

Hillhouse Reloads After Building \$60 Billion Asia Juggernaut

By [Michael McDonald](#) and [Lulu Yilun Chen](#)

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- ▶ Asia firm is defying global gloom with a \$13 billion raising
- ▶ Zhang's fortune exceeds some of Wall Street's biggest names



Zhang Lei Photographer: Justin Chin/Bloomberg

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Just before the coronavirus-induced U.S. lockdowns began in March, some of the world's investing elite gathered at an invite-only event in Silicon Valley.

Representatives for super-rich families and endowments crowded into Vina Enoteca, an Italian restaurant right by the Stanford University campus. They were there to hear from [Lei Zhang](#), the charismatic founder of [Hillhouse Capital Management Ltd.](#) and from some of his top investments, including [Zoom Video Communications Inc.](#)'s Eric Yuan.


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In a packed room -- before social distancing became the norm -- Zhang and Yuan discussed how technology can change work-life balance. Neither could have predicted how much Covid-19 would change Zoom, or the world. One attendee said the evening was typical of his interactions with Hillhouse, with the rustic-chic eatery decked out in temporary drapes to maximize privacy: A mix of showmanship and exclusivity.

Less than two decades after Zhang started Hillhouse with \$20 million from Yale University's endowment, the 48-year-old has become an object of fascination to those in finance yet remains an enigma. The firm has mushroomed from a boutique hedge fund into a \$60 billion behemoth that's made prescient bets on stocks, private equity and venture capital.

For Yale, it's among their most profitable investments. David Swensen, chief investment officer for the university's endowment, said Hillhouse has generated \$2.4 billion of gains for the school.

Zhang is worth at least \$5 billion, making him one of the world's richest financiers, according to the [Bloomberg Billionaires Index](#), and the firm is in no mood to retreat amid the pandemic. Hillhouse is seeking to raise as much as \$13 billion from investors, according to people familiar with the matter, so it's ready as the coronavirus-battered economy throws up opportunities. Zhang has also started accepting an increasing number of requests to invest in his hedge fund, the people said, asking not to be identified discussing confidential business.

"I can see why big institutions would be lining up," said Christopher Schelling, former director of private equity at the Texas Municipal Retirement System who recently joined Windmühle Funds. "They're super connected -- there's literally nothing that happens in China that they don't see. And their returns are incredible."

Zhang, through a representative, declined to comment on his net worth and the firm's fund raising plans.

Hillhouse doesn't disclose performance figures but information from the University of Texas's endowment shows that Gaoling had annualized gains of about 20% for the decade through June, net of fees, roughly double the MSCI World Index.

The hedge fund is up this year after having one of its strongest years in 2019, a person familiar with its performance said.

Swensen told Yale University alumni during a 2018 speech that Zhang was the preeminent fund manager in China.

"We took what some people would think is a big risk," Swensen said at the event. "I didn't feel like it was a big risk because I knew this man."



David Swensen
Photographer: Peter Foley/Bloomberg

Zhang, a native of central China's Henan province, arrived at Yale's business school after studying finance at Beijing's Renmin University. At Yale, he got to know Swensen after interning in the investment office, volunteering to translate his 2000 book, 'Pioneering Portfolio Management,' into Chinese.

Eager to return to Asia, Zhang got a job in 2004 representing the New York Stock Exchange in China, putting him in front of emerging tech companies such as Tencent Holdings Ltd. and Baidu Inc. that later became his best early investments. The timing was perfect -- China's economy was taking off and some western institutions were being permitted to invest in the country's publicly traded companies. When Zhang decided to launch an investment firm, Yale bankrolled him.

Zhang named the company after a street in New Haven, Connecticut, near Yale's investment office. His hedge fund Gaoling roughly translates to "high view from the mountain top." He employed a buy-and-hold strategy and built a network among China's emerging tech entrepreneurs as well as with elite backers such as U.S. endowments.

"We don't think about it as investing in Asia," said Andy Golden, chief investment officer at Princeton University's endowment, another early Hillhouse backer. "We think about it as investing in Lei doing what he does -- Lei and his team are brilliant."

One of Hillhouse's first big bets was Tencent -- Zhang believed its QQ instant messaging service was a more significant player in China than many realized. Tencent today is among the world's most valuable companies, an internet and social media giant best known for its ubiquitous WeChat app.

The bet on Tencent provided more than just financial returns. The two firms are so close they've co-invested in at least 20 companies. Tencent's influence can at times outweigh even private equity titans, due to the internet traffic and mobile users it brings to the table.

“It’s a unique thing in China,” said Xia Mingchen, co-head of Asia investments at Hamilton Lane Inc., which manages more than \$66 billion and is a backer of Hillhouse. “Some private equity funds, if they have a very strong relationship with a specific giant, they tend to co-invest, because they know each other very well, they trust each other and can have strategic partnerships.”

Online retailer [JD.com Inc.](#), which was private at the time, was another early big bet. Those investments came to define Hillhouse -- backing emerging consumer technology plays both in public and private markets. The firm’s assets today are about evenly split between private equity and public markets.

Hillhouse has become China’s flagship money manager for many Western institutions but it’s also racked up wins outside of the world’s second-largest economy.

Zhang met with Zoom’s Yuan in Menlo Park, California, before an early funding round in February 2015. Yuan explained the business and his engineering work at another video conferencing site [WebEx](#), according to a person familiar with the talks. Zhang soon made the investment, the person said, and added to its bet after the San Jose-headquartered firm went public last year. The stock has soared as global stay-home orders have fueled the need for its services.

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Eric Yuan *Photographer: Victor J. Blue/Bloomberg*

Other bets that have paid off include snack maker [Bestore Co.](#), a Wuhan-based company that sells cashews to preserved plums and beef jerky. It listed in February with its shares debuting 44% above their issue price.

Hillhouse helped Bestore use big data to determine whether certain neighborhoods had sufficient demand and whether stores were running at full capacity. Another investment -- healthcare platform [WeDoctor](#) -- is expected to be one of Hong Kong’s biggest share sales this year as it [mulls raising](#) as much as \$1 billion.

But not everything has been one way and a pair of high profile investors have pulled their money.

Brown University and Soros Fund Management were early backers who later liquidated: the former after a change in chief investment officer in 2013 and the latter around the same time as it reassessed its Asia strategy, according to people familiar with the matter. Officials for both organizations declined to comment.

For investments that have taken a hit during the virus outbreak, Hillhouse has tried to assist companies shift their strategy. For example, when Meicai, a \$7 billion startup that supplies groceries to restaurants in China, saw business plummet, Hillhouse helped it switch to delivering groceries to individuals stranded at home.

Hillhouse is also navigating Chinese markets scarred by accounting irregularities. One of its investments, Beijing-based TAL Education Group, said earlier this month that an employee wrongly inflated sales, sending the stock down 12% since. Still, the stock has surged more than 80% since the end of 2018.

The spreading coronavirus has hurt some of its investments too. Uber Technologies Inc. has dropped about 33% since its May 2019 IPO, after the pandemic tanked rider demand and after earlier allegations of sexist behavior forced co-founder Travis Kalanick out of the company.

And although China is slowly getting back to work, Covid-19 has blighted the outlook. The nation's economy contracted for the first time in more than 40 years in the first quarter and private equity deals are in limbo with transactions poised to drop this year.

“There's a reason Lei Zhang is regarded as among the sector's best executives,” said Brock Silvers, chief investment officer of Adamas Asset Management Ltd. in Hong Kong. “But not everything of late has gone according to plan. After the current pandemic passes, China's economy is unlikely to recover quickly. Moreover, a further U.S.-China split is at least highly plausible.”

Still, Hillhouse, with its gold-star backers, retains “tremendous access to capital,” and Zhang should be able to pivot off that, Silvers said. The last time Hillhouse raised money in 2018, it was inundated, raising \$10.6 billion.

Of the \$13 billion Hillhouse is seeking this time, almost \$10 billion will be allocated to buyouts, with the rest split between growth equity and venture, one of the people familiar with the matter said.

Zhang's celebrity has flourished in Asia even as he's kept a lower profile outside of China. Long an unknown entity, he's become a frequent speaker at conferences and helped back a movie celebrating philosophy called ‘Paths of the Soul,’ released in 2015.





Yu Kai *Photographer: Qilai Shen/Bloomberg*

A Chinese idiom Zhang likes to reference is that of the peach tree and the plum tree. Both can't speak but their fruit and blossoms are so beautiful that followers will always trample a path beneath them.

Yu Kai, whose artificial intelligence startup Horizon Robotics Inc. got multiple rounds of funding from Hillhouse, said Zhang is always reminding people not to “do things that focus on the short term.”

“He likes to quote a saying from a Ming Dynasty emperor,” Yu said; Secure your food supplies; build your fortress. Do not rush to be king.

– *With assistance by Nico Grant, David Ramli, Pei Yi Mak, and Amanda L Gordon*

(Updates with Meicai investment in 27th paragraph.)

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