

The Family Office Comes to Asia – October 26th, 2021

The American system of family offices has begun to take off in Asia.

The early 1900s saw the likes of John D Rockefeller and Henry Phipps Jr. make fortunes and try to preserve those fortunes by setting up investment trusts for their children. These fortunes, and many others, were managed by what has become today a growth industry in the US – the family office.

What was once done exclusively for one family was soon offered to other wealthy families. We can see examples of this in the development of the Bessemer Trust that originally managed the investments of the Phipps family and the Starwood group that looks after the Sears Roebuck fortune. Both now serve as family offices for many families.

The development of the Asian family office is in its early stages and has important implications for lawyers and accountants in Hong Kong and elsewhere in the region.

What is a Family Office?

The family office generally groups lawyers, accountants and investment professionals in one office that works for the multi-generation family. Besides undertaking tax preparation and planning, estate and trust administration and overall investment management (which includes traditional investment portfolios, private equity and real estate), family offices sometimes pay the bills, make travel arrangements, stock up the wine cellar and arrange for school admissions.

Increasingly, young Asians are being educated and are working and living outside the Asian region. Fewer of them decide to join the family businesses started by

their fathers and grandfathers. As such, the issues of succession and estate planning are beginning to become concerns for wealthy families.

Likewise, there is greater need to manage the large pools of capital raised from selling businesses and real estate. Professionals, who are able, experienced and exclusively focused on the task, can best undertake the job of managing these capital pools.

The American family office industry is quite mature. There are now groups that advise families on establishing a family office, selecting a family office and executive search services that find professionals to work in family offices.

Why Use a Family Office?

Wealthy Asian families have increasing contacts beyond their national borders which means there are a greater number of matters that potentially affect multi-generation family wealth management.

For example, let's look at the simple case of a family member moving to North America. First, when succession takes place from one generation to another, the residence of the beneficiary can result in large estate duties on the family fortune. Second, the tax paid on investment income, a domain best left to tax experts, becomes a pressing issue. Third, the assets, sometimes heavily concentrated in one industry and geographic area, should be diversified to meet the demands of family members with residences abroad and / or family members living abroad.

Beyond this, families often make direct investments in foreign countries in real estate or operating businesses without properly monitoring the investments. To properly address any of the above is a full-time job for someone, even when using outside professionals such as lawyers and accountants.

Sometimes a family member from the second or third generation is willing to take on the tasks. Even they, however, are likely to require administrative assistance.

The Asian Family Office

We believe that the development of Asian family offices will continue to see steady growth over the next 10 years and will develop its own characteristics. Some families will embark on setting up their own. Others will use the services of open family offices to limit costs and test the waters, and getting the services they need, before deciding whether to go on and establish their own.

Accounting, legal and investment advisory firms often have special relationships with their clients and sometimes provide advice on matters related to family wealth management.

The co-operation between these firms and other specialized professionals is in the best interest of the client and the professional firms themselves. The Asian family office will likely start as a central office which will co-ordinate the work among accountants, lawyers, investment advisors and other professionals.

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