

Seeking professional help

Interest in family offices among Asians has grown, stemming from a desire to professionalise family structures

BY GENEVIEVE CUA

As wealth in Asia burgeons, more families are said to be contemplating the establishment of a family office, essentially a private office to manage and administer a family's wealth.

Banks contacted by *Wealth* note an increase in interest in family offices among Asian families, borne of a desire to professionalise family structures. While portfolio management is typically a core function of the offices, it is far from the only function. Family offices may also seek to consolidate tax and accounting, and provide a family governance framework.

The Family Office Association, citing research by Wealth X, says there are about 50,000 families worldwide with at least US\$100 million in financial assets. It estimates, however, that there are 3,000 single family offices around the world.

It raises the question – why are there so few family offices? “Part of the reason is lack of awareness and education (on) the benefits of a (family office), fear of potential cost and complexity of set-up and management, challenges in hiring staff and lack of professional guidance,” it says.

The Global Family Office Report 2014 by UBS and Campden Research said that Asia-Pacific family office environment “continues to develop but remains fairly nascent in terms of governance structures, service provider and adviser infrastructure”. It said that the global average assets under management (AUM) of a family office is about US\$890 million. In the Asia-Pacific region, the average AUM is about half at US\$480 million, which represents 58 per cent of total family net worth. In other geographies, assets in the family office represent between 70 and 90 per cent of family wealth.

Eric Landolt, UBS Wealth Management head of family advisory Asia Pacific, said that the report's findings matched his observation – that the family office business in Singapore has “a lot of growth potential”. “On average, Singapore family offices manage 42 per cent of their family net worth and we expect to see this percentage increase as the trend of professionalising family structures continues to grow.”

Credit Suisse formalised its family office services in the region in 2010, in response to interest among ultra high-net-worth clients. “Every year since then we've seen increasing engagement with our client families and annual doubling of ultra high-net-worth clients supported across Asia,” says Bernard Fung, head of the bank's family office services and philanthropy advisory Asia Pacific.

HSBC Private Bank co-head of global pri-

ivate banking (South-east Asia) Sandeep Sharma says the bank has had “increasing” conversations with affluent families interested in setting up family offices. “We have helped many put in place the legal and governance framework... We have also seen more wealthy European families looking to the East for opportunities to expand or relocate their businesses to Asia. As a result, many are approaching us to explore setting up Asian branches of their well-established family offices in Europe.”

A family office will need infrastructure, professional services such as fund management, and office space – all of which incur costs. UBS and Campden's report found that globally the average operating cost of a family office is about 86 basis points. Costs, however, can vary between 50 and 230 basis points annually, depending on the nature of services provided and family complexity. Costs in the Asia-Pacific region are found to be the highest at 93 basis points.

Asia is also the only region where offices allocate over half of total budgets to investment services. But as the family office environment matures, more cost efficiencies are expected.

Wealth threshold

Given all these, what wealth threshold would justify a family office? Credit Suisse's Mr Fung says the typical threshold is between US\$300-500 million. But the threshold may be lower in Asia for three reasons. “First, many Asian families are choosing to allow next generation family members to manage their family's office, thereby internalising costs within the family. Second, because family offices take time to set up, business families are starting ‘smaller’ to allow for risks and systems to be optimised before injecting further significant liquidity.”

A third factor is that as families wake up to the cost of infrastructure and risk management systems, many are prepared to outsource the functions, which can significantly lower the wealth thresholds, he says.

AL Wealth Partners, for one, is benefiting from the trend among family offices to outsource the investment management function. Family offices provide the biggest segment of client growth for the firm, says chief executive Anthonia Hui.

A family office that hires its own in-house investment professionals incurs significant costs, and “often families find it difficult to manage these people's career expectations, resulting in high turnover of investment staff”, she says.

She says the most costly item for family offices is the hiring of a qualified chief investment officer and a team of investment experts. Such costs can run to around US\$2 million a year. “We've seen smaller family offices in Asia attempt to save money by hiring less-qualified people, or attempting to do this function themselves, often with disastrous results.

“We've witnessed a number of cases where investment management is passed on to a young family member who graduated with a prestigious Ivy League MBA and spent a few years at a top-tier investment bank. Invariably the family wealth ended up being managed with an approach they have learnt from an investment bank – taking too much risk and leverage, causing large losses in a crisis.”

Meanwhile, US-based Broadridge expects a growth in its family office client segment. Head of global risk Gordon Russell observes that larger family offices are tapping Broadridge's services in an effort to gain an institutional profile. The firm provides technology driven solutions and data and analytics to the financial industry.

“We have three family office clients in Singapore, large ones running hundreds of millions of dollars, that said ‘we need a more institutional approach to infrastructure’. ‘We need a proper portfolio management system to manage the portfolio and accounting...’

“We've seen that trend among Singapore family offices becoming more institutionalised, driven by the fact that they want to automate as much as possible to reduce operational risk. They want to leverage technology to give family members and managers more transparency over the portfolio... People are looking to provide a level of consolidated reporting, and doing that with Excel spreadsheets no longer seems acceptable.”

Broadridge has around 300 clients globally, of which about 10 per cent are family offices. “Our growth has been in Asia where Asian family offices have decided to be more sophisticated in the way they run their businesses in Hong Kong and Singapore.”

For large family offices, running Broadridge solutions may reduce costs. But for others it may also raise operating costs. “But it's perceived as value as it reduces operational risk... Families reduce the operational risk of manual processes, of people in organisations making mistakes. One of those mistakes could be a single trade or a mis-valuation of assets which can potentially run into tens or hundreds of thousands of dollars.” ■



PHOTO: AL WEALTH PARTNERS

‘Often families find it difficult to manage these people’s (in-house investment professionals) career expectations, resulting in high turnover of investment staff.’

Anthonia Hui, Chief Executive, AL Wealth Partners



PHOTO: CREDIT SUISSE

‘Because family offices take time to set up, business families are starting “smaller” to allow for risks and systems to be optimised before injecting further significant liquidity.’

Bernard Fung, Head of Family Office Services and Philanthropy Advisory Asia Pacific, Credit Suisse