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## BILLIONAIRES

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### INSIGHTS

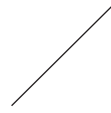
*Are billionaires feeling the pressure?*

### **A FEW WORDS ABOUT OUR RESEARCH**

Following our first comprehensive reports on billionaire wealth in 2015, we continue our investigation into this historic era of wealth generation. This year we have analyzed data covering 1,397 billionaires and looking back two decades. Our database includes the 14 largest billionaire markets, which account for around 80% of global billionaire wealth. Further, we've conducted over 20 interviews with billionaire advisors and further

face-to-face interviews with more than 30 billionaires and approximately 30 of their heirs. UBS and PwC advise a large number of the world's wealthy and have unique insights into their changing fortunes and needs.

*For more information see our disclaimer on page 27.*



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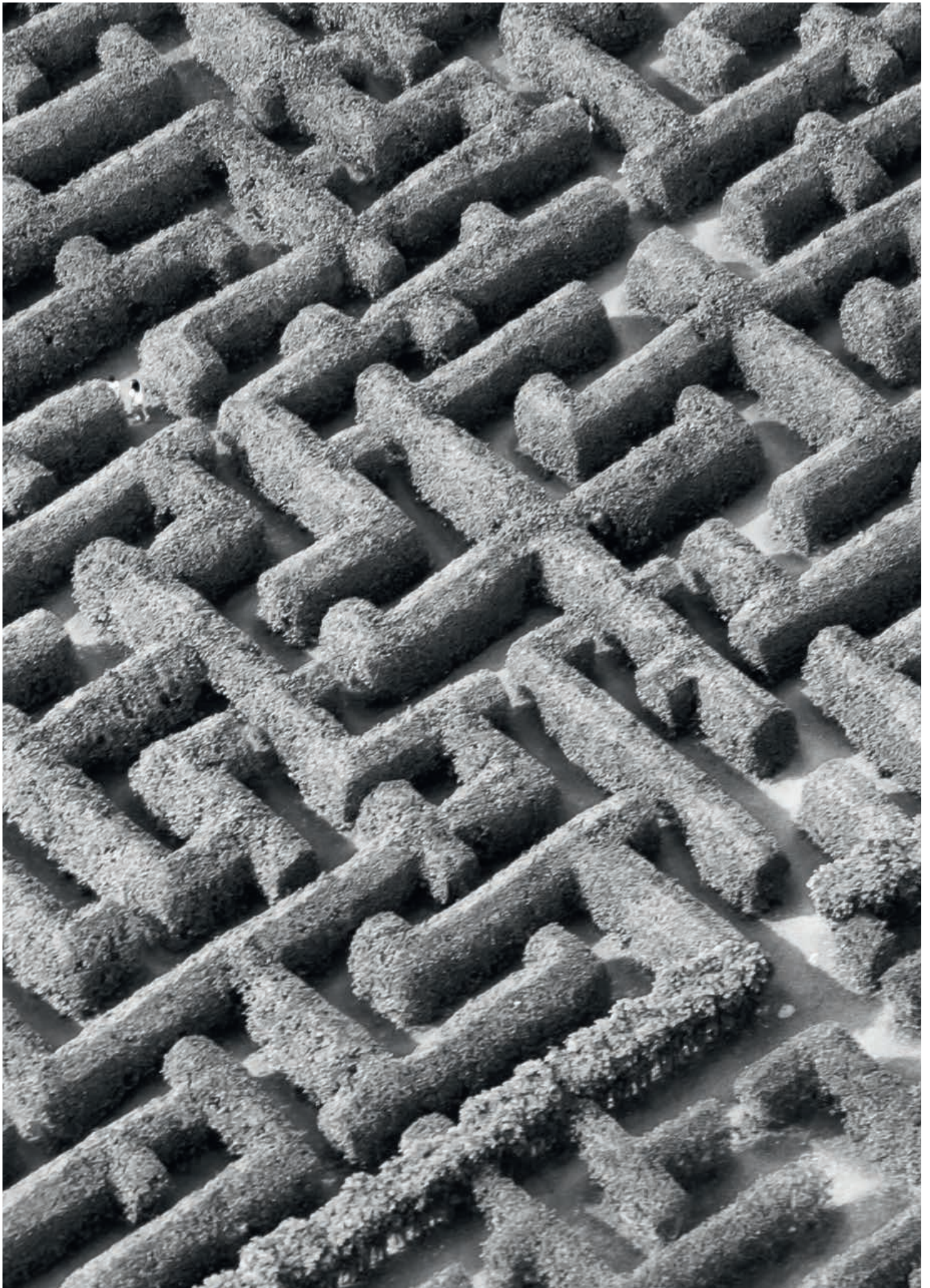
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# ARE BILLIONAIRES FEELING THE PRESSURE?

We are about to witness the largest-ever transfer of billionaire wealth. We estimate that fewer than 500 people will hand over USD 2.1 trillion to their heirs over the next 20 years. For most Asian economies, where over 85 per cent of billionaires are first generation, this will be the first-ever handover of billionaire wealth.

This year's UBS/PwC Billionaire Report explores the potential impact of this massive handover. It examines how the values of the millennials differ from their parents and how this will fundamentally alter the structure and use of that inherited wealth. We ask what Asia can learn from Europe about multigenerational wealth preservation. We also investigate how rising billionaire philanthropy could be boosted by repeating the same formula that underpinned their success to start with, i.e. business focus and smart risk taking.

The report is the most comprehensive of its kind, incorporating 20 years of data that track more than 1,400 billionaires. It covers the 14 largest billionaire markets, accounting for 80 per cent of global billionaire wealth. The report also draws on insights from interviews with more than 30 billionaires, 30 heirs and 20 billionaire advisors.

Billionaires matter. They create and hold immense wealth. Shifts in the structure of that wealth matters to the wealthy and their families. But they also impact the global economy and society as a whole. This report shines a light on tomorrow's wealth landscape.



**Josef Stadler**  
Group Managing Director  
Head Global Ultra High Net Worth  
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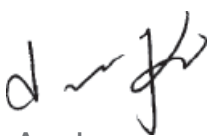
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## The Gilded Age slows under headwinds


The Second Gilded Age has hesitated. The transfer of assets within families, commodity price deflation and an appreciating US dollar have emerged as significant headwinds.



## US Billionaire breakthroughs on pause

Great wealth creation continues in the US, but it is slowing. The country's billionaire population grew by just 1% in 2015, to 538. Yet its total wealth fell by 6% from USD 2.6trn to USD 2.4trn.

## Huge wealth transfer in sight



# \$2.1 trn

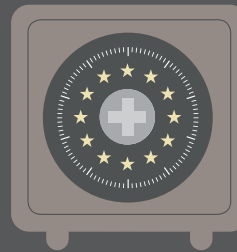
We estimate that less than 500 people will hand over USD 2.1trn, equivalent to India's GDP, to their heirs in the next 20 years.



## Asia's one billionaire every three days

Led by China, Asia is creating one billionaire every three days. One hundred and thirteen Asian entrepreneurs attained billionaire status during the year, accounting for more than half (54%) of 2015's global total.

## Europe leads in protecting wealth



Europe stands out as the home of multi-generational billionaires. While it may not be the best at creating great wealth, Europe has proved the best at keeping it.

## Millennials take over the reins?



Many billionaire heirs have **broader values** and **greater choices**. They may choose philanthropy over entrepreneurialism, personal careers over working in the family business.

# ARE BILLIONAIRES FEELING THE PRESSURE?

- **The Second Gilded Age pauses**

After more than 20 years of great wealth creation, the Second Gilded Age has hesitated. The transfer of assets within families, commodity price deflation and an appreciating US dollar have emerged as significant headwinds. In 2015, 210 fortunes broke through the billion-dollar wealth ceiling, increasing the billionaire population in the markets we cover (the 14 largest billionaire markets) to 1,397. Yet their total wealth fell from USD 5.4trn to USD 5.1trn. Average wealth fell from USD 4bn in 2014 to USD 3.7bn in 2015. It is too early to tell if 2015 signals a pause in the Gilded Age or something more.

- **US billionaire growth falters**

With the world's largest billionaire population, the US sets the pace. Great wealth creation continues in the US, but it is slowing. The country's billionaire population grew by just five in 2015, to 538. Yet their total wealth fell by 6% – from USD 2.6trn to USD 2.4trn. While US self-made billionaires have driven this Gilded Age, and the US hosts almost half (47%) of billionaire wealth, the world's leading billionaire economy has lost some of its momentum.

- **Europe leads in protecting wealth**

Europe stands out as the home of multigenerational billionaires. While it may not be the best at creating great wealth, Europe has proved the best at keeping it. The region's billionaire wealth remained broadly the same (with a small fall of 3%), at USD 1.3trn. Europe has the greatest number of multigenerational billionaires, and ranks a close second to the US for total multigenerational billionaire wealth.

- **Asia's one billionaire every three days**

Led by China, Asia is creating one billionaire every three days. One hundred and thirteen Asian entrepreneurs attained billionaire status during the year, accounting for more than half (54%) of 2015's global total. Young business-people are making money fast in technology, consumer & retail and real estate. The region's billionaire wealth stood at USD 1.5trn, a slight fall on the previous year due largely to currency depreciation.

- **Huge wealth transfer in sight**

The past 20 years' exceptional wealth creation will soon be followed by the biggest-ever wealth transfer. We estimate that fewer than 500 people (460 of the billionaires in the markets we cover) will hand over USD 2.1trn, equivalent to India's GDP, to their heirs in the next 20 years. For most of Asia's young economies, this will be the first-ever handover of billionaire wealth, as over 85% are first generation.

- **Millennials take the reins?**

Many billionaire heirs have broader values and greater choices. They may choose philanthropy over entrepreneurialism, personal careers over working in the family business. This is likely to influence the structure and type of legacies established. Many billionaires may cash out. Those opting to keep their businesses have heirs who are increasingly likely to become owners not managers.

- **Fleeting fortunes**

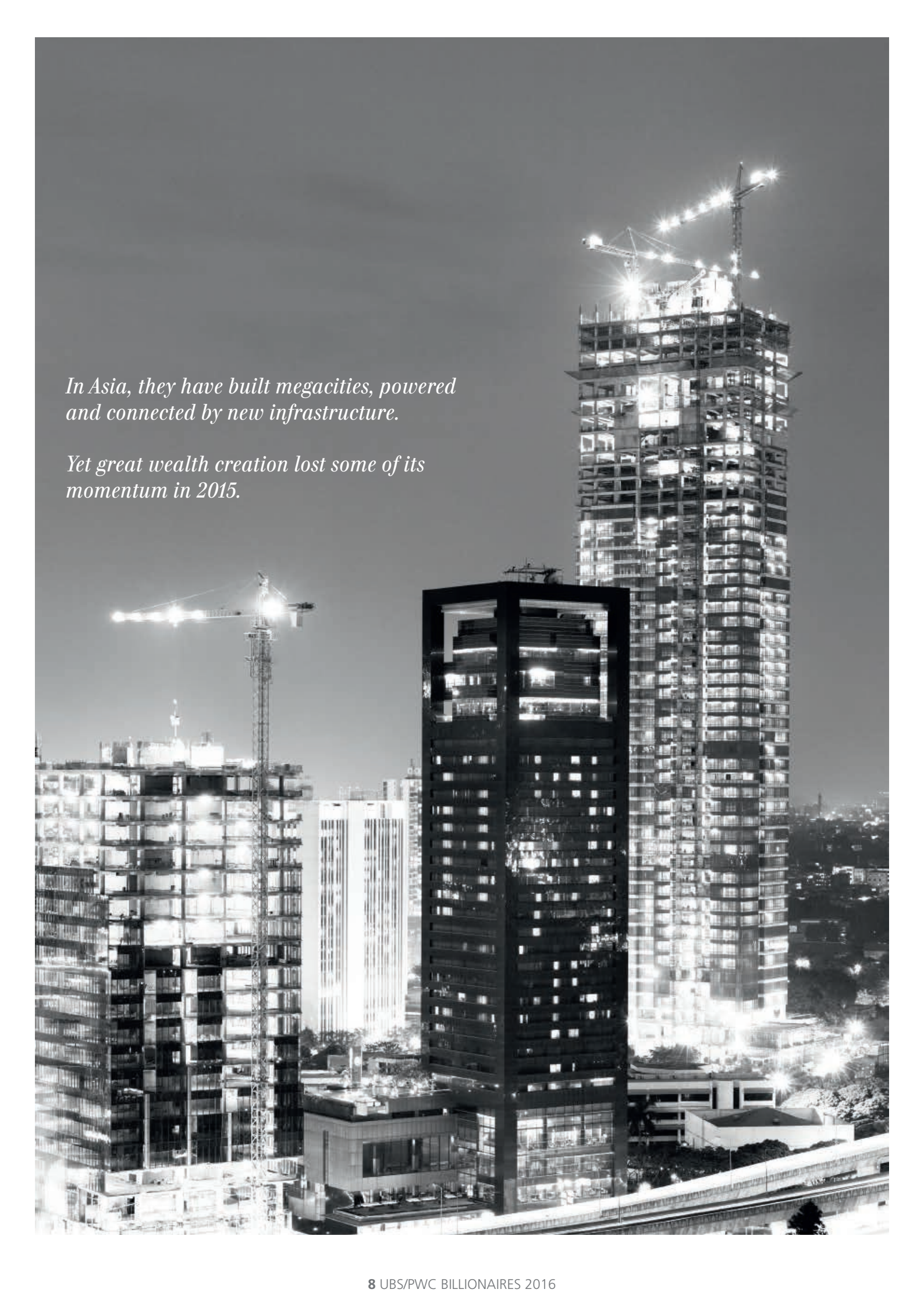
Billionaire wealth is often shortlived due to business risk and dilution. In fact, of the fortunes that have fallen below the billion-dollar mark in the past 20 years, 90% did so in the first and second generation. More than two-thirds (70%) of them have not remained intact beyond the first generation and a further fifth (20%) were gone by the end of the second.

- **Old legacies' lessons**

At a time of economic headwinds and imminent wealth transfer, Europe's old legacies are a model for new billionaires. Mapping of markets shows Europe, and especially Germany and Switzerland, as the markets with the greatest share of 'old' wealth. Asia's family-oriented billionaires may wish to adapt the European model of wealth preservation to their own needs.

- **Philanthropy's new age:  
Time for more entrepreneurialism?**

Just as philanthropy surged following the First Gilded Age, so the past 35 years' growth of billionaire wealth is driving its expansion now. Rising billionaire philanthropy could have significant benefits for society and the environment. Yet there appears to be a strategy gap that could limit the effectiveness of giving.



*In Asia, they have built megacities, powered  
and connected by new infrastructure.*

*Yet great wealth creation lost some of its  
momentum in 2015.*





# THE GILDED AGE PAUSES VOLATILITY AND INTERGENERATIONAL TRANSFER

**In the past 35 years, a small number of entrepreneurs have created huge wealth – for the economy and themselves. Yet after three transformational decades, this phenomenon is losing momentum.**

The First Gilded Age lasted 40 years, from 1870 to 1910. Then, a few businessmen developed some of the innovations that would transform their time – such as the car, electricity and steel.

During the Second Gilded Age, entrepreneurs have built the Internet and its ecosystem, pioneered hedge and private equity funds, and transformed the consumer industry. In Asia, they have built megacities, powered and connected by new infrastructure. Yet great wealth creation lost some of its momentum in 2015.

Many of the catalysts for our current Gilded Age have weakened. In the US, sectors such as technology and financial services are no longer driving billionaire wealth. As a result, commodity price deflation and dilution of wealth through transfer of wealth among families have led to a fall in overall wealth. Only in Asia's young, fast-developing economies are billionaire fortunes still growing, although local currency depreciation diminished this in US dollar terms.

*“Taking risks requires a certain belief that the future will be better. And currently uncertainty levels are unprecedented.”*

Self-made billionaire

It is too early to tell if the past 30 years' extraordinary period of wealth creation is coming to an end, but it's clearly slowing. The world is still making more billionaires, but most of them are in Asia. Furthermore, total billionaire wealth across the 14 markets we study has fallen.

In 2015, the billionaire population in our defined markets effectively grew by just 50 to 1,397. Billionaires' total wealth fell by a total of USD 300bn, declining from USD 5.4trn to USD 5.1trn. Average wealth fell from USD 4.0bn in 2014 to USD 3.7bn in 2015.

After two decades of outperforming global stock markets, billionaires' fortunes failed to match them. They fell 5%, against a flat MSCI World Index (down 0.3%). Over the past 20 years, billionaire wealth has increased by a factor of seven, double the MSCI World Index's 3.5. Furthermore, in 2015, neither billionaires nor the stock market matched the economy's expansion. Global GDP grew 2.4%, down from 2.6% in 2014, according to the World Bank.

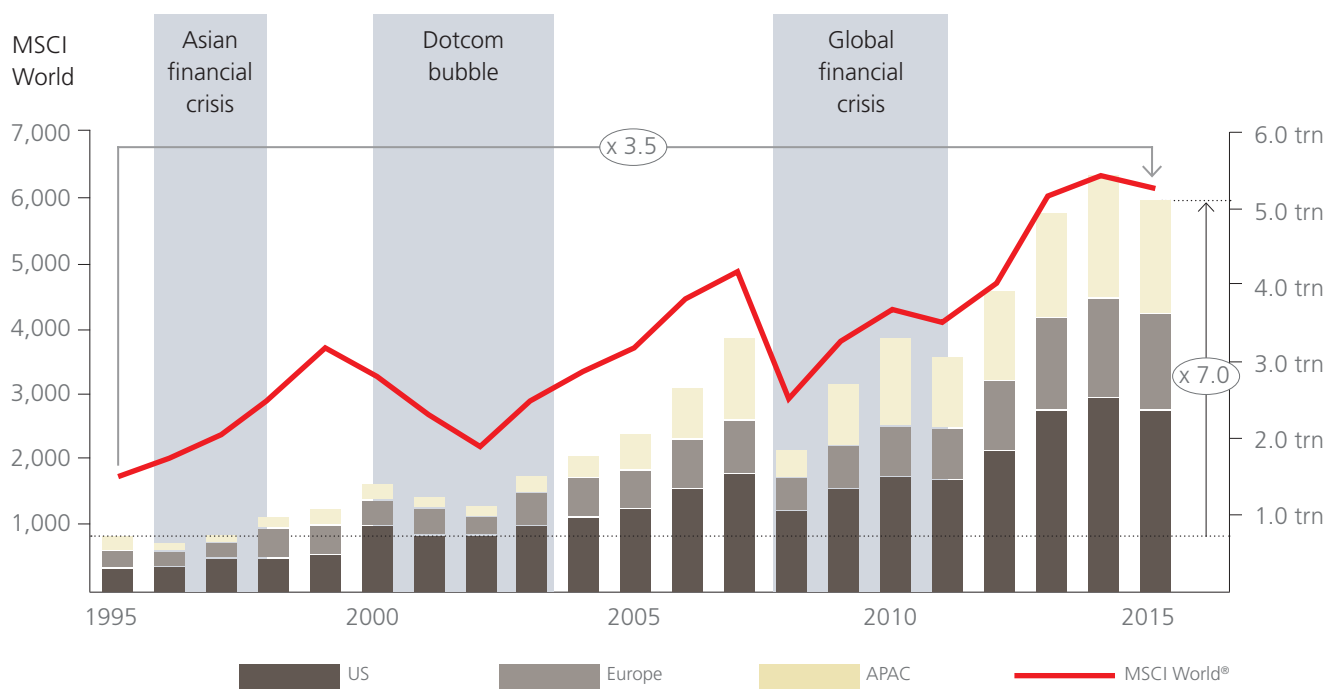
Billionaire wealth was volatile. One self-made billionaire we interviewed explained that: “Taking risks requires a certain belief that the future will be better. And currently uncertainty levels are unprecedented.” Wealth generation and growth thrive best when entrepreneurial conditions meet stable macroeconomics. While billionaires are well equipped in navigating risks in such environments, one multigenerational entrepreneur voiced similar concerns, saying protectionism and increasing economic uncertainty are raising risk levels.

In 2015, 210 people joined the ranks of billionaires. More than half of them were based in Asia, where young business people are getting wealthy fast in sectors like real estate. But 160 also dropped off our database.

Billionaires in the materials sector experienced the greatest fall in wealth (down 17%). Slumping metal and hydrocarbon prices hit the fortunes of mining and energy billionaires worldwide. In just one year, this sector's average wealth fell by almost a fifth. Wealth in other sectors also fell, although by a smaller percentage. Billionaires in the Industrials sector saw their wealth drop 12% and those in consumer & retail, the wealthiest sector, by 8%.

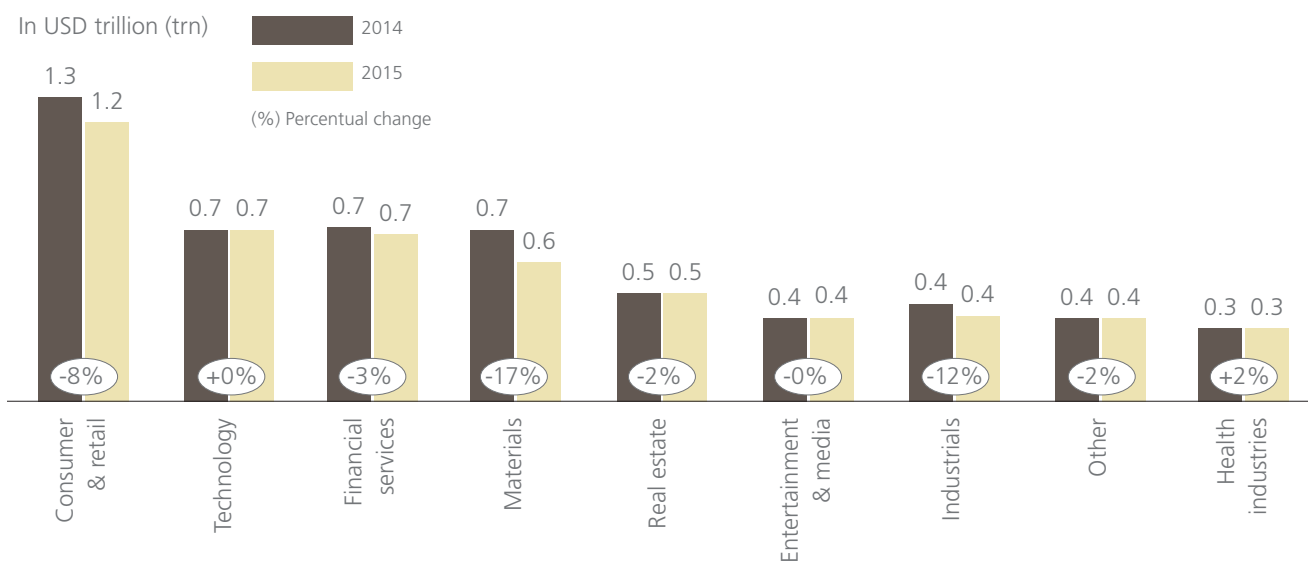
Even technology and financial services, historically areas of innovation, had a flat year. Average wealth in the former did not move, while in the latter it fell 3%.

*Wealth creation dips (progress of in-scope billionaire wealth 1995 to 2015)*



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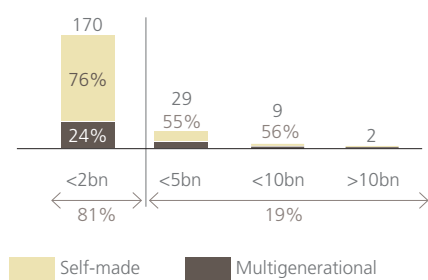
*The sector makes a difference (wealth distribution 2014 to 2015)*



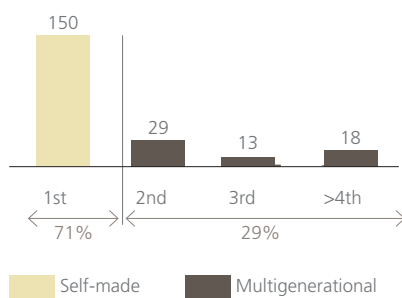
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## The makeup of 2015's new billionaires

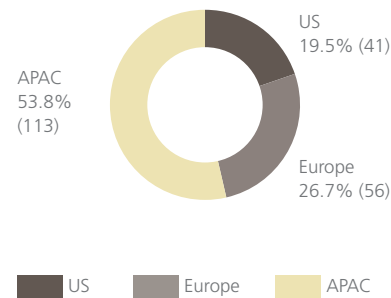
### Split by wealth band



### Split by generation



### Split by region



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Most of 2015's new billionaires were entrepreneurs and from Asia. One hundred and fifty of the 210 were self-made and 113 from Asia. Most of the 60 inheriting their fortunes in 2015 were from Europe. Dilution ensured that these new multigenerational rich tended to be less wealthy than their self-made peers. But volatility in the number of billionaires is not just down to business risks. It's said that nothing in life is certain except death and taxes. As the global billionaire population ages, some are dropping off the list as their wealth passes to the next generation.

### US FLATTENS OUT

Just as the US is home to the world's largest collection of billionaires, so it sets the scene in billionaire trends. Almost half (47%) of billionaire wealth in our database is based in the US, yet in 2015 its billionaire population rose by just five. Further, total US billionaire wealth fell by 6% – from USD 2.6trn to USD 2.4trn.

While 41 people broke through the billion dollar ceiling, 36 dropped out. So the US is still creating a few new billionaires but its billionaire wealth is flagging. There appear to be good reasons for this. Commodity price deflation and family wealth transfer reduced billionaire wealth. At the same time, the motors of this gilded age in the US stalled. Wealth in both the technology and finance sectors was flat during the year.

Young money fared better than old. Self-made billionaires' wealth fell by just 4%, from an average of USD 4.7bn per individual to USD 4.5bn. The number of multigenerational billionaires' fell by far more, by a sixth (16%), with the average fortune falling from USD 5.1bn to USD 4.3bn. While business volatility accounted for more than half of this fall (61%), almost a third (31%) was due to the dilution that happens during wealth handovers.

Symbolising America's culture of free enterprise and wealth creation, self-made wealth overtook inherited wealth. These

self-made men and women have driven change in the Technology, Finance and Consumer & Retail sectors in the last three decades.

### LESSONS FROM EUROPE

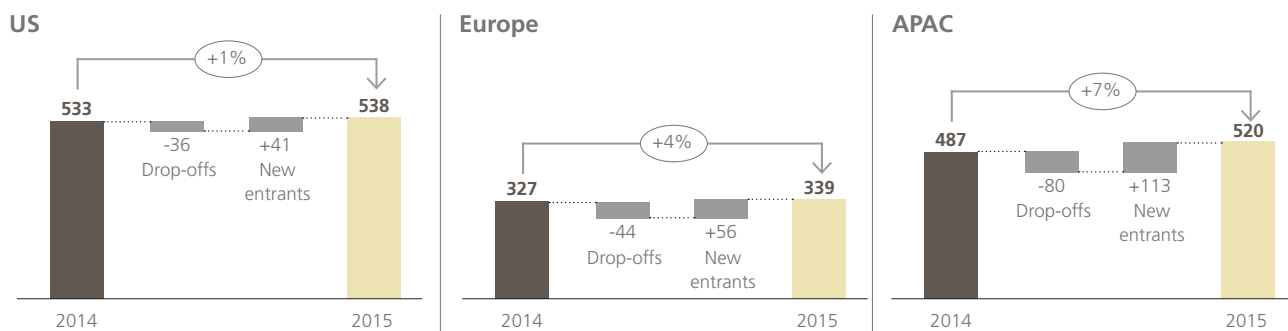
Contradicting common perceptions, and in spite of Europe's economic difficulties, its billionaires are proving most resilient. Their total wealth was almost unchanged in 2015 at USD 1.3trn (a small fall of 3%). When it comes to multigenerational billionaires, Europe now ranks first in terms of number of billionaires and a close second to the US in terms of multigenerational wealth.

Europe was the home to 56 new billionaires in 2015 – more than the US. But most (59%) inherited their wealth or at least the majority of it. After 44 drop-offs, this amounted to a net increase of 12, lifting the region's total billionaire population to 339.

*“Europe is leading in wealth preservation.”*

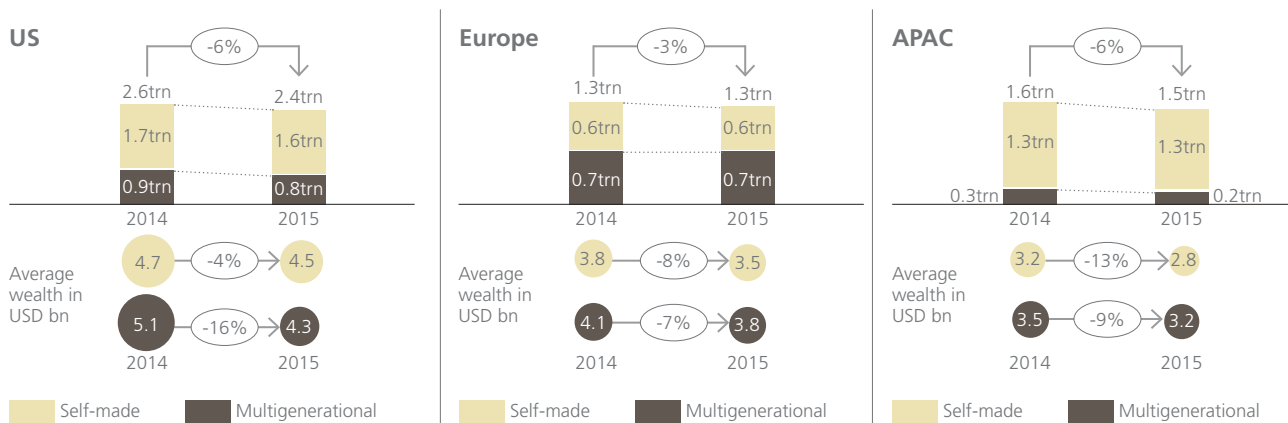
Europe is leading the world in wealth preservation. Its multigenerational billionaires survived 2015 far better than their peers in other markets. Their average wealth fell just 7%, from USD 4.1bn to USD 3.8bn. As one second-generation southern European billionaire told us: “While ten years ago, our business was the growth engine to our family wealth, in recent years it has gone the opposite way. We use the returns from our private assets to support our business, allowing us to maintain and expand our market share against our competitors.” The region's relatively small group of self-made billionaires experienced a similar fall in wealth. On average, their fortunes fell 8%, from USD 3.8bn to USD 3.5bn.

## The number of billionaires is growing...



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## ... but their wealth is going down



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### A NEW ASIAN BILLIONAIRE EVERY THREE DAYS

They say that Asia creates a new billionaire every week. But our data reveals that, in fact, China's surging economy meant that 2015 saw one new Asian billionaire every three days. In spite of moderating economic growth rates, China's accelerated economic evolution is creating ideal conditions for young entrepreneurs to get rich fast.

Asia's entrepreneurs dominate the list of new billionaires. One hundred and thirteen Asian entrepreneurs, 80 of them from China (average age 53), attained billionaire status during 2015, more than half (54%) of the global total. There has been a surge in China's billionaire population in the past two years. In 2014 and 2015, China accounted for 69% and 71% of Asia's new billionaires, up from 35% as recently as 2009. (In absolute terms, there were 92 new Chinese billionaires in 2014. By contrast, in the four years from 2010 to 2013 between 12 and 58 people a year joined the billionaire ranks.)


Almost half of these came from the technology (19%), consumer & retail (15%) and real estate (15%) sectors.

E-commerce businesses are in the ascendancy. At the same time, many of the country's wealthy are diversifying out of their existing businesses into real estate. Moreover, China's urbanization and increasing consumer spending have fostered an environment where businesses are growing fast.


Yet billionaire wealth can be fleeting in China. Forty of the country's tycoons lost billionaire status in the year as asset price volatility and government scrutiny undermined wealth.

While China's billionaire wealth rose by 5.4%, billionaire wealth across the region fell by 6%, from USD 1.6trn to USD 1.5trn (this fall was less in local currencies due to US dollar appreciation). Outside China, Hong Kong and India had the highest number of new billionaires, with 11 each.

Far more billionaires in Asia lost their billionaire status than in Europe or the US. Eighty fell off our database in 2015, against 44 in Europe and 36 in the US, respectively. In addition to China's 40 fallers, there were 16 in India – a country where falling commodity prices had an impact. /



*In spite of moderating economic growth rates,  
China's accelerated economic evolution is creating  
ideal conditions for young entrepreneurs to get  
rich fast.*



*As great wealth trickles  
down the generations, its  
goals will change.*

# A 2.1 TRILLION DOLLAR INHERITANCE

**Most of the world's billionaires have made their money in the last 20 years, and now they are aging. In this time, billionaire wealth has grown by approximately seven times. So by far the biggest handover ever to the next generation is about to happen. We estimate that 460 of the billionaires in the markets we cover will pass USD 2.1trn, the same as India's entire GDP in 2015, to the next generation over the coming 20 years.**

Even billionaires grow old. One-third of billionaires in our database are more than 70 years old, while they hold 40% of the group's total wealth. It is therefore reasonable to assume that they are in what we call the corridor of wealth transfer.

For the younger Asian economies, especially China, this will be the first-ever major intergenerational wealth transfer. Our research shows that 85% of Asian billionaires are first generation.

We expect this critical handover to have significant implications. As great wealth trickles down the generations, its goals will change. We are already seeing the early stages of what we expect to be an upsurge in philanthropy. It is also likely that many heirs will be prepared for ownership rather than management – especially in emerging markets where entrepreneurs have often built complex conglomerates. One emerging markets billionaire told us that market dynamics and regulatory and political changes mean there is no guarantee his business will exist in 15 years' time. Accordingly, he has no plans to burden his children with a duty to continue their father's business, given its uncertain future.

## WHAT MAKES MILLENNIALS TICK?

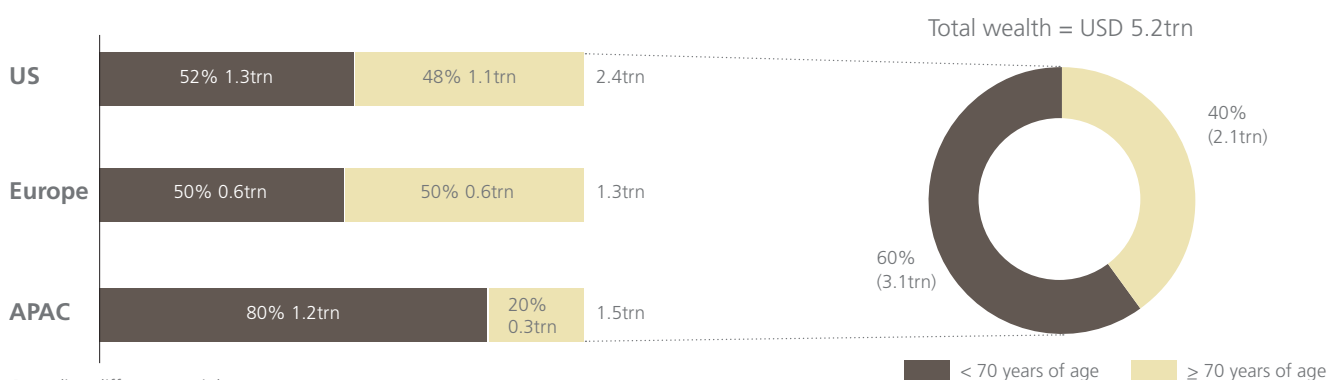
In our first 2015 Billionaire report, we characterised first-generation billionaires as business-focused, determined and smart risk takers. Their heirs are naturally different. Rather than being focused on the single goal of building businesses, they tend to have wider sets of values.

An advisor, who has several billionaire families as clients, attributed the difference partly to the wide range of life choices available now. "Today's next gens are facing a much wider array of options due to better education, digitization and technology. This amplifies the importance of purpose and meaning for them when choosing what to do and what not to do."

This contrast can be most extreme in emerging markets. Often, the parents have grown up in poverty, forging their fortunes in the early days of market economies. In Russia, they might have managed privatized mines. In China, they could be early real estate entrepreneurs. Coming from a family with relatively young wealth, it is often difficult for the next gen to find themselves and develop their own personality. "They just have a big weight to carry," said one of our interviewed billionaires.

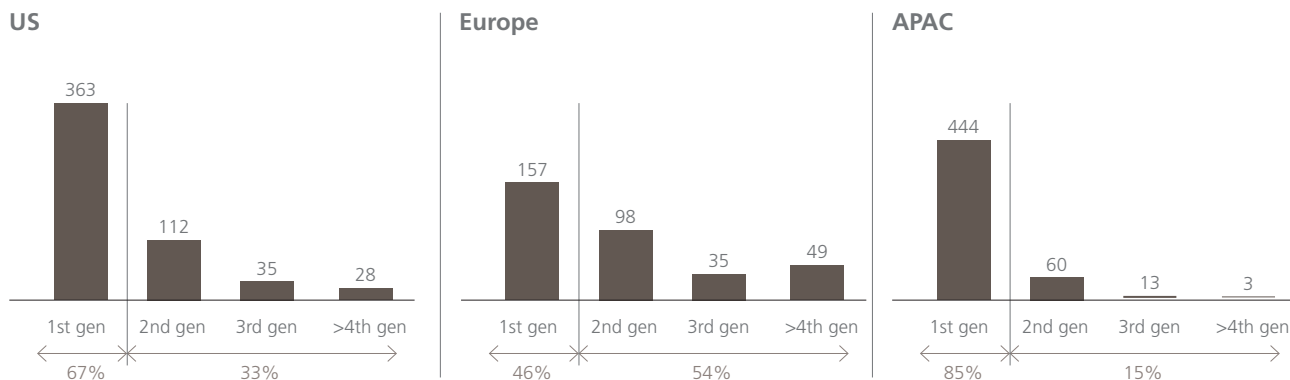
In order to identify the characteristics of the next generations of millennials, the most different of the next generations, we reviewed an array of survey analysis and case studies, as well as conducting more than 30 face-to-face interviews. Our research and analysis identified three goals and values. These are: business first, values not valuables, identity through philanthropy.

## The demographics tell the story



Rounding differences might occur  
© UBS/PwC Billionaires Report 2016

## Europe best protects what it creates



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### 1. Business first

Those young multigenerational billionaires putting business first are typically highly entrepreneurial, and keen to develop their own role in the family. Sometimes they are being primed to manage their family businesses, learning by taking up managerial roles to start with. Just as often, however, they may start new businesses either within the firm or entirely separate from it. These businesses are frequently linked to the digital economy. Several of our interviewees told us about how their initial ventures were seeded. "My father encouraged me very early on to take risks with a certain amount of funds," said one. "He would oversee my business plans and steps but also create that space where I was allowed to fail. At the beginning, seeing my ideas challenged was frustrating but eventually the learning curve was tremendously steep and today I see my father as a coach and partner, joining up my business ideas."

### 2. Values not valuables

Many of the millennial generation inheriting billionaire wealth believe in doing good by doing well. In other words, they see business success as a way of benefiting society. Their business goals must deliver not only returns to the family, but also tangible benefits to a wide group of stakeholders – including employees, customers and society at large. While corporate sustainability in the past has often been accused of "green-washing", these young billionaires are passionately committed to their cause. One related how he was not interested in his father's main electronics business but wanted to work in the family agriculture business. His goal: to make it even more sustainable.

### 3. Identity through philanthropy

Some young multigenerational billionaires are inspired by philanthropy. Growing up at a time of rapid social change, they are eager to put their resources to work for social good. More than previous generations, they bring business discipline and strategy to philanthropy. They want their giving to make an impact – and they want to be able to measure it.

### OWNERS NOT MANAGERS

In contrast to their parents, many of the next generation, especially millennials, are being prepared as owners not managers. With more choice about how to live their lives, fewer are choosing to go into the family business. They are preparing to become stewards of either the family business or the family's investments after cashing out.

With traditional businesses under threat of disruption, we sometimes hear of billionaire entrepreneurs being concerned about the longevity risks to their business, with some hoping their "digital native" children will stir the business in times of change.

In parts of Asia and emerging markets such as Russia, handing over diverse corporate empires to untested heirs is hard. These large empires rely on personal connections for their continued success. Such is their complexity that they are difficult for a young person to manage. For China's one-child families, it may be even harder to find a suitable heir. Sometimes cashing out will be the only choice, although some families might choose instead to appoint external managers.

Over the next 20 years of wealth transfer, there will be more multigenerational billionaires than ever before. Globally, fewer will remain in the family business, choosing instead to assert their identities as entrepreneurs and social entrepreneurs in their own right.

A billionaire family head told us he used to believe his children would not be interested in the family business. But as they grew their careers and started taking part in the family affairs, they brought long-needed revitalisation and fresh creativity to the family wealth. The patriarch put it as follows: "They are driving new business on their own and taking our family wealth into a portfolio structure, but they also brought us optimism that our legacy will be sustained."



For cultural, business and political reasons there are likely to be variations on this theme. Traditionally, US families have tended to cash out, while more Europeans have elected to keep their businesses. In Asia, our experience of the older Southeast Asian economies and of China leads us to expect some to adopt a private equity-holding company style of model. This is a logical method to preserve wealth in a region where it is sometimes difficult for heirs to take over family businesses.

In the words of one Chinese millennial heir apparent: "I am not so interested in taking over the family business. It's a business I don't feel passionate about. I would prefer us to sell the business and then reinvest in other companies. Not buying stocks, but actively managing those companies and learning about different sectors." /

*In contrast to their parents, many of the next generation, especially millennials, are being prepared as owners not managers.*





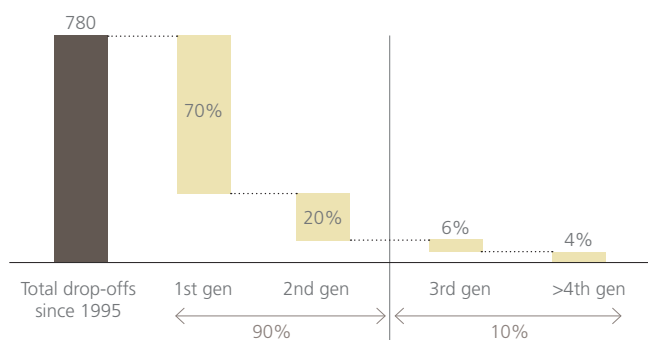
*As people live longer,  
inherited wealth may be  
split between several  
generations.*

# OLD LEGACIES' LESSONS FOR NEW BILLIONAIRES

**Billionaire wealth lasts less time than thought. While it is commonly held that the first-generation wealthy make it and the third-generation break it, our research shows billionaire status to be short-lived. Self-made billionaires almost never have grandchildren who are also billionaires.**

In fact, of the billionaire fortunes that have fallen below the billion-dollar mark since 1995, 90% were not preserved beyond the first and second generations. More than two-thirds (70%) have not remained intact beyond the first generation, and a further fifth (20%) were gone by the end of the second.

## *The decline of wealth across generations since 1995*



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## *Generational algebra compounds the challenge of wealth dilution (illustrative)*

	No. members	Ø wealth (in m.)	Ø dividend (in m.)*
1 <sup>st</sup> gen	1	1,000	25.0
2 <sup>nd</sup> gen	3	333	8.3
3 <sup>rd</sup> gen	9	111	2.7
4 <sup>th</sup> gen	27	37	0.9
5 <sup>th</sup> gen	81	12	0.3

© UBS/PwC Billionaires Report 2016

\* ROA of 2.5% assumed

There are two broad reasons why fortunes drop below a billion dollars: dilution (including ineffective governance and no clear succession planning) and business and market risks (including failure to understand risks and disruptive technologies). Dilution occurs when a billionaire dies and his/her wealth is split among the next generation, none of whom inherit enough to be billionaires in their own right. As people live longer, inherited wealth may be split between several generations. In our first billionaire study, published in 2015, we showed how generational algebra affects a billionaire family where each family member has an average of three children. By the fifth generation, an original USD 1 bn would translate into a USD 12m inheritance for each child. However, if three generations live concurrently, for example, and wealth is split equally, then wealth dilutes far more quickly.

## **EUROPE LEADS IN WEALTH PRESERVATION**

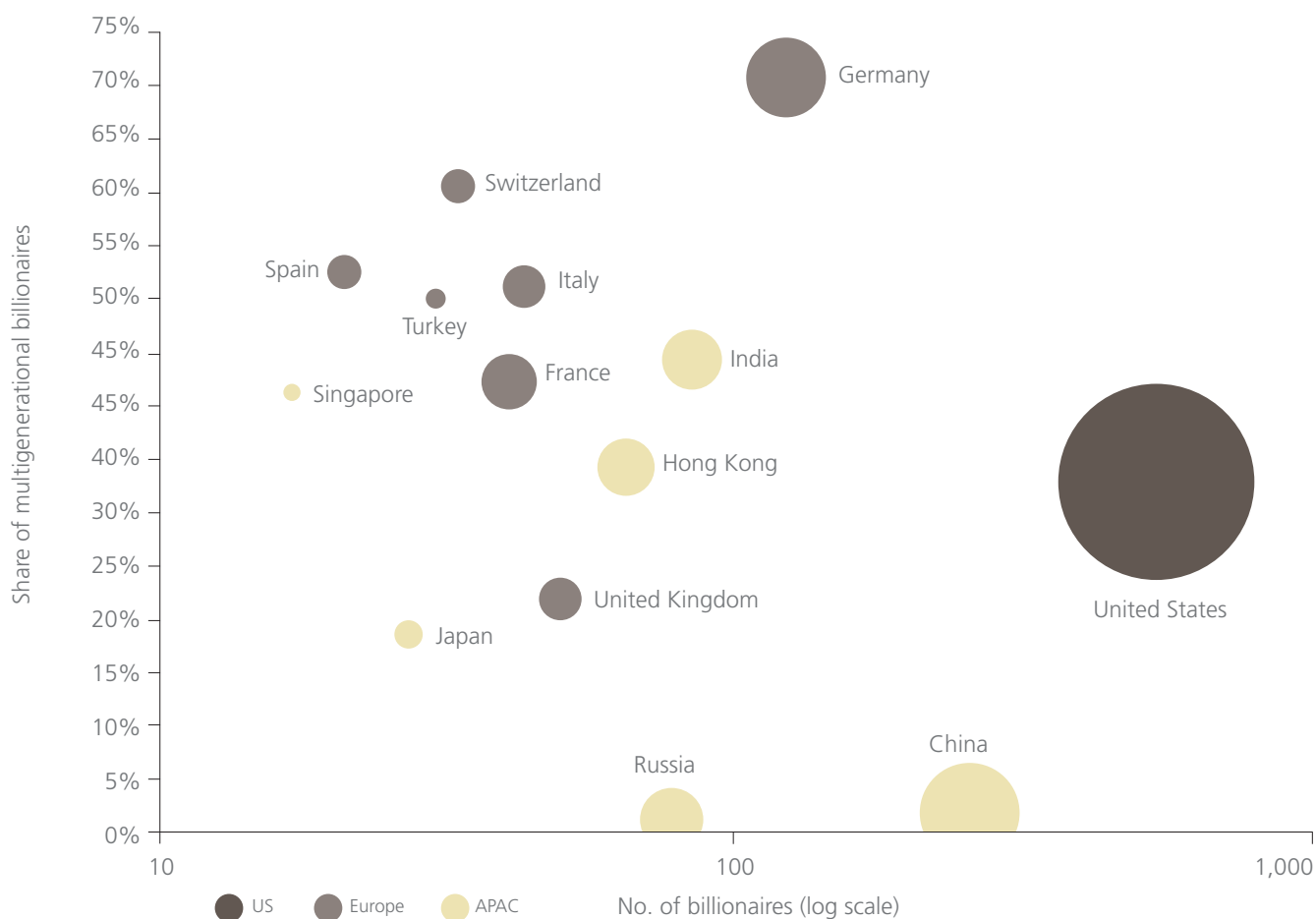
Old legacies offer lessons for new billionaires. While the US and Asia are creating new billionaire fortunes more successfully, Europe's billionaires have proved more successful at passing their billionaire status to the following generations. In Europe, over half (54%) of them transfer their billionaire status to the next generation.

Mapping of markets shows Europe, and especially Germany and Switzerland, as the markets with the greatest share of "old" or multigenerational wealth globally. They have become masters of preserving wealth, with billionaire families thriving through the generations as their businesses continue to create wealth.

In the United States, by contrast, billionaires have frequently chosen to cash out of their businesses, and their wealth has not lasted so long. In Asia, Singapore and India have a high number of multigenerational billionaires. The newest markets, with almost no multigenerational billionaires, are China and Russia. The UK and Singapore are interesting as international centres that attract billionaires from other countries. Counterintuitively, our analysis shows the UK's popularity for first-generation billionaires and Singapore's for multigenerational wealth.

Europe's high share of multigenerational wealth is not just due to its less entrepreneurial culture. Its billionaire families have built wealth preservation models, based in part on family businesses, that may prove useful to billionaires in newer markets.

## The geography of old and new wealth



Bubble size indicates total wealth per market  
 © UBS/PwC Billionaires Report 2016

Successful legacies excel in having a sensible and clear family governance/vision and maintaining a stable business across the generations. If the family business preserves family wealth, then it is vital to have a governance model that prioritises the firm's interests over the family's.

Our research shows that Europe's billionaire families tend to have benefited from making important contributions to society and the economy. Furthermore, historically they have not been subject to punitive inheritance tax rules. But there are other lessons that the new crop of billionaires can learn from when planning and structuring legacies. There are three issues to consider:

### 1. Business continuity

For many European billionaire families, the business has linked the generations. It has nurtured the family fortune and provided a focal point. Often, successive generations of the family

have become entrepreneurs who have adapted the enterprise to new challenges and opportunities.

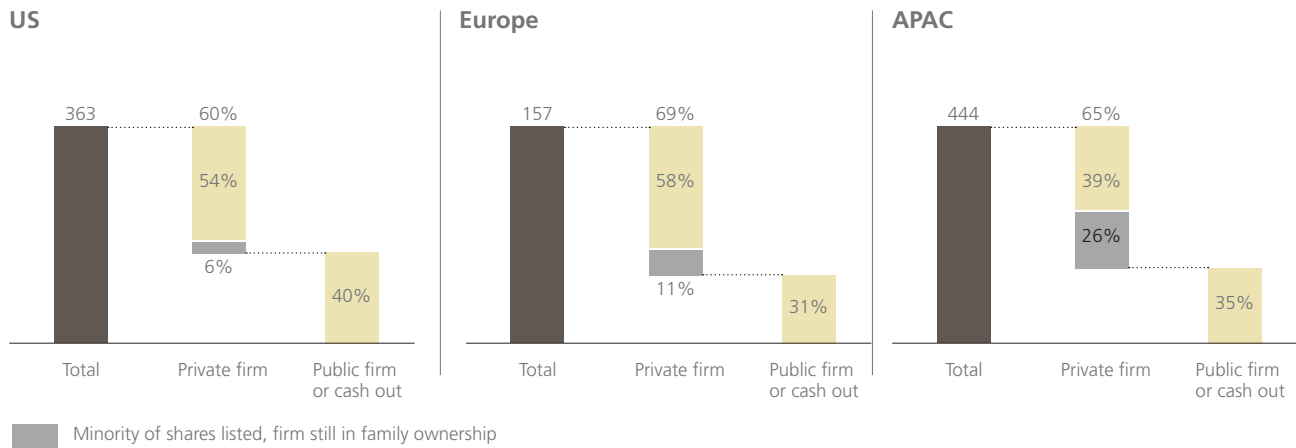
### 2. Governance

As generations pass, the number of family shareholders grows. Only strong governance can align them. In our 2015 study we identified the two types of governance – "family over firm" and "firm over family". Regardless of which is chosen, good governance protects against unprepared heirs and family differences of opinion.

### 3. Values

Ultimately, long-lasting family legacies all have a common philosophy and understanding of their purpose and values. Whether formally articulated in a family charter, or informally communicated, this glues family members together, providing a common identity that binds them. Common interests like a family estate or philanthropic organization can enshrine values.

## Private or public ownership – the legacy options of self-made billionaires in 2015



© UBS/PwC Billionaires Report 2016

One millennial German family member explained: “Now that we are in the third generation, we realise that the family has to withdraw from actively managing our business and focus instead on aligning ownership interests. In line with this strategic decision, we want to be sure that the business will follow our family values, so it gives us not only financial means but a common identity that keeps us cousins together. This becomes more important as we all do our own thing. I have my own business interests focusing on start-ups in the media. And two of my cousins are very involved in philanthropy.”

### “Long-lasting family legacies all have a common philosophy”

Within Europe, 69% of self-made billionaires have chosen to keep their wealth in private firms rather than cash out. This compares with 60% in the US. Many of Europe’s billionaires control companies with strong competitive advantages and barriers to entry, in sectors such as pharmaceuticals and consumer & retail. Their profitability tends to be resilient, preserving family wealth through generations.

However, in other markets preserving wealth in this way may not be practicable. In the US, a large number of self-made billionaires choose to cash out or pass much of their wealth to philanthropic causes. The millennial generation may prefer not to be actively involved in the original family business. Meanwhile, business culture and political reality in some emerging markets may make cashing out necessary. In these cases, it is likely that there will be a growth in structuring through private equity-type holding structures of family assets. A member of one family of entrepreneurs spoke about how they treasure their core business yet, at the same time, are actively looking to pursue direct investments to leverage their capital and network. In this way, they are seeking new opportunities for growth while concurrently diversifying the risks. Yet, family values will be essential for preserving wealth.

Asian billionaires may be able to learn from Europe’s successful wealth preservation model. Yet in China, where many families still have only one child, there will be no choice but to go outside the family for managers. This will lead to adoption of the firm-over-family governance model.

## **PHILANTHROPY'S NEW AGE: TIME FOR MORE ENTREPRENEURIALISM?**

Just as philanthropy surged following the First Gilded Age, so the past 35 years' growth of billionaire wealth is driving its expansion now. Yet if billionaires applied the characteristics they bring to their businesses, then they could be more effective.

In the first half of the twentieth century, entrepreneurial families such as the Carnegies and Rockefellers funded significant developments in areas such as education and health. When doing so, they leveraged some of the billionaires' characteristic traits – chiefly business focus and smart risk taking – to drive success.

After more than three decades of this Second Gilded Age, billionaire philanthropy is growing all over the world. New philanthropic models are emerging (loans, guarantees, contracts, impact investing, etc.), and the millennial generation is putting philanthropy at the heart of family values. In spite of this, however, the current Gilded Age may not match its predecessor's record.

There is a lot to learn from the first philanthropists. Like them, this generation would do well to leverage their trademark business characteristics. Putting these traits into the context of the present day, they should seek to be more strategic, take risks and collaborate.

### **1. Focused strategy**

Many private philanthropists struggle between purely following their passion and thinking strategically about its potential benefits. They also have difficulties assessing impact. Much work on aligning approaches to social impact measurement is taking place, yet private philanthropists are not always aware of this. There is a need to be more strategic and to adopt best practice in measurement.

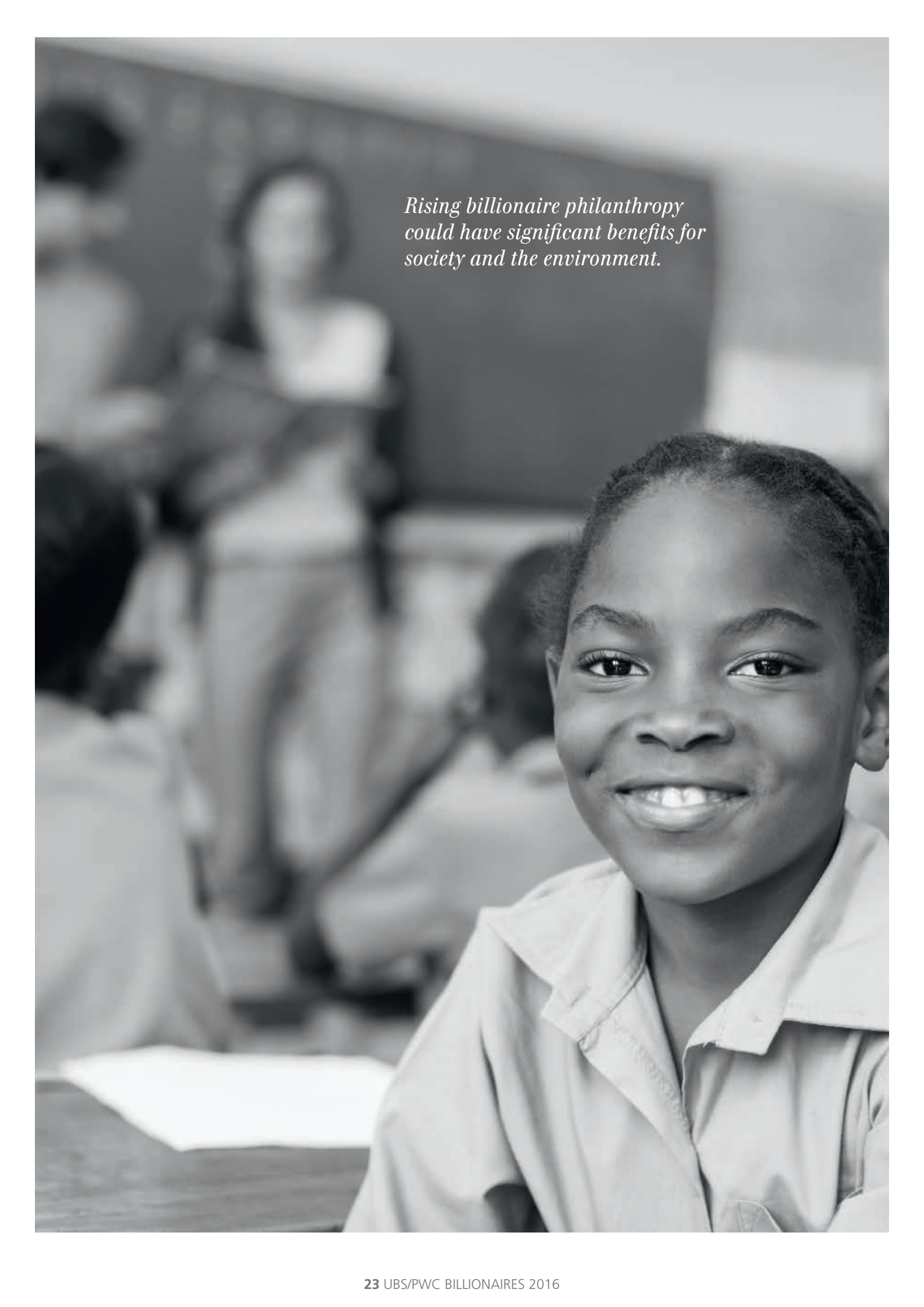
### **2. Smart risk taking**

It has been argued that private philanthropy should be the risk capital for the social and development sectors. Private philanthropists can, in theory, take greater risks than others, and have a longer-term view, as they face fewer accountability constraints than others. Yet few are willing to take these risks, although that is precisely what the complex problems they aim to solve require.

### **3. Active collaboration**

Human nature is individualistic and philanthropists want to shape programs themselves. In practice, humanity's most intractable problems can only be solved with greater cooperation and cross-sector approaches. This must be combined with activism, which assesses a problem and commits to solving it, while taking a flexible approach.

Perhaps the most important of these three areas is strategy. Rising billionaire philanthropy could have significant benefits for society and the environment. Quite how significant will depend on the extent to which billionaire entrepreneurs apply some of the characteristics that have made their businesses successful. ✓

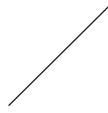


*Rising billionaire philanthropy  
could have significant benefits for  
society and the environment.*

*We will see a huge handover of wealth to the next generation, many of whom will be millennials, whose primary interests may lie outside the family business.*







# OUTLOOK

The Second Gilded Age has paused. Wealth transfer and commodity price deflation are putting billionaires under pressure at a time when technology and finance, the motors of great wealth creation, have stalled. This is chiefly a US phenomenon, but even in Asia billionaire wealth has stopped growing. The notable exception to this trend is China, where billionaires continue to thrive.

## **DILUTION AHEAD**

With many billionaires over 70, significant dilution of billionaire fortunes lies ahead. We will see a huge handover of wealth to their heirs, many of whom will be millennials whose primary interests may lie outside the family business. There will also be continued volatility of wealth for business reasons. Without careful planning, many of today's fortunes will suffer substantial erosion.

## **SOCIETY GAINS**

In the years to come, the whole of society will benefit from this age of great wealth creation. All over the world, this gene-

ration of billionaires, and their idealistic heirs, are committing wealth to philanthropy on a greater scale than ever. Whether today's billionaires match the achievements of the Carnegies and Rockefellers, however, will depend on whether they apply their business skills to philanthropy.

## **WHAT NEXT FOR THE GILDED AGE?**

2015's data alone does not set a trend. We expect financial asset performance and economic growth to create a favourable environment for billionaire wealth creation in 2016 and 2017. For financial investors, global equity and credit markets are expected to deliver positive returns. For entrepreneurs and portfolio investors, UBS forecasts the global economy will grow 5.6% (in nominal terms) in 2016 and a further 6.1% in 2017. Finally, over 80% of the entrepreneurs in our UBS Industry Leader Network have consistently reported stable or improving business outlooks in 2016. ✓

# RESEARCH BACKGROUND

## A few words about the research and sources

A number of sources were utilised to research and profile the characteristics of wealthy individuals. These were blended into a mosaic analytical framework from which we conducted extensive modeling and analysis. This information and data are part of PwC proprietary data and analytics structures and are noncommercial in nature and specifically nonattributable regarding the identity of any underlying individual or family.

PwC acts as a supplier of data and analysis for the purpose of this report. In addition the following were specifically leveraged as a part of our research:

- PwC has a significant body of research drawn from publishing studies on Wealth and Private Banking, and Family Businesses including current and future perspectives on a number of industries from which we were able to derive insights. These include but are not limited to Next Generation Survey of Family Business Leaders 2016, Banking Tax 2020, 18th Annual Global CEO Survey: A Private Company View (2015), Global Family Business Survey: Up Close and Professional (2014) and, from our network firm INTES: Nachfolge im Familienunternehmen (2015). Further, UBS's body of research and insights in Wealth and Private Banking were leveraged. These include but are not limited to the UBS House View Year Ahead 2016: the answers for 2016, UBS House View Years Ahead: our 5-7 year view, UBS Investor Watch, The Global Family Office Report 2015, UBS Philanthropy Compass, UBS - INSEAD Study on Family Philanthropy in Asia, and the UBS - Harvard study, From Prosperity to Purpose.
- Other analysis is based on our proprietary PwC databases that covers non-client-specific detailed bottom-up data on approximately 1,400 billionaires from the US, Germany, UK, France, Switzerland, Turkey, Italy, Spain, China, India, Hong Kong, Japan, Singapore and, Russia. This is a private, non-commercial data structure designed to support analysis of specific market segments.
- Specific interviews with a number of billionaires and a number of next gen's of billionaires in various geographies were conducted by PwC and UBS separately and the information from those qualitative discussions were incorporated on a nonattributable basis without regard to any business/client relationship with any person, firm or organization. Further, we conducted over 20 interviews with billionaire advisors.
- For the long-term series of the MSCI and GDP data we used the MSCI World gross data (accessed on 05/2016) and the World Bank's Global Economic Prospects database (accessed 05/2016) respectively. The UBS Industry Leader Network is a global network of entrepreneurs and business leaders in privately held companies.

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