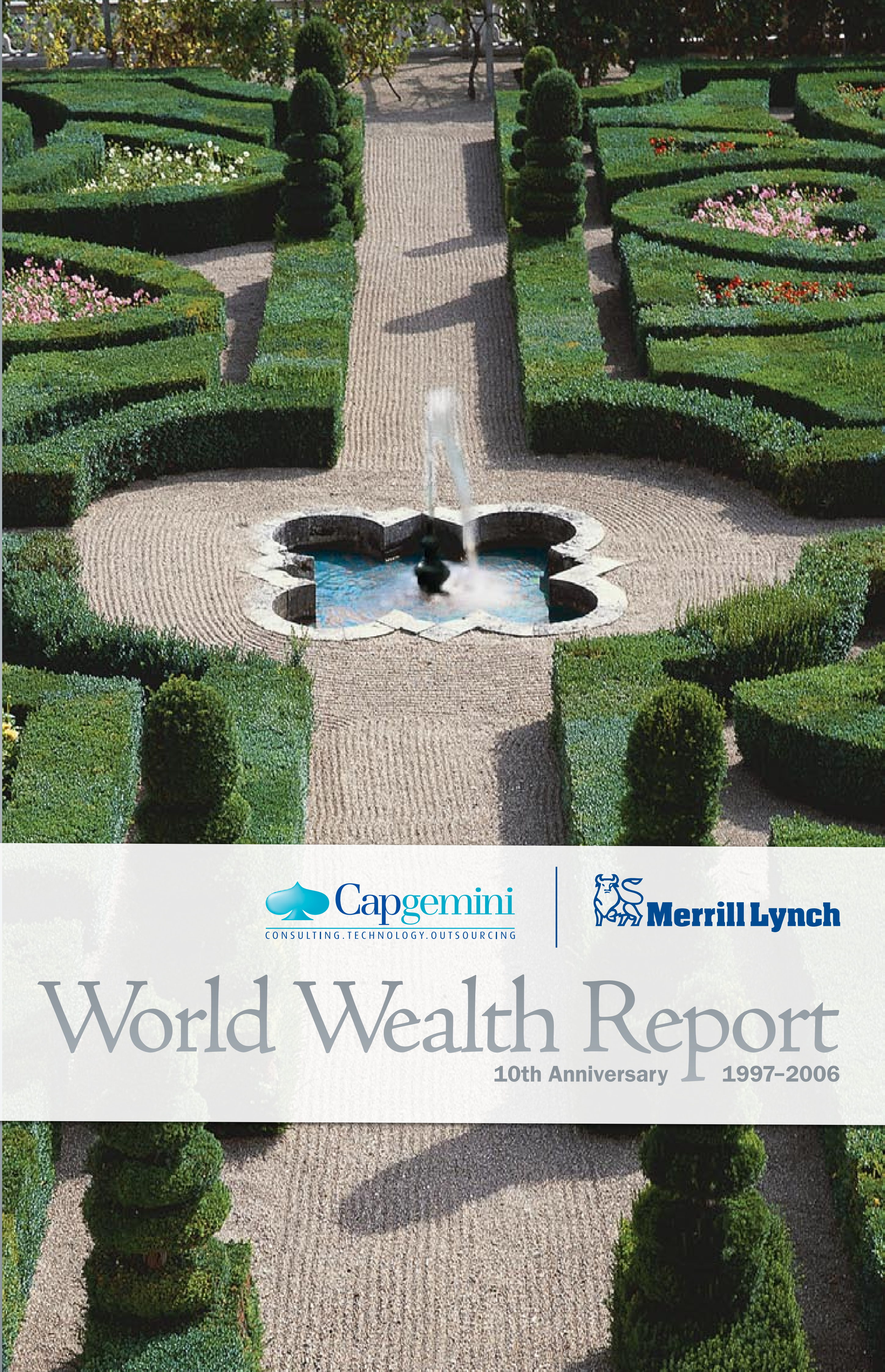


Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

Merrill Lynch

World Wealth Report

10th Anniversary 1997–2006

Contents

To Our Readers,

For more than 20 years Merrill Lynch and Capgemini have worked in concert to better understand the needs of high net worth individuals (HNWIs). The latest product of this collaborative relationship is the *2006 World Wealth Report* (*WWR*), the launch of which marks our 10th Anniversary. The report, which has generated enormous interest and commentary in the last decade, has come to be what we believe is the definitive source of information worldwide on the high net worth marketplace.

To more fully understand impending changes surrounding HNWIs, and to continue our 10th Anniversary celebration, we are working together to produce the first Asia-Pacific Wealth Report. This study, to be released later this year, will focus on investment behavior in some of the world's fastest-growing economies.

We are very excited about this development and the opportunity to further explore the investment behaviors of the world's wealthiest people — who in so many ways shape the attitudes and financial service demands of individual investors everywhere.

In summary, 2005 was marked by decelerated growth — in line with our year-ago forecast — largely driven by two economic forces: GDP and market capitalization. HNWI portfolios remained fairly stable during the period yet revealed a slightly more aggressive approach with increased allocations to alternative investments and equities. While their overall asset allocations are similar to ones HNWIs employed in 2004, they are markedly different from those seen in 2002, further evidence that HNWIs do monitor market shifts and reallocate as appropriate.

This year's Spotlight section focuses on growth through globalization and the upcoming generational transfer of wealth. Over the next few years, these powerful market forces will reshape HNWIs' portfolios and, ultimately, wealth-management service offerings.

We are pleased to present you with our 10th Anniversary *WWR* and hope you will find continued value in our latest insights.

Robert J. McCann
Vice Chairman and President
Global Private Client Group
Merrill Lynch & Co., Inc.

Bertrand Lavayssiere
Managing Director,
Capgemini
Global Financial Services

A Decade of Change and Growth

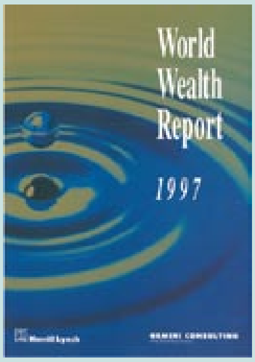
For the past 10 years, the *WWR* has closely monitored and reported on the investment behavior of HNWIs, pinpointing trends and forecasting developments that subsequently have had an impact on the wealth management industry.

A brief look back at key findings of our earlier reports shows how far HNWI wealth, the global economy and the wealth management industry have advanced during the past decade and how significant an effect global economic forces have on them: Overall, from 1996 to 2005, HNWI wealth grew at an annual rate of 8.0%, expanding from US$16.6 trillion in 1996 to US$33.3 trillion in 2005. Looking more closely, from 1996 to 2000, when HNWI wealth grew at an annual rate of 12.9%, and from 2003 to 2005, when it advanced by 8.1% annually, the world economy also experienced robust expansion. By contrast, the global recessionary pressures of mid-2000 to 2002 stalled HNWIs' wealth creation during that period (-0.6% annual growth).

In addition to determining the growth in the number and wealth of HNWIs, the *WWR* also has successfully tracked and anticipated HNWIs' asset allocation strategies. As early as 1999, the *WWR* predicted a growing allocation to alternative investments: In 2000, we found that only 3% of HNWI portfolios were allocated to alternatives; by 2005, allocations to this asset class had come to represent one-fifth of HNWI portfolios. The *WWR* also tracked the rise of fixed income as HNWIs sought to combat an overheated market in 2001 — and its subsequent downturn in 2002. Following that downturn, we forecast that HNWIs would show renewed enthusiasm for equities at the expense of cash and fixed income, which they have demonstrated in the past two years.

In each year's report we include a Spotlight section in which we concentrate on prevailing trends or emerging themes in wealth management — these are highlighted below in our *WWR* timeline.

This year's report focuses on growth through globalization and wealth transfer. According to both our primary and secondary research, more than two-thirds of relationship managers identified "information available to clients" as one of the most influential trends in wealth management over the past decade[1]. This trend is closely linked with improved technology, which has greatly increased the quantity, speed and quality with which



1997

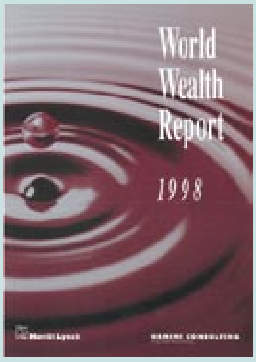
Changing Nature of the HNWI Market

Emerging Trends

- Traditional clients focused on preservation of capital, confidentiality, personal service and a close, long relationship
- Emerging new client, characterized by entrepreneurship, focused on wealth growth, investment performance and higher risk tolerance
- Offshore markets gain popularity

Challenges/Opportunities

- Need for multi-market and offshore banking in financial centers globally
- Rising fees and different investment pricing approaches frustrate HNWIs



1998

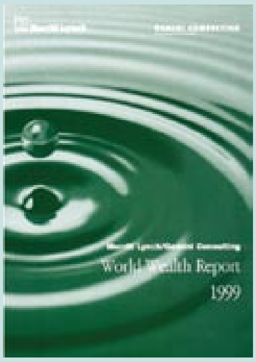
Assessing Destinations of Wealth

Emerging Trends

- Changing destinations of HNWI wealth — Japan and Western Europe gaining market share
- Euro introduction will increase new supplies of higher-yield investments
- Investors look to shift portfolio allocations to higher-yielding equity-based investment vehicles

Challenges/Opportunities

- Home-grown institutions with limited global presence and product capabilities face competition risk
- Mergers and acquisitions avoid the costly "build-from-scratch" process of expansion



1999

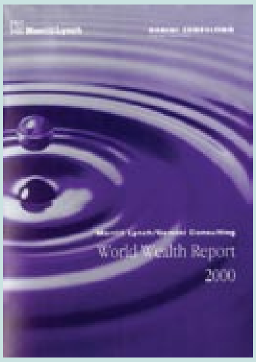
Change and Innovation in Private Banking

Emerging Trends

- Stock market volatility causes protective shifts in asset allocation and increases dependency on relationship managers
- HNWIs increasingly active in their investments, demanding more information and 24/7 accessibility

Challenges/Opportunities

- Using emerging technologies and the Internet to increase client interaction and information distribution
- Increased targeted marketing and segmentation, as well new products, channels and delivery systems



2000

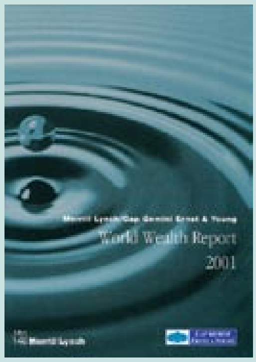
Ultra-HNWIs

Emerging Trends

- Ultra-HNWI population grew by 18% between 1998 and 1999, reaching 55,000 globally; growth driven by a prolonged bull market, technology, IPOs and entrepreneurial ventures

Challenges/Opportunities

- High cost to serve this segment, but higher revenues generated by AUM can create substantial profits
- Providers offer up-to-date expertise in traditional services, as well as *concierge services*



2001

Specialized Products and Strategies

Emerging Trends

- Structured products and alternative investments are becoming increasingly important and accessible: These allow HNWIs to diversify investment portfolios and decrease tax burdens, while providing access to volatile markets with reduced risk

Challenges/Opportunities

- Offer a wide-range of best-in-class products and fully train wealth managers on these offerings
- Product specialists, relationship managers, and investment managers to operate seamlessly, supported by incentives

[1] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

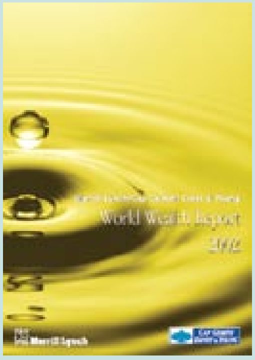
Figure A. | **HNWI Ranks Show 10 Years of Steady Expansion**

HNWI Global	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	CA GR 96-05
Financial Wealth (US$ Trillion)	16.6	19.1	21.6	25.5	27	26.2	26.7	28.5	30.7	33.3	8.0%
Number of HNWIs (m)	4.5	5.2	5.9	7.0	7.2	7.1	7.3	7.7	8.2	8.7	7.6%

Source: Capgemini Lorenz curve analysis, 2006

information is delivered to investors. As a result of these developments, investors have become more sophisticated, demand more products, expect better performance and have a greater global perspective. At the same time the wealth management industry has grown far more competitive, with financial institutions, professional services firms, independents and other advisors and service providers actively vying for HNWI clients. In fact, nearly one-quarter of the relationship managers we interviewed cite growing competition — along with the rise of technology and the proliferation of global information — as the three most powerful market forces shaping the industry over the last decade[2].

Looking forward, we anticipate that these trends will continue to redefine the wealth management landscape: 43% of relationship managers said that increasing HNWI sophistication will be one of the most dramatic trends of the next decade while 40% selected "information available to clients"[3]. In light of these and other trends, and the high level of interest in the *WWR*, Merrill Lynch and Capgemini will continue to monitor and to assess HNWI investment behaviors and provide insightful thought leadership.



2002

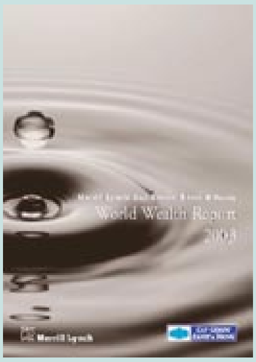
Assessing the Atlantic Divide and Implications for the Operating Model

Emerging Trends

- Needs and profiles of European and North American HNWIs are converging

Challenges/Opportunities

- Economy-of-scale advantages offered by global brands, research, execution, transaction processing and asset management will continue to send the largest providers in search of an advantageous global presence
- The value chain is becoming increasingly fragmented — any future business model must be based on efficiency and adaptability: Need for outsourcing and open architectures to achieve operational efficiency



2003

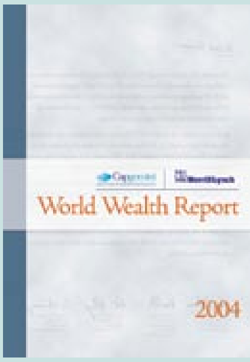
Understanding HNWI Needs, Behavior and Investment Attitude

Emerging Trends

- Prevailing bear market conditions are resulting in changing HNWI needs, demands and investing attitudes
- Global conditions are pushing HNWIs to put more emphasis on wealth preservation and risk management

Challenges/Opportunities

- Approach focused on "managing money with me" not "managing money for me"
- Need for a Client Experience Framework to outline a provider's ability to integrate products and services with personal interaction



2004

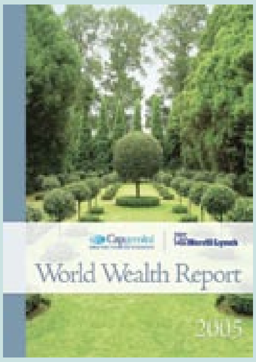
HNWIs Demand Institution-Like Services

Emerging Trends

- Investment goals now shifting from preservation to wealth growth/accumulation
- Clients demanding investment approach that follows a structured process and looks for financial solutions rather than products

Challenges/Opportunities

- Providing a consistent workflow
- High-touch service delivery to provide HNWIs with *platinum* treatment — advisors act as relationship CFO
- Emphasis on advisor retention, enhancing skills through training — recruiting those with a consultative approach



2005

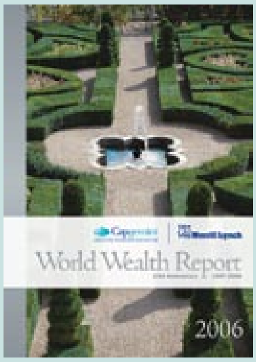
Mid-Tier Millionaires; Emergence of the VSN

Emerging Trends

- Mid-tier millionaire (MTM) segment currently underserved. MTMs' portfolios are becoming increasingly complex and more difficult to manage; MTMs are hiring additional managers and independents

Challenges/Opportunities

- Providers must outline processes to provide family office-like solutions
- A new model, the Virtual Service Network (VSN), can help MTMs better manage their provider network
- Significant costs and privacy concerns need to be resolved



2006

HNWIs Behaviors and Portfolios Globalize

Emerging Trends

- As HNWIs' international awareness grows, portfolio allocations are increasingly international in composition
- Intergenerational wealth transfer is expected to accelerate issues stemming from globalization

Challenges/Opportunities

- Providing portfolio performance reporting that would allow a client to view consolidated performance
- Construction of specialist wealth strategy teams to fulfill client desires for enhanced information and tailored products/services

[2,3] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

State of the World's Wealth

HNWI SECTOR GAINS IN 2005

- **8.7 million people globally hold more than US$1million in financial assets — an increase of 6.5% over 2004**
- **HNWI wealth totals US$33.3 trillion, representing an 8.5% gain since 2004**
- **Wealth generation was driven by real GDP gains and continued market capitalization growth**
- **Emerging markets registered strong advances in market capitalization, aiding wealth creation in regions such as Latin America, Eastern Europe and Asia-Pacific**
- **South Korea, India, Russia and South Africa witnessed the highest growth in HNWI populations**
- **HNWI financial wealth is expected to reach US$44.6 trillion by 2010, growing at an annual rate of 6.0%**

The State of the World's Wealth

2005 was a year of robust, but decelerating, growth for macroeconomic indicators and the number of HNWIs, following two consecutive years of strong global performance: 2003 witnessed a surging stock market rally and 2004 was marked by fast-paced real GDP growth. By comparison, 2005 followed more stable growth rates, a sign that many of the major economies had cooled following the recovery of their financial core.

Expansion rates for real GDP and market capitalization, two primary drivers of wealth creation, were stable throughout 2005. As a group, HNWIs benefited from this steady economic advance, increasing both in numbers and in the size of their financial holdings.

In line with *WWR* forecasts, the number of HNWIs around the world grew by 6.5% in 2005, totaling 8.7 million. Overall HNWI wealth during the period grew by 8.5%, to US$33.3 trillion in financial holdings. These financial gains were particularly strong in Latin America, Eastern Europe, Asia-Pacific, Africa and the Middle East, where emerging markets continue to play a moderate game of "catch up" with major markets.

Overall, HNWIs' 2005 financial gains exceeded the previous year's 7.8% increase and 2003's gains of 7.7%. This upturn continues the wealth consolidation trend among the world's wealthiest individuals, which we have steadily reported over the last 10 years. In addition, Europe returned to moderate wealth concentration.

The ranks of the world's Ultra-HNWIs — those with individual financial assets in excess of US$30 million — continued to grow in 2005. The total number of these Ultra-HNWIs now stands at 85,400, a 10.2% increase in 2005, compared to an 8.9% increase in 2004.

These gains show that while market returns and economic indicators signaled that a deceleration was under way in many regions of the world, HNWIs were still able to find select pockets of high performance in 2005. One area where HNWIs found significant opportunity was in the Asia-Pacific region, where the twin drivers of market capitalization and GDP continued to deliver high rates of growth. Latin America and the Middle East also exhibited strong growth, which benefited HNWIs investing domestically and from other parts of the world.

Alert to cooling real estate and capital markets, HNWIs continued to reassess their market opportunities and investment strategies. Generally speaking, HNWIs remained guarded with respect to real estate and mature markets, however, their portfolio balancing act varied from region to region.

Economic Drivers of HNWI Wealth

Following on the heels of strong gains in 2003 and 2004, and despite showing signs of deceleration, real GDP growth and market capitalization remained strong in 2005 and continued to drive HNWI wealth creation around the world. As anticipated, rising oil prices, inflationary pressures and monetary tightening did take their toll, leading to a moderate slowdown in worldwide real GDP growth in 2005 — to 4.3% — compared with 5.0% real GDP gains a year earlier[4]. 2005's real GDP performance was guided by continued strong performance in Asia-Pacific and Eastern Europe.

[4] Economic data derived from The Economist Intelligence Unit, selected countries, February 2006

Figure 1. | **HNWI Population by Region, 2003 – 2005**
(In Millions)

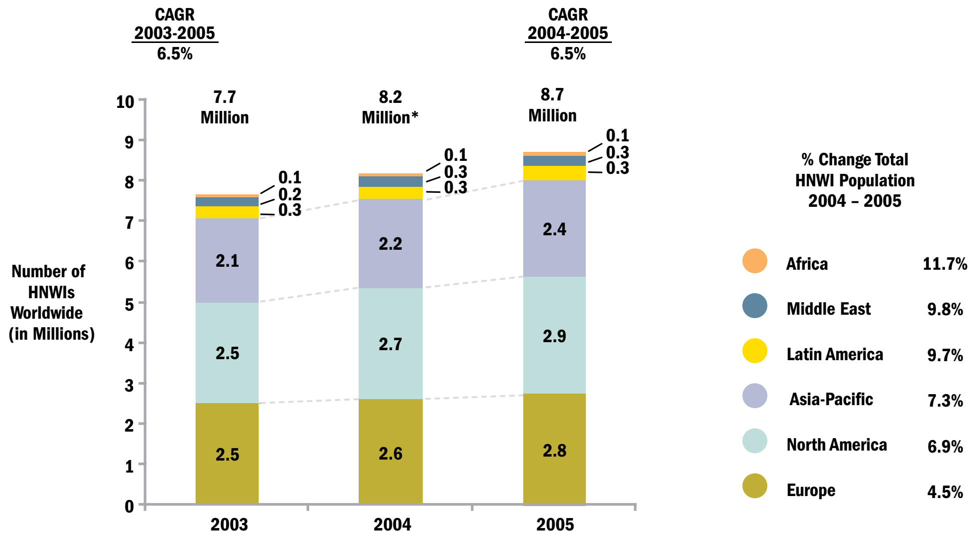
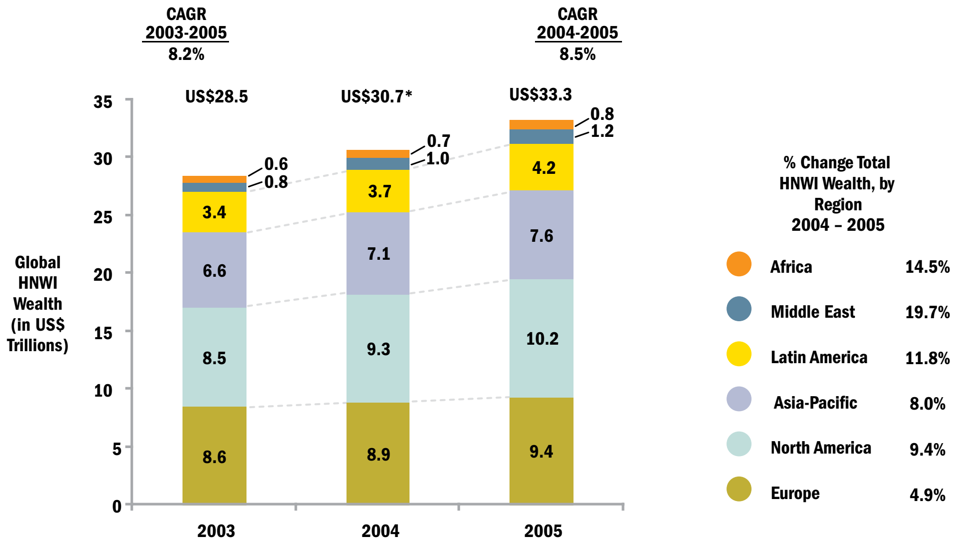


Figure 2. | **HNWI Wealth Distribution by Region, 2003 – 2005**
(US$Trillions)



* 2004 numbers have been refined and minimally restated, as every year more accurate and recent data or sources of information are gathered.

Note: All chart numbers are rounded.

Source: Capgemini Lorenz curve analysis, 2006

This easing of global real GDP growth reflects the slowing performance of the world's most mature economies. Emerging markets, on the other hand, continued to outperform other parts of the world, aiding wealth creation in those economies. China and India, for example, sustained real GDP growth rates of 9.9% and 8.0%, respectively, in 2005, among the highest of any market. Parts of Eastern Europe and Latin America also posted real GDP growth rates that exceeded the 4.3% global average.

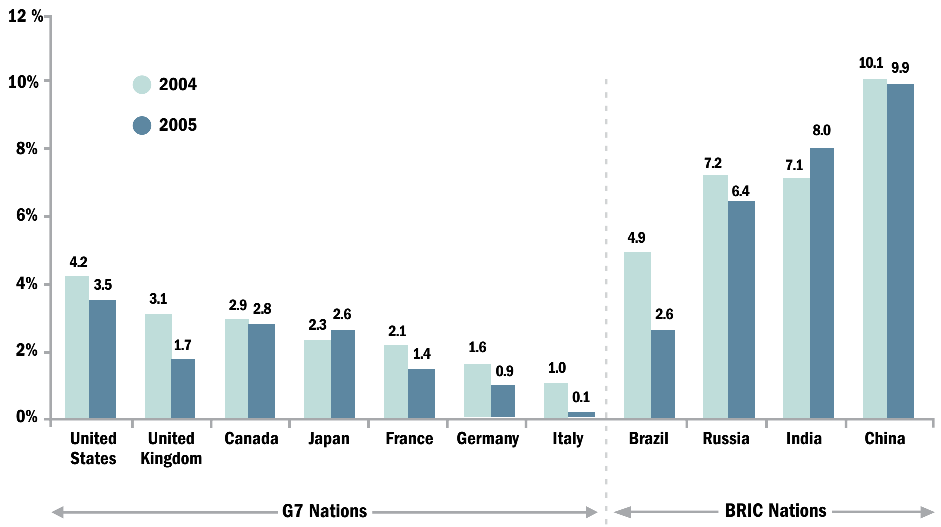
In the United States, the Federal Reserve's goal to keep the economy in check by steadily increasing its overnight lending rate gained traction, ultimately slowing real GDP growth to a still robust 3.5% in 2005 — albeit down from 4.2% in 2004. Interest rate hikes, coupled with the wide devastation caused by hurricanes Rita and Katrina and the resulting spike in oil prices, triggered a sharp drop in investor and consumer confidence.

Stock market performance varied significantly from region to region in 2005. The Dow Jones World Stock Index grew by 9.4% in 2005, compared with a 14.4% increase in 2004. That decline was largely the result of the United States markets' below-average performance: The S&P 500 stock index and NASDAQ Composite Index inched ahead in 2005, by 3.0% and 1.4%, respectively[5]. The Dow Jones Industrial Average failed to shrug off a disappointing third quarter, ending the year at a 0.61% decline. Overall, markets in the United States were rescued from negative growth by a year-end rally resulting from strong corporate profit growth.

Performance outside the United States was markedly better, with European, Asia-Pacific and Latin American markets all registering strong gains in 2005. These gains lured increased participation from non-domestic investors, who showed growing confidence in the stability of non-domestic exchanges. Notably, Japan showed strong signs of economic revitalization, with its Nikkei Stock Average of 225 companies bounding ahead 40.2% for the year.

Fiscal policy also showed distinct regional differences. While the United States raised rates to counteract inflation, the European Central Bank kept rates low (with only a single increase at the end of 2005), in the hope of providing the needed fiscal stimulus to get markets moving in that part of the world. Consequently, in the United States, private consumption growth eased from 3.9% in 2004 to 3.6% in 2005. At the same time its savings rate as a percentage of GDP rose slightly to 11.6%, up from 11.3%. The European Union saw a similar drop-off in private consumption rates. As a

Figure 3 | **Real GDP Growth in Selected Economies, 2004 – 2005**



Source: The Economist Intelligence Unit, February 2006

[5] Stock Index Performance, cited in the "Year-End Review of Markets and Finance," *The Wall Street Journal*, January 3, 2006, page R8

result, savings rates in many parts of the world edged slightly higher in 2005. Many emerging markets maintained higher savings rates, helping to augment wealth accumulation. For example, South Korea posted a 38.3% savings rate, while China's strong GDP growth pushed savings up to 45.3%.

Emerging Stock Markets Post Robust Gains

After turning in record-breaking performances in 2003 and 2004, regional market capitalizations stabilized in 2005. While market capitalization growth rates slowed in 2005 compared to the previous two years, significant opportunity remained. Market capitalizations and benchmark index performance have grown rapidly in Eastern European, Asian-Pacific and Latin American markets, driven by ongoing foreign investment and strong corporate profits. The Dow Jones World Stock Index — excluding U.S. equities — has risen 88% since the end of 2002. HNWIs have paid close attention and taken advantage of attractive investment opportunities in financial markets around the world.

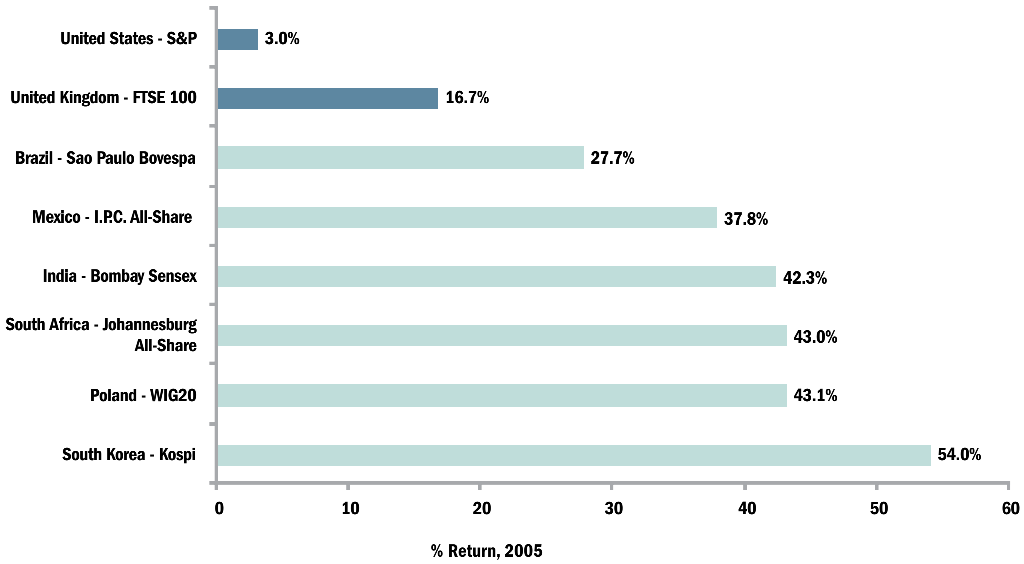
In Asia-Pacific, stock market growth remained consistently strong. The Dow Jones South Korea Index gained 54.7%. Nearby, the Dow Jones Japan Index, led by the strong performance of the Nikkei 225 Stock Average, jumped 44.4%.

South Korea, Denmark, South Africa and Japan were among the best-performing markets in 2005, providing green pastures for HNWIs to cultivate their wealth. Similarly, commodity-producing nations such as Brazil, Mexico and Canada benefited from surging prices, as well as from a boost in the value of their currencies. Some smaller, less developed financial markets such as those of the United Arab Emirates, Romania and Singapore were also winners for HNWIs in 2005.

Regional HNWI Growth

As expected, regions that experienced strong GDP growth and higher-than-average market returns enjoyed a favorable increase in wealth creation. In 2005, interest rates remained relatively flat in most parts of the world. The United States and Canada were the notable exceptions. Geographic diversification continued, as investors gained confidence in less-familiar markets and considered a fundamental shift in portfolio composition[6]. Exchange rates also played a role, with currencies such as the euro and the Japanese yen losing value relative to the United States dollar, and commodity-producing nations such as Mexico, Brazil and Canada benefiting from gains in the value of their respective currencies.

Figure 4. | **Returns on Global Stock Market Indexes, 2005**



Source: "Year-End Review of Markets & Finance," *The Wall Street Journal*, January 3, 2006; Warsaw Stock Exchange, http://www.gpw.com.pl, accessed April 2006

[6] Anne Tergesen, "How Worldly Is Your Portfolio? Diversifying beyond just U.S. stocks and bonds is the key to long-term gains," *BusinessWeek*, June 27, 2005

North America's HNWI ranks expanded by 6.9% in 2005, compared to 9.8% in 2004. Despite this deceleration, the region maintained its first-place ranking both in being home to the greatest number of HNWIs and also to having the highest amount of accumulated HNWI wealth in the world. The growth of the United States' HNWI population slowed to 6.8%, down from 9.9% last year. Helping to offset the faster deceleration in the United States, Canada's HNWI population grew by 7.2%, compared to 8.3% in 2004. As a commodity-producing nation, Canada's wealthiest citizens benefited from rising oil prices even as the country's strengthening currency softened the competitiveness of its exports.

In Europe, HNWIs benefited significantly in 2005 from three years of strengthening market capitalization and currency exchange rates. In 2003 and 2004, the number of newly minted European HNWIs grew by 2.4% and 4.1%, respectively. In 2005, the number of HNWIs grew by 4.5%, due in part to continued market returns in major Western European markets and strong market returns in Eastern Europe — in spite of poor real GDP performance in its largest economies. Total HNWI wealth grew to US$9.4 trillion across the region.

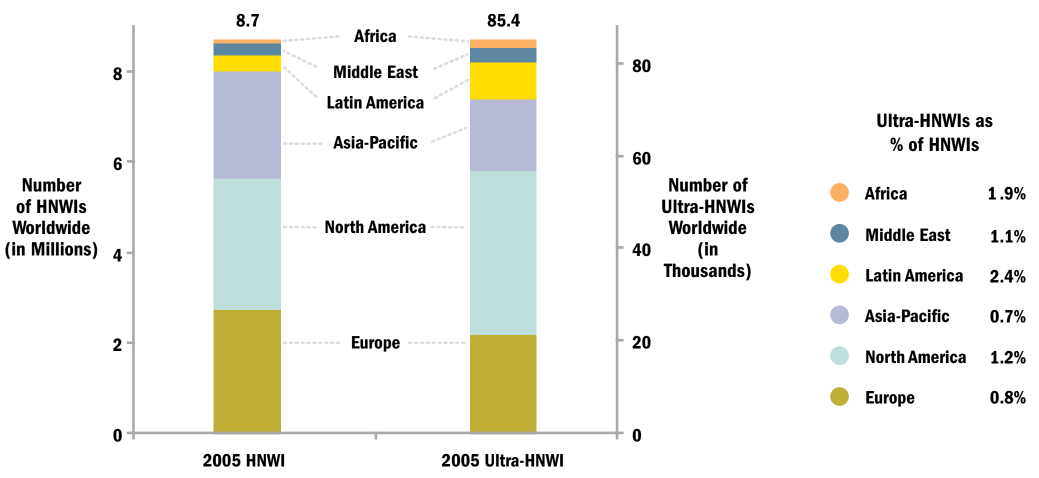
Last year saw a moderate concentration of wealth in Europe — which counterbalances what we observed in 2004 — that was largely driven by Russia's strong financial wealth growth in 2005. One source of this increase was the country's strong market performance. The RTS Index rode to historic highs on the back of its two primary exports, oil and natural gas. As a result, HNWI financial wealth growth outpaced HNWI population growth, causing a concentration of wealth in the region.

Germany had its share of economic troubles during 2005: Continued high unemployment, coupled with mediocre real GDP growth of 0.9%, dampened wealth creation in the country. Resilient market capitalization performance helped to compensate for poor output and labor productivity. German HNWI population growth of 0.9%, though up slightly from 2004, was among the slowest in the world.

France saw its real GDP growth contract, from 2.1% in 2004 to 1.4% in 2005. At the same time, the Paris-based CAC 40 Index gained 23.4%, as represented companies improved their balance sheets and cut costs. Employment rates improved marginally in 2005, though a deteriorating trade deficit prompted the government to freeze planned tax cuts. Overall, positive economic factors won out in 2005, with HNWI numbers improving by 3.5%.

Figure 5 | **Geographic Distribution of Ultra-HNWIs, 2005**

Ultra-HNWIs Account for 1.0% of Global HNWI Population



Note: Ultra-HNWI is defined as an individual with more than US$30 million in financial assets
Source: Capgemini Lorenz curve analysis, 2006

In the United Kingdom, real GDP weakened but stocks continued to perform well, due in part to favorable performance in the energy sector. The number of HNWIs in the United Kingdom increased by 7.3%, a deceleration from the 8.9% growth rate seen in 2004; however, it was one of the fastest growing mature economies in Europe.

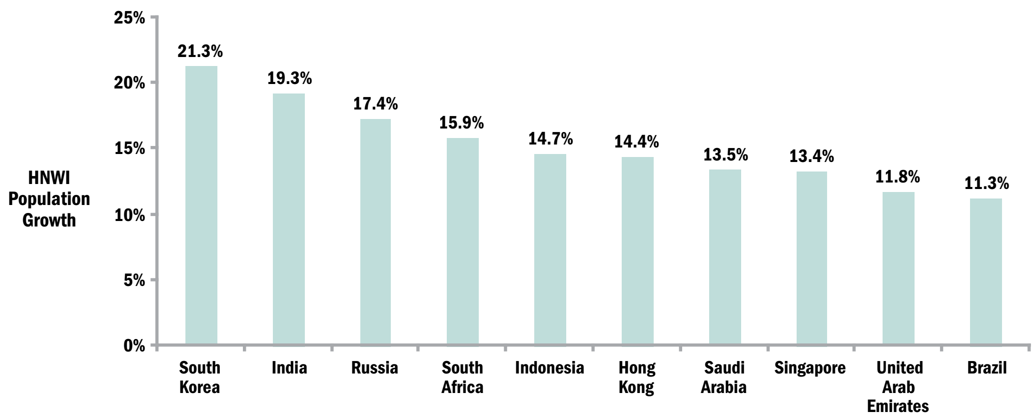
In Eastern Europe, the Czech Republic, Hungary, Poland and other countries that joined the European Union witnessed big run-ups in market performance — despite decelerating real GDP growth. Stocks were red hot in 2005, matching or surpassing gains in 2004, and creating a catalytic environment for wealth formation. In the Czech Republic, the PX Index grew by 43.7%, while Poland's WIG20 Index posted a 43.1% increase. Indeed, many markets in Eastern Europe showed strong HNWI growth rates for the year.

The BRIC nations of Brazil, Russia, India and China remained strong economic players in the competitive global arena, with three of the four represented in the top 10 fastest-growing HNWI populations in 2005. As we have noted in the past, Goldman Sachs projects that the BRIC nations will leapfrog the G7 nations by 2040, in terms of total output[7]. Their most recent reports indicate that not only does this growth potential still exist but also that the BRIC nations grew faster than expected from 2003 to 2005[8]. Morgan Stanley's Emerging Market Index is up 171% since the end of 2002, while its BRIC index has surged 262%[9]. As a result, HNWIs have not been disappointed.

China, whose economy continued to grow at breakneck speed in 2005, enjoyed real GDP gains of 9.9%. India was not far behind, with 8.0% real GDP growth. HNWI numbers grew by 6.8% in China in 2005, while India posted a surging 19.3% run-up. India's growth is hardly surprising given current analyst projections. Also, according to the most recent Goldman Sachs projections, India has the potential to become the fourth largest economy by 2025 and the third largest by 2050, behind only the United States and China.

A notable policy change occurred in China during 2005. In July, the People's Bank of China adopted a new exchange-rate regime for the renminbi: The currency's peg to the United States dollar was scrapped in favor of a managed float against a weighted basket of currencies. However, the renminbi appreciated only slightly during the remainder of the year (gaining approximately 2.5% relative to the U.S. dollar), likely not enough to significantly slow export growth and total output.

Figure 6. | **HNWI Population Growth by Selected Market, 2004 – 2005**



Note: Growth rates and absolute HNWI numbers are rounded
Source: Capgemini Lorenz curve analysis, 2006

[7] Roopa Purushothaman and Dominic Wilson, "Dreaming with BRICs: The Path to 2050," Goldman Sachs, October 1, 2005
[8] Roopa Purushothaman and Dominic Wilson, "How Solid Are the BRICs?," Goldman Sachs, *Global Economic Paper No: 134*, December 1, 2005
[9] Craig Karmin, "Going for BRIC: 'Emerging' Fund Lures Investors," *The Wall Street Journal*, March 6, 2006

Russia's market capitalization, though still very small, jumped in 2005 thanks to the rising prices of its core export commodities, oil and natural gas. HNWIs benefited from the surge and increased their numbers by 17.4%.

Brazil, too, benefited from sizeable commodity production. Additionally, strong gains in the Brazilian real, successful inflation management and a trade surplus that exceeded expectations aided stock market growth and HNWI fortunes.

HNWI wealth grew across Asia-Pacific in 2005 — although Japan's second-place position in global wealth holdings served to offset some of the strong gains recorded in the region's other markets. Taken together, subsiding deflationary pressures, up-ticks in real GDP growth and savings and sustained strong performance in Japan's capital markets helped HNWI wealth grow from 2.4% in 2004 to 4.7% in 2005.

In addition to the already noted strong performance in China and India, markets such as South Korea, India, Indonesia and Hong Kong all experienced dramatic double-digit HNWI growth in 2005.

Brazil, Mexico and Venezuela all profited from the worldwide surge in oil prices, buttressing Latin American growth in 2005. After keeping pace with global HNWI growth in 2004, the region out-distanced global HNWI growth, increasing its wealthy population by 9.7% last year, up from 6.3% a year earlier.

The Middle East, which accounts for nearly 65% of the world's oil reserves, continued to benefit from the large industrialized nations' ongoing dependence on fossil fuel; rising prices continued to drive oil export revenues skyward[10]. This trend bolstered investor confidence and contributed to large trade-driven surpluses in this region. Exceptionally high market capitalization, complemented by well-above-average real GDP growth in markets such as Saudi Arabia and the United Arab Emirates, helped drive HNWI growth in the region by 9.8% in 2005. Not surprisingly, the region's wealth, growing at 19.7% in 2005, continues to experience an inequitable distribution.

United States Economy and HNWI Growth Decelerate

For the first time in three years, the United States' HNWI population growth failed to exceed gains posted in the previous year, decelerating from 9.9% in 2004 to 6.8% in 2005 — a rate slower than that of many other markets around the world. Looking back, HNWI growth here seems to have peaked — along with the nation's economic recovery — in 2003 and 2004. While many non-U.S. HNWIs achieved greater wealth through international investments, U.S. HNWIs exhibited a heavy domestic allocation, which impacted potential gains.

Last year marked a period of uncertainty in United States' domestic markets: Strong real GDP growth and robust corporate profits were offset by a string of interest rate hikes by the Federal Reserve and the post-hurricane devastation in the Gulf Coast states. HNWIs felt the sting. In the storms' aftermath, the country's energy infrastructure took a hit, triggering widespread "pay-at-the-pump" sentiment; this has had a generally negative effect on stock prices and the performance of domestic exchanges[11]. Furthermore, the cost of money surged as the Federal Reserve sought to manage inflationary pressures via a series of incremental interest rate hikes: By the end of 2005, interest rates had climbed to 4.25% from an historic low of 1% in the first half of 2004.

Despite the strong performance of international markets, our research shows that HNWIs in the United States are still allocating the vast majority (78%) of their portfolios to domestic holdings, thereby missing out on the full benefit of the gains posted outside of the United States[12]. Although external sources suggest that U.S. investors increased their exposure to foreign markets, their overall investment performance was weighed down by their primary allocation to the U.S. stock markets. As further evidence of their domestic-centricity, the U.S. Treasury Department released figures showing that, in 2005, U.S. net purchases of stocks outside the country were US$88.6 billion[13]. This level represents a minuscule fraction of U.S. HNWIs' net financial wealth. An appreciating U.S. dollar in 2005 cut into foreign returns when investors cashed out, which may help to explain why U.S. HNWIs did not increase their investments in foreign markets to a much greater extent.

Looking ahead, our focus interviews with HNWIs in the United States suggest that they will increase their exposure to international investments, as overseas markets continue to deliver higher returns and U.S. dollar uncertainty persists.

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[10] The Economist Intelligence Unit, Regional Overview, Middle East and North Africa, December 2005
[11] Peter Coy and Dean Foust, et al, "Katrina's Wake," *BusinessWeek*, September 12, 2005
[12] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006
[13] Craig Karmin and Ian McDonald, "Thirst for Overseas Stocks Grows," *The Wall Street Journal*, December 15, 2005

Outlook for 2006

Following the accelerated recovery of global market capitalization in 2003 and a resurgence of real GDP in 2004, economies continued to build on those gains in 2005. The Economist Intelligence Unit forecasts stable worldwide real GDP growth of 4.0% in 2006 and 3.9% in 2007. It is likely that many markets will be propelled by this economic wave for the next few years, though the impact of the swell will likely dissipate[14].

In North America, interest rate hikes by the U.S. Federal Reserve are expected to reach the end of their upward cycle in 2006. Real GDP growth is likely to slow as consumer and investor confidence moderates, growing by 2.8% in 2006 and 2.6% in 2007. Additionally, the U.S. currency will come under renewed pressure as the external deficit continues to grow.

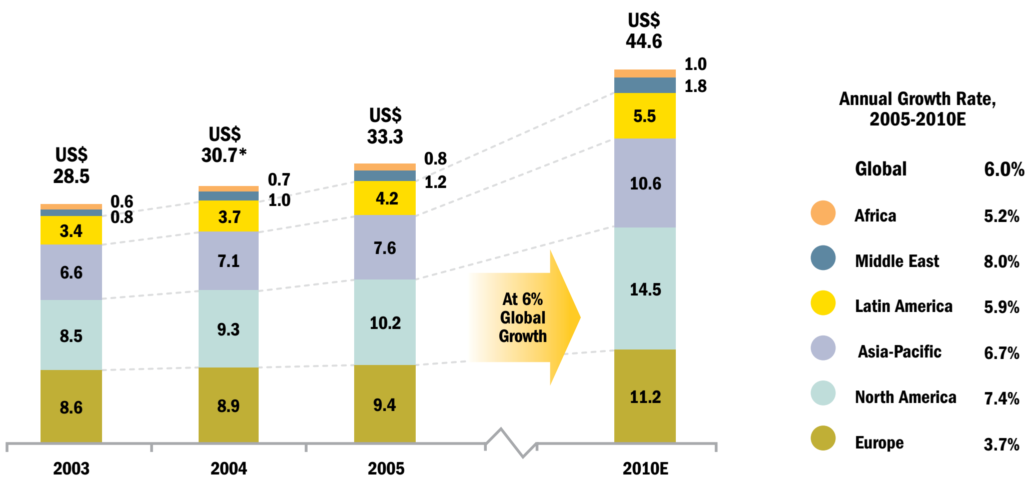
Europe's performance continues to be dictated by labor utilization and the lag in real GDP. Current forecasts predict that sluggish economic activity in the European Union in 2005 will pick up slightly, from between 1.9% to 2.2%, through 2010. This up-tick will likely stem from increases in consumer spending, consumer confidence and a decline in inflation.

Asia-Pacific is forecast to continue its strong regional growth, albeit at a weakening pace. China and India are set to drive the region, helping it capture an increasing share of global output. Conversely, Japan's economic outlook is uncertain. An anticipated decline in its labor force, coupled with weak productivity growth (0.7% over the next 15 years) may restrain the region's growth prospects.

Despite regional pockets of strong economic performance, the gradual slowdown in the global economy and the continued risks of rising energy prices and high debt levels persist. Moreover, the large degree of uncertainty associated with China, Japan and the United States, which together account for approximately 41% of global GDP (at purchasing power parity), underscores the variability in our projections[15].

Given this assessment, we forecast global HNWI financial wealth to reach US$44.6 trillion by 2010, growing at an annual rate of 6.0%.

Figure 7 | **HNWI Financial Wealth Forecast by Region, 2003-2010E**
(US$Trillions)



* 2004 numbers have been refined and minimally restated, as every year more accurate and recent data or sources of information are gathered.
Note: All chart numbers are rounded.
Source: Capgemini Lorenz curve analysis, 2006

[14] The Economist Intelligence Unit, Regional Overviews, December 2005
[15] *The CIA World Factbook*, selected countries, www.cia.gov, accessed April 2006

HNWIs' Cost of Living Becomes More Affordable

HNWIs around the world have two things in common: a deep concern about preserving their wealth and an abiding desire to ensure growth of their wealth for the benefit of future generations and benefactors. However, research shows that it will take more than savvy investing and smart planning to sustain HNWI wealth.

In recent years, the *WWR* has examined how much it costs HNWIs to live extremely well; it has also tracked how those high living costs have changed over time. Research reveals that the "admission and maintenance charges" to a life of privilege cannot be overlooked when discussing impacts to HNWI wealth.

The first part of our analysis focuses on *Forbes'* Cost of Living Extremely Well Index (CLEWI). In 2005, the CLEWI "basket" of luxury goods rose 4.0% in price, while the Consumer Price Index (CPI) rose 3.6% during the same 12-month period. In recent years, the gap between these two growth rates has narrowed significantly, from a 5.5 percentage point spread in 2003 to a 0.4 percentage point differential in 2005 — the change stems principally from a CLEWI deceleration. This convergence holds significant consequence for HNWIs as the prices of their high-end purchases are rising less dramatically when compared to recent years.

Historical analysis of the CLEWI reveals a cyclical pattern in the degree to which the prices of luxury goods fluctuate. Most recently, in the years leading up to 2003, prices rose extensively, peaking in that year and then decelerating in 2004 and 2005. This combination of rising HNWI wealth and decelerating prices for luxury goods translated into a more affordable HNWI lifestyle in 2005.

Europeans Endure the Highest "Relative" Cost of Living

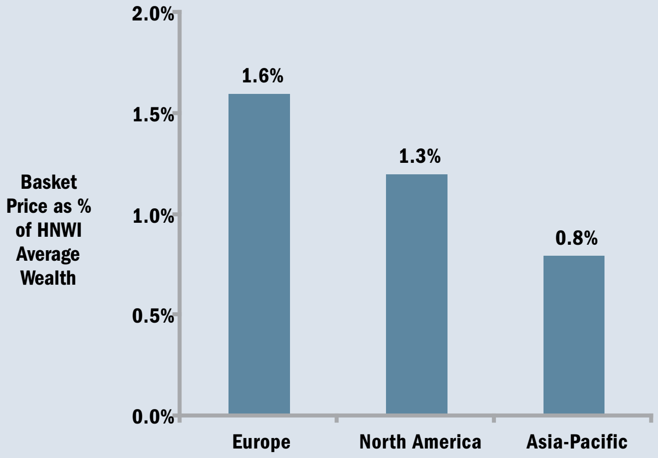
This year's *WWR* also measures regional price differences of comparable luxury goods. Using data from interviews and secondary research, a representative basket of luxury goods was created as a measurement tool. This basket includes such items as 5-star hotel rooms, spa visits and boarding school tuitions, among others. To calculate our findings, prices for each item were recorded in each of three regions: Asia-Pacific, Europe and North America.

By weighting prices against individual wealth across regions, we can better understand and compare regional HNWI purchasing power. Our research shows that wealthy individuals in Europe bear a higher cost for luxury products and services than their counterparts in other regions — the basket cost totaled approximately 1.6% of average wealth in Europe, compared to 1.3% and 0.8% in North America and Asia-Pacific, respectively.

As noted previously, Europeans lag the global field in overall HNWI population and wealth growth. Using our regional cost of living calculation, it now seems that they also pay more to maintain an equitable standard of living as compared with North America and Asia-Pacific.

An annual look at these baskets will allow us to make ongoing comparisons to changes in the cost of luxury goods across regions.

Figure 8 | **Regional HNWI Cost of Living†**



†Note: All chart numbers are rounded. Luxury goods were assembled into regional baskets, using HNWIs' general purchases of items for which prices are available in each region. These include: 5-star hotel rooms, preparatory school educations, opera tickets, etc.
Source: Capgemini analysis, 2006; "The Cost of Being Rich," Forbes, September 15, 2005

HNWIs' Asset Allocations Become Slightly More Aggressive

- **Global HNWI allocations held reasonably consistent in 2005, with regional variations**
- **Europe replaced Asia-Pacific as the region with the most balanced HNWI portfolios**
- **Investments in private equity jumped in 2005**
- **Hedge fund popularity waned, leading to a net outflow in Q4 '05 — the first in more than 10 years**
- **HNWIs pulled funds from North America to pursue higher returns in Asia-Pacific**

HNWIs Adopt a Measured Perspective on Risk

On the surface, HNWI asset allocations do not appear to have differed significantly from those observed in 2004. However, closer examination and focus interviews with HNWIs and relationship managers reveal a shift in HNWIs' attitudes towards investing.

While asset allocations have remained fairly consistent over the past two years, history and interviews show that HNWIs are very sensitive to the economic environment, and reallocate their portfolios depending on current and impending economic conditions. As Figure 9 illustrates, in 2002, HNWIs adopted defensive allocations of their assets to weather an economic recession and very poor market performance. A market recovery one year later prompted these wealthy individuals to reallocate assets to equities and alternative investments, which offered high returns. In 2004, HNWIs took a conservative and diversified approach to their portfolios, increasing their allocations to fixed-income and cash/deposits to combat market volatility following exceptionally high returns in 2003. In 2005, HNWIs adopted more aggressive strategies than in 2004: They increased their allocations to equities and alternative investments and, anticipating interest rate hikes, shifted funds away from fixed-income.

Although the Dow Jones World Stock Index gained only 9.4% in 2005, compared with 14.4% in 2004, three years of solid global performance has renewed HNWIs' optimism and motivated them to increase their overall investments in equities by two percentage points[16]. This trend was strongest in Europe, North America and Asia-Pacific, respectively[17].

HNWI allocations to real estate remained constant in 2005, at 16%[18]. Despite rising interest rates and fears of a downturn in the sector, real estate continued to provide strong returns throughout the year. Double-digit returns on securitized real estate holdings helped reinforce HNWIs' decisions to stay the course in this asset class. The Dow Jones Wilshire (DJW) Global Real Estate Securities Index returned 14.3% in 2005, and the DJW U.S. REIT Index returned 13.8%. Although these gains were markedly lower than in 2004, when the indexes rose 39.9% and 33.2%, respectively, strong 2005 performance amply rewarded HNWIs' decisions to sustain their allocation to real estate[19].

Based on interviews with HNWIs and relationship managers from multiple institutions, we anticipate that HNWIs once again will begin to reduce their real estate allocations: The sharp deceleration of returns in 2005 coupled with the expectation of higher interest rates suggest returns will continue to diminish.

Private Equity Gains as Hedge Funds Falter

During the technology boom, private equity was a popular alternative investment, but its popularity sank during the subsequent market downturn. Private equity re-emerged as a popular alternative investment in 2004 and continued to attract HNWI attention and funds in 2005. In fact, private equity was the primary driver for HNWIs' increased allocation to alternative investments in 2005[20].

Globally, private equity fund inflows increased to US$174 billion in 2005, up from US$42 billion in 2004, a 314% rise[21]. This growth is best explained by the superior returns that these funds delivered in 2005. Indeed, the U.S. Private Equity Performance Index returned 22.6% in 2005, compared to 16.4% in 2004[22]. These returns are particularly impressive when compared with the weaker performance of hedge funds in 2005 (Figure 10).

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[16] "Year-End Review: Markets & Finance 2005," *The Wall Street Journal*, January 3, 2006
[17, 18] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006
[19] "Performance Summary," Dow Jones Wilshire Real Estate Indexes, as of January 31, 2006, available at www.djindexes.com
[20] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006
[21] Emily Thornton, "Going Private," BusinessWeek, February 27, 2006 (data from Thomson Financial)
[22] Thomson Financial/National Venture Capital Association

Average hedge fund returns have declined significantly in recent years, decelerating from 19.7% in 2003 to 7.1% in 2005[23]. Correspondingly, hedge funds recorded their first single-quarter net outflow of funds in over 10 years during the fourth quarter of 2005[24].

Lower returns, higher management fees and tighter government regulation contributed to cooling investor interest in hedge fund investments. In 2005, hedge fund management fees rose to an average of 1.44%, up from 1.27% five years earlier[25]. Many funds also lost favor by trying to tie up investments for longer periods of time (at least two years) to avoid having to register with the Securities and Exchange Commission in the United States[26]. As the hedge fund environment changed, so too has the profile of the hedge fund investor: Individuals have been eclipsed by an influx of institutional investors. Some estimates suggest that today as much as 60% of hedge fund assets are institutional — which may alter hedge fund strategy, as these institutions are more risk-averse and demand greater transparency[27].

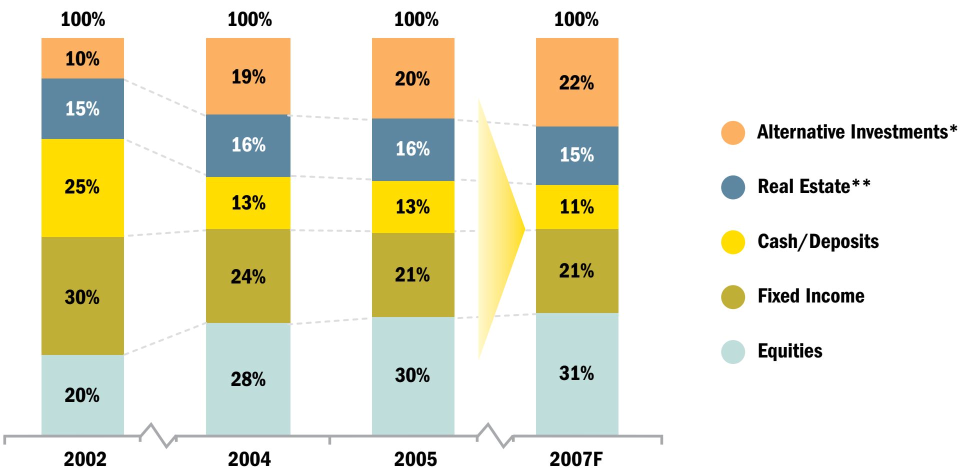
As a result, HNWIs' hedge fund allocations plateaued in 2005 and private equity, a higher-yielding alternative in recent years, gained in popularity[28].

Regional Differences Continue to Grow

In 2005, HNWIs in North America continued to hold the most unbalanced portfolios — with the largest allocation, 43%, going to equities — compared to their peers in other regions[29]. This emphasis on equity investments paralleled a decline in fixed-income investments brought on by the U.S. Federal Reserve's and Bank of Canada's steady stream of interest rate hikes. Of note, North America's allocation to alternative investments is the lowest among the regions, underscoring the importance of equities.

In 2005, North American HNWIs increased their allocation to real estate by one percentage point, to 12%[30]. However, looking ahead, our primary research indicates that North American HNWIs will reduce their real estate investments in 2006, as interest rates continue to climb and speculative demand slows. Confirming this forecast, two-thirds of surveyed Canadian HNWIs said they believe the real estate market will trend downward within the next year[31].

Figure 9 | **HNWI Assets by Investment Class, 2002 – 2007F**



Note: 2004 numbers have been restated due to a change in methodology: To improve accuracy, regional data has been weighted to reflect the net financial wealth of that region; results were then aggregated to create a more representative global figure.

* Includes: Structured products, hedge funds, managed funds, foreign currency, commodities (including precious metals), private equity and investments of passion (fine art & collectables)

** Includes: Direct real-estate investments and REITS

Source: Capgemini/Merrill Lynch Relationship Manager Surveys, March 2003, April 2005, March 2006

[23] Greenwich-Van U.S. Hedge Fund Index
[24] "Net Outflows for Hedge Fund Assets in Q-4 Global Macro and Emerging Market Strategies Hold Ground," Tremont Capital Management, February 8, 2006; Chris Clair, "Mixed Fund Flow Bag for '05," *HedgeWorld News*, January 26, 2006
[25] "Alternative Assets: Net New Hedge Fund Money Inflows Slow," *Private Banker International*, February 2, 2006 (data from Hedge Fund Research, Inc.)
[26] Becky Yerak, "At Declaration Day, Hedge Funds Circumvent Rules," *The Chicago Tribune*, February 1, 2006
[27] "Growing Pains – Hedge Funds," *The Economist*, March 4, 2006
[28, 29] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006
[30] Capgemini/Merrill Lynch Relationship Manager Surveys, March 2005, March 2006
[31] 2006 T. Stenner Group TrueWealth Report

Ultra-HNWIs Take the Lead

Over the years, we have found that Ultra-HNWIs — individuals with more than $30 million in net financial assets — often make investing decisions ahead of market trends. Ultra-HNWIs, who account for 1% of the global HNWI population and about a third of its financial wealth, tend to be more sophisticated and better informed than other HNWI investors when it comes to managing their assets. In many ways, Ultra-HNWIs are thought leaders — whose behaviors and attitudes about wealth management hold important lessons for HNWIs and financial institutions alike.

This year, to more clearly delineate Ultra-HNWIs' investment practices and behaviors, we isolated the survey responses of relationship managers with the highest share of Ultra-HNW clients and conducted focus interviews with Ultra-HNWIs and subject matter specialists. The output was compared to our overall survey findings[†].

Results demonstrate that Ultra-HNWIs' portfolios not only are more diversified, they also are more aggressively invested than those of individuals in lower wealth bands. Overall, Ultra-HNWIs allocate a greater percentage of their assets to alternative investments than the average HNWI, 24% compared to 20%, respectively. The use of alternative investments demonstrates Ultra-HNWIs' "tax intelligence," as many of these investments allow them to minimize and defer taxes. While Ultra-HNWIs allocate a smaller portion of their portfolios to equities than HNWIs, they exhibit a taste for more complex investment products such as hedge funds, private equity/venture capital, structured products and investments in their own businesses — a range of investment vehicles that often relies on equity-type products. Furthermore, Ultra-HNWIs hold a significantly lower share of their assets in fixed income and cash, while allocating more of their wealth to real estate, than the average HNWI.

Ultra-HNWIs are also far more aware of how wealth is managed internationally, according to the professionals who help manage their portfolios: They have more exposure to international markets and have more geographically diversified portfolios than their HNWI counterparts. Ultra-HNWI feedback validates that this group currently allocates a lower percentage of its assets to North America in favor of regions with a higher number of emerging markets, such as Asia-Pacific and Latin America. In fact, Ultra-HNWIs stated that they are likely to adjust these geographic allocations more dramatically than the market currently anticipates – further proof of Ultra-HNWIs' risk-neutral and open-minded investment attitudes. This trend among Ultra-HNWIs supports our findings that HNWIs as a whole are moving funds out of mature economies, such as the United States, and into attractive growth economies in other parts of the world.

As they develop a global footprint, a large percentage of Ultra-HNWIs are creating both physical and financial presences in international locations. While more than 25% of HNWIs have homes and relationship managers abroad, Ultra-HNWIs have an even greater international presence: At least half have residences and financial accounts abroad, and 45% have relationship managers in international locations.

Ultra-HNWIs also have a different – and perhaps more sophisticated – approach to wealth transfer, particularly regarding philanthropic giving. Overall, they plan to give almost twice as much of their wealth to philanthropic causes than HNWIs[††]. In addition, Ultra-HNWIs take a very active role in managing their philanthropic investments and have monitoring mechanisms in place to ensure that anticipated results are being achieved. In effect, they manage their philanthropic investments in much the same way as their traditional investments – an approach that merges philanthropic giving with the acumen displayed in their business and financial affairs.

Overall, Ultra-HNWIs' more sophisticated and aggressive wealth management behaviors help explain how they have achieved and maintained their elite status on the world stage. It also sheds further light on their role as investment trendsetters.

Given their proven power to move markets, we anticipate that Ultra-HNWIs' already significant allocation to alternative investments and their growing exposure to Asia-Pacific will prompt HNWIs to embrace more sophisticated investment vehicles and to allocate a greater percentage of their assets to emerging economies.

[†] Please note: This new base of respondents from the Capgemini/Merrill Lynch Relationship Manager Survey includes RMs with a regular HNWI clientele and a higher-than-average book of Ultra-HNWI clients. Ultra-HNWI figures are directionally accurate, but do not represent a discrete selection of Ultra-HNWIs.
[††] Philanthropic causes include charitable and educational institutions and other not-for-profit organizations.

In 2005, European HNWIs replaced those in Asia-Pacific as having the most evenly distributed portfolios among all asset classes. Consistent with global trends, the Europeans significantly reduced their allocations to fixed income in 2005 and, seeking to capitalize on continued strong domestic stock market performance, pushed their equity allocations to 27%, from 25% in 2004[32] .

European allocations to alternative investments also increased, climbing from 18% of holdings in 2004 to 22% in 2005; this helped European HNWIs add balance to their portfolios[33]. Strong interest in private equity fueled these gains. (Research suggests that private equity fund-raising in Europe more than doubled in 2005[34].) Direct real estate allocations also increased, from 21% in 2004 to 24% in 2005, as European HNWIs took advantage of low interest rates to finance purchases ahead of potential interest rate hikes[35].

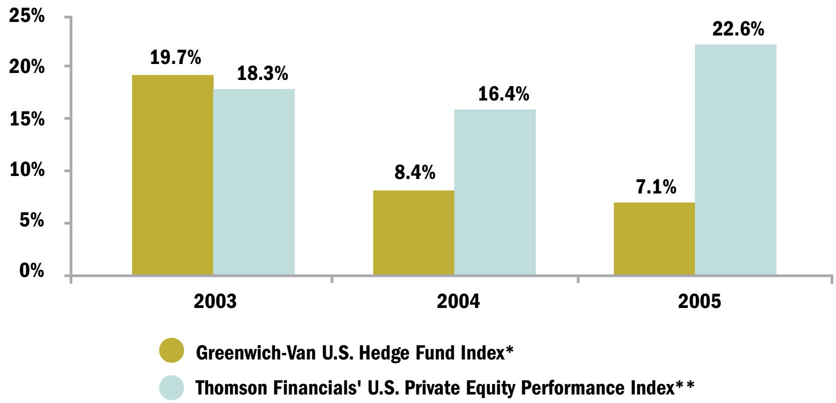
In the Asia-Pacific region, HNWIs fine-tuned portfolio allocations in favor of equities and cash/deposits. In response to particularly strong regional stock market performance — in 2005, the Japanese Nikkei 225 gained 40.2%, South Korea's Kospi moved ahead by 54.0% and India's Bombay index advanced 42.3%[36] — Asian HNWIs boosted their allocation to equities by two percentage points, to 24%. These moves were made at the expense of real estate and alternative investments[37].

Latin American HNWIs maintained the most consistent and also the most conservative allocation approach of any group in 2005, investing nearly one-third of their assets in fixed-income. However, Latin Americans did diversify slightly, decreasing fixed-income allocations from 33% in 2004 to 31% in 2005, and increasing their holdings in real estate and alternative investments[38].

International Markets Draw Increased HNWI Investments

In 2005, HNWIs around the world continued to diversify their holdings internationally, a trend that has been building steadily in recent years (Figure 11). Among the most notable developments: HNWIs increased investments in Asian markets — the MSCI AC Asia-Pacific Index returned 21.0% in 2005, up from 14.1% in 2004 — and decreased their exposure to North America.

Figure 10 | **Private Equity vs. Hedge Fund Performance, 2003 – 2005**



* The Greenwich-Van U.S. Hedge Fund Index is produced from the company's database of hedge funds, one of the world's largest collections of hedge fund data.

** Thomson Financials' U.S. Private Equity Performance Index is based on the latest quarterly statistics from Thomson Venture Economics' Private Equity Performance Database, and analyzes the cash flows and returns of over 1,814 U.S. venture capital and private equity partnerships with a combined capitalization of US$657 billion.

[32] Capgemini/Merrill Lynch Relationship Manager Surveys, March 2005, March 2006
[33] The European Private Equity & Venture Capital Association, March 16, 2006
[34] Capgemini/Merrill Lynch Relationship Manager Surveys, March 2005, March 2006
[35] "Year-end Review: Markets & Finance 2005," The Wall Street Journal, January 3, 2006
[36-38] Capgemini/Merrill Lynch Relationship Manager Surveys, March 2005, March 2006

While North America remains the most popular region for investment, foreign investors' interest in this part of the world has decreased in recent years. In 2004, HNWIs showed a decided lack of confidence in the U.S. dollar, decreasing their North American investments; despite the dollar's appreciation in 2005, HNWIs from other regions trimmed allocations to North America due to low returns.

In 2005, Asia-Pacific surpassed Europe as the second most popular destination for HNWI investments, accounting for 23% of their total assets[39]. A number of emerging economies with large growth prospects, combined with strong performance in the region's more mature markets, is likely to keep international interest focused on this part of the world for some time.

Europe retained 22% of HNWIs' total assets in 2005. Strong performance by Europe's mature capital markets coupled with strong advances in its emerging markets — the MSCI Emerging Markets Eastern Europe Index returned 46.1% in 2005 — persuaded local HNWIs to increase their allocation to domestic markets to 48%, up from 40% in 2004[40].

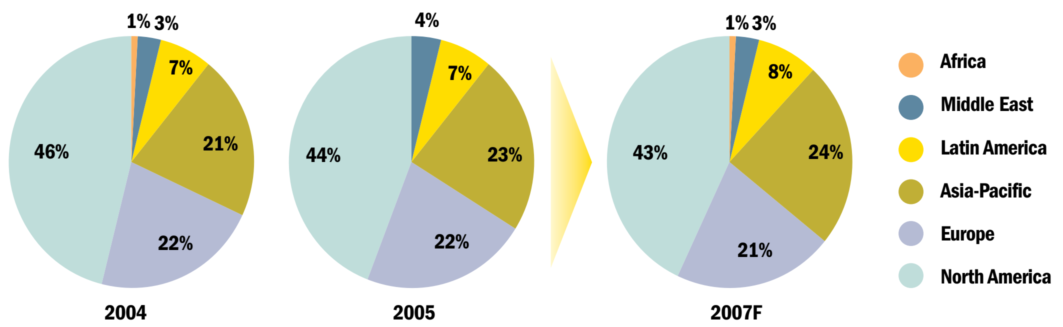
In general, HNWIs continue to view Latin America as unstable, and allocated only 7% of their total assets to markets in the region in 2005. In fact, Latin America is the only region in our analysis in which HNWIs prefer to send their investments elsewhere rather than place them in domestic markets: Wealthy Latin Americans allocate only 28% of their assets to domestic holdings and send 42% of their assets to North America[41].

Looking Ahead

Our research suggests that HNWIs' investments in North America and Europe will continue to decline over the next few years as HNWIs reallocate funds to Asia-Pacific and other emerging markets (Figure 11). In terms of asset mix, HNWIs are likely to continue to embrace a slightly more aggressive portfolio. Decreasing their cash/deposits and real estate positions, HNWIs will move funds to equities and alternative investments (Figure 9).

HNWIs' heightened interest in international investments, along with their growing exposure to equities and alternative investments, are clear signs that the world's wealthiest individuals are not only becoming more sophisticated investors, they also are more determined than ever to achieve returns comparable to those experienced in 2003 and 2004.

Figure 11 | **HNWI Assets by Region, 2004 – 2007F**



Note: 2004 numbers have been restated due to a change in methodology. To increase the accuracy of our findings, we are now weighting regional data based on the net financial wealth of that region and aggregating the results to create a more representative global figure.
Source: Capgemini/Merrill Lynch Relationship Manager Surveys, April 2005, March 2006

[39-41] Capgemini/Merrill Lynch Relationship Manager Surveys, March 2005, March 2006

Where Does the Wealth Come From?

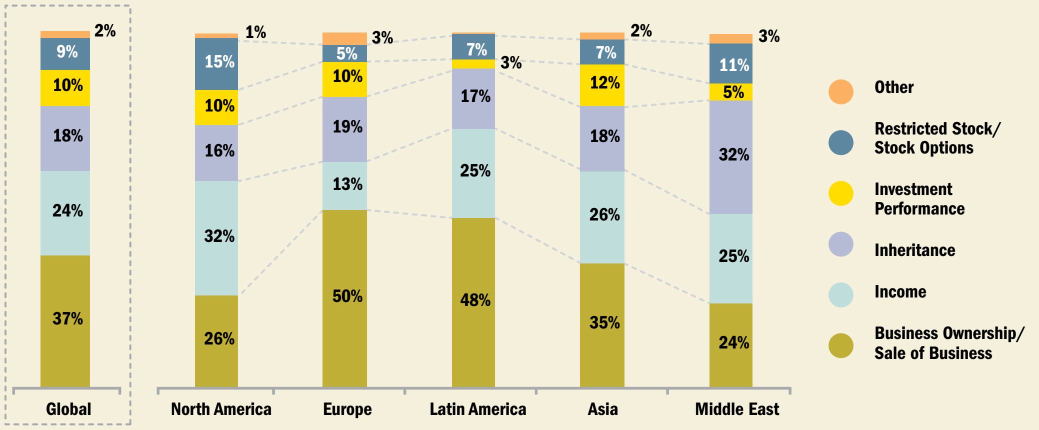


Figure 12 | **Sources of HNWI Wealth, 2005†**

How do millionaires become wealthy? To answer this question, we asked relationship managers around the globe to estimate the sources of wealth creation among their HNW clients. We then validated the findings with a selected group of clients. Our survey shows that business ownership or the sale of a business is the primary source of wealth (37%) for the majority of the world's HNWIs (Figure 12).

Income ranks second, the source for 24% of HNWI wealth, and inheritance ranks third, with 18%. In earlier *WWRs* inherited wealth accounted for more of HNWIs' financial assets than it does today††. As recently as 2001, 21% of North American and 37% of European HNWIs' wealth was inherited. Clearly, earned wealth has grown faster than wealth passed down from an earlier generation. If this trend continues, we can expect to see an ever-growing number of wealth earners joining the ranks of the world's HNWIs.

With only 10% of their wealth coming from investment performance, our research confirms that HNWIs, overall, are very good at creating new wealth; they are not simply relying on global economic prosperity to expand their financial holdings through reinvested interest payments, dividends and capital appreciation.

There are strong regional differences in sources of wealth. The largest share of North Americans' wealth is from income (32%) versus business ownership (26%). This is also a region of wealth earners: Inheritance represents the smallest share (16%) of wealth origination, compared to other regions. In Europe, business ownership, or the sale of a business, was the No. 1 source of wealth, at 50%, while income ranked lower (at 13%) in that region.

Middle Eastern HNWIs derived the largest share (32%) of their wealth through inheritance. Although Asia-Pacific HNWIs became wealthy primarily through personal business and income, we noticed that a higher percentage (12%) of wealth came from investment performance, compared to other regions.

Do the ways in which HNWIs generate wealth have an impact on how they invest and vice versa? Comparing the regional findings on sources of wealth to HNWIs' regional asset allocations provides some initial insights†††. The easiest conclusion to draw is North American HNWIs' strong reliance on equities, reflected in their significant allocation (43%) to this asset class, compared to other regions; also by the high percentage (25%) of wealth originating jointly from investment performance and restricted stock/stock options.

European HNWIs seem to show a high risk tolerance, as they allocate the lowest share of their portfolios to safe asset classes. However, they are clearly well informed and engaged in their wealth management strategies: They have exceptionally well-diversified portfolios — a set of character traits attributable to business owners.

Finally, we were not surprised to see that Asia-Pacific HNWIs, relative to other regions, gain more of their wealth from business ownership, income and investment performance since a lot of new money is being created in the region's fast-growing markets. HNWIs' portfolios in this part of the world are visibly geared towards wealth accumulation, with strong allocations to alternative investments, real estate and equities.

† Source: Capgemini/Merrill Lynch Relationship Manager Survey, March 2006
†† 2002 *WWR*, Figure 6, "Source of Wealth" and 2003 *WWR*, Figure 6, "HNW Investor Trends, 1960-2002"
††† Asset allocation findings from the Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

Spotlight

HNWI BEHAVIORS AND PORTFOLIOS "GLOBALIZE" AS WEALTH TRANSFER WAVE ACCELERATES

- **The interrelationship and convergence of economies and cultures continue to mold the face of wealth management around the globe**
- **HNWIs' investments and lifestyles are taking on a growing international flavor**
- **Intergenerational wealth transfer is likely to accelerate these trends and to prompt new service-delivery strategies from relationship managers and wealth management providers**
- **HNWIs' inheritors are likely to take a more active role in their investments: focusing on higher returns, emphasizing wealth accumulation over wealth preservation and accepting more risk to achieve goals**

GLOBALIZATION COMPOUNDS HNWIS' UNFULFILLED NEEDS

- **Opportunities from globalization are widening the gap between HNW clients' needs and the current state of wealth management services**
- **While investment allocation is becoming more complex, HNWIs' desires for reporting simplicity are intensifying**
- **Wealthy clients want tailored portfolio strategies and advice to support their overall wealth management goals**

CREATING A GLOBAL, FULL-SERVICE WEALTH MANAGEMENT PROVIDER

- **Establishing specialist wealth strategy teams around the globe will help relationship managers meet clients' desires for more information on international markets and other financial concerns**
- **Streamlining back-end processes such as client reporting and account opening around the globe will improve banking efficiency while fulfilling client needs**

HNWI Behaviors and Portfolios "Globalize" as Wealth Transfer Wave Accelerates

Globalization Drives Change

In the 10 years that we have produced the *WWR*, the wealth management industry has continued to react and evolve to capture new opportunities — to grow. Opportunities for growth seem more abundant today than ever before. As new markets emerge, new client segments are identified, consolidation continues and operational efficiencies gain traction, a number of strategic growth initiatives continue to share the limelight.

The quest for top-line growth and sustained profitability can take a number of forms — these aspects often work in concert to deliver growth. Client acquisition and geographic expansion via mergers and acquisitions, new market entries, product and platform innovation or globalization all represent areas of strategic opportunity for providers.

For this year's report, we have decided to explore in depth one of these growth topics: globalization.

Market Forces Converge

Emerging economies are picking up speed, gaining ground on developed markets. Investors are geographically diversifying their assets. Consolidation and international products are changing the way clients do business. Without question, the interrelationship and convergence among economies and cultures continue to mold the face of wealth management around the globe.

HNWIs sit at the center of a global cycle of growth. As a result of their investment strategies and their hunt for high returns, HNWIs play a key role in fueling regional wealth creation. Historically, major developed markets presented the best opportunities for strong, stable returns. HNWIs are now scouring the global investment marketplace for opportunities, seeking better performance, risk mitigation and increased global perspective. As the geographic diversification of assets continues, investment dollars reach both developed and emerging markets. Market capitalization growth rates in these destination markets benefit from the increased investment because it spurs economic activity and generally benefits wealth creation. HNWIs in these markets acquire more wealth and more individuals reach the HNWI threshold. They, in turn, look for investment opportunities in other economies and continue the global cycle of growth.

Providers, too, are changing the way they operate in response to a shifting focus in the marketplace. Increasing global competition is forcing banks to use mergers and acquisitions to increase their scope and economies of scale. Of small, medium and large wealth management providers surveyed, 45% said they had made an acquisition in the last three years, while 91% said they plan to acquire in the next three years[42]. Aggressive price competition in less-familiar markets aims to secure critical mass in these regions. Institutions have even gone as far as saying that "now it's about taking market share — profitability comes later"[43].

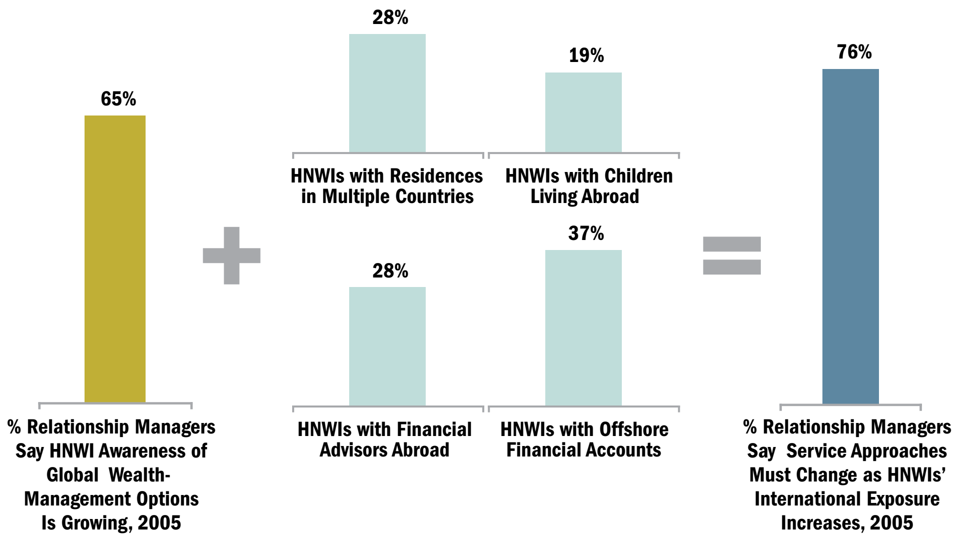
It is not surprising that globalization is occurring. While institutions will need to consolidate their back-office systems, streamline and devise new global service processes, tailor products to tap emerging needs and markets, and respond to a consolidating competitive landscape, the very clients they seek to serve are undergoing a parallel metamorphosis. They are growing more sophisticated, more hands-on and more demanding of their providers. Around the world, the stage is being set for a new type of client — and wealth transfer will be a catalyst.

International Allocation Is Set to Grow

As HNWIs continue to allocate more assets to non-domestic markets, they become more aware of wealth management opportunities and strategies abroad. In fact, 65% of all HNWIs are increasing their awareness of how wealth is managed internationally (Figure 13). Primary drivers of increased international exposure include better returns and risk diversification.

In addition to investing abroad, 28% of HNWIs have residences in foreign countries. This ratio is higher in the Middle East and Europe, where 80% and 46% of HNWIs, respectively, claim residences in another country. Interest in real estate abroad, as demonstrated by HNWIs' desires to own a home in another country, first and foremost represents an investment in that market's economy. Additionally, HNWIs become active participants in the local scene, perhaps

Figure 13. | **Providers Need Global Service Strategies as More HNWI Heirs' Interests Move Overseas**



Source: Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

[42] "Global Private Banking Activity Growing," *Dow Jones International News*, July 11, 2005
[43] Florian Gimbel, "Rich harvest in fields of gold," *Financial Times*, December 6, 2005

for a few months out of the year: In that time, relationships are formed, financial accounts are created and cultures are learned — all behaviors that support globalization.

Moreover, this cultural and financial exchange is the work of multiple generations: Overall, 19% of HNWIs have children living abroad. This figure, too, is highest in the Middle East and Europe, with, 45% and 27%, respectively, of children living abroad.

The North American Exception: Will Future Conditions Change Behavior?

HNWI behavior patterns in North America ran counter to these worldwide trends. Despite a gradual shift over the past few years, North American HNWIs remained significantly invested in — and more narrowly focused on — domestic markets, with a heavy weighting of United States-centric investments. United States markets represent the largest capital markets in the world, historically providing high returns, a vast array of products and notable stability. However, in 2005, emerging and developing capital markets outpaced most mature stock markets. Markets such as India, South Korea, Poland and South Africa all returned better than 40%, while the S&P 500 generated 3.0% returns.

Worldwide, 2005 was a year of increased internationalization of HNWIs' investments — and a general movement away from North America. There were increased international allocations and the ramp up of investments in Asia-Pacific and the Middle East.

If the performance of American domestic markets continues to be dwarfed by international exchanges, we expect North American HNWIs to increase their international allocations at a faster rate than they have in the past. HNWI and Ultra-HNWI clients have validated this expectation, attesting that new funds are likely to be invested outside of North America.

Wealth Transfer Will Accelerate Globalization and Shift HNWI Behaviors

While it is no secret that the composition of the general population around the world is aging, this skew is particularly evident in the HNWI population. Whereas general demographic trends indicate that 15% of the global population was in the 56+ age-band in 2005[44], the percentage of HNWIs in this age bracket was 61%.

The current HNWI profile also is characterized by the many relationships that these wealthy individuals maintain. As expected, an overwhelming majority of HNWIs, 84%, are married. An almost equal percentage of HNWIs, 83%, have children. Given the age composition of the HNWI population and prevalence of family beneficiaries, it is strikingly clear that wealth transfer represents a critical area of opportunity for providers. HNWIs' intentions confirm this opportunity: 92% are projected to transfer their wealth to immediate and extended family members. More than three quarters of that wealth is anticipated to go directly to their children.

An unprecedented amount of wealth is projected to change hands. For example, in the United States this transfer is conservatively estimated to reach US$41 trillion by 2053[45].

Increasingly, HNWIs are demanding products, planning and reporting to help facilitate this imminent wealth transfer. According to relationship managers, a significant percentage of their clients are not adequately prepared to transfer wealth to succeeding generations: 39% of HNWIs were considered inadequately prepared, while only 2% of HNWIs were believed to be completely prepared.

As this wealth shift occurs, wealth management providers will be faced with the task of maintaining their relationships with the inheritors. On a scale of one to five, with five being most difficult, relationship managers rank this task at 2.8, suggesting that they consider client retention to be a moderate challenge. Retention of inheritor accounts involves identifying and managing the investment needs and motivations of both the current HNWI and the benefactor.

However, in addition to building rapport, relationship managers and wealth management providers will need to respond and adapt to the needs of an evolving HNWI demographic. In comparing current clients to their likely inheritors, relationship managers identified a number of important characteristics that help to distinguish the emerging profile of HNWIs: From the standpoint of investment strategy, and keeping in mind that 19% of HNWIs have children living abroad, 83% of relationship managers agree that likely inheritors will want increased exposure to international investments, and 76% agree

[44] United States Census, International Database, www.census.gov

[45] "Why the $41 Trillion Wealth Transfer Is Still Valid: A Review of Challenges and Questions" *The Journal of Gift Planning*. Vol. 7, No. 1, 1st Quarter 2003. pp. 11-15, 47-50

that likely inheritors will require the ability to be served in multiple geographies. This ability to tap several markets with a consolidated service model, rather than with multiple relationship managers, will be vital.

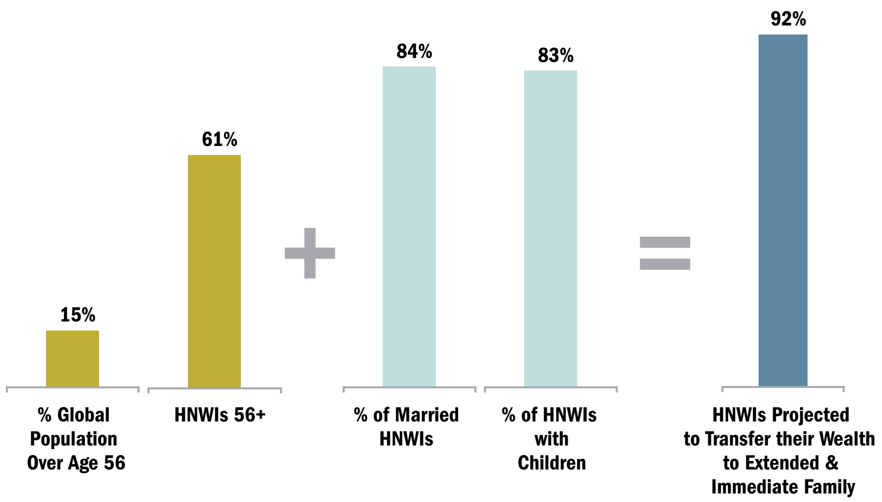
HNWIs already are planning for the coming surge in wealth transfer. Inheritors, with their evolving set of behaviors and their new approach to global investing, will continue to change the face of the wealth management landscape. This is raising some concern among members of the current HNWI generation, who fear that core values might not be sustained as this more global HNWI matures. Indeed, the fact that 19% of HNWIs' children are living abroad confirms that wealth transfer will be international in nature. Accompanying the growing need for wealth-transfer planning, we believe that these fundamental shifts in client behavior will cause an unexpected acceleration of unfulfilled needs, as demand shifts to multiple markets around the world[46].

Anticipating these changes, wealth management providers may be able to capture significant market share by preparing a strong wealth-transfer offering and by building a cohesive global service model. Currently, however, HNWIs do not ask their advisors for guidance regarding wealth transfer. Trust and estate attorneys, tax attorneys and accountants are more sought-after wealth transfer specialists. Wealth management providers are taking steps to capitalize on this opportunity, organizing specific events to address these unique needs. Among leading practices, 25% of relationship managers surveyed organize seminars to prepare younger generations for wealth transfer, 23% set up seminars on preserving family wealth, and 22% help their clients establish family governance models. However, there needs to be a comprehensive offering that triggers these initiatives to ensure that the majority of advisors will use them.

In addition to increasing the geographic diversification of their financial holdings, it appears likely that HNWI inheritors will be more engaged in their investments, focused on better returns, geared toward wealth accumulation rather than wealth preservation, and open to taking on risk to achieve their goals.

Ultra-HNWIs defy this trend. As client focus groups and interviews reveal, Ultra-HNWIs express a strong concern regarding the low level of involvement of the next generation in actively managing the wealth. They worry that their

Figure 14. | **HNWI Bequests Will Favor Immediate and Extended Family**



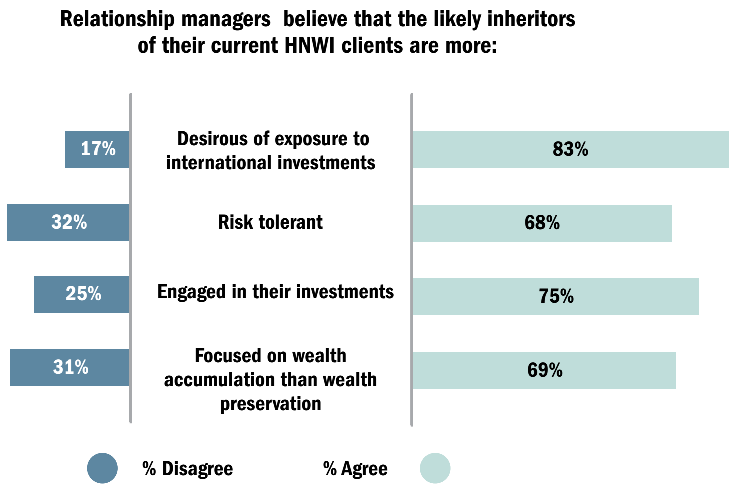
Source: Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

[46] "Global Private Banking Activity Growing," Dow Jones International News, July 11, 2005

children, who are accustomed to affluent lifestyles, may not share the same drive, entrepreneurship and interest in managing their assets; hence the increased challenge for relationship managers is to develop a relationship with these inheritors. Ultra-HNWIs often encourage their children's participation in managing the family's wealth through active philanthropic involvement and monitoring these investments for success. Five years ago, as part of their Global Investing Program, Merrill Lynch developed wealth management awareness workshops, seminars and networking events for the sons and daughters of their Ultra-HNWI clients. The objective here is to educate, not sell, and has been met with great success with demand outweighing places available. These sessions have been implemented in all major regions — Latin America, North America, Europe and Asia Pacific.

Karen Klein, Director of Family Wealth Services in the United States, confirmed strong client demand: "Our Ultra-High Net Worth clients have unequivocally heralded this program as a hands-down winner — in fact, they were the ones who developed the idea with us. So, listening to them guided our plans for this initiative. Survey feedback ensures the program is updated and will fit evolving Ultra-HNWI needs."[47]

Figure 15. | **HNWI Heirs Will Reshape the Client/Provider Relationship**



Source: Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

[47] Karen P. Klein, Merrill Lynch, Private Banking and Investment Group, May 2006

Globalization Compounds HNWIs' Unfulfilled Needs

Wanting More than a List of Services

Advances in general financial awareness and technology gradually have tipped the balance between client and financial services provider in favor of the client. Increasing client demands, declining client loyalty and the impending wave of intergenerational wealth transfer are creating an environment in which the industry could experience increased client turnover. As portfolios become more global, enhancing client relationships and providing wealth strategy services will be critical to retaining current and future clients. Firms must find ways of creating a holistic approach to client interactions, instead of focusing primarily on selling new products.

How Am I Really Doing?

An increasingly well-known dissatisfaction for HNW clients is portfolio reporting. At center-issue is the multitude of processes and structures that providers use to communicate asset values — wherein lies a classic gap between how a client wants to be serviced and how a provider's reporting capabilities are structured. It is a confusing interaction at best, and one that needlessly converges on endless paperwork. For example, 78% of relationship managers surveyed agreed that reports have become more complex[48] (Figure 16). While clients previously tolerated reporting incapacities to some degree, the emerging impact of globalization on client portfolios is triggering a call to action. Expansion of foreign investing and alternatives has multiplied reporting complexities and uncovered a fundamental industry glitch. Offering a solution with information presented in a coherent structure — a straightforward need for clients — is a great challenge to wealth management organizations. A client's inability to view asset holdings within a provider, managed by a third party, or across various providers is one of the biggest "levers" for HNWIs wanting to change firms or add independent advisors — wealth management organizations must act fast.

According to relationship managers, only 50% of HNWIs are satisfied with current reporting. Desired changes to the system must address three main pillars:

- Quality: The biggest concerns to diversified investing in the context of reporting are maintaining accuracy and completeness. As investors shift out of their traditional comfort zones and invest in more complex instruments, they demand more transparency. Country and multi-currency breakdowns serve as examples of basic reporting transparencies that are being demanded by clients as they attempt to maintain control of their global positions.

- Customization: Not all clients want the same reporting formats. The ability to provide desired levels of detail and to include performance reports according to client preferences lies at the very base of maintaining a successful client relationship. Fifty-six percent of relationship managers acknowledge regional and individual differences in reporting practices, recognizing a great variance in what clients may see. As part of an advisor's ongoing relationship review, clients expect recommendations to be positioned in the context of their total net worth and overall asset allocation.

- Simplified Complexity: Providing accurate positions, balances and information in line with a client's preferences or requests does not necessarily bring satisfaction. Finding a way to meaningfully represent this information in an easily understandable format that aligns back to their overall financial plan and wealth strategies will become a higher priority as investors diversify into new products and regions.

Furthermore, clients face an inherent paradox between comprehensive reporting and privacy. They would prefer a single, easy-to-read report encompassing all assets held by all providers — domestically and internationally — but challenges to achieving this goal persist, both in terms of the provider and the client. To adopt aggregated reporting, clients must pick a trusted provider to manage information from all of their outside providers and third parties. The paradox arises through the concerns and difficulties involved with client privacy. Many HNWIs dislike sharing outside account information with their provider, fearing that firms may try and focus their efforts on gaining share of wallet instead of providing sound advice and investment performance. That, coupled with a lack of simplified reporting, has stalled efforts for HNWI adoption of aggregated reporting at a provider level.

Transparency in Pricing

Similarly, as clients' portfolios become more global and complex, awareness of other reporting and pricing structures

[48] Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

proliferates. Clients often focus on pricing to assess their service providers when reporting fails to highlight basic portfolio performance. However, focus groups and interviews reveal that clients are not unwilling to pay for services; rather, they would like to better understand what the services cost so that they can make more informed decisions about expanding or contracting their use. Providers should not fear sharing pricing information because clients will pay for good service.

Broader Strategies and Advice

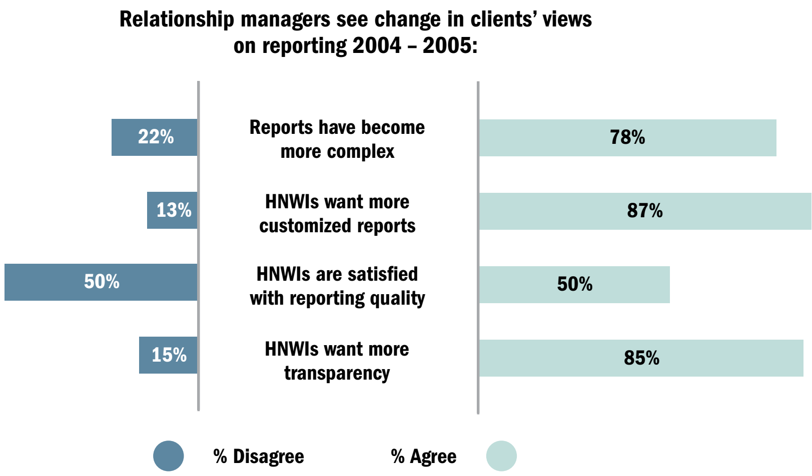
New products and services are becoming more accessible as firms rush to meet global demand. In a push to be the first organization to offer product X or service Z, wealth management providers sometimes forget that which is most important: the client relationship. It often appears as though providers are in a race with other providers, and even with clients, to find the newest niche investment vehicle. However, paramount to actual products and services is the intangible factor of offering suitable advice to individual clients on how to structure and finance investments. HNWIs may turn to independent providers when organizations fail to provide personal attention and place more emphasis on wealth investment than on wealth management. One key differentiator is the quality of the advice and strategies offered in support of non-financial assets. Increasingly, HNWIs are demanding that art, collectibles and other "investments of passion" be treated the same as financial investments

Globalization has impacted philanthropy, as we already see affluent philanthropists allocating a substantial portion of their assets abroad, slowly bringing philanthropy to the global stage. While HNWIs' lack of "experience, knowledge and motivation" is less of a barrier in this area than it has been in previous years, they do need professional advice to help guide their decisions — in 2004 alone, international charitable giving by American citizens totaled $71 billion[49]. Lifestyle, legacy and philanthropic guidance are not traditionally core offerings for providers but, as with financial investments, these issues require careful asset allocation and portfolio attention.

Tailored Products and Services

HNWIs seem to demonstrate an uncanny ability to find high-performance investment pockets and, recently, those places have been heavily weighted in alternative investments and emerging economies. As clients demand involvement in such trends, their needs inevitably increase in complexity. Providers scuttle to meet this demand with, what are now common, products and services targeting alternative investment and emerging economy capital surges. Although these investment options present a different picture than a traditional portfolio offering, they are now more mainstream and, similar to traditional investments, HNWIs desire a unique spin on something not so unique. Clients do not want an emblematic solution to which every investor has access.

Figure 16. | **Provider Reporting Falls Short of HNWI Expectations**



Source: Capgemini/Merrill Lynch Relationship Manager Survey, March 2006

[49] "The Index of Global Philanthropy," Hudson Institute, 2006

Not all regions are in the same phase of investment progression. Demand for alternative investments in North America and Europe is more mature and focuses, to a large extent, on hedging through the use of hedge funds, private equity, structured products and commodities. In contrast, alternative investment demand in Asia-Pacific is primarily fueled by growth and speculation.

One key area where wealth advisors are currently making a push for differentiation and understanding is within business owner services — another provider response to client demand for more advice on their overall financial lives. Business ownership has become the leading source of HNWI wealth (see sidebar on page 19) and there is a growing need for increased convergence between commercial, private and investment banking. In their private investment portfolios, HNWIs view foreign investment as a new high-growth opportunity with prospects for substantial returns. The challenge lies in wanting to apply the same international high-growth platform to business operations. A seemingly logical person to seek advice from is the same wealth advisor who already has a client involved in personal investments abroad; however, the traditional advisor is not currently equipped to serve at the crossroad between personal foreign allocation and how that applies to business opportunity.

Multiple Accounts, One Client

Clients view themselves as having one relationship with each organization, and hence, one account within which they would like to see different cuts, slices and groups based on their distinctive needs. In contrast, providers, plagued by their back-end and account-based processes, set up multiple accounts for those same clients, often based on each new product in which the client invests. Filling out repetitive paperwork and regenerating suitability analysis for each new account wastes client time and money. Unfortunately for HNWIs, many providers lack visibility from one account to another due to disordered back-ends, not to mention the inconceivability of linking accounts from one country to another. Yet again, there often is no birds'-eye view of the client. One risk profile and one strategy should dominate management of an entire client relationship.

Complex Needs at all HNWI Levels

There is an inflection point as a client's unfulfilled needs become more advanced and greater in number. Although the exact point differs by client, it usually corresponds with higher wealth segments and the movement away from mainly traditional asset allocation landscapes to more complex models containing alternative investments and foreign investment emphasis. As globalization takes hold and awareness rises, the inflection point at which people have more advanced needs drastically lowers in terms of HNWI wealth. Theoretically, their stand-alone needs are not complex, but the implications for providers meeting them requires substantial investment and reorganization. In the meantime, clients are taking on more advisors, even though personal preference would dictate fewer.

As managing wealth becomes more complex for HNWIs, the guidance they desire and expect will rise proportionally, all in the context of a single client strategy. Says the client: "Know me, know my business — and work with me according to how I do business!"

Creating a Global, Full-Service Wealth Management Provider

A Global Network to Match Global Needs

HNWIs' desire for advisor expertise in international products/markets remains unfulfilled; international operations will help fill this void. One possible solution: The construction of specialist wealth strategy teams that span the globe to act as a shared global service to offer more advice to specific segments of the client base. This business model can provide clients with desired information and insights into foreign markets. A select number of wealth management providers already employ this business model on a micro level, with product specialists serving a narrow geographic range. While expanding this strategy to achieve a global scale and scope would greatly improve service for clients, in order to establish an effective global network of specialist teams, relationship managers must be aware of and trained on all global offerings available to themselves and their clients.

This team approach could be implemented in other advisory offerings as well. For example, relationship managers could leverage groups of specialists to advise clients on wealth transfer, philanthropy and business owner services. These teams would commission attorneys and business analysts to integrate traditional topics of tax and estate planning, as well as others, such as business valuation. As the team member leading the collaboration of all the appropriate players, the relationship manager expands traditional service offerings, while strengthening the relationship with both the client and inheritors. In this way, clients could consolidate their assets within a single provider, which, in turn, would increase its share of wallet while working toward solving the issue of multiple-provider reporting.

Simplifying Reporting

One possible approach to improving reporting is to adopt institution-like frameworks. For example, a "family balance sheet" could provide a solution for aggregating accounts across products, regions and individuals, particularly for HNW clients that have children and families — which is the case for more than 80% of HNWIs. This concept builds on the corporate balance sheet, which while simple in theory, becomes increasingly difficult as HNWIs' investments and families expand internationally. A closer look at lessons learned from the institutional and corporate worlds may help overcome some of these issues.

Inherent in financial services companies are legacy systems and processes that were developed with an account-centric view. Today, many systems are incapable of meeting HNWI reporting needs: Firms should consider how to develop or invest in a system that reports on an entire household. This may require institutions to revamp current data and supporting applications. Financial institutions that have headed down this path have begun to develop and implement a Service Oriented Architecture (Figure 17).

Implications for Industry and Technology

To stay ahead of the increasing competition and to support ever-changing client demands, financial institutions have told us that they are planning to revamp and upgrade their wealth-management technologies. In support of this, advisors state that their firms' technologies are outdated and do not allow them to service their clients in an efficient manner.

A way to resolve this issue is to develop a wealth management Service Oriented Architecture, incorporating internal systems with third parties. This is the next evolution of the Virtual Service Network highlighted in the 2005 *WWR*, allowing firms to establish the IT architecture and enable a multi-channel advisor and client-service strategy.

Developing a Wealth Management Platform

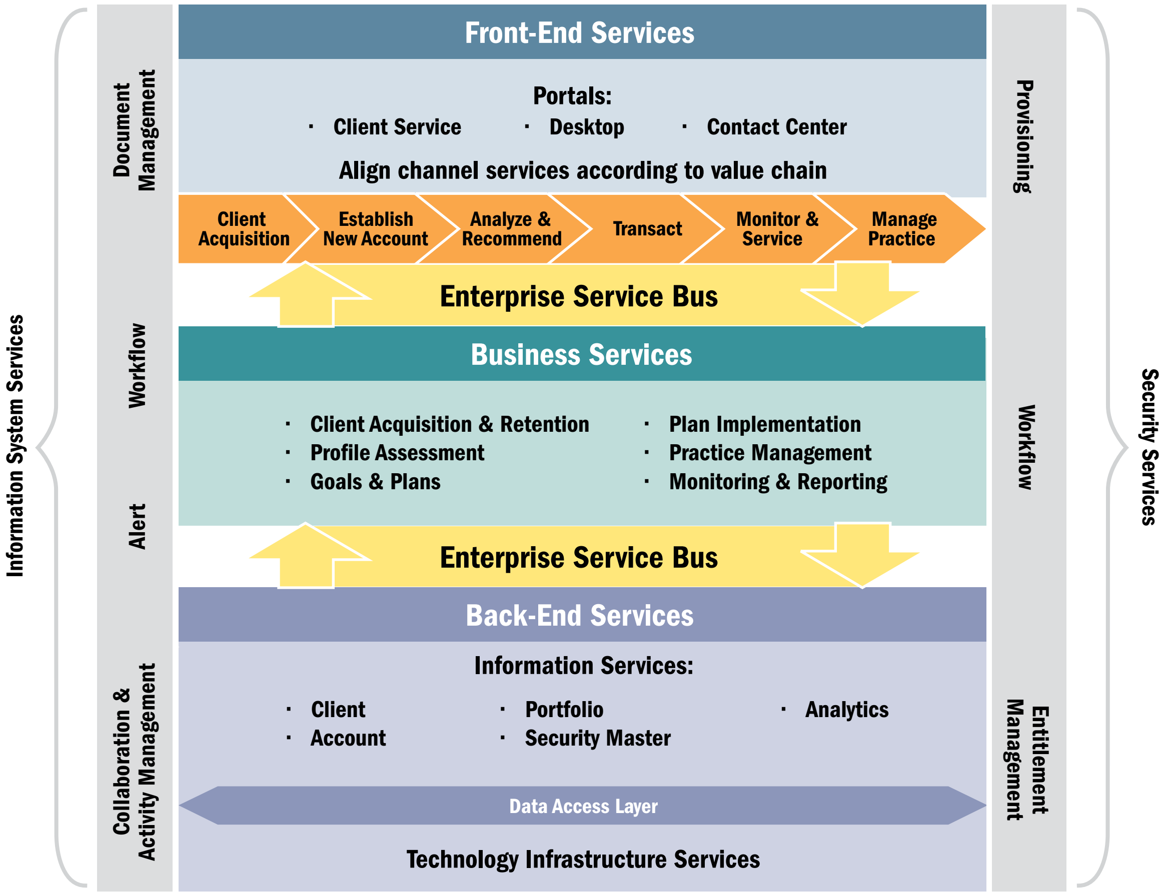
Many firms are upgrading platforms that advisors use to service clients. These platforms often are delivered by external vendors that have created solutions superior to current proprietary systems. Firms that leverage such investments in a next-generation workstation derive benefits from increased advisor productivity, improved client experiences, increased growth opportunities and increased advisor retention. To implement such systems, firms are developing an approach to evaluating vendor platforms across their business needs and their entire wealth management process.

Our research indicates that some of the functionality-needs in the workstation include:

- Intelligent alerts with dashboards that provide advisors with reminders/reasons to call their clients, data mining of relevant market portfolios and lifestyle alerts.
- Family and client insight with a comprehensive relationship view that allows an advisor to immediately answer common client questions such as, How am I doing?
- Integrated wealth planning that includes seamless integration of advice tools with client profiles and presentation builders.
- Product marketing catalog that matches clients' needs with relevant offers and delivers actionable product ideas to advisors.
- Client-review capabilities that deliver consolidated relationship-based reporting and reduce report-generation time, allowing advisors to conduct more frequent and enriched client assessments.
- Practice management capabilities that integrate branch and advisor performance dashboards and allow insight into client profitability.

Overall, as HNWIs embrace globalization, banks must provide a global offering with an adequate breadth of products and information to satisfy this demand. However, it will be more important to ensure that the solution or offering remains simple, transparent and understandable from a reporting standpoint to avoid any further aggravation for the client or advisors. To achieve this, institutions must invest in technology to create a global wealth management platform, enable an efficient global organizational operating structure and, most importantly, ensure that the advisor, the institution's face to the client, has the tools and support to service the client without increasing the administrative burden.

Figure 17. | **Wealth Management "Service Oriented Architecture"**



Source: Capgemini analysis

Appendix A: Methodology

The *WWR* covers 69 countries and territories in the market-sizing model, accounting for over 98% of global gross national income and 99% of world stock market capitalization.

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. It is updated on an annual basis to calculate the high net worth (HNW) population and its net financial wealth at a macro level. We believe that a top-down macro-economic model is a more accurate, exhaustive and reliable way to generate a HNW sizing than survey-driven analyses or other methodologies that often involve a large extrapolation of data gathered from a sample of the population.

The model is built in two stages: first, the estimation of total wealth by country, and second, the distribution of this wealth across the adult population in that country. Total wealth levels by country are estimated using national account statistics from recognized sources such as the International Monetary Fund and the World Bank to identify the total amount of national savings in each year. These are summed over time and adjusted to arrive at total accumulated country 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 wealth. Other adjustments include accounting for undeclared savings and foreign investments.

The wealth distribution, which differs by country, 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 country. The last step is to calculate financial wealth from our total wealth figure, by using statistics from countries with available data as well as primary research.

The financial asset wealth figure we publish includes the values of private equity holdings stated at book value as well as all forms of publicly quoted equities, bonds, funds and cash deposits. It excludes collectibles, consumables, consumer durables and real estate used for primary residences. Offshore investments are theoretically accounted for, but only insofar as countries are able to make accurate estimates of relative flows of property and investment in and out of their jurisdictions. We accommodate undeclared savings in the report.

In response to industry and media requests, two years ago we revised the methodology to move from reporting our annual findings at a regional to a country level. We continued with this approach in this year's report, validating our findings with local specialists in an expanded number of countries to broaden the coverage of the report.

Last year, we enhanced our macro-economic model with increased analysis of domestic economic factors that influence wealth creation. We worked, for example, with Capgemini and Merrill Lynch colleagues in more than 20 countries and territories to better account for the impact of domestic fiscal and monetary policies over time on HNWI wealth generation. We also refined our approach for gathering data and market-specific insights from Merrill Lynch's relationship managers by moving to an electronic survey. This elicited higher response rates and promoted greater accuracy of our results.

This year, in addition to all of the above, we conducted focus groups and individual interviews with a number of HNW and Ultra-HNW clients as well as with relationship managers, executives and product specialists around the globe. We also further refined our model to better reflect the changes in income and wealth distribution over the years; this resulted in greater precision when following wealth concentration in various countries.

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 had remained at the same level as in 2004, global wealth in 2005 would have been only 0.17% lower than our reported figure of US$33.3 trillion.

Model adjustments and continuous refinements mean that figures in the current report do not map directly back to those reported previously; in order to accurately compare wealth growth in 2004 to earlier years, the numbers for 2003 and 2004 were adjusted. Nevertheless, detailed analysis of our changes revealed that trends outlined in the previous reports hold largely true. Overall, global HNWI wealth declined slightly, by 0.4%, as a result of these changes.

We would like to thank the following people for analyzing, writing and compiling the findings of this report:

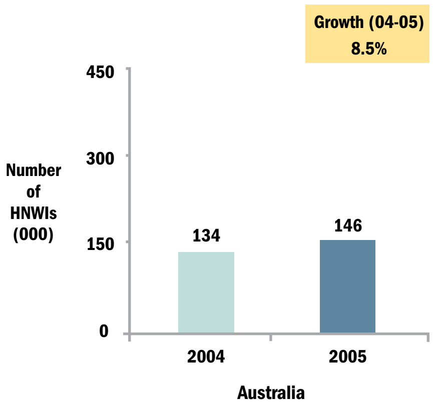
Benjamin Beauvalot, Ian Dumanis, A.J. Korytoski and Patrick McLaughlin from the Strategic Research Group.

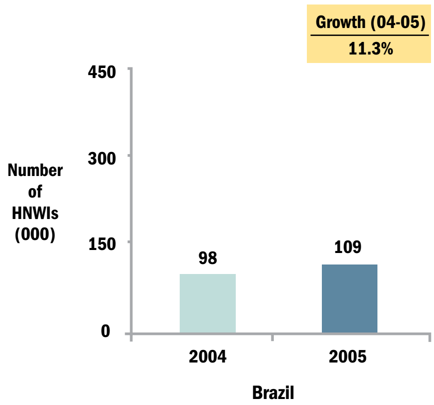
Petrina Dolby for her insights and overall guidance; Melanie Billet, Donie Lochan, Liz Witt from the Wealth Management Practice, for providing subject matter expertise, and Katharine Hoffman, for her exhaustive secondary research.

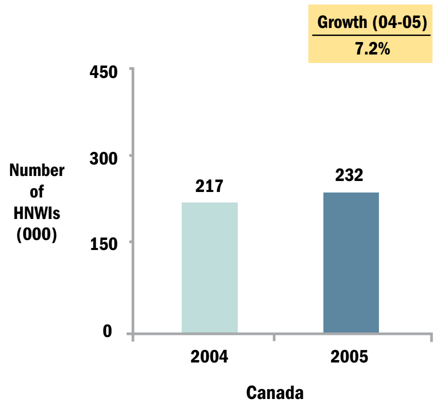
Jennifer Grigas, Erik Hendrickson and Michael O'Looney from Merrill Lynch, who provided invaluable industry perspective and research to ensure development of topical issues being addressed in the Financial Services industry; and the hundreds of relationship managers, product and market specialists who participated in surveys and interviews and provided access to clients to validate findings and add depth to the analysis.

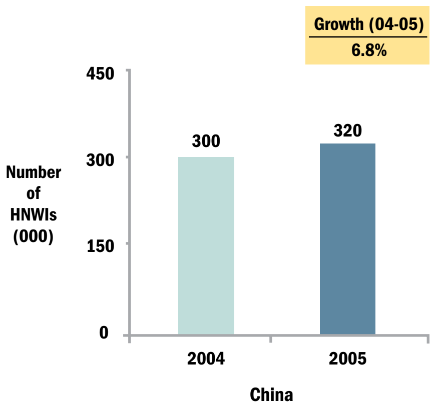
In addition to our own primary research, we would like to extend special thanks to: BMO Harris Private Banking, BNP Paribas Private Bank, The Economist Intelligence Unit, Family Office Metrics LLC, Ferretti Group, Forbes Inc., Forrester Research, The T. Stenner Group, The United States Internal Revenue Service, MSCI, Merrill Lynch Relationship Managers, VIP Forum, Rolls Royce, SECOR. We also acknowledge the many individuals and external groups who have engaged in ongoing dialogue to provide additional validation and perspective.

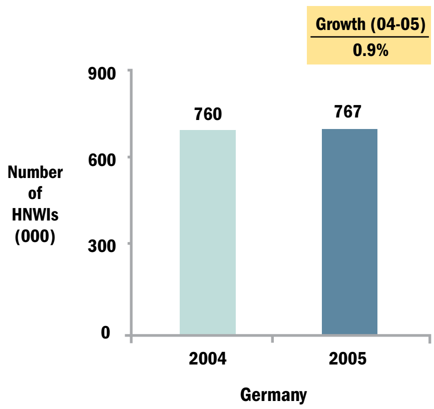
Appendix B: Selected Country Breakdown

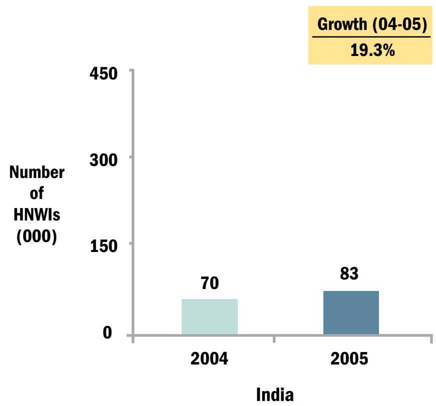


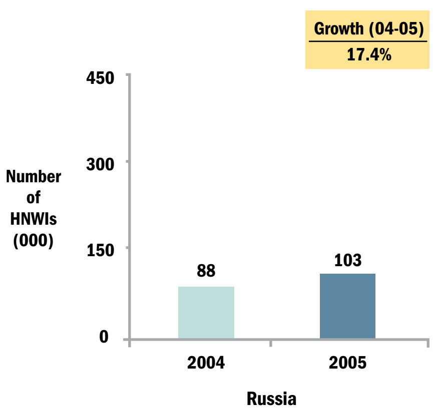


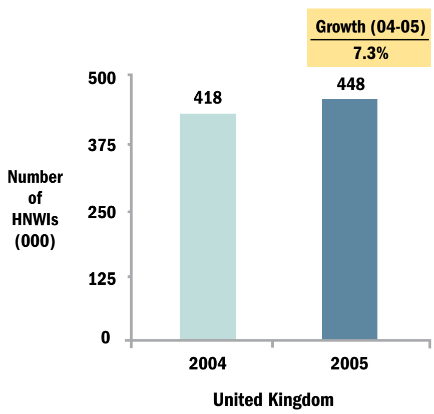


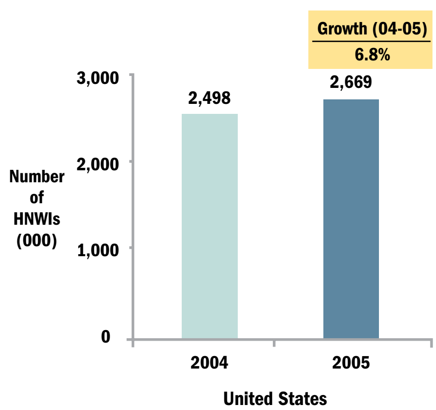












Source: Capgemini Lorenz curve analysis, 2006

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For more information, please contact Benjamin Beauvalot at Capgemini on
+1-617-768-5462

For Capgemini press inquiries, please contact Mike McNamara on
+1-212-314-8281 (North America) or Karen Cohen +1 631-757-5895
(Global)

For Merrill Lynch press inquiries, please call Erik Hendrickson on
+1-212-449-7293

Design: Andy Jacobson, Michael Syrquin (www.andyjacobson.com)
Editor: Iris Rosenberg

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