



Global Citizens: THINKING
organisationally and not
geographically about the world's
wealthiest people

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Introduction

Countries are no longer isolated, as governments come together to 'fix' global problems. The media bombard us with images of suffering and poverty all over the world. It is this broadening sense of a global 'community' that is influencing people's thought processes and subsequently their desire to 'give something back'. For philanthropists undeterred by geographical boundaries, the growing awareness of the interconnectedness of the world and its problems is providing the platform from which to tackle a multitude of issues in an attempt to make global society a more equitable place.

The result of the global economy has been a continued rise in global wealth. Despite the seemingly negative effects of the recent global economic downturn, wealth has recovered quickly; although quicker for some than others. Understanding the global distribution of wealth can be useful for fundraisers and researchers looking to map the potential for major gift fundraising. With a more mobile global population, international boundaries are, albeit slowly, beginning to blur.

Global wealth

In 2009 the number of HNWI¹ grew to around 10 million, a rise of 17 per cent from the previous year. This equates to around \$39 trillion in total global HNWI wealth². Although the top five countries with the highest number of HNWI remained the same in 2009 (America, Japan, Germany, China and UK respectively), there are signs of an ongoing shift in global wealth. The impact of the global recession was most keenly felt in the West, with the number of HNWI falling only in North America and Europe. Yet for the first time ever the size of the HNWI population in Asia-Pacific was as large as that of Europe and almost as large as America, while its cumulative wealth actually surpassed Europe's, as can be seen in Table 1. below.

Table 1. Average wealth per HNWI globally (US\$ millions)

| Continent | Number of HNWI in 2009 (millions) | HNWI Wealth in 2009 (US\$ Trillion) | Average wealth per HNWI (\$millions) |
|---------------|-----------------------------------|-------------------------------------|--------------------------------------|
| North America | 3.1 | 10.7 | 3.5 |
| Europe | 3 | 9.5 | 3.7 |
| Asia-Pacific | 3 | 9.7 | 3.2 |
| Latin America | 0.5 | 6.7 | 13.4 |
| Middle East | 0.4 | 1.5 | 3.8 |
| Africa | 0.1 | 1 | 10 |
| Total | 10.1 | 39.1 | 6.2 |

Yet if we also look at how wealth is distributed on each continent, we can see that although Latin America appears to be catching Asia-Pacific, Europe and North America in terms of total wealth accumulation, wealth is in the hands of far fewer people. So, in Europe \$9.5

¹ Those with at least \$1 million in liquid financial assets

² World Wealth Report 2010, Capgemini/Merrill Lynch

trillion is distributed between 3.1 million individuals, giving an average wealth per HNWI of \$3.5 million. Yet in Latin America, \$6.7 trillion is distributed between just 500,000 individuals, giving an average wealth per HNWI of \$13.4 million, almost four times that of North America.

Similarly, if we look at the world's super wealthy – the Ultra-HNWIs³ – their wealth increased by almost 22 per cent in 2009, far more than the average HNWI. This resurgence followed a similarly large 24 per cent loss in wealth during the economic crisis in 2008. At the end of 2009, Ultra-HNWIs represented only 0.9 per cent of the global HNWI population, but accounted for almost 36 per cent of global HNWI wealth (around \$14 trillion)⁴.

The number of billionaires in the world is also on the up. According to Forbes the number has increased to 1,210, up 199 from last year, overtaking the record number set in 2008. Of those billionaires on last year's list, only 12 per cent saw their fortunes decline. The average net worth of each billionaire is now \$3.5 billion, up \$500 million in just 12 months⁵.

Some other trends have also emerged, including:

- Americans now account for 40 per cent of the world's billionaires, down from 45 per cent a year ago.
- Americans commands 38 per cent of the collective \$3.6 trillion net worth of the world's richest, down from 44 per cent a year ago.
- There are 27 new billionaires from China, meaning that for the first time China (including Hong Kong) has the most billionaires outside the U.S. with 89.
- Finland and Pakistan both welcomed their first billionaires to the list
- Russia now has 62 billionaires, 28 of them returnees who had fallen off last year's list
- Eleven countries have at least double the number of billionaires they had a year ago, including China, India, Turkey and South Korea.

In total there were 164 people who returned to the list this year, which shows that not only is the economic recovery in full force for the world's wealthiest people, but that high value wealth shows characteristics of elasticity, allowing it to recover or at least hold steady during tough economic times.

Yet whether we're looking at HNWIs or Ultra-HNWIs, the pattern emerging remains the same – an increasingly visible shift in the distribution of global wealth. This is largely due to the presence of a large number of rapidly emerging economies. These countries are believed to have a high potential of becoming some of the world's largest economies in the 21st century.

We have long heard of the BRIC economies of India, China, Russia and Brazil, but now talk is of CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa) or the 'Next 11' or N-11 (Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam). These emerging economies of are all thought to be global

³ A person with more than \$30 million in liquid financial assets

⁴ World Wealth Report 2010, Capgemini/Merrill Lynch

⁵ Forbes's Billionaire Rich List 2011

contenders for significant wealth accumulation in the coming decades. The fact is that there are now some 40 'emerging markets', any number of which could begin to shift the economic balance and thus widen the global pool of wealth.

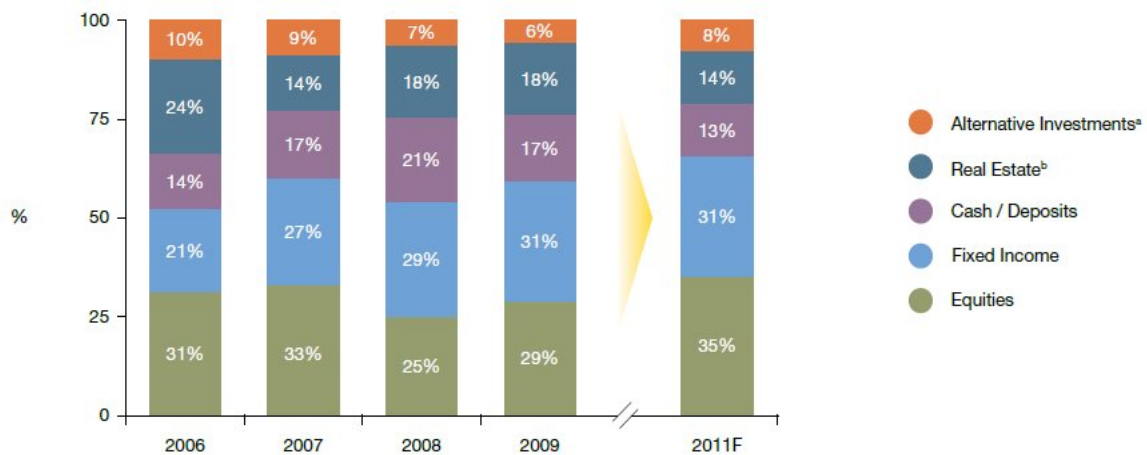
The composition of wealth

While it's easy to focus on top-level figures for the world's wealthiest individuals, one key aspect of wealth that is largely misunderstood by fundraisers, but very much at the forefront of a prospect researcher's mind, is the composition of wealth. When a prospect researcher produces a profile on a HNWI, they invariably estimate an individual's wealth; to give fundraisers' an indication of their capacity to give large gifts. Although wealth is only one of several key indicators regarding propensity to give (others might include affinity, motivation and networks etc.), it is often seen as something very liquid in nature. However, the reality is that most of people's wealth is comprised of a number of liquid and illiquid assets, not to mention debts as well as credits, which make it incredibly difficult to accurately estimate a person's wealth.

Liquid assets are essentially accounts or securities that can be easily converted to cash at little or no loss of value. This includes cash, money in bank accounts, mutual funds and Treasury bills for example. In financial terms actively traded stocks, bonds and mutual funds are considered liquid, in the sense that they are easy to sell, but the price is not guaranteed. In contrast, illiquid or fixed assets are much more difficult to sell in a short period of time, and include things like real estate, company assets or cars.

This distinction is important because unless a prospective donor is supporting an organisation through share giving or a legacy (i.e. illiquid assets), large monetary gifts often come more immediately from a donors pocket (i.e. from liquid assets). However, not only is it impossible to know accurately a person's 'liquid wealth' but as liquid assets only tend to account for around half of all HNWI financial assets, it worth remembering that any overall figure given to an individual's 'wealth' cannot be directly equated to their ability to give (in monetary terms). A much more accurate measure of this is their philanthropic history.

Graph 1. Breakdown of HNWI Financial Assets, 2006-2011F⁶



^a Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity, venture capital

^b Comprises commercial real estate, real estate investment trusts (REITs), residential real estate (excluding primary residence), undeveloped property, farmland and other
Source: Capgemini/Merrill Lynch Financial Advisor Surveys 2007, 2008, 2009, 2010

In an attempt to highlight these points, Graph 1. shows how HNWI wealth is comprised. As we can see, the most obvious sources of liquid assets (Cash/Fixed Income) accounted for 48 per cent of all financial assets in 2009. The proportion of HNWI assets held in equities increased slightly in 2009. At the same time, the share held in fixed-income rose, and cash-based holdings dropped, suggesting that while HNWIs were keen to pursue returns and recoup some of their 2008 losses, they also valued predictability in returns and cash flows.

One key question is whether as financial markets continue to recover, will HNWIs' wealth become more liquid or more illiquid? History would suggest the later, as it invariably provides a much better financial return, but it can depend on the where in the world we look.

HNWIs from regions such as Latin America and Japan for example, remain the most conservative, with HWNIs in each region holding around 52 per cent of their aggregate portfolios in either cash/deposits or fixed-income, despite surging equities prices. However, this is not unusual for Latin American HNWIs, who typically hold a higher percentage of assets in fixed income than HNWIs in other regions. With each HNWI in Latin America holding more average wealth than in any other region, plus this tendency to hold their wealth in more liquid forms, this might suggest that HNWIs in Latin America are the best prospects for major gift fundraising – but is this really true?

Wealth and philanthropy

Before we continue the discussion, it is important to include a caveat in this economic analysis. While global wealth statistics are useful in appraising the fundraising landscape from an economic viewpoint, they should only be used as a generic indicator, in much the same way as an individual's wealth estimate. Philanthropic behaviour or history, on the other hand, is a much more useful tool because it is much more predictable.

Philanthropy is usually a response to a person's circumstances past or present, their values and beliefs, so that despite fluctuations in wealth, commitment to helping 'good causes' will always be visible in some form. Indeed as many indicators have suggested in the past 18 months, philanthropic giving on the whole appears to have largely remained steady throughout the economic downturn (although giving levels may have dropped in some areas).

While you may be thinking that this type of economic analysis is all rather distant from our day-to-day fundraising, for those working hard to secure major gifts, the implications of wealth accumulation and distribution on philanthropy in the future could be huge. Although fundraisers are becoming more knowledgeable about HNWIs, as well as the concept of philanthropy, it tends to be in the country(s) where the organisation works. Even for international organisations, the challenge is how to integrate the concept of global economy into future plans and processes for 'global fundraising'. This is a challenge few organisations

have fully recognised or met, particularly when understanding wealthy global philanthropists, or 'global citizens' as we like to call them.

Donor engagement

Two key trends have emerged that major gift fundraisers and prospect researchers should understand in order to plan ahead:

1. Although philanthropic giving levels may change when wealth is temporarily eroded, philanthropy on the whole appears to remain steadfast in the face of fluctuating wealth.
2. Philanthropists are increasingly becoming less deterred by geographical boundaries, which has led to the rise of 'global citizens'.

Global citizens are motivated by both traditional local interests and by a sense of universal equality; they are international donors who see the 'bigger picture'. After all a person might be born in one country but live and work in another, accumulating their wealth from a variety of sources and economies. This begs the question, where does this person's loyalty lie in donating their wealth to charity? Add this to the fact that philanthropic giving can be seen as a relative constant and we are presented with a significant opportunity to reap the rewards of investing in HNWI fundraising that pushes the boundaries of existing philanthropic giving.

Yet, despite the increasing trend towards global philanthropy, it's important to understand that some barriers still exist to deter all but the most determined philanthropists. These factors, including financial constraints, complexity of issues and causes and trust and transparency, need to be better understood by fundraisers as well as by not for profit organisations as a whole. Engaging with global philanthropists is challenging, competitive and if not conducted properly, can be very damaging for any organisation. However, get it right and the potential rewards could be priceless.

Organisations that can overcome 'geographical ownership', instead focusing on the organisation as a whole, are much more likely to succeed in cultivating wealthy global citizens. A true global citizen is interested in organisations that capture their imagination and provide solutions, rather than the location of that organisation. Most often their imagination is captured by one person and they will expect to engage with the charity through that person – regardless of the charity's internal structure or geographic protocols. While there may be consideration for tax incentives in a particular country (allowing free passage of donor funds), the most important decision is essentially who to support and why.

Donor expectations can also often be overlooked. Many HNWIs place high demands on their time as well as their money. Although their attention may have been gained in one country, they will often want to communicate only with senior figures. This often means dealing with the organisation's head office, which may be in another country altogether, hence the need to overcome 'geographical ownership' of individuals. Similarly, HNWI donors expect a certain level of service, based very much on their own expectations and experience within

the corporate environment. This can be anything, from talking to the CEO, to visiting an organisation's office at short notice.

Wealthy people usually have trusted advisers; bankers, accountants, legal, a family office, with whom they and possibly their families have worked with for years, even decades. They expect loyalty and a 24/7 service from these advisers, and without this same level of service from a charity, HNWI's will soon lose interest. This is one of the most overlooked factors by not for profit organisations in working with HNWI's. Similarly, in many countries a charity's staff change jobs frequently making the long term service relationship with a HNWI very difficult. The key is therefore to provide a professional service whilst thinking organisationally and not geographically.

Global citizens

So who are these global citizens? Like any wealthy person, they come from a mixture of backgrounds including business people, those who have inherited wealth and of course celebrity or high profile individuals. While there is obviously some overlap between these categories, 'celebrity philanthropists' or philanthropists are usually the most visible type of global citizen, but not necessarily the most numerous. Out of the 1,210 people listed in Forbes' 2011 Billionaire List, only 11 (just under 1 per cent) are judged to be 'celebrity' billionaires.

The celebrity philanthropy list 'The Giving Back 30' published by the Giving Back Fund each year, lists celebrities based in America who make the largest donations to charity (according to public records). In 2010, although Americans like Oprah Winfrey dominated the list, it did also include individuals born in Italy, Panama, Peru and Sierra Leone. It also shows an increasing trend for the world's wealthiest to either regularly donate significant sums of money or in the case of billionaires like Warren Buffet, donate the vast majority of their wealth in 'one lump sum' in order to decisively structure their giving and achieve the most significant impact..

However, all this talk of well-publicised large donations given by some individuals rather overlooks two factors. Firstly, philanthropic activity isn't always so visible. In many countries, particularly in Europe, active display of wealth is culturally unacceptable and so philanthropic activity is often anonymous. As a result, where many focus on high profile donors, many organisations are missing the opportunity to unearth and engage with more conservative and traditional global citizens. Secondly, the impact wealthy people can also have on global public relations is often not fully appreciated. After all, philanthropy is the act of donating time, money, and/or reputation to charitable causes. It is worth remembering that the networks of wealthy individuals, as well as their ability to promote a cause or organisation simply by being associated with it, has often proven very successful, particularly for large international organisations like UNICEF and UNHCR for example.

So what does all this mean for the sector? Thinking organisationally, not geographically is now critical in ensuring donor engagement is a success. Each and every opportunity to engage with a potential HNWI donor, must be well planned; use all of the resources of an organisation (wherever those resources may be hierarchically or geographically); and

provide a seamless representation of the charity. It seems that very few organisations have accomplished this. Not for profit organisations need to put aside the idea that global citizens can be seen as geographical commodities to be 'owned' by one part of an organisation. After all the global economy has ensured that previous geographic boundaries have now all but disappeared.

This paper was put together by the THINK Intelligence team to stimulate thinking, contribute new data and detail an increasingly emerging theme.

If you would like more information or simply to talk through your possible research needs, please contact THINK Intelligence:

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