NEW GENERATION OF WEALTH CREATORS

BY **KUEK SER KWANG ZHE**

A combination of events, including technology advancements and demographic change, has given rise to a new generation of wealth creators, many of whom have taken over and grown their family businesses further. Meanwhile, some have taken advantage of the rapid technology change to create new economic sweet spots.

These new generation wealth creators are in their thirties and forties and, unlike the previous generation comprising mainly baby boomers, most of them are highly educated and have different approaches to investing and lifestyle.

Technology and new wealth

Clement Chew, CEO of Apex Investment Services, notes that the pervasiveness of technology, especially since the outbreak of the Covid-19 pandemic, has given rise to many new wealth creators.

The S&P 500's weighting on technology was 28% at the end of last year, a onefold increase compared with two decades ago. The top five stocks in the index were Apple, Microsoft, Amazon, Alphabet (Google) and Facebook. A decade ago, among the top few were ExxonMobil, General Electric and Chevron.

"If we look at the MSCI World Index, the technology weighting rose to 29% at the end of 2020 from 12% in 2011. Globally, the influence of the old economy consisting of the Big Oils and Big Banks has been eclipsed by Big Techs in the last decade," says Chew.

Local indices show a similar trend. The Bursa Malaysia Technology Index has risen to about 8% of the FBM KLCI's market capitalisation, from 2% about four years ago.

"We have shareholders of semiconductor companies like ViTrox, MI Technovation and Greatech emerging on the scene," he adds.

In the local start-up scene, there are the likes of Carsome — Southeast Asia's largest used car trading platform — and Aerodyne, a provider of drone data and AI analytics.

Founded in 2015 by Eric Cheng, Carsome became Malaysia's first unicorn when it acquired a 19.9% stake in Australia-listed iCar Asia from Catcha.

Aerodyne, founded by Kamarul A Muhamed in 2014, is aiming to raise US$100 million (RM419 million) in its Series C funding round to accelerate its journey towards an initial public offering (IPO) by 2023. This is on top of the US$30 million it has raised from nine investors across the region, according to company data provider Crunchbase.

While the number of younger wealth creators in Malaysia is on the rise, a significant amount of money still sits with those of the old wealth, says Carolyn Leng, head of Maybank Private Malaysia. Most of Maybank Private Wealth's clients are 55 to 60 years old, who are the first and second generations of family businesses that operate in various traditional industries, she notes.

More faces of new wealth have started to surface in the manufacturing sector in recent years, especially in the semiconductor sector. This industry has seen its fair share of ups and downs in the past decades, but it seems to be roaring back again, says Leng.

She defines young founders of tech start-ups as young wealth. New wealth, based on her categorisation, is mostly second-generation successors of the family businesses.

Two worlds apart

There is little doubt that those of the new and old wealth build their businesses and invest differently. Unlike the rags to riches stories associated with old wealth creators, the quintessential owners of new wealth are more often than not born into a comfortable, well-educated family.

For instance, Carsome's Cheng studied accounting at Sunway University College before dropping out to start his venture, while Aerodyne's Kamarul studied in London and worked for a US company before returning to Malaysia to launch the drone start-up.

The negative- to low-interest rate environment after 2009 also flooded markets with cheap money and drove entrepreneurs into ventures with potentially higher, albeit riskier, returns, including technology start-ups. SoftBank's US$100 billion Vision Fund is perhaps an example of ample funding.

Coupled with the internet boom, those of the new wealth typically build their businesses through new business models by leveraging technology. They are aggressive in expansion and fundraising activities. They are asset light, nimble and

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scale rapidly, says Chew.

"The up-and-coming businesses or start-ups today are all about business models. They are about building personal and business profiles, revenues, eyeballs and views. They focus on concept, speed and applications.

"Profiling is crucial for them to raise funds from investors. A new business model would need a lot of money to be tested out. So, you often see them coming to the market to talk. They frequently appear in newspapers and radio stations," he says.

They are curious and passionate about emerging technological trends, says Hann Liew, co-founder of Jirnexu, which operates financial comparison website RinggitPlus.

The experience and behaviour of the new wealth creators are reflected in their personal investment approach, says Liew, who is also an ex-banker and certified financial planner.

Those of the new wealth are typically more open-minded and aggressive. They invest in new asset classes the likes of which many of the old wealth would not touch — cryptocurrencies, for one.

"They tend to invest in more funky stuff. They set up family offices in Singapore or Hong Kong to invest in diversified asset classes. Like their businesses, they like to go global by investing in IPOs and foreign currencies," observes Liew. "New wealth tends to look out for and understand things that they want to invest in, while old wealth invests in things that they already know well."

Old wealth creators accumulated wealth over decades and went through periods of war. They are media-shy and made their mark first in commodities and bricks-and-mortar businesses.

One only has to read Robert Kuok's biography, *Robert Kuok: A Memoir*, to understand the merchant mentality in the olden days, says Chew. "Kuok's father took a sampan from Singapore to Johor Baru, crossing the Straits of Johor that was rife with crocodiles. That kind of mentality is almost hard to explain in words to the younger generation," he adds.

Maybank's Leng agrees, noting that old wealth creators are frugal. They view wealth and legacy very differently from the current generation.

"Their perception of money is different. They are the ones who built the wealth for the family from the ground up. They tend to be frugal and really weigh the ups and downs of things.

"When they invest, they are very conservative. If they do not need to take risks, they don't. If they need to, they take it through their businesses. It is what they know well. They tend not to diversify their businesses but are very focused on the areas that they do well in," she says.

Relationships, especially family, mean a lot to them, adds Leng. "They travelled all the way from China to Malaysia to have a better future. They think less about themselves. If you ask them about their legacy, they might not have a clear picture. But they are sure to provide their future generation with a comfortable life."

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One should learn to sail in all winds

Chew once helmed JP Morgan Securities Malaysia and worked closely with people of the old wealth. They include the late Datuk Tan Chin Nam, patriarch of the Tan family, who founded two of Malaysia's prominent property developers — Tan & Tan Development Bhd and IGB Group.

He witnessed first-hand how the older generation differs from their younger counterparts across various industries, not just in the tech space, but in the way they run their businesses.

Like some founders of tech start-ups, some owners of newer property companies were exuberant and fearless. They drove their businesses through profiling and launching new projects. As land prices kept rising before 2014, these companies bought more land at higher prices for even more projects and growth.

People of the old wealth are typically cautious and conservative. They have good foresight in the way they chart the growth path for their companies. It is how IGB Group morphed itself into an investment property company rather than a pure developer.

Those of the old wealth tend to be prudent, and many learnt lessons from the Asian financial crisis, during which interest rates shot up to about 18% while the ringgit collapsed. Overborrowing in foreign currencies killed many companies that once seemed strong and mighty.

Datuk Tee Eng Ho, co-founder of Kerjaya Prospek Group Bhd, recalls how bad the situation was in 1997 and 1998, when quantitative easing was not a monetary policy option for major central banks.

"Businesses were falling around me one by one. Even IGB and Sunway, which are so big today, had to bring in foreign investments for financial support," he remembers.

Tee says the experience has had a long-lasting effect on him and many like him in the older generation. Overborrowing is dangerous, while cash flow is the bloodline underpinning the assets one builds over decades.

Which explains why Tee, who invests most of his private wealth in the companies he is running, prefers to have minimal debt. More recently though, he says gearing has gone up a bit because of the acquisition of a stake in Eastern & Oriental Bhd via Amazing Parade Sdn Bhd, which triggered a mandatory general offer. Amazing Parade is now the largest shareholder of E&O.

Building long-lasting relationships is another area that sets the new and old wealth apart. Both generations can perhaps take some lessons from each other, says Chew.

"The younger generation believes in mass market and reaching out to the public with the quality of their business models and products/services. They are less reliant on government contracts, personal relationships or one particular client. It is good.

"However, relationships remain essential in doing business. The old wealth, especially those of the first generation, have tremendous networking that we do not usually see today."

Jirnexu's Liew agrees that new wealth creators need to invest more in traditional assets instead of laser-focusing on the next big things. "I would say, look, you are very successful in building wealth from new things. What you need to do is diversify away from that. Some things that

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Be open-minded about emerging trends

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worked for hundreds of years, like oil and gas, will continue to work for a long time.

"You have to take a longer-term, multi-generational view on your assets. You should take a 50-year view to sustain your wealth built in five years. Don't keep on thinking about catching the next big wave."

As for the old wealth, Liew believes that some of them need to be open-minded about emerging trends outside their comfort zones. "Do not turn a blind eye to the new trends in case you miss out ... I am not saying that you must invest in them, but you should understand what these are before deciding whether to invest or not."

Common mistakes that could break up family wealth

The transition of wealth from one generation to the next is expected to pick up pace in the coming years, owing largely to demographic change. Baby boomers are ageing and many are passing the baton to the next generation.

Succession planning, which means the passing down of family businesses, is perhaps the bigger challenge that old wealth is facing. Keeping and sustaining a family business involves human dynamics. It is never straightforward and can be challenging.

Second-generation members who take over the family business often face a different set of challenges from their parents, which is to keep the business and family wealth intact amid rapid changes in the global environment. In short, the second generation has to deal not only with legacy issues but also introducing technology into the company.

"I came across a case where the founder of a company had been very successful. But the business plateaued after many years. He passed his business on to his heir, who is running the company now. The main task for the heir was to turn things around," says Fung Mei Lin, entrepreneurial and private business leader at PwC Malaysia.

"However, the founder is a strong character who had proved himself. He is also kind and generous by providing employment to those who need it within the community. People in the community know him well.

"But some employees the founder hired had underperformed. Even worse, there were instances of misappropriation among some employees. To bring new life to the company, his heir had to introduce changes. But the founder disagreed. So, his heir had to do things strategically, like in a chess game. He had to plan his moves. It took him about three years to phase out the underperformers and introduce new business segments into the company," says Fung.

The lessons for those of the old wealth, in general, is for them to be more open-minded to the ideas from the second generation and be supportive as much as they can. On the other hand, the second generation must also prove themselves to their parents by showing results.

Maybank's Leng points out some common flaws of the old wealth that could potentially break up family businesses. Having a traditional mindset when it comes to picking a successor among their children is one of them. "For example, the preference of the son over a daughter. It is an old mindset. But it happens a lot."

Another flaw is the company founders not having open communication with their successors to convey their expectations of the latter.

"Expectation is critical. The ones who are sitting across from you may have a perception of how well they do. They may not be doing well in your eyes, but they might think they have done well and deserve your recognition. This needs to be discussed and articulated well during the early stage."

Then, there is financial planning that includes the transition of assets. "We are talking about global families today. Some of the second-generation members might reside outside of Malaysia. The passing down of wealth would then involve various tax laws, which is an essential issue in family businesses, especially when strategic stakes are involved.

"There are also circumstances where a divorce happens and assets need to be broken up. Leaving a will behind is not always enough. Legacy planning is critical," she says.

Fung agrees with Leng on open communication. "They should initiate conversations with family members when everyone is still on speaking terms. Don't wait until conflict happens." E