Wealth succession to breed broader investment offerings

As families engage in succession planning, their investment needs will have to evolve to encompass new options. This could lead more clients to see the value in paying fixed fees to gain high quality advice, predicts Jason Lai of Thirdrock Group.

The need for more Asian families to do succession planning will lead them to consider new approaches to investing.

This could help advance concepts such as discretionary portfolio investment management and fixed fee advisory work, believes Jason Lai, the founder and chief executive officer of independent investment management firm Thirdrock Group.

Lai thinks there are a "vast" number of opportunities for succession planning. Unlike the US or Europe, Asia's HNW population is heavily skewed towards first generation entrepreneurs, many of whom founded businesses between the 1950s and 1980s and are now in their 70s or 80s.

Few have considered succession plans. The JP Morgan *Asia Family Enterprise Study,* published this year, reports that 88% of families were completely or somewhat unprepared for succession.

To date this has translated into limited opportunities for private banks and family offices. "Most [HNW families] are still reluctant to bring in external advisers to formalise successions, whether through a contract or lasting structures such as a trust or foundation," Lai says.

However, he is confident that the concept of succession planning is slowly gaining ground. "More Asian entrepreneurs see an increasing need to lay out clear long-term legacy strategies for their family businesses and wealth."

This in turn should increasingly encourage families to shift their investment management preferences.

"[HNW business owners'] preferred approach has been to make all the investment decisions themselves.

But with generational shifts taking place in the region, we're observing a

JASON LAI
Thirdrock Group

marked change in the openness towards outsourcing some of their portfolio management and an increasing appetite for discretionary services, ranging from real estate and private equity to hedge funds," says Lai.

The transfer of wealth to new generations is also adding momentum to this trend. Second-generation family members are generally more willing to accept outside advice when it comes to investing and conducting succession planning.

OFFERING INVESTMENT

Lai has evolved Thirdrock to help take advantage of this incipient trend.

In recent years the company has grown from a multi-family office to a fully integrated investment management firm that now offers several different investment services.

These vary from traditional capital market instruments to corporate advisory services – which include private equity and M&A advice – courtesy of Thirdrock's partnership as of last year with Thirdrock ISSEA Advisers. The firm also intends to add a multi-strategy quantitative fund to its funds platform by the end of this year.

That isn't all. "This year, we are continuing to build on our fund management capabilities and will introduce an Asian-focused absolute return equity strategy in the coming months," Lai says.

He expects this new fund to increase Thirdrock's AUM by at least US$100 million as it is rolled out.

Lai is a passionate advocate of using technology to support these investment management efforts.

"We see technology as one of the key game-changers," he says. "Industry players who can ride on technological innovations to augment response times, access different products and services and facilitate more active portfolio management will increase profitability, performance and productivity."

He also believes that the inheritance of family assets by younger generations will support fixed fee investment advice. It is a market development that is also liked by financial regulators.

"More clients are becoming more receptive to and benefit from the true alignment of interests in a fixed fee model," he says. "Fee-based models provide stability in the profit of firms and there is increasing regulatory pressure to move towards that model."

However, the concept of paying a fixed annual fee for investment advice remains alien to many family leaders. "It is a long educational process; we had no clients on the fixed fee model when we first started," Lai says. "But we invested time and resources to educate our clients and have found success."

Over half of Thirdrock's revenues come from fixed fees today.

INVESTMENT UNDERSTANDING

Do clients want to take advantage of all these investment options? Lai is confident, arguing that they will if they get good enough advice.

That requires advisers who better understand the investment instruments at their disposal. "As clients' investment needs get more complex and sophisticated, their advisers need to have a comprehensive and solid understanding of the industry as a whole," he says.

Lai believes advisers must possess "a broad-based understanding and macro view of trends, the investment landscape and the regulatory framework".

Using this foundation advisers can offer more tailored investment options for better investment solutions, he adds.

Advisers also need to relay their knowledge in an insightful and interesting manner, to engage the families.

"Client advisers must be able to explain in detail the [investment] risks and help clients construct the most suitable portfolios," says Lai.

> **"As clients' investment needs get more complex and sophisticated, client advisers need to have a comprehensive and solid understanding of the industry as a whole so they can effectively come up with solutions that are reflective of these needs."**

He notes that good advisers should use their product knowledge to consider the suitability of the instruments for clients, especially given their investment aims and succession planning needs.

Modern HNW client investment advice requires much more than an idea about which way equity markets and currencies move. For companies willing to understand the evolving needs of HNW families, the rewards could be large. ■