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AND

ITS STRATEGIC ALLIANCE PARTNERS

Volatility and uncertainty:

A study of resilience and fortitude of APAC HNWIs

Foreword

As the world turned its pages to a new year in 2022, there was hope we would be able to trade the worst of COVID-19 for some positive developments. While the embers of the global pandemic have not died down completely, the world has hurtled towards a seemingly perfect storm of geopolitical conflictions, macroeconomic uncertainty and climate concerns. What we have now is a new and more complex reality of a global economy.

Since the onset of the pandemic, Lombard Odier, together with its Strategic Alliances across the region, have been at the forefront of gaining a better understanding of how the needs and perspectives of Asia-Pacific's (APAC) wealthy population have evolved in response to the global crisis. Over the past two years, we launched two studies that explored how the pandemic had permeated and transformed the lives of APAC's high net worth individuals (HNWIs).

Our goal was to help our clients rethink their approach to business, investments, families and sustainability. More importantly, the insights garnered have helped us to better walk alongside our clients, navigating them through unchartered and uncertain waters.

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This year, Lombard Odier and its Strategic Alliances have once again harnessed our collective network of HNWIs across APAC. We have spoken to over 450 HNWIs across APAC and the results of our study are distilled across two pillars – investments and sustainability.

One thing is clear – the journey to recovery and reinvention continues. The findings uncover how leading families and entrepreneurs in the region are looking to reshape their portfolios, reimagine their perceptions on sustainability, and reflect on their actions and the way forward in this global climate.

Uncertainty and volatility remain firmly in the spotlight and in the following chapters we offer perspectives not only on how we can outmaneuver uncertainty but also on how we can use our imagination and innovation to create a different perspective on the world.

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
Global Head of Strategic Alliances and Asia Regional Head
Lombard Odier

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Rising inflation and its impact on the economy is the biggest risk to the global economy, according to 77% of APAC HNWIs. Among markets, 87% of Singapore HNWIs claimed this as their top risk, the highest percentage among markets analysed.

Volatile times and need for guidance

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Market volatility is the main concern when it comes to investment portfolios, with 50% of APAC HNWIs respondents worried about its negative impact on performance. Meanwhile, 26% fear their portfolio diversification might not work when needed. Risk assessment and management, and having a minimum level of risk "visibility", are key areas investors want to address. APAC HNWIs are looking for guidance.

Conservative shift

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Overall, HNWIs in APAC have acted decisively to realign their portfolios (68%). 44% of respondents have started to divert more from traditional asset classes such as equities and bonds towards investing in "safer" assets; 27% of respondents have likewise diverted more into their own company.

Private assets on the rise

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As part of the more conservative attitude, demand for private assets is on the rise, especially in international financial centres, with 60% of Singapore HNWIs and 57% of Australia HNWIs intending to increase their allocation.

Digital focus

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There is interest in digital assets and crypto currencies among APAC HNWIs but they remain hesitant to act. For APAC, 83% of HNWIs have no crypto investments or less than 5% of their portfolio invested. Only 20% intend to increase their weighting. Concerning the digitalisation of advice, 82% of APAC HNWIs believe it cannot be fully automated.

Sustainability

Sustainable perception shift – from values to returns

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Investors are now more certain that sustainability will deliver superior returns, an important benchmark in the development of this space, with 78% of APAC HNWIs saying they are interested in such investments. They look at sustainability as an investment opportunity and evaluate it on a risk-adjusted return basis. On a market basis, 93% of Thailand HNWIs and 88% of Taiwan HNWIs are interested in sustainability.

What is sustainability? A clear and forward-looking definition is expected from banks

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APAC HNWIs say they face numerous barriers to convincing their families about sustainability, including relative underperformance of financial returns (41%) and a lack of investment opportunities with proven track records (36%). Risk assessment is again key, and banks' ability to explain a company's sustainable path in a forward-looking manner will be critical. In that matter, more work needs to be done by banks to educate investors. The more banks engage with HNWIs, the more their portfolio's sustainable weight will increase, according to the study.

Introduction

Certainty is dead. Long live uncertainty. As the world learns to live with COVID-19, the lack of stability during the pandemic has been replaced by increasing inflation, geopolitical tensions, economic slowdown and food insecurity. Dovetailing with these issues are protectionism, the fracturing of social security, the proliferation of digital assets and the evolution of sustainable investing.

The result is that the world is now looking for new equilibrium points.

This is difficult when the seesaw of globalisation and protectionism continues to pivot, and some supply-chains are being transformed by markets bringing certain parts into their domestic spheres. Central banks, meanwhile, are handling their economic issues differently, with most interest rates being tightened and a few loosened. Technology also continues to change and we are now seeing the next phase for digital assets: the rationalisation of cryptocurrencies and other digital assets. Sustainable investing, meanwhile, also appears to have hit a watershed, as our study will highlight.

These changes are why Lombard Odier, along with our Strategic Alliances, decided to take a temperature reading of over 450 APAC high net worth investors[1] (HNWIs) in Australia, Hong Kong, Indonesia, Japan, the Philippines, Singapore, Taiwan, and Thailand. In this white paper, we unveil what investors have been doing over the past two years, where they are positioned now and what their current concerns are. Specifically, we identify in which direction they will be moving on two themes: **Investment** and **Sustainability**.

When it comes to **investments**, rising inflation is by far the biggest worry for investors when it comes to the global economy because it threatens to have a negative impact on a host of issues, such as interest rates and food security. In terms of the impact on portfolios, market volatility is the chief concern, and as such the need for risk management is the most important theme among APAC HNWIs. Across all sectors, our study shows that HNWIs are seeking the best risk management advice to better understand their portfolios

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

and allow them to manage the volatility, including diversification strategies. This is not easy when visibility is compromised. The investment momentum is typically built on shifting sands, and currently, markets are grappling with a host of issues such as protectionism, supply chain disruptions and governmental reactions to the global downturn. As a result, although APAC HNWIs have been very active in repositioning their portfolios, they have taken a more conservative approach. What part will private assets play? Understanding of forward risks (i.e. risk visibility) is key, and is also a central theme when it comes to sustainability. Our study also offers insights into the role of digital assets and the attitude of investors towards cryptocurrencies. Also, have HNWIs changed their tune on the future for automated bank services? There are some surprising differences between markets.

Sustainability is a theme that is increasingly taking centre stage in the global mindset as the effects of climate change, food security and humanitarian crises appear to be proliferating.

Our annual study has reflected this in previous years, with APAC HNWIs taking an increasing interest in sustainable investments, although their motivations have tended to be values-driven rather than returns-driven.

This year, our study shows that sustainability is now seen firmly as an investment opportunity and an area requiring risk modelling, which is a significant benchmark in its development. This sea change brings more questions, with HNWIs now expecting a more precise definition of sustainability now that they view it as an investment opportunity. What are the motivations on a market basis? What are the barriers to turning interest into action? What role can banks play going forward?

The answers will define the challenges ahead for sustainable investments to continue its evolution.

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

Investment

- Inflated concerns
- Risk management has become the priority
- Acting decisively: HNWIs have repositioned their portfolios
- Conservative portfolios
- Interest in private assets is on the rise
- The diversification game – local versus global
- Where are we today? Domestic bliss?
- Moving forward with banks
- Digital assets: is the risk worth it?
- Through a digital lens
- Can advice be fully automated?

Inflated concerns

As mentioned in the introduction, the aftermath of COVID-19 has created a period of escalating inflation globally and the prospect of recession in some markets. As such, it is perhaps no surprise that higher inflation is the main economic concern among our clients, and the concern is much greater than last year.

The very high level of inflation and its impact on the economy was listed as the primary risk in the next 12 months by 77% of APAC HNWIs. Among markets, 87% of Singapore HNWIs claimed this as their top risk, the highest percentage among markets analysed, as they grapple with increases in food and utility prices. (See Graph 1).

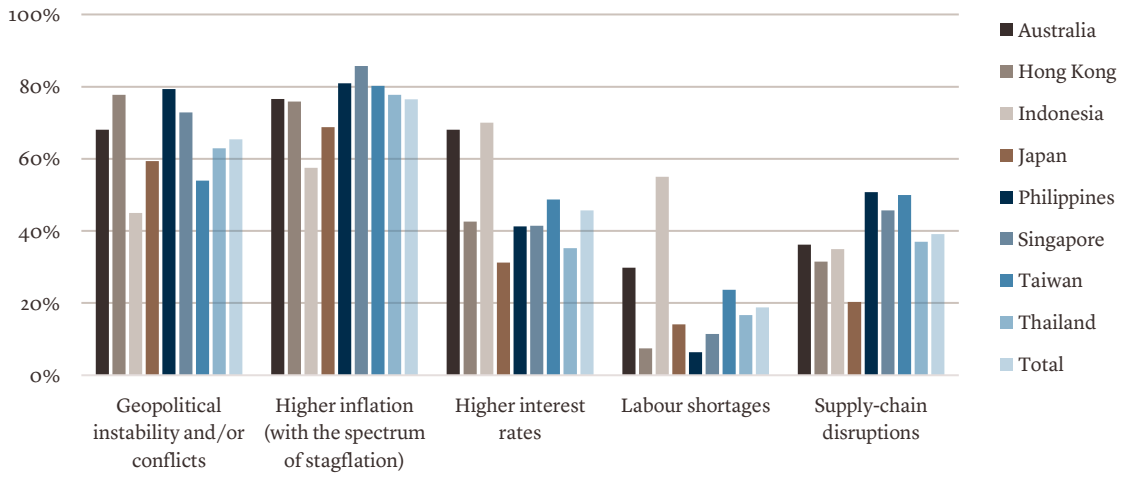
Even Japan, where inflation had been close to zero for more than three decades, is now facing inflation pressure, and 69% of Japan HNWIs are concerned about it (See Graph 1).

Whether the Bank of Japan will make a tightening move remains unclear, but a third of Japan HNWIs believe it will happen in the coming 12 months.

How governments handle soaring inflation will perhaps be the major focus of investors over the next 12 months, and keeping economies afloat will be a challenge for central banks and governments.

HNWIs are generally less worried about the potential for rising interest rates; most probably because governments are likely to hold back from increasing rates to the necessary extent to avoid more damage to the economy. However, Australia and Indonesia are the anomalies, where higher interest rates are a significant worry of 68% and 70% of HNWIs respectively (see Graph 1).

1. What will be the top risks impacting the economy in a post COVID-19 world over the next 12 months?
(in % of respondents)



Source: Lombard Odier

The Reserve Bank of Australia recently announced the biggest single rise in the cash rate in 22 years[2] as the central bank tries to stop inflation, even at the risk of triggering an economic downturn. This partly explains why 76% of Australian HNWIs are concerned about inflation and 68% of them believe there will be higher interest rates.

> Justin Greiner, Chief Executive Officer, JBWere, commented, "Rising inflation and interest rates are a concern for some investors. While this brings a level of uncertainty, it also creates opportunities for innovation and collaboration whereby we support our clients to navigate this 'new normal' and continue to grow."

With the US Federal Reserve funds rate likely to end 2022 above 3% and monetary conditions restricted almost everywhere, the odds for a contraction in earnings and GDP globally have increased significantly. In addition, energy and food prices remain under the threat of unfavourable geopolitical developments and persistent demand/supply mismatches.

Such geopolitical instability was highlighted as a significant risk by APAC HNWIs, who made it their second largest concern (65%) behind inflation (See Graph 1, page 12). Russia's invasion of Ukraine is having a continued impact on fuel and food prices, and tensions also exist within Asia, impacting the morale of investors in the region. HNWIs in the Philippines are most concerned about geopolitical instability (79%), but those in international financial centres are not far behind, with 78% in Hong Kong and 73% in Singapore citing geopolitical tensions as one of the top risks in the next 12 months.

Supply chain disruptions play a part in these concerns, with every market having exposure to global and regional affairs to a varying degree. Singapore's economy, for example, has recently been at the mercy of an export ban on Malaysian chickens, which saw chicken prices skyrocket in the Lion City. As such, 46% of Singapore HNWIs are concerned about the impact of supply chain disruptions. In general, food security might become a major issue in APAC as the Russia-Ukraine conflict disrupts the supply and ultimately the cost of agricultural products.

As HNWIs navigate these uncertain economic conditions, it has never been more important for banks to offer guidance by assessing the risks and advising on the most suitable solutions in terms of asset allocation. In this sense, APAC HNWIs have subtle requirements and concerns depending on their respective markets, which can be seen clearly in the following sections.

[2] Reserve Bank of Australia, Statement by Philip Lowe, Governor: Monetary Policy Decision, 7 June 2022 https://www.rba.gov.au/media-releases/2022/mr-22-14.html

Risk management has become the priority

Market volatility is by far the main concern of APAC HNWIs in terms of their investment portfolios, with 50% of respondents worried about it (See Graph 2). The other issues flagged received comparatively low/lower scores, which suggest that APAC HNWIs are generally comfortable with their portfolios. For example, only 21% are worried about a lack of liquidity. This highlights that managing risks to their portfolios is the primary focus, as it has become harder to control and anticipate these risks in an ever-changing and complex environment.

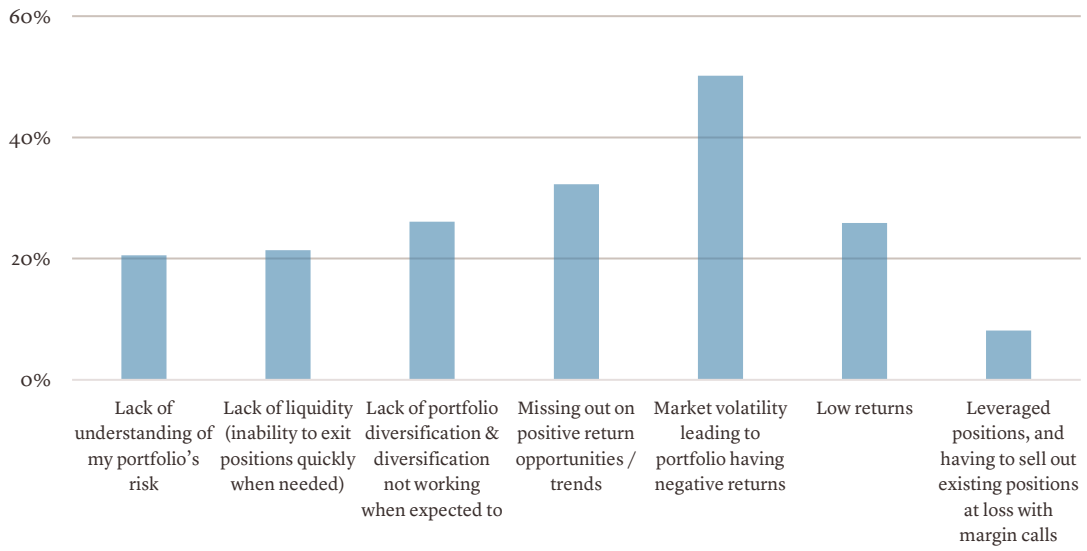
Diversification may historically have been an effective tool to offset such risks but today it is not enough on its own: for example, we have seen a correlation between equities and bonds becoming positive over the past few months.

As such, 26% of HNWIs fear that their portfolio diversification might not work when needed, a forward-looking fear that suggests investors are open to re-evaluating solutions.

The second highest concern is missing out on opportunities (32%), another forward-looking parameter. APAC HWNIs believe it is a time of opportunity, but they will mainly invest in underlying assets whose volatility can be measured and managed efficiently.

Low returns are also feared (26%); most likely because of soaring inflation and a loss of purchasing power, or because of recession expectations in the US and Europe. Overall, APAC HNWIs project that expected returns will be lower going forward, which is a worry, especially if high inflation is to persist.

2. What are you most concerned about regarding your investment portfolio?
(in % of respondents)



Source: Lombard Odier

Here we will concentrate on the biggest differences between respective APAC markets analysed in terms of HNWI concerns, highlighting the variation of wants and needs across the region.

Graph 3 shows that HNWIs from Thailand (72%), the Philippines (62%), Taiwan (55%) and Singapore (54%) are the most worried about market volatility having a negative impact on their portfolio performance.

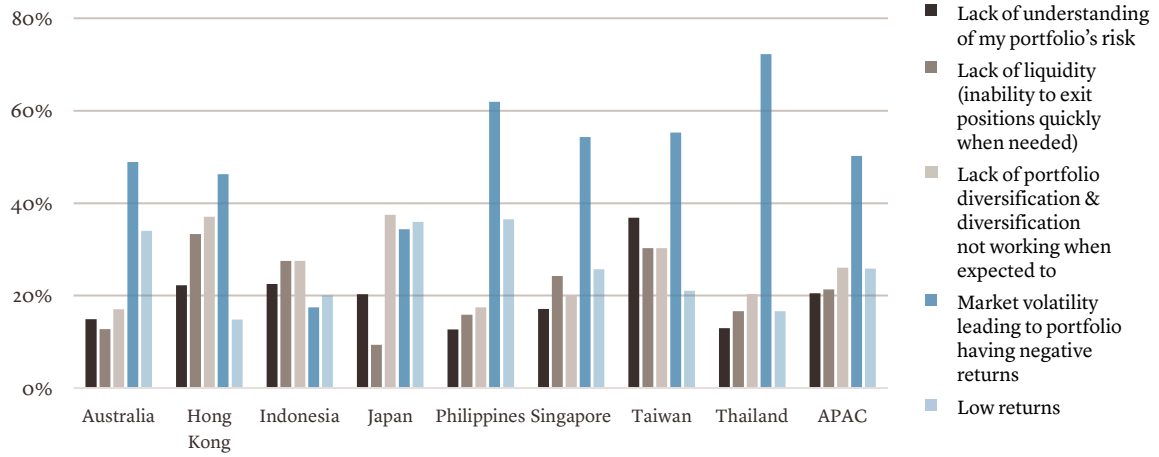
As much as 37% of Taiwan HNWIs feel they lack an understanding of their portfolio risks; as such, they need help from their banks to advise them of the relevant risks and the potential solutions.

Meanwhile, HNWIs in Hong Kong (37%) and Japan (38%) are concerned about a lack of diversification, and/or their current diversification may not work as anticipated. Falling stock prices, widening credit spreads and high long-term rates have negatively impacted diversified portfolios.

Low returns are feared in the Philippines (37%), Japan (36%) and Australia (34%), above the APAC average of 26%.

It is clear from the study that risk management is at the forefront of investors' minds as they contemplate how to navigate increased market volatility and the disruption from geopolitical tensions. A robust portfolio construction process from banks should help address that risk management expectation from HNWIs and ensure that focus on investments is aligned with investors' risk appetite. Banks need to base their advice accordingly, such as explaining the risks as necessary and outlining how they are modelled internally, as these are crucial in providing investors with the confidence to make positive diversification choices. This theme is also key when it comes to sustainable investing, as we will discuss later in the study.

3. Portfolio concerns – criteria with most differences across markets
(in % of respondents)



Source: Lombard Odier

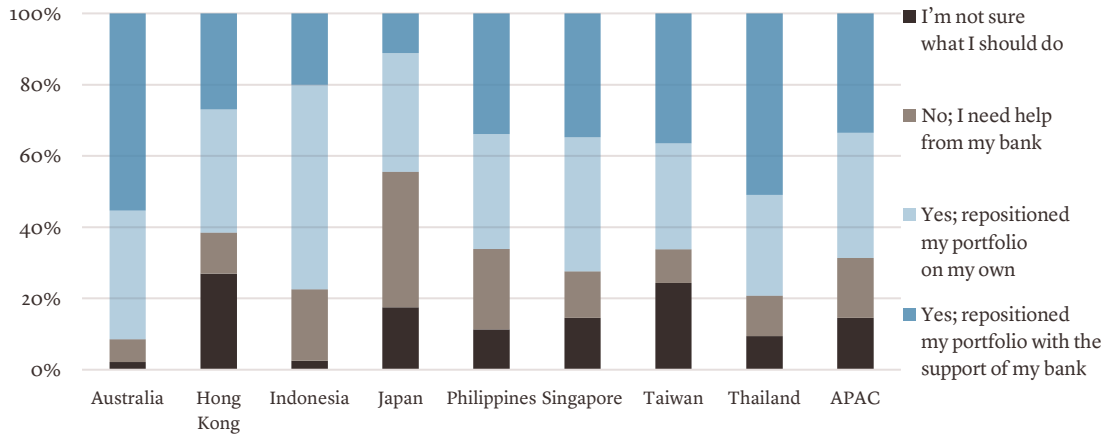
Acting decisively: HNWIs have repositioned their portfolios

So, how have APAC HNWIs acted so far on their portfolio concerns? Have they been proactive and changed the look of their investments? Or have they adopted a wait-and-see approach to see how events transpire?

Overall, HNWIs in APAC have acted decisively to realign their portfolios (68%), and banks have played an important role (see Graph 4). In Australia, 55% of HNWIs have repositioned their portfolios with the help of their bank, while in Thailand 50% have done so. Indonesia is the only market where most clients that repositioned their portfolios did so on their own (58%). On another hand, in Japan, more than 50% of clients have done nothing yet (including 38% who indicated they need help from their bank), and in total, nearly a third of APAC HNWIs have not repositioned their portfolios.

Are those differences across markets due to cultural nuances, or due to the way banks in each respective location interact with their clients? It might be hard to tell, but what is sure is that this reinforces the need for advice and creates a huge space for co-operation between HNWIs and their banks, whose responsibility is to proactively outline the options and assuage fears.

4. Have you done anything to act on your concerns?
(in % of respondents)



Source: Lombard Odier

Conservative portfolios

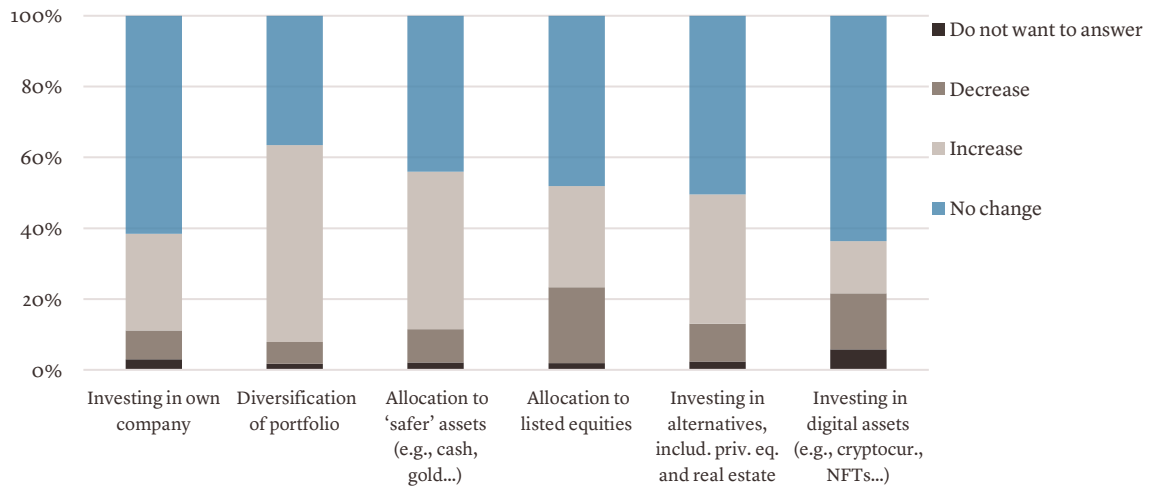
Over the past two years, HNWIs appear to have turned more conservative in terms of their portfolio (see Graph 5). 27% of respondents have started to divert more from traditional asset classes such as equities and bonds towards investing in their own company, 44% into "safer" assets, and 37% into alternative assets including private equity. Once again, HNWIs acknowledged their need for more diversification over the past two years and many implemented it, with as much as 56% increasing the degree of their portfolio's diversification.

In 2022, falling stock prices, widening credit spreads and high long-term rates have negatively impacted portfolios, which might explain why APAC HNWIs are clearly repositioning more conservatively, including increasingly into safer assets. As such, private assets are certain to play a more important role going forward, with 37% of APAC HNWIs planning to increase their position, as we shall see in the following section.

"We can see that HNWIs are embracing diversification and seeking out safer assets. Understanding their portfolio risk is a priority for them as they naturally take on a more conservative approach in today's volatile market environment," noted Vincent Magnenat, Limited Partner, Global Head of Strategic Alliances and Asia Regional Head, Lombard Odier.

As discussed earlier, although many HNWIs have acted positively in the past two years to change their portfolio, many have not. Banks need to proactively engage with HNWIs to make sure portfolio risks are aligned with expectations and are actively managed; and advise accordingly on relevant solutions. For there is a correlation between banks being active in this regard and positive changes being made, as we shall also witness when it comes to sustainable investing later in the study.

5. What changes have you made to your overall investment portfolio over the last 2 years?
(in % of respondents)



Source: Lombard Odier

Interest in private assets is on the rise

As mentioned in the previous section, demand for private assets is on the rise, with Singapore and Australia leading the trend: 60% of Singapore HNWIs and 57% of Australia HNWIs are intending to increase their allocation (see Graph 6, page 21).

APAC investors seem to believe that private assets are a way for them to capture structural changes ahead in a regulated and risk-managed way, and that there is typically more visibility on risk compared to other investments such as crypto currencies, for example. As such, this is an area of potential diversification where banks can add real value for HNWIs by providing unambiguous advice and identifying the best risk-adjusted return opportunities for a portfolio.

The enthusiasm for private assets is reflected in the low liquidity concerns of HNWIs, particularly the older generation.

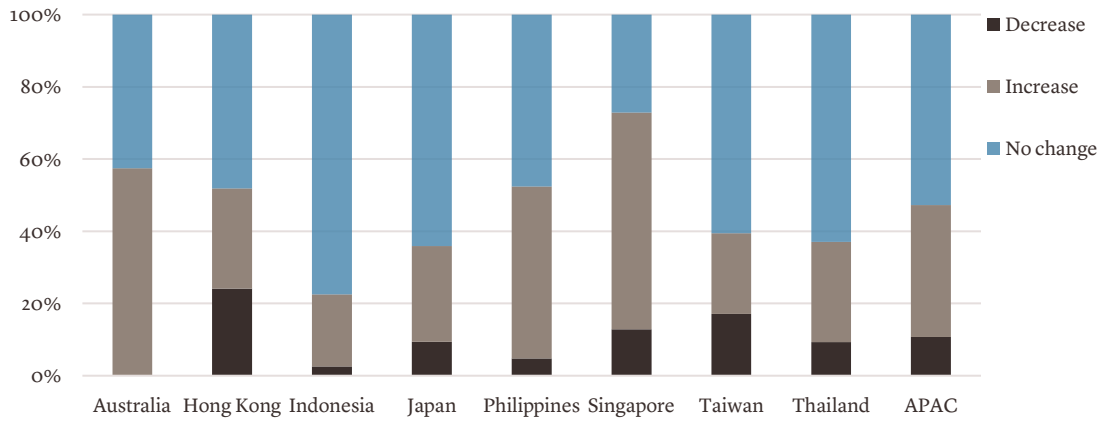
Overall, HNWIs are not concerned by the potential for a lack of liquidity, although Hong Kong, Taiwan, Indonesia and Singapore have slightly higher liquidity requirements than the APAC average (see Graph 7, page 21).

Younger generations desire more liquidity relative to the older generations; most probably because they want the flexibility to seize opportunities, and they tend to be more proficient on new technology platforms and possibly more reactive as investors.

To tap into this trend of APAC HNWIs interest in private assets and alternatives, it is essential that banks have a robust offering in the space – including private equity, debt, real estate and infrastructure – to meet the increasing demand. In addition, banks should also have a clear view of the right allocation to alternatives/private assets for a given risk profile.

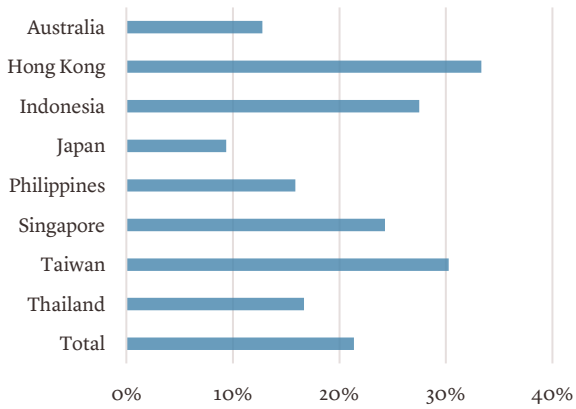
6. Investing in alternatives, including private equity and real estate

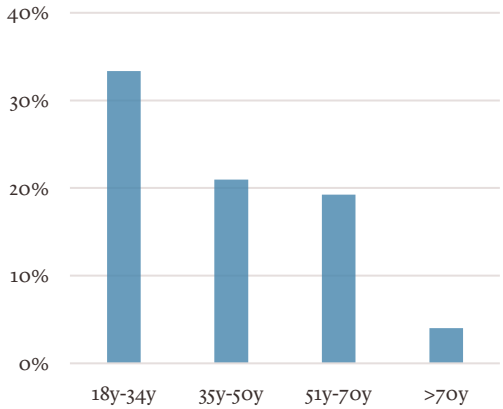
(in % of respondents)



Source: Lombard Odier

7. Is lack of liquidity a concern?





Source: Lombard Odier

Private assets, public appeal – will these investments weather rising rates?

As stock markets tumble and interest rates rise, investors fear private equity is set for a fall. Yet we see plenty of reasons to include private assets as part of a diversified, long-term investment strategy.

With major stock indexes down 10-25% year-to-date[3], investors fear trouble ahead for privately held companies with larger debt loads than their publicly listed peers. High inflation and rising rates will likely lower the valuations of existing private equity portfolios. Falling stock markets can make it more difficult to list firms when funds want to exit their investments. Higher costs of debt servicing raise concerns that some firms will struggle to meet interest payments. Private firms also face the same difficult conditions as publicly listed ones: slowing growth tempering demand for products and services, and profit margins dented by any higher input costs that cannot be passed on to consumers.

Yet higher rates and inflation need not be a disaster for private assets – an asset class that spans private equity, private debt, real estate and infrastructure investments. The impact of market corrections can be much lower for privately owned companies, and the slowdown can be smoothed over multiple years. The S&P500 fell around 52% from peak to trough during the Global Financial Crisis (GFC) from 2007-2009. Private equity fund of funds lost just under half that value, notes Cambridge Associates. The asset class registered a similar, lower fall during the COVID-19 crisis.

Even if valuations of existing private equity portfolios are written down, fund managers can hold onto firms longer in order to achieve better outcomes, as they did around the GFC. Falling stock market valuations also mean public companies can be taken private more cheaply. Private equity funds already tend to acquire companies at lower prices than public market valuations, providing an additional downside buffer. And today's best-performing private equity managers create value not passively via the use of leverage, but actively via operational improvements that can be achieved faster in private ownership.

Meanwhile, investors not exposed to private assets risk missing out on a big chunk of economic growth. In the US, close to 60% of revenues are generated by privately owned companies[4]. Early-stage, privately owned firms are also disproportionately the ones trialling new ideas and technologies, e.g. in software, deep tech and artificial intelligence (AI), clean technologies, 'telehealth' and green energy. Crucially in the current climate, some private assets – including real estate, infrastructure and private debt – even provide active hedges against inflation.

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[3] Year-to-date performance for S&P500-17%, Nasdaq -26%, Shanghai Composite -10%, DAX -18% as of 26 July

[4] Source: Forbes

[5] 2022 Preqin Global Private Equity Report

Private asset investments do of course come with risks: loss of liquidity (capital can be 'locked up' for up to 10 years), and a risk of potential capital loss. Yet their benefits can be manifold: enhanced returns versus public markets, lower volatility given lower exposure to short-term market movements, and greater diversification, via access to privately held firms that complement traditional equity allocations. There is also plenty of room for market growth. At just over USD 10 trillion, private assets only make up around 10% of global investable assets. The market could double in size by 2026, forecasts industry expert Preqin[5].

For investors considering adding an allocation to private assets to their overall portfolio, we typically suggest a multi-year strategy that spreads cash commitments over a number of different private equity 'vintages' of fund. Consistent deployment of capital over time spreads risk and avoids the possibility of missing returns from any particularly strong year. We also favour diversification across a range of strategies: from private equity and debt to real estate and infrastructure investments, especially as the market for these strategies deepens.

The diversification game – local versus global

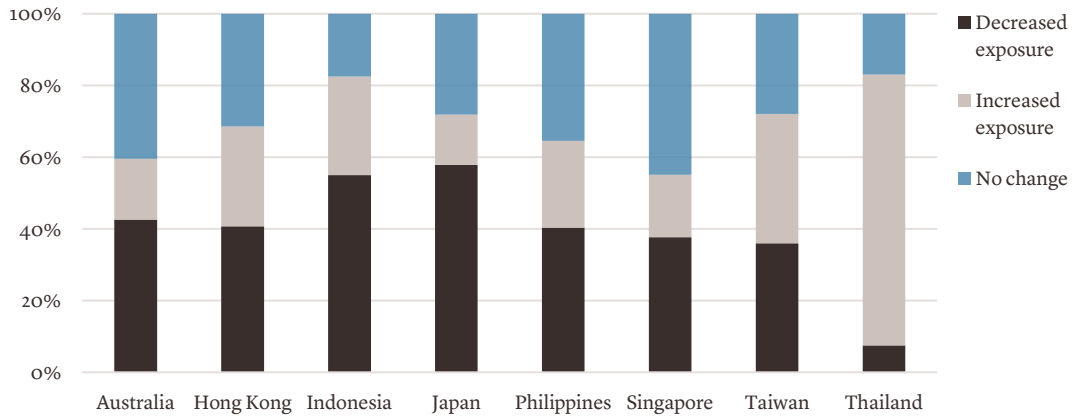
As discussed, this study confirms that diversification is needed by HNWIs, and an enticing fragment of this is the extent to which HNWIs diversify away from their domestic market.

Overall, exposure of APAC HNWIs to their domestic market has decreased in the past two years (see Graph 8) as investors seek to diversify their portfolios to manage the post-COVID-19 uncertainty and a more global mix has been the result. Japan and Indonesia HNWIs have led the change, with 58% and 55% having reduced their domestic exposure respectively.

> Yuichi Kagawa, Head of Wealth Management, Mizuho Securities (Singapore), commented, "HNWIs are looking for more of a global flavour to their portfolio as they look to increase diversification and lessen their reliance on domestic factors. In some cases, this is because of underperforming local equity markets but it also reflects the lack of certainty post-COVID-19."

The exception to this trend is Thailand, where 74% of HNWIs have increased exposure to the domestic market, a significant percentage.

8. How has your overall portfolio exposure towards your domestic market changed over the past 2 years?
(in % of respondents)



Source: Lombard Odier

Where are we today? Domestic bliss?

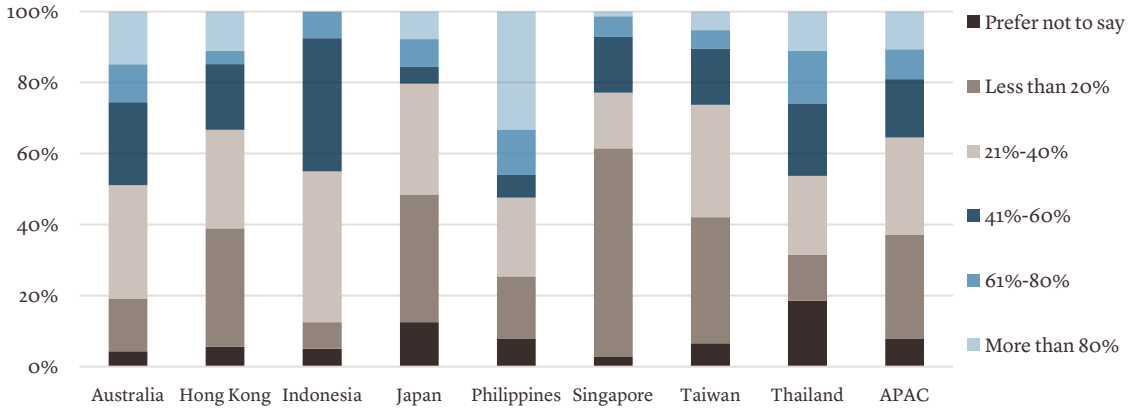
Singapore HNWIs are diversifying away from their domestic market the most, with 59% holding less than 20% exposure (see Graph 9).

Conversely, HNWIs in the Philippines have the highest domestic bias: even though 40% of the market's HNWIs have decreased local exposure (see Graph 8, page 25), more than 50% still have a domestic exposure higher than 40% and, significantly, a third of HNWIs hold more than 80% local exposure (see Graph 9). The market's HNWIs might be assuming that the Philippines economy will grow further in 2022, even though high inflation and potential interest rate hikes might impact its GDP growth.

Elsewhere, markets with a more pronounced domestic bias are Indonesia, Australia and Thailand, with close to 50% still holding more than 40% domestic exposure. That said, as Graph 8, page 25 shows, a sizeable chunk of HNWIs are re-evaluating this exposure and have made strides to reduce it in the past two years.

There is a clear trend of increasing diversification outside the local market on average, and increasing opportunities for banks to play a proactive role. In addition to providing efficient access to the local economy through a domestic offering, banks' ability to deliver a global offering locally is becoming a must-have to remain locally competitive, and enable APACs investors to implement a more managed global diversification locally.

9. To what extent is your overall portfolio currently exposed to your domestic market?
(in % of respondents)



Source: Lombard Odier

Moving forward with banks

As the world has changed over the past two years, so too have investors changed their investment style. Investment trends vary across generations and markets, where COVID-19 most probably created gaps in terms of needs and perceptions. As such, the majority of APAC HNWIs surveyed have changed their investment style over the past two years (see Graph 10, page 29).

The correlation between bank assistance and investor action has been striking, and will be vital in the next phase of the post-COVID-19 world. Investors have generally been happy with the level of engagement and the services offered by their bank but there is still a lot of work to be done.

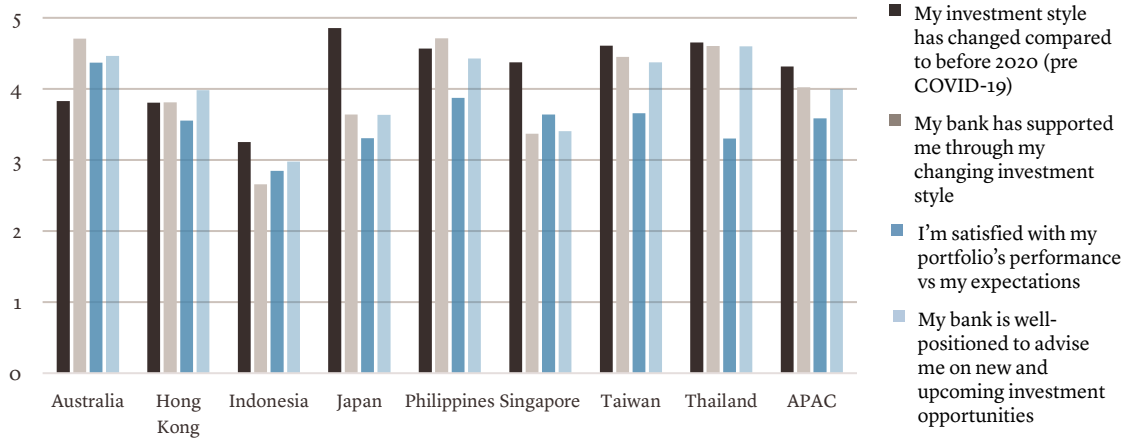
COVID-19 has enhanced how different parts of the HNWI population need something specific and highlighted the gaps between each. For example, the scores are lower for ultra high-net-worth individuals[6] (UHNWIs) on the question of banks being well positioned (see Graph 11, page 30), which is a wake-up call for banks to align their UHWNI offerings with the fast-evolving needs of investors to retain them.

Also, the younger the generation, the less confident they are in their banks compared to older groups (See Graph 12, page 30). Banks must therefore engage more and adapt their value proposition and business models if they want to win the hearts and minds of NextGens. Otherwise, there is a risk of losing assets, for example during succession transitions.

Our study shows that APAC HNWIs are very worried about missing out on opportunities and, as they become more conservative and risk aware, they will need tailored advice. Banks must engage with many different groups – across age and markets – to ensure resilience in their business, coming up with relevant offerings and approaches for each audience.

10. Investment beliefs

(Scale: 1 = do not agree at all – 6 = totally agree)

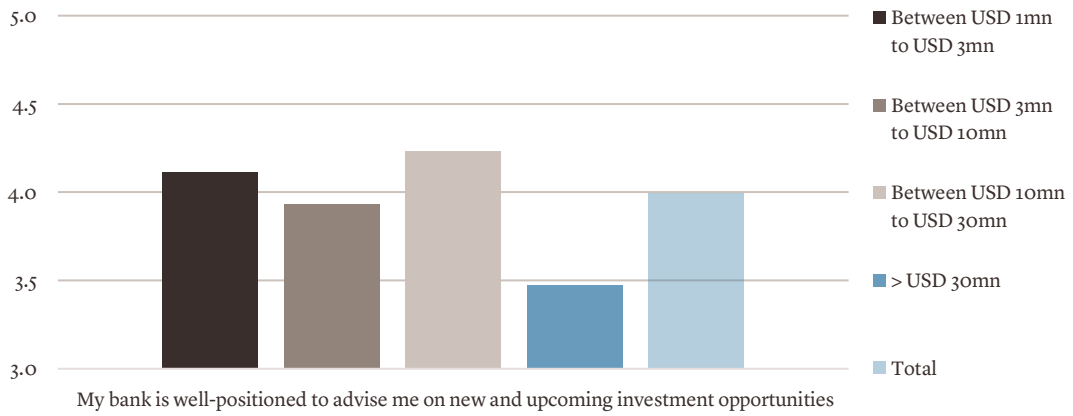


Source: Lombard Odier

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

11. Impact of level of wealth

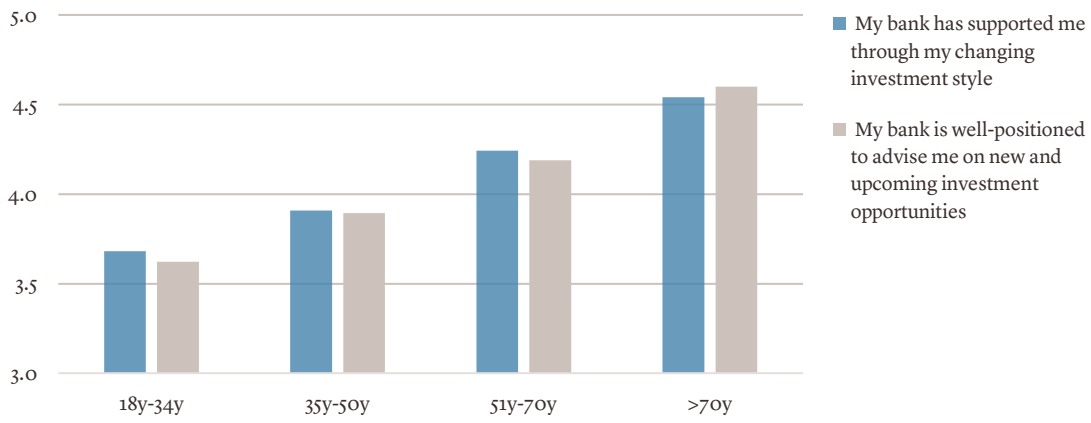
(Scale: 1 = do not agree at all - 6 = totally agree)



Source: Lombard Odier

12. Impact of age on investment beliefs

(Scale: 1 = do not agree at all – 6 = totally agree)



Source: Lombard Odier

Digital assets: is the risk worth it?

Concerns about volatility and risk visibility loom large in Asia when it comes to digital assets, with APAC HNWIs largely inactive in cryptocurrencies. For the region as a whole, 83% of HNWIs have no crypto investments or less than 5% of their portfolio invested (see Graph 13).

The interest is there but investors remain hesitant: for example, 83% of Australia HNWIs do not hold crypto at all, despite the market being one of the world's most crypto-friendly nations. Also, in June, Japan became the first developed market to recognise and legalise stablecoins[7], defining them as "digital money". However, 83% of Japan HNWIs do not hold crypto at all (See Graph 13).

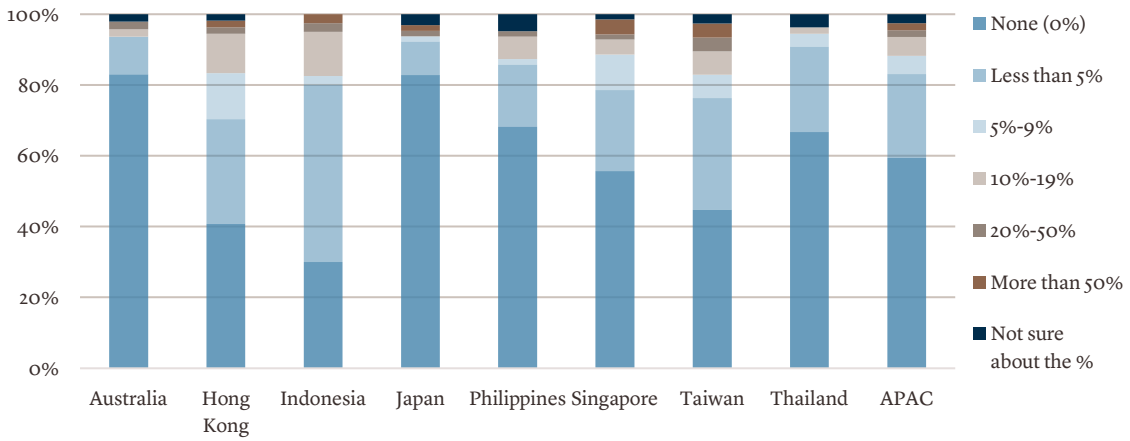
HNWIs in Indonesia, Hong Kong and Taiwan have more confidence, with the proportion of HNWIs holding crypto in their portfolio at 70%, 59% and 55% respectively.

Also, perhaps unsurprisingly, the younger generations typically have more confidence, as illustrated in Graph 14, page 32, with 18-34 year olds having more exposure to digital assets.

[7] Financial Times, Japan passes stablecoin lawgiving protection to crypto investors, 3 June 2022. https://www.ft.com/content/7f8130e9-abfa-407b-b04f-2f9f5e47d0df

13. Strong regional differences regarding crypto assets' interest

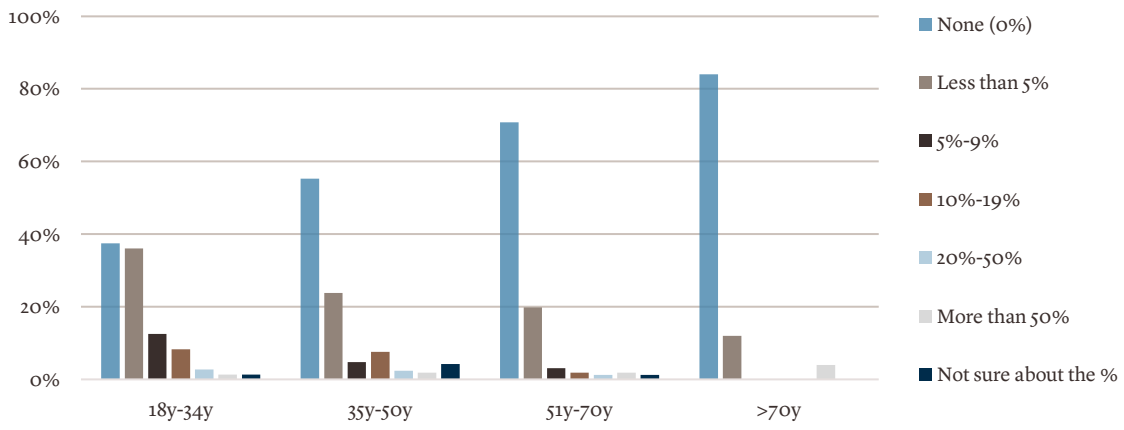
What percentage of your portfolio is currently invested in digital assets? (in % of respondents)



Source: Lombard Odier

14. What percentage of your portfolio is currently invested in digital assets?

(in % of respondents)



Source: Lombard Odier

> Banks must engage with many different groups – across age and markets – to ensure resilience in their business, coming up with relevant offerings and approaches for each audience.

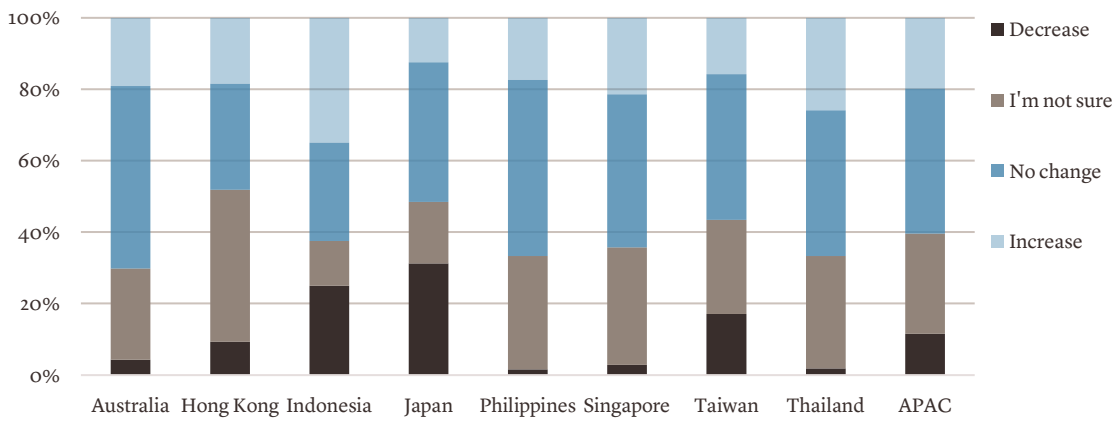
Through a digital lens

As mentioned in the previous section, Indonesia HNWIs hold more digital assets than other markets (see Graph 13, page 31) and this trend looks set to continue as they also have the highest intention to increase the weight (35%, see Graph 15), although 25% intend to decrease it.

However, across APAC overall there is no significant willingness to increase the weight of digital assets with only 20% in the region intending to do so. In Singapore, 21% of HNWIs intend to increase their allocation, as aligned with the APAC average, with 56% currently not holding any digital assets at all (see Graph 13, page 31). Meanwhile, a third of Japan HNWIs even intend to decrease their holdings, probably because of recent severe corrections for cryptocurrencies (the "crypto winter").

This is perhaps unsurprising. As we have already highlighted, volatility is the number one concern among APAC HNWIs when it comes to their portfolio. Investors want control of their portfolio risks and optimise portfolio resilience through diversification and enhanced risk management. As a nascent asset class that is difficult to model, the level of comfort and visibility is low for investors when it comes to digital assets – cryptocurrencies in particular. Confidence therefore needs to improve in terms of risk management.

15. Going forward, do you plan to change the weight of digital assets in your portfolio allocation?
(in % of respondents)

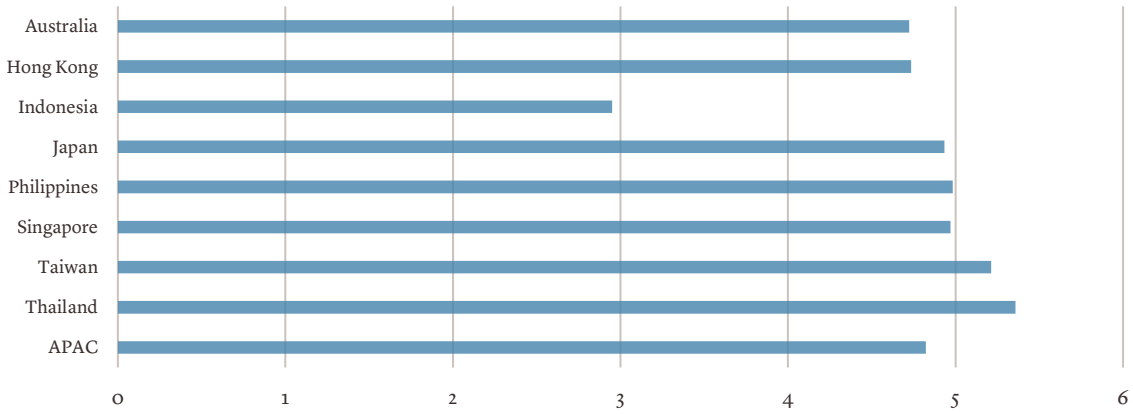


Source: Lombard Odier

Digital assets still have low traction in Asia, but they are likely to generate further interest once the current rationalisation phase has ended. It is the responsibility of banks to monitor the situation, model the risk and advise based on it. As part of this, the increasing interest in private assets among APAC HNWIs (See Graph 6, page 21) partially comes from a willingness to position in new areas in a risk-managed way. As mentioned earlier, such investments can be a way of capturing structural changes if investors can accept the illiquidity, which seems to be the case for a significant portion of APAC HNWIs. Emerging technology is therefore another area where private assets can provide important diversification and is another example of how important they will be as an asset class going forward.

16. I expect the shifts in the global financial markets to happen more quickly than before

(Scale: 1 = do not agree at all – 6 = totally agree)



Source: Lombard Odier

Can advice be fully automated?

If it were possible to fully automate advice, should banks do it? Clients' needs should always be the driver in this regard and it is not simply because something is technically possible that it will be adopted. Do APAC HNWIs want to be advised by a machine?

To be able to automate advice, one must at least be able to model the market environment, to a minimum extent, which raises a question: to what extent can you crystalise the nature of global financial markets? Are shifts in economies happening more quickly or not than before? The quicker the shifts will be going forward, the harder the automation.

HNWIs tend to think that future shifts in global financial markets will happen more quickly than before (see Graph 16, page 35), and those shifts are going to be complex. For example, some markets are still opening their borders to global trades, while others are more protectionist and are trying to replicate the whole value chain of some sectors domestically. This continued complexity, and potential increase in the pace of change, means that banks must constantly adapt to be able to give the best advice. In this context, is fully automated advice possible?

The study suggests APAC HNWIs continue to value a more personal relationship with their bank, with 82% believing that advice cannot be fully automated (31% "No" and 51% "Only partially" – see Graph 17, page 37). This sentiment is even greater when we look at Australia (98%), Indonesia (90%) and Singapore (84%).

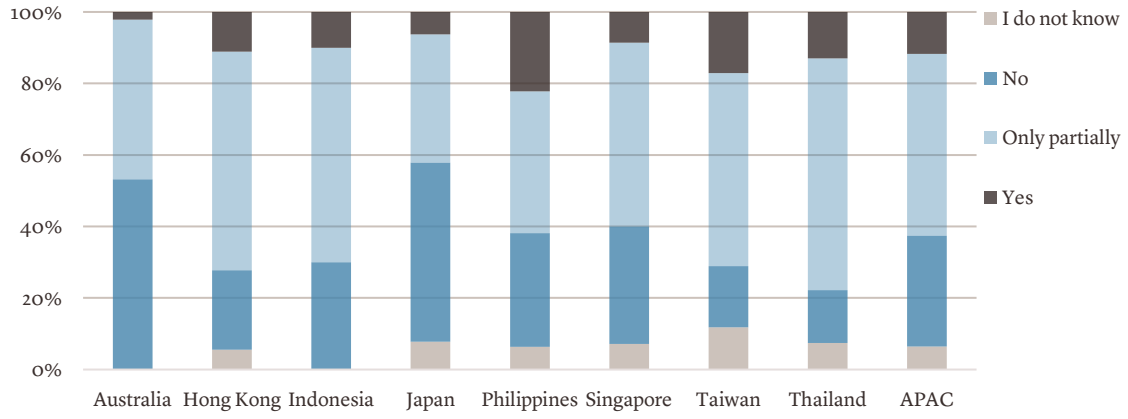
In addition, the higher the net worth, the less belief there is that advice can be fully automated, with 91% of UHNWIs believing it cannot (see Graph 18, page 37); most likely because such investors tend to demand the most customised and bespoke advice.

On the other hand, there are green shoots of optimism for automated advice, with 22% of Philippines HNWIs and 17% of Taiwan HNWIs open to a fully automated service (see Graph 17, page 37).

The broad message is clear: Banks need to use and develop technology as an enabler, but the physical presence of bankers and advisers will continue to play a key role in Asia-Pacific, especially with UHNWIs. Providing confidence to investors remains vital and technology is not yet in a place where HNWIs feel 100% comfortable.

17. Do you believe that the advice function you receive from your bank can be fully automated?

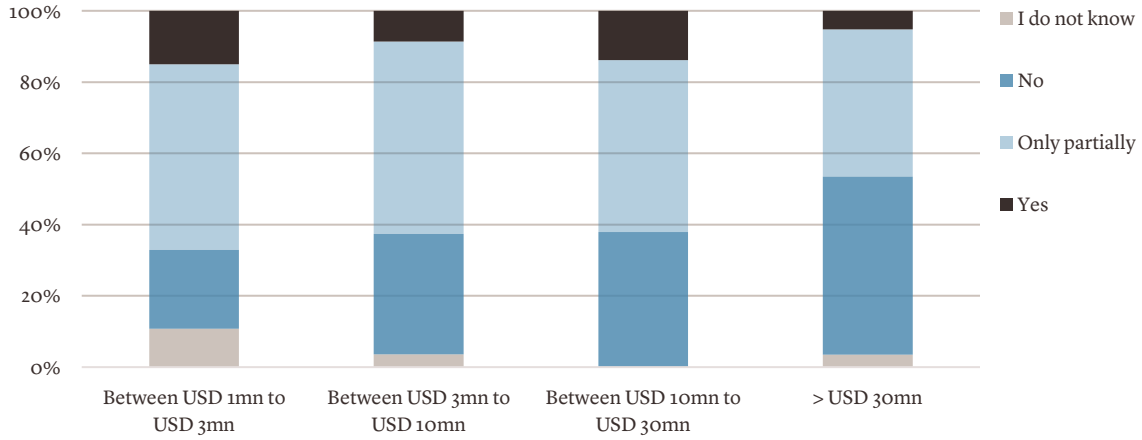
(in % of respondents)



Source: Lombard Odier

18. Do you believe that the advice function you receive from your bank can be fully automated?

(in % of respondents)



Source: Lombard Odier

Sustainability

- Rethinking the Environmental Transition
- Are you interested in sustainable investing?
- Key change in perception
- Building a sustainability portfolio
- Shifting motivations of HNWIs
- Familiar barriers
- Generational differences

Rethinking the Environmental Transition

The environmental transition is in motion

Scientific research has now quantified the safe operating limits for the nine earth systems, also known as planetary boundaries, that underpin the environmental stability and resilience of our planet. The evidence is unequivocal: we have already crossed the safe operating limits of the majority of these earth systems. While this is alarming, the good news is that the science is also very clear on what needs to be done to restore, or avoid further transgressing, these limits.

Furthermore, this robust and broad scientific consensus has now permeated the most powerful institutions across the globe, from policy makers and regulators to market actors through consumers. On climate change alone, since the Paris Agreement was signed in 2015, we have already more than halved the temperature rise implied by our economic activities, going from 3.9C° to 2.9C° between 2015 and 2021[8]. Following the commitments made at COP26 in Glasgow in 2021, we now have a fighting chance to dip under 2C°.

This has already profoundly altered the landscape of a number of industries, with multiple market-based solutions taking hold across our economies. Solar is now the cheapest source of energy and electric vehicles are expected to reach price parity with internal combustion engines by 2025, if not sooner. Consumers are also changing their behaviours; nearly two-thirds of adults across 29 markets state they have changed their consumption behaviours based on sustainability considerations. The deployment of capital is also starting to shift as financial institutions representing USD 130 trillion in assets are now committed to net zero[9]. These major changes are creating powerful feedback loops as policy, private sector innovation, economies of scale and regulation keep being stepped up and reinforce each other.

A 3+1 Systems Transition is Unfolding

At Lombard Odier, we have the conviction that not only the transition is in motion, but it is also accelerating. As a result, a profound economic transformation towards a Circular, Lean, Inclusive and Clean economy is underway. We foresee this transformation unfolding through 3+1 major system changes, namely energy systems, land systems, and materials systems, plus carbon markets. The profound changes in how these systems operate enhanced by the pricing of externalities through carbon markets will form the backbone of the environmental transition.

[8] Source: New York Times

[9] Source: Ipsos Survey for the World Economic Forum

More specifically: in energy systems, electricity is poised to become the dominant energy vector; specifically, electricity should rise from 20% today to 70% of global energy demand by 2050. This will be underpinned by a major transformation of the relevant supply, demand and supporting infrastructure. In land systems, 1 billion hectares of land (roughly the size of China) has been pledged to be returned to nature[10]. In practice, this means returning up to 20% of the land used for agriculture while having to feed a population that could grow by 25%, something that will require a deep transformation of how we produce, distribute and consume foods.

In materials systems, growth is being decoupled from primary material extraction and use. This will trigger major changes particularly around cement, steel, and plastics, where we expect dematerialisation and circularity to be major drivers of change. Finally, negative environmental externalities are being priced in via carbon markets. This is providing powerful incentives for the transition to accelerate in the first three systems.

Looking Ahead

In our view, this 3+1 systems transition represents the most profound transformation of our economies since the industrial revolution. Just as importantly, it is unfolding at the pace of the digital revolution. It will affect the investment management industry in a major way; we estimate that these 3+1 system changes will affect 95% of industries across the global economy. Shifts will accelerate through a set of market inflection points whereby the pace of adoption of sustainable products and services rapidly accelerates from niche to mass market. This will create new profit pools and shift existing ones across sectors, geographies, and asset classes.

Sustainable investing can mean reaching sustainability impact goals, reducing sustainability-linked risks, as well as generating sustainability-linked outperformance. At Lombard Odier, through our innovative sustainable investment framework, unique expertise and dedicated investment solutions, we ensure our clients benefit from this revolution.

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

[10] Source: United Nations Environment Programme

Are you interested in sustainable investing?

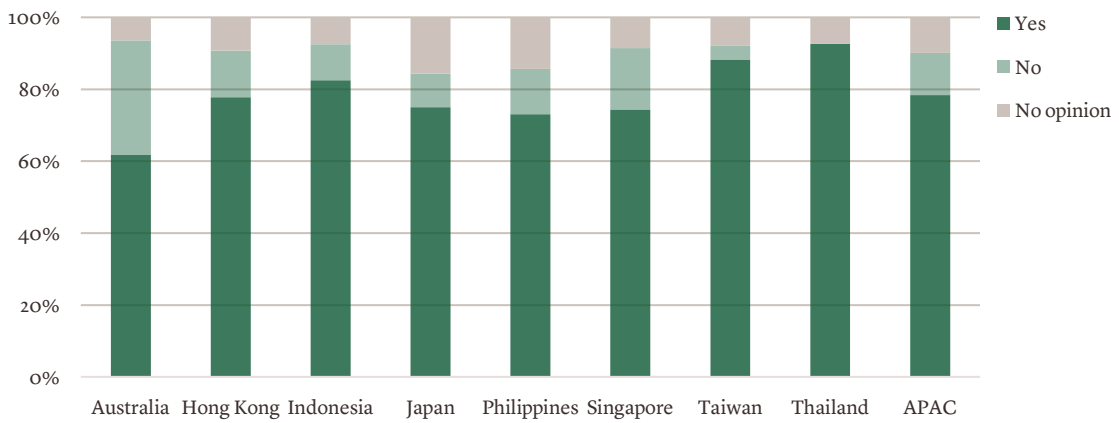
The idea of sustainable investing has been around for a few years now but has typically divided investors, who tend to see it as a value play rather than a serious asset class. However, the continued emphasis on climate change, the increasing struggle for resources and COVID-19 have changed the picture.

Asia appears to have reached somewhat of a watershed, with APAC HNWIs now seeing sustainability as a bona fide investment opportunity. Indeed, there is a very high level of interest in sustainable investing, with 78% of APAC HNWIs saying they are interested in such investments. On a market basis, the numbers go higher still, with 93% of Thailand HNWIs and 88% of Taiwan HNWIs interested (see Graph 19).

Despite the high interest generally, there is work to be done to capture this enthusiasm and translate it into concrete action. Also, not all APAC markets share the same excitement: Australia, for example, has the lowest score (62%), with a third of Australian investors not interested in sustainable investing.

When asked for the reasons for not being active, APAC HNWIs said they lacked an understanding of the risks and returns, followed by concerns of greenwashing, suggesting that improved risk assessment will be key to unlocking sustainable investing's potential, as we will see later in this section.

19. Are you interested in sustainable investing?
(in % of respondents)



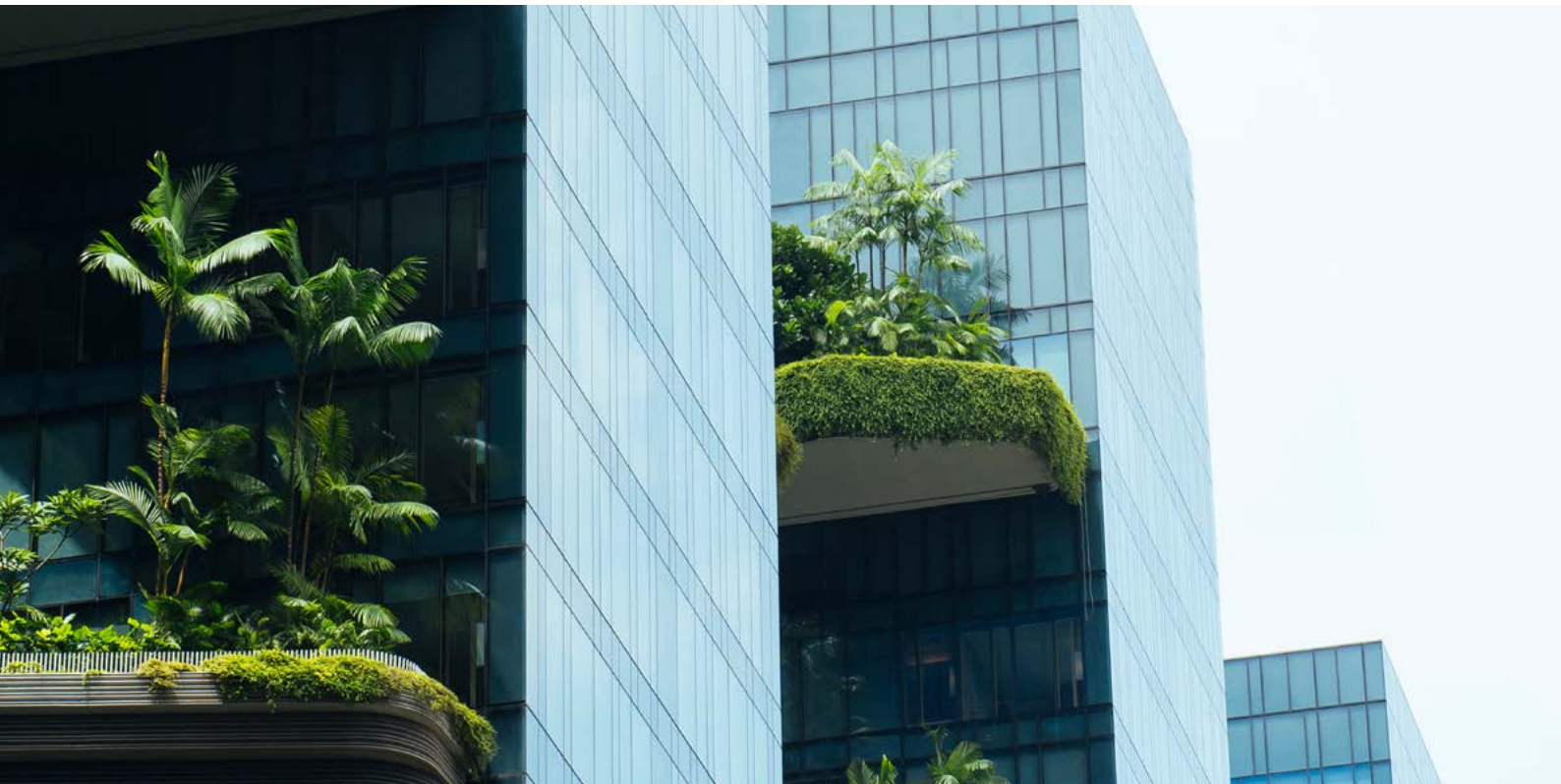
Source: Lombard Odier

APAC HNWIs also feel there is room for improvement from their local market and they could take more action to support the sustainability agenda (see Graph 20, page 45). This proves HNWIs support it and expect more action promoting sustainability, such as new regulations or more opportunities for reallocation of capital towards sustainable investments. For example, Indonesia HWNIs feel most strongly among APAC markets that their market is not active enough in tackling sustainability issues, maybe because they still see the signs of deforestation, water pollution, and smoke and haze from forest fires. Also, they may feel that "Indonesia is still struggling to improve, ensure and protect the environment"[11].

It is perhaps unsurprising that the older generation are less interested in such these investments than their younger counterparts but the interest levels are still high, providing a challenge to banks in terms of tailoring their advice for different groups with different agendas (see Graph 21, page 45). For example, younger generations perhaps see such investments as more of a statement of values than the older generations, who might focus on better returns.

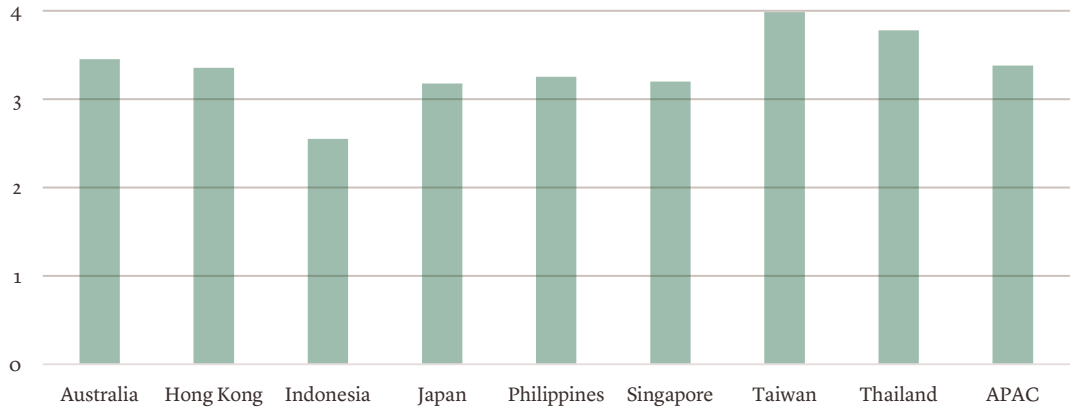
It is clear that interest in sustainability is burgeoning among different markets and age groups, so now we will take a closer look at what interests HNWIs and why.

[11] https://moderndiplomacy.eu/2022/06/22/g20-indonesia-steps-towards-sustainable-environmental-sustainability/



20. I am pleased with the actions my local market has taken regarding sustainability commitments over the past 2 years

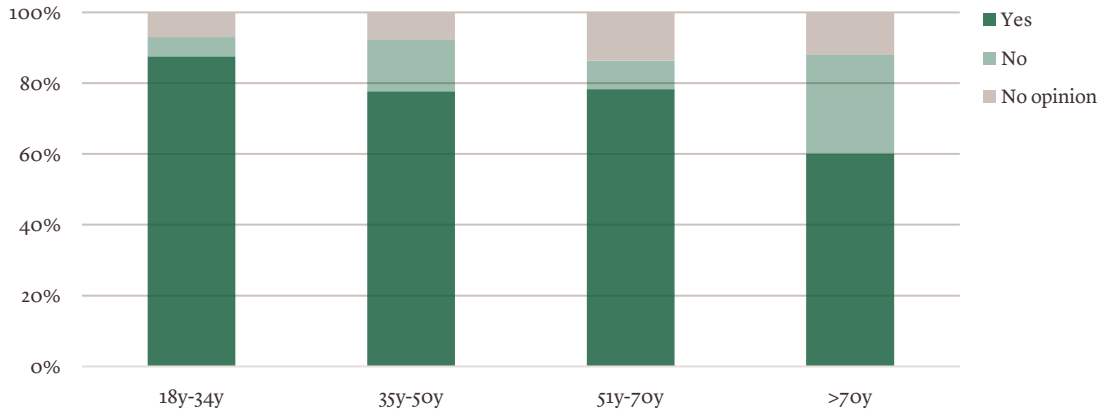
(Scale: 1 = not satisfied at all – 6 = very satisfied)



Source: Lombard Odier

21. Are you interested in sustainable investing?

(in % of respondents)



Source: Lombard Odier

Key change in perception

As previously discussed, perceptions about sustainability have changed and will continue to change. In the past two years, not only do more APAC HNWIs see such investments as an opportunity to help the greater good but they also increasingly see sustainability as an investment opportunity (see Graph 22, page 47).

Specifically, the increased conviction that sustainability will deliver superior returns is an important benchmark in the development of the sector: a change of emphasis from value-driven investment to a genuine anticipation of returns. This perception is strongest among HNWIs in Taiwan, Thailand and Japan.

This is where risk assessment becomes increasingly important. Now that investors see sustainability as a driver of returns, they want to understand the risk, and how such investments will (out)perform in the short, medium and long term. The responses to the three questions in Graph 23, page 47 suggest that there is some short-term uncertainty in this sense. The symmetry of each market's three responses suggests that, while APAC HNWIs see sustainability as an investment opportunity in the long run, they think it might underperform in the short term. Concerns about short-term risk are important here because improved risk assessment will be key to giving HNWIs the confidence to turn solid interest into action.

Considering the above, education from banks has never been so important as HNWIs seek to better understand the risk/return characteristics of sustainable investing. The interest among investors is clearly increasing, and banks therefore need a complete and robust sustainable offering to meet this increased interest.

"

The interest among investors is clearly increasing,
and banks therefore need a complete and robust sustainable offering
to meet this increased interest.

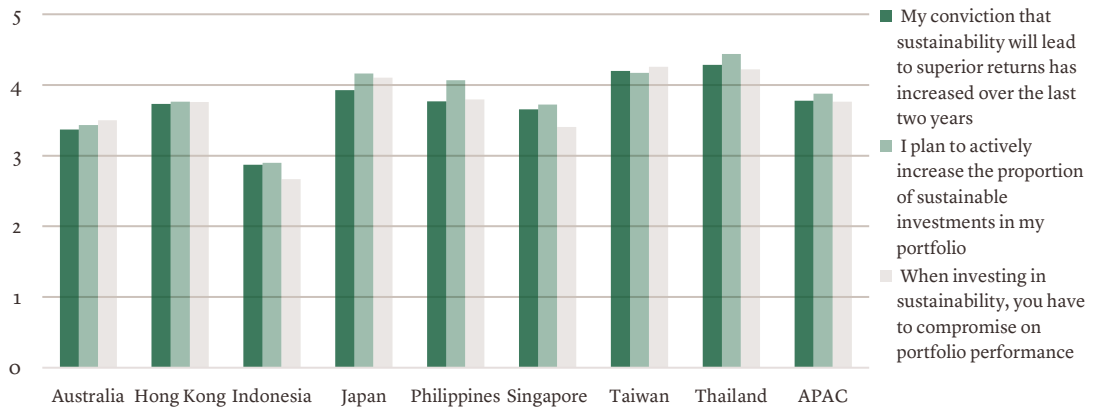
22. HNWIs shift in perception

My perception of sustainability has shifted over the past 2 years, and I now see sustainable investments as an opportunity to help further the global sustainability agenda
(Scale: 1= do not agree at all – 6 = totally agree)

Source: Lombard Odier

23. Sustainable investment beliefs

(Scale: 1= do not agree at all – 6 = totally agree)



Source: Lombard Odier

Building a sustainability portfolio

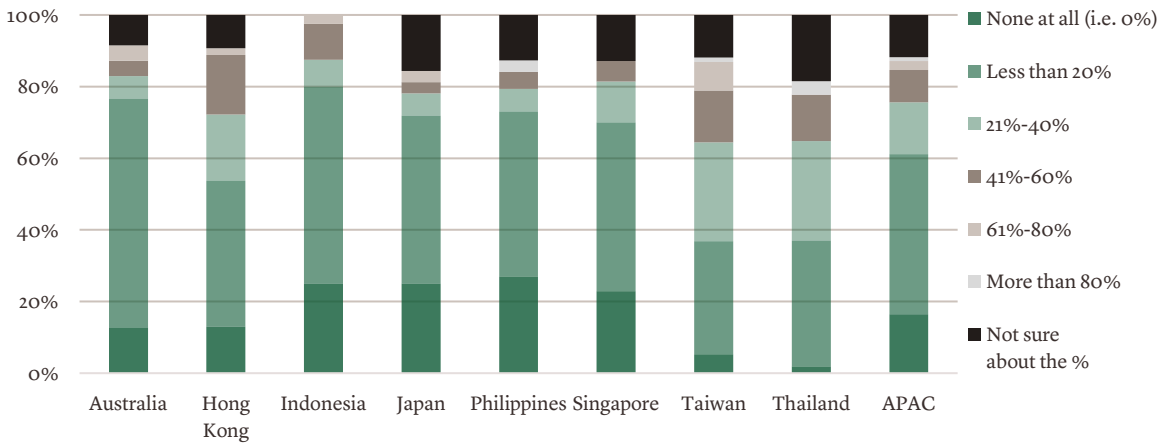
Continuing the theme from the previous section, it is clear that banks have a meaningful impact on the attitudes and actions of HNWIs when it comes to sustainable investments. In fact, our study findings show that there is a direct correlation between the level of help given by banks to the weight of sustainable investments in a HNWI's portfolio, which we will discuss later.

Generally, the proportion of APAC HNWIs holding sustainable assets is on the increase, even though a significant number of them (45%) hold less than 20% of sustainable investments in their portfolio (see Graph 24). Thailand and Taiwan are clearly leading the way in this sense, as almost all respondents from the two markets have some part of their assets sustainably invested, and roughly a third holding more than 40%.

"We should really see sustainability develop as a sector now that investors have moved past the idea that it is simply another way to make the world a better place. They are starting to see that it is no longer a trade-off and one can do good and do well at the same time through sustainability investing," remarked Sheila Chuang, Managing Director, Chief Exclusive Banking Officer, Taipei Fubon Commercial Bank.

Meanwhile, the Philippines (27%), Japan (25%) and Indonesia (25%) have the highest percentage of HNWIs not holding sustainable investments at all. Why? Let us have a closer look at how this relates to the sustainable offerings and services that banks provide.

24. Proportion of sustainable assets in the portfolio
(in % of respondents)



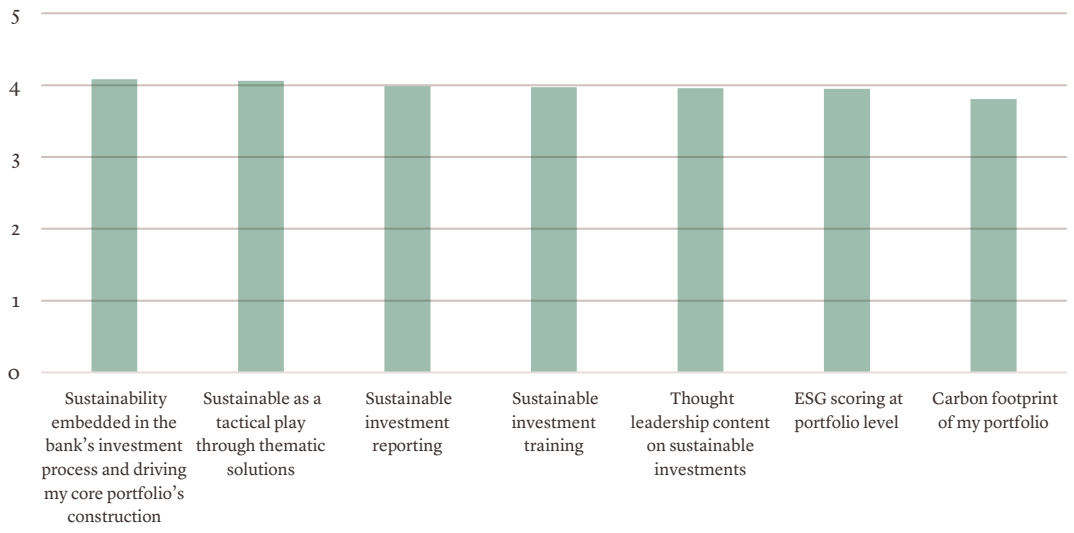
Source: Lombard Odier

It is clear from Graph 25 that all sustainable investment services offered by banks are highly valued by APAC investors. By correlating this question with the proportion of sustainable assets in portfolio (see Graph 24, page 48), we obtain very interesting results: the proportion of sustainably invested assets is systematically and significantly correlated with the services that a bank can offer (for example: correlation between the proportion of sustainable assets in the portfolio and the item "Sustainability embedded in the bank's investment process and driving my core portfolio's construction": R= 0,34; p < 0.001).

This highlights the importance of banks engaging with their clients, who are clearly ready to act – and the more banks engage, the more clients will act. And there is much more to be done, with 12% of APAC investors unsure about the level of sustainable investments they hold, suggesting many APAC HNWIs are still not sure what sustainability is (see Graph 24, page 48). For some, this might limit their willingness to increase the weight of sustainable investments in their portfolio, an issue that can be addressed by banks helping to educate their clients.

As such, banks need to come up with a precise definition of sustainability, a clear bridge between this definition and an offering, and an explanation of how it will bring superior returns. Our study confirms that APAC investors i.e. small caps are ready to listen as they now look at sustainability from a risk/return perspective.

25. To what extent do you value the following offerings and services from your bank?
(Scale: 1 = not important – 6 = very important)



Source: Lombard Odier

Shifting motivations of HNWIs

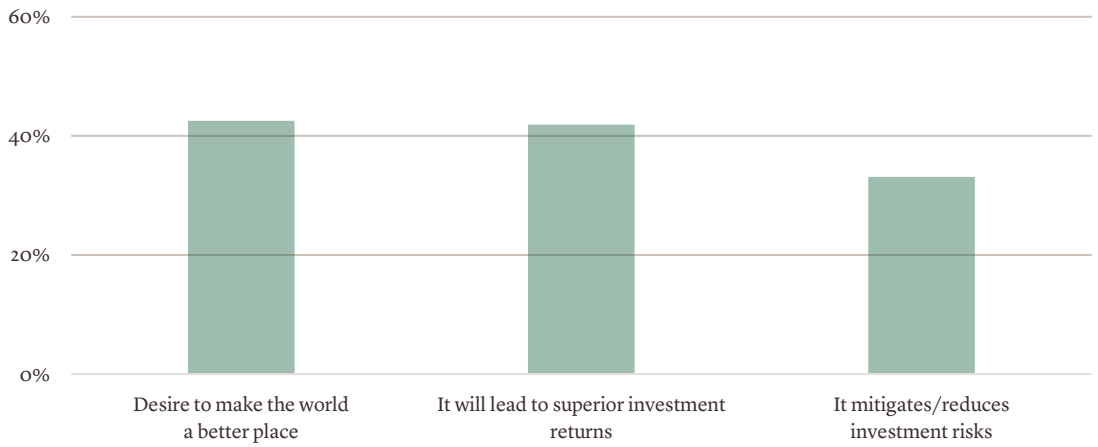
So why specifically do APAC HNWIs currently make sustainable investments? Interestingly, Graph 26, page 51 shows that two out of the top three reasons are not related to a philanthropic or moral approach, as intimated earlier, but rather superior returns and the perception of reduced risks. This is especially true for Taiwan investors with 65% thinking it will lead to superior returns (see Graph 27, page 53). This change of mindset from a values-driven choice to prudent management of a portfolio is an important sea change in the development of the sustainable investment sector, as mentioned earlier. It shows that the sector is being taken seriously and is now given the same stringent due diligence as more established corners of the investment world.

In fact, Singapore is the only market where HNWIs' main motivation is still values driven, and superior returns is only cited by 18% as the main reason to invest in sustainable offerings (See Graph 27, page 53). This of course does not suggest they will not invest; simply that they remain unsure as to the level of returns.

Graph 26, page 51 highlights that a third of APAC HNWIs are active in sustainable investing because it will help them mitigate future risks. We know that inflation is the main concern for HNWIs going forward in terms of the economy. In that matter, various weather-related food and resource issues (sustainable matters) have a direct impact on economies and inflation.

26. Motivations for sustainable investing

(in % of respondents)



Source: Lombard Odier

Drought or excessive rainfall have increasingly impacted crops and food supplies in recent years. According to the United States Department of Agriculture (USDA) supply and demand estimates[12], global wheat production will decrease by 4.5 million metric tonnes over the next 12 months. Although the war in Ukraine is a major factor, "unfavourable weather conditions"[13] in Europe and South Asia are also playing a destructive part.

> "With HNWIs now thinking about sustainability in terms of genuine risk assessment, this confirms that sustainable investing is evolving positively. We will no doubt start seeing more of such investments appearing in portfolios going forward", Vincent Magnenat, Limited Partner, Global Head of Strategic Alliances and Asia Regional Head, Lombard Odier observed.

As mentioned earlier, younger generations are more driven by such a "values-based" approach (42% – see Graph 28, page 53) than older generations. COVID-19 provided a wakeup call and new generations of investors want values to be part of their basis for action.

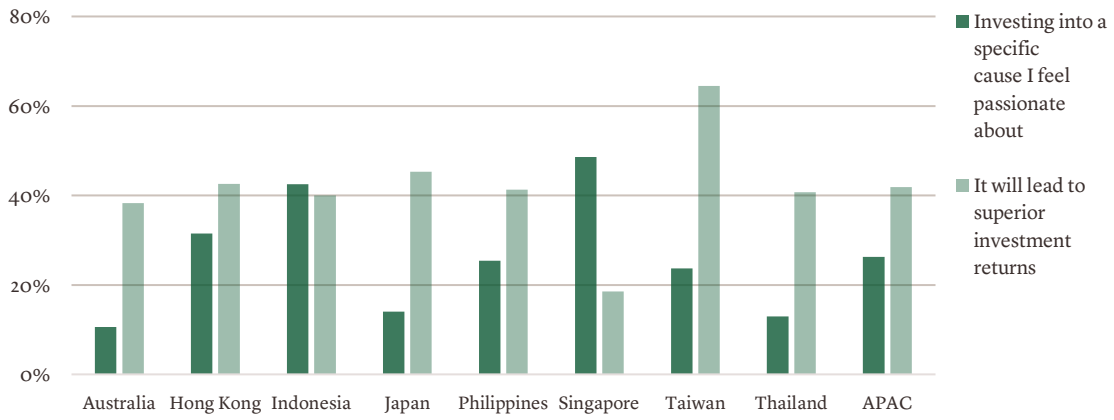
Banks not only need to be aware of such generational differences, but also that perceptions of sustainable investments are changing for APAC HNWIs as a group, as mentioned earlier. Such investment decisions are typically becoming more financial than values-based and banks need to understand the different motivations of HNWIs across both generations and markets. Providing a granular approach for each group and helping investors choose which sustainable investments are right for their portfolio will be key to continued development of sustainability.

[12] USDA, World Agricultural Supply and Demand Estimates, May 12, 2022 https://downloads.usda.library.cornell.edu/usda-esmis/files/3t945q76s/c534gt149/vt151p823/wasde0522.pdf

[13] CIO Newsletter, Lombard Odier (Third quarter 2022), p2.

27. Motivations for sustainable investing – factors that differ across markets

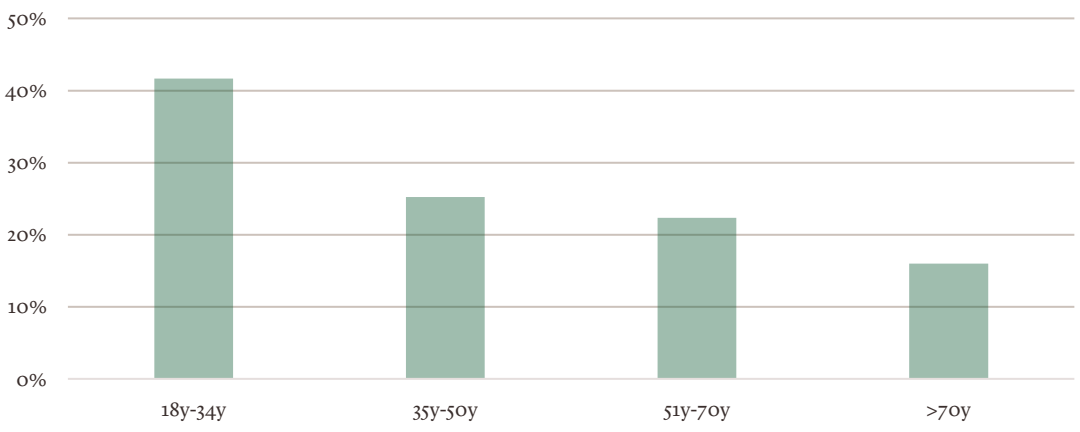
(in % of respondents)



Source: Lombard Odier

28. Investing into a specific cause I feel passionate about

(in % of respondents)



Source: Lombard Odier

Familiar barriers

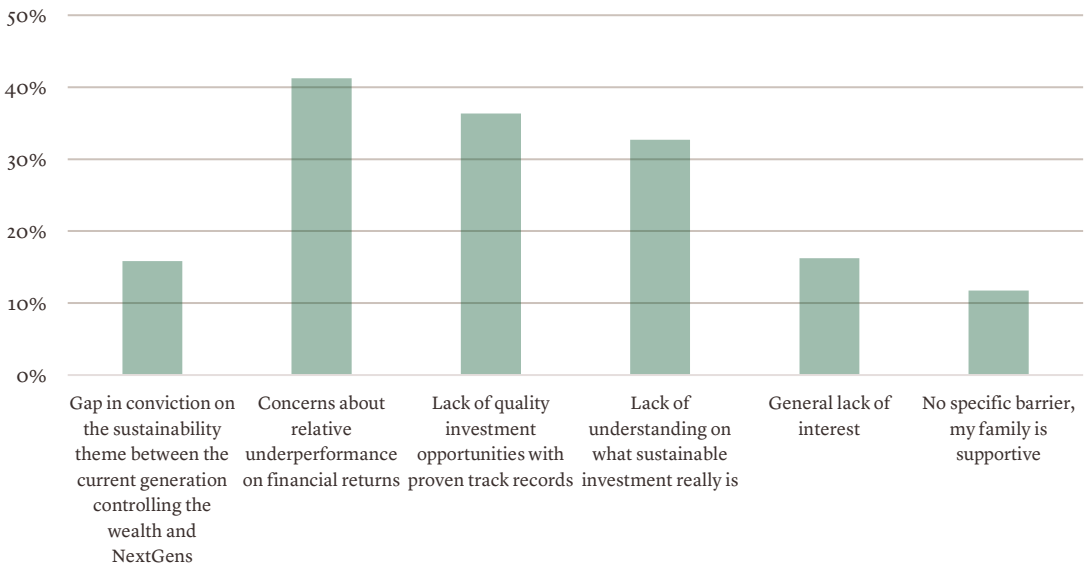
Aligning family interests with investment decisions can be complicated, requiring knowledge and patience from all involved. Sustainability, which we have already acknowledged offers more uncertainty than other investments, can unsurprisingly be a harder sell when getting family members on board.

When we asked APAC HNWIs for reasons why they answered "No" to whether they were interested in sustainable investing (Graph 19, page 43; Graph 21, page 45), common responses highlighted that more clarity was needed in terms of guidelines and that sustainability needed to be better defined. Meanwhile, some investors were unsure about the level of returns.

When it comes to getting family members onboard with sustainability, the challenges are intensified and the responses echo that (Graph 29). APAC HNWIs said they face numerous barriers to selling such investments to their families, expressing concerns about the relative underperformance of financial returns (41%) and a lack of investment opportunities with proven track records (36%). More starkly, a third are still not sure about what sustainability really is! This of course makes selling the idea more difficult.

The important message from this is that sustainability is being taken seriously as an investment opportunity. However, the opportunity will only be realised if banks proactively reach, engage, educate

29. What are the barriers (if any) that you face when introducing sustainability investing to your own family?
(in % of respondents)



Source: Lombard Odier

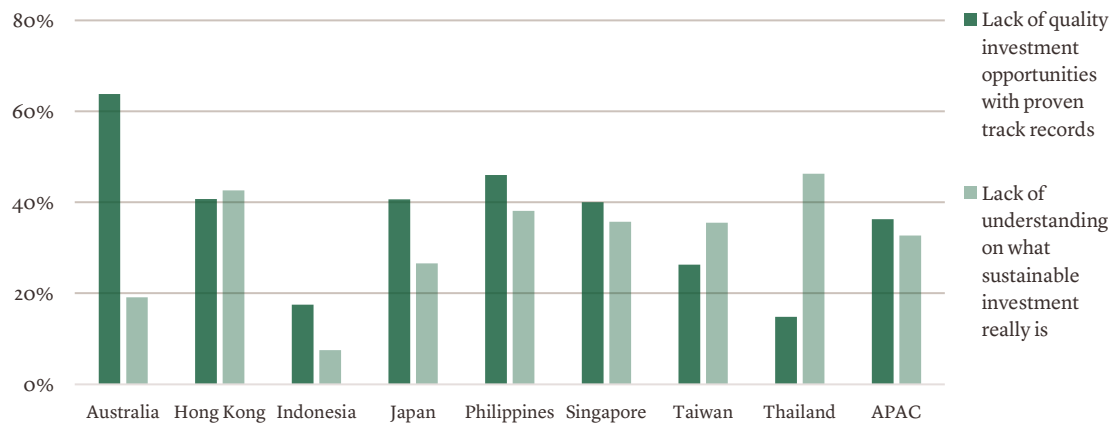
and clarify. There are key questions to be answered: how green is a company really? How can an investor build a resilient sustainable portfolio? Which themes are aligned with investors' investment criteria and values? How should clients approach these topics and invest in them? These are the challenges that lie ahead for banks and APAC investors are waiting for answers.

Banks also need to navigate differing attitudes in different markets. For example, in Graph 30, Australia HNWIs appear to understand what sustainability is (only 19% said they do not), but 64% highlighted the lack of quality investment opportunities as the barrier for them to act.

Meanwhile, Thailand investors need more education, with 46% of respondents not understanding what sustainability is well enough. Likewise, Singapore (36%) and Hong Kong (43%) have a higher percentage than the APAC average when it comes to HNWIs and their family members not understanding what sustainability is, and that might explain why 23% of Singapore HNWIs do not hold sustainable investments at all compared to an APAC average of 17% (see Graph 24, page 48). This again highlights the need for education.

> Jirawat Supornpaibul, Executive Chairman, Private Banking Group, KASIKORNBANK (Thailand), noted, "One of the most important factors still holding back sustainable investing is that many investors are still waiting for a clearer definition of what it is, despite holding a percentage of such assets in their portfolio. A clearer and more consistent definition will result in client's confidence and bring in more investment. Therefore, as a leading international comprehensive wealth management service in Thailand, I believe it is our responsibility to raise awareness on the importance of sustainability and sustainable investing to Thai investors."

30. What are the barriers (if any) that you face when introducing sustainability investing to your own family?
(in % of respondents)



Source: Lombard Odier

Generational differences

As mentioned earlier, generational differences play a role in shaping attitudes towards sustainability, and this is reflected in Graph 31, page 58, which suggests that the barriers to introducing such investments to family members are a question of age.

Younger investors (whom are more interested in sustainable investment) appear to think that the older generations' lack of interest in sustainability and/or an understanding of what it is slows them in pushing it further in terms of family assets. And vice versa, older generations find no specific barriers as younger generations tend to be supportive. In short, younger generations face more barriers in convincing older generations on sustainable investments.

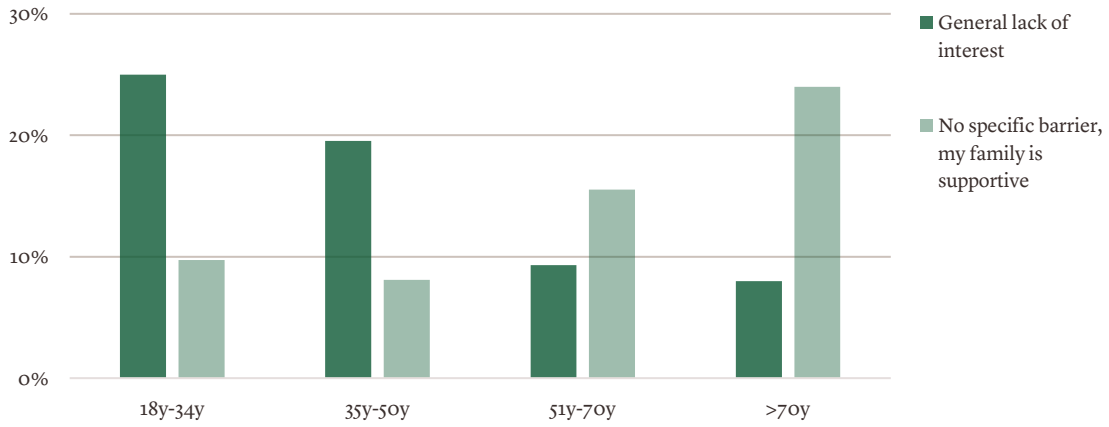
At the same time, Graph 32, page 58 shows APAC HNWIs see sustainable investing as the communication bridge between older generations and younger generations/ NextGens – a clear opportunity to engage across generations.

"Communicating the potential benefits of sustainability to family members is an ongoing challenge considering that there is still skepticism out there. But this ideology in particular bridges generations, involving key issues that impact not only our world today, but also that of generations to come. It must be viewed as a common cause and advocacy that unites all families," Arlene Joan T. Agustin, Senior Vice-President, Private Banking Group Head, UnionBank of the Philippines, commented.

Once again, banks need to play a nuanced role and adapt their approach from one market to another, while also helping to facilitate communication and fill the gaps between generations. Banks are in a key position to engage with the whole family, which will help smooth any disagreements, assuage fears and correct any misunderstandings about sustainability.

31. What are the barriers (if any) that you face when introducing sustainability investing to your own family?

(in % of respondents)



Source: Lombard Odier

32. Sustainable investing is a good way to engage the Next Generation

(Scale: 1 = do not agree at all – 6 = totally agree)

Source: Lombard Odier

Conclusion
Visibility defeats volatility

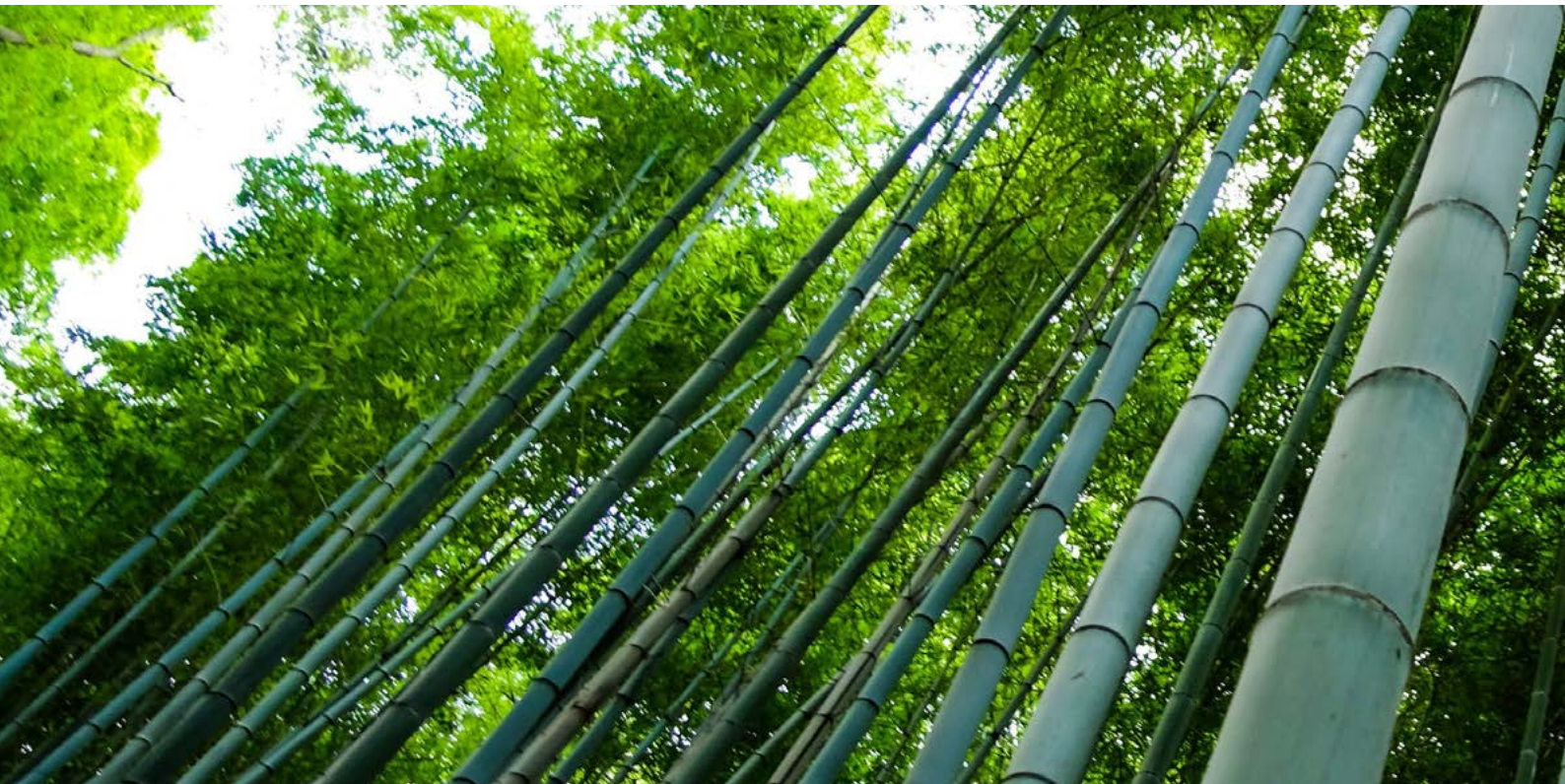
Visibility is always important when making investment decisions. Not everybody looks at a sculpture from the same angle and not everybody is looking for the same things. The theme of visibility permeated our study this year, with investors eager to make sense of the world post-COVID-19 amid a slew of macro-economic challenges. These challenges feed into concerns about market volatility and its impact on portfolios, which threaten to damage confidence without comprehensive risk assessment.

The ability to understand forward-looking risk is vital to making **investments**, and so the theme of visibility was very prominent in our study when APAC HNW investors were thinking about their portfolios. Risk assessment and management have become a priority, and investors have actively realigned their portfolios to be more conservative over the past two years.

Diversification remains key, and in particular APAC HNWIs have been increasing their exposure to global assets at the expense of their domestic market. Banks will need to increasingly support this trend as some local markets adopt protectionist measures to better control their value chains. However, diversification alone is not sufficient to guard against shocks, and some investors are worried that their diversification strategies might not pay off. For example, as mentioned in this white paper, there has been a correlation between equities and bonds in recent months, leaving less room for hedges.

Our study highlights that interest in private assets is on the rise, again playing into the visibility theme as investors seek a clearer understanding of risks, and improved diversification.

Conversely, our study suggests that digital assets – crypto currencies in particular – are a victim of the trend as there is still low traction for the assets. With investors seeking visibility and a greater understanding of risk, the nascent and opaque nature of crypto



currencies has done little to stir investors beyond a curious interest. However, there are signs of greater interest among younger generations, and so the door is ajar for future engagement by banks to help investors better understand the risks ahead.

COVID-19 has accelerated digitalisation as an enabler but it has ironically also emphasised the key role of a physical presence across several functions. Ultimately, investors still demand that advice should be delivered by bankers, not an automated system.

Attitudes have clearly changed towards **sustainability**. Investors now look at it as an investment opportunity, providing the asset class with an important coming-of-age. With this maturity comes a host of questions: APAC HNWIs are now seeking a better understanding of the risks involved and more detailed estimates of potential returns. Some investors want a clearer definition of sustainability before they turn interest into action.

Investors will invest (and invest more) when they are provided answers to these questions, as our study highlights. As such, banks have a key role to play, for our study shows there is a positive correlation between bank engagement and HNWIs investing in sustainability. Considering volatility is the main concern of APAC HNWIs, it is vital that banks help investors to model investments in sustainability sectors to improve confidence and expand their weight in portfolios.

Overall, although there are clear trends that are true generally, our study shows there are also deep differences across markets involving complex factors (e.g., generational) that must be discovered, understood and acted upon. Ultimately, to grow with all groups, it has never been more important for a bank to have an agile business model, and to continuously rethink it.

Methodology and acknowledgements

Purpose

The purpose of this study is for Lombard Odier Asia and its Strategic Alliances and close partners that participated to create a channel of communication that allows us to listen to a key segment of clientele: HNWIs.

This study follows another Lombard Odier conducted in 2021 surveyed more than 620 of Asia's UHNW individuals and leading families to better understand how the pandemic and its consequences was affecting them.

The core aim is to understand how investors perceive their environment following two years of the COVID-19 pandemic, the impact the crisis has had on their lives, families and businesses and what they think the post-pandemic future will look like.

As a result, equipped with concrete feedback, Lombard Odier will thus be better placed to understand needs and expectations during the pandemic but also post-pandemic – and better able to analyse if banks are meeting these needs and living up to HNWIs' expectations.

Acknowledgements

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

JBWere
Kasikornbank Private Banking
Mizuho Securities (Singapore)
Taipei Fubon Bank
UnionBank Private Banking

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

Method & Data analysis

Participants were invited to complete a set of 26 online questions that covered a wide range of topics ranging from investments to sustainability.

The analysis is based on quantitative 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.

Sampling

450 HNWIs[14] was 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.

Study period

The study took place between May and June 2022.

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 310[15] 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 25 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[16], while taking international implications into account.

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[15] Source: Lombard Odier – Financial highlights as at 30 June 2022.

[16] Subject to the laws and regulations that apply to cross-border activities.

Contacts and further information

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