

THE FUTURE OF FAMILY OFFICES



2017

Bloomberg



FAMILY OFFICES IN 2017

Increasing globalization is seeing family offices opening in emerging markets, and changing the ways in which they operate

The opening of new family offices around the world has contributed to a more diverse landscape, with new wealth centers emerging and a changing approach to wealth management in more mature markets.

While the US is home to a large number of family offices there are signs that growth in other parts of the world is starting to take off.

"There is considerable wealth held outside the US and it needs to be remembered that if you define a family office as \$250m upwards, there are as many family offices in Europe as the US," says Michael Oliver, co-founder of family office services firm Global Partnership Family Offices.

"This is unsurprising given the predominance of old wealth that has survived in Europe, coupled with the new wealth that has entered it – particularly from Russia, following the demise of communism."

"A high percentage of wealth is managed in the financial hubs of the world," says Jurgen Vanhoenacker, executive director, sales, marketing

& wealth structuring and Ann Marie Reyher, director, wealth structuring services-UHNW at investment manager Lombard International.

"As family offices have globalized, we are seeing a natural development of family offices in these

regions. For example, the Swiss market has seen a large increase in family offices being set up by ex-private bankers, following much of the banking restructuring that took place after the 2008–2009 financial crisis."

More recently, existing family offices have made changes to the way they operate, adding additional offices around the world and emerging in forms that are different than the traditional structure.

"Family offices are becoming more international as families are becoming more complex – the trend toward having multiple jurisdictions will likely continue," says Mike Reed, managing director, multi-family offices at RBC Wealth Management.

"In Europe, we are seeing the creation of a number of cross-border family offices, leveraging expertise in London, Switzerland, the Channel Islands or the Isle of Man.

"In North America and Asia, there has been a surge in family offices, which are more like registered investment advisers (RIAs) or simply investment-oriented organizations than what might be considered a traditional family office.

"We're also seeing a number of family offices growing their business by merging with other family offices, creating economies of scale, which ultimately benefit the client."

The current market environment has also had an effect on the way family offices invest. As the search for yield and predictable rates of return intensifies amid more volatile market conditions, family offices have begun focusing on non-traditional asset classes, such as private equity and real estate.

Moreover, family offices are increasingly reorganizing to make their operations more efficient, keeping running costs low while continuing to focus on wealth management.

"The most successful family offices are recognizing the importance of efficiencies and connectivity," says Reed.

"A successful family office attracts a client base of families and assets where their fixed costs can be justified, while they also become a key partner and the conduit for managing a family's entire wealth, including consolidated reporting and asset allocation."

“ A high percentage of wealth is managed in financial hubs, and we are seeing a natural development of family offices in these regions

THE WEALTHY

The world's super-rich seek to protect their assets with the upmost security and confidentiality

Economies appear to be decelerating in many global markets, yet the wealthy continue to accumulate assets. Total ultra-high-net-worth (UHNW) assets sank to \$5.1 trillion in 2015, from a lofty \$5.4 trillion in 2014, according to a 2016 report by UBS Group AG and PricewaterhouseCoopers. Notwithstanding that dip, last year, 210 freshly minted billionaires joined the cohort of the 1,400 families covered by the study.

Family offices have become the vehicle of choice to protect and preserve assets for future generations. The 2016 *EY Family Office Guide* estimates at least 10,000 single family offices now exist worldwide, half of which have been established over the past 15 years. "Particularly important in the years ahead will be the strong growth of family offices in emerging markets, where for the most part they have yet to take hold," the guide predicts.

Motivations

Family offices are gaining traction in so-called BRIC countries (Brazil, Russia, India, China), where wealth creators view their own infrastructures as outgrowths of themselves. "The CFO of the business may become the family office CFO as well," notes professor Christopher Geczy, academic director of the Wharton Wealth Management Initiative.

Joe Falanga, managing director at UHY Advisors, has seen an influx of work in his China practice. His firm represents clients who wish to



\$
5.1
trillion

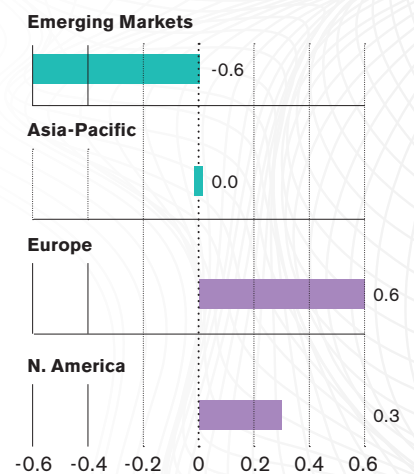
Total UHNW assets in 2015

Source: UBS Group/ Pricewaterhouse Coopers

invest in the United States, and to set up a base there for their children's education. Falanga explains how the Chinese family office concept has evolved: "Initially, the patriarch creates legal and accounting relationships, but does not require a family office as long as the value is in the business, and until it has been monetized." Meanwhile, many Chinese UHNW families approach Tim Speiss, partner-in-charge of EisnerAmper's Personal Wealth Advisors Group, for help in starting to operate in the United States. Speiss describes these early and incremental steps as a process for "learning to manage cash flows to and from both countries." Although many hedge funds are active in China (Shanghai alone has about 5,000), his clients are willing to pay a premium for US regulatory certainty.

Safety is a paramount consideration. Chinese families seek an "escape hatch", if necessary, says Falanga, but the desire for security transcends hemispheres. Todd Kesterson,

ESTIMATED BENCHMARK PERFORMANCE OF GLOBAL COMPOSITE PORTFOLIO, BY REGION in % return



Source: The UBS/Campden Wealth Global Family Office Report 2016

ARE COMING



director of Family Office Services at accountants Kaufman Rossin, describes a flight to safety among his Latin American clientele. Brazilian clients, fearing for the stability of their currency, government and economy, “have the wherewithal to find expertise abroad,” he says. He sees a constant flow of funds to the United States from clients in Venezuela, Panama and Colombia, where economies are somewhat firmer but political risk still looms large. For example, new legislation in Colombia requires personal financial information to be filed, and raises alarm that the information might be disclosed.

Confidentiality is a constant driver for private wealth management. Tony Roth, CIO at Wilmington Trust, reflects on a move by asset owners away from large investment management firms toward creating their own fiduciaries or proxies as advice providers. “It is a vital issue for accumulators that Wall Street institutions might not use their information appropriately, or may

suffer a breach of their information systems,” he says. That wealth may be suspect from the perspective of local jurisdictions, he adds, “and the last thing Russian or Chinese families want is for that information to become public.”

Destinations

Russian family offices gravitate toward American real estate investments, typically trophy properties in cities such as New York and Miami. Russians who relocate to the West often bring a substantial entourage, including bodyguards. Michael Kosnitzky, head of the Tax and Middle Market Practice Groups at Boies, Schiller & Flexner, who and has a substantial Russian practice, has seen some temporary pullback on account of price disruption in the oil sector. He believes, however, that Russian offshore investment will continue to expand, depending in part on US/Russians geopolitics and Vladimir Putin’s relationship with the Trump administration. “The needs for discretion have been heightened,” he points out. “Unlike Russia, the United States recognizes attorney/client privilege and Russians perceive a safe haven here.”

London serves as another hub for those from emerging markets who are consciously seeking a close, trusted group of highly skilled professionals to protect the family interests. “Clients appreciate the value of the UK rule of law, access to our courts, and transparency and fairness of treatment,” says London-based lawyer Ashley King-Christopher of Charles Russell Speechlys. They must consider key factors: Which law applies? Would I have title to my assets in a crisis? In 2013, during the Cyprus banking crisis, local government laws wiped out senior bondholder debt for the 99 percent

10,000

Estimated number of family offices in existence worldwide

Source: 2016 EY Family Office Guide

of contracts governed by Cypriot law. The minority governed by UK law were repaid. King-Christopher notes that international families in London tend to form a critical mass, congregating like birds of a feather, to buy each others’ art and properties.

Investments

It would be misleading, however, to lump together family offices in terms of risk management. *The Global Family Office Report 2016* from UBS and Campden Wealth discovers highly diverse regional differences in strategic asset allocation. The study finds that US family offices are the “most optimistic,” but “emerging market participants are much less stressed than in 2015,” while “Europe is standout negative.”

For historical comparison, attorney Patricia Rogers of Moye White, notes that Chinese and Russians today are behaving more like US investors in the 1980s, by concentrating on consumer products and real estate, hospitality and multi-family properties. Contrast that penchant for traditional investments with Western managers, who are moving toward infrastructure in emerging areas, such as Africa, India and Thailand. She comments: “You might think Chinese money would go back to China, but Chinese family offices are turning to more developed economies.”

“Family offices have become the vehicle of choice to protect and preserve assets for future generations”

REGULATION AND THE RIGHT LOCATION

New rules and regulations and a demand for transparency mean family offices all over the world need to adapt accordingly

The fittest adapt to survive. Increased scrutiny and legislative pressures for transparency are transforming the family office industry. The global drive toward systemic reforms has radically altered the regulatory landscape, prompting a search for more efficient jurisdictions and more competitive structures.

Dodd-Frank legislation enacted in 2010 set the stage for financial reform in the United States. “One problem is that those regulations are still constantly coming out,” explains Todd Kesterson at accountancy firm Kaufman Rossin, who has clients in Latin America and the Caribbean. Another issue is that families may not wish to register as multi-family offices, which would expose their holdings to public view. “One solution is to create single-family offices where only family members participate,” Kesterson suggests.

Tax havens and privacy protocols are under siege across the board. “All is in motion. Few traditional tax avoidance regimes – legal and illegal – still exist, and those remaining will be

squeezed over the next five years,” says Christopher Geczy, academic director of the Wharton Wealth Management Initiative. “In some spaces, such as carried interest rules, the United States may become more competitive, and in others less so.” Recent American legislation, such as the Bank Secrecy Act and the Anti-Money Laundering Act may propel some residents toward tax regimes elsewhere.

The Foreign Account Tax Compliance Act (FATCA), set up to prevent underreporting by US taxpayers, exemplifies the trend. Elsewhere in the world, the Common Reporting Standard (CRS) is slated to go into effect next year, with countries phasing it in gradually. In



consequence, American regulation may actually provide better privacy protection. “A foreign person might not wish to be subject to US taxation, but might still be able to guard anonymity better in states like Nevada, Delaware and South Dakota,” points out Michael Kosnitzky, tax attorney at Boies, Schiller & Flexner.

From London-based lawyer Ashley King-Christopher of Charles Russell Speechlys, makes the case for what he calls “protectionism through legislation.” Know Your Customer (KYC) rules require professionals to ascertain clients’ identities. He therefore counsels his own wealthy clients to set up a base in London for their family office, with key people onsite to build critical mass. Those who can show badges like a UK bank account and law firm will have automatically passed a lot of tests. “Governments can impose subtle rules over time, and they keep getting tighter,” King-Christopher warns, “The wealthy may be stranded.”

Converting Structures

In a novel phenomenon, a number of hedge fund managers have converted their structures to family offices in recent years. In 2015, 979 funds were liquidated, including those run by Seneca Capital, Lucidus Capital, BlueCrest, BlackRock, Bain Capital and Fortress Investment Group. In 2016, the exodus continues.

Two principal drivers underlie this movement, according to New York-based attorney Jeremy Berry of Akin Gump. First, Dodd Frank requirements have significantly increased the expense of conducting hedge fund operations. Those who were managing their own money to start with, supplemented with some outside funds, have found it expedient to expel third party investors

“ Few traditional tax avoidance regimes – legal and illegal – still exist, and those remaining will be squeezed over the next five years

and avoid registration. “That way, they avoid both costs and fiduciary duties,” Berry notes.

The second driver reflects market fluctuation rather than regulation. Some hedge fund managers may find themselves deep in the hole. To keep their powder dry for another day, funds can terminate and disband, so the founders can retrieve the money to create a family office. A number of managers who have historically run large funds are underperforming with their current strategies. “Some still claim to have faith in the viability of their strategies but attribute current market conditions to their short-term difficulties,” Berry says. In other words, look to both a push and a pull. Berry summarizes: “Investors are withdrawing money, but managers also want to convert to family offices, to know what assets they have available to work with.”

According to the UBS/Campden Wealth Global Family Office Report 2016, “interviews with family offices reveal concerns around the poor performance and high fees of hedge funds. There are also some doubts about the ability of hedge funds to generate alpha going forward, even with the benefit of volatility.”

Jurisdiction

Another central issue is the most attractive location for a family’s imperatives. The EY Family Office Guide: Pathway to Successful

Family and Wealth Management provides a list of pertinent considerations. Criteria include available legal and tax structures, ease of maintaining employees, economic and political climates, filing requirements and the flexibility for future restructuring. The guide emphasizes, nonetheless, that a location close to the family may be more important than tax or regulatory aspects.

Kosnitzky starts with an analysis of his clients’ needs, outlining the pros and cons of various jurisdictions. Some families resist an unrelated person making decisions for operating their trust company, which local requirements may demand. Some jurisdictions, such as Ireland, necessitate annual meetings, and all require some boots on the ground. Will time zone differences pose a problem, for example, for distant tax-friendly locations such as New Zealand? Is the banking system stable? How protective are the trusts? “Some courts won’t admit a case on a contingency basis, and others refuse comity of judgment, so plaintiffs must start from scratch. Does the client have creditor issues? We factor all that in,” Kosnitzky explains.

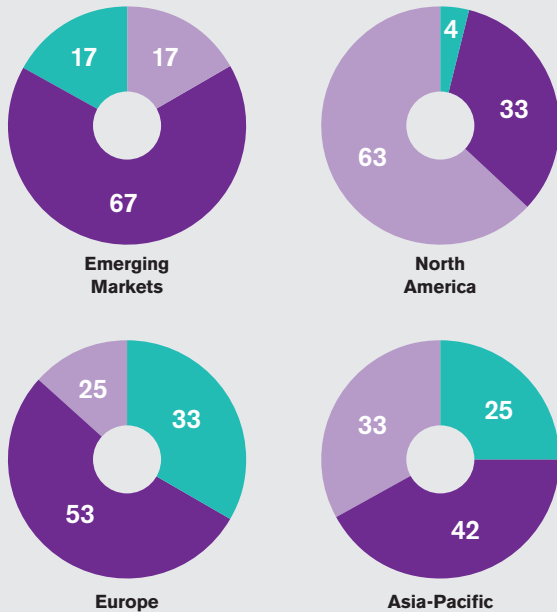
Different jurisdictions may dovetail with the family’s priorities – from Bermuda, the Caymans or the British Virgin Islands, to Ireland, Luxembourg, or possibly the United States. Singapore, for instance, offers a prime example of a location where English is spoken and UK law is followed. “It’s easy to get to, which has made it a magnet for wealthy Asian family offices,” says Fred Tannenbaum, managing partner at Gould & Ratner. He notes, “They like its dynamism and energy and 21st-century outlook.”

KEY TRENDS

INVESTMENT STRATEGY, BY REGION

in % of family offices

● Preservation ● Balanced ● Growth

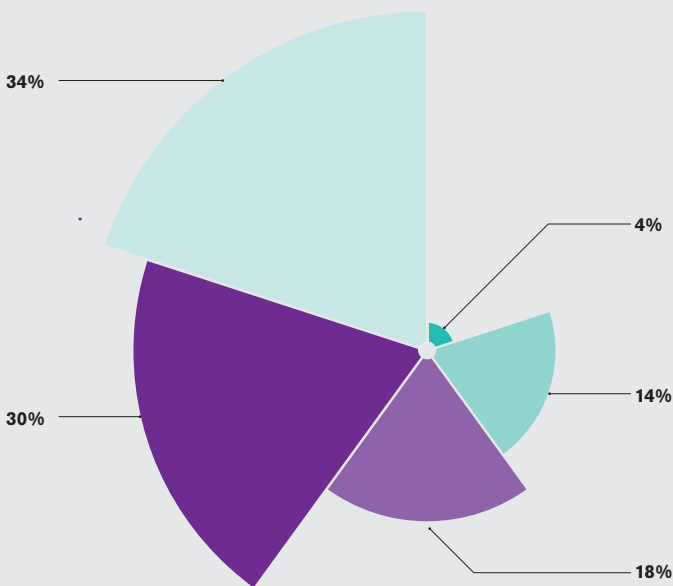


Note: Due to rounding, totals may not add up to 100%

IMPACT INVESTING - INVOLVEMENT

% family offices

● Highly active ● Not currently active, likely to change in future ● Unsure
● Somewhat active ● Not currently active, unlikely to change in future

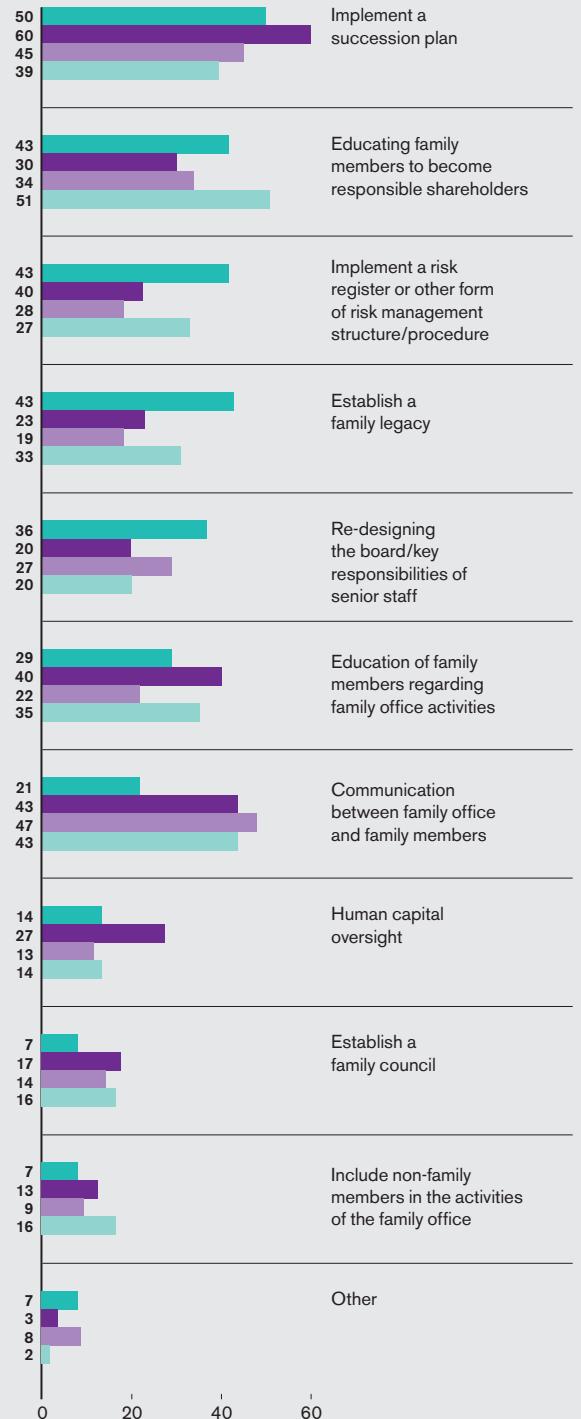


Source: The UBS/Campden Wealth Global Family Office Report 2016

TOP GOVERNANCE PRIORITIES FOR THE NEXT 12 MONTHS, BY REGION

in % of family offices

● EM ● APAC ● Europe ● N. America

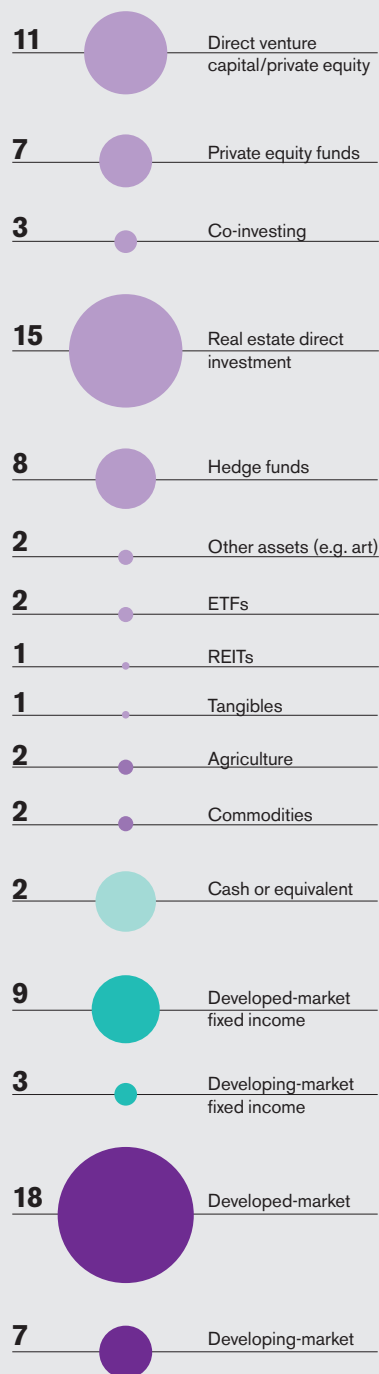


Source: The UBS/Campden Wealth Global Family Office Report 2016

AVERAGE FAMILY OFFICE PORTFOLIO

in % of global composite portfolio

● Bonds ● Cash or equivalent ● Equities
● Commodities ● Alternative investments

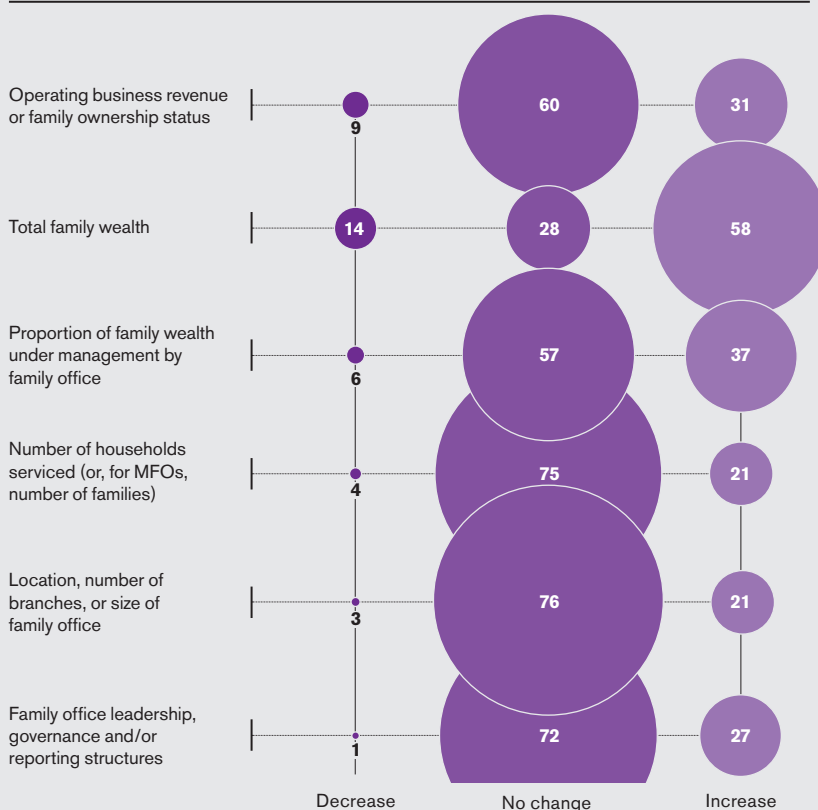


Source: The UBS/Campden Wealth Global Family Office Report 2016

Note: Due to rounding, totals may not add up to 100%

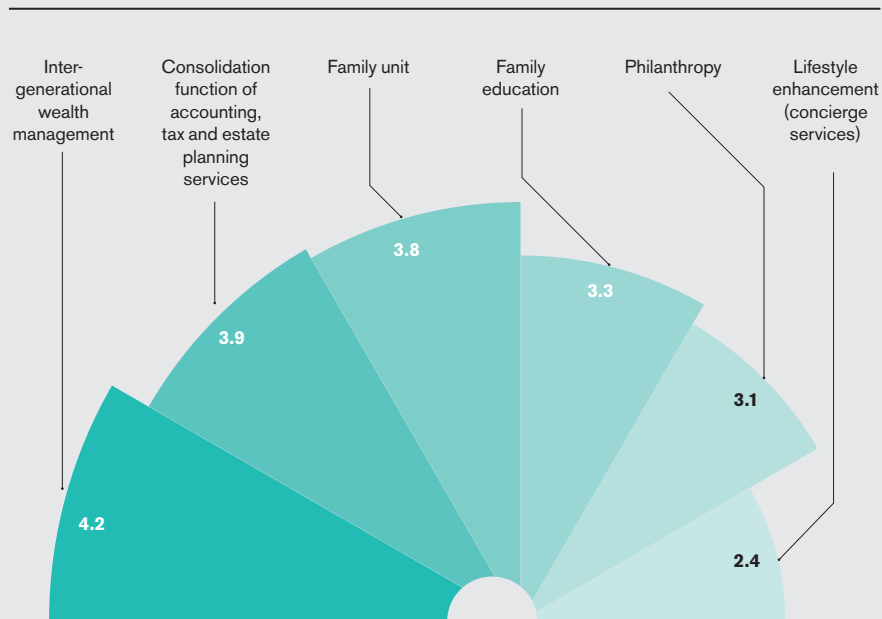
CHANGE SINCE 2015

in % of family offices



OBJECTIVE OF THE FAMILY OFFICE, BY IMPORTANCE

1 - Unimportant | 2 - Of little importance
3 - Moderately Important | 4 - Important | 5 - Very important



Source: The UBS/Campden Wealth Global Family Office Report 2016

GENERATIONAL MINDSETS

Family offices can contain executives spanning several generations, and younger family members can bring a different attitude to wealth

The ranks of the wealthy are expanding across the world, albeit at varying paces depending on the region. As the number of ultra-high-net-worth families proliferates, so too will the single and multi-family offices designed to serve them. With this explosion occurring on a global scale, there comes inevitably a shift in the mindset and attitudes of succeeding generations.

Knight Frank's *The Wealth Report 2016* marks a current tally of 187,500 UHNW families (who by, definition, control at least \$30 million in assets), forecast to rise to 263,500 by 2025. Over the decade, Asian millionaires

are expected to increase by 66 percent versus a 27 percent rise in Europe. A WealthInsight study predicts a 104 percent explosion in India's UHNW group over the next decade, while a 2014 study from Insead entitled *The Institutionalization of Asian Family Offices* reports a surge in China, where those with over \$100 million in assets account for one third of the growth in Asia. "In family offices at a nascent stage of institutionalization, hands-on entrepreneurs are typically involved in all facets of decision-making," according to the Insead survey. Second and third-generation family members on the other hand, who are active in intermediate and advanced family offices, have also honed their capabilities through experiences outside the family office.

Millennial Profiles

The transfer of wealth is occurring in a changing psychological context. Consumerism is a key trend. In China and developing nations, cultural elements are affecting the progeny of parents who have experienced new horizons of travel and communications. Longevity is another hallmark, since all are living longer. In many countries, "wealthy parents are preparing their children for professional careers, being aware that wealth will now pass at a much later stage in their lives," notes Jack Garniewski, senior managing director at Wilmington Trust.

Consistent with a millennial view, many new UHNW asset holders tend to pursue a core competency while



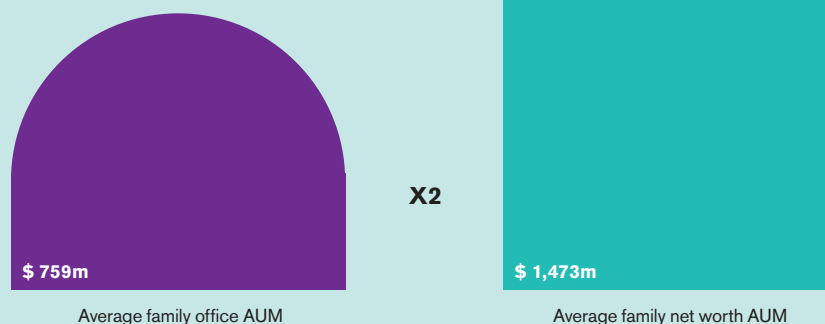
they outsource other activities. With the availability of off-the-shelf tools and management products, they may prefer to exercise greater control over their finances than former generations did. Moreover, having often made their fortunes early in life, this may be just the first gyration of their business careers. "Some expect future phases, and don't view this as the last stop or final \$100 million they will make," says Michael Kosnitzky, head of the Tax and Middle Market Practice Groups at Boies, Schiller & Flexner. His younger clients tend to focus less on material objects such as yachts and airplanes, although they have sufficient assets to use as collateral. They take considerable pride in their businesses and how they treat employees. At the same time, investing in environmental, social and governance (ESG) projects has become popular, and is often seen as a more efficient use of funds than pure philanthropy, to achieve social justice and societal change.

The Family Office Exchange (FOX) addresses some predominant millennial motifs in its 2015 study, *Engaging the Client of the Future*. The FOX study highlights five salient themes applicable to the current generation: They "prize relationships," and must relate to advisors on a personal level; they "crave authenticity," whether in work, play, consumption or investing; they "operate in real time," being inundated with information; they value entrepreneurship; and are sophisticated, highly educated and well-traveled.

Successive Generations

"Shirtsleeves to shirtsleeves in three generations," steel tycoon Andrew Carnegie famously pronounced. Across multiple societies, certain patterns characterize each generation's attitude. Clearly one cannot make a great fortune by taking the advice of others, or achieve a supernatural profit by merely doing

GLOBAL FAMILY OFFICE ASSETS UNDER MANAGEMENT – TOTAL FAMILY NET WORTH in % of family offices



Source: The UBS/Campden Wealth Global Family Office Report 2016

something average. "To create intergenerational wealth, you need to take more risk, execute a brilliant idea, do something different," says Ed Goodchild, founder of Chawker & Co, a London-based advisory service for family offices. He describes how the "drive and determination which make it happen constitute a lonely journey."

By the second or third generation, it becomes more difficult to understand failure. Successive family members only see the successful patriarch, and not the earlier experiences of risk taking. Thus they may become curators of the family culture, eager to preserve and hold onto the assets, rather than personally seek remarkable achievements. The third generation may take contrasting paths, Goodchild adds. "Either they typically want to part from the tradition, or, by contrast, they may want to emulate the grandparent, having been brought up on those tales and become minded to repeat them."

Across the ocean, Jack Thurman, managing partner at BKD Family Office and BKD Wealth Advisors, attends to a very different clientele. Located in Springfield, Missouri, the heart of the American Midwest, he serves low-keyed entrepreneurs who have

61
%

of family offices are now active or expect to be active in impact investing

47
%

of family offices believe that impact investing is a more efficient use of funds to achieve social impact than philanthropy

The UBS/
Campden
Wealth Global
Family Office
Report 2016

monetized businesses for \$250 million and up. Their enterprises, such as a convenience store chain, an adhesive company or a major distributor of housing insulation, will have morphed from local to regional to national operations, to become cash cows.

In general, Thurman observes, his clients still "want simplicity in their lives, having been transitioned into an unfamiliar new world." How does this attitude affect their offspring? Some believe the money is disposable, ignoring accountability and stewardship; others deny the wealth and move away from it; a third group understands balance and responsibility. "Those values must be taught intentionally by parents, and don't arrive through osmosis. The first two types represent natural tendencies to seek pleasure or denial," Thurman points out.

Family office executives must look to transition accumulated wealth through generations. *The UBS/Campden Wealth Global Family Office Report 2016* examines the factors most conducive to successful results. The report identifies five critical elements: A willing and able next generation; an older generation prepared to give up control; a flexible and trustworthy family office; a family with functioning relationships; and sensible governance structures. "What is comforting about the list of factors is how many the family office has some measure of influence over," concludes the UBS/Campden study.

“ In family offices at a nascent stage of institutionalization, hands-on entrepreneurs are typically involved in all facets of decision-making

What is your role at Credit Suisse Prime Services?

I head up the sales effort focused on sourcing ultra-high-net-worth and family office clients for Credit Suisse's Prime Brokerage unit. These clients, who have an existing relationship with CS Private Bank, are looking at establishing their own in-house investment funds. Our team consists of private bank employees, all of whom bring considerable prime brokerage experience. They are "embedded" within the Investment Bank and charged with servicing these clients.

So how do your family office clients employ the traditional functions of a prime broker?

They utilize the services of a prime broker in pretty much the same way as other hedge fund clients. To step back a bit, the role of the prime broker is to provide hedge funds with

custody, multiple trading relationships and leverage. Our clients run similar investment strategies to those of hedge funds, all involving the use of leverage. Typical examples would be equity long/short, global macro, event-driven and relative value.

But we have seen the following shift. In the past, these family offices were content to allocate a portion of their assets to hedge fund investing; now, they are increasingly likely to hire a PM from an existing hedge fund and establish their own in-house fund, which uses a hedge fund strategy. We help the family office set up these funds and are on hand to advise them on the choice of vendor, to assist on operational set-up, and even on hiring of personnel. So clients benefit from dedicated resources from both the Private Bank and Investment bank side.

“ Our clients run similar investment strategies to those of hedge funds, all involving the use of leverage

Interview:

THE INCREASING SOPHISTICATED OF FAMILY OFFICES

Family office clients are seeking a different level of support from their bank, says Barry O'Callaghan from Credit Suisse



Where are your clients located?

Our clients are primarily based in EMEA, with the majority in Switzerland. We also have an equivalent team based in Hong Kong, who look after family offices in APAC.

Why are your clients now becoming more interested in running their own hedge fund operations?

The primary advantage for family offices is that they can retain control, and avoid being affected by the actions of other investors. That said, participants can become as involved as they wish to be in day-to-day operations. You might see one member from the family office on the investment policy committee or decision committee, who is authorized to give a yea or nay to each investment as it comes up. Alternatively, the family can allow the portfolio manager as much autonomy as is deemed appropriate.

Significantly, in recent years, some of the larger hedge funds have

seen their returns drop off somewhat, as they grew to multi-billion-dollar size. There does appear to be a sweet spot, whereby smaller funds seem to be capturing more alpha. Accordingly, some family offices have been disappointed by their hedge fund returns in a challenging market.

Instead of spending time and resources on identifying hedge funds to invest in, family offices may now turn their efforts to selecting the best individual hedge fund manager. The portfolio manager meanwhile, can apply focus to the investing task, rather than spend time on marketing a fund. They can also benefit from “patient capital,” in that the family office is more likely to make a long-term commitment to the fund.

Which are the current popular trading strategies?

This year we have witnessed a lot of interest in event-driven and distressed debt strategies. A number of investors are finding opportunity in non-investment grade debt in today's rate environment. Mergers and acquisitions

were also on the rise last year, so clients have been making money on event-driven strategies, including corporate actions like rights issues.

Do you see this trend in family office prime brokerage clients continuing?

It's difficult to say. What I will note is that over the past 12-18 months we have seen a considerable uptick in interest from both family offices and ultra-high-net-worth individuals. This year has been busier than normal, with new clients onboarding onto the platform, and our pipeline for 2017 is up around 40 percent year-over-year.

“Family offices can retain control, and avoid being affected by the actions of other investors”



TECHNOLOGY AND WEALTH MANAGEMENT IN 2017

Entrepreneurial family office members are divesting funds from traditional sectors and investing in new technology and digital start-ups

“Family offices may be pursuing several goals, either separately or in tandem. Some could be looking for diversification, drawing away from the technology sector or specific company they have already launched

Technology investment has become self-propagating, as a generation of Silicon Valley billionaires plows their new wealth into venture capital for start-ups. Those investing through family offices enjoy inherent advantages of freedom and flexibility. According to advisory firm GrowthCap, “Unlike private equity and venture capital firms they typically do not have a fixed fund life,” and are positioned to invest widely across sectors, business stages and transaction types.

Consider some leading examples of venture groups within family offices. Sculley Brothers, spearheaded by the former Apple CEO and his two brothers, focuses on healthcare delivery systems; Gund Investment also invests in early-stage healthcare and IT; Duchossois Technology Partners pursues IT areas, including communications, semiconductors and software. Among pioneers ready to parlay seed capital, Steve Anderson’s Baseline Ventures stands out, while Bloomberg Beta offers an illustration of an early-stage fund directed toward big data, content discovery, technology platforms and media distribution.

Silicon Valley’s billionaire factory has been looking beyond the so-called old economy, and exploring more social enterprise and energy investments. Family offices are divesting funds from

“Family offices are divesting funds from traditional sectors, and investing in food security, agriculture, alternative energy and climate change

traditional sectors, and investing in food security, agriculture, alternative energy and climate change. E-lending platforms such as Prosper and Kabbage, and new vehicles such as equity crowdfunding, have proved a popular draw for venture capital.

Drivers

A Silicon Valley approach relies on cutting out middlemen, especially in a context of enhanced networking, awareness and transparency. Entrepreneurs may believe they do not need a fund to perform functions with which they are familiar, since many have been partners themselves in major venture firms. “Five years ago, we saw private equity funds in club deals, pooling resources,” says Fred Tannenbaum, managing partner at Gould & Ratner. “Now we see the same happening with family offices.” Yet a huge amount of effort and accounting will be involved in trying to understand or track, say, 35 investments and capital calls.

Family offices may be pursuing several goals, either separately or in tandem. Some could be looking for diversification, drawing away from the technology sector or specific company they have already launched. “Others may be trying to find strategic investments that can generate synergies between existing holdings or lines of business,” suggests Akin Gump’s Jeremy Berry. In general, most families are looking to access businesses they feel would grow exponentially faster than the standard asset base of stocks and fixed income. Although as insiders they enjoy an advantage of informational flow, they should still be wary of neglecting the value of diversification.

“The question is, can you keep on making it big?” asks Christopher Geczy, academic director of the Wharton Wealth Management Initiative. Some evidence does demonstrate that outperformance can indeed be sustained by those belonging to networks, but the field remains competitive. Successful venture capitalists may operate on the deal horizon, but they are vying against legions of other actors. “If they are receiving smaller size pieces of a deal, that makes the operational risk and workload tougher in a procyclical environment,” says Geczy.

15

%

of family offices reported having experienced a cyber-security breach in the past

The UBS/ Campden Wealth Global Family Office Report 2016

EASTERN PROMISE: THE RISE OF FAMILY OFFICES IN THE MIDDLE EAST AND SOUTHEAST ASIA

An explosion of wealth in the East is creating a need for appropriate guidance on family wealth management in these markets

“ The challenge for founders of family offices is that they built their wealth on very specialist experience – a very different skill set from managing investments

The growing numbers of HNWIs from emerging markets has been a key theme in wealth management circles in recent years. New sources of wealth in previously untapped regions across the world have helped shift the focus of asset managers from established markets to emerging markets in Southeast Asia, the Middle East and Africa.

The Middle East, in particular, is a well-established center of wealth but with an underdeveloped family office scene. With investors in the region having shown signs of repatriating capital since the onset of weaker oil prices more recently, the potential for a new generation of family offices to emerge could be significant.

Thanks to its oil resources the region is home to some of the wealthiest countries per capita across the globe, and its sovereign wealth funds are well known for their high-profile investments in some of the

biggest brands and global properties.

With new financial centers, such as Abu Dhabi's ADGM, launching in the region, the Middle East continues to emerge as an increasingly important global center for wealth management.

While the family office landscape in the Middle East remains smaller than other regions despite the large amounts of wealth, there are signs that this could change.

In its wealth report published earlier this year, property consultants Knight Frank reported that the number of UHNWIs – with wealth of over \$30m – in the Middle East grew by 89 percent between 2005 and 2015 and is projected to grow by a further 54 percent in the following ten-year period. The rise in the number of wealthy individuals in the region could fuel a rise in the number of family offices.

Indeed, a study by international investment manager Invesco in 2015

noted that there was an opportunity for private banks and asset managers as family offices looked to outsource asset management responsibilities.

The Invesco Middle East Asset Management Study 2015 revealed a level of dissatisfaction with low returns, particularly given the volatile international markets in recent years.

“We are observing a gradual distancing from their owners with far more autonomy than was previously acceptable,” says Arif Rahim, vice-president, head of investment strategy at Saudi Arabian financial services firm Sidra Capital.

“There continues to be a gradual polarization between the personal wealth of the family and that generated by their business, with the majority of the wealth still being held within their companies.”

He adds: “Generally, a distinction exists in the allocation and risk appetite of assets held by the family office and that of their businesses, with allocations via the business focused on greater liquidity and downside protection.”

The Invesco survey also revealed that succession planning was a concern for Gulf Cooperation Council (GCC) family offices, which, unlike other mature markets, include newer sources of wealth.

“In the GCC, most wealth is first generation so new inheritance structures need to be developed for large families within local legal frameworks.” The Invesco study noted.

“New money is immature and needs a mature market and more established money can be reluctant to move,” says Michael Oliver, co-founder of Global Partnership Family Offices.

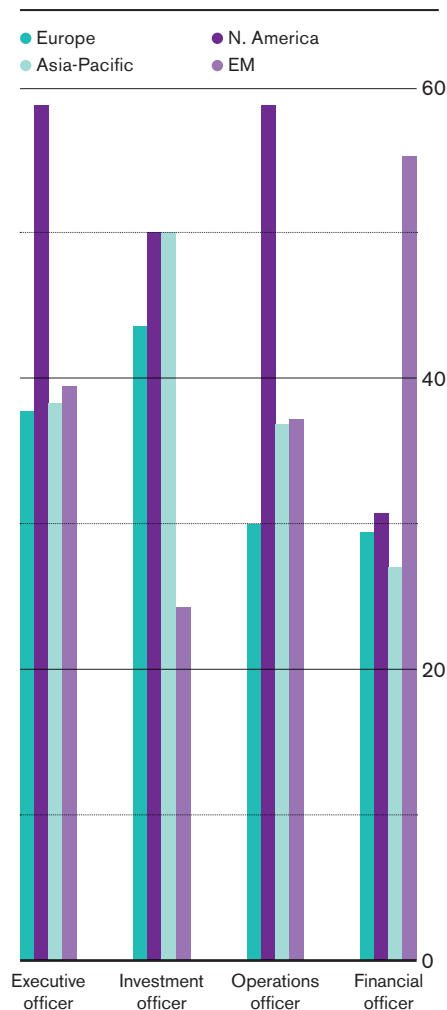
“Finding appropriate service providers of quality in these regions who understand how to build and develop a relationship with a client is crucial. There are a lot of providers selling snake oil who are looking to exploit naivety and inexperience.

“The challenge for founders of family offices is that they built their wealth on very specialist experience – such as being able to manufacture and market the right product at the right price.

Oliver continues: “That’s a very different skill set from managing investments and so they really do need

BONUS STRUCTURE, BY REGION

Average bonus as % of salary



Source: The UBS Campden Wealth Global Family Office Report 2016

89

%

growth in the number of UHNWIs in the Middle East between 2005 and 2015

Source: Knight Frank

the right support around them.”

A significant number of IPOs in the Middle East in recent years has fueled the rise in wealth, although weaker market conditions driven by lower oil prices have resulted in fewer listings in the latter half of 2015 and into 2016.

In Southeast Asia a wealthier middle class has emerged in recent decades and has seen a corresponding rise in the size of the wealth management sector and, increasingly, the regional family office landscape.

According to the latest CapGemini World Wealth Report, the number of HNWI's from the Asia-Pacific regions grew by 9.4 percent during 2015. The Asia-Pacific region's 5.1 million HNWI's had wealth worth \$17.4trn, compared with \$16.6trn in the North America, making it the wealthiest region in the world.

“Certainly, family offices are coming of age in Asia. As recently as ten years ago there were probably no more than about 50 family offices in Asia, now there are several hundred, though that is still a tiny figure compared with 3,000 in the US and 1,000 in Europe,” says Adam Benskin, director at international financial advisory firm Strabens Hall.

“Asia is now home to a third of ultra-wealthy people – defined as those with net assets of more than \$30m – but accounts for less than 5 percent of family offices.”

“Similar to Europe, the family office mandate in Asia aims to preserve wealth and facilitate its transfer from generation to generation. The concept of the family office in Asia is still a new one, yet as the region booms, we predict the concept to do the same.”

However, gauging the size of the family office landscape in Southeast Asia has proved harder here than in other regions.

“The number of existing family offices is perhaps one of the hardest statistics to collect,” says Patricia Woo, family office expert in the global tax strategy and benefits practice at international law firm Squire Patton Boggs. “It is because many family offices do not want to be labeled ‘family offices’, and do not even operate under a separate roof.

“In Asia, a ‘family office’ can more often be a section within the family business rather than an independent legal entity with separate office space.

She continues: “The importance of this type of ‘embedded family office’ should never be underestimated as these sections carry out many ‘family office’ functions.”

“ The wealth-management mindset in Asia is evolving from one of accumulation to preservation

Over the years, Southeast Asia’s UHNWIs investors have undergone a change in mentality and are seeking to change their approach to management of wealth, which has been one of the key developments in the growth of the asset management sectors in financial centres such as Hong Kong and Singapore.

“The wealth-management mindset in Asia is evolving from one of wealth accumulation to wealth preservation and so issues such as succession planning and intergenerational wealth transfer through structures such as foundations and trusts are moving higher up the agenda,” says Dominic Gamble, co-founder and chief executive officer of Singapore-based adviser-search service wealthinasia.com.

“Hong Kong as a center for wealth management is developing but there is more wealth-management expertise in Singapore, which makes it a more attractive base for UHNWIs with sophisticated financial affairs.”

Yet, while both the Middle East and Southeast Asia are seeing growth in the number of family offices, there have been questions over where to domicile. In the Middle East, concerns over the regional stability has prompted some to establish offices in more mature markets, while a similar trend is also evident in Southeast Asia.

“I anticipate the number of independent single family offices to increase significantly in the coming three to five years, especially for families whose main business is located in a different country from the family office,” says Patricia Woo. “The family business would be in a developing country and the family wants to locate its family office in a developed economy.”



To learn more about what the
Bloomberg Professional Service
can do for you, contact us at:

bbg_fo@bloomberg.net

Bloomberg