Global Overview for Entrepreneurial Investments

PART 01

BNP PARIBAS WEALTH MANAGEMENT

In assocation with

AON

Contents

Welcome
to the 2021 Global Entrepreneur and Family Report by BNP Paribas Wealth Management

Vincent Lecomte

Elite entrepreneurs and leading families influence the world's economies, both through their personal investments and through their businesses. They are a powerful driver for economic growth.

In our new study, our seventh one, we explored their investment decisions and the motivations behind them. Fascinating to see how they have pursued their goals over the last year when we all experienced firsthand strong market turbulence, continued low interest rates, and the social and economic impact of the unprecedented global health crisis.

At the top of their list, we see the desire for strong investment strategies and diversification, with equities being a preferred asset class. They are eager for co-investment opportunities. New tech remains a hot topic. And finally, their own businesses are one of their preferred investments for generating returns.

I invite you to delve into the fascinating details of how elite entrepreneurs and leading families have managed over the last year.

Why do entrepreneurs and families bank with us?

Serving these clients is part of our DNA as a global wealth manager. They benefit from our best-in-class offering: personalized wealth planning, sustainable investment solutions, credit and private equity. But we don't stop there. We open the doors to the expertise of the entire BNP Paribas Group, from our investor-grade capital markets capabilities, real estate solutions, securities services, M&A, and finally to borrowing opportunities thanks to our Group's solid foundations.

We accompany some of the world's most demanding entrepreneurs and leading families. As a responsible wealth manager serving a sustainable economy, our objective has always been to improve our own understanding of how to support entrepreneurs and families, both personally and professionally.

This is the purpose of the report.

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Word from the editor

Welcome to the **2021 Global Entrepreneur & Family Report** from BNP Paribas Wealth Management. This is the seventh iteration of the flagship research study conducted by Aon on behalf of BNP Paribas Wealth Management, through which we have explored the attitudes, behaviours and investment choices of nearly 16,000 high net worth and ultra-high net worth entrepreneurs across the world. Since 2015, one of the bank's missions – in collaboration with the world's most successful entrepreneurs – has focussed on assessing the unique contribution of entrepreneurship to the real economy.

While entrepreneurship remains a consistent thread across all years of the study, we have made some changes in 2021 to reflect the updated strategy of the bank. For the first time, we have expanded the scope of our target audience to include multi-generation families, addressing the critical importance of family businesses to the world's economies.

This year, we gathered feedback from 920 respondents across 19 countries, spanning the Americas, Europe, the Gulf Cooperation Council and Asia. Average investable wealth was USD17.2 million.

After a year that will never be forgotten, it will come as no surprise that the theme of our research is navigating the COVID-era market environment. As our survey was conducted in the first quarter of 2021, it provides a timely snapshot. Respondents are reflecting on how their attitudes to asset classes like stocks, private equity, real estate and cash were impacted by persistent uncertainty since the onset of the pandemic in March 2020.

Most held their nerve and, in some cases, responded to financial market volatility by increasing exposure to certain asset classes. Many are even more open-minded now on how different instruments, including credit, could be used to enhance their portfolio and business performance.

Crucially, we are able to preview their future investment strategies, which are under consideration as vaccine rollouts pick up pace unevenly across the world. Respondents tell us that they want to learn how to respond to the low interest rate environment, how to integrate smart technologies in their business and what the discussion of the 'Green New Deal' in Europe and the US means for them. Other aspects of the bank's 2021 Investment Themes are resonating strongly in specific countries, including how to respond to economic developments in China and the opportunity of changing post-pandemic consumption habits.

To bring it all to life, and consistent with previous years, we continue to visualise selections of our survey data and highlight the most interesting insights, including trends by demographic profile. Our data is contextualised by expert commentary from across BNP Paribas – from wealth management to the corporate and institutional bank, asset management and real estate – enriching the conversation with clients.

We hope you enjoy the 2021 Global Entrepreneur & Family Report mini-series. As ever, we would like to thank this year's participants for their contributions.

Tasha Vashisht
Head of Thought Leadership,
Aon Client Insight

Research methodology & sampling

The research programme was undertaken by Aon's Client Insight team between January and February 2021. The audience of participants was high net worth and ultra-high net worth entrepreneurs and multi-generation families.

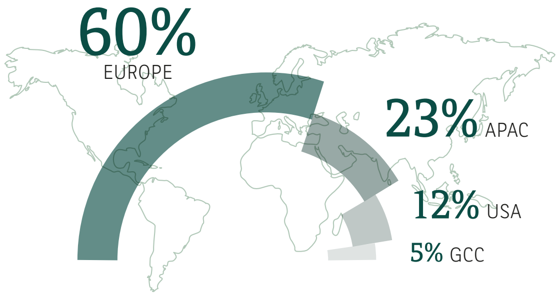
The research methodology involved a mixed online and telephone survey programme with 920 participants spanning 19 countries. In addition, Aon's Client Insight team conducted interviews with experts across the bank in Europe, the United States, the Gulf Cooperation Council and Asia.

TOTAL SAMPLE

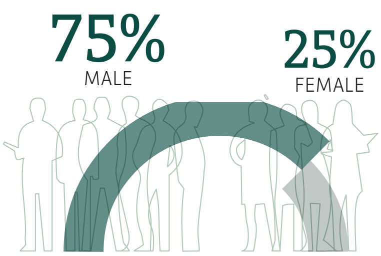
920

REGIONS

Countries covered:
Belgium, Brazil, China, France, Germany, Gulf Cooperation Council, Hong Kong, Indonesia, Italy, Luxembourg, Netherlands, Poland, Singapore, Spain, Switzerland, Taiwan, Turkey, United Kingdom and United States



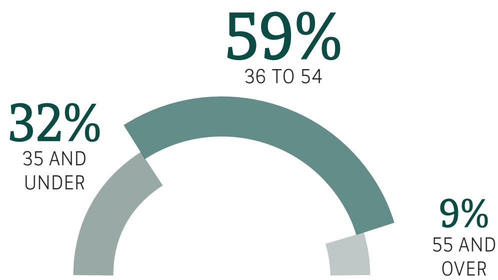
GENDER



AGE

Throughout this report, we use the following definitions:

- **'Millennipreneur':** Entrepreneur aged 35 or younger.
- **'Boomerpreneur':** Entrepreneur aged 55 or older.
- **'Ultrapreneur':** Entrepreneur with investable assets valued at USD25 million or more.



USD17.2 M
AVERAGE INVESTABLE ASSETS

50%
FIRST-GENERATION ENTREPRENEURS

50%
MULTI-GENERATION FAMILIES

Equities,

rather than their own business, have topped US and European entrepreneurs' portfolio allocations for the third year in a row

Despite the huge disruption of the crisis, allocations to equities and own businesses are 38%, on average, of global investable wealth. In Europe and the US, equities have supplanted own business three years in a row. Fifty-three percent increased their portfolio allocations towards stocks in the last 12 months, particularly in APAC, with Hong Kong (70%) and Singapore (67%) leading the way.

Private equity and real estate

had enduring appeal to Ultrapreneurs during the COVID-19 crisis

45% of Ultrapreneurs increased their allocations to direct private equity deals; 39% to Private Equity funds. The main advantages were higher returns and access to top-performing fund managers. Multi-generation families were most likely to cite diversification as the key driver. Real estate also attracted higher inflows from 46% of Ultrapreneurs, with diversification and ease of transfer to family the chief benefits.

Inflation, volatility, the changing tax environment and corporate debt

are the biggest threats

38% consider inflation a serious risk: it is ranked as the number one concern about the investment climate overall, both in Europe and the GCC. In the US, continued stock market volatility is more worrying. High levels of corporate debt are problematic to 39% in APAC, while the changing tax and regulatory environments are additionally challenging for Ultrapreneurs (36%).

25%

are holding more cash than required right now

Millennipreneurs are twice as likely as Boomerpreneurs to feel they are holding excess cash. However, in many regions, this buffer is important for injecting capital into their businesses or other private investments. In APAC, 29% say they would like to hold more cash than they do now. But, globally, 71% would reduce their cash position if negative interest rates were brought in.

52%

are more likely now than 6-12 months ago to consider credit

The primary use of credit is leverage for their businesses, which 58% cite as their driver for borrowing; in the GCC and APAC, close to two-thirds use credit in this way. Multi-generation families are more likely to be enthusiastic about the different uses of credit than other entrepreneurs.

Smart technology, portfolio diversification and energy transition

are the most popular investment themes for 2021

82% believe enabling smart technology is an important investment theme for 2021, while 79% are interested in learning how to diversify their portfolios in an era of low interest rates - the most important theme in APAC (82%). The 'Green New Deal' is an important item on the policy agenda in both the US and Europe, with some action already taken in response by 51% and 42% respectively, to their businesses and investments. This compares to only 30% who have taken action in APAC on energy transition - although a further 61% want to learn more about this theme.

SECTION 1

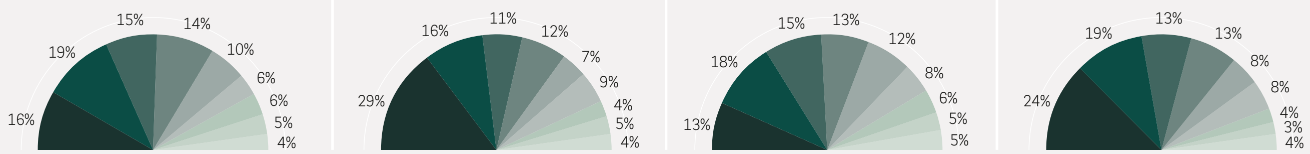
Covid-Era Portfolio trends

Spotlight on entrepreneurial

Regions

Average Portfolio Asset Allocation

EUROPE (n = 550) | **APAC** (n = 209) | **USA** (n = 80) | **GCC** (n = 50)



- Own business
- Stocks
- Fixed income
- Cash
- Private equity funds
- Direct private equity deals
- Real estate funds
- Hedge funds
- Direct real estate deals
- Don't know

Due to rounding, percentages presented throughout this chart may not precisely reflect the absolute figures.

Top 3 investment themes

EUROPE (n = 555)

Diversifying portfolios in the era of low interest rates	47%
Enabling smart technologies	46%
Seeking out positive (above inflation) yields	43%

APAC (n = 210)

Diversifying portfolios in the era of low interest rates	55%
Seeking out positive (above inflation) yields	40%
Enabling smart technologies	37%

USA (n = 80)

Enabling smart technologies	54%
New consumption habits after the pandemic	51%
Energy transition and the 'Green Deal'	51%

GCC (n = 50)

Seeking out positive (above inflation) yields	46%
Diversifying portfolios in the era of low interest rates	44%
Impact of generational change on quality of life	42%

Gender

Investment Climate Concerns

	Female respondents (N = 227)	Male respondents (N = 693)
Risks of inflation	37%	38%
High levels of corporate debt	33%	30%
Significant drop in global/domestic stock markets	33%	31%
Impact of de-globalisation on specific companies and sectors	32%	23%
Market concentration on a small number of technology stocks	25%	25%
Changing tax/regulatory environment	24%	30%
Inability to exit illiquid investments	23%	18%
Implications of high levels of government debt	22%	24%
Equity valuations being too high	21%	20%
Accelerated tensions between China and the US	20%	26%
Implications of a zero-yield environment	20%	18%
Risks of deflation	20%	22%
None of the above	2%	3%

2021 Investment Strategy

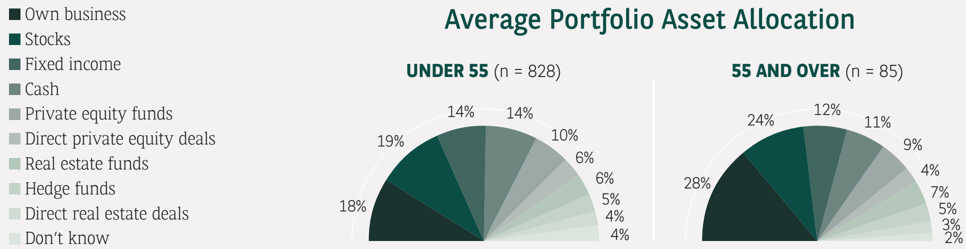
	Female respondents (N = 227)	Male respondents (N = 693)
Growth: Invest in companies that will grow quicker than average	39%	30%
Momentum: Invest with market trends	22%	28%
Contrarian: Invest against market trends	19%	18%
Value: Pick stocks whose value is underestimated	11%	18%
Impact: Invest in companies that generate societal or environmental benefits	7%	5%
Don't know	2%	1%

- Female respondents (N = 227)
- Male respondents (N = 693)

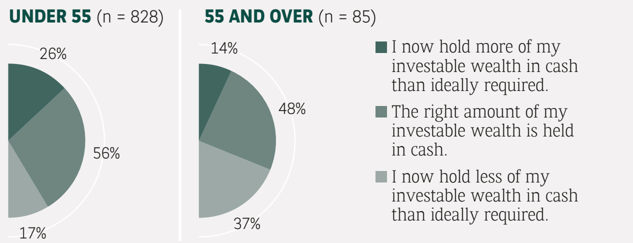
investment choices

Age

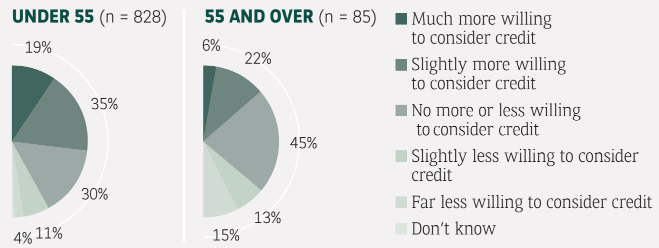
Average Portfolio Asset Allocation



Impact on cash holdings

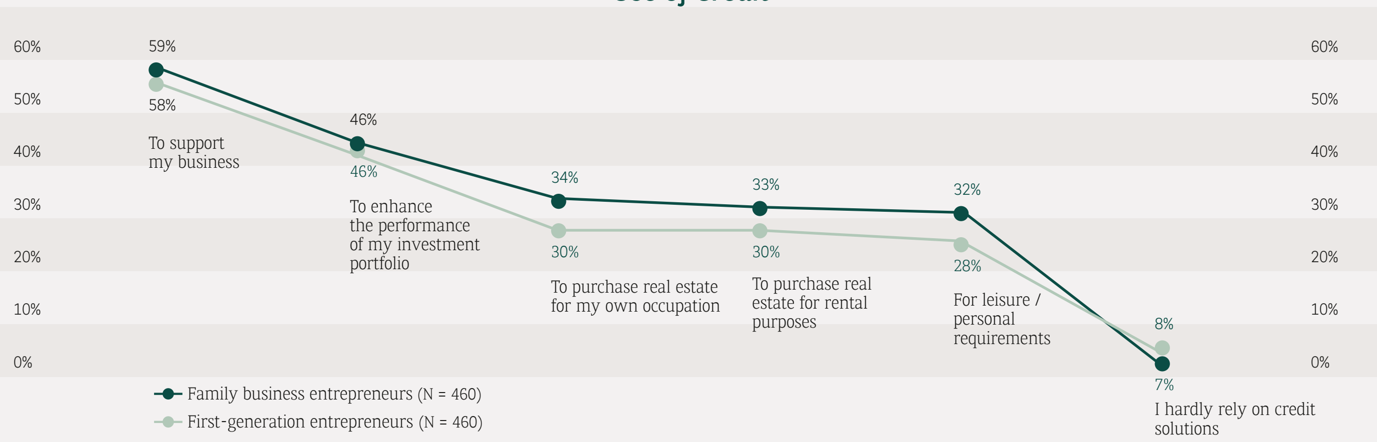


Views on credit

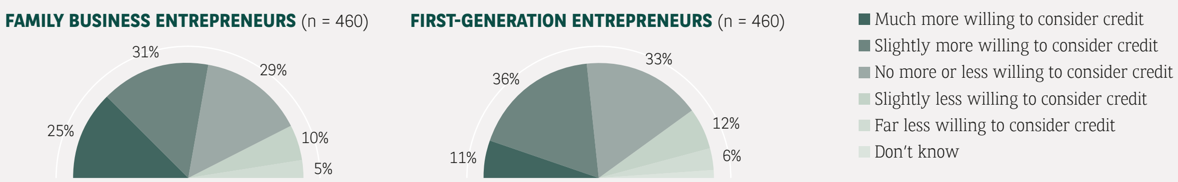


Founder Background

Use of Credit



Views on credit



PORTFOLIO ALLOCATION SNAPSHOT

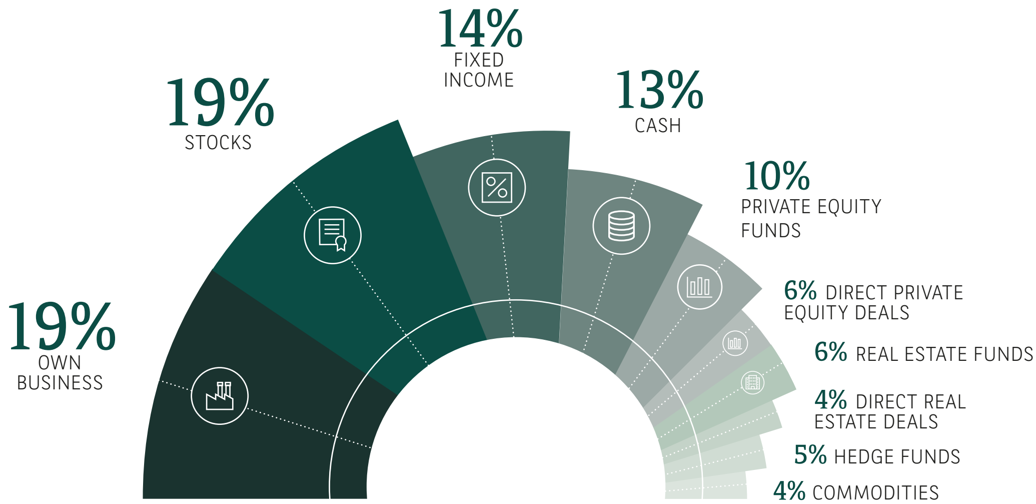
Equities joint top, despite volatility

Every year since 2014, the BNP Paribas Global Entrepreneur & Family Report has presented a portfolio allocation snapshot of highly successful entrepreneurs across the world. Over the past two years, we found that equities and entrepreneurs' own business ventures captured the highest proportions of their investable wealth, as entrepreneurs favoured asset classes that would generate superior financial returns.

Then, in March 2020, the COVID-19 pandemic brought worldwide economic activity almost to a standstill and sent financial markets on a lengthy rollercoaster ride. Twelve months later and we are still very much in the COVID-era, but overall portfolio trends are more consistent with the pre-pandemic picture. **Equities and owned businesses remain in joint first place in their financial portfolios, each accounting for 19% of investable assets** *[FIGURE 1]*.

#1

Equities in joint first place globally despite 2020 market turbulence



[FIGURE 1] **Approximately what is the current allocation of your total financial portfolio across the following asset classes?**

Note: This chart illustrates the average allocation across each asset class based on all responses (N = 913).
Not all entrepreneurs are allocated to all asset classes.
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Although there are some variations across countries, these are not as wide-ranging as previous years. At the top end, equities comprise between roughly a quarter and a fifth of portfolio allocations: for example, in Taiwan (26%), Italy (24%), Spain and the UK (22% each) and Brazil (23%).

What does stand out is that in two regions – the US and Europe – **equities have now supplanted own business as the preferred asset class for three years in a row.** The exceptions to this in Europe are **France and Poland:** the only two markets in the region where allocations to own business are higher than equities (21% and 22% respectively).

The typical portfolio in the Gulf Cooperation Council (GCC) region bucks the trend back to equities since the inception of the crisis. GCC entrepreneurs also have almost a quarter (24%) of their wealth tied up in their own business ventures. Only 30% of portfolio holdings in this region are classified as 'alternative' investments (*i.e.* real estate, private equity, commodities and hedge funds) compared to 35% for the overall sample.

Another notable exception to the global story is the APAC region. In line with our findings from January 2020, **entrepreneurs in several Asian markets continue to significantly prefer investing in their own businesses over equities (29% vs. 16% respectively).**

Respondents from this region typically have far higher average net worth than in other markets (at least USD25 million) and these **'Ultrapreneurs' have chosen to allocate nearly twice as much to their own businesses as public markets.** In fact, own business allocations have reached 41% in China, with Hong Kong (38%) and Singapore (36%) not far behind *[FIGURE 2]*.

But allocations to own business are top in APAC and the GCC

- 40 > 44%
- 30 > 39%
- 20 > 29%
- 10 > 19%
- 0 > 9%

		Own business	Stocks	Fixed income	Cash	Private equity funds	Direct private equity deals	Real estate funds	Direct real estate deals	Hedge funds	Commodities
Overall	(N = 913)	19%	19%	14%	13%	10%	6%	6%	4%	5%	4%
Europe	(N = 550)	16%	19%	15%	14%	10%	6%	6%	4%	5%	5%
APAC	(N = 209)	29%	16%	11%	12%	9%	4%	7%	4%	5%	3%
USA	(N = 80)	13%	18%	15%	13%	12%	8%	6%	5%	5%	4%
Belgium	(N = 50)	16%	16%	18%	14%	10%	6%	7%	3%	6%	4%
Brazil	(N = 24)	12%	23%	18%	22%	4%	7%	5%	5%	2%	2%
China	(N = 40)	41%	13%	7%	10%	9%	2%	8%	3%	7%	1%
France	(N = 89)	21%	20%	13%	10%	11%	5%	6%	4%	6%	3%
Germany	(N = 95)	15%	19%	16%	15%	11%	6%	5%	5%	5%	4%
Hong Kong	(N = 40)	38%	12%	8%	9%	10%	4%	8%	4%	5%	1%
Indonesia	(N = 44)	20%	17%	16%	14%	7%	5%	7%	4%	4%	6%
Italy	(N = 47)	16%	24%	12%	13%	9%	5%	7%	3%	4%	6%
Luxembourg	(N = 25)	9%	19%	15%	15%	10%	9%	7%	4%	5%	6%
Netherlands	(N = 50)	16%	16%	15%	12%	9%	8%	8%	5%	7%	5%
Poland	(N = 25)	22%	15%	13%	19%	9%	6%	5%	3%	3%	4%
Singapore	(N = 40)	36%	13%	8%	10%	9%	2%	9%	5%	6%	2%
Spain	(N = 49)	15%	22%	14%	16%	10%	6%	5%	3%	4%	4%
Switzerland	(N = 45)	16%	16%	14%	9%	11%	8%	7%	5%	8%	7%
Taiwan	(N = 45)	13%	26%	16%	15%	8%	5%	6%	5%	3%	4%
Turkey	(N = 25)	11%	21%	14%	20%	10%	5%	3%	3%	6%	6%
UK	(N = 50)	12%	22%	17%	14%	11%	7%	5%	4%	5%	3%
USA	(N = 80)	13%	18%	15%	13%	12%	8%	6%	5%	5%	4%
GCC	(N = 50)	24%	19%	13%	13%	8%	4%	8%	4%	3%	2%

[FIGURE 2] **Approximately what is the current allocation of your total financial portfolio across the following asset classes?**

Note: This chart illustrates the average allocation across each asset class based on all responses (N = 913).
Not all entrepreneurs are allocated to all asset classes.
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

That said, Asian Ultrapreneurs have also responded quickly to new stock market opportunities during the COVID-19 crisis. **56% have increased their portfolio allocations to stocks in the last 12 months** *[FIGURE 3]*. Entrepreneurs in Hong Kong (70%) and Singapore (67%) are most likely to have led the way, albeit their final allocations are well below the global average, at 12% and 13% respectively.

In Europe, similarly, 53% increased allocations to equities over the last 12 months – but the likelihood varied considerably by country. For instance, more than 7 out of 10 entrepreneurs invested more of their portfolio in stocks in the UK, Switzerland, Belgium and Luxembourg during the crisis; compared to Italy (21%) and Spain (23%), where allocations were already relatively high.

Finally, the surging appetite for equities was not matched by growing demand for other asset classes in Europe. **Nearly two-thirds of European entrepreneurs either maintained or decreased their allocations to commodities, private equity and real estate.** 72% say their investment in fixed income remained the same or declined, echoing trends observable at the global level.

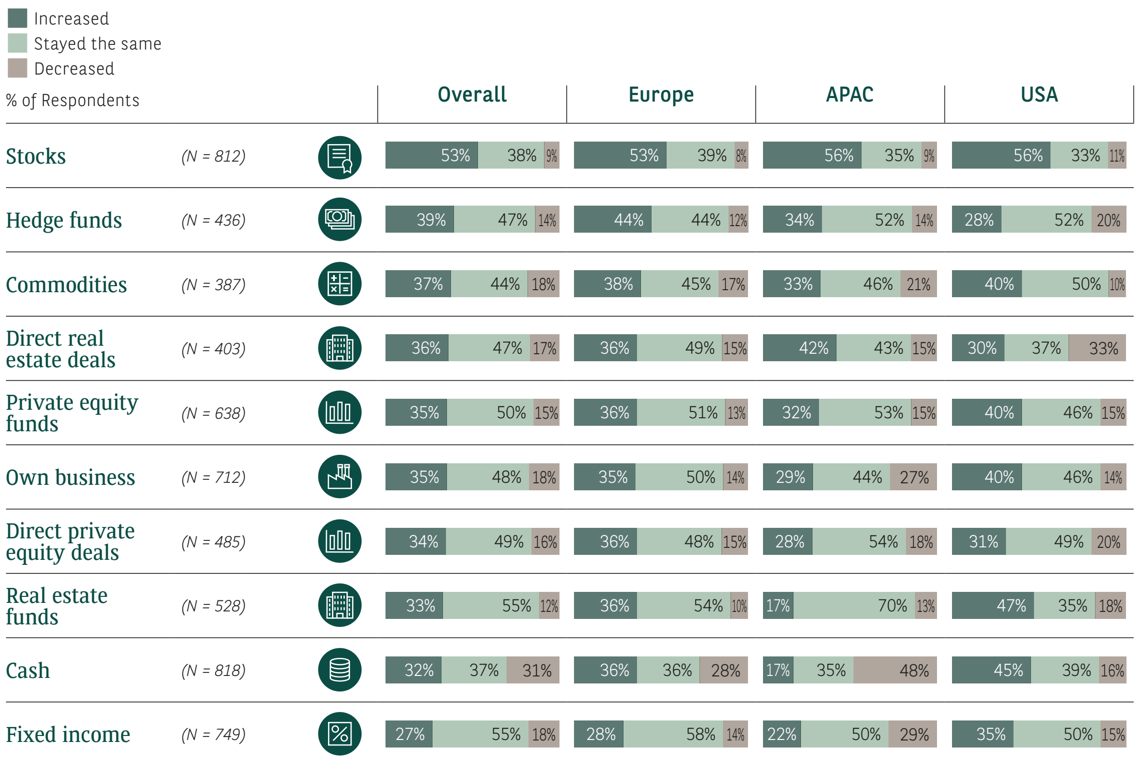
However, strikingly **nearly a third of the global audience say they have decreased their cash position** in response to the crisis.

Edmund Shing is Global Chief Investment Officer of BNP Paribas Wealth Management. Describing the change in investment preferences since the onset of the crisis, he says:

"It was dependent on age, but we saw a big move towards technology – software and internet companies. Entrepreneurs have always had a bias towards these high growth companies, but this accelerated with the pandemic. We also saw the impact of holding cash – a disastrous asset to hold. In the property segment, there was a lot of caution around commercial property, i.e. retail and office; but residential property has been OK."

31%

of entrepreneurs reduced their cash position during the crisis



[FIGURE 3] **Over the course of the COVID-19 crisis, have your allocations changed at all?**

Note: This chart illustrates the proportion of respondents who select each option, sample size varies by asset class and region.
Not all entrepreneurs are allocated to all asset classes.
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

SPOTLIGHT ON PRIVATE ASSETS

Enduring attraction of private equity and real estate

The volatility experienced at the start of the pandemic in March 2020 triggered understandable caution about buying illiquid investments that cannot be easily converted into cash. But as the crisis continued, **Ultrapreneurs and families reappraised the advantages of staying invested – particularly in private equity[1] and real estate – and eventually increased allocations to these asset classes.**

(1) **Private Equity** consists of investing in unlisted companies at different stages of their growth, with a view to optimising their value creation by supporting their managers' development strategy.

Globally, one in three enhanced their portfolio commitment to either private equity funds (35%) or direct private equity deals (34%) during the crisis. Conversely, approximately just **one in six decreased their commitment over the course of 2020 – overwhelmingly because they found the pandemic-related risks and macroeconomic uncertainty too great.**

But among the Ultrapreneur community, 45% increased allocations to direct PE deals and 39% to PE funds. Those at the USD10 million asset threshold responded similarly, with 48% investing more into PE funds. Combining these two ways of investing, **private equity has captured 15% of the UHNW financial portfolio** – indicating it is more attractive to these clients than fixed income or cash (12% each).

This is not a surprise to **Claire Roborel de Climens**, **Global Head of Private and Alternative Investments at BNP Paribas Wealth Management**. She comments:

"Private equity investors are not short-term. They are driven by long-term vision as direct or indirect equity shareholders. This asset class was very resilient in 2020, experiencing much lower volatility than public markets. Patient capital is ideally suited for such kinds of uncertain periods."

For the wealthiest entrepreneurs and families, the advantages of private equity remain consistent and clear, even during a wholly unanticipated global economic crisis *[FIGURE 4]*. The two main drivers for Ultrapreneurs to increase PE investments were the **access to top-performing fund managers (cited by 41%) and, linked to this, the high returns potential offered by this asset class (38%).**

Ms Roborel de Climens continues:

"When the crisis hit, the Private Equity firms immediately put an action plan in place to assist the management of their companies, re-negotiated credit lines with the banks, sent their operating partners into the companies to support the managers – and, if necessary, decided capital injection. In this context, proactivity is critical, and the decision process must be quick and focused. This is one of the benefits of this asset class – and our clients realise that."

Ultrapreneurs and families see the opportunity of private equity in a crisis

40 > 45%
30 > 39%
20 > 29%
0 > 19%

	Overall (N = 312)	$10m to $24.9m (N = 92)	$25m or more (N = 61)	Europe (N = 211)	APAC (N = 49)	USA (N = 36)
Higher returns compared to mutual funds	34%	27%	38%	38%	27%	19%
Opportunity to diversify my investments	33%	33%	30%	34%	27%	36%
My private banker advised me to do this	30%	29%	26%	32%	18%	33%
Access to top-performing fund managers	29%	33%	41%	29%	33%	33%
Prospect of sustainable opportunities	29%	30%	11%	28%	29%	36%
Access to high-growth privately-held companies that are not yet listed	28%	28%	34%	27%	24%	25%
Cash is unattractive in this interest rate environment	25%	28%	20%	24%	31%	22%
Closer alignment to my risk appetite	25%	20%	33%	22%	35%	28%
Tax regime is favourable right now	24%	35%	23%	27%	20%	22%
Lower volatility than listed markets	20%	21%	21%	18%	22%	25%

[FIGURE 4] **You said you increased your allocation to private equity in 2020. Were any of the following factors important to your decision?**

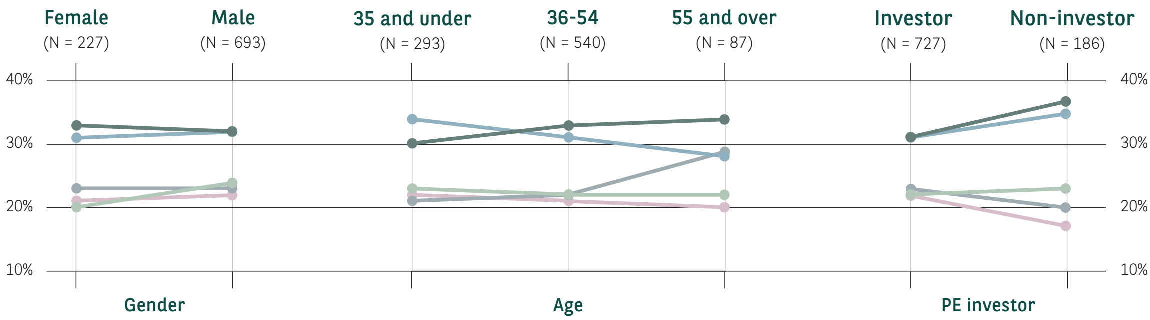
N = 312

The chart above represents the respondents who have private equity funds and/or direct private equity deals in their portfolios and increased their allocations to either or both in 2020.

Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Growth trajectory of private equity is appealing to millennipreneurs

	Overall (N = 920)
Return of investment that meets my expectations	32%
High growth sector that I want	32%
Sector focus that I want	23%
Recommendation to me by my private banker or wealth manager	23%
Management fees are reasonable	21%
Support/financing of the real economy	21%
Tax regime is favourable	21%
Recommendation to me by a close family friend / trusted advisor	21%
Correct risk appetite for my needs	21%
Innovative compared to the traditional funds available on the market	19%
Avoids holding my investable assets in cash	16%
Geographic focus that I want	16%
Allows consolidation of my investments under the same manager	15%



[FIGURE 5] **Which of the following factors are most influential to your decision to invest in private equity in future?**

N = 920

Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Among multi-generation families, the prospect of diversification was the primary driver for rebalancing in favour of private equity (cited by 36%).

Other features have resonated more powerfully in APAC (and also to those with less capital to invest, for whom funds are the only viable option), including interesting new sustainable opportunities.

The combination of private equity's high-growth trajectory and potential for strong financial returns differentiate this asset class, especially for Millennials *[FIGURE 5]*.

It is a similar story for real estate, which accounts for 11% of the overall investment portfolio through funds and direct deals.

As with private equity, overall, **one in three real estate investors increased their financial commitment to real estate.**

But in some instances, the surge in interest was far more significant than that. This is especially true for **Ultrapreneurs and their families investing directly in real estate, 46% of whom enhanced their commitment during 2020.** The straightforward, easy to understand nature of bricks and mortar is a strong part of its appeal even at the highest level of wealth.

This asset class has continued to attract investment despite market uncertainty – again as a diversification opportunity, but also as **an efficient wealth transfer mechanism to the next generation and a hedge against inflation** *[FIGURE 6]*.

Larry Young is Head of the International Investment Group at BNP Paribas Real Estate. Reflecting on the months since the start of the pandemic, he comments:

"The pandemic was a shock to the real estate industry as a whole. In 2020, volumes were down although not by as much as people thought they would be. The biggest decline was in Asia, where the crisis started and from where investors had furthest to travel; Asian investment went down approximately 40% relative to European investment, which declined by 22%. Investment dropped least in pan-European markets."

Across APAC, 42% participated in more direct real estate deals to take advantage of the environment.

The demand for real estate was most visible in Asian financial hubs, Singapore (75%) and Hong Kong (50%); and important European centres of wealth, Luxembourg (73%) and Switzerland (53%).

Mr Young points out that there are several sub-sector nuances that need to be considered within real estate:

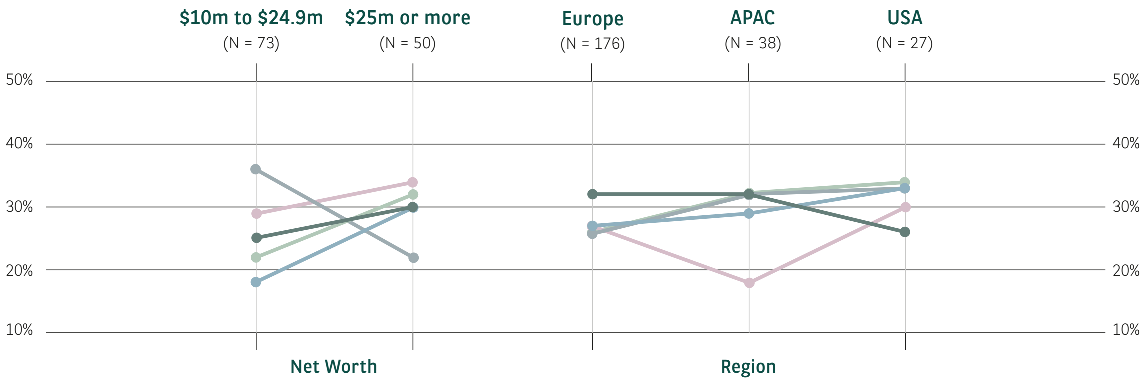
"There is a complete change in the type of real estate investors are looking at, compared to pre-pandemic. The office leasing market has lots of question marks, with 'working from home' perceived to be the new normal. Pre-crisis, capital cities like Amsterdam already had lots of people working from home, while generally speaking in older cities, like Paris and Milan, people worked primarily from the office. We don't know how this will look in years to come."

He continues:

"Meanwhile, there are 50 shades to retail – what's happening with luxury boutiques is very different to the big shopping centres. We are beginning to see things bottom out, as it has been an unloved sector for a while. Hotels are also badly affected as tourism stopped and that is still continuing. Business travel remains hugely affected. However, it is a V-shaped market so as soon as markets recover, so will this market."

Real estate
has multi-faceted appeal to entrepreneurs and families

	Overall (N = 258)
This investment represents a good diversification opportunity	31%
An investment I can pass on to the next generation	29%
These investments are less risky than others	28%
This asset represents a hedge against inflation	27%
This asset class is straightforward to understand	26%
These investments are tangible	24%
Cash is unattractive in this environment	24%
Access to top-performing fund managers	23%
Economic conditions look favourable	23%
Fees are reasonable	23%
Tax regime is favourable right now	21%



[FIGURE 6] **You said you increased your allocation to real estate in 2020. Were any of the following factors important to your decision?**

The chart above represents the respondents who have direct real estate deals and/or real estate funds in their portfolios and increased their allocations to either or both in 2020.

N = 258

Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Covid-Era investment climate

Although it didn't feel that different to the preceding nine months, the start of 2021 was associated with tremendous optimism across the world that vaccines and government stimulus would be foundational to rapid economic recovery.

Five months in and that path to recovery looks longer and bumpier than originally may have been hoped. Even once the COVID-19 pandemic is in the rear-view mirror, entrepreneurs and families identify several challenges to wealth creation on the horizon, linked to how the crisis was handled by policymakers and businesses. **In fact, 77% of our respondents can cite at least three aspects of the investment climate they are worried about in relation to their portfolio.**

Asked to pinpoint specific concerns, 38% now consider inflation to be a serious risk. Higher household savings ratios and unprecedented fiscal stimulus have pushed inflation to the top of their agenda, even if there are few indicators of it being a current challenge.

Runaway price **inflation is particularly troubling to entrepreneurs based in emerging economies (such as Poland, 72%; and Indonesia, 58%) and those with volatile currencies, including Turkey (84%) and Brazil (52%).**

Naturally, these are not the only perceivable threats to their investment activities, with distinct aspects of the climate cutting through regionally. So, while inflation is the priority for entrepreneurs in the GCC and Europe, it is market volatility in the US. **High levels of corporate debt are problematic to 39% in APAC,** ranking as their number one concern, especially in Singapore (58%), China (43%) and Hong Kong (38%).

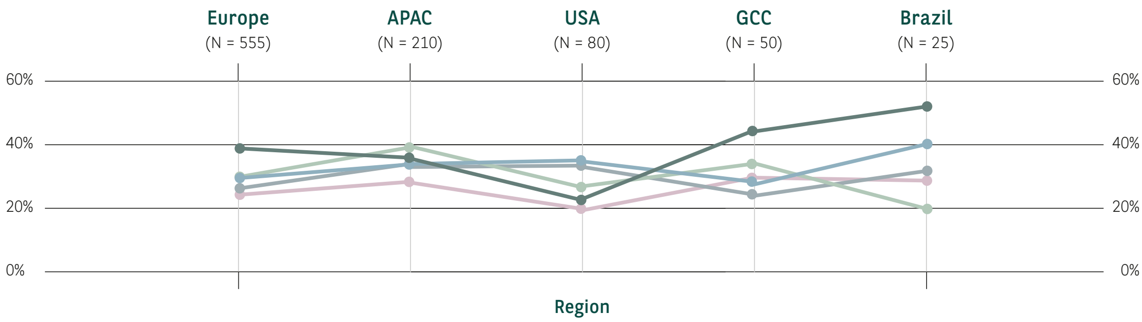
Ultrapreneurs also focus on corporate debt, probably because of its implications to their own ventures and private investments into other firms. **The changing tax and regulatory environment are other front-of-mind threats (cited by 36%).**

Prashant Bhayani is Chief Investment Officer for BNP Paribas Wealth Management, Asia. He comments:

"Since 2009, and before the pandemic, there was an increase of debt usage. Entrepreneurs were borrowing to grow, and we have seen increases in leverage combined with an attractive lower interest rate environment. China is a big proportion of the bond market (in terms of issuers) in Asia. Before the pandemic, there were some selective defaults, and these have now picked up. It is not a torrent, but investors know that central bank policies, like extended loans for the leisure sector, cannot continue forever."

Inflation risk
is worrying entrepreneurs and families globally

	Overall (N = 920)
Risks of inflation	38%
Significant drop in global/domestic stock markets	32%
High levels of corporate debt	31%
Changing tax/regulatory environment	28%
Impact of de-globalisation on specific companies and sectors	25%
Market concentration on a small number of technology stocks	25%
Accelerated tensions between China and the US	25%
Implications of high levels of government debt	24%
Risks of deflation	21%
Equity valuations being too high	20%
Inability to exit illiquid investments	19%
Implications of a zero-yield environment	19%
None of the above	3%



[FIGURE 7] **Since the COVID-19 pandemic, are you more concerned with any aspects of the investment climate?**

N = 920
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Concerns about inflation should be framed in the context of entrepreneurs' cash position since the crisis. For example, even though one in three entrepreneurs reduced their cash holdings during 2020, **25% still feel they are currently holding more cash than required.**

This is not universally the case, with **Millennipreneurs (32%) twice as likely to feel this way than Boomerpreneurs (14%).** Those in Europe (30%) and the US (29%) feel strongest that their cash position is excessive. That said, most respondents can pinpoint advantages to having a significant 'buffer', including the option to inject more capital into their own businesses (or other businesses), if required.

The reverse trend is observable in other regions, **with 29% in APAC, wishing they could have a more substantial savings cushion.** In Brazil, the respondent base is evenly split between the viewpoints. As investors look ahead to another unpredictable six months, finding solutions that address inflation risks and excessive cash will be critical for portfolio strategy.

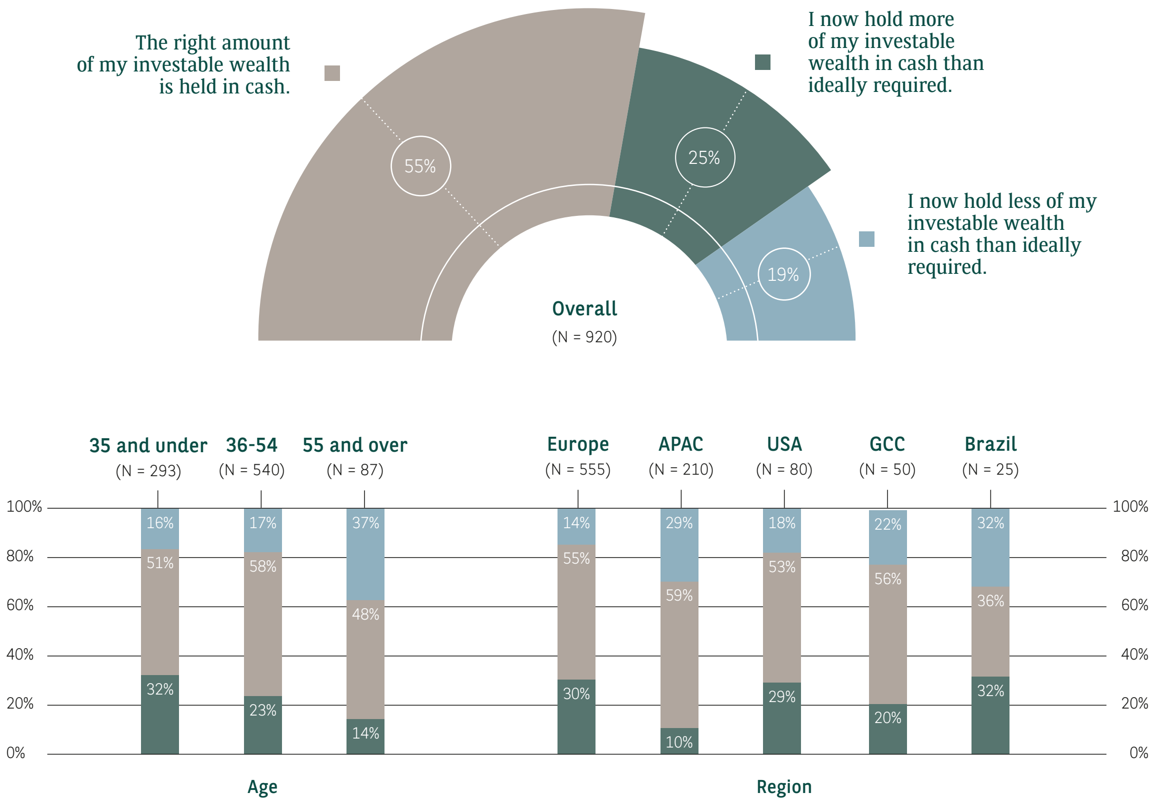
And given the strange economic uncertainty, the opposite problem – of deflation – also remains a realistic possibility on the horizon. **Seventy-one percent say they would reduce their cash position if negative interest rates were introduced.** This view is even more prevalent in Switzerland (89%) and Belgium (80%)

Mr Shing concludes:

> "There are deflationary effects. We need wage inflation for inflation to happen, which we do not currently have. People are underestimating the deflationary effects of technology: large swathes of staff are working from home and in future that may be accounted for by companies as an employee benefit, resulting in lower pay. Artificial intelligence is gradually replacing aspects of white-collar jobs, putting pressure on the service economy. The rise in freelancing, which is a good way for companies to cut costs, also puts downward pressure on wages."

The question of where entrepreneurs could invest instead is the focus of the next section.

25%
of global entrepreneurs feel their cash position is excessive



[FIGURE 8] **What has been the impact of market conditions on the investable wealth you keep in cash?**

N = 920
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

SECTION 2

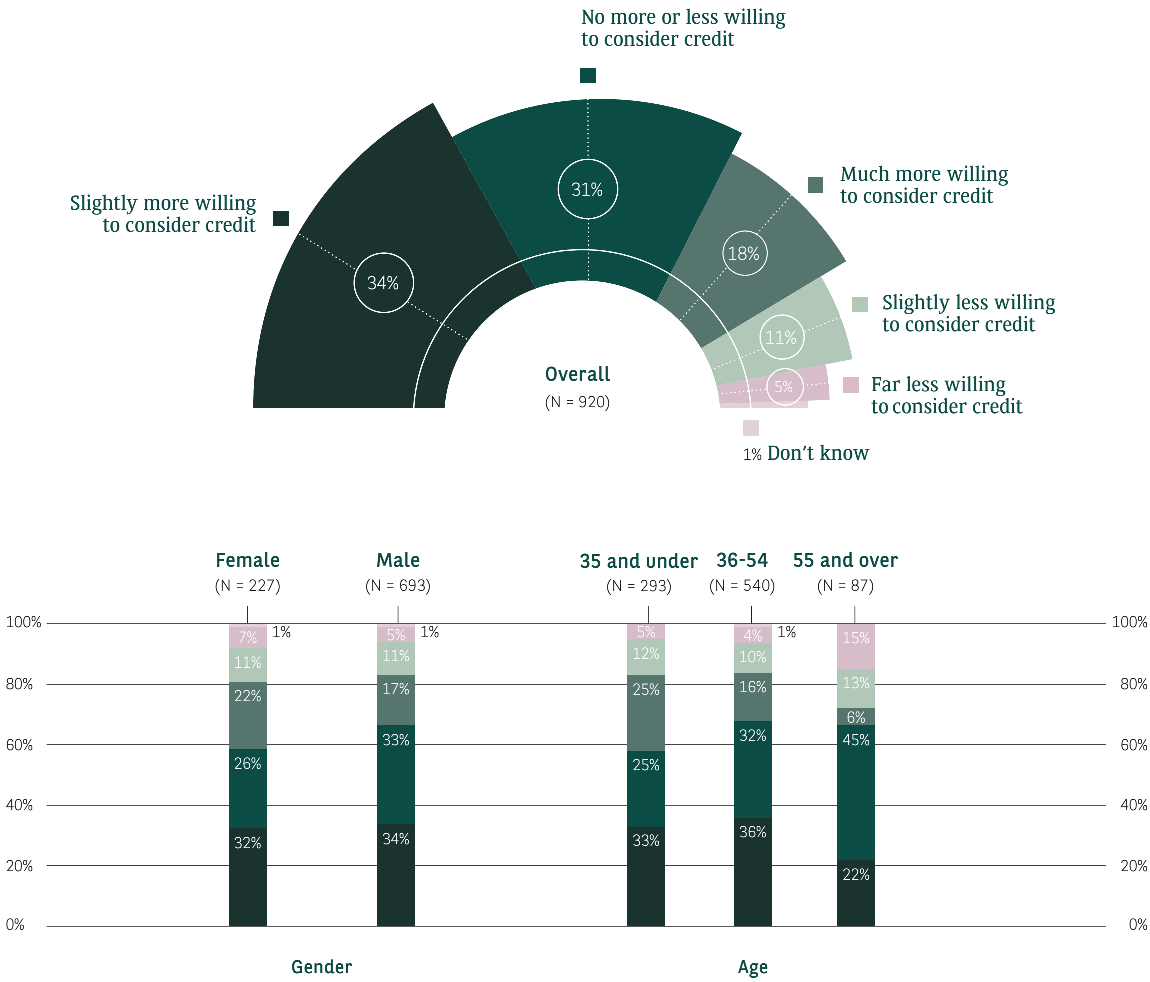
2021: Portfolio strategies and market outlook

The mindset on credit

Economic uncertainty and volatility unleashed by the pandemic have resulted in significant changes in investor attitudes. Preferences, particularly among **Ultrapreneurs and families, are shifting towards private equity, real estate and stocks, while also holding more cash reserves than required.**

Looking ahead, changing mindsets around the investment climate may determine another area of portfolio strategy. Huge fiscal stimulus has underlined that the low interest rate environment is here to stay, changing the entrepreneurial perspective on credit.

Entrepreneurs are more willing now to increase exposure to credit



[FIGURE 9] **To what extent has your view on credit changed over the last 6 to 12 months?**

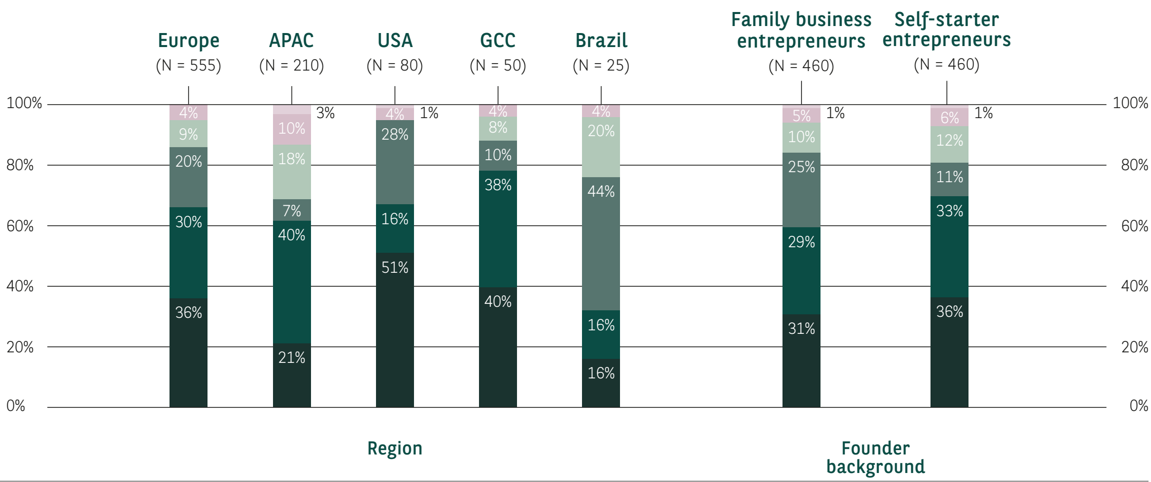
N = 920

Source: 2021 BNP Paribas Global Entrepreneur & Family Report

There has been a significant increase in enthusiasm, with **52% more likely now than 6 to 12 months ago to consider credit [Figure 9].** Multi-generational families are twice as likely to feel their attitude to credit has become much more positive than other entrepreneurs.

Willingness to rely on credit rises even higher in the US (79%) and Europe (56%), regions where interest rates are either at historic lows or in negative territory.

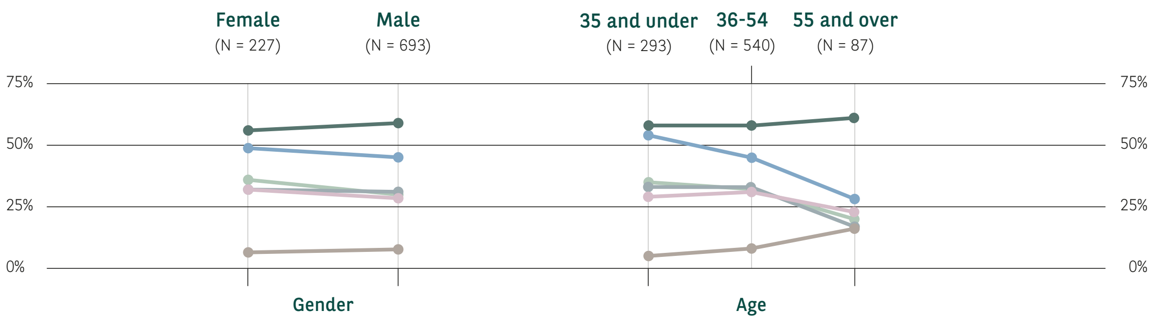
In APAC, there is more nuance, with those in Taiwan (44%), Indonesia (40%) and China (28%) most likely to feel more enthusiastic about increasing their credit exposure, compared with Hong Kong (18%) and Singapore (11%), where the appetite has declined.



Credit

is being leveraged for both businesses and portfolios

	Overall (N = 920)
To support my business	58%
To enhance the performance of my investment portfolio	46%
To purchase real estate for my own occupation	32%
To purchase real estate for rental purposes	32%
For leisure / personal requirements	30%
I hardly rely on credit / lending solutions	8%



[FIGURE 10] **How do you primarily use credit to fulfil your requirements?**

N = 920

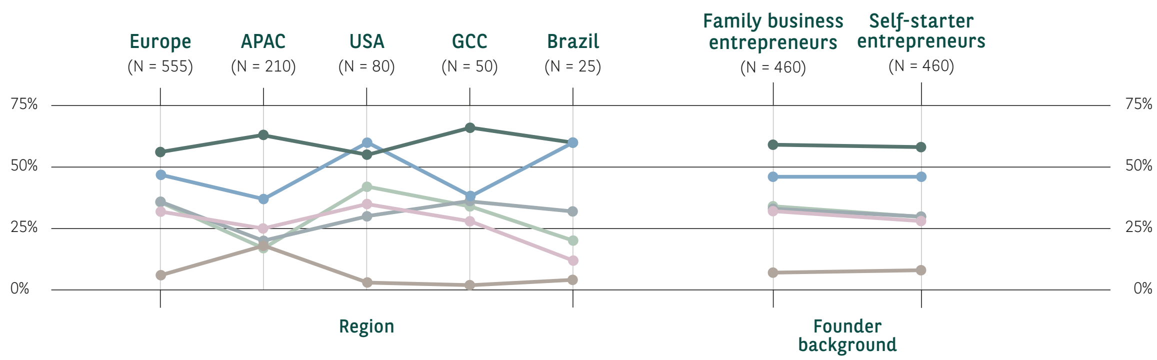
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Globally, the primary uses of credit are leverage for entrepreneurial businesses, which 58% cite as their driver for borrowing. This is particularly important to Boomerpreneurs (61%) and entrepreneurs in Germany (62%), the GCC region and APAC, where close to two-thirds do so.

The regional exception to this use of credit is the US, where entrepreneurs were significantly more likely to use leverage to enhance portfolio performance. Many younger clients, including more than half (54%) of Millennipreneurs, also take this approach.

In fact, this use of credit is gaining popularity in some European financial hubs, including Luxembourg (72%), the UK and Switzerland (64% each), and the Netherlands (58%).

Credit and leverage are typically **more popular among multi-generation family businesses** than first-generation entrepreneurs, and more likely to be deployed for real estate purposes as well.



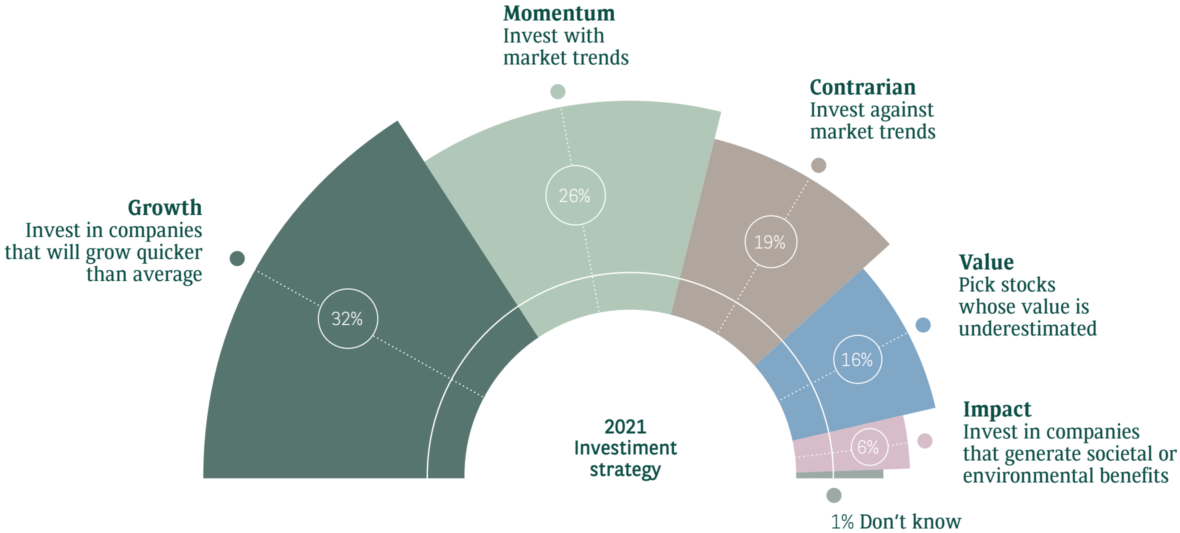
2021 INVESTMENT THEMES

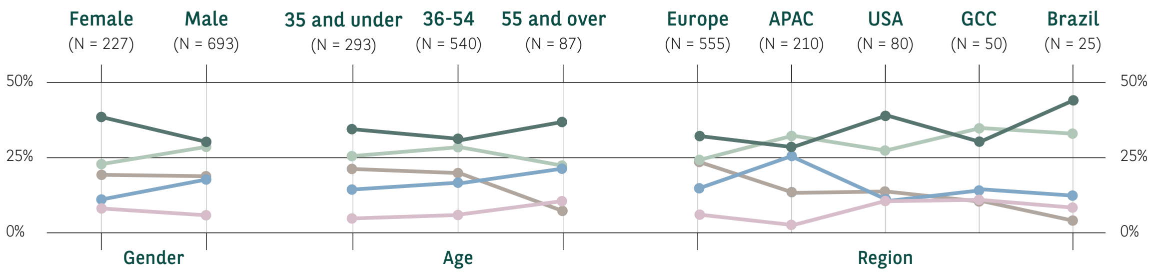
Unlocking growth

Having watched the global economy go into partial shutdown in response to the pandemic in 2020, it's natural to feel that the only way is up for 2021 and beyond. **There is, however, widespread recognition that investment objectives, strategies and the risk-reward trade-off should be adjusted compared to before the crisis.** After all, the uneven pace of vaccine rollouts, uncertainty over timescales for lockdown easings and the potential impact of new variants all make it very difficult to forecast with confidence.

32%

are opting for growth strategies to tap into the recovery





[FIGURE 11] **What are your investment considerations for 2021, in anticipation of the global economic recovery? [Investment strategy]**

N = 920
Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Despite this, global entrepreneurs are determined to see the upside and are adjusting their portfolio behaviour in response. 32% are embracing Growth strategies this year, seeking to tap into companies that enjoy above-average growth potential prospects for the next 12 months. **Female entrepreneurs are significantly more likely to favour Growth strategies than male (39% vs. 30%).**

Globally, just over a quarter (26%) are opting for Momentum strategies, which aim to invest with market trends. This is surprisingly consistent across generations and wealth, with pockets of popularity in specific regions. For example, in APAC and the GCC, Momentum strategies are even more compelling than Growth, selected by one in three. In France, Momentum is preferred by 38%.

Commenting on these findings, **Mr Bhayani** adds:

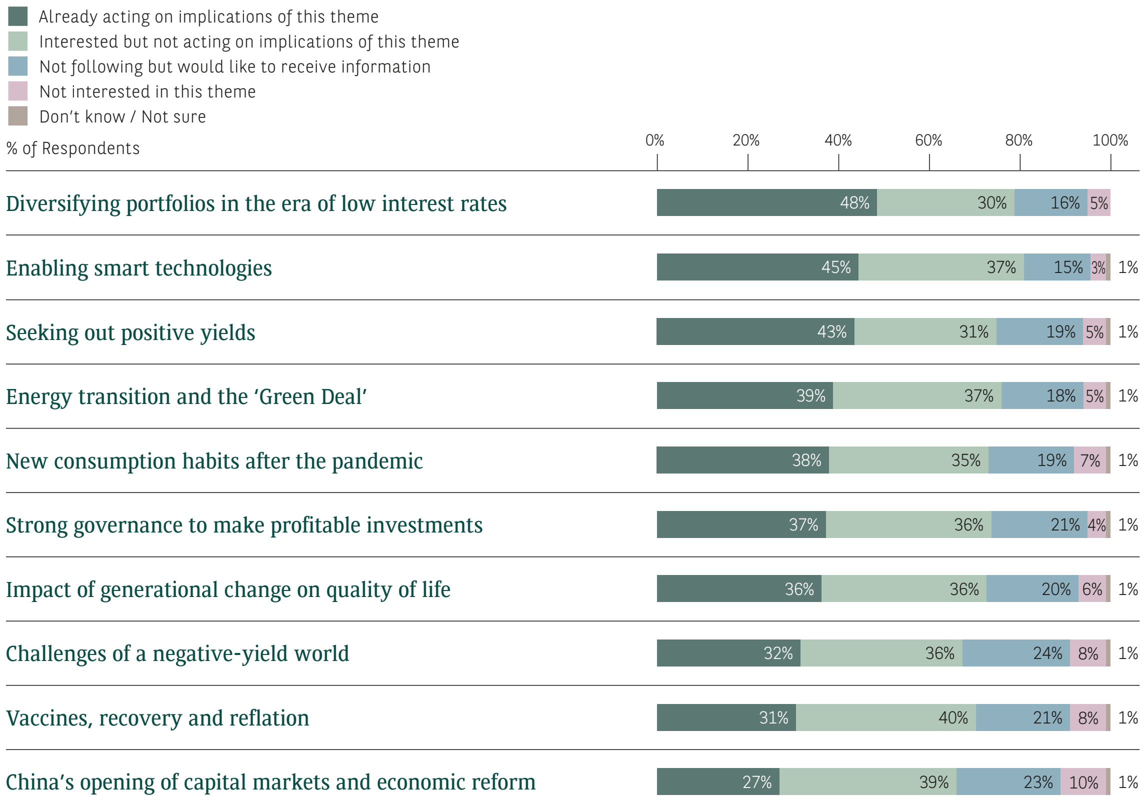
> "COVID-19 in effect boosted the penetration of e-commerce, AI, online food delivery, online education and online medicine (which really only took off once the pandemic started). Everything went online and companies in these sectors have kept the economy functioning. They will continue to draw attention from entrepreneurs already interested in the theme."

Contrarian strategies (which seek to invest against market trends) are more than twice as popular with Millennipreneurs than Boomerpreneurs (20% vs. 8%).

The aspirations for growth are nuanced and must be carefully balanced with a notable intolerance for putting wealth at risk. **Just over half (53%) are seeking to maintain their wealth by reducing risk.**

Smart technology is the investment theme that entrepreneurs find most compelling for unlocking growth during the recovery, if it can be aligned to their new wealth objective and changing risk appetite.

Almost half
are diversifying portfolios due to the low-rate environment



[FIGURE 12] **Looking ahead to the next 12 months, which of the following themes do you feel are most relevant to your business/investments?**

N = 920

Source: 2021 BNP Paribas Global Entrepreneur & Family Report

Globally, 82% are interested in integrating smart technology in their businesses or making them a focus of their investments. In fact, 45% are already acting on this theme. Entrepreneurs in Brazil (64%), Poland (68%), Turkey (60%), Switzerland (58%) and the Netherlands (56%) are most likely already to be taking action.

Mitigating the impact of the monetary policy environment is the second most compelling investment theme. **Globally, 79% cite diversifying their portfolios in an era of low interest rates as an important topic to learn more about.**

Similarly, 74% select the related theme of seeking out positive (above inflation) yields as important for their self-education – particularly in Indonesia, the UK, Poland and Germany.

Different investment themes resonate in each region. Along with responding to vaccine rollouts, **the opening of China's capital markets is the theme where fewest entrepreneurs have taken any action** but are currently most interested (39%), especially in Hong Kong, Singapore and Taiwan. Their yearning for information is matched in Europe, especially in Germany (48%), Italy (46%), Poland (44%) and France (41%).

Others are more concerned with long-term trends, including those where there have been dramatic behavioural shifts or policymaking has been accelerated by the pandemic. **The 'Green New Deal' is an important item on the policy agenda in both the US and Europe, and is already cutting through strongly in these regions,** with action taken by 51% and 42% of entrepreneurs respectively, presumably as they decarbonise their business operations and portfolios.

The post-pandemic world is also occupying the minds of Brazilian entrepreneurs. Along with the US, **one in two of these entrepreneurs is adapting their strategy to new emerging consumption habits.**

In conclusion

In Part I of this year's report, we have assessed how entrepreneurs and families are responding to the COVID-era market environment.

Despite the chaos triggered by the onset of the pandemic, most respondents increased their allocations to equities, particularly in APAC, and maintained their exposure to other asset classes. The typical risk-return profile has shifted more in favour of wealth preservation. But having built up ample cash buffers, some respondents (especially Ultrapreneurs) have shifted more capital to private equity and real estate to diversify further and benefit from access to high-quality fund managers.

The most notable shift in portfolio attitudes has been the increased willingness to use credit. This may be because the crisis has cemented the belief that the low interest rate environment is here to stay. More than half now say they are more open to credit than before the crisis and perceive advantages for their businesses and portfolio performance.

The question of where to invest in the COVID-era environment is top-of-mind, as tough market scenarios like inflation, rising corporate debt and changing tax policies loom on the horizon. Looking ahead, entrepreneurs identify several compelling themes to refresh their investment strategies. These include (but are not limited to) integrating smart technologies to assist with business transformation and the global transition from fossil fuels to new types of energy production.

In Part II, we re-visit the new potential for sustainable investing, looking at the impact journey from selection through to monitoring. This is especially relevant in the year of the UN Climate Change Conference (COP26) and at a time when both the European Union and the US agree that a 'Green New Deal' is integral to the economic recovery.

In Part III of this mini-series, we step away from investments to look at the wider private and professional needs of elite entrepreneurs and families. This includes some of the new areas that families, in particular, are looking for in their family governance arrangements as they re-evaluate business strategy, private investments and the involvement of the next generation.

Our purpose is to identify the actions and information that will help global and family entrepreneurship to thrive. We hope you enjoyed Part I and stay tuned for Part II.

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