ASIAN FAMILY OFFICE – THE WAY FORWARD

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Asia is leading the world in wealth creation growth and in the establishment of new family offices. We see institutionalization, the induction of diverse professionals, and the role of impact and direct investing as key trends for the Family Office franchise, as the industry here evolves. Some of the key points to consider are articulated in this opinion piece.

Choosing Location Advantage:

As the family office community evolves across Asian markets, an increasing number are adding additional regional hubs. This allows taking advantage of unique investment opportunities as well as benefit from investment, talent, tax, regulatory and broader lifestyle and transparency benefits.

Many family office hubs, such as Hong Kong and Singapore, are trying to attract families of wealth and their family offices to consolidate in their jurisdictions; therefore it can be beneficial to compare and contrast what different offerings and incentives are available in each.

Implementing Family Constitution:

It may be a good idea for Asian families to start the development of their Family Constitution by explaining the nature and benefits of constitutions to a wider group of family members, and build ownership within all stakeholders. Traditionally the relationship of Family Constitution has been with the family business which is where the majority of Asian family wealth was concentrated. Going forward it needs to tie into the family office as well, as many families are exiting family businesses to focus on investments and other business interests for the sake of their next generation.

Pursuing Succession Planning:

It is important that Asian families, family office executives and the service providers who support them remain focused on planning for succession. Despite the fact that a majority of the family office community will soon undergo a generational transition, only a minority of Asian families have a succession plan in place.

The high rate of failure in wealth transfers reflects the difficulty of succession. Successful leadership transitions are dynamic i.e. continuous in nature and updated routinely. Many multi-generational legacy families say that they prepare for generational transitions decades in advance. The most forward thinking families have plans for both long-term (planned) succession and contingent (short-term) succession. They also address all of the relevant issues: economic, fiscal and human - and involve key stakeholders including advisers, mentors, family members.
Ensuring Good Communication, Professionals and Diversity Policy:

As family dynamics can be complicated and family members can be internationally spread, it is important to make sure that channels of communication are open, clear and strong - both within the family and within the outside network of professionals they work with. It may also prove helpful to utilize new forms of technology to facilitate this effort.

Diversity in professional hiring is becoming an increasingly prominent objective for businesses. The investing business is a global one and where reputation matters, hence the importance of diversity within the Family Office team and the Investment Committee.

Focusing on Impact investing:

Asian Families’ interest in impact investing is a growing trend, as one-third of all family offices are now engaged in this form of sustainable investing. Millennials are looking more intently to drive forward with this alternative form of social giving. It might therefore be fruitful to educate Millennials about impact investing, by creating further networking opportunities that surround the topic to developing this investment area. This can be achieved through greater definition and classification systems, along with stronger tools to analyze the effectiveness of social good outcomes and “triple bottom line”. This is particularly pertinent as we are nearing the next significant generational transition for first generation entrepreneurs who have been leading wealth creation in Asia. Philanthropy is also seen as a very useful tool for the family to build governance and also team work between family members.

Pursuing Direct and co-Investment Private Equity opportunities:

Direct private equity investment is a growing asset class with little correlation to the public markets. Co-investing is a very attractive concept for many families and family office executives – and there is certainly an appetite for it in light of it being an alternate asset class. A good understanding of the investment including capital commitment, length, exit strategy as well as ensuring good partnership and shareholders are all important pieces. Also, understanding the investment fully, and what resources the family can bring to the table, in addition to capital, is a critical element. We see that, for the most part, families make direct investments into sectors and businesses which they understand or where they have the ability to add value.

The Family Office space is becoming an important part of the Wealth Management eco-system in Asia. We are seeing the onset of increasing professionalism and sophistication in both talent as well as investment practices. It also offers an important source of capital for private equity and impact investments. More importantly, it will be a creator of jobs both within the global private banks as well as multi and single family office set – ups. In conclusion, the Asian Family Office is here to stay and is an important value creator in Asia.