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BILLIONAIRES

Master architects of great wealth
and lasting legacies

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INTRODUCTION: A PIONEERING REPORT

Welcome to the UBS/PwC 2015 Billionaire Report, which sheds new light on the story of great wealth – how it's created, preserved and how it breeds philanthropy.

The past 35 years have been a period of extraordinary wealth creation by billionaires. Only the 'Gilded Age' at the beginning of the 20th Century bears any comparison. Then fortunes were created from industrial innovation, in sectors such as steel, cars and electricity. Now they are being made from the consumer industry, technology and financial innovation in the US and Europe, as well as consumer products, globalization, industrialization and infrastructure booms in Asia and other emerging markets.

We have looked back over the latter half of what we call a second 'Gilded Age' and found that 917 self-made billionaires have created fortunes of more than US$3.6 trillion in this period. Along the way, they have driven the development of the internet and its ecosystems, perhaps the greatest innovation of our time, led Asia's consumer products revolution, and developed Asia's factories, infrastructure and real estate. They have also set up some of the hedge and private equity funds that have revolutionized finance.

Our report is one of the most comprehensive studies of this historic era of wealth generation. We analyze data covering more than 1,300 billionaires, looking back 19 years. The data surveys the 14 largest billionaire markets, which account for 75% of global billionaire wealth. Additionally, we have conducted face-to-face interviews with more than 30 billionaires.

Notably, we believe this period of extraordinary wealth generation may soon decelerate. While this analysis is historical, our belief is that the conditions in which billionaires thrive are cyclical. The response to rising inequality, increasing taxes and asset price deflation may all play a part in slowing the current cycle. At the same time, scientific innovation in fields such as biotechnology, artificial intelligence, robotics, nanotechnology and cyber security, as well as the growing needs of an ageing population, suggest that some new opportunities for aspiring billionaires will emerge.

From a demographic point of view, the current generation of billionaires is ageing. Two thirds of them are in the corridor of wealth transfer, with many of them still facing the decision of what their legacies will be. We expect a major upsurge in philanthropy, perhaps even surpassing that at the end of the first 'Gilded Age'.



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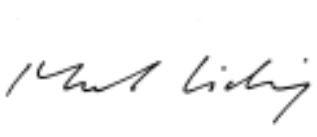

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EXECUTIVE SUMMARY

// **Second 'Gilded Age' –** The world is in a second 'Gilded Age', comparable to the first 'Gilded Age' at the beginning of the 20th Century. The majority of the world's billionaires have made their wealth in the past 20 years, when they have created more than US$3.6 trillion. US entrepreneurs have created most wealth, leading a wave of innovation in technology and finance. Asia's new industrialists, consumer product tycoons and real estate investors have also participated, seizing opportunity from rapid macro-economic growth, globalization and urbanization. Rising real estate and capital markets have played a strong role in the creation of new billionaires.

// **Levelling off likely –** Contrary to some observers of our time, we believe this second 'Gilded Age' is unlikely to go on forever but will level off. Just as economies grow in cycles, so the opportunities that led to this most recent exceptional period of wealth generation are likely to come to an end. Tax, social equality initiatives, asset price deflation and geopolitical tensions – there are approximately 40 civil wars and armed conflicts raging – will likely have significant consequences for great wealth creation.

// **Youthful starts –** Self-made billionaires tend to launch their first ventures at a young age, although few attain billionaire status before their 40th birthdays. 23% launched their first venture before the age of 30, while a total of 68% did so before reaching 40. Interestingly, almost half worked in a large company before making their breakthrough. Against the current myth of billionaire dropouts, 82% of all self-made billionaires have a college degree.

// **Personality traits –** Distinct personality traits allow creators of great wealth to thrive, according to our research. Billionaires typically have three characteristics in common: an appetite for clever risk taking, business focus and determination. But while some highly visible entrepreneurs excel in risk taking and starting up businesses, they are often less good at running and scaling a business which explains why they often team up with strong partners. Others are able to both build and sell as they observe a niche that is not covered and fill it.

// **Sustainable legacies –** As this generation of self-made billionaires ages, they have to decide what their legacies will be. Almost two thirds of billionaires are over 60 years old and have to choose how to preserve their achievements and to transfer their wealth effectively either to future family generations, to philanthropic causes or some combination of the two. Without a clear and sensible governance and strategy, wealth can swiftly dilute over generations, through death, divorce and taxes. Planning and structuring for the long term are critical, and some billionaires are setting up sophisticated structures (i.e. family offices) with the characteristics of private equity to safeguard their legacies. Increasingly, large billionaire families are held together through meticulously drafted charters dealing with critical governance issues.

// **Great philanthropy –** We expect an unprecedented wave of philanthropy in its many forms – foundations, endowments, socially-focused investing, the arts and education. Following the first big wave of US philanthropy at end of first 'Gilded Age' (Carnegie, Rockefeller), this can already be seen in the US with the most visible example being Bill Gates' 'Giving Pledge', where more than 100 billionaires have pledged more than 50% of their wealth to philanthropic causes. However, we also expect philanthropy to grow in other countries, where its particular form is and will be adapted to the regional and cultural context.

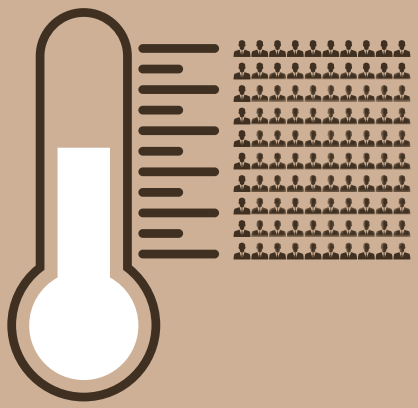


US entrepreneurs have created the most wealth, leading a wave of innovation in technology and finance. Further east, Asia's new industrialists, consumer product tycoons and real estate investors have also participated.



40

Self-made billionaires tend to launch their first ventures at a young age, although few attain billionaire status before their 40th birthdays.



More than 100 billionaires have pledged more than 50% of their wealth to philanthropic causes.

Rising real estate and capital markets have played a strong role in the creation of new billionaires.





82%

of all self-made billionaires have a college degree.

GREAT WEALTH – THE BIG PICTURE, A CENTURY OF EXPERIENCE

Wealth generation: a cyclical pattern

"History does not repeat itself, but it often rhymes," Mark Twain is reputed to have said.

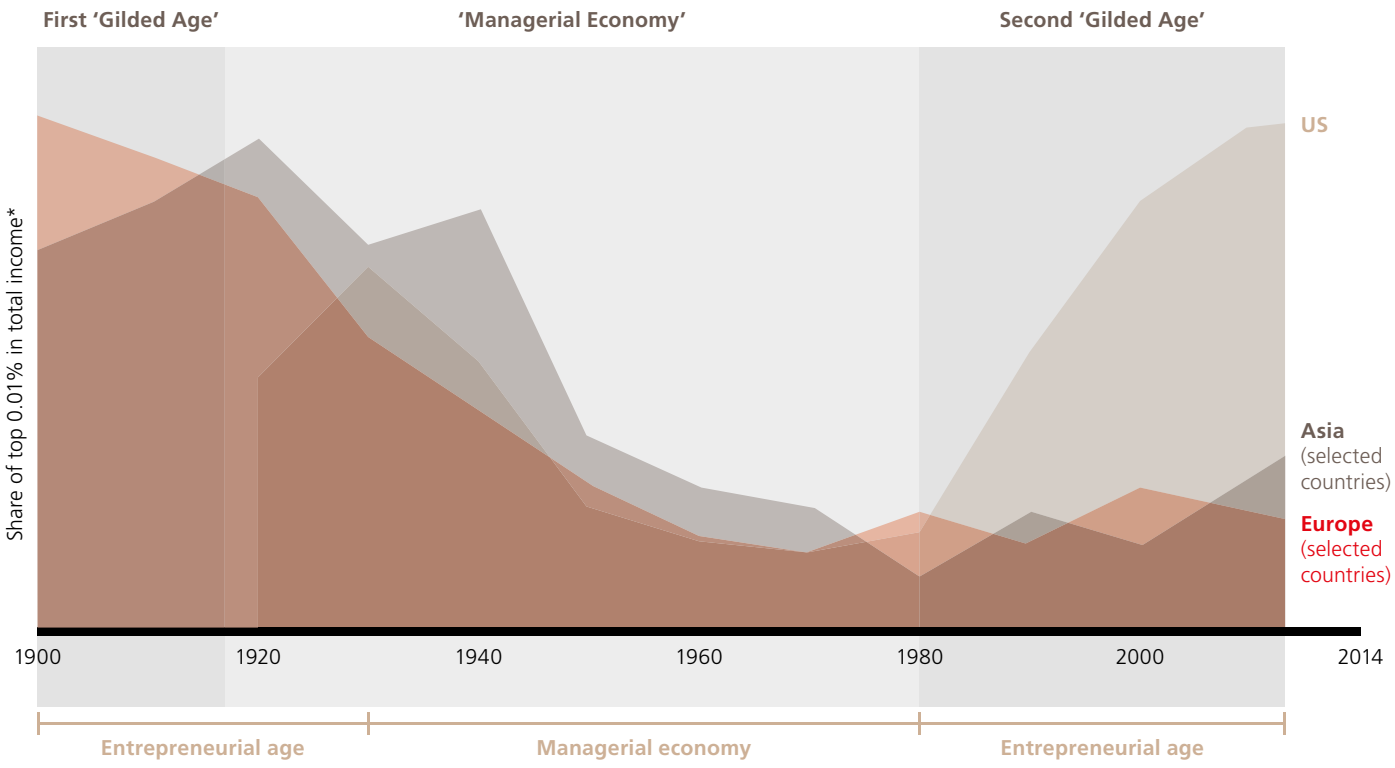
In the story of great wealth creation, this is certainly the case. At the beginning of the 20th Century, a small number of US and European entrepreneurs took advantage of new industrial technologies to drive forward some of that century's greatest innovations. In the process they amassed great fortunes. Almost one hundred years later, the cycle is happening again, only this time it's innovation in technology and finance, the economic rise of emerging markets, and inflating asset prices which have fuelled extraordinary wealth generation.

According to most historians the first 'Gilded Age' lasted from 1870-1910. In this period, a few businessmen built the organizations that industrialized innovations, bringing us for example the car, steel and electricity. Over the past 35 years, US entrepreneurs have taken advantage of new technologies to create the internet and its ecosystem. They have leveraged new opportunities in finance to launch hedge and private equity funds. Globally (and in Europe especially), the consumer industry has been a major driving force behind great wealth creation. Asia and other emerging market entrepreneurs have responded to globalization by building mega-cities, powered and connected by new infrastructures. Appreciation of asset prices over the last decades has driven billionaire wealth across the globe, whether through real estate or assets such as art and intellectual property.

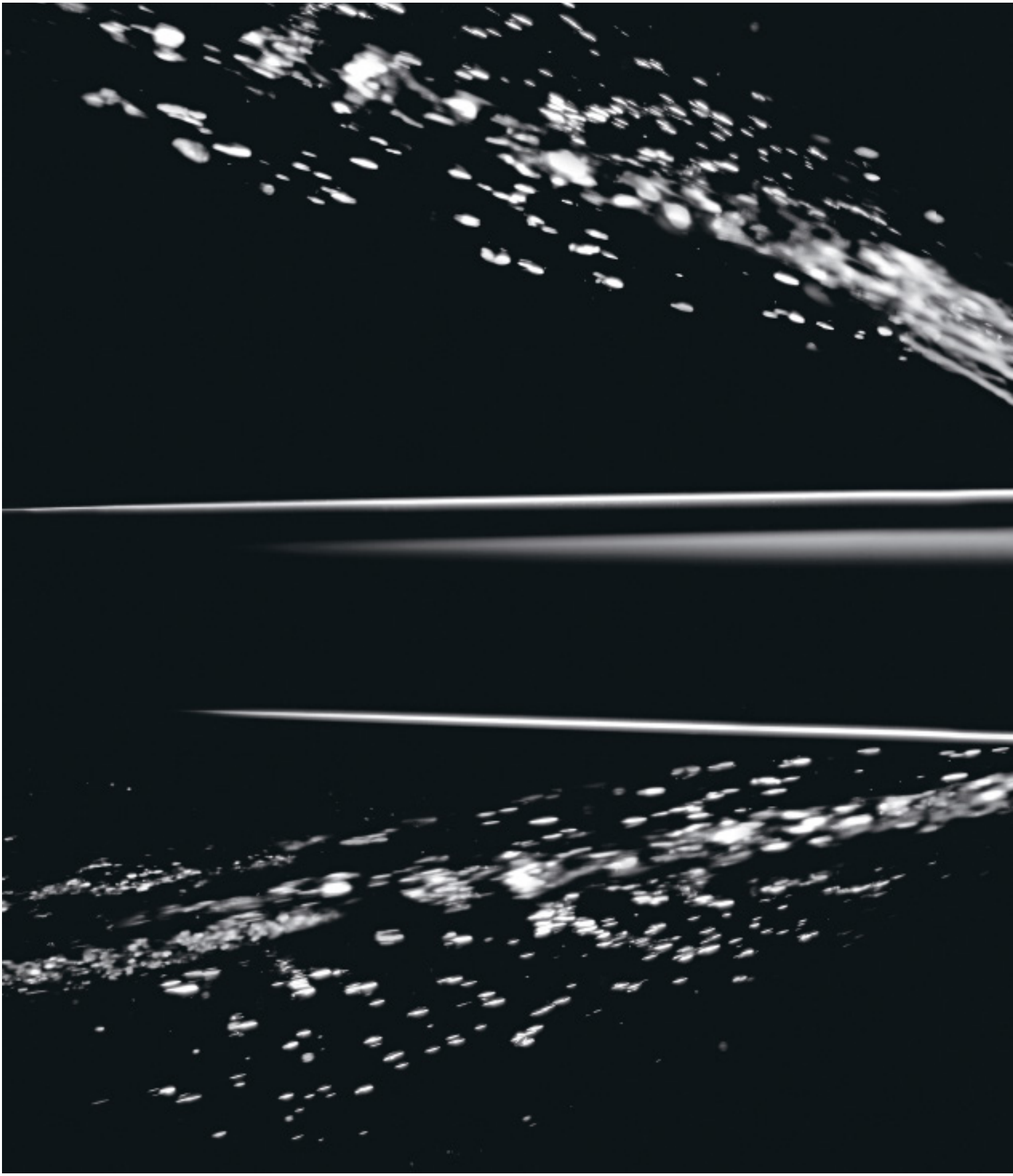
The people pioneering such great economic change have benefited most. In the past 19 years alone (1995-2014), 917 self-made billionaires have created in excess of US$3.6 trillion of wealth. In emerging markets, there were relatively few billionaires before this period. Now the billionaire entrepreneur is an established phenomenon and China, for example, has created a significant share of the world's self-made female billionaires.

We believe that, like economic growth, great wealth creation has cycles. Wealth creation tends to move in S-curves, rather than growing linearly. At the end of the first 'Gilded Age', economic depression, higher taxes and the emergence of large public companies suppressed the opportunities for creating great wealth. The 'entrepreneurial age' yielded to a 'managerial economy' phase which lasted 50 years (1930-1980). In this time, a few big, established companies dominated economies leaving little room for entrepreneurialism. Consequently, we believe that current growth in great wealth cannot be extrapolated out forever with any certainty. In our opinion, current extreme growth is likely to level off in the next 10-20 years, although Asia's economic momentum may signal that the cycle lasts longer there than in the US.

Great wealth historically happened in cycles and with diverging paths post-1980



* Share of top 0.01% income excluding capital gains as data for capital gains incomplete, capital gains expected to amplify inequality
Source: Piketty (2014), World Top Income Database (2014), UBS and PwC analysis

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Two developments that may hinder the growth of great wealth are slowing economic growth in emerging markets (especially in the BRIC countries) and the significant share (approximately two thirds) of the current generation of billionaires that is in the corridor of wealth transfer (i.e. are over 60 and approaching the time when it is prudent to plan their legacies). As our data shows (see chapter three), once wealth gets handed over to the next generation it tends to fragment and dissipate rapidly.

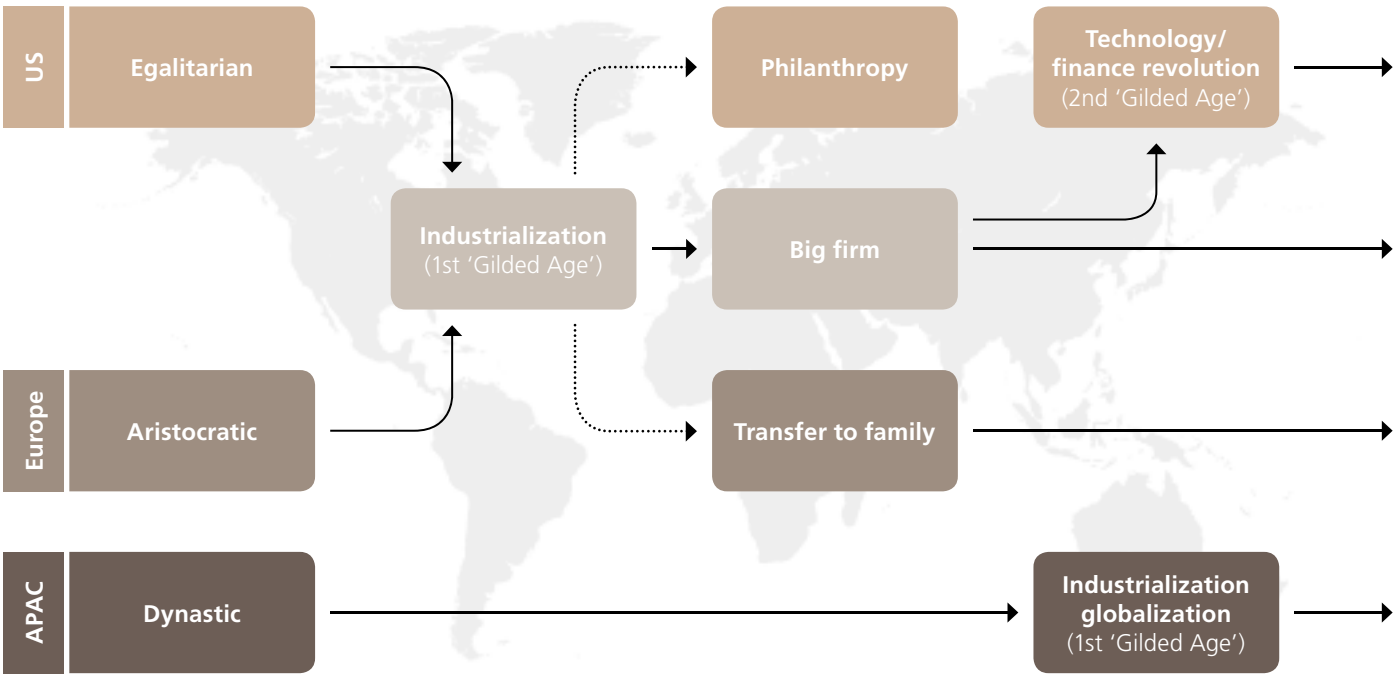
Beyond these factors, there are a number of others that may slow down the entrepreneurial era. Rising inequality concerns may spur punitive rises in wealth/inheritance taxes (which are under discussion in countries such as the US, Germany and Switzerland). Regulators in some regions are looking into reining in monopolistic market structures (e.g. the EU's investigations into technology firms), echoing restrictions that helped to end the first 'Gilded Age' (e.g. US Sherman Anti-Trust Act).

Centered mainly on the US and Asia

In just a short 35 years, the second 'Gilded Age' has turned the world's billionaire population upside down. Until 1980, the overwhelming majority of billionaires lived in the US and Europe. What's more, in 1996 only approximately 45% of US billionaires and 25% of European billionaires were self-made. In the last decade, the US and Asia have become the main centers of great wealth creation, with Europe faring less well. Many billionaires have crystallized their wealth by listing businesses they have created on stock exchanges, and then sold down their shares periodically to gain portfolio diversity.

Of the more than 1,300 billionaires in-scope globally, with wealth of US$ 5.4 trillion (up by US$ 4.7 trillion from US$0.7 trillion in 1995), 66% were self-made billionaires, compared with just 43% at the beginning of our study period in 1995. Most of these new billionaires are based in the US, where 47% of the in-scope self-made billionaire wealth was resident in 2014. But Asia's entrepreneurs, too, have participated in this entrepreneurial explosion. Asia's billionaires account for 36% of self-made billionaire wealth, pushing Europe into third place as a location for great wealth, with just 17% of the self-made billionaire population.

Macro events have shaped the way that wealth is created



Source: PwC analysis

While US entrepreneurs have driven a global revolution in finance and technology, Asia's tycoons have been key participants in the region's accelerated industrial and consumer revolutions, with the building of mega-cities and increase in real estate prices. Europe hasn't participated in this second 'Gilded Age' to such a degree. Where it has done so, entrepreneurs have made their fortunes from consumer goods and industrial products.

Inherited wealth makes way for entrepreneurs

The present era of great wealth creation has seen a regeneration of billionaire wealth. In 2000, the number of self-made billionaires overtook the number of multi-generational billionaires for the first time since the first 'Gilded Age'. And, in 2014, entrepreneur billionaires made up 66% of the total billionaire population. This structural change of wealth breeds innovation and economic growth. The current class of billionaires has created growth, opportunity and wealth for broader society through the firms that they have founded.

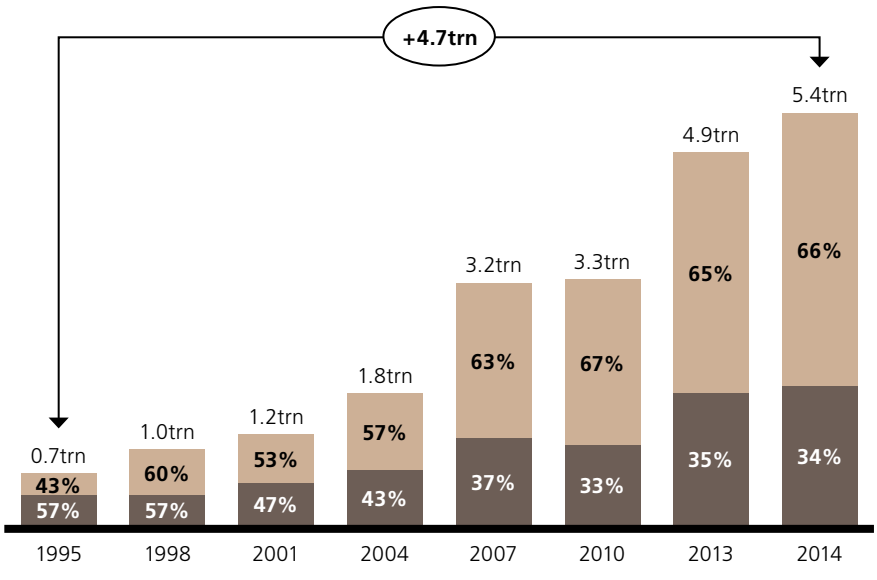
There has been massive wealth creation over the past 19 years, but there have also been a large number who no longer qualify. Only 40% of the billionaire class of 1995 remain in this elite wealth bracket. Both the high number of drop outs and the burgeoning population of new billionaires mean that only 9% of 2014's billionaires were in this elite wealth bracket 19 years earlier.

In the first part of our 1995-2014 study period, billionaire wealth far outperformed the financial markets. But since the dot.com bubble burst in the early 2000s it has become far more correlated with financial markets.

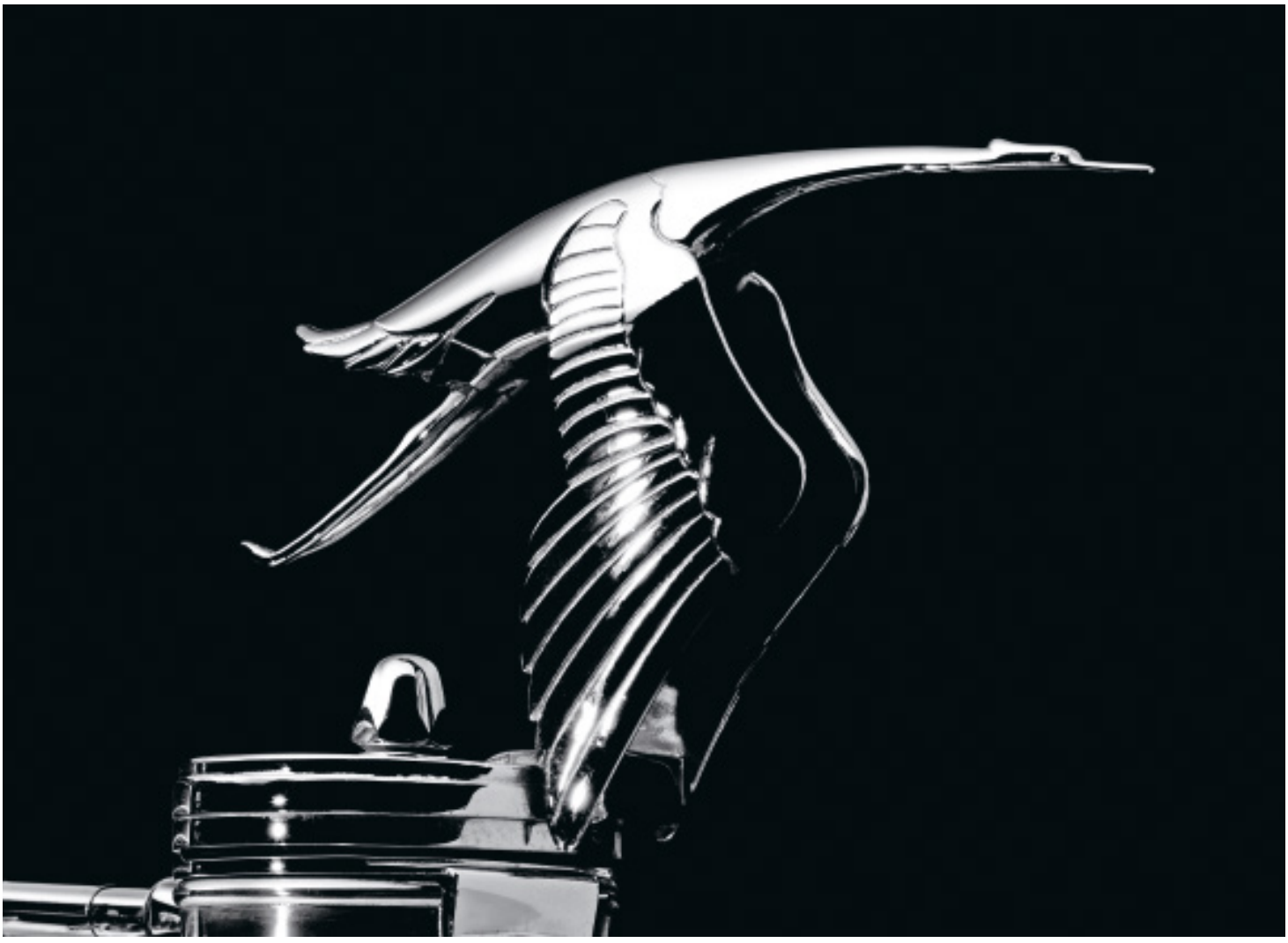
Billionaire wealth growth in the last 19 years is strongly driven by entrepreneurial wealth creation

Billionaire wealth of in-scope markets*

Global, USD



* In-scope markets consist of 14 richest billionaire markets and represent 75% of global billionaire wealth
Source: PwC Billionaire Database, UBS and PwC analysis



PATTERNS OF GREAT WEALTH CREATION

Regional variations in sources of wealth

The common perception of a contemporary self-made billionaire is a technology wizard, driving a fast-growing engine of digital innovation. In fact, this is only partly accurate. Our research database shows that sources of great wealth tend to vary depending on geography.

Even in the US, technology is not the dominant source of new fortunes. Instead, the financial services sector has spawned the largest number of US self-made billionaires during our study period (30.0%), while technology has produced the second highest number (27.3%). But technology billionaires are almost twice as rich, averaging US$7.8 billion in wealth, far exceeding financiers' average of US$4.5 billion.

In Europe, the consumer industry dominates both in terms of number of self-made billionaires (49.5%) and average wealth (US$5.7 billion). Entrepreneurs have made their fortunes from founding the region's large retail houses. Technology entrepreneurs rank a distant second, making up a far smaller proportion of the population (9.7%), with lower average wealth of US$3.8 billion.

Asia's self-made billionaires have also chiefly made their money in the consumer sector (19.8% of billionaires are from the sector, with average wealth of US$3.2 billion). The region's real estate boom has produced the second highest number of billionaires (12.9% with average wealth of US$2.7 billion).

Billionaire personality traits

Billionaires are different. Their fortunes aren't the result of good luck or social background. Instead, self-made billionaires have distinct personality characteristics that allow them to approach the challenge of creating new value differently from most corporate managers and leaders.

In order to identify these characteristics, we reviewed an array of academic research, survey analysis and case studies, as well as conducting face-to-face interviews with billionaires. Our research and analysis consistently identified three personality traits as essential for entrepreneurial success. These are: smart risk taking, obsessive business focus and dogged determination.

Smart risk taking

Self-made billionaires tend to have a very optimistic attitude towards risk, focus on risks they understand and find smart ways to reduce them. What's more, their keen instinct for risk and opportunity often allows them to exit at the peak, transferring risk to others. The clever risk taking splits into three angles:

1. Their risk profile is skewed towards focusing on the upside and being realistic on the downside (and not being scared by it). They're afraid to lose by not capturing an opportunity, tending not to worry about the downside of a new venture failing but instead being concerned about missing out on the upside: "If you want to be successful in a big, big way you have to go where the biggest risks are, because that is where the biggest opportunities are as well," one billionaire told us. Another billionaire, from the industrial products industry, attributed the success of his ventures to extreme confidence: "With many investments I am so confident that I automatically buy double or triple the factory capacity I originally estimated, because I just deeply believe in the tremendous upside and don't want to be later limited in what I can achieve," he explained. It is not that self-made billionaires ignore the downside risk, rather they have an accurate sense to identify value at the right level of risk versus at a too high risk.

One very interesting observation during the interviews was that 'focus' is critical to how self-made billionaires work. The one critical resource that even billionaires cannot buy is time.

2. They look for asymmetrical opportunities where they do have an advantage (like proprietary insights, access to financing/liquidity or assets that in combination with the opportunity will create synergies). In these situations the risks for anybody without these advantages will appear high and they are likely to walk away. Also they are keenly aware that there may be situations where they do not have these advantages. One billionaire focusing on principal investments told us: "When I sit at the negotiation table I always ask myself who is the fool at the table. If I do not see one I will most likely walk away because the chances are high that it is me."

3. They have very strong ability to recover from failure. On the one hand they rarely take 'bet the house' risks, but rather always keep enough resources to be able to recover. On the other hand when the original idea fails they have the ability to 'pivot', i.e. they constantly adjust the initial idea until they succeed. A self-made billionaire from the retail industry told us: "Our current business model is the result of a series of failures and the lessons we learned from them. If we would have stuck to the original business model we would be bankrupt by now."

Obsessive business focus

Self-made billionaires are constantly scanning the world for untapped opportunity. Curiosity is a core skill of most self-made billionaires we met. This curiosity is constantly driving them to look for unmet customer needs that create a significant business opportunity. In so doing, they very often have the advantage of insight based on in-depth knowledge of the industries in which they compete. After they have identified an opportunity they switch to an extremely focused modus operandi in execution that some observers could call 'tunnel vision'. One interviewee compared this to a fighter pilot who focuses on the horizon and totally ignores things at the edge of his sight. "This would only distract me and likely would lead to a crash." Another aspect of business focus is the tendency to quantify everything. A good example is a billionaire we met in a London restaurant. In the middle of the conversation, he looked around and said: "What a great place. Do you think it makes money? Should I buy it?" He did a back of the envelope estimate of its profitability and concluded: "This is not going to last more than three years unless it is someone's hobby." This leads into another aspect of business focus. Self-made billionaires try to avoid emotions diluting the economics of a deal, or at least very consciously make a decision that they are prepared to pay a price that otherwise may not be justified: "I was offered a company I always admired. When we discussed our offer strategy I realized that I was emotionally attached to that firm and prepared to pay a significant premium that my team did not see justified. I had to ask myself whether I want to make a business decision or want to fulfill a dream I always had."

One very interesting observation during the interviews was that 'focus' is critical to how self-made billionaires work. The one critical resource that even billionaires cannot buy is time. This is why access to them is so highly restricted and their schedule is so tightly scripted. On the upside, if they decide to give you some of their time they are fully dedicated. None of the meetings we had was disrupted by an assistant, there were no calls and none of them looked at their mobile devices to check messages. When they are with you they focus 100% on you.

Dogged determination

Billionaires are highly resilient. Undeterred by failures and roadblocks, they have a tremendous work ethic. They confront and overcome obstacles, persevering in the face of adversity. In our discussions with billionaires, we found that several start-ups of moderate success often preceded the venture that led to the creation of great wealth. In many cases, self-made billionaires do not view risk or failure in the same way as the general population. They often view risk from the perspective of not being positioned to capitalize on a business opportunity. As for failure, one billionaire explained that the realization of a significant business loss was the most important event in his career. The loss focused his efforts and taught him not to shrink from very difficult decisions. Our interviews showed that self-made billionaires often tend to be serial entrepreneurs who learn from their mistakes and doggedly work towards great wealth creation. On occasion, their tactics are aggressive; sometimes close to the boundaries of the law. Most interviewees we asked viewed a life threatening (for their company) crisis as an opportunity. One described a corporate crisis as an event "where you have to make hard cuts and weed out the inefficiencies created by growth and grab the opportunity created by the crisis. In the last down market I bought one of my fiercest competitors who got wrong-footed by the crisis at fire sale prices, which turned out to be one of the best investments I have ever made."

Starting young

Self-made billionaires start to make their breakthroughs young, although they do not tend to hit the billion-dollar mark until well after their 40th birthdays. More than a fifth (23%) launched their first venture before the age of 30, while over two thirds (68%) launched their first venture before reaching 40.

Billionaires tend to have had the benefits of experience and education. Almost half of self-made billionaires worked in a large company before making their breakthrough, while 82% have a college degree.

Showing just how recently Asia has made its economic breakthrough, the region's new tycoons differ from those in other regions. 25% of them grew up in poverty, compared with just 8% in the US and 6% in Europe. They're also younger than their peers in other parts of the world. Asian self-made billionaires have an average age of 57, making them almost ten years younger than their counterparts in the US and Europe.



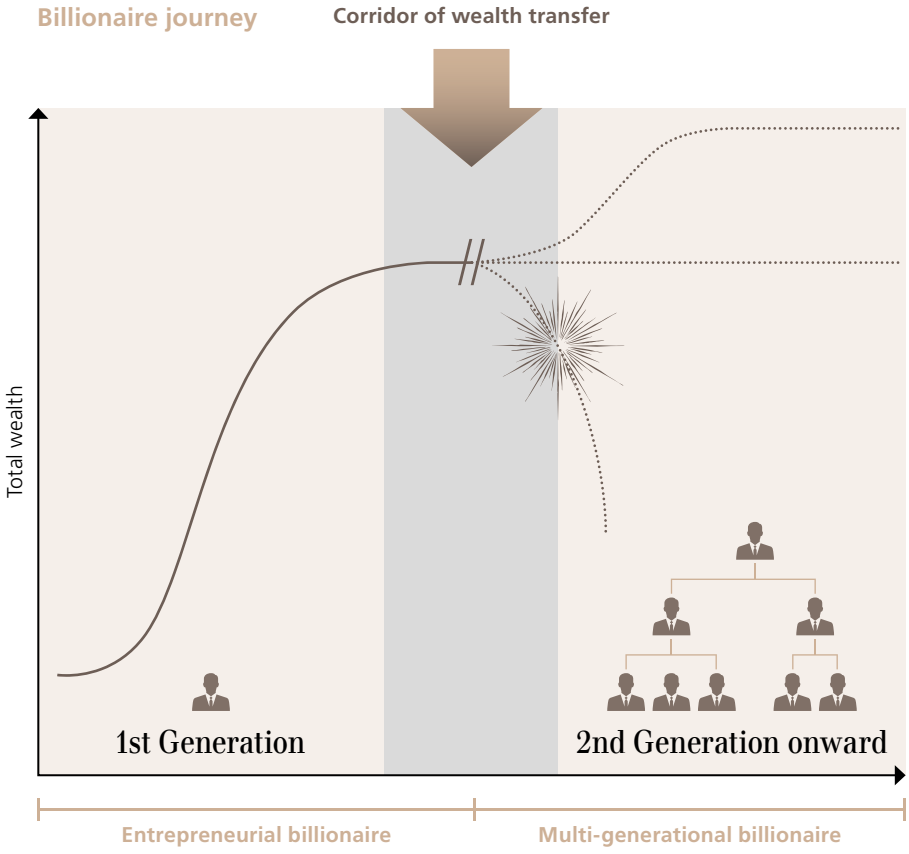
STRATEGIC OPTIONS FOR GREAT WEALTH PRESERVATION

Generational transfer: the big challenge

Most billionaires are in what we call the 'corridor of wealth transfer', when they have to make the crucial decision that will define their legacy. Almost two thirds of them are over 60 years old, have more than one child and are at the point in their lives of having to choose what to do with their wealth. This choice is important, as fortunes will quickly dilute without a sensible preservation strategy and governance.

Some 57% of self-made billionaires and 67% of multi-generational billionaires are in this stage of life. For entrepreneurs who have focused their lives on creating wealth, this critical legacy issue has all too often been left open. They're faced with the 'who, what, when and how' legacy question as they look to make a transfer to the next generation, the extended community and other interests that matter to them.

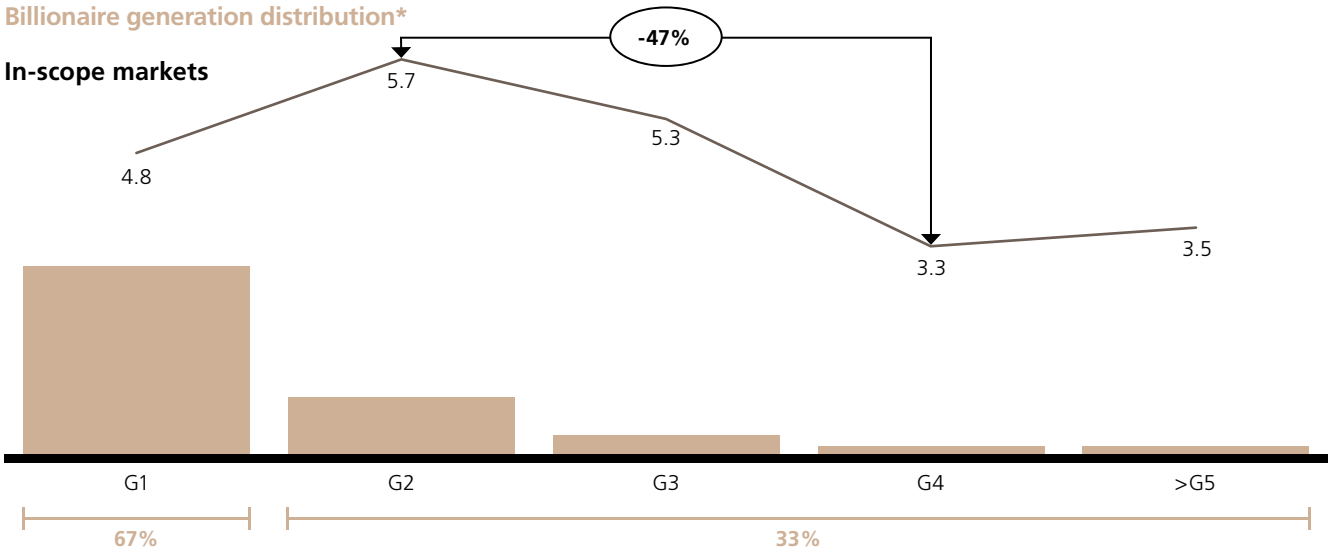
Transfer to next generation is THE key challenge for all billionaires in the quest to preserve their lifetime achievement



- Decision regarding wealth preservation strategy and governance cannot be avoided (and if ignored mostly will have led to a fast decline of great wealth) and are key factors of sustainability of lifetime achievement
- Two basic options (maintain original business vs. cash-out) are available plus the decision on role of philanthropy

Source: PwC analysis

As clear wealth erosion is inevitable, wealth preservation cannot be taken as granted



* Charts show number of individuals, not families according to Forbes; founder of original business defined as 1st generation; >G5 includes up to G11
Source: PwC Billionaire Database, UBS and PwC analysis

'Generational algebra' illustrates the dynamic of wealth dilution. The power of compound wealth fragmentation means that if each member of a family has three children, by the second generation there are nine family members and by the fifth there are 243. Correspondingly, a sum of US$1 billion dilutes to US$333 million for each child when it's passed on to the second generation. By the fifth generation, each child inherits US$12 million.

This calculation shows the importance of strategic planning and long-term structuring for billionaires to protect their lifetime achievements and preserve their values into the future. The decision of how to preserve wealth can not be avoided. In the instances it has been ignored, this indecision has mostly led to a fast decline in wealth.

'Generational Algebra' shows dynamic of wealth dilution

	Nr. members	Avg wealth (US$ million)	Avg dividend (US$ million)
1st generation	3	1,000	25.0
2nd generation	9	333	13.3
3rd generation	27	111	2.3
4th generation	81	37	0.9
5th generation	243	12	0.3

Source: PwC analysis

One sixth-generation patriarch summed up the secret sauce that made his family business sustainable: "Ultimately it comes down to three factors that need to be in place and working: 1. Financial dividends; there are now more than 20 families that depend in some way or the other on the annual payout. In years that we had to skip or reduce the payout, this can become difficult. 2. Even more important is the emotional dividend. We need to keep every new member emotionally attached to the firm from the day they are conceived. 3. There must be an exit gate that has clear rules and conditions under which somebody can leave the family business when he or she want to without destroying the legacy."

Keep the firm or cash out?

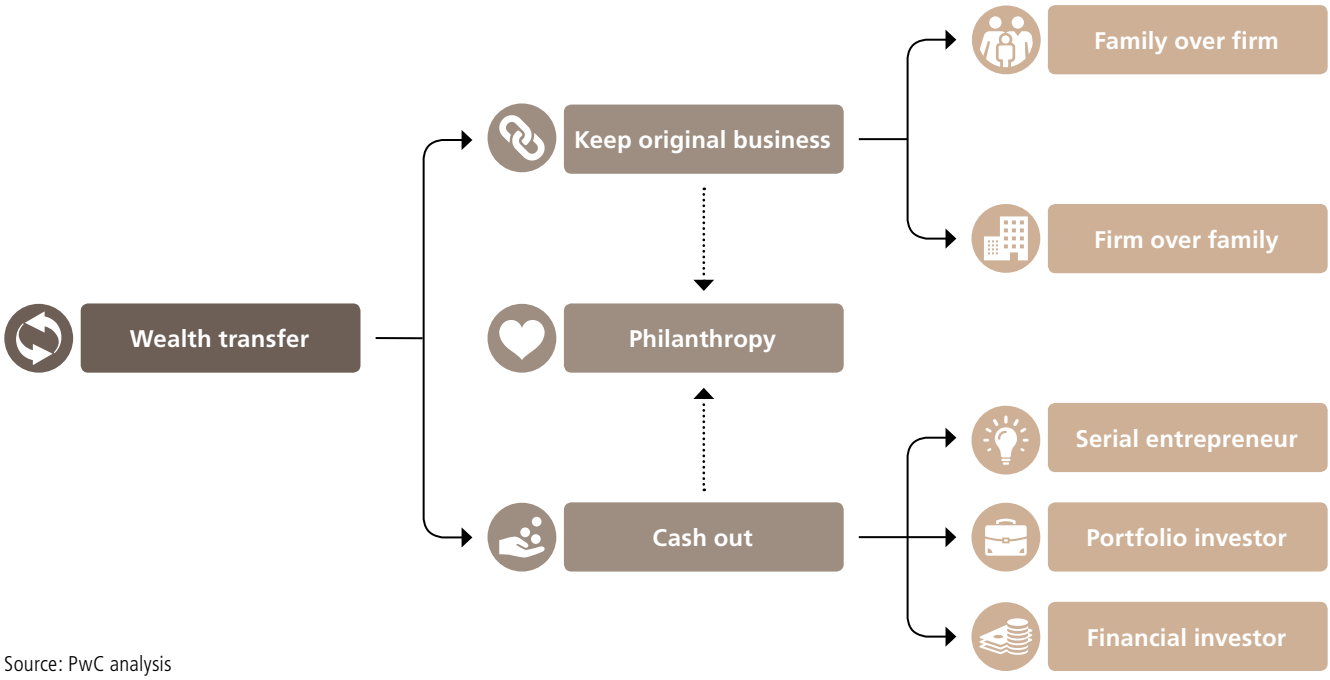
When billionaires plan for their legacies, they have to choose between keeping the businesses they have created, cashing out or some hybrid combination of these two options. One of the billionaires who sold his firm summed up this highly emotional point quite rationally. "One day when I looked up I had to realize that unfortunately I am not going to be around forever. Nobody in the family was in the slightest way interested or for that matter capable. What was the point of sticking with the firm? I decided selling was a much easier option for my family, although it has been super-tough for me to see my legacy being sucked into a multinational and six years on no trace is left." Increasingly, billionaires also look into making philanthropy part of their legacy, particularly supporting areas such as education, healthcare and the arts.

When billionaires plan for their legacies, they have to choose between keeping the businesses they have created, cashing out or some hybrid combination of these two options.

Family office sophistication

In order to tackle the challenges of wealth preservation, billionaires are setting up ever more sophisticated family offices. They have professional managers and governance structures that will span the generations. Some family offices which formerly focused on wills, trusts, bill paying and tax strategies are beginning to take a more comprehensive role in managing family companies which make up the family's wealth. We see family offices becoming more vertically integrated, as well as shopping for a wider range of advice.

Entrepreneurs will face a fundamental decision that will drive the destiny of their life achievement



Source: PwC analysis





Entrepreneurs have to make the difficult decision of whether to prioritize the interests of business or family. If the entrepreneur leaves family members in charge, they could cash out at any time and there's a risk of family feuds that only increases with each new generation. On the other hand, setting up a foundation to shield the firm from family interests limits their control and their share of any dividends. Balancing the interests of family and firm is a complex topic that can be approached in many different ways, with governance structures adapted to specific situations.

In spite of the difficulties, most self-made billionaires in the US and Europe choose to keep their businesses (60%) because building and sustaining a legacy is the ultimate fulfillment for most interviewed billionaires. Almost a third choose a 'hybrid' strategy (30%), opting to sell part of the business by way of an IPO or trade sale, while 10% cash out. The relative youth of Asia's billionaires means that not many have yet made the decision.

Asian and European billionaires are most likely to set up business dynasties. A global survey of large family firms showed that 57% of European billionaire families and 56% of Asian succeed to manage the business after the patriarch retires. By contrast, only 36% of US families do, instead handing over to an external manager.

If cash out is the chosen option, entrepreneurs tend to fall into three wealth management models: serial entrepreneur, portfolio investor or financial investor. Serial entrepreneurs who go on to set up more businesses are likely to be relatively young, with undiminished risk appetite. Portfolio investors retreat from day-to-day operations and act as principal investors, leveraging their industry experience. Finally, financial investors completely withdraw from entrepreneurial activity, setting up a wealth management strategy designed to preserve their wealth. They may outsource investment management or set up a family office.

After cash out, three models can be chosen which differ regarding strategy how wealth is created and/or preserved



	Serial entrepreneur	Portfolio investor	Financial investor
Rationale after cash out	• Goal to primarily continue to create the next big thing • Decision influenced by ambition, ability and age of entrepreneur at time of cash out • Goal to primarily continue to create wealth	• Retreat from daily operations and become principal investor • Leverage experience to create alpha and be involved	• Complete withdraw from entrepreneurial activity or active involvement in a business • Rather a passive role with aim to preserve great wealth
Value driver	• Create new or transform existing business • New business not necessarily in same industry • Shape the future	• Unlock hidden value of existing businesses • Comparable to private equity model	• Follow defined risk-expected return strategy
Share of total	17%	23%	60%

Risk appetite/ expected return → Diversification

Source: PwC analysis

Serial entrepreneurs go on to create the next big thing. In our interviews, one billionaire following this model expressed a love of creating new businesses, saying that greater wealth was no longer of any interest to him.



The majority of self-made billionaires who cash out become financial investors, pursuing specific risk-return goals and delegating investment management to either a family office or a financial institution. According to our data, 68% of those who have cashed out since 2004 have become financial investors. This decision is likely to have been driven by the fact that many of these individuals were over 60.

Of all interviewed billionaires that had cashed out, the ones who have chosen the portfolio investor model seemed to have most fun: "This is my retirement: I only do what I like to do and it is not golfing or fly fishing, I like to build something new, fix something broken. And I make some good money with it."

Serial entrepreneurs go on to create the next big thing. In our interviews, one billionaire following this model expressed a love of creating new businesses, saying that greater wealth was no longer of any interest to him.



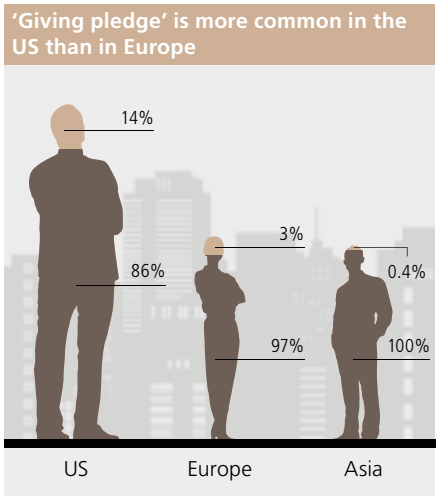
EVOLVING PHILANTHROPY

A new age of philanthropy

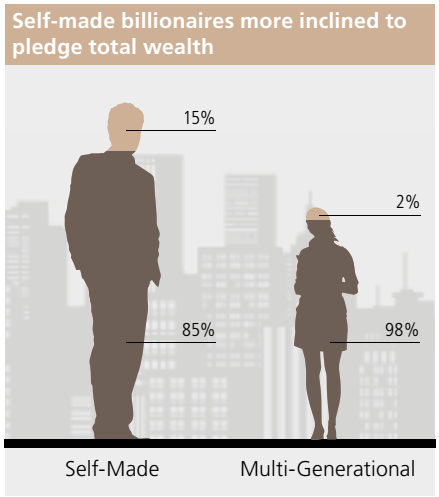
The US industrialists of the early 20th Century became the first philanthropists. Carnegie, Mellon, Rockefeller are all familiar names. They invested in the long-term futures of the causes they cared about and made countless grants in support of their goals. At the end of the first 'Gilded Age', they founded some of the great US universities, which have gone on to educate some of the current generation of US entrepreneurs. They also established museums, hospitals and research facilities. Following in their footsteps, the billionaires of today emerging from the Second 'Gilded Age' are once again turning to philanthropy.

As they do so, they are learning from their predecessors. Traditional philanthropy has been criticized for being too detached, isolated and reactive. The billionaire of today has better options. Much more emphasis is being placed on social investing and results: lives changed, improved health conditions, financing of causes via micro-lending. Current philanthropy is focusing much more on tracking and delivering measurable and tangible results.

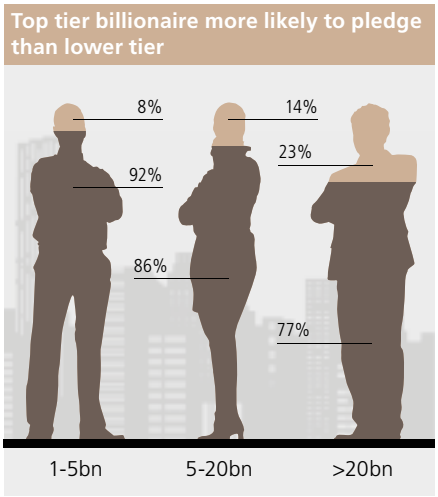
Total pledge of wealth gained popularity, especially amongst self-made, US and top tier billionaires



'Giving Pledge' dominated by US billionaires



Self-made billionaires are the most significant contributors to the 'Giving Pledge' in contrast to multi-generationals



Top tier billionaire more like to pledge than lower tier

Giving Pledge ■ No committment to Giving Pledge

* The Giving Pledge is a commitment by the world's wealthiest individuals and families to dedicate the majority of their wealth to philanthropy

Source: PwC Billionaire Database, UBS and PwC analysis

Social investing is a new trend, where successive generations embrace a socially responsible cause such as healthcare, housing or treatment of substance abuse, seeking to do some good.

Visible philanthropy, through institutions such as private foundations is prominent in the US. The most notable example is Bill Gates' 'Giving Pledge'. More than 100 billionaires have joined Gates and pledged more than 50% of their wealth. However, the desire to give back is a global phenomenon, with increasing interest in philanthropy noted across the globe and certainly in Europe and Asia. Unlike charity, philanthropy focuses on specific causes – generally education, health or humanitarian support – looking to achieve a specific and measurable impact.

We expect that both the 'Giving Pledge' and individual contributions will drive an upsurge in philanthropy in its many nuances – endowment, socially-focused investing, the arts and education – over the next 10-20 years. Social investing is a new trend, where successive generations embrace a socially responsible cause such as healthcare, housing or treatment of substance abuse, seeking to do some good. As the ageing generation of billionaires look to their legacies, they're increasingly likely to embrace philanthropy.

Our research strongly indicates that if philanthropy does not happen in the first generation, it's unlikely to happen in the second generation and onward. Donations to the 'Giving Pledge', for example, are mainly from self-made billionaires. Similarly, top-tier billionaires (with assets of more than US$20 billion) are the most likely to pledge their wealth.

The 'new' model of philanthropy is clearly different from the 'old'. Philanthropic concepts and organizations such as the Giving Pledge, Clinton Global Initiative, the Sainsbury Family Charitable Trusts and the Bertelsmann Foundation (to name but a few) are run like businesses. They identify major social problems that they set out to solve with planned strategies and they measure their impacts. Billionaires give not only money but also time and ideas. They look for bold and innovative approaches to improve the lives of future generations.

In fact, time and again, it has been shown that the role of philanthropy for billionaire families goes beyond improving the lives of others. Philanthropy can play a vital role in bringing the family together by transmitting family values across generations. This means that billionaires embracing philanthropy not only improve society for future generations in general but also improve the cohesion of their own family.



OUTLOOK – THE WAY FORWARD

The world of billionaires has shifted, with multi-generational wealth making way for a generation of entrepreneurs. The majority of newly minted billionaires are responsible for most of the radical innovation and economic growth in the last 20 years. Although they themselves have benefited nicely, society itself has been the biggest beneficiary, due to the jobs created and progress enabled (the economist William Nordhaus estimates that 98% of the social value of an innovation goes to society and 2% to the innovators/entrepreneurs). The center of this radical value creation has been in the US; however the data for the last five years shows a shift east to Asia, especially China. Looking forward, we expect Asia to be the center of new billionaire wealth creation.

Self-made, younger, more diverse

Extrapolating our data, we anticipate three trends will emerge in the next 5-10 years. Self-made billionaires will continue to grow in number, probably peaking at about 70% of the billionaire population. Two factors will drive this trend: firstly, Asia's continued strong growth in self-made billionaires (in China in Q1 2015 a new billionaire was created almost every week); and, secondly, a dilution of billionaire wealth as older billionaires transfer their assets to the next generation. With Asia becoming the center of billionaire growth (overtaking the US), the population will become more diverse culturally, with more female billionaires (from 2003 to 2013 the number of female billionaires has leaped from 44 to 116) and younger (driven both by imminent wealth transfer and also strong self-made billionaire growth).

Significant billionaire wealth transfer ahead

Almost two thirds of billionaires are over 60 years old and are currently nearing the point when they will have to decide how to pass on their wealth to the next generation. Their legacy depends on this choice, as wealth swiftly dilutes over generations if no clear and sensible governance and strategy has been established. The analysis of the underlying granular multi-generational billionaire data reveal the critical role that a legacy built on a successful family business plays in the economy. Especially in Europe, family businesses owned by multi-generational billionaire families are a key pillar of economic development. After a phase where this model had been out of fashion and often pronounced as doomed, it currently shows a strong comeback and is used as a possible role model of long term sustainable business performance. In spite of the expected inter-generational transfer dynamic and the challenges of making this model work, we expect a new wave of successful multi-generational family businesses to emerge from the current class of self-made billionaires.

A few words about the research and sources:
A number of sources were utilized 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 is part of PwC proprietary data and analytics structures and are non-commercial in nature and specifically non attributable 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 The Global Private Banking and Wealth Management Survey (2013, 2011, 2009), and the Asset Management 2020, A Brave New World (2014), and Family Business Survey: Up Close and Professional (2014)
- For the long-term time series (1900 to 2013) of wealth and income we used the "The World Top Incomes Database" (Facundo Alvaredo, Tony Atkinson, Thomas Piketty and Emmanuel Saez) (accessed on 12/2014)
- Other analysis is based on our proprietary PwC databases which covers non client specific detailed bottom-up data on more than 1,300 billionaires from the US, Germany, UK, France, Switzerland, Turkey, Italy, Spain, China, India, Hong Kong, Japan, Singapore, Russia. This is a private non-commercial data structure designed to support analysis of specific market segments.
- For the research on personality traits, we utilized research done by Gallup/Inc. Magazine (September 2014 "Inside the mind of the entrepreneur") on the entrepreneurial personality traits
- Nordhaus, William D. 2004. "Schumpeterian in the American Economy: Theory and Measurement." National Bureau of Economic Research Working Paper W10433
- Specific interviews with more than thirty billionaires in various geographies were conducted exclusively by PwC and the information from those qualitative discussions were incorporated on a non-attributable basis without regard to any business /client relationship with any person, firm or organization.

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