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Global Investor Portfolio Study 2022

Demystifying investor portfolios in a diverse world.

Morningstar Manager Research
24 October 2022

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Wing Chan
Head of Manager Research, Europe and Asia-Pacific
+852 2973 4623
wing.chan@morningstar.com

Matias Möttölä, CFA
Director, Manager Research EMEA
+44 7940 981 201
matias.mottola@morningstar.com

Grant Kennaway
Global Head of Manager Selection
+61 2 9274 0368
grant.kennaway@morningstar.com

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Summary

Morningstar's inaugural Global Investor Portfolio Study builds on the success of the Global Investor Experience Study, which was launched in 2009 and focused on improving the experience of fund investors. As investors are increasingly demanding more personalized portfolios and product innovation is playing a vital role in facilitating this trend, we believe this is an opportune time to launch the inaugural Global Investor Portfolio Study, which seeks to better understand how individual investors construct portfolios in markets around the world. The report opens with a summary section discussing the key findings, followed up by profiles of the 14 markets included: Australia, Canada, China, France, Germany, Hong Kong, India, Italy, Japan, New Zealand, Singapore, Switzerland, the United Kingdom, and the United States.

Key Takeaways

- Our inaugural study of portfolio construction in 14 markets around the world shows that there is no such thing as an average investor.
- There is wide divergence across investor portfolios based on their domicile—local market practices and investment culture, retirement safety net, and regulatory landscape often drive investors' financial needs and their appetite to take risk in portfolios, along with the availability of financial products and how they are distributed, how investors approach portfolio construction, the magnitude of home bias, and the overall asset allocation of portfolios.
- The popularity of independent financial advice and the need for self-reliance in generating retirement incomes often lead to more holistic portfolio construction approaches. In markets where investment products are sold individually and sometimes in isolation, investors are less likely to take into consideration the role these products play within their overall personal portfolios, and products sold may not directly play toward investors' long-term financial goals.
- The increasing domination of defined-contribution retirement schemes in several markets, which commence upon entry to the workforce, means that investors are familiar with equity market volatility and tend to build or be defaulted into more-aggressive portfolios with higher equity weightings and lesser bond and cash exposure. This includes countries such as Australia, New Zealand, the United Kingdom, and the United States.
- In contrast, markets with defined-benefit schemes and, in some cases, supported by universal healthcare and a comprehensive social security net, show a reduced need for self-reliance and

feature investors who are typically more conservative and take lesser equity market risk in portfolios. This includes countries such as France, Germany, and Japan.

- The wide adoption of mutual funds in many defined-contribution retirement schemes, such as the 401(k) in the U.S., KiwiSaver in New Zealand, and superannuation in Australia, has contributed to the popularity of mutual funds as one of the dominant products to build and accumulate wealth. Elsewhere, direct equities are universally popular, while lower-risk investments such as cash deposits and insurance products feature in many European markets.
- Globally, real estate plays a meaningful role in personal finance—it typically makes up the biggest part of nonfinancial asset wealth, and it is the primary reason investors take on meaningful debt, especially in highly indebted markets such as Australia, Canada, China, Hong Kong, and New Zealand.
- Home-market bias is prevalent among most markets, though there are often additional drivers beyond traditional reasons such as familiarity, accessibility, and avoiding currency risk. This includes the breadth and depth of the domestic equity and bond markets—for example, the U.S.; capital controls—for example, China, India; and tax benefits such as franking (tax) credits in Australia.
- While sustainability typically plays a contributing role in investment decision-making across Europe, environmental, social, and governance issues have yet to become top considerations when investors construct portfolios in the Asia-Pacific region.
- Access to private assets, such as private equity and debt, has improved in recent years, though they are often reserved for high-net-worth individuals in most markets. Accessibility and liquidity considerations are inhibiting wider adoption among retail investors.

Contributors

Market	Contributors
Australia	Aman Ramrakha
Canada	Danielle LeClair, Ian Tam
China	Rachel Wang, Chloe Qu
France	Mathieu Caquineau
Germany	Natalia Wolfstetter
Hong Kong	Samuel Lo, Germaine Share
India	Kaustubh Belapurkar
Italy	Francesco Paganelli
Japan	Hiroaki Sato
New Zealand	Aman Ramrakha
Singapore	Samuel Lo
Switzerland	Shannon Kirwin
United Kingdom	Scott Thompson
United States	Janet Yang

Additional copyediting by Jason Kephart and Jennifer Gierat. Additional contributions from Bryan Cheung, Sarah Newcomb, Andy Pettit, Jasmin Sethi, and Aron Szapiro.

About the Study

Recognizing there are a wide range of investment products available to investors, we conduct this study based on all accessible investment instruments to the general investing public, defined as retail and mass-affluent investors who have the capacity to invest in their local markets. In doing so, we leverage on our global analyst presence to examine the following areas in each of the included markets:

1. Investment Objectives
- What are the top motivations for investing?
- Do investors have specific preferences on income and ESG?

2. Availability of Financial Products
- How popular are different financial instruments such as direct equities and bonds, mutual funds and exchange-traded funds, real estate, among others?

3. Asset-Allocation Practices
- Are investors comfortable with risk taking, as indicated by the level of cash holdings?
- What is the typical asset-class exposure of investor portfolios?
- What is the role of nonfinancial asset wealth—for example, real estate?
- How popular are portfolio solutions, such as model portfolios, direct indexing, and segregated managed accounts?

4. Investor Behavior and Portfolio Construction Approaches
- Is it common for the average investor to receive portfolio advice?
- Does the average investor tend to adopt a strategic asset-allocation approach to portfolio construction?
- What are the typical return and risk expectations of an average investor?
- What are the drivers behind home-market bias?
- Is there frequent trading in investor portfolios?
- How financially literate is the average investor?

5. Pension and Social Security Systems
- What is the dominant retirement scheme (defined contribution or defined benefit) and the role of individual retirement account?
- How comprehensive is the social security net?

6. Taxes
- What are the tax rates for capital gains and distributions?
- Are there any tax advantages that encourage long-term investing?

We understand portfolios are means that allow investors to achieve their financial goals. Every investor has their own financial destination, and the path in which they choose to reach their destination is heavily dependent on their personal circumstances and preferences, financial literacy, regulatory landscape, and accessibility to financial instruments. Therefore, unlike the Global Investor Experience study, which reflects Morningstar's views about what makes a good experience for fund investors, we have decided not to assign scores to individual markets in the Global Investor Portfolio Study. Rather, we hope to analyze and make insightful observations to better inform the asset- and wealth management

industry so it can better cater to investors' needs as they embark on their journey toward their financial destinations.

Methodology in a Nutshell

The 14 markets represent a mix of key developed economies in each region as well as two of the largest emerging markets, China and India. Rather than extending the coverage to a larger number of markets in our inaugural study, we have elected to cover a wider range of issues in each market. We believe that these markets help us to highlight the key dimensions around portfolio building and investor practices.

We have asked our on-the-ground manager research analysts in each market to analyze all key data sources (such as central banks and statistical agencies), major global studies, and locally published research, as well as consult Morningstar's deep database of managed products, to understand allocations and product preferences. Each analyst has filled out a survey detailing their sources. Ultimately, our conclusions on each market are derived from both qualitative and quantitative comparative analysis.

Risk-Taking & Cash Holdings

Risk-taking is a key consideration when it comes to portfolio construction. The more risk an investor takes through different types of growth assets, such as equities, the higher the portfolio's expected return—but also the chance for losses. There is no perfect balance between growth prospects and security that fits all investors, as investors differ in their ability and willingness to endure risk.

Younger investors with long time horizons, those in comparatively secure jobs, or wealthy individuals have more capacity to take on risk than those closer to retirement or individuals living in precarious circumstances. Willingness to take risk, on the other hand, is strongly affected by individual psychology, as well as the surrounding investment culture and attitudes toward risk-taking.

In our study, we find that there is a higher willingness to take risk in markets where investing becomes a part of life early, through opt-in or compulsory defined-contribution pension schemes. Investors become familiar with financial market volatility and tend to build or be defaulted into more-aggressive portfolios with higher growth exposure such as equities. There may also be a shared societal understanding that investing in risky assets is required for building financial success.[1]

In contrast, in markets with comprehensive social security and public services, combined with pension systems built around shared responsibility, individuals have less incentive to save a large part of their current income and endure market volatility for fulfilling major life goals. Many of these—such as children's education or a decent retirement income—are partially or fully financed through taxes or taxlike payments. Furthermore, citizens who enjoy a strong social safety net may have less disposable income after tax payments, social security, and defined-benefit increments, even though they are likely to have the capacity to take on more risks. Exhibit 1 shows where the current focus of the retirement system is in each market, with European markets and Japan featuring public defined-benefit schemes, while the majority of Asia-Pacific markets are operating mostly under a defined-contribution system with individual retirement accounts.

1 Beyond this study, there have been targeted research studies, such as that by Wang, M., Rieger, M., & Hens, T. (2017), that support the idea that culture influences the perception of risk and the propensity to take risk. Cultural factors may strongly influence portfolio construction by shaping investors' perceptions of market risk and attitudes toward risk-taking. More research into the particular cultural narratives that prevent or promote investment is needed before firm conclusions on cultural linkages could be drawn.

Exhibit 1 Retirement Systems by Social Security Payout Model and Employment-Based Benefit System

		Dominant Workplace Retirement Scheme		
		Mostly Defined Benefit	Mixed DB/DC	Mostly Defined Contribution
Social Security Payout Model	Earnings-based	China, Canada, France, Germany, Japan	India, Italy, Switzerland, U.S.	Singapore
	Means-tested			Australia, Hong Kong
	Flat-rate		U.K.	New Zealand

Source: Morningstar Research. Data as of 30 September 2022.
Defined-benefit workplace pension systems rely on collective savings, while defined-contribution plans are based on individual retirement accounts. Social security models based on earnings pay out according to contributions. Means-tested systems limit social security pension to those in need, while a flat-rate model starts from an equal payment.

Equities as a Proxy for Risk in Portfolios

We see these dynamics play out in our sample of 14 markets. With most individual investors relying mainly on simple and accessible investments for taking risk, such as direct equities or mutual funds, we have looked at the weight of equities within individual investors' asset mixes, typical return expectations and expected volatility bands, as well as the equity exposure of mutual funds in each market, to gauge the demand for risky investments.

Another revealing dimension of risk-taking besides equity weight is how much investors rely on deposits and savings accounts (that is, cashlike investments) or low-risk insurance products to keep their assets safe (see Exhibit 2).

Fully comparable datasets on the compositions of individual assets are hard to find. Central banks often report assets held by investor type, but these may not be very granular—for example, all funds are often grouped together or even placed under the same bucket as direct equities. But when evaluating datasets from multiple sources, a high-level picture emerges of a wide divergence in risk taking among households.

Portfolios are more equity-heavy in markets where retirement needs and other major life goals are funded by individual savings. Helping investors in this endeavor are wealth managers and financial advisors, who can help instill an outcome-oriented and holistic portfolio approach toward investing.

Taking a sufficient and appropriate level of risk is essential for investors who aim to grow a nest egg over a long time.

The Risk-Takers

The 60% equities and 40% bonds portfolio has been the mainstay of financial advice in the United States for decades. A look-through analysis of mutual funds' holdings in Morningstar's database reveals that the advice is largely aligned with the data. Fifty-eight percent of U.S.-domiciled funds' assets are invested in equities overall. The multi-asset funds in the U.S., which often serve as core solutions for individual investors, also feature an identical average equity weight of 61%. Not only do these figures represent the highest equity weights in our study, but U.S. households also held the least amount of cash and deposits—at 12% according to the Organization for Economic Co-operation and Development—indicating that U.S. investors generally have a high risk appetite.

Multi-asset or allocation funds are often used in retirement accounts. In Australia and Canada, the typical allocation fund has around half of assets in equities, which is relatively high compared with other markets in our study. What is more, Australian and Canadian households tend to have small portions of their financial assets in cashlike investments, preferring to stay invested. This appetite for risk-taking is not surprising considering that Australian superannuation funds are key vehicles for retirement saving and the Canadian pension system is also moving from a defined-benefit focus to a greater reliance on defined-contribution plans.

In China and India, the mutual fund industry is less established and the smaller number of allocation funds are generally not indicative of risk-taking. In both markets, the comparatively modest social security net and lesser familiarity to investing are likely to explain the higher level of cash and deposits. That said, the assets that are invested in risk-bearing financial securities are often put into higher-risk products with high return expectations. Allocation funds are generally more equity-heavy in these markets.

Understanding Risk Aversion in Continental Europe and Japan

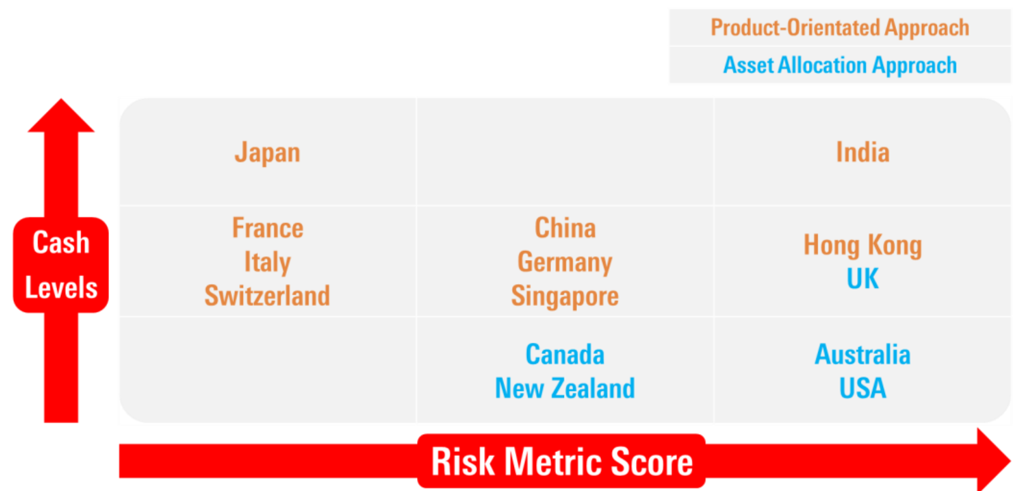
The lowest equity weights are found in allocation funds domiciled or available for sale in Italy and Switzerland. Both of these countries have open (cross-border) fund markets and the local funds are not giving a full picture of investors' preferences. A study by the Bank of Italy notes that equity funds formed 18% of Italian households' cross-border fund holdings, while fixed-income funds took 39%. This confirms that Italian households are generally conservative investors. Switzerland, on the other hand, is a major hub for funds, and funds domiciled in the market are heavily used by foreign-passport holders. Swiss investors also invest heavily in insurance and pension products, which are not shown in mutual fund statistics. Deposits also feature highly among Swiss investors' popular investments, but reliable estimates of weights are hard to come by.

Investors in continental Europe differ from those in the U.K., along with Australian, New Zealand, or U.S. investors when it comes to their attitudes toward financial risk. Although part of this may be cultural, with everything from historical experiences to outright hostility toward capital markets, it is also

reflective of these countries' retirement and social security systems. European markets tend not to leave the onus of growing retirement assets on the individual. With decent retirement expected to be delivered through collective insurance setups, a relatively high social security, and largely publicly funded educational institutions, individuals in continental Europe consider investing more as an add-on—as a rainy-day emergency pot, enabler of a wealthier lifestyle, or perhaps to be bequeathed—rather than a vital nest egg that is built and then withdrawn during years of retirement. Also, real estate is often considered as a key investment, primary residence included. We do note, however, that in several countries, including Germany and France, these is a rising awareness of the frailty of public finances and pension systems, leading to a need for more personal savings.

Investors in Japan represent the most conservative cohort in our study, with more than 50% of households' assets sitting in cash or deposits, despite more than two decades of close to zero interest rates. A long period of low inflation (or even deflation) means that the lack of yield has not eroded the purchasing power of Japanese investors. While the younger generation may cite lack of investment knowledge and savings as reasons for not investing, according to a study by the local financial authority in Japan, the older generation may also be reluctant to invest despite having the capacity to do so; this reluctance is caused by prior experience of the Japanese asset bubble in late 1980s, where the Nikkei Index has yet to return to its 1989 highs. The bursting of the real estate bubble in the 1990s and aging demographics may also explain the lack of real estate investments and appetite to take risk among the Japanese people.

Exhibit 2 Equity Weight, Cash, and Dominant Portfolio Construction Approach



Source: Morningstar Research. Data as of 30 September 2022.

The Role of Financial Products in Investor Portfolios

Financial products serve as key ingredients that define the risk/reward characteristics and drive the end result of an investment portfolio. When investors build portfolios, their goals can materially differ by local market practices, retirement safety net, and regulatory landscape. These differences often drive the accessibility and distribution of financial products, which impacts the way portfolios are constructed and the eventual outcome for investors.

In some markets, the provision of financial advice is comparatively common and financial advisors are incentivized to provide holistic advice based on an individual investor's long-term financial goals. In other markets, there can be a meaningful advice "gap," where investors are not getting the advice they may otherwise benefit from; or they can be dominated by captive advisors who are incentivized to sell individual products, rather than accounting for how well these products might work together toward the investor's long-term financial destination.

Although our inaugural study focuses on the largest wealth management markets, our on-the-ground researchers have found that an advice gap is common in many markets. According to an evaluation from the U.K.'s Financial Conduct Authority in 2020, only 8% (or 4.1 million) of adults in the U.K. have received financial advice, and many consumers are holding money in cash that could have earned a higher return if invested. In other markets, the take-up of financial advice is generally low.

Exhibit 3 Three Most Popular Investment Product Types by Market

Region	Market	#1	#2	#3
Asia Pacific	Australia	Locally domiciled funds	Direct equities (local and foreign)	Fixed Income and Deposits
	New Zealand	Locally domiciled funds	Foreign-domiciled funds	Direct equities (local and foreign)
	China	Fixed Income and Deposits ^	Locally domiciled funds	Insurance-linked products
	Hong Kong	Direct equities (local and foreign)	Foreign exchange or related products	Foreign-domiciled funds
	India	Fixed Income and Deposits	Annuities	Locally domiciled funds
	Japan	Fixed Income and Deposits	Annuities	Direct equities (local and foreign)
	Singapore	Direct equities (local and foreign)	Foreign-domiciled funds	Insurance-linked products
Europe	France	Insurance-linked products	Fixed Income and Deposits	Direct equities (local and foreign)
	Germany	Fixed Income and Deposits	Insurance-linked products	Annuities
	Italy	Fixed Income and Deposits	Insurance-linked products	Foreign-domiciled funds
	Switzerland	Fixed Income and Deposits	Direct equities (local and foreign)	Locally domiciled funds
	UK	Locally domiciled funds	Direct equities (local and foreign)	Foreign-domiciled funds
North America	Canada	Locally domiciled funds	Direct equities (local and foreign)	Fixed Income and Deposits
	US	Locally domiciled funds	Direct equities (local and foreign)	Annuities

Source: Morningstar Research. Data as of 30 September 2022. ^Wealth management products that often come with implicit capital guarantees.

Adoption and Popularity of Mutual Funds

The wide adoption of mutual funds in many defined-contribution retirement schemes, such as the 401(k) in the U.S., KiwiSaver in New Zealand, and superannuation in Australia, have contributed to their popularity as one of the dominant products to accumulate wealth. Mutual funds benefit from a number of inherent advantages—they provide a comparatively effective and efficient way for investors to gain broad, diversified asset-class exposure, and they are typically widely accessible to retail investors with affordable minimum investment amounts. In addition, the diversity and choice offered by mutual funds

in the vast majority of markets allow investors to build diversified portfolios that are commensurate with their return objectives, risk tolerances, and individual preferences such as income and ESG issues.

With the exception of Europe, where Luxembourg- and Ireland-domiciled funds are widely distributed within the region along with several Asian markets such as Hong Kong and Singapore, locally domiciled funds are generally the dominant vehicle in major markets including Australia, Canada, Japan, the U.K., and the U.S., along with the fast-growing emerging markets of China and India. The use of locally domiciled vehicles allows for specific configurations that can be better tailored to the local taxation settings and investors' needs in each market, and they often charge lower fees than cross-border Luxembourg- or Ireland-domiciled funds, as highlighted in the fees and expenses chapter of Morningstar's biennial Global Investor Experience study.

Over the last decade, the rapid rise of ETFs has provided investors an additional, low-cost option to build diversified portfolios. According to Morningstar's latest annual global flows report, ETFs now represent 21% of mutual fund assets globally, after capturing 49% of global flows in 2021. ETFs are widely available in all 14 markets under this study, from 35 in New Zealand to over 3,000 in the U.S. The level of adoption among investors, however, can meaningfully vary based on investor risk appetite and preferences, along with the way financial products are distributed in each market. As a general observation, ETFs tend to be more popular in markets where advice is not dominated by conflicted remuneration or vertically integrated groups who use in-house products but where investors have the financial needs and capacity to invest and are familiar with financial market volatility.

New innovations and technology in collective investment schemes are introducing greater possibilities for investors to build portfolios based on their personalized needs in recent years. For example, the emergence of direct indexing in the U.S. provides scope for investors to exclude certain stocks because of personal and/or ESG preferences, as well as to manage tax losses. Elsewhere in the U.S., model portfolios offer significant flexibility on taxes and they typically hold a distinctive fee advantage, with the tendency to utilize low-cost, index-based underlying funds. As concluded in Morningstar's 2022 Model Portfolio Landscape paper, model portfolios are cheaper than their corresponding funds across all allocation Morningstar Categories, from 15%-30% equity to 85%+ equity groups.

In addition to mutual funds and ETFs that provide exposure to traditional asset classes such as equities and fixed income, there are increasing opportunities for retail investors to gain exposure to private assets through mutual funds in markets such as Australia, Canada, the U.K., and the U.S. For example, in Australia, private equity funds with limited liquidity are available, even though they are not yet mainstream. Investors in the U.K. are used to investing in early-stage companies and pooled vehicles of private assets thanks to various forms of tax relief, and they have had a longer tradition of investing in closed-end funds that offer access to private companies. In the U.S., the vast majority of investors do not directly invest in private equity and debt, but there is the option to invest in interval funds. Funds that invest in private assets, including private real estate, have also become increasingly more popular among mass-affluent and/or high-net-worth individuals in some European markets, along with several Asian markets such as China, Hong Kong, and Singapore.

Direct Equities Wins the Popularity Contest

Direct equities ranks systematically among the most popular investments across all the markets covered under our study. It is considered the most popular financial instrument in Hong Kong and Singapore, and it also features in the top three products in eight other markets including three European markets, three Asia Pacific markets including Australia, New Zealand, and Japan, along with Canada and the U.S. in North America. According to the Retail Investor Study 2021 published by Hong Kong's Investor and Financial Education Council, 85% of retail investors have invested in stocks in the previous year, far exceeding funds at 32% and bonds at 18%.

The popularity of direct equities is not a surprise. It is widely accessible to individual investors, very often through linkages with their bank accounts with negligible minimum investments—that is, investors can buy as little as one share in the majority of markets (with the exception of a few Asian markets that trade on lot sizes), and accessibility has further improved with developments such as fractional shares, which provide an even lower entry point for investors.

Equities also benefit from strong liquidity, especially on large-cap, locally listed blue-chip stocks that individual investors can easily relate to and that are traded on major stock exchanges. Trading costs have also come down over the years, allowing investors to move in and out of equity positions at minimal transaction costs.

In markets such as Australia and the U.K., self-directed investing is popular with a wide variety of trading platforms in both markets. Many investors became familiar with direct equities investing because of numerous privatizations of marquee organizations, first in the U.K. in the mid-1980s (British Telecom, British Gas, and British Airways) and then throughout the 1990s and 2000s in Australia (Commonwealth Bank, Telstra, Qantas, and CSL). There were also a number of demutualizations in Australia with former members becoming shareholders (AMP, ASX).

Fixed Income and Deposits—the Default Option for Risk-Averse

For many investors, their investment journey begins upon their entrance to the workforce when they start making contributions to defined-contribution schemes. This is not always the case in all markets, and some investors may prefer to keep a meaningful part of their financial wealth in comparatively conservative fixed income and deposits. For some, they may not believe there is the necessity to take substantial investment risks because of a comprehensive social security net and universal healthcare. For others, the risk aversion may come from unpleasant prior experiences, lack of financial market knowledge, or, in the case of emerging markets such as China and India, lesser investment options with limited opportunities to invest offshore and an investing public generally less experienced with investing and building portfolios.

Fixed income and deposits are most popular in continental Europe, and they feature in all four markets under our study. For example, in Italy, more than 30% of household assets sit in deposits, according to Banca d’Italia. In France, short-term deposits made up 24% of the share in fourth-quarter 2021, according to Banque de France, and we have observed a similar theme in Germany and Switzerland.

Investors in continental Europe also tend to hold substantial exposure in cash, which further lowers the risk profile of their overall portfolios.

In China and India, the two most populous and fastest-growing major economies, the rapid rise of income and savings has facilitated the development of financial products that are increasingly accessible to individual investors. Despite this, the majority of the general public is still in the learning phase and the data suggests that they may not be comfortable taking substantial investment risks yet. For example, in China, according to the People's Bank of China's 2019 survey on China household assets, financial assets made up only 20% of household assets, and within this pool, cash deposits dominated with a 39.1% weight, followed by asset-management products (which are made up of bank wealth management product and trusts) at 26.6%. Similarly in India, data from the Reserve Bank of India suggests that 50% of financial assets sit in bank accounts and deposits.

Insurance-Linked Products Popular in Europe and Asia

Insurance-linked products are popular in many markets across Europe and Asia. In Europe, insurance-linked products are favored for the protection they offer within the insurance component, and some tax wrappers can be beneficial in highly taxed markets. There are also specific products that are especially popular in individual markets. For example, the most popular product in France is an insurance-linked product called "Fonds en Euro," which is essentially a capital guaranteed product offered by insurers that invests mainly in fixed-income securities and generates a small annual income, capitalized annually. It made up 35% of financial wealth in fourth-quarter 2021, according to Banque de France. In Germany, Italy and Switzerland, investment-linked or unit-linked insurance policies are also commonly seen in investor portfolios.

In the key wealth markets of Hong Kong and Singapore, it is common for investors to invest in unit-linked insurance products, or “wrappers,” that provide both insurance coverage and investment exposure, typically to mutual funds. These products are mainly distributed by major insurance companies and banks that feature large sales-agent networks. While the combination may seem appealing to some, these products are often complex with lengthy lockup periods and variability in protection levels, which can lead to high fees that lack transparency. Pleasingly, this has caught the attention of regulators. For example, in November 2021, Hong Kong’s Securities and Futures Commission published a circular that provided additional guidance on issuers of authorized investment-linked assurance schemes, ensuring that fees are fair, proportionate, and commensurate with the insurance protection offered. Insurance products are also popular across multiple markets in Asia, including emerging markets such as China.

Benefits but Barriers to Adoption of Annuities

Annuities have the potential to provide important benefits to investors. High-quality products that guarantee an income stream can greatly improve the stability of people’s retirements by disbursing steady payments over the course of their lifetime and/or managing longevity risk.

In its modern form, the term *annuity* refers to a wide and sometimes confusing array of products. Many types of annuities are opaque and complicated, making it difficult for average investors to know what

they are buying and the all-in costs involved. Legal and operational barriers in some markets make the purchase of annuities a difficult proposition. In the U.S., investors often own annuities for tax benefits rather than the guaranteed income. In other markets like India and Japan, however, annuities are a staple feature of an average investor's portfolio.

The simplest example of an annuity is a guaranteed income stream product such as a single-premium immediate annuity. With this type of annuity, investors exchange a lump sum of money in return for a stream of income for the rest of their life. The annuity can be fixed or variable, meaning that the income can be a set amount or can vary based on portfolio growth.

One might expect that the decline of defined-benefit plans in Australia, the U.K., and the U.S. would increase demand for some type of guaranteed income at retirement and, hence, support the growth in prevalence of annuity products; however, they remain drastically underused as a retirement income tool.

In the aforementioned markets, investing in annuities is not necessarily made easy. For example, in the U.S., there are operational issues to accessing suitable annuity products in employer-sponsored retirement plans, where most Americans hold their investments. While data on penetration of annuities is limited, it is clear that most people saving for retirement do not use them, according to the Federal Reserve's 2020 Survey of Consumer Finances, fewer than 5% of American families held an annuity in 2019. For many Americans, Social Security fits the need for guaranteed income; however, for those for whom Social Security is not sufficient, annuities could fill the void of guaranteed income.

A key global barrier to broader adoption of annuities is that it can be too difficult for investors to confront longevity risk. One of the major benefits that annuity products provide for retirees is ensuring that they will continue receiving stable income payments for a set period of years—even until death. In this way, annuities serve as a hedge against longevity risk, which is the risk that individuals will outlive their retirement savings. The flip side is that investors must also consider the risk that they will not live long enough to at least recover their initial investment. However, a recent study in the U.S. showed that more Americans underestimate their life expectancy than overestimate it. Consequently, many potential annuitants are probably not accurately assessing longevity risk.

Understanding the Appeal and Complexity of Structured Products

Structured products often come with a derivative overlay that alters the risk and return characteristics of the underlying assets, which can include equities, fixed income, currency, and so on. The scope to alter the payoffs, which can include varying levels of participation, yield enhancement, leverage, or even capital guarantee, can be appealing to investors. Anecdotal evidence suggests that structured products are popular among high-net-worth individuals across Asia and Europe, and some of these products, such as equity-linked notes, fixed-coupon notes, and dual-currency investments, among others, are also accessible to retail investors. While structured products may be appealing to some, they are inherently complex for individual investors to understand. Importantly, the lack of transparency on derivative

pricings can often lead to high embedded fees for investors given the information asymmetry between them and the product issuer.

Digital Assets—the New Frontier?

Cryptocurrencies have crept into portfolios across the globe but continue to be used by a minority of investors, with a heavy concentration among younger cohorts. Statistics and surveys on their use are of varied quality, and ownership share estimates can vary manyfold for a single market, as cryptocurrency holdings are typically estimates based on surveys and not covered by official monetary statistics.

The most crypto-friendly investors in our sample seem to be in Singapore, which hosts several prominent crypto companies, and Hong Kong. Canada was one of the first jurisdictions to allow cryptocurrencies to be held and traded within discount brokerage platforms and hosts the world's first crypto exchange-traded fund. Polls seem to indicate that Canadians are more likely to be invested in crypto than American, Australian, or British households.

In China, the People's Bank of China warned in September 2021 that, as cryptocurrencies are not issued by the monetary authorities, they do not have legal status equivalent to money and should not be circulated as currency—essentially banning crypto transactions.

Real Estate as the Creator and Store of Wealth

In the previous sections, we focused on the role of different financial assets in portfolios. But in most markets included in this study, real estate plays a key part in wealth creation and often constitutes by far the largest nonfinancial asset in a household's portfolio, even after discounting any debt taken to finance the property purchase.

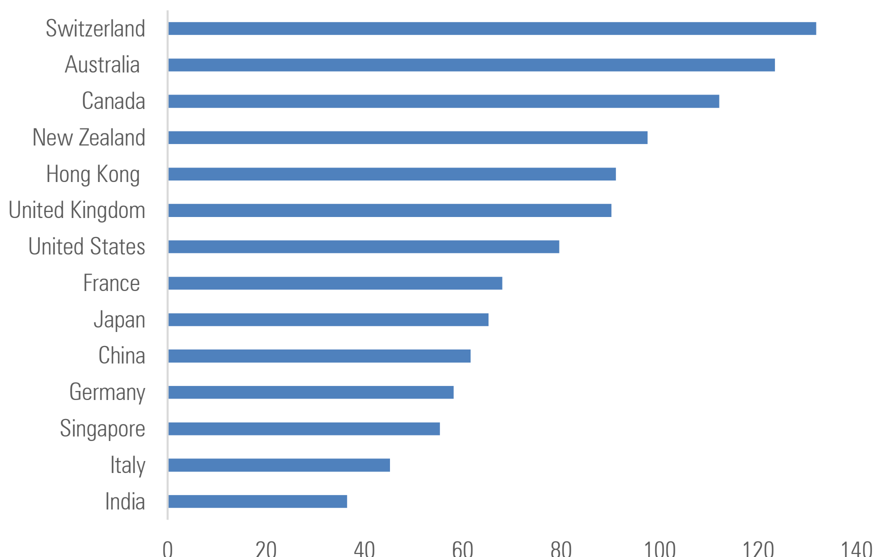
Real estate dominates investors' assets particularly strongly in the two mammoth emerging markets, China and India, where owning financial assets is still more the exception than the rule. In India, an influential study put the share of real estate (including buildings and land) in Indians' total net worth at all of 77%[2], and a high share of this wealth is in home equity as Indian households tend to aggressively pay off their mortgages. In China, the percentage share of real estate in household assets is lower than India but still comparatively high, and importantly, the real estate exposure in absolute terms is far higher because of the larger size of household assets. From a portfolio construction standpoint, real estate is a large, lumpy investment where idiosyncratic risk is inherently difficult to manage, let alone diversify from. As financial literacy improves and investor confidence in financial assets grows, there are benefits in diversifying into assets that are less correlated with domestic real estate.

Real estate is also a popular investment option across the Asia-Pacific region. Hong Kong has often been featured as one of the most expensive housing markets in the world, with the combination of comparatively low taxes and expenses, structurally limited supply, and cultural affiliation toward the asset class all contributing to its popularity. A survey by Citibank suggests that properties made up 71%

2 Report of the Household Finance Committee: Indian Household Finance, July 2017.

of total net assets among multimillionaires in 2021. In Australia, supportive taxation settings, where interest repayments and depreciation on assets such as investment properties can be used to offset income taxes, have led to the popularity of negative gearing and helped make the asset class a compelling proposition for homeowners and property investors. Real estate is also popular in Singapore, with the city-state boasting a homeownership rate of almost 90%. This is largely driven by Singapore's public housing system, where the government sells units to its citizens at affordable prices. At an aggregate level, residential property assets make up over 43% of household assets according to the Singapore Department of Statistics.

Exhibit 4 Household Debt as Percentage of GDP



Source: IMF. Data as of 31 December 2020.

At the other end of the scale are U.S. households, which are far less reliant on real estate for building wealth with their considerable financial assets, particularly on retirement accounts. In the wealthiest quintile of American households, real estate is only a side story when compared with funds, equities, and other assets. North of the border in Canada, real estate is a much bigger consideration.

In Europe, real estate tends to be the key asset for middle-income earners and even for higher earners and wealthier households. In Italy, it constitutes the majority of wealth even for the highest-income-quintile households. Real estate is often held outright (without a mortgage) or with only a limited loan/value ratio, and much of Italian wealth is transferred across generations through inheritance of homes and apartments. As in India, Italian investors need to be especially wary of the ups and downs of the real estate market, as well as any tax laws or regulations affecting housing prices.

Germany is known as a society of renters, with primary residence ownership lower than elsewhere. Rental controls have made it a financially attractive alternative for lower- and middle-income families, who may not be able to afford purchasing their own properties. However, wealthier households are homeowners far more often. Many German investors also add to their real estate exposure through property funds, which make up a relatively high 16% of fund assets.

As a portfolio component, real estate has its advantages and disadvantages. While real estate investment is often encouraged by supportive taxation settings that make homeownership a compelling proposition, investors are often required to take on meaningful debt to finance such a substantial investment. For many households, this may be seen as an attractive approach to build wealth because they tend to be less wary of using financial leverage in real estate purchases, though the substantial investments required also make diversification difficult for the average investor.

Home-Bias Everywhere

Investing is strongly driven by behavioral aspects, and one of the best-known phenomena is home bias, which we see in all global markets and not limited to those included in this study. Home bias means that a portfolio’s geographic exposure is skewed toward the investor’s home market compared with a theoretical global portfolio that includes all assets. This reduces diversification of portfolios, including foreign-currency exposure, and may introduce sector or style tilts or high single-name risks.

Investors may feel safer about investing closer to home, in the equity and debt of companies they perceive to know better. Governments may also give favorable tax treatment for income and capital gains from local securities, such as franking (tax) credits on Australia-sourced dividends.

In many emerging markets, investors do not really have a choice but to focus on their home markets, as the capital account is closed, making it difficult to invest in foreign stocks and bonds. This is the case for both China and India, as well as many other emerging markets. Individual investors may not be able to gain access to global financial markets, even through mutual funds or ETFs. With all their assets and their livelihood tied to the local economy and financial market, any macroeconomic shock can be devastating for personal finances.

Home bias tends to be less extreme in developed markets, but it is meaningful; this is especially the case in small equity markets, where the difference between investors’ portfolios and the global market portfolio can be very high. As a proxy, we have looked at country weights in locally domiciled equity funds. At the lower end, 31% of assets in U.K.-domiciled stock funds were from companies headquartered in the United Kingdom, while their weight in MSCI’s all-country world index was 4%. Markets like Italy and Singapore also have low home-country weights, at only 0.5% of world stock market respectively. At the other end, U.S. funds had 76% of assets in local companies. These numbers, calculated using Morningstar's fund database, rhyme with a study by researchers in the University of Fribourg on IMF data, which showed a 35% home weight for U.K. investors and 82% for the U.S.[3]

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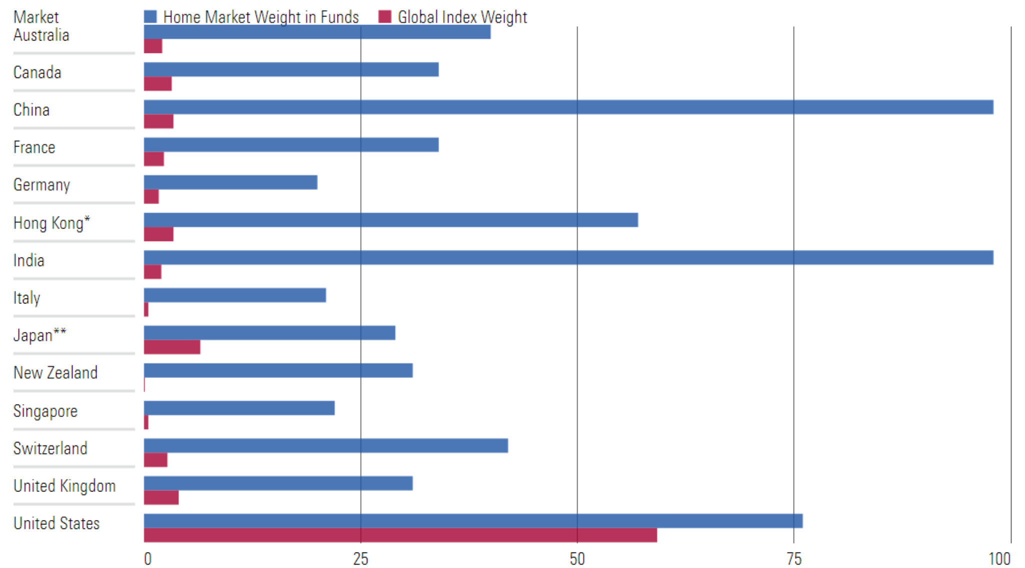
3 Wallmeier, M., & Iseli, C. 2022. "Home bias and expected returns: A structural approach." *Journal of International Money and Finance*, Vol. 24, June.

Exhibit 5 Home-Market Weight in Equity Open-End Funds and ETFs by Domicile, Compared With Index



Source: Morningstar Direct. Data as of 30 September 2022. *Hong Kong includes Chinese stocks listed in Hong Kong. **Japan does not include ETFs as these flows are strongly driven by the central bank. Index used is Morningstar Global Equity Index.

Tax-Advantaged Accounts Drive Assets in Several Markets

Beside fees, taxation can have a major effect on investment results, and it is a key factor to consider in portfolio construction. Many domiciles offer tax-advantaged accounts for investors, either specifically for retirement saving or merely to promote long-term investing. Depending on location, investors may use specific account or vehicle types to help shield taxes from their investments in stocks, funds, and sometimes in other asset types as well, with the accounts having varying maximum limits and other restrictions. Investors may need, for instance, to keep their assets in the account until a certain age to benefit from the tax advantage and avoid penalties.

Although there are some tax-free markets in our study (Hong Kong and Singapore), for most other markets, tax considerations heavily affect investment decisions, starting with the U.S., where fund assets are kept mostly in tax-exempt or tax-advantaged accounts, such as the 401(k). Similarly, the main tax-advantaged investment channel for Australians is the superannuation funds, which are designed for retirement savings, while in Switzerland the “3a” and “3b” voluntary retirement saving accounts are used heavily by wealthier households. In Germany and France, insurance products have tax advantages, and not surprisingly, they have become the most popular products within investors' portfolios.

Incorporating Sustainability Considerations in Portfolios

Sustainable investing has become one of the most discussed investment topics in recent years. Based on Morningstar estimates, there are 6,700 sustainable funds with total assets at USD 2.5 trillion at the end of the second quarter of 2022, a meaningful increase from only a few years ago. Despite the asset growth, it is noteworthy that sustainability is still far from being a driving force for most investors. Europe continues to be far ahead of other markets in popularity of ESG, and its role has become even more established by a new regulation in the European Union requiring advisors to ask their clients about their sustainability preferences.

Of the 14 markets included in the study, investors in Australia, New Zealand, most of Europe, and North America have a keen or modest interest in sustainability, while ESG is less relevant in Asia. Some studies suggest French investors have a keen ESG consciousness, though it is by no means conclusive.

Exhibit 6 Importance of ESG For Individual Investors

Contributing - ESG plays a supporting role	
Australia	New Zealand
Canada	Switzerland
France	UK
Germany	US
Italy	

Negligible - ESG plays a minimal role	
China	Japan
Hong Kong	Singapore
India	

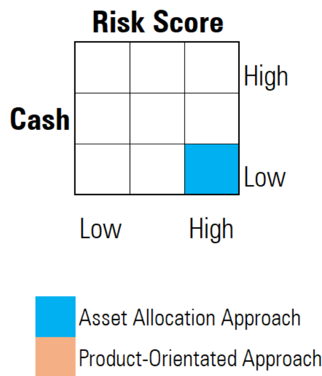
Morningstar analysts' assessments based on recent local market surveys of investor preferences.

Source: Morningstar Research. Data as of 30 September 2022.

In the U.S., sustainability plays a supporting role in investment selection, but ESG considerations appear to be particularly close to younger investors' hearts. Morningstar's asset flow data shows that assets in funds displaying a sustainability focus in their prospectus have tripled in size over the last five years through mid-2022, though they still represent only 1% of all U.S. fund assets. Of investors with less than USD 250,000 of assets, a Cerulli study found 22% of respondents felt ESG was an "especially important" criterion when selecting investments.

As ESG takes a more dominant role in portfolio construction, there will be a greater need for research and for tools to screen and evaluate sustainability attributes in portfolios. Meanwhile, regulation is also expected to take a more prominent role in avoiding greenwashing, helping investors to identify and select investments that truly align with their ESG preferences. M

Australia



Most Popular Product Types

Locally domiciled funds

Direct equities (local and foreign)

Fixed Income and Deposits

Australians are generally long-term investors. Investing in Australia is mostly through direct mutual funds and equity investing, though real estate is also a popular approach to build wealth.

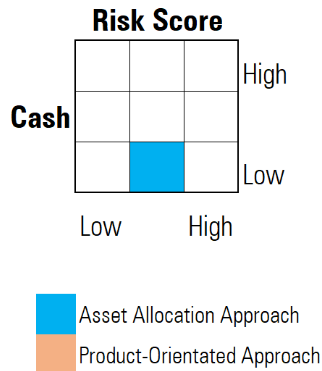
Self-directed investing in direct equities is popular in Australia, with a wide variety of trading platforms in the market. Many investors became familiar with direct equities investing because of numerous privatizations (Commonwealth Bank, Telstra, Qantas, and CSL) and demutualizations (AMP and ASX) occurring throughout the 1990s and early 2000s. More recently, exchange-traded funds have become popular as a means to get diversified exposure, mostly through index ETFs. In Australia, non-superannuation assets when sold receive a 50% capital gains discount if held for more than 12 months, which also encourages a longer-term mindset. Many investors who gained shares via privatizations and demutualizations have held these shares since inception, relying on the dividends for income, given Australia's relatively high dividend yield and franking credit taxation benefits. As such, direct equity investing within a portfolio is confined to almost entirely domestic exposure. Some platforms are offering the ability to trade offshore equities, but these are not as tax-advantaged as domestic equities.

Mutual funds via investment platforms are the main access points for investors who seek advice from a licensed advisor. Many platforms have substantial investment menus, around 500 funds or more, and the ability to trade direct equities on the domestic market; a number have also started offering direct equities on international exchanges. Being a closed market, access to funds is almost entirely through locally domiciled funds. Cross-border funds are not a feature of the Australian market. The design of the superannuation (retirement) system has historically supported pooled vehicles/funds and a long-term investor mindset. As the defined-contribution superannuation system is compulsory, Australians are exposed to investing from the commencement of full-time employment. An Australian employer is currently required to contribute just over 10% of an eligible employee's salary or wages into a superannuation fund. Australians cannot access their superannuation savings until they retire and have reached their "preservation age," which is between 55 and 60, depending on when they were born. This preservation age criteria supports all investor education and advice given in Australia to be focused on long-term investing of retirement savings.

Asset-allocation engagement and decision-making by investors is low. As a result, default investment options dominate superannuation assets. Most default funds generally have an exposure to growth assets of around 60% to 80% of the total portfolio. Hence, growth assets, primarily equities, dominate superannuation assets. The mix of equities will quite often favor domestic equities, but a more balanced approach between domestic and global equities is becoming more popular. More balanced or conservative asset allocation is normally found by investors seeking financial advice from a licensed advisor who undertakes a risk-tolerance assessment.

Homeownership is part of the Australian psyche, making up a significant portion of overall wealth. Real estate is a popular approach to building wealth, with the taxation system providing incentives to property investing. Housing affordability is a key issue as real estate valuations have increased significantly over time in Australia. House prices rarely fall, and even when this occurs, it tends to be a temporary phenomenon.

Canada



Most Popular Product Types

Locally domiciled funds

Direct equities (local and foreign)

Fixed Income and Deposits

While allocation funds dominate the fund investing landscape in Canada, alternative investments such as cryptocurrencies are also garnering investor interest.

For mass-affluent investors in Canada, locally domiciled funds are the most popular investment structure. Although Canadians can invest in foreign-domiciled mutual funds and investment products, tax laws discourage them from doing so. Exchange-traded fund vehicles outside of Canada's borders have received interest, however, and they play a supporting role in investors' portfolios. As per Investor Economics, around 15% of ETF assets in Canada are invested in U.S.-domiciled vehicles. This trend could be due to certain tax-exempt savings plans in Canada such as the Registered Retirement Savings Plan or Tax-Free Savings Account or due to the U.S. historically having a larger variety of ETFs.

Distribution networks in Canada are dominated by a small number of vertically integrated financial institutions where investors frequently leverage the availability of financial advice. The cost, however, is high. Most assets reside in commission-based share classes, where the ongoing advice and distribution fees are bundled into the commission paid to advisors. Advice does bias toward an overall portfolio approach, demonstrated by asset-allocation products representing over 50% of assets in Canada. Outside of these balanced products, Canadians favor equity products over fixed income and alternatives products. Home biases are most notable in their fixed-income allocations, where the average domestic fixed-income exposure is over 50%. In equity allocations, Canadian stocks represent over 30% of portfolios, which is much higher than the country's weight in the world equity market.

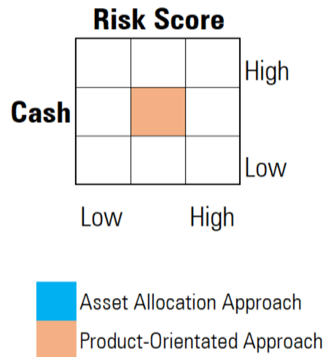
Despite generally favorable social and health retirement services provided by the central government, pension benefits as a percentage of gross domestic product are below average. The Canadian Pension Plan did increase its income replacement targets from one fourth of a retiree's average work earnings to one third of their average work earnings (up to a maximum annual limit). This change enhanced the maximum CPP retirement pension by up to 50% for those who make contributions for 40 years, but Canadians continue to consider the cost of retirement savings prohibitively expensive. Defined-benefit pension plans represent most of the pension assets in Canada as they remain the dominant pension plan structure for government-backed entities. However, defined-contribution pension plans are growing fast, with limited new pension plans offering defined benefits. Individual retirement accounts make up a significant portion of retirement assets as a result, a trend we expect to remain prominent.

Potentially driven by the higher costs for traditional investments or a challenging pension environment, Canadians often seek alternative sources of wealth generation. Real estate, for example, is a popular approach to building wealth. This is not surprising given the rapid rise of real estate prices over the last five years. However, the rise of central bank rates in a market where mortgages represent a majority of household debt could challenge this method of wealth generation going forward. Canadians are also trendsetters in cryptocurrency, where it is regulated under securities laws and readily available via

multiple platforms. In 2021, the world's first cryptocurrency ETF, the Purpose Bitcoin ETF, was launched in Canada. Over 14% of assets are allocated to the space—a high relative number globally. Liquid alternatives have also generated significant interest.

The Canadian universe is still noticeably sparse when it comes to personalized investments like direct indexes and model portfolios. The term "model portfolio" tends to be used synonymously with "separately managed accounts," which are available from most broker/dealers both to institutional (endowments, corporations) and high-net-worth individuals. Most distribution channels offer in-house or proprietary models, allowing discretion to the advisor, or funnel assets up to head office where they are managed as separately managed accounts.

China



Most Popular Product Types

Fixed Income and Deposits ^

Locally domiciled funds

Insurance-linked products

^ Wealth management products

Investors willing to take risk in China tend to have a short-term mindset, though most households prefer low-risk investments such as wealth management products, cash, and deposits.

Household savings in China are primarily funneled into the domestic market due to strict control on its capital account. Chinese retail investors can gain exposure to the offshore market directly through the Shanghai-Shenzhen-Hong Kong Stock Connect, as well as indirectly through investing products participating in qualified domestic institutional investor and the Stock Connect, but this only makes up a very small part of investor portfolios. In addition, they can invest in offshore mutual funds that are domiciled in Hong Kong through China Mainland-Hong Kong Mutual Recognition of Funds, though investment options within the scheme is limited and these funds have low visibility to individual investors.

Most Chinese households allocate a significant portion of their assets to risk-free or low-risk investments that pay predictable or fixed returns. According to a People's Bank of China survey in 2019, cash and deposits make up about 40% of Chinese household’s financial assets on average. Wealth management products are by far the most popular product type among individual investors. These are investment vehicles primarily managed and marketed by banks, which are usually categorized as fixed-income products, with investment portfolios mainly investing in bonds and short-term debt instruments. Wealth management products historically offered investors explicit principal or interest guarantee, so investors are not used to suffering capital loss. That said, this has been gradually changing as the regulator published a sweeping new rule in 2018 to rein in bank wealth management products, with bans on yield or principal guarantees.

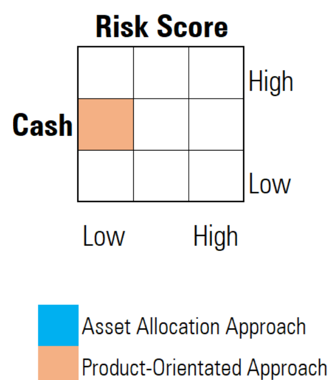
Funds are also commonly used by individual investors, but they often invest with a short-term mindset. Unlike most markets in this study, China does not impose a capital gains tax, which arguably encourages more-frequent trading; China also lacks tax incentive to encourage investors to invest for the long term. Furthermore, it is not common for individual investors to pay for independent investment or portfolio construction advice in China. Chinese investors prefer a do-it-yourself approach to select securities and build their portfolios. However, a volatile onshore market environment coupled with low financial literacy translate into easily affected investor sentiment; as such, retail investors may repeatedly change their investment directions, selling the products that lag in the short term in haste and rushing for new ones that boast dazzling near-term returns. Funds in China are predominantly distributed through banks, third-party distributors, and brokerages, which also have incentive to promote frequent trading within their clients’ portfolios to earn commissions, given the transactional nature of their businesses.

Encouragingly, in recent years we have seen that the Chinese regulator has placed a greater focus on stimulating long-term investment. In October 2019, the regulator kicked off a fund advisory scheme in a move to shift away from the traditional commission-based model to an advisory fee-based model when

selling fund products. The scheme has been slowly gaining traction, with around 60 licensed financial institutions including asset managers, banks, brokers, and distributors now offering portfolio advice. Moreover, as part of the efforts to ease the pressure on its public pension system, China announced in April 2022 that it will set up a tax-advantaged individual retirement account. Investment options within the tax-advantaged account would include qualified bank wealth management products, commercial pension insurance plans, and mutual funds. Although there are no further details on the tax benefit at the time of writing, we expect this would provide immense opportunities for funds to gain popularity in China and stronger incentives for Chinese investors to save and invest for long-term goals.

Saving for a house deposit is one of the main investment objectives of households in China, and property investing is also popular among Chinese investors. Housing prices in China’s major cities are some of the most expensive in the world. Purchasing real estate has also been seen by Chinese investors as a safe and reliable investment. According to a PBOC’s 2019 survey, property makes up around 70% of China household’s assets.

France



Most Popular Product Types

Insurance-linked products

Fixed Income and Deposits

Direct equities (local and foreign)

Investors in France lack interest in financial investments and are often underdiversified.

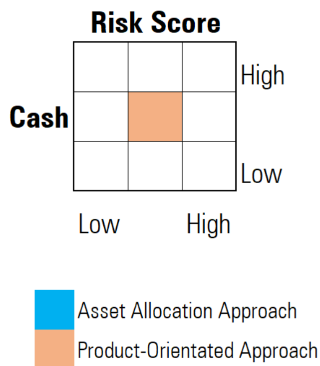
French investors are typically wary of financial markets—they are poorly understood and perceived as too risky. As a result, risk-free, liquid investments with deposits and a local capital-guaranteed insurance product called "Fonds en Euros" represent the bulk of investor portfolios. Less than 20% of individual investors own stocks, bonds, or mutual funds. Those who do own stocks, bonds, and mutual funds have access to a large range of options from open-end funds (domiciled in France or in the two major UCITS hubs, Luxembourg and Ireland), structured products, and exchange-traded funds.

Although French investors can in theory invest directly in stocks across Europe and beyond, there is a clear preference for domestic companies. Funds are typically invested through insurance wrappers or bank channels where trailer fees (or retrocessions) are embedded in a fund's annual management fee, often leading to hefty fees. ETFs have gained popularity over the past decade but continue to be only used at the margin. A key trend is sustainable investing: A growing share of investors now take environmental, social, and governance factors into consideration when making investment decisions, according to surveys, and investors have access to a fast-growing pool of sustainable-investment products locally. Outside of financial assets, real estate plays a dominant role in investor portfolios—it is a preferred way to build long-term wealth and to support potential retirement needs.

Broad financial advice with a total portfolio approach is lacking in France. Apart from the wealthiest investors, partnering with an independent financial advisor to build a holistic strategic asset allocation is a rare endeavor. Most investors rely on their bank advisor to receive financial advice. What they receive is often product-driven, limited to an assessment of risk tolerance: Typically, an investor deemed to have a low or medium risk profile may be advised against investing in higher risk/return products regardless of the shape of their overall portfolio (including nonfinancial wealth) and their long-term goals. Most investors do not seek financial advisors' help and are self-reliantly building their asset allocation and choosing their investments. The emergence of online tools, such as wealth planning, robo-advisors, and savings simulators, has encouraged especially younger investors to act autonomously.

Aside from shortcomings in financial education, French investors' lack of interest for financial investments can also be explained by France's far-reaching welfare system. Retirement, healthcare, and education are mostly publicly managed and state-funded and therefore do not command specific large savings from French households. The mandatory retirement scheme is akin to a defined-benefit plan with the principle that current employees fund the pension of retirees. Growing concerns over the long-term durability of the retirement system are, however, slowly changing attitudes, and more investors are now saving specifically for retirement. There is a rising interest in voluntary individual and company retirement savings schemes, with contributions encouraged by tax breaks, but this is not a widespread habit yet.

Germany



Most Popular Product Types

Fixed Income and Deposits

Insurance-linked products

Annuities

Investors in Germany are typically risk-averse and focus on low-risk instruments such as cash deposits, savings accounts, and insurance products.

Individual investors in Germany tend to shy away from risk, and their portfolios are typically highly exposed to low-risk investments. Cash deposits, savings accounts, and insurance products are the most popular way to invest financial assets. Less than 20% of investors own mutual funds or stocks. While foreign-domiciled funds are commonly used by this group of investors, stock ownership tends to be associated with a strong home bias. Investors that are invested in funds are generally willing to take on risk, with fund allocations geared toward riskier assets such as equities. When investing in funds, investors typically chose to do so through tax-advantaged accounts, which includes insurance products and company pension schemes. Despite the more favorable tax treatment, the cost structure of such wrappers—where underlying funds pay retrocessions to fund distributors—leads investors to pay a higher fee than they otherwise would if they invested directly into the funds.

Although direct fund investments are not tax-advantaged per se, in Germany, interest and dividend income is taxed at a capital income rate (including surcharge) of 26.4%, below tax rates of salaries where the top marginal income tax rate is 42%.

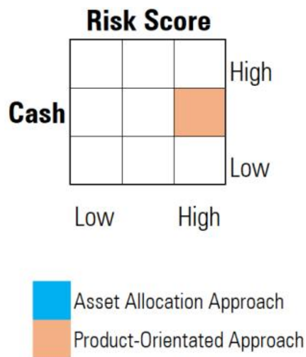
Among self-directed investors, exchange-traded funds have gained popularity, and this drives down total costs for investors. Sustainable investing is also a growing consideration. According to surveys, especially younger investors and women express an interest in sustainability aspects when investing. While intentions do not always match with reality, a growing share of investors own environmental-, social, and governance-focused funds or ETFs.

Outside of financial assets, real estate is an important part of investors' portfolios, even though the share of the population renting rather than living in their own property is high compared with the rest of Europe. However, among better-off households, real estate ownership is widespread and makes up a large part of wealth, as it is considered a good avenue for long-term wealth creation and retirement provision.

Independent, fee-based financial advice is rare in Germany, with most investors relying on commission-based advisors. While advisors are required to perform suitability assessments, they are also incentivized to sell certain products rather than providing holistic portfolio construction advice that is aligned with investors' long-term goals. The growth of digital wealth-planning, robo-advisors, and digital banks, however, facilitates portfolio construction for the growing number of do-it-yourself investors. These often tend to be younger investors with high ETF usage.

The vast majority of the population is under a mandatory pay-as-you-go public pension system, with current pensions paid out of the contributions of the working population. Pension payments generally depend on the number of years of contributions to the state pension system, age, and average income. The wide-ranging public welfare and retirement system reduces the need for private savings to finance education, healthcare, or retirement needs. That being said, there is growing interest in voluntary retirement saving through private or company pension plans, given concerns about the financial sustainability of the public systems amid unfavorable demographic trends.

Hong Kong



Most Popular Product Types

Direct equities (local and foreign)

Foreign exchange or related products

Foreign-domiciled funds

Real estate and direct equities are most popular among Hong Kong investors, while funds are typically sold by captive advisors as stand-alone products. It is rare for investors to construct portfolios using a strategic asset-allocation approach.

In Hong Kong, direct equities are by far the most popular investment type for individual investors, followed by foreign exchange. Funds and insurance-linked products are also common. Hong Kong differentiates itself from most of the markets in this study by having no capital gains tax, which provides a great incentive for individuals to invest. However, it arguably also induces investors to trade more frequently in stocks and funds; in addition to capital gains tax inherently acting as a short-term trading deterrent, some markets also have tax incentives that encourage longer-term investing.

Direct equities and foreign exchange are most popular for Hong Kong investors thanks to their wide accessibility to the masses. For example, equity trading accounts and dual currency investment are readily available to retail investors through both online and offline channels, and they are widely covered in the financial press and on social media.

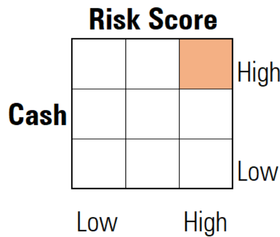
Funds in Hong Kong are predominately distributed through banking channels, where trailer fees (or retrocessions) are embedded in a fund's annual management fee as part of its ongoing total expense ratio paid by investors. Furthermore, fund distributors' frontline sales typically earn their commissions based on sales volume. As such, fund distributors are incentivized to promote trading within their clients' portfolios to earn commissions. This cumulates into a product-driven portfolio construction approach, where advisors are more focused on recommending funds with appealing characteristics for the current market environment, rather than offering holistic financial planning advice focused on the individual investor's long-term goals. For example, the low interest-rate environment for the past decade or so has fueled the popularity of income investing in Hong Kong, with a skyrocket in income-distributing products such as high-yield bond funds and dividend-paying equity funds, and in funds issuing high-income-distributing share classes.

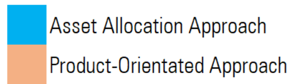
As part of fund distributors' suitability obligations, they are required to match the risk/return profile of the recommended investment product to the client's risk tolerance. In other words, the suitability requirement is applied at the product level, which deters the industry from moving toward a portfolio-based approach to investing. This could present some challenges for Hong Kong investors attempting to construct a well-balanced portfolio. A client deemed to have a low or medium risk profile may be prevented from investing in higher risk/return products regardless of the shape of their overall portfolio. Encouragingly, some newcomers to the market have launched portfolio-based solutions where the risk-matching is done at the portfolio level, allowing a proportion of the portfolio to be invested in higher risk products as long as the overall portfolio's risk level is commensurate with the client's appetite.

Funds play a vital role in the local retirement system, namely the Mandatory Provident Fund. Having launched the MPF in 2000, Hong Kong was a rather latecomer in establishing a public pension system. It offers individual retirement accounts for local employees, where employees have a certain degree of flexibility in choosing funds most suited to their needs and risk appetites. However, it entails a relatively negligible defined monthly contribution of a maximum HKD 1,500 (or around USD 190) in contributions from the employee and employer each. In seeking additional savings for retirement, insurance-linked products are common in Hong Kong, which offer some type of protection but also investment value. Tax deductions for voluntary MPF contributions and qualifying deferred annuity policies were introduced in 2019 to encourage local residents to make additional contributions toward their retirement.

One of the main objectives of a Hong Kong investor is to become a homeowner. Hong Kong is one of the most expensive property markets in the world, and along with the popularity of buying investment properties, property typically makes up a substantial part of a Hong Kong investor's portfolio.

India





Most Popular Product Types

Fixed Income and Deposits

Annuities

Locally domiciled funds

Indian investors have a great propensity for nonfinancial, real assets such as gold and real estate.

India's financial markets have gradually become more open, though the maintenance of capital controls has limited the number of asset classes and the scope for local investors to invest offshore. The majority of the financial assets are in bank accounts and deposits, as many investors have traditionally preferred low-risk, steady-interest options. Insurance products such as annuities and endowment funds are also common.

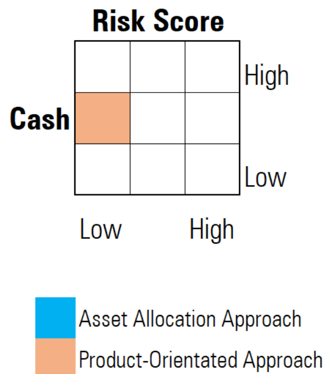
Indian investors have a great propensity for nonfinancial, real assets such as gold and real estate. Indians are among the largest consumers of gold, both for investments and adornment. Gold is usually bought in the physical form, accumulated during a lifetime, and used for intergenerational wealth transfer. Real estate is another popular investment avenue; most Indians aspire to own a house, and many also invest in properties for capital appreciation and income generation.

Within the exposure to financial assets, a large portion of assets are in insurance products such as annuities and endowment plans, which are commonly seen in investors' portfolios, and only 7% of assets are in mutual funds. While mutual fund assets have seen significant growth in the past decade, they remain underpenetrated overall. The Indian fund market is well regulated and thus perhaps safer for retail investors than alternative ways of taking risk. Although the allocation to mutual funds remains small, investors have expressed a significant preference toward equities as India has a relatively attractive capital gains tax for equities, which provides a great incentive for individuals to invest.

Portfolio advice is not yet as prevalent, as the bulk of financial assets sits in cash and local investors generally prefer to build wealth via nonfinancial assets such as real estate and gold. Middle class/mass-affluent individuals cannot rely on social security but need to build wealth to finance life goals, highlighting the need for advice and adoption of a total portfolio approach. As per the household finance report by the Reserve Bank of India, more than half of Indian households currently depend on their children for financial support during retirement. Less than 10% of households rely on financial assets for retirement. In the recent years, a move to a more defined-contribution-focused pension system is underway with the launch of the National Pension System. Financial literacy is still relatively low, but the regulator and fund industry have been making huge strides in imparting investor education.

Given the inability for local investors to invest offshore, home bias is close to 100% in India. Foreign assets can either be bought by sending money to an overseas account through the Liberalized Remittance Scheme, with a cap of USD 250,000 per person per year. In addition, the regulator allows domestically domiciled funds to invest directly in foreign securities or in foreign feeder funds, but there is an overall cap for the industry at USD 7 billion. This limit is currently close to being breached, and thus many funds are closed for fresh subscriptions. These factors limit the scope to diversify into global securities.

Italy



Most Popular Product Types

Fixed Income and Deposits

Insurance-linked products

Foreign-domiciled funds

Investors in Italy are generally risk-averse, with cash and deposits taking up a significant share of total financial assets. Italy also boasts a comparatively high rate of homeownership.

Italian investors tend to be risk-averse in their financial attitudes. This is reflected in the relatively significant share of cash and deposits as a proportion of total financial assets, relatively low equity exposure for the typical investor, high rates of homeownership, and generally low debt balances. The typical investor's prudent, conservative approach is a function of cultural as well as social and economic drivers. For example, a comparatively low level of financial literacy plays a role in explaining investors' attitudes. Demographic factors also explain Italian investors' tendencies, given that over a fourth of the population is above the age of 60. All in all, Italian households tend to be asset-rich, but income-poor.

That being said, the degree of risk-taking has slightly increased in recent decades—for example, via more widespread investments in mutual funds—as investors have rebalanced away from direct government-bond holdings, which have historically played an outsize role in households' total assets compared with other European countries. Funds are predominantly distributed through banking channels, where trailer fees (or retrocessions) are embedded in a fund's annual management fee as part of the ongoing total expense ratio. This fee also represents the remuneration for the investment advice service provided. In practice, the average investor will typically get investment advice through a bank advisor as the market for independent advisory is still small. As such, fund distributors may be incentivized to promote trading within their clients' portfolios to earn commissions. This dynamic leads to a predominantly product-driven portfolio construction approach. As part of the fund distributors' suitability obligations, intermediaries are required to match the risk/return profile of the recommended investment product to the client's risk tolerance, in line with the MiFID regulatory framework.

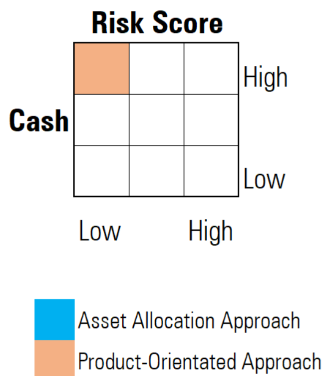
Overall, funds and exchange-traded funds are widely used among those who invest. Italian investors have a large menu of thousands of managed investment vehicles (funds and ETFs) at their disposal that are distributed in the country, reflecting Italy's relatively sizable economy and integration in the EU common market. Funds are held through direct accounts. While there have been some recent legislative developments (for example, Piani Individuali di Risparmio, or PIR), Italy offers few if any tax incentives to encourage longer-term investing. Partly as a result of tax incentives, insurance products are another popular financial asset. Life insurance represents the lion's share of this allocation.

Within the mutual fund sector, Italy-domiciled funds represent less than half of households' assets invested in mutual funds, meaning that the majority of households' wealth is invested in foreign-domiciled funds. Often these are so-called "round-trip" funds that are domiciled in Luxembourg or Ireland but set up and managed by Italian asset-management firms and predominantly distributed and sold in the Italian market. The local mutual fund market is also characterized by the popularity of fixed-term funds, especially those with mandates to invest across multiple asset classes (bonds and equities).

Such funds typically have an investment horizon of five years and are highly lucrative for intermediaries and distributors because of their peculiar fee structure.

Real estate ownership is broad, as Italy boasts relatively high rates of homeownership. As a result, property also represents a significant proportion of households' total wealth. In general, this is mainly financed via equity rather than debt. Mortgage balances for the household sector are among the lowest in our sample and below most neighboring countries. This reflects both cultural preferences as well as a relative lack of access to credit financing. Real estate is thus an important element in the Italian total wealth mix and also represents a key asset in intergenerational wealth transfers within Italian families.

Japan



Asset Allocation Approach

Product-Orientated Approach

Most Popular Product Types

Fixed Income and Deposits

Direct equities (local and foreign)

Annuities

Japanese investors are extremely cautious and keep the bulk of their financial assets in cash.

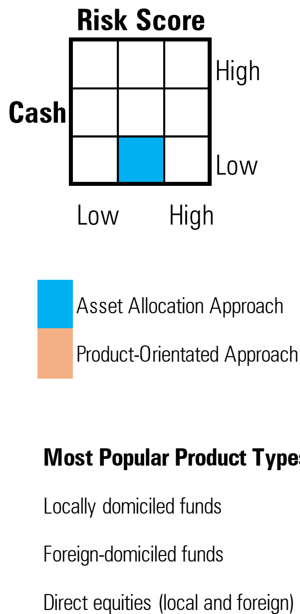
In Japan, cash made up 54% of overall assets as of 2021, and the popularity of annuities & insurance-linked products reflects Japanese investors' conservatism and low risk appetite. Although equities represent the most popular financial instrument in Japan, they only make up 10% of investor assets. Insufficient knowledge and fear of capital loss underpin Japanese investors' apprehension toward risky assets, as the deflation of the Japanese asset bubble in the 1990s created a lasting memory for many. This also explains the lesser role of property to build wealth in Japan, with nonfinancial wealth making up only 37% of assets—one of the lowest figures around the globe. The lack of inflation over long periods led to the general public in Japan never developing a fear of the erosion of their purchasing power and not feeling compelled to invest. Furthermore, a rapidly aging population and the dominance of defined-benefit pension plans—with their generally conservative asset allocation—mean that retirement shortfalls are likely if there is no appetite to take greater risks.

Funds, which constitute 4.7% of overall assets in Japan, are predominately distributed through banks and brokerage channels. Fund distributors typically earn both front-end subscription fees and ongoing trailer fees embedded in a fund's total expense ratio paid by investors. As such, fund distributors are incentivized to gather assets, and the practice promotes churn within their clients' portfolios. This leads to a product-driven portfolio construction approach, where distributors are more focused on recommending funds with appealing characteristics for the current market environment than on offering holistic financial planning advice focused on the individual investor's long-term goals. Since independent financial advisors are not popular in Japan, investors are either self-directed or advised by product providers or captive advisors such as those working for a bank that sells funds from the group's asset manager. Investors generally do not adopt a strategic asset-allocation approach when constructing portfolios.

While global equity constitutes the highest percentage of assets among funds, it may not be fully indicative of home bias of Japanese investors, as thematic funds like AI/Robotics/Technology, which often feature a global mandate, have dominated asset flows in recent years. After 20-plus years of zero rates, income investing has been a popular "outcome" for investors. Japan was one of the global pioneers in yield investing, and there have been numerous product innovations in this space over the years, especially toward global higher-yielding assets that generate higher yields than local equities and bonds. With aging demographics and a prolonged zero-interest-rate environment, there is historically a very high demand for income investing. Many of these high-yielding funds often distribute monthly, with double-decker and triple-decker funds (which often involve foreign currency and derivative overlays) historically popular, though their popularity has waned in more recent years because of alerts raised by the authority regarding their complexity. REITs and high-dividend equities are also popular asset classes in Japan.

The Japanese government encourages individuals to invest for their retirements by providing tax-advantaged defined-contribution accounts. Aside from retirement accounts, the Japanese government provides a tax-incentive investment account called the Nippon Individual Savings Account, which is exempt from the typical 20% tax on capital gains and dividend income. One type of NISA, Tsumitate-NISA, which started in 2018 with a tax advantage of 20 years, is designed to promote longer-term investment from individual investors. Although it remains a tiny portion of assets, with an invested amount of JPY 979 billion as of 2021, the number of Tsumitate-NISA accounts expanded to 3.4 million in 2021 compared with 0.5 million in 2018, and it is notable that 88% of account owners are inexperienced investors and the majority of them are in their 20s or 30s, based on a survey by Japan Securities Dealers Association.

New Zealand



Compared with their Australian cousins, New Zealanders tend to be less long-term-oriented in investing because of differences in retirement savings schemes.

New Zealand is a small but growing market as a result of KiwiSaver, a voluntary, work-based retirement savings scheme that is now the primary retirement savings vehicle. Eligible New Zealand citizens and permanent residents are automatically enrolled in KiwiSaver with an opt-out provision. The default rate is 3% of before-tax pay with higher rates of up to 10% available. As an incentive, the New Zealand government also contributes annually to individuals' KiwiSaver accounts based on the amount contributed by the member, with a maximum cap. New Zealanders do not have the same type of long-term investing mindset as their Australian cousins. Given KiwiSaver is not a compulsory system, it does not have the same impact as the Australian superannuation system on encouraging or mandating long-term thinking. Accountholders are able to suspend contributions at will, having only a 3% default contribution rate as standard, and allowing people to withdraw from their KiwiSaver accounts to fund a house purchase doesn't guarantee that the majority of New Zealanders will be in a position to fully fund their retirement. New Zealand does have a government-funded superannuation system that provides payments for those over age 65.

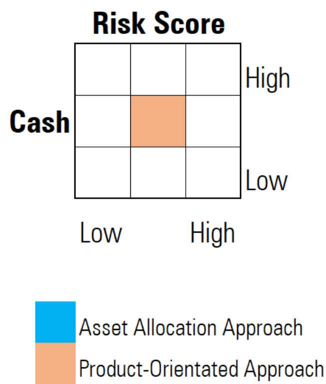
New Zealand has a notable lack of a home-market investing bias. The New Zealand equity market is small and concentrated compared with the rest of the world, and this is recognized by many New Zealanders who are happy to invest offshore. Many equity and fixed-income portfolios feature Trans-Tasman (Australia and New Zealand) investments as a means to get broader exposure. A number of Australian companies that are listed on the Australian stock exchange have a significant presence in the New Zealand market, notably banks. Outside of KiwiSaver, most individuals who invest are likely to use mutual funds. Given the lack of home bias, mutual funds are an efficient way of getting access to global investments. Direct equity holdings are a relatively small part of the New Zealand market, although investor surveys suggest that this is growing. Most direct equity investments would be New Zealand or Australian equities with only small portion invested outside those jurisdictions.

Default options in KiwiSaver were traditionally more conservatively invested. Government changes in 2021 shifted the default option from the conservative to balanced option, recognizing a key objective under the KiwiSaver Act 2006 "to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals' wellbeing and financial independence, particularly in retirement, and to provide retirement benefits."

Real estate is a popular approach to building wealth, accounting for 43% of household wealth. Generally speaking, New Zealand does not have a capital gains tax, which also incentivizes real estate as an investment. However, in more recent times, New Zealand has introduced income tax considerations for residential investment property outside the family home if sold within 10 years. Housing affordability is

an issue in major New Zealand cities; this has seen a rise in New Zealanders investing in direct stocks via micro trading platforms as an accessible alternative to property. There are no tax incentives to holding assets in New Zealand over the long term, apart from investment properties.

Singapore



Most Popular Product Types

Direct equities (local and foreign)

Foreign-domiciled funds

Insurance-linked products

Real estate plays a crucial role in wealth creation as Singapore features one of the highest homeownership rates in the world. Like many of its Asia peers, it is rare for Singaporean investors to construct portfolios using a strategic asset-allocation approach.

The Central Provident Fund is a key pillar of Singapore's social security system and plays an important role in the investment and retirement planning of individuals. The contributions rate to the CPF, currently at 37% of monthly wages for most members, is the highest among the markets in the study and provides a high level of financial support for members when retirement comes. Members earn a guaranteed interest rate on their CPF savings, and they have the flexibility to invest their savings in a number of financial products via the CPF Investment Scheme, including funds, investment-linked insurance products, annuities, fixed deposits, bonds, shares, and gold. This contrasts with some of the pension schemes in this study that mainly rely on funds.

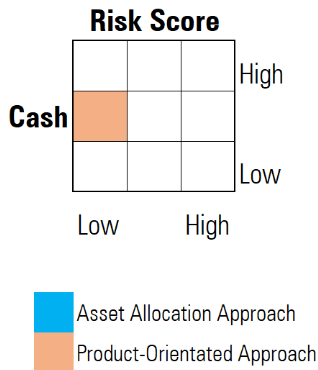
Singaporeans thus have a variety of investment options within and outside of the CPF. Stocks are the most common type of investment for local investors. Singapore stands out as one of only a few markets in this study without a capital gains tax, which encourages investment but can also potentially motivate short-term trading. Singapore investors have a penchant for income investing, particularly amid the low interest-rate environment that characterized the past decade. As such, income-generating investments, such as REITs, are popular among local investors. Indeed, Singapore has the largest REIT market in Asia ex-Japan, and the Singapore-listed REITs increasingly offer overseas property exposure for investors' diversification. REITs generate around a fourth of the trading volume on the Singapore Exchange and account for a much larger part of market capitalization in comparison to other markets.

Funds are widely available, although they are not the default investment vehicle for local investors. They are predominantly distributed through banking channels, where trailer fees (or retrocessions) are embedded in a fund's annual management fee as part of its ongoing total expense ratio paid by investors. In addition, fund distributors' frontline sales are incentivized to promote trading within clients' portfolios, leading to a product-driven portfolio construction approach, given that they typically earn transaction-based commissions based on sales volume. The product-driven approach, in contrast to a holistic consideration from a portfolio perspective, along with the low interest-rate environment, popularized income-distributing funds, such as multi-asset income funds. Some financial institutions and technology-driven financial advisors have started to offer portfolio-based solution services that cater to the overall risk and reward objectives of the clients.

It is also common for Singaporeans to hold life insurance policies. Notably, single-premium life insurance products have seen rising demand in recent years as they provide attractive yields on top of insurance coverage. These single-premium products do not require medical underwriting, which also contributes to their popularity. Nevertheless, while it is typical for households to consider life insurance as part of wealth planning, only a small portion of the life insurance market is investment-linked.

Housing makes up a significant part of the wealth for many Singaporeans, and the city-state boasts one of the highest homeownership rates in this study. The prevalence of homeownership is facilitated by the ability of Singaporeans to use their CPF savings for the down payment and installments when purchasing a home, as well as the availability of public housing in the city.

Switzerland



Most Popular Product Types

Fixed Income and Deposits

Direct equities (local and foreign)

Locally domiciled funds

Obligatory and voluntary retirement savings dominate the investment portfolios of retail investors in Switzerland.

Switzerland is unique as a popular destination for foreign investment and for its density of high-net-worth individuals, leading to a large and mature wealth management industry. However, despite the proliferation of financial advisors and services in the country, quality financial advice and investment products are not universally accessible to mass-affluent and retail investors.

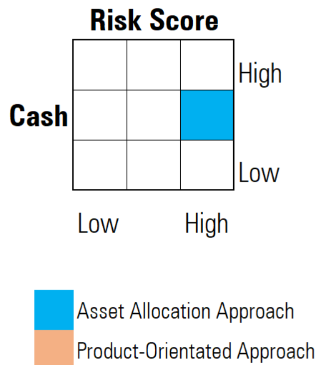
Like many countries around the world, Switzerland features a “three pillar” pension system, and the majority of savings for a typical Swiss investor will be held in a so-called “second pillar” workplace pension fund, which is often nontransparent and inflexible in nature. Employees must contribute a minimum percentage of their earnings to a pension fund selected by their employer, which can be as high as 6.7%. Voluntary contributions are welcomed, and since they are income-tax-deductible, most Swiss employees opt to make voluntary contributions and the typical contribution rate is 12.5%. There are roughly 1,500 independent pension funds operating in Switzerland, and the form and sophistication of their offerings varies widely, though most take the form of basic defined-benefit programs offering guaranteed interest rates.

As part of the third pillar, Swiss residents can further invest in retirement savings products on the private market. Individuals can contribute up to CHF 6,883 of tax-free income annually into so-called “3a” investment vehicles, which generally consist of allocation funds or life insurance products. According to Switzerland’s Federal Social Insurance Office, roughly a third of Swiss taxpayers owned 3a investment products on top of their regular pension investments in 2016. However, the attractiveness of these vehicles for investors seeking to invest more than the annual tax-deductible contribution amount is limited given their high fees and the narrow product range typically offered by banks.

Despite the maturity and sophistication of Switzerland’s wealth management industry for high-net-worth clientele and the population’s high financial literacy, mass-affluent investors do not universally receive quality advice when it comes to setting a strategic asset allocation and selecting investment products. This is reflected in the popularity of investment products with a strong home bias, as well as the high average percentage of household assets held in cash (roughly 30%). While some major banks offer advice-based fee structures to clients, many investors are still guided by bank advisors who are incentivized by sales commissions to encourage purchases of trendy products. Switzerland imposes no capital gains taxes on sales of financial securities, creating an incentive for frequent portfolio trading. This was counteracted historically by high transaction costs imposed by banks, but the recent introduction of low-cost trading platforms to the Swiss market has coincided with an increase in trading frequency by retail investors.

According to the Swiss National Bank, roughly 50% of total household wealth was held in real estate in 2021. However, only about 40% of Swiss are homeowners, as high down payment and income requirements limit accessibility to the real estate market. Those who do invest in property often opt for a uniquely Swiss mortgage structure in which annual interest payments are low, but the debt is never paid down. Other financial products, including pensions, stocks, and funds, thus remain an important element in Swiss investors' portfolios throughout their lives.

United Kingdom



Most Popular Product Types

Locally domiciled funds

Direct equities (local and foreign)

Foreign-domiciled funds

U.K. investors are willing to take risks, and collective investments such as funds are popular.

Investors in the United Kingdom have access to a wide range of investment products at a reasonable cost following the Retail Distribution Review of 2012, which banned trail commissions. While the financial literacy of the nation as a whole is on the lower end of the spectrum and only a small portion of the population that could profit from financial advice receives it ("advice gap"), the U.K. provides a fruitful ground for building a portfolio for investors with a reasonable level of capital and access to advice or some time in their hands.

For a retail or mass-affluent investor, collective investments such as open-end funds, exchange-traded funds, or closed-end investment trusts are the most popular vehicles, although direct investments in stocks are also commonplace. Locally domiciled funds are most common, but there is also plentiful access to Luxembourg- and Ireland-domiciled offerings. Many investors hold these in individual savings accounts, or ISAs, which are tax-exempt, and investors can deposit GBP 20,000 a year into them.

Further tax benefits are available through pension investing. Employees can sacrifice a percentage of their gross salary, avoiding income tax at the point of investing. They do not need to pay capital gains tax on holdings and can take a 25% lump sum tax-free as they start drawing down pension, with subsequent drawings taxed as income.

Pension investing has seen significant reform in the U.K. over the last decade. Autoenrollment requires employers to put qualifying employees in a workplace pension and contribute toward it. The 2015 pension freedoms significantly increased discretion over pension at retirement age. While defined-benefit pensions are still the dominant system, defined-contribution schemes are gaining ground, with new freedoms allowing individuals to remain invested during the drawdown phase.

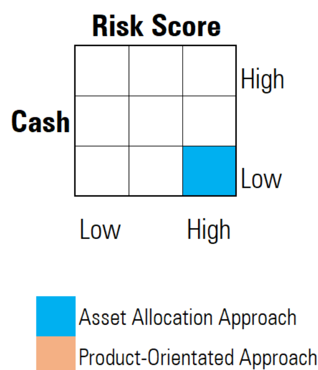
Only a minority of U.K. adults receive financial advice, with advisors looking for clients with a minimum of GBP 150,000. Many advisors make use of multi-asset funds or model portfolios, generally managed by a discretionary fund manager on an advised platform, although large advisor networks may offer an advisory model that advisors tailor for their clients. Do-it-yourself investing in the U.K. generally comes through a platform. Established platforms are coming under pressure from challengers that offer either simple investment products or no-fee trading and are targeting the digital generation. These challenger platforms are encouraging investments in crypto assets, with the percentage of U.K. investors owning them in the high single digits.

U.K. investors tend to have a home bias, but it has been decreasing over the years as the U.K. market has underperformed. U.K. investors are also happy to take on more risk, as denoted by equity weight, than many other nations.

Income investing remains popular in the U.K., perhaps partly as a result of pension freedoms. Building a portfolio that provides natural income to live off is seen by many as a priority. The U.K. equity market, with its many large dividend names, provides a natural target market for such investors. While housing and owning a home are important to U.K. residents, saving for retirement is a higher priority goal for many, with the median adult having more financial wealth than nonfinancial wealth (such as real estate).

Among newer investment products in the U.K. market are private debt propositions, which the British Business Bank says are growing rapidly; they are currently still generally available to ultra-high-net-worth investors only. The U.K. has been willing to promote private equity and private equity style investing by providing tax exemptions.

United States



Most Popular Product Types

Locally domiciled funds

Direct equities (local and foreign)

Annuities

Investors in the United States are comfortable taking on risks, and they typically construct their portfolios using a strategic asset-allocation approach.

Households across the United States display some of the greatest levels of comfort with investing, at least when measured by their high across-the-board participation in those markets relative to the rest of the world. Much of that is driven by a system that relies less on governmental support and more on personal savings for major life milestones and expenditures, such as college, healthcare, and retirement. As a result, it is not uncommon to see a smorgasbord of both regular and tax-advantaged accounts making up the portfolios of those in moderately affluent households; these include taxable brokerage accounts, 529 college savings plans, health savings accounts, retirement 401(k)s, and individual retirement accounts, to name just a few.

In fact, retirement accounts—particularly employer-sponsored ones—comprise the majority or plurality of assets for most investors. U.S. retirees can and do rely on the government-sponsored Social Security program to fund a portion of their retirement. But the share of retirement income replaced by Social Security payments quickly drops as workers move up the income ladder. Employer-sponsored defined-benefit pension plans, once the dominant source of retirement income for U.S. workers, have been falling out of favor for decades. Instead, corporations have moved to defined-contribution programs, shifting market risk off their books and onto the balance sheets of individuals. These defined-contribution plans typically rely on contributions from both employer and worker, with individuals responsible for making their own investment decisions.

That has helped to create a market rich with opportunities for asset managers and advisors able to capture those assets. A plethora of oftentimes cheap and commoditized investment advice tools and products has emerged, and well over half of mass-affluent households in the U.S. make use of them. That, plus a supportive regulatory framework, has helped U.S. investors build relatively well-diversified total portfolios. The U.S. Department of Labor’s almost two-decade rule giving target-date funds special status in employer-sponsored retirement accounts all but ensured this; those regulations helped ensure the market dominance of that investment type.

The higher levels of equity and other relatively more volatile asset classes seen in U.S. portfolios reflect the reality for most investors that meeting their college, healthcare, and retirement spending needs will require market appreciation and risk-taking. Even after taking into account the drift toward cash and cashlike assets during the coronavirus pandemic, U.S. investors still keep less of their portfolios allocated to cash than most investors around the world.

Consumer choice has also flourished in this individual-centric environment. The volume of options when it comes to mutual funds and exchange-traded funds dominates those of other markets, and U.S.

investors still largely stick to those standbys when building their portfolios. Directly investing in securities is also common, helped along by a tax code that encourages this, particularly for longer-term holdings. Product, technology, and marketing innovations around models, direct indexing, and separately managed accounts for the masses will help ensure that these investments and product vehicles remain key for U.S. investors. These investors show a strong willingness to try newer or more-esoteric products; environmental-, social-, governance-, and income-focused products have been the most popular, while cryptocurrency, structured products, and liquid alternatives have yet to gain mainstream traction or renewed interest. Cryptocurrency, in particular, faces major headwinds, as regulators have blocked ETFs and funds from investing directly in them.

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For More Information

Wing Chan (Wing.Chan@morningstar.com)
Matias Möttölä, CFA (Matias.Mottola@morningstar.com)

22 West Washington Street
Chicago, IL 60602 USA

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