United States Wealth Report 2014

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RBC Wealth Management

Preface

Capgemini and **RBC Wealth Management** are pleased to present the first *United States (U.S.) Wealth Report*, which adds to our ongoing wealth-focused joint thought-leadership reports, including the *World Wealth Report* and the *Asia-Pacific Wealth Report*. The *U.S. Wealth Report 2014*, presented in four parts, offers an in-depth examination of historical and current trends in the wealth patterns of high net worth individuals (HNWIs[1]) in the U.S. and the drivers behind their wealth.

Our report also measures the levels of trust and confidence U.S. HNWIs have in the wealth management firms that serve them, tracks shifts in HNWI investment preferences over the years, and assesses HNWI attitudes toward digital channels. Finally, our report examines HNWI approaches to driving social impact, highlighting attitudinal shifts that may have implications for firms striving to meet the needs of their socially conscious clients.

Findings of the report come from an in-depth survey of HNWIs across the country conducted in January and February of this year. The Global HNW Insights Survey we created and executed in collaboration with Scorpio Partnership generated responses from more than 1,000 HNWIs across the U.S.

Our first report on U.S. HNWI wealth depicts a story of growth. The U.S. economy and market sentiment grew steadily, as did U.S. HNWI trust in all aspects of the wealth management industry, both of which energized risk appetites in 2013. The improved investor sentiment helped generate record growth in the population and wealth of U.S. HNWIs, much of which could be traced to economic activity in the top 12[2] metropolitan statistical areas (MSAs)[3] of the country and strong performance by the ultra-HNWI[4] segment.

While the picture of growth in this year's report is positive, there are signals that wealth management firms may need to work harder to continue to win the favor of younger U.S. HNWIs. While wealth management firms today are reaping the benefits of expanding HNWI population and wealth, they cannot afford to ignore impending shifts in HNWI attitudes and preferences as younger HNWIs gain prominence.

Consider our first-ever report on the U.S. wealth management industry to be a critical tool in helping you understand the HNWI market. We hope that this report will leave you better prepared for developing effective strategies.

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1 HNWIs are defined as those having investable assets of US$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables

2 Ranked by 2013 HNWI population

3 Metropolitan statistical areas (MSAs) are geographic entities defined by the U.S. Office of Management and Budget (OMB). In our analysis, we will abbreviate to "metro areas" and "cities", but in all cases we are referring to MSAs as defined by the OMB, which generally include the named city as well as many important neighboring counties

4 For the purpose of our analysis, we separate HNWIs into three discrete wealth bands: those with US$1 million to US$5 million in investable wealth (millionaires next door); those with US$5 million to US$30 million (mid-tier millionaires) and those with US$30 million or more (ultra-HNWIs)

Executive Summary

THE FINDINGS OF OUR REPORT ARE ORGANIZED INTO THE FOLLOWING FOUR THEMES.

WEALTH GROWS BY RECORD AMOUNTS

- U.S. HNWI wealth and population grew to record levels of 4.0 million and US$13.9 trillion in 2013.
- Strong performance of the ultra-HNWI segment and many of the top 12 MSAs drove the overall U.S. HNWI wealth and population growth in 2013.
- Dynamic cities of Houston, Dallas, and San Jose with ties to fast-growing industries like technology and energy have helped spur HNWI wealth growth since 2008.

U.S. ECONOMIC RECOVERY IN 2013 SET STAGE FOR RECORD WEALTH GROWTH

- Healthier economic sentiment in 2013 paved the way for record HNWI population and wealth growth in the U.S.
- Investors embraced the more positive outlook and enhanced risk appetite as the U.S. equity markets and real estate markets witnessed significant gains in 2013.
- Houston, Dallas, and San Jose performed strongly on most economic and market parameters, while Detroit's performance was below par.

INCREASED TRUST PROPELS GROWTH-FOCUSED INVESTING

- The U.S. HNWI trust in the wealth management industry and landscape, increased by double-digit points in Q1 2014, placing the U.S. higher than most of its developed-country peers.
- Increased trust levels led to greater risk appetite as U.S. HNWIs indicated increased allocations to alternative and foreign investments in Q1 2014.
- In line with high trust levels, U.S. HNWIs scored their wealth managers very high in terms of performance, but the overall scores dropped from 2013.
- Younger HNWIs in the U.S. had higher preference levels for digital contact over direct contact and they also showed a higher propensity to leave in the absence of integrated channel experience being provided by their wealth management firm.

DRIVING SOCIAL IMPACT IMPORTANT, ESPECIALLY AMONG YOUNGER U.S. HNWIs

- Driving social impact is important to U.S. HNWIs of all wealth levels, ages, genders, and geographies, with 88% describing it as important and over half describing it as very or extremely important.
- Younger and female HNWIs in the U.S. are more likely to invest time, money and expertise in social causes, as they indicated higher importance for driving social impact.
- Even though younger U.S. HNWIs had higher expectations of support compared to their older counterparts (88.0% vs. 43.6%), they were the most satisfied with the level of social impact support received.

U.S. HNWI Wealth Grows by Record Amounts

- **Continued economic recovery in the U.S. propelled wealth and population growth to record levels in 2013.** U.S. HNWI population and wealth expanded at their fastest rates since the *World Wealth Report* began in 1997: HNWI population grew by 16.6% to 4.0 million, and wealth by 17.7% to a record US$13.9 trillion.
- **Robust economic activity in many of the top 12 MSAs and strong performance by ultra-HNWIs drove HNWI wealth and population growth.** Eight of the top 12 cities registered above-average HNWI wealth growth in 2013. In addition, U.S. ultra-HNWIs outperformed other HNWI segments in the U.S., increasing their ranks by 18.6% and their wealth by 19.8%.
- **Dynamic cities with ties to fast-growing industries like technology and energy have helped spur HNWI wealth growth since 2008.** While the top five cities for HNWI population remained the same, three of the four fastest-growing metro areas for HNWI population and wealth are the dynamic markets of Houston, Dallas, and San Jose. The growth pattern to emerge since 2008 signals greater diversity in the geographies and industries contributing to U.S. wealth creation.

MANY TOP 12 MSAs DRIVE U.S. HNWI WEALTH GROWTH

The after-effects of the financial crisis subsided in 2013, as U.S. HNWIs registered record leaps in wealth and population, affirming the strength of the rebound in U.S. economic sentiment and financial markets.

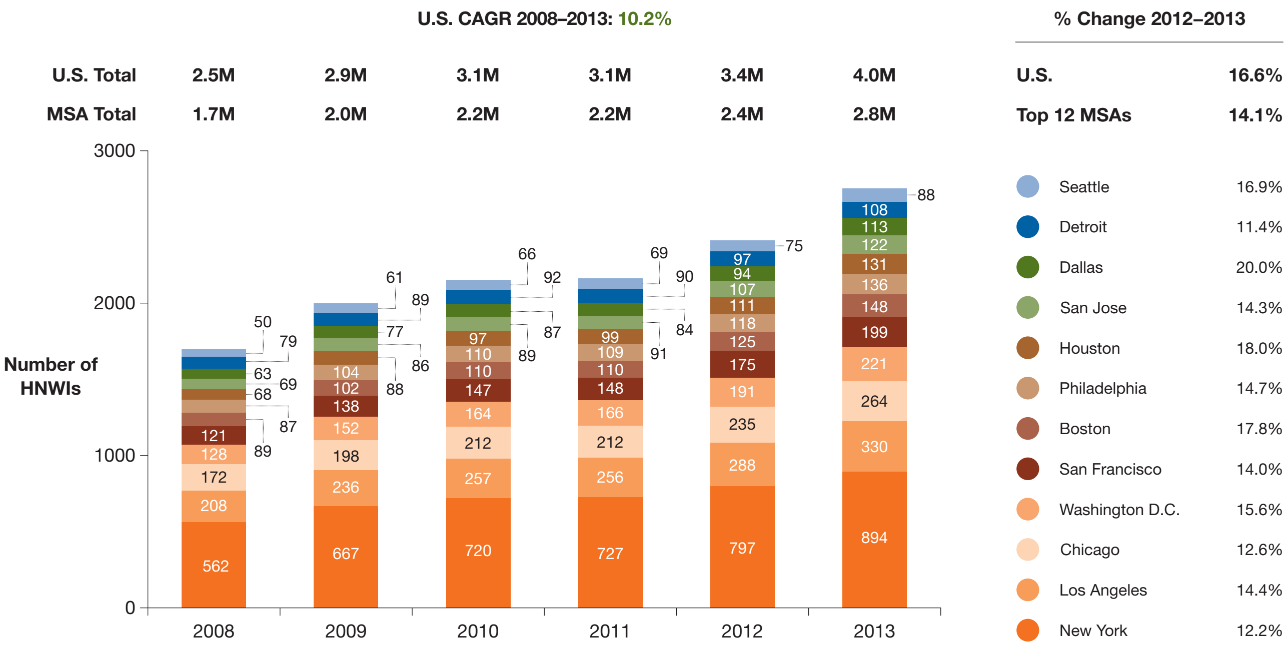
The ranks of U.S. HNWIs grew at the fastest rate since our coverage began in the 1990s (16.6%), adding 600k to bring the total number to a record 4.0 million (see Figure 1). The wealth of HNWIs increased US$2.1 trillion in 2013–which was also the largest by far since our study began, signaling lasting movement away from the debilitating impact of the financial crisis. This increase in wealth represented a growth rate of 17.7%, pushing HNWI wealth to a record total of US$13.9 trillion (see Figure 2).

HNWI wealth thrived in the country's largest MSAs. Most wealth was concentrated within the top 12 metropolitan areas, where 69% of HNWIs reside and hold assets representing 75% of the country's HNWI wealth. Eight of the top 12 cities had above-average advances in HNWI wealth in 2013, helping to drive overall growth in the U.S.

New York City remains the epicenter of U.S. HNWI wealth. As home to US$3.2 trillion, it far exceeds the US$1.2 trillion that resides in Los Angeles, the second-largest MSA. Overall, New York accounted for 23.3% of U.S. HNWI wealth and 6.2% of global HNWI wealth, while Los Angeles made up 8.6% and 2.3% of U.S. and global HNWI wealth, respectively. Despite its size, New York was one of only three cities out of the top 12 to experience wealth growth that was less than the U.S. average.

FIGURE 1. U.S. and Top 12 MSA HNWI Population, 2008–2013

(000s)

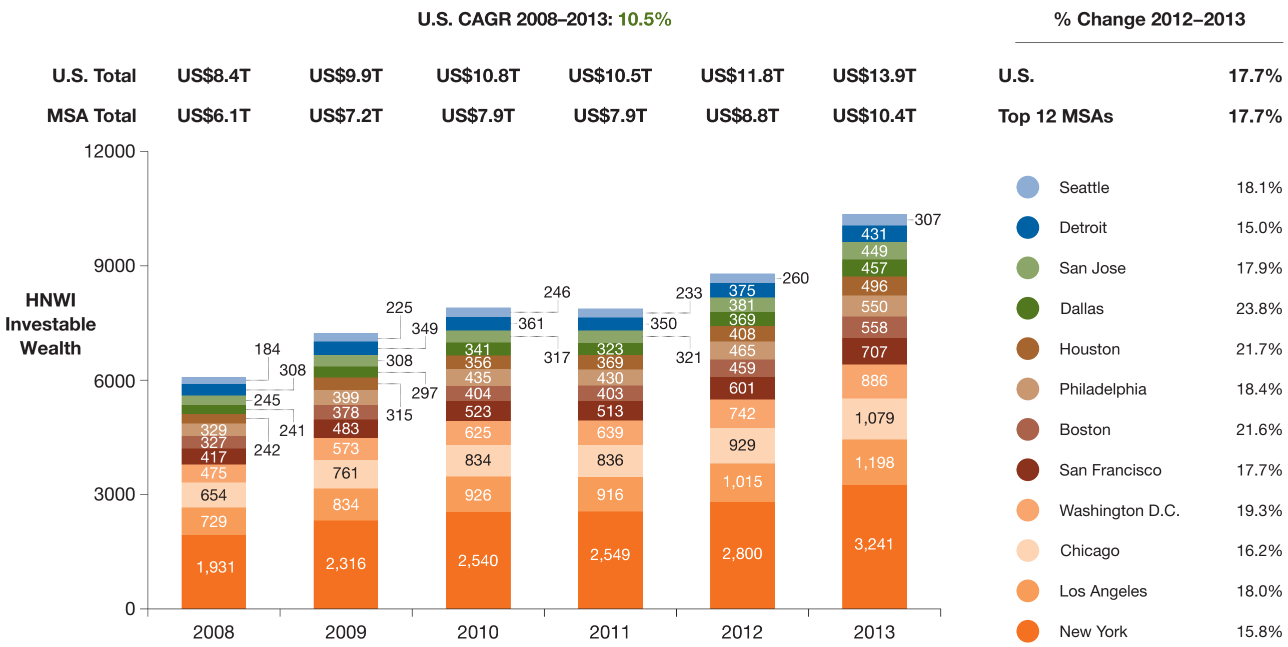


Note: The totals for all years are expressed in millions and the 000s in the chart title do not apply to those numbers; Chart numbers and quoted percentages may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2014

FIGURE 2. U.S. and Top 12 MSA HNWI Wealth, 2008–2013

(US$ Billion)



Note: The totals for all years are expressed in US$ trillion and the US$ billion in chart title does not apply to those numbers; Chart numbers may not add up due to rounding

Source: Capgemini Financial Services Analysis, 2014

New York also has the highest number of HNWIs. Its HNWI population of 894k is almost three times the size of second-place Los Angeles, with 330k HNWIs. Yet New York had the second-lowest HNWI population growth rate (12.2%), beating out only Detroit (11.4%), which filed for the largest municipal bankruptcy in U.S. history in 2013, likely limiting HNWI growth. New York's performance contrasts with that of its East Coast peer, Boston, which experienced the third-fastest HNWI population growth after Dallas and Houston, and benefited from more-than-double real estate growth compared to New York.

The Texas cities of Dallas and Houston were standouts. They recorded the most aggressive rates of HNWI wealth growth, both in 2013 and over the last five years. Dallas and Houston were also the largest gainers in HNWI population, aided by strong growth in gross metropolitan product, personal income, and real estate (see page 12 for more details). On the strength of its 20.0% HNWI population growth, Dallas entered into the ranks of the top 10 for the first time, pushing out Detroit.

ULTRA-HNWIs OUTPERFORM ALL OTHER U.S. HNWI SEGMENTS

Ultra-HNWIs in the U.S. expanded their ranks and their wealth more than any other HNWI segment. Their population grew 18.6% and their wealth grew by 19.8% in 2013, driving growth throughout the country and even impacting growth at a global scale. Though this wealth band comprises only 1.2% of the total population of U.S. HNWIs, it accounts for 27.9% of U.S. HNWI wealth. Globally, this band controls more than 7% of all HNWI wealth, compared to only 2.3% and 0.9% for ultra-HNWIs in Germany and Japan respectively, the second- and third-ranked markets by overall HNWI population.

"Mid-tier millionaires", with between US$5 million and US$30 million in assets, make up 9.2% of the total HNWI population in the U.S. and hold 24.2% of its wealth. Their rates of population (17.5%) and wealth (17.6%) growth lagged behind ultra-HNWIs by 1.1 and 2.2 percentage points, respectively. The "millionaires next door", with between US$1 million and US$5 million in assets, represent 89.6% of the U.S. HNWI population and 47.9% of its wealth. Continuing a trend, the population and wealth of this wealth band grew by one percentage point less than the mid-tier millionaires.

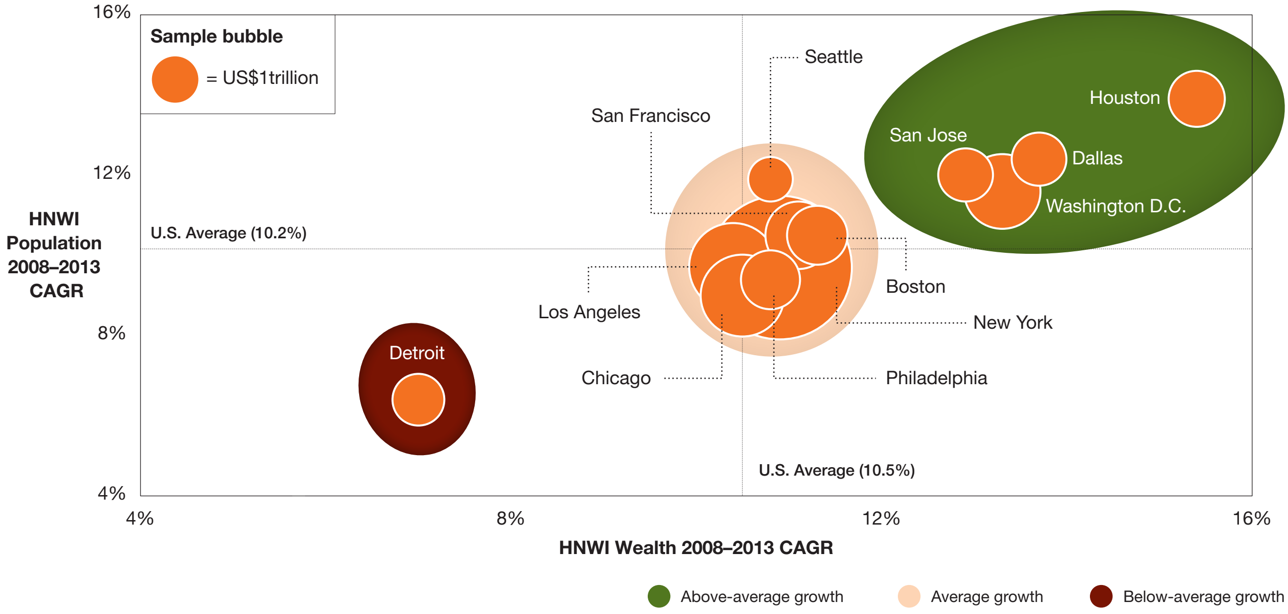
NEW PATTERNS OF DOMESTIC WEALTH CREATION EMERGE

With HNWI wealth mostly concentrated along the country's East and West Coasts, the recent strong growth in Dallas and Houston represents a departure from the norm. Propelled by expanding oil production, and ample land in Texas, both cities recorded the strongest rates of growth of the 12 largest cities in gross metropolitan product and personal income in 2013 (see page 10 for a more detailed overview of economic factors on HNWI population and wealth growth). This performance, combined with a climb in property prices of about 10% in both markets, as well as strong U.S. equity market results, pushed the two cities, along with Boston and Seattle, to HNWI population growth that was higher than the U.S. average.

A new pattern of wealth creation in the U.S. appears to have emerged over the five years from 2008 to 2013. Three of the four fastest-growing cities in HNWI population and wealth are the dynamic cities of Dallas, Houston, and San Jose (see Figure 3). Each features strong local economies built upon fast-growing industries–energy for Dallas and Houston, and software and technology for San Jose. Ranked at the bottom of the top-ten cities in terms of HNWI population, they are not yet threatening to break into the top five (New York, Los Angeles, Chicago, Washington D.C., and San Francisco), which have held the same rank at the head of the pack every year since 2008. Yet the emergence of the fast-growing smaller cities indicates that U.S. wealth creation is shifting to include a broader mix of geographies and industries.

FIGURE 3. HNWI Population and Wealth Compounded Annual Growth Rates (CAGRs) for Top 12 U.S. MSAs, 2008–2013

(%)



Note: Size of the bubble represents HNWI wealth in 2013
Source: Capgemini Financial Services Analysis, 2014

U.S. Economic Recovery in 2013 Set Stage for Record Wealth Growth

- **Healthier economic sentiment in 2013 paved the way for record HNWI population and wealth growth in the U.S.** The favorable environment featured a surging risk appetite, decreasing unemployment, a continuation of the U.S. energy renaissance, and a sharply lower fiscal deficit.
- **Investors embraced the more positive outlook as the equity markets surged and real estate prices increased.** The MSCI U.S. index rose by 29.9% in 2013, the biggest annual gain since 1997.
- **Houston, Dallas, and San Jose performed strongly on most economic and market parameters, while Detroit's performance was below par.** Economic performance in these fast-growing markets, which was driven by momentum in the technology and oil and gas industries, led to large increases in HNWI population and wealth in those areas (see page 8).

IMPROVED FUNDAMENTALS FUEL OPTIMISTIC OUTLOOK

U.S. HNWI wealth grew at record levels in 2013, against a backdrop of strengthening fundamentals and a return to normal levels in equity valuations, with room for further growth. With the U.S. gross domestic product maintaining steady growth, unemployment coming down, the deficit dropping, and oil production rising, many of the elements essential for a continued economic recovery fell into place. The interplay of these developments contributed to rising risk appetite during 2013, fueling enormous gains in the U.S. equity markets and laying the groundwork for accelerated wealth growth throughout the U.S.

U.S. GDP expanded by a modest 1.9% in 2013, aided by strong third-quarter growth of 4.1% (see Figure 4). Increased private sector spending helped propel GDP growth, while reduced government spending constrained it. Economic sentiment improved throughout the year, as investors focused on the strong performance by the private sector. Corporate profits after taxes hit historical highs in 2013, putting them well above pre-recession[5] levels. More recently, while 2014 did not start on a good note with U.S. GDP contracting by 2.9% (annualized rate) in the first quarter, as per the initial estimates, it rebounded strongly in second quarter of 2014 to grow by 4.0%.[6]

Unemployment in the U.S. has been dropping steadily since 2010, helped especially by job creation in the retail and construction sectors, as well as changes in the labor force structure. Ten of the top 12 metropolitan areas in the U.S. increased employment, with the California cities of San Jose, San Francisco, and Los Angeles experiencing some of the biggest turnarounds, with unemployment rates decreasing by 1.7, 1.6, and 1.2 percentage points, respectively. Only Boston and Chicago saw unemployment rise by 0.1 and 0.3 percentage points, respectively[7].

[5] Pre-recession refers to the period before 2007

[6] Real GDP Rates, Bureau of Economic Analysis, August 2014

[7] Unemployment Rates, U.S. Bureau of Labor Statistics

FIGURE 4. U.S. Real GDP Growth Rates, 2010–2013

(%)

Source: Capgemini Financial Services Analysis, 2014; Bureau of Economic Analysis, U.S. Department of Commerce, Technical Note, January 30, 2014, available at http://www.bea.gov/newsreleases/national/gdp/2014/pdf/tech4q13_adv.pdf

After years of declining oil production, the U.S. is beginning to reap the benefits of rapid, widespread development of new sources of shale oil, transforming the country into the largest producer of oil in the world.[8] In July 2014, U.S. oil production topped 8.5 million barrels per day, a level not achieved since April 1987. Not only is the increased production expected to constrain oil prices and related price inflation (barring disruptions in the Middle East), but it should help turn the country into a net exporter of oil and natural gas, improving the strength of the U.S. dollar, the jobs market, the competitiveness of U.S. manufacturers, and the balance of payments.

Reduced government consumption constrained GDP growth, masking strong private-sector performance. The upside of reduced government spending (along with increased taxes) was a dramatically lower federal deficit, reversing the highest peak (since 1945) reached in 2009. In fiscal 2014, the deficit as a percentage of GDP is expected to fall below the 40-year average of 3.1%. The expected US$280 billion deficit would be the country's lowest since the financial crisis of 2008-2009.

POSITIVE SENTIMENT SPURS MAJOR GAINS IN EQUITY MARKETS, REAL ESTATE PRICES

As fundamental aspects of the U.S. economy fell into place, both the Federal Reserve and investors responded positively. The Federal Reserve began a slow and deliberate unwinding of its bond-buying program towards the end of the year, with the goal of timing the tapering to coincide with continued improvement in the economy, possibly in late 2014. After some initial hesitation, investors embraced the Federal Reserve's pullback, viewing it as a signal of the economy's ongoing strength.

Out of the positive sentiment came a tremendous rise in the equity markets. The MSCI U.S. index rose by 29.9% in 2013, marking its biggest annual gain since 1997. The 2013 result was a major turnaround from 2008, when the index fell by 38.6%, and a large improvement over the 13.5% gain in 2012. Overall, the index gained 152% from the lows of February and March 2009 through the end of 2013. While upbeat sentiment and normalizing valuations drove index performance in 2013, future growth is expected to come from stronger earnings as corporations build upon the historic profits reached in 2013.

[8] "U.S. surges past Saudis to become world's top oil supplier – PIRA," Reuters, October 2013

Real estate emerged as another bright spot in 2013, as home prices and builder confidence rose in response to improved credit conditions and revved-up real estate investing. After falling from 2010 to 2012, prices increased by 13.5 percentage points in 2013, despite rising mortgage interest rates. Single-family home prices rose the highest (by 20% to 25%) in the major California cities of San Francisco, Los Angeles, and San Jose. The upward trend in housing prices, along with a low inflation rate of 1.5%, resulted in appreciating equity for homeowners throughout the nation. The trend may not last, however, given prices began to decelerate over the second half of 2013 and into the first half of 2014 due to higher interest rates and an unusually cold winter. While the real-estate recovery is expected to have considerable economic upside, it is occurring slowly, as still tight mortgage credit standards constrain new buyers.

ECONOMIC PERFORMANCE IMPROVES IN MOST LARGE CITIES

The economic progress made throughout 2013 occurred alongside both difficulties and various stabilizing influences. Dysfunction in Washington D.C. had a paralyzing effect, as a government shutdown, ultimatums, threats, filibusters, and stand-offs became standard operating procedures of an increasingly divisive Congress. Other developments brought order. The agreement to extend the U.S. debt ceiling to March 2015 quelled uncertainties related to fiscal policy. After some initial hiccups, the Federal Reserve's evolving monetary policy lent stability to the economy, and is expected to continue to do so as the institution's new head, Janet Yellen, pursues the clearly articulated plan of gradually winding down the stimulus.

While challenges remain, the U.S. economy has come a long way from the peril of the crisis and the malaise that followed. The technology and energy sectors (including the shale oil and gas production industry) were the biggest drivers of job and wage growth in U.S. cities.[9] Nationally, the professional, science, and technical services industries expanded by 4.6%, while the construction industry recorded growth of 8.6%, compared to 2012.

Houston, Dallas, and San Jose (in addition to Washington D.C.) were among the best performers on various economic parameters. Aided by significant growth in the oil and gas industry, Houston and Dallas earned the top two spots in terms of gross metropolitan product and personal income growth, and experienced increases of 10% or more in real estate prices. Matching their strong economic performances, the Texas cities were also the largest gainers in HNWI population and wealth in 2013, as well as over the period from 2008 to 2013 (see page 8). The San Jose MSA (which also includes surrounding Silicon Valley cities), aided by growth in technology, witnessed a nearly 20% drop in its unemployment rate and an almost 21% increase in real estate prices.

On the other hand, Detroit, beset by low growth, declining population, and high unemployment, all of which helped push it into bankruptcy[10], had among the lowest gross metropolitan product growth, leading to HNWI wealth growth that was relatively lower, though still a respectable 15.0%.

The larger markets rounding out the top 12 turned in mixed performances. New York and Chicago had among the lowest growth rates in gross metropolitan product and real estate, while Boston, San Francisco, and Los Angeles benefited from robust growth in personal income, and San Francisco and Los Angeles recorded significant real estate growth.

[9] "Best-Performing Cities 2013," Milken Institute, December 2013

[10] "Record Bankruptcy for Detroit", *The Wall Street Journal*, July 2013

Increased Trust Propels Growth-Focused Investing

- **U.S. HNWI trust in all aspects of the wealth management industry surged by double-digit rates in 2014, lifting the U.S. into higher levels than most of its developed-country peers.** East Coast HNWIs reported higher trust levels as compared to the West Coast. Older HNWIs (over 60 years) also reported higher trust for wealth managers and wealth management firms but had lower trust levels in the underlying infrastructure of wealth management, including the financial markets and regulatory bodies and institutions.
- **Driven by increased trust levels, the investment approach of U.S. HNWIs reflected a greater appetite for risk.** Their allocations to alternative (California MSAs in particular) and foreign investments jumped markedly in Q1 2014, while allocation to equities remain the highest across the globe (especially in Washington D.C.).
- **Though U.S. HNWIs scored U.S. wealth managers and firms high in terms of performance[11] (especially those on the East Coast), performance scores dropped compared to 2013, especially among U.S. HNWIs under 40.** Younger U.S. HNWIs also indicated lower performance scores for wealth managers compared to HNWIs over 60.

DRIVEN BY EAST COAST HNWIs, U.S. HNWI TRUST AND CONFIDENCE LEVELS INCREASE

HNWI trust and confidence advanced significantly across various industry stakeholders including the primary HNWI relationships and the industry infrastructure, underscoring the industry's success in rebounding from a shortfall of HNWI trust and confidence that arose during the financial crisis. The trust and confidence U.S. HNWIs have in their individual wealth managers and firms were among the top six of the 23 countries examined (see Figure 5). Of all the developed countries (with the exception of Canada), U.S. HNWIs had the highest levels of trust in their primary wealth management relationships.

The high trust levels of U.S. HNWIs reflected double-digit increases over the last year. Trust in the primary relationships U.S. HNWIs hold with wealth managers and firms leaped forward dramatically, increasing 12 percentage points each during 2013, putting U.S. HNWIs well above their counterparts in the rest of the world[12] in terms of trust.

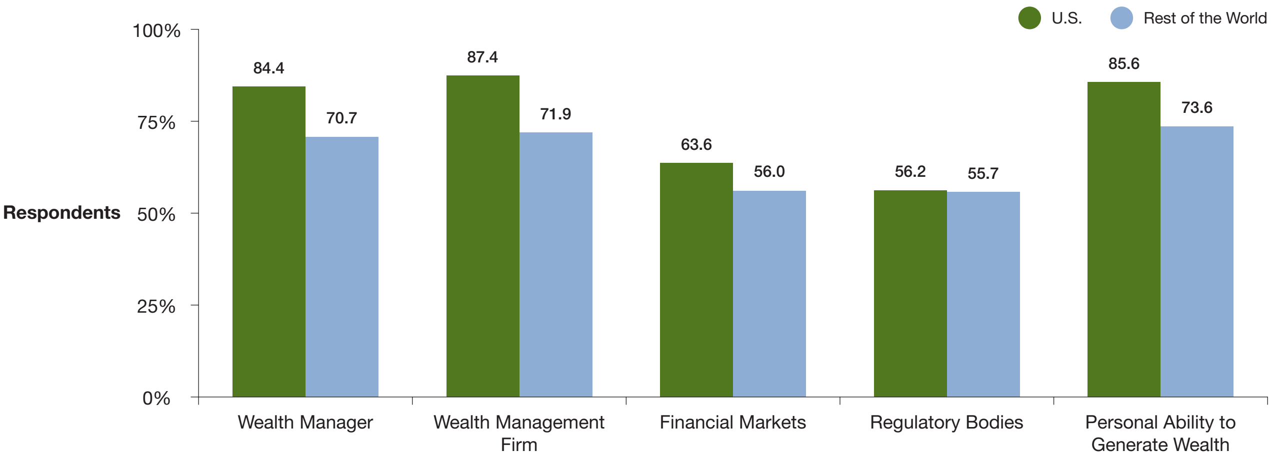
Expansion in U.S. HNWI trust also applied to the underlying infrastructure of wealth management. Trust in financial markets increased by 12 percentage points to 63.6%, with U.S. HNWIs again above the rest of the world average of 56.0%. Trust in regulatory bodies and institutions advanced 19 percentage points, a large jump that drew U.S. HNWIs nearly even with the trust levels reported by their peers in the rest of the world. Finally, the already high faith U.S. HNWIs have in their ability to generate wealth in the near future increased by another three percentage points to 85.6%, the highest of all the developed markets.

[11] Question asked: "On a scale of 0%-100%, thinking about your overall relationship with your main wealth manager, what performance score would you give them"?

[12] The 23 countries examined, excluding the U.S. Out of the 23 countries examined, Australia, Belgium, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, Spain, Switzerland, U.S., and United Kingdom were classified as developed while Brazil, China, India, Indonesia, Malaysia, Mexico, Russia, South Africa, and United Arab Emirates were classified as emerging

FIGURE 5. Trust and Confidence Levels in Key Stakeholders, U.S. vs. Rest of the World, Q1 2014

(%)



Note: Question asked: "Currently, to what extent do you agree or disagree with the following statements?–I have trust and confidence in the …" for various stakeholders listed above were analyzed based on agreement and disagreement to arrive at the percentages for HNWI trust and confidence

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

U.S. ultra-HNWIs (more than US$20 million in investable assets)[13] had higher levels of trust in wealth management firms (91.2%) and individual managers (85.1%) compared to HNWIs with US$1-US$5 million in wealth, who had the least amount of trust and confidence in their providers (86.7% and 84.3%, respectively). Ultra-HNWIs also had high trust in the financial markets (69.3%) and regulatory bodies (61.4%), although HNWIs with US$1–US$5 million in wealth also showed significant increases in trust levels (by 8.2 and 16.0 percentage points, respectively) to 60.8% and 52.7%, respectively.

Trust levels correlated strongly with age, with U.S. HNWIs over 60 having the highest levels, at close to 90% for both individual wealth managers and firms. While younger U.S. HNWIs (those under 40) had lower levels of trust, their rates were still fairly high, in the range of 80% to 85%, well exceeding those exhibited by younger HNWIs in the rest of the world, which averaged nearly 72%.

Examined by MSA, HNWIs in cities on the East Coast tended to have more trust in wealth management providers than those on the West Coast. Three of the four cities studied with the highest levels of HNWI trust in wealth managers were on the East Coast, led by Boston (91.1%) and followed by New York (89.3%) and Philadelphia (85.3%). HNWIs in West Coast cities were much more likely to be at or below U.S. average trust levels for managers and firms.

[13] For survey purposes, we used the bracket of US$20 million and above in financial assets as our upper wealth band; the definition of the ultra-HNWI segment remains US$30 million and above; for analysis purposes, the upper survey band serves as a reliable proxy for ultra-HNWIs

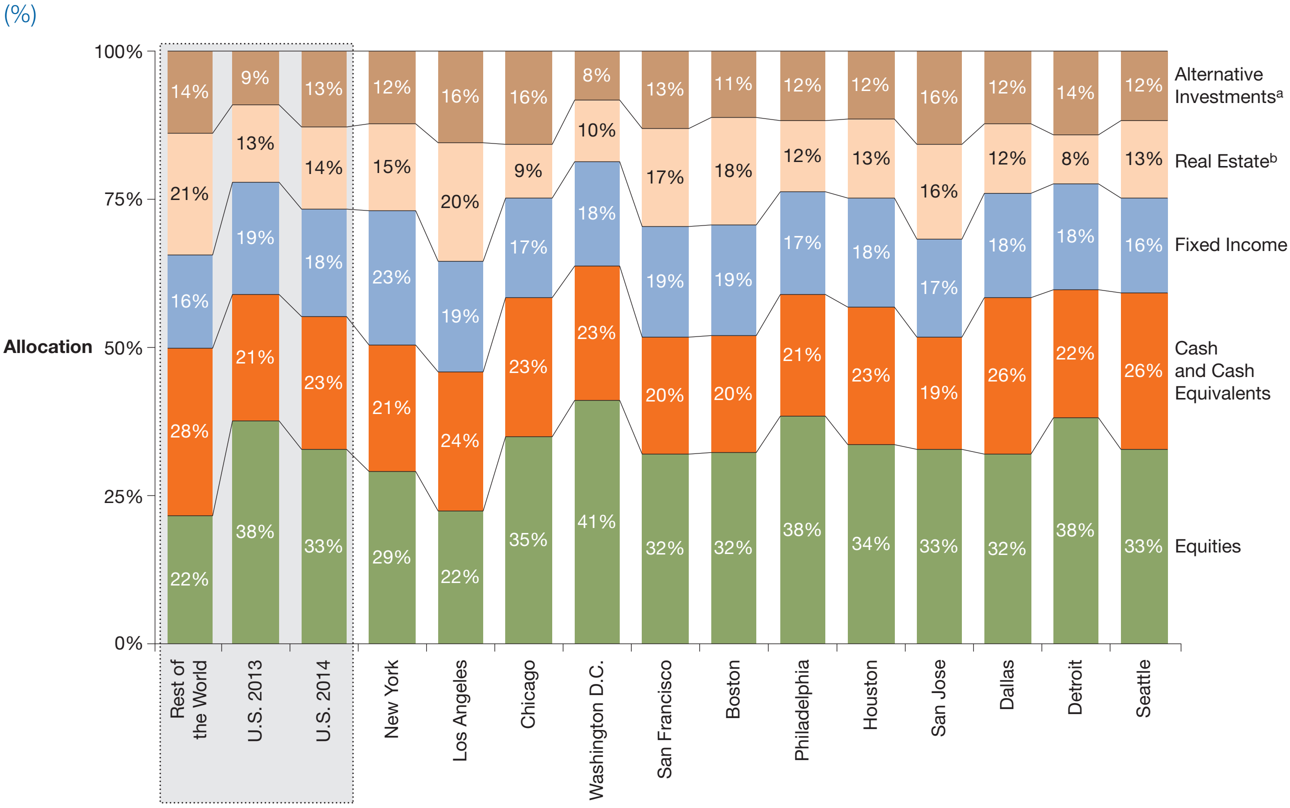
FOCUS ON GROWTH PERVADES ASSET ALLOCATION

Propelled by increased trust and confidence, U.S. HNWIs continued to adopt a growth-focused approach to investments, and reflected an increased appetite for risk. Their allocations to equities, though down from a year earlier, remained the highest across the globe, at 32.6% (see Figure 6). Allocation toward alternative investments expanded by nearly four percentage points, the largest increase across all asset classes. U.S. HNWIs were also more inclined toward investing beyond North American borders, bringing their international allocations up to 32.9%, from only 19.7% a year earlier. Inclination toward investments outside their home markets was primarily driven by younger HNWIs (under 40), as the percentage allocation of this segment, outside home markets, increased by 14.3 percentage points to 52.8%. HNWIs between 40–49 years also allocated higher levels (40.0%) outside North America and these levels increased by 9.0 percentage points in Q1 2014 compared to a year earlier.

The preference toward growth was most pronounced among U.S. HNWIs with between US$1 million and US$5 million in assets, who had the highest allocation in equities (34.5%), and were more interested in growing their wealth (33.3%) than preserving it (30.9%). U.S. ultra-HNWIs, on the other hand, allocated only 26.8% to equities, and were focused on preserving their wealth (33.3%), rather than growing it (28.1%), putting them at odds with rest of the world trend for this segment. Aligned with their higher focus on preservation, U.S. ultra-HNWIs allocated a higher proportion of their assets to cash (24.2%), compared to 22.3% for all other wealth bands.

HNWIs in the California cities of Los Angeles, San Francisco, and San Jose were leading drivers of the growth-focused asset allocation. Despite having lower trust levels, they had above-average allocations to alternative assets and real estate, and were much more likely to invest abroad. Combined allocation to real estate and alternative investments in these three cities was more than 30%,

FIGURE 6. Breakdown of U.S. HNWI Financial Assets, Q1 2014



a. Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity
b. Excludes Primary Residence
Note: Chart numbers may not add up to 100% due to rounding
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013, 2014

compared to an average of 26.8% for all U.S. HNWIs. Their allocations to international markets stood at 44.5%, compared to the U.S. average of 32.9%. Driven by increased real estate prices and high levels of technology firm start-ups, HNWIs in Los Angeles stood out for having much higher allocations to real estate (20% versus a U.S. average of 14%) and alternative investments (16% versus a U.S. average of 13%) and were the most likely among all the U.S. HNWIs to invest outside the home region (47% versus a U.S. average of 33%). HNWIs in Washington D.C. stood out for having much higher allocations to equities (41% versus a U.S. average of 33%) and, along with Seattle, being the cities that invested the least outside of the U.S. (19.5% and 19.9%, respectively).

YOUNGER U.S. HNWIs PRESENT NEW CHALLENGES

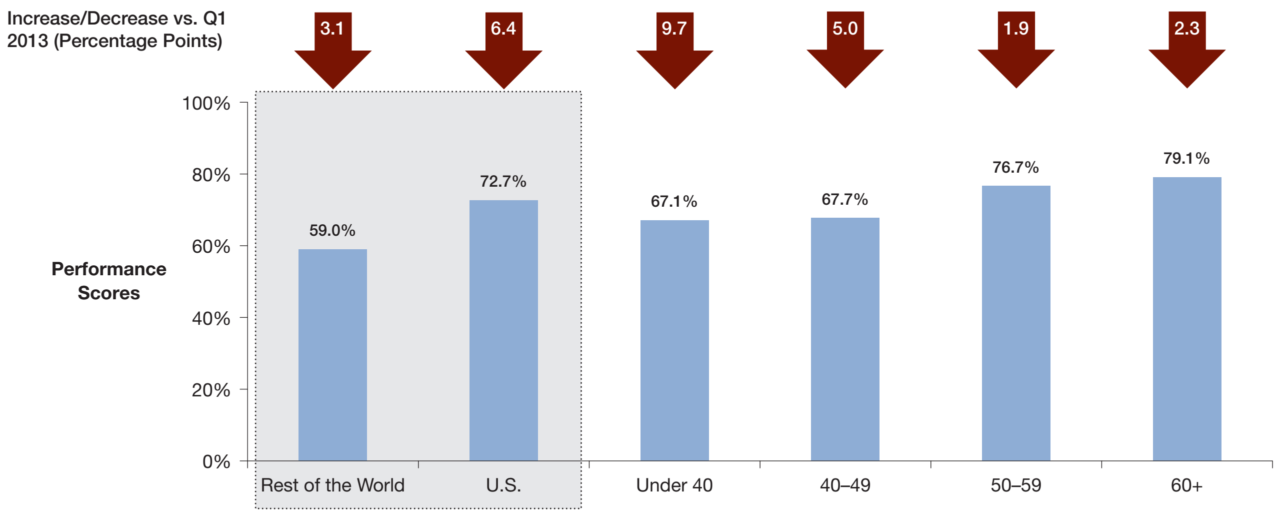
Although U.S. HNWIs ranked their wealth managers very high in terms of performance, there were signals that wealth managers may need to work harder to win the favor of their clients going forward. On the positive side, U.S. wealth managers earned a fourth-place rating globally, with a performance score of 72.7%, compared to rest of the world average of 59.0% (see Figure 7). However, despite strong growth in wealth and increasing levels of trust and confidence, these performance scores reflected a drop of 6.4 percentage points from a year earlier, the fourth-largest decrease globally.

Performance scores at a MSA level were particularly high on the East Coast as compared to the West Coast. HNWIs in the MSAs of Boston (79.6%), Pittsburgh (77.7%), and Philadelphia (75.9%) rated their wealth manager/wealth management firms higher than the U.S. average of 72.7%. These performance scores rank high when compared to those on the West Coast MSAs of Los Angeles (66.1%), Seattle (70.9%), San Jose (69.0%), and San Francisco (66.3%), where performance scores were below the U.S average. Boston recorded the highest performance scores, while performance scores were the lowest in Los Angeles.

Alarmingly, under-40 U.S. HNWIs were most critical of wealth manager performance. Their average performance score of 67.1% was well below the over-60 HNWI score of 79.1% and also the U.S. average of 72.7%. Under-40 HNWIs reduced their performance ratings by 9.7 percentage points from a year earlier, nearly double the amount of the next-largest reduction (5.0 percentage decrease for 40–49 age group).

FIGURE 7. Wealth Manager Performance Scores, Q1 2014

(%)



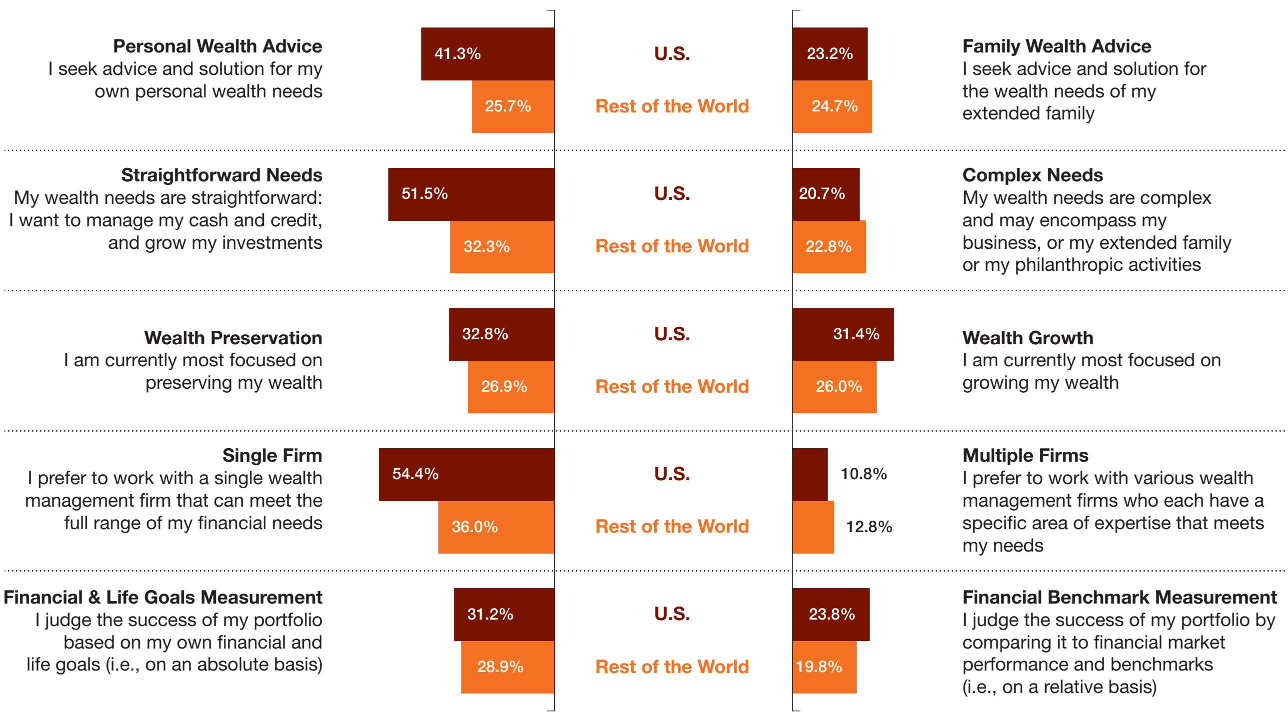
Note: Question asked: "On a scale of 0%-100%, thinking about your overall relationship with your main wealth manager, what performance score would you give them"?
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

Declining performance scores offer wealth management firms a golden opportunity to reposition their offerings to meet specific U.S. HNWI preferences. Chief among these is a preference for a streamlined approach to wealth management, characterized by a strong relationship with a single firm, rather than engagement with many. Only 10.8% of U.S. HNWIs said they wanted to work with multiple firms, compared to the 54.4% who expressed a desire to work with one (see Figure 8). Along with a preference for nurturing a relationship with a single firm, U.S. HNWIs view their needs as straightforward (rather than complex), and expressed a need for wealth advice focused on the individual, not the whole family. The preference to work with a single firm ranked the second highest globally (just behind Canada). Additionally, the preference for personal wealth advice among the U.S. HNWIs was the highest across the globe.

Addressing U.S. HNWI requirements for strong single-firm connections offers a positive avenue for firms to pursue improved client-centric relationships, leading to an expanded share of wallet. Just as important will be the firms' ability to meet the emerging preferences of the under-40 segment, a group that will become increasingly prominent as it continues to grow and inherit wealth. Under-40 HNWIs have vastly different views than older HNWIs regarding their needs and how they would like to approach wealth management.

FIGURE 8. U.S. HNWI Preferred Wealth Management Approach, Q1 2014

(%)



Note: As we asked for preferences across a 10-point spectrum containing two extreme points, the above numbers indicate the percentage of respondents providing top-three ratings at each extreme

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

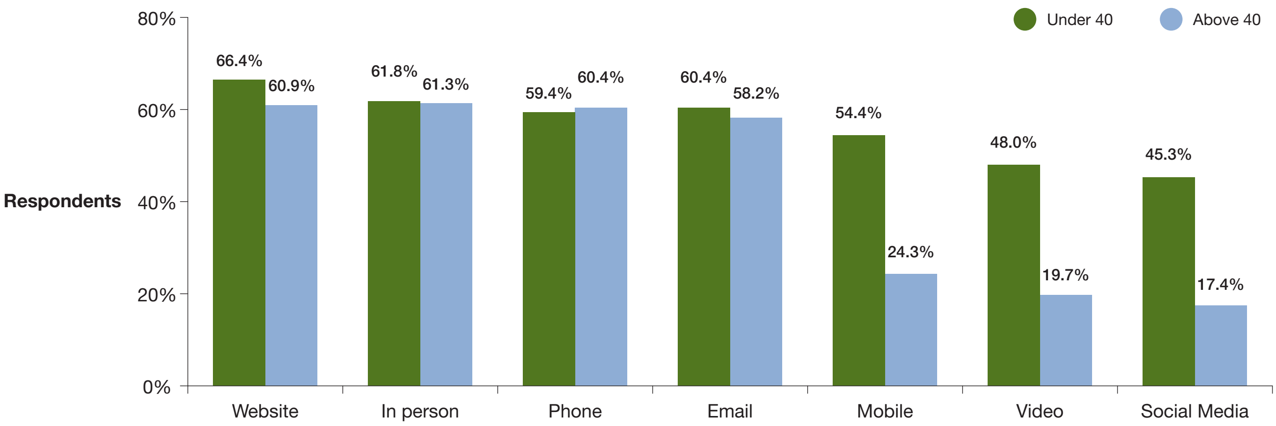
A main difference that emerged between older and younger U.S. HNWIs was that younger HNWIs were much more likely to classify their needs as complex (37.5% versus 8.9%), as well as seek family wealth advice (35.3% versus 12.8%). They were also more interested in growing than preserving their wealth compared to over-60 U.S. HNWIs (31.4% versus 20.9%).

Trust was another differentiation point. As noted earlier, U.S. HNWIs in their 40s and under had a high amount of trust in wealth managers and firms, but not as much as older U.S. HNWIs. The exception was with regard to the financial markets, in which under-40 HNWIs had significantly more confidence (79.0%), compared to U.S. HNWIs over 60 (51.4%). In addition, their satisfaction with wealth managers was much lower, with performance scores reaching only 67.1%, compared to 79.1% for over-60 U.S. HNWIs.

Additionally, younger HNWIs are much more demanding when it comes to their expectations of digital interactions. Of U.S. HNWIs under 40, 38.5% prefer digital contact, compared to only 15.2% of over-60 U.S. HNWIs. Given the strong preference for digital interactions among younger HNWIs, wealth management firms need to take proactive steps in this direction. While websites remained the most important digital access point for both under-40 and over-40 HNWIs, younger HNWIs were more than twice as likely to use newer digital channels, such as mobile applications, video, and social media (see Figure 9). Younger U.S. HNWIs also had a greater expectation for an integrated and consistent experience. Seventy-eight percent of U.S. HNWIs under 40 (versus 49.3% of those over 40) indicated a propensity to leave their firms due to a lack of integrated channels (see Figure 10). However, this propensity of U.S. HNWIs in younger and other age bands is lower when compared to the rest of the world HNWIs (57.5% for U.S. HNWIs overall versus 68.5% for rest of the world HNWIs).

FIGURE 9. U.S. HNWI Channel Importance for All Capabilities by Channels and Age, Q1 2014

(%)



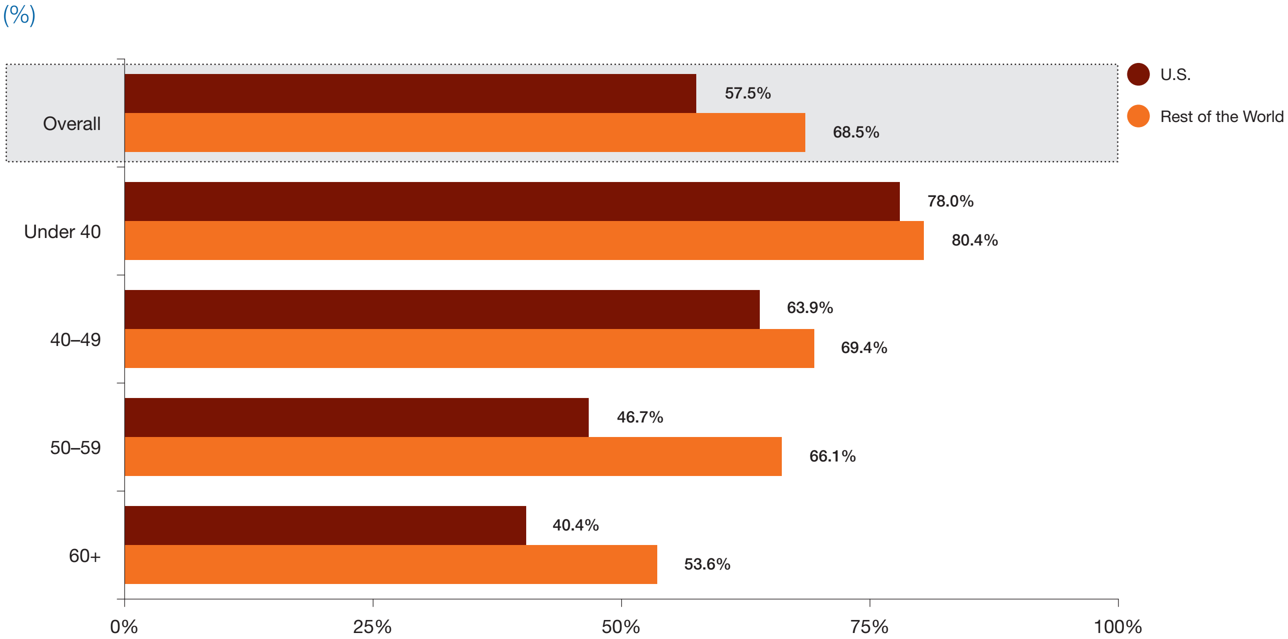
Note: Weighted average of percent of respondents who ascribed a level of importance of 7 or higher, on a 10-point scale, to various capabilities as listed out in Figure 27 of the *World Wealth Report* 2014 available at www.worldwealthreport.com; Average importance of all capabilities was calculated to arrive at a consolidated importance level for each channel

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

Given the importance of digital, the digital revolution cannot be ignored. Younger U.S. HNWIs expressed a clear preference for more modern forms of interaction, a finding that was also confirmed in our *World Wealth Report 2014*. To ensure a pattern of ever-deeper relationships, especially with younger, increasingly influential U.S. HNWIs, firms need to embrace digital technology as an integral part of the business model that addresses HNWI expectations for an integrated experience across all channels.

Going forward, firms will face the dual challenges of meeting the ongoing needs of over-60 U.S. HNWIs, while also accommodating the emerging preferences of younger ones. To accommodate their divergent needs and preferences, wealth management firms will need to develop product, service, and communications strategies that take into account demographic preferences. Addressing client needs simply in accordance with the size of HNWI wealth will no longer suffice. Firms will need to devise new approaches, such as cross-generational wealth management teams, to address varying age-related needs.

FIGURE 10. Propensity to Leave Wealth Management Firm Due to Lack of Integrated Channel Experience by Age Band, Q1 2014



Note: Question asked, "If your main wealth management provider could not offer this type of integrated wealth management experience, would it prompt you to consider moving to another firm?"

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership, Global HNWI Insights Survey, 2014

Driving Social Impact Gains Momentum among Younger U.S. HNWIs

- **Driving social impact proved important to U.S. HNWIs of all wealth levels, ages, genders, and geographies, with over half describing it as very or extremely important and nearly 88% describing it as important.** Giving to religious causes was a much higher priority for U.S. HNWIs compared to their peers in the rest of the world, and non-financial methods of achieving impact, such as volunteering time or expertise, were more common in the U.S. than across the rest of the world.
- **Younger and female HNWIs in the U.S. indicated a stronger desire than their older or male counterparts to make a positive social impact.** The causes that most interest younger HNWIs included expanding social programs, race relations, and issues related to gender inequality, energy security, and unemployment.
- **Even though younger U.S. HNWIs had higher expectations with regard to support from their wealth managers in fulfilling their social impact goals, compared to their older counterparts (88.0% versus 43.6%), they were the most satisfied with the level of social impact support received.** The gap between support expected and received from wealth management firms was highest (18.2 percentage points) for U.S. HNWIs over 60, and lowest (9.1 percentage points) for those under 40.

U.S. HNWIs PLACE HIGH IMPORTANCE ON DRIVING SOCIAL IMPACT

Like HNWIs in the rest of the world, U.S. HNWIs are interested in deploying their capital and resources to drive positive effects on society and/or the environment. More than half (56.0%) said that driving social impact was very or extremely important to them, which was slightly less than the 62.3% of HNWIs in the rest of the world who reported the same level of importance. Nearly another third of U.S. HNWIs (31.9%) described driving social impact as important or somewhat important, a rate that was nearly even with that of the rest of the world.

Looking at MSAs, there is a clear divide between East Coast and West Coast on this topic. The level of social impact importance (very or extremely important) was above the U.S. average for California HNWIs in Los Angeles (71.6%), San Jose (67.3%), and San Francisco (58.6%), while it was below-average for East Coast HNWIs (except New York) in Boston (42.9%), Washington D.C. (45.6%), and Philadelphia (50.0%).

Asked why they choose to dedicate their time, money, or expertise to social causes, U.S. HNWIs mentioned that personal and family values were the biggest drivers (at 90.7%), followed by a feeling of responsibility to give back (82.7%) and a desire to instill social values in their children (75.6%), which is in line with the trend in the rest of the world. The preferred causes of U.S. HNWIs also aligned with those in the rest of the world, with child welfare topping the list (37.2%), followed by education (34.9%) and health (34.5%).

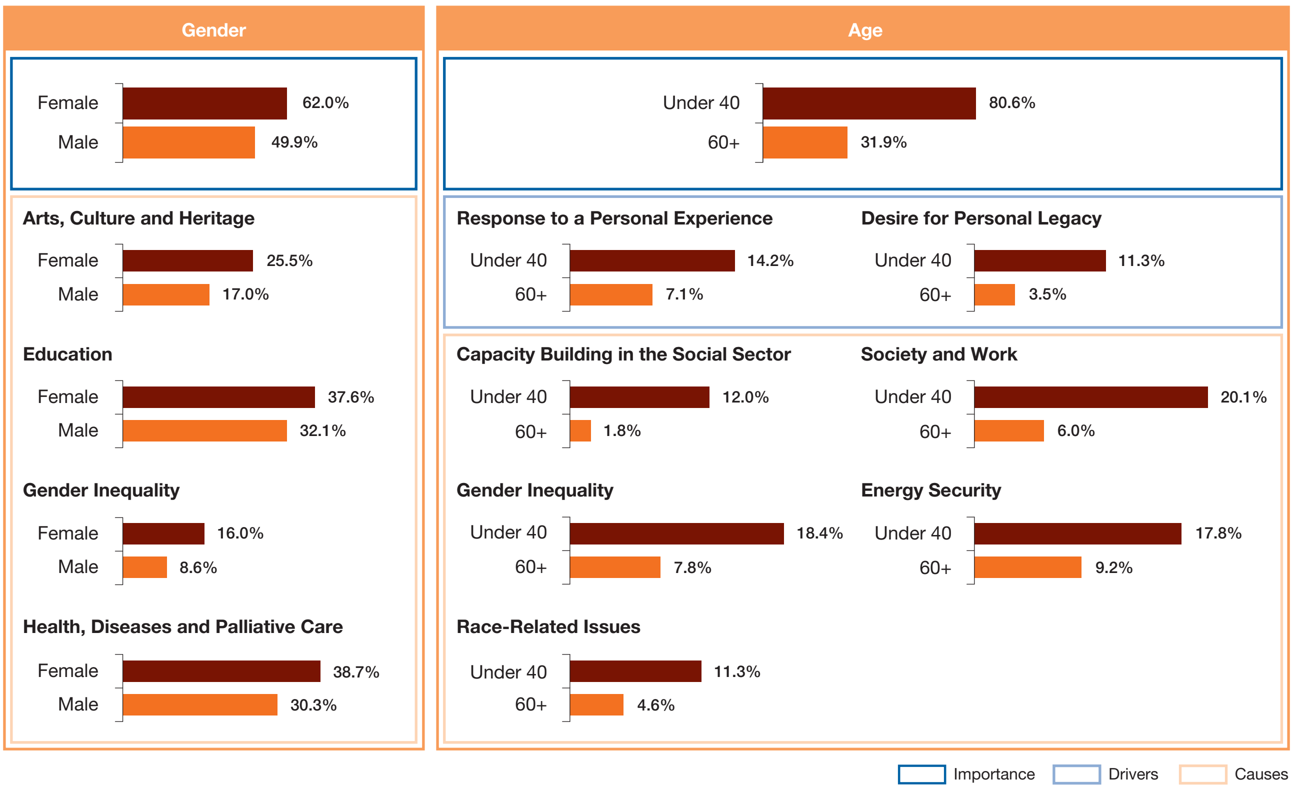
U.S. HNWIs differed from their global peers in a few ways. For one, they were much more likely to give to religious causes. Religious giving ranked as the fourth most-important cause for U.S. HNWIs, with 29.7% citing its importance, compared to only 11.6% for HNWIs in the rest of the world. U.S. HNWIs were also more apt to engage in ongoing charitable giving, with 21.0% citing it as their preferred mechanism for achieving social impact, compared to only 11.8% for HNWIs elsewhere in the world. U.S. HNWIs were also more likely to pursue non-financial measures to gain social impact, such as volunteering in the community (18.1% versus 12.0% in the rest of the world) and fundraising or volunteering for charitable organizations (10.6% versus 7.9% in the rest of the world).

YOUNGER AND FEMALE U.S. HNWIs PLACE GREATER IMPORTANCE ON DRIVING SOCIAL IMPACT

Current practices related to driving social impact in the U.S. are likely to undergo a dramatic shift as under-40 HNWIs gain greater wealth and prominence. The younger generation of U.S. HNWIs are much more interested in driving social impact, with 80.6% citing it as extremely or very important, compared to only 31.9% of over-60 U.S. HNWIs (see Figure 11). The drivers of their social impact goals also differed from those of older U.S. HNWIs. Younger HNWIs were more likely to want to leave a personal legacy (11.3% versus 3.5% for HNWIs over 60) and were more likely to act in response to a personal experience (14.2% versus 7.1% for HNWIs over 60).

FIGURE 11. Key Differences in U.S. HNWI Social Impact Landscape by Age and Gender, Q1 2014

(%)



Note: Question asked (Importance): "How important is it to you to give time, money and/or expertise with the goal of generating positive social impact"? Percentage represents sum of "Extremely Important" and "Very Important"; Question asked (Drivers): What most drives you to allocate a portion of your wealth, time or expertise to make a positive social impact? Above percentage indicates the % of HNWIs who gave "This is most important" response for that particular driver; Question asked (Causes): To which of the following issues are you currently allocating wealth, time or expertise? Above percentages indicates the % of HNWIs that are currently allocating their wealth, time or expertise into that particular cause

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2014

As younger U.S. HNWIs begin to drive social impact more vigorously, there may be a shift in the types of social issues receiving the most attention. The five causes that currently have very low focus for HNWIs over 60 were the top priorities for those under 40. These included expanding social programs, issues related to unemployment and prison reform, gender inequality, energy security, and race-related issues.

Female U.S. HNWIs are likely to have a greater influence on driving social impact going forward. They were more interested in having a social impact, with 62.0% citing it as very or extremely important, compared to 49.9% of male U.S. HNWIs. Their social interests also differed markedly from those of male U.S. HNWIs, with preferred causes revolving around arts and culture, education, gender inequality, health, and animal welfare having the most importance, whereas men were more focused on energy security, capacity building in the social sector, and income inequality.

The higher interest levels of younger and female U.S. HNWIs in driving social impact, combined with the different causes and drivers behind their goals, underscores the personal and varied preferences surrounding social impact. Given the growing range of demographic preferences, wealth managers and firms cannot rely on a one-size-fits-all approach as they devise strategies related to driving social impact. Nor can they assume that handing down the same strategies from one generation to the next will be effective over time in engaging their socially conscious clients.

U.S. HNWIs, ACROSS AGE GROUPS, INDICATE SOCIAL IMPACT SERVICE GAP

Just over half of all U.S. HNWIs (51.2%) said they received a high or moderate level of support to reach their social impact goals. That represented a 14.3 percentage point gap in the service levels they would want to receive in an ideal world (65.4%). The gap was highest (18.2 percentage points) for U.S. HNWIs over 60, who put their current levels of support at 25.4%. The gap was lowest (9.1 percentage points) for those under 40, who put their current levels of support at 78.9%.

Not only did younger U.S. HNWIs place higher importance on driving social impact, their expectations of their firms in this area were also higher (88.0%[14] versus 43.6% for older HNWIs). Despite their high expectations, younger U.S. HNWIs were the least likely of all the age groups to perceive wealth management firms as lacking in this area. The lower gap for under-40s may be an indication that younger U.S. HNWIs are more self-sufficient when it comes to devising ways of meeting their socially conscious goals. Or this group may not be aware of the types of services wealth management firms may be offering to meet their needs.

By wealth band, U.S. HNWIs with between US$1 million and US$5 million of assets were most likely to perceive a gap between the social impact services they desired and those that were offered. This HNWI segment put the gap at 16.4 percentage points, compared to 7.1 percentage points for those with more than US$20 million in assets. From a gender perspective, both male and female U.S. HNWIs perceived a significant gap (14.5 and 14.0 percentage points, respectively).

To address this gap, wealth management firms will need to understand the different perceptions and preferences various HNWI segments have for driving social impact. Similar to a robust wealth management plan, it is important for advisors to understand and align client motivations and drivers with an overall social impact plan that supports current causes.

[14] Based on a question that asked: "In an ideal world what level of support would you like from wealth management firms to help you fulfill your social impact goals? 0 = No support; 10 = High level of support" and the number represents moderate (5,6) and high (7-10) level of rating

Appendix
METHODOLOGY

MARKET-SIZING METHODOLOGY

The *U.S. Wealth Report 2014* market-sizing model is based on the model used in the *World Wealth Report 2014*, which covers 71 countries accounting for more than 98% of global gross national income and 99% of world stock market capitalization. The *U.S. Wealth Report 2014* market sizing focuses on the U.S. and 12 core metropolitan statistical areas (MSAs) within the U.S., as defined by the U.S. Office of Management and Budget (OMB): Boston, Chicago, Dallas, Detroit, Houston, Los Angeles, New York, Philadelphia, San Francisco, San Jose, Seattle, and Washington D.C.

We estimate the size and growth of wealth in various regions, countries, and globally using the Capgemini Lorenz curve methodology, which was originally developed during consulting engagements in the 1980s. It is updated on an annual basis to calculate the value of HNWI investable wealth at a macro level.

The model is built in two stages: first, the estimation of total wealth in a given geographic area, and second, the distribution of this wealth across the adult population in that geographic area. Total wealth levels by geography are estimated using statistics from recognized sources to identify the total amount of savings per geography in each year. These are summed over time to arrive at total accumulated wealth. As this captures financial assets at book value, the final figures are adjusted based on stock indexes to reflect the market value of the equity portion of HNWI wealth.

Wealth distribution is based on formulized relationships between wealth and income. We use the Lorenz curves to distribute wealth across the adult population in each geography. Each year, we continue to enhance our macroeconomic model with increased analysis of local economic factors that influence wealth creation.

The investable asset figures we publish include the value of private equity holdings stated at book value, as well as all forms of publicly quoted equities, bonds, funds, and cash deposits. They exclude collectibles, consumables, consumer durables, and real estate used for primary residences.

2014 GLOBAL HIGH NET WORTH INSIGHTS SURVEY

The Capgemini, RBC Wealth Management, and Scorpio Partnership 2014 Global HNW Insights Survey queried more than 4,500 HNWIs across 23 major wealth markets in North America, Latin America, Europe, Asia-Pacific, the Middle East, and Africa. A total of 1,080 HNWIs were surveyed in the U.S. across 19 MSAs: Atlanta, Baltimore, Boston, Chicago, Dallas, Denver, Detroit, Houston, Los Angeles, Minneapolis, New York, Philadelphia, Pittsburgh, Portland, San Diego, San Francisco, San Jose, Seattle, Washington D.C.

The Global HNW Insights Survey, the largest global survey of HNWIs, was administered in January and February 2014 in collaboration with Scorpio Partnership, a firm with 16 years of experience in conducting private client and professional advisor interviews in the wealth management industry.

The 2014 survey built on analysis conducted around three key areas in 2013: HNWI trust and confidence, HNWI asset allocation, and HNWI behavior. The first focus area targeted HNWI levels of trust and confidence in key industry stakeholders, including wealth management firms, individual wealth managers/advisors, financial markets, and regulatory bodies and institutions. The second focus area, asset allocation, measured current asset allocation patterns of global HNWIs, as well as the geographic allocations of their investments. The third focus area, HNWI behavior, studied HNWI preferences and behaviors with respect to their objectives and approaches to wealth management, their relationships with wealth managers, and the type of services they expect.

In addition, the 2014 survey expanded its focus to include two new areas. The first new area, on driving social impact, addressed the importance of various drivers and causes that motivate HNWIs to give, the mechanisms they use to fulfill social impact goals, as well as the support they expect from their wealth management firms. The second new area focusing on the rising importance of digital, surveyed HNWIs on their preference for digital interaction with firms for various wealth management activities and their expectations of firms to deliver an integrated digital client experience.

To arrive at the rest of the world and regional values, country- and region-level weightings, based on the respective share of the global HNWI population, were used. This was done to ensure that the survey results are representative of the actual HNWI population.

For more interactive and historical data at a U.S. and MSA level for Market Sizing and the Global High Net Worth Insights Survey, please visit **www.us-weatlhreport.com**.

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Scorpio Partnership, led by Sebastian Dovey and Cath Tillotson, for their strong collaboration in developing and administering our Global HNW Insights Survey, which is the largest and most in-depth survey of high net worth individuals ever conducted.

We extend a special thanks to those firms and institutions that gave us insights into events that are impacting the global and U.S. wealth management industry.

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