⁴⁶ In response, wealth management providers have developed unique products to help their clients raise capital and meet liquidity requirements. In addition, many firms have established offices in growth areas outside of their domestic markets to provide a higher level of service for this segment.

The emergence of the HNWI entrepreneur is changing how financial advisors operate and forcing them to significantly enhance their knowledge and skills to serve this client base. Today, it is no longer enough for advisors to provide only financial advice. Now, they also must have insights into traditional industries, such as retail and agriculture, as well as newer industries, such as telecommunications. For example, in China, there has been a shift from light manufacturing to the production of electronic goods. This coincided with a sharp decline in textile exports, which dropped from 23.1% of all exports in 1996 to 13.6% in 2007; meanwhile, machinery and electrical equipment rose from 20.6% to 43.4% during the same period.¹⁴⁷ Advisors whose market insights have not kept pace with the far-reaching implications of these economic changes are unlikely to be successful serving HNWI entrepreneurs in the future.

Furthermore, given that HNWI entrepreneurs are more likely to see a convergence of their personal and commercial interests, successful wealth managers must be ready to offer a wider range of investment banking services, such as private equity and corporate finance. Leading providers within the region have responded by building partnerships with investment banking units that offer clients teams of experts who can respond to a range of personal and commercial needs. This places added pressure on financial advisors to coordinate their own efforts with a host of professionals who operate in separate businesses.

Partnerships between wealth management and investment banking also present a number of execution challenges. As we have seen in other parts of the world, the transaction-focused cultures and incentive structures of investment banks often are not fully compatible with—indeed, sometimes are in conflict with—the relationship-management frameworks and longer-term incentive structures of wealth management providers. Additionally, these providers may be challenged by the ability to split or share revenue for services. Leading providers have addressed these challenges by establishing mutually aligned incentive mechanisms or by bringing together their investment banking and wealth management businesses under a single executive owner. The latter arrangement has encouraged dialogue at senior levels and has fostered greater cooperation across the organization.

Decentralized Operating Models Gain Acceptance: Historically, wealth management providers have serviced new and emerging markets from offshore financial hubs, such as Singapore and Hong Kong. However, an increase in the number of domestically focused HNWIs and lower regulatory barriers to entry has helped firms justify moving some operational activities onshore. This trend is particularly evident in China and India.

Increasingly, wealth management providers are building onshore advisor networks and product development teams. Several global wealth management firms have announced onshore wealth management plans for India,¹⁴⁸ and launched onshore private banking services in major cities in China.¹⁴⁹ This has allowed providers to conduct on-the-ground research and develop a broader range of domestic investment products to match the preferences of prospective clients. It is noteworthy that domestic wealth management providers have responded to the entry of foreign firms into their local markets by quickly improving their service proposition and expanding their footprint. For example, in 2007, China's largest bank launched 1,050 new wealth management centers, VIP telephone services and a customer information system to boost its competitiveness and increase its market share.¹⁵⁰

¹⁴⁵ *Mature markets* (Australia, Hong Kong, Japan, Singapore); *developing markets* (Indonesia, South Korea, Taiwan); *emerging markets* (China, India); *frontier markets* (Vietnam)

¹⁴⁶ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁴⁷ Economist Intelligence Unit, "China Country Profile," 2008

¹⁴⁸ Nesil Staney, "Slew of foreign banks to offer wealth management services," *Mint*, April 21, 2008

¹⁴⁹ "Asia private banks triple business," *Private Banker International*, April 23, 2008

¹⁵⁰ Chen Xiaoyan, "I appreciate the new market competition," *The Asian Banker*, May 31, 2008

Mature and Developing Markets

Increasing Government Regulation: Governments in mature and developing markets are placing a greater emphasis on product disclosure, reporting and investor protection. In Singapore, the government tightened disclosure requirements in 2002, requiring a substantial number of shareholders of listed companies to notify the stock exchange of both their shareholdings and any trade changes.¹⁵¹ More recently, in the wake of the sub-prime mortgage crisis and ensuing credit crunch, some governments have increased the disclosure requirements for complex and hard-to-understand financial instruments with an eye to improving transparency. For example, in September 2007, Japan introduced the Financial Instruments and Exchange Law to tighten disclosure requirements on a wide range of complex investment vehicles in order to protect investors.¹⁵² Australia has followed a similar path, announcing in early 2008 its intention to tighten disclosure requirements for equity derivatives and hedge funds.¹⁵³

More stringent disclosure requirements and investor-protection guidelines directly affect the operating costs of wealth management providers, as they require more complicated back-office processes and higher levels of systems customization. Moreover, such changes force providers to create more detailed client-facing documents and invest in additional training for their advisors—both within short time frames.

Some global wealth management providers see an opportunity to differentiate themselves by not only meeting but also exceeding regulatory requirements in a local market. Such providers also have used industry workgroups to actively engage local regulators to shape the rules and guidelines affecting the wealth management industry. In Singapore, for example, Merrill Lynch, Deutsche Bank and Goldman Sachs were members of an industry taskforce charged with reviewing the equity derivatives and structured products markets.¹⁵⁴ These firms also are leveraging the experience they gained in other markets around the globe to work with governments in the region as they develop or refine their compliance regulations.

Intergenerational Wealth Transfer Gains in Importance: In mature and developing markets, many HNWI's are nearing retirement and weighing how they will transfer their wealth to future generations. For instance, one-third of HNWI's in mature markets and 28.0% in developing markets are between the ages of 56 and 65.¹⁵⁵ Ultimately, an aging population increases the demand for estate planning services and forces wealth management providers to employ specialist skills, such as tax and legal experts, as part of the advisory team to better compete against professional services firms, such as KPMG and Ernst & Young.

The Talent Shortage Goes On

In all Asia-Pacific markets, wealth management providers are experiencing a shortage of talent across many areas of their advisory practice. This is placing upward pressure on costs and forcing wealth management firms to broaden their recruitment programs and hire staff from related industries, such as accounting or commercial banking.¹⁵⁶

Global providers have an advantage in that they can leverage their worldwide resources to alleviate some of these local pressures. For example, two large European banks are leveraging their training facilities in offshore financial hubs to support other markets.¹⁵⁷ Regional providers acknowledge that the majority of their foreign-trained advisors will be less experienced in the local market and will require coaching and mentoring from more experienced advisors. However, it is currently a challenge for wealth management firms to find experienced advisors who are willing to assume additional responsibilities.

Many providers are deploying support teams to provide an additional level of coaching and management oversight. Well-resourced wealth management providers, such as DSP Merrill Lynch Limited, are moving to introduce monitoring and auditing software to ensure that their financial advisors provide a consistently high quality of advice.¹⁵⁸ Such providers are also making significant investments in technology to automate certain activities, such as alert monitoring, to improve productivity so advisors can spend more time on client-facing activities.

Conclusion

To take advantage of the region's growth potential and respond to these industry forces, wealth management providers should focus on developing a holistic offering that delivers the best advice and products to their clients "when they need it and where they need it." In the end, it is the providers that can act as trusted advisors and establish long-lasting relationships that will win the greatest share of their clients' business.

¹⁵¹ Monetary Authority of Singapore, "Developing The Disclosure-based Regime for Singapore's Capital Markets," Annual Report 2001/2002

¹⁵² Financial Services Agency, "New Legislative Framework for Investor Protection - Financial Instruments and Exchange Act," October 10, 2006, Japan

¹⁵³ Senator the Hon Nick Sherry, "Regulation of Private Equity: Getting the Balance Right," Speech to the IBA-LCA Private Equity Conference, April 8, 2008, Australia

¹⁵⁴ Report of the Equity Derivatives and Structured Products Taskforce, June 26, 2006 Singapore

¹⁵⁵ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁵⁶ Capgemini Focus Interview, July 2008

¹⁵⁷ Chen Huifen, "Private banking industry booming," *Business Times Singapore*, March 17, 2008

¹⁵⁸ *Ibid.*

Technology's Role in Wealth Management Continues to Evolve

Rapid technology innovation has had a profound and global impact on the wealth management sector. It has empowered HNWIs, providing them with access to information both about their investments and global markets. Technology has also fueled their expectations for how and when wealth management firms should provide clients with information and the level of detail it should entail. Technology advancements have also created opportunities for providers to refresh their client strategies and implement innovative solutions. Yet, despite advancements in technology, challenges remain for providers, advisors and HNWIs alike—particularly in Asia-Pacific. For example, providers continue to work on improving their reporting capabilities to offer their clients more complete information on a more consistent basis.

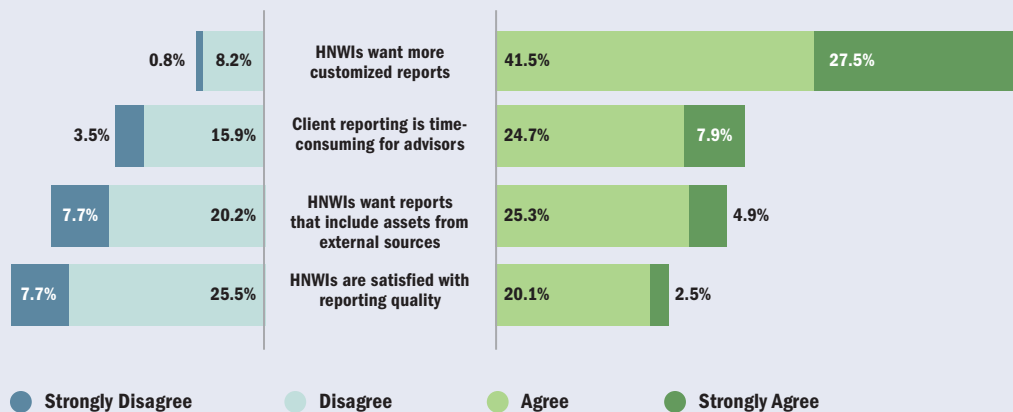
Integrating Multiple Platforms

In the Asia-Pacific region, many wealth management providers—particularly global firms—are constrained by legacy back-end systems¹⁵⁹ appropriated from their global operations that have not been adequately tailored to individual markets. Local and regional providers are also confronted with system constraints, such as the integration of multiple packaged solutions, and the need to integrate manual solutions with their existing technology platforms. Overall, the need for a cohesive technology strategy is compounded by the need to manage client accounts in different countries or within separate legal entities. For instance, providers frequently are unable to automate and consolidate information from third-party providers or other external sources where clients may have accounts. This forces advisors to undertake repetitive and manual tasks to create internal and client reports. Indeed, more than one-third of the advisors surveyed this year acknowledge that reporting is a labor-intensive and time-consuming task that requires extra levels of quality control. New solutions that enable systems integration can reduce manual intervention and improve advisor productivity as well as client satisfaction.

Moving Toward Holistic Client Reporting

There is an opportunity to improve client reporting within the region. For example, approximately one-third of the advisors surveyed indicated that their clients were not satisfied with the quality of reporting;¹⁶⁰ their ability to convert accounts into local currency; and the degree to which they could obtain real-time reporting from internal and external sources. Wealth management providers that are able to resolve these issues will be able to differentiate themselves in local markets and across the region.

Figure 10. | Asia-Pacific Financial Advisors' Views on Client Reporting in 2007



Note: "Neutral" responses are not shown
 Source: Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

More than 70.0% of advisors across the Asia-Pacific region noted that HNWIs want a more holistic approach to wealth management. However, the demand for an aggregated view varies by market and client type. For instance, 88.0% of advisors in emerging markets consider the aggregation of assets as critical to servicing HNWIs with less than US\$10 million—compared with 37.1% of advisors in developing markets and 36.5% in mature markets. In contrast, 39.3% of advisors in mature markets and 39.7% of advisors in developing markets consider the aggregation of assets as critical to servicing Ultra-HNWIs—compared with only 6.8% of advisors in emerging markets.¹⁶¹ These findings indicate that client expectations vary by market type and that wealth management providers need to develop tailored reporting regimes for each segment.

¹⁵⁹ Back-end systems refers to a firm's servers, super-servers, clustered and midrange systems and/or mainframes that provide services to front-end applications running on networked workstations. The back-end system accepts query requests sent from a front-end application, processes those requests and returns the results to the workstation.

¹⁶⁰ Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁶¹ Ibid.

Evidence suggests that providers that have invested in reporting functionality are winning business from their competitors. In fact, one-third of advisors indicated that improved reporting capabilities have helped them win more business¹⁶² and improve the overall client experience. Moreover, HNWI themselves indicated a willingness to change firms if another provider is able to provide clear and aggregated reporting.

Wealth management providers that present complex and detailed information in a simple-to-read format¹⁶³ and allow their clients to customize their reports are more likely to improve the client experience. Unfortunately, providers are limited in their ability to deliver truly holistic services because many HNWI have their assets with multiple firms and want to be served in multiple geographies.¹⁶⁴ As a result, some providers are employing manual solutions as an interim step while assessing the implementation of automated solutions.

Using Technology to Improve the Client Experience

Most technology specialists familiar with the industry’s challenges agreed that a wealth management platform should be scalable and flexible and should seamlessly integrate with back-office systems. One solution for meeting this challenge is Service-Orientated Architecture. SOA is a business-driven paradigm that injects operational flexibility through a framework of business activities, services, policies, practices and software. SOA is viable for all types of providers—large and small, regional and global—and can facilitate the real-time presentation of information from different jurisdictions and in multiple currencies.

SOA can enable the aggregation of account information (from internal and external sources), thereby reducing the need for manual solutions and making it possible for advisors to devote more time to value-adding activities. SOA also supports the integration of existing platforms with client relationship management (CRM) systems to improve marketing (e.g., up-selling or cross-selling) and compliance (e.g., know-your-customer) activities. In addition, SOA can assist with improving some aspects of the advisor workstation and internal management reporting. For instance, by having access to a consolidated view of the client’s portfolio, the advisor will be able to quickly identify gaps and recommend solutions. Such a proactive approach will engender trust and allow the advisor to win business.

Moreover, we expect the next generation of HNWI to champion emerging technologies that provide real-time investment information and up-to-the-minute scenario modeling and forecasting. As Internet communities continue to evolve, software that enables knowledge sharing among groups of like-minded HNWI will become more popular (e.g., an online version of TIGER21¹⁶⁵ for the next generation). Other adaptable innovations are emerging in related fields, such as retail banking. Technologies, such as short-message-service (SMS) “alerts,” are being rolled out and refined in retail banking with an eye toward transposing and finding applicability for them in private banking.

However, before such technology can be widely embraced and implemented as a wealth management solution, a number of variables must first be considered to identify the most appropriate strategy. Broadly speaking, the decision to “buy” or “build” will depend on a firm’s heritage, client base, target market and service-delivery model.

Figure 11. | Factors Influencing the “Buy” or “Build” Decision

	Firm Heritage	Target Client	Target Market	Service Delivery
Buy (Off-the-Shelf)	Boutique Wealth Management Provider	1. Emerging-HNWI 2. HNWI	1. Frontier 2. Emerging	Greater Levels of Standardization
Build (In-House)	Universal Wealth Management Provider	1. HNWI 2. Ultra-HNWI	1. Developing 2. Mature	Greater Levels of Customization

Source: Capgemini Analysis, July 2008

There are a number of packaged solutions currently on the market. The wealth management industry is developing at a rapid pace, and packaged solutions are a popular option for many of the Asia-Pacific region’s domestic banks as they leverage insights and capabilities from global

¹⁶² Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁶³ Just over half (52.6%) of the advisors surveyed indicated that current client reports are complex and likely to become even more so over time, according to the Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁶⁴ In the Asia-Pacific region, 81.5% of HNWI said they want to be served in multiple geographies, Capgemini/Merrill Lynch Financial Advisor Survey, April 2008

¹⁶⁵ TIGER21 (The Investment Group for Enhancement Returns in the 21st Century) is a peer network co-founded by wealth investors that requires its members to possess in excess of US\$10 million in investable assets. It relies upon candid peer review and knowledge sharing to enhance members’ wealth management tools and strategies.

implementations to accelerate their time to market.¹⁶⁶ In reality, many providers will utilize a combination of “in-house” and “off-the-shelf” technology solutions to upgrade their existing platforms and address specific technology gaps.

An emerging trend within the region is a move toward technology hubs as a means to standardize technology operations and improve responsiveness. However, both global and regional wealth management providers are still examining the potential benefits and costs and factoring in the differing levels of market maturity, variations in regulatory regimes and issues with sharing data across multiple jurisdictions before making this decision.

Over the next decade, successful wealth management firms will provide HNWIs with trusted expert advisor teams that have immediate access to integrated information sources with state-of-the-art reporting (e.g., Internet reporting) and settlement functionality. The advisor team and their clients will have access to real-time pricing information on a disaggregated as well as an aggregated basis covering onshore and offshore accounts held by the provider and external parties.¹⁶⁷ Finally, technology will support the increasingly complex and customized products that HNWIs seek.

¹⁶⁶ Capgemini focus interview with Dave White, Vice President for Odyssey Financial Technologies Asia, Pacific and Middle-East, July 2008

¹⁶⁷ Ian Orton, “In Search of the Perfect Private Bank,” *The Wealth Net*, May 12, 2008

Appendix A: Methodology

The 2008 *Asia-Pacific Wealth Report* focuses on nine core markets: Australia, China, Hong Kong, India, Indonesia, Japan, Singapore, South Korea and Taiwan. These markets are specifically highlighted because they account for 89.5% of the entire region's gross domestic product (GDP), and have an overwhelming economic and social influence on the Asia-Pacific region. The market-sizing model includes 18 countries and territories in its Asia-Pacific coverage.

We have estimated the size and growth of wealth in various regions using the Capgemini Lorenz model and methodology, which was originally developed during consulting engagements with Merrill Lynch in the 1980s and forms the basis of the *World Wealth Report* and *Asia-Pacific Wealth Report* today. It is updated on an annual basis to calculate the high net worth (HNW) population and its net financial wealth at a macro level.

The model is built in two stages: first, the estimation of total wealth by market and, second, the distribution of this wealth across the adult population in that market. Total wealth levels by market 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 and adjusted to arrive at total accumulated market wealth. As this captures financial assets at book value, an adjustment is made based on world stock market indexes to allow the final figures to reflect the market value of the equity portion of HNWI's wealth. Other adjustments include accounting for undeclared savings and foreign investments.

Wealth distribution, which differs by market, is based on known relationships between wealth and income. Data on income distribution is provided by the World Bank or by countries' national statistics. We then use the resulting Lorenz curves to distribute wealth across the adult population in each market. To arrive at financial wealth as a proportion of total wealth, we have used statistics from countries with available data to calculate their financial wealth figures and extrapolated these findings to the rest of the world.

The financial asset wealth figures we publish 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 markets are able to make accurate estimates of relative flows of property and investment in and out of their jurisdictions. We accommodate undeclared savings in the report.

In response to industry and media requests, in 2005, we revised the methodology to move from reporting our annual findings at a regional to a country level. In addition to applying up-to-date annual statistics, we made adjustments to estimate the number of HNWI's and their financials more precisely at a country level. We have continued with this approach in this year's report.

This year, we continued to enhance our macroeconomic model with increased analysis of domestic economic factors that influence wealth creation. We have worked, for example, with colleagues from Capgemini and Merrill Lynch across the Asia-Pacific region to best account for the impact of domestic, fiscal and monetary policies over time on HNWI wealth generation.

Given the exchange-rate fluctuations over the past years, especially with respect to the United States dollar, we specifically assessed the impact of currency fluctuations on our results. From our analysis, we conclude that our methodology is robust and that exchange-rate fluctuations do not have a significant impact on our results.

The translation to United States dollars is made using a yearly average exchange rate. As our model calculates cumulative wealth in United States dollar terms using a time series of data going back over 100 years, the impact of a sharp currency appreciation for a year or two has a negligible effect. For example, our analysis shows that if exchange rates in 2007 had remained at the same level as in 2006, global HNWI wealth in 2007 would have been only 0.2% lower than our reported figure of US\$40.7 trillion.

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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