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The Merrill Lynch Cap Gemini World Wealth report summary

Article by Nick Tucker, Market Leader, UK & Ireland, Merrill Lynch Global Private Client

Nick Tucker, Market Leader, UK & Ireland, Merrill Lynch Global Private Client

The ranks of wealthy private investors are growing. Not only that, they better understand world markets and are more active in managing their portfolios, according to the latest World Wealth Report from Merrill Lynch and Capgemini.

The sector is growing faster than in recent years. The number of European individuals joining the ranks of wealthy investors rose substantially in 2006, but not as fast as those investors from emerging market countries, who are becoming more prominent.

At the same time, the report details ever clearer patterns of how the wealthy are becoming more ambitious with their investment choices and more sophisticated in

European wealth hits US$10 trillion

their understanding of the markets.

This means that for firms serving private clients, like Merrill Lynch, simply keeping up with the changes in tastes is no longer good enough. We also have to anticipate the individual needs of this ever more important group.

Mature European economies including Germany, France and the United Kingdom saw significant uplifts.

World wealth accelerates

2006 marked a return to growth in private wealth. Worldwide, the number of people with more than US$1 million in net investable assets grew by 8.3% to 9.5 million. Assets held by these high net worth individuals (HNWIs) grew by 11.4% year-on-year to US$37.4 trillion. These strong gains followed a slowdown in growth in 2005.

Wealth continues to consolidate with the assets of the ultra high net worth individuals (those with net investable assets of more than US$30 million) outpacing the wider HNWI population.

Fuelling this strong performance was the powerful combination of robust GDP growth and gains in world stock markets, as market capitalisations accelerated in most regions of the world.

Mature European economies including Germany, France and the United Kingdom saw significant uplifts in real GDP growth. Key emerging market economies, notably China and India, managed to improve on already fast-paced economic growth.

The Dow Jones World Stock Index grew by 16.4% in 2006 compared with 9.5% in 2005. HNWIs took ad-

"The new private investor is wealthier, nimbler and more sophisticated."

Merrill Lynch

vantage of booming stock markets in Europe, Asia Pacific and Latin America. For example in Asia, the Shanghai/Shenzhen market capitalisation grew by 220.6% - largely due to new companies floating.

European wealth hits US$10 trillion

Europe enjoyed its strongest year of wealth growth since 2000 with total high net wealth reaching the benchmark level of US$10 trillion, thanks in part to greater business confidence.

Numbers of HNWIs in the region grew by 7.8%, easily surpassing growth in the previous 12 months of 4.9%. Among the EU 27 nations the high net wealth population grew by 6.4% - comfortably ahead of gains in 2004 -2005 of 4.6%.

GDP growth levels in the EU, while not spectacular, were a significant improvement on 2005. Italy, for example, moved from stagnation (0.1% growth in 2005) to growth of 1.7% in 2006. More tellingly, economic sentiment in November 2006 reached its highest level since January 2001. For example, Germany's IFO Business Climate Index in December 2006 hit its highest level since it was rebased in 2000.

Business confidence was a key factor in France and the UK where the high net worth population grew at faster rates in spite of slower stock market growth than 2005. France had 6% more HNWIs by the end of 2006 and the UK 2.7%.

Ultra high net worths with net investable assets of more than US $30million are outpacing the wider HNWI population

France had 6% more HNWIs by the end of 2006

Emerging markets gather pace

HNWIs in emerging markets are growing at a pace that reflects the speed of wider development in these dynamic economies. Asia's star performers were Singapore and India – whose high net worth populations each grew by in excess of 20%. India registered its 100,000th US dollar millionaire.

Russia's wealthy population grew by 15.5% to reach 119,000. The United Arab Emirates saw its high net wealth population grow by 15.4%.

Both countries benefited from the high price of fossil fuels. Russia was also boosted by the rapid development of its stock market. Many large state-owned companies had their initial public offerings and shares of several Russian banks more than doubled in value.

Africa, meanwhile, benefitted from high commodity prices which boosted foreign direct investment in mining and exploration. The continent's high net worth population increased 12.5% and wealth grew by 14%.

Alive to market trends

HNWIs demonstrated

Russia's wealthy population grew by 15.5% to reach 119,000

in 2006 just how nimble they have become, shifting portfolios to adapt to prevailing market. After the rush towards alternative assets, such as hedge funds, in the earlier years of this decade, wealthy investors took a sizable step back in 2006 responding to

HNWI's have shifted allocations into real estate

HNWI allocations to alternative assets halved from 20% to just 10% last year.

relatively poor performances by such assets as hedge funds. They liquidated large quantities of these investments and increased allocations to the real estate market, taking advantage of a surge towards record prices in the sector.

Allocations to alternative assets halved – from 20% of HNWIs' financial assets in 2005 to just 10% last year.

Though superficially significant, Merrill Lynch believes that this was a tactical move by HNWIs, rather than a long term movement from assets such as hedge funds, commodities, foreign exchange and structured products. Merrill Lynch projects allocations to alternative investments to climb back to 13% in 2008.

Just as they spotted the dip in alternative assets HNWIs around the world identified the opportunities for higher returns in real estate, shifting allocations to 24% of portfolios, up from 16% in 2005.

They did so as commercial real estate prices shattered records in 2006, largely due to a wave of consolidation among US real estate companies. Furthermore pension funds, foreign investors, real estate investment trusts (REITs) and private equity funds drove prices skywards as they competed for the same real estate properties.

Returns on REITs, funds that buy and manage income-earning property, outperformed equities for the seventh year in a row. The US Real Estate Index made gains of 34.4%, up from

Merrill Lynch

ML GPC article by Nick Tucker

Europe, Asia Pacific and Latin Americans now invest 27% of assets outside domestic markets

8.3% in 2005. HNWIs are more resilient than others to dips in residential property prices. They typically hold half of their real estate assets in second homes without mortgages – leaving them far less exposed to higher borrowing rates.

As well as showing adaptability, HNWIs are acquiring a greater taste for less familiar markets. North American investors in particular are becoming more global, driven by greater awareness of international developments, better portfolio performance and risk management. Wealthy North Americans increased allocations to Europe, Asia-Pacific and Latin America. They now invest 27% of assets outside domestic markets compared with 22% in 2005.

Taste for SRI

A third important trend among wealthy investors is their increasing consciousness of social and environmental concerns. More HNWIs want to invest in companies and financial products that share and reflect their concerns.

Globally, socially responsible investments form 8% of the HNWI asset pool. Investors in Asia-Pacific lead the way with a 14% allocation to SRI. North American and Middle Eastern investors allocate 8% while Europeans allocate a below average 6%.

More than 160 investors, investment managers and corporations representing US$5 trillion in assets, had by the end of 2006, signed up to the "Principles for Responsible Investment" – a project co-ordinated by the United Nations that seeks to raise environmental, social and governmental issues among investors.

Increasingly, it is becoming easier to find opportunities to invest in and support green

"HNWI's are acquiring a greater taste for less familiar markets. North American investors in particular are becoming more global.

Citywealth Monaco

Citywealth proudly presents the inaugural

European Top 100 Awards

Wednesday 10th October 2007
Hotel de Paris, Monaco

Following the great success of the UK & USA Top 100 series, Citywealth is pleased to announce this unique and exciting new event.

Designed to honour the most highly regarded individuals in the UHNW private client & wealth management industry, the European Top 100 will award the top private bankers, investment managers, lawyers, accountants & trust professionals in key markets across the continent.

The European Top 100 list will be released in September, with the formal awards presentation and gala dinner taking place at the Hotel de Paris in Monaco on 10th May.

What better to way to network, build relationships & entertain Europe's key UHNW advisers & wealth managers? The price of hosting a table of ten is £5,000 plus VAT – due to high interest, early booking is advisable.

To book your table or for further information, contact Karen Jones
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ML GPC article by Nick Tucker

More HNWI's want to invest in companies and financial products that share and reflect social and environmental concerns

technologies. Large institutions, such as corporations and venture capital firms are backing development of new fuels such as ethanol and fuel cells. Globally, more than US$70 billion was invested in green technologies in 2006, up 43% on the previous year.

Lessons for the industry

What is crystal clear from the report is just how important it is to listen to investors. Financial firms serving this dynamic community have to pay acute attention to the ever more specialised needs of their clients.

From the lower wealth bands to the richest, clients across the board agree that good service quality more than any other factor keep them loyal to a wealth management firm. Furthermore clients rely heavily on advice and recommendations from friends and family in choosing a wealth manager.

Listening to and taking the effort to learn more about their clients is putting wealth managers in a better position to the identify new and more adventurous investment opportunities that investors appear

Merrill Lynch

Investors in Asia Pacific lead the way with a 14% allocation to SRI

Press partners

Merrill Lynch

Clients rely heavily on advice and recommendations from friends and family in choosing a wealth manager

increasingly to want.

Successful, dynamic approaches to wealth management include segmenting clients in a more sophisticated way than simply by assets under management. Interests, cultural background and financial behavioral attributes are important factors in aligning clients with the right products.

Globally more than US $70billion was invested in green technologies in 2006 up 43% on the previous year.

Secondly, firms must constantly assess whether their product range and approach is good enough to keep their clients happy over the long term. Their strategy must keep up with the market.

Thirdly, as technology evolves rapidly firms must take care to ensure they are delivering services through the channels that clients want. Some might want a single advisor, others prefer teams. Some like online private banking while others prefer to speak to someone on the phone. These preferences do not tend to correlate with specific levels of wealth.

By following these ideas, financial services firms can aspire to strengthen client relationships, increase investment activity and, ultimately, build a richer bond with their wealthy clients. ©

"It is important to listen to investors."

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Industry news

Forsters raise money for charity at their annual bash

At the recent, annual Forsters party held at their offices in Hill Street, they used the event to raise money for Centrepoint offering a prize of two tickets to the Live Earth concert in VIP style. Winners were James Cave, Salisbury Partners and Nick Searl, European Land & Property Ltd.

www.forsters.co.uk

Credit Suisse Guernsey join ARC, PCI's

The ARC Private Client Indices now have twenty one participating managers. The service which asks investment managers to reveal, confidentially their true and honest positions provides analysis for intermediaries.

Clarke Willmott, Bristol hires Mary McCartney from TLT

She was previously head of the tax and estate planning team. They also announced two other partner hires: Greg Lovett, formerly Bevan Brittan Oliver Smedley previously Burges Salmon.

Merrill Lynch riding high in the latest PAM global wealth management rankings

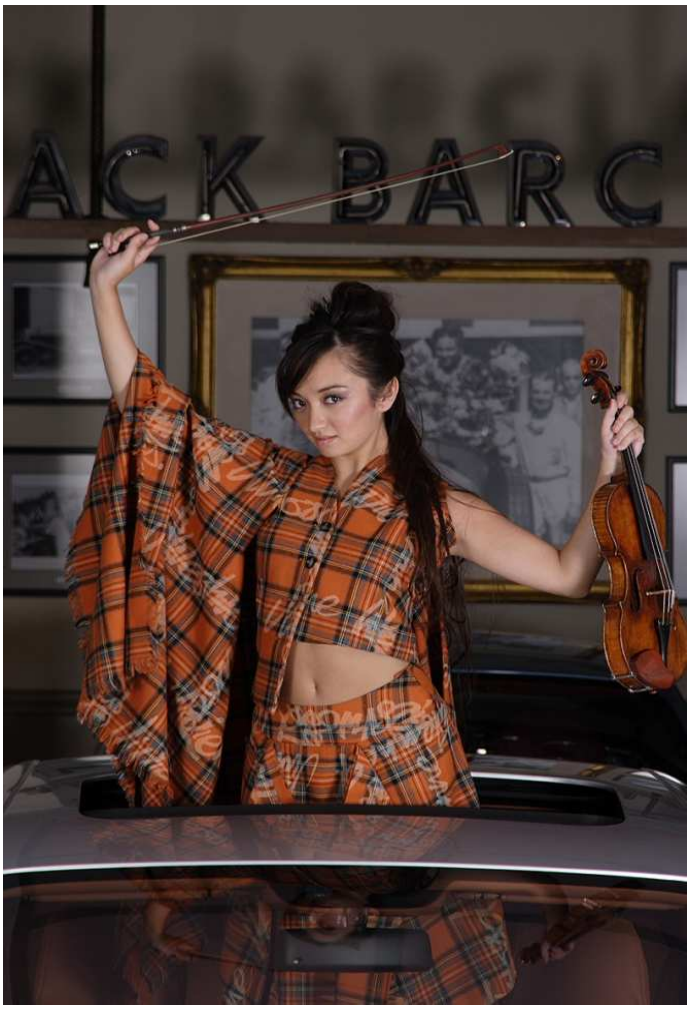
PAM, a product of Truest publishing has released a list of the top 40 global wealth managers. By assets under management Merrill Lynch come first with $1,620 billion, although year on year growth is 11%. The most remarkable changes are with EFG Bank who have produced a 56% change between '05-'06. Nordea are not far behind with 47%. UBS grew AUM by 13% over this period beating Credit Suisse with 12%. For a full list of the figures please contact:

janderson@tru-est.com

Figures quoted are approximate but represent accurate rankings.

Philanthropy and charity

Appeal: Diana Yukawa set to break Europe with your help



Diana Yukawa, an international solo violinist, is looking for a solution to finance independently the completion of her third album of new music

Diana is urgently seeking £50,000 to enable the filming for a documentary following her around Japan, documenting the creative journey she will go through to create an album. This is due to be filmed next month and will co-inside with the anniversary of the JAL 123 crash in which her father died just over 22 years ago (3 weeks before Diana was born) - which is where the story will begin.

The documentary will be released and used as part of a campaign to promote the release of the album.

In regards to the returns for investors - the intension is to offer all those who financially contribute, a percentage cut in the profits of the final album sales. This percentage would depend on the amount contributed by each investor. Based on Diana¹s first album, 30,000 units were sold in Japan and the return was almost four times the more than the cost to produce it.

With the final budget not quite being complete they are unable to offer clear figures and return details for the investors but are prepared to offer security in the Francois Tourte bow. The bow is worth £100,000. The suggestion is a contract is drawn up between Diana and her advisers and the investor for security of £50,000 against the bow.

Citywealth advice: Professional advice should be sought before entering into any transaction of this nature.

Contact Diana's mother

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Business travel

The Sentosa, Singapore

The Sentosa', one of the small luxury hotels of the world is located at the southern tip of the Malay Peninsula. A narrow channel separates the island that was our destination from the mainland. Driving past various forms of wildlife including a number of peacocks that were shortly to be seen wandering around the breakfast terrace we arrived at the top of a cliff with views over the South China Sea and spread over 27 acres of landscaped water gardens and tropical woodlands. 10 minutes from downtown Singapore 'The Sentosa' is the perfect place to relax.

We were welcomed as though we had arrived at a friend's house, through reception in no time. Five minutes later (The Sentosa is spread over a large area) we arrived at our room. A smallish hallway lead into a delightful lounge area complete with sofas, 42 inch plasma TV, DVD, CD but most importantly of all for a ho-

Business travel

Southern tip of the Malay peninsula

tel of this calibre a peaceful aura and views out into the lush gardens.

You can wander back through the hallway to a natural stone bathroom, a huge shower, bath and basin as well a plentiful supply of towels and natural products. Through another doorway to the bedroom, again natural light filtering through the vegetation outside gave a very peaceful feel to the room. The bed being the centre piece of the room (as it should be) it becomes very simple to just lay down and relax. Storage surrounds the room and another 42” plasma and Bose sound centre giving you everything you need.

The hotels restaurant the Cliff is widely recognised as one of the leading restaurants in Singapore. It is laid out in sections and whilst you can see the whole restaurant from wherever you sit, including the chefs at work in the kitchen you still feel you have your own space. It is one of the best places to watch the sun go down over the South China Sea.

After all that food and drink has been digested you could take a dip in the magnificent midnight pool, visit the gym, use one of the tennis courts, hire some mountain bikes, try your hand at volleyball or have a round at the Sentosa Golf Club, renowned for two of Asia’s bet courses. They also have a new tropical garden destination spa.

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