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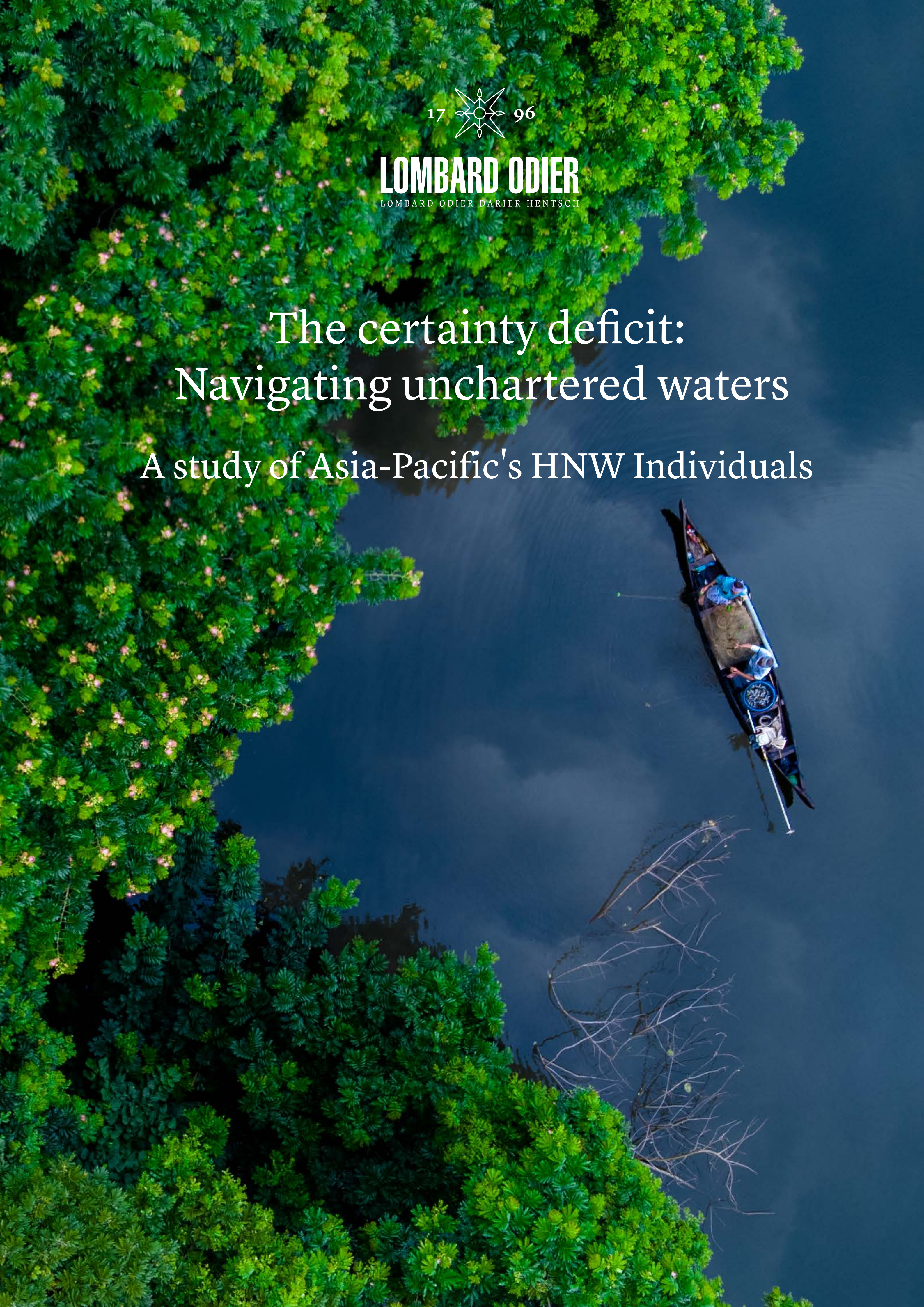
The certainty deficit: Navigating unchartered waters

A study of Asia-Pacific's HNW Individuals



Foreword

At the height of the Covid-19 pandemic in 2020, Lombard Odier, together with some of our Strategic Alliances in the region, undertook a study to better understand how the needs and perspectives of the ultra-wealthy had evolved in response to the global crisis.

One word reverberated throughout – disruption. It is a word not particularly foreign to anyone. In fact, trends like digitalisation had been major causes of disruption in the 2010s. But the Covid-19 pandemic hit the gas on such an unprecedented and sudden scale that the two became somewhat synonymous with each other.

Fast-forward to the tail end of 2021, almost two years after Covid-19 first reared its head, and 'disruption' has made way for another word that could potentially define this decade – uncertainty.

This year, we conducted a follow-up study, harnessing the collective network of Lombard Odier and our Strategic Alliances and close partners in Asia-Pacific. We spoke to 620 high-net-worth individuals (HNWI)[1] across Asia-Pacific, and the results of our study revealed that whilst we have all, in our own ways, been dealing with the impact from the global pandemic, we still linger in unchartered waters where uncertainty remains prevalent.

Through the lenses of these HNWIs, we frame our findings across three pillars – investments and the global economy, family matters, and sustainability. As society learns to live with Covid-19 as an endemic, we hope to offer insights distilled from leading HNW families and entrepreneurs that can help enable us to future-proof the coming years ahead.

“

As the world turns a page at the start of this new decade, we hope the following chapters offer fresh perspectives on how we can embrace the fundamental reframing of the world around us in this New Normal

In a crisis where ambiguity abounds, one bright spark is the response by HNWIs on the area of sustainability. There is clear conviction on the attitudes towards sustainable investing and the urgency to transition to a net-zero economy.

The game has changed, and so have the rules. At Lombard Odier, we have not only survived, but thrived through 225 years guided by a simple philosophy – rethink everything. As the world turns a page at the start of this new decade, we hope the following chapters offer perspectives not only on how we can confront uncertainty head-on, but how we can embrace the fundamental reframing of the world around us in this New Normal. How we react will determine our collective success.

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

Vincent Magnenat
Limited Partner and Chief Executive Officer, Asia
Lombard Odier

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

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The certainty deficit: Navigating unchartered waters

Executive Summary

Investment Climate

Going Global while Being Local: diversification at stake

Australia, Hong Kong and Singapore feel the world has become "More Local, Less Global", while other markets in our study continue to believe in a global economy. Differences across domestic markets reinforce the importance of banks fully understanding the needs of clients and adapting to them. **Local investors' ability to diversify their portfolio into a global one is critical in a context of heightened volatility and divergence.**

Boom or Bust – I need help

Overall, a significant proportion of HNW individuals (44%) feel that equity markets are too high and due for a correction, and only 31% on average feel that markets will keep rising. In this context, investors are relying on banks' advice and expertise to guide them through, and their willingness to delegate portfolio management is on the rise.

Inflated Concerns

Almost all markets are concerned that inflation will rise. Some are strongly thinking of hedging this risk. In relation, HNWI respondents who believe that low interest rates are here to stay in the long term is down to an average of 56%, compared to 78% in the UHNWI Study we ran last year.

Sustainability

A unique investment opportunity gaining momentum

The perception of sustainability is changing from just a "worthy cause" to a legitimate financial opportunity, with **59% of respondents saying they believe sustainability will generate superior returns**, compared to 54% last year. Conviction and action are on the rise, even though there is still some way to go. Investors rely on their banks to help them implement the opportunity within their portfolio, and banks' role is to continue educating and setting the path.

Principled Investing

Women are more convinced than men that taking sustainability into account can lead to superior returns (68% for women; 54% for men). Meanwhile, Next Gens are more convinced than their older counterparts about supporting sustainability and applying its principles.

Family Matters

Family Matters

Although 60% of respondents across the eight markets said the crisis has led them to rethink some family related matters, **half of them have not acted yet, leading to significant opportunities for banks to offer guidance**.

Relocate to Accumulate

Although not many investors have relocated since the beginning of the Covid-19 crisis, many are thinking about it. Retaining clients amid relocation presents challenges for banks but also huge opportunities.

Introduction

After two years of Covid-19 disruptions, economic downturns and a great deal of soul searching, societies, governments and businesses are now trying to determine what happens next. It is hardly surprising that countries tackled the pandemic in different ways and with different degrees of success, which means that the world, more than ever, is a place of shifting walls.

Investors are facing unprecedented uncertainty, and as a result are asking themselves some unsettling questions:

Firstly, how long will Covid-19 last? This is impossible to answer but is on the mind of every human being, raising other difficult questions for investors, such as how and where to base the family, how to position a portfolio, and when and how to move assets. The uncertainty is why Lombard Odier, along with our Strategic Alliances and close partners, decided to take a temperature reading to understand the needs and concerns of our clients, and move forward together.

Our study follows one Lombard Odier conducted in 2020 that surveyed more than 150 of Asia's UHNW individuals and leading families to better understand how the pandemic was affecting them. This year's study includes feedback from 620 HNW individuals domiciled in Singapore, Hong Kong, Japan, Thailand, the Philippines, Indonesia, Taiwan and Australia.

We asked the HNW individuals whether they expect the **low interest rate environment** to persist, whether they are worried about **inflation**, and if they are concerned about **overheating equity markets** following Covid-19.

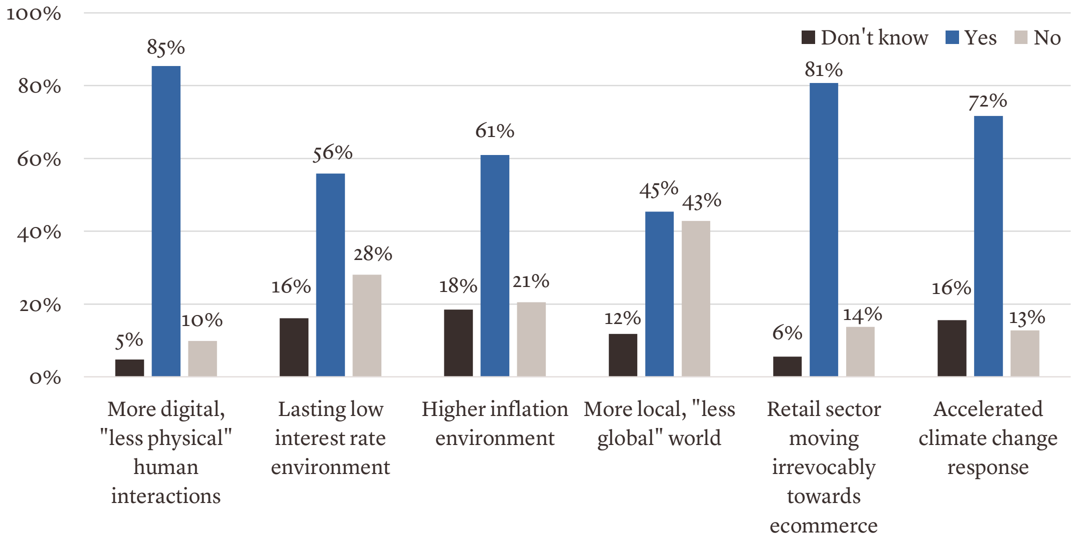
- **Sustainability** continues to be important to investors, and we wanted to find out how the pandemic has affected development of the market: How many HNW individuals think sustainability is here to stay? How many now think it can produce superior returns? Who are actively increasing their exposure and who have no plans to? And how big a role should banks play?
- **Family** is at the heart of the Covid-19 crisis and so we asked investors how the pandemic has altered their thinking in this respect: How many have rethought family matters during the crisis? How many have implemented a solution? How many are thinking of relocating?
- Other results confirm trends we already started to see since the onset of Covid-19 and earlier, such as investors expecting **digitalisation** to become increasingly prevalent, particularly in the retail industry (see chart 1).
- One of the key takeaways from the study is the importance of **diversification** in such an uncertain environment. However, when asked about the level of risk-taking, investors yielded diverging responses, which highlights the importance of solid advice.

> "What the study uncovers is that while the various markets generally reflect the same trends, there are distinct differences between each market – some more nuanced, some more pronounced. This is a reflection that the demands and needs of HNWIs in each market require different approaches and solutions and this is where the strength of Lombard Odier's strategic alliance model with local financial institutions becomes pertinent. For HNWIs, this allows them to engage in private banking services with a well-reputed bank that they are already familiar with in their home market, and yet gain access to global investment management platforms and family services expertise through Lombard Odier. Furthermore, there is also the potential for HNWIs to uncover opportunities in other markets that are part of our strategic alliance ecosystem."
>
> Vincent Magnenat, Limited Partner and CEO, Asia, Lombard Odier.

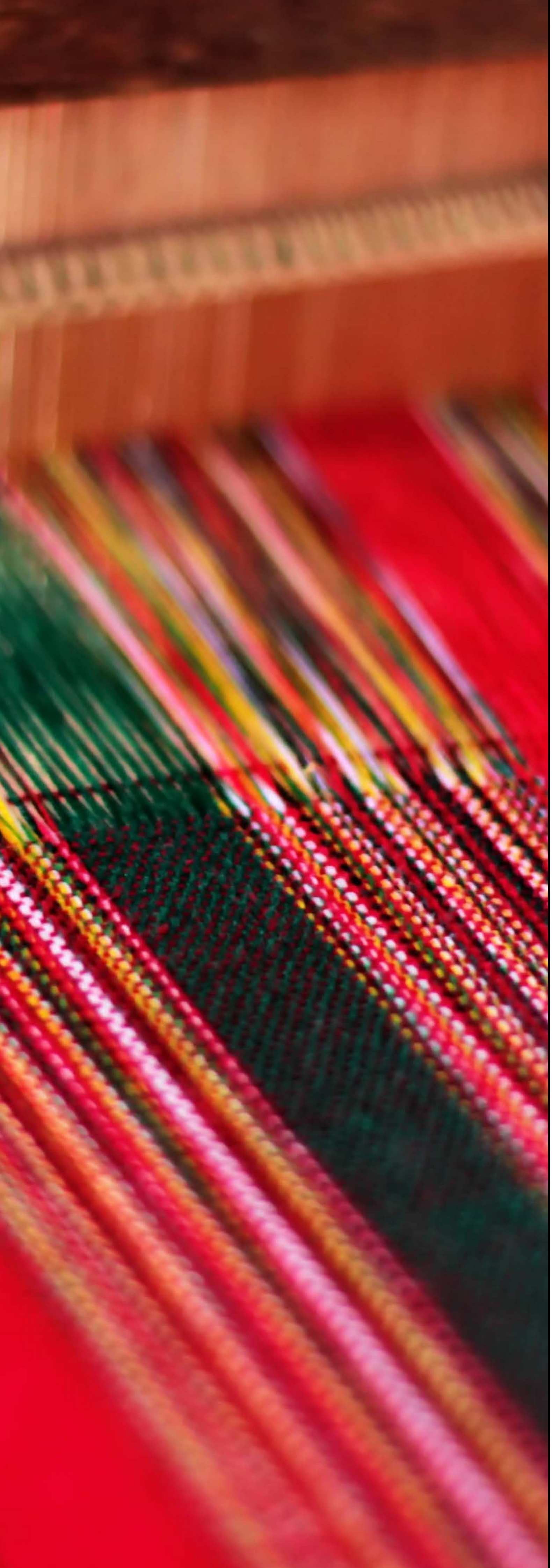
Some of the trends we have identified vary significantly from one country to another, and what this all means for the future of investment will be explored in this report.

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

1. Do you believe the below points will become the new norm once the crisis has ended?
(in % of the respondents)



Source: Lombard Odier



The Investment Climate

› Asian investors navigating unchartered waters

› Financial Markets: Correction Spectrum and Protection

› Interest rates and inflation: Changes Afoot

› Risk: On or Off?

› Advice, Advice, Advice: but every market is different

Asian investors navigating unchartered waters

While many economies in Asia-Pacific and around the world have started to bounce back from the worst of Covid-19, a sense of unease prevails. Broad-based initial success in tackling the pandemic has given way to a nuanced picture. China emerged early and its economy has been growing at a steady clip, although it has slowed of late. Japan and Australia have been grappling with intermittent lockdowns, while in Southeast Asia (at the time of writing), Malaysia and Vietnam are being challenged by record levels of infections.

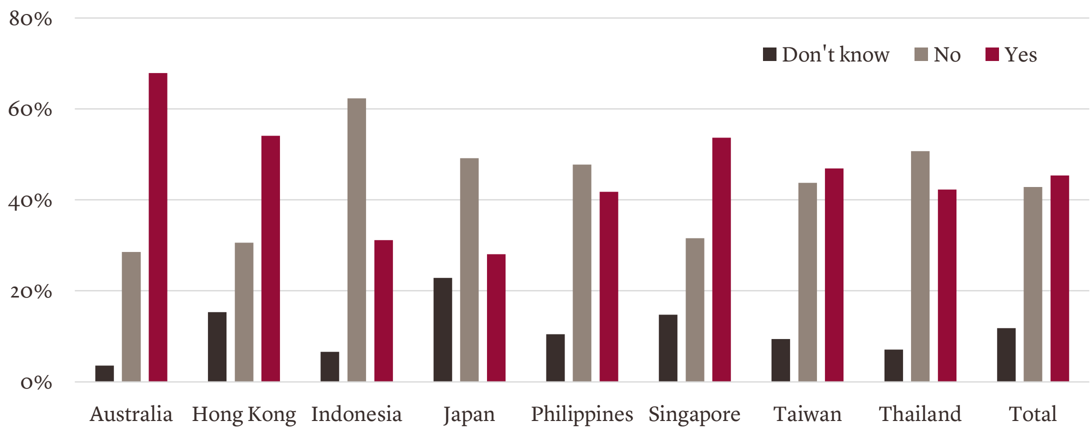
The financial hubs of Singapore and Hong Kong were hard hit by the collapse in business travel caused by very strict entry restrictions, while Australia has managed the pandemic by closing both its market border and internal state borders. Investors in these markets responded that they are feeling "more local and less global" more than investors in other markets (see chart 2).

> Covid-19 has reinforced the practicalities of Australia being an island nation in some ways. However, investors in the country are also looking for ways of diversifying their portfolio, and they remain keen on having efficient access to investment opportunities in Asia and elsewhere, said Justin Greiner, chief executive officer, JBWere Australia.

The World Bank is forecasting US growth in 2021 at 6.8%[2], compared with a more muted 4.4% for emerging economies (excluding China), and this is one example of diverging economic fortunes between developed and developing economies.

[2] World Bank Global Economic Prospects

2. More local, less Glocal



Source: Lombard Odier

Indeed, significant differences in pandemic crisis management among countries have led to a divergence in terms of economic performance, dispersion of year-to-date returns for respective equity stock exchanges, and structural changes that might last.

In short, it has never been more important to diversify. The recent correction of China's market is a reminder of this.

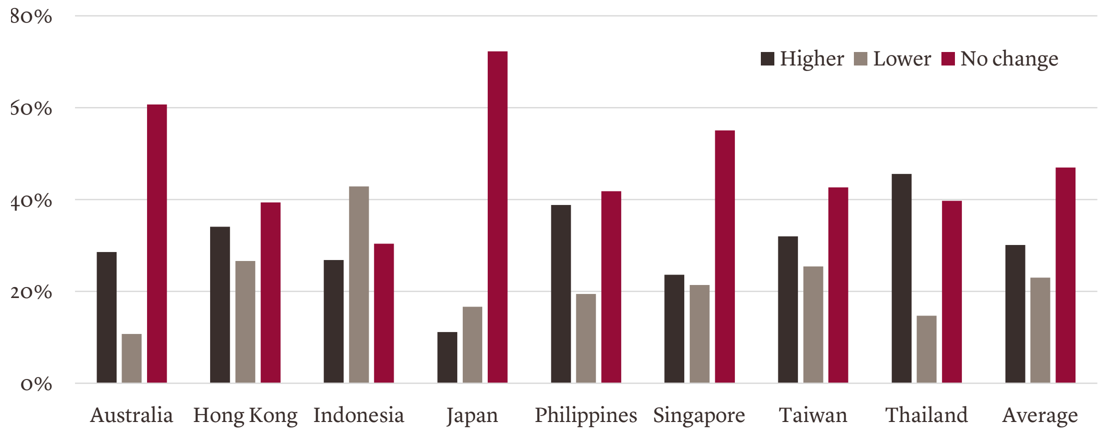
In this environment, investors are certainly looking for opportunities. Investors in some countries are more conservative in terms of taking greater risks (like Japan), while others are aggressive, such as Thailand and the Philippines (see chart 3).

Overall, investors in Asia-Pacific are more careful and more risk aware in the context of a very complex environment, but it is important to note that they do want to act and invest. Maybe even more today than in days gone by, as they understand that times of uncertainty are also times of opportunity.

How they see capital markets evolving and what it means for their future investment preference will determine how they decide to invest and move forward.

> Maybe even more today than in days gone by, as they understand that times of uncertainty are also times of opportunity.

3. Would you change your portfolio risks?



Source: Lombard Odier

Financial Markets: Correction Spectrum and Protection

A significant proportion of HNW individuals (44%) feel that equity markets are too high and due for a correction, and only 31% on average feel that markets will keep rising. Almost 2 out of 10 HNW individuals said they feel lost (see chart 4). The study highlights increased caution from Asian investors, and an increased need for guidance from banks to be able to navigate individual markets.

Chart 5 shows that Singapore and Taiwanese investors are the most concerned about an equity correction (52% and 52% respectively), while only 20% of Indonesian investors are concerned about this possibility. On the other hand, 46% of Indonesian investors are concerned about inflation and about protecting themselves against it.

In many of the Asian markets we analysed, investors often have a significant local bias when it comes to investing, due to either local regulations and restrictions, or to their own bias towards their domestic economy. Even though some investors are more global in their investment approach.

Consequently, each respective market's performance in 2021 will have a significant influence on respective local investor's perception of their equity markets. For example, Indonesia JSX stock exchange is almost flat year to date, which might explain why Indonesian investors are less concerned about a correction, and more interested in hedging against inflation.

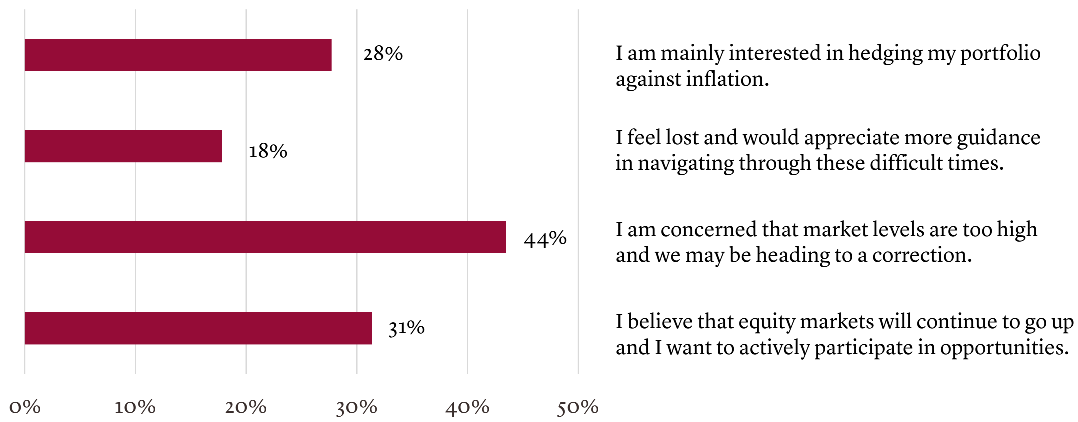
> "The memory of high inflation and economic crisis following the Asian financial crisis still loom large in the country (Indonesia), and so investors are cognisant of protecting themselves through diversification. It is important to note also that they remain bullish overall on equities", Aliyahdin Saugi, president director, Mandiri Investasi.

Some stock exchanges are also deeply concentrated in a few sectors. For example, the Australian equity exchange (the ASX 200) is 50% concentrated in just two sectors: financials and materials. This can drive the stock exchange higher if those sectors are performing, but represent a significant concentration risk. This is illustrated in the rather split perception of Australian investors (see chart 5). And it again highlights the importance of diversification for Australian investors with a local market bias.

With no clear consensus and cautiousness among investors, bank's role includes guiding investors towards diversification outside of their domestic market, even more knowing that a majority of respondents intends to recalibrate its portfolio (see chart 3, page 13).

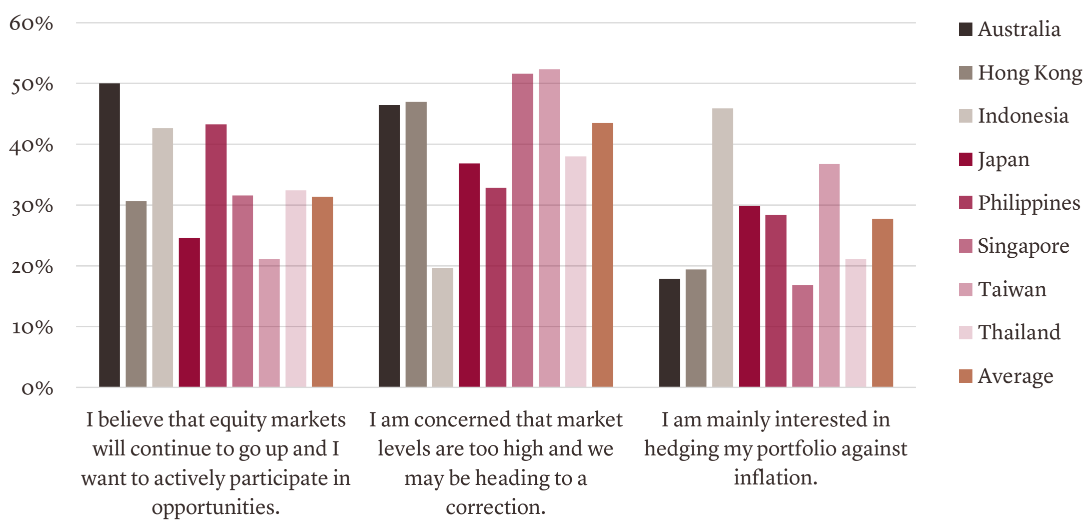
In addition, the study shows that the younger the investor, the more willing he/she is to change his/her portfolio's characteristics; for example 55% of the 18y-24y intend to change their portfolio's liquidity, versus 48% for the 35y-50y, 42% for the 51y-70y, and 23% for the 70y+. Consequently, banks will need to make sure they engage proactively as well with Next Gen HNW individuals, who will also be looking for accrued advice as they reposition their portfolio.

4. Perception of financial markets (% of yes in the sample)



Source: Lombard Odier

5. Perception of financial markets (per market)



Source: Lombard Odier

Interest rates and inflation: Changes Afoot

Fewer investors now think interest rates will remain low. An average of 56% of HNWI respondents believe that low interest rates are here to stay in the long term, compared with 78% in the UHNWI study we ran last year. This is a significant decrease from last year. Filipino investors are the biggest advocates for interest rates rising, while Taiwanese investors are the largest group of believers (76%) that the low interest rate environment will persist (see chart 6).

> In general, Asian investors seem to believe that the spectrum of potentially higher interest rates is not far ahead, with the Fed getting readier to act

One of the main reasons for investors to anticipate higher interest rates is that both the current level and forecasts of inflation across Asia-Pacific could potentially call for interest rate hikes sooner rather than later.

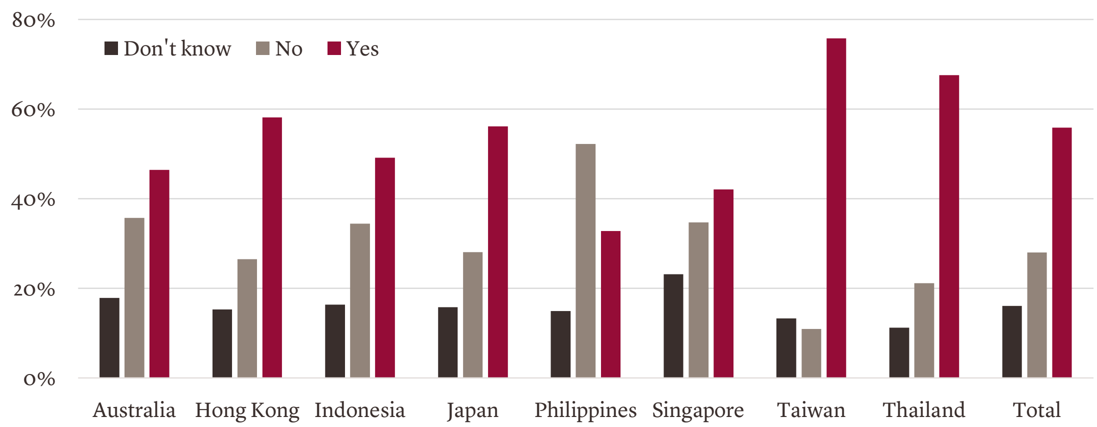
Indeed, another parameter of concern for investors is inflation. 61% of respondents believe that going forward there will be a higher inflation environment as we head – hopefully – towards the end of the Covid-19 crisis.

In chart 7, findings demonstrate that concern for a higher inflation environment is highest for Taiwanese investors (37% of them actually willing to hedge the risk, see chart 5 page 15) and Thai investors, while less of a concern for Japanese investors.

> While most equity markets have marched upwards in the past year, concerns over the staying power of corporate profits and the spectre of inflation amid a property boom in developed markets are causing concern too.

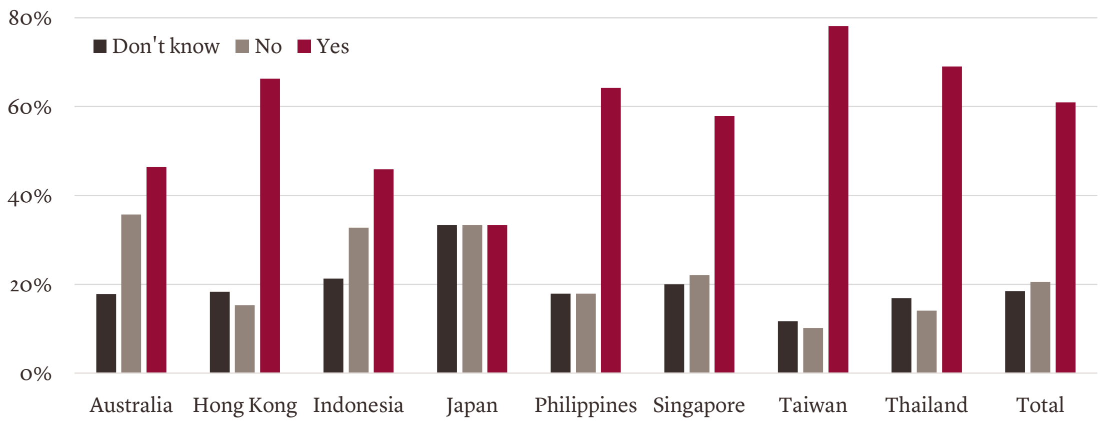
It is the banks' clear responsibility to help investors both transition to an environment seemingly heading to rates' and inflation's normalisation, and adjust their portfolio accordingly.

6. Low interest rate



Source: Lombard Odier

7. Higher inflation environment



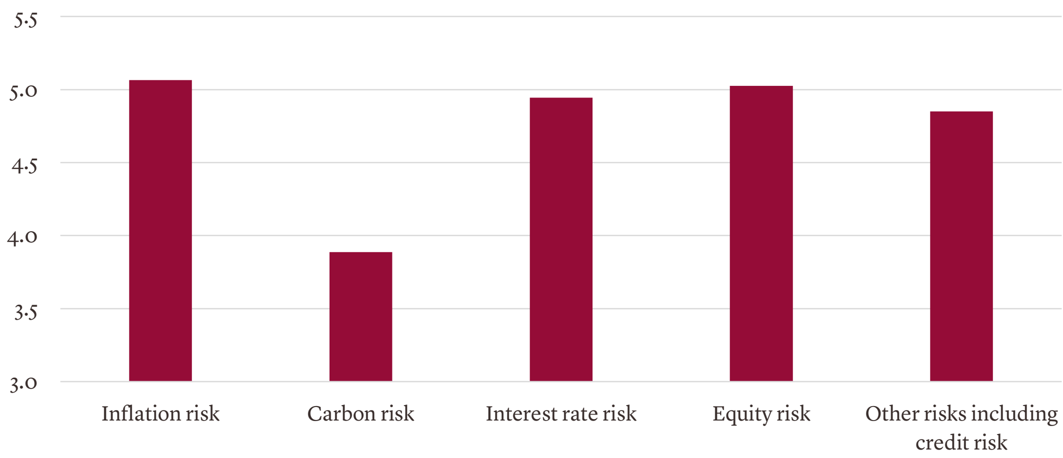
Source: Lombard Odier

Risk:
On or Off?

The risks that are of most concern to investors are almost evenly spread across equity risk, interest rate risks, inflation risks, and credit risks (see chart 8). The fact that they are of high concern and ranked at the same level for all the markets we analysed, show a certain level of nervousness from investors, fearing some events impacting their portfolio performance might happen in the near future: equity market correction, credit crisis, interest rates going higher and increasing inflation.

The recent China equity/credit correction deeply impacted those invested. Investors need increased guidance from their banks in those uncertain times filled with instability, volatility and divergence to help both diversify and risk manage their portfolios.

8. Going forward, how important will the below risks be when monitoring your porfolio?



Source: Lombard Odier

Advice, Advice, Advice: but every market is different

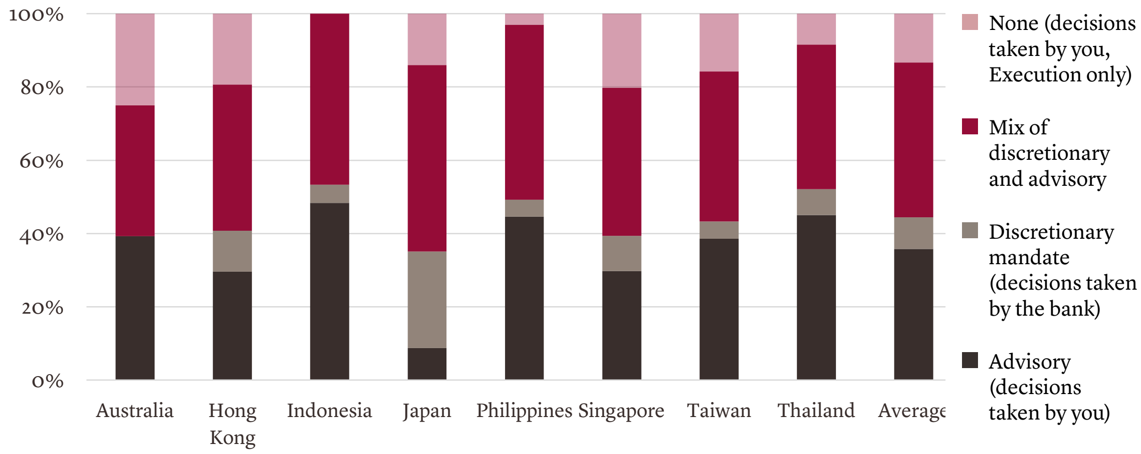
Again, it has never been as important to diversify a portfolio as now, considering dispersion in Asian returns and potential concentration risk due to local bias. And for a local Asian investor, a condition to achieving diversification is to have local access to a global offering.

When it comes to portfolio management preferences, investors are heavily relying on their bank's expertise and advice, and looking to delegate management of their portfolio in this climate of instability, volatility and divergence (as reflected in our results).

Indeed, they are either already invested in or anticipating moving heavily into managed mandates: discretionary, active advisory, or a combination of the two. To which extent depends on each respective country.

There are in fact significant differences across markets regarding mandates' preference (see chart 9), which means that a given bank needs to have a tailored approach for each market and the ability to adapt its offer accordingly. For example, in Japan, "Active Advisory" has a very low score, and discretionary mandates are largely preferred (77%), either on a stand-alone basis or combined with an advisory mandate.

9. Going forward which portfolio mandates are you most likely to choose



Source: Lombard Odier

On the other hand, in the Philippines, there is a very strong demand (93%) for Active Advisory (on a standalone basis or a mix with a Discretionary Mandate).

> "Banks in the Philippines have quite a conservative track record, which served investors well during the global financial crisis. So it is little surprise that investors in the country are more willing to put trust in their bank's decision-making," Arlene Joan T. Agustin, Senior Vice-President, Private Banking Group Head, UnionBank of the Philippines.

Similarly to the Philippines, investors in other countries are looking to leverage on their bank expertise and advice: for example, no Indonesian investors chose Execution only; they are fully committed to Mandates, evenly between Discretionary and Advisory, and rely on their bank's platform and expertise.

Australia has the highest percentage of investors choosing "Execution Only" (25%) among markets and no "Discretionary Mandates" alone; investors there prefer "Active Advisory" either on a stand-alone basis or in combination with Discretionary Mandates. This indicates an above average preference by Australian investors to take their own decisions and for being more self-driven.

The above results remain the same when only focusing on entrepreneurs or UHNWIs, indicating that a difference in preference is more specific to the geographical market characteristics rather than sub-groups' behavior varying one to the other. Again, this is why a bank active in several markets should not only have a strong Discretionary/Active Advisory mandates offering, but also be able to adapt it to the reality and needs of each country.

> Banks need to have a tailored approach for each market and the ability to adapt their offering accordingly because each market is different.

Lombard Odier's investment philosophy: a diversified approach

At Lombard Odier, we believe that long-term financial returns will first result from well-thought asset and risk allocations and robust portfolio construction, and that distinctive investment objectives require specific and independent decision-making processes.

Core-Satellite Approach

One of the key anchors of our offering in Asia is in the conviction portfolio proposition, where assets are structured between a core liquid and diversified multi-asset portfolio, and satellite investments, which are additional investments that complement the core.

The core portfolio is managed with our proprietary risk-based process, a systematic investment discipline which aims at diversifying accurately a stable amount of risk investors are ready to put at work in the long-term. This allows investments to generate a regular flow of returns, truly consistent with the defined risk appetite.

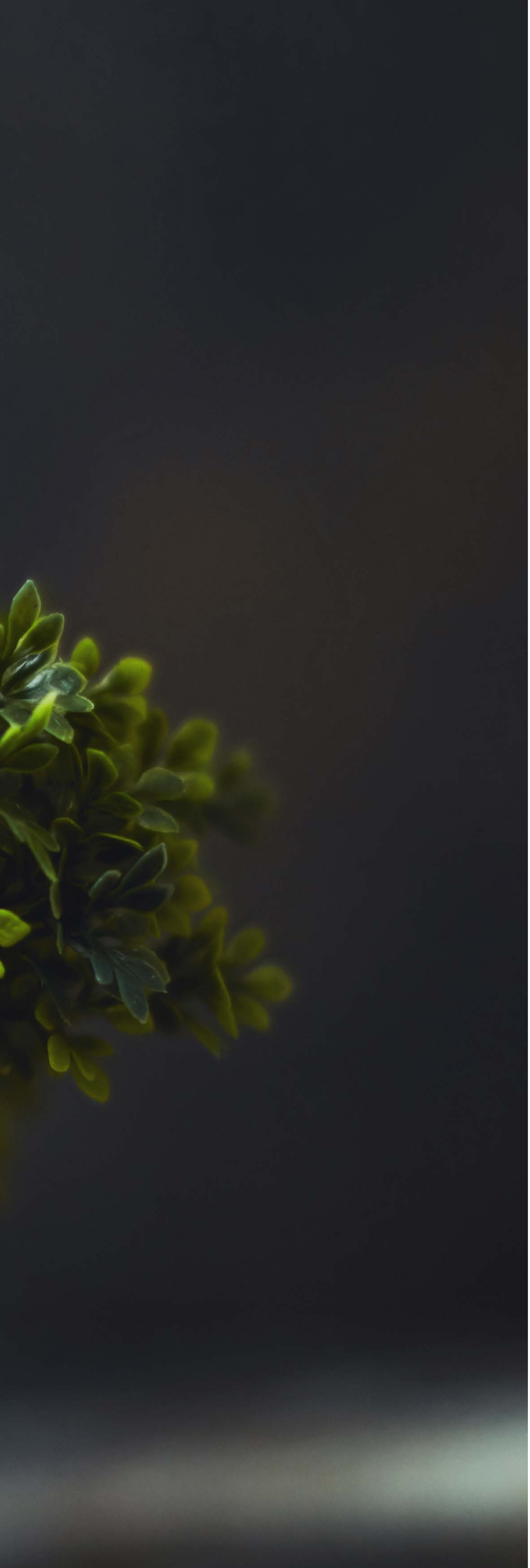
Aimed at a stable level of risk, regardless of market conditions, the core portfolio's objective is to generate long-term capital accumulation through a high level of effective diversification.

The satellites portfolio are additional liquid investments that complete the core portfolio. They provide one with the means to express investment convictions about short-term market opportunities and exploit these opportunities. They also allow investors to remain engaged in market changes and raise their overall comfort with the management of wealth in the long-run.

Diversifying to get the Best of Both Worlds

To further illustrate this approach, during the collapse of risky assets at the beginning of 2020, the core portfolio protected the overall portfolio due to better diversification and mitigated the losses from the satellites portfolio. When markets subsequently rebounded, the satellites portfolio enabled the overall conviction portfolio to benefit from its strong performance, which was structured around opportunistic exposures.

This combination of a core-satellite approach in our conviction portfolio proposition enables investors to exploit short-term return opportunities whilst keeping risk and long-term diversification under control.



Sustainability

- Raised Awareness
- Action Stations
- Who is doing What?
- Carbon Risk
- Women & Next Gens: Biggest Fans

Raised Awareness

The issue of sustainability has permeated almost all investment classes as a result of the climate change response and carbon transition, and Covid-19 has exacerbated this trend. It is therefore no surprise that sustainability is widely recognised as a key topic among HNW individuals.

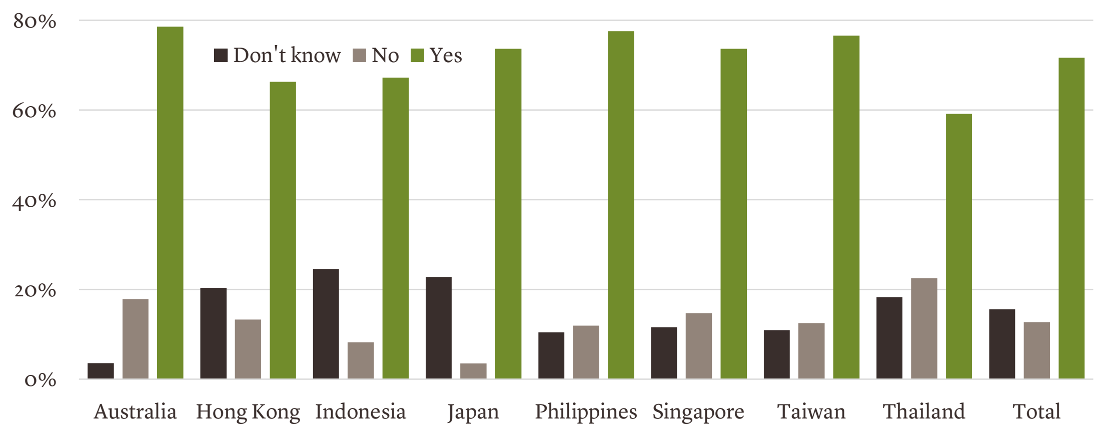
Concerns about the risks of climate change have risen sharply as scientists and others warn that time is running out to curb the rise in carbon emissions; and images of wildfires, flooding, drought and the resulting loss of biodiversity in parts of the world – including Asia-Pacific – bring home the urgency of the climate crisis.

In Southeast Asia, a survey[3] conducted by the ISEAS – Yusof Ishak Institute in Singapore in September 2021 revealed that 70% of respondents across the 10 countries of the Association of Southeast Asian Nations (ASEAN) recognise the importance of climate change, with 81% believing that their countries' food supply is threatened by it.

Meanwhile, countries have signed up to meet net zero emissions targets by various deadlines, and all markets are showing a high level of conviction (see chart 10).

Indeed, a resounding 88% of respondents to our study believe that the sustainability trend is here to stay, which is practically the same as last year's 89%.

10. % of investors that believe the new norm will be an accelerated (climate change / net-zero targets) response



Source: Lombard Odier

In the almost two years since Covid-19 emerged, awareness of and action to drive forward sustainable business models and lifestyles have made huge strides. Whether in relation to companies' own operations, their supply chains or through the financial system on which business depends for funding, sustainability principles have taken hold.

Investors have already started to scrutinise companies' environmental footprint, policies and practices, including through their ESG scores, a measure of performance in those key areas. About one-fifth of all assets worldwide[3] are now in funds that use some form of ESG criteria.

With 72% of respondents now expecting an accelerated response to climate change, compared to 52% last year, the pressure on companies and the market for sustainable investing will only get larger.

> "You can see that, across all Asian markets, the sustainability trend will accelerate in the coming years. This is where the world is heading from an investment perspective, and investors are increasingly embracing it," Sheila Chuang, Managing Director/Chief Exclusive Banking Officer, Taipei Fubon Commercial Bank.

The broad market for socially responsible and environmentally focused investment products is growing rapidly and is estimated at $35 trillion globally, and is likely to exceed $50 trillion by 2025, according to Bloomberg[4] Intelligence.

The ISEAS found that ASEAN respondents to its survey are generally confident that adopting climate change measures and policies will drive the innovation and competitiveness of their individual market's economy (respondents rated their confidence at 6.6 on a scale of zero to 10).

Deployment of capital to companies in transition is crucial to ensuring the move to a net zero economy and investors are speaking increasingly with one voice on the need to move rapidly. Investors controlling $40 trillion in assets across three organisations — Climate Action 100+, the UN's Principles for Responsible Investing (UN PRI), and the Net Zero Asset Owner Alliance — are working to see that portfolio companies act accordingly.

72%

of respondents now expect an accelerated response to climate change

[3] The-State-of-SEA-2021-v2.pdf (iseas.edu.sg)

[4] ESG assets may hit $53 trillion by 2025, a third of global AUM | Bloomberg Professional Services

Action Stations

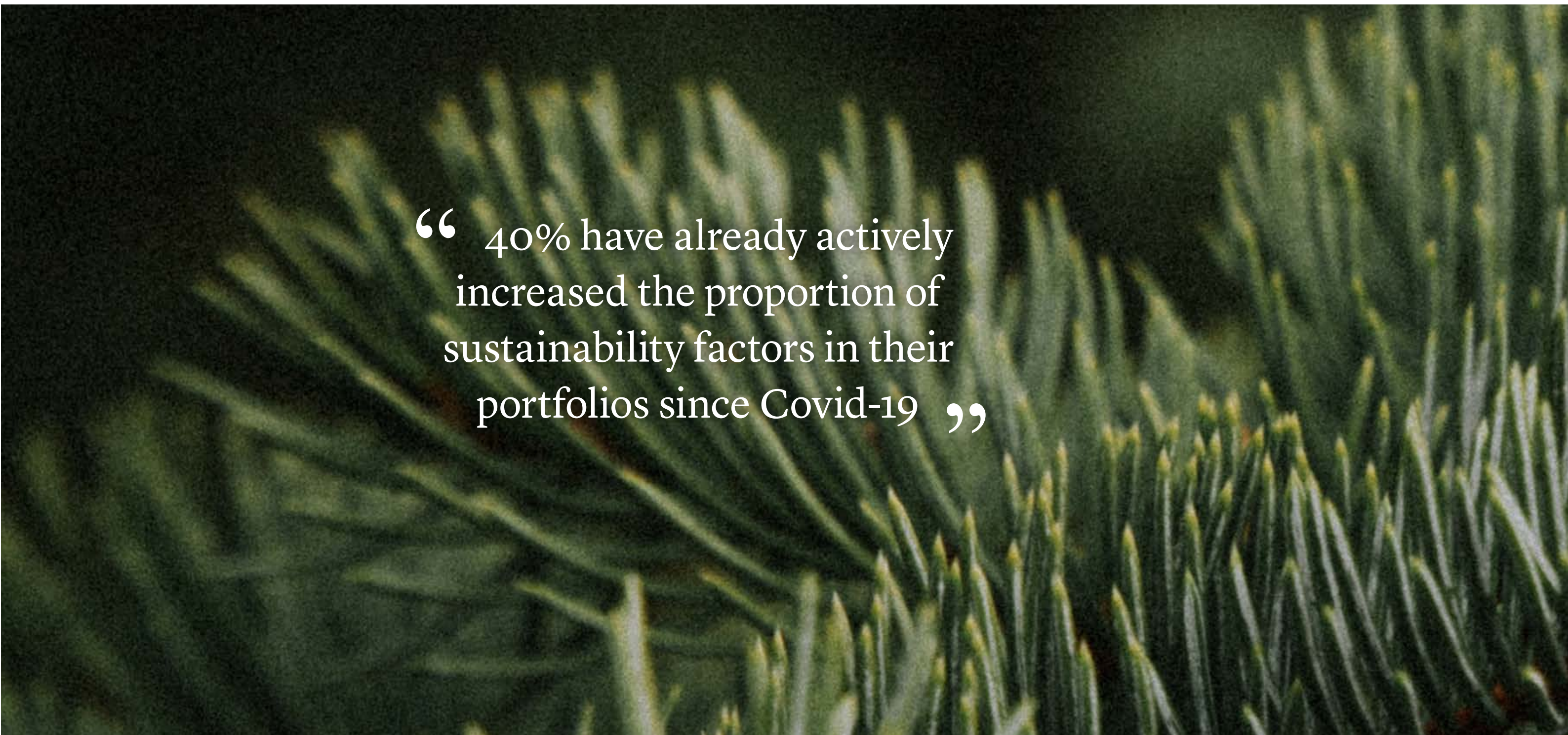
Chart 11 shows that investors are now more prepared to factor in ESG considerations when thinking about their portfolios, with 63% of respondents saying they took sustainability into consideration when making investment decisions (up from 61% last year).

Perhaps more importantly, 59% said they believe sustainability will generate superior returns, compared to 54% last year. The increase highlights how investors are now more positive about sustainability, not just as a world issue but also as an opportunity for investment.

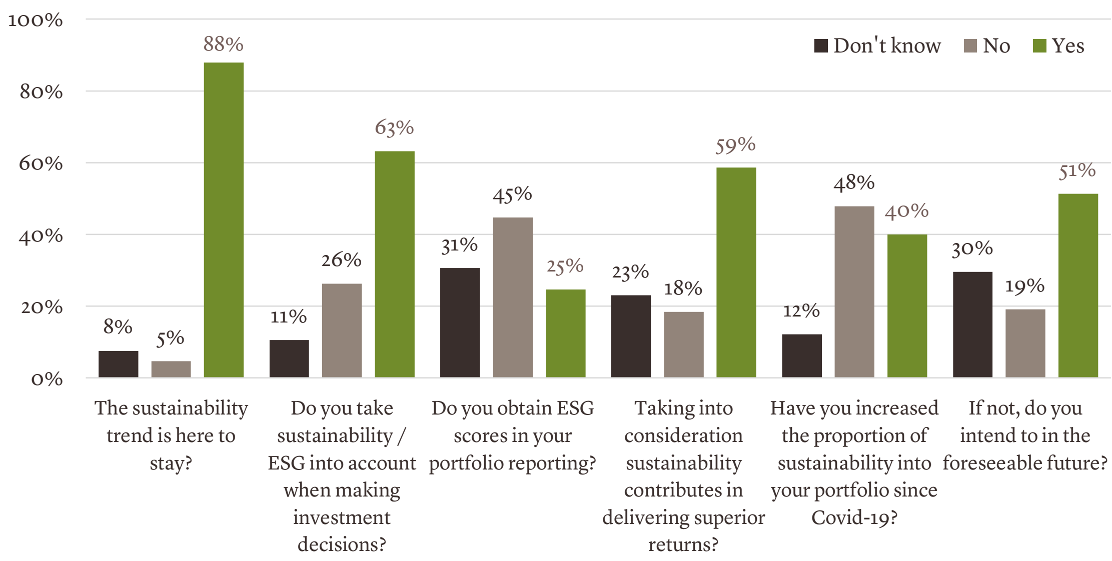
As a result, 40% have already actively increased the proportion of sustainability factors in their portfolios since Covid-19, up from 34% last year. 51% of those who have not acted yet intend to do so (44% last year).

In short, Asian investors are increasingly taking action on sustainability, more than last year, and the increasing trend will most probably continue in the future.

The next natural question is: where should the impetus and innovation come from to feed the appetite of investors?



11. Sustainability matters



Sources: Lombard odier

Who is doing What?

The common consensus among investors is that it is the responsibility of their bank to help structure, implement, monitor a sustainable portfolio and provide reporting that includes ESG/other sustainable metrics' scores (see chart 12).

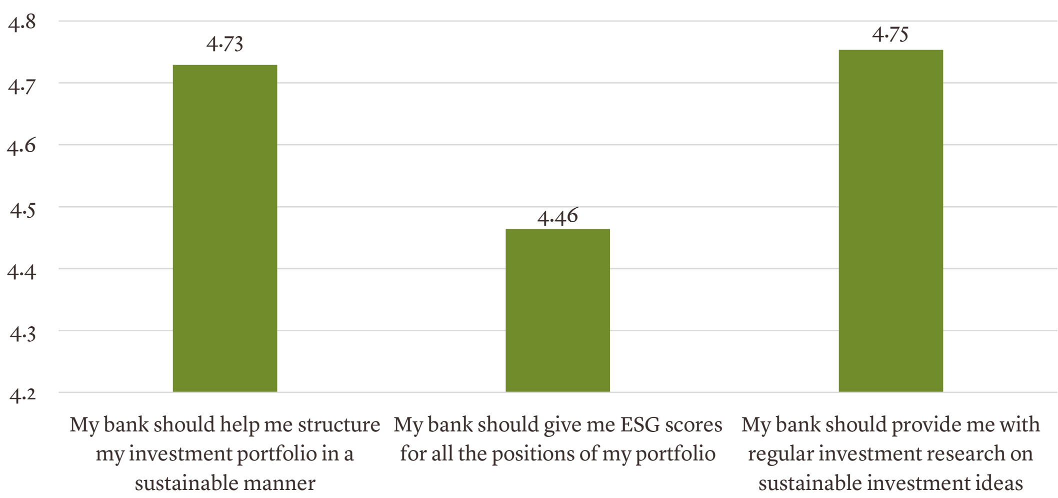
The study shows that, across the eight markets we interacted with, there was an expressed interest in understanding the carbon footprint of their portfolio, as well as improving it.

On the flip side, 60% of respondents said they had not actively increased the proportion of sustainability elements in their portfolios, and 49% of those said they were not intending to (see chart 11).

This highlights the pivotal dual role banks must play with their clients; that of providing clients with a full suite of sustainable investment opportunities and that of guiding clients who are not yet fully convinced of the need to align their portfolios. Banks must take up the mantel of stewardship, guiding clients as they take advantage of the sustainability revolution and the unique investment opportunity it represents.

Typically, there are differences among Asia-Pacific markets (see chart 13), even though all agree on the need to rely on their banks to support them in aligning their portfolios in a sustainability manner. Investors in Indonesia, the Philippines and Thailand clearly ranked higher in terms of bank expectations, which means that they rely even more on their banks to provide a platform and educate them on this topic.

12. Sustainability related services



Source: Lombard Odier

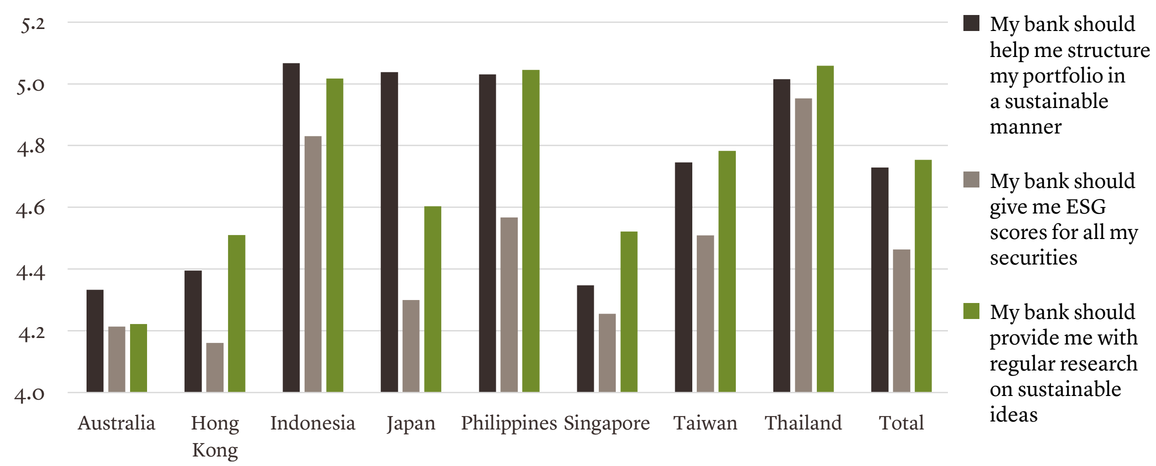
> "Banks can be an important bridge between investors and sustainable investing, particularly while the market is finding its feet. Not every investor needs the same level of advice of course but this is why the right relationship is key to managing a portfolio," Jirawat Supornpaibul, Private Banking Group Head, KASIKORNBANK Thailand.

The impact of pollution and climate change is felt more keenly in some emerging Asian countries, and so there is greater willingness from investors in those markets to seek options, even more when the availability of such options are rarer among local banks.

As such, despite sustainability being a recurring topic in the region, the area is still nascent and continually throws up counter-intuitive elements.

For example, established financial hubs like Hong Kong and Singapore, where there is a large push for sustainable investments, ranked lower than the region's average when investors were asked if their bank should provide them with regular investment research on sustainable investment ideas (see chart 13). Such hubs are more developed in terms of the identification and implementation of sustainability issues; investors price a bank's ability to deliver sustainability more as a commodity, even though a must have.

13. Sustainability related services



Source: Lombard Odier

Carbon Risk

Another quirk highlighted in our study is that, despite carbon transition driving much of industry's efforts to combat climate change and promote sustainable businesses, it appears that investors are not driven as much by this.

Where investors had to rank their concerns in terms of risks (see chart 8, page 18), carbon risk was the only risk that systematically scored lower than the other risks. More and more investors are convinced that taking sustainability into account in portfolio management will lead to superior return, but on the other hand carbon risk is the least taken into consideration by Asian investors.

This is possibly because of carbon risk not being seen as an immediate risk and threat to portfolios (as opposed to the more traditional risks of inflation and interest risk) compounded by the possibility that the potential impact on portfolio performance is not yet as well understood or communicated as the more traditional portfolio risks.

Again, there is a long path ahead for investors to get more educated and understand fully the opportunity behind sustainability, and the cost of remaining inactive. Banks' responsibilities are not only to provide a sustainability offering but also to continuously educate.

"

At Lombard Odier, our aims are clear:
to help investors decarbonise their portfolios, maintain diversification, deliver performance and drive the transition forward.
Hubert Keller, Senior Managing Partner, Lombard Odier Group

Carbon Net Zero: The Greatest Challenge but also the Greatest Opportunity

The race to a net-zero economy is one of the greatest challenges of our time. Carbon emissions must reach net zero by 2050 in order to limit global warming to 1.5°C. This remains the single most important component of the sustainability transition across all companies and industries.

At Lombard Odier, we believe we are at the dawn of the next great economic revolution, one where sustainability will be at the core of all investment decisions. There is an urgency to transition to an economy that is Circular, Lean, Inclusive and Clean – one we call the CLIC™ economy.

Efforts are gathering pace as over 125 countries have committed to net-zero targets, and the upcoming UN Climate Change Conference (COP26) takes place that is expected to lead to more ambitious governmental climate pledges and their translation into regulation.

A forward looking expertise

At Lombard Odier, our aims are clear: to help investors decarbonise their portfolios, maintain diversification, deliver performance and drive the transition forward. We have developed real carbon expertise, and as one of the early adopters of forward-looking perspective and metrics, we recognise the need to understand how well positioned a company's business model is for the transition ahead, and how these transitions can impact the financial exposure of our investments and portfolios.

Low Carbon Strategies: a red herring

Low carbon strategies that avoid rather than address the problem or the excessive use of carbon offsets and shorting high emitters, will not solve the problem. While these represent some of the common approaches taken by investors today, it is only by investing in reductions in the real economy that the transition can be accelerated and that is where climate opportunities lie.

Focus on the Transition Trajectory

We believe that companies on a positive trajectory to achieve carbon neutrality and manage transition risks will benefit from growth opportunities, premium valuations and cheaper and more plentiful access to capital. This is true, perhaps even more so, in higher-emitting sectors, given that the pressure these sectors are under to decarbonise can provide climate leaders with a significant competitive edge.

To implement this investment conviction, we assess not only the current emissions of a company or portfolio, but the necessary level of decarbonisation the company's sector must achieve, and evaluate whether a company's own trajectory is sufficient to meet these objectives. We also take into consideration the evolution of internal, industry and regulatory pressure that may lead a company to accelerate its climate commitments.

Implied Temperature Rise (ITR) metrics are one of the new tools available to investors to assess alignment. Using such metrics, a company taking significant steps to decarbonise might be found to be aligned with keeping warming limited to less than 1.5°C – the objective of the Paris Agreement – while a company lagging behind in its climate action might be found to be aligned to 3°C, 4°C or even 5°C of global warming.

At Lombard Odier, we invest in companies on the right trajectory to ensure our clients benefit from this revolution.

Women & Next Gens: Biggest Fans

Another finding in the study showed that female respondents are more convinced than male respondents that taking sustainability into account can lead to superior returns, with 68% for women compared with 54% for men (see chart 14).

This eco-gender gap has already been recognised in the media[5] and starts to receive attention from scholars, showing for example that women tend to be more eco-friendly than men, in their purchase decisions[6] or in their transportation behaviour[7].

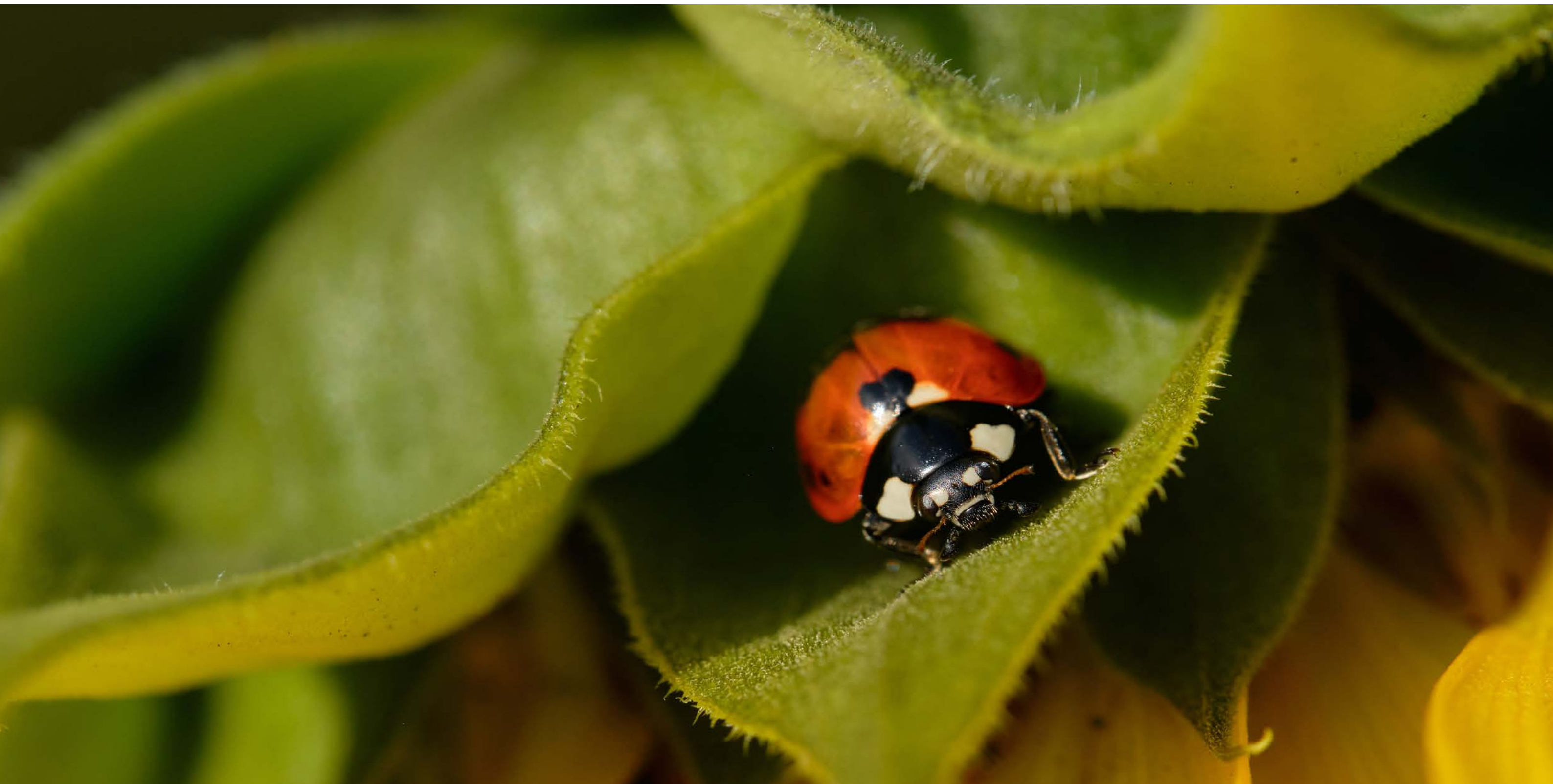
Also, there is a strong correlation between age and interest in sustainability. The older the investor is, the less interested they are in sustainability, and vice versa (see chart 15). The 18y-34y group is the most convinced about the necessity of supporting sustainability and applying its principles, followed closely by the 35y-50y group. This reinforces the idea that sustainability is deeply ingrained in Next Gen HNW individuals.

> "Engaging the next generation in the business has increased, while Next Gens are much more committed to sustainability than the previous generation. So, the link between the two is quite strong and we are seeing discussions around this." – Lee Wong, Head of Family Services in Asia, Lombard Odier.

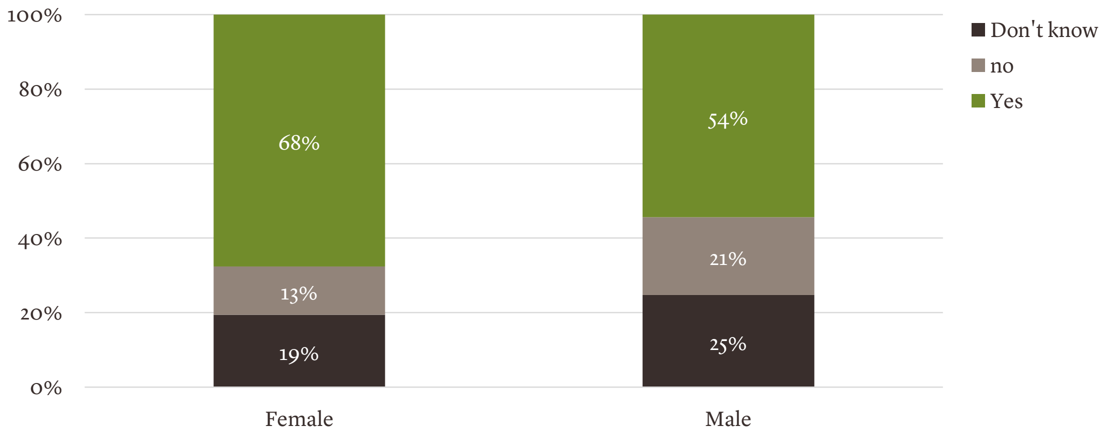
[5] See for example : The eco gender gap: why is saving the planet seen as women's work? | Green economy | The Guardian

[6] Is Eco-Friendly Unmanly? The Green-Feminine Stereotype and Its Effect on Sustainable Consumption. Brough A. et al., Journal of Consumer Research, Vol 43, 4, 2016.

[7] Are women greener than men? A preference analysis of women and men from major German cities over sustainable urban mobility. Kawgan-Kagan I., Transportation Research Interdisciplinary Perspectives, Vol 8, 2020. Consumer Research, Vol 43, 4, 2016.

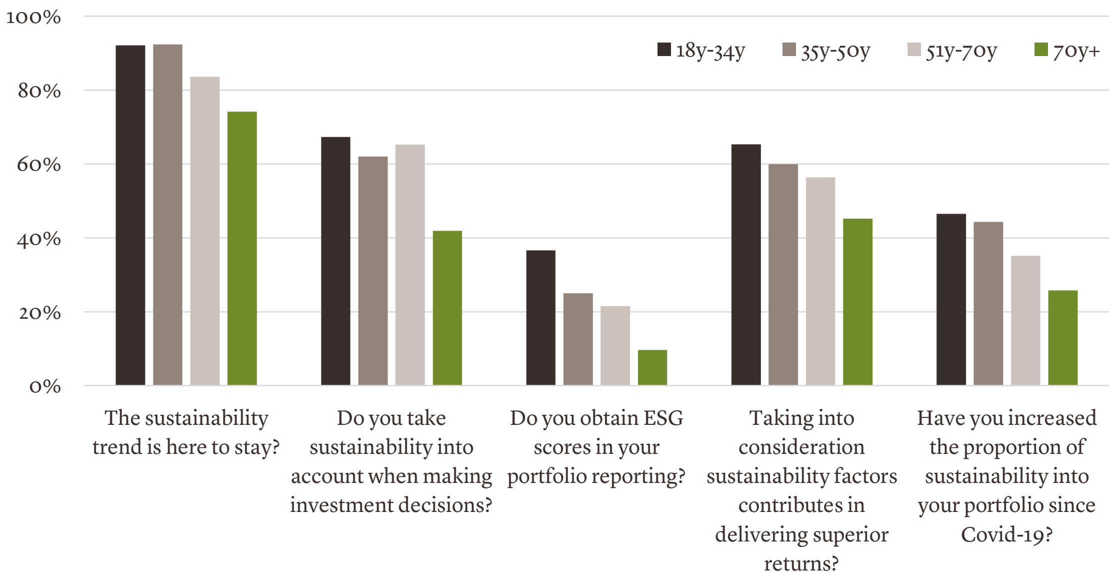


14. Do you believe that taking into consideration sustainability factors can contribute in delivering superior returns?



Source: Lombard Odier

15. Sustainable investment



Source: Lombard Odier

Family Matters

› Rethinking family in the middle of Covid-19

› Entrepreneurs

› Prime Movers

Rethinking family in the middle of Covid-19

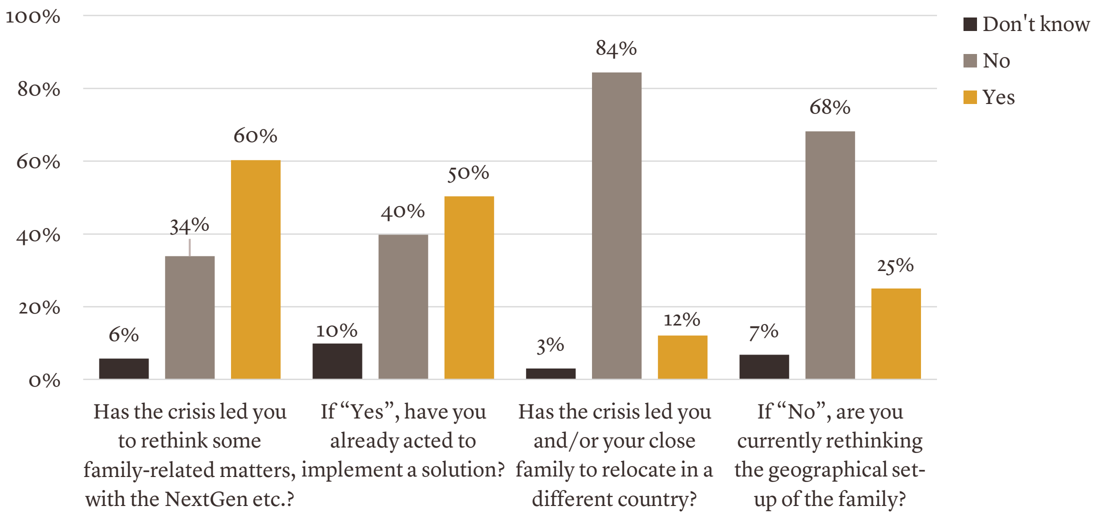
The subject of Next Gens and the various generations of decision-makers takes us into our last category, highlighting the issues facing family and wealth succession. Covid-19 has had a profound impact on all families globally, with work life transformed and schooling for children severely disrupted to varying degrees. On top of this has come an intense concern for loved ones that may be separated by social distancing and travel restrictions.

> It is only natural that the pandemic has led to a great deal of soul searching and even a rethink of the things that matter most, balanced by the necessities of work life and, in terms of our study, business needs.

As such, 60% of respondents across the eight markets stated they have rethought some family-related matters since the beginning of the crisis, but only half of those respondents implemented a solution, meaning 70% of HNW respondents have not yet implemented or revisited any solution for their family set-up (see chart 16). This gap is an important one and underlines how critical it is for banks to be proactive in further educating clients on family services and the importance of structuring their family governance and other family related matters in a meaningful way.

As part of this, a defining issue during Covid-19 has been the differences of rules and regulations between countries, and their fluidity, which have often left people stranded in one form or another. Banks can therefore play a pivotal role in reassuring clients in terms of their options and the timing of potential moves.

16. Family services



Source: Lombard Odier

Entrepreneurs

When focusing on entrepreneurs that participated in the study, including Family Businesses, key differences emerge across markets.

All markets except Japan have seen their entrepreneurs rethink family related matters and structure to a large degree (see chart 17).

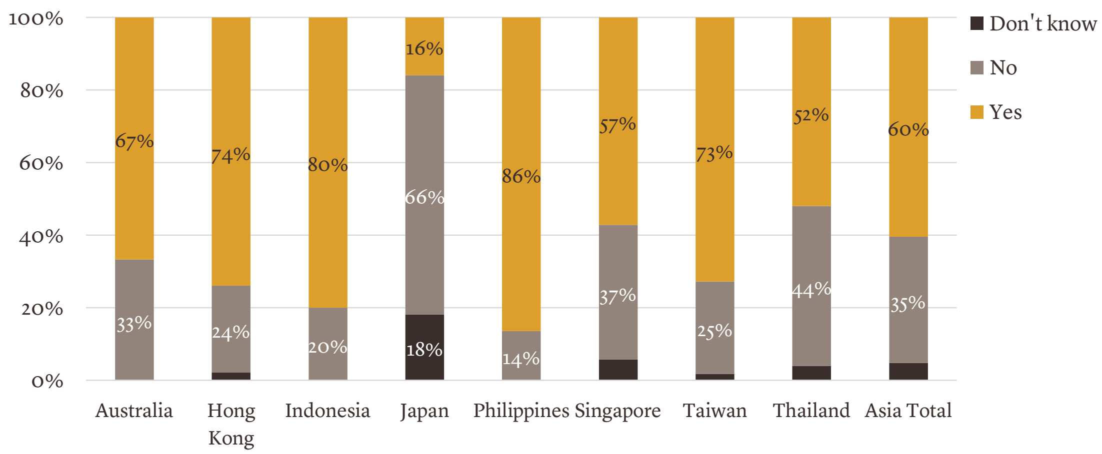
On one hand, some Japanese family businesses, with already several generations behind, did not necessarily feel the need to rethink their structure, as they already had a mature one in place. But overall, Japanese investors are lagging significantly behind (see charts 17 & 18). At the same time, when you look at criteria important to Japanese investors when choosing a bank, Family Services is in the top five (see chart 19). This means that, while most Japanese investors have a long way to go to embrace family services, they understand the importance of it and expect their bank to proactively reach and guide them.

On another hand, investors in Indonesia and the Philippines were not very advanced in having their family matters structured before Covid-19, and it pushed them to both actively rethink their family matters and implement a solution (see charts 17 & 18).

Besides, only 37% of Thai investors that rethought their family set-up implemented a solution, which means the other half has done nothing. The trigger to action for Thai investors who have not acted, and more generally for investors in Asia-Pacific with no structure in place, will be their banks' proactivity in highlighting the benefit and necessity of family matters.

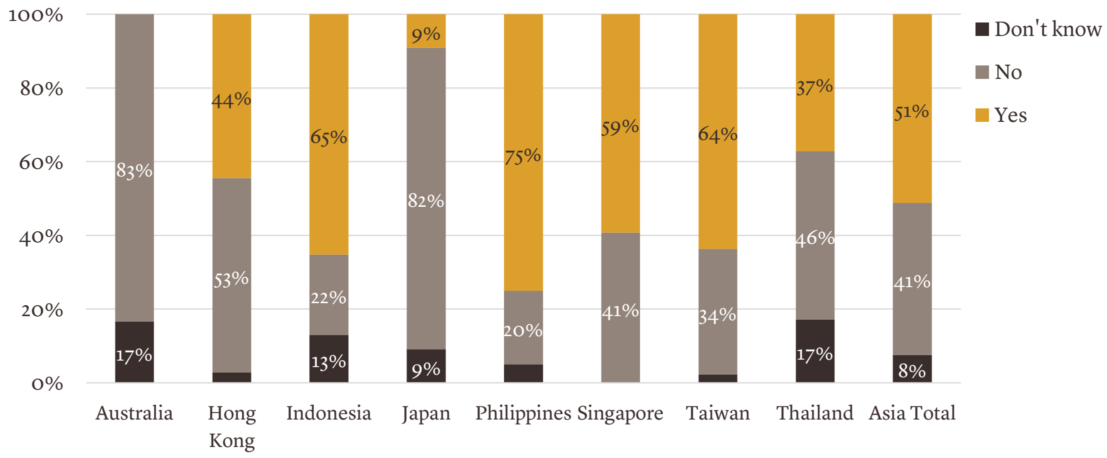
Banks need to bring their local expertise to investors in Asia-Pacific in order to help them find the appropriate solutions, and this will imply educating and supporting investors on this path.

17. Entrepreneurs/Family Business: Has the crisis led you to rethink some family-related matters, with the NextGen etc.?



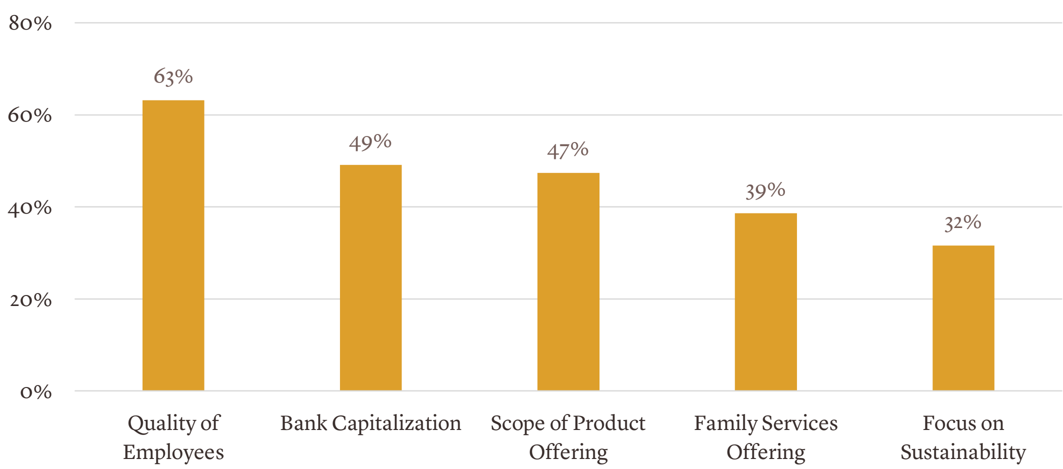
Source: Lombard Odier

18. Entrepreneurs/Family Business: If "Yes", have you already acted to implement a solution?



Source: Lombard Odier

19. What Japanese investors look for when choosing a bank



Source: Lombard Odier

Prime Movers

The study brought an interesting finding: not many investors have relocated since the beginning of the crisis, but "many" are thinking about it – as many as 40% of Singapore-based respondents, 34% of Thailand's respondents and 32% of the Philippines' respondents (see chart 20).

> "Covid-19 was and is a humanitarian crisis first, which has also sparked a global economic downturn. Investors are human and therefore these times represent a real life-defining moment for many. The health of you and your loved ones is at the top of everyone's mind," Yuichi Kagawa, Head of Wealth Management, Mizuho Securities (Singapore).

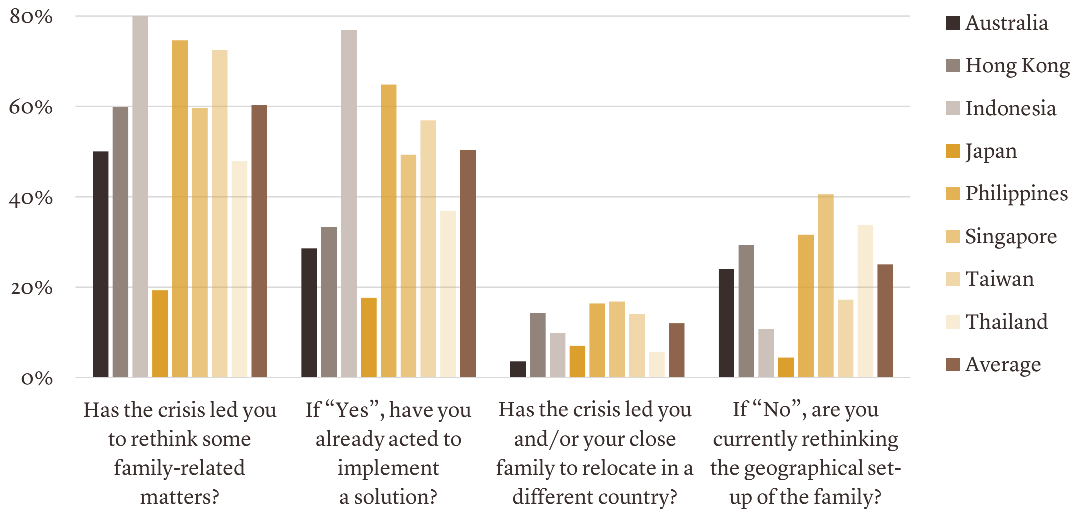
The main question this raises is the following: as a bank, how will you retain a client if he or she relocates to another country, market or jurisdiction? Will you be able to retain this client? What if a third of a bank's client base relocated? This would imply a significant impact on business.

For many, geographical mobility remains high and even if travel is still limited, the ability for HNW families to move from one country to another is still feasible.

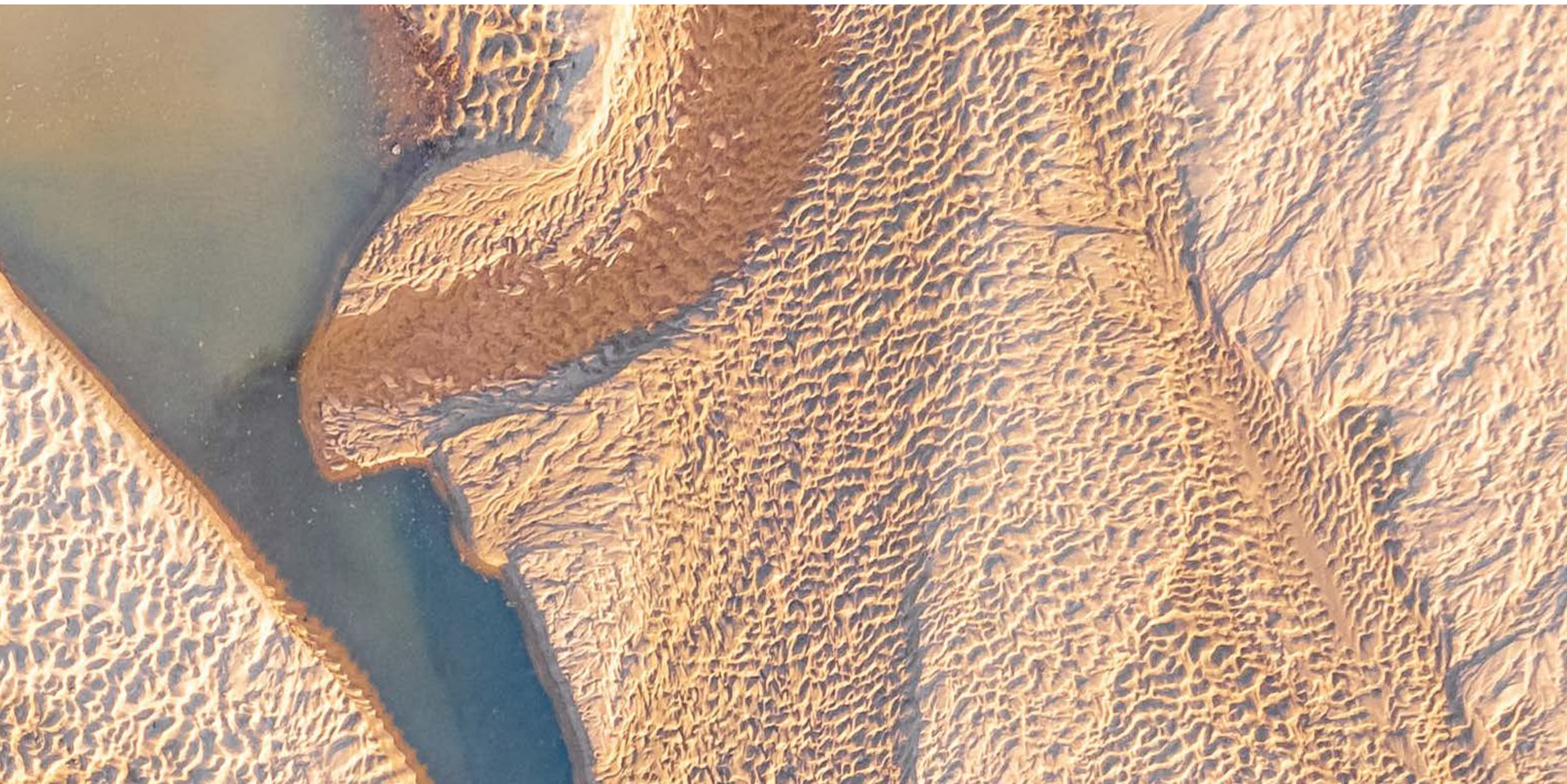
The key for banks to be able to retain geographically mobile clients, is to have a value proposition which is compatible with clients' multi-jurisdictional set-up.

A bank that is able to continue advising a client from its domestic country regardless of the client location will have a considerable competitive advantage compared to the bank whose reality is purely onshore.

20. Family matters (% of yes)



Source: Lombard Odier



The last word

If one thing is certain from the findings of our study, it is uncertainty. In one sense this is nothing new. As George Soros once said: "Markets are constantly in a state of uncertainty and flux, and money is made by discounting the obvious and betting on the unexpected."

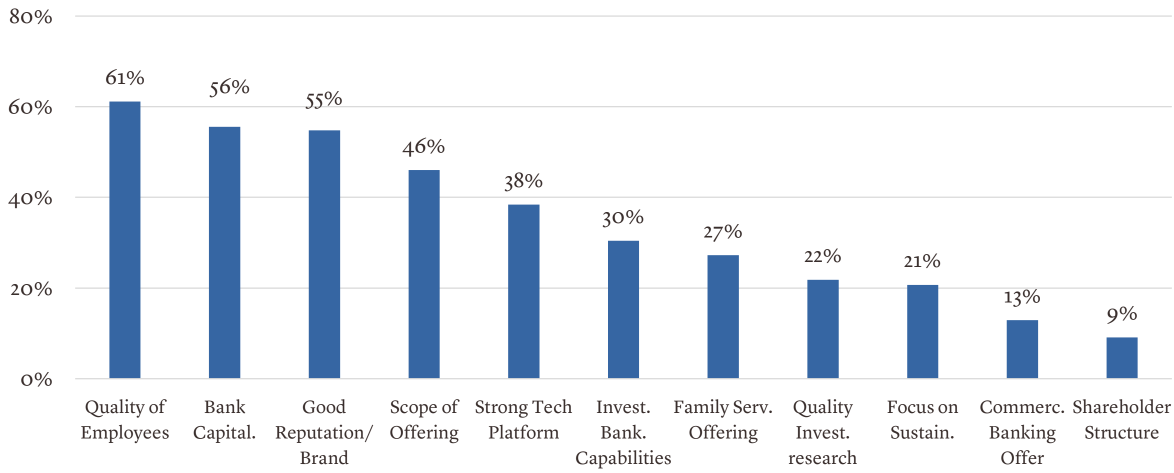
However, we are living in unprecedented times, and in many cases we are not out of the woods yet – in fact, we are still not certain of how big the forest is. Most countries have begun to re-open following the pandemic, but others are aiming for zero-Covid-19 cases, which is likely to delay the full emergence from the crisis. In this environment, the level of complexity and divergence of markets has increased. As investors and economies have been forced to look inwards, it must have an impact on how they look outwards in the immediate future.

On top of this, sustainability and the race to net zero emissions is adding more diversity to investment opportunities while holding companies to account for how they do business in the world.

> "This may represent the single biggest investment opportunity going forward, bridging the gap between companies, investors, governments and science. When more investors worldwide recognise that investing in climate and investing in the transition to a net zero economy does not harm their portfolios but actually contributes to performance, that is when the many billions and trillions needed to finance the transition will be mobilised."
>
> Hubert Keller, Senior Managing Partner, Lombard Odier Group

Amid this intrigue, succession and the handing over of wealth from one generation to another is even more important than usual. As our study findings show, one generation has very different ideals and motivations

21. Which of the below factors are essential for you when working with a private bank today? (% of yes)



Source: Lombard Odier

than another, which is particularly true when it comes to sustainable investing.

Seeking the right advice during these times is vital, which is reflected in our study. At a global level, the four most important criteria for investors when choosing a bank are the same as last year, confirming investors' new expectations towards their private bank.

Among the criteria highlighted by investors as being key when choosing a bank (see chart 21), quality of employees is the most important, the same as last year's study, followed by bank capitalisation and good reputation (Brand).

It is clear from this that corporate culture and people are key, and this is also what differentiates private banks from a purely online digital platform. Human interactions matter, we had the confirmation since the crisis started, and we all miss it to a certain extent. The robustness of a bank's balance sheet also matters because it will allow the bank to remain resilient and provide confidence to investors while going through these volatile times.

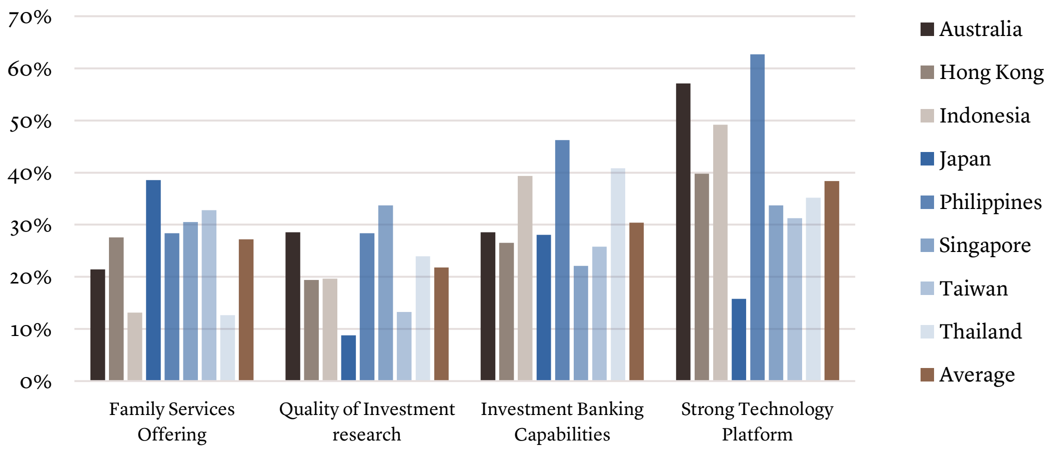
Of course, each country is different, and we see significant differences in the criteria from one country to the other (see chart 22). This shows that, ideally, a bank needs to have a different business model to cover each and implement respectively a bespoke value proposition.

For example, Japan scored lower than all other markets on a "strong technology platform" being essential when choosing a bank, but "family services" was more important than for other markets. For Indonesia, it was nearly the opposite.

The bank of today, and even more so the bank of tomorrow, will need to be adaptable, flexible and able to offer solutions in more than one reality. Covid-19 has reinforced that every country has its own reality and these realities will still need to interlink.

This is where a private bank can play a fundamental role: by providing clear advice, embracing sustainability, and offering solid ground in a world of shifting sands.

22. Criteria deemed important by investors when choosing a bank, and with significant differences of choice between markets



Source: Lombard Odier

Methodology and acknowledgements

Purpose

The purpose of this study is for Lombard Odier Asia and its 6 Strategic Alliances and close partners that participated to create a channel of communication that allows us to listen to a key segment of clientele: high net worth individuals (HNWIs)[8].

This study follows another Lombard Odier conducted in 2020 that surveyed more than 150 of Asia's UHNW individuals and leading families to better understand how the pandemic 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 Australia
KBank Private Banking
Mandiri Private
Mizuho Securities (Singapore)
Taipei Fubon Bank
UnionBank Private Banking

[8] 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 19 online questions that covered a wide range of topics including Investments, Sustainability and Family Matters.

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

620 HNWIs[8] was selected, gauged as representative samples of the HNW population in Asia – Pacific.
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 and close partners domiciled in Australia, Indonesia, Japan, the Philippines, Taiwan and Thailand.
A minimum of 30 HNWIs per market participated in the study.
Participants living outside Asia–Pacific have been excluded in the results.

Study period

The study took place between July to August 2021.

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 352[9] billion Swiss francs under management and are one of the largest private banks in Switzerland and in Europe.

For over 220 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 wouldn't 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 over 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[10], while taking international implications into account.

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[9] Source: Lombard Odier – Financial highlights as at 30 June 2021.

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

Contacts and further information

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“What the study uncovers is that while the various markets generally reflect similar trends, there are distinct differences between each market – some more nuanced, some more pronounced. This is a reflection that the demands and needs of HNW investors in each market require different approaches and solutions. Going global while being local. Glocalisation has never been as important as now.”

Vincent Magnenat
Limited Partner and Chief Executive Officer, Asia
Lombard Odier