A GROWING NEED TO DEFINE INDEPENDENT MODELS

AS THE CONCEPT OF INDEPENDENT WEALTH MANAGEMENT FURTHER DEVELOPS IN ASIA, IT IS INCREASINGLY IMPORTANT TO CLARIFY BLURRED DEFINITIONS AND MORE CLEARLY DISTINGUISH THE SERVICES OF FAMILY OFFICES, IAMs AND OTHER FIRMS LICENSED TO OFFER INVESTMENT ADVICE TO WEALTHY FAMILIES.

Defining independent models has become ever-harder.

At a time when the industry wants to be clear in its value proposition and service offering to its target clients, there is more and more overlap in what different types of organisations promote as their expertise and range of services.

The desire by many of the growing number of family offices currently operating in Asia to become more profitable is forcing them to venture beyond their core competencies and to offer direct investment advice.

At the same time, some IAMs believe they can build more sustainable models by taking on more of an active role in advising on the full range of wealth-related needs.

That includes family governance and business succession planning, as well as portfolio management.

Yet this blurring of roles, which is worrying some practitioners, threatens to cause further confusion and uncertainty for clients about the value of independent models.

Jason Lai

Thirdrock

"The family office models need to demonstrate offerings beyond what a private bank can provide"

(RE-)DEFINING THE LINES

The opinion of many practitioners is that family offices should provide completely holistic advice.

Whether as single family offices (SFOs) servicing one family, or as multi-family offices (MFOs) representing the small group of families which engages them, what they offer should range from concierge services such as paying school fees, to running the bank accounts and overseeing personal spending budgets, to managing the shareholdings of individual family members in the business.

These same commentators strongly believe that a family office, whether multi or single, should not have as its main objective a focus on managing money. That, they say, might detract from their role as a kind of administrator for the family wealth.

"The family office models need to demonstrate offerings beyond what a private bank can provide," says Jason Lai, group managing partner and chief executive officer of Thirdrock, "particularly in the private investment space, and in other financial services such as asset management, corporate finance, succession and tax planning, stripped of all the red tape."

But when it comes to the investment portfolio, many practitioners at IAMs say the family office should engage external bankers and fund managers for the necessary expertise.

By contrast, an IAM should focus on managing assets.

"The IAM is viewed as a platform that MFOs and SFOs can tap into so that they are empowered with universal banking capabilities; it is a sub-set of the family office," says Lai.

THE CHALLENGE OF BEING ALL-THINGS-TO-ALL-CLIENTS

One of the biggest challenges for many family offices has been consistently making enough money to justify their more holistic role. In response, some of them have been bidding to manage the family's financial assets, too.

This means they can then charge a fund management fee to help them bring in more revenue.

Some US and European family offices have also adapted their models for Asia to provide both family office services and fund management.

Pure family offices are therefore rarer to find in Asia; they are increasingly applying for a licence from the regulators to manage assets.

For IAMs, meanwhile, their role has become more than just managing a client's money. As trusted advisers, they tend to have clients coming to them to discuss aspects of their family and business which are more than the adviser's duty, theoretically, to get involved in, explains Anthonia Hui of AL Wealth Partners.

This includes providing more of a family office-type offering, including concierge-style services – such as booking hotels, buying concert tickets or paying school fees. Discussions might also focus on business advice or consolidation of assets among various banks.

That has driven a lot of IAMs to realise that they are more than just an extension to the banker or an asset manager, adds Hui.

Yet by crossing over into providing a wider range of services, this impinges on the domain of family offices. To do this successfully is easier said than done. Two notable characteristics of many Asian families include the fact that they generally have poor knowledge about how to manage wealth, plus while they view wealth as a must-have symbol, they don't always understand the emotional burden and poten-

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Defining IAMs, MFOs and SFOs

Practitioners seem to agree on one thing about independent wealth management models: they are difficult to define.

In particular, they say, the distinction between a multi-family office (MFO) and an IAM is unclear because many MFOs are increasingly doing the same as IAMs, and vice-versa.

However, a "pure" definition of each type of firm might be considered to be the following:

- **IAMs** – operate as a "trusted adviser" with a core competency in managing the financial assets of their clients.

  This includes managing segregated portfolios on an advisory and / or discretionary basis
- **MFOs** – provide more concierge and family-centric support services to a (small) number of families.

  Financial investment services often being sub-contracted to private banks or IAMs to handle.

  However, MFOs centralise the administration of investment matters, as well as direct investment opportunities for their clients
- **SFOs** – manage all aspects of a single family's business and personal wealth needs, similar to an MFO, but strictly limited to one family

Benoy Philip

Sundaram Asset Management

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tially negative consequences of having so much wealth.

But not many IAMs want to help families deal with the emotional burdens and issues they face.

Many advisers try to take the emotion out of it by looking at static numbers, structures and outcomes.

Some of them even think that it is up to the client to deal with the emotional elements, and that their role as an adviser should only be about the investment side.

Another challenge, explains Hui, is working out how to charge the client for this.

Family offices tend to charge fees to clients based on an annual charge or on a time-allocation basis. Traditionally, bankers and asset managers have been paid for the transactions they execute for their clients, so charge based on fees for advice, or on AUM.

However, the fact that many IAMs are calling themselves MFOs doesn't help clients differentiate what's on offer.

Benoy Philip of Sundaram Asset Management Singapore says that those players with no clarity on the type of independent model they are following may face challenges in positioning their offerings.

"The fact that many IAMs are calling themselves MFOs doesn't help in providing any clarity for clients."

Further evidence of the blurring of the lines in this segment of the industry can be seen by the most recent annual Monetary Authority of Singapore (MAS) asset management survey sent to holders of MAS licences.

For the first time, the survey included a category for family offices as well as independent asset managers – and grouped them together. ■

Adding value

Regardless of the definition of independent wealth managers, the key is to add value by working hand-in-hand with the client and always representing their best interests.

"Independence enhances the quality of services and investments," says Lucie Hulme of TriLake Partners.

"It provides clients with a greater range of choices and allows for greater flexibility in the face of fast-changing circumstances."

In line with this, an independent model provides impartiality in the choice of investment products, adds Hulme.

It allows the search for the best possible products available in the market and ensures that decisions are made taking into account different investments views."

"The fundamentals of the independent model have never changed and they are the reasons why this business model has been so successful in Europe and now in Asia," she says.

"The key to the model, I believe, is to be small enough to maintain the exclusivity of a boutique, but large enough to have access to expertise wherever it may lie."