THE EVOLUTION OF FAMILY OFFICES IN ASIA

Views from Asia's Wealth Management Community

2019

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Foreword

The family office is thriving across the globe, and nowhere more so than in the Asia Pacific region, where private wealth is expanding at such a remarkable pace. There are numerous drivers behind this institutionalisation and professionalisation of the management of the private wealth of Asia's high net worth (HNW) and ultra-wealthy families. These include the immense proliferation of global regulations, as well as the associated tax revenue maximisation and information sharing and cooperation between national governments and their authorities, and of course the tighter supervision of the financial advisory community and their clients.

Media disclosures such as the infamous Panama and Paradise Papers revelations have also put the entire ultra-HNW and wealth management community on notice to work within well-regulated, well-reputed structures within well-regarded jurisdictions. There is also the well-documented ageing of the founder generations of many of Asia's business dynasties, and even of the second generations of Asia's uber-wealthy, making the formalisation of legacy planning and inter-generational wealth transfer ever more crucial. The disciplines associated with this legacy planning are well-served and easily honed within the auspices of the family office. Moreover, the younger generations, many of whom are inheriting this vast wealth, and some of whom are making the enormous new wealth of tomorrow, are generally Western-educated and evidently prefer a more professional structured approach to family wealth, often desiring to focus on either their new businesses, their lifestyles, or even social impact pursuits.

As Asia's super-wealthy families increasingly gravitate towards either single-family offices (SFO), or independent, external multi-family offices (MFOs), and as the private bank and wealth management firms offer more in-house family office services, Jersey Finance has paused to take reflections from the Asian wealth management community on the evolution, indeed virtually the revolution taking place.

Jersey Finance has again worked with Hubbis to complete this white paper that we hope succinctly reflects both the state of the market's evolution and some fascinating views and insights on the motivations, the challenges and the solutions to creating and managing a family office in today's environment. The findings resoundingly reconfirm to Jersey Finance that as an International Financial Centre (IFC) that has a long history, great expertise and an outstanding reputation, we are ideally placed to work with the wealth management community of Asia and the growing ranks of family offices.

This is not supposed to be a guide or even a definitive statement on how to create, staff or manage a family office. It is designed rather as a barometer to gauge the state of the market's evolution and highlight some, in fact, we hope most, of the key fundamentals and criteria driving the market's development in Asia Pacific, from the perspective of wealth management market experts.

I would like to take this opportunity to thank Hubbis, as well as all of those professionals and clients we work with in the region, and the many experts who willingly offered their time and insights to the survey that supports this timely white paper.

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Executive Summary

Both the concept and practice of creating family offices to manage the wealth of ultra-high-net-worth (UHNW) families around the globe are increasing dramatically, and Asia is at the forefront of this rapid growth.

The rising interest and activity in the family office space are creating great dynamism in this segment of wealth management, causing all sorts of advisors and investment solutions providers to reposition their businesses and their range of services to cater to what is a remarkable rise in the number and the scale of family offices.

Indeed, so significant are the changes taking place in the way in which the world's super-wealthy families approach their wealth management and structuring, and of course the longevity of their family dynasties, that the family office space has moved centre-stage in the global wealth management industry.

There are clearly far-reaching choices to be made by these families, and the greater their wealth, the easier the decision as to the type of family office preferred. For those UHNW families holding financial asset wealth of at least USD100 million, the directly controlled SFO is often the preferred route, and even more so if their assets go into the hundreds of millions of dollars.

For the smaller UHNW families - perhaps with financial assets of USD20 million to USD100 million, and sometimes beyond, they are increasingly choosing to allocate their assets to the growing ranks of professional MFO operators.

Whether the SFO or the MFO route is taken, the objectives are similar - namely greater control and professionalisation of family wealth, much-enhanced coordination and communication amongst family members, and the ability to more effectively manage estate transition amongst the generations, and preserve wealth within the family unit, rather than risk what can often be a gradual dispersion, possibly erosion, of that wealth.

According to data released in late July this year by Campden Research in association with UBS in their Global Family Office Report 2019, the total estimated assets under management of family offices stands at USD5.9 trillion globally, while the wealth of the families behind them totals a truly vast USD9.4 trillion.

The research estimated that there are 7,300 single-family offices worldwide, up a remarkable 38% from 2017. While 42% are in North America and 32% are located in Europe, Asia Pacific is catching up fast and now has an estimated 1300 such family offices, according to Campden, up an impressive 44% since 2017.

The report highlights how the surge in family offices came largely after 2000, with Campden noting that 68% of the 360 family offices it surveyed were founded since that date. Campden also highlighted how the SFOs and MFOs involved in their research manage wealth generally in the hundreds of millions of dollars and usually well over USD1 billion for the SFOs, resulting in an average amongst the 360 family offices surveyed of around USD916 million each.

Asia is already the world's top region for billionaires. The 2019 Wealth Report released by London-based real estate agency and consultancy Knight Frank reported that the region's estimated 787 billionaires was far in excess of the 452 in Europe and 631 in North America. And the report predicted that this number would very probably balloon to above 1,000 in the next five years out of a worldwide billionaire population Knight Frank expects to reach 2,696 within that time frame.

Within Asia, a large proportion of these billionaires are still in the first generation, meaning that Asia is at the crest of a significant wave of intergenerational wealth transfer, representing literally trillions of dollars. As that vast wealth moves to

the younger generations, and as new wealth is created, the combined effect will no doubt spur a further rapid increase in demand for SFOs and MFOs.

The clear message that is coming out of our survey and the evidence from the rapid expansion of, and interest in, family offices across Asia Pacific is that UHNW families are indeed intent on institutionalising and professionalising their wealth, and increasingly so, year by year.

The big trend, therefore, is moving from an all-too-often unstructured approach to the management of family wealth, and often poorly conceived estate planning, towards a far more structured and planned methodology. The formalisation and professionalisation of all aspects of a UHNW family's wealth is indeed increasingly another luxury that these families want and certainly can afford.

So dramatic is the evolution of interest and activity in this sphere of activity that it might almost be called a revolution, so significant are the changes taking place in the way in which the world's super-wealthy families approach their wealth and the longevity of their family dynasties.

Our survey and our associated research mined down into the wide variety of views that together provide some interesting nuances to the perception of the family office, and the rationale for its rapid expansion across this region.

The family office structure is customised to manage the investments of the family business and financial assets, and to provide holistic advisory services to members of the family with the primary objectives of growing, preserving and transferring the financial, human and social capital of the family.

A family office will tend to not only manage the financial and administrative sides of a family's investible wealth, but also the key elements that support decision-making and strategy, such as the business, family and asset governance policies and structures, as well as legacy and succession planning and execution.

Moreover, the family office will often help the extended family handle many other administrative and lifestyle tasks and objectives, including, but not limited to, education, healthcare and well-being, insurance, financial accounting and reporting, as well as potentially a whole variety of 'concierge' services, perhaps including travel planning, organising the family fleet of cars and drivers, and so forth.

The family office can also help with residence and citizenship planning for the family at large and individual members. There is, in fact, a substantial trend towards HNW and UHNW Asian families investing to achieve alternative residence and citizenship around the globe. Indeed, as both Singapore and Hong Kong adjust the regulations and incentives to pull more family offices to their hubs, they are also offering these ultra-wealthy families, and the staff required to manage them, much easier access to these types of sought-after residence and citizenship options.

Another core driver of this exciting evolution is the greater weight and intensity of both global and local regulation and the ubiquitous compliance oversight the world's authorities are conducting. Wealth management experts in Asia regularly recount how the very wealthy families today worry far less about tax mitigation than about assembling the right structures for family asset preservation, regulatory transparency and to achieve whatever legitimate privacy they can in a world of increasing disclosure.

The wealth management industry and their clients are all acutely aware of the increasing focus on, and often investigation of, wealthy individuals and families. In a globalised world, multi-jurisdictional regulatory considerations must, therefore, be taken increasingly into account.

Family offices are increasingly seen as ideal vehicles through which to help manage this immense complexity of holding such huge wealth, often across those multiple jurisdictions, and doing so as privately as possible.

UHNW families have therefore been consolidating their worldwide financial affairs and establishing an overall investment strategy that can help to minimise risk and enhance data management, security, privacy, detailed reporting and overall transparency both within the families and externally as required by the authorities.

Another core trend that the family office is helping facilitate is the shift from publicly marketable capital market assets to private, less liquid, investments. There is indeed a well-documented trend towards family offices investing more in alternatives as well as sustainable and ESG investing, an initiative favoured by the Millennial generation, for example.

The asset types might include direct private equity, co-investing, venture capital, hedge funds, and real assets. This all provides diversification as well as, possibly, enhanced returns, and away from potentially volatile public markets.

In their Global Family Office Report 2019, UBS/Campden Research highlighted how important alternative assets/investments are today. They reported for example that private equity fared the best of all asset classes for family offices, achieving an average return of 16 percent for direct investments and 11 percent for funds-based investing. And the report showed how real estate achieved a 9.4 percent return, and the family offices increased their holdings in that asset class to 17 percent of the average portfolio.

Those figures compared with average investment returns of 5.4 percent for the same 12-month period, with developed market equities achieving only 2.1 percent. Additionally, the report indicated that one-third of family offices are involved in sustainable investing of some form.

The family office is helping families to achieve this type of diversity. By pooling all of the family wealth through one family office vehicle, the families will often have access to larger and more complex investments than if family members had each invested alone. For example, access to the cream of the world of private investments often these days means a single investment of USD30 million or sometimes significantly more. And to obtain access to some of the world's leading commercial real estate projects, again size matters.

Additionally, for many families, especially those where the founder patriarch or matriarch is very old, or indeed where one of them has already passed away, there is a well-documented inclination towards philanthropic and social legacy investments that elevate the family name and heritage well beyond the pursuit of, or preservation of their wealth. Again, the family office can serve as the conduit and enabler for such initiatives.

Our survey focused on all of these areas, as well as some of the key practical considerations. Structuring and staffing a family office of any guise can sometimes be challenging.

The family needs to come together to articulate and strategise their family goals and their vision of the future. They need to allocate what assets the family office will manage. They need to hire family and external staff who are sufficiently objective and expert in their different fields, whether this is investment management, administration, legal/trust, accounting, technical/IT, or other.

The family office will need to appoint committees that monitor and advise on certain matters and a Board of Directors that represents the broadest range of constituents of the family.

The whole area of trusts and trustees is also central to families seeking to preserve and transition wealth, and to keep their affairs as private as possible, as key concerns have grown following the Panama Papers and Paradise Papers debacles of recent years, leading to greater media scrutiny and sometimes public outcry against the ultra-wealthy.

As part of this initiative, technology adoption is essential, with the next generations of enterprise and family leaders requiring new and additional skill sets, networks, and experience to manage both business and wealth.

The future wealth client will thrive in an era in which digital dominates, as there are new ranks of tech-savvy and digitally connected investors and managers. Moreover, with proliferating sources of information at their fingertips, HNW and UHNW families today demand curated product recommendations and targeted, valuable insights.

The findings of our survey, combined with some private, thought leadership discussions we have held this year, and our body of relationships and our perennial work within the Asia Pacific wealth management industry have all co-mingled to help produce this report, which is designed not as a guide to the creation or management of a family office, but to highlight the many exciting challenges and developments taking place in the family office space globally, and more specifically in Asia.

Key Observations

Family offices expanding apace in Asia

The family office is thriving across the globe, and nowhere more so than in the Asia Pacific region, where private wealth continues to expand at a remarkable pace.

The professionalisation of Asia's wealth

Family offices are being adopted by Asia's high net worth families and the ultra-wealthy families as they embrace the institutionalisation of that wealth.

Single-family and multi-family offices abound

Asia's UHNW families are choosing both SFOs, or independent, external MFOs, or even the family office services offered by the private banks.

A matter of scale

As a rule of thumb, SFOs tend to be for those families with USD100 million or more of assets under management (AUM), the use of MFOs for those with USD15 million-plus of such wealth, and the private bank and wealth management family services offerings for those with USD15 million or less of AUM.

Regulations a core driver

The dramatic proliferation of global regulations and inter-governmental cooperation, as well as the associated compliance burdens, have helped create an environment wherein families with significant wealth want to centralise and professionalise the management and reporting of this wealth.

Newer objective, newer practices

The survey indicates that almost two-thirds of family offices in Asia are created at the initiative of the second generations, who are increasingly focused on emulating the standards and practices prevalent in the US and Europe. Many of the second generation and most of the third generations of Asia's UHNW families are Western-educated and keen to bring selected benchmarks to Asia.

Estate and legacy planning another core driver

With a well-managed family office, the coordination of estate planning and organisation of wealth transmission is easier, and the evidence is clear that Asia's UHNW families are increasingly focused on this area, which as the founder generations age, is ever more vital.

Family governance crucial

There is a rapidly rising prominence of family governance across Asia's UHNW landscape, as families realise that to manage and sustain wealth across generations, they must engage with, and institutionalise, family governance practices.

The future is binary

Family offices will mirror the trends in the wider wealth management community and become increasingly digital in terms of internal process, reporting, data gathering/management and solutions.

The family office will be multi-faceted

The family office will often help the extended family handle many other administrative and lifestyle tasks and objectives, including but not limited to education, healthcare/well-being, insurance, financial accounting/reporting and a whole variety of "concierge" services, perhaps including travel planning, the family fleet of cars and drivers, even for the largest families coordination of the family jet(s).

Investments are becoming more diversified

The family office is also helping drive the diversification of UHNW investments from the mainstream, public and often volatile financial markets to the alternative sectors, from private equity, private debt, and hedge funds, all of which require a longer-term investment horizon. The alternative assets can also include precious metals, collectables, commercial property, amongst other assets.

Choice of location is driven by best practices

The survey showed clearly that families and advisers across Asia are increasingly concentrating on a set of key factors for their choice of location and jurisdiction, including geopolitical stability, well-honed regulations, a wide pool of ancillary financial and ancillary services, and the availability of quality local staff and/or the potential to bring in external expertise.

Singapore winning in Asia

There is little doubt that Singapore is currently ahead of the competition within Asia in terms of regulations and incentives to attract the ultra-wealthy families to set up family offices and/or structures there. The troubles of Hong Kong this year are exacerbating this trend.

Linking with quality offshore jurisdictions

The family offices are not only embracing the onshore concept but also increasingly working with those offshore financial centres that offer the greatest professionalism and the highest reputations and credibility.

Trusts and structures to remain important

The use of structures such as trusts and foundations or special purpose companies will continue as a vital element of UHNW wealth planning and coordination, so family offices will target the best structures, trustees, advice and arrangements across the globe.

Staffing and strategy are essential

Family offices need expertise, and they must be well-structured and well-staffed from the outset, with the families willing to blend family members and bring in external, experienced experts.

Working with the wealth community

Family offices will need to work closely with the private banking and broader wealth and investment management communities, on a whole range of matters, from custodial requirements even to research, investment management, private investments and other areas.

The Rise and Rise of the Family Office in Asia

The data from a wide variety of global private banks and eminent research houses and consultants is clear and irrefutable. The rise of the family office globally - and even more dramatically in Asia - is gaining momentum as ultra-wealthy families appear increasingly determined to institutionalise and professionalise their wealth management, to protect and build wealth for today, and to ensure that the wealth is there for the future generations.

Interestingly, research from UBS has indicated that around 85% of Asia's billionaires are first-generation. This means that in the next several decades, Asia will be witnessing a gigantic intergenerational wealth transfer, representing literally trillions of dollars.

The family office is indeed somewhat exclusively the province of UHNW families. In the US, home to the largest number of family offices, evidence indicates that to justify the cost of a SFO, family wealth should be more than USD500 million and assets under management (AUM) handled by the SFO at least USD100 million.

For the MFO, if a family allocates USD15 million of AUM or above and has a net worth of USD50 million or above, that is considered sufficient, although often considerably more AUM is placed under the auspices of such MFOs.

The numbers are, anecdotally, somewhat lower in Asia, but clearly, families that opt for either the SFO or MFO routes are indeed ultra-wealthy. Even a small SFO will likely have annual costs of well over USD1 million in Asia, so just working on percentages, it is evident that if the SFO manages USD50 million of family investments, the upfront cost of doing so is already 2% or more.

Of course, the SFO will manage or help with a host of areas already discussed here, so some of the costs will clearly cover areas not directly associated with investments.

Our survey unearthed a variety of views that provide some interesting nuances to the perception of the family office and more pertinently the rationale for its rapid expansion across this region.

A particularly well-phrased comment in our survey came from an expert who said: "The family office structure is customised to manage the investments of the family' business and financial assets and to provide holistic advisory services to members of the family with the primary objectives of growing, preserving and transferring the financial, human and social capital of the family."

Defining the concept

But what in fact is a family office? The reality is there is no fixed definition of what a family office is, although when it is referred to, most people have a similar concept of what this entails.

"Creating a definition and consensus...is a must for the industry," said one of those experts we asked in our survey. "We confuse clients if we use the term "family office" too broadly," they added.

Fair comment indeed, so let us offer some market perspectives gleaned from our long-term work within this industry, from our recent round table and thought leadership discussions in the region and also of course from the survey responses.

A family office is a formalised organisation structured to manage some or all of the businesses and family assets and investments of either a single-family via the SFO, or several families via the MFO.

For the purposes of this report, we have not included family office services that are nowadays increasingly provided by private banks and other wealth management institutions, accounting firms and consultants; these operations tend to service the upper end of HNW clientele who are not sufficiently wealthy to choose either the SFO or MFO structures.

A multi-talented vehicle

The family office in either SFO or MFO guise will tend to not only manage the financial and administrative sides of a family's investible wealth, but also the key elements that support decision-making and strategy, such as data, oversight of the business empire, family and asset governance policies and structures, as well as legacy and succession planning and execution.

A well-managed family office will usually be appropriately supported by an ecosystem of established external partners and advisers, from private bank custodians to lawyers, tax advisers and others.

Moreover, the family office is far from simply an investment hub. It will often help the extended family handle many other administrative and lifestyle tasks and objectives, including but not limited to education, healthcare/well-being, insurance, financial accounting/reporting and a whole variety of "concierge" services, perhaps including travel planning, the family fleet of cars and drivers, and so forth.

The family office can also help with residence and citizenship planning for the family at large and individual members. It was noted that there is a growing trend towards HNW and UHNW Asian families investing in alternative residence and citizenship around the globe, whether that is within the region, Singapore for example, alongside the creation of an SFO there, or in the UK, US, Australia or New Zealand, or in one of the European countries that offer would-be residence or citizenship holders full access to the EU.

This is especially important for those Asian UHNW families who hold passports that do not allow them extensive visa-free global travel, such as those from India, Bangladesh, Thailand, Vietnam or Indonesia.

Regulation a core driver

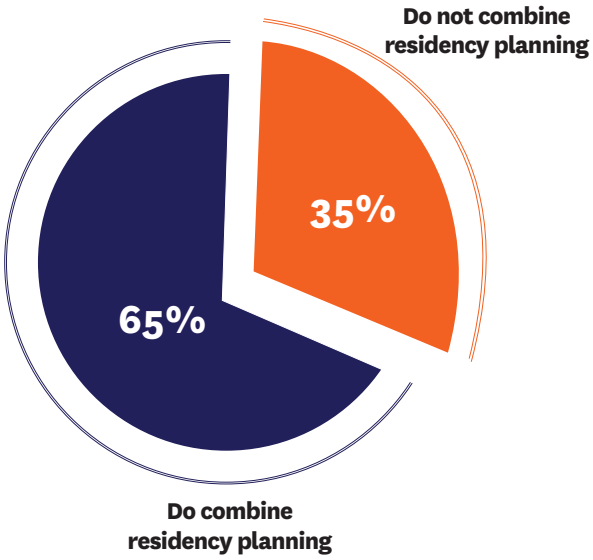
The regulatory aspects are of course, central to the proposition. Wealth is becoming ever more global and global regulation ever more intense. The wealth management industry and their clients are all acutely aware of the increasing focus on and often investigation of wealthy individuals and families. In a globalised world, multi-jurisdiction regulatory considerations must be taken increasingly into account.

Amongst these, the most pervasive of these is the Foreign Account Tax Compliance Act (FATCA), from the US, and the Common Reporting Standard (CRS) emanating from the Organisation for Economic Co-operation and Development (OECD), which are both having major ramifications for practices and compliance across the globe.

In short, it is a truism nowadays that there is literally nowhere to hide wealth from the regulatory and tax authorities around the globe, all of whom are intent on maximising their tax revenues in the face of ever-rising national budgets and all too often surging budget deficits and national borrowing.

There is accordingly immense complexity in managing this wealth across multiple jurisdictions, so UHNW families have therefore been consolidating their worldwide financial affairs and establishing an overall investment strategy that can

Approximately what percentage of families have combined residency planning for at least one family member with the establishment of a family office?



help to minimise risk and enhance data management, reporting and transparency for all parties.

Avoiding family crises

As the generations and numbers within these ultra-wealthy families also multiply, there is plentiful scope for misunderstanding and eventually disputes between family members. But these families today want to ensure they have both a sustainable business/investment protocol in place, as well as a robust and sustainable family situation, with family governance, transparency, and open communication vital pillars to support the family's integrity.

The family office in whatever guise clearly, therefore, has a central and increasingly important role to play in this regard. A more systematic and institutionalised method of transferring wealth to the next generations is no longer a luxury, it is even more of a necessity than ever before. Pre-emptive actions are better than a cure when things go wrong, so the earlier families can address transition and family inheritance and other key matters, the better.

Having achieved their great wealth and also having devised structures to professionally invest their wealth, these UHNW families are therefore increasingly focused on estate and wealth management strategies designed to preserve their wealth for future generations.

A dual shift to sustainable and private investing

Another core trend that the family office is helping to facilitate and indeed propel is the shift from publicly marketable capital market assets to private, less liquid, investments, many of which, for example private equity, or hedge funds, or commercial property developments or holdings, are held for longer periods than the traditional mainstream, liquid holdings.

With the right focus, expertise and practices, the family office is also often able to help with alternative, collectable investments, whether those might be classic cars, art, watches, wine, whisky, or perhaps specialist, rare diamonds, jewellery and even historical artefacts.

By pooling all of the family wealth through one SFO vehicle, the family will often have access to larger and more complex investments than had family members each invested alone. The same is true for the families that work through MFOs, as the pooled investments of some of those families represented might also be of sufficient scale to open doors to the world of private investments that require real scale, for example a single investment of USD30 million or often significantly more, in a private equity opportunity, or a hedge fund. Implementing direct or co-investment deals can also significantly reduce costs be removing the need for fund structured access.

The Global Family Office Report 2018, released in late September 2018 by UBS, in partnership with Campden, reported that alternative assets/investments now constitute nearly half of the average family office portfolio and that almost two-fifths of family offices are now engaged in sustainable investing. Their data was based on a survey of principals and executives in 311 family offices, with an average size of USD808 million assets under management and included family offices in the Asia region.

There is also a well-documented trend towards family offices investing more in alternatives as well as sustainable and Environmental, Social and Governance (ESG) investing, an initiative favoured by an increasing number of second-generation UHNWs and firmly favoured by the Millennials.

This will manifest itself either through the public market investments of these families or perhaps in a very targeted manner through their increasing exposure to selected private investments, including environmentally conscious and socially friendly start-ups and early-stage ventures.

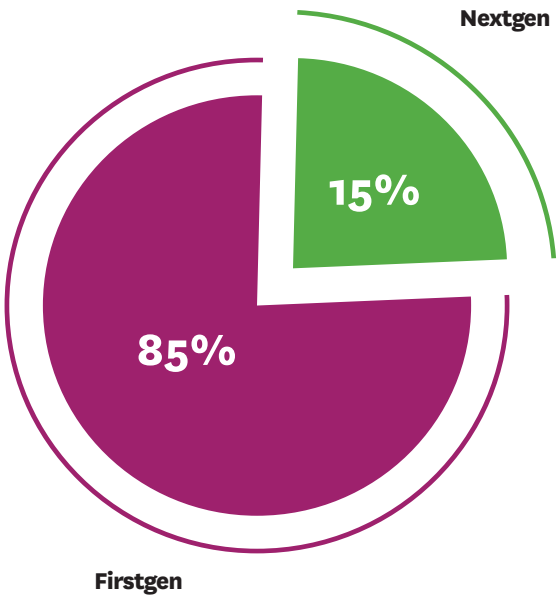
Bespoke solutions

Private label family funds is another trending strategy for wealth governance, and the family office environment is helping boost growth in this area.

Consolidating family investments into a private label family fund can ensure there is independent governance of family assets away from the business assets, with a professional investment manager and with family members as the investors. In addition, the private label fund provides an ideal platform to consolidate different family member or family member structures into a consolidated pool, whilst providing a mechanism to unitise their equitable stakes and have independent valuations of the net asset value and hence unit value for each stakeholder. The private label fund can also function as a succession planning tool while developing the skills and focus of the younger family members. It can even help segregate mainstream from the impactful ESG-type family investments.

A private label fund also offers a considerable degree of privacy for the family, as well as asset protection. It is relatively simple to establish and operate, with tax incentives as an additional benefit. The family can also select a governing board of directors to provide independent management and oversight of the fund's assets and activities.

What percentage of Asia's billionaires are first generation?



The whole area of trusts and trustees is absolutely central to families seeking to preserve and transition wealth, and to keep their affairs as private as possible.

In this world of comprehensive regulation and supervision today, the role of the trust is not as a means of hiding wealth, but as a transparent, reportable, and legitimate means to house and protect assets, and facilitate simplified reporting and transmission to the younger family generations.

Looking from the wider angle

Additionally, for many families, especially those where the founder patriarch or matriarch is very old, or indeed where one of them has already passed away, there is a well-documented inclination towards philanthropic and social legacy investments that elevate the family name and heritage well beyond the pursuit of, or preservation of, their remarkable wealth. Again, the family office can serve as the conduit and enabler for such initiatives.

Ultra-wealthy Asian families have seen what the likes of the Gates Foundation have been achieving and see the merits in such philanthropy, especially as, if viewed somewhat cynically, it often makes sound business sense for them to spread their names and the wealth to further social "causes" in the region or indeed globally.

Motivations & Missions

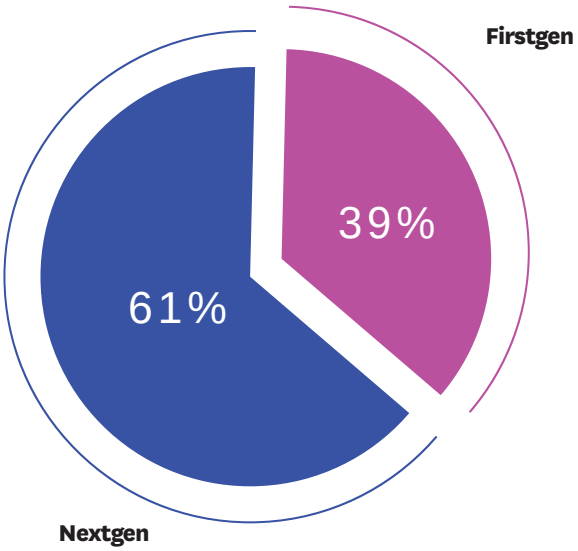
There is clear evidence that most of the initiatives for the creation of a family office are coming from the second or later generations, in other words, not the founder generation, although our experts noted that of course this is less true for the newer UHNW families, whose founder-creators are generally younger.

"The older first-generation UHNW individual in Asia tends to be very traditional and reluctant to engage the help from professionals as they have built their empire through hard work during a very different market environment and time," noted one expert. "The second generation tends to be more exposed to market developments and technology, ESG and will be the driving force behind the development of this family office space."

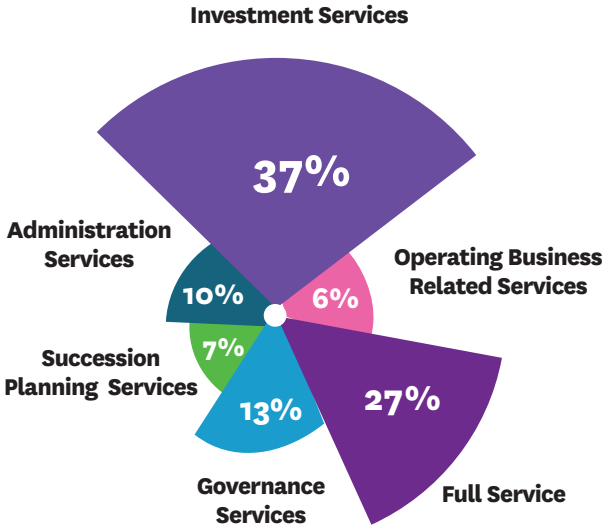
A well-balanced view came from one market leader who observed that the first generation might sometimes be the initiator of the structure, based on their objectives and current family and economic/ market situation, while the second generation might often be the family members that put this into practice and administer the family office, playing a vital role in making the structure both successful and enduring.

In general, there was a consensus amongst those we surveyed that UHNW families recognise the need to keep investments consolidated, while also noting that individual family members might have other interests outside the family office and will need and use service providers for those projects and assets.

The establishment of the family office in Asia is driven by:



When establishing a family office in Asia, what do clients prioritise?



The Choice is Yours – SFO or MFO

There are no hard and fast rules, but as mentioned in chapter one, generally the SFO will need a minimum of USD100 million of investable assets to make its creation and ongoing running a smart value proposition, although some of the smallest SFOs might control assets of as little as USD50 million. At the other end of the scale, some of the largest SFOs can manage wealth several billion dollars and cover the widest array of skills and services in-house.

Meanwhile, the typical UHNW family that chooses to work through the MFO will have upwards of USD15 million of AUM for their chosen MFO to manage, although this can easily rise to USD100 million or above, if the family, once its wealth increases, prefers not to opt for the full SFO model and is attracted by the economies of scale and cost efficiencies of the MFO.

As Asia's private wealth expands apace, more of the region's UHNW families are opting for SFOs. And jurisdictions such as Singapore are actively adapting their regulations, as well as tax and other incentives, and certainty, to entice them to set up in their markets.

The SFO will tend to coordinate and generally, but not exclusively manage, the investment assets of the founder as well as the other generations of the family, unless the family wealth is so vast as to merit different SFOs that represent the different generations.

The SFO can also be part of an operational or holding company platform that manages the individual family businesses, but for the purposes of this survey, we have focused on the SFO type that is managing a family's investible wealth and perhaps also serving to monitor the family business empire, for the benefit of transparency for the wider family members and the succession structures in place.

While this type of SFO might receive financial reports from each of the family businesses, some of which might be located around the globe, and might indeed provide some strategic direction to the individual businesses, the operational management of each of those businesses will usually be vested at the corporate levels, not within this SFO structure.

However, it is worth noting the centralised financial and other reporting to the family via the SFO may indeed help the family form judgements on the optimal strategies for each of those businesses, and indeed may help guide the family's merger and acquisition strategy as a whole and at each business level. Furthermore there needs to be co-ordination between the governance and succession related decisions at the family succession structure level and the operating business level to ensure continuity and effective communication continues beyond the principals lifetime.

The independence of the SFO is essential, and it must not only reflect the financial missions and governance principles of the family, but it must act as a trusted core to filter out the wise choices from the not so wise alternatives.

The SFO will handle numerous aspects of administration for the family, from corporate services and registers to help with family members' personal financial matters. There will usually be an expert or a small team who can oversee tax matters and general regulatory matters, albeit often with the additional support of a coterie of external experts.

Similarly, the SFO will manage, in-house but also working with external professionals, the family's full array of ancillary requirements, including insurance, mortgages, loans, and so forth, as well as providing full tracking and reporting in-house. Personal family matters such as the choice of and organisation of education for the younger generations, training, and even concierge services such as travel planning and organisation are very often handled by the SFO team.

MFOs grow in number and stature

Asia is also witnessing a rapid increase in the number of MFO operations. These MFOs will, as a rule of thumb, generally manage the assets of families that each has at least USD15 million of investment assets. The MFO is external to the family and not controlled by them, although it is often the case in Asia that the professionally managed MFO will take younger UHNW client family members on secondment and for training and work experience, partly as a means of sustaining and building the family-wide relationships.

The MFO will not tend to offer as wide an array of services as the SFO, and will incline more to the in-house professionalised fund management services for the various families, whereas the smaller SFO might offer more of a guiding and coordinating role with fund management services external to the SFO, and the larger SFOs will be able to afford the services of experienced, professionally-trained in-house fund managers.

For the purposes of this survey, the term MFO here does not include the "Family Office Services" that are increasingly visible within the private banks or other wealth management entities and that tend to provide support to the lower categories of UHNW family, by AUM. Accordingly, the report will refer only to SFOs and to MFOs that operate entirely independently of any other financial institution and which represent only the interests of those families that engage their services.

Independent and bespoke

MFOs that operate independently of, and external to, larger financial institutions argue their case that if the family office services are within a bank, there will sometimes be a lack of independence of thought, product supply and action, given internal pressure on revenues, and therefore potential conflicts of interest arising at those financial institutions.

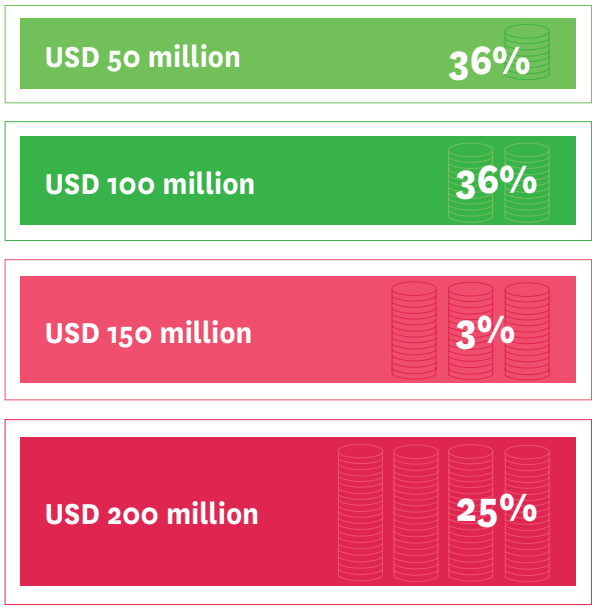
Accordingly, these MFOs maintain that it is better for wealthy families to work through professionally managed, full-service MFOs which then in turn work with the private banks and other wealth management firms to leverage the offerings and strengths of those institutions, without the potential for conflicts of interest.

A key differentiator for both SFOs and MFO's is that there is full transparency on the costs paid by the family for the services received. In the case of the SFO, the family is the shareholder and thus interests are 100% aligned, whilst with the MFO a fee only basis is essential to demonstrate the integrity of the MFO and its alignment with its client's interests. The removal of revenue through kick backs and commissions ensures that the MFO's interests are fully aligned with the client in much the same way that an SFO operates - transparency on fees is a vital component, particularly in Asia.

The cornerstone of many MFO offerings is to provide bespoke tailor-made asset management services and legacy planning to individuals and families across generations. Unconflicted independence of thought and action, with a clear focus on sourcing the most suitable products on the market for the clients, are all essential. Not being tied or obligated to any single institution or partner helps achieve that objectivity. The balancing act is often offering the levels of personal attention of a small firm while offering the know-how and services of a much larger firm.

Asian families, therefore, tend to prefer the neutral and unbiased advice offered by an MFO that is external to a private bank, preferring both the confidentiality, as well as the agnostic approach to investments and custodians which are filtered generally through a fully open architecture approach.

What is the minimum size of investment assets that you think justifies the creation of a SFO?



Working with the wealth community

MFOs often partner with a wide variety of financial institutions and industry partners in order to demonstrate their independence in its investment management and offerings and to cater for their clients' custodian preferences.

The MFOs, like the SFOs, also generally offer clients consolidated statements of their positions, using both digital and manual skills in recognition of the desire and need for UHNW and HNW to diversify assets over a number of custodians.

MFOs generally work with the custodians in the form largely of private banks or specialist non-bank providers across the main jurisdictions such as Hong Kong, Singapore, Switzerland and Liechtenstein. The centralisation of data on family assets and on family businesses is core to the proposition.

Moreover, the MFO route will help safeguard data privacy.

The tailoring and highly personal approach to a family's wealth and family situation offered by the MFO is also core to the value of their offering, aside of course from their investment management skills and the range of products they can bring to the table through their largely open architecture approach.

The growing number of MFOs in Asia competing for the attention of UHNW families are seeking to help facilitate more efficient asset management, as well as to encourage structures for wealth transfer and estate succession.

Facilitating new trends

Some of the MFOs not only boast professional fund management services - which become more diverse as the MFO garners more clients - but they are also competing for attention by helping families focus on more sustainable investments, thereby appealing to the younger generations who increasingly want to use their wealth for positive social impact. For the older generations, the MFO can support the type of philanthropic investment activity that will help the family name and legacy to endure.

As Asian families look to navigate the complex world of wealth preservation and succession planning, the continued rise of the third-party, externally managed MFO is inevitable, and the wave within Asia will continue to gather momentum.

For the SFO to be viable, it is clear that scale is essential. In fact, experts commented that USD50 million would be right at the low end of the size advisable for any SFO and that SFOs often control assets of USD500 million or even USD1 billion and above.

Estate Planning and Wealth Transfer

One of the key areas of concern for UHNW families is their ability to sustain wealth across multiple generations. For wealthy and UHNW families, a systematic and institutionalised method of transferring wealth to the next generations is no longer a luxury, it is increasingly a necessity. Pre-emptive actions are better than a cure when things go wrong, so the earlier families can address transition and family inheritance and other key matters, the better.

Having achieved great wealth, these UHNW families are, therefore, increasingly focused on estate and wealth management strategies designed to preserve their wealth for future generations. The reality is that despite the best intentions and efforts of family heads, attorneys, tax advisors and wealth managers, many, perhaps most UHNW families see their wealth largely dissipated after three generations.

There are so many reasons for this, for example, the excessive concentration of wealth in a business or a market or type of asset, or even location, excessive consumption, or excessive debt, poor tax planning, divorce and many more reasons. But families who have achieved successful multi-generational wealth transfer are addressing these matters and the rise of the SFO and MFO is indeed helping them in this initiative, as the experts within them can help focus and formalise estate and legacy planning and inter-generational wealth transfer.

These objectives are becoming increasingly important, year by year, especially in Asia where the sheer scale of wealth being transmitted, or due to be transferred in the coming decade is daunting. Remember the UBS data cited earlier that some 85% of Asia's billionaires are still first-generation creator-patriarchs or founder-matriarchs, and yet our data has indicated that it is the next generation who are the key drivers for the establishment of the family offices as they persuade the parents to begin to let go and ensure that the right platform is created to ensure a successful legacy is in place for the family.

This, in turn, is causing many in the wealth management industry to adapt their strategies, style and offerings to the younger generations of clients. They have largely been working with the second generations for many years, but now they are reaching out to the Millennials and beyond, in anticipation of the virtual tsunami of wealth that is already beginning to flow to them.

There is a broad effort in the main Asian financial centres to nurture next-generation members of ultra-HNW business families into future leaders through various means. This helps the families and also the MFOs in particular, as they are thereby building closer relationships with younger generations away from the founder, or from the second-generation leaders. This is especially vital as the rise of the family office in Asia will also be mirrored by the rise of the younger generations taking control of those family offices.

There is, therefore, no doubt that the wealth management industry must embrace these "nextgen" clients. To do so, service and product providers should appreciate that these younger clients are well-educated, they want a considerable degree of control, and they are more inclined to seek specialist transactional advice for individual needs and situations, rather than simply sticking to one lawyer, trustee, or banker as their trusted adviser.

Experts advise everyone in the wealth management sphere to help educate their clients and their families, and thereby build relationships with the entire family, not just with the principals. The "nextgen" look for more than structures such as trusts than the founder generations, which opens the door for competent lawyers, bankers, and trustees to proactively add value to the second generation in terms of the commercial side. With a broader acceptance of the value that such parties can offer clients, there are greater opportunities for more diversified work and avenues for fees for the wealth management and advisory community at large as they support their clients in the planning and execution process.

Choosing the Location to House the Family Office

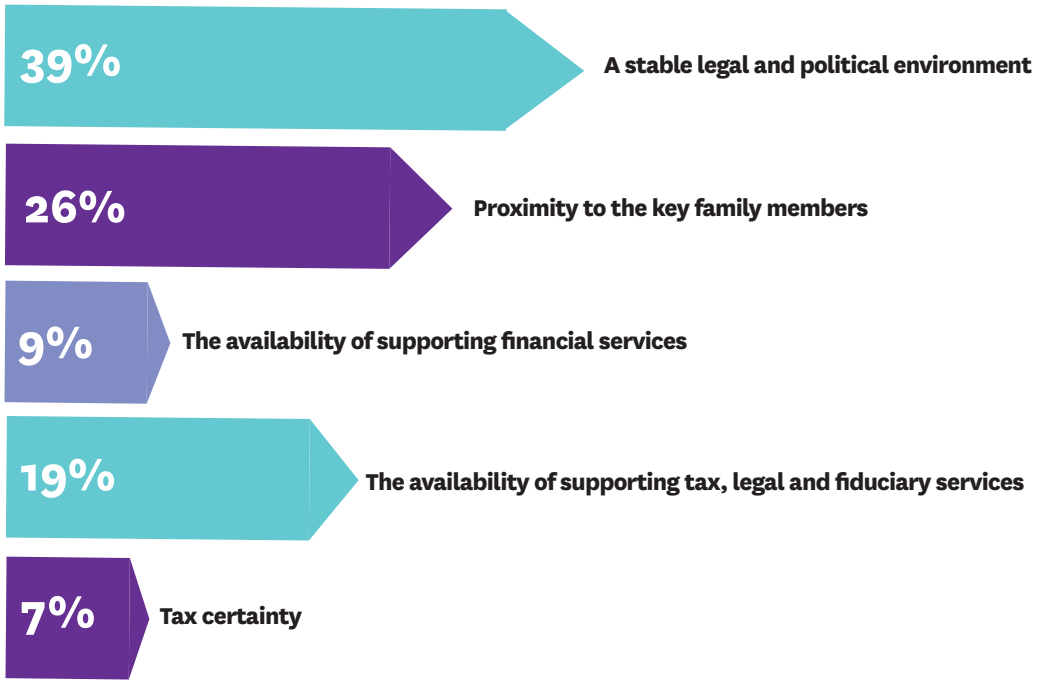
In a world of ever-increasing complexity and regulation, the choice of the right jurisdiction in which to house the family office is increasingly important. There is plenty of evidence that Singapore is fast becoming the go-to centre within Asia for both SFOs and MFOs, although Hong Kong, given its history and its depth of financial expertise, is also a centre of family office excellence and is working hard to enhance its incentives and other appeals.

And beyond Asia, Jersey, Switzerland and the UK remain ever popular with Asian UHNW and HNW families, many of which have long-established property, education, cultural and lifestyle connections to those jurisdictions.

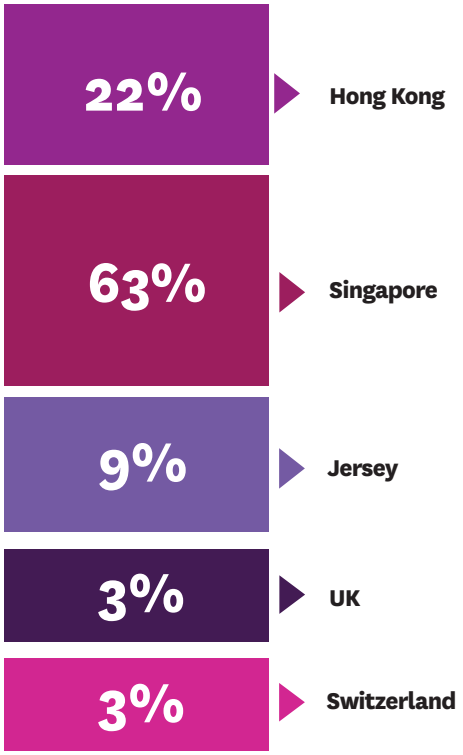
Meanwhile, the many newer regulations of recent years, such as FATCA, CRS, AEOI, and others, combined with the newer Economic Substance regulations that are being driven out of the OECD and the EU along with far more stringent compliance demands and even surveillance, have together been putting some of the smaller and more exotic offshore financial centres - often known disparagingly as tax havens - under pressure.

Add to that the Panama and Paradise Papers revelations, and it is clear that the more reputable, mainstream international financial centres (IFCs) in Asia and in Europe are benefitting, as wealthy clients seek to realign themselves to jurisdictions that do not raise flags with their home or international tax authorities.

What factors are considered the most important in the selection of jurisdiction for the location of the family office?



For Asia's UHNWs, what is the optimum location to establish a family office in Asia?



As these trends play out, there is little doubt that only the highest quality IFCs with the broadest range of services, relationships and the highest reputations will survive in the next decade. There is still an essential role for offshore structuring for estate planning and generally for wealth consolidation and transmission, so those centres that survive are likely to prosper in a newly rationalised world of IFCs.

Furthermore, as the world of regulation tightens its grip, the choice of jurisdiction for the family office is of course determined in part by reliability and solidity, and an eminent reputation adds to the appeal. A wide range of financial and ancillary advisory services is essential, as well as political stability, ease of access, and for those who are working in those locations, it is important they obtain ease of residence or even the potential for citizenship once they are embedded properly.

Many of the governments and regulators of the leading IFCs have been very carefully managing the development of their markets, as well as enhancing efforts to communicate their attractions as international financial hubs and globally relevant wealth management centres that offer a broad array of expertise and top-flight regulatory environments.

There was a clear consensus from the survey responses that Asian UHNW families prefer to park

and control their wealth close to home, with experts commenting that it is often preferable to locate the family office in the same time zone as the family and always in a politically stable environment.

The growing global concerns about reputational damage by association are, within Asia, also playing into the hands of Singapore, which has been working hard to encourage higher quality fund management entities to its shores.

Singapore, according to another comment elicited in the survey, is not only centrally located within Asia, but it is also an established financial services centre, and it is well served by many professionals across many disciplines and sectors. Its position in the world of Asian wealth management is, therefore, both consolidating and set to grow in the years ahead.

Meanwhile, Hong Kong is clearly going through a difficult phase as domestic residents struggle to assert, or at least reinforce the SAR's independence.

And looking from a wide-angle perspective at the role of IFCs, experts polled as part of the survey observed that regulations, practices and the improving efficiency of tax departments in many countries are resulting in a considerably more tax-compliant society in Asia.

In this new era, one expert observed that clients have no option other than to seek out quality and integrity, so the professionalism and reputation of the IFCs to be used will continue to grow in importance, especially as families increasingly fear the tarnishing effects on their reputations of housing structures in some of the more esoteric jurisdictions.

Beyond Asia, there is a greater likelihood of the families choosing a jurisdiction outside the region if many or perhaps most of their assets are located outside Asia. As Asian families are increasingly global in their deployment of their wealth, their assets and their lifestyles, there is a clear and growing rationale for those family offices to be located outside the Asia region.

The survey's respondents reiterated time and again how reputational excellence and integrity will naturally drive Asia's family offices to seek the highest-quality jurisdictions outside Asia, with Europe the favoured location, and within that Jersey, Switzerland and the UK the preferred jurisdictions.

The Rise of Family Governance

Experts have highlighted the great opportunity for family offices and other parties to boost the corporate and family governance protocols and structures in Asia. Successful UHNW families are increasingly formalising strong governance across all areas of their operations, businesses and wealth management. This means embracing sound leadership, meritocracy and appropriate decision-making practices.

Leaving aside the rising importance of sound, formalised investment management governance, as more family offices flourish in the future, that growing trend will go hand-in-hand with enhanced family governance, family charters and other developments involving the family's succession arrangements, especially as families become larger, more geographically and generationally diverse and as greater transparency is demanded by all parties involved.

Family governance will involve a variety of elements. There is likely to be a family constitution, which is effectively a statement of the family's vision and core values. It is more of a road map than a legal treatise, providing a document to which family members can refer to help redirect family activities or family members, should either err from the general path laid out.

There is likely to also be a family council or committee, in short, some form of governing body that oversees activities and helps in transparency and communication. They will also call family meetings or assemblies or both on a regular and ad hoc basis to report on family matters and discuss vital and urgent matters that might arise.

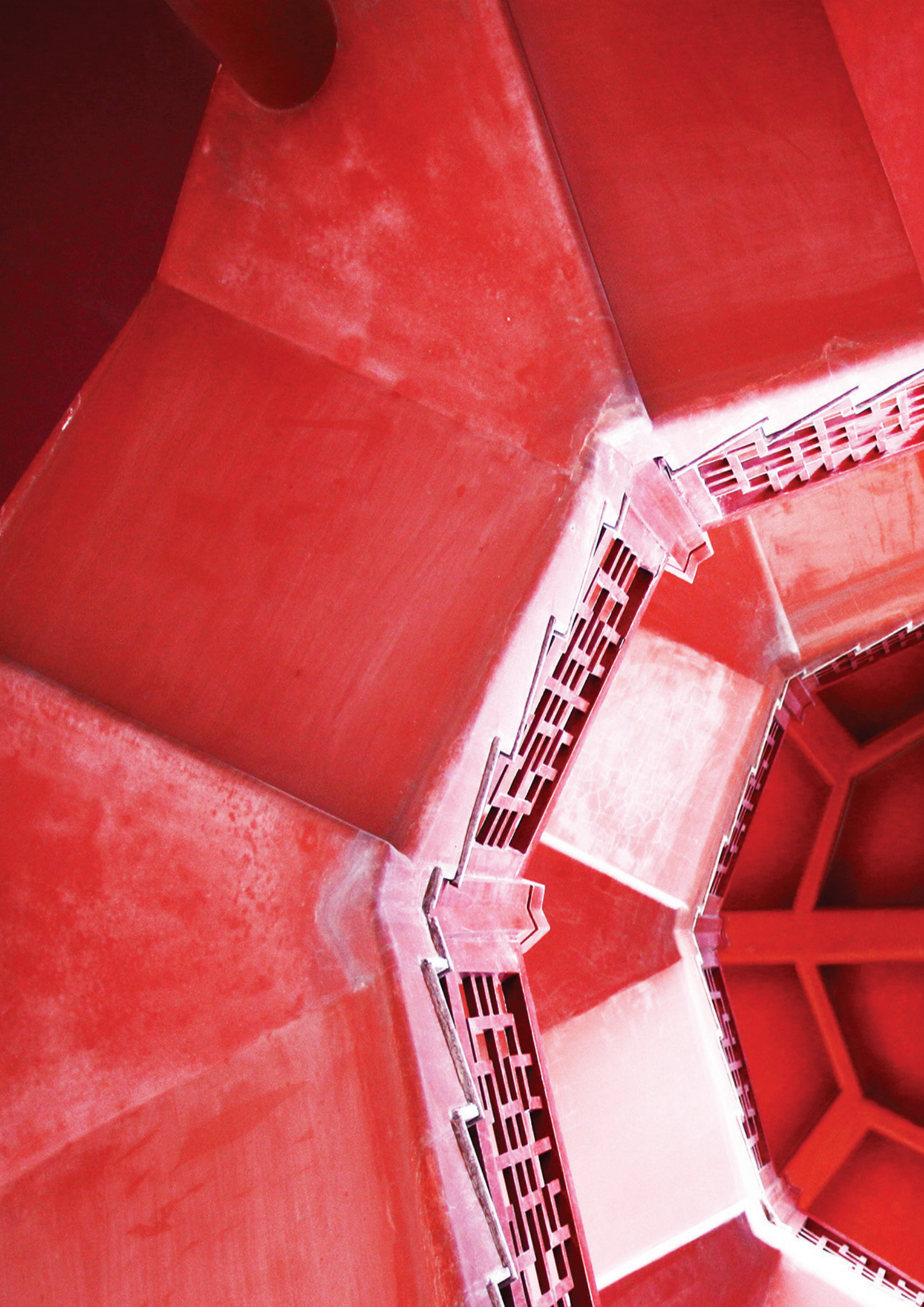
Closely associated with sound family governance is the shunning of nepotism and the avoidance of an entitlement culture, where no employment or board membership is guaranteed to family members and compensation is strictly determined on the basis of role, responsibilities, skill, and performance. Two key elements of effective family governance are clearly the development of the future family office leadership and having a sound succession plan in place.

Alongside the planning, it is essential to implement the correct processes and good practices. Leaving as little to chance as possible is another characteristic of successful multi-generational families. Moreover, having formal family mission statements and well-defined rules across all the generations not only reinforce family values but also govern permissible behaviour. Understanding such practices and adapting them to the values of the family is an effective first step towards keeping wealth in the family across multiple generations.

While these families do their best to take advantage of planning efficiencies as much as possible, at the advice of in-house and external professionals including tax and legal experts, these families also understand that unexpected events and situations happen and will not hesitate to revise their plans as circumstances dictate.

Conducting regular discussions with families is an essential part of helping them to identify the key issues, which often results in the need to structure, or restructure, accordingly. Through these discussions, families often find that structures need to be updated to take account of current practices and laws and changes in family circumstances.

There is considerable anecdotal evidence that Asian families today are more open than they were a decade or two ago in discussing family matters. Such issues were more commonly kept or discussed only at the founder-creator level in the past. The family office, whether SFO or MFO, is increasingly at the cutting edge of this part of the revolution.



The World of Trusts & Structures

The role of trusts and trustees in structures and wealth planning is vitally important, and the growth of this segment of the wealth industry remains robust. Far from being diminished in importance following the onslaught of global regulation and compliance, well-conceived structures are as important as ever, and often form the cornerstone of a family's succession arrangements.

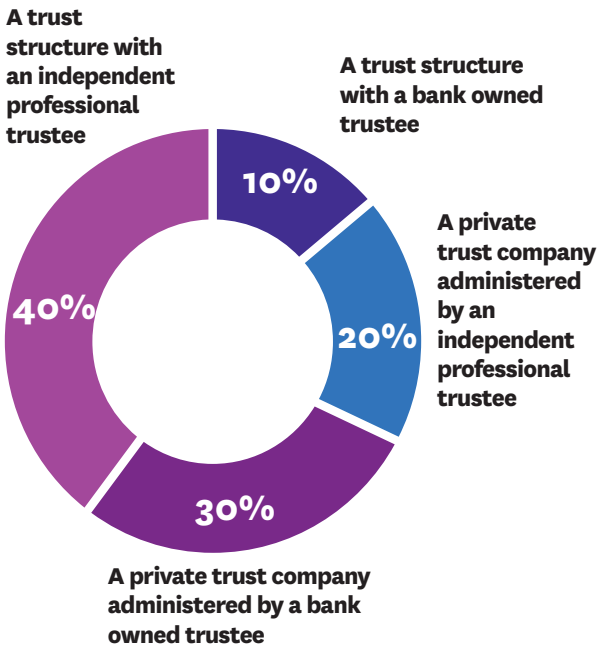
Setting up a trust 20 years ago or even 10 years ago is however a different ballgame to the one today, it is more complex, there are more things to consider, and the regulators are ever more watchful. The family office clearly has a vital role in advising on and coordinating these succession related initiatives.

Clients must, for example, have a clear understanding of their existing wealth structure and identify areas for remediation and improvement. A detailed diagnostic examination must be made and once the succession structure has been decided upon the careful selection of trustees and fiduciaries must be given. In this process assessing the merits of private bank owned trustees as opposed to independent professional trustees must be considered in addition as to whether to opt for a Private Trust Company.

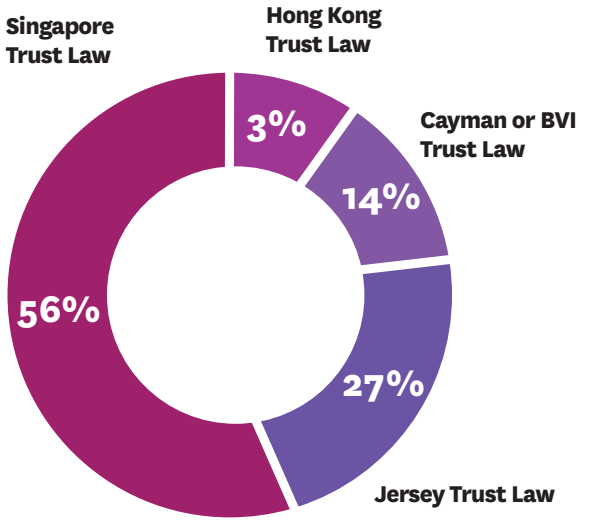
While some clients are actually somewhat wary of bank trustees since the global financial crisis, and while there is a distinct competitive advantage to being a non-bank trustee, the independent trustees struggle to compete on price, as costs for professionals and for compliance and technology are rising all the time, and as the banks might consider the trust operation a means of winning over or retaining current or future clients, in other words keeping them in-house.

Moreover, the bank trustees and the private banks maintain that they are not only competitive on price, but also on service and objectivity, with sufficient checks and balances to ensure there is

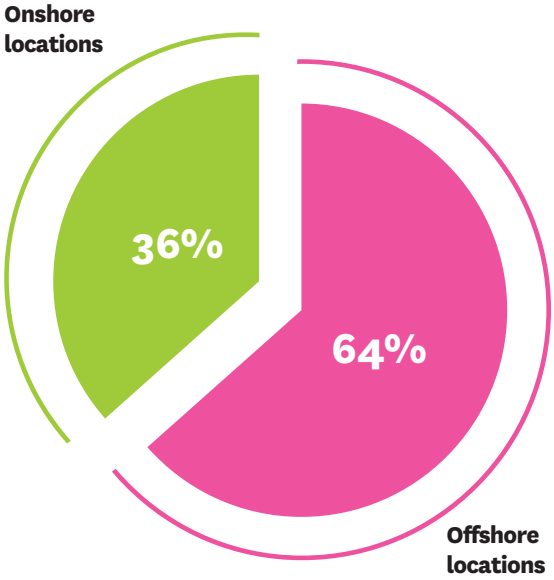
In your experience, do clients establishing a family office prefer to engage for fiduciary services with any of the following?



In your experience, do clients prefer to utilise:



In your experience are Private Trust Companies more often today being established in which of the following?



independence of advice and discussion. Many of the trust operations within the banks are striving to be more in front of the clients, whereas in the past they were somewhat masked by the private relationship manager banker, thereby improving what was perceived as rather a communication gap between client and service provider.

Commensurate with these considerations are some of the restrictions bank trustees may face, in particular with the ownership of operating businesses and non-bankable assets, and the more encumbered compliance and operational risk management processes which may hinder activity and decision-making processes. To this end the evaluation of the optimum platform for the family must consider many factors before arriving at the right conclusion.

There was a clear consensus amongst those surveyed, from their related comments, that confidentiality is vital. Increasingly, clients realise the value of an independent, regulated trustee company being involved, but unfortunately vested interests often play too much of a role in the choice, and the optimal choice is not always made.

Jersey was well noted by those surveyed as having a very robust legal architecture and reputation for trust structures and administration. Furthermore, Jersey is globally viewed as the leading trust jurisdiction.

Notes of caution were raised by some who consider that Singapore's judiciary must over time also prove themselves to be as independent as Hong Kong's legal system has been historically, and they argue that Singapore must build a deeper case history to inform future decisions. Another expert highlighted Hong Kong's excellent body of law but argued that it currently suffers too much uncertainty over its independence and future.

While Singapore law has many benefits, it still lacks in the area of perpetuity, which is very important to some families. He added that Singapore needs to address the question of the shares of private trust companies (PTCs) being held under Singapore Law (and thus the need for non-charitable purpose trust law in Singapore), noting that this is a very important topic for the Monetary Authority of Singapore to address for the SFOs it is trying to attract.

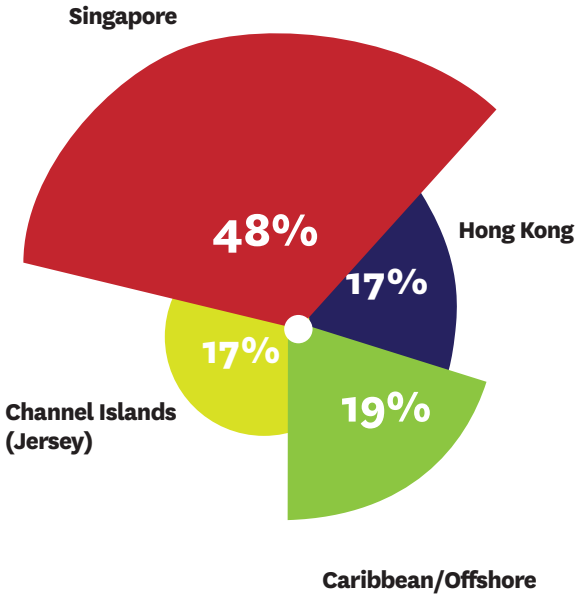
There is a clear trend towards onshore taking place across the globe of wealth management. For those families that select offshore jurisdictions, including the British Virgin Islands, it is essential that they select high-quality advisers and fiduciaries with an excellent reputation.

It is evident that most Asian families prefer to be serviced from Singapore due to convenience, the time zone, language and cultural understanding. Some noted that they would like to see the Asia-based trustees have an established Jersey presence in order to work closely across jurisdictions and to leverage expertise there.

The choice of jurisdiction and the structures established are no doubt critical considerations and must be such that they do not raise questions of ambiguity or lead to the questioning of motives or hints of problems such as money laundering or tax evasion.

The UHNW category of clients want providers who can look after their entire wealth, their corporate affairs, their club deals with friends, they want transparency, privacy, security while seeking out yield in this very low-interest-rate environment, they want trustees who work with them as families, understanding the internal dynamics, also helping them with structures as well as relating them to real-life circumstances.

What locations do Asian clients prefer for professional trust companes?



Challenges and Solutions

The overriding imperative for the creation of a family office is to professionalise and institutionalise family wealth, investments, succession planning across the full assortment of spheres discussed above. It is therefore vital that the right approach is taken, and the right structures put in place, especially as the family office will often go well beyond an investment mandate into areas such as governance, estate planning, or even philanthropy.

A vital consideration is how to staff the family office, and within Asia, this is particularly difficult, as there is an acknowledged shortage of both expertise and experience. A core issue is often the defining and then incorporation of appropriate governance, which our survey found to be an area that is often overlooked, or at least not given sufficient prominence in the early stages of the formation process.

Closely connected to this observation, the survey found that it is very difficult to find a team that can act as "jack of all trades", again especially in Asia. "Many families underestimate the complexity of running such an operation", said one expert, while another said that it is vital to hire people into the family office who understand the family's missions, and who can add value to those objectives.

An expert commented that any family office that has in-house legal and tax advisers should also have external experts to whom they can refer matters in order that the family has some independent views on any vital matters. The question of regulation was raised, with an expert noting that there is no specific regulatory framework in place currently. Although not directly regulated, the family office must take it upon itself to have a solid understanding of global regulatory developments.

The choice of and alignment between the views of in-house and external advisers with those of the extended family is essential, as well as ongoing communication to ensure this is managed sensitively and in real-time.

Whether the family office is run by third-party employees or by family members, or a combination of the two, it is essential that it is managed on an entirely professional basis. And the choice of jurisdiction is also vital, hence, for example, it is vital for each of the family generations to communicate clearly and regularly, to develop and share a common trust and to have a clear and agreed plan.

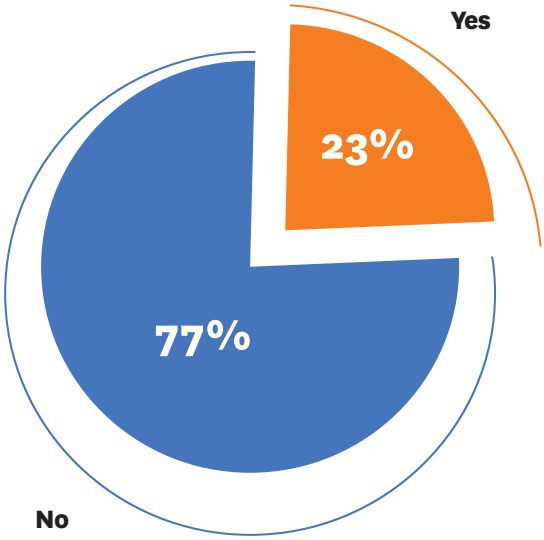
The handling of the many complex relationships in the family needs to be considered, hence the family office structure must be formulated well, with the ideal governance and with constant communication (which is an art, not a science) so that the core values of the family are reflected, from the patriarch/founder downwards, and accepted or at least understood across the several family generations.

There were plentiful views amongst those experts we surveyed on how to address these challenges. Experts advise engagement with local regulatory and tax authorities to encourage uniformity, the prioritisation of education, events, and multi-jurisdictional training, as well as the introduction of specific qualifications for employees of family offices, and potentially licenses for them, just as for the trust/trustee industry.

"We must constantly upgrade our offering," opined one of those surveyed, evidently talking about the role of an MFO provider. "Greater clarity and awareness on professional standards and best practices, for example, fees and the application of certain financial products, are both essential."

"To claim to be a family office because you are advising a family on certain matters, particularly investments, is not sufficient," said one of those surveyed, also talking about the MFO vehicle. "If we want to be successful in this space,

Do clients undertake a realistic budgeting exercise in considering the establishment of a family office and do they fully understand the costs involved?



we need to be broad-based, have the experience and confidence to deal with a successful family. And we need critical mass - I strongly believe that a family needs a provider which is large enough to be able to provide what the family needs, and to have sufficient manpower to service the family."

Education and training and industry-wide cooperation are all seen as vital. Industry forums, platforms where families feel comfortable to share ideas and concepts of best practices among each other (away from service providers), and the arrival of associations for stakeholders of the sector to raise voices to authorities are all considered valuable steps in the future. "We should aim to enhance the ecosystem of collaboration across the entire spectrum relating to family offices," one expert remarked.

"We should also encourage an environment where millennial professionals take over from the older professionals," said another expert. "The industry desperately needs the millennials to open communication with the younger generations of family leaders in order to invoke change."

"The role and the impact of women within family offices are both growing and will influence the way SFOs are managed," came another opinion. There should also be enhanced dialogue between the family office, family members and their external advisers, taking into account the different cultural nuances within the several generations of a complex family. With this in mind, there is a very considerable opportunity for fiduciary firms and law firms to create segregated teams designed to assist more broadly in the ongoing holistic management of family offices.

"As a professional adviser," one expert replied, "it is imperative to relate to the family members, to listen between the lines when there is a meeting, and to understand where they are coming from." And then when time moves on, and the needs and priorities evolve, it is vital to maintain a balance of what the situation is currently and what was intended, which he said requires deep understanding and plentiful honest discussion.

The clear consensus here is that families are often not sufficiently prepared for the costs of a full family office operation. For MFOs, an expert noted that Asian clients prefer to see capped fees, and often do not sufficiently accrue for the range of ad-hoc assistance on a whole variety of matters that will generally arise.

As most UHNW families in Asia and their family offices require a great deal of support and general nurturing and education, professionals we surveyed see a huge opportunity, as trusted partners, to provide this as a service.

It appears that the experience of those we surveyed lends credence to the view that family members are the most common single category managing the SFOs while almost 60% of those surveyed consider that family offices, in general, will be managed by external professional firms, or by professional managers [non-family members] brought in from either related family businesses or from private banks or other dedicated wealth management firms.

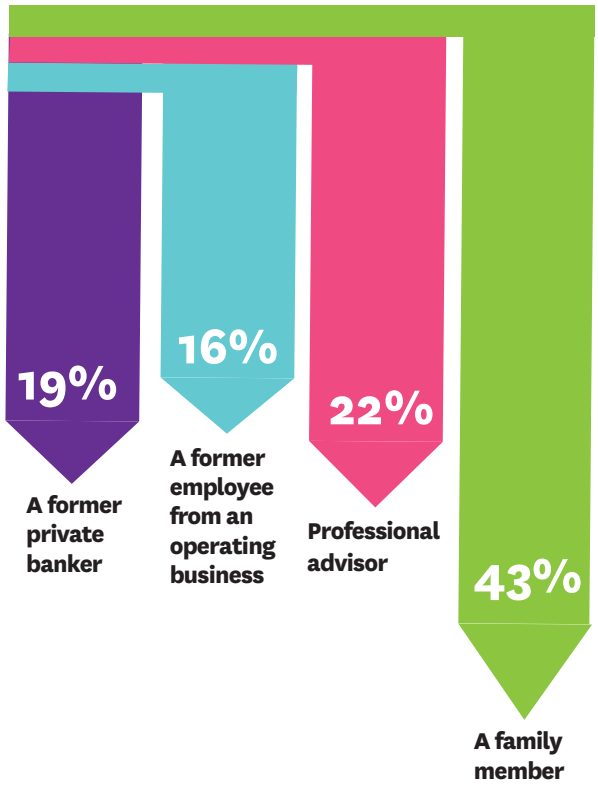
There are words of caution about the management of the family offices. "Most family office heads are literally "in over their heads" so to speak," said one expert, "which is understandable as we are in an entirely new regulatory world of FATCA, CRS and many other compliance requirements, so there is a clear need for more multi-jurisdictional expertise and training."

One expert advises that the family office should be managed jointly by both a family member and a professional advisor whose function would be to ensure compliance with the agreed family guidance and mandates. A professional suggested that family members should set the tone and manage at board level, while a knowledgeable third-party professional should manage the day-to-day affairs.

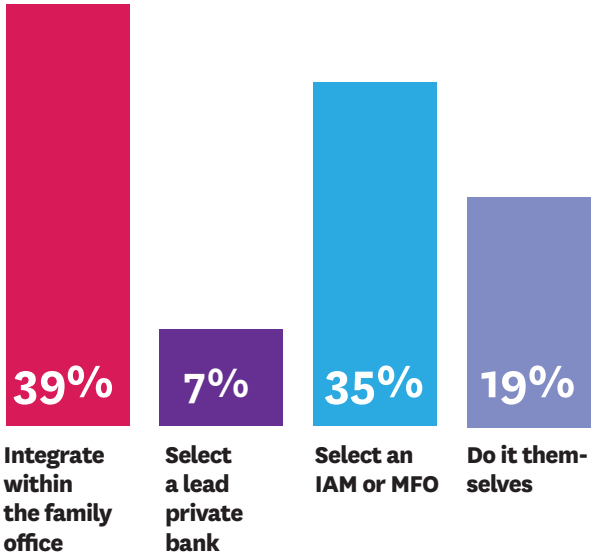
"We often see family members running the day to day side [of the SFO]," one authority observed, "but they can lack the broad skillset and would be better served by placing more emphasis on identifying and securing a professional who has the broad skillsets to run the operations on a day to day basis."

"I think family members should be involved," said another. "However, they need to be open to accept input from external parties. Family members can perhaps work outside the family office at first to obtain experience and from there, join and use that experience."

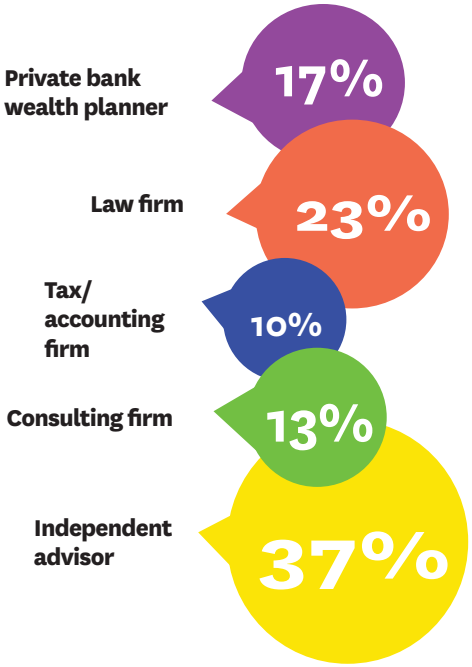
In your experience is the family office run on a day to day basis by:



For the CIO and investment-related functions, in your experience do the family offices:



What is the best source of advice for a client wishing to establish a family office?



One professional remarked that the family might want to appoint a confidential adviser to vet opportunities but advised that the family should always make the final call on a major investment, on disposal or a strategic partnership.

Referring to SFOs, one specialist indicated that the family will generally want to keep the ultimate decision making close to the patriarch/founder or within close family members, whereas for the MFO, most of the activity is investment-related and the MFO is a professionally managed, outsourced investment adviser.

The function should use the services of professional advisers, their private banker and a separate investment department within a separately managed family office, according to one expert. "It is critical to separate it from the family's key business," he advised, "as co-mingling could negatively impact the resources of the family."

Some commented that this depends on the scale of family wealth. The more established families with very large wealth tend to set up an investment team within the SFO to perform such a function, but at the same time work through different fund managers across a wide variety of asset management products.

Some warned that over time, SFO's will integrate investment functions and have little need for private banks other than as the provider of a custody and execution platform.

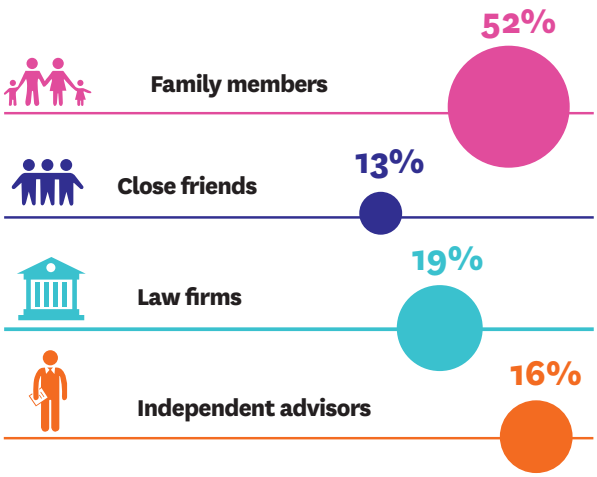
For families with lower levels of wealth, the utilisation of an MFO operation provides considerable cost efficiencies and improves effectiveness.

It was noted that while UHNW clients often currently use family members for privacy concerns and for the sake of simplicity, they expect this to change as independent advisors assume more of these roles, partly because tax and other regulatory concerns now increasingly deter people from using related or subordinate parties in such or similar roles.

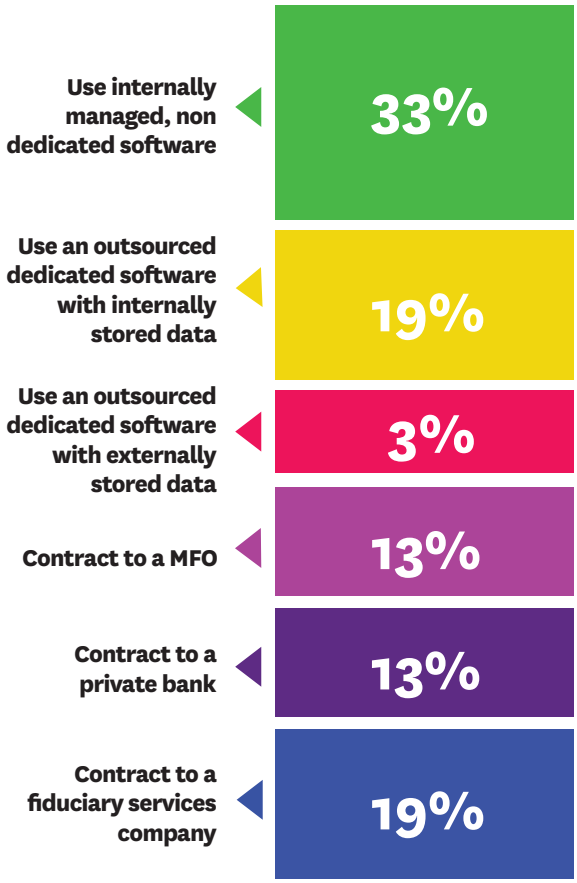
CRS is creating concerns, issues for Protector/ Enforcer services, given they are reportable persons and thus confidential information may flow to the wrong jurisdictions.

Weak governance can often result in Protectors/ Enforcers not being clear on the family dynamics and succession plans. "Lawyers providing such services must better understand the nuances of the family offices in order to render effective advice which meets the clients' needs," said one leading practitioner.

For protector or enforcement services, which do clients prefer to utilise?



For account and asset consolidation, aggregation, reporting and analytics do the majority of family offices, in your experience



While there were a variety of views on this point, experts generalised that there is a clear trend for the more established SFOs to work with an outsourced software provider, largely as this provides a more sophisticated and specialised investment analysis tool.

Furthermore, there are mixed views on the method of data input with some SFO's preferring to keep all the information inhouse whilst others might be prepared to outsource this time-consuming function to a fiduciary services company.

The data input challenge is further being addressed through technological solutions developed by some software providers which substantially reduce this time consuming and complex process.

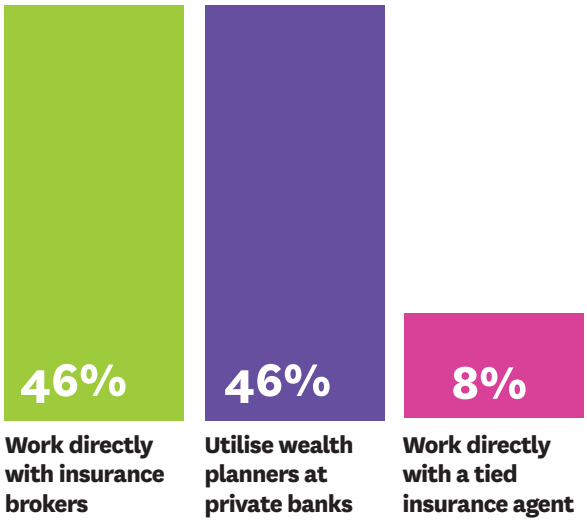
"For cost reasons," came one view, "more families are looking at account/data aggregation solutions, some of which are being offered as a subsidised benefit by some of the private banks. But while this is cost-effective, this nevertheless has some downside with questions over the ulterior motives of the banks."

The survey highlighted the big incentives for banks related to large commissions available on most VUL and PPLI products.

A consistent comment is that much more planning is required to determine insurance needs, as insurance companies tend to look at a one-off requirements, while appropriate and well-structured wealth planning needs for family offices are more complex and diverse.

Accordingly, communication with and coordination between the various parties is well advised.

For insurance-related services do family offices in your experience



Conclusion

The evolution of family offices in Asia continues at a rapid pace, aligned with the significant and continuing development of wealth in the region. Driven in part by the intergenerational transfer of wealth currently underway, we are seeing families increasingly seeking to institutionalise the management of their wealth with the aim of sustaining this wealth over multiple generations.

Generally speaking we see that family offices, whether established as a SFO or working through a MFO, tend to be conceived and created with the goal of focusing on the management of the investible assets of the family, and often subsequently evolve into more holistic platforms for the family, with a focus on the coordination and management of the entire family wealth, including operating businesses and the development and maintenance of succession and governance arrangements for the family.

To achieve this, the families concerned need a clear idea of what they are trying to achieve and how best to access the necessary skillsets and operational platforms to achieve these goals. Realistic decisions need to be made over whether the family has the resources and commitments to develop their own SFO, or whether they would be better to combine forces with an established MFO platform which has many of the skillsets they need already embedded.

There seems little doubt that the continued growth in the number and sophistication of family offices in Asia is assured. The challenge for the families concerned is to clearly define their strategy, adopt the optimal structure and identify the best-placed service providers to support the multi-faceted functions of their family office.

The challenge for the industry is how best to continue to evolve to adapt the current disparate range of services into a truly holistic offering. To this end, the continued evolution of both the family offices and their service providers in Asia is both assured and eagerly awaited.