

Rate of return: How Asian Chinese view it when investing

Wealth management to the Asian Chinese family isn't merely about building a profitable business and salting away the proceeds, says leading business family strategist Cheong Wing Kiat.

It's much more than that – and it's influenced by many factors, high among them being cultural heritage.

Cheong, who recently spoke at the Asia Pacific Family Investment Conference, gave the Wen Ken Group as an example.

And he should know, seeing that he played a leadership role in the well-known Singapore-based pharmaceutical family business from 1995 to 2011.

Wen Ken's evolution largely reflects the cultural heritage of its four founders – three Hokkien (Fujian) Hakka and one Guangdong Hakka.

Like the sages of the past, Cheong loves to use 'parables' and acronyms to paint mental pictures and to get his message across.

And in this case, he uses the analogy of the Tulou, a traditional communal residence found in the Fujian Province in south China, usually a circular configuration surrounding a central shrine.

Like the fortress-like Tulou, central to their overall approach to life and business is the creation and maintenance of a protective and self-sustaining community.

This is precisely why Cheong has adopted what he calls the FISH Sustainability Model – which simply means::

- **Financial Capital:** Operational Financial Capital to manage the family's current businesses and Accumulated Financial Capital for investments, including new businesses under the Family Wealth Fund.
- **Infrastructural Capital:** Comprises Intellectual Capital in brands, products, services etc and extends to the family's Infrastructural Capital in markets, distribution, networks etc.
- **Social Capital:** Include the family's social networks – family, business, community and cross-border networks as well as its philanthropic and corporate social responsibility initiatives.
- **Human Capital:** Family members as business owners and potential business managers, as well as non-family members as business managers and even part business owners.

"It reflects the eco-system of the Tulou – a protective and self-sustaining community – in which products, brands, manufacturing and marketing remain tightly under control."

Here he cites one of the most popular Asian novels, written 600 years ago, The Romance of the Three Kingdoms.

The story – part historical, part legend, and part mythical – romanticises and dramatizes the lives of feudal lords and their retainers, who tried to replace the dwindling Han dynasty or restore it.

While the novel follows hundreds of characters, the focus is mainly on the three power blocs that emerged from the remnants of the Han dynasty, and would eventually form the three states of Cao Wei, Shu Han, and Eastern Wu.

The novel deals with the plots, personal and military battles, intrigues, and struggles of these states to achieve dominance for almost 100 years.

In the chapter *Oath of the Peach Garden* (Tao Yuan San Jie Yi), Liu Bei, Guan Yu, and Zhang Fei joined forces for a common purpose.

Borrowing arrows with straw boats (Cao Chuan Jie Jian) Zhuge Liang utilized Cao Cao's resources to complete his task of getting 100,000 arrows in three days.

Like the story, the four founders of Wen Ken saw the value of borrowing the strengths of others to complete tasks – in this case, inviting partners to bring in much needed cash and also sales expertise.

The modern day version of this strategy was the appointment of Joe Fam and parlaying his expertise and contacts to spearhead a new frontier – international business.

“The shares held in Wen Ken by Generation 2 and Generation 3 reflect the different stages of life that link the key functions in wealth management – control, create, invest and protect.

“Generation 2 are getting older and at the realisation and termination part of their lives. Their key objective would be to protect their wealth – not create, control, invest.

“Generation 3, on the other hand, are at the achievement stage of their lives. They want to build more wealth by creating business opportunities and investing deals.”

Cheong says he set the FISH capitals as his objectives when he played a leadership role in the group.

Which brings us to the rate of return.

“When I speak of RATE, I don't merely mean rate-of-return on capital – which is extremely important but should not be the only return you look for.

“In my language, RATE stands for:

- R for rate of return. In Wen Ken, we adopt a value investing strategy – starting from the structure of the deal, including valuation and financing. Having the right structure and valuation from the outset means a great head start and a potentially higher return.
- A is for alignment of objectives, in which the investment deal must align to our FISH Sustainability Model.
- T is for quality time. We should enjoy the process of investing and monitoring as much as, or more than, the proceeds – money and profits – we derive from these investments.
- E is for the emotional high we get working with the people we work with, the things we do, including the brand and products that we have created. Entrepreneurial emotional capital is difficult to measure, but is very real.”

There are three examples of how Wen Ken achieved the RATE factors.

First, with GlucosCare, a start-up joint venture with Joe Fam. A new product, new brand and new markets, as well as new channels, were created. Financial, infrastructure and human capitals were aligned and achieved.

Second, was the acquisition of Zhen Zhen in which we gained an established, respected brand and a solid market (infrastructure capital), preserved the heritage brand of 80 years (social capital) and retained the Zhen Zhen G2 leader as chairman (human capital) for his knowledge and contacts in the TCM industry.

Third was an investment in an artist – a personal investment by Cheong. A reflection of the diversity of individuals, which is still sacred.

“Not all shareholders and G3 successors in Wen Ken share the same passion and calling in life!”