A comprehensive analysis of how wealth is distributed around the world

Global wealth trends

With the help of data from WealthInsight, *The Wealth Report* provides a unique and comprehensive analysis of how global wealth distribution is changing and is predicted to change over the next 10 years.

Last year, around 15 people a day joined the ranks of the ultra-wealthy, or those worth over US$30m. This growth is set to continue in the coming decade, with the global population of ultra-high-net-worth individuals forecast to climb by 34% to a total of almost 231,000.

Our data also allows us to look at wealth distribution trends at a granular country level. As such, we can highlight specific wealth-creation hotspots, for example, Kazakhstan, where the number of UHNWIs is set to grow by 114% over the next decade. But topping the list of the almost 100 countries we examine is Vietnam, with a forecast uplift of 159% in its UHNWI population.

Taking a different angle on the data, we can see how evenly wealth is distributed within a country. While Monaco, unsurprisingly, perhaps, given that most of its residents are very wealthy, tops this list, with the equivalent of 574 UHNWIs per 100,000 people, the other countries that emerge at the top are perhaps more surprising. The, US with 12.7 UHNWIs per 100,000 head of population, is some way behind countries in Scandinavia, New Zealand and the UK. Despite the sharp rise in the number of Chinese UHNWIs, there are still only 0.6 UHNWIs per 100,000 people in China because of the size of the country's population.

Wealth, or more specifically, its uneven distribution, has become an increasing subject of debate over the past few years. Some, such as the controversial French economist Thomas Piketty, argue that governments should take action and levy higher taxes on the rich in order to re-distribute wealth. Others, like our contributor Dr Pippa Malmgren, believe that higher taxes could actually prove a barrier to economic growth, undermining the opportunity for wealth creation across every stratum of society.

In developing countries significant amounts of wealth are already being created by a growing and increasingly aspirational middle class. On p23 we examine the importance of this movem ent across the world, not only as a generator of wealth but also in terms of the increased political power it commands, and how this may be set to change the geopolitical landscape.

01

Wealth rises
The global population of UHNWIs rose by almost 5,200, or 3%, in 2014, and 53 new billionaires were created

02

Future growth
Over the next 10 years the number of UHNWIs around the world is forecast to rise by 34% to almost 231,000. Growth will be strongest in developing regions, with Africa's ultra-wealthy population rising by 59%

03

Regional shifts
Asian UHNWIs now hold more total wealth ($5.9tn) than those in North America ($5.5tn)

UHNWI population growth continues

The Wealth Report highlights key current and future global wealth distribution trends

GRÁINNE GILMORE, HEAD OF UK RESIDENTIAL RESEARCH

The global population of ultra-high-net-worth individuals grew by almost 5,200 last year, according to data prepared exclusively for *The Wealth Report* by the analyst firm WealthInsight.

This latest increase means 65,335 people have joined the ranks of the ultra-wealthy over the past decade – a rise of 61%. In total, there are now 172,850 individuals in this cohort who hold wealth totalling $20.8tn, an increase of $700bn during 2014.

Moving up the wealth brackets, nearly 1,180 people became centa-millionaires in 2014, taking the world's total population of those worth over $100m to 38,280.

At the top of the wealth tree 53 individuals became billionaires last year, pushing global membership of this exclusive club to 1,844 – an 82% rise from the number recorded in 2004.

The annual pace of wealth creation also quickened in 2014 compared with 2013, albeit slightly. The number of UHNWIs grew by 3.1% last year, compared with 2.9% in the previous 12 months. But at a regional level the differences were more marked.

Most notably, Asia overtook North America as the region with the second-largest UHNWI growth. Some 1,419 people moved past the $30m+ mark in Asia in 2014, after an increase of fewer than 1,000 in 2013. Europe held onto the top spot with the most new entrants into the ultra-wealthy bracket over 2014.

The ultra-wealthy in Asia now also hold more in total wealth, with net assets of $5.9tn, than those in North America, with $5.5tn. However, with a $6.4tn treasure chest, European UHNWIs still control the most wealth.

Last year's rise in UHNWI numbers came despite weaker-than-anticipated global economic growth. During 2014 the IMF was forced to downgrade its forecast increase for world output from 3.7% to 3.3%.

Throughout the course of 2014, political tensions mounted, while increased uncertainty over the ramifications of withdrawing fiscal stimulus measures in the US affected sentiment in many regions.

Towards the end of the year plunging oil prices and the strengthening dollar also hit emerging markets, as well as key natural resource exporters like Nigeria, Russia and Mexico.

Ouliana Vlasova, Head of Content at WealthInsight, says: "The positive outcomes for developed economies at the start of 2014 positively influenced wealth creation. However, that picture changed throughout the year. The growth in wealth could perhaps have been bigger had the world economy picked up more strongly in the second half of last year."

The outlook for the rest of this year is also mixed. Although the IMF has downgraded its own forecasts for annual growth in world output from 3.8% to 3.5%, this is still slightly stronger than the growth in 2014. Emerging economies are expected to grow by 4.3%, compared with 2.4% for developed economies.

Economic headwinds

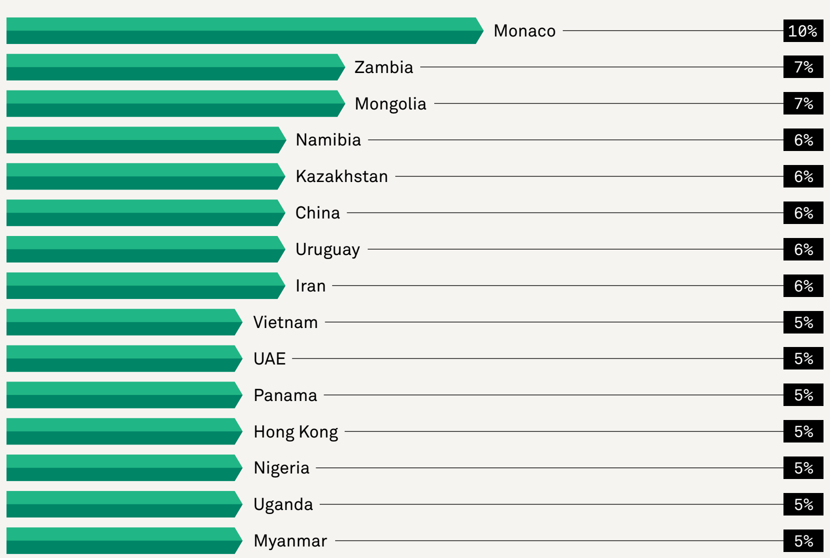
There is certainly evidence that beneath the economic headwinds, some central banks and governments have been getting to grips with the serious repair work needed in the wake of the global financial crisis.

However, fears over economic weakness in the eurozone prompted the European Central Bank to start a programme of quantitative easing earlier this year, a signal of the headwinds still facing developed economies.

Yet the longer-term forecast for wealth creation, anticipating how wealthy populations will have changed a decade from now, is still upbeat. Looking through the shorter-term uncertainties, WealthInsight predicts the number of ultra-wealthy people will grow globally by 34% between 2014 and 2024, up from a forecast of 28% growth between 2013 and 2023 (see graphic for regional predictions).

Ms Vlasova says: "We expect the measures that are being put into place to

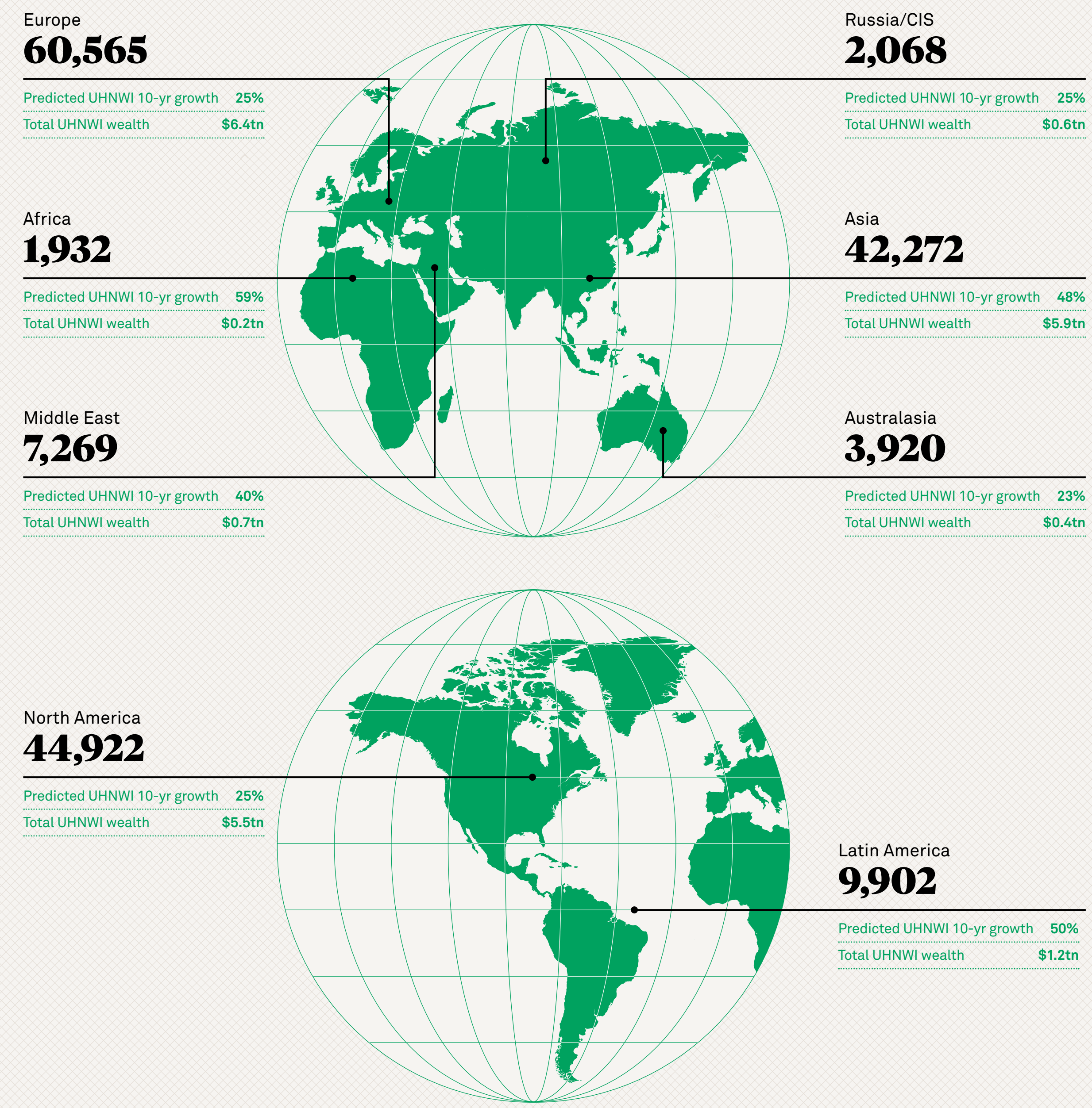
Countries with UHNWI population growth of 5% or above in 2014



All data provided by WEALTHINSIGHT

UHNWI populations and total wealth by region in 2014

For full details of wealth distribution trends and forecasts for each world region and for almost 100 countries turn to Databank, p66



172,850
Global UHNWI population 2014

$20.8tn
Global UHNWI wealth 2014

34%
Predicted global UHNWI population growth 2014 to 2024

safeguard against another financial crisis will contribute to improved economic conditions over the next decade, coupled with government initiatives to create more entrepreneurs – one of the main drivers of millionaire growth."

Asia is set to lead the way, with another 20,127 people likely to see their wealth move past $30m during the next decade.

Looking in more detail at our data, which includes a comprehensive analysis of wealth distribution for over 100 countries, we see a number of other key trends emerge.

Despite the turbulence in some corners of the global economy as a result of renewed political tensions and fiscal uncertainty in 2014, some countries experienced particularly strong wealth creation last year, with UHNWI populations expanding by 5% or more in 15 countries (see chart on p18).

Twelve of these countries were emerging economies, underlining the fact that despite concerns about the easing of the pace of growth in developing economies, they are still key drivers of wealth creation.

But it is also notable that it was Monaco, the well-established hub for wealth, that topped the list for growth last year, with a 10% expansion in its population of UHNWIs. The number of centa-millionaires (those with over $100m in net assets) in the principality jumped by 10% in 2014, far above the European average of 3.2%, while the number of billionaires rose from 11 to 12 (see chart on p21).

In terms of sheer numbers, the US will still be the dominant force in terms of its ultra-wealthy population in 2024

It is likely that the tax-free environment and low entry hurdles for residency in Monaco have become a greater draw for those concerned by discussions of increased taxes on wealth and assets. Indeed, our Attitudes Survey (p10) highlights that one of the biggest concerns for UHNWIs across the globe is a potential increase in wealth taxes.

In terms of sheer numbers, the US will still be the dominant force in terms of its ultra-wealthy population in 2024, with the data forecasting a 25% increase in UHNWI numbers to almost 51,000, the biggest concentration in any single country (see chart on the right).

Wealth equality

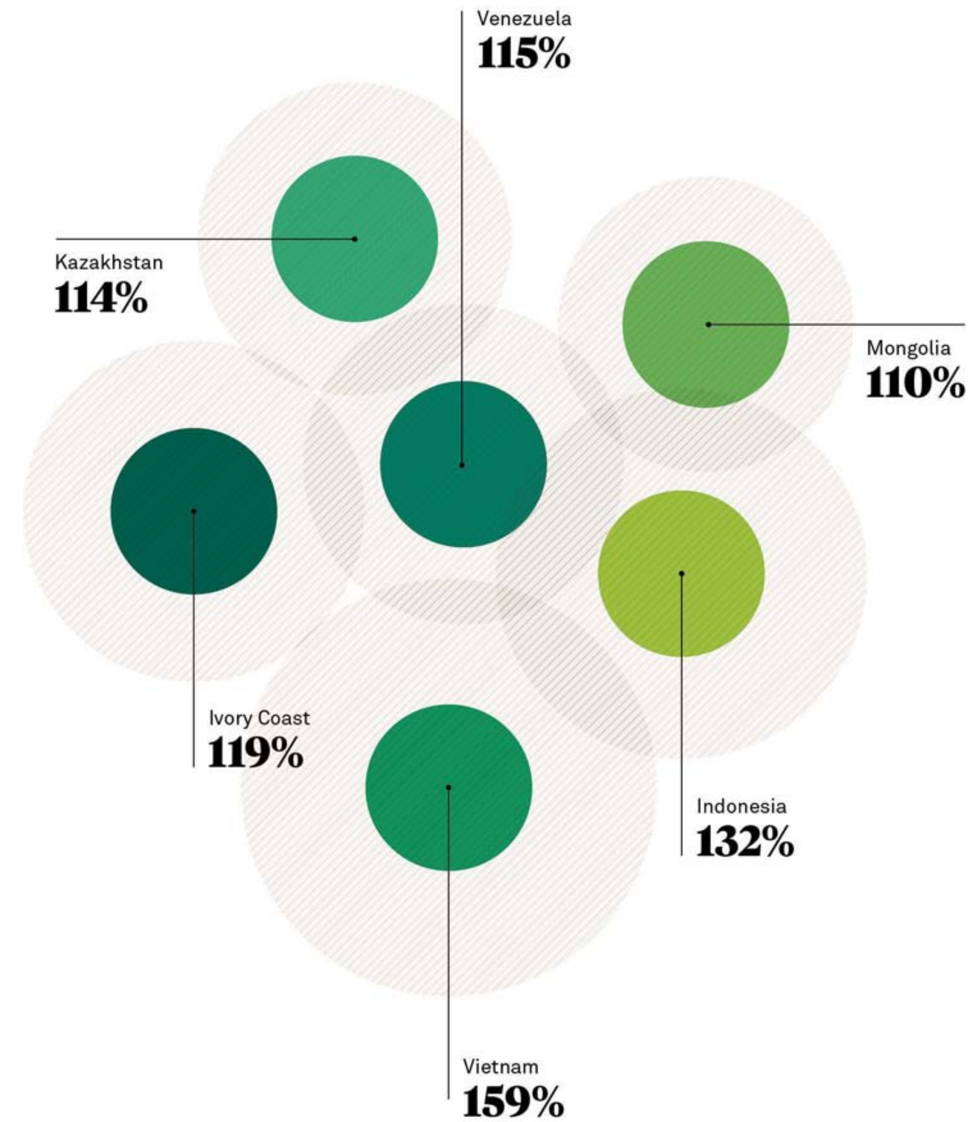
But when looking at these wealthy residents as a proportion of the country's total population, the US, with 12 UHNWIs per 100,000, is outgunned by 19 countries including New Zealand and the UK (see chart on p21). Unsurprisingly, Monaco tops the list with an equivalent rate of 574 per 100,000.

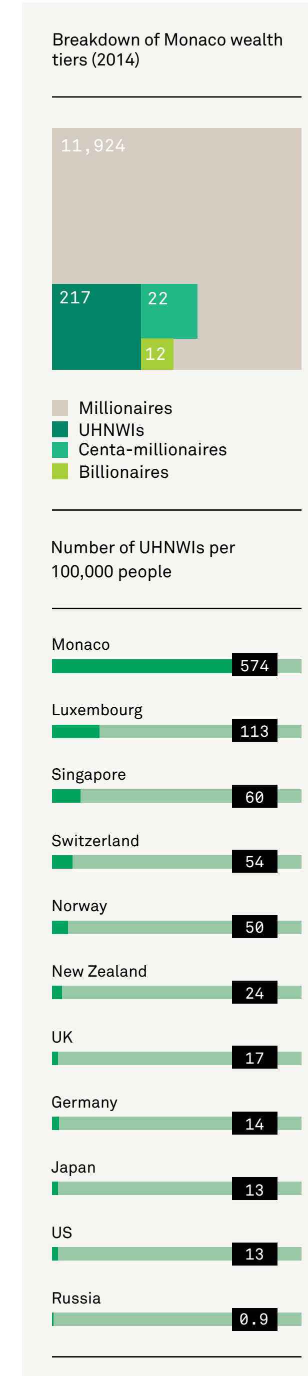
FORECAST TOP FIVE UHNWI POPULATIONS IN 2024

US	50,767
Japan	19,916
China	15,681
Germany	14,481
UK	13,176

MIDAS TOUCH Monaco's population of UHNWIs is set to double by 2024

Countries with highest forecast growth in UHNWI populations, 2014-2024





While Monaco is set to double its population of ultra-wealthy residents over the next 10 years, it will not quite keep up with the rate of growth in some other economies, including Vietnam, the Ivory Coast, Kazakhstan and Indonesia, which are forecast to see the largest increases in UHNWI populations over the next decade (see chart above).

We identified Kazakhstan last year as a country to watch, and this is still the case. It is set for a 114% increase in UHNWIs over the next 10 years, much higher than the 46% growth forecast for neighbouring Russia. Indeed, most of the CIS countries are set to outperform Russia in terms of UHNWI growth – not only because of the military and fiscal turbulence in the country, but also because of the trend in Russia for those who have amassed wealth to base themselves overseas. Almost one-third of Russian UHNWIs would like to change their domicile, according to the Attitudes Survey.

Indonesia, which is expected to see 132% growth in the number of ultra-wealthy people by 2024, is the only MINT country where 10-year forecast growth exceeds 100%. Jim O'Neill, former Chairman of Goldman Sachs, popularised the acronym MINT for Mexico, Indonesia, Nigeria and Turkey, identifying them as the new engines of economic growth.

Nigeria comes close to Indonesia with 90% forecast growth in UHNWIs. It is striking, however, that even this level of growth is not enough to clinch the top spot for Africa, which is taken by the Ivory Coast (+119%). Deon de Klerk, Head of International Private Clients at Standard Bank, Africa's largest bank, says: "Africa has the highest potential for growth of any region at the moment. Reforms in Nigeria have been expedited, helping the country build credibility among foreign investors. It is an exciting time."

When we look at the amalgamated expectations for growth in UHNWIs, the MINT countries, with average expected uplift of 76% over the next decade, narrowly defeat the BRIC countries (Brazil, Russia, India and China), which have an average forecast growth of 72%. However, they both far outstrip global average forecast growth (34%) and the average increase expected across the G8 (28%) over the next decade.

In China, policymakers are under increasing pressure with questions over economic growth mounting as well as political tensions surfacing in Hong Kong. However, Gabriel Sterne, Head of Global Macro Investor Services at Oxford Economics, says there is room for more education and financial deepening in the country. "We still see China as a success story, and it should continue to catch up in terms of productivity," he says. Certainly by 2024 China is not only set to be the largest economy in the world, but will boast nearly 15,700 UHNWIs and 338 billionaires.

Meanwhile, elections in India and Brazil have sparked opportunities for more economic growth. India has seen a 166% rise in UHNWIs over the past decade, and with the new Indian government commanding a majority in the lower house for the first time in three decades, there is real opportunity to introduce far more transparency. That in turn will boost foreign investment. WealthInsight forecasts a 104% increase in India's UHNWIs over the next decade.

Last year's election in Brazil, and the ensuing interest rate rise by the country's central bank, flexing its independent muscles, could start to shore up the Brazillian economy. There is still much work to be done, including offsetting the falling prices for key Brazilian exports. However, despite this, the growth of Brazil's UHNWI population over the next decade is expected to outperform the global average, at 50%.

Eurozone difficulties

The difficulties in the eurozone over the last year, with Germany narrowly avoiding another recession, are not over yet. The economic grouping faces a potentially painful re-balancing of the economy, driving productivity as well as consumption in the coming years. This is reflected in our data, with many eurozone countries seeing a slightly lower level of growth in ultra-wealthy populations than the global average. However, the newest entrants to the eurozone – Latvia, Lithuania and Estonia – are set to outperform in the next decade, albeit from a low base. The UK, which had the fastest-growing economy in the G8 last year, is set to see 100 billionaires by 2024, making it the fifth-highest hub for billionaires in the world behind the US, China, India and Russia, each of whose overall population significantly outnumbers that of the UK.

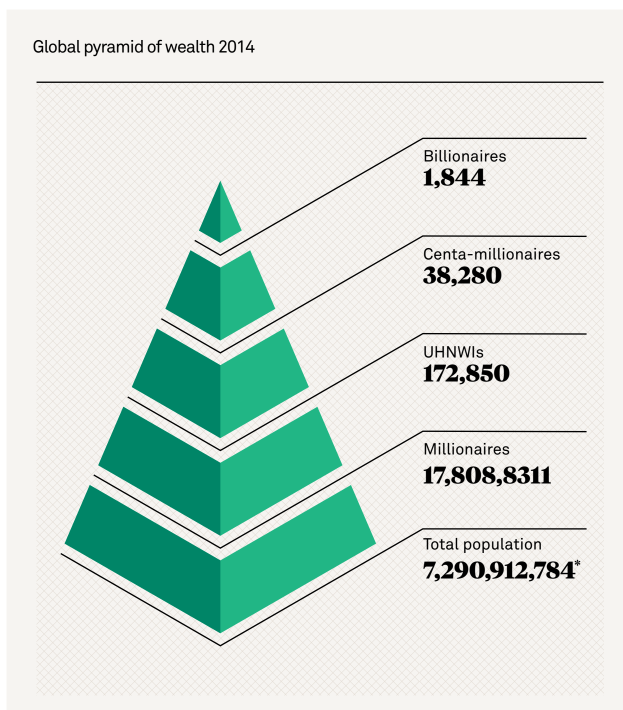
For more wealth distribution numbers see Databank, p66.

WEALTH TAXES: THE GREAT DEBATE

The debate about income inequality (see graphic below) and wealth taxes gained traction during 2014, not least because of the wide discussions around the ideas of Thomas Piketty, a French economist who argues that there should be a global wealth tax on the richest in order to redistribute money to the poorest in society. The well-respected OECD has also highlighted that inequality can curb economic growth, arguing that using tax and transfers to tackle inequality can be effective as long as the policies are highly targeted, aimed at not just the very poorest but the poorest 40% of the population, particularly focusing on education.

Yet other economists point out it has been proved that high marginal tax rates can decrease productivity and inhibit entrepreneurialism, as those who succeed are faced with the prospect of much higher levies. Dr Pippa Malmgren, founder of DRPM Group and former economic advisor to US President George W. Bush, argues that instead of focusing on taxing wealth brackets, there should be more emphasis on creating more wealth for all. In her book *Signals*, published earlier this year, she argues that instead of increasing tax levies, governments should be cutting them, especially for entrepreneurs and small businesses: "The argument seems to have swung to distribution, when in fact it should be about productivity. It is essential that the policymakers focus on innovating and growing their economies."

OLYMPIAN ENDEAVOURS UHNWI population growth in Brazilian cities like São Paulo is set to outperform the global average



*As of 15:48 GMT 27 January 2015
Source: WealthInsight, worldometers.info

PURCHASING POWER Middle-class spending is driving wealth creation

THE POWER OF MASS AFFLUENCE

Special focus on the importance of middle-class wealth growth

GRÁINNE GILMORE, HEAD OF UK RESIDENTIAL RESEARCH

Millionaires. UHNWIs. Centa-millionaires. Billionaires. Their lives and lifestyles cause fascination worldwide, but the changes happening below the apex of the wealth pyramid, while less glamorous, are just as important to anybody interested in the luxury sector.

Mass affluence, or the creation of middle-class consumers with disposable income to spend, is inextricably linked with economic growth and development, and wealth creation.

However, unlike the clearly delineated strata of the super-wealthy discussed earlier, there is no hard-and-fast definition of middle class. Some researchers have included those who earn close to or above the country's average wage, while others have set specific income thresholds. For example, influential economists Branko Milanovic and Shlomo Yitzhaki declared in 2000 that the global middle class were those who earned between $4,000 and $17,000 a year.

More recently, the idea of looking at the purchase and use of cars as a measure of disposable income and middle-class status has gained currency.

Whatever the definition, there is no doubt that the middle classes have been expanding rapidly in emerging economies in recent years. By Milanovic and Yitzhaki's measure, there are more than 369 million middle-class people in G20 developing economies, such as China, Brazil and India, and around one billion in advanced economies.

Between 2000 and 2010, Africa's middle-class population grew from 29% to 34% of the continent's total population, while the OECD says that by 2030 Asia will account for 66% of the world's middle-class population – 10 times larger than that of the US and five times bigger than Europe's.

As well as indicating rising living standards in a country, the middle classes are also the engine of consumer spending, with enough disposable income to purchase goods and services that can help pump money back into domestic and international economies.

The trend is particularly striking in the emerging economies, where private consumption is growing at around three times the rate of advanced economies. The developing world's share of global private consumption climbed from 18% to nearly 30% between 2002 and 2012, according to *In Search of the Global Middle Class,* written by Uri Dadush and Shimelse Ali. It is certainly no coincidence that the wealth data prepared for this report shows that some of the fastest rates of growth in the number of millionaires will be in Africa and Latin America over the next decade, with an expected increase of 53% and 46%, respectively.

Increased middle-class spending and investment power in developing economies has a direct impact on the potential for the creation of entrepreneurial UHNWIs who can benefit from the rising appetite for everything from consumer goods to financial services, technology and health care.

This has been well proved by the stratospheric success of Alibaba, which provides sales services for websites and has propelled its founder, Jack Ma, to the top of China's rich list. Alibaba's success has been the result of, in no small part, increased consumer demand and access to technology across China.

In Africa, Acacia Mall, a new high-end shopping mall in Kampala, Uganda, is just one example of how the middle classes are shaping retail, with Western-style shopping centres now providing good returns for their HNWI backers. Judy Rugasira Kyanda, Managing Director at Knight Frank Uganda, says: "The mall is surrounded by areas populated by a strong middle class, who benefit from the retail and services provided in an upmarket setting."

Inditex, the Spanish retailer whose brands include Zara, Uterqüe and Massimo Dutti, and which is majority owned by its founder, the Spanish billionaire Amancio Ortega, has been expanding rapidly in China. It has been opening five Zara stores a month to satisfy the demand for its chic-yet-affordable fashion among the middle class.

A growing and strengthening middle class can often be accompanied by political challenges, however, as the growth in economic independence sparks greater demand for better services – especially education, political transparency and freedom of expression. In the past two years alone there have been protests in countries including Brazil, Hong Kong, Venezuela, Bulgaria, China and Turkey, which have, to some extent, been associated with the increasingly vociferous demands of the middle classes.

Yet the increasing demands of the middle classes can also prove a great spur to innovation, encouraging entrepreneurs to start their own businesses to provide for this emerging class with disposable income, which in turn provides good jobs to lift more people into the middle classes – resulting in a form of virtuous circle.

This ability of the middle class to grow itself is perhaps just as well, as amid a cloudier outlook for the global economy, the eyes of the world are turning to the middle classes – and more importantly their wallets and purses. Their spending power will be a crucial lever to help boost global demand.

The Wealth Report asks what the biggest risks and opportunities for wealth creation around the world are

Risks

Narrow economic growth

DR SHUBHADA RAO
Senior President and Chief Economist at Yes Bank, one of India's largest private-sector banks

The risk for wealth creation in the Indian economy and many other emerging economies will arise if economic growth over the coming years is not spread across every sector of the economy, from services to energy. Such broad-based growth results in a quicker trickle-down effect than when the economy is relying on just a few strong pockets of output. Every economy that transforms itself from an emerging to a developed economy has seen some instances where wealth inequality has growth, but this seems to be most acute where the economy is leaning on just one or two levers of growth.

Pricing of equities

CHRIS WILLIAMSON
Chief Economist at Markit, a global financial information services provider

I see the biggest risk at present being the disconnect between the pricing of bonds and commodities on the one hand, and equities on the other. While bond and commodity prices are pricing in weak global demand, recent stock market rallies seem to be factoring in the expectation of future profits based on rising demand. This year will certainly be a year to watch how the markets react to the withdrawal of monetary stimulus in the US, as there is a strong argument that the stock rally has been fuelled by excess credit in developed and emerging markets, fuelled by quantitative easing.

Volatile outlook

JOHN VEALE
Chief Investment Officer at Stonehage Investment Partners, a global multifamily office

Geopolitical events such as the escalation of Russia's actions in Ukraine could lead to further loss of confidence and potentially a deflationary trap, particularly in Europe. At the other extreme, if economic growth is stronger than anticipated and central banks are wrong-footed by wage pressures on inflation, this could lead to tightening of policy and strong rises in yields. As investment advisors we worry more about these issues today, as loose monetary policies have helped push the valuation of many asset markets to levels that allow little room for disappointment.

Sustained political upheaval

DEON DE KLERK
Head of International Private Clients at Standard Bank, the largest bank in Africa

Instability is a risk to any form of economic growth. This is particularly true in Africa. A major sustained political upheaval or a similar incident could detract from the important projects being implemented that should deliver growth. There are many countries within Africa, all at different stages of development. The ideal is that each of these countries stays on track towards economic development and growth. But if any of them, especially one of the major nations such as Nigeria, Kenya, South Africa or Angola, took a sudden change of direction, then that would pose a risk to Africa's growth story.

Government expansion

CURT RICHARDSON
UHNWI US tech entrepreneur and founder of OtterBox

One key risk, certainly in the US but also elsewhere around the world, is the continued expansion of government. There has been exponential growth in the size of the government in the US over the past eight to 12 years, and this has been marked by more taxes and regulation. These developments have an impact on the dollars people have to invest. When there is uncertainty about whether a tax regime will continue to change, or about expanding regulation, investment decisions change, which in turn can have an effect on economic as well as investment outcomes. The US's approach to this is, in effect, a global issue, as its economic performance has international ramifications.

Opportunities

Property and investments of passion

CHRIS WILLIAMSON
Chief Economist at Markit, a global financial information services provider

After a period such as the financial crisis, with the great correction that happened in its wake, there are always opportunities to find assets that might still be undervalued, whether property in the US or Spain. Even seven years after the crisis, there are still opportunities available. Alongside this, it is no surprise to me that investments of passion have performed so well of late. If you can only get a low rate of return, you might as well invest in something you enjoy. My vote is for classic motorcycles.

Find the "missing middle" of manufacturing

DR SHUBHADA RAO
Senior President and Chief Economist at Yes Bank, one of India's largest private- sector banks

The opportunities for wealth creation, especially in India, are potentially huge, if policymakers can boost manufacturing, or, as I call it, the "missing middle". There are signs of a stronger and more transparent policy system under the new Modi government, and, if successful, this will attract more overseas investment. India has the ability and the know-how to increase its global presence in terms of manufacturing, and it could benefit from the global links created by overseas investment. If allowed to flourish, a manufacturing sector in India could provide massive growth. Education is also more widespread than in other emerging economies.

Technology

JOHN VEALE
Chief Investment Officer at Stonehage Investment Partners, a global multifamily office

Identifying specific growth opportunities is made more difficult by the uncertain outlook, and it is equally difficult to be sure which assets will be low risk in the future – traditional havens cannot be guaranteed to remain low risk, and this includes blue-chip companies and government debt. But in this environment, excessive caution can be misplaced, and even wealth preservation requires a degree of risk. Taking a 10-year view, advances in technology should continue to empower the spread of education and prosperity, and in turn fuel consumer demand. Only a major conflict is likely to stand in the way of this.

Africa's young population

DEON DE KLERK
Head of International Private Clients at Standard Bank, the largest bank in Africa

Africa is one of the few regions remaining in the world where there is huge potential for growth. It has a growing and young population that is fuelling demand and pushing up economic activity and wealth creation. The continent also boasts a strong strand of entrepreneurialism, which has resulted in a clear shift towards substantial growth in HNWI numbers over recent years. Given that Africa currently accounts for 15% of the world's population, but delivers only 4% of global output, it unquestionably offers great opportunity over the medium and longer term.

Technology and real estate

CURT RICHARDSON
UHNWI US tech entrepreneur and founder of OtterBox

There will be growing opportunities in emerging-market technology – that is, new, more-sophisticated developments within the technology we all use every day. Funding platforms such as Kickstarter are exciting, helping engender more new ideas. We also see real estate, mostly commercial property, in the US as an opportunity – there is a reassurance that you can actually go kick your investment. People should not overlook the opportunities in developed economies. For many years the story has been about emerging economies, based on their manufacturing. But we have moved some of our manufacturing back to the US and Canada in recent years – there is opportunity here.