The complexities of running a family office in Asia

If you can't hold a pair of chopsticks, then you can't talk to a Chinese businessman," says Cheong Wing Kiat, an executive director of Singapore-based Wen Ken Group, a single-family office which manages the wealth of the Wen Ken Drug Co., a Chinese medicine and health products maker started by four founding families in 1937.

As Asia becomes home to the largest population of high net worth individuals, surpassing North America for the first time in 2011, family offices from the US and western and central Europe have started to develop their presence in the region. Private banking units of financial institutions have also been setting up advisory businesses, targeting wealthy families. However, Asia's varied cultures, languages and religions present challenges for family offices keen to tap into this lucrative industry. As the space become crowded with varied family office types, including those set up by investment banks such as UBS, Citigroup and HSBC, a question often asked is who is gaining favour among Asia's rich families?

Foreign concept

As much of Asia's family wealth has been created in the last few decades, the idea of a family office - an institutionalised and formalised model that is dedicated to the financial, corporate and personal needs of wealthy families — is still a foreign concept to many of the region's high net worth individuals.

"When I first mentioned starting a family office, there were some within the family who thought it would perform administrative functions," Cheong says. "It is only in the last year or so that universities have started courses and that helped to create awareness of family offices."

Another potential stumbling block is language. Part of the wealth in Asia is still controlled by the families' patriarchs or matriarchs. These early migrants were poor, didn't have formal education and spoke very little English. "How do you explain the concept of hedge funds in the Hakka dialect and even the word "Family Office," what is the Chinese equivalent?," asks Cheong, a third-generation member of one of the founding families of Wen Ken, whose father, 85, is still chairman of the board.

"Asia isn't homogenous. Even among the Chinese, we have the China Chinese, the Singapore Chinese and the Malaysian Chinese and we are all different," Cheong adds.

The language barrier would make gaining trust and confidence of older generations and family members even more of a challenge for family offices and wealth managers, in particular for those who are expanding from Europe or the U.S. "Trust requires a lot of relationship building, which takes time, and if you push too hard, you will never get into the inner circle."

Roxanne Davies, MD of Parly Singapore, a unit of the family office of the Spinolas in Italy, says: "In my 25 years of working with families of different cultures, one thing remains the same: you are either in or out of their trust circle. If you are in, your opinion will be valued in multiple areas of concern."

With assets still predominately held by the first and second generations, the heads of most wealthy Asian families remain key decisions makers and they are often keen to stay actively involved in managing their own assets. This is despite the fact that many of Asia's wealthy families are facing a transition period which involves shifting control of the family's wealth to later generations.

Davies adds: “My take would be that if the wealth is relatively new and the family office is new, then, the control is often more with the family patriarch or matriarch, rather than the professional.”

Huge potential

In spite of the challenges, Asia’s potential for growth for family offices is widely regarded as huge. Amid concerns about developments in Europe and a slowdown in the US, companies seeking the next growth phase are turning their attention to Asia, helping to propel the region’s economic growth. Asia’s surging wealth is creating more millionaires and billionaires. Singapore’s millionaire population expanded at the fastest pace last year, rising by almost 33%, according to a Boston Consulting Group report. Private bank Julius Baer forecasts the wealth of the region’s 3.3 million high net worth individuals will triple to nearly $15.81 trn by 2015. According to Citigroup, there are likely to be 1,500 family offices within the next 7 to 10 years, compared with 500 currently.

Geneva-based Parly bought a controlling stake in Singapore-listed British and Malayan Trustee earlier this year to help the company expand in Asia. “We see this as a growth area,” Davies says.

Much of the wealth in Asia was created after World War II and many of the entrepreneurs are now aging. Issues such as wealth preservation and succession planning have become more of a concern, helping to propel the growth of family offices.

“Today, people who have significant wealth are approaching the 50 to 65 age range and the things that keep them awake at night include issues like succession,” says William Chan, Chairman and CEO of Stamford Privee, part of the Stamford Management Group, a multi-family office. “An independent family office would be able to deal with issues such as these.”

Another service that is helping to drive the growth in the region is “consolidated reporting,” according to Chan. “If you are worth say $150m dollars, your worry isn’t really about making the next million, your worry is if I die tomorrow, investigations relating to crimes such as money laundering and Libor manipulation. The big banks’ demise is the boutique firms’ fortune.

“These days it is more about I hand you the money because I trust you not because you are the biggest brand,” Chan says. “Things have changed so dramatically that I think there will be a shakeout that will redefine who the players are in the next five to ten years.”

Strategic advice

Boutique family offices in the region say that big banks are too keen to sell their own products to clients. An independent family office would typically charge a flat fee for managing the wealth of a family. However, the pay of an executive at a global bank is linked to the number of new clients and the products that he has sold, explains Chan. “The interest of the bank isn’t exactly aligned with that of the families.”

Davies adds: “Families need strategic advice that is not biased, not tied to selling asset management or other products.”

One of the advantages of boutique offices is that they are closer to their clients and are better able to come up with personalised service, which may include family governance and even education ranging from wealth management to wine appreciation.

According to Davies, the family office of a single first generation wealth family may sometimes act as a private office, which deals with personal and household matters and includes concierge-like services. However for more established family offices, it might be "too expensive to get investment professionals to make theatre reservations."

Cheong says too many family offices are focused on wealth management and very few discuss the needs of the family and the family business. "A more holistic approach would be to look into three perspectives — family, business and wealth management and in that order."

"If the family business is having problem or if there isn't any family harmony, it would be difficult for the family to focus on investment returns." Cheong adds the lack of, specialist advisors with a breath of knowledge, so-called T-shaped professionals in the industry also poses a challenge to newly established family offices in Asia.

Finding synergies

Amid current volatile market conditions, Asian wealthy families are treading cautiously. "There are so many potholes and the road ahead isn't clear, it is better to take a step at a time," says Cheong, adding that families should stay focused on their business. "You are an insider in the family business. You know it best and isn't that the safest place to be."

"In the markets, prudence through thoughtful risk management is advised; keep your strategy as simple as you need in order to understand it and focus on value," Davies says. "In today's world, over a 3 to 5 year time horizon and ZIRP (zero interest rate policy) or generally low interest rates, we are happy if the portfolio generated an annual compounded return of 6% to 8%."

"Our asset allocation is based on our global macro view, which has tended to be on the bleaker side since well before 2008, so, there had been larger portions of liquidity and gold," she adds. "Post 2008, we have also engaged in more direct equity investments."

Cheong at Wen Ken Group says the company's assets are currently divided in the proportion of about 60% family business and 20% each of private equity and properties. The company aims to adjust its portfolio to an allocation of 20% each of family business, private equities, listed stocks, properties (including REITS) and other alternative assets. Cheong believes in value creation and the company aims to seek investments that hold synergies with the family business.

Generally, the goal of most investment managers and family offices is to generate returns that at least exceed inflation plus office charges. Family offices typically structure wealth plans based on the values and objectives of the families, taking into consideration their risk profile, income capital, family distributions and time horizons. Davies says: "Today, the family can choose to keep as much or as little control of those structures they want to - depending on the tax jurisdiction, some structures are better than others."

By and large, tax advisory does form a major part of the work a family office as families' wealth spread across different countries and asset classes. "Tax planning is very important; it is sort of a rate of return for savings," Cheong says. Despite the growing wealth of Asian families, their risk appetite is rather conservative.

"When you have a company that has so many family members, for most of the time you can't take high risks," Cheong says. "It can get a bit complex especially for a family business that is already in the third generation and which involves four families."

As Asia's wealth transitions, the region's rising generations, who are more business savvy than their predecessors – either through their educational or professional background – are more receptive towards the establishment of formal offices to help manage the family assets. This will help underpin growth in the industry.

While the big banks are able to take advantage of their global infrastructure to cater to Asia's richest families, boutique-sized family offices are more adept at creating long-term family relationships and tailor solutions to meet needs on a personal level.

The smaller nimbler competitors clearly think that they are better at the game than the global investment banks.

Chan says: "If you are a family and you look at the way that the financial institutions are handling themselves you should be asking yourself – are they going to be able handle my wealth? Can I trust them?"

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