

The billionaire effect

Billionaires **insights** 2019

Billionaire-controlled companies tend to outperform the market. Billionaires are masters of calculated risks and they focus on their core businesses with determination. “The billionaire effect – Billionaires insights 2019” report conducted by PwC and UBS zooms in on this fact and analyzes new trends among billionaires. In its sixth publication, the report provides a better understanding of the ultra-wealthy around the world and the economic and societal impact billionaires have.

The “billionaire effect”

The term “billionaire effect” denotes the tendency of billionaire-controlled companies to generate higher returns. Over the last 15 years, the annualized average returns of public billionaire-controlled companies have been almost twice as high as the performance of the broad equity market. Billionaire-controlled companies have delivered an annualized performance of 17.8%, clearly outshining the 9.1% of the MSCI AC World Index. Their return on equity of 16.6% over the last 10 years has also substantially exceeded the 11.3% that the MSCI AC World Index averaged.

The “billionaire effect” arises due to a combination of personality traits shared by most billionaires: smart risk-taking, business focus, and determination. Billionaires are exceptionally focused on their businesses, they have an appetite for smart risk taking, and their determination isn’t faltered by hurdles. They are far-sighted, thinking years ahead, conjuring up visions and devising roadmaps towards them. They run their enterprises similarly to family businesses and are dedicated to the pursuit of long-term strategies. As a result, billionaire enterprises often are at the forefront of innovation and creators of new business models.

Growth of billionaire wealth greatest in tech

The “billionaire effect” has become especially evident in the way they have been driving change and wealth generation over the past five years. A small number of enterprising businessmen and women have engineered enormous change in Asia’s dynamic economies, especially in China, and in the US tech sector based chiefly in California. Unsurprisingly, billionaires in the technology sectors have increased their wealth by 91% in this time period. Software, internet and electronic equipment companies have been at the core of this development. Disruption and innovation are empowering industries of the future such as e-commerce, fintech, and data systems companies.

The aggregate wealth of billionaires rose by 34.5% to a total of USD 8.5 trillion from 2013 to 2018. By the end of 2018, 589 individuals had become billionaires for the first time, increasing the billionaire population by 39% to 2’101. However, in 2018, five strong years closed with a dip and the wealth creation surge came to a temporary halt. Billionaire wealth dropped by 4.3%, or USD 388 billion, in the face of a strong US dollar, trade friction, in anticipation of lower economic growth and financial market volatility. The number of billionaires fell by 57, or 2.6%, with particularly sharp drops in wealth in China and India.

Eastern wealth developments

APAC markets broadly, and China in particular has seen a slow-down in wealth creation. The fortunes of China’s new business leaders are closely tied to those of its economy. As the world’s centre of economic activity has shifted towards the East, the number of Chinese billionaires has increased to 325 from just 16 in 2006, and their wealth has almost tripled over the past five years. China is the fastest growing billionaire market worldwide, and in 2017 the country produced two new billionaires a week. The year 2018 saw 103 persons’ wealth dip below a billion dollars, while 56 new billionaires emerged. The net worth of Chinese billionaires corrected by 12.3%. Roughly half of that figure was due to the depreciation of about 6% in the yuan against the dollar in 2018. All facts considered, by the end of 2018, Chinese billionaires were the second largest billionaire group after the US, reaching an astounding wealth of USD 982.4 billion.

Surge in female billionaires

Women are catching up. They are joining the ranks of billionaires in ever greater numbers. With a 45.6% surge over the last five years, from 160 to 233, they are eclipsing the 39% increase in male billionaires over the same time period. Over half of the female billionaires are entrepreneurs in APAC, a significant number of them from China. Four in 10 of the self-made female billionaires who emerged in 2018 have built businesses in the consumer and retail sector that easily match or surpass their male peers' endeavours, showing considerable knowhow, courage and vision.

Billionaires transform global philanthropy

The majority of billionaires engage in philanthropy to varying degrees as they are driven by their ambition to be agents of change. Education and healthcare benefit most from their philanthropic activities. Philanthropists want their investments to have a positive impact. As a result, increasing amounts of money are flowing into areas such as sustainable finance. Initiatives supporting the environment and combating climate change have been getting attention from some of the more innovative philanthropists.

These impact entrepreneurs are strategic, innovative and collaborative. They aim to be catalysts for change that will lead to a significant positive impact, thereby promoting models that can spark systemic shifts when followed by others. Historically, philanthropists have acted alone, and charitable foundations mostly operated their own programs and activities. Today, billionaire philanthropists increasingly achieve results by collaborating with other billionaires, NGOs, charities and governmental organisations that have the necessary expertise and access to drive change.

Against the background of trade frictions, geopolitical tensions and an aging economic cycle, the outlook for the world economy and the potential to increase the values of companies are less certain than five years ago. However, the "billionaire effect" will continue – or even intensify – as economic activity shifts from West to East and from traditional to digital.

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