The Middle East and the Multi - Family Office (MFO) - New Horizons for the Region's HNWIs

The expansion of the family office concept across the globe has not been missed on wealth management advisers and wealthy families in the Middle East. The independent asset management model has been gaining greater traction in recent years as the region aims to develop its financial centres, especially in Dubai, Abu Dhabi and Bahrain. And the Multi-Family Office (MFO) is a natural extension of that phenomenon. Hubbis invited a panel of experts to offer their views at the Middle East Wealth Management Forum.

These were the topics discussed:

- *Why start a MFO in the GCC?*
- *The vast majority of AUM remains with private banks and bankers - with investment decisions still driven by the client on an advisory basis. Will this change? What's thevalue that a MFO brings? How do you compete?*
- *How will Private Banks and Independent Firms collaborate or compete in the future?*
- *What are some of the common challenges for the IAMs/MFOs today? IT, HR, Ops, Compliance?*
- *How are you improving your platform from an investment and operational perspective?*
- *What is your target segment of clients?*
- *How are you evolving your client service?*
- *Where will new clients come from? UAE, Bahrain, Abu Dhabi, Europe, Eastern Africa?*
- *Are the majority of MFOs firms truly independent? How should clients decide which firm is best to use?*

PANEL SPEAKERS

- **Malik S. Sarwar,**
  CEO,
  K2 Leaders
- **Madhavan Sivashankar,**
  Founder, CEO & Member of The Board of Directors,
  Gulf International Finance
- **Prashant Tandon,**
  CEO, Managing Director,
  Lighthouse Canton
- **Fadi Barakat,**
  Portfolio Management and Advisory

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THE KEY OBSERVATIONS

Independents on the rise, so too family offices

As the independent asset management model increases in prominence in Dubai and Abu Dhabi, so too is the family office concept gaining greater traction, mirroring to some extent the dramatic rise of the single-family office (SFO) and multi-family office (MFO) across the globe.

More private bankers taking the plunge

There is an increasing number of private bankers migrating to the IAMs and family offices in the region, attracted by the relative independence and perhaps the opportunity to be even more client centric.

The MFO can provide a broader array of services and offerings

A full-service MFO can combine asset management of mainstream financial assets, with the ability to offer family clients access to a broader range of private investments, and real estate, even help with major lifestyle investments such as luxury yachts, art and also 'concierge' style services to help the families with education for their family members, travel logistics and so forth.

Migrating IAM and MFO models back to the Middle East

Wealth management firms operating in Singapore and Hong Kong, or those from the UK or Switzerland, often have a conservable base of Middle Eastern clients. It is a natural step then to establish operations in Dubai or Abu Dhabi to further serve those clients and then to build up more clients locally.

Dubai making solid progress

The Dubai International Financial Centre (DIFC) has been making substantial progress as a regional financial centre, in terms of regulations, the availability of structures, and the diversity of service providers.

The IAM and MFO models must prove their sustainability

While there are more bankers willing to take the jump from their private banks to the IAM or MFO space, the industry must ensure that they stay long enough to properly service the clients. Assuming these arrivals have bought into the concept, well-tuned remuneration structures are essential to retaining this talent.

The MFO offers broad access to best-in-class

The MFO can offer clients a range of private banking custody solutions at perhaps better prices than those clients could obtain themselves. And the MFO can access the broadest range of transaction services from the online platforms or private banks, as well as obtaining research from best-in-class providers.

Outside the pressure-dome

Away from the private banks, relationship managers are not pressured in IAMs or MFOs to offer in-house product, and can, therefore, present and promote a more objective, comprehensive, and global picture of opportunities for their clients.

Control your costs

Whatever the advantages of the MFO - and there are clearly many - the founders must be very cautious about racking up unnecessary costs, especially in the early days.

Highlight your key strengths

To survive and prosper, the MFOs must highlight all of their key strengths and must place a continual emphasis on transparency and quality.

MALIK S. SARWAR
K2 Leaders

THE COMBINATION OF EX-PRIVATE BANKERS ACTING AS RELATIONSHIP MANAGERS, custody remaining with the private banks and product/execution conducted through the several major digital platforms is a compelling and relatively low-cost proposition for IAMs and MFOs. Is this type of business model gaining traction in the Middle East markets?

One particular model, a guest explained, is to operate out of Asia as a full-service MFO and asset management business. “For example,” he explained, “on one hand we provide advice to clients, especially ultra-HNWIs, single-family offices (SFOs) and institutions on managing their investment portfolios and also on their requirements which are outside the realm of conventional private banking, be it providing consolidated reporting, analytics, bookkeeping, accounting, providing concierge services, and so forth. And expanding into the GCC is natural, to build on existing relationships and leverage our unique service delivery and framework. Dubai is an ideal location, as from there, we can also service even Asian clients.”

He explained further that in Singapore the firm operates through a capital market services license, and in the Dubai International Financial Centre (DIFC) with a Category 3C license, allowing for advisory on investments, custody, credit and for asset management. “We are independent and work with a network of private banks, thereby offering bespoke solutions,” he reported. “And

MADHAVAN SIVASHANKAR
Gulf International Finance

PRASHANT TANDON
Lighthouse Canton

with a very strong investment banking capability, we can offer solutions through to clients on an institutional scale."

The DIFC shines

Another expert picked up on the role of the DIFC and progress to date. The DIFC, he commented, is the regional centre that can perhaps be most compared to Singapore in Asia, and that has been progressing steadily, with considerable growth in the IAM space and family offices in recent years, with different business models, but all based on greater transparency and quality of advice and service.

"The MFO concept is just slightly different," he noted. "It is not really a business per-se leading to a commercial business needing to generate revenue, as it supports a group of families. There is talent available, as people are getting tired of the bigger institutions in terms of compliance, the lack of flexibility to do business, and so forth, so the family office is definitely gaining traction."

Sustaining the model

Another guest observed that attracting talent is not so difficult, but retaining that talent is more problematic. "There are plenty of senior bankers wanting to move to the independent space, but it is tough," he remarked, "so often it is necessary to start with the old models of retrocessions and commissions, before evolving to a more acceptable and transparent fee building business. The key challenge is, therefore, sustainability, working with a credible platform which follows the concept of transparency, and at the same offering an institutional-grade platform and a

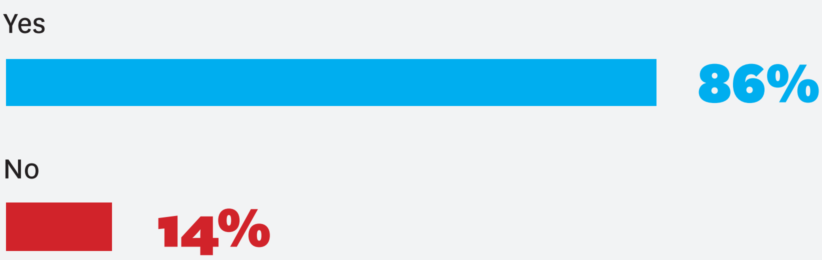
FADI BARAKAT
Chief Investment Officer

solid network of banks behind. That means the senior bankers moving over will look for platforms which are evolved in this space, offer the kind of the breadth and the depth that sophisticated clients need before they might head to a family office."

Keeping the talent

The discussion moved on to revenue sharing, in other words, the split between the RMs and the

DO YOU EXPECT MFOS TO GROW IN UAE IN THE NEXT THREE YEARS?



Source: Middle East Wealth Management Forum 2020

MFOs or IAMs. "Revenue sharing is part of the issue," said one expert, "but it is more about the sustainability of the business, so the bankers which genuinely add value to the life of a client would tend to thrive in an independent advisory model, no matter what the pay-outs are initially. The pay-outs are generally higher in the IAM and MFO model, compared to private banks, but there is a lot more heavy lifting required to generate the revenues." And of course, outside the cosiness of a major brand name bank, there is less security.

"The key," came another voice, "is the relationship. If the bankers leaving the private banks believe they have close relationships and can build more of such, that is where they can be successful."

A new arrival

Turning to the current situation in the GCC, a guest observed that the first MFO was in the US more than 200 years ago, whereas the early family offices in the region date back less than a decade. "The concept is new, and that has a direct correlation with the talent you can attract," he observed. "The talent still largely wants to pursue a private banking role, even though with open architecture on offer through the MFO, there is a really exciting opportunity both for the bankers and the smarter clients."

The panel then looked further into the advantages for clients of working with an MFO. "By working for an MFO you are dealing with quite a number of private banks, brokerage firms, and other service providers," one expert noted. "So you are able to aggregate ideas, expertise and research as well and select out the best in class for your clients. As an individual within one institution, you often have to promote the house view, whereas through an MFO or IAM you can present and promote a comprehensive, global picture."

Multi-faceted

Another guest explained that the MFO banker can work with clients across multiple disciplines and asset classes, across the whole matrix of investments, rather than being siloed. "You can work across the client's financial portfolio, or private equity, or a host of other assets and opportunities and be the link to promote the other experts and link the whole matrix to fit within the family circumstances, within the footprint, and take on board cross-border issues, tax efficiency, and so forth. It is a more comprehensive offering."

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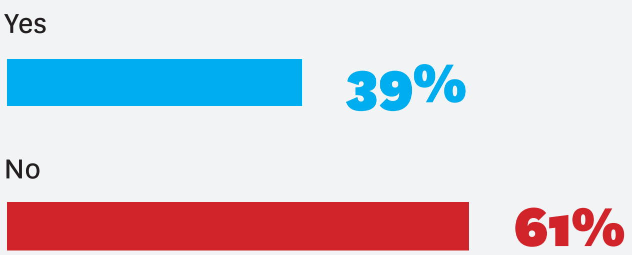
Another expert added that the different banks have different strengths, some better in fixed income, some better in the equity markets, some expert on certain markets and geographies. "Our job through the MFO," he said, "is to identify and select which are the best offerings and then filter them for the clients. We are not obliged to sell a product of the month, there is no pushing of specific ideas because the bank is issuing a big-ticket deal and we need to spread it across clients. We can be much more focused and personalised for the clients."

ARE INDEPENDENT WEALTH MANAGERS REALLY INDEPENDENT?



Source: Middle East Wealth Management Forum 2020

Staying private for custody

As to custody, the panel considered that the private banks still have the upper hand over digital platforms as they have a reputation for stability, the credit ratings, investment banking arms, the corporate business side, and of course the lending capacity. "Even for execution some clients will prefer the classic banks because of credibility, history, and so forth," he commented. "Moreover, the banks also produce bespoke research, which the clients like."

"The successful banker who joins an MFO or IAM will be a banker who has clients who are multi-banked, and moving to a family office which has a network of relationship with private banks already established will then help them literally plug and play."

Another expert observed that at present, while the private banks remain the forefront for clients to provide custody and execution, and most importantly for the clients balance sheet, for a certain segment of clients when they have large enough wealth, the MFO and IAM can offer more institutional type asset management and strategies, while still retaining custody with the banks. "Looking ahead," he added, "the trend favours technology, so traditional financial investments will tend toward the digital and online platforms."

Collaboration

"I think in the future, the private banks and MFOs will have to collaborate," another guest remarked.

A panellist commented that his MFO operation has been growing rapidly in Asia and the Middle East, boosting AUM from just USD30 million in 2014 to almost USD1.5 billion today, and present in three different geographies and five different locations. Moreover, with no external debt and as an employee-owned firm, the business is extremely focused on how they invest in infrastructure, technology and people.

"We are very cognizant of profitability, but not profitability at the expense of the client," he remarked. "We must be fully transparent in order to have a sustainable revenue stream, which we have achieved, and which sustains us in any difficult market conditions."

Another panel member observed that when establishing an MFO or IAM, cost control is essential. "There are also many hidden costs," he reported, "so just budget carefully, look two to three years ahead and be aware of surprises. And choose people very carefully, take a deep dive when choosing bankers, understand their plans and what sort of time frame they can really deliver on. You must look carefully at both the cost and the revenue stream and really try to balance both in the best way."

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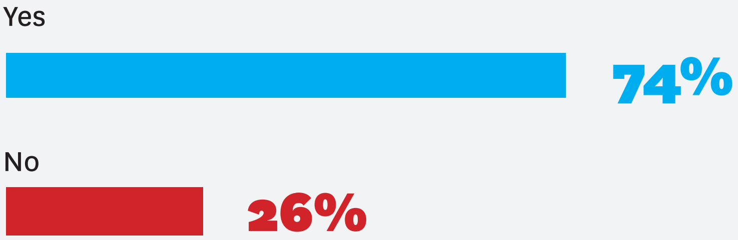
DO YOU THINK WE WILL SEE CONSOLIDATION IN PRIVATE WEALTH MANAGEMENT IN UAE IN 2020?



Source: Middle East Wealth Management Forum 2020

Plenty of advantages

The panel then reviewed some of the key advantages for clients of working with MFOs, including a more personalised service, a more deep-dive analysis of their needs, greater flexibility, a broader range of ideas and opportunities from multiple sources, greater product or asset agnosticism away from the pressures of 'product pushing' less hierarchy, fewer politics, and greater collective identity and direction, an agile investment committee to help seize opportunities, greater product diversity and differentiation, and additional focus on risk management.

The final word went to experts who conceded that the MFOs are not immune from the widespread pressure on costs and revenues in wealth management. "We need to be nimble, and we might also need to consolidate, that scenario is actually already playing out," one guest observed.

The final word went to an expert who said that the MFO and IAM model must be all about transparency, as it is that which is required to win over and retain clients who are seeking a more personal, more transparent and higher-quality offering. ■