

Keeping it all in the family

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IF YOUR family has at least US\$10-20 million in assets, you could well benefit from the services of a multi-family office. Here's an idea of what you would get: A one-stop independent financial adviser who will give you a consolidated view of all your assets that may sit in multiple bank accounts; conduct due diligence on products and funds; and negotiate with banks and money managers for wholesale fees for products and services.

Carol Pepper, founder of Pepper International, believes that the time is right for such a service to take root in Singapore. New York-based Ms Pepper herself has been advising wealthy families for over 20 years.

Prior to setting up Pepper International in 2001, she was formerly a private banker, and also managed over US\$1 billion in private client assets as a senior relationship manager and portfolio manager at Rockefeller & Co, a multi-family office founded by the Rockefeller family.

Family offices have thrived among the wealthy in Hong Kong for a number of years, but they appear to be relatively uncommon in Singapore. That is set to change. Ms Pepper expects a "huge explosion" of growth over the next two to three years in terms of family office services.

This could take the form of the establishment of multi-family offices, which offers a single platform to enable families to benefit from economies of scale. Wealthier families are also expected to set up dedicated single family offices.

"I'd be very honoured to be part of this... I certainly see keen interest. People have had discussions for the last two to three years, and are very close to pulling the trigger. I plan to spend more of my time here. But I can't speculate on what percentage of



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assets (a Singapore operation) would account for. I think it will be a very significant portion of my business."

She was in Singapore last week to speak with around 60 families, hosted by private equity firm Tembusu Partners. "It's important to customise an offering that makes sense to families. We've been speaking to families to get a good sense of their needs," she says.

Pepper International currently advises on over US\$500 million of client assets. Ms Pepper declines to specify what proportion is Asian. She also offers consulting services to those looking to set up single family offices.

The cost of a single family office will depend on the complexity of services required. Running costs can be in the millions of dollars for dedicated IT and fund management capabilities. This may start to make sense for families whose wealth exceeds US\$100 million.

The annual cost of a multi-family office platform is expected to range between 50 basis points and one per cent of the assets under advisory. Services should be comprehensive, ranging from tax planning, legal and insurance advice to philanthropic and succession planning.

The threshold at which this service begins to make sense could be when wealth exceeds US\$10-20 million, she says, when more complicated structures may be required.

Ms Pepper sources for expertise globally. "I tap lawyers, accountants,



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and specialists all over the world. I don't need them as employees. My job is to help them find the right investments, structure the right holdings, help them to monitor and manage the assets for my clients."

The firm was selected by Barron's as one of the top multi-family offices in the US in 2009. Barrons, which worked with Family Wealth Alliance, said multi-family offices fared well through the recent crisis.

Assets under advisory fell just 9.2 per cent in 2008, against a 34 per cent fall in the Dow Jones Industrial Average. Client attrition was less than 3 per cent.

In discussions with wealthy families here, Ms Pepper says one feature that is novel to them is that of consoli-

dated reporting. Clients are reluctant to disclose all assets to any single bank.

But a consolidated view helps immensely in keeping track of where risks and exposures lie. This enables families to make better decisions.

"Because they never had consolidated reporting, a lot of people have never been able to figure out what kinds of risks they take. They may not realise that four to five of their managers are doing similar strategies."

Multi-family offices are also expected to take on a fiduciary role to serve only clients' interests. Ms Pepper, for instance, says she is remunerated only through clients' fees, and not product commissions.

In Singapore, advisers typically of-

fer a mixed model. A new breed of independent asset managers, serving high net worth clients, charge fees based on assets under management.

But they may also retain underlying product trail fees. The latter comprises the portion of management fees that fund managers pay to their distributors.

A family office should also offer a system of checks and balances to forestall any fraudulent activity. The custody of assets, for instance, should be separate from the investment management.

Assets that are invested in fairly small fund management firms should be held in custody in larger institutions. "With my clients, I don't touch the cash. I'm the adviser; I don't take

discretion. Any wiring of funds between entities or managers (is initiated by) clients directly... One reason to have a family office is to monitor what's going on."

Ms Pepper appears to be well aware that Asian clients tend to trade their investment accounts actively and tap leverage. "What I tend to tell people is that it's fine to use leverage or to trade. But do you need to risk all the assets all the time? If you think long term about creating a family fortune to last generations, it's wise to take some risks off the table."

"Trade with some assets. Instead of 50 to 60 per cent, what about 30 per cent, and putting 30 to 40 per cent into safe assets. It's a question of balance and position sizing."