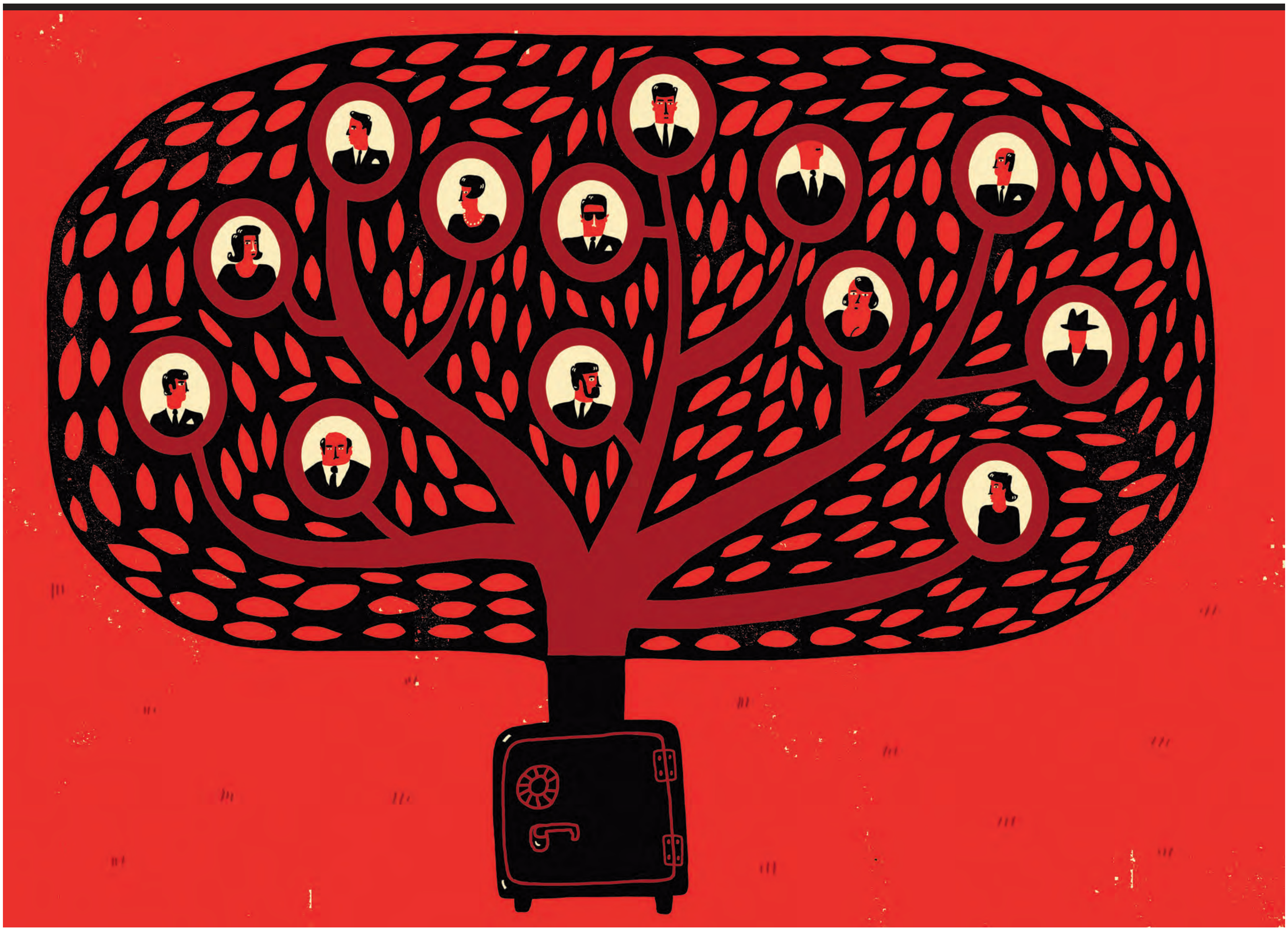
FT SPECIAL REPORT

Family Office

Monday 24 September 2012

www.ft.com/family-office-sept-2012 | twitter.com/ftreports



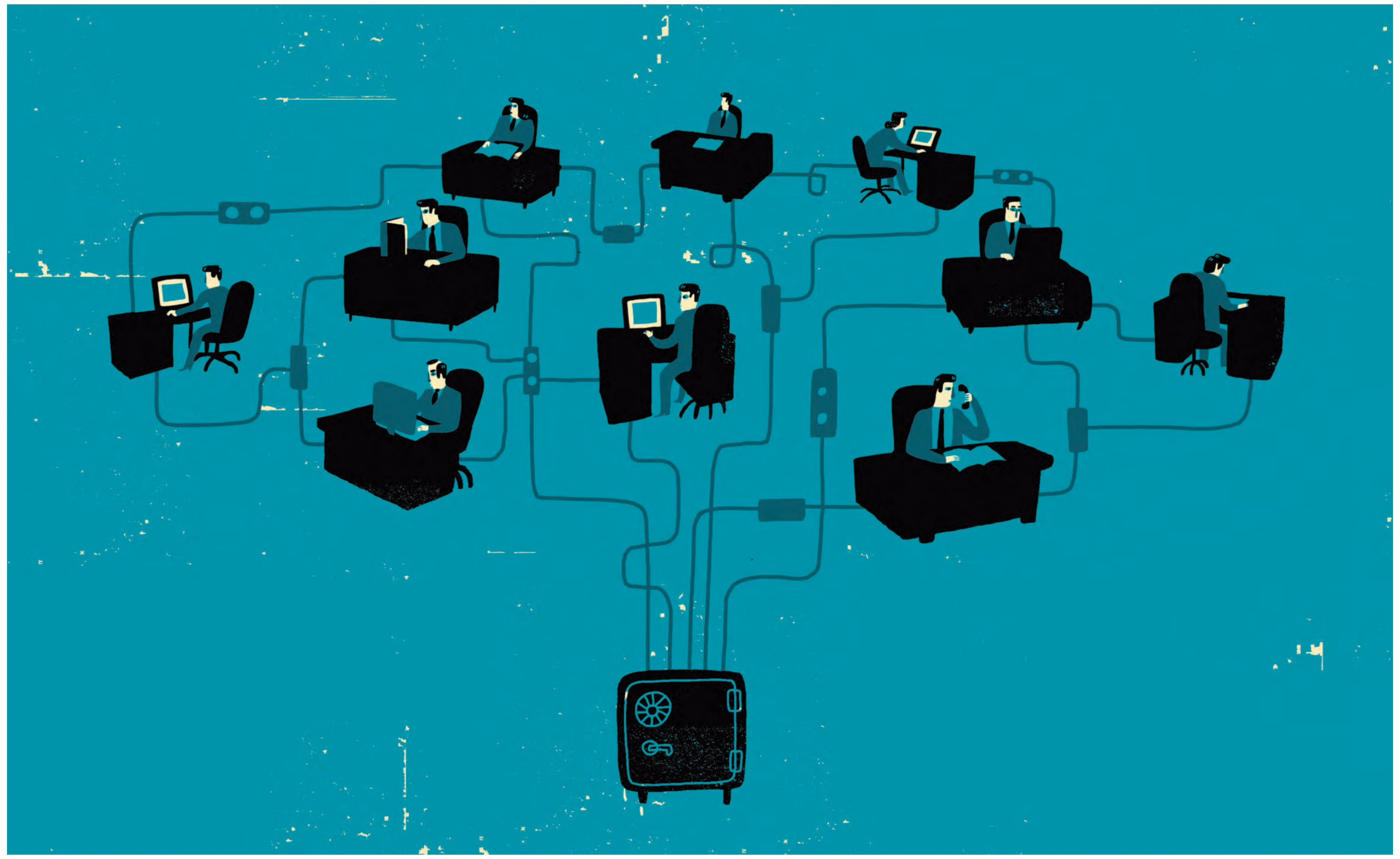
The wealth of generations

How the developing world is driving growth in a sector that extends beyond the purely financial **Page 2-3**

Inside »

On FT.com »

Developing world wealth drives growth in sector



Illustrations: Øivind Hovland

Holistic model Today's service goes well beyond the purely financial, writes *Lucy Warwick-Ching*

Think of the term "family office" and a number of images will enter your mind; oak-panelled rooms, exclusive client lists and imposing offices. But the family office has come a long way since emerging in the US during the 19th century.

Initially set up by wealthy families who wanted their own full-time tax and investment advisers to administer their business and personal finances, today's family offices serve both financial and lifestyle needs, and help to protect a family's fortune for future generations.

While some offices have been turning their attention to intergenerational planning to increase client numbers, others say alternative advice, cross-border planning and transparent investment reporting are key aspects to maintaining market share.

Scorpio Partnership, a private banking consultancy, estimates that there are about 10,000 families with fortunes large enough to warrant the services of a family office in Europe, and a similar number in other regions around the world.

Experts say families with £20m or more often find creating a family office to be a good way to manage their money. But for those with fortunes of £100m or more, a family office is virtually a necessity.

"Family offices can provide a wide range of financial services that would otherwise be delivered by an investment bank," says Cath Tillotson, partner at Scorpio. "Services such as asset management; trust services that ensure the right ownership structure is in place; and corporate finance advice on dealmaking and fundraising."

But they can also go beyond the purely financial to provide succession planning, dispute mediation between the branches or generations of the family, instruction in investment matters for the youngest generation and "concierge services", such as finding schools for children or a home for someone who is relocating.

The emergence of wealthy families in the developing world, often first generational wealth, is driving growth in this sector, says Ms Tillotson.

"Interest among newly-wealthy individuals in emerging markets is growing, and the question is how family offices will cater for that need," she says.

Samy Dwek, head of JPMorgan's Family Office Solutions in Europe, the Middle East and Africa, says his experience of talking to families about single family offices in emerging markets tends to be very focused on structuring, who the family business should hire, what their peers are doing, and then finally how they should manage their financial assets.

"For those in the first generation [of wealth] this is a simpler task as they are the sole decision makers, but in countries such as Mexico and Brazil where some of the wealth is in the second and third generations there is a need to look to experts in family constitutions, family and corporate governance and succession planning," he says.

One reason for the growing demand for family offices is that wealthy families in the developing world are becoming more international, which tends to mean they need more complex planning services.

Bernard Rennell, chief executive, North Asia, HSBC global private banking and global head of private wealth solutions, agrees: "Often their wealth is international, with assets and family members spread across multiple jurisdictions, which creates increasingly complex legal and tax issues when it comes to longer-term planning."

He adds that many wealthy families in these countries are concerned about the future of their businesses: who will take over when they step back or pass away? Is the next generation ready and prepared to lead? How will the siblings interact?

"They often want to ensure that their own entrepreneurial spirit and values survive over the longer term, even when the family becomes accustomed to wealth. And in many cases, they are also keen to engage in some form of philanthropic giving," he notes.

The pace of change is accelerating in developing markets with family offices now the fastest growing segment in wealth management, according to Citi Private Bank.

"There's an enormous, multi-trillion dollar generational transfer of wealth under way – it's an irreversible trend," says Catherine Weir, global head of Citi Private Bank's family office group.

"In places such as Asia, eastern Europe, the Middle East and Latin America, family offices are being rapidly adopted – especially given the maturing of wealth in those markets."

She says many of these new businesses are going through a structural change that happened long ago in developed markets. Family offices fulfil more roles than before for the families they serve, including advice and management of art collections, aircraft and philanthropic endeavours, as well as the traditional core of wealth management, investment management and direct and private equity investments.

"Because family businesses and members are more dispersed than ever, the global family office will remain the model for the future," predicts Ms Weir. "Families may own businesses in Indonesia and Latin America, live in Switzerland and have children at school in England or America, and need to closely manage those interests efficiently and effectively."

In order to meet the needs of these often international clients, private banks need to offer the right level and type of service around the world, adds Ms Weir. "That's why we see more demand for a wider range of services from IPOs and direct investments to trust, investment management and private banking."

Others say that anyone dealing with family offices now has to understand that these individuals want the kind of access and service previously reserved for institutions, but through one portal, where they can also find private-banking-type services. There is a more holistic approach.

Wealthy families – particularly in the UK and US – tend to have a vast array of financial products that were a good idea at the time when they acquired them, but they will have long forgotten the purpose and direction of their investments, tax planning and so on.

Cross-border cash and asset management are increasingly sought by these clients because they and their children are more likely to live and spend time overseas.

"There are plenty of good asset managers, but what family office clients really need are people to work with who are going to make their lives simpler, easier and ultimately cheaper," says Paul Kearney, head of the private investment office at Kleinwort Benson.

"Family office clients are rightly very demanding – they want to see not just a broad skillset, but a robust, cost effective, independent platform that isn't distorted by the need to sell asset management products."

Young Dragons Courses for the scion

Pitching business ideas in the style of the popular *Dragon's Den* programme on UK television is just one of many approaches family offices use to interact with the younger wealthy generation – and teach them the language of finance.

Interaction with sons and daughters of millionaire and billionaire clients has become important to family offices and private banks in the past decade as they grapple with multi-generational wealth transfers. According to research, 30 per cent of wealth made by rich families is passed to the next generation: 9 per cent reaches the third generation.

Alexandra Carr, head of Coutts Wealth Academy, which has just completed its second annual global programme, says: "For centuries, professional advice has focused on the preservation of wealth via tax and estate planning. Yet very rarely have families been advised on transferring their wealth to the next generation."

She says that wealth is often passed on to descendants, then mismanaged or lost because the next generation has not been equipped with the knowledge to manage it.

Many family offices now run week-long summer courses and weekend workshops to educate the scions of clients on wealth management, family legacy planning and entrepreneurship.

"The first step is often to help them understand their finances and equip them to ask more questions," notes Ms Carr.

Fleming Family & Partners (FF&P) runs an annual one-week course over the summer holidays in its London offices.

Around 40 sons and daughters of its clients, typically aged between 20 and 23, learn about a range of finance topics.

The family office looks to encourage the next generation's entrepreneurial flairs. The course includes a *Dragon's Den* exercise, in which attendees, in teams, come up with an entrepreneurial idea to present at the end of the week to the "Dragons" – industry experts and FF&P managers – and to their parents.

Enterprise is also a popular topic with attendees of Coutts' courses. Ms Carr says that many want to start businesses. "Their concern lies in wanting to make a name for themselves, outside that of their parents, and being successful in their own right."

These courses also play a key role in helping to develop networking skills. Citi Private Bank, which runs five-day conferences in New York, London and Asia, has now amassed an alumni group of about 800.

Tanya Powley

How to pass it on safely

Wealth management

Multi-family offices serve those who do not have the funds to run their own, says *David Oakley*

The explosion of wealth in the past few decades has created a new type of service – the multi-family office.

These groups are similar to traditional family offices – private companies that manage the investments and financial affairs for a single family – except that they advise a number of families.

It means that those who are not quite wealthy enough to run their own offices can join forces with other groups to share running costs and spread the expense of managing their financial affairs.

Jon Needham, head of private client fiduciary services at SG Hambros Group, says: "It often makes sense for families to club together, as they may not have enough money to provide the infrastructure to create an office on their own."

Mr Needham says multi-family offices tend to be used by high-net-worth families, with between £15m and £50m in assets. Ultra-high-net-worth families, with assets of more than £50m, have the resources to set up on their own.

Multi-family offices also tend to help prevent families from squandering their wealth as it passes to the next generation. Money is sometimes wasted as a result of squabbles among family members or due to the inexperience of those inheriting wealth in handling and investing newly-acquired money.

Mr Needham cites one situation in which an entire generation had no idea how to deal with its new wealth, because the grandmother had inherited her position as matriarch to the family in her mid-thirties, and had dominated all decision-making until her mid-eighties.

Other family office experts say the way to avoid such problems is to put in place sensible succession planning and governance. This may involve educating families about issues to do with wealth, and holding regular meetings to discuss investment ideas.

However, despite the success of some multi-family offices [MFOs], there is a fierce debate among private bankers and advisers over whether many offer value for money.

Charlie Hoffman, at HSBC Private Bank, says: "Sometimes a multi-family office is just an asset manager or investment boutique. It will look after your investments, but not offer the full range of services that we do at HSBC.

"For example, we will manage the affairs of a family, ranging from sorting out their tax affairs, structuring trusts, planning for succession and family governance, managing their transactions and payments across jurisdiction on a single system, consolidating their assets across providers with direct feeds from other banks and institutions, as well as giving access to our balance sheet for lending. Some multi-family offices do not offer these services."

"As a boutique or MFO, how on earth are you going to select and advise on the best managers from a universe of 27,000 long-only funds and 10,000 hedge funds?" Mr Hoffman says.

Consequently, some private banks have been absorbing multi-family offices or launching their own to attract investors.

> Money can be wasted due to the inexperience of those inheriting wealth

They offer what they call "total wealth management". This often binds the family to the institution and covers family members over several generations.

Mr Hoffman says: "We have done five or six real estate club deals in Washington, New York, Brazil and London over the past few years, where a group of clients clubbed together to buy two exceptional-quality buildings with an exit plan."

He says this transaction demonstrates the ability of a big private bank to "open doors" for its clients. "This syndicate purchase would have been an impossibility for our clients acting individually," Mr Hoffman says.

"We had a $12bn family office situated there, who admitted that they had been looking for similar quality opportunities and failed."

Mr Needham agrees that private banks can offer benefits because of their size, but stresses some multi-family offices are effective and offer families the range of services they need. "It depends on the multi-family office," he says.

Contributors »

Lucy Warwick-Ching, Elaine Moore, Tanya Powley, Dan McCrum, Paul J. Davies, Sharlene Goff, David Oakley, Jonathan Eley

For further details of advertising opportunities, please contact **Robert Grange** on +44 (0) 20 7873 4418, or email: **robert.grange@ft.com**;

All editorial content in this supplement is produced by the FT. Advertisers have no influence over, or prior sight of, the articles or online content.

Family Office

Service needs different model in emerging market

Asia In newly rich countries, money tends to be tied up in operating businesses, writes *Paul J. Davies*


Stanley Ho's complicated family tree led to a protracted court battle over his fortune AFP/Getty

Entrepreneurial Asian families are getting richer faster than those anywhere else in the world. This is obvious when you consider they represent the vanguard of wealth creation in some of the most rapidly growing emerging markets.

What is less obvious is that they are relatively young in business terms, which means these families and their wealth are much more entwined with their companies.

This is why the family office is still a novelty in the region. There are about 100 single family offices in Asia, compared with 2,500 or so worldwide, according to a recent study by UBS and Campden Research*.

Three-quarters of these offices have been set up since 1990, according to the study, and more than 80 per cent of them have significant and extremely valuable holdings in the core family business.

Christian Edelmann, head of the financial services practice in Asia Pacific for Oliver Wyman, says this helps to illustrate why there are fewer family offices in emerging Asia especially.

"Wealth is much more tightly linked with corporate or entrepreneurial activity [in Asia]," he says. "Much more of it is tied up with capital raising, M&A activity and so on, which is why the big investment banks have been successful with wealth management businesses in the region."

This contrasts strongly with Europe and the US where family offices tend to manage much older money that is less connected with the original corporate activity and more focused on achieving decent returns that protect the family wealth for the longer term.

This picture is backed up in a global family office study done by Wharton Business School in 2008**. Asian families had on average 40 per cent of their wealth tied up in an operating business, compared with 28 per cent for Europe and 24 per cent for the Americas. The study found that less than half of an Asian family's wealth was managed through its office in Asia, while families in Europe and the Americas had about two thirds of their wealth managed through offices in their regions.

The UBS/Campden study found that even where European family wealth was still tied to an operating business, clearer lines of demarcation were more noticeable.

But family offices are a growing form of wealth management in Asia. Fabian Salvi of Dragon Capital in Vietnam says his firm is seeing more interest from family offices developing in Asia. "This is an important signal because we are now seeing that in Asia, families are more interested in looking at investments outside China," he says.

Others see growth in the number of family offices in the region, "but there is not the [same] penetration here as in other regions, such as Europe or the US," says Paul Hodes, head of wealth management, Asia Pacific at Citigroup in Singapore.

He says Asian families need less complicated forms of estate planning than those in Europe because they just want to pass on their businesses to the next generation.

"In Europe and the US, people have sold or are more interested in selling their business and passing on wealth, which requires a different approach," he says.

Further, Mr Edelmann says, younger Asian families with only two or three children have less need for sophisticated advice whatever form the wealth takes. "In Europe especially, where there are often multiple generations of a family with children perhaps living in different places around the world, the tax and inheritance advice can be extremely complicated."

Of course, that does not mean things are always simple for families in Asia. The fierce $1.5bn battle between members of the family of Stanley Ho, the Macau casino mogul, which erupted in the Hong Kong courts early last year, shows what can happen with a complicated family tree.

Family offices can prevent disagreements by acting as the forum for family debates and providing transparency and records of transactions, consultants say.

But one thing that could hamper families looking to develop an office is a lack of people to run them. "There is a severe shortage of talent to run money in Asia, which makes it difficult to set up a family office," says Mr Edelmann.

**Growing towards maturity: Family offices in Asia-Pacific come of age [http://www2.business.smu.edu.sg/mwm/documents/The_UBS_Campden_Asian_Family_Office_Survey_2012%5B1%5D.pdf]*

***Single Family Offices: Private Wealth Management in the Family Context [http://wgfa.wharton.upenn.edu/documents/WhartonGFA_SFO_Study.pdf]*

The science of investing for decades to come

Smart money

Safeguarding a fortune for the long term involves both skill and instinct, writes *Dan McCrum*

There has always existed, almost by definition, a class of "smart money". It began with the investors, businessmen and speculators who bought the near-worthless debt of the young US states in 1789, correctly gambling that Alexander Hamilton, the first US Secretary of the Treasury, would make good on the paper.

In more recent times it was the developers who bought New York property in the 1970s, when the population of the crime-ridden city was shrinking, and had the patience to wait decades for times to improve.

Of course, hindsight helps to spot smart decisions, and it is impossible to generalise, as families of the rich are prone to the same mistakes and misplaced optimism as the merely well-off.

Yet a rich family has two big advantages when it comes to deciding on the best places to stash its money for the great-grandchildren: time and capital.

For instance, one idea often floated in family-office circles is buying up cheap banks of land that might be valuable in 20 to 30 years' time, based on the impact of big long-term trends.

The challenge for families wanting to invest for decades rather than years is that investment products do not exist to do so – or rather, no asset manager or private banker is going to wait until 2052 to be paid.

"You are not going to get any fund to invest on a 10- to 15-year time horizon," says Stephen Fern, head of the G9 Family Office Network. "Is there a mechanism to reward people today, when the effect of those decisions is 10 years down the road?"

Plenty of mechanisms exist to reward asset managers up front, or when times are good. But the recent failure of high-fee vehicles such as hedge funds is leading many family offices to reconsider.

The alternative then is to "do it yourself". Jack Ablin, chief investment officer of the Harris Private Bank, says there are a number of family offices who think in terms of 60- to 100- year timeframes. "Instead of investing in partnerships, they can invest in the underlying assets," he says.

Such families like to buy land or timber holdings as well as whole companies. "Commonly these families have made their fortunes owning private businesses and intend to continue doing so," he says.

When it comes to reacting to the recent past, in which markets lurched from crisis to hope and back, most families appear to have no special insight. "Between 2008 and 2011 there was lots of dialogue, but not much of families actually doing much," says Mr Fern.

This reflects the fact that in most families, few people are interested in the details of investing, and they are at heart conservative.

"Great wealth is preserved in a portfolio of stocks, bonds and real estate, and in direct investments in good companies," says Charles Lowenhaupt, head of Lowenhaupt Global Advisors.

So, as with any class of investors, there are long-established and experienced sages who can weather a crisis and wait for better times. Many of these are now looking to Europe, and securing investments in real businesses that are robust enough to survive a prolonged dislocation.

FINANCIAL TIMES MONDAY SEPTEMBER 24 2012

Showing the way: Bill Gates and Warren Buffett have pledged to devote the majority of their wealth to philanthropy Bloomberg

The new breed of rich sees giving as a priority

Philanthropy Younger wealthy people want an active role in putting money where it can do the most good, writes *Lucy Warwick-Ching*

Family offices are improving their services to cater to a new generation of individuals seeking more than traditional banking and wealth management.

Services on offer from a number of these large family offices now include philanthropy and advice on collectables such as art, wine and cars, as well as more traditional services such as tax planning and asset management.

"Clients are increasingly demanding much more from their family office than simple asset management," says Paul Kearney, head of Kleinwort Benson's private investment office.

Experts say the range of services on offer from family offices is what sets them apart from simple financial planning or wealth management advice. But even within this area the scope of what is on offer will vary widely.

At one end of the scale, an office could consist of one or two professionals liaising with fund managers and preparing periodic investment reports. At the other end it could involve a large team of professionals hired to do anything from advising on and facilitating investment strategies, asset allocation, trust and succession planning – including tax and philanthropy – to managing aircraft, art collections and purchasing property.

A fast-growing area within the family office offering is philanthropy. The inevitable demographic shift in the emerging markets – the fastest growing client base for family offices – towards younger wealthy individuals who have either been educated in the west or been exposed to western approaches towards charitable giving, has given birth to a new generation of philanthropists.

These individuals are not just keen on giving money away but also on playing a more active role in formulating strategic philanthropy initiatives that place more emphasis on achieving innovation, efficiency and sustainability, in the hope of creating long-term value for the society.

"Philanthropy is becoming a big part of wealth planning," says Russell Prior, head of philanthropy at HSBC Private Bank. "There are only three ways to dispose of wealth – spend it, pass it on, or give it away. The first too are well serviced by the industry but philanthropy is one area where people are beginning to pay more attention to it."

Once a family or business owner has monetised their company or assets, the philanthropic will turn their attention to how they can do the most good with a portion of their wealth, says Charlie Hoffman, managing director at HSBC Private Bank.

> 'There are only three ways to dispose of wealth – spend it, pass it on, or give it away'

"Generally their philanthropic aims will be directed toward where their interests lie or their past experience has taken them through family trauma, travel or where they have been touched in their lives," he says. "Many clients become far more animated by, and interested in their charitable aims, rather than in their general investment portfolios."

He says charity will be part of the client's defining legacy. "It is our job to provide them with the very best advice as to how to structure their charitable foundations and create the income and capital flows for distribution to do the greatest philanthropic good possible."

HSBC Private Bank has a philanthropy team that provides advice on all aspects of a client's charitable aims and is akin to a business plan in terms of refining the client's aims and then making sure these are implemented in the best way possible.

The Philanthropy Centre at JPMorgan Private Bank works with individual and family philanthropists at all stages of the giving process.

"We will work with philanthropists on an ongoing basis, creating networks of wealthy individuals with shared interests and passions and enabling donors to share best practices," says Rebecca Eastmond, head of philanthropic services Europe, the Middle East and Africa at JPMorgan Private Bank.

How managing expectations poses problems

Equities

Opinions are divided on the best way to insure the future of investments, says *Jonathan Eley*

Insurance is most expensive when everyone needs it – especially when just about every investor is holding bonds and cash as insurance against the small, but real, risk of further serious distress in the world's financial system.

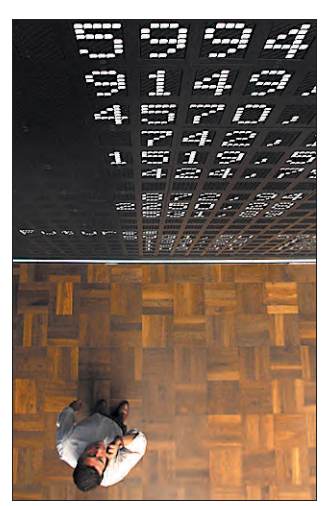
The counterpoint of rising prices is diminishing returns, and for the stewards of family wealth the low returns available on cash – and even the most liquid government bonds – have been a big headache in the past few years.

"Both cash and gilts are offering little in the way of yield, and providing negative real returns at current inflation levels," says Darryn Lake, head of discretionary management at JLT Investment Management.

"Not only are yields low, but in many cases you face a capital loss on redemption," adds Willem Sels, UK head of investment strategy at HSBC. "It's a big problem as bonds and cash are significant asset classes for wealth preservation."

Alexander Godwin, global head of asset allocation at Citi Private Bank, says: "Within fixed income, investors should concentrate on investment-grade corporate bonds, which continue to benefit from resilient cash flows and good balance sheets."

Floating-rate debt is another option, notes Mr Sels. With coupons tied to interbank rates, they offer better protection against inflation than conventional bonds or expensive index-linked issues, although their yields will start to pick up only when interbank rates rise.



European shares offer value

Views on equities are more polarised. "For the first time since the financial crisis in 2008, corporate profit growth has stalled in every major region, and we do not expect this to reverse any time soon," said Citi's Mr Godwin. "We believe investors should be underweight equities."

But for JLT's Mr Lake, selected equities offer value. "Using equity funds that provide an income, wherever appropriate and possible, will help to ride the storm."

However, Iveagh, which manages the Guinness family fortune, thinks European shares offer value for the longer view. "European equities are the standout value opportunity in equity markets," says Chris Wyllie, the firm's chief investment officer. "You have to have a certain independence of thought and a willingness to swim against the rest," he said.

Managing family wealth, with its long timescales, allows family offices to consider asset classes a conventional asset manager, conscious of the need for liquidity, might reject. An example is private equity.

At HSBC, Mr Sels is attracted mainly to "secondary" private equity – investments owned by banks and insurance companies. "In many cases they need to boost their capital ratios ahead of Basel III."

Hedge funds are also attracting attention, after a difficult period.

"Hedge funds have had a hard time in policy-driven markets," says HSBC's Sels. "If policy becomes less important, hedge funds could do well. And they remain largely uncorrelated to other asset classes."

One thing does not change, though: wealthy families are demanding clients.

"Managing expectations is always difficult," says Mr Sels, but adds that the longer the financial crisis goes on, the easier communication becomes.

"At first it was hard to get people to understand. Now the crisis has dragged on and government [bond] yields are so low, it's more accepted."


The brightest investment firms.
All in one place.
At BNY Mellon, we know there's more than one way to think about investing. That's why we bring you some of the best investment companies from around the world. Each one shines in its chosen field. Each one is free to think and invest in its own way. This gives you clear, independent thinking from some of the world's sharpest investment minds. We call it powering investment success. And it comes together at BNY Mellon.
The value of shares and income from them is not guaranteed and can fall as well as rise due to stock market and currency movements. When you sell your investment you may get back less than you originally invested.
NEWTON The Power of Ideas
Insight INVESTMENT
STANDISH
Walter Scott Global Investment Management
BNY MELLON ARX
Jo Kitcat +44 (0)20 7163 2413
jo.kitcat@bnymellon.com
www.bnymellonam.com/fig
BNY MELLON