

FINANCIAL SERVICES

## Billionaires safeguarding wealth with shifting investment strategies

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UBS' report found that billionaires are expected to invest more in sustainable causes. Image credit: UBS

By SARAH JONES

Driven by volatile equity markets and geopolitical uncertainty, the collective wealth held by billionaires fell in 2018 for the first time since 2015.

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A new report from UBS and PricewaterhouseCoopers tracks both the financial status of billionaires and their significant impact on business and philanthropy, dubbing it "The Billionaire Effect." While billionaire wealth decreased last year by 4.3 percent, these individuals have grown their assets by 34.5 percent over the past five years, reaching a total \$8.5 trillion.

"Whether we're talking about philanthropy, or sustainable investing or just successful leadership of outperforming and exceptionally performing companies, I think the billionaire group is a force," said John Mathews, head of private wealth management and ultra-high-net-worth at [UBS Global Wealth Management](#). "Even though it's a very small group or population in this 7.7 billion person world that we live in today, they create very outsize outcomes.

"This is not about swashbuckling, app creating people running around out of their garages making a lot of money," he said. "These typically and generally are folks that it's taken decades to create this wealth."

### Asset adjustment

Billionaires' wealth tends to track the performance of equity markets.

The strongest decline in wealth last year was seen among billionaires in Asia Pacific, with these individuals' collective net worth shrinking by 8 percent. The number of Asia Pacific-based billionaires also decreased by 7.4 percent.

This region was partially hit by slowing growth in China, as the government tightened regulations. Despite a 12.3 percent decline in wealth among Chinese billionaires, the nation's ultra-wealthy have seen significant asset growth over the past half decade of 202.6 percent.

According to Hurun, 2017 saw a massive explosion in global growth of billionaires, with China seeing an average of

four new billionaires a week ([see story](#)).



*The number of Chinese billionaires decreased last year. Image credit: Mandarin Oriental*

European billionaires also saw their wealth decrease by 6.8 percent.

The Americas contrasted the downward trend, adding 33 new billionaires. Billionaires living in the Americas saw only a slight increase in their total wealth of 0.1 percent.

Also going against the trend were tech billionaires, whose collective wealth increased 3.4 percent last year. In the last five years, tech leaders have also seen their wealth almost double, surpassing the average billionaire wealth growth.

Over the last five years, the number of female billionaires has risen at a faster rate than the population of male billionaires, 46 percent to 39 percent. Women billionaires' wealth has increased by 26 percent since 2013.

Amid a challenging financial climate, billionaires are reacting with their investment plans.

Twenty-two percent of advisors who work with billionaires say that their clients are changing up their investment strategies. An additional 13 percent expect billionaires to make a change in the next year.

One of the trends is the monetization of business, with 33 percent of advisors saying clients have sold a business in the last 12 months. After selling, these clients often take their proceeds and invest them in other private companies.

"It's quite hard to predict the future, but our research shows that for these leading entrepreneurs, the road will be rocky," said Solita Marcelli, deputy head, chief investment office America at UBS Global Wealth Management.

"They're primed for a much more difficult environment for the next five years.

"Billionaire entrepreneurs are usually very pragmatic, and they are well versed in terms of operating their businesses in all economic and market conditions, but their sentiment is more cautious," she said. "And as a result, what they are doing is they're diversifying for tougher times."

Another area of investment that is picking up is putting money towards sustainable and impact-based ventures. While 7 percent of advisors have clients who have invested in these causes over the last 12 months, 16 percent expect that their clients' interest in these investments will grow in the next year.

About four in five of the 500 wealthiest billionaires are publicly philanthropic. Education is the leading topic of interest, followed by health.



*UBS' Development Impact Bonds focus on providing a measurable impact. Image credit: UBS*

Even though philanthropy has long been a significant investment focus for billionaires, these cause-based donations are evolving to be more impact-oriented. Rather than just wanting a name on a building at a college or giving a grant, these individuals are focused on actually making a difference through their money.

This has led to a more targeted, data-driven approach. There is also an emphasis on collaboration, as billionaires band together with other philanthropists to make a greater impact, or the ultra-wealthy partner with existing organizations instead of starting their own foundations.

"We think they're making an impact on the world, and being able to take risk in philanthropy is really translating to the rest of the universe to say, "That is tried and true and tested, let's do that as well," said Judy Spalthoff, executive director, head of family and philanthropy advisory Americas at UBS Global Wealth Management.

"It's really accelerating the growth, especially since we have just under 11 years to get to the 17 Sustainable Development Goals," she said. "How do we sort of bridge the gap between achieving those goals and what's needed in the private marketplace in philanthropy?"

Banding together, a number of the world's wealthiest have signed the Giving Pledge, promising to give the majority of their wealth to philanthropy.

#### Billionaire effect

According to Wealth-X, billionaires are largely older, with half of the population in the United Kingdom and U.S. over the age of 70. These individuals also tend to be self-made, with 57 percent having created their own wealth ([see story](#)).

Over the past 15 years, companies owned by billionaires have achieved returns on the equity market that are almost double the average, owing to their strategic risk taking, dedication and long-term focus. Whereas the MSCI index has increased 9.1 percent during this time, publicly listed billionaire businesses have seen returns of 17.8 percent.

Billionaire-led companies are also more profitable, with a return on equity of 16.6 percent compared to the average 11.3 percent.

Rather than thinking quarter to quarter, billionaires and their families tend to consider their strategies on a more long-term basis. For instance, one client family planned on a 100-year timeline.

These companies are also looking globally for new opportunities.

"We can learn immensely from [billionaire's] global outlook and from their obsessive business focus," said Ms.

Marcelli. "Not only are they constantly scanning the world for new opportunities, but also they're following those opportunities to wherever it may lead.

"Billionaire entrepreneurs understand their clients really well. And therefore they take that, and then they go ahead and innovate relentlessly," she said. "And their long-term orientation usually manifests itself in two ways: one is their laser focused research and development concentrated on those companies that are most likely to create future value, and secondly it's their continuous investment in their workforce."

One of the key factors that determines how successful a business will be is whether the founder remains involved and in control. According to Mr. Matthews, holding onto a family business is also one of the key ways that billionaires can safeguard wealth.

Given the volatility of the list, entrepreneurialism is one way individuals can strategize to stay in the billionaire club.

"Just because you become a billionaire doesn't mean you stay a billionaire," Mr. Matthews said.

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