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AND

ITS STRATEGIC ALLIANCE PARTNERS

The long game:

Understanding APAC HNWIs' real goals

Foreword

Over the past 18 months, we have witnessed a remarkable transformation in the global markets. From grappling with the unprecedented impact of the global pandemic, to a remarkable rebound driven by stimulus measures and vaccination efforts, to a unique market situation that would have been difficult to predict – one characterised by high inflation, persistent investor fears, market uncertainty, and a rapidly changing economic outlook. Geopolitical conflicts and climate concerns are also factors that are central topics of discussion.

So where does this leave us? Investors may be concerned about reaching their goals – both essential goals and aspirational ones. Are they becoming increasingly out of reach? Are investment strategies of 12-18 months ago still relevant in helping us attain these goals? In today's rapidly changing market environment, it is even more important to ensure that we have a robust and holistic approach that is able to take advantage of market opportunities, yet meet our visions of playing the long game for tomorrow and preserving our wealth for generations to come.

> For Lombard Odier and its Strategic Alliances, our role remains clear and consistent – as navigators helping high net worth individuals (HNWIs) cut through the noise, inspiring them to rethink their approach to managing, growing, and transmitting their wealth.

This year, Lombard Odier and its Strategic Alliances, harnessed our collective network of HNWIs across Asia-Pacific (APAC). We spoke to over 460 respondents, and the results of our study shed light on their true goals, how these translate within the family setting, and the priorities that have been set.

The game has changed, and so have the rules. The changing landscape has important implications and the responses analysed over the following pages offer different perspectives. We hope they inspire further conversations. We believe that the riskiest approach to the future is to not think about it, and it is our philosophy to constantly re-evaluate and rethink the world, not just for ourselves, but for our clients.

We greatly appreciate the generosity of everyone who has contributed to this report. We hope you enjoy the following read and would be delighted to engage with you further on any of the thoughts and ideas raised in the subsequent pages.

Vincent Magnenat
Limited Partner
Asia Regional Head and Global Head of Strategic Alliances
Lombard Odier

Contents

Executive Summary

This white paper, based on a survey of over 460 APAC HNWIs in Singapore, Hong Kong, Japan, Thailand, the Philippines, Taiwan, and Australia, highlights four significant paradoxes among respondents; a dichotomy between intentions and actions that is present throughout the findings.

Have you achieved your goals?

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Investors have clear goals and know what they intend to do with their wealth. For example, among respondents, 76.1% deem it essential to maintain their current lifestyle, and 74.8% consider it essential (36.1%) or aspirational (38.7%) to seek improvements.

However, these goals remain largely unfulfilled. Only a fifth fully agree they have achieved their goals, and 53.0% somewhat agree they have achieved their goals. The restlessness is more apparent in the younger generation, with only 16.7% of respondents under 45s fully agreeing they have reached their goals (compared with 25% of over 45s). What is even more striking is that they have not structured their wealth to reach these goals (only 20.3% fully agree on that point).

Trust sustainability

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Respondents clearly care about the environment but remain cautious about investing. Among respondents, 60.9% think it is essential (26.5%) or aspirational (34.4%) to invest in sustainability, and only 2.8% strongly disagree with the statement "I am worried about climate change and its consequences".

However, only 18.4% fully agree they "have actively increased or plan to increase the proportion of sustainability investments". Confidence about returns will be key to turning interest into action: only 23.4% of respondents strongly agree that taking into consideration sustainability factors can help deliver superior returns.

Private assets concerns

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Investors are circling private assets but have not taken the plunge. Although 58.2% of respondents agree they want to invest in non-listed companies, only 31.1% somewhat agree or fully agree they have already integrated private assets into their portfolio. The lack of action can partly be explained by the survey findings, with only 26.3% of respondents saying they fully understand how private assets can help them achieve their goals. There is hope, however: the younger generation appears more ready to engage, with 67.2% of under 45s saying they fully agree or somewhat agree that they want to invest in such assets.

Caring and sharing

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Investors know it is important to share their convictions and goals among family members but are hesitant to do so. Among respondents, 78.3% say it is important to share their own goals to build a long-term common vision and implement it together as a family and 69.7% think it important to communicate between generations and siblings before taking any decision.

Moreover, 38.4% say they have not shared their goals with their parents, 53.4% with their siblings, and 45.1% with their children. Furthermore, around 60% do not have an appropriate process involving investment tools that can monitor the evolution of their wealth with respect to their goals (30.2% said they did not, while 29.3% said maybe).

Introduction

Everything changes but family is constant. This is an important distinction for high net worth individuals (HNWIs) and ultra HNWIs (UHNWIs) to remember as they contemplate the outlook for the investment climate over the next few years.

It is crystal clear that the environment for investing has changed markedly over the past few years and continues to do so. The impact of COVID-19 reinforced a broader push towards sustainable investing, sparked by climate change and the fossil fuel debate and now includes an increasing focus on food systems and healthcare.

On top of this, the macroeconomic outlook is once again in a state of flux, with geopolitical tensions, rising inflation and interest rates, and protectionism underpinning a period of great uncertainty for businesses, markets, and economies.

As if these were not enough, we stand on the threshold of a great transfer of wealth in the APAC region, with about 70,000 HNWIs set to pass on around USD 2.5 trillion over the next decade[1]. Meanwhile, the middle class in the region is expanding, introducing a new dynamic into the investment mix.

The ramifications of all these trends will reverberate across the region for possibly decades to come, creating new asset classes, boosting others, and diminishing those that do not fit with the outlook of this emerging generation of wealth owners.

It has therefore never been so important for both HNW and UHNW family members to understand what drives them, the issues important to their family members, and the values that will underpin their investment choices going forward.

As such, Lombard Odier, along with our **Strategic Alliances** and close partners, decided to take a temperature reading of over 460 APAC HNWIs in Singapore, Hong Kong, Japan, Thailand, the Philippines, Taiwan, and Australia. In this white paper, we asked investors a range of questions to better understand how they approach **personal goals**, how they view the mechanics of family wealth and decision-making, how they **communicate** their own goals to the family and how they approach the **structuring** of wealth to meet those goals.

The findings offer a fascinating look at how families function with regard to wealth, but perhaps more crucially, the often-conflicting perceptions that are contained within families, which could be a powder keg as wealth is transferred between generations.

[1] Wealth-X 2021 report.

Firstly, it is clear that respondents' **personal goals** continue to change between generations, with investors broadly re-examining their current lifestyle: the vast majority seeking to use their wealth to improve their life. Sustainable investing features strongly here, with majority of investors focusing on such endeavours to not only have their investments make an environmental impact but to also generate strong returns.

It is striking that the majority feels they have not achieved their goals, which suggests a restlessness among investors in general. This is particularly the case for the younger generation (under 45s), who feel that their goals have not yet been met.

Secondly, when it comes to **communicating personal goals** and reconciling them with common family wealth, conflicting assumptions, possible biases and blind spots emerge. For example, while respondents appear ready to discuss family wealth issues with other generations, they are less prepared to share information with siblings.

Also, when asked if they thought their family members had the same goals as they did, a large proportion said they did not know. However, the wealthier the family, the less siblings assume they share similar goals.

Lastly, how this translates into **structuring family wealth** is the most important aspect of reconciling personal goals with a family wealth strategy, and this can only happen once goals have been understood and communicated to the family. This is clearly not a formality, which is reflected in the survey responses. The very concept of common wealth is doubted by a significant number of respondents, but it is also clear that family 'decision-makers' tend to not always take into consideration the personal goals of each individual in order to build a common vision.

This raises many questions for family members as they approach the potentially thorny process of structuring family wealth. What do they consider to be the main triggers of the structuring process? Who should be involved? What prominence should be given to parents and to siblings? Also, do the answers to these questions differ between the older and younger generations?

The answers will define the pathway for families as a whole regarding their wealth.

Whatever the future holds, Lombard Odier and its Strategic Alliances are here to guide and support our clients, and we believe that, where uncertainty lies, also lies opportunity.

Rethinking investment in terms of life goals

Rethinking investment in terms of life goals

Asia's middle class is expanding, with some estimates suggesting half of the region's population will be in this category come 2024[2]. The region is also about to witness a huge transfer of wealth between generations: About 70,000 HNWIs from the region are set to pass on around USD 2.5 trillion over the next decade[3].

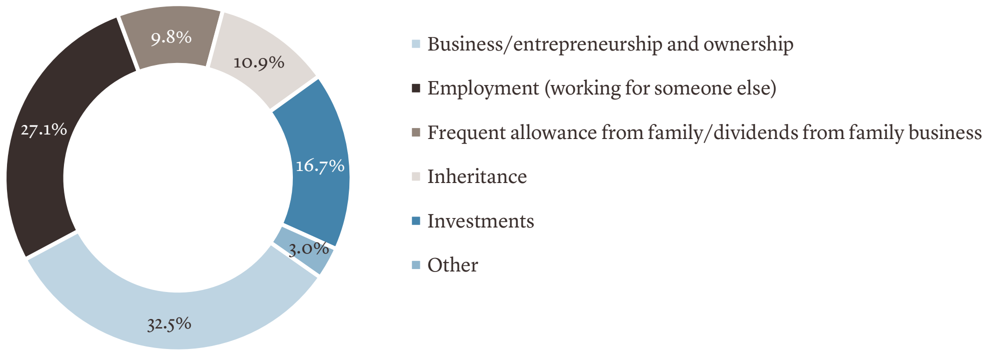
We took a deeper dive to understand where wealth comes from, what the motivations and philosophies are behind investment strategies, and how these are changing and likely to change in the future.

Although different generations have typically differed in terms of convictions and personal values, this is exacerbated by the drive for sustainable investing and other social impact considerations, which are already transforming the investment landscape.

On top of this, individuals have their own life journey, which translates into preferred time horizons and how they want to manage their work/life balance.

The responses from our participants reflect these idiosyncrasies and sensitivities, highlighting the myriad of challenges and decisions they face as they try to reconcile personal goals with a common family strategy.

1. Please indicate the primary source of your wealth



Source: Lombard Odier

[2] Asia's tipping point in the consumer class, Brookings, 2021.
[3] Wealth-X 2021 report.

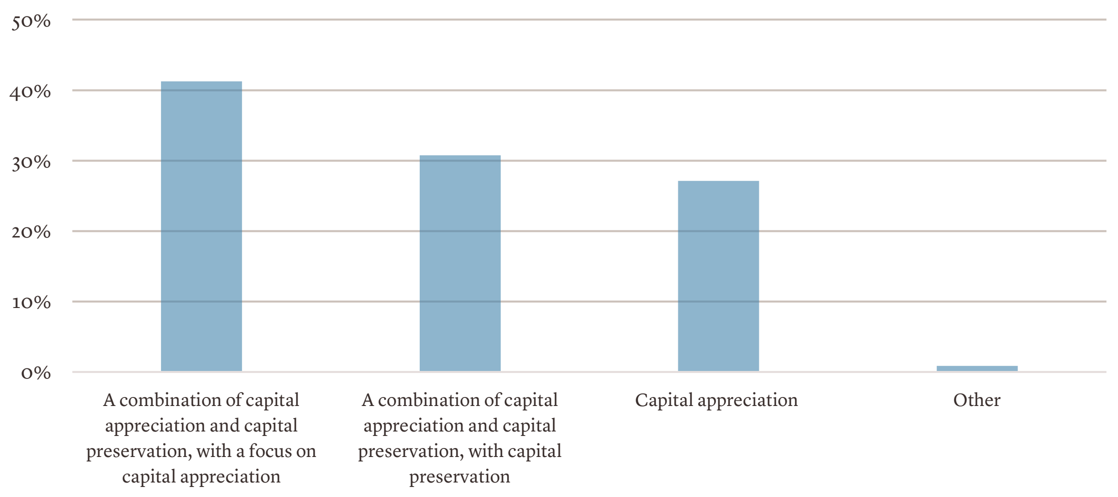
Broadly, as Graph 2 shows, the investment objective of our respondents is mainly focused on a combination of capital appreciation and capital preservation, with slightly more importance placed on capital appreciation (41.2%) rather than capital preservation (30.8%).

That said, across the study, respondents' risk sensitivity was reflected in their attitudes to time horizons, with a significant emphasis on long-term investments to weather macroeconomic turbulence. This is particularly important in the current environment and over the past few years.

How this translates into their financial goals and aspirations is very interesting.

2. What are the investment objectives of your wealth?

(in % of respondents)



Source: Lombard Odier

Personal goals as a reflection of society

As Graph 3 shows, respondents place essential goals highly when deciding the most important factor in approaching their wealth: 76.1% of respondents believe that enjoying and maintaining their current lifestyle is essential, 63.0% deem it essential to remain wealthy for their remaining lives, and 56.4% say that protecting their family and ensuring that they are taken care of is essential. Strikingly, 74.8% of respondents consider it essential (36.1%) or aspirational (38.7%) to improve their lifestyle. Meanwhile, 60.9% of respondents think it essential (26.5%) or aspirational (34.4%) to invest in sustainability.

Please refer to page 22 for an overview of essential and aspirational goals.

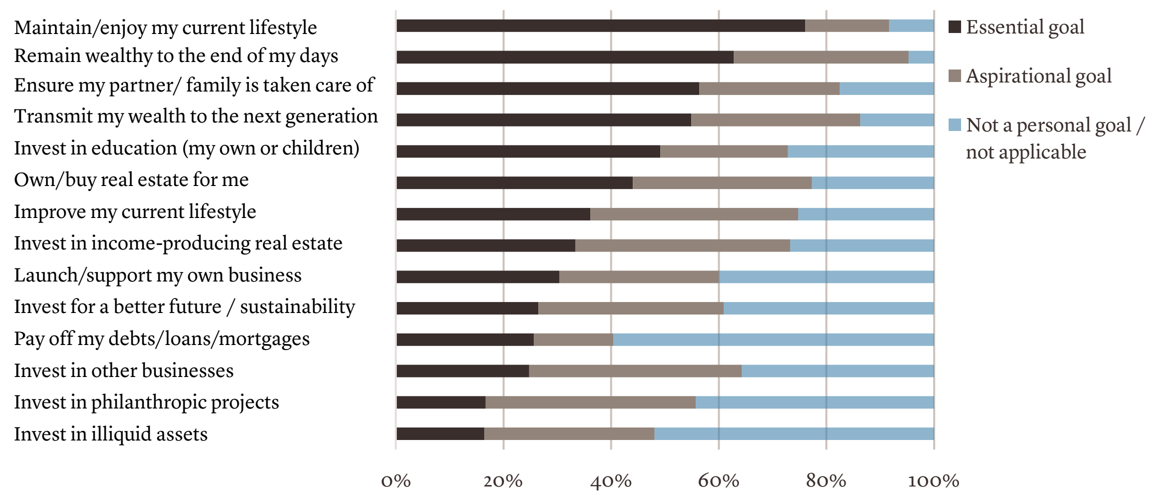
In this sense, the survey is a reflection of society, with the younger generation (those under 45 years old (under 45s) placing more importance on buying a property, investing in their own business, or seeking to improve their lifestyle. Meanwhile, women more than men, consider improving lifestyle, sustainability, and transmitting wealth to children to be essential goals.

There are also some interesting anomalies that emerge when looking more closely at the data on a country basis. In Australia, 70% of respondents deem home ownership to be an essential goal (compared with 27.1% in Thailand), while only 20% in Australia think for-profit real estate ownership is essential compared with 44.2% in Japan.

Meanwhile, 44.2% of respondents from Japan consider starting their own business to be an essential goal, compared to 14.5% of Singaporean respondents.

3. Goals related to your wealth

(in % of respondents)



Source: Lombard Odier

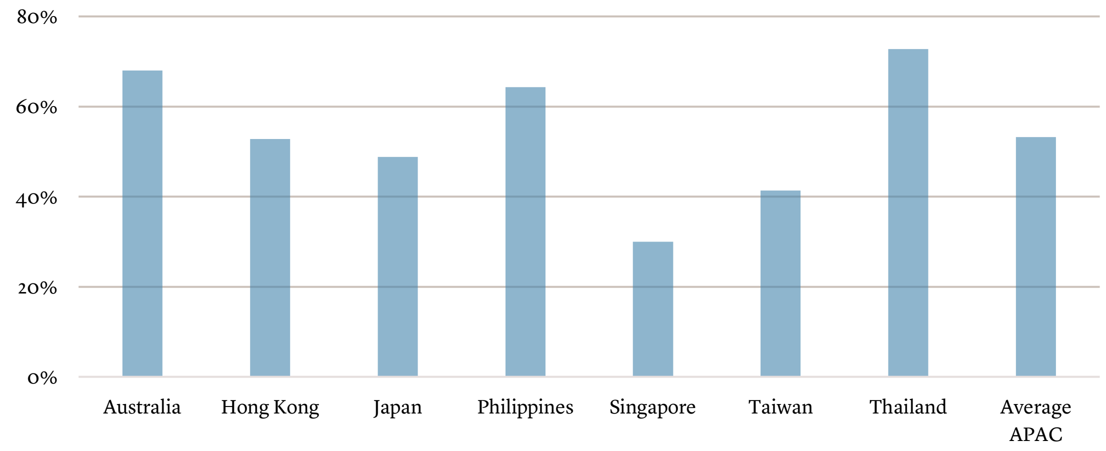
Work-Life balance

An important factor underpinning the results of the survey is how respondents approach work-life balance. Considering the looming massive wealth transfer in APAC, it is interesting that there is a perception that is reflected through the survey findings that the younger generation will move away from the 'work is life/life is work' mentality. This is a barometer of how investment trends may change in the coming years, with more emphasis placed on identifying and aligning action with personal values rather than financial considerations.

> That said, as one respondent mused: "the need to work hard to earn money mindset will remain".

Half of our respondents said they were satisfied with their current work-life balance. However, those with no children tend to work more, and those with young children preferred to concentrate on family and personal goals. From a market perspective, the majority of respondents in Thailand (72.7%) said they were satisfied with their work-life balance, compared with only 30% of Singaporeans. This might partially be explained by the amount of time spent in a professional environment, where 26% of Singaporeans said they often work overtime compared to 15.2% of respondents from Thailand. Just 3% and 4% of respondents from Thailand and Australia respectively said they prioritise their job over their personal life, compared with 31% of respondents from Japan. However, in Japan, respondents appear to be satisfied with their work-life balance, as do Thailand respondents.

4. I am satisfied with my current work-life balance
(in % of respondents who agreed)



Source: Lombard Odier

Have investors achieved their goals?

Regardless of values, work-life balance and the expectation of returns, the crux of the matter is whether investors feel they have achieved their goals. The survey findings highlight the complexities and subtleties of the current transfer of wealth between generations.

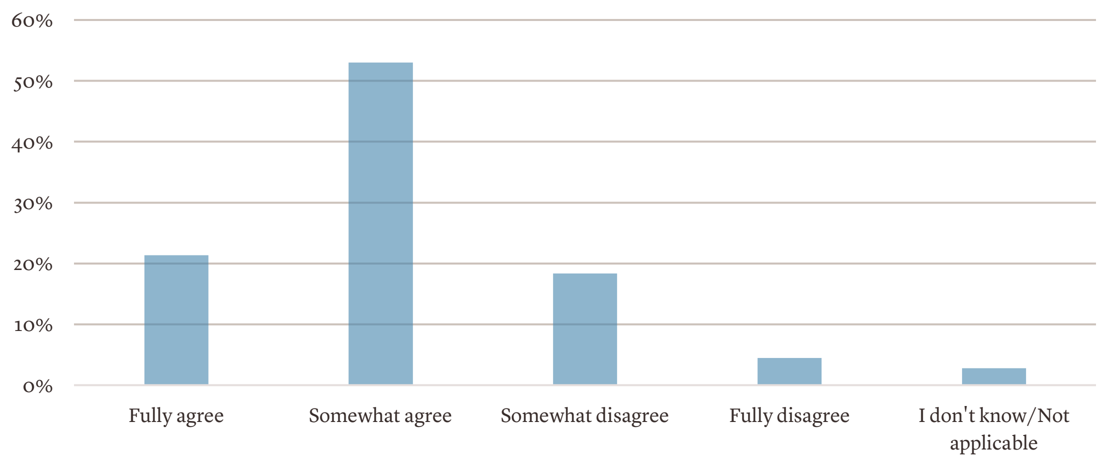
As Graph 5 illustrates, **only around a fifth of respondents fully agree that they have achieved their goals, while 53.0% somewhat agree, suggesting there is still work to be done broadly for investors to be satisfied**. Tellingly, it is the younger generation who feel their goals have not yet been met, with only 16.7% of under 45s (Graph 6) saying they fully agree that they have reached their goals, Meanwhile, 7.6% fully disagree with the notion they have achieved their goals compared with 1.9% for over 45s.

Graph 6 offers a quantitative glimpse at the comfort levels between generations, and highlights that, although there is a lot of room for improvement for both, the younger generation feel they have more to do to turn their personal convictions into actualities.

Structuring assets and wealth is an area for improvement, with only 20.3% and 53.2% of respondents saying they fully agree and somewhat agree, respectively, that they have not achieved their goals but have structured their assets in order to reach them.

From a market perspective, about a third of respondents in Hong Kong fully agreed that they had achieved their goals (34.9%, Graph 7), while the proportion was only 12.8% in Japan. Interestingly, the trend appears to be that respondents in Japan who have not achieved their goals have also not structured their assets accordingly, suggesting a correlation between having a plan and hitting targets. Only 3.5% in Japan said they thought about structuring their assets to meet their goals.

5. I have achieved my goals by using my assets accordingly
(in % of respondents)

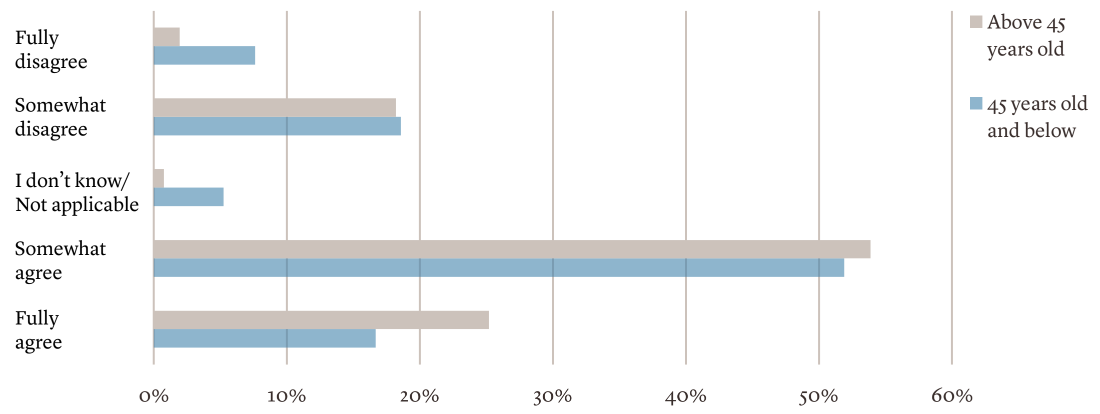


Source: Lombard Odier

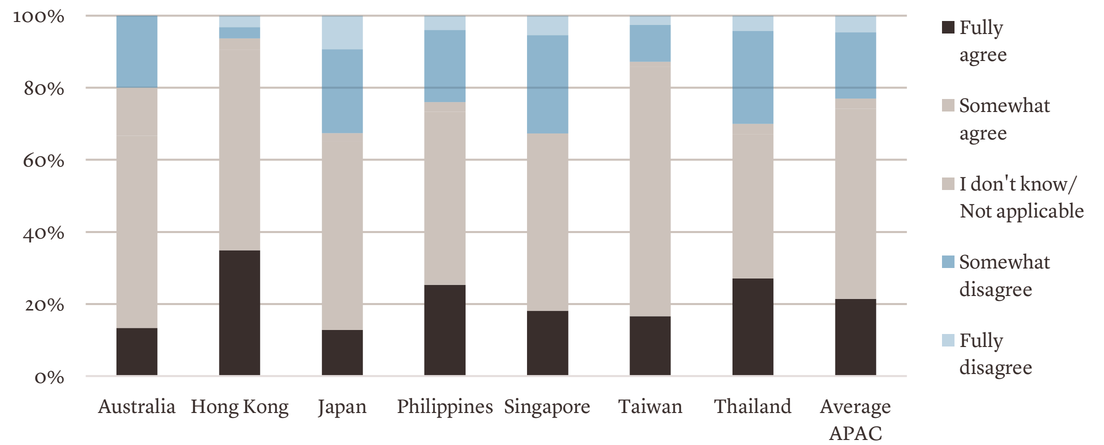
However, interviews with the respondents reveal an understanding of the importance of having in place a structure of their portfolio to reach their goals.

> "Until recently, I didn't ask myself these kinds of questions. I've given everything to my business, my money, my time, my energy. Now I have to think about what's next," said one respondent who said they did not structure their wealth to meet their goals.

6. I have achieved my goals by using my assets accordingly
(age comparison)



7. I have achieved my goals by using my assets accordingly
(in % of respondents)



Source: Lombard Odier

Turning plans into action: Values guiding Investments

So how are investors positioning themselves to make good on their goals?

The answers are not straight-forward, considering that individual circumstances such as one's life journey, preferred time horizons and work/life balance all play a role in shaping the investment approach.

Investors' attitudes to investments can therefore be wildly different, and the current sea change of ESG and the Great Wealth Transfer provide a tantalising opportunity for portfolios to shift, which as mentioned earlier is already shaking up the investment landscape.

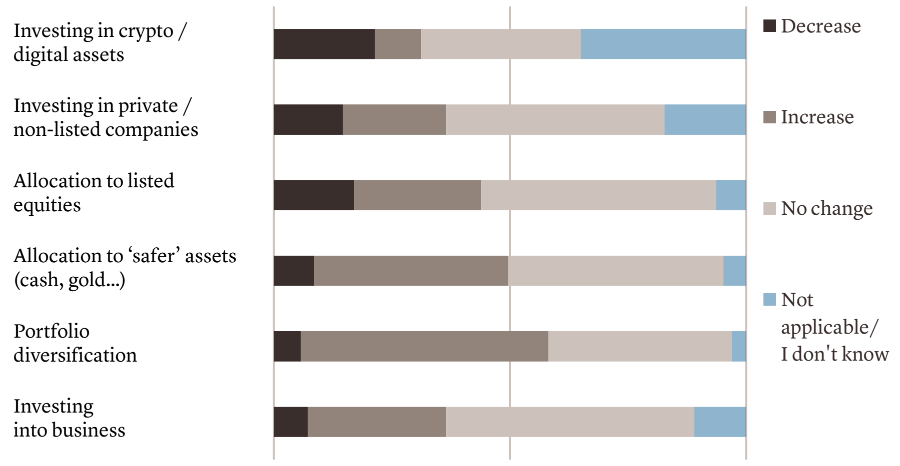
Graph 8 highlights that portfolios are becoming more diversified, which is hardly surprising considering the prevailing macroeconomic uncertainty throughout the past few years following COVID-19, including rising inflation and interest rates.

While the younger generation is investing more in digital assets than their older counterparts, with 14.7% of under 45s increasing their allocation over the past two years compared with 5.9% of over 45s, the overall percentage of respondents increasing their investments into these assets is still relatively low.

In addition to their risk/profile appetite, it is important for the majority of respondents to align their assets with values. **Regardless of age, respondents said they require a balance between values and profitability in their portfolios (53.2%), or that they would like to first align their investments with their values (19.3%)**.

8. What changes have you made to your overall investment portfolio allocations over the last 2 years?

(in % of respondents)



Source: Lombard Odier

Rethinking your wealth outlook

Can the current approach to preserving and growing wealth allow investors to realise their goals and ambitions, or should we rethink our approach altogether?

Let's put this into context. High inflation and rising interest rates, energy worries, climate concerns and geopolitical tensions have all increased uncertainty for investors, and changed the risk-return equation.

In difficult markets, we must help our clients understand how their wealth could evolve under many different scenarios, and exactly how they can use it to fulfil their ambitions.

Aspirational and essential goals

We all have goals, but there is a distinction between goals that are aspirational, and those that are essential. Aspirational goals encompass dreams and desires that may not be immediately necessary but hold personal significance, such as a dream purchase or pursuing a passion project.

Essential goals involve meeting needs like education, early retirement, or healthcare. What one investor may consider an essential goal may be aspirational to someone else. For example, leaving your assets to future generations may be a good-to-have for someone, but a requisite goal for someone else.

Thus, wealth must meet differing demands, from daily financial needs and longer-term projects to transgenerational aspirations. An investment strategy must therefore take into account the varying time horizons and risk profiles associated with different goals, as well as with different life stages.

We understand that a more personalised and holistic investment strategy – a goal-based investing strategy – is key to addressing specific aspirations and essential needs.

Understanding goal-based investing

Goal-based investing is our answer to addressing how the needs of investors have changed, how markets have developed, and how expectations of wealth management providers have evolved. Relying solely on historical performance and generic risk assessments to maximise returns over a specific time horizon could also lead to a mismatch between goals and investment decisions.

Instead, by capturing an investor's goals, creating a personal balance sheet with their assets and liabilities, and modelling ways to fund them, our approach creates several completely personal investment plans for them to consider. These plans optimise the chances of meeting their goals. Rather than a single investment portfolio, it can create different portfolios for each goal, each with a different time horizon, asset allocation and risk profile.

This allows an investor to translate life goals into financial objectives, and thus to allocate resources and manage risks accordingly.

An ongoing journey

Goals, like life, change over the years. New situations may arise which may require investors to channel their wealth differently, especially family wealth. There may be additions to the family to provide for, or business ventures may take a different direction. Individual family members may be at different stages of their life journeys and their essential and aspirational goals may diverge from those of the larger family group.

The investment environment also changes over time. If an unforeseen event like the pandemic impacts markets and the global economy again, portfolios need to adapt accordingly.

In an uncertain investment climate, it can also be hard to see beyond the impact of short-term market movements. But our tools can simulate future return expectations, rather than extrapolating them from past performance. By modelling the evolution of an investor's wealth over time, and suggesting several different investment allocations to choose from, we can act as a sort of 'satnav,' offering various routes to get them where they want to be.

As market conditions change, our technology constantly updates the probability of meeting each goal, meaning we can adjust investments, time duration, and levels of risk as needed. By adopting a holistic investment strategy, an investor can think about optimising the allocation of their financial resources, making informed decisions that consider the trade-offs between goals.

Reviewing these goals and objectives periodically is key – investors can make adjustments to ensure that portfolios remain aligned with evolving goals, life stages, and market conditions.

Rethinking investments

The evolving market landscape, along with changing risk-return profiles, calls for a re-evaluation of investment approaches. By acknowledging the significance of both aspirational and essential goals, with the help of wealth managers, investors can create personalised and holistic portfolios that cater to their unique circumstances.

If investors embrace this new approach to investments, it can enhance their understanding of risk, and ultimately maximise the probability of reaching their desired outcomes.

Please read the important information at the end of the document.
Lombard Odier · November 2023

Sustainability

The concept of sustainable investing has typically divided investors, who tend to see it as a value play rather than a serious asset class. Underpinning this is the paradox between acknowledgement and action, whereby investors recognise the importance of issues around sustainability, including climate change and food security, but do not take action. This is reflected in our study, and as Graph 9 shows, **only 2.8% of respondents strongly disagree with the statement "I am worried about climate change".**

Only 18.4% fully agreeing that they "have actively increased or plan to increase the proportion of sustainability investments".

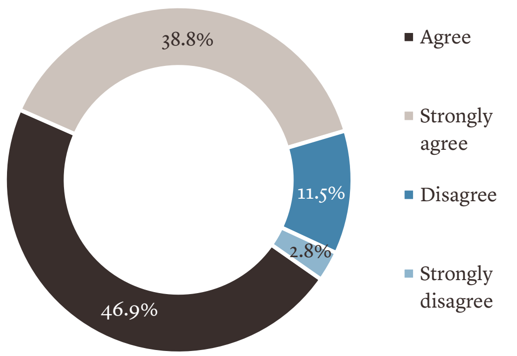
This message is exacerbated by the drive for sustainable investing, which is already transforming the investment landscape.

However, there is hope. Although many investors remain unconvinced about the returns on sustainable investments, the continued emphasis on climate change and sustainability following COVID-19 have moved the dial somewhat, with APAC HNWIs at least considering sustainability as a bona fide investment opportunity. As such, 53.6% of respondents agree that taking sustainability factors into consideration can help deliver superior returns, while 23.4% strongly agree. The watershed moment will come when this interest is translated into action and, although we are not yet there, the momentum is building.

This is particularly true for the younger generation, who are more prepared to be advocates of shareholder activism and impact investing. As such, 32.4% of under 45s saying sustainability is an essential focus compared with 21.7% of over 45s.

This dovetails with trends in the wider market, where sustainability has become a core issue for the public, economies, and governments, which are compelled under their Paris Agreement commitments to hit net-zero targets. All of this is leading to a revolution in public and private spending and rationale, which is creating unprecedented opportunities for investors to invest with their conscience as well as their wealth.

9. I am worried about climate change and its future consequences
(in % of respondents)



Source: Lombard Odier

Rethinking the environmental transition

The environmental transition is in motion

In our view, the environmental transition is driving an economic transformation of the scale of the industrial revolution and is unfolding at the speed of the digital revolution. Specifically, we have the conviction that the environmental transition is going to be a primary driver of investment returns this decade.

Hundreds of innovations such as lithium-ion batteries, heat pumps, electrolysers, alternative proteins, green steel, and bioplastics have passed the concept stage and are on track to become mass market solutions in the coming years.

Policy support is at an all-time high and will leapfrog the transition. This decade, between the European Union, the United States and China, close to USD 1 trillion a year of government support is going to be directed towards the environmental transition[4]. This is derisking private sector investments and private capital is now voraciously chasing new sources of green profits at speed and scale.

Massive investment is reshaping the global economy

Lombard Odier forecasts a cumulative USD 37 trillion of capital expenditure (CAPEX) between 2022 to 2030 to go towards three system changes[5], namely:

› The electrification of our energy system

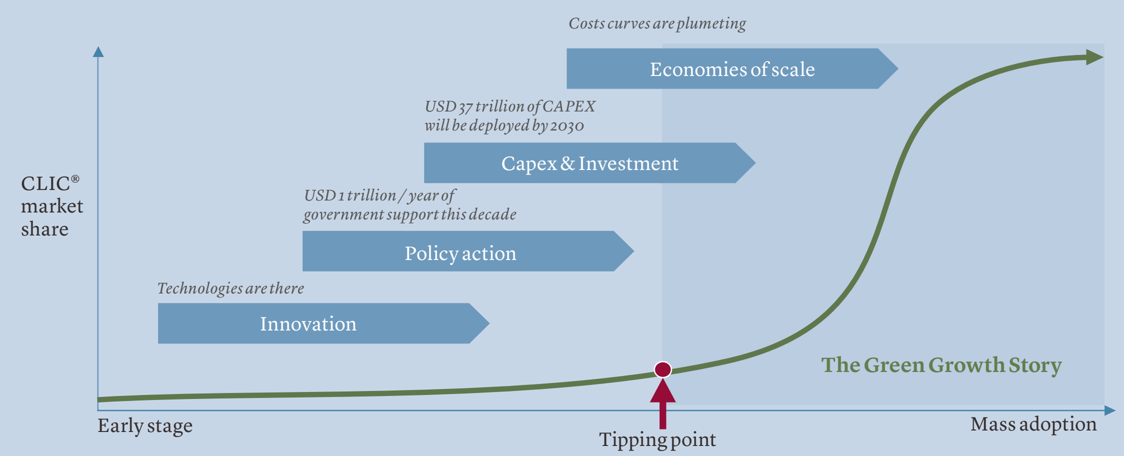
› The rewilding of our land & ocean system

› The circularisation of our materials system

To put this in perspective, this is more CAPEX than what was observed during the IT revolution which saw the sector eventually claim more than 20% of corporate earnings in the 2020's compared to 5% in the 1990s[6]. This reallocation of public monies and private capital is boosting production capacities, unlocking economies of scale, and driving rapid cost declines.

The environmental transition, not unlike other transitions before it, is characterised by an S-shaped pattern driven by specific and powerful forces (described in the chart below). Green growth is unlocked by tipping points that happen when market penetration reaches 5-12%. The ensuing exponential adoption of new solutions and the profits that come with it have a tendency to surprise markets that react all at once to reprice shifts in profit pools across the global economy (think of the IT revolution).

The environmental transition is driven by powerful forces



Source: Lombard Odier

Taking electrification as an example, in the last ten years, we have seen the costs of wind, solar and batteries technologies drop by 70-90%[7]. These technologies are now not only cost competitive, but their performance (measured by energy efficiency) beats legacy technologies by a factor of 3-5X[6].

This potent combination of cost-competitive and superior technologies is now rapidly transforming value chains and cash-flow generation across the global economy.

Value chains, profit pools and business models are shifting

Traditional sectoral segmentation no longer depicts how the economy is organised. For instance, with the respective sectors in brackets below:

› Car manufacturers (consumer discretionary) are moving into battery manufacturing & recycling (the remit of industrials) and autonomous driving (the remit of IT companies)

› Fertiliser manufacturers (materials) are moving into green hydrogen to tap into the shipping fuels market (the remit of energy companies)

› Supermarkets (consumer staples) are installing roof-top solar and electric vehicle (EV) charging infrastructure, thereby tapping into the profits of utilities companies

› Forestry companies are moving into construction and packaging, thereby expanding their reach in the materials sector at the expense of concrete and virgin plastics manufacturers

Research is critical to sustainable investment

To understand these profound transformations and make sound investment decisions, Lombard Odier has built a major sustainability research capability. With over 50 full-time researchers, our award-winning sustainability research team is market leading with expertise spanning system changes, environmental sciences, environmental economics, engineering, geospatial sciences, and more.

The team focuses on developing roadmaps to assess investment requirements (CAPEX), future total addressable market and the profitability of key transition innovations (i.e. lithium-ion batteries, green ammonia, bioplastics etc.). The team then leverages this market intelligence to select investments with attractive valuations that are best positioned to capture the upside.

To stay abreast in this rapidly changing environment, we partner with some of the top research institutions around the globe to stay on the leading-edge of sustainability research. Over the years, we have established strategic partnerships with the likes of Systemiq, the University of Oxford, the Energy Transition Commission and the Circular Bioeconomy Alliance.

At Lombard Odier, through our innovative sustainable investment framework, unique expertise and dedicated investment solutions, we ensure our clients benefit from the environmental transition.

[4] Holistiq research.
[5] Lombard Odier research.
[6] Holistiq research.
[7] BloombergNEF.

Please read the important information at the end of the document.
Lombard Odier · November 2023

Private assets

Respondents' attitudes toward private assets provide **a similarly enigmatic picture, whereby investors are interested but have not turned this interest into action**. This is reflected in the overall private market sentiment, with private equity deal value in APAC decreasing by 44% in 2022 to USD 198 billion and exit value dropping 33% to USD 132 billion in the same year, according to Bain & Company[8].

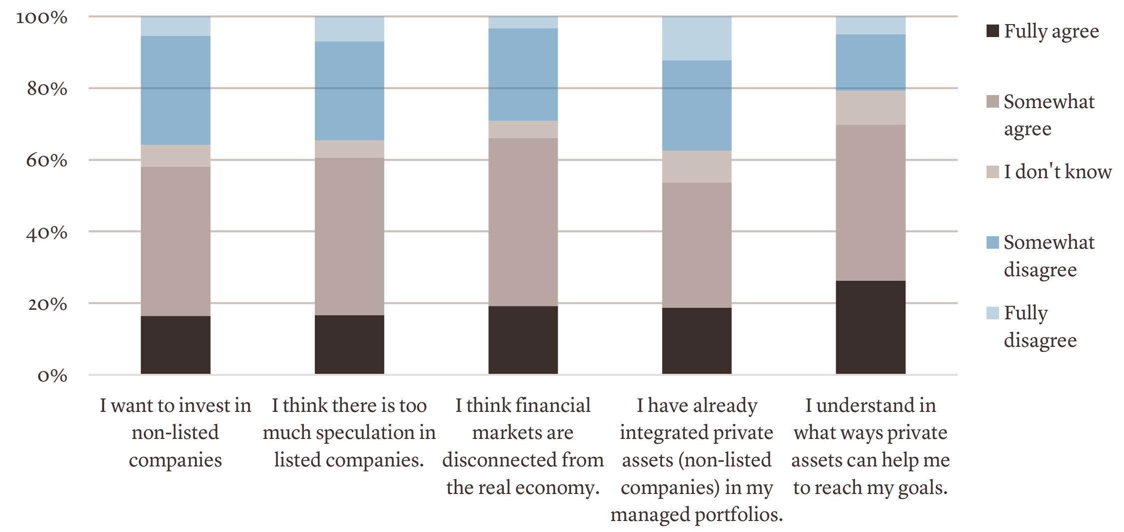
Our survey bears this out. **Although 58.2% (Graph 10) of respondents somewhat agree or fully agree that they wanted to invest in non-listed companies, only 18.8% somewhat agree or fully agree that they had already integrated private assets into their portfolio.**

Why the lack of action? This can partly be explained by the survey, with only 26.3% of respondents fully agreeing that they understood how private assets could help them achieve their goals. As with sustainability, this highlights the lack of confidence among investors and the importance of education around these topics to help explain the viability of such assets.

> As one respondent commented, if someone is not familiar with an industry "it will be easy for them to get lost".

10. Private Assets

(in % of respondents)



Source: Lombard Odier

[8] Asia-Pacific Private Equity Report 2023, Bain & Company.

Once again, the younger generation appears more ready to engage, with 67.2% of under 45s saying they fully agreed or somewhat agreed that they wanted to invest in such assets. This could be good news for the market in APAC, which has room to grow and may benefit from the perception of two-thirds of respondents that there is a disconnect between the financial markets and the real economy (66.1%). Among the under 45s, 65.2% fully agree or somewhat agree with this sentiment. Furthermore, 60.6% of total respondents feel there is too much speculation in listed companies.

APAC remains the second largest region for private market investments[9], and returns from APAC-focused private equity funds still outperformed those of the public markets last year[10].

Our findings therefore reflect the attraction of private assets, which can provide more options in terms of renewable energy and sustainable infrastructure opportunities, many of which are government-owned or -linked, offering locked-in rates and more transparent contracts with more palatable time horizons to meet with investors' goals.

But, as with sustainable investments, there is a gap that needs to be bridged in terms of fully realising the potential for private market investments, particularly during these times of macroeconomic and broad market uncertainty.

[9] Global Private Markets Review, McKinsey.
[10] Asia-Pacific Private Equity Report 2023, Bain & Company.

Private assets return to fundamentals

By Thierry Celestin, Head of Private Assets, Lombard Odier

Key takeaways

- Private markets are back to basics, with a renewed focus on value generation, following years of search for growth "at any cost" in a low-to-zero interest rate environment
- With much economic value and innovation created in the private sector, integrating a range of private assets into a multi-asset portfolio offers a different and potentially complementary set of opportunities
- Research shows that the best private asset fund managers tend to consistently outperform, especially through economic crises. This makes manager selection key to successful private asset allocations
- The net zero transition offers opportunities for investors in private assets across Asia

The higher cost of capital is driving a return to fundamentals in private markets, with fund managers focussing once again on generating profits by improving and transforming their investee companies. For investors, economic crises and dislocated markets historically deliver outperformance, on condition that they can access a broad range of top managers and maintain a consistent, long-term horizon.

After two bumper years, private equity deal-making and fundraising has slowed considerably in 2023, in an increasingly competitive market. Globally, private equity firms raised USD 517 billion in the first half of 2023, down 35% on the same period in 2022[11]. APAC's share of global fund-raising also fell in the first quarter[12] driven in part by investor concerns over China.

After years of low-to-zero borrowing costs that saw investors search for growth "at any cost", attention has now switched back to opportunities to generate value through operational improvements and positive cash-flow generation. We expect the higher-for-longer interest rate environment to favour the strongest fund managers who actively work to transform their assets – e.g. private equity managers with strong industry or sectorial expertise, scalable operational capabilities, and access to a deep bench of advisors and experts. This reinforces the importance of careful fund manager selection – the difference between top performers and the rest is wider than for other asset classes.

Moreover, **much of the economic value created by companies remains inaccessible to an investor whose portfolio contains only publicly-listed assets.** An estimated 87% share of US gross domestic product is created by privately-held firms, which also employ three-quarters of all workers[13]. Much of this value, and especially at the early stages of a company's innovations, can be captured only before a business is listed. Private companies are also staying private for longer and there has been a declining number of listed firms over the past decade, according to US census and World Bank data.

Private assets have a very important role in diversifying an investment portfolio from more volatile publicly-listed assets, across the full economic cycle. While private equity accounts for two-thirds of all private assets, the varying dynamics of private debt, infrastructure, and real estate offer different opportunities.

Demand for private credit – or loans extended to non-listed companies – has also risen sharply in 2023. Accounting for around 11% of the total private asset market[14], private credit offers diversification from traditional, liquid bond markets. While bankruptcies and defaults may rise as growth slows, returns from the asset class have traditionally been relatively stable. Loans are typically short term, and at floating rates, where current spreads are some percentage points above market rates, providing investors with the opportunity to increase their portfolio's yield. With higher interest rates and wider spreads, we see compelling opportunities to achieve strong risk-adjusted returns in direct lending funds. The current economic slowdown and higher interest rate environment may also prove fruitful for distressed debt opportunities.

The transition to more renewable resources of energy also offers opportunities to invest in innovative infrastructure solutions and technologies. Between 2017 and the first half of 2022, private equity funds signed energy transition-related deals worth over USD 160 billion[15]. Opportunities also abound in Asia, where many governments are keen to attract private capital to help them meet ambitious net zero targets. Moody's Investor Services notes that foreign capital investment is particularly important to emerging markets in South and South-east Asia, where fiscal resources may limit the pace of green development.

Of course, **private assets are not appropriate for every investor due to the long-term and illiquid nature of investments. However, for those with the ability to stay invested and follow a multi-year investment strategy, they can be an important element** in a well-balanced portfolio. A disciplined, selective, and gradual approach is paramount, as is adequate diversification across all sub-asset classes, to benefit from their different characteristics throughout the economic cycle. Finally, the ability to choose and access the investment vehicles from the top managers remains a critical ingredient of successful investing in private markets.

[11] Stuck in Place: Private Equity Midyear Report 2023, Bain & Company.
[12] APAC dries up amid global fundraising, Private Equity International.
[13] United States Department of Labor statistics.
[14] Private markets turn down the volume, Preqin and McKinsey.
[15] Global Private Equity Report 2023, Bain & Company.

Long-term thinking

It is clear that respondents are looking to nurture long-term relationships and foster long-term investments, rather than short-term goals. This is reflected in some of the comments given by respondents, such as one who said:

> "the long-term view; it's the only way forward".

This was underpinned by the answers given to the question on broad goals, where 86.3% (Graph 3) of respondents said transmitting their wealth to the next generation was a personal goal, where it was either an essential goal (54.9%) or aspirational (31.4%).

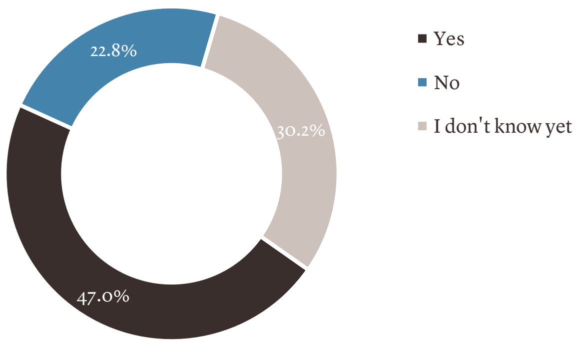
Only 22.8% of respondents are not willing to keep their wealth in the same bank as other members of their family (Graph 11). This highlights the value of long-term relationships to clients across generations, whether this is because of uncertainty from changing an approach or trust in the current set-up.

This is important considering that our survey highlights that the goals themselves are becoming more diverse as the older generation starts to hand over wealth to their younger counterparts, as reflected in the dichotomy of answers generally between the under and over 45s.

Private banks and wealth managers must be able to manage the expectations of these new wealth holders, who will often hold a very different set of values, beliefs, and attitudes towards wealth management. There is much at stake, such as the very real threat of erosion of family wealth.

The next step, and a vital component for both HNWIs and UHNWIs to get right, is communicating these goals, values, and strategies to family members or those about to inherit wealth, which will be discussed in the next section.

11. Are you in favour of keeping your wealth in the same bank as the other members of your family?
(in % of respondents)



Source: Lombard Odier

Alignment within family

- Alarm bells
- Are you aligned?
- Off the table?
- It's good to talk

Alignment within family

Achieving alignment within families is always easier said than done. The findings in this section highlight the contradictions and complications that impact decision-making within families and the variations of opinion that can blight discussions before they even start. Similar to the attitudes toward sustainability and private assets, there is a contradiction between beliefs and action when it comes to communicating personal goals within the family.

78.3% (Graph 12) said it was important to share their own goals to build a long-term common vision and implement it together as a family, and 69.7% think it important to communicate between generations and siblings before taking any decision.

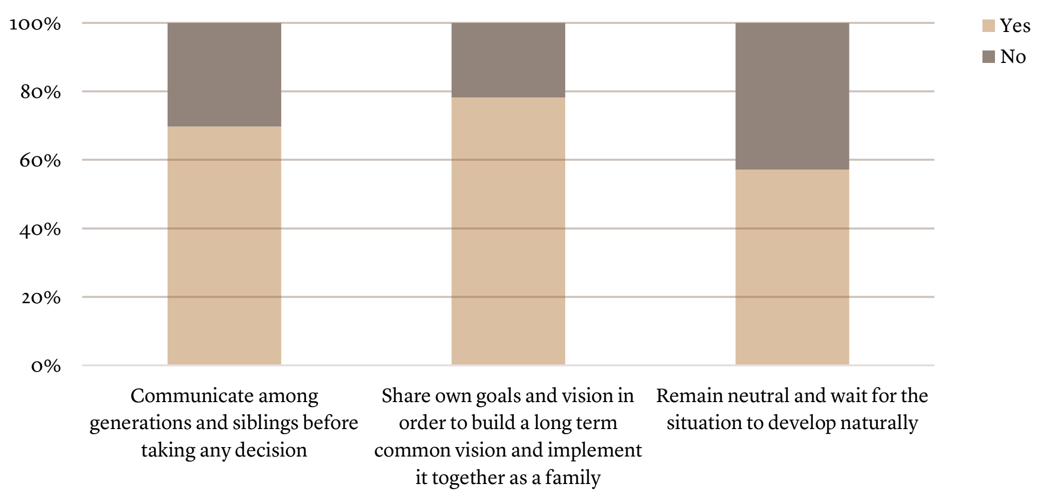
However, only 61.6% of respondents (Graph 13, page 38) said they had shared such goals with their parents, dropping to 46.6% with their siblings, and 54.9% with their children.

This paradox highlights the sensitivities for APAC's HNWIs in terms of family discussions, which are deemed important when it comes to communicating personal goals before taking any decision, but can be difficult to hold. Families tend not to talk about their wealth and if they do it is only when succession issues arise, which can shroud personal preferences in politics and negative emotion. If personal differences are left to stew, pent-up issues can become a powder keg that lead to poor financial decisions, losses or higher costs, or ill thought-out domicile choices. This can lead to legal and succession problems, and clashes that can damage families and business.

The situation for Asia's HNWIs is precarious because, as highlighted earlier, our survey findings suggests there is poor – or even no alignment between generations, especially in terms of goals, work-life balance and investment convictions. This clearly suggests more work needs to be done broadly to get families to communicate.

12. Are the following characteristics important for you?

(in % of respondents)



Source: Lombard Odier

Alarm bells

More alarm bells are rung when it comes to communication between siblings. While respondents appear ready to discuss issues with other generations, they are less prepared to share information with siblings. As an example, 32.4% (see Graph 15, page 40) of respondents said they were likely to discuss family business and business transmission between generations, but the number drops to 27.4% between siblings, with 33.7% and 8.8% saying 'rarely' or 'no', respectively.

As part of this, women tend to share their personal goals with siblings more than men do (57.4% and 40.1% respectively).

Overall, when it comes to discussing individual goals and objectives, our survey findings reflect that communication becomes more selective. It is perhaps unsurprising that many respondents felt that decisions were often taken without consultation with the younger generation. Based on interviews with respondents, there is a perception that the patriarch or matriarch often makes a decision first without any discussion.

> One said the patriarch would discuss matters with his son, "but he has to make up his mind first". "They keep control and there is no room for discussion", said another.
>
> Meanwhile, perceptions of status can also be a factor: "The lower levels should follow instructions from the upper level", said a separate respondent.

13. Have you ever shared your personal goals with...

(% of respondents who agree)

Source: Lombard Odier

Are you aligned?

Of course, it tends to be easier to share goals if the perception is that you are aligned with your family members. But the picture painted by our survey shows when asked if they thought their family members had the same goals as they did, a very large proportion – almost half – said the goals are probably not the same (Graph 14).

There could be a spot of generational bias in that the under 45s tend to think their parents share the same goals as they do (58.7%), but the over 45s assume their children do not (54.3%).

Meanwhile, our survey responses revealed that the wealthier the family, the less siblings assume they share similar goals. Of those with a net worth of between USD 1 to 3 million, 63.7% said they held similar views, but this falls to 41.6% for those in the USD 3 to 10 million bracket, 45.7% for the USD 10 to 30 million category, and 43.6% for the over USD 30 million bucket.

Based on insights from our respondents, one perception is that there is a tendency to think that the next generation will be more successful or informed; there is also a perception that the next generation behave from the 'work is life and life is work' model.

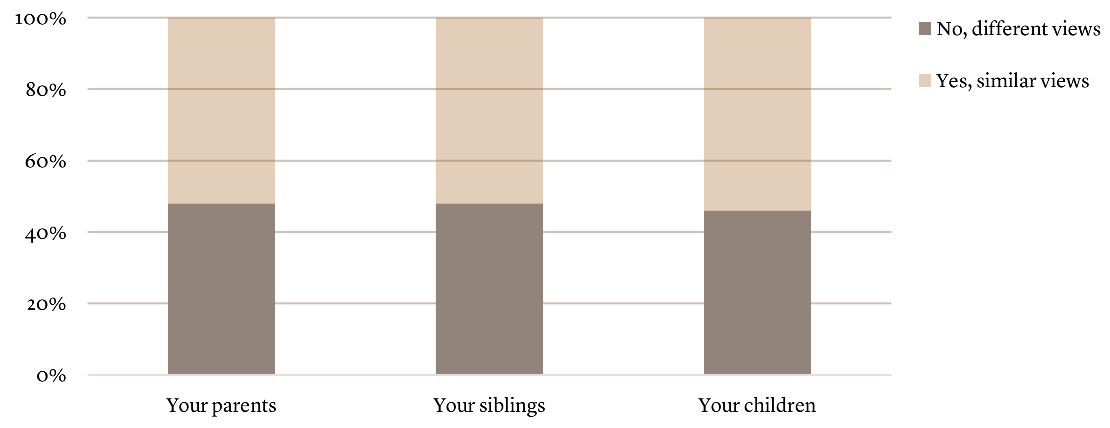
> One gave an example that the son was working in the family business "just for fun".

Meanwhile, others commented that the 'need to work hard to earn money' mindset would remain the same, with one respondent pointing out that in certain countries there was a tendency for companies to stay "in the hands of the family".

These musings from our respondents again highlights the importance (and delicacies) of communication, with perception being a differential that needs to be addressed.

14. Do you think your parents / siblings / children have or had the same goals as you?

(in % of respondents)



Source: Lombard Odier

Off the table?

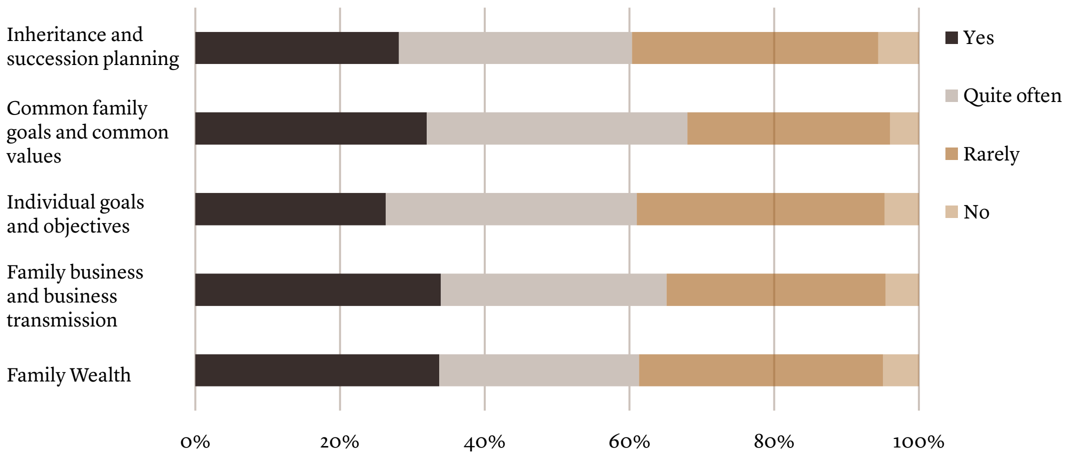
Common family goals and common values, and family business and business transmission are the most often discussed topics, according to our respondents (Graph 15). These are vital areas for family wealth, where effective communication can bridge cultural and generational gaps, ensuring interests, ethics and values are aligned to minimise disruptions caused by differences in opinion or strategy. Or indeed, miscommunication or misunderstandings. The potential for this is exemplified by our respondents: a larger proportion of those over 45s (35.7%) assume there is communication in terms of discussing common goals and common values than the under 45s (27.9%), which suggests more work needs to be done by the older generation to explain their strategy and goals and close the perception gap.

However, inheritance and succession planning are not topics often discussed between generations, with some families designating such topics as 'information on what is going to happen' rather than a 'discussion to be had'. This supports the view of some of the respondents mentioned earlier, who thought that decisions were simply made without consultation.

> "All decided by the father", said one respondent.

15. When families are likely to discuss between generations, which topics will be addressed?

(in % of respondents)



Source: Lombard Odier

When asked for the reasons why families tend to not discuss issues between generations, the respondents offered a telling illustration of the barriers that exist in the region. **Such discussions were "culturally taboo" according to one respondent, while another said they did not understand the modern mindset; another said they had never seen a successful example of succession in terms of the children's happiness.**

It was a similar story among siblings, particularly expressed through concerns over sensitivity, but tellingly there could be also a potential among siblings to assume that goals have already been set: for example, 47.7% of respondents said family wealth was either not discussed or rarely discussed among siblings, and 47% said they thought succession and inheritance issues were rarely or not discussed among siblings.

It's good to talk

But there is hope. Many of the respondents acknowledge that more needs to be done in terms of communication, with the new generation of parents unwilling to make the same mistakes as their own parents. The theme of education permeates the responses, in the sense that it is important to educate children so that they can make good choices. One respondent felt that decisions on business and investment goals were ultimately the children's to take. Meanwhile, others deem it important for educational purposes, with one saying it was important to teach his son the value of money and how to earn it.

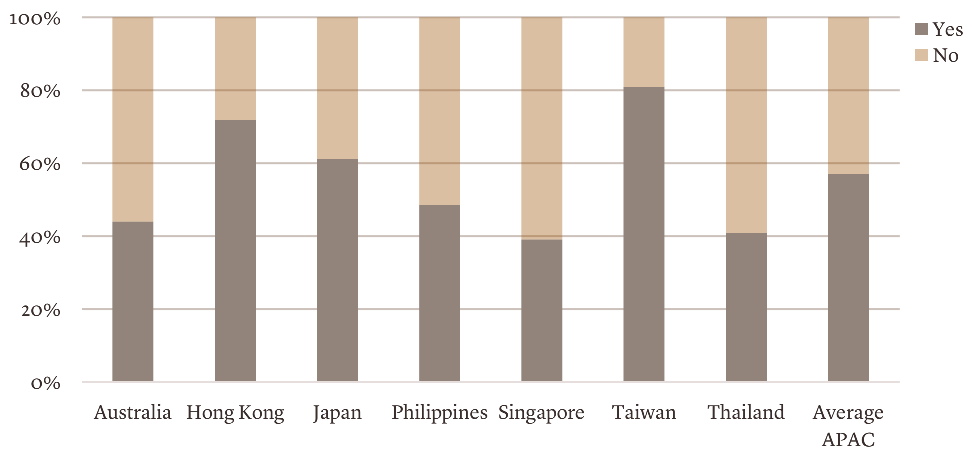
However, the caveat here is that 57.1% (Graph 16) of respondents across APAC said they would stay neutral and wait for the situation to develop naturally. In terms of market perspective, this sentiment was highest in Taiwan (80.9%), and Hong Kong (71.9%). This highlights how much work still needs to be done to translate intention into action when it comes to familial communication.

So, who do HNWIs talk to if not their own family?

When the family circle is not included, respondents tend to share their goals with friends, followed by their banker or financial advisor (Graph 17).

16. Do you agree that you should remain neutral and wait for the situation to develop naturally (when it comes to wealth transmission)

(in % of respondents)



Source: Lombard Odier

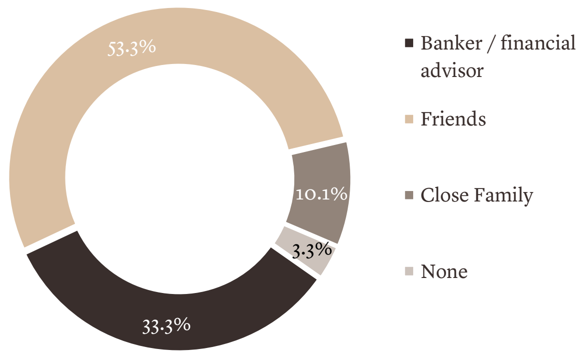
Either way, **getting this communication right will be vital in aligning family goals and avoiding the kind of pitfalls mentioned earlier**. It is clear that succession is not the only topic that needs tackling, even if it tends to be the trigger for discussions on family wealth, which will be discussed further in the next section.

If succession is indeed the trigger for talks, there is a risk that by the time families have these discussions, it will be too late. For example, it is essential to identify potential risks over multiple generations, with a view to protect the broader family's assets, over the long term.

Goals should be shared among everyone during the journey in order to create a common vision to achieve both personal and common objectives.

The benefits are myriad, with family cohesion and the transmission of values and wealth across generations being perhaps the most important. **But putting theory into practice is rarely a given, and there are a range of issues to confront in order to transform personal and common goals into an effective investment strategy**, as will be discussed in the next section.

17. Personal goals shared with someone else (than parents, siblings or children)



Source: Lombard Odier

Structuring and giving purpose to family wealth

Structuring and giving purpose to family wealth

As emphasised in the previous section, communication is key, representing not only the beginning of the journey but underpinning all effective strategy and decision-making when it comes to family wealth.

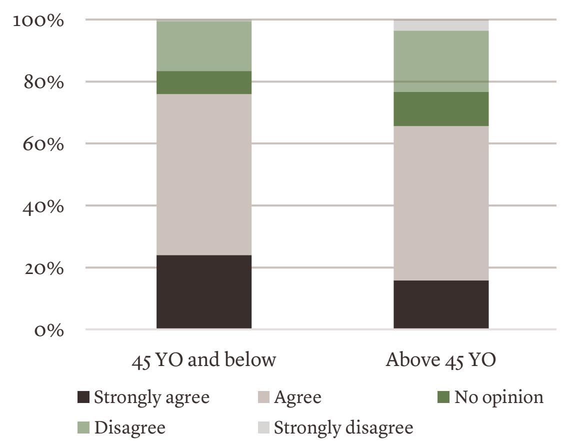
But what does alignment mean in practice? How does communication around personal and family goals translate into discussions and action on structuring family assets?

As highlighted earlier, **there are differences in attitudes, ethics, and approaches between generations – and even between siblings – and so the challenge is to reconcile these to provide a balanced portfolio that captures the values of the family and individual** while touching on the traditional cornerstones of investment. But who should be involved in discussions, and whose values will triumph?

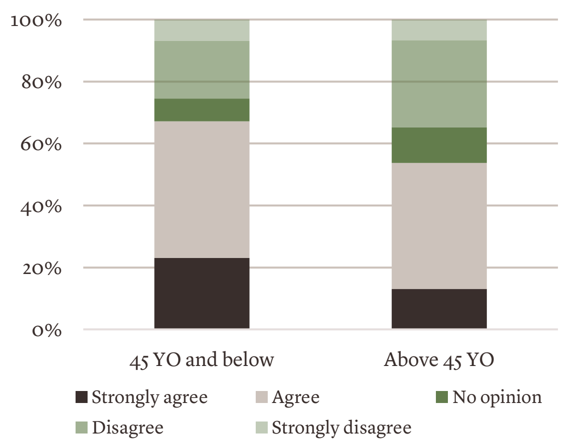
The reality is that values are not homogenous, and generations are split on their investing goals, with younger investors more willing to put money behind environmental and social issues – even if this is costlier. This is reflected in our survey results, which show that 24% (Graph 18) of under 45s strongly agree that they are interested in impact investing (financial returns and with a positive impact on society/environment) compared to 15.8% of over 45s. Similar patterns hold for shareholder activism (using shareholder rights to prompt change within the company and influence its sustainable future) (Graph 19).

In this sense, families tend to not always take into consideration the personal goals of each individual in order to build a common vision. Still, roles and responsibilities are distributed within the family regarding the management of family wealth, and reconciling these individual goals is an important endeavour that families should take into account.

18. I am interested in impact investing



19. I am interested in shareholder activism



Source: Lombard Odier

Does common wealth exist?

The respondents tend to think so, with 52.8% (Graph 20) affirming that there is common wealth and that it is managed either in common within the family or by one person.

That the concept of common wealth is crystallised in the data is significant because it highlights the potential scope of intrafamilial sensitivities when it comes to structuring wealth from personal goals. The potential issues are laid bare when that 52.8% is broken down further: **31.1% of respondents said there is common wealth and that it is managed in common within the family, but 21.7% said common wealth is managed by one person, such as a patriarch**.

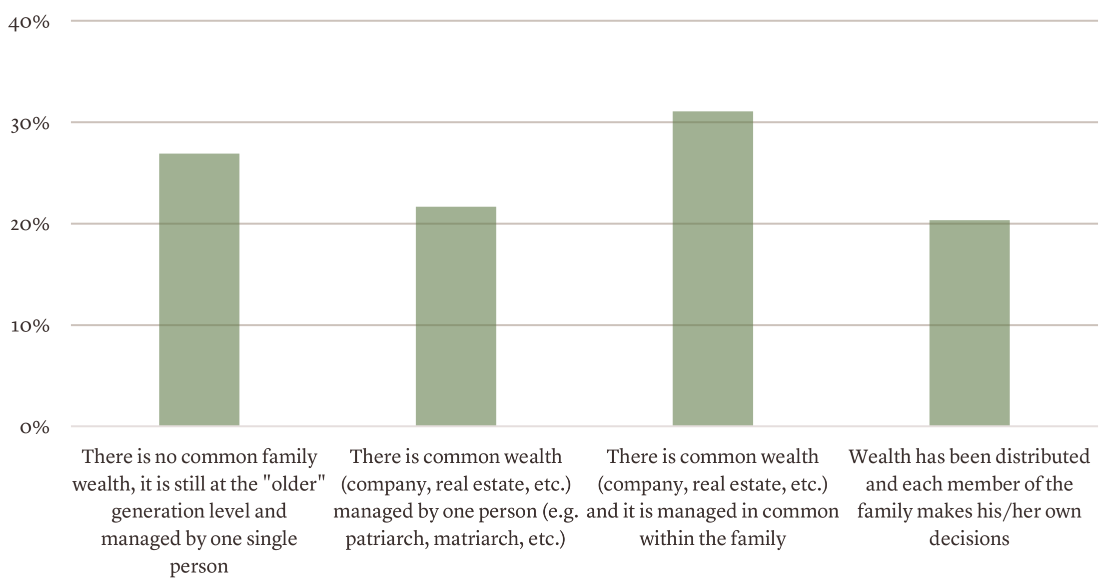
Another interesting finding is the difference in perception between whether common wealth exists.

Perhaps the main decision maker is the owner manager who intends for this wealth to be for the whole family, so he sees it as common wealth. It is just that management and control has not been passed on. As for someone else who is a family member and not aware of the succession plans of the family or there are no properly communicated family rules regarding distribution of benefits, he does not know if he is entitled to share that wealth or not. So he does not see common wealth.

It is interesting to note that, even though a company or family can be co-managed, the final decision is often still taken by a patriarch or matriarch. The presence – or perception – of a single point of decision-making dovetails with the findings in the previous section, which highlighted concerns over communication.

20. How do you distribute roles and responsibilities among the family members regarding the management of the family wealth?

(in % of respondents)



Source: Lombard Odier

As an example of this, one respondent said that very often the old generation is still in control: "They are not planning anything, as they believe they would lose control if they do so before they die". "It is very unlikely that the dialogue will take place."

When it comes to influencing the decision-making, having a single decision-maker can be beneficial or present a challenge.

On one hand, a single decision-maker can be difficult to win over because such a set up signals a desire for total control, which suggests inflexibility. On the other hand, if communication is effective, dealing with a patriarch or matriarch can be much more efficient than convincing a committee of family members, who possibly have competing ideas.

This view also resonates with the 26.9% of respondents who think there is no common wealth, because it is still the older generation that manages everything.

Of those who said that common wealth exists, a significant proportion (37.6%) are either the main decision-maker (18.6%) or heavily involved in the decision-making process (19.0%). When put in the context of the 26.9%, it might support the perception, cynical though it may be, that those with the power simply do not see the true picture, or understand others' perceptions or concerns, when it comes to decisions around family wealth.

That said, one respondent – a decision-maker – noted that he plans to involve his son, to teach him the value of money and how to earn it:

> "There is a need to talk about how to earn the money ... in two or three years, he (the son) is going to assist board meetings".

Furthermore, a large proportion (13.8%) who believed common wealth exists were not keen to give their role within the company or family. Whatever the true picture, with 33% (Graph 1) of total respondents to the survey being business owners (the highest percentage category), this highlights the potential scope of ramifications. It is not only family wealth on the line, but also the products, services, and livelihoods of employees of the family business.

What are the triggers to talk about structuring family wealth?

There are of course multiple reasons why family members decide to discuss the structure of family wealth, as our survey highlights. Reconciling personal and family goals, and communicating those sentiments, are important first steps, but the actual marshalling of assets and capital turns those goals into action.

Our respondents consider succession planning to be by far the biggest trigger for such conversations (Graph 21), while succession events themselves are the third most popular reason. This is especially interesting when one considers that, as already mentioned, succession tends not to be the most popular topic when parents are talking with their children.

> This is reflected in some of the feedback from respondents, which focuses on talks being functional rather than aspirational: "Rather than a dialogue, it is information (about what's going to happen) that needs to be passed from one generation to the next", said one.

It also reinforces the notion that tackling the meat and bones at the heart of family wealth is somewhat taboo in Asia, with such discussions left until there is an absolute need. It may also take into account the perception that decisions are taken by a patriarch or matriarch, with limited discussion around wealth structure.

Through interviews with respondents, retirement of a family member is also likely to be a trigger. **As one respondent put it, "one should know when to stop (one's professional career)".** Meanwhile, discussions with a private bank can also spark action. With communication around family wealth tending to be sensitive, particularly in APAC, outside counsel may yield results if family members feel more relaxed in terms of discussing strategies.

21. What do you believe could be the trigger for a conversation in your family regarding family wealth?

(in % of respondents)

Source: Lombard Odier

Who should be involved?

As discussed earlier, deciding who to involve in discussions about family wealth structuring is crucial. Such choices can be sensitive, political, and create legacy issues further down the line.

Our respondents place the greatest emphasis on involving primary family members: parents, children, and siblings (Graph 22). This is interesting because the data we have already discussed around communication with siblings suggested there was a reticence in sharing personal values and goals. However, when it matters, it is clear that siblings think it valuable to ensure the closest family members are at the table. As part of this, only respondents in Taiwan, Thailand and Australia think it important to integrate other members of the family in such discussions.

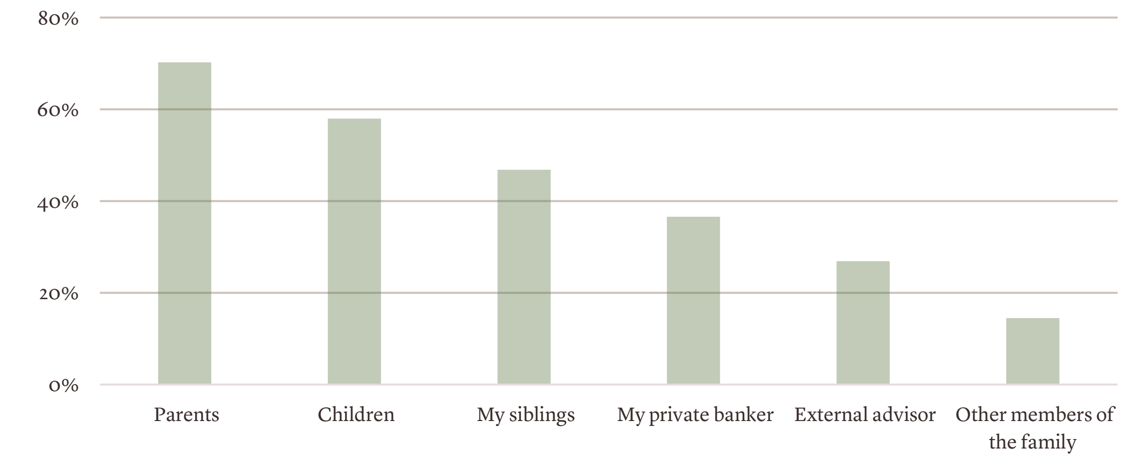
Based on interviews with the respondents, it is important to create a safe atmosphere for open dialogue: One said it is "crucial" and that it will be "the ideal world". Another thinks it should be the older generation specifically who should ensure a "conducive atmosphere" for dialogue. She added that the family should be able to express views, ask questions and raise concerns about anything.

That said, the trend appears to be that the higher the net worth, the less siblings want to involve each other in discussions on structuring wealth. This trend also appears for parents as their net worth increases. This is where external advisors enjoy a more favourable showing: for example, 39.8% of respondents with over USD30 million of assets would involve such advice, the highest percentage for external advisors.

This suggests that the higher the stakes, the greater the need for independent advice, without the potential emotional conflicts.

22. In your view, who should be involved in the discussion with regards to wealth structuring?

(in % of respondents)



Source: Lombard Odier

When to involve bankers?

When asked about whether there are arrangements in place to structure personal and common goals in their families, the results from respondents indicate a certain short-sightedness. As Graph 23 shows, most respondents (41%) have only taken informal or occasional family discussions without setting a true strategy for long-term prosperity, and one in four have done nothing. This reinforces the earlier message, which highlighted the paradox where respondents say it is important to discuss family wealth but have not taken action to put a structure in place.

According to respondents, around 60% (Graph 24) do not have or are unsure if they have an appropriate process involving investment tools that can monitor the evolution of their wealth with respect to their goals.

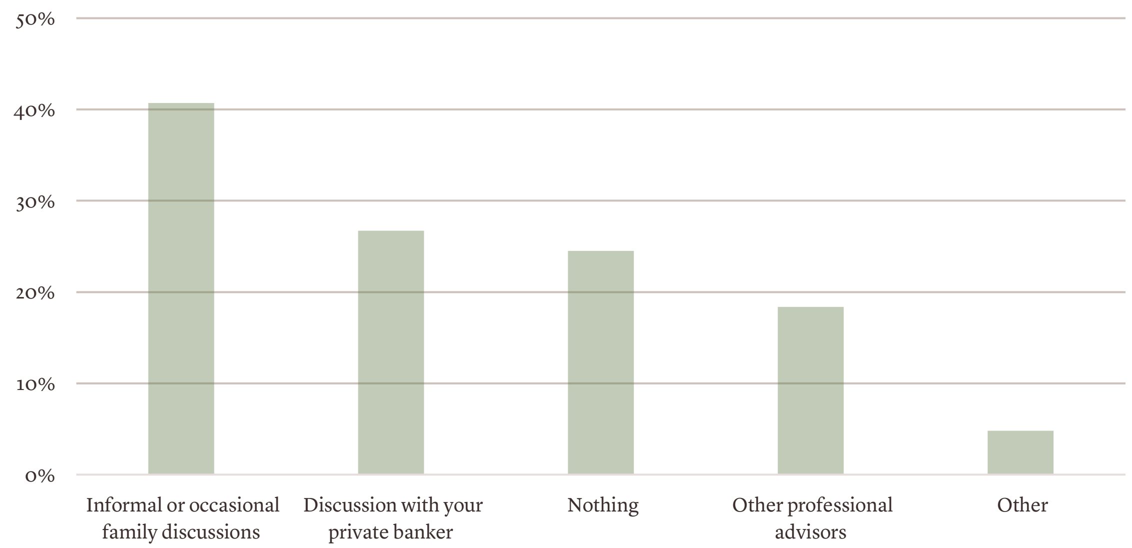
In addition, only a very small proportion of respondents have put wealth planning or family governance tools in place.

This constitutes a potential blind spot that families should consider when deciding who to involve and when.

However, in keeping with the responses on who to involve in discussions, the wealthier the family, the more structure exists, including trusts and family charters.

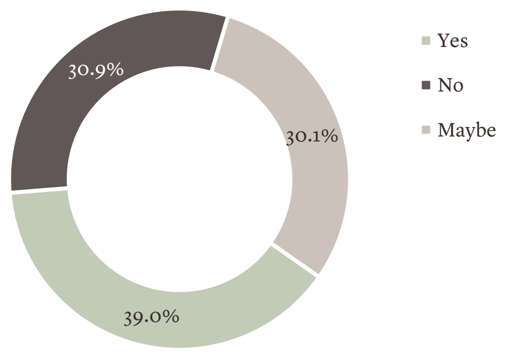
As Graph 25 shows, informal or occasional family discussions are more popular in Hong Kong, the Philippines and Thailand, and much less so in Japan.

23. As of today, what have you in place in order to structure the personal and common goals of your family?
(in % of respondents)



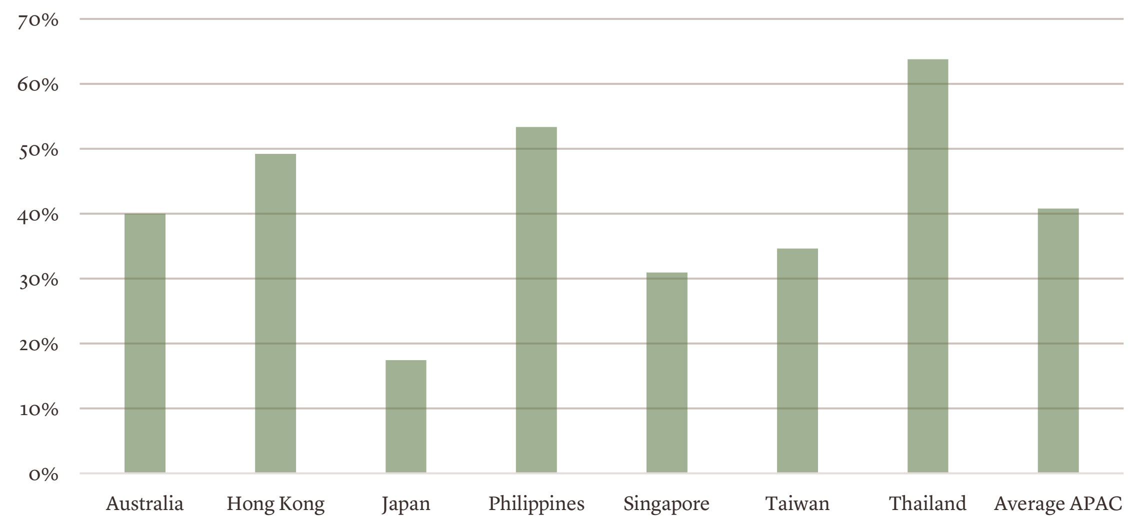
Source: Lombard Odier

24. Do you have an appropriate process with investment tools that are able to monitor the evolution of your wealth with respect to those goals?



Source: Lombard Odier

25. Do you have informal or occasional family discussions about family wealth?
(% of people answering yes)



Source: Lombard Odier

Building family offices to last

By Lee Wong, Head of Family Services, Asia, Lombard Odier

The exponential growth of the burgeoning family office space in Singapore has captured global attention. Data from Singapore's Economic Development Board showed that family offices in the country grew fivefold between 2017 and 2019. In 2020, the number of family offices in Singapore was around 400, and the latest figures indicate that more than 800 family offices were established in the Republic by end-2022. With the world's billionaire population expected to grow at a global average of close to 34% and a third of them from APAC, this pace is likely to continue.

Against this exciting backdrop of rapid growth and wealth influx, it is easy to rest on our laurels and celebrate Singapore's success as the jurisdiction of choice for family offices. In truth, setting up a family office is just the first step of a long journey for one that is being built to last.

Investment decisions are often made randomly without a family-aligned investment policy statement. There is no agreed investment overview process, there are no set parameters in terms of asset or geographical allocation, currency or leverage exposure. This is counter-intuitive to what one would expect in terms of managing shared family wealth with an intergenerational legacy agenda.

Family values as a guiding compass

A family office should take on the posture of a steward of patient capital – capital that not only aspires to be enduring across generations but also nurturing, with a view towards supporting family members and the family at large to thrive. It should seek not only to preserve, sustain and grow family wealth, but to embrace the complexity of needs of a family group. With that in mind, the first step in a proper governance framework is a family dialogue on their common values, unified vision and mission.

It is important for a family to discuss their perspectives and agree upon issues in an open and safe space. These include considerations such as the extent to which family members will be provided for, who should be included in the definition of "family", and their views regarding social impact and sustainability. In doing so, they gain clarity in terms of their family goals and liquidity needs over the short, medium and long term, and that gives direction to their family office.

What is their mission today towards realising the family goals? How should they invest to meet the family's liquidity and lifestyle needs? The value system that a family embraces influences their investment philosophy and steers their aspirations in terms of the social capital that they intend to build. What values power their decisions as to what to invest and how they invest? How would they wish for their family to be perceived as a result of the investment choices that they make?

Laying the cornerstones for success

The next step in building a more structured governance framework for the family office is to work on their protocol for decision-making. What would their investment process look like? Is there an overseeing investment committee? What are the parameters within which they need to operate? How often do they conduct portfolio reviews? What is the frequency of reporting that the family expects?

Aligning a family in relation to matters such as their target return, asset mix, risk tolerance and attitude towards leverage helps to manage expectations and avoid disputes. Setting an agreed approach to decision-making and a clear communication flow promotes fair process, which in turn builds trust and respect.

Strategic goal setting

On the point of goals, a distinction has to be drawn between a family's essential goals and aspirational goals. A family office needs to ensure that it is able to meet with a high level of probability the family's essential goals, which could include providing for the educational and healthcare needs of all family members, placing down payments for principal homes or even funding business ventures of next-generation family members. Then there are aspirational goals which could include philanthropic giving, funding family holidays or purchasing a yacht. The measure of success of a family office is the extent to which it can effectively support the various goals of the family over the course of time. This requires a goals-based approach to investing, particularly in times of rapid macro-environmental shifts.

It is necessary that a family recognises that individual family members may be at different stages of their respective life journeys, and their wealth outlook may be shaped by essential and aspirational goals that diverge from the larger family group. As a steward of shared family wealth, a family office has to be cognisant of the differing goals and navigate this complexity in order for individual family members and the family as a whole to flourish.

Recognising that the journey to "build to last" cannot be walked alone, Singapore has over the years steadfastly invested in creating an ecosystem of multidisciplinary expertise to support these family offices. With such wind in their sails, there is little doubt that family offices here can persist and thrive across generations.

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Please read the important information at the end of the document.
Lombard Odier · November 2023

Giving purpose to family wealth

Utilising expert advice is particularly important considering the proliferation of sustainable investment options, a burgeoning industry that promises to play an increasingly central part of portfolios as wealth moves between generations.

As mentioned earlier, sustainable investing is increasingly being seen as a way of generating long-term returns to increase prosperity rather than simply scoring points or providing an opportunity for ethical investing. But a dichotomy still exists.

Our survey findings also reflect a gap in conviction in terms of sustainable investing between the current generation controlling the wealth and the next generation. Some respondents highlighted the apparent disconnect between generations when it comes to sustainable investing. **On respondent articulated that for the younger generation, it is clearly more related to their personality, while another respondent highlighted the importance of education on the subject**.

Also, deciding to invest in sustainability and deciding how to invest are two very different things, which is reflected in the feedback to our survey. Translating personal convictions into common family investment goals requires patience, and an intricate understanding of the industry, tools, and products.

> "Here people follow the equity story and not the sustainability report" said one respondent.

As part of this, it is vital that we dispel the now old-fashioned notion that it is a choice between values and returns, and instead champion the standalone profitability of sustainable investments. As one respondent puts it,

> "Sustainability is becoming a hot topic in Asia but it is very important to educate clients and build a true relationship before selling anything".

Giving purpose to family wealth is clearly a collaborative process, regardless of the perceptions on the nature of decision-making or intra-familial sensitivities. The key is for families to work together to share goals, establish tolerance levels, and secure the right advice to structure family wealth in order to properly balance personal values with expected returns.

Conclusion

It is clear from the results of our survey that investors are reprioritising personal goals and values over merely financial returns; and they acknowledge the importance of planning to align personal values with the structure of family wealth.

However, breaking the so-called 'taboo' in APAC to talk about family wealth is not easy for many in the region. There are also many caveats, contradictions, sticking points and potential prejudices that need to be overcome. For example, closing the generational gap in relation to sustainable investing is of paramount importance considering this burgeoning investment category is likely to play a central role in the world for generations to come.

That the younger generation is more engaged is perhaps no surprise, but many investors generally remain uncommitted (including 26.3% of our respondents), who said they have not increased their sustainable investments nor have any plans to. It is therefore essential that education on the topic improves, within families and from financial advisors, to assuage fears and turn curiosity into action. With the asset class now promising greater and more transparent returns, there is little excuse for it to be treated with suspicion by families, and discussions around the subject should be encouraged. It is our conviction that sustainable investing is the way to generate long-term returns and grow our clients' prosperity in perpetuity. We believe that this approach could be a way to close the gap between generations. It is a similar story with private assets, with many respondents saying they are interested, but this keenness is not being translated into action in what can appear to be a very daunting area. That the younger generation is more ready to invest is very encouraging, but more work needs to be done to remove trepidation clouding the horizon. Again, education is key: investors need to focus on private assets' virtues as standalone investment opportunities rather than as an alternative to potentially volatile equity markets. For this to happen, investors need confidence and tools to better understand the landscape, the companies and industries, so they can make knowledge-driven, purposeful decisions.

But it is not just the generation gap that threatens family wealth. Intrafamilial prejudices, tensions and assumptions can kill transparency and dissolve trust. While the point of many respondents claiming that decisions are made without consultation is not alarming on its own, this taken together with a reluctance to share their own goals potentially spells trouble.

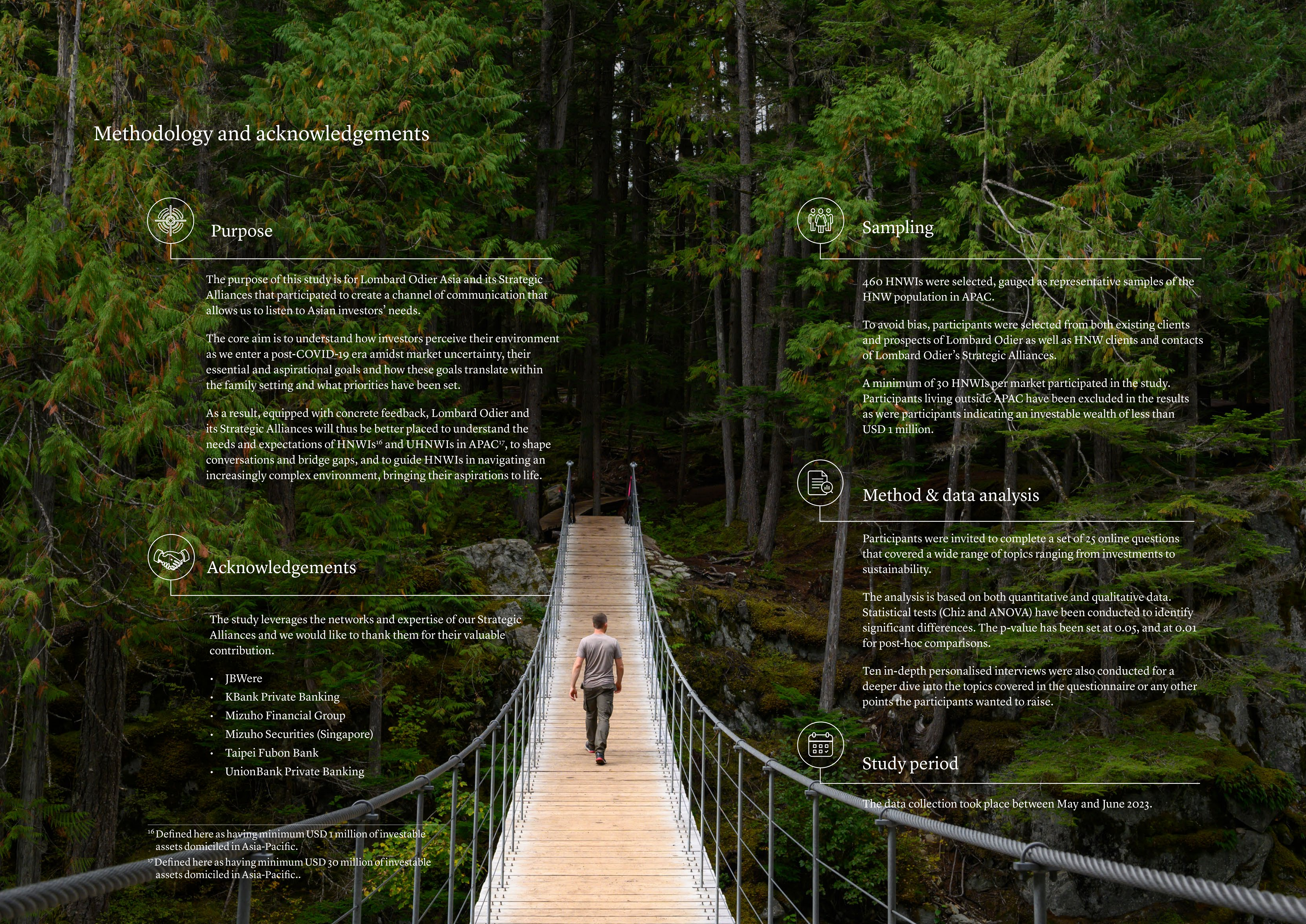
Away from triggers and towards constant, open dialogues

So, what is the solution? Firstly, as mentioned by respondents, **the key is fostering a safe environment to hold such discussions around family wealth.** Deciding who to involve in discussions about family wealth structuring is crucial, and the results of the survey highlight the potential potholes in making those choices, which can lead to succession or legacy issues further down the line. Our respondents place the greatest emphasis on involving primary family members: parents, children, and siblings, but the results also belie a hesitancy in sharing their own personal goals in the first place.

In this sense, our respondents consider succession issues to be the major trigger for such talks, but it is important to move away from triggers only. There needs to be constant and open dialogue within families to continually appraise the prevailing environment, to take into account the fast-changing opportunities in sectors including, healthcare, and renewable energy. Such discussions cannot wait for a significant milestone or depend on the right mood within a family set-up. Of course, there are no easy fixes: the problems and solutions are not uniform, and there are differences between age groups, markets, and gender. However, failure to communicate and structure can be catastrophic, leading to succession issues, elevated and unnecessary costs and ultimately the needless erosion of family wealth. Fortunately, there is a throughline in the responses that suggests investors are keen to address their own situation through asking sensitive questions, changing the status quo, and pursuing a goal-based approach rather than merely a returns-based attitude. **But investors need help. The responses also reflect a clear need for structure for U/HNW assets in Asia, which must also be met by financial advisors and banks with the right tools to meet and promote this goal-based approach**.

For investors and financial advisors, understanding personal values and goals, and communicating them openly will provide the most effective solution to identifying potential risks over multiple generations, and protect family assets over the long term.

As one of our respondents said: "You need to spend time to educate… so take a seat, talk, and build a relationship".



Methodology and acknowledgements

Purpose

The purpose of this study is for Lombard Odier Asia and its Strategic Alliances that participated to create a channel of communication that allows us to listen to Asian investors' needs.

The core aim is to understand how investors perceive their environment as we enter a post-COVID-19 era amidst market uncertainty, their essential and aspirational goals and how these goals translate within the family setting and what priorities have been set.

As a result, equipped with concrete feedback, Lombard Odier and its Strategic Alliances will thus be better placed to understand the needs and expectations of HNWIs[16] and UHNWIs in APAC[17], to shape conversations and bridge gaps, and to guide HNWIs in navigating an increasingly complex environment, bringing their aspirations to life.

Acknowledgements

The study leverages the networks and expertise of our Strategic Alliances and we would like to thank them for their valuable contribution.

- JBWere
- KBank Private Banking
- Mizuho Financial Group
- Mizuho Securities (Singapore)
- Taipei Fubon Bank
- UnionBank Private Banking

Sampling

460 HNWIs were selected, gauged as representative samples of the HNW population in APAC.

To avoid bias, participants were selected from both existing clients and prospects of Lombard Odier as well as HNW clients and contacts of Lombard Odier's Strategic Alliances.

A minimum of 30 HNWIs per market participated in the study. Participants living outside APAC have been excluded in the results as were participants indicating an investable wealth of less than USD 1 million.

Method & data analysis

Participants were invited to complete a set of 25 online questions that covered a wide range of topics ranging from investments to sustainability.

The analysis is based on both quantitative and qualitative data. Statistical tests (Chi2 and ANOVA) have been conducted to identify significant differences. The p-value has been set at 0.05, and at 0.01 for post-hoc comparisons.

Ten in-depth personalised interviews were also conducted for a deeper dive into the topics covered in the questionnaire or any other points the participants wanted to raise.

Study period

The data collection took place between May and June 2023.

[16] Defined here as having minimum USD 1 million of investable assets domiciled in Asia-Pacific.

[17] Defined here as having minimum USD 30 million of investable assets domiciled in Asia-Pacific..

Lombard Odier
A different business model

Tradition and innovation, our bank's twin pillars

We strive to preserve our clients' wealth. For seven generations, our main objective has been to protect the assets with which we are entrusted. We currently have over 308[18] billion Swiss francs under management and are one of the largest private banks in Switzerland and in Europe.

For over 225 years we have forged a tradition of innovation. To meet the constantly changing needs of society and our business we invest continuously in technology to provide our clients with the information they need, anytime and anywhere they choose.

A partnership that ensures independence and continuity

Lombard Odier is an independent bank that is entirely owned by its partner-managers. This helps ensure the controlled, stable and steady development of our business. It also facilitates the preparation of the gradual transfer of managerial responsibilities to the next generation. This enables us to take a long-term perspective and make sure that our interests are closely aligned with those of our clients.

Financial strength and stability

In a rapidly-changing world, we are able to offer our clients strength and stability. We take no risks that we would not take for ourselves. This emphasis on stability is reflected in everything we do.

We are one of the world's best capitalised banks, with a capital ratio that is twice the legal requirement. High liquidity and prudent risk exposure are the cornerstones of our balance sheet management policy.

Global and local expertise

We are an international bank with Swiss roots. With a network of 26 offices throughout the world, including three in Asia, we can assist our clients and their families with the specific characteristics of their local environment, wherever they may live[19], while taking international implications into account.

[18] Source: Lombard Odier – Financial highlights as at 30 June 2023.
[19] Subject to the laws and regulations that apply to cross-border activities.

We have weathered 40 financial crises and

have always come out stronger,

not by remaining as passive spectators,

but by constantly re-evaluating and rethinking

the world in which we operate.

We've used imagination and innovation to create a

different perspective on the world for us and our clients.

It is this ability and willingness to constantly rethink

things that brings us stability.

It's what makes us different.

LOMBARD ODIER. RETHINK EVERYTHING.

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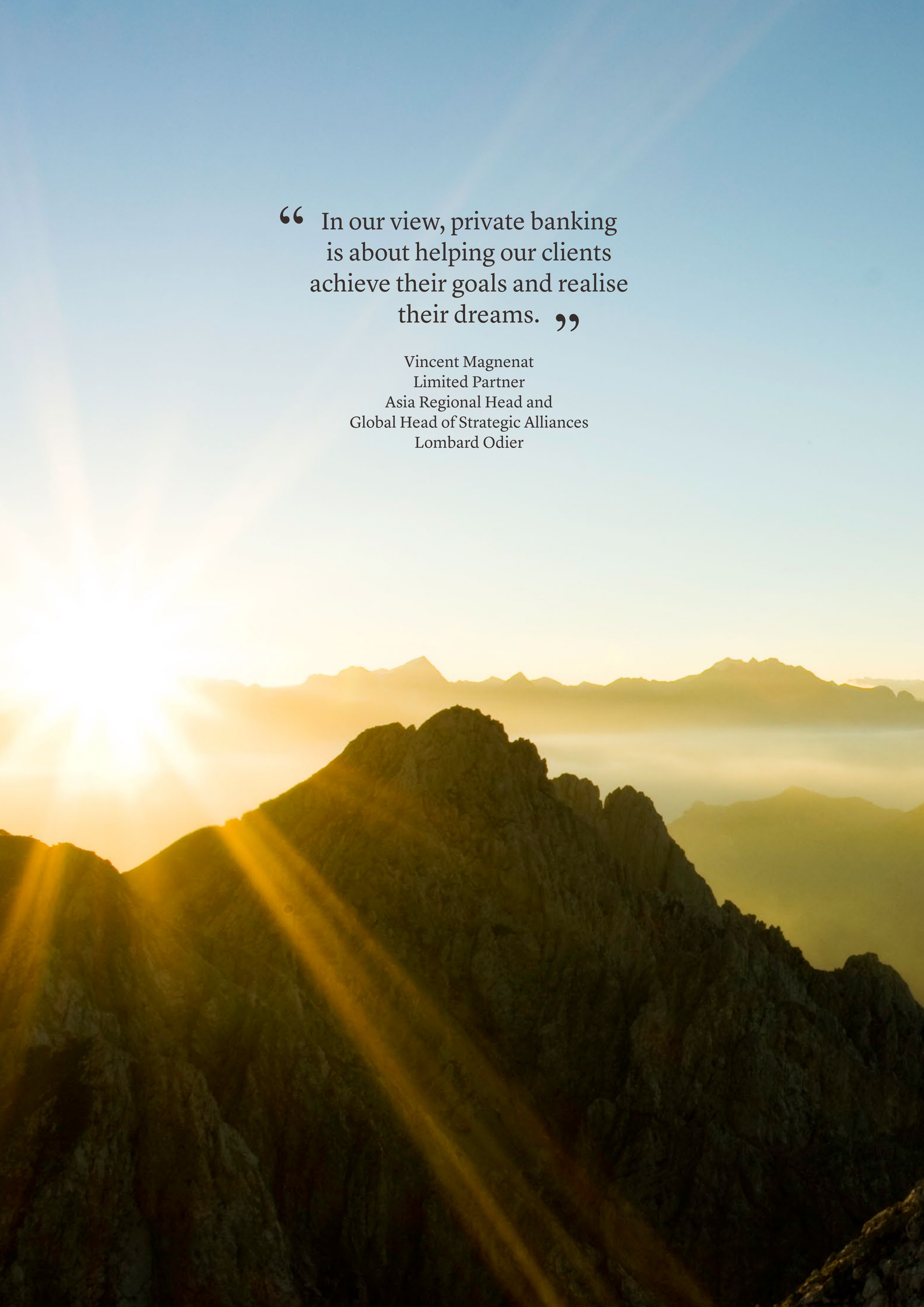

"In our view, private banking is about helping our clients achieve their goals and realise their dreams."

Vincent Magnenat
Limited Partner
Asia Regional Head and
Global Head of Strategic Alliances
Lombard Odier