

European High Net Worth 2008

September 2008

Has the European wealth bubble burst?

The number of high net worth individuals in the EU fell by 5.2% in the first half of 2008 to reach 2,617,400 in July 2008 (in local currency terms).

Given the slowdown in economic activity across the EU and the weakness in commercial and retail property values, the decline is lower than had been expected and in part is due to a sharp increase in cash and low risk assets held in HNW portfolios.

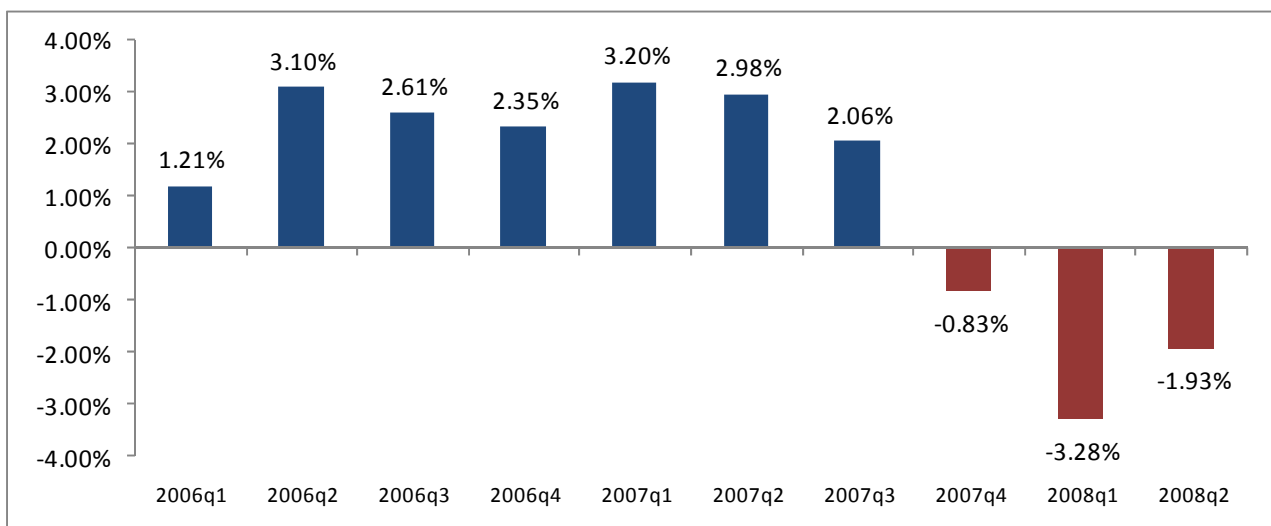
Not all regions of the EU experienced this decline. In Western Europe HNW numbers have fallen by 5.6% with the UK, Ireland and France the worst affected. The HNW sector in Southern Europe has fallen by 6.9% with Spain and Italy suffering largest reduction in HNW numbers.

In contrast, the HNW sector in Central Europe continues to grow, albeit at a slower rate, with Poland and the Czech Republic seeing HNW growth in excess of 4%.

Highlights

- The number of high net worth individuals in the EU fell by 5.2% in the first half of 2008 to reach 2,617,400 in July 2008. The largest reductions in HNW numbers have been seen in Ireland, Spain, Italy, France and the UK.
- Wealth in Central Europe continue to grow, with Poland and the Czech Republic seeing HNW growth in excess of 4% during the first half of 2008.
- Across the EU HNW individuals have increased their holdings of cash or low risk assets by an average of 14.7%.
- As yet , falling property prices and tighter credit availability have had limited impacts on the HNW sector.
- In constant Euro terms, the EU HNW sector has fallen by 6.4%

Figure 1 - EU HNW Quarterly Growth 2006 - 2008 (local currency basis)



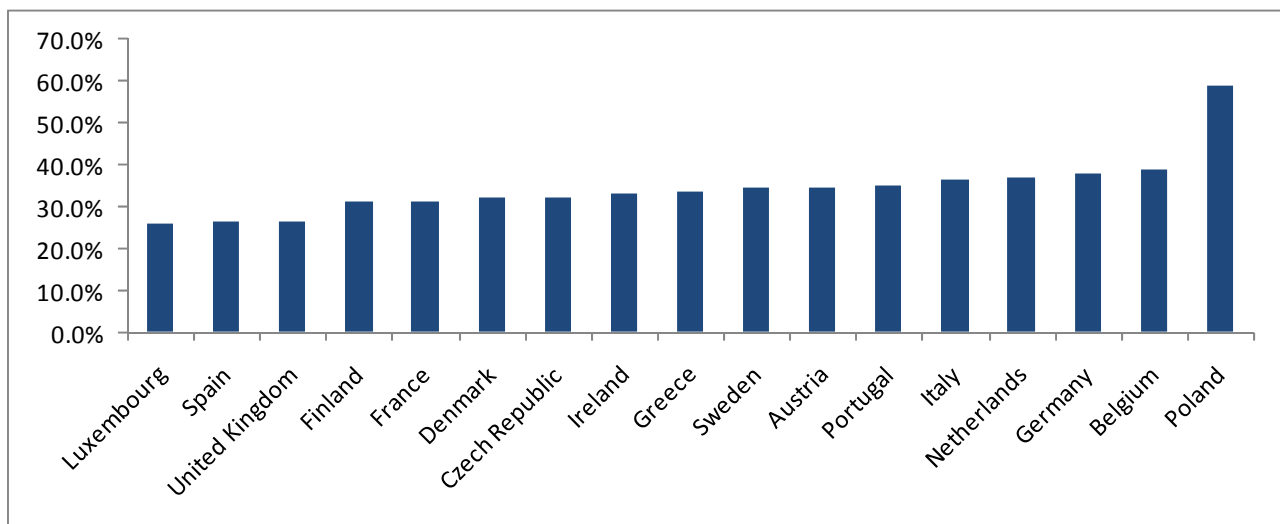
The move to a lower risk environment

In the last quarter of 2007 the HNW sector in the EU fell by 0.83%. The sharp decline in asset values and the slow down in economic activity seen in the second half of 2007 put a brake on HNW growth, and in the fourth quarter of 2007 there was the first quarterly decline in HNW numbers since 2002. In the first half of 2008 we have seen difficult economic climate crystallise into reductions in GDP growth across the EU, reductions in commercial and residential property prices in many EU states, lower consumer spending and a sharp fall in financial asset prices across the region.

Given the magnitude of the problems in the major EU economies, a reduction in personal wealth creation is inevitable. However, our research suggests that the fall in the number of HNW individuals in the EU is lower than many commentators expect. Research conducted by MDRC in June has found a number of common themes factors across the EU :

- Most HNW individuals (and their advisors) re-aligned their portfolios to the mitigate some of the effects of the economic climate. In particular they have increased the allocation of cash and low risk assets by an average of 14.7% . Across the EU the most popular changes have been to increase holdings of money market funds, corporate or government bonds and, of course, cash.
- In contrast, investments in emerging countries (esp. BRIC countries) have been reduced in favour of better known “blue chip” local companies. Similarly, HNWIs are concerned about some investments in some opaque products - particularly in some hedge funds.
- Falling property prices have yet to have a significant impact on the HNW sectors in most countries - but there are exceptions.
- Consumption of financial assets has slowed. Our research has found that many HNW individuals have postponed significant expenditure plans until the economic outlook is more certain. Our discussions with architects across the EU, suggest many of the HNW are delaying major expenditure on redeveloping or re-modelling their homes. Sales of yachts, powerboats, light airplanes and luxury cars have also fallen sharply over the past 6 months.
- Entrepreneurs across the EU are still able to expand (or sell) their businesses, albeit with more modest expectations and with less generous finance.

Figure 2 - % of low risk assets in HNW portfolios



Currency impacts

Our analysis has focused on the change in the number of HNW as measured in the local currency in each country. This provides an internally consistent view of the HNW sector and is most value to the wealth management businesses of operating in each country. However at a macro level on Euro basis the EU HNW segment shows a fall of 6.41%.

States the reduction in the number of individuals qualifying as HNW has been around 4%.

Only in Central Europe has there been continued momentum in the HNW sector, with both Poland and the Czech Republic seeing growth of HNW individuals in excess of 4.5% in the first half of 2008 - in local currency terms (rather higher in Euro terms).

Regional variation

As shown in the table below, there is wide variation in the change in HNW numbers by region.

Region	HNW growth H1 08
Western Europe	-5.61%
Southern Europe	-6.88%
Scandinavia	-4.06%
Baltic States	-3.79%
Central Europe	4.31%

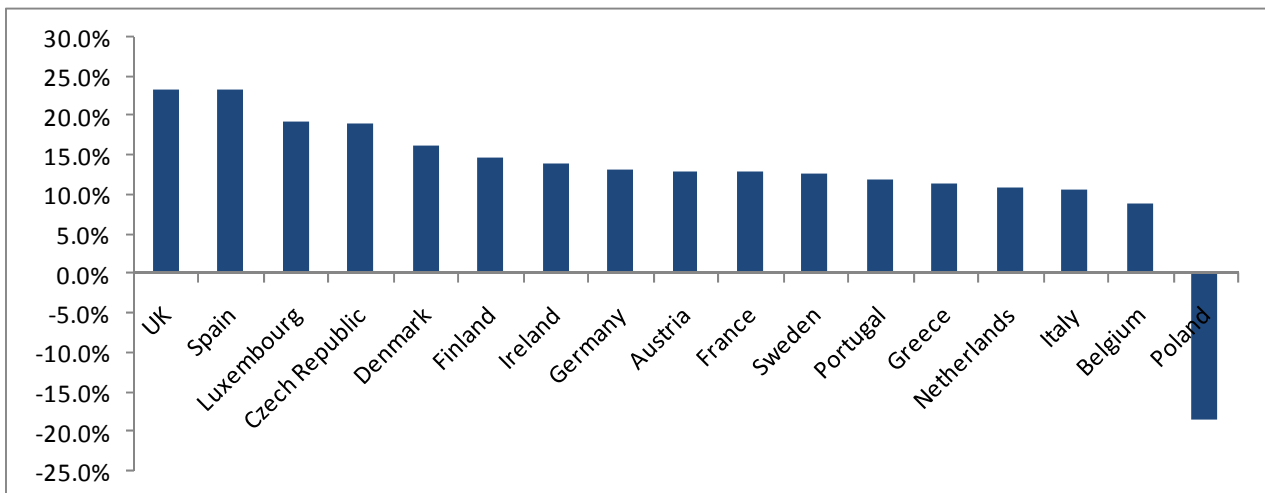
The UK - a special case?

The UK has the largest HNW sector in the EU. However, since 2005 over 55% of the growth in this sector has been driven (directly or indirectly) by remarkable increases in domestic property prices and the UK's success in financial services. The dramatic change of economic circumstances in the first half of 2008 has caused a significant fall in the number of HNW in the UK and it seems probable that the UK HNW sector may now see lower growth than the EU average in the short/medium term.

The steepest fall has been in Southern Europe where the impact of falling asset prices, very low economic growth, a volatile property market **and** continuing high personal consumption has resulted in a 6.9% fall in HNW numbers. In Western Europe the fall has been 5.6%, while in Scandinavia and the Baltic

There is considerable uncertainty around the potential impact of lower property values and more expensive borrowing on the HNW, and based on analysis of previous economic readjustments we believe that it may take 18-24 months for any impact to become apparent. However, the reduction in financial services activity is likely to be felt in the short term - particularly at the higher wealth bands.

Figure 3 - % change in low risk assets in HNW portfolios



MDRC (Market-Dynamics Research & Consulting Ltd) is a management consultancy dedicated to maximising value to its client firms. MDRC delivers high value solutions through small, experienced teams working with clients in the pursuit of innovative solutions. MDRC's core skills are in strategy consulting, marketing and product development, client retention, and strategic research.

MDRC's areas of interest are the high net worth (HNW) markets in Europe, particularly the UK, and the wealth management, private banking, insurance and investment business that seek to serve high net worth individuals. Our clients range in size from the largest US and European Banks, to businesses with fewer than 10 employees. We undertake a wide range of client specific assignments using well-established value based frameworks. The MDRC team provides our clients with cost effective support and assistance in practical strategy formulation and implementation.

To support our work in the EU HNW sector we have developed unique market models, with a knowledge base derived from conversations with many hundreds of high net worth individuals each year. These individuals come from a broad spectrum of behavioural segments, risk appetites and wealth values. We believe that our market model and knowledge base is a very accurate proxy for the total EU wealth market.

MDRC Ltd
Abbey House
Wellington Way
Weybridge
Surrey KT13 0TT

info@mdrc-global.com
+44 (0) 1932 268 475