



Austria's super rich: investment trends for EUR 130 billion

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The total volume of assets of the wealthy increased in 2014 by +6% from EUR 130 to 138 billion; the forecast for 2015 is also +6%

Social and ecological issues will be decisive for investment strategy in the future

Investment grade euro corporate bonds, shares from developed countries and real estate are the most popular investments

Austria's wealthy have over some EUR 130 billion in financial assets. According to estimates by Erste Bank, these assets will increase by 6% to EUR 138 billion by year-end. The investment trends and portfolio outperformers in the next twelve months will be mainly investment grade euro corporate bonds, shares from developed countries as well as real estate. The wealthy are investing more and more in works of art as in well as in social and sustainable investments. Especially in so-called "impact investments": these aim not only to achieve returns but also have social and the ecological objectives.

"The financial assets of the wealthy currently stand at EUR 130 billion again, which was the level of 2007, and they are expected to increase further," said Wolfgang Traindl, Head of Private Banking of Erste Group Bank AG. The financial crisis of 2008 caused the assets of the rich to shrink to EUR 119 billion. The economic recovery and the stabilization of the capital markets supported a steady uptrend over the past few years – the volume increased by EUR 11 billion. This year, the volume will probably surpass the all-time high of 2007. Erste Bank estimates the current total volume of assets of Austria's wealthy to grow by 6% to 7% in the coming two years. This increase is driven, on the one hand, by performance (approx. 3% to 4%), and on the other, by income saved and corporate dividends (approx. 2% to 3%).

Based on the economic recovery, the growing confidence in business and financial markets, low inflation, and the low interest rates in the US and the euro zone, Erste Bank identified the following investment trends:

Trend 1: Socially (responsible) investing – earning returns while doing good

Erste Bank has identified an emerging trend among the wealthy towards social, ecological and economically sustainable investments, so-called impact investing. "Customers want to invest their money in a socially responsible manner. Apart from financial returns, investment strategies are giving an increasingly important role to how an investment influences society and the ecology," emphasized Traindl, "in the future, the market will have a much broader base." Philanthropy is a general love of humanity, a way of thinking and acting, but without expecting anything in return, for example, donating – a trend from the US that is starting to take hold in Europe and is attracting the attention of the wealthy.

Trend 2: Euro bonds and shares from developed countries – focus on high credit quality

Euro government bonds of high credit quality, but especially euro corporate bonds are the winners. Investment grade bonds are profiting from the flight into safe haven asset classes. Since the start of the year, these outperformed high-yield and hybrid bonds with a total return of 2.3% (interest and price gains). Returns on sovereign bonds with long maturities with excellent ratings are expected to rise only moderately. "Despite rising volatility and political tension since the start of the year, we are still optimistic about the major risk segments such as

corporate bonds and high-yield bonds in the developed countries until the end of the year. This also applies to global stock markets which we assess positively," said Traindl, and furthermore, "we expect shares from developed countries such as the US and Europe to do better than those from emerging markets."

Segment	Anlageklasse	--	-	neutral	+	++
Anleihen mit guter Bonität	Euro-Geldmarkt			•		
	Euro-Staatsanleihen mit bester Bonität			•		
	Euro-Staatsanleihen mit guter Bonität				•	
	Inflationsanleihen			•		
	US-Mortgage Backed Securities			•		
	Euro-Unternehmensanleihen					•
Risiko-Anleihen	US-Unternehmensanleihen			•		
	Euro High Yield			•		
	US High Yield			•		
	Schwellenländer in Hartwährung			•		
	Unternehmensanleihen Schwellenländern			•		
	Schwellenländer in Lokalwährung			•		
Aktien	Zentral- und Osteuropa in Lokalwährung			•		
	Entwickelte Länder					•
	Schwellenländer				•	
Andere	Gold				•	
	Immobilien					•
	Rohstoffe			•		

Trend 3: Real estate is still a top investment

The real estate markets in Germany and Austria are expected to continue to develop positively.

Since the financial crisis, the trend to invest in real estate has been intensifying. After stabilization of stock markets, the wealthy are now investing directly in real estate (apartment buildings, rental flats) but also in real estate funds and shares.

"Unlike other cities, Vienna has not suffered a collapse of real estate prices due to the financial crisis – on the contrary. More than any other city, Vienna has profited in the area of high quality residential real estate," according to Eugen Otto, managing director of Otto Immobilien Group. Because Vienna not only enjoys an outstanding international reputation as a city with a rich culture, a high standard of living, excellent international schools, widely-recognized health care, political stability, legal certainty and personal security. Investors appreciate Vienna as a safe haven and demand from foreign investors for top real estate properties in the city centre is still very strong. Eugen Otto: "Anyone who has learned to love Vienna will also buy in Vienna." Completely renovated or newly built top-quality flats in the city centre currently cost from € 10,000 to € 30,000 per square metre, and prices will probably settle at this high level according to estimates by Otto Immobilien.

Trend 4: Works of art with value appreciation

Demand for works of art is growing among wealthy Austria. On the one hand, to live their love of art, and on the other, to speculate on the value of the objects. For example, Andy Warhol's picture "Silver Car Crash" was auctioned at the end of 2013 for almost EUR 79 million. "However, one shouldn't invest blindly in art. Considering the many artists, a selection is important. The price, the selection and how much one would like to invest in what should be clarified first," said Traindl. For this reason, Erste Stiftung offers advisory services with curators to private banking customers.

The investment strategy of the wealthy: Erste Bank asset allocation - dynamic

"Broad diversification is still an important ingredient to make it perfect. The share of securities depends also on a customer's risk appetite," stressed Traindl. At a medium risk level, the percentage in shares should be around 30%. Investment-grade bonds should also account for around 30% of a portfolio. A share of 5% to 10% in gold should also be included as a stabilization factor. Risky bonds, alternative investments and money market investments may be added depending on one's market assessment. The investment horizon should be at least five years.

Key Data: Focus on Austria's wealthy

- Around 75,000 persons have over EUR 1 million.
- Around thirty of these persons are billionaires.
- Austria ranks 12th worldwide in a ranking of the super rich with private financial assets of more than USD 100 million.



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