A global guide to UHNWI wealth, attitudes and investments

The Wealth Report
Attitudes Survey

The world is becoming increasingly preoccupied by the lives of the rich and famous; the more sensational the detail the better. Fueling this trend is the growing omnipotence of an internet that streams a non-stop flow of gossip and photographs, authorised or not. Some of the super-rich, whose wealth derives from their celebrity status, actively encourage it, but for most the intrusion is unwelcome. No wonder then that the distinctly un-voyeuristic results of our own annual survey of the attitudes of the wealthy, discussed over the following pages, reveal that ultra-high-net-worth individuals are becoming increasingly concerned about the power of the web in terms of online privacy and cyber-crime.

Interestingly, however, given a potential economic slowdown in China and continued political and economic uncertainty in many parts of the world, it is family and business succession issues followed by a possible hike in wealth taxes that are the biggest concerns for UHNWIs, according to the wealth managers and private bankers who advise them.

Putting these concerns aside, 2014 was a good year for the wealthy. The vast majority saw their net worth increase, and most of the respondents to the survey said this trend would continue for their clients in 2015. But with contributors from all parts of the world, the results of our Attitudes Survey highlight some revealing regional trends.

Generally, UHNWIs living in Australasia seem happiest with their lifestyles – only 4% want to change their country of residence or domicile, and very few send their children overseas to be educated. By contrast, a third of those from Russia and the CIS are considering a move, and over 60% dispatch their children abroad for their secondary education.

The results of the Attitudes Survey also cement the position of property as the cornerstone of many UHNWI investment strategies – it accounts on average for almost a third of UHNWI portfolios. But bricks and mortar are not the only tangible assets that are in demand. So-called investments of passion, such as art, wine and classic cars, continue to attract more interest.

While our survey doesn’t delve into the more personal facets of UHNWI lifestyles, it provides an invaluable glimpse of their attitudes towards property, investments and the factors affecting their ability to increase and safeguard their wealth, and how these factors vary around the world.

01 Getting richer
According to the results of the Attitudes Survey, 80% of wealth advisors expect their clients’ net worth to increase in 2015.

02 The joy of property
Over a quarter of UHNWIs are thinking of buying a new house in 2015, while 35% of those surveyed expect their clients to increase their allocation to property investments during the year. In certain regions of the world up to a third of the super-rich are thinking of changing their domicile or country of residence.

03 The collecting bug
Over 60% of survey respondents reckon their clients are becoming more interested in collecting investments of passion.
Wealth trends

The fifth instalment of The Wealth Report’s annual Attitudes Survey of UHNWI advisors is based on a detailed survey of almost 500 leading private bankers and wealth advisors from across the globe, and reflects the attitudes of their ultra-wealthy clients who have a combined wealth of over US$1.7tn.

Covering many aspects of the lifestyles of ultra-high-net-worth individuals (those with a net worth of over US$30m), from creation to philanthropy, from property investments to luxury spending trends, the survey’s findings offer a unique insight into the attitudes of the super-wealthy.

Last year proved to be a more profitable one for the world’s UHNWIs than expected by their advisors. In 2013 when we asked the survey’s respondents about their clients’ wealth creation prospects over the next 12 months, 68% said they thought their net worth would increase. A year later 82% said it had actually increased during 2014, with only 3% reporting a fall. Looking forward, the outlook is still bullish. Despite concerns over the global economy, 80% of survey respondents expect their clients’ wealth to grow further in 2015.

Wealth threats

However, the road to greater riches is not always smooth, and the survey results highlight a number of issues that UHNWIs believe could hinder their ability to generate more wealth. Interestingly, it was not the global geopolitical and economic issues that tend to spook stock markets that were of most concern, but more personal issues.

On average, less than half of respondents said their clients were concerned about the impact of the Chinese economy slipping (although unsurprisingly this rises to over 70% in Asia and 67% in neighbouring Australasia). The same pattern was repeated for the ongoing turmoil in the Middle East and Ukraine.

Family succession issues were, in fact, the number one worry, with 88% of respondents saying their clients were concerned about the handover of family wealth to the next generation. A potential increase in wealth taxes (60%) and increased government scrutiny of wealth (80%) were the second and third most venal issues, according to our survey results. Respondents from Australasia were the least concerned about increased government scrutiny, with only 44% flagging it as a threat.

Wealth worries

The issues UHNWIs believe could affect their wealth, lifestyles or business

- Succession issues
- Increased government scrutiny
- Cybercrime and online privacy
- Health/environment issues
- Wealth taxes
- Increase in tax rates
- Crisis in Middle East
- Increase in legal, regulatory and compliance
- Wealth loss
- Wealth will decrease

Percentage of respondents who think their younger UHNWIs are more philanthropic than their parents’ generation

- 45%

Philanthropy, shopping, flying

UHNWI attitudes to philanthropy remain largely unchanged. According to last year’s Attitudes Survey, 22% of respondents expected their clients’ philanthropic activities to increase, in this year’s survey the figure was 23%, with three-quarters predicting they would remain the same. The outlook for a rise in giving was most pessimistic in more mature economies like Europe (17%), perhaps because philanthropy is already well established there, compared with emerging economies like Africa (56%).

As part of this year’s Attitudes Survey we have endeavoured to find out if younger UHNWIs have a different attitude to wealth than their parents’ generation. When asked if they were more philanthropic, 43% of respondents said “yes”. By contrast, when we asked if they spent more on luxury goods, two-thirds of those taking the survey agreed that was the case, perhaps explaining why succession planning is considered such a big issue. Overall, 30% of survey respondents are expecting their clients to splash out more on luxury goods this year, compared with 2014, with UHNWIs from Africa (59%) and Russia/CIS (57%) enjoying their wealth the most.

Across the world, 23% of the wealth on average of UHNWIs is accounted for by their main residence and any second homes not

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Source: The Wealth Report 2015 Attitudes Survey

**ATTITUDES SURVEY**

**THE WEALTH REPORT 2015 ATTITUDES SURVEY**

The results of the Attitudes Survey are based on the responses from almost 500 private bankers and wealth advisors who completed a survey in late autumn 2014. The global figures are weighted to reflect the regional distribution of UHNWI wealth populations. A full regional breakdown of the data is available in Databank at the back of the report.
of 35% in last year’s survey, suggesting a third of respondents with clients in the US were considering a move. By contrast, the least likely to want to up sticks. Only 29% of residence.

nently change their domicile or country posed by the survey relates to the number America (50% in the US).

seekers from Europe (35%) and North America (40% in the UAE) equestrian properties 31% in Malaysia noting rising interest. with clients in China, 43% in Taiwan and remains keen, with 40% of respondents de- in a ski, vineyard or equestrian property, to see a declining demand this year. Investments of passion, however, remain firmly on the radar for the super-rich. Globally, 41% of our respondents said their UHNWI clients were becoming more interested in the likes of classic cars, art and wine.

Art is the luxury asset where interest is rising the most – perhaps unsurprised by given its accessibility – followed by watches, wine and classic cars. Stamps are being described as investments of pas- sion, however, status (38%) was considered increasing appetite for riskier investments that increase in 2015. This builds on the growing appetite for riskier investments that the Attitudes Survey flagged up last year. Consequently, according to the survey results, cash, fixed income bonds and gold and other precious metals are likely to see a declining demand this year.

Outside property, equities are predicted to be the most popular investment class in 2015, with a net balance of 48% of those taking the survey expecting their clients’ exposure to stocks and shares to increase in 2015. This builds on the growing appetite for riskier investments that the Attitudes Survey flagged up last year. Consequently, according to the survey results, cash, fixed income bonds and gold and other precious metals are likely to see a declining demand this year.

Investing, Collecting

Of course, property is not just a place where the wealthy live. It is increasingly seen as a mainstream investment class, accounting on average for 32% of an UHNWI’s investment portfolio. Globally, 37% of survey respondents said their clients increased their exposure to property as an investment in 2014 and 35% expect that trend to continue in 2015. Residential property is the most popular sector to invest in, with 81% of wealth advisers saying their clients were becoming more interested in it. Offices (59%) were the next most popular property type. (See pp46 to 57 for more on property investment trends.)

Control of their property investments is clearly important to the wealthy – almost 80% of respondents said UHNWIs prefer to invest directly into property, with only 12% choosing to use a fund vehicle.

Bricks and mortar retain their appeal for the latest generation of UHNWIs, with 45% of respondents saying their younger clients were more interested in property than their parents.

Australians and New Zealanders are the top priority for wealthy second-home seekers from Europe (38%) and North America (50% in the US).

One of the most revealing questions posed by the survey relates to the number of UHNWIs who are planning to perma-

ently change their domicile or country of residence. Australians and New Zealanders are the least likely to want to up sticks. Only 4% of those surveyed said their clients were considering a move. By contrast, a third of respondents with clients in the Russia/CIS region said a move could be on the cards. This follows a response rate of 38% in last year’s survey, suggesting a longer-term trend is emerging. Globally, tax was highlighted as the main reason UHNWIs would consider moving to a different country, but in Rus-
sia education and political issues were reported as two of the biggest drivers. Seeking out the best education abroad for their children is clearly very important for Russian and CEE UHNWIs. Over 60% are likely to send their offspring overseas for their secondary education, compared with a global average of 27%. This process also seems to be happening sooner, with 67% of respondents noting that their clients were sending their children overseas at an earlier age.

Respondents were asked what percentage of their clients were considering purchasing a new home in 2015.

Respondents were asked what percentage of their clients were considering permanently changing their domicile or country of residence.

Allocation to property in UHNWI investment portfolios

How is the allocation changing?

One of the most revealing questions posed by the survey relates to the number of UHNWIs who are planning to permanently change their domicile or country of residence.

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Despite collectable assets commonly being described as investments of passion, personal pleasure is still the main motivation for their acquisition, accord- ing to 62% of those surveyed. In India, however, status (38%) was considered almost as important, and across Asia capital growth (32%) was a key factor. For full regional results see Databank, pp68–69.
Leading wealth experts share their views on key findings from the Attitudes Survey

The results of The Wealth Report Attitudes Survey discussed over the preceding pages provide a unique glimpse into the attitudes, concerns and investment choices of UHNWIs from around the world. To look at some of the issues raised in more detail, we asked leading specialists from various sectors of the wealth industry, including private banking, investment, family offices, education and legal services, to share their own insights into specific trends and highlight what the implications could be for UHNWIs and their advisors.

Philanthropic attitude change

Millennials (to use the new parlance for under-40s) take seriously the notion of stewardship and social responsibility. This may not be news, exactly, but what differentiates millennials from their parents is the inclination to use robust and/or sophisticated management techniques for family philanthropy. The steel magnate model of philanthropy is giving way to that of measuring impact not only through the aforementioned implementation of business models for philanthropy, but also through the use of metrics to evaluate the potency of value-informed investments. While wealth managers still need to employ tax-efficient and long-term wealth management vehicles for UHNW millennials, they can also expect to implement values-based considerations into investment portfolios. Service providers supporting UHNWIs through intergenerational wealth management services (read here, family offices) can expect family giving to evolve from a redistributive model towards managed and measured philanthropic initiatives.

Andrew Porter, Director of Research, Campden Wealth

Overseas education

Recently, leading public schools have started to insist overseas applicants complete at least two years in a UK-based preparatory school. Clients from areas that are already well represented in the independent system, such as Russia, Nigeria and the Middle Eastern states, have realised the dramatic effect that an earlier move to a UK school can bring. Leading public schools carry out rigorous preassessments when children are 10 or 11. Preparing for these tests from within the system greatly increases a student’s chance of success. For all these reasons, we are seeing renewed interest in boarding preparatory schools and London day schools from most of our international clients.

William Petty, Director, Bonas Macfarlane Education

Luxury investment

In our experience UHNWIs are becoming more and more concerned about paper assets such as bonds and equities, and are increasingly looking for tangible alternatives. The scarcity of luxury assets and their historic ability to hedge against inflation make them an appealing investment proposition - it is always possible to commission a new yacht, but nobody can paint another Monet or build a classic Ferrari. Increasing demand and limited supply suggest that capital growth could continue. There are risks, however, like fraud and poor portfolio diversification. To remove some of these risks, investors should express their views on luxury through a multi-asset solution.

Saeed Patel, Investment Analyst, Schroders

Attitudes to risk

As an investor you should devote your attention to things that (a) matter, and (b) you can do something about for successions, taxes, government scrutiny and privacy/security. Or at least their advisors think they are – which may not be quite the same thing.

Dr Greg Davies, Head of Behavioural Finance, Barclays

Online perils

A reputation is an individual’s most valuable asset, and in an increasingly digital age, cyber-crime and online privacy are big concerns. We are increasingly being asked by high-net-worth individuals how they can go about protecting their reputation. It is vital to conduct a reputation management audit as soon as possible. This will focus on maintaining or taking control of an individual’s reputation. The first area to look at is information that the individual, or friends and family, has direct control over, such as social media accounts and personal websites. It’s also important that family and friends are aware of the risks of posting information online, as it could damage the individual. The more that can be done at the proactive stage, the better.

Niri Shain, Head of Reputation Management, Taylor Wessing