

Creating wealth depends on centralised way, preserving wealth relies on diversified management



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Speaking at the China Wealth Management Forum 2017, James Wu, the founder of Triumph Capital and Triumph Family Office, addressed the forum as a keynote speaker and shared his thoughts on family wealth and investment management. The following is a summary of James Wu's comments.

NOTICEABLE CHANGES AFFECTING THE FUTURE MANAGEMENT OF CHINA'S PRIVATE WEALTH

Traditional entrepreneurs are facing industrial restructuring challenge

The global industries are now undergoing dramatic changes. A decade ago, most of top 10 global companies by market capitalization were in traditional industries such as energy and finance, like General Electric, Wal-Mart and Bank of America. However, half of them have now been replaced by technology and Internet companies. The five largest companies in the world are all technology companies. The rise of companies such as Apple, Google, Facebook and Baidu, Tencent and Ali Baba shows us the power of science and technology. All traditional entrepreneurs are now facing the challenge of industrial disruption and restructuring as old business models become uncompetitive.

CRS brings increasing demand for a sophisticated global tax planning process that meets all regulatory requirements

The Common Reporting Standard policy, like a Skynet that seems to be loose but never misses, is introduced to not only put high-net-worth individuals under regulation, but also will eventually include the property information of all people. To some extent, this will change an entrepreneur's investment preferences from financial assets to non-financial assets, while the popularity of financial instruments, such as offshore trusts, life insurance and insurance-based structures to protect assets will soar.

Deep-seated needs of Chinese entrepreneurs must be addressed: succession is a big problem, and there is lack of professional management of family assets other than the core wealth-creating business

The largest wealth transfer in history will occur in the next 30 years, and at least 16 trillion US dollars of global wealth will be transferred to the next generation, as many recent reports show. But who will be chosen as the protector of this inheritance and legacy and does the next generation really have the ability to manage

such scale of assets? Many families are facing a situation where there is no suitable candidate or the right team to take over the business. The biggest reason is the big gap of professional personnel in wealth management.

Industrial management is like the process from 0 to 1, asset operation is like the process from 1 to 3, and capital operation is like the process 3 to N

Entrepreneurs accumulate wealth through industrial operation, slowly moving to a mode driven by industrial operation plus asset operation and then by capital operation, which is the main path for the development of enterprise. For example, Triumph Capital, founded in 2004, built industrial capital at the earliest phase, and then accumulated years of operating experience in real estate development, hotel operation and import and export trade and other industries. Since 2004, it engaged in M&A and industrial restructuring in China, and invested in well-performed domestic and foreign funds, covering more than 20 equity funds and over 300 domestic and overseas enterprises. From 2013, we started to focus on the field of financial technology and have invested in successful enterprises at home and abroad. The integration of resources using capital as a link allows us to create more wealth in such fields with high return.

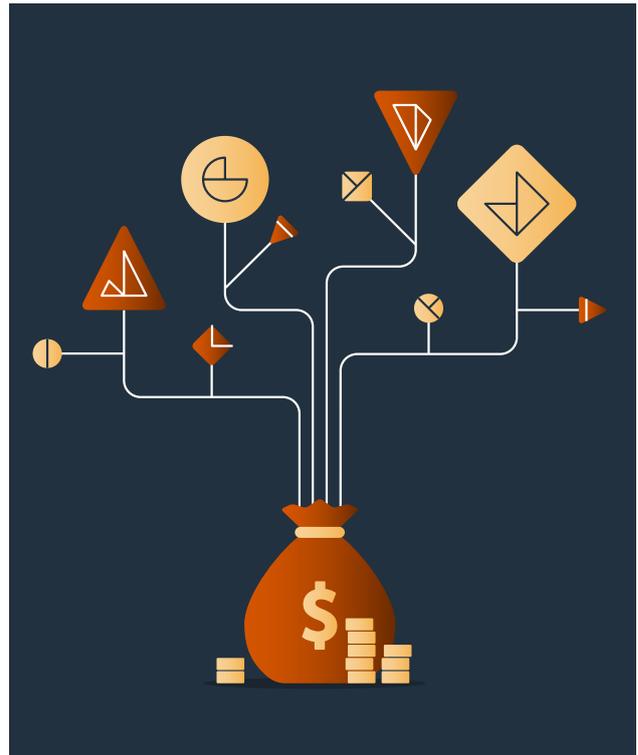
The need for personalized industrial layout for high-net-worth families

Despite of rapid development of a large-scale Chinese asset management industry and its increasingly blurred business boundaries in the past two decades, wealth management companies can hardly serve some ultra-high-net-worth individuals whose needs are far from being met. It is because each of the ultra-high-net-worth families has different areas of expertise. The ever-evolving market requires each family to establish its own core competency. They need to personalize their overall layout in an industry or their portfolio management needs. It is difficult for large-scale asset management to help with that. Setting up your own family asset

management office becomes a top priority. As they know is important from their wealth creation success, they want to go deep into a field and connect with the best specialist in the world.

Family wealth can be separated, but not the family

Wealth is not limited to financial assets, but is more about human, intellectual, spiritual and social assets. The material left behind by the previous generation will change over time. If the successor owners of an enterprise are unable to transform and preserve the material wealth, the entire business will be doomed one day. Family philosophy, values, wisdom of life, the inheritance of family spirit and cultural power will be a tremendous treasure for the next generation. Family wealth can only be separated, but not the family. Once separated, the family will gradually lose their social and spiritual capital, what follows is the family’s social asset and spirit asset that the last generation fought for decades, will drain away.



TRIUMPH FAMILY OFFICE: ALWAYS LOOKING FORWARD

We have invested in many fast-growing companies based on our private equity portfolio of more than 300 enterprises

Triumph Capital is committed to investment in private equity, fintech both directly and through third-party-managed funds. In the past decade, we have invested in 20 top-tier PE and VC funds in the world and formed a portfolio database of more than 300 enterprises, which helps us to know which project can be our investment target.

Tracking this project data enables us to select better enterprises and make further investment and give us in-depth understanding of industries. Compared with the other investors, we can bring more profound industrial analysis to investment selection, like business comparison and industrial development trends. When we choose a general partner (GP) to manage some of our wealth, we can find professional companies in a vertical field based on our detailed industry understanding.

IAM is a powerful tool for allocation of assets overseas

Over the past four years, we have invested in a large number of Fintech companies around the world. We are also pursuing stable earnings based on a diversified allocation to assets with ready access to liquidity when needed. We have an independent asset management platform (IAM) abroad, which is our crucial advantage. There are more than 200 investment funds with different strategies in our database, with which decentralized, balanced investment portfolios are formed. With an annual fluctuation of only 6%, it can bring a very substantial absolute return.

Build partnership with Sequoia Capital and in-depth cooperation with Dymon Asia

In 2007, we were lucky to be one of the largest investors in the first phase of Sequoia Capital China. This fund has brought us a substantial return. We also have in-depth cooperation with Dymon Asia Capital, the largest

funds management company in Southeast Asia. Dymon Asia Capital has US\$6 billion of assets under management. When its first Fintech venture fund was launched, we became one of three equal anchor investors in the US\$50 million fund and I also became the board committee member.

Work with ecological partners to build digital trading platform, providing a high-quality overseas assets platform

BitMex, we invested in directly, in 2015, is now becoming the largest and best known trading platform for crypto currency derivatives in the world. Last month, the amount of transactions exceeded US\$40 billion, equivalent to more than US\$30 million of cash income for a company in a month.

We are also helping set up Halo's Asia operations in Singapore, based upon what is now the largest structured note multi-issuer distribution platform in the United States. There are 9 global top-tier banks, including JP Morgan and Credit Suisse, who distribute struc-

tured products on this platform. At present, China does not yet have a market of derivatives including options and futures. I hope we can bring more investment opportunities to Asia and China from such innovative businesses.

In 2014 we acquired one of the largest VC fund management companies in Australia and managed over US\$250 million of assets during the past two decades. From pension fund financing, this company has invested in more than 60 innovative technology companies around the world.

Undoubtedly, quality assets with a high return are always sought after by major asset management firms. In an increasingly complicated financial environment, the allocation of overseas assets will be a general direction for the future, and the platform that is capable of providing excellent overseas assets will be the first winner. The low allocation ratio of China's private wealth to overseas assets indicates huge potential needs, and the release of the needs is only a matter of time.

TRIUMPH CAPITAL'S MANAGEMENT AND INVESTMENT PHILOSOPHY

Family wealth management is a long-term concept, investors need patience

Family wealth management is a long-term concept. To a family, patience is of great importance to put a measurement period spanning over several generations into a family investment strategy. Family wealth management is a qualitative problem, instead of a quantitative problem. Investment is dependent on know-how, and wealth management is an overall optimal strategy that needs to take into account wealth goals, quality of life, age, and even physical condition.

Creating wealth depends on centralized focus, while preserving wealth depends on diversification of risks

Creating wealth and assets needs concentrated operation, including time, energy and resources. However, preserving assets depends on the diversification of in-

vestments. This diversification lies in difference in asset classes, countries and regions, economic development cycles, and investment stages and strategies. In this process, we always need to have the global vision and value investment.

Investment is a marathon

Investors of family office need to follow marathon runners' running approach. This trend takes years to emerge. To achieve good long-term performance goals, it is logical to take long-term investment decisions.

Time is a friend of investment - compound interest is powerful

Einstein said that the eighth miracle in the world is compound interest, which is the greatest invention in human history. Imagine that we have 100 million yuan and earn with 8% in return a year, it will be 1 billion

yuan after 30 years. But if we work a bit harder, the return can be raised from 8% to 9.5% and the figure will become 1.5 billion yuan in 30 years. The appropriate interest rate plus enough time will bring the amazing result, that is compound interest's power! Long-term patience is a prerequisite for wealth management and investment. When we talk about the patience, it is not a short period like a few months or years. We are talking about at least two or three decades or even four or five decades. This is an accumulated process, and the value will come along with the time.

Both investment and investment return apply to the Power Law

I believe people are getting excited about 100 or 1,000 times of return on equity from private investment like Alibaba and Jindong. Learning from more than 20 funds we have invested in, we learned one of the important rules, called the Power law. In a fund portfolio, you may invest in 15 or 25 companies, but if there's no company that brings you excess returns, such as 10 times or even 100 times return, then the portfolio is nothing but a failure. The total return will be very low if the investor only exits through merger and acquisition rather than an IPO. You may invest in some companies that will never grow up, you only get back a little principal or interest. For example, the entire market may have financed US\$100 billion, of which the real valuable money only goes to 10% of projects on the top of the pyramid. For example, Didi and Uber attracted most of the funds for ride sharing. Investment applies the Power Law, so does the return of the project.

Follow the trend and do what you are really good at within your competence

It is always the minority who took away most of the profits in the market. 90% of the market share will be taken by 10% of tycoons. So, it is the only chance to win by finding what you are good at and being devoted until you inquire the dominant market position. In the past, in China, there occurred a big opportunity every 4-5 years, such as in real estate market, private equity, secondary market, or overseas investment. Investors should have a strong research capability in each area, as well as be alert to capturing market opportunities. They should figure out which field they are best at and then dig deeper.

Stay hungry, stay foolish!

Personal competency is like an "iceberg". Above the surface of water is knowledge and skills, while below the water is the values, self-positioning, driving force, personality traits and other emotional and intelligence factors. What can decide a person's success opportunity is the factors hidden under the water that is difficult to capture or measure.

You need to find out what you are really good at and passionate about.

Focus on high-value areas and only hit the ball in the "sweet area"

We have to control risk and have the ability to continue to grow during investment. Good investors have strategic competency to make thoughtful choices, that is "do less, but do better". Like Buffett's investment philosophy, I only hit the balls that are already into the "sweet area". Statistically, a fund ultimately relies on a few projects to make money, so we should adjust ourselves to the best position and hit a Home Run.

How to make a wise choice on fund investment

We will work with some emerging and promising fund managers to make an investment at the appropriate time. A close community of interests has been formed through our value-added service to help them grow rapidly. We have a database of more than 300 investment funds, many of which are now listed companies with a market value of over 10 billion yuan.

Abide by the principles and attach the importance to long-term goals and post-investment management

How to evaluate whether a project is worth investing in the investment process? There are some factors we should consider. The first one is financial return, which is the most basic requirement. The second is whether it meets the long-term development goal of our company, its mission is in line with ours or whether it can bring us strategic resources, this is the most important aspect to us.

Particularly in some early projects, we do not know whether the team could realize their future development goals, but we are sure about that those projects are in promising industries, and can bring us resources such

as talent and information. After investment, we will help those projects enhance management, do in-depth analysis and research in the industry, and formulate industrial development strategy, management planning, future financing, etc.

We hope we can help a start-up to grow into an industry leader in the future with our complementary resources. Our core principles are looking into the market, finding the value, managing the risk, and moving logically, and we will stick to those principles under any circumstances.

Invest yourself that will help attract more talents

The law of attraction tells us that the universe will attract things, people, or resources that help us achieve our goals.

You can use talents to realise your dreams. I think talents can only be attracted but not hired. Investing yourself is the priority instead of investing other things. Your corporate vision and positioning will decide what kind of talents you will attract.

ALWAYS LOOK FORWARD AND CREATE A FINANCIAL ECOSYSTEM TO SHARE SCARCE RESOURCES

Triumph is committed to be the first open-ended family office in China providing an overseas platform for asset management. Our own resources are accessible to everyone and we provide one-stop service like infrastructure, overseas licenses, research capabilities and upstream and downstream resources on our platform.

We are able to share access to quality assets that previously were only accessed by institutional investors. This includes state-of-the-art managers, deploying world's best practice analysis and technical platforms, like top-tier professional asset managers such as the Rockefeller family and BlackRock. ■

