SAUNDERSON HOUSE

Financial Wellbeing: Family, Tax and Inflation

Understanding the financial motivations and challenges facing High Net Worth Individuals

November 2021

Contents

Foreword

Welcome to Saunderson House's latest financial wellbeing report. I'm pleased to say that this is our fourth consecutive year looking closely at the issues and challenges facing High Net Worth Individuals (HNWIs), particularly with backgrounds in professional and financial services.

This year's research was conducted against a backdrop of the country gradually emerging from the pandemic and the economy opening up.

Some emerging trends from last year – a desire for greater work-life balance, a recognition of the importance of addressing climate change – are becoming more marked. But other priorities remain consistent, including the primary financial objective to support close family, and a heightened scepticism around the veracity of some Environmental, Social and Governance (ESG) initiatives.

In a period that saw many HNWIs increase their net wealth, it will be interesting to see how this additional money is deployed. Our research suggests that after a cycle of limited or relatively conservative financial activity – house renovations, UK property purchases and low risk investments – many of the people we spoke to are now keen to seize the moment.

If nothing else, the last few years have shown how adaptable and resilient we all are. But, looking at our research since 2018, it's clear to see that financial wellbeing is more important than ever, and it is much more than just a number.

Thank you to those of you who filled in our survey and participated in our focus groups. Thank you to Everywoman and Level20 for your participation in this research. As ever, please contact us if you have any comments or would like to discuss any of the issues raised in this report.

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Methodology

We surveyed 216 High Net Worth Individuals (HNWIs)[1] during July – September 2021 using an online platform. 154 respondents are Saunderson House clients, 41 are members of Everywoman (a membership organisation for women in business) and 21 are members of Level20 (a not for profit organisation dedicated to delivering gender diversity in the Private Equity sector). We also carried out two focus groups with Saunderson House clients via video call.

In terms of the age demographic, 63% (137 respondents) of those surveyed are Baby Boomers, 28% (60 respondents) are Generation X and 9% (19 respondents) are Millennials.

61% (131 respondents) of those surveyed are male and 39% (85 respondents) female.

37% (80 respondents) are retired, while the remaining 63% (136 respondents) work in some capacity. Around 60% of respondents are from the legal and accountancy sectors, the rest have a background in banking, management consultancy, technology or as entrepreneurs.

All percentages have been rounded to a whole number. For some statistics we have converted the score out of 5 into percentages. For example combining scores of 4 (agree) and 5 (strongly agree) to determine the percentage of overall agreement with specific statements or questions.

Definitions

Generations

For the purpose of this report, we define Millennials as people aged ***20 – 39***, Generation X as ***40 – 54*** and Baby Boomers as ***55 – 74***. Where relevant and significant, we highlight key differences between these three generations. In places, however, we compare the Millennial, or 'younger' generation to 'older generations', which we define as Generation X and Baby Boomers combined.

Responsible Investment

In this report, we use the term responsible investment as a catch-all term to cover ***ethical***, ***green***, ***sustainable***, ***impact*** and ***ESG-type*** investments. We feel that the term responsible best captures how our clients and similar HNWIs feel about the issue and investment approach.

High Net Worth Individuals

In this study, we define HNWIs as a person with approximately ***£500,000*** or more of investable assets (including property, minus liabilities).

Executive Summary

When considering the primary challenges to their financial wellbeing in 2021, HNWIs are most concerned about a potential deterioration in their wider mental and physical health. Almost half (47%) of respondents selected this holistic interpretation of financial wellbeing as one of their top three concerns.

Anxiety over the potential economic fallout from Covid-19 has dramatically reduced compared to 2020; so too have worries about individuals or partners losing their jobs. There is, however, a difference between generations – younger participants rank losing their job as the 2nd biggest concern, compared with Baby Boomers who rank it in 14th place.

Instead there is growing concern over inflation and tax rises, which to a large extent are consequences of the monetary stimulus that was provided during the pandemic. Many older respondents reference a worry that we may return to the difficulties experienced in the 1970s.

More widely, our research shows that people's horizons and perspectives have arguably narrowed in the last year. House renovations and second homes in Norfolk, Cornwall and the Kentish Coast have replaced purchases that would previously have been made in Malta, Majorca and the Amalfi Coast. In addition, a significant proportion of people living in London and other cities have moved to the UK countryside due to the introduction of flexible and remote working.

Likewise, the level of importance ascribed to relatively altruistic financial wellbeing options is dropping year-on-year. When asked about the importance of 'meeting financial responsibilities and expectations placed on me by others' the degree of agreement has dropped from 64% to 54%. So too when asked 'I feel a responsibility to use my wealth in a responsible way, helping to improve the environment and society', there has been a drop in agreement from 52% to 45%.

This is not however the case for immediate family – concern about children's wellbeing and future seems to have grown. Saunderson House advisers are holding many more discussions around gifting, with clients keen to make an impact at a much earlier stage in their family's lives. Feather-boosting[1], a trend we identified in 2019, has received a major shot in the arm during the pandemic.

In contrast, macro issues which affect everyone, such as damage to the environment, have increased in importance and pertinence in people's minds. Climate change is now in the top five concerns when it comes to financial wellbeing.

Our research shows there is still a great deal of scepticism amongst HNWIs around responsible investing. Only 13% of HNWI respondents trust in the integrity of the ESG industry. Despite this, many participants in our focus groups note that they feel the need 'to do something' for the younger generation in this area.

[1] *A key finding from Saunderson House's 2019 report is that older HNWIs are keen to feather-boost, as opposed to feather-bed, children and grandchildren i.e. provide targeted financial support at key life moments - university fees, house - rather than provide a regular tap of money.*

When it comes to responsible investing attitudes, our research suggests the industry needs to work harder to communicate in a reliable and consistent manner.

This is particularly important while inflation is rising, which often causes investors to sway more towards conventional stocks. The spectre of inflation could seriously diminish the lasting impact of COP26 (the global climate summit).

Covid-19 has demonstrated a level of adaptability and resilience in all of us that has surprised many. However, HNWIs appear to doubt their ability and knowledge when it comes to financial resilience. For example, less than a third (32%) say they are able to potentially withstand a long-term economic crash, and the same percentage say they feel knowledgeable about paying for long-term care.

Our research findings from 2021 show that financial wellbeing remains a critical and challenging goal among HNWIs across the country.

"I think that the older generation is beginning to understand wellbeing and how it relates to health, and want to get to a situation where our children can achieve it. Money is part of it, but it's actually much more nuanced than that."

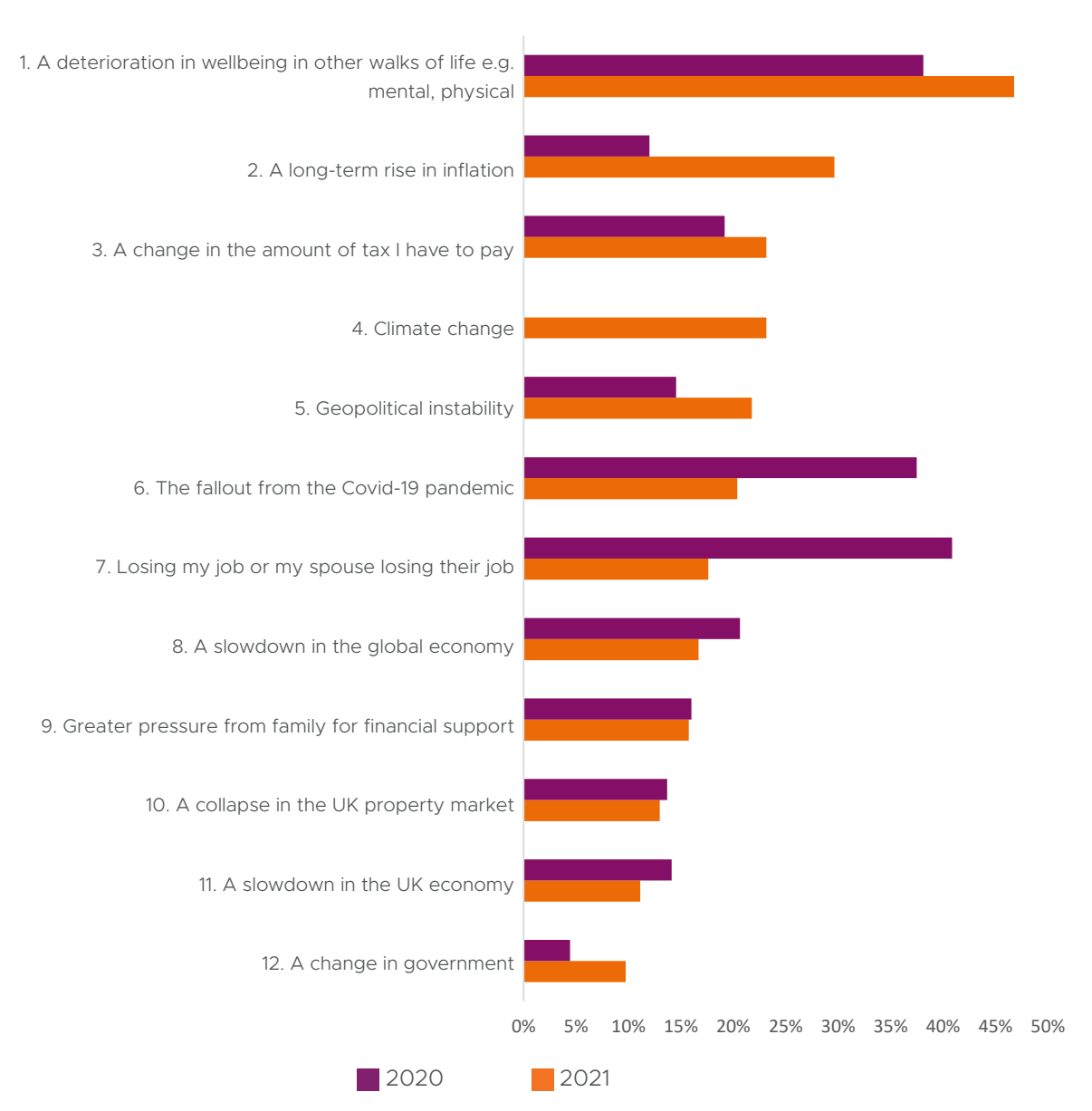
Retired Big 4 Accountancy Partner

Financial Wellbeing

A deterioration in general wellbeing remains the top concern for HNWIs for the second year running, with 47% of respondents choosing this as one of their top worries.

Recent events have brought wellbeing in 'other walks of life' to the forefront, with a conflating of 'financial wellbeing' with 'mental' or 'physical' wellbeing. At the same time, respondents indicate more confidence over their own job security as compared with last year.

When it comes to your financial independence and financial wellbeing, which of the following are you most worried about?



The top financial wellbeing concerns in 2021 (participants could select up to three) and how their relative importance has changed since 2020. Climate change was introduced as an option on the survey this year.

Inflation and taxation

Concern has also turned back to the domestic financial situation in 2021, with anxiety over inflation increasing, and featuring in the top 5 financial wellbeing concerns for the first time since 2018. In 2019, inflation ranked as the 6th in people's concerns, falling to 11th last year with only 12% choosing it as a top concern.

In focus group discussions, many spoke about the fear of returning to the 1970s:

> "I'm old enough to remember what inflation did to my parents, they were almost my age when [1970s] inflation completely eroded all the money they had"
>
> ***Legal Professional***

Others raised the issue of rising taxation, discussing the potential scenario of moving abroad, should the UK regime change:

> "I think [taxation] is just going to be a very alive topic, and it's only going to move to the forefront in the future. I was speaking with my wife, do we stay in the UK, or do we move elsewhere in the future if it gets very punitive?"
>
> ***Accountancy Professional***

Respondents do not appear to associate these national economic concerns with the recent Covid-19 pandemic.

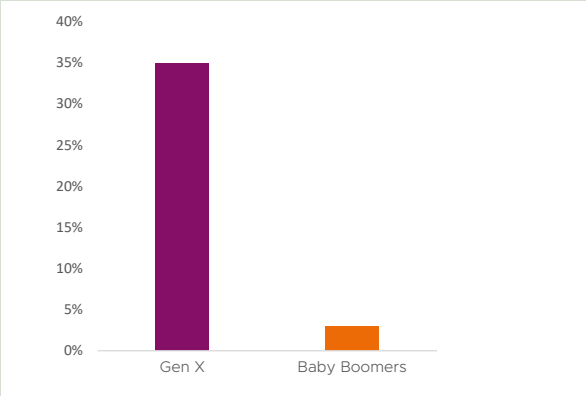
The number of people concerned over the fallout from the pandemic has halved, from 37% in 2020 to 20% in 2021. Nor do respondents worry that their financial wellbeing will be affected by a change in government or global economic conditions. Instead, inflation and taxation are two primary and growing concerns.

However, while the older generations may not be concerned about their personal job security, many in our focus groups shared their worries for their children's futures. As observed in our 2020 report, recent events have seen an increasing inclination amongst older HNWIs to 'feather-boost' their children.

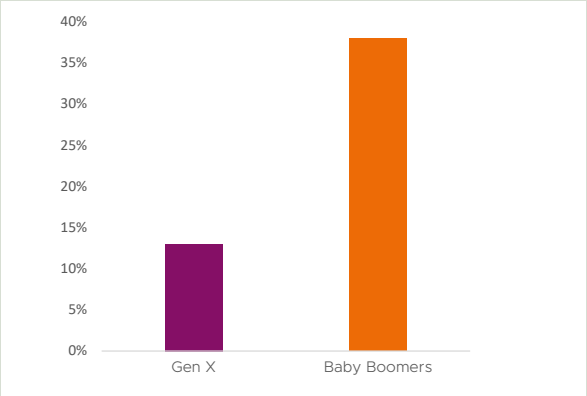
> "...there is added uncertainty to life which they [my children] need to face in the future, which they can't easily cater for [...]. I worry more for their financial future than I would have done 18 months ago"
>
> ***Legal professional***

> "I am very concerned about mental and physical health, wellbeing, not so much for us, although it is important to us, but actually very much more for the next generation. The stresses on my children at the moment [...] cause us actually quite a lot of concern"
>
> ***Retired Big 4 Accountancy Partner***

Losing my job or my spouse losing their job



A long-term rise in inflation



Percentage of people who chose these options as one of their top three concerns regarding their financial wellbeing

Generational Divides

Within those surveyed, the biggest disparity in responses is between the generations. As we have seen in previous years, 'losing my job or my spouse losing their job' is a key concern for Gen Xers, in comparison with 'a long-term rise in inflation' being of significant concern for Baby Boomers.

Ranking financial wellbeing factors

More than ever, people view general wellbeing as being directly linked with financial wellbeing. The top three factors considered important to maintaining financial wellbeing are all associated with mental and emotional wellbeing.

4.8/5	4.5/5	4.4/5
1. Having mental and physical wellbeing	**2. Feeling happy with the state of my finances**	**3. Having clarity and confidence over my future financial plans**

Importance vs Ability Gap

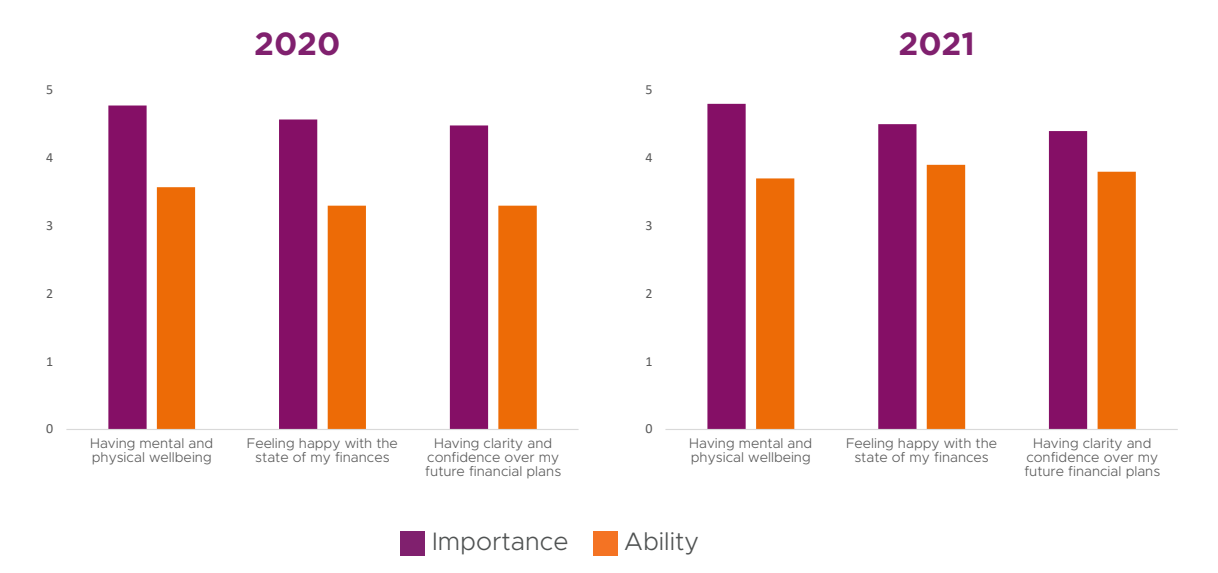
There remains a significant gap between the importance ascribed to the top three financial wellbeing factors and HNWIs' perceived ability to achieve them.

General wellbeing is HNWIs most important factor, yet their perceived ability to achieve 'wellbeing in other walks of life including mental and physical wellbeing' is low. The importance-ability gap of 4.8/5 vs 3.7/5 is the largest gap across all wellbeing factors.

The issue of general wellbeing was also highlighted as important during our focus groups, including the wellbeing of the participants' children and dependants. Saunderson House's research over the past four years suggests that general health and wellbeing is increasingly integral to financial wellbeing. It's critical that HNWIs consider financial wellbeing holistically. This includes having conversations with financial advisers about what worries them – what keeps them up at night – and what financial solutions are available to reduce these concerns.

Whilst the importance-ability gap for general wellbeing has remained about the same as last year, the gaps for the other two of the top three factors: 'Having clarity and confidence over my future plans' and 'Feeling happy with the state of my finances' have both narrowed. This is a good sign and may reflect that last year's research was completed mid-pandemic during a period of greater uncertainty.

Importance vs Ability Gap



Score of 1 = not at all important / not at all able, 5 = very important / very able

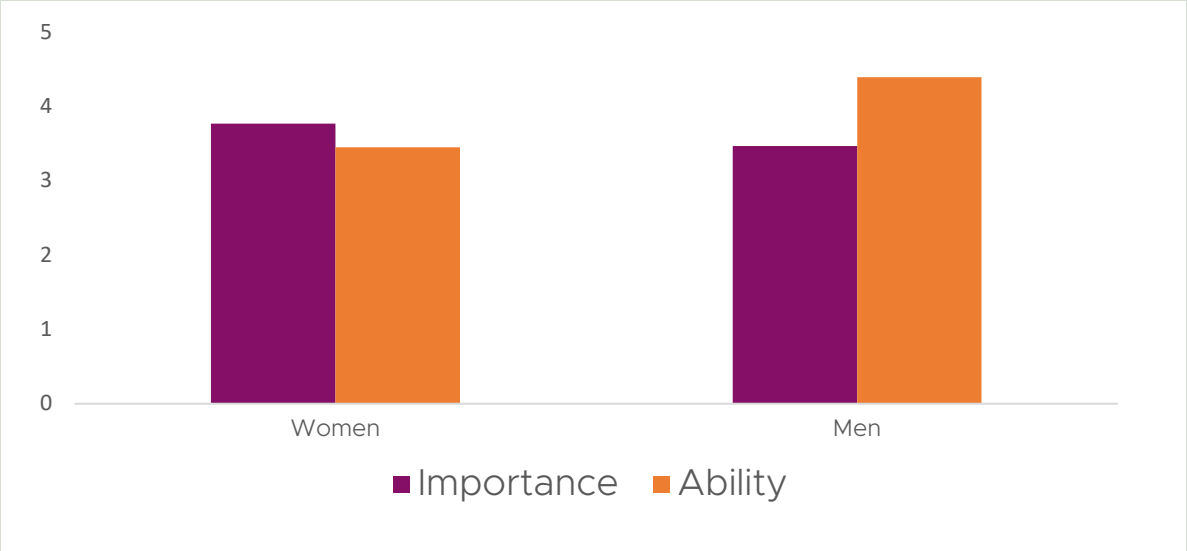
Gender differences

The importance-ability gap is still more of a problem for women, as highlighted in our report last year ***Financial Wellbeing and Women – Closing the Advice Gap***.[2] Women report a significantly larger gap for 'Having clarity and confidence over my future plans' and 'Feeling happy with the state of my finances'. The average difference between importance and ability is 1 point for women when it comes to 'Feeling happy with the state of my finances' (4.5 vs 3.5) compared to 0.3 points (4.4. vs 4.1) for men.

Women also report an importance-ability gap for the financial wellbeing factor: 'Reaching a point where I don't need to work purely for the money', whereas men actually rate their ability as higher than importance for this factor. Men, on average, rank their ability at 4.4 compared to 3.5 for its importance, whereas women rank its importance at 3.8 and their ability to achieve it at 3.4. There is a 1 point ability gap between genders. Further research is required to identify how this gap might be bridged by building capability, or whether the perceived lack of ability is a misperception.[3]

Saunderson House will be publishing a second financial wellbeing report later this year focusing on the gender differences from our research.

'Reaching a point where I don't need to work purely for the money'



Score of 1 = not at all important / not at all able, 5 = very important / very able

[2] *Financial Wellbeing and Women – Closing the Advice Gap: https://saundersonhouse.co.uk/wp-content/uploads/2020/12/Financial-Wellbeing-and-Women-Closing-the-Advice-Gap.pdf*

[3] *Female respondents to the survey were relatively evenly spread across all age ranges, with a lower average age than male respondents. This may affect their perceived ability to achieve key financial goals.*

Covid-19 and Financial Resilience

Despite concern over the fallout from the pandemic halving in the past year, two-thirds see the pandemic as likely to have a lasting legacy. Almost half (44%) consider the Covid-19 pandemic as having changed the way they see the world.

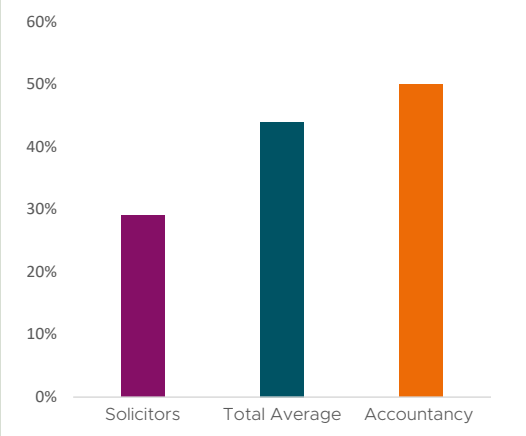
This change is not in how they intend to invest or plan financially, with 88% not intending to alter plans or investments as a result of the pandemic, but is instead a change in their general world-view, as reflected on in our focus group discussions:

> "I think most people have accepted that their horizons have shrunk [...] I used to go to museums, movies [...] I think most people have realised that their ability to do these things has changed and you have to do different things now."
>
> ***Legal Professional***

In our focus groups, many spoke about how the pandemic has caused a re-evaluation of their priorities:

> "I guess it's made us all realise how lucky we were before the pandemic came along. [...] you notice how much you took things for granted that maybe can't be taken for granted anymore."
>
> ***Legal Professional***

"The coronavirus pandemic is changing how I see the world"



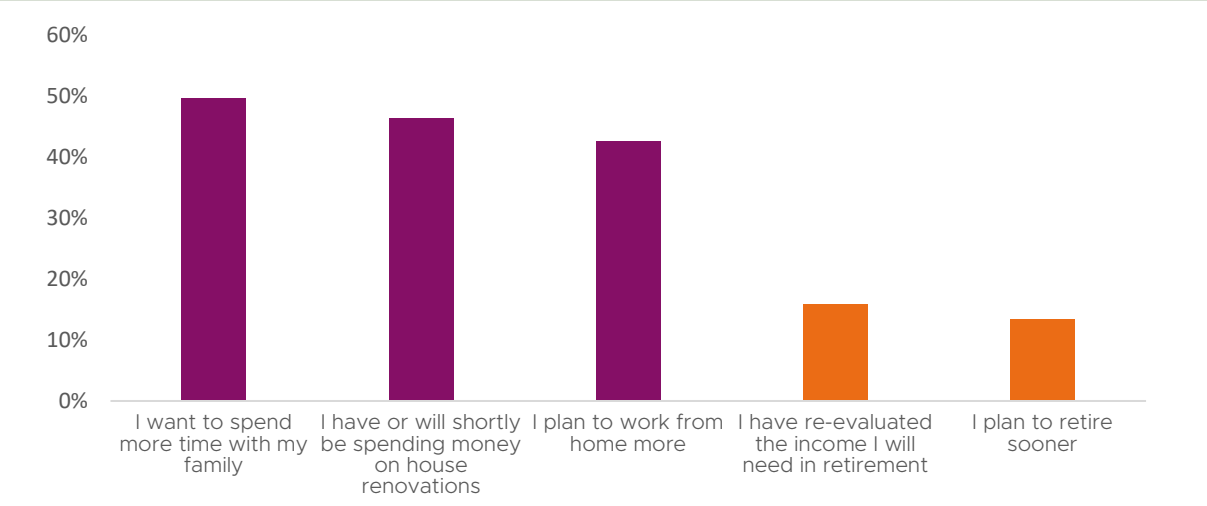
Percentage of respondents who agreed or strongly agreed with the statement.

Half of accountants said the pandemic has changed their world view, whereas only 29% of solicitors agreed with this sentiment.

Top financial objectives that have been impacted most by Covid-19 all relate to the home, reflecting an increased focus on personal lives and family, with 50% expressing a desire to spend more time with their family, 46% spending money on house renovations and 43% planning to work from home more.

HNWIs are increasingly seeing that financial wellbeing – as integrated as it is now perceived as being with general wellbeing – starts at the home and in the family.

Thinking about the impact of the Covid-19 pandemic on your financial objectives, please select any of the following options which apply to you:



Percentage of respondents who agreed or strongly agreed with each statement.

For many HNWIs, the pandemic has resulted in wealth gain, as lockdowns resulted in less spending and anti-pandemic policies such as ultra-low interest rates boosted asset prices. Credit Suisse's 2021 global wealth report forecasts that the world's wealth stocks, including financial and non-financial assets, such as property, will grow by 39% over the next five years, reaching $583tn by 2025.[4]

While the pandemic has created a financial environment that has benefited many HNWIs, the social and cultural shifts brought about by coronavirus has prompted these individuals to be more inclined to spend their money than before, as one of our focus group participants explained: "there's no pockets in a shroud. If we want to do stuff, now is the time to do it, and not actually wait for three or five years for something to happen."

Our previous reports have observed a greater desire amongst Millennials to 'live in the moment' regarding their finances. Our conversations with older HNWIs and the respondents to our survey suggest the ideological gap is narrowing and that Baby Boomers are increasingly sharing this sentiment with their younger counterparts.

With the renewed focus on the home and the family, many HNWIs spoke of their desire to spend their wealth not only on themselves but also their children.

"Throughout this past year, I have seen a marked increase in the number of clients wanting to have conversations about making gifts to family members. I am also having more meetings with children of clients about financial planning. Not only are clients wanting to spend their money more but increasingly children are being brought directly into the discussion."

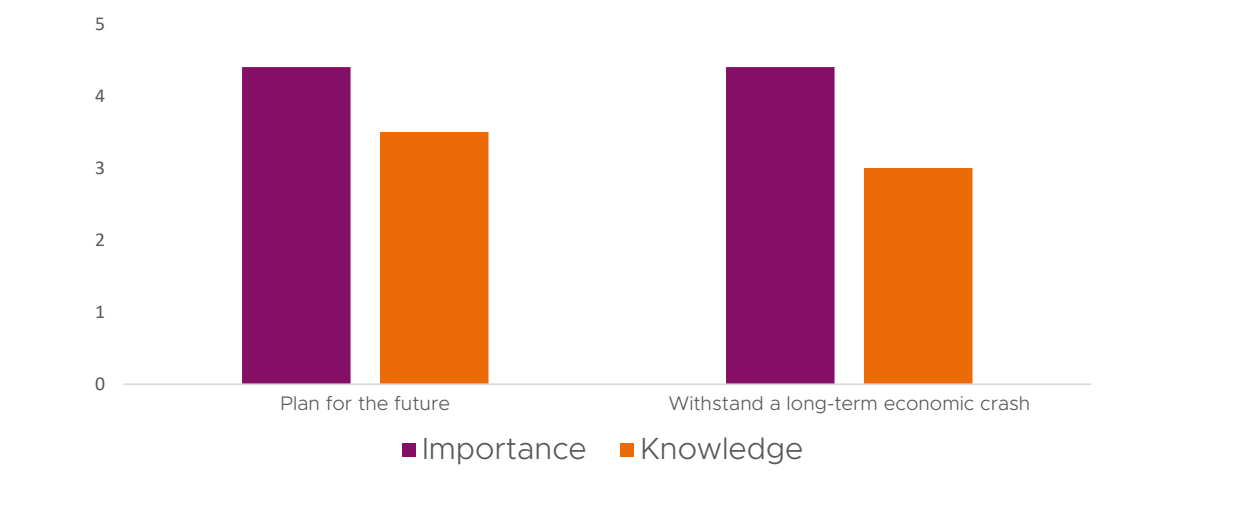
Kirsten Pettigrew,
Chartered Financial Planner, Saunderson House

[4] *https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html*

With regards to HNWIs' views on their financial resilience, 'Guidance and/or clarity over when I have achieved financial independence' and 'Having a clear set of financial objectives' continue to be top priorities. The survey shows a distinct gap between the importance with which people view various factors versus their knowledge of how to achieve them.

HNWIs are increasingly concerned about macroeconomic issues such as long-term inflation and changes in taxation rates. Consequently, HNWIs are uncertain about their ability to withstand future events and, perhaps more significantly, they are increasingly aware of the need to be prepared.

Importance vs Knowledge Gap



Score of 1 = not at all important / not at all knowledgeable, 5 = very important / very knowledgeable

In focus group discussions, some spoke of seeking assurance from their financial adviser of their ability to withstand future economic turmoil:

> "When I had my annual review [...] we spent most of the hour discussing inflation, Saunderson House's view of the outlook on it, what you thought would happen. And so we did dig quite deeply into your thinking on that. And I found that useful."
>
> ***Legal Professional***

Our research consistently finds that HNWIs value communication with their financial adviser about financial wellbeing, with two-thirds rating 'regular conversations' as desirable or very desirable in 2021.

This year's research suggests that regular communication on financial resilience with an adviser could also be beneficial to address the 'knowledge' gap expressed by those in the survey.

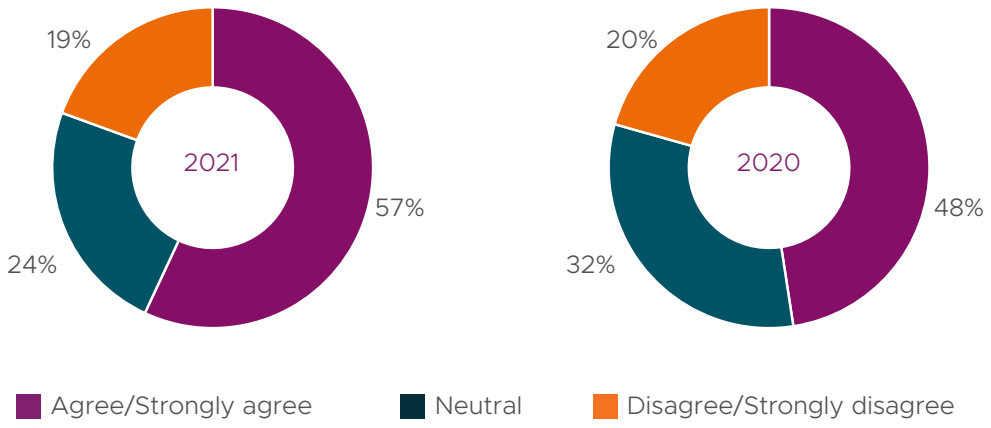
Responsible Investment and COP26

The majority of respondents feel that ESG investments should form part of their portfolio. The percentage who agree with the statement 'There is a place for ESG, but only as a part of my portfolio, it's not realistic to solely invest in ESG' has increased compared to last year with this 'flexitarian' option still the most popular amongst HNWIs. 57% of respondents agreed with that statement, compared to 48% last year.

It is likely that increased media and sociocultural focus on these topics has made more people consider responsible investments. In addition, pressure to invest responsibly may have come from the younger generation and the children of HNWIs, as one of our focus group participants noted: "the way the young people talk… a lot of their outlook is very much going in that direction."

"There is a place for ESG but only as part of my portfolio, it's not realistic to solely invest in ESG"

Proportion of respondents who agreed, disagreed, or were neutral in 2021 vs 2020



In our focus groups, there were strong opinions on ESG. Many are supportive of responsible investing in principle, but there is also a deal of scepticism. This is often around the integrity of the responsible investing industry and the concept of 'greenwashing' - only 13% of respondents agree with the statement: 'I trust in the integrity of the ESG investment industry'. There are also differing opinions as to whether individual investors could actually create an impact, or whether it is the responsibility of large institutional investors, or even private organisations to do better in terms of ESG.

"I think it's more important for investment managers and funds to put continued pressure on corporates in terms of ESG, than the choices individual investors make."

Accountancy Professional

"I think you can't isolate the responsibility of being green from any business."

Retired Senior Executive

"I've always felt that you can make a difference in whatever you do, even if it's only a small difference, and that it's important to do those things to make that difference. So I think personal responsibility on that level is important."

Legal professional

Olly Cheng, Saunderson House Associate Director observes: "The focus groups revealed how important climate change and other ESG issues are to HNWIs but that they do not yet necessarily see responsible investing as the way to deal with it."

In addition, HNWIs we spoke to feel they need to be convinced of the financial argument behind responsible investing, and to be assured it would not ultimately impact their returns. In our survey, only 37% of HNWI respondents agreed with the statement 'Investing in ESG funds makes good business sense'.

Despite the scepticism, there is clearly an interest in the area, as Saunderson House assets under management in its Responsible Investing product have risen from £10-15 million to over £150 million in a year.

Several HNWIs we spoke to raised the point that ESG issues have been oversimplified and are spoken about in reductionist terms. Our research suggests that the investment industry needs to ensure when communicating to clients about responsible investing that they go into sufficient depth and do not treat the issue superficially. Communications should also include clear explanation of both the positive impact and financial rationale for responsible investing.

This would potentially greatly increase uptake, as one Saunderson House client explained: "my instruction to Saunderson House is to maximise profits. If they can do that and invest in ESG companies, then that's absolutely fine by me, and if they can actually get the same return and put more into ESG companies, that's brilliant."

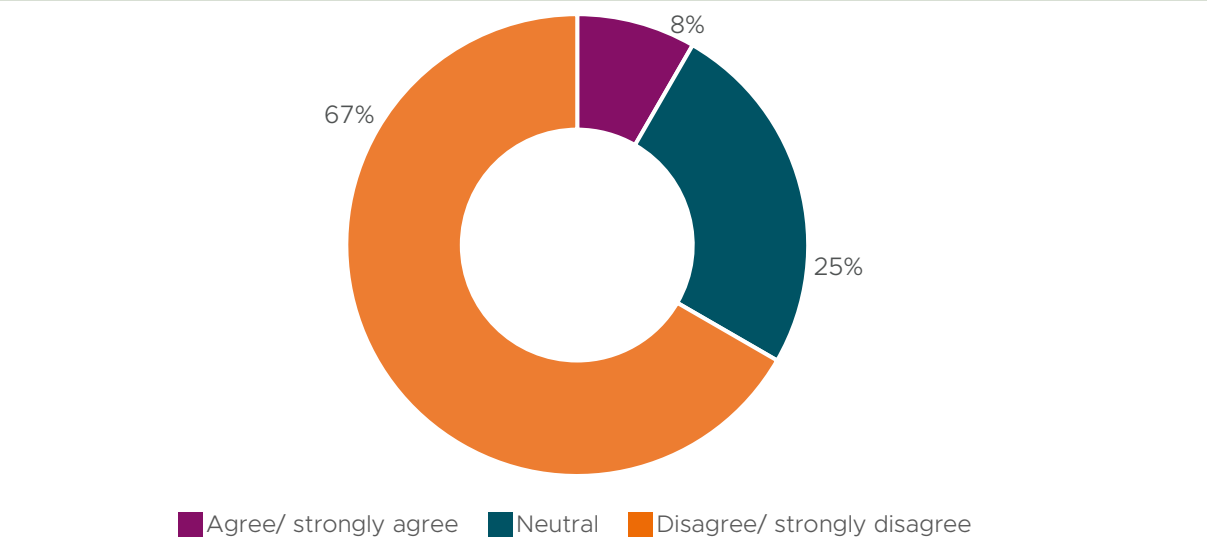
"Interest in our responsible investing product has grown exponentially since we introduced it last year. I understand the natural scepticism amongst our clients around the investment industry's intentions in this area, but once we explain to them how the Saunderson House product approaches responsible investing – through rigorous examination of the fund houses and the veracity of their ESG credentials, our clients are reassured of the integrity of our product."

Bogdan Pop, Investment Analyst Saunderson House

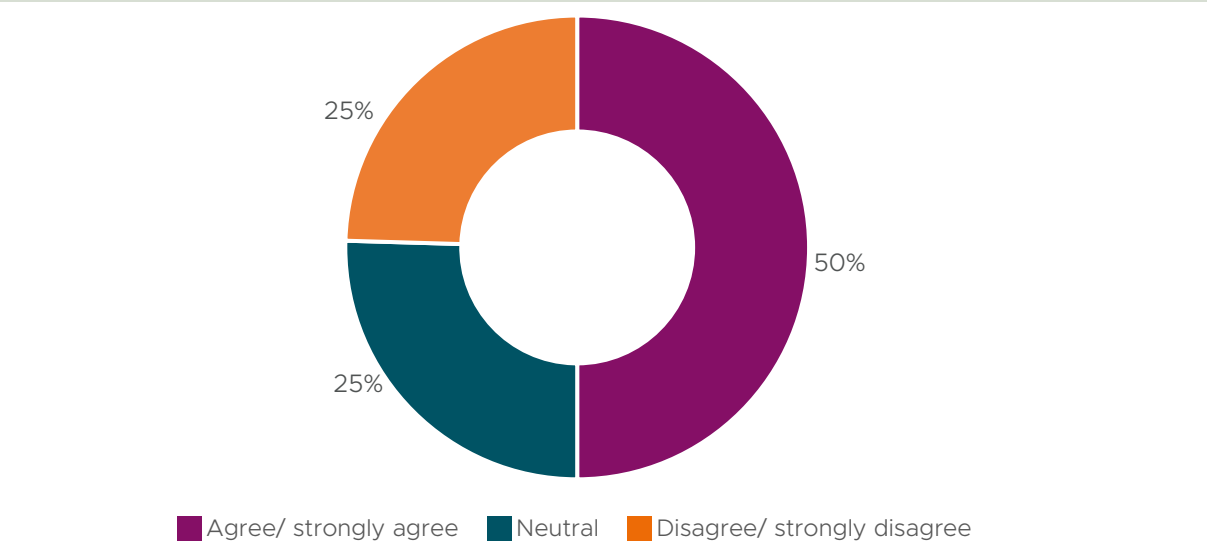
COP26

Although general awareness of ESG and climate change issues have increased, the run up to COP26 does not appear to have had a positive impact on HNWIs views of responsible investing. Only 8% agree with the statement 'The fact COP26 is being hosted in the UK this year has increased my focus on the importance of responsible investing'.

"The fact COP26 is being hosted in the UK this year has increased my focus on the importance of responsible investing"



"COP26 has no impact on how I view ESG investments"



Percentage agreement of respondents with each of the statements.

Climate change is clearly viewed as an important issue (as highlighted by the top financial wellbeing concerns in the survey), but the jury is still out on how to address it. In the focus groups, some displayed cynicism about the impact of COP26, however, most recognise that large scale change will depend on government policy: "There's no question that changing the course of history, which is what we need to do, requires action at a governmental level."

Emerging Trends

Financial Resilience

Most HNWIs have remained financially resilient throughout the pandemic. However, their general wellbeing has not been as straightforward to maintain and remains the top concern, possibly heightened by the strain that the pandemic and multiple lockdowns have had on everyone. Concern about children's financial resilience and wellbeing is a growing trend.

Family Conversations

The gradual increase in the number of HNWIs having conversations with their family about wealth has been one of the key trends of our research since 2018. A recent article in the Financial Times[6] notes that just under 50% of UK parents propose to split their wealth unequally between their children when they die. Research published in the Telegraph[7] showed that legal disputes over inheritance have increased in the last year. As family structures become more complex, it is important to speak to an adviser about how to best inform all parties involved about your financial decisions or equally to understand the likely consequences if you choose not to have the conversations at all.

Eco-anxiety

Recent research published in the British Medical Journal suggests that 'eco-anxiety' – the chronic fear of environmental doom, is prevalent amongst young people and its damaging psychological impact has been underestimated.[5] It appears that many in the older generations are also feeling this anxiety. Responsible investing could therefore be a way for HNWIs to improve the wellbeing of their children, by reassuring them that they are doing something about the crisis.

Micro and Macro perspectives

In one sense, world views have shrunk – there is a clear focus on spending more time with family and focusing on home renovations and UK property investment rather than abroad. On the other hand, the bigger macro issues such as climate change are coming to the fore, and there is a sense from older generations that they need to 'do something' for the younger generations. Whether this 'something' is to be achieved through responsible investing is still up for debate.

Pressing concerns

Covid-19 has necessitated re-evaluation of financial planning – the past 18 months should be seen as a stress test for clients to see whether they are prepared for the unexpected. However, the wider economic narrative is likely to be dominated by concerns around tax rises and inflation for the next 12 months.

[5] *'Eco-anxiety': fear of environmental doom weighs on young people | Anxiety | The Guardian*
[6] *Half of UK parents plan to treat children unequally in their wills | Financial Times (ft.com)*
[7] *Family feuds over wills hit all-time high (telegraph.co.uk)*

Conclusions

Financial wellbeing is increasingly synonymous with general wellbeing. Sparked by the Covid-19 pandemic, some HNWIs have re-evaluated their approach to wealth, developing a 'carpe diem' attitude. Instead of changing their approaches to investing, HNWIs are instead channeling this new attitude into their home lives, as they seek to improve their homes and revaluate their work/life balance.

Inflation and tax have re-emerged as prominent financial wellbeing concerns, perhaps now that pandemic uncertainty and worries over a change in government are less at the forefront of people's minds. While HNWIs are less concerned about the impact of the pandemic than they were last year, the resulting behavioural and mindset shifts appear to be sticking and most HNWIs believe there will be lasting change in the world.

Despite people's world views becoming smaller, and priorities becoming increasingly focused on the home and family, the universal issue of climate change is also rising to the fore. There remains a high level of scepticism around ESG and responsible investing amongst HNWIs that the industry must address. Our discussions with individuals, however, have indicated an openness to engage in these conversations, should the messaging be catered appropriately. HNWIs value a nuanced and transparent discussion on ESG.

Recommendations

1. Seek guidance and support from a financial adviser. Year on year, HNWIs say that their financial adviser has the highest-level understanding of their needs. Consider asking your financial adviser to conduct scenario planning, including for inflation, and draw up cash flow forecasts. Also ask your adviser about tax optimisation.

2. Have a holistic conversation about finances with your family. More and more time is being spent with family, and the home has become a central part of people's lives again. As priorities are re-evaluated and all of us have undergone change, it is a good opportunity to have these conversations, which could be mediated by a financial adviser.

3. Consider acting sooner rather than later and supporting your beneficiaries earlier via gifting or feather-boosting. The pandemic has shown it is important to plan ahead for your family, in case of unforeseeable external events.

4. Have an in-depth conversation with your financial adviser about responsible investing. The picture is not as simple or binary as is often presented in the media or elsewhere. Your financial adviser can discuss with you the nuances of different options, the impact you can make and how it will affect your returns.

5. If you're worried about your children's wellbeing, discuss options for supporting them with your financial adviser. These conversations don't need to be about net worth, they should be about using your wealth to reduce the importance-ability gap for your children's wellbeing.

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