

FOR WHITEPAPER ON CHINA'S NEW ECONOMY FAMILY OFFICES



SenseTime ZhiHu
KuaiShou
HeyTea XPeng Motors
TikTok SuperMonkey
Perfect Diary Pop Mart
WaterDrop Qing Cloud
So Young MeiTuan LaLaMove
Ke Holdings
PinDuoDuo
DiDi

A Big Wave of New Economy Companies Is Coming.....

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Acknowledgements

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Foreword I

We are extremely pleased to present to you the 2021 Whitepaper on China's New Economy Family Offices. This research covers topics of interest to New Economy Families such as the wealth management profile of New Economy Families, the preferred digital wealth management means, the distinct investment strategies, and the characteristics of the services demanded by Family Offices.

With New Economy Enterprises such as Jingdong Digits, SenseTime, KuaiShou, Byte Dance's TikTok, Xpeng Motors, Perfect Diary, and WaterDrop rushing to list on the Hong Kong Stock Exchange and the SSE STAR Market, a large number of the newly rich has emerged, and the close tracking of the New Economy Family Offices has become a touchpoint for industry research.

Over the past ten months, the Family Office Think Tank (FOTT), in collaboration with Fargo Wealth Group, has visited 66 affluent individuals and families in eight cities who have benefited from the emerging New Economy and gained more wealth, using questionnaires, data analyses, and in-depth interviews to gain a deeper understanding of the needs and perceptions of New Economy Families on wealth management.

From the comprehensive report sample data, the portrait of New Economy Family wealth management has highly unique and distinctive features. They are changing the old philosophy and strategy of Family Offices, disrupting the traditional bank-like investment approach, focusing more on developing and driving new directions in capital operations, more willing to manage wealth like a business, and focusing more on Family Offices having excellent digitalisation skills, and so forth.

Among the 66 newly rich families surveyed, half of them have average assets between US\$100 million and US\$1 billion, their financial and non-financial assets are mainly located in Mainland China and Hong Kong, and those who control the wealth of New Economy Families are polarised in terms of age, with 38.89% aged 25-34 and 50% aged 45-54. The main reason for setting up or joining a Family Office is that it is both a "transaction" and an investment platform. Some 30% of the New Economy Families have done international identity planning and have accounts with several private banks abroad and some 60% focus on high-end education and health management for their children. They are far more involved in impact investing than traditional families, and are interested in investments that demonstrate social responsibility, impact, and sustainability.

FOTT, the No.1 vertical media and independent consulting firm in the field of family offices in China, and Fargo Wealth Group, a Multi-Family Office (MFO) with a strong reputation for serving New Economy Families, have collaborated on this research.

This is an original and authoritative research finding that provides reference information and shares perspectives on wealth management of China's New Economy Families. This report is also part of a series of thought leadership on ultra-high-net-worth wealth management and global family offices by FOTT.

Tiffany Fan

Founder and Chief Editor of "Family Office"

FOTT – Family Office Think Tank

Foreword II

Wealth Management or Family Office is not a new term in the last 5 years, but there has been little attention given to the wealth management of New Economy Families or their Family Offices, and how their sources of wealth, investment preferences, and needs for industry infrastructure differ from those of traditional high-net-worth clients, even though New Economy enterprises have been the focus of capital markets and public opinion in recent years.

In the four years since our establishment, we have been privileged to journey with clients of the New Economy Families. From their corporate financing and IPO to their retirement and transition to investment, social welfare, and return to their families. As practitioners of the Family Office industry, we have seen not only the \$100 million or \$200 million in their books, but the changes in business models, the iterations of technology, and the entrepreneurial spirit in them. As individuals, they are diligent and dedicated, simple and humble, and open to new things; as members of their families, they think about the future and are concerned about education and the growth of the younger generation; as investors, they are interested in a systematic investment methodology, more focused on long-term trends, concerned about products but more about the people behind them; as clients, they value efficiency and user experience, and listen to their advisers with an open mind.

Of course, in serving them, we have also encountered many challenges, especially from the New Economy clients who demand service efficiency and digital experience. The long-term bottleneck in the wealth management and Family Office industry is actually the problem of supply, namely how a very limited team of high-quality service providers can cope with a user base that is exploding in demand and scale of wealth. Fargo's efforts and breakthroughs in service efficiency and digitalisation have always been facilitated, encouraged, and engaged by our New Economy clients. With our efforts, we hope that we can contribute to the digital transformation of the entire Family Office industry.

Finally, we would like to thank all the clients, friends, and partners who participated in this research report. We hope this research report can help you to better understand the New Economy client base and make better decisions.

Jefferson Sun

Founder and CEO of Fargo Wealth Group

Fargo Wealth Group

Highly Educated, Product-oriented, and Pragmatic Romanticism

FACE REALITY AND CHANGE IT

In the past, we mainly relied on the information distribution capabilities conferred by recommending technologies, interlinking terminals for TikTok-TouTiao-XiGua, and conducting self-research on many products to achieve deep co-creation and forming combination punches to create a closed loop ecosystem of content to empower customers to create value.

Zhang Yiming, Founder of Byte Dance

Back to the basics of user value, consumers first, merchants second. Talk less about disruption and more about innovation.

Wang Xing, CEO of Meituan

The first law of thermodynamics ($\Delta U = Q - W$) grants us a certain sense of control and certainty, while the second law of thermodynamics ($\Delta S > 0$) humbles us to recognise that there is another kind of existence, which is beyond the physical world of forces and masses. Entropy (S) is related to information, and I am not sure if entropy connects to the spiritual world, but it does help me to feel and understand time.

Huang Zheng, Founder of Pinduoduo

Leave simplicity to users and keep complexity to ourselves.

Li Bing, Founder, Chairman, and CEO of NIO

On the one hand, the Internet has moved from PC and mobile, to a third phase where bits and atoms are fully integrated. At this phase, the real world and the digital world can already correspond one-to-one due to the ubiquitous sensors and the upgraded computing power of AI. But the organisational form of the company cannot yet become "intelligent" accordingly.

Li Xiang, Founder and CEO of Car & Home

All popular products start out as niche products, but I think a key factor in whether it becomes a successful product is whether there are users clamouring for your product.

Chen Rui, Chairman and CEO of Bilibili

An undergraduate may be able to start an internet company, but a PhD graduate may be needed to start an artificial intelligence company!!

Tang Xiaou, Founder of SenseTime

Just like the question of whether light is a wave or a particle (wave-particle duality), which is difficult to understand with our existing common knowledge, it can exist in a higher dimensional world. In a simpler theory, it is called a parallel universe or, according to the probability of waves, an infinite number of universes.

Wang Xiaochuan, CEO of Shouyou

Firstly, the technology of AI is the underlying technology and the key is how the underlying uses hardware to form a training system for the platform. Nowadays, AI is "building productivity tools", which we call "building brains". So the core capability of AI is to have the tools to build brains. This tool is difficult to develop in a new direction if it is all someone else's.

Xu Li, Co-Founder and CEO of SenseTime

When we are unable to study the user's needs, we will say this is a relatively easy thing to do if we enjoy using it ourselves. How do we make it enjoyable for users? In fact, there is a simpler way, if we go by certain experiences: use the product as if you were a simpleton.

Zhang Xiaolong, Vice President of Tencent and Founder of WeChat

I think the biggest drive inside me is still to do something that will make the world a better place. Having discovered earlier that making myself happy by being altruistic was a reasonable thing to do, I decided to do the widest range of things that could be done altruistically.

Su Hua, Founder and CEO of KuaiShou

Looking back on DJI's ten years of entrepreneurship, I think what we have done is very simple: we have put our heads down and worked hard, with a single-minded focus on making outstanding products and creating social value in a practical manner. It's a tougher approach, and requires a lot of patience, so many people find it a "narrow door" and are reluctant to walk through it. From our experience, this is the right approach.

Wang Tao, Founder of Da-Jiang Innovations

In the early days, I always believed in "preparations before propositions". For Pop Mart, our "preparations" were focused on building our core competencies, helping our designers improve our designs, and commercialising our products. This was also the direction I had always wanted to take as the founder as other aspects were not the main focus of our early work.

Wang Ning, Chairman and General Manager of Pop Mart

Key Discoveries of the Whitepaper on China's New Economy Family Offices

Most Are Highly-Educated Serial Entrepreneurs

During interviews with the New Economy Families, it was clear that they are highly educated and are serial entrepreneurs. Most of them are exceptionally knowledgeable and decisive in their industry. They keep pace with the world and have the ambition to change the world of business. They are mostly in the fields of fintech, automobiles and transportation, high-end equipment, and healthcare, with artificial intelligence enterprises staffed by senior scientists.

Three Models for New Economy Families to Set Up Family Offices

FOTT's research shows that, due to executive incentivisation or founders cashing out, the extremely affluent families will immediately set up family offices both domestically and internationally to "recruit" and build full-fledged single-family offices. Families with a net worth of up to \$1 billion will usually choose to set up a multi-family office with several families of the same background and hire a senior investment team to co-manage it. Other families choose to outsource or to join well-known multi-family offices. These three scenarios are represented in this questionnaire by one third each.

Significant Changes in Pre- and Post-pandemic Investments of New Economy Families. Over 40% Of Respondents Are Open to Outsourced Investment Officers

Regarding investment strategy, FOTT was quite pleased with two phenomena in its research: the biggest change in the choice of investment strategy before and after the pandemic was that most of the New Economy Families chose to consider diversifying their single assets into a portfolio of stable assets. In terms of family asset allocation, over 40% of those surveyed are open to outsourcing investments to investment officers. This number is significantly higher than that of traditional families who chose self-directed investments.

Direct Investments Concentrated in Internet & IT, Healthcare, Consumer Goods, and Retail

One thing that the newly rich families have in common with the traditional families is that they no longer want to rely on White Horse blind pool funds. Instead, they hope to establish more control, cost, and strategic synergies, where direct investments are concentrated in Internet & IT, healthcare, consumer goods, and retail sectors. Not many respondents picked manufacturing and agricultural technology.

Financial Service Providers Are Inclined to Offer More Flexible and Transparent Digital Services

Newly established overseas Family Offices are increasingly focusing on their investment choices. The emphasis has shifted from investment strategy to specific practices. At the same time, they desire to achieve higher return in the choices made. Many new investment fields require excellent digitalisation skills from the investor or agent, as well as greater transparency, agility, and accessibility.

The willingness to drive digitalisation is also evidenced in this research questionnaire. Most families do not find the current family office management tools any more satisfying. Almost 50% of the respondents prefer an App to aggregate data from multiple offshore private bank accounts, visualise portfolios, and so on. The rest of them have extremely high expectations for online interactive experience. They prefer one-click order placements, online trading of Hong Kong and US stocks, digital management of operating systems, and digital virtual family offices.

Wealth Creation Through the Internet, Artificial Intelligence, Biomedicine, and Sharing Economy

The data in the questionnaire shows that wealth creation comes from IT Internet/mobile Internet, new generation IT (next generation information network, IT services, electronic core, AI, and intelligent engineering), high-end equipment manufacturing (wearable smart device manufacturing, service and consumer robot manufacturing), with the sharing economy accounting for half of the research data, while new energy, biotechnology, and medical health, Internet celebrity economy and other fields also have a strong ability to create wealth.

New Economy Families Have an Average Net Wealth of US\$104 Million With Very Strong Growth Potential

The average net wealth of New Economy Families is still on the rise. Of the 66 New Economy Families surveyed in Mainland China, it amounted to approximately \$104 million. This indicates that the growth in wealth of New Economy Families should not be underestimated. The number of people with growing wealth and the amount of such wealth have necessitated Family Office services to carefully change for them.

LPs and GPs Looking to Build Higher Level Wealth Management Through Family Offices

New Economy Families have higher expectations for the professionalism and digitalisation in their investment managers. They value the return on investment and often do not trust product-oriented account managers, preferring a more customised and personalised financial service. Even so, some families have found it possible to become GPs over the past few years of investment experience, developing their own primary and secondary market teams, slowly institutionalising and setting up private multi-family offices.

Over 55% Have Segregated the Family's Private Assets From the Business

In addition, of the entire research sample, a further 11% of families also choose to separate their private assets from their normal business operations, while 22.22% do not separate them at all.

They Prefer Setting up Active Explicit First Growth Funds

From the qualitative interviews conducted during visits, the large influx of funds from New Economy Families into the LP ranks has been heralded by the FO industry as a new force of institutional LPs, commonly referred to as Founder's Fund. It typically has three characteristics, with most FGFs, once established, continuing to follow the inertia of the founders' previous investments and seeking out other founders in the field. This type of fund with a visible founder identity has the advantage of not only providing financial support, but also having a rare advantage in terms of industry experience and resources, as well as finding suitable targets from the invested companies to create synergies with their original companies.

External Asset Managers (EAM) Gaining Their Attention

The wealth management trends of the New Economy Families are completely different from those of the traditional families. With the advent of the New Economy Families, they have a clearer understanding of the proven value of serial entrepreneurship in generating significant wealth. Therefore, they prefer to invest in the right people. They invest in potential industry unicorn entrepreneurs or serial entrepreneurs whom they believe in or entrust their capital to reputable asset managers and independent EAMs.

Asset Holding Structure of Family Offices Is Crucial

When asked about the tools that would be used to optimise the asset holding structure of a Family Office, the responses were trusts, funds, inheritance, and tax optimisation. In the case of domestic trusts, they preferred real estate trusts and equity trusts. In the case of offshore trusts, they preferred asset holding structures and inheritance vehicles.

New Economy Families Setting up Family Offices to Become Commonplace in the Next 3-5 Years

It is evident from this part of the research that the New Economy Families are extremely receptive to new things. They have gained financial freedom due to technology or the platform economy and are more willing to believe that systematic services can bring them greater value. With the rapid increase in asset value of New Economy Families, 35% of the respondents have established Family Offices or chose to join Multi-Family Offices in 2020-2021. 30% of respondents plan to set up Family Offices after 2023. This indicates that the newly rich are not new to Family Offices. When choosing where they would like to set up Family Offices, about one third chose to set up Family Offices in China and abroad at the same time. A greater proportion, or about 44.44%, choose to set up Family Offices directly abroad. A smaller proportion, or about 16.67%, chose to set up family trusts directly within the country.

33.33% Of Respondents Chose Hong Kong as The Location of Financial Assets, Which Is Much Larger Than Those Who Chose Singapore

A slim majority of the respondents surveyed prefer to locate their financial and non-financial assets in Mainland China and Hong Kong than in Singapore. This also confirms that New Economy Families prefer Hong Kong as a transit point for overseas investments and a destination for overseas assets. This group of people acquired Hong Kong residency through the Hong Kong Quality Migrant Admission Scheme several years ago to enjoy the tax incentives in Hong Kong.

Three Key Risks of Concern to New Economy Families

The three key risks perceived by New Economy Families are: the next generation not being sufficiently prepared to take control of the family wealth; inadequate succession planning for key management roles in the Family Office; and the sudden death or health problems of the head of the family without a clear management and succession plan.

Urgent Need for Multi-Family Offices With High Value Social Responsibility Systems

A data published in 2020 reflected the following state of affairs, in which the Internet giants were ranked relatively low in China's social responsibility system. Holistic social responsibility systems were not extended to production, operations, distribution, employees, and ecology, and capital-driven corporate creativity often neglected the aforementioned scope of social responsibilities. New Silicon Valley Family Offices had broken away from the existing family office service system and focused more on making an impact, with all the services and investments oriented towards building a value-identity service system that was advocated by well-known leaders.

50% Of New Economy Families Have Control of Their Wealth at an Average Age of 45-54, With More Young and Wealthy Magnates Aged 25-34

Those in control of wealth are on average between 45-54 years old, accounting for almost half of the population surveyed, and are getting younger, with more and more young entrepreneurs between the ages of 25-34 likely to join the ranks of the newly rich by virtue of their knowledge of New Economy models and technologies.

This report covers topics of interest to New Economy Families: the New Economy family wealth management profile, the favoured digital wealth management tools, the preferred investment strategies, and the service features demanded by Family Offices.

Please contact us for the full report.