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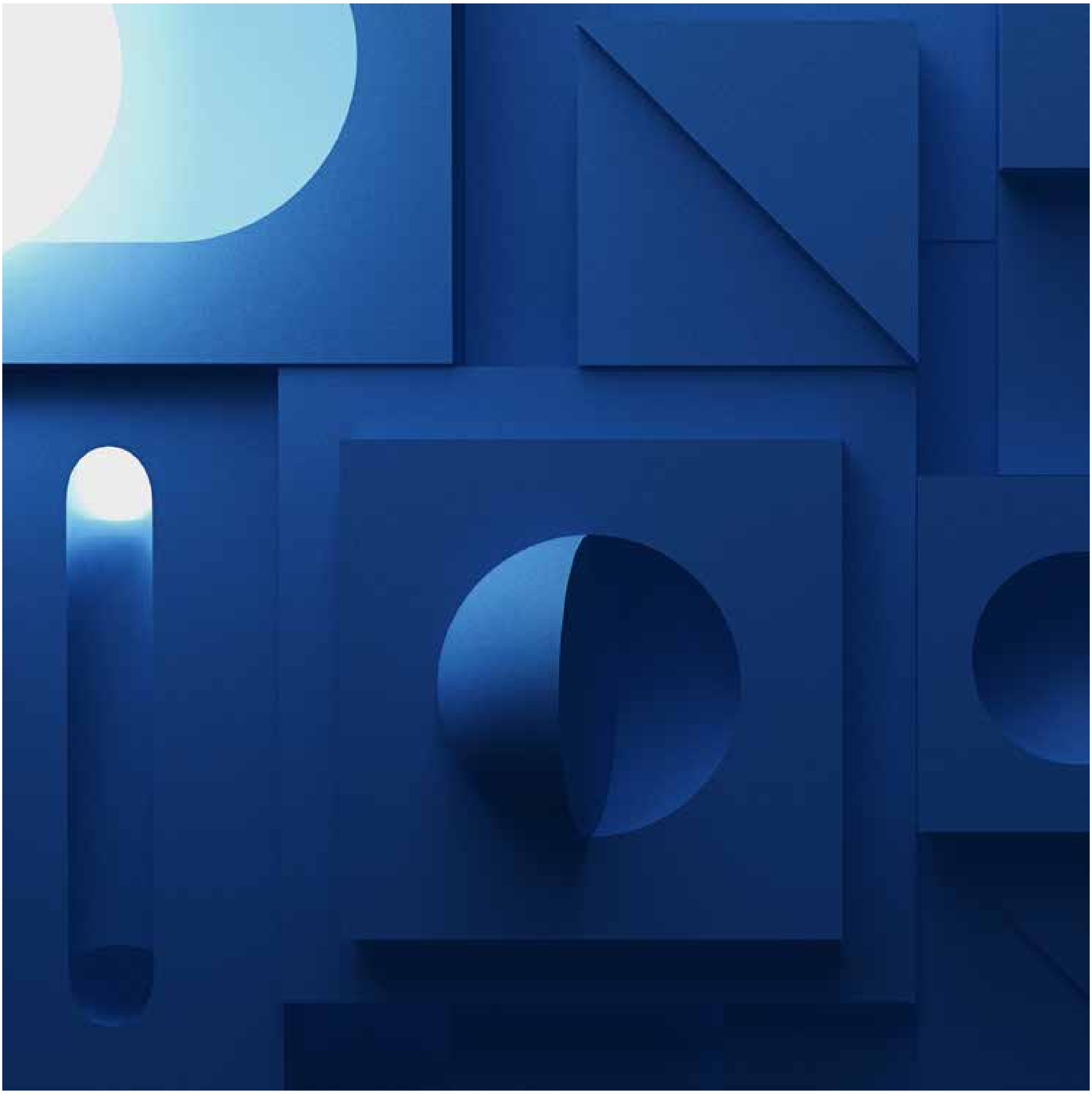
2021 State of Wealth Report



HNW & UHNW Individuals Research Report

CORE DATA research

CONTENTS

FOREWORD

Dear Reader,

Crestone Wealth Management is proud to present the third annual 2021 *State of Wealth* report findings. Produced in conjunction with independent researchers CoreData, the report brings valuable insights to better understand the motivations, decisions, and aspirations of Australia's high net worth individuals (HNWIs) and ultra-high net worth individuals (UHNWIs).

Readers will see an evolved understanding of discoveries first made in the inaugural *2019 State of Wealth Report*. This includes the notion of 'risk-averse, risk-takers', a tag applied to high net-worth (HNW) and ultra-high-net-worth (UHNW) individuals who do not always apply sophisticated reasoning to their investment decisions.

The COVID-19 pandemic led many to re-evaluate their financial strategy. We have seen changes in investment advice and asset selection behaviour, with a bigger focus on diversification, philanthropy, sustainable investing - and overall increased uptake of professional financial advice.

The wealth paradox is still real, but HNW and UHNW individuals are learning. Cash, Australian equities, and residential property remain the top three investment choices, but there have been lessons learnt since 2019.

HNW and UHNW investors have responded to investment market gyrations, as many are diversifying or planning to diversify their investments into other asset classes after a volatile period. We also see a majority of HNW and UHNW individuals willing to deviate from their initial investment plan.

The global pandemic and increased economic and financial risk may be the catalyst that has prompted investors to seek help with their wealth management.

The ambitions of wealthy individuals have not changed. Modest ambitions of saving for retirement or providing for one's family remain paramount. This includes the intergenerational transfer of wealth - which for some can be complicated. There has been an increasing trend of 'doing good' as we also see an increased intention towards philanthropy and sustainable investing.

It seems that many HNW and UHNW individuals are optimistic about the Australian and global economies. Intention to invest has risen in every asset class, and that's due to the combination of optimism and intention to diversify. Many feel that the worst of the pandemic is over and that it can't possibly return to the predicament that we faced in 2020.

However, it's important to remain grounded. The pandemic isn't over and despite positive signs, there remains risk.

This 2021 *State of Wealth report* draws upon research that is the most extensive of its kind in Australia. We would like to thank all the HNWIs and UHNWIs who participated and made this report possible.

Yours faithfully,

Clark Morgan
Vice Chairman &
Head of Strategy and Development
Crestone Wealth Management

EXECUTIVE SUMMARY

The goals of Australia's wealthy have not changed but 2020 has been a lesson for many

Crestone's inaugural 2019 State of Wealth Report revealed that high net-worth (HNW) individuals are not always sophisticated investors, often classified as risk-adverse risk takers and have typically focused on retirement and succession goals. This year's edition of the report has seen all of these points to be true. However, there are a few caveats.

This year's research has seen dramatic shifts in key areas. The COVID-19 pandemic led to many revaluating their situation and we've seen changes in investing behaviour and wealth management. There is a bigger focus on diversification, philanthropy, sustainable investing and increased uptake of professional financial advice.

The wealth paradox is still real, but HNW individuals are learning

We see in this research that the wealthier an individual is, they tend to be more engaged and enjoy investing more, but that doesn't necessarily mean they are a more sophisticated investor. Cash, Australian equities and residential property still remain the top three investment choices but there have been some lessons learnt since 2019. A lot has happened in that time most notably the COVID-19 pandemic, which has seen incredible volatility in markets around the globe.

HNW investors have responded. While their top three asset classes have not changed, we have seen a trend towards more diversification. In an environment with near zero cash rates and term deposits in Australia, leaving large amounts of cash to be devalued by inflation is unwise. That's potentially driven by an increased uptake in financial advice among wealthy Australians.

Risk-averse risk takers in action

As we touched on the previous report, it's often assumed that HNW individuals achieve their wealth by being risk takers. While some do have higher risk appetite than others, the majority have remained wealthy by being cautious, relative to their own perception. We have seen this behaviour in action as many are diversifying or planning to diversify their investments into other asset classes after a volatile period. We also see the majority of HNW and ultra-high-net-worth (UHNW) individuals are willing to deviate from their initial investment plan.

But they still rely on what's familiar. Arguably, their portfolios are still not as diversified as one would like, retaining a strong reliance on cash, Australian equities, and residential property.

Retirement and succession focus

The ambitions of wealthy individuals have not changed. Modest ambitions of saving for retirement or providing for one's family remain at the top. This includes the transfer of wealth between generations which, for some, can be a complicated process. There has been an increasing trend towards "doing good" as we see increased intention for philanthropy and sustainable investing.

> *"This year's research has seen dramatic shifts in key areas"*

Increased uptake of financial advice

We're seeing improved financial behaviour, such as increased diversification and formally documented investment plans and wealth strategies. We're also seeing increased uptake of professional financial advice. This is not a coincidence - the pandemic and increased threats to financial security may have been the instigator that has pushed many over the line to seek help with their wealth management.

> *"The pandemic and increased threats to financial security may have been the instigator that has pushed many over the line to seek help with their wealth management"*

Optimism for the future

It seems that many HNW individuals are feeling optimistic for both the Australian and global economies. Intention to invest has risen in every asset class, and that's due to a combination of optimism and intention to diversify more. Many feel that the worst of the pandemic is over, and that we can't possibly return to the depths of the predicament we faced in 2020.

Indeed, markets have recovered and growth in most economies has continued, even though many are adapting to a COVID-normal reality.

However, it's important to remain grounded. While things are definitely looking up, there are still many risks. It's up to individuals and advisers to make sure that the lessons and experiences of 2020 are not forgotten.

> *"It's up to individuals and advisers to make sure that the lessons and experience of 2020 is not forgotten as soon as the world recovers"*

“The experience is still fresh in the minds of HNW individuals, and that has caused many to revaluate what’s important”

The wealthy are investing differently

THE WEALTHY ARE INVESTING DIFFERENTLY

The outbreak of the global COVID-19 pandemic meant 2020 was a year unlike any other in recent history. It changed the lives of people and led to market crashes all around the world. There were fears of a global economic crisis as the pandemic began to spread. The investment outlook seemed extremely uncertain and volatile, both domestically and internationally.

This research was conducted in the first half of 2021. While the pandemic is ongoing, the findings of this research suggest a lot of the financial uncertainty from 2020, especially domestically, has receded – or at least, HNW individuals have learned to live with it. At the time of this report, financial markets are looking much stronger and less uncertain, and seem to be on their way to recovery.

But the experience of the past 18 months to two years is still fresh in the minds of HNW individuals, and that has caused many to revaluate what's important to them. It has had a clear impact on how they invest or intend to invest their money.

> *"They clearly have the experience or confidence to get into the market early and be the trend setters rather than followers"*

> *"[Investment] engagement and enjoyment have both been steadily increasing among HNW individuals"*

COVID-19 pandemic has shifted investment trends and sentiment to be more domestically focused

The most common asset classes for HNW individuals to be invested in remain cash, Australian equities, and direct residential property. But the balance is shifting.

The most attractive asset class has become Australian equities, against a backdrop of actual and expected economic recovery. HNW individuals are reducing their investments in cash due to its near-zero yield and moving it to other, higher-return assets classes. There is a big domestic focus, as those who hold Australian equities have increased from 56.4% of HNWs in 2019 to 65.0% in 2020, and to 73.4% in 2021. We can also see a slight uptick in Australian bond holdings, with the proportion of individuals holding these assets increasing from 13.5% in 2019 to 15.8% in 2020, and to 24.0% in 2021.

Key facts

- Top three most common investments for HNWIs remain Australian equities (73.4%), cash (72.4%) and direct residential property (43.4%)
- Investment in Australian equities has increased to 73.4% of HNWIs who include it in their portfolio in 2021 compared to 65.0% in 2020 and 56.4% in 2019
- Only 36.9% of HNWIs have stuck with their long-term strategy since the start of the COVID-19 pandemic
- Retirement saving still the top ranked goal for investing (27.0%) and has not changed much (28.7% in 2019, and 27.2% in 2020)

In our research, HNWIs with high-risk appetites are those who rated themselves as wanting to get the best returns and are prepared to wear significant ups and downs of investment value. It's generally those with bigger risk appetites who are investing in international equities. 42.5% of high-risk appetite HNW individuals have international equities investments compared to 30.7% medium risk appetite and only 9.6% of low-risk appetite. For high-risk appetite HNW individuals, we see the proportion holding international equities have also increased from 23.1% in 2019 to 26.9% in 2020 and 31.7% in 2021.

HNWIs who rate themselves as having high risk appetites are also the ones that usually have more diversified asset holdings like international equities, property, alternatives and socially responsible investments. While they are willing to invest in higher risk asset classes, they also understand the importance of lowering risk with diversification. While these holdings are not new, what has changed is the proportion of HNW individuals who are classified as having a high-risk appetite. HNW individuals who are classified as having a high risk-appetite has increased from 13.3% in 2019 to 17.5% in 2020 and 19.3% in 2021.

Which of the following types of investments do you currently have?

	2021	2020	2019
Australian equities	73.4%	65.0%	56.4%
Cash	72.4%	78.2%	81.2%
Direct residential property	43.4%	47.9%	41.6%
International equities	31.7%	26.9%	23.1%
Australian bonds	24.0%	15.8%	13.5%
Property/real estate investment trusts	22.9%	24.1%	21.1%
Collectibles	17.0%	20.5%	18.6%
Direct commercial property	14.4%	14.1%	10.3%
International bonds	11.0%	12.6%	9.8%
Direct business investment	10.1%	12.3%	0.0%
Farmland investment	2.6%	7.3%	0.0%
Other	4.5%	5.6%	0.0%

**Multiple answers allowed*

% Yes

Majority of HNW individuals are changing investment strategies as a response to COVID-19 but it's mainly the younger generations

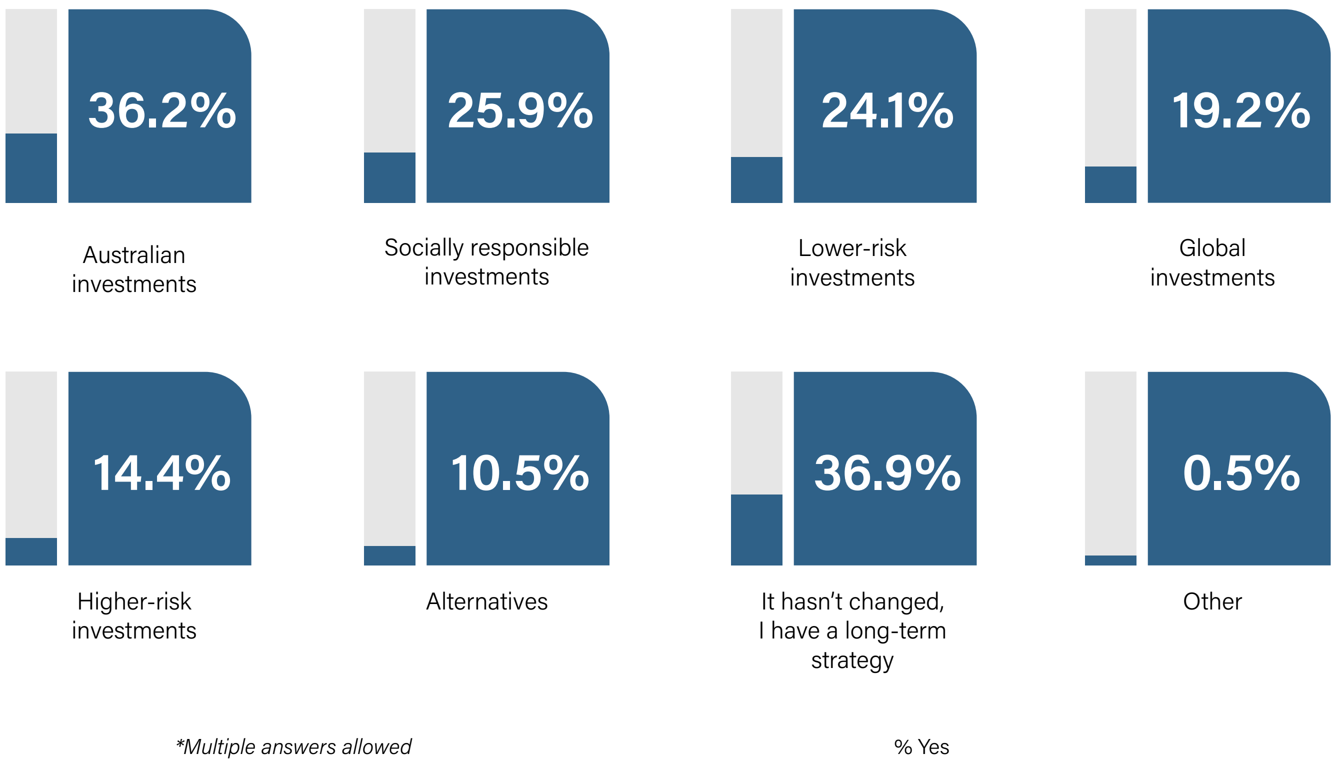
COVID-19 has led to a lot of investment strategy changes for HNW individuals, whether it be diversifying to lower the risk of volatile markets or entering new markets to take advantage of potential higher returns. Only 36.9% of HNW individuals have stuck with their long-term strategy since the start of the COVID-19 pandemic.

When we look at it by age generations, it's clear that the older generations are sticking to their investment strategies, since most of them are already in retirement. Younger HNW individuals have the advantage of time and so are very open to switching strategies to adapt to the market situation. 83.0% of Baby Boomer HNW individuals have not changed their long-term investing strategy since the start of COVID-19 compared to only 32.8% of Generation X and 4.4% of Generation Y.

Many investment strategies have shifted from generating income streams to maintaining capital. While generating income streams is still the top investment goal for HNW individuals, it has dropped significantly from 42.2% in 2019 to 40.2% in 2020 and 28.0% in 2021. It only beats out the goal of maintaining capital even at the expense of modest investment returns as it has shifted from 18.1% in 2019 and 15.6% in 2020 to 26.6% in 2021. Generating income is less of a requirement for younger HNW individuals as we can see 15.6% of Generation Y say this is the goal compared to 45.6% of Baby Boomers.

As previously mentioned, there has been a shift towards domestic equities. We can see that the most common shift of strategy is to be more domestically oriented. Two-thirds (36.2%) of HNW individuals have changed to/are considering changing to Australian investments, higher than those who favour global investments (19.2%) as a result of COVID-19. This reinforcement of a domestic bias is a product of Australia's relative strong performance against COVID-19 and on-track economic recovery.

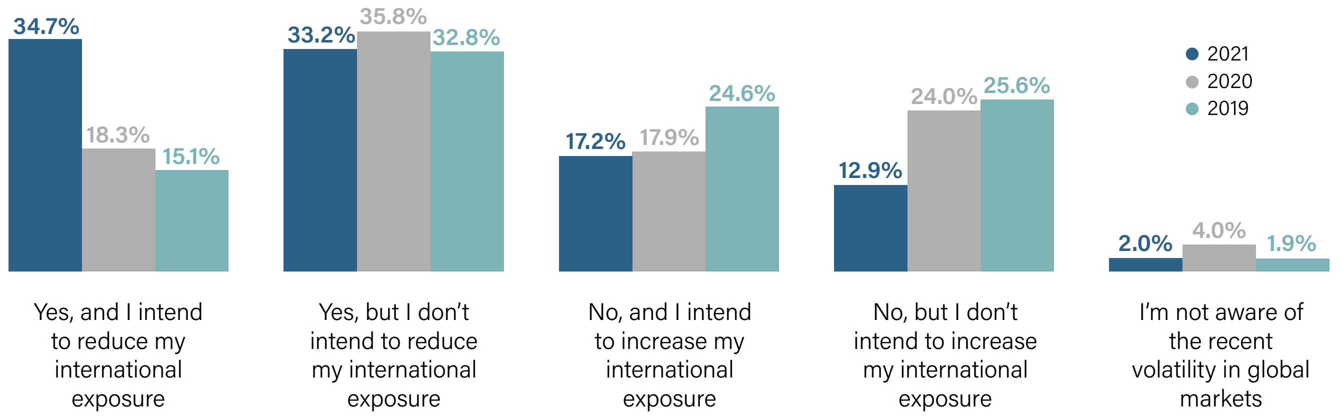
How has your investment strategy changed since the start of the COVID-19 pandemic?
I have reallocated to/am considering reallocating to ...



However, Australian investments still remains the most popular seeing a big swing towards domestic markets. We have seen the proportion intending to reduce international exposure jump from 15.1% in 2019 to 18.3% in 2020 and 34.7% in 2021.

But that's mainly younger individuals. As we have mentioned previously, older HNW individuals are less interested in changing investment portfolios. More than half (52.2%) of Generation Y are intent on reducing international exposure compared to 37.2% or Generation X and only 9.8% of Baby Boomers.

Are you put off by the recent volatility in global markets?

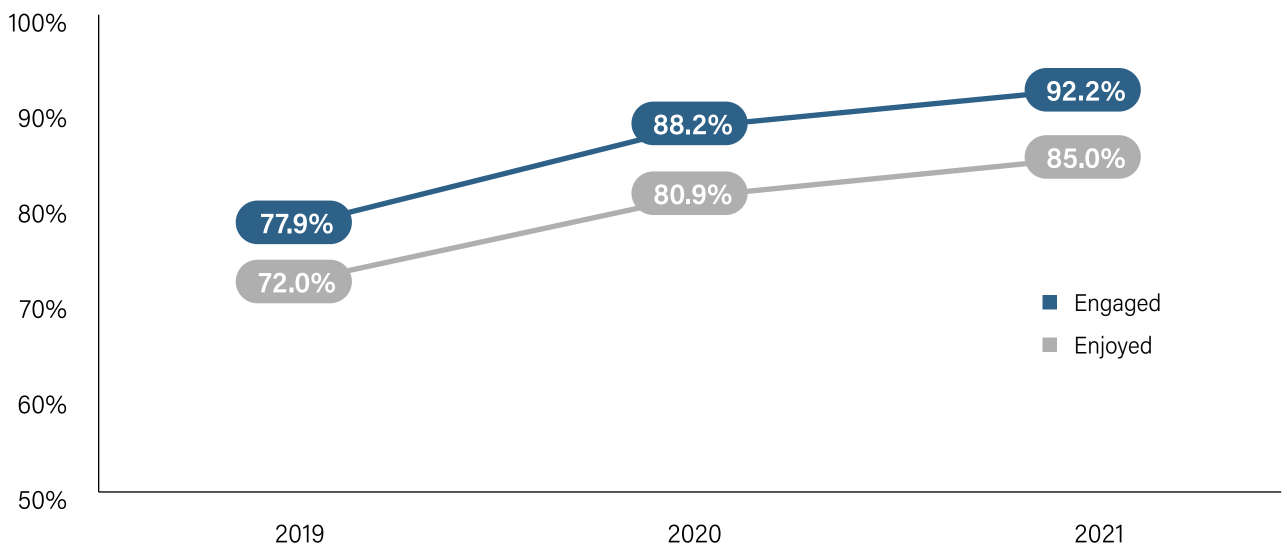


HNW individuals increasingly engaged and enjoy managing their investments

When we look over the past three years, engagement and enjoyment have both been steadily increasing among HNW individuals. In 2019, around a quarter (28.4%) have feel highly engaged with their investing activities which has increased to a third (37.4%) in 2020 and now to almost a half (44.6%) in 2021. We see a similar trend with investing enjoyment as well. A quarter (26.8%) in 2019 highly enjoyed investing activities which has increased to around a third in 2020 (34.4%) and 2021 (35.4%).

Engagement and enjoyment of investing is highly correlated with how HNW individuals feel the economy will perform in the next 12 months. In 2019, 32.8% felt the Australian economy would perform better, which has steadily been increasing. In 2020 that proportion rose to 40.8% and now in 2021 it's up to 76.8%. There is certainly optimism for the economy which seems to drive more engagement and enjoyment from HNW individuals.

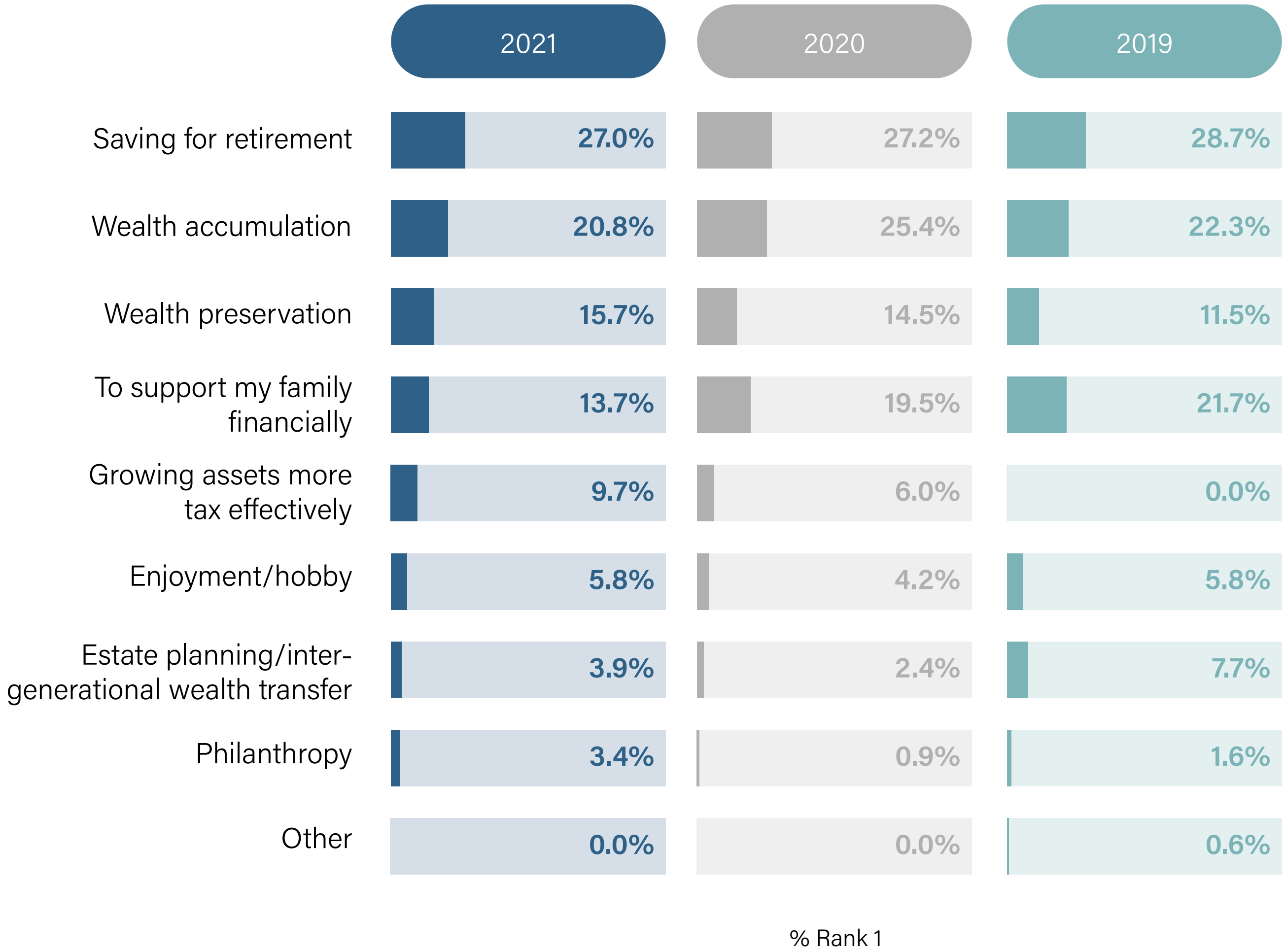
How engaged do you feel with your investing activities?
How much do you actually enjoy investing activities?



Even though there are significant shifts in investing trends, the end goal remains the same

We've seen shifts in optimism and investment strategies, but the end goal has not shifted in the past three years. The top reasons for investing remain saving for retirement. More than a quarter (27.0%) of HNW individuals chose saving for retirement as the top ranked goal for their investing. This has not changed much in the past with this proportion being 28.7% in 2019, and 27.2% in 2020. Again, the other goals also have not changed with wealth accumulation (20.8%) being the next most common goal, followed by wealth preservation (15.7%). While sentiments and investments strategies may change over time, the end goal remains the same.

What are the key reasons that you invest?
Please rank your top three, with 1 being the most important reason.



HNW individuals have become more tolerant of investment losses over the past three years

A small proportion (6.2%) of HNW individuals report being uncomfortable with any chance of investment loss in 2021, which is only half of the proportion (12.7%) who reported the same in 2019. HNW individuals are most likely to have a medium risk appetite, with more than two in five (43.4%) accepting market ups and downs and not being interested in high-risk investments. The size of this cohort has remained stable over the past three years.

Advice does make a difference as advised HNW individuals are more receptive to ups and downs of their investments. Only 19.0% of those advised would like their investment returns to be stable and do not like the value of their investments to rise and fall too much. At 40.8%, this proportion is significantly higher for the unadvised. Unadvised HNW individuals are likely to mitigate the risk of market crash but are also more likely to miss out on the market uplift.

"We've just lived through a once-in-a-generation global event. It's inciting HNW individuals to act regarding managing their wealth"

Managing Wealth

MANAGING WEALTH

When we examine how HNW individuals manage their wealth, we find that they come in many shapes and sizes. Most do it because they want a better retirement, some do it to financially support their family, and some do it simply because they enjoy it. But how do they make their decisions?

"Almost half of HNW individuals are worried about transferring their wealth onto the next generation"

We know that the overwhelming majority of wealthy Australians are highly or reasonably engaged with their finances, so let's take a look at who and what they are engaging with for their financial information.

Financial advisers the most importance source for information in making financial decisions

Professional financial advisers are the most importance source for information when making decisions about managing wealth (25.0%). Having a professional who knows what they are doing can be a significant help for HNWIs, not only for ideas but for counsel on ideas of their own. The majority rely on financial advisers to keep them informed or with decision making support (57.2%) while others may prefer to explain things and provide options (15.3%), provide information in addition to their own work (5.7%) or use them for high level ideas or advice (13.8%).

"Another important aspect to some HNW individuals is the part that philanthropy plays in their wealth strategy"

Advisers are not the only source that wealthy Australians rely on. A reliance on financial media comes in second (17.3%). They choose these media primarily based on convenience and accessibility with broadcast (TV) and online sources are most popular among HNW individuals. The top news sources or sites include the Australian Financial Review (45.1%), The Australian (39.8%) and ABC News (31.6%).

We note that the AFR and The Australian websites exist behind paywalls. HNW individuals are prepared to pay for news if it means access to high-quality content that they can trust. Print media remains an important channel, albeit to a lesser extent.

Key facts

- Professional financial advisers are the most important source of information when making decisions about managing wealth (25.0%)
- HNWIs with an ongoing relationship with a financial adviser has increased to 33.6% in 2021 (from 28.6% in 2020 and 23.1% in 2019)
- Three in five HNWIs (60.4%) now have an investment strategy clearly documented, up from 41.7% in 2020 and 38.1% in 2019
- Advised HNWIs think highly of an advice organisation's knowledge of investment markets (12.4%), competence (10.6%) and altruism (9.6%), as these were the top 3 aspects rated as most important.

What information sources do you rely on to make decisions in managing your wealth?

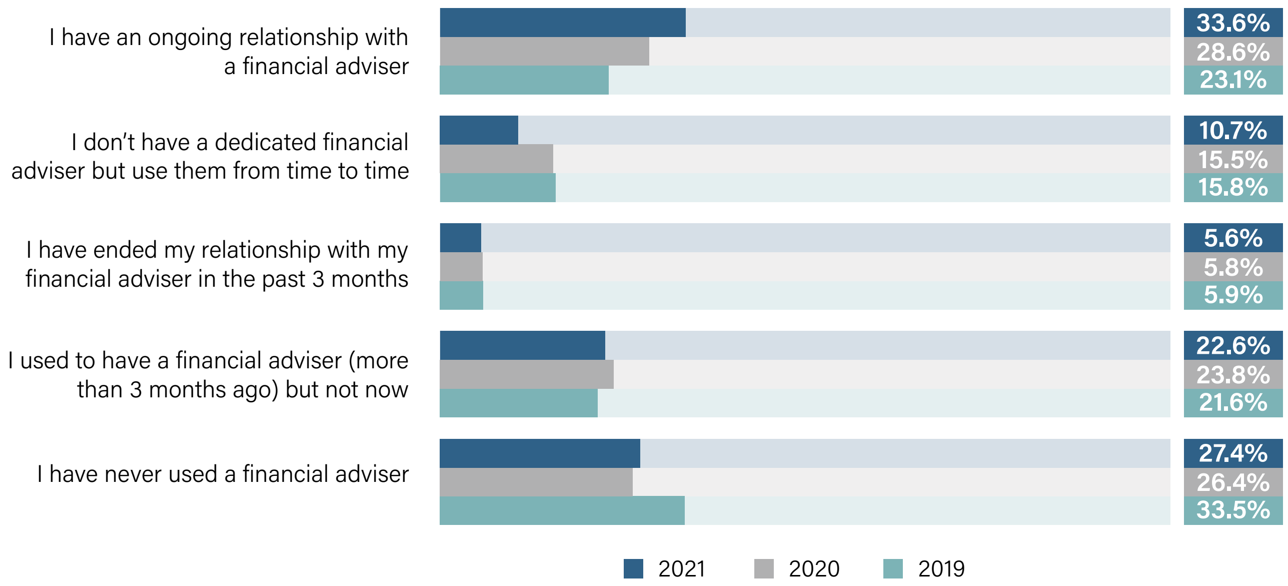
% Rank 1

The adoption of ongoing adviser relationships and reliance on advisers has grown

There has been a behavioural shift in the wake of COVID-19 among HNW individuals' use of financial advisers. It seems in this world of uncertainty, more and more wealthy Australians want a second opinion, either for new ideas or for validation of their own ideas. As already mentioned, the number-one trusted source of financial information is a professional adviser. We can see that in 2021, the number that have an ongoing relationship with a financial adviser in 2021 has grown to 33.6% from 28.6% in 2020 and 23.1% in 2019.

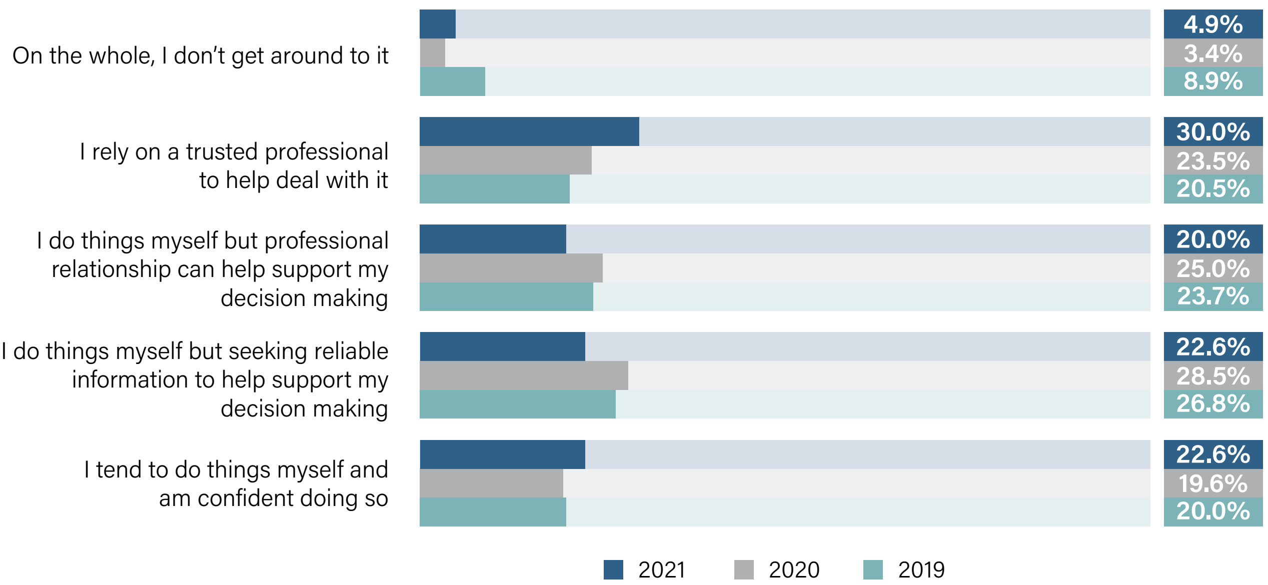
There are two main sources of this growth, wealthy Australians who have never had advice now have been prompted to get it; and individuals who've used advice from time to time now want a more formalised ongoing relationship with an adviser. Those who have a casual adviser have declined from 15.8% in 2019 and 15.5% in 2020 to 10.7% in 2021 and those who have never used a financial adviser similarly have declined from 33.5% in 2019 to 26.4% in 2020 and 27.4% in 2021. The shift reflects more individuals adopting "outsourcer" and "coach-seeking" behaviour as a result of the COVID-19 pandemic.

What best describes your current usage of financial advisers (excluding basic accountancy)?

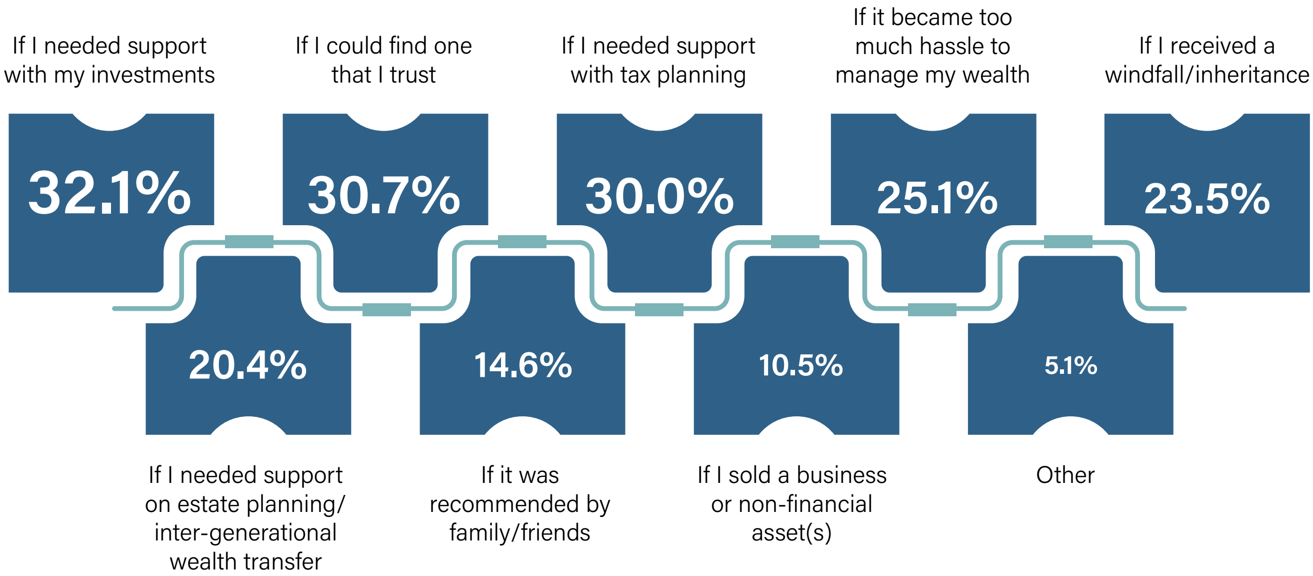


It's not just adviser usage that has increased, but the reliance on advisers as well. We see that almost a third (30.0%) of HNW individuals now rely on a trusted professional to deal with managing their wealth, up from 20.5% in 2019 and 23.5% in 2020. The most common reasons for choosing an adviser include needing support with investments (32.1%), finding one to trust (30.7%) and support with tax planning (30.0%). The underlying reasons for needed support have not changed dramatically year on year but these reasons are appearing more common.

With regards to managing your wealth, which of the following best describes you?



Which of the following circumstances would trigger you to use a financial adviser?



**Multiple answers allowed*

Advised are more likely to have a plan of action

A clearly documented investment strategy serves as a guide to help investors achieve their long-term goals and mitigate the risk of responding irrationally following short-term market movements. There is a reason that HNW individuals are wealthy and stay wealthy. For most of them, it is having a wealth strategy or investment plan. Even so, this plan is not always well documented.

However, that has changed with the increase in financial advice. HNW individuals are increasingly more likely to have a documented investment strategy. Three in five (60.4%) now have an investment strategy clearly documented, up from 38.1% in 2019 and 41.7% in 2020.

Seeking advice also often leads to the adoption of different investment strategies, whether that's matching an investors risk appetite with their assets or diversifying to reduce portfolio risk. We can see that there are noticeable differences between holdings of advised and unadvised HNW individuals.

Advised respondents are significantly more likely to have international equities (42.4% compared to 23.2% unadvised), sustainable investments (16.1% compared to 7.3% unadvised), domestic commercial property (21.1% compared to 9.1% unadvised) as well as Australian bonds (30.2% compared to 19.1%).

Part of the plan is looking at others and the next generation

Part of a holistic wealth strategy is looking at the future and the next generation. Almost half of HNW individuals worry about transferring their wealth onto the next generation (47.7%). However, there has been a shift in mentality on the subject. HNW individuals are increasingly likely to be receptive to support from a financial adviser or a wealth management firm to help with their intergenerational wealth transfer needs. In 2019 only 8.4% of HNW individuals said they would certainly like such support with intergenerational wealth, but this has steadily grown to 16.4% in 2020 and 32.7% in 2021.

Another important aspect to some HNW individuals is the part that philanthropy plays in their wealth strategy. It is an important aspect for many, and the participation has increased since the COVID-19 pandemic. In 2020, around a quarter (26.8%) were actively engaged in philanthropy while that proportion has significantly increased to 45.8% in 2021.

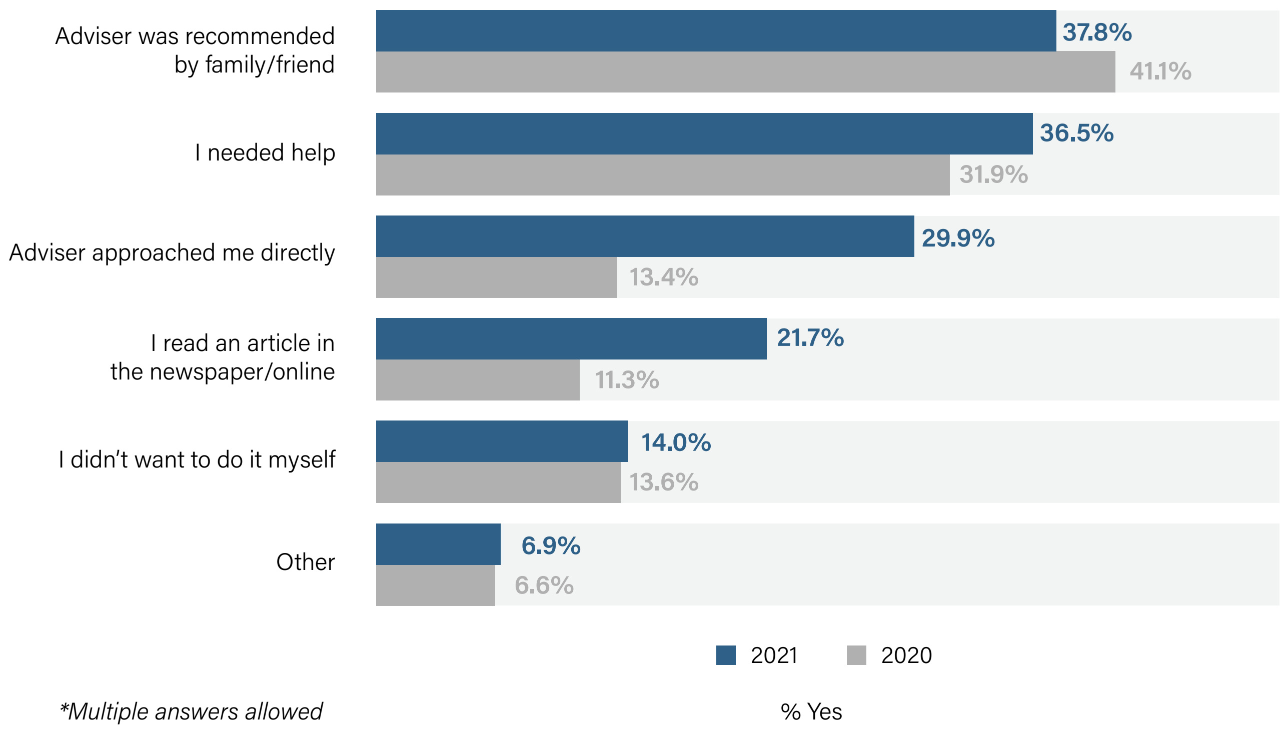
We will delve into more detail on some of the drivers and issues that HNW individuals face on intergenerational wealth and philanthropy in separate focus papers produced as individual insights papers to accompany the *Crestone State of Wealth 2021* report.

Trust the key element to engaging with a financial adviser

Trust in an individual adviser is an important factor when seeking financial advice, whether it be directly or indirectly. HNW individuals unsurprisingly believe they are most prompted by their own need to manage investments (32.1%) to start engaging with a financial adviser, but trust comes in very close as the second trigger (30.7%). When individuals look back to the key reasons, they selected an adviser in the first place, recommendations from family or friends comes in at number one (37.8%). A personal recommendation by a trusted individual goes a long way in establishing that link.

What has changed dramatically are advisers who are taking matter into their own hands and proactively approaching individuals (29.9% compared to 13.4% in 2020). Those individuals who may be on the fence about financial advice or not sure who to pick may be persuaded by advisers reaching out and demonstrating their value.

Why did you select an adviser in the first place?



**Multiple answers allowed*

Competence, convenience and value key areas advisers must address

Advised HNW individuals think highly of an organisation's knowledge of investment markets (12.4%), competence (10.6%) and altruism (9.6%), as these were the top 3 aspects rated as most important. Not only are these factors important but they can also play a part in building trust between the adviser and client relationship. It's much easier to trust an adviser who demonstrates strong financial competence and knowledge.

However, these aren't the only factors, there are many that are important to high-net-worth individuals. While those mentioned previously are the top three, they don't stand out significantly ahead of the others. Advisers also need to have good value for money (7.4%), knowledge of technical services (6.8%), provide up to date records (6.0%) and give access to other investment opportunities (5.8%). There are a wide range of attributes that are desirable, but they can all be grouped into three key areas of competence, convenience and value.

Other adviser trends we find is that independently owned advisers (43.2%) take the biggest share of the HNW market despite shrinking from 56.9% in 2020 and 63.6% in 2019. One in five (20.1%) advised HNW individuals have a bank/institutionally owned adviser in 2021, up from only 3.7% in 2019 and 1.7% in 2020.

Older HNW individuals are more likely to have an adviser who works for independently owned businesses. Two in three baby-boomer HNW individuals (67.8%) have advisers licensed by independently owned businesses, higher than it is for Gen Y (22.2%).

Thinking about the organisation you receive financial advice from, which of the following aspects are important to you?

**Top 10 answers only*

% Rank 1

"Financially speaking, 2021 is a year of renewed optimism for many HNW Australians"

What's in store for the year ahead?

WHAT'S IN STORE FOR THE YEAR AHEAD?

Financially speaking, the year ahead is one of renewed optimism for many HNW Australians. In 2019, sentiment towards Australian and global markets was quite split: in 2019 about a third (32.8%) thought the next 12 months after would be better, a third (35.5%) thought it would be the same, and a third (31.7%) thought the Australian economy would be worse. It was also similar globally.

It's important to keep in mind that the data in the State of Wealth Report 2019 reflects a pre-COVID-19 world. When COVID-19 took hold in early 2020, financial markets crashed, businesses were facing incredible losses and the economy was in a state of uncertainty. Many had feared that this was the catalyst for another global financial crises on the scale of 2008-2009.

But while the pandemic is ongoing, markets have bounced back, and especially in Australia, it seems the worst may be over. Throughout 2020 sentiment shifted slightly towards the optimistic side, and that is reflected in the data gathered for the 2021 report.

> *"Inflation is expected to rise and we're seeing it impact HNW individuals' investment decisions"*

> *"HNW individuals are mostly concerned about volatility in global markets"*

HNW individuals are optimistic about the economy in the next 12 months

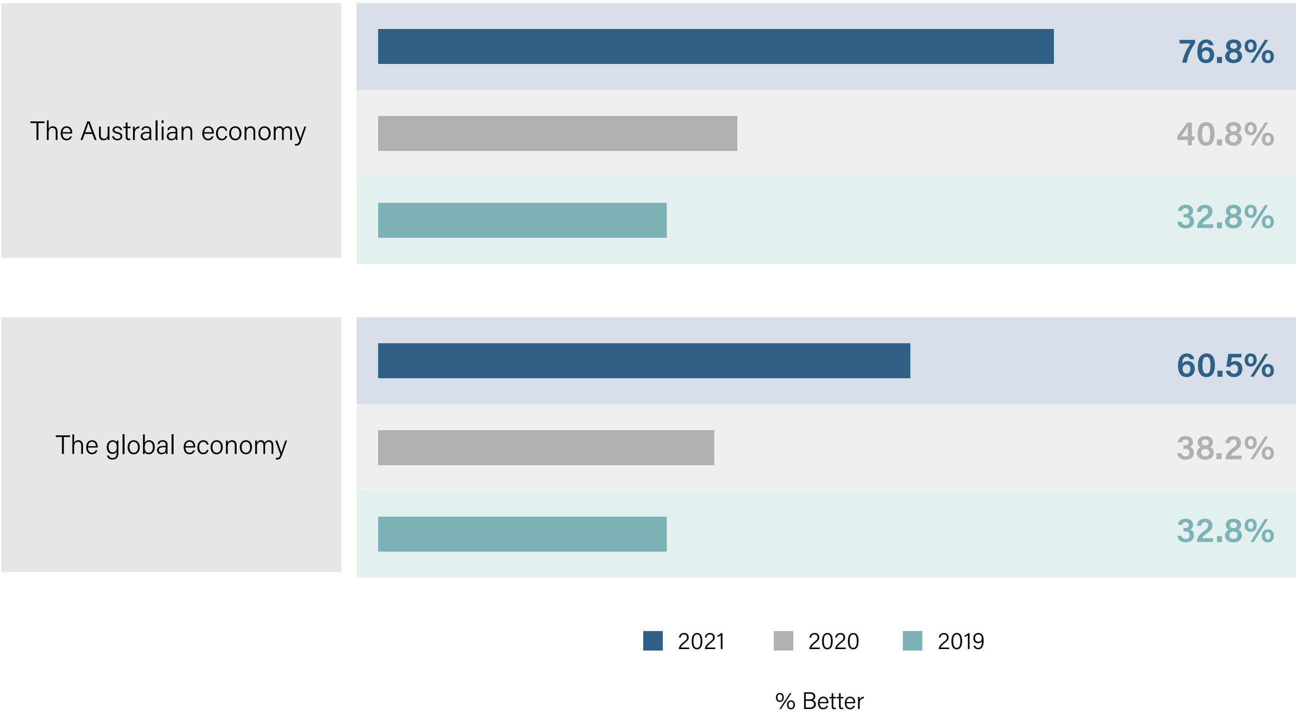
HNW individuals are more optimistic now than in 2020 about the future outlook for the economy both domestically and globally. Three quarters (76.8%) of HNW individuals feel that the Australian economy will perform better in the next 12 months while 60.5% of HNW individuals feel the global economy will perform better in the next 12 months.

However, regarding the global economic outlook, Baby Boomers are sceptical when compared with the other generations. 39.6% of Baby Boomers are optimistic about the global economy in the next 12 months compared to 55.9% of Generation X and 82.3% of Generation Y.

Key facts

- 76.8% of HNWIs feel that the Australian economy will perform better in the next 12 months
- 60.5% of HNWIs feel the global economy will perform better in the next 12 months
- 67.8% of HNWIs expect inflation to rise over the next 12 months and think rising inflation will at least to some extent affect their investment decisions (67.2%)
- HNWIs are more likely to invest in any asset class compared to pre-COVID conditions
- 64.8% and 52.3% of HNWIs are likely to invest in Australian equities and direct residential property respectively

How do you think the following will perform in the next 12 months? (Australian/global economy)

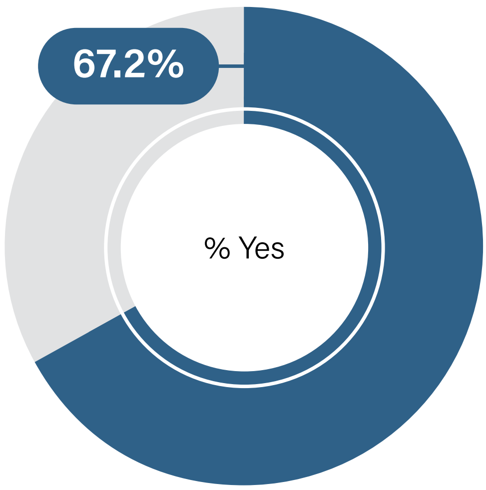


Rising inflation to impact investment decisions

Inflation is expected to rise and we're seeing that expectation play out HNW individuals' investment decisions. Two-thirds (67.8%) of HNW individuals expect inflation to rise over the next 12 months and a similar proportion (67.2%) think rising inflation will at least to some extent affect their investment decisions. There are many factors at work here, including rising labour costs due to closing of borders and rising costs of imported goods due to supply chain delays.

However, HNW individuals are optimistic, as many expect these issues to soften once international passageways are restored. In the meantime, it does impact the investment decisions of many wealthy Australians and we've already seen the shift towards domestic equities. That's not to say that all HNW individuals are following this: some are also seeing it as an opportunity to increase exposure internationally, especially those with higher risk tolerances.

Do you think inflation will impact your investment decisions over the next 12 months?



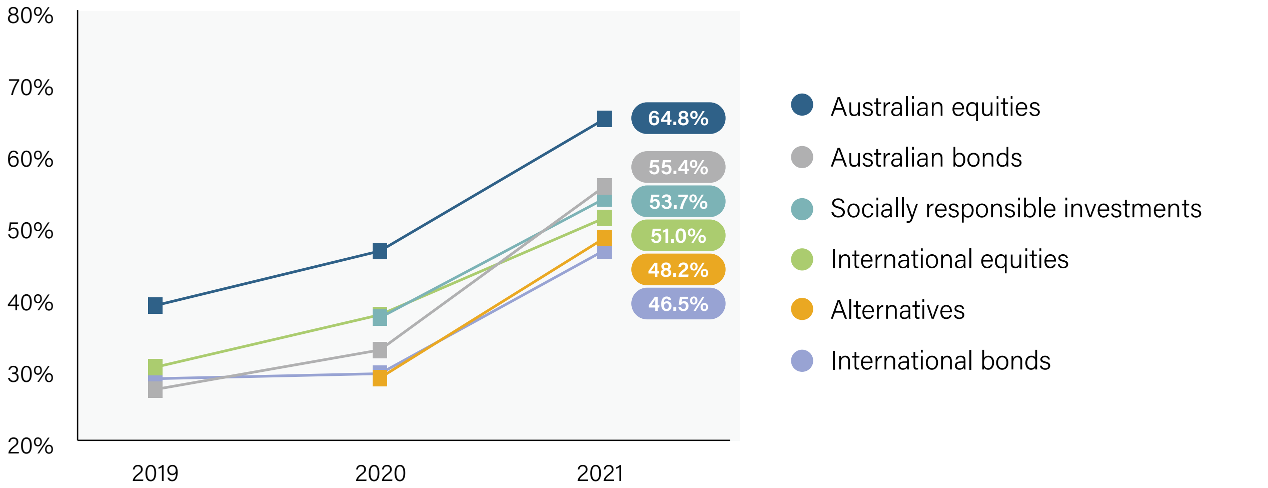
Diversifying of investments is evident

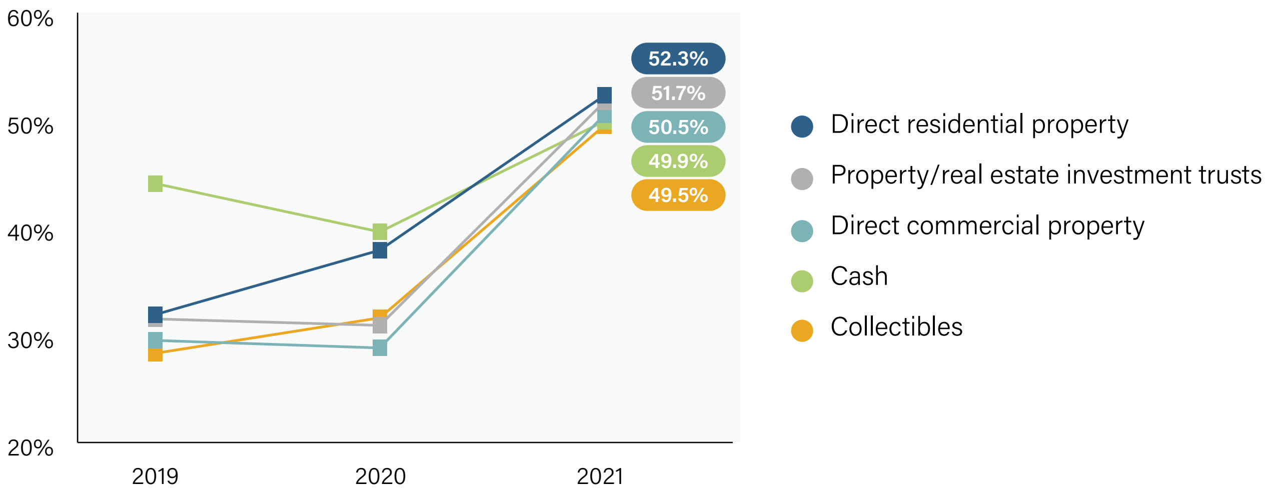
Optimism about the macro-economic environment seems to have affected sentiment towards all asset classes, even including cash. More than half of HNW individuals (52.3%) expect cash to perform better in the next 12 months despite the expectation of persistent low cash rates and the possibility of rising inflation potentially eroding purchasing power.

HNW individuals are mostly optimistic about the performance of Australian equities (72.6%) and direct residential property (69.5%). HNW individuals are most likely to see Australian equities as attractive investment opportunities. One in four respondents (25.5%) rank Australian equities as the top attractive investment opportunity, followed by direct residential property (14.7%).

Even though there is a feeling that domestic investments are "safer" or "will perform better", in reality all forms of asset classes seem more attractive to HNW investors. Investment intentions have bounced back. HNW individuals are more likely to invest in any asset class compared to pre-COVID conditions. More than two-thirds (64.8%) and more than half (52.3%) of HNW individuals are likely to invest in Australian equities and direct residential property, respectively. Some are more popular than others but the trend here is that HNW are diversifying their holdings. There seems to be no bad asset class to invest in, as intentions are positive across the board.

Are you more or less likely to invest in the following asset classes in the next 12 months?



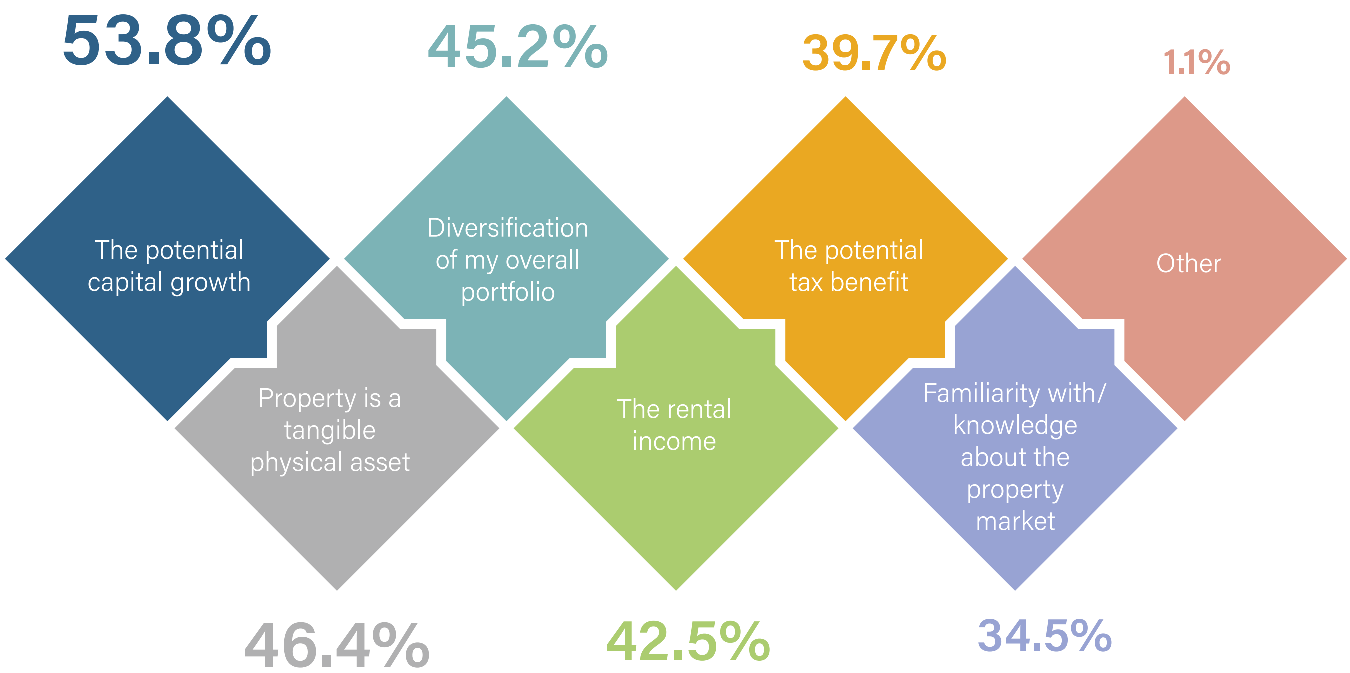


Property investments as popular as ever as investors look to capital growth

Low interest rates and high demand had seen Australian property market rise across the nation, especially capital cities. It's no surprise that property plays a key role in most HNW individuals' investment strategies. A very significant proportion (90.0%) of HNW individuals view a property portfolio as a key part of their investment strategy, mostly driven by seeking capital growth (53.8%), its tangible attributes (46.4%) and the diversification benefits it offers (45.2%). It's unlikely we'll see demand in property decrease any time soon.

Employing negative gearing is more commonly used by HNW individuals now than in 2019 (74.0%). The uptick in the adoption of this strategy for property investment may be facilitated by the record low interest rates. The proportion of HNW individuals using negative gearing for property investment increases significantly as the investment portfolio increases in value beyond $5 million (investment portfolio less than $5 million 70.4% vs more than $5 million 88.6%).

What drove you to invest in property?

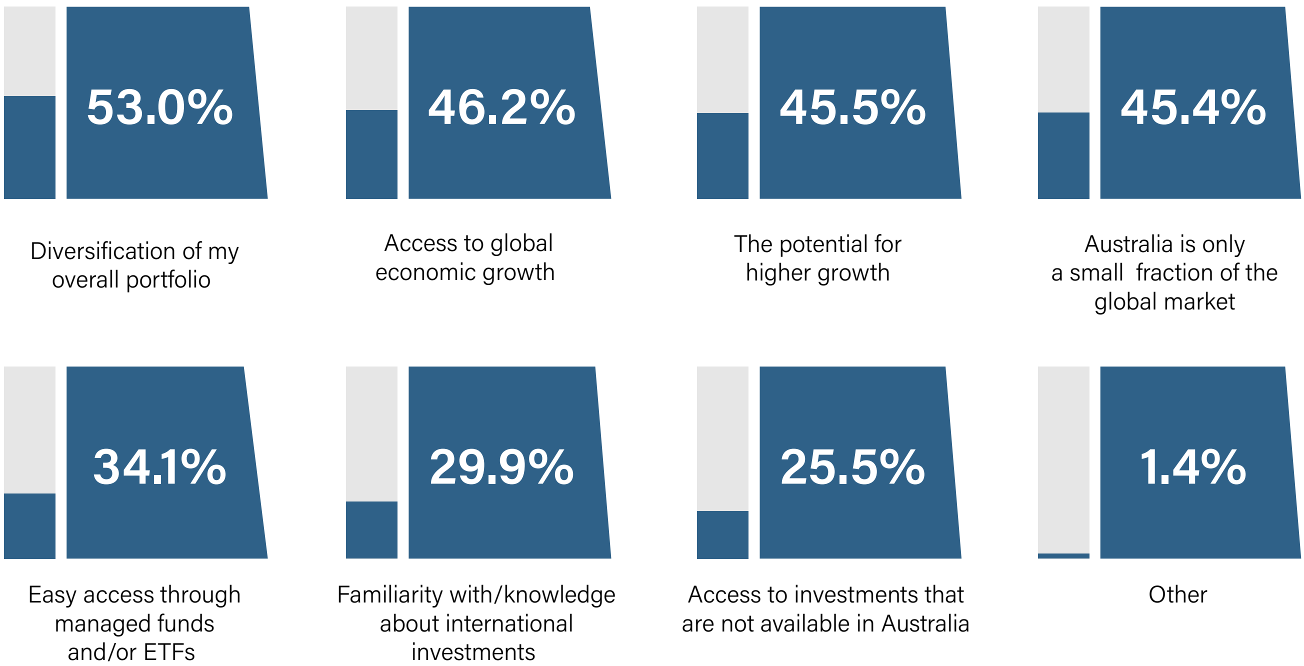


Volatility not an issue as the growth potential of international investments attracts HNW individuals

Compared to last year, HNW individuals are more likely to consider international investments. The main drivers are largely the same, with key reasons mentioned previously including diversification and growth potential. Notably, more than a quarter (29.9%) of HNW individuals invest internationally because of their familiarity with/knowledge about international investments, up from 19.7% in 2020.

Preference for developed markets has strengthened in 2021 (61.0% compared to 45.9% in 2020). HNW individuals are mostly concerned about volatility in global markets., it's a concern for more than half (52.3%) of HNW individuals. One in three (34.7%) are put off by recent volatility and intend to reduce international exposure. Geopolitical risk remains the second greatest concern (41.1%), followed by economic risk (36.2%).

What drove you to invest internationally?



**Multiple answers allowed*

% Yes

Significant increase in interest in alternative and sustainable investments

Alternatives and sustainable investments are growing among HNW individuals. We have seen that significantly more HNW individuals view alternative investments (37.1% in 2019 and 37.7% in 2020 compared to 65.8% in 2021) and sustainable investments (34.5% in 2019 and 36.2% in 2020, compared to 60.8% 2021) as a key part of their investment strategy.

It's clearly a trend that is gaining strong momentum. We will delve into more detail on these two types of investments in separate focus papers produced as individual insights papers to accompany the *Crestone State of Wealth 2021* report.

A QUICK LOOK AT ULTRA-HIGH-NET-WORTH INDIVIDUALS

Ultra-high net worth (UHNW) individuals are those who have $10,000,000 or more in their individual investment portfolios. The behaviours of these individuals sometimes differ from those with smaller investment portfolios.

UHNWs more often have documented investment strategies but have switched in response to COVID-19
Only 21.1% of UHNW, and 38.6% HNW individuals have stuck with their long-term strategy since the start of the COVID-19 pandemic. It's interesting that UHNW individuals are more likely to have switched strategies given that they are also more likely to have a clear and documented investment strategy when compared to HNW individuals (77.6% vs 58.7%).

UHNWs do it because they enjoy investing while HNWs do it because they feel they need to
Both HNW and UHNW individuals are engaged in their investing activities, but this is especially the case for UHNW individuals as almost two-thirds (65.6%) report themselves as highly engaged, significantly higher than 42.6% for HNW individuals. A majority of UHNW (55.0%) highly enjoy investing activities compared to 33.5% of HNW individuals.

Investing behavioural difference between HNW and UHNW individuals
The wealthy like other Australians, rank saving for retirement as the most important reason for investing with 28.0% of HNW and 17.3% of UHNW feeling this way. There are, however, a few behavioural differences between HNWs and UHNWs. HNW individuals are more concerned with staying in this group and maintaining wealth or accumulating more wealth. 21.6% of HNWs say their top reason is wealth accumulation (compared to 12.4% of UHNW) and 16.3% of HNWs say it's down to wealth preservation (16.3% vs 9.1% of UHNWs).

METHODOLOGY

Crestone Wealth Management commissioned CoreData to conduct research on Australian HNW individuals with a minimum of $1,000,000 in investable assets and UHNW individuals with a minimum of $10,000,000 in investable assets.

This report outlines the findings and implications of the quantitative online survey. Respondents for the online survey were recruited from CoreData's proprietary panel of HNW and UHNW individuals.

The survey was developed by CoreData in conjunction with Crestone, and was in field between 21 April and 21 May 2021.

There were 1,001 valid completes, which formed the basis of the analysis. Results were analysed by several variables, including age group, gender, state, advice status and financial behaviour.

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ABOUT US

Crestone Wealth Management provides wealth advice and portfolio management services to high net worth clients and family offices, not for profit organisations and financial institutions. It was created from the acquisition of UBS Wealth Management Australia Ltd - a company with an 80-year heritage and more than AUD23Bn of client assets under management.

Crestone now has over 240 employees, including 91 investment advisers who have worked together for an average of 10 years. It has offices in Adelaide, Brisbane, Melbourne and Sydney.

Owner-operated, Crestone promotes a partnership culture of accountability and high performance with oversight from a formal corporate governance structure, delivered through a Board of Directors and Executive Management team.

Crestone has best-in-class strategic partners—including UBS, Commonwealth Bank of Australia, Credit Suisse and Northern Trust, as well as market leading global technology provider Avaloq. This unique combination provides Crestone clients with global investment research, domestic and international securities dealing, custodial services, capital markets offers and multi-currency, multi-asset lending capabilities that are unsurpassed in the Australian market.

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