

There will be a huge wave of generational wealth transfer in Asia over the next five to 10 years, with the fortunes of the first generation transferred to the second and third generations, says Pepper



Preserving family wealth

| BY KELVIN TAN |

According to a Chinese adage, family wealth never lasts more than three generations: Fortunes built by first-generation moguls are often squandered by their second- and third-generation heirs. But the dissipation of wealth could be contained if an ultra-rich family adopts systematic asset preservation strategies with the help of a family office.

"It is true that 80% of wealthy families have nothing left after three generations. But there are 20% whose wealth lasts for many, many years, like the Rockefellers, who are in their seventh generation now," says Carol Pepper, CEO and founder of New York-based multi-family office firm Pepper International, in a recent interview with *Personal Wealth*. "So there are things you can do to make sure that your family will be among the 20% whose wealth will be preserved. This is where family offices come into play." Pepper used to be a senior relationship and portfolio manager at the Rockefellers' family office, managing close to US\$1 billion (\$1.3 billion) in assets.

Essentially, a family office is a dedicated company set up by a wealthy family to oversee its financial, corporate and personal needs while maintaining family cohesion. Typical functions of such set-ups include wealth and asset management, accounting consolidation, tax and legal advice as well as other softer aspects such as philanthropy, estate and succession planning, legacy creation and the maintenance of houses, collectibles, yachts and private planes.

The ultra-rich in Asia are increasingly turning to family offices to ensure that their fortunes last for generations. But what are the complexities and costs of running such an outfit? Two experts give their views.

Among the earliest form of family offices was that of US industrialist John D Rockefeller, who in the late 1800s established a dedicated firm to manage his family's wealth. Large family offices of today even have their own wealth managers, accountants, lawyers and a chief investment officer, who oversees the management of assets.

Despite the many roles played by the family office, the main objective of most family offices is to make sure that vast dynastic wealth is preserved for generations to come, says Denise Kenyon-Rouvinez, head of international family business and philanthropy at private bank RBS Coutts. "Traditionally, when families sold their businesses after amassing a fortune, they would establish a family office to take care of their wealth and to preserve it. That was the origin of a family office," the Geneva-based Kenyon-Rouvinez said when she was in town recently.

At times, a family office could also be tasked with handling highly delicate situations in the family. "If there is a problem, for instance, a kid with a drinking problem or in trouble, the family office will come in and find experts to help to put the kid in rehab if necessary. It is really anything you can think of," reveals Pepper, whose multi-family office firm also pro-

vides security services, including background checks of staff members working for its wealthy clients. One of the riskiest people working for a wealthy family is the nanny, she adds. "You need to do a proper background check on her, as she could be the perfect person to set up the kidnapping of children."

The highly personalised services offered by a family office are what differentiates it from a private bank, which deals mostly with money issues. "A family office has to deal with money and other aspects of wealth, including lifestyle issues," says Pepper, who has more than 25 years' experience in the wealth management industry and currently manages US\$500 million in family assets. She adds that a family office enables the wealthy to have both privacy and total control of their fortunes. "The family can keep things private and confine them to themselves and the few people who work for them."

The Asian model

With tremendous wealth creation in Asia-Pacific, which is home to about three million high-net-worth individuals (HNWIs) whose total wealth is estimated to be worth US\$9.7 trillion, according to the 2010 World Wealth Report, both Pepper and Kenyon-Rouvinez are

seeing a big surge in the creation of family offices in the region.

"I don't have the exact numbers but I can tell you that there is a huge growth in family offices in Asia," says Pepper, who adds that many ultra-rich first-generation Asian entrepreneurs are increasingly open to the idea of having a family office so that their wealth is systematically preserved for the next generations. Many HNWIs in Asia are above the age of 56 and there will be "a huge wave of generational transfer" in the next five to 10 years, with the wealth of the first generation transferred to the second and third generations, she says. "Naturally, they will think about what they are going to do to pass the fortune on."

Unlike many American and European wealthy families, who typically set up family offices to manage the enormous assets accumulated after selling off their businesses, many Asian HNWIs establish family offices while they are still running their corporate empires, observes Kenyon-Rouvinez, who was a former senior associate at the Family Business Consulting Group and has worked with large family businesses around the world. "In Asia, families have their businesses as well as family offices. It is not one or the other; it is simultaneously. That's great, as it enables them to play on both sides — the risky entrepreneurial aspect and the safer wealth preservation part as well," she says.

The head of an Asian family office is usually a person who is trusted by the family, whereas European and American ones are typically run by professionals from the banking or investment industry, observes Kenyon-Rouvinez.



Kenyon-Rouvinez says the multi-family office model, which has been adopted by many European families in a big way, is now being implemented elsewhere



Pepper: It is wise for a family office to hire an investment professional to do the investing part

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Beware demands of ultra-rich clients, says Barclays

| BY WARREN GILES |

The world's richest clients often come with "impossible demands", push margins down and cause internal conflict with investment banking colleagues, says the vice-chairman of Barclays plc's wealth management unit.

People with at least US\$30 million (\$40 million) to invest, known as ultra high-net-worth individuals (HNWIs), insist on paying less for services, Gerard Aquilina of Barclays Wealth tells a conference in Zurich. They also ask for credit to invest in property, which may not generate private banking fees, and demand help with getting children into schools or last-minute concert tickets, he says.

"Beware of the complexities of dealing with ultra high-net-worths," says Aquilina, who until 2006 was CEO for the Americas at HSBC Holdings plc. "Demanding and often unreasonable" requests may create "impossible demands on the organisation", he says.

The ultra-rich saw their wealth rise almost 22% in 2009, faster than other millionaires' 19% returns, according to a June report by Caggenini SA and Merrill Lynch. The report attributed the higher gain to a "more effective reallocation of assets".

While managing the wealth of ultra-rich clients can be "very profitable", not all institutions are successful, says Aquilina. "It's a very complex area, because these are very demanding clients who can be very important for the firm, but if you're going to embark on this adventure, you'd better do it well," he says in an interview. "There are casualties strewn historically across this landscape."

Attracting the very wealthy also presents organisational challenges for private banks as teams in different cities or divisions may target the same clients and be reluctant to share fees or make referrals, says the London-based Aquilina.

"There is endemic failure" of investment and private bankers to speak to one another. The first "disdain private bankers and the latter have an insecurity complex", he says.

Barclays Wealth, which targets individuals with more than £5 million (\$10.4 million) to invest, managed £151.2 billion for clients worldwide at end-2009.

UBS AG, which manages CHF300 billion (\$400.2 billion) on behalf of the ultra-rich, is targeting expansion in that part of its business, says Rene Mottas, CEO of the bank's European wealth management unit. — Bloomberg LP

ez, adding that there could be a difference between what matters most to an Asian family and those in the West.

For some Asian families, having absolute trust in a person who is tasked to manage their enormous wealth is perhaps more important than other aspects such as generating good risk-adjusted returns on investments, which matters more to families in the West, Kenyon-Rouvinez explains. "The flipside of [an Asian family-office model] is that there isn't anyone from the outside world coming in to challenge [the family] in terms of investments [and asking questions such as] whether the money should be diversified more. Families need those challenges from time to time."

Pepper concurs, adding that the person heading an Asian family office, typically a current or previous chief financial officer of the family business or a relative of the family, may not have the necessary skill sets to manage hundreds of millions in assets. "Therefore, it is wise for a family office to hire an investment professional to do the investing part," she says. "The trouble is that in Asia, people are not convinced that they are going to make more money by letting professional managers run their money, and they don't like to pay fees."

To get the best of both worlds, Kenyon-Rouvinez says "having more professionalisation and technical expertise in Asian family offices, while keeping the fantastic relationship they have with the families, would be absolutely perfect".

Although Asians are well-known for taking high risks with their investments, Kenyon-Rouvinez observes that Asian family offices are rather conservative when it comes to investing. Like their Western counterparts, capital preservation seems to be the focus of family offices in the region. Although, there is a lot of gamble involved in business decisions, entrepreneurs are more risk-averse when it comes to their wealth, says the Coutts head of international family business. In Asia, the lucrative and fast-growing businesses of entrepreneurs have created so much fortune that they do not need to venture into very risky investments to creation more wealth, according to Kenyon-Rouvinez.

Using private banks and other service providers

Increasingly, family offices around the world are using the endowment model, which allocates assets across a multitude of asset classes, by tapping on the money management skills of the "best of breed" managers. And private banks do offer family offices products or tailored mandates that are run by some of the world's best investment managers, according to Pepper.

"Private banks are an important equation in family offices. They still provide a lot of the investing and lending products, although family offices do have access to other investments that are not on the banks' platforms," she says, adding that big private banks also offer global custody and trust services as well as corporate finance deals to family offices. "So, it is not the case of family offices versus private banks. It is more like teams working together on behalf of a family."

Pepper's advice to wealthy families is to use a multitude of private banks and leverage on their respective strengths. "Each bank has an area that it is particularly strong at and you want to get the best products and services from each bank. If you have more than one bank, you actually get better services from them as they love to compete with each other."

As she sees it, a family office's role is similar to that of an orchestra conductor, as it knows the big picture, right asset allocation and services for the family. "In addition to the banks, you need tax people, lawyers, private companies and a lot of other service providers," she says. Family offices help families to coordinate with these people and firms, while keeping the privacy, she adds.

Pointers on starting a family office

For the ultra-rich who are planning to set up their family offices, Pepper says it is crucial for them to create a strategic plan for these setups, which should be treated like any other commercial company. She observes that a lot of wealthy families in Asia are simply jumping into setting up a family office without any real plans, objectives or cost considerations, and that could lead to frustrations.

"A couple of years later, they might say 'gee, this guy cost me a lot of money, but what is he really doing for me?' They don't understand the functions of family offices and they don't know how to measure whether a family office is performing or not," says Pepper.

"But if you have a strategic plan and a budget, stating clearly what a family office should do and what it should cost, you will have a way of evaluating how that operation is doing. Then, you will be a lot more satisfied with your family office," she advises. A family office is a private company that will last for generations and "you want to start it off on the right foot".

In terms of the structure of a family office, Pepper says it would be ideal to set up a dedicated "single-family office" to service all the needs of a wealthy family if it has assets of US\$200 million to US\$300 million. In the US, where costs and expenses are higher, she

says a family would need to have assets of at least US\$500 million to enjoy the full benefit of a single-family office because typical annual costs of such an outfit are US\$1 million to US\$2 million, with the main costs comprising employee remuneration, real-estate expenses and information technology systems to keep track of wealth.

Upon the establishment of a single family office, the most important task is to produce a detailed and consolidated report on all the assets and liabilities of the family. "You can't make any good decision until you know how much you have. The first thing to do is to get a full picture of all your assets: how much they are worth and where they are located. You will be surprised at how many rich people I talk to in Asia and all over the world who admit they have no idea where their assets are," says Pepper.

With advances in IT systems, she says family offices should invest in a good IT and reporting system, into which information can be inputted electronically to produce concise consolidated reports for the head of the family. "You don't have to share that information with any banks," she notes.

For Asian families with US\$20 million to US\$100 million in assets, Pepper's recommendation is to go with a third-party multi-family office, which services different families. "If you have less money, you are much better off getting a multi-family office provider as you will get the benefit of cost sharing with other families. And it is very possible to segregate and create privacy between those families so that everybody can feel that the information is secure," says Pepper.

The multi-family office model, which has been adopted by many wealthy European families in a big way, is now starting to be implemented in other parts of the world, observes Kenyon-Rouvinez. Multi-family office companies are "just starting in Asia" and there are "just a few" in the region, says Pepper, who reckons that there will be many more in Asia over the next three to five years.

With the recent financial crisis, even the ultra-rich had lost money and many of them are becoming more cost-conscious in the running of their estates. As such, many rich families are looking for cheaper alternatives to managing their fortunes and are increasingly open to the concept of multi-family offices.

While the specialised investment services, due diligence of products and other wealth-management benefits offered by some multi-family offices are top-notch, Kenyon-Rouvinez says she isn't too sure about the quality of their personalised and "softer" services. "Do

they truly understand what the family's other needs are?" she questions.

For her part, Pepper assures that the unique requirements and services of every wealthy family will be catered to with a personal touch. "Once, I had to deal with a family whose child was mentally ill. We had to find specialists and experts to treat the kid and it all had to be kept private," says Pepper.

All in all, it will be advantageous to hire a good consultant to go through the "strategic business plans" of a family office before setting up one. "Issues discussed could be: Is a single-family office necessary or should you join a multi-family office? The best thing you can do for yourself is to plan upfront before you spend the money," she says. **E**