# Now Hiring: Family Offices in Asia

By Bowen White , Research Associate, INSEAD Global Private Equity Initiative and Michael Prahl, Executive Director, INSEAD Global Private Equity Initiative

**As a vehicle for wealth management, the family office is still relatively new in Asia, but that's now changing. Opportunities abound for managing this family wealth.**

We have known for some time that Asia's wealth is rising; in no way is this more evident than in the sharp growth of the region's ultra-high net worth individual (UHNWI) population. While the number of UHNWIs in the United States grew by 35 percent between 2003 and 2013, the population in Asia nearly doubled over the same period on the back of the region's surging economic and capital market activity.

Characterised by wealth of at least US$30 million in net assets, the UHNWI population expanded particularly fast in China – where the population more than quadrupled – while Singapore and Hong Kong have the second and fourth largest populations in Asia. One trend which has been slow to catch up with this wealth, however, is the family offices to manage it. While the Asian UHNWI population accounts for nearly one-third of the global total, the number of family offices in Asia – estimated at between 100 and 200 – makes up less than five percent of all global family offices. Asian family offices are springing up, but their level of sophistication is at an early stage.

## Where do they stand?

To take a look at how they're progressing, we put together a report on **The Institutionalisation of Asian Family Offices**. A family office's level of institutionalisation is an important signal of its expected investment performance with increased institutionalisation leading to more consistent (but not necessarily better) investment performance via more stringent assessment of investment opportunities and the management of investments afterwards. This more exacting approach should in theory reduce the volatility of portfolio returns and lead to improved wealth preservation.

So how do Asian family offices stack up? Most of the ones we interviewed are still at an early stage of institutionalisation, characterised by minimal process-driven investment decision-making and diversification. In many cases, family members maintain a firm grip on both tactical and strategic investment activity.

Reflecting the relatively new wealth in Asia, many of the families we interviewed continue to operate the business that originally produced the family fortune, while others own legacy assets or significant stakes in the listed equity of the original family business.

Furthermore, our interviews revealed a high reliance on the original entrepreneur for both investment and non-investment decision-making within the region's family offices.  This reflects both the tight grip on family interests maintained by first generation wealth creators and underscores the importance of implementing effective succession planning. Family offices at more advanced stages of institutionalisation have stronger governance processes in place, often with non-family members in key decision-making roles, which contribute to more consistent decision-making.

When it comes to portfolio management, our survey shows that advanced-stage family offices and wealth creators with financial services backgrounds tend to employ less risky strategies. While less institutionalised family offices often maintain a high allocation to equity investment - up to 65 percent in one case - portfolios at advanced-stage family offices tend to be more balanced and managed by professional investors both internally and externally.

## How they do it

Investment in most family offices in our survey is managed by the family, with professional CIOs at the helm of only six out of the 20 single family offices interviewed. Below are two examples which illustrate the wide differences in approach.

One family we interviewed with a history in the resources sector had a CIO overseeing two investment teams based in Hong Kong and Singapore with ten investment professionals each, a risk manager and dedicated legal, accounting and control functions. The operation is overseen by an investment advisory committee consisting of several family members, two external advisors and a family office executive, while a family council of the same size governs strategic aspects of the office. On the other hand, one Singapore-based family office we talked to was controlled by the first-generation wealth-creator and his son. While two investment professionals are employed by the office and four advisors support investment activity, decision-making is often based on intuition with minimal due diligence. A formal investment process was implemented in 2011, but abandoned two weeks later. The family office's early stage of institutionalisation is also reflected in the 15 banking relationships it maintains for investment ideas and execution.

**Families, listen up**

While conducting our survey and learning about the rationale behind many family office structures, we accumulated a few recommendations we believe will help families better manage their wealth and assist in the establishment of a family office.

- Define a common vision for the family and its wealth in a family charter
- Implement a formal investment governance structure
- Manage capital internally and externally through professional managers to gain exposure to talent, geographies, and asset classes
- Outsource non-core functions to professional service firms, and focus on building appropriately-sized investment team in-house
- Employ a simple legal structure to allow a family office to focus on investment
- Establish realistic performance expectations to accumulate and protect wealth, and generate annual income

In years to come, we expect existing Asian family offices to mature and progress towards intermediate and advanced stages of institutionalisation.

At the same time, many more families will follow their example in establishing dedicated wealth management vehicles, benefitting from the pioneer’s experience and the region’s maturing family office ecosystem.

*Bowen White is a Research Associate & Michael Prahl is the Executive Director at the INSEAD Global Private Equity Initiative (GPEI)*

**The Institutionalisation of Asian Family Offices** was recently published by INSEAD’s GPEI under the  supervision of Professor Claudia Zeisberger.

Follow INSEAD Knowledge on **Twitter** and **Facebook**

**Find article at**
https://knowledge.insead.edu/family-business/now-hiring-family-offices-asia

## About the author(s)

**Bowen White** Bowen White is the Associate Director of INSEAD's Global Private Equity Initiative (GPEI).