Family values

Asia's wealthy want their assets to work harder for them

By Maya Ando

Driven by capital inflows from Europe and the United States, as well as improving corporate performances, Asian equities have been buoyant of late. The result is the churning of even more wealth for entrepreneurs or companies' shareholders, particularly in regard to private companies.

In emerging markets, a number of company-founders and their family members hold majority stakes in their enterprises. This is rooted in a pan-regional Asian trait that instinctively aims to maintain wealth within a family circle; thus, the wave of outperforming Asian equities seen in recent years has been a major factor in the beefing up of family fortunes.

EY noted in its *Global Wealth and Asset Management Outlook 2014*: "Through a macroeconomic lens, many 2014 global equity indices have hovered around all-time highs, suggesting that investors are strongly bullish about future corporate profits. Fixed-income spreads are off just marginally from their all-time lows, which typically implies that investors perceive much reduced levels of systemic risk and have little concern for inflation."

This, along with the potential for a rosy economic future in Asia, means more and more families are coming to the realisation that they ought to deploy their reserves in more productive ways. One such way is forming a family office to focus exclusively on growing this store of wealth.

Stephane Schmid, a partner at HP Wealth Management, a Singapore-based investment management firm, explains: "A professional family office can be key to the family's business growth. Large families in Singapore typically have a family office, but they are often organised on principles dictated by the family patriarch; never to be questioned or challenged. But there has definitely been an increase in single or multi-family offices as wealth in Asia has continued to grow, and more so in recent years. So families need to be professionally organised. However, whether that means a single-family office or a multi-family office, ultimately boils down to the family business size, wealth and the budget they are able to dedicate.

"Often, ultra-high-net-worth-individuals (UHNWIs) will choose the asset class with which they are most comfortable. The choice is usually linked to their main business: if they are in real estate, the majority of their assets will be in this asset class. If they are in the commodity business, a large portion will be with their company assets. In our experience, there is no "miracle" asset class that benefits all UHNWIs across the world. In order to balance the asset base of these UHNWIs, niche third party advisers like ourselves are often consulted," Mr. Schmid adds, noting that a sample consolidated portfolio in a family office context is not typically a summary of bankable assets. "It is a very comprehensive aggregation of not only assets but also liabilities, property, art, private investments, jewellery and shares in their own company."

It is not all upside though. During the Lehman Brothers-induced global financial crisis, almost all of these investors experienced real asset erosion, if not outright destruction. As a consequence, they have learnt that risk assessment and diversification are critical in effective asset management.

"More specifically, there is now a higher awareness of counterparty risks. The impact is not limited to structured products, but also includes the quality of custodian banks. Another effect was the high correlation in asset classes when everyone heads for the same exit. Putting all of these factors together, we have seen clients seeking better asset class diversification, and a general reluctance to enter into complex structured products. Also some clients have chosen to diversify their custodian banks. So, in such an environment, having an experienced and independent asset manager is paramount," Mr. Schmid claims. ■