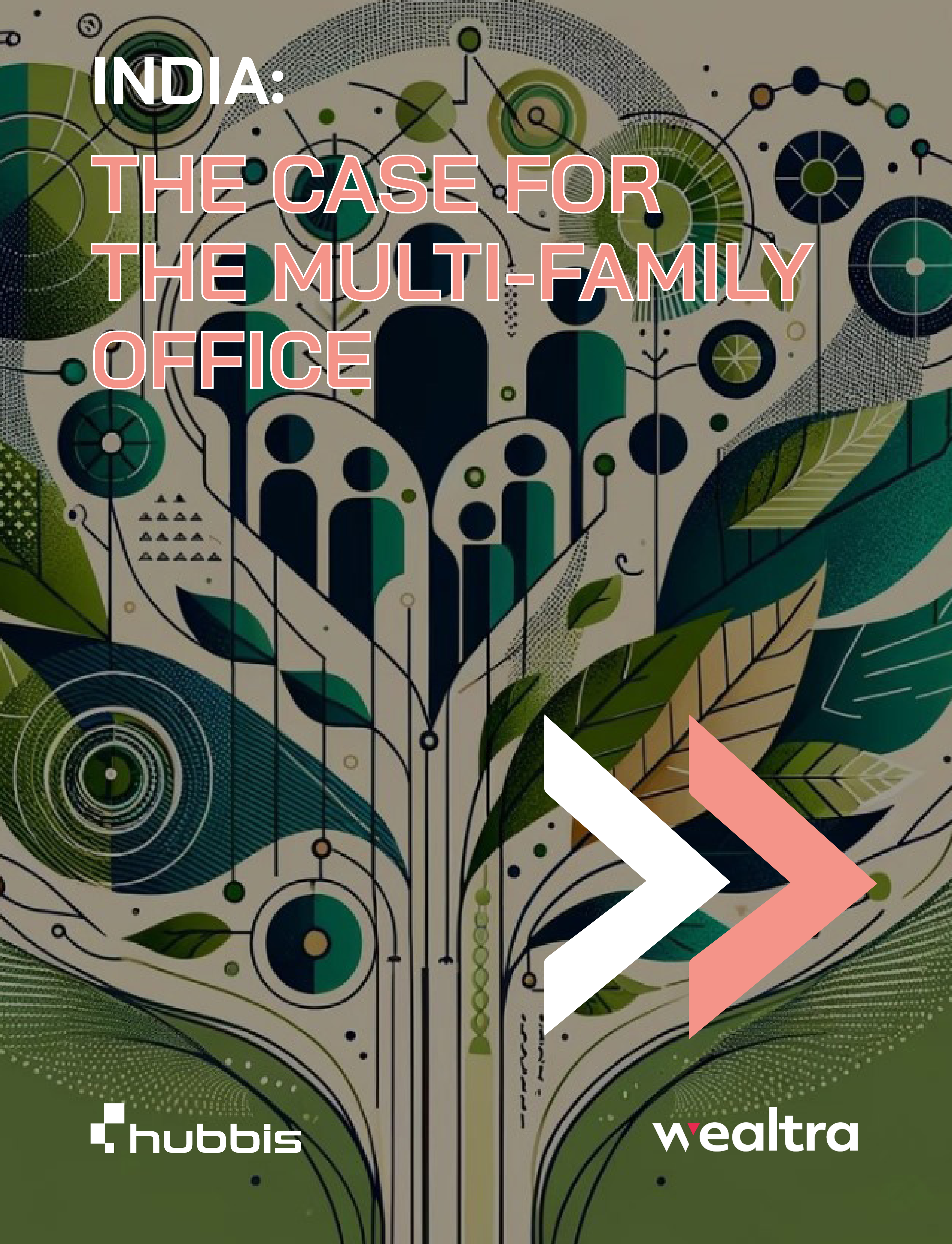
INDIA:
THE CASE FOR THE MULTI-FAMILY OFFICE



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INTRODUCTION

As the wealth management industry in India sees very strong growth, a common trait emerges that reflects a familiar issue with UHNW and HNW families elsewhere, whose wealth has been first generation driven, and finds its origins in their operating businesses.

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For this first generation of wealth builders, their focus has been on developing their operating businesses, and as such key advisors have evolved within the business and are normally found in the Chief Financial Officers or other key executives, who are the guardians of the numbers and the defenders of the potentially taxable revenue. These advisors have proven themselves in assisting the promoters in building their wealth and have significant influence over the promoters' decision making and the management of their broader wealth.

The Genesis of these platforms is therefore fundamentally that of a Single-Family Office (SFO) built around the core family business. This is fine during the wealth building phase that involves the operating business, but as the business spins off liquidity, this liquidity needs to be managed effectively, whilst the growing wealth of the promoter creates other pressing issues such as the question of monetising some (or all) of the wealth, and considerations on how to manage the diversifying asset classes that represent the family wealth, and how to maintain and transfer the wealth to the next generation.

The temptation to try to continue to run things in-house is something that many highly driven, and successful entrepreneurs are intent on doing, but this is typically a mistake, and if managed correctly, significant upside can be achieved by attaching external professionals with supplementary skillsets to support the management of this wealth.

This is where a fee based Multi-Family Office (MFO), with a transparent approach to business, can add significant value, whilst often the cost is offset by the cost savings achieved. To this end, the following is a brief summary of some of the benefits that can arise for these first generation SFO's to look at outsourcing some of their work to a professional wealth management firm like a MFO.

Business Model

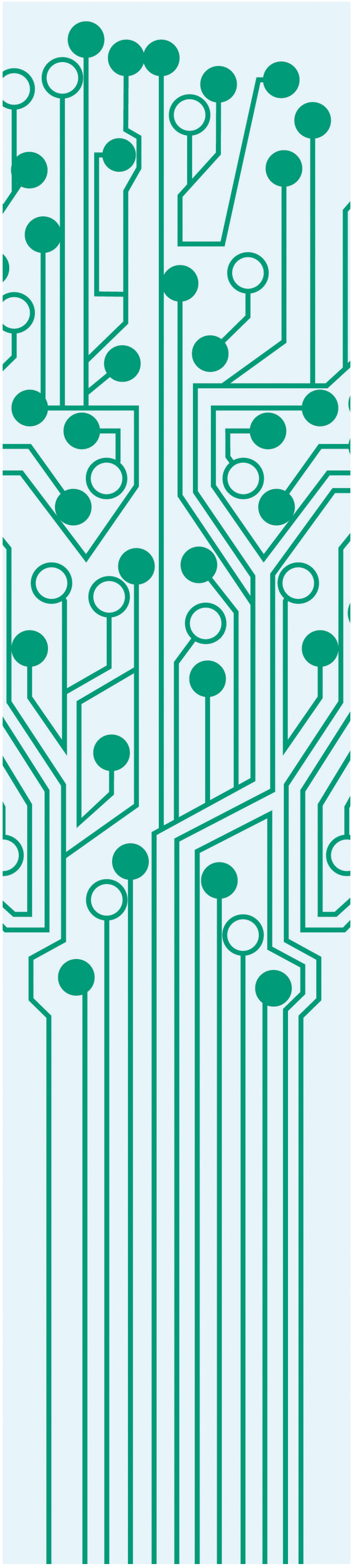
The key requisite of a MFO, is that the MFO is only remunerated through a transparent fee paid by the client. This ensures that there is no conflict of interest in the relationship, and the MFO is completely aligned with its client and its clients' objectives. This is probably the most important starting point to the relationship.

Market Intelligence

With a fee model, the client is in effect paying the poacher, how to beat the gamekeeper. The senior executives of MFOs and senior client facing staff are invariably industry professionals who "know how the system works". They are therefore in a position to provide the client with very valuable and impartial advice on how to engage with financial markets, asset managers and custodians, ensuring that all parties who engage with the client are aware that they are under professional scrutiny from experienced advisors.

Chief Investment Officer

The MFO, provides significant economies of scale in engaging experienced personnel to support the client's investment process. With a multi-banking approach, there needs to be at least one set of eyes which sees the big picture and ensures that the



entire portfolio base reflects the client's investment objectives and risk tolerances. This does not necessarily mean that the CIO is actively managing underlying baskets of the portfolio, but it does ensure that there is a professional approach to the Strategic and Tactical Asset Allocation process, the selection and engagement of the underlying asset class managers and the choice of product utilised.

Product Selection

A properly diversified portfolio typically requires a combination of asset classes to meet the client's objectives. This process, driven by a CIO, is in itself a complex process, nevertheless it becomes even more complex when examining the best way to execute and the correct selection of product to achieve the objectives. There are a myriad of issues to deal with, including product type, liquidity of the product, cost of the product, share classes, spreads, active vs. passive approach, foreign exchange, private markets access including co-investment opportunities and so on.

Furthermore, the promoter may also need investment banking and capital markets services to for example, raise liquidity through either debt or equity offerings and as such an experienced, impartial supporter in this process can often be found in the MFO.

Correct product selection is a vital process in managing the liquid wealth of these clients, and it is a major source of value add that an MFO can provide, enabling the client to have alongside them a professional who understands the opportunities and short comings of product that is available, and can steer the client to the optimum solution. Indeed, when combining the benefits of both the custody and execution ability with correct product selection, a significant reduction in costs can often be achieved for most clients.

Custody and Execution

MFO's will typically have relationships with several custodian and execution partners. This can provide significant efficiency and cost savings to the client based on the following:

- The MFO will typically engage with the external asset manager desk of the custodian (who might for example be a private bank). This desk is designed to focus on custody and execution (as opposed to for example engaging directly with a relationship manager) and is therefore expected to be offering wholesale or quasi-institutional pricing and services.
- The MFO will have multiple clients utilising their preferred custodians. This means that the custodian will view the client through the lens of the MFO, and as a result the pricing offered will reflect significantly greater assets than just the assets of the one client.
- The MFO will be able to negotiate pricing which best reflects the client's actual investment style and requirements. For example, an active client making multiple trades might best be suited to a higher custody/wrap fee with a low transaction fee, whilst a client who invests passively and makes limited rebalancing trades might be better served

with a low custody fee with a higher transaction fee.

Account Aggregation, Reporting and Analytics

A significant issue for UHNW and HNW families is the accurate monitoring and reporting on their portfolios, particularly as the issue is exacerbated by the characteristic of multi-banking. The MFO plays a very important part in solving this issue, by having the necessary team and software in place, to efficiently collect the data from multiple sources, and present it in a format that enables effective analysis and diagnostics which helps considerably in the asset management, risk management and cost management process.

Furthermore, utilising tailor-made software provides huge benefits in educating family members as to the investment process, and portfolio construction and management. There is nothing worse than looking at an Excel spreadsheet to try to understand what is going on with a portfolio.

Estate and Succession Planning

With the more transparent and unconflicted nature of the MFO relationship with their clients, combined with a higher degree of holistic oversight, there is a natural tendency for them to be drawn into the question of estate and succession planning solutions for their clients. To this end, some MFO's will specifically engage inhouse professionals who can guide the client to appropriate solutions, often engaging external professionals to support them in this process. Others, whilst not having inhouse specialists, will have engaged relationship managers who are experienced in guiding or working with a client's external advisors who are dealing with these issues, so there is the opportunity for the new client to leverage off this knowledge and skillset.

It is always vital to co-ordinate the estate and succession plan with the managers of the various assets of the family, whether it be the MFO as overseer of the investable assets portfolio management or the chief executive of the family business or indeed trusted CFO. The solution to this might be found in the MFO, and even if not, experienced views and support can be obtained to aid in the client's decision-making process. ■

SUMMARY

In India, a growing number of traditional first-generation wealthy families are reaching an inflection point when it comes to the management of their wealth. Many are now scaling up and looking for solutions amongst the wealth management landscape to manage their broader wealth and provide a professionalised and holistic platform for the next generation.

For the wealth management industry in India this represents significant opportunities, the challenge however is to provide a holistic, solutions driven platform which is aligned with the client's interest. This presents significant opportunities to a number of verticals in the wealth management industry who are able to deliver this, but is particularly suited to the Multi-Family Office platform that operates on a transparent fee basis with their clients.