# In Macau, new Asian money and Australian property

By **Ashley Owen** on November 15, 2013

I recently delivered an address at a Private Wealth Management summit in Macau for Asian family offices. Following are some trends I have observed in the three years I have spoken at the event.

Wealth management in Asia is very different from Australia. Australians have the highest median household wealth in the world but relatively few billionaires. Wealth in Australia has been relatively democratised since the 1850s gold rush, and especially since World War II and the financial reforms in the 1980s and 1990s. This has spawned huge wealth management and advisory industries that feed off it. In contrast, wealth in Asia is highly concentrated in the hands of relatively few and it is recent, so there is no large scale wealth management or advisory industry. Accountants count money and prepare tax returns, but they are not generally used for investment guidance.

**Insights into attendees**

The summit was attended by a hundred delegates from single family offices, multi family offices and private banks servicing wealthy families, mainly from Hong Kong, Singapore, India, China, Malaysia, Philippines, Thailand and Japan. A single family office is a team of people who look after one family's financial affairs, usually a billionaire. Many single family offices have half a dozen staff and cost $2 million or more per year to run, and were started by the second generation of the patriarch. Most multi family offices started out as single family offices, but now extend their services to other families as a profit-making family-owned business or to defray the costs of the original family office.

Most of the wealth in Asia is first generation or second generation money made after World War II and after the post-World War II independence wars. This is in marked contrast to the US and Europe, where wealthy families are often hundreds of years old. There is still much new wealth in the US, thanks to Silicon Valley, but there is virtually no new wealth in Europe.

I met one US family office principal who was himself a 4th generation family office manager, looking after 7th generation family money. There are some rare exceptions to the rule that most Asian wealth is new money – for example, the people who look after the Kikkoman family money. Kikkoman (of soy sauce fame) is a 400-year-old family that consolidated into the current family business structure in 1917. Singapore is increasingly the preferred home of Asian family offices, now that Hong Kong is part of Communist Party-ruled China.

The family offices were the 'buy side' of the summit. On the 'sell side' there were a hundred or so attendees representing funds and products to the family offices.

**Governance and ownership transition**

Most Asian wealth is first generation, and the main issue is how to transition the ownership and management structure to the second generation after the patriarch or matriarch is no longer able to run the business. Often the main issue is just to get the next generation interested in the business. Many second and third generation family members are western-educated and their ideas and ambitions are often in conflict with Asian traditions where it is the strict duty of the son(s) to take over the family business.

Most Asian cultures follow the tradition of passing the business to the eldest male, who may or may not be the best leader and manager. Due the increasing longevity of the dominant patriarch, often the eldest son may now be 60 or 70 years old before he makes his first real decisions, and so lacks many of the ‘street smarts’ of the patriarch. The eldest male may be better at management and administration than leadership and creativity. Managing these types of conflicts between siblings, cousins, in-laws, and others like mistress and illegitimate offspring, is often the main priority for family offices.

The concept of a family office involving outsiders is foreign to most Asian cultures. Asian patriarchs tend to be dominant hands-on leaders, reluctant to outsource. The main trusted adviser tends to be the family and business accountant. Private banks or bankers are generally seen as conflicted product sellers. Investment banks are used mainly for deal flow and transactions.

Family offices also spend time on family ‘concierge’ services – keeping the mistresses apart, ensuring the kids and grand-kids are out of trouble, organising the staff in the various houses, firing up the boat or the jet, etc.

**Asset protection, secrecy and tax**

The second main issue for family offices involves hiding money from governments, creditors and predators. This extends to business succession planning, trust structures to enable effective sharing of wealth and power in running the business. There are often highly complex trust structures with nominee companies/trusts/directors in numerous tax havens. Often the structures are unnecessarily complex but are created to ensure longevity of the adviser relationships, rather than efficiency or cost-effectiveness. A second order priority is to minimise tax and manage control leakage to distant family members.

Getting money into safe haven countries often takes precedence over what to do with the money when it gets there. The most commonly mentioned countries were US, UK, Canada, Australia. The attractions of Australia include:

- rule of law, protection of property rights, away from autocratic or capricious regimes
- links due to education for their children
- close time zone
- weather, often compared favourably to Canada.

**Philanthropy**

There has been a shift in thinking from straight charitable giving (eg funding a hospital or university) toward ‘impact investing’ and ‘venture philanthropy’. These involve a combination of philanthropy and investment, and require more hands-on involvement with the use of the money to achieve specific aims. This is more difficult than merely donating to existing charities.

There are plenty of well-intentioned causes and well-meaning people (everybody wants to relieve poverty, eradicate disease and provide better education for children), but it is hard to develop cost effective programs that deliver specific, measurable outcomes. They are discovering that this is often better left to existing charities rather than re-make the mistakes existing charities made years or decades ago.

Philanthropy is often seen as a good opportunity to involve family members in setting up and running ventures. Generally, the sons run the businesses and the daughters and wives run the charities. Most Asian cultures operate along strict gender lines, with notable exceptions.

**Investments, fads and Australian property**

Investment tends to be a third or fourth order issue for many Asian family offices. As most Asian wealth is first or second generation, the wealth is still in the family business, or related investments like commercial property (eg a shipping business owning warehouses).

Contrast this with US and European families, where there may be hundreds of family members with no one person owning more than a tiny fraction of the original business. The primary investment objective is usually to sustain the family legacy and to fund the lifestyles of those who live off the remnants of an empire or business long since passed out of family hands.

Some countries in Asia are run by capricious, corrupt regimes, and ‘cave money’ investments tend to be in hard assets like real estate, gold and cash in foreign safe havens.

Because there is little overt consideration given to portfolio construction and asset allocation, newer family offices are natural targets for fads and hot ideas. Two years ago the hot fad was Aussie small cap mining explorers. That market collapsed so they have not been seen at the summit since. At last year’s summit, the main fads were gold and wine, but both markets have since collapsed so the peddlers of gold bars and wine were not back again this year.

This year the hot fad was Australian residential property. There were property spruikers peddling flats off the plan in Queensland (they are more resilient than cane toads!), Melbourne docklands (probably re-selling the same flats they sold to Aussies five years ago but at half the price this time), and even one spruiker selling apartments off the plan in Port Hedland and Newman.

At least half of the products and funds were from Australia, as in prior years. It is evidence that Australia is seen as both a safe haven and also an emerging market for opportunities. Next year, I will report on how the latest fad fared.

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