

Excerpt from the 2015 World Wealth Report
*Equities Lead HNWI Allocations,
and Credit Emerges As a Key Demand and Opportunity*

WORLD WEALTH REPORT

2015



Equities Lead HNWI Allocations, and Credit Emerges As a Key Demand and Opportunity

Our findings on HNWI behaviors and preferences are derived from the Global HNWI Insights Survey the industry's largest and most in-depth examination of high net worth individuals. Now in its third year, the report surveyed more than 5,100 HNWIs in 23 major markets across the five regions of North America, Latin America, Europe, Asia-Pacific, the Middle East and Africa (see Figure M1 in Appendix).

- **Equity allocations pulled slightly ahead of cash as the dominant asset in HNWI portfolios in Q1 2015 (compared to Q1 2014), following a five-year global bull market.** A 2.0 percentage-point increase pushed equities up to 26.8% of HNWIs' portfolios globally, while cash declined by 1.0 point to 25.6%. HNWIs in Japan and Latin America expanded their equity holdings the most (by more than 5.0 percentage points each) compared to Q1 2014.
- **Allocations to international investments remained high, holding steady at 35.8%, compared to 36.6% a year earlier.** HNWIs in Asia-Pacific and Latin America invested the most in opportunities beyond their regional borders.
- **Credit figures prominently in HNWI portfolios, and its availability is a big selling point for some HNWIs, although demand varies by region and demographic.** For the under-40, wealthier, and emerging market HNWIs, credit is a must-have. HNWIs are mostly turning to credit as leverage for investment opportunities or to invest in real estate.

Equity Investments Narrowly Overtake Cash in HNWI Portfolios

Approximately five years into a steady rise in global stock markets, equities have overtaken cash as the dominant asset in HNWI portfolios. The shift was relatively minor, with equity holdings expanding by 2.0 percentage points to make up 26.8% of holdings, and cash declining by 1.0 point to 25.6% (see Figure 7). This slight rebalancing implies that it may be the result of a passive increase in underlying asset values rather than an active reallocation. Even so, the current holdings indicate a slowly expanding appetite for risk as HNWIs indicate they are open to equities becoming a larger part of their portfolios as asset values rise.

The biggest jumps in equity holdings occurred in Japan and Latin America, implying more of an active decision on the part of HNWIs in those regions.

Although Japanese HNWIs continue to favor cash over all other assets and hold more of it than HNWIs in any other region (37.1%), their cash allocation has declined by 12.3 percentage points since Q1 2013, and fallen by 6.7 percentage points from Q1 2014 to Q1 2015. Part of this drop stemmed from an increase in equity holdings of 5.6 percentage points to 26.3% in Q1 2015. Latin American HNWIs, who hold real estate in nearly equal levels to cash,

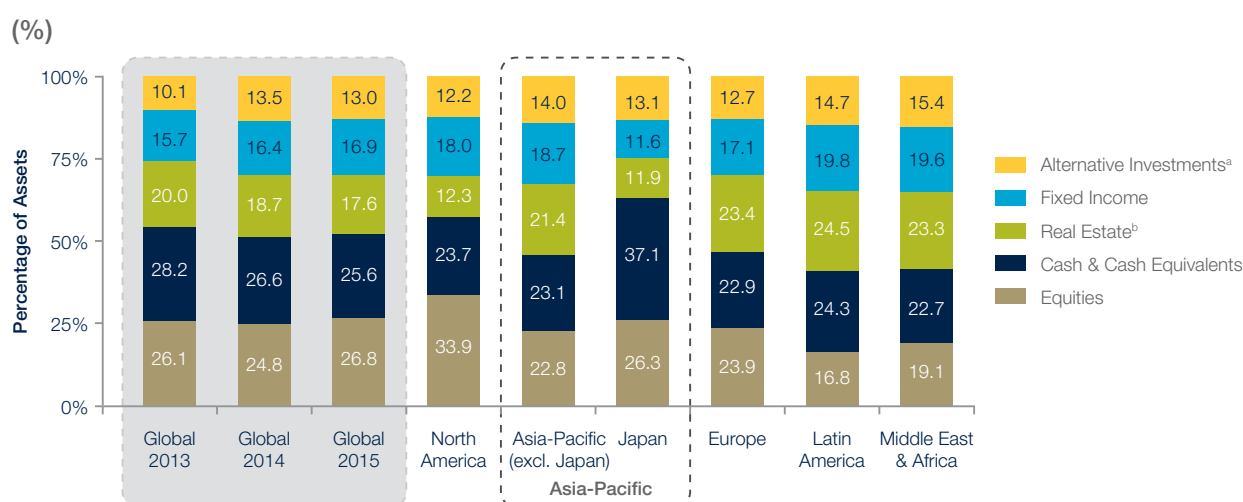
boosted their equity allocation by 5.1 points to 16.8%. This might indicate some level of active reallocation, despite poor equity market performance in Latin America in 2014, as evidenced by a 14.8% decline in the MSCI Latin America Index.

The wealthiest HNWIs (those with US\$20 million or more in assets) kept their year-to-year equity holdings almost exactly the same—at nearly 24%. A 2.7 percentage point increase in alternative investments, to 15.2% for these HNWIs, came mostly from reduced holdings in cash and real estate. Female HNWIs, meanwhile, were more inclined to hold cash (28.1% vs. 23.9% for males), while male HNWIs preferred equities (29.6% vs. 23.4% for females). HNWIs over 60 exhibited the highest preference for both equities (29.6% vs. 23.6% for under-40 HNWIs) and fixed income (18.2% vs. 17.2% for under-40s).

Globally, HNWIs maintain more than one-quarter of their wealth in cash, and 35.1% of them claim the primary reason they hold cash is to maintain their lifestyle, while 30.7% say ensuring financial security is the core reason (see Figure 8).

Japanese HNWIs—who hold the highest amounts of cash—were the most likely to hold cash to maintain their lifestyle (38.7%), followed by North American HNWIs at 37.3%. Compared to HNWIs in other regions, those in

Figure 7. Breakdown of HNWI Financial Assets (by Region)



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

b. Excludes primary residence

Note: Question asked: "What percentage does each of these asset classes approx. represent in your CURRENT financial portfolio?"; Chart numbers may not add up to 100% due to rounding

Source: Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2013, 2014, 2015

emerging markets kept greater amounts of cash on hand to invest in unique financial opportunities, with 26.0% of HNWI in Latin America doing so, followed by 18.7% of those in Asia-Pacific (excl. Japan).

No matter their wealth level, HNWI have similar motivations for maintaining cash, although those at lower levels are more oriented toward security. Older HNWI tend to be more interested in using their cash to meet lifestyle needs and ensure protection against market volatility. Men are slightly more interested than women in maintaining cash for financial protection.

Cash levels have remained fairly stable over the past three years despite the very strong global stock market performance. Since HNWI primarily hold cash for lifestyle requirements, the evidence points to a potential structural floor for HNWI cash levels.

Such a floor poses a challenge to firms, given that average HNWI cash levels are significantly more than the 5% to 15% often recommended by the industry.

A potential reason for the apparent disconnect is that wealth managers may have too narrow a view of overall HNWI portfolios, only taking into consideration client assets held at the firm. The heavy focus on cash for all types of HNWI should encourage wealth managers to discuss each client's total wealth picture, including their cash needs. This financial planning approach is covered in more detail on page 36.

Allocations toward international investments remained high at more than one-third of portfolios, helped by expanding appetite in the emerging markets of Asia-Pacific and Latin America (see Figure 9).

Globally, international exposure held steady at 35.8% compared to 36.6% the year before. Regional trends diverged, however, with HNWI in North America, Middle East/Africa, and Europe retrenching, and those in Asia-Pacific and Latin America continuing to look abroad.

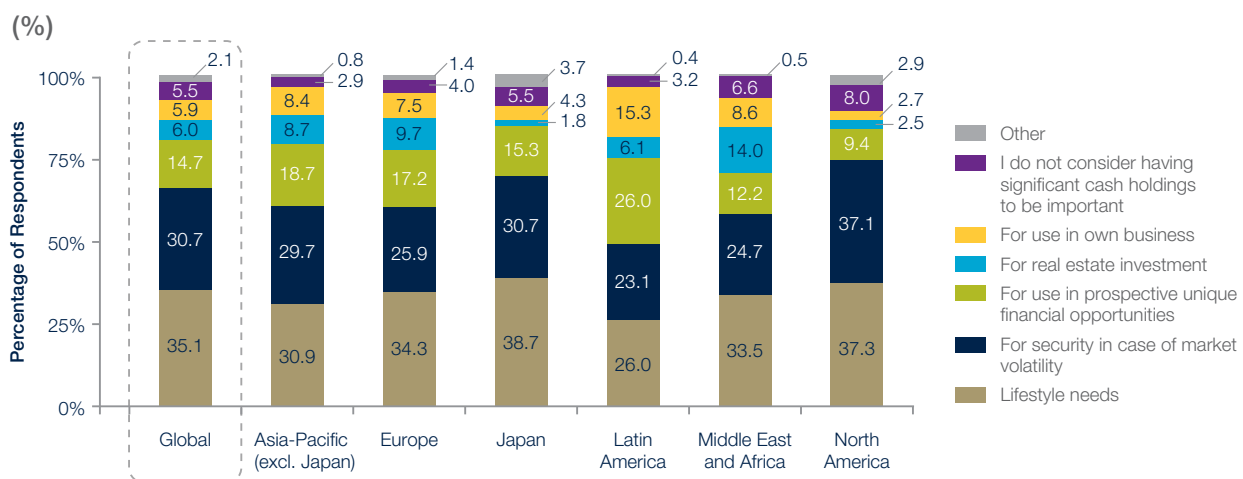
HNWI may have been reacting to more positive economic news coming out of North America and Europe, compared to the relatively poorer economic and market performance in emerging markets, particularly in Latin America (see Figure 6).

Strong Credit Demand Provides Opportunity for Firms

The use of credit in HNWI portfolios is widespread across the globe, at an average of 17.8% as a percentage of assets. It is even higher in certain regions and demographics (see Figure 10).

HNWI in emerging markets borrow the most, with those in Latin America having the highest amount of credit (28.6%), followed by Asia-Pacific (excl. Japan) at 25.5%.

Figure 8. Reasons Why HNWI Hold Cash (by Region)



Note: Question asked: "On a scale of 0%–100%, what is the primary reason for holding the cash?"
 Source: Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

Six of the top ten countries with high credit usage are in the emerging markets, including India, Indonesia, and Malaysia.

Bucking this trend are HNWI's in the mature Netherlands market, where credit usage is highest of all the countries (39.4%), surpassing second-ranked India by 5.8 percentage points.

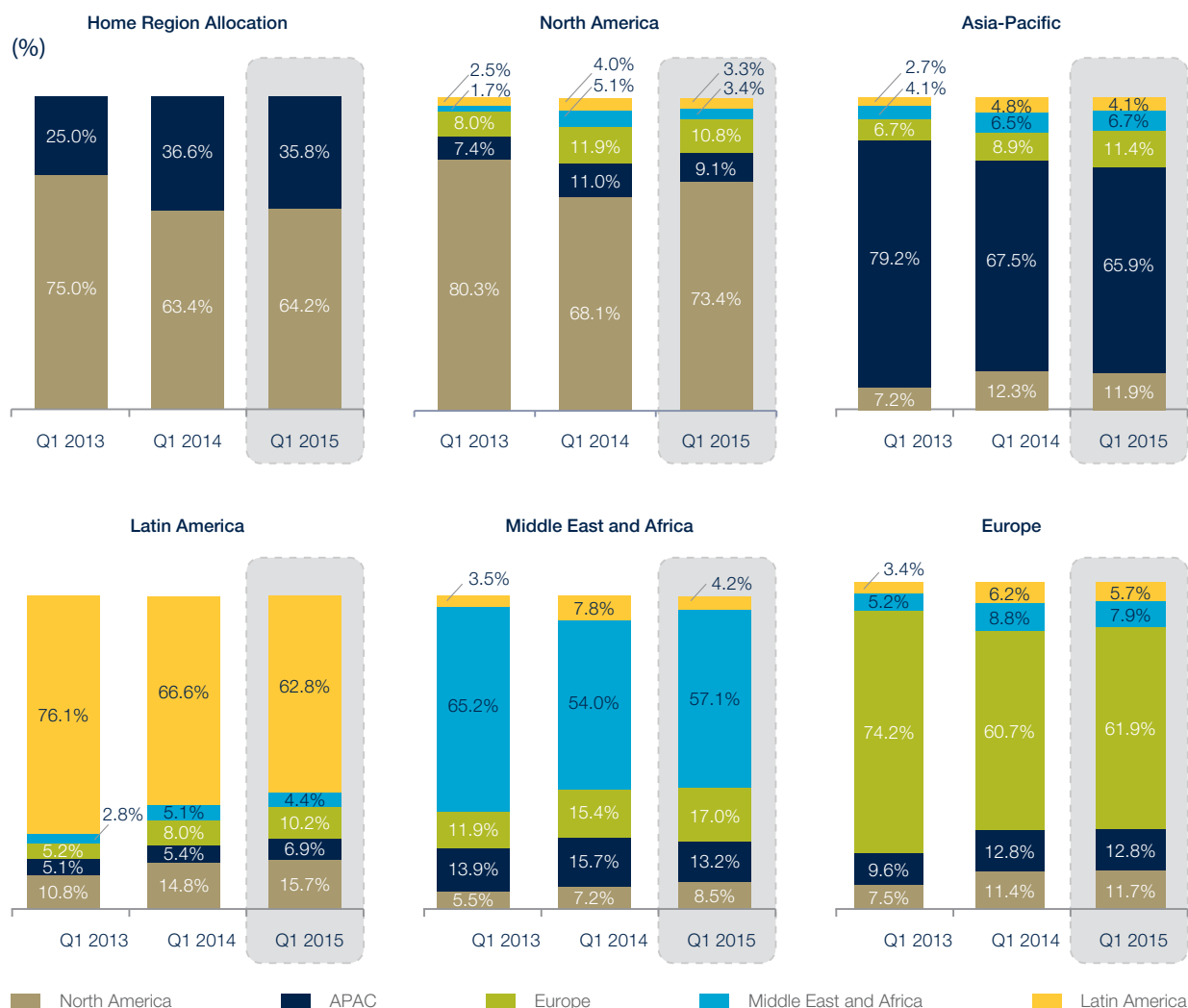
Demographically, HNWI's who are younger, wealthier, and female use more credit. HNWI's under 40 have a much greater tendency to use credit than those who are over 60 (26.6% vs. 9.7%).

HNWI's with more than US\$20 million of assets report higher usage of credit than those with US\$1 million to US\$5 million (22.1% vs. 16.3%), and women use more credit than men (18.9% vs. 16.9%).

Despite the robust tapping of credit in different markets, the use of credit declined globally by 2.5 percentage points from a year earlier. Russia recorded the largest decrease (11.9 percentage points), likely due to economic turmoil fanned by the Ukraine crisis and related sanctions. The only countries where HNWI's increased their use of credit were France and the Netherlands (by 1.6 and 1.0 percentage points, respectively).

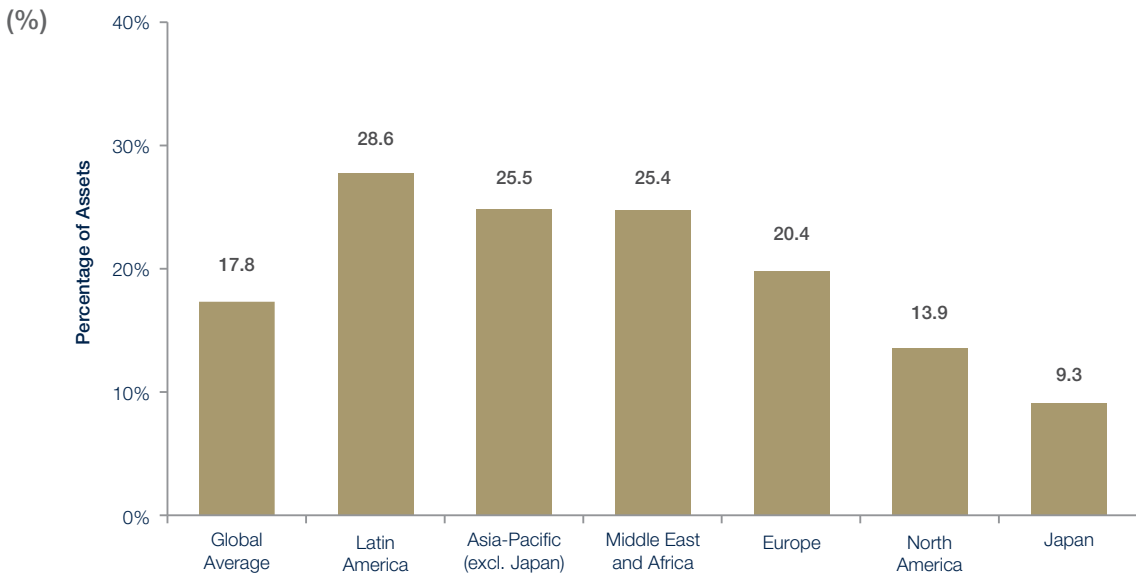
Even more than they actually use credit, HNWI's like to know it is available. More than 37% of HNWI's globally indicated that the availability of credit is a critical factor when making decisions about initiating relationships with wealth management firms (see Figure 11).

Figure 9. Breakdown of HNWI Geographic Allocation (by Region)



Note: Question asked: "Can you please indicate the approximate geographical allocation of your investments CURRENTLY?"; Chart numbers may not add up to 100% due to rounding
 Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2013, 2014, 2015

Figure 10. HNWI Credit Levels (by Region)



Note: Question asked: "Please tell us what percentage of your total personal assets (e.g., investments, real estate, collectibles) is financed by borrowed money/credit CURRENTLY."
 Source: Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

Figure 11. HNWI Importance of Availability of Credit When Selecting a Firm



Note: Question asked: "On a scale of 1-7, how important is the availability/ease of availing sufficient credit when making a choice on beginning a relationship with a wealth management firm?"; Above values in graphs represent a rating of 5, 6, or 7
 Source: Capgemini and RBC Wealth Management Global HNWI Insights Survey, 2015

This is especially critical for HNWIs in emerging markets, and who are under 40, wealthier, and female. Of HNWIs in these groups, 40% to 60% demand credit from their firms.

Credit is most important to HNWIs in Latin America (59.3%) and Asia-Pacific (excl. Japan) (58.7%).

Demographically, HNWIs who are under 40 are far more interested in credit than those over 60 (49.4% vs. 25.7%). Those with more than US\$20 million of assets are more interested than those with US\$1 million to US\$5 million (44.7% vs. 35.8%), and women are somewhat more interested in it than men (40.2% vs. 35.5%).

Globally, 40.2% of HNWIs indicated they use credit for investment opportunities and returns, followed by 22.1% who use it for real estate (see Figure 12). Asia-Pacific (excl. Japan) HNWIs lead the trend of using credit for investments (57.1%), while European HNWIs seek leverage for real estate (38.7%), more than HNWIs in any other region. Although Japanese HNWIs use credit the least, their primary reason is to fund investments of passion⁸ (30.9%), a key difference from HNWIs in any other region.

Leveraging credit for investment purposes is the primary focus of HNWIs in the lower wealth bands of US\$1m to US\$5m (41.0%).

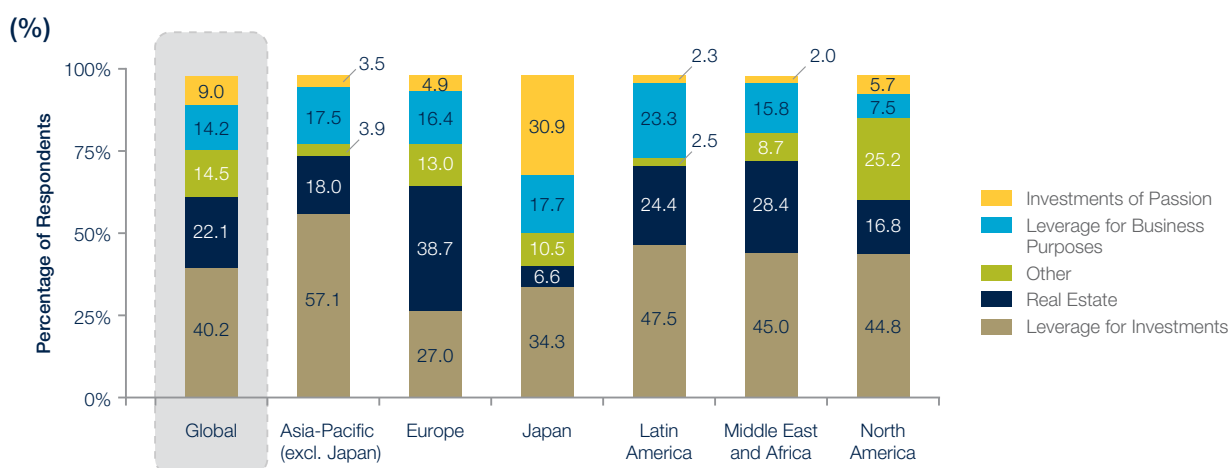
Conclusion

Cash and credit are two major themes related to HNWI asset allocation behavior. HNWIs continue to keep large amounts of cash on hand, primarily as a way to fund their lifestyles and ensure financial security. This inclination has prevented HNWIs from taking greater advantage of a five-year run-up in equities.

Credit is also important to HNWIs. Nearly one-fifth of HNWIs use it, and up to 60% consider it a key criterion in choosing a wealth management firm. Specific demand for credit, however, varies across regions and demographics, with HNWIs who are younger, wealthier, or in emerging markets expressing the greatest interest.

These cash and credit trends offer important clues for understanding HNWI needs and concerns. Wealth managers need to initiate discussions with clients to ensure they have a complete view of their wealth, including all cash holdings and related needs. By being aware of regional and demographic differences in HNWI attitudes toward credit and cash, wealth managers can bring a more effective, customized approach to advice and solutions.

Figure 12. Reasons Why HNWIs Hold Credit (by Region)



Note: Question asked: "What is the primary reason for holding the credit?"
 Source: Capgemini and RBC Wealth Management Global HNW Insights Survey, 2015

8 Investments of passion includes investments in areas such as art, jewelry, gems, watches, luxury cars, boats/yachts, wine, coins, and sports teams

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For more information: wealth@capgemini.com

For Capgemini press inquiries:

Mary-Ellen Harn at +1 704 490 4146

For Royal Bank of Canada press inquiries:

Tony Maraschiello at +1 416 974 9334

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