

# Wealth and the family office

**B**ECOMING wealthy was never a goal in itself for veteran fund manager Stephen Diggle. So when he woke up to his millions in 2008, it prompted soul-searching questions about the changes that wealth might wreak on him and his family. Mr Diggle was co-founder of Artradis, which at its peak was Singapore's largest hedge fund with nearly US\$5 billion in assets, most of which was achieved thanks to canny investments between 2006 and 2008.

Mr Diggle now runs Vulpes Investment Management, investing family money and some third-party assets. He also has his own family office. "Wealth was never really an ambition. It was never something I desperately desired. But the principal reason we wanted to make money at Artradis was that making money was the metric of success for what we do. We were passionate to be successful hedge fund managers, to do the job well. That's why we started it. We thought intensely everyday about how to do things better, how do we not make mistakes.

"The period between August 2007 and December 2008 when we made our investors US\$2.5 billion, it wasn't that we were working out the fees we'd earn, but that we were (investing) better than anyone else. It was a bit like ... you wake up one morning and work out the dividend for the company and you think ... oh, God, what happens now!"

The subject of family office is fascinating, he says. It is something of a hot topic among the wealthy in Asia, yet simply having a family member act as portfolio manager, conducting periodic meetings with family members, does not make a family office. "The reason why the family office phenomenon is endlessly fascinating is that it's where hard financial stuff meets very fuzzy, very personal stuff. A family office by its very nature, it needs a lot of money to exist but it's essentially not a financial construct. It's a personal construct."

Mr Diggle believes that a family office must be run by professionals who should know your family well. They are tasked with seeing to a number of functions such as legal, trust and estate planning which may include intergenerational continuity planning. There are also concierge services, which may include investments of passion such as yachts, and travel arrangements.

The functions, he says, "take a fair bit of time and you ignore it at your peril". "Plenty of people have their heads down. They run a business and are phenomenally successful. They lift their heads and realise they don't know their wives, and their children are deeply unhappy and have no interest in what they're doing. So a bit of planning and thought is a very good idea before you reach that stage."

A family office, says Mr Diggle, is a "holistic custodian of family welfare". "Done properly, (a family office) can help to make wealth an enormous blessing. And you can save a lot of time and

frustration. But it comes with a cost."

He believes that a well-run, "properly staffed" family office can cost as much as US\$1 million. "By the time you factor in legal costs, trustee, staff – that's the level of costs you should expect especially in the first few years when you have to set up your software and legal infrastructure. You need two to three people of reasonable calibre. A well-run office might not have to cost that much; but if that's an unaffordable level of cost, you probably shouldn't be doing it."

There should also be a great degree of trust and openness between the family office and the family itself, and this may be a hurdle among Asian families. "You have to have people genuinely integrated and trusted by the family. A lot of families find that difficult. Here is an outsider who knows a lot and is in a huge position of trust. You don't want him in a position where he can harm the assets, but he does need to know a lot, like a family doctor. And he may move on.

"But there is no point hiring people of high calibre and depriving them of the ability to help you because you haven't given them any information or assets. We see that around the world.

"It's not a family office if it's run by two of your cousins. Then it's just your family... Many families made their money very much by keeping outsiders outside. Letting them in to manage your money and even your legal, matrimonial and banking affairs may be too big a step. That's fine, but don't think you can have a family office without full disclosure."

## Effective giving

Philanthropy is an important area as well. Mr Diggle's family philanthropy has so far focused on health and education. He has also engaged a philanthropy adviser. "One of the things we try to do in every thing, whether philanthropy or estate planning, is to bring the same level of analytical intensity and intellectual honesty that we employ on the investment side. We've spent a lot of time looking at how we can get effective results. Many people think philanthropy is easy – there's a terrible earthquake, you write a cheque to the Red Cross and you've done your bit.

"We don't see it that way at all. We look around Asia and see a lot of well-intentioned philanthropy going horribly to waste. A lot of that is due to poor planning and not deploying the same level of intelligence and business rigour to their philanthropy or estate planning as they do to their business.

"One of the key things we try not to do is to build dependence. If we go and help in something, how do we ensure that we have the impact we want, and that the dependence on us as philanthropists is limited. In poorer countries – such as Nepal and Cambodia – there is more need, and a relatively modest amount of money can have a big impact."

Philanthropy also creates an avenue for one's children to get involved. Mr Diggle has four children between the ages of 7 and 16. "(Philanthropy) demonstrates the positive impact wealth can have on others. Wealth has a level of responsibility and (children) need to see themselves as custodians rather than beneficiaries."

His lifestyle, he says, has not changed much since he became wealthy. "I had a long conversation with my wife. We're happy. We like the way our kids are growing up. We're not going to move, get a bigger car, buy a yacht. We didn't change our lifestyle at all, mainly because we didn't want our kids to notice a huge change.

"What's changed is your ability to change things, and that is the whole purpose for me. I'm not a monk, I live an extremely comfortable life. There was nothing I particularly wanted to buy, a racehorse or a Van Gogh... I never had any of those things and I still don't want them.

"What do I want? I want to run a great business, make some great investments, produce great positive change... What brings me happiness? My family, good health and doing my job well. It's just that now

I have more of my own money and less of my investors'." 

