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THE ASIA-PACIFIC FAMILY OFFICE REPORT 2022

RAFFLES

FAMILY OFFICE

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Forewords

Dear reader,

The culmination of rising inflation and interest rates, geopolitical risks as well as other global events have led to cycles of market volatility and uncertainty over the last 12 months. This has driven a surge in interest towards alternative investments among wealthy families, and we see this trend carrying over into the new year.

This shift is one of the key observations from our latest Asia-Pacific Family Office Report, as we continue our partnership with Campden Wealth in exploring the investment trends and themes that shape the family office landscape across the region. Thanks to Asia-Pacific's robust economic growth, the region is now home to nearly forty percent of the world's billionaires. Almost seventy percent of the family offices who participated in our report in Asia-Pacific saw an increase in family wealth in 2021 and more than half expanded their assets under management.

Looking ahead, succession planning and addressing the needs of the next generation are top priorities among affluent families with an intergenerational wealth transfer soon to take place. Coupled with a global recession in the horizon, identifying the risks and opportunities will be crucial to growing and preserving wealth for these families.

As a leading multi-family office in Asia, Raffles Family Office has been serving the needs of ultra-high net worth families since 2016, providing tailored and quality investment advisory and solutions across a myriad of asset classes. Deeply rooted in this region, we have a keen understanding of the local markets and are committed to bringing long term value to our clients.

I would like to thank the families, advisors and executives who contributed to our report this year, and I look forward to another prosperous year for family offices across the region.

Sincerely,

Chi-man Kwan
Group CEO & Co-Founder
Raffles Family Office

Dear reader,

Extraordinary events have conspired to produce an unprecedented outcome. A pandemic, war in Europe, economic mismanagement, and political instability have cast dark shadows over Western democracies and the capitalist enterprise on which it is built. The economic consequences, galloping inflation, soaring interest rates, collapsing stock markets, and looming recessions means that 2022 will go down as the year that everyone will want to forget.

Will Asia-Pacific family offices be able to successfully navigate this rocky terrain? They are certainly aware of the difficulties. Nearly ninety percent of respondents cite inflation as a significant risk to financial markets, with rising interest rates coming in a close second, and increasing geopolitical tensions third. It's no surprise that respondents view investment risk as their principal concern. Our survey provides evidence that family offices have been prescient, adjusting the mix of their portfolios to deal with a more difficult environment. Seventy percent now operate conservative investment strategies focusing on balance and wealth preservation, a higher proportion than the global average. Although 2022 has been a very difficult year, hopefully, through professionalized investment management the worst outcomes will have been avoided. Further, unlike investment managers, family offices do not have to worry about outperforming benchmarks or fund redemptions; in short, they can afford to take a long-term view.

Other concerns of family offices focus on data security and succession planning. Here, unlike financial markets, they are to a considerable extent, masters of their own destiny. Seventy percent have cybersecurity and succession plans in place. Half of all family offices see their Next Gens as sufficiently well prepared for succession. As ever, more could be done, but it's apparent that family offices haven't been standing still.

The picture of Asia-Pacific family offices presented here reveals nimble, dynamic, and most importantly resilient organizations. They are sophisticated participants in global financial markets, but nonetheless driven by values encouraging them to embrace social, environmental, and philanthropic goals to "make the world a better place". Their founders and principals are high achievers who have built companies from scratch, undertaken leadership roles in business, managed complex investments, and overseen family-related responsibilities. Officers are experienced professionals, undertaking a diverse range of activities. The next generation are well-educated with an entrepreneurial spirit. Hopefully, all three groups will find something of interest in this report, which is intended to be the most extensive study of family offices yet undertaken.

As we charter our path through difficult times, what will help the family office community is the ability to share information and learn from one another. I would like to thank our partner Raffles Family Office for their long standing commitment to the community and this report. I would also like to extend my deep gratitude to all of those who participated in this research.

Dominic Samuelson
Chief Executive Officer
Campden Wealth

Executive summary

This report is based on statistical analysis of 382 surveys of family offices worldwide, with 76 (20%) coming from Asia-Pacific. The average family represented from Asia-Pacific has wealth of US$1.2 billion, while the estimated wealth of all participants stands at US$94 billion (total global wealth across the report series is estimated at US$699 billion). The average Asia-Pacific family office has assets under management (AUM) of US$592 million, while estimated AUM across all participants is US$45 billion (total global AUM across the report series is estimated at US$390 billion).

The following denotes the key takeaways:

Inflation: risk number one

Inflation is the most commonly cited risk for financial markets (88% of respondents). This is closely followed by rising interest rates (72%) and geopolitical risk (58%). A consequence of higher risk is that 42% of family offices now operate a balanced investment strategy, up from 40% last year, and the percentage operating a growth strategy has declined from 32% to 30%. The remaining 28% operate a wealth preservation-based strategy, a higher proportion than the global average.

Mitigation strategies

Popular strategies adopted to mitigate the adverse impact of inflation include increasing exposure to real estate (52%), equities (50%), and commodities (29%), and reducing the duration of bond portfolios (34%). Going forward, these measures may provide some insulation for family offices from the difficult conditions now evident from the recent performance of public markets.

Shift to private equity continues

Over the past year the biggest shift in portfolio allocation has been towards private equity which now stands at 23% of AUM, an estimated two percentage point increase on last year. This trend is likely to continue. The most popular asset classes for future investment are private equity funds (57%), developing market equities (55%), and venture capital (50%). The asset class most likely to see a decrease in allocation is fixed income in both developed (25%) and developing markets (16%).

Cryptocurrency: Family offices remain committed

2022 has been a sobering experience for investors in cryptocurrency. But despite price declines and adverse newsflow, 59% of those family offices already invested continue to hold their allocation, while 25% actively want to increase their investment. Conceivably, this may stem from cryptocurrency now being more rationally priced, and recognition that every new asset class has experienced similar setbacks.

77% of Asia-Pacific family offices identified investment risk as the number one risk to family offices

88% of Asia-Pacific family offices cited inflation as a significant risk to financial markets

10% is the average 2021 portfolio return for Asia-Pacific family offices

Sustainable investing, up and away

Forty-two percent of family offices in Asia-Pacific are now engaged in sustainable investing, with 29% of their portfolios dedicated to sustainability, an increase of four percentage points on last year and two percentage points higher than the global average. This percentage is expected to increase to 50% over the next five years.

Family offices are avid tech investors

The most popular sectors for technology investment are healthcare, with 66% of respondents allocating here, followed by green tech (60%), artificial intelligence (59%), fintech (56%), and biotech (50%). Looking to 2023, the technologies most likely to see a rise in allocation are green tech (62% of family offices already invested), digital transformation (52%), artificial intelligence (44%), biotech (42%), and healthcare (38%). Family office involvement with nascent technologies is necessarily lower than with those which have been long established, but significant percentages of Asia-Pacific family offices have exposure to the metaverse (23%), Web 3.0 (19%) and non-fungible tokens (NFTs) (13%).

Cybersecurity: time to build defences

Data/identity theft (cited by 28% of family offices) and risks to information architecture (26%) have become more significant concerns for Asia-Pacific family offices, up from 9% and 13% respectively last year. Thirty-five percent of family offices feel either very or somewhat unprepared to face a cyber-attack. Nonetheless despite these concerns, almost a quarter of family offices have no cybersecurity plan in place, and no plans to acquire one.

Succession planning: always a challenge

A major intergenerational transition will soon be underway. A fifth of Asia-Pacific family offices expect their next generation to take control over the next five years. While 70% have a succession plan, many of these are unwritten or only agreed informally, raising a question mark over implementation. Discomfort discussing sensitive family matters, reported by 34% of family offices, adds to the challenges of succession planning, as does the presence of a patriarch or matriarch who is unwilling to relinquish control (30%).

1. The family office landscape

1.1 Introduction
1.2 Overview of participants
1.3 Legal structures

1. The family office landscape

1.1 Introduction

"A satisfied man is happy even if he is poor, a dissatisfied man is sad even if he is rich."

Chinese proverb

Asia-Pacific's position as the world's principal economic growth engine is well-documented and hasn't been derailed by Covid-19. According to the World Bank[1], the region's gross domestic product (GDP) was 6% larger in 2021 than it was immediately prior to the pandemic. Over the five years to 2021, Asia's economy expanded 21% while global GDP advanced only 12%.

Savings and investment are principal ingredients of both successful economies and wealth creation. It's not surprising to find that the region is home to 38% of billionaires listed in the Forbes World Billionaires List 2022[2]. Some indication of the pace of wealth creation in the region is evidenced by the fact that five years ago Asia-Pacific accounted for only 17% of global billionaires.

This growth is also picked up in this year's survey. Eighty percent of the region's family offices were founded after the millennium and of these two-thirds were established post-2010. China and India have been in the vanguard of this development, but it's fair to say that the expansion has been witnessed across the region. The popularity of family offices stems from the emergence of a new generation, well-educated and trained in finance, which is shifting its focus from running family businesses to controlling broadly-based investment vehicles.

Asia-Pacific family offices turned in a creditable performance in 2021 with 45% outperforming their investment benchmarks. However, the estimated average investment return of 10% was lower than the 15% achieved in the prior year and somewhat less impressive than returns achieved by family offices in Europe (13%) and North America (15%). However these regions benefited from strong stock market gains, economies recovering from the pandemic, and a positive environment for private equity realizations. Unfortunately, 2022 is providing the exact opposite; the first six months saw Wall Street's worst performance in 50 years[3], inflation is forcing interest rates higher, and U.S. and European economies are on the cusp of recession. Sixty-nine percent of senior Asia-Pacific family office executives have a negative economic outlook for 2022/2023.

Last year almost 70% of respondents identified inflation as the biggest threat to financial markets. The most recent survey indicates that, as this risk crystallized during the first quarter of 2022, many family offices were ahead of the game, and preparing for the worsening environment through increasing their equity and real estate exposures, selling bonds, and shortening the duration of fixed-rate portfolios. Although overall investment returns in 2022 will almost certainly be lower than the double-digit gains of the last two years, it is likely that professional investment management will mitigate the worst outcomes.

Unlike investment managers family offices do not have to worry about outperforming benchmarks or fund redemptions; in short, they can afford to take a long-term view. Turbulent times often throw up the best investment opportunities, and with liquid diversified portfolios many will be well placed to take advantage. Highlighting this trend, 54% of Asia-Pacific family offices report they are still on the lookout for new investment opportunities despite deteriorating macroeconomic fundamentals and volatile markets.

While family offices globally have been shifting their portfolios into private equity, Asia-Pacific family offices are in the vanguard of this trend with 57% looking to increase their exposure to private equity funds, and 50% looking to increase their exposure to venture capital. Green tech, digital transformation, artificial intelligence, biotech, and healthcare are identified as the most promising technologies for future investment. Among more nascent technologies, significant percentages of Asia-Pacific family offices have exposure to NFTs (13%) and the metaverse (23%). Separately 23% and 47% respectively view them as promising investment opportunities.

These are just a few of the findings from this report, which is accompanied by North American and European editions, to provide a robust global overview. The report series aims to be the most in-depth available on family offices. It covers topics such as investing, performance, operational costs, technology, cybersecurity, governance, risk, succession planning, the next generation, philanthropy, and more. With a robust sample of 382 participants, this report provides a detailed picture of the family office landscape.

Methodology

This research is both quantitative and qualitative. The survey was undertaken between March and June 2022 and a total of 382 surveys worldwide were selected for statistical use, with 76 of these coming from Asia-Pacific. In addition, in-depth interviews were conducted with 32 family office executives worldwide, with nine from Asia-Pacific. Only single and private (not commercial) multi-family offices were included in the analysis. We define private multi-family offices as entities that serve no more than eight families and the core family must hold, at least, 50% of the office's total AUM. For the purposes of comparing Asia-Pacific findings, reference is made in the text to comparable findings from North American and European family offices, along with global averages. These references relate to the North American and European editions of this regional series.

[1] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=Z4
[2] https://www.forbes.com/billionaires/
[3] https://www.cnbc.com/2022/06/30/the-markets-worst-first-half-in-50-years-has-all-come-down-to-one-thing.html

1.2 Overview of participants

The following provides a profile of the family offices which participated in this research.

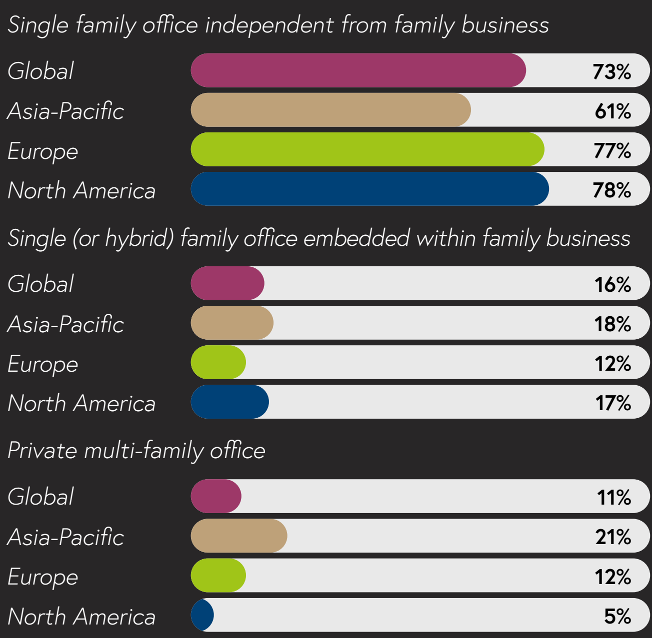
Four in five respondents are from Asia-Pacific-based single family offices

Of the family offices present in Asia-Pacific, 79% are single family offices, with 61% being independent from the family business and 18% being embedded in the family business. The remaining 21% are private multi-family offices, which are defined as entities that serve no more than eight families and the core family must hold at least 50% of the office's total AUM (**Figure 1.1**).

76 family offices from Asia-Pacific participated

Executives from 76 family offices headquartered in 11 markets in Asia-Pacific participated in the survey which forms the basis of this report. The headquarters of 28% are in Singapore, 26% in Hong Kong SAR, China (Hong Kong), 20% in India, and 7% in both China and Australia. Offices from Indonesia, Japan, Malaysia, New Zealand, Pakistan and the Philippines are also represented (**Figure 1.2**).

Figure 1.1: *Type of family office represented*

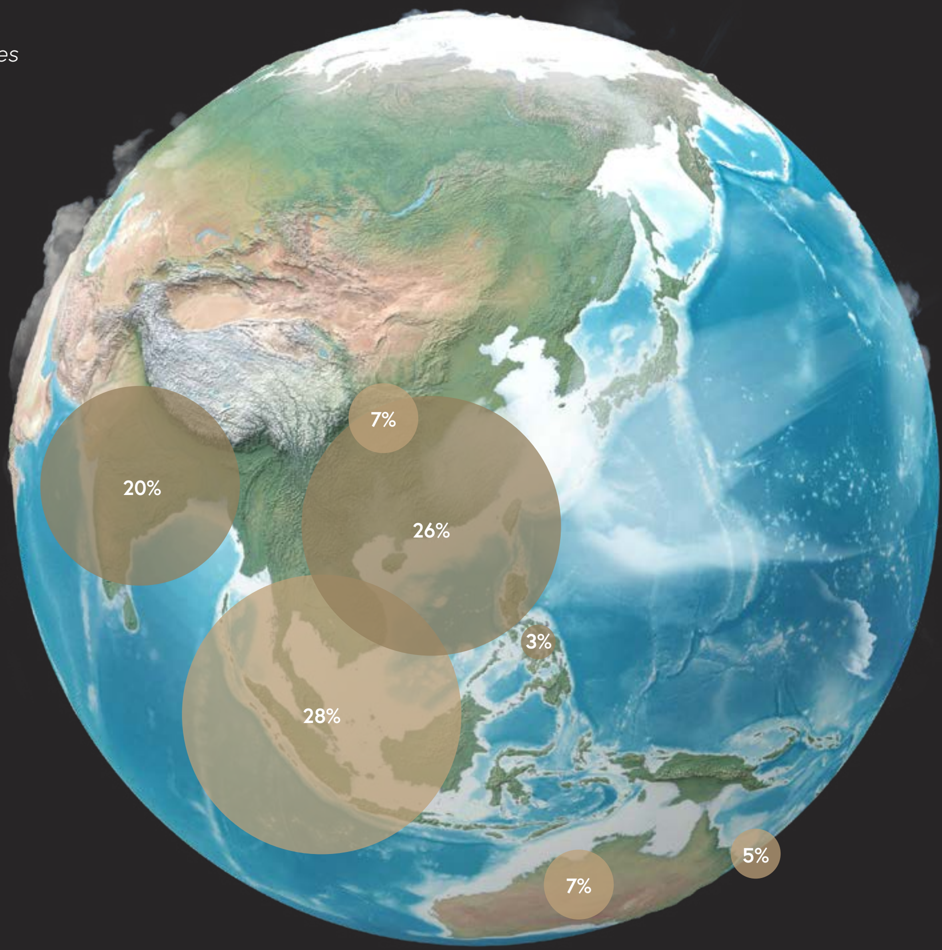


Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Figure 1.2: *Asia-Pacific: location of family offices*

Australia	**7%**
China	**7%**
Hong Kong	**26%**
India	**20%**
Indonesia	**1%**
Japan	**1%**
Malaysia	**1%**
New Zealand	**5%**
Pakistan	**1%**
Philippines	**3%**
Singapore	**28%**

Campden Wealth / Raffles Family Office,
The Asia-Pacific Family Office Report 2022



Globally, 382 family offices responded

Forty-seven percent of participating family offices are from North America, 27% Europe, 20% Asia-Pacific, and 6% from emerging markets, which include South and Central America, Africa, and the Middle East (**Figure 1.3**).

Figure 1.3: *Global breakdown of family offices by region*

North America

47%

Canada
Cayman Islands
Mexico
United States

Asia-Pacific

20%

Australia
China
Hong Kong
India
Indonesia
Japan
Malaysia
New Zealand
Pakistan
Philippines
Singapore

Europe

27%

Andorra
Austria
Belgium
Cyprus
Czech Republic
Finland
France
Germany
Hungary
Ireland
Italy
Liechtenstein
Lithuania
Luxembourg
Monaco
Netherlands
Norway
Poland
Spain
Switzerland
Turkey
Ukraine
United Kingdom

Emerging markets

6%

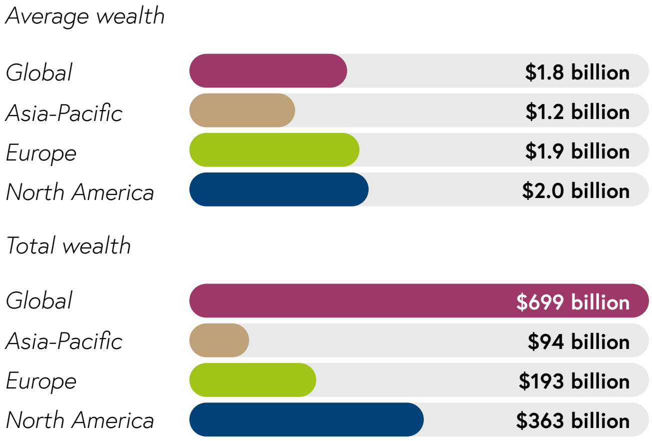
Algeria
Brazil
Chile
Colombia
Costa Rica
Israel
Kenya
Kuwait
Lebanon
Mauritius
Nigeria
Peru
Saudi Arabia
United Arab Emirates
Yemen

Source: Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Average Asia-Pacific family wealth US$1.2 billion; total estimated wealth US$94 billion

The average family wealth of those surveyed across Asia-Pacific stands at US$1.2 billion, while their estimated total wealth is US$94 billion (**Figure 1.4**). The respective figures for those surveyed worldwide are US$1.8 billion for average family wealth and US$699 billion for estimated total wealth.

Figure 1.4: *Total wealth of participating families including operating business in US$*

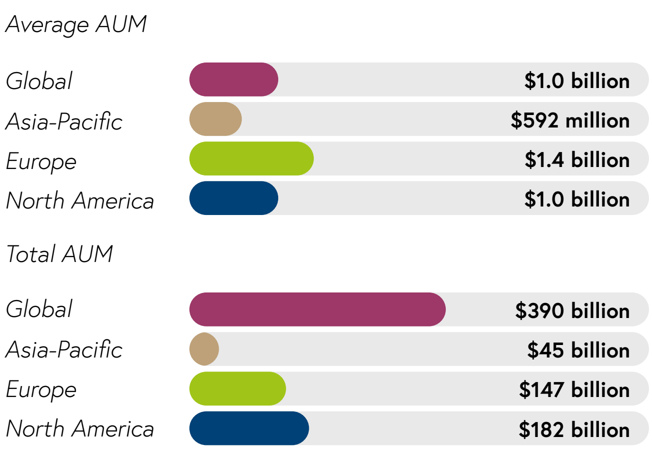


For private multi-family offices, the total net worth of all families.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Average Asia-Pacific family office AUM US$592 million; total estimated AUM US$45 billion

The average assets under management (AUM) of family offices surveyed across Asia-Pacific stands at US$592 million, while their total estimated AUM is US$45 billion (**Figure 1.5**). The respective figures for those surveyed worldwide are an average AUM of US$1.0 billion and estimated total AUM of US$390 billion.

Figure 1.5: *Family office assets under management (AUM) in US$*



For private multi-family offices, the total net worth of all families.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Expansion of family offices across the region

Asia-Pacific family offices are the newcomers to the family office community. Eighty percent were founded after 2000, compared to 70% for offices globally (**Figure 1.6**). Of these, two-thirds were established in the last 12 years, confirming a dramatic increase in family wealth across the region and the emergence of family offices as vehicles for wealth preservation and management.

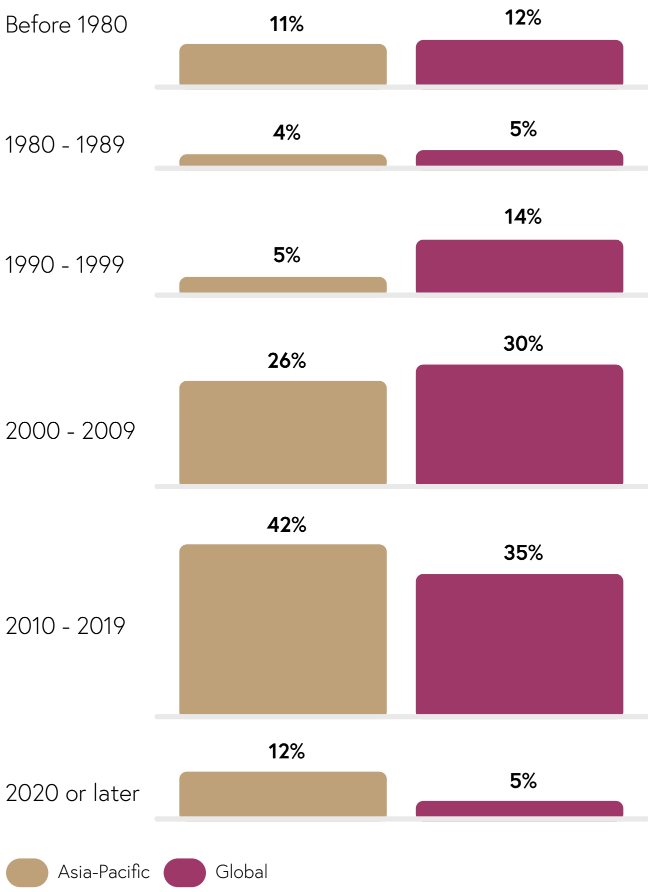
"I think the reason why the number of family offices has increased so dramatically in recent years is because of a new, very well-educated generation which is financially literate and entrepreneurial and more interested in investing in emerging companies, industries, and technologies than operating a staid family business."

Chief Executive Officer, multi-family office, Hong Kong

"We frequently hear of family offices setting up in Singapore, but what we don't quite know is whether they are establishing a permanent base or whether this is just part of their organization temporarily squatting in a serviced office."

Chief Executive Officer, single family office, Singapore

Figure 1.6: *When the family office was founded*



Note: Figures may not sum to 100% due to rounding.
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2021, a great year for families and family offices

Sixty-eight percent of Asia-Pacific family offices reported an increase in family wealth over 2021, while 17% stated the increase was significant (**Figure 1.7**). This not only reflected the strength of most financial markets, but also benign conditions for families' operating businesses, with 58% reporting an increase in revenues. Family offices also prospered with 63% increasing their AUM, and around one-third seeing a rise in professional non-family staff.

Outsourcing and bringing services in-house are two distinct operating models for family offices. Both proved popular last year with 22% of family offices reporting an increase in outsourcing and 22% an increase in in-house services. Over half of Asia-Pacific family offices reported increases in the number of risk measures and governance structures they employ. Likewise, over half saw an increase in IT infrastructure (with 15% citing the increase as significant), highlighting the importance of upgrading systems and cybersecurity measures. Finally, 40% of family offices saw Next Gens taking a greater degree of control, a step towards the major generational transition which is set to occur over the coming decade.

Figure 1.7: *Percentage of family offices reporting changes over the last 12 months*

		Significant increase	Slight increase	No change	Slight decrease	Significant decrease
Total family wealth	Asia-Pacific	17%	51%	21%	8%	3%
	Global	23%	49%	19%	8%	1%
Operating business revenue	Asia-Pacific	14%	44%	28%	8%	6%
	Global	19%	35%	36%	7%	3%
Family office assets under management (AUM)	Asia-Pacific	14%	49%	32%	4%	1%
	Global	17%	41%	37%	5%	1%
Number of family office staff	Asia-Pacific	4%	28%	59%	8%	0%
	Global	4%	26%	63%	6%	0%
Shift towards more professional, non-family member staff	Asia-Pacific	4%	32%	61%	3%	0%
	Global	4%	25%	69%	3%	0%
Reliance on outsourcing family office services to third parties	Asia-Pacific	4%	18%	75%	1%	1%
	Global	3%	22%	71%	3%	1%
Reliance on bringing family office services in-house	Asia-Pacific	3%	19%	70%	4%	4%
	Global	1%	19%	72%	6%	1%
Number of risk measures /structures in place	Asia-Pacific	11%	42%	42%	6%	0%
	Global	5%	39%	54%	2%	0%
IT infrastructure	Asia-Pacific	15%	39%	43%	3%	0%
	Global	9%	38%	53%	1%	0%
Next generation taking greater control	Asia-Pacific	10%	30%	58%	3%	0%
	Global	7%	31%	60%	3%	0%

Asia-Pacific Global

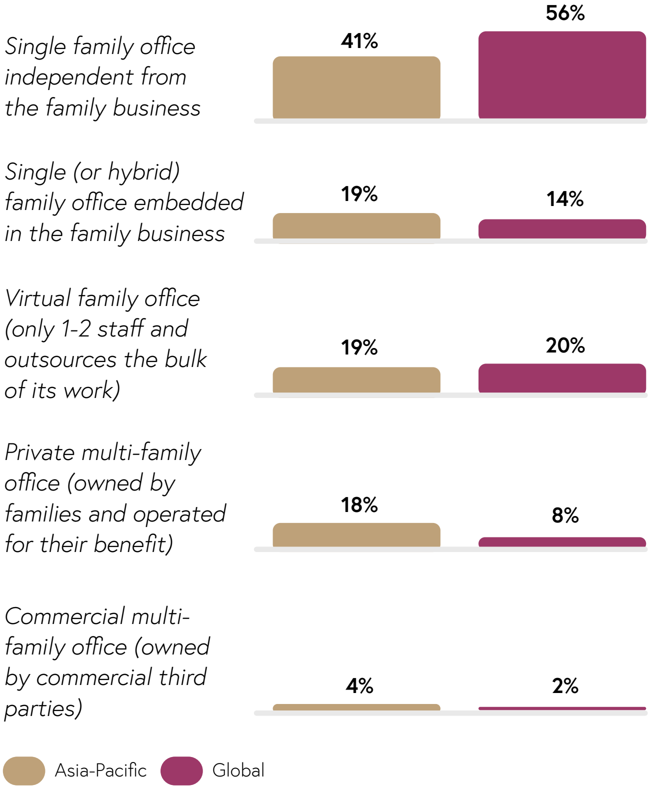
Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

1.3 Legal structures

Best structure for startups

Although just over 60% of respondents were independent single family offices, only 41% thought this was the best structure for a new family office startup (**Figure 1.8**). Rather, 19% believed that a virtual family office, with only one to two staff and all services outsourced, might be more appropriate. The percentages in favor of hybrid and private multi-family offices echo the percentage of each type of office participating in the survey.

Figure 1.8: *Best perceived structure for a new family office*



Note: Figures may not sum to 100% due to rounding.
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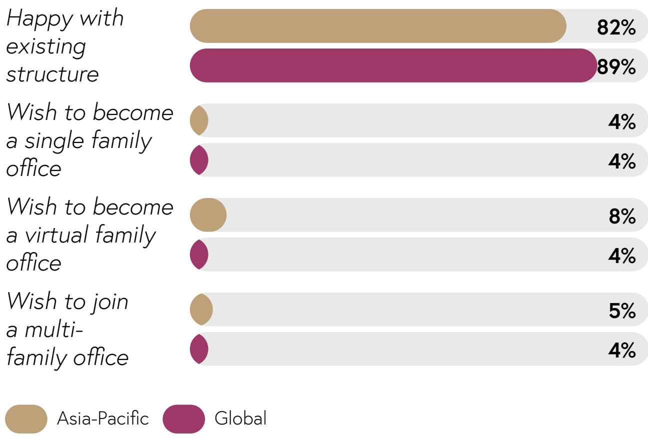
Most are happy with their structure

Asia-Pacific family offices' satisfaction level with their existing structure (82%) is lower than the global average, and there is a notable minority which wish to become virtual offices (**Figure 1.9**).

Figure 1.9: *Percent of family offices happy with their existing structure and those seeking an alternative*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

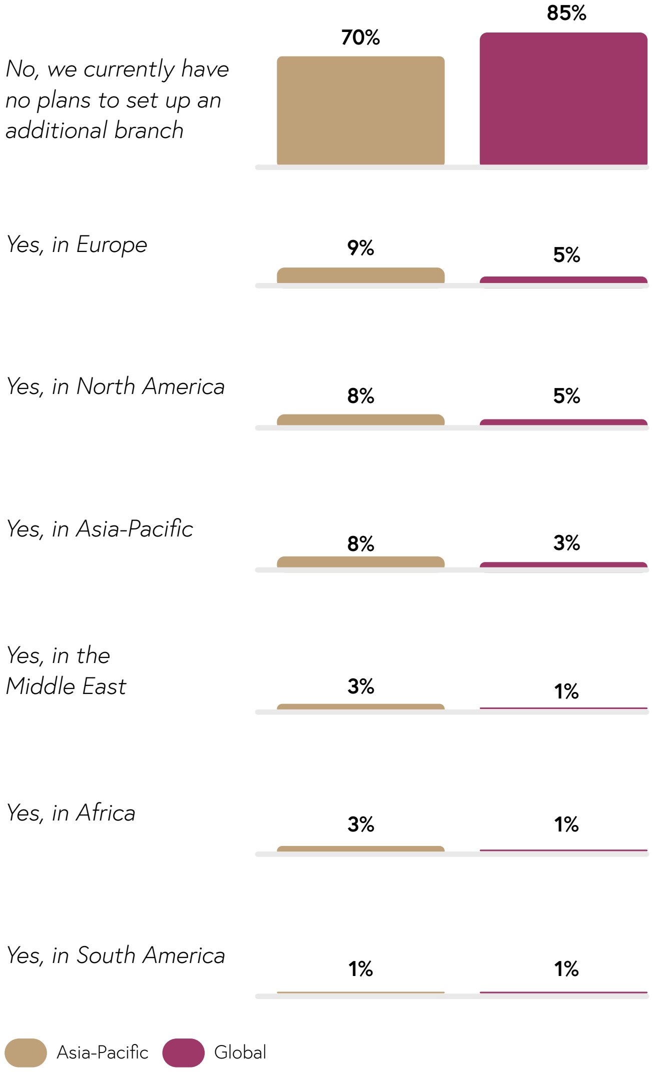
Almost one-third to establish additional branches

Because they are relatively underdeveloped, geographic expansion is important to family offices in Asia-Pacific (**Figure 1.10**). The most popular location for opening a new branch is Europe (9%), closely followed by North America (8%) and Asia-Pacific (8%). In some cases, the desire for diversification stems from regulatory constraints.

"A problem for Indian family offices is diversification. This arises because of a limit on the amount of currency an individual can send out of the country to US$250,000 per annum. To get around this, many of the operating companies associated with family offices open branches outside India. Alternatively, some family members may become non-resident. This is encouraging a relocation of family offices to Singapore and Dubai."

Head of single family office and family member, India

Figure 1.10: *Family offices intending to establish an additional branch(es) and intended location*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

2. Investments

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- Investment strategy
- Portfolio
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- Geographic diversification

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- APAC venture capital: Very much a family affair

2. Investments

- After recent turmoil in financial markets, family offices have become more risk-averse and Asia-Pacific family offices remain at the conservative end of the spectrum. Twenty-eight percent are focusing on wealth preservation, compared to a global average of 18%, and only 30% are focusing on growth, compared to a global average of 34%.

- Public equities is the largest asset class, constituting, on average, 32% of Asia-Pacific family offices' AUM. But in terms of new investment, the most popular asset classes are private equity funds and venture capital, with 57% and 50% of family offices looking to increase holdings, respectively. The overall average portfolio return among Asia-Pacific family offices is estimated at 10% in 2021, down from 15% in 2020.

- In our 2021 survey, 69% of family offices globally saw inflation as posing a risk to financial markets. Unfortunately, the worst fears of this group were realized in Q1 of this year when U.S. inflation rose to high single digits. Asia-Pacific family offices have attempted to adjust to a high-inflation environment by increasing exposure to public equities and real estate, and shortening the duration of bond portfolios. But, as cited by 88% of respondents, inflation is still the number one risk to financial markets (**Figure 2.2**).

- Forty-two percent of family offices in Asia-Pacific are now engaged in sustainable investing, with 29% of their portfolios allocated to the cause, an increase of four percentage points on last year and two percentage points higher than the global average. This percentage is expected to increase to 50% over the next five years.

88%

of Asia-Pacific family offices cited inflation as a significant risk to financial markets

10%

is Asia-Pacific family offices' average investment return in 2021

42%

of Asia-Pacific family offices now engage in sustainable investing

2.1 Asset allocation

Investment strategy

Moving down the risk curve

Traditionally, family offices have favoured a conservative approach to investment, maintaining a balance between the need to preserve capital and the desire to grow wealth. Asia-Pacific family offices are more conservative than most, with 28% viewing preservation as their primary objective (**Figure 2.1**). The comparative figures are 22% for European and just 10% for North American family offices. Correspondingly, the percentage of Asia-Pacific family offices operating a growth strategy (30%) is lower than elsewhere.

Deteriorating macroeconomic fundamentals, major market setbacks in the early part of 2022, and increased volatility have undermined confidence and prompted a re-assessment of investment objectives. Relative to 2021, the proportion of family offices operating growth strategies declined 4 percentage points in both Europe and North America in favour of balanced portfolios. The decline for Asia-Pacific family offices was just 2 percentage points, probably because the initial commitment to growth strategies was lower.

Despite current difficult conditions in financial markets, family offices appear upbeat about the longer term. Forty-six percent of Asia-Pacific family offices believe that in 10 years they will be operating a growth strategy, a much higher percentage than at present. The percentage with wealth preservation as their objective will be down to 10%. If this transpires to be the case, then Asia-Pacific family offices will no longer look more conservative than their global peers.

"We are generation three, we didn't create the wealth. The first thing we did was exit the family business to protect what had been built by the proceeding generations and then preserve it through diversification. We never saw the need for an aggressive investment strategy and high-return expectations. It's our task to protect wealth and use it for a purpose."

Chief Executive Officer, single family office, Singapore

"We're not manic in the way we manage portfolios. Portfolio turnover is extremely low, probably sub-10%. We're very thoughtful and we buy assets with a very long duration holding period in mind. We're happy to be patient across the asset cycle, because we focus on fundamental value and we feel that we've got a reasonable handle on what an investment is intrinsically worth."

Chief Financial Officer, single family office, Australia

Figure 2.1: *The main investment objective of the family office for 2021, 2022, and in 10 years' time*

Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Inflation: the biggest risk

The conventional wisdom at the end of 2021 was that inflation was the product of transport dislocation and supply chain constraints and would therefore prove no more than a temporary blip, set to disappear as the impact of the pandemic faded. Many family offices were sceptical; in our 2021 survey 69% saw inflation as posing a risk to financial markets. Unfortunately the worst fears of this group were realized in Q1 of this year when U.S. inflation rose to high single digits. Despite strategies to adapt to a high inflation environment, it is still perceived as a risk by 88% of Asia-Pacific family offices (**Figure 2.2**). Recognizing that the authorities would deal with inflation through tighter monetary policy, rising interest rates rank second in the list of investors' concerns, with geopolitical risks coming in third.

Asia-Pacific family offices' perceptions of risk generally mirror those of their global counterparts. Where they differ is in regard to new variants of Covid-19, China's economic growth, currency devaluation, and cryptocurrency regulation, which are all more of a concern to the former.

"I don't think the penny's dropped about inflation. In the Goldilocks economy you don't have to worry about it. But we are no longer in the Goldilocks economy and inflation is likely to remain high and sticky. So, it really will have a catastrophic effect on the value of family wealth if it's left in bonds and cash."

Chief Executive Officer and family member, multi-family office, Australia

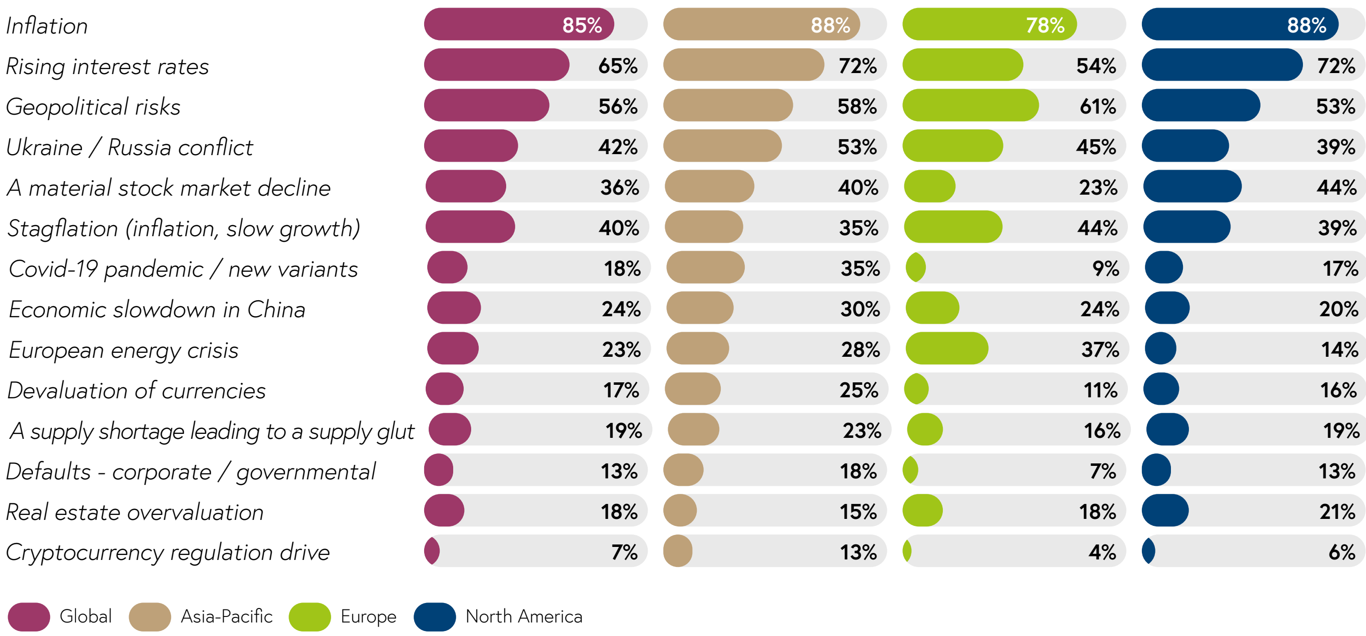
"We are bearish. We don't like the massive expansion of central banks' balance sheets. Everywhere, GDP growth is being propped by credit. De-dollarization of economies, as is underway in China and Russia, increases currency risk generally and reduces stability across the financial system."

Chief Executive Officer, single family office, Singapore

"China's economy is slowing. I've seen this first hand because 50% of the commodities my company produces are sold in China. But the real problem China faces is that its cost structures have risen. Can it continue to be the world's manufacturing base?"

Director and family member, single family office, India

Figure 2.2: *Most significant market risks perceived by family offices over the coming 12 months*



Note: Multiple options permitted.
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Inflation hedge

Increasing exposure to real estate, equities, and commodities are textbook investment strategies for dealing with a high-inflation environment. The logic is simple. Landlords can raise rents, companies can raise the price of finished goods, and commodity prices will go up. **Figure 2.3** shows that 52% of Asia-Pacific family offices are relying on real estate exposure to tackle inflationary risk, and 50% on equities. Additionally, 34% have shortened the duration of their bond portfolios to reduce sensitivity to adverse interest rate movements. Strategies such as increasing exposure to inflation-protected securities or diversifying into cryptocurrency are not regarded as viable solutions. While the inflation hedges listed above will be advantageous in the long run, timing is critical. Prices of bonds and equities have both fallen in parallel through the year so a switch from the former to the latter would not necessarily have been beneficial.

"Inflation is now the number one enemy across the world. I see inflation as a legislated tax; it hasn't been approved by Parliament, but the Reserve Bank mandated it through printing money. I don't think a lot of family offices have got their minds around how they are going to deal with it. They really need assets such as listed shares, high-value residential real estate, shopping centres, agricultural land, those sorts of real assets to have a fighting chance of beating inflation."

Chief Executive Officer and family member,
multi-family office, Australia

"Commodities offer a potential hedge against inflation. Recognizing that inflation is going to be a big issue at some point, we added two investments with large commodities exposure to our quoted investment portfolio at the end of 2021. We intended to do more but other opportunities presented themselves. There is always competition for capital."

Director, single family office, Australia

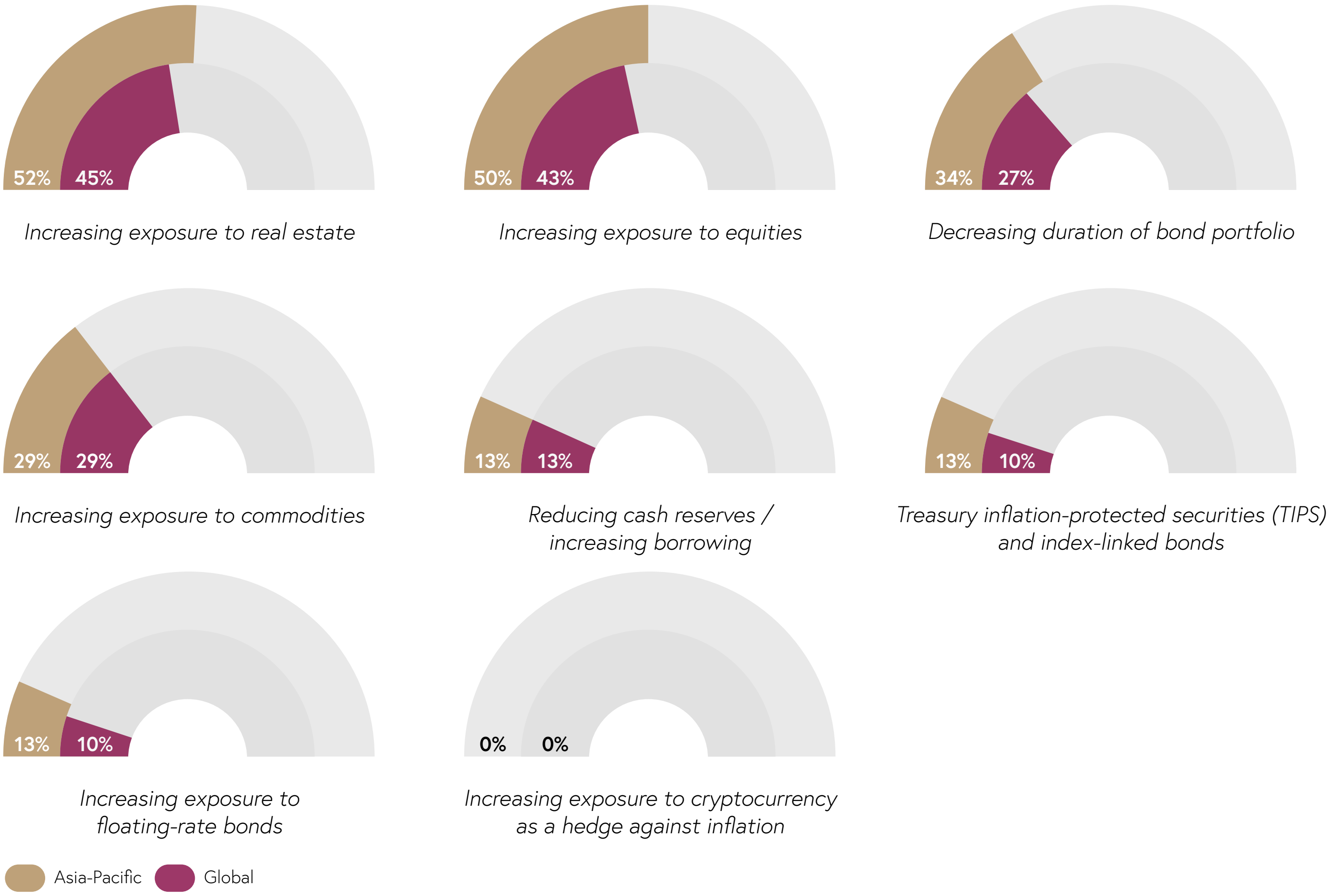
"We think Australia is a great destination for domestic and international investors seeking a natural inflation hedge. The Australian dollar has hedging properties because of world-leading energy and natural resources companies which will be beneficiaries of a higher oil price, while many industries that rely on oil such as plastics, pharmaceuticals, and cosmetics will be penalized."

Chief Executive Officer and family member,
multi-family office, Australia

"Over 50% of our private equity portfolio was in tech. That was largely because it had been so successful in the past. But these are long duration assets with negative cashflow and returns are coming a long way off in the future. These returns are therefore vulnerable to higher inflation and higher interest rates. We've tried to shorten the duration by investing in businesses like online consumer products which are already cash positive, and re-investing that cashflow to produce compound growth."

Director, single family office, Australia

Figure 2.3: *How the family office is tackling inflation risk*



Note: Multiple options permitted.
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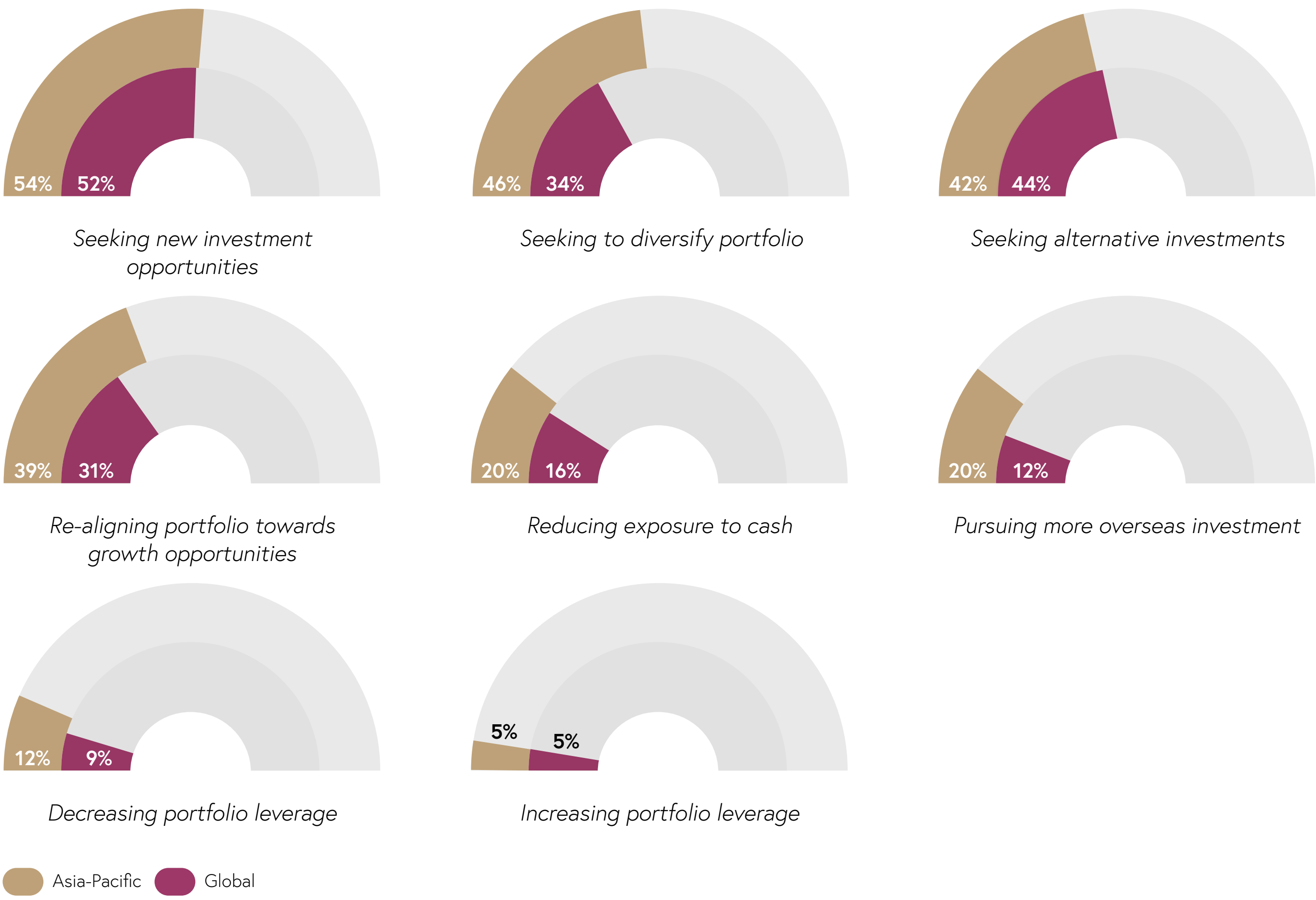
The hunt for new opportunities

Despite difficult macroeconomic fundamentals, 54% of Asia-Pacific family offices are still on the lookout for new investment opportunities, particularly those which would add diversification to portfolios (46%) (**Figure 2.4**). A preference for alternative investments (42%) also highlights the importance of diversification.

Figure 2.4: *Family offices' top investment priorities for 2022*



Note: Multiple options permitted.
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Portfolio

Public equity, the biggest asset class

As previously noted, Asia-Pacific family offices are currently more conservative than their global peers in terms of investment strategy. This shows through in their strategic asset allocation to fixed income securities (16% of AUM) with much of the difference related to developing market debt (**Figure 2.5**). Despite the global sell-off prompted by rising nominal interest rates, some developing market bonds (e.g. Indian government debt) remain attractive to family offices which hold them to maturity because of their high coupons. Asia-Pacific family offices' allocation to public equity markets, although identical to the global average at 32% of AUM, has a greater bias towards developing markets.

Alternatives

Private equity and private debt holdings of Asia-Pacific family offices, at 26% of AUM, is also close to the global average of 27%, but real estate assets are three percentage points lower than global peers. Alternative investments (hedge funds, commodities, and agricultural land) are also lower at 5% (compared to 7%), but gold / precious metals are higher (2% compared to 1%). Larger cash balances (7% compared to 5%) point to the more conservative strategies operated by Asia-Pacific family offices.

Figure 2.5: *Family offices' average strategic asset allocation 2022*

	Global	Asia-Pacific	Europe	North America
Bonds				
Fixed income – developed markets	9%	8%	8%	8%
Fixed income – developing markets	3%	8%	3%	1%
Equities				
Equities – developed markets	27%	22%	26%	31%
Equities – developing markets	5%	10%	5%	4%
Private equity and debt				
Private equity – direct investments	10%	10%	14%	9%
Private equity – funds	8%	7%	8%	9%
Venture capital	6%	6%	5%	6%
Private debt / direct lending	3%	3%	2%	3%
Real estate				
Real estate – direct investments	13%	10%	15%	14%
REITs	1%	1%	0%	1%
Alternatives				
Hedge funds	4%	3%	2%	6%
Agriculture (forest, farmland, etc.)	2%	1%	2%	1%
Commodities	1%	1%	2%	1%
Gold / precious metals	1%	2%	2%	1%
Other				
Cash or cash equivalent	5%	7%	5%	5%
Cryptocurrency	1%	0%	1%	1%
SPACs (special purpose acquisition company)	0%	0%	0%	0%
Total	100%	100%	100%	100%

Global   Asia-Pacific   Europe   North America

Note: Figures may not sum to 100% due to rounding.
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Looking to 2023

Globally, family offices are looking to reduce their asset allocation to fixed income, but those in Asia-Pacific are the exception, with significant percentages intending to increase holdings of both developed (35%) and developing market (28%) debt (**Figure 2.6**). Asia-Pacific family offices are also purchasers of public equities, particularly in developing markets (55%), to a significantly greater extent than their global peers.

Still looking to increase private equity

Globally, private equity remains the most popular asset class among family offices, but enthusiasm for private equity funds and venture capital is even greater among those in Asia-Pacific with 57% and 50% respectively looking to increase holdings. Separately, when asked whether the family had a growing interest in private markets, 84% replied affirmatively for private equity and 44% for private debt. Forty-seven percent of family offices are looking to increase their real estate exposure given its capacity to act as an inflation hedge.

Overall investment intentions haven't changed materially from last year with family offices showing strong appetite for public and private equities, except that demand for developing market equities has overtaken developed market equities, and private equity funds have overtaken direct investment. However given the difficult macroeconomic and interest rate background, it would not be surprising if these optimistic investment intentions are ultimately scaled back.

Cryptocurrency: Family offices still committed

Last year, we reported that 19% of Asia-Pacific family offices and 28% globally invested in cryptocurrency. The current survey reveals significant increases, with these figures rising to 28% and 32% respectively, although cryptocurrency is no more than 1% of AUM (**Figure 2.5**). It would seem that families have been "testing the water" to familiarize themselves with this asset class, without putting significant capital at risk.

But 2022 has been a sobering experience for financial markets generally and cryptocurrency in particular. Bitcoin and Ethereum have plummeted by almost 70% from their peak values achieved in the final quarter of last year. A key catalyst was the Terra Luna crash, when the mechanism linking a stablecoin algorithmically to another cryptocurrency failed under the weight of new minting. Fallout quickly spread to the crypto eco-system of exchanges, hedge funds, and deposit-takers. When asked whether cryptocurrency was a promising investment, only 18% of family offices agreed, compared to 53% in 2021. Interview comments from family office executives have been more negative than positive.

Despite the above, 59% of family offices already invested in cryptocurrency are happy to continue hold their investment (**Figure 2.6**) and 25% actively want to increase their allocation. Conceivably this may stem from cryptocurrency being more rationally priced, and recognition that every new asset class has experienced similar setbacks. The unique characteristics and benefits of cryptocurrency, independence from governments, fast processing times, and portfolio diversification have not been negated.

"Like other family offices in India, we have a sizeable fixed income portfolio, around 20% of our total assets. This is because we want a high degree of liquidity in our portfolio. Additionally, the yield on this portfolio is around 10%, so it provides useful cashflow. We use the cashflow to buy stocks or invest in private equity deals. Bond yields have risen this year, but since we hold our bonds to maturity we are not concerned by mark-to-market losses."

Director and family member, single family office, India

"We have little or no interest in owning bonds or fixed interest that produce negative rates of return. Central banks are not going to let official rates get to where they really need to be to combat inflation. The indebtedness of the U.S. government is too high. There's US$27 trillion of bonds issued at close to zero yield, they will have to be refinanced in due course and the higher rates go above 3% the more prohibitively expensive this becomes for the government."

Chief Executive Officer and family member,
multi-family office, Australia

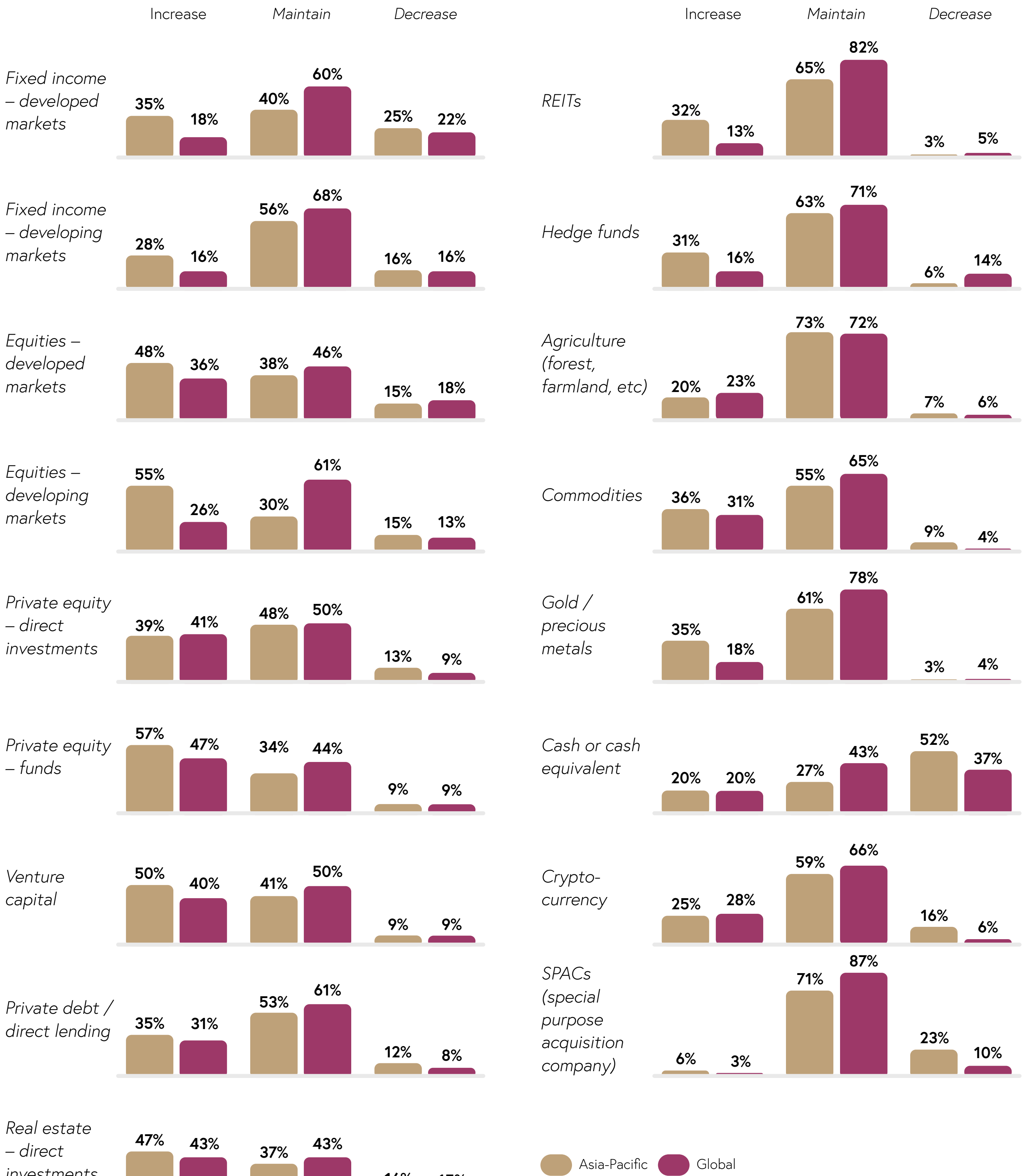
"We like China simply because of the sheer size of its emerging middle-class population. We invest directly in public companies rather than through U.S. companies doing business in China or the U.S. stock exchange. However, you must be prepared for the unexpected, most recently, the authorities' reaction to the resurgence of Covid-19."

Adviser, multi-family office, China

"Gold remains a significant percentage of our overall portfolio, so we've never had a good reason to divest. Given our concerns about the distortions produced by quantitative easing and debasement of currencies, this isn't surprising. We're not convinced that alternative assets like cryptocurrencies can take the place of gold because cryptocurrencies are behaving more like tech proxies."

Chief Executive Officer, single family office, Singapore

Figure 2.6: *Family offices' intention to increase, maintain, or decrease allocation to the following asset classes:*



Note: Figures may not sum to 100% due to rounding.
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Allocations to emerging technology

Popular sectors

The five most popular sectors for investment are healthcare (66%), green tech (60%), artificial intelligence (59%), fintech (56%), and biotech (50%) (**Figure 2.7**). This closely matches the preferences of family offices globally, except the latter select digital transformation rather than artificial intelligence. When asked whether artificial intelligence was increasingly relevant to the companies in which they invest, 90% of Asia-Pacific family offices replied affirmatively compared to 80% globally.

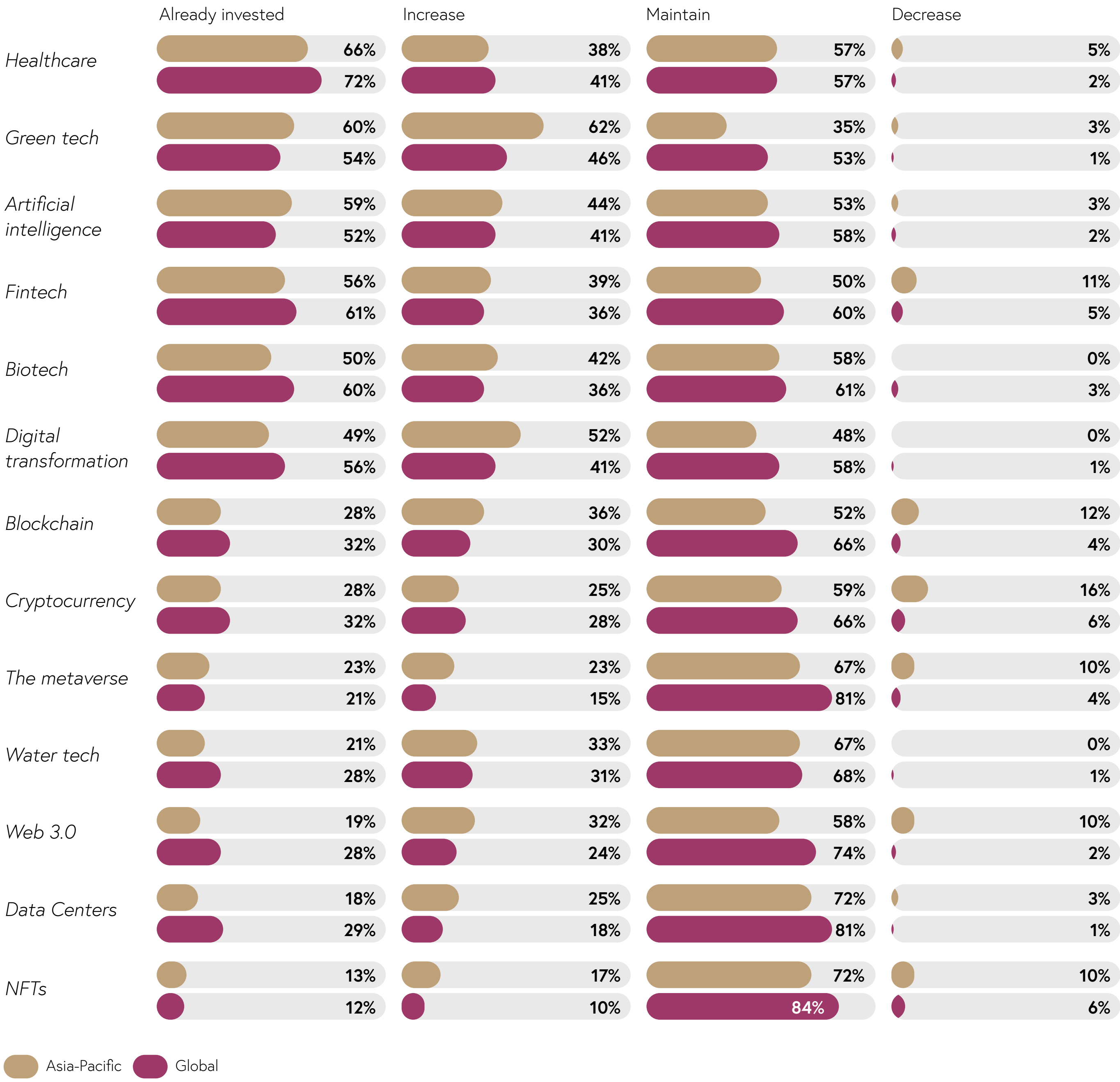
Involvement with newer technologies is lower than with established ones, though a significant share of Asia-Pacific family offices have exposure to the metaverse (23%), Web 3.0 (19%) and NFTs (13%).

Future allocations

For new investment, Asia-Pacific family offices view green tech (62% of those already invested), digital transformation (52%), artificial intelligence (44%), biotech (42%), and healthcare (38%) as the most attractive technologies, again not dissimilar to global preferences. There is a clear overlap between technologies in which family offices are already invested in and those where they are seeking to increase their allocation, demonstrating they are cautious investors and like to put their toe in the water to gain understanding and experience before making more significant investments.

As regards new nascent technologies, 36% of those already invested in blockchain are interested in increasing their involvement, as are 32% of those invested in Web 3.0 and 23% of investors in the metaverse. Separately, when asked whether cryptocurrency, NFTs, and the metaverse are promising investment opportunities, 18%, 23%, and 47% of Asia-Pacific family offices respectively agreed. On this measure the metaverse appears most likely to be the recipient of future family office investment.

Figure 2.7: *Family offices with investments in identified technologies and their intention to increase, maintain, or decrease asset allocation*



Note: Figures may not sum to 100% due to rounding.
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Overcoming impediments

Structural features of the cryptocurrency market, set out in **Figure 2.8**, have been cited as impediments to future investment. These include lack of regulation (60%), volatility (55%), and limited understanding of the future potential of cryptocurrency (45%). But 28% of Asia-Pacific family offices have an exposure to cryptocurrency, a percentage which has increased from 19% over the past year. Hence it is possible that these impediments are weighing less heavily on the minds of investors, and in the future tighter regulation and better investor education will lead to the asset class being accepted as mainstream.

"We certainly wouldn't own any Bitcoin or any other cryptocurrency because we think that intrinsically they're worth zero. It's a confidence-based market. Just because it's big, doesn't mean it's safe. We're happy to not participate in those sorts of products, because we're seeking a satisfactory return for the risk we take."

Chief Executive Officer and family member,
multi-family office, Australia

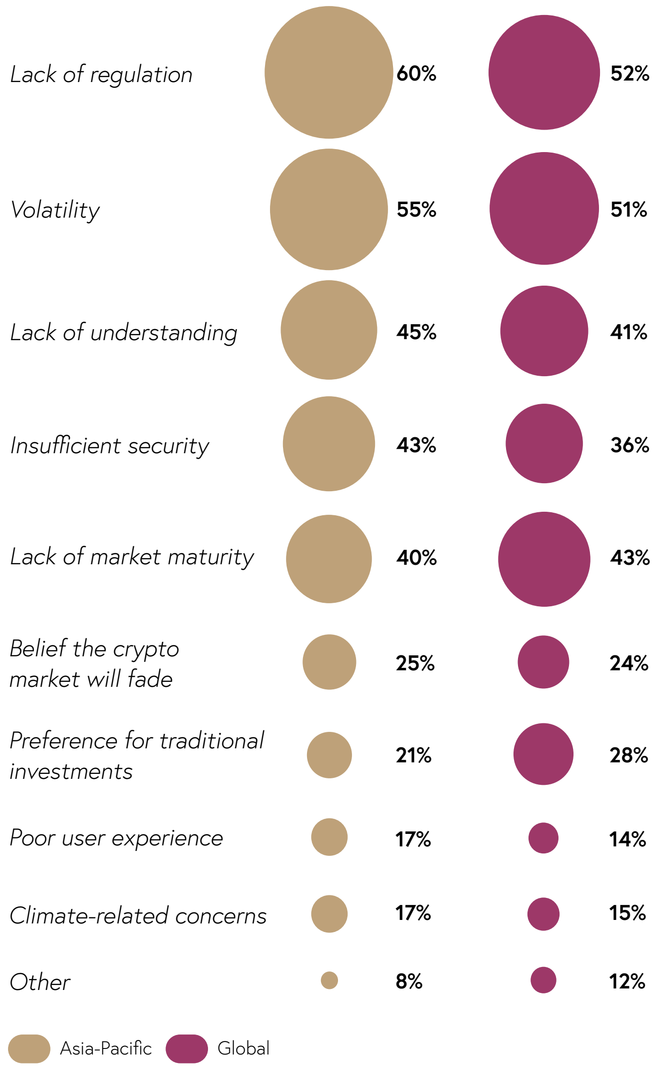
"We've never done anything with cryptocurrency. But they are a topic of interest for us, we need to have a view even if we continue to sit on the sidelines."

Chief Executive Officer, single family office, Singapore

"It's not that we're uninterested in cryptocurrency or NFTs, but it's difficult to get involved in a way that feels comfortable from an institutional custody perspective. I don't want to have a password that's essentially going to allow me to transfer millions of dollars of my principal's assets elsewhere. I don't want to be in a situation where I could be accused of doing that. Similarly, I don't want to have to involve them every time we need to make a transaction. In my opinion, the market is not mature enough yet to allow us to invest in asset classes like these."

Chief Executive Officer, single family office, New Zealand

Figure 2.8: *Impediments to investing in cryptocurrency*



Note: Multiple options permitted.
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Geographic diversification

Well diversified

The U.S. is home to the world's two largest stock markets (NYSE and NASDAQ) so it is not a surprise that 77% of Asia-Pacific family offices have investments in North America (**Figure 2.9**). Two-thirds have exposure to Europe. It appears investment portfolios are well diversified geographically, and as indicated from **Figure 2.5**, developed market bonds and equities constitute 30% of AUM. However, involvement with more esoteric markets in the Middle East and South America are relatively modest. In terms of future investment, Asia-Pacific is still deemed the best place to be with 46% of family offices looking to increase their exposure, but 39% are also looking at North America.

Figure 2.9: *Percentage of family offices with investment(s) in geographic region and their intention to increase, maintain or decrease their investment(s)*

Asia-Pacific	Already invested	Increase	Maintain	Decrease
North America	77%	39%	51%	10%
Europe	67%	24%	63%	12%
Asia-Pacific	96%	46%	52%	2%
Middle East	13%	10%	81%	10%
South America	21%	7%	80%	13%
Africa	25%	21%	64%	15%
Global	**Already invested**	**Increase**	**Maintain**	**Decrease**
North America	94%	33%	61%	6%
Europe	85%	24%	64%	12%
Asia-Pacific	81%	32%	63%	5%
Middle East	20%	6%	90%	4%
South America	37%	9%	83%	8%
Africa	23%	13%	83%	5%

Asia-Pacific Global

Note: Figures may not sum to 100% due to rounding.
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Roughly seven in 10 APAC family offices invest in China

Despite its geographic proximity, only 68% of Asia-Pacific family offices have exposure to China, which is only marginally higher than the percentage for family offices globally (**Figure 2.10**). However, 34% of offices already invested in China are keen to increase their investment.

Figure 2.10: *Percentage of family offices with investment(s) in China and their intention to increase, maintain or decrease their investment(s)*

	Already invested	Increase	Maintain	Decrease
Asia-Pacific	68%	34%	50%	16%
Global	62%	24%	54%	21%

Asia-Pacific Global

Note: Figures may not sum to 100% due to rounding.
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"While avoiding residential real estate, we continue to invest in China via private equity and credit, and through hedge funds. Our overall allocation is increasing and if we compare ourselves to other groups, we are probably under-invested."

Adviser, multi-family office, China

"One of the problems of being a foreign investor in China is whether you're in equity or credit, frankly, as you are subordinated to the provision of capital from local sources."

Adviser, multi-family office, China

"The slowdown in China is one thing, but the gradual decoupling from the West will be a bigger issue. Presently we see the China crackdown in sectors like education and technology where the government is really stepping in. I don't think we could do any direct investment in China anytime soon."

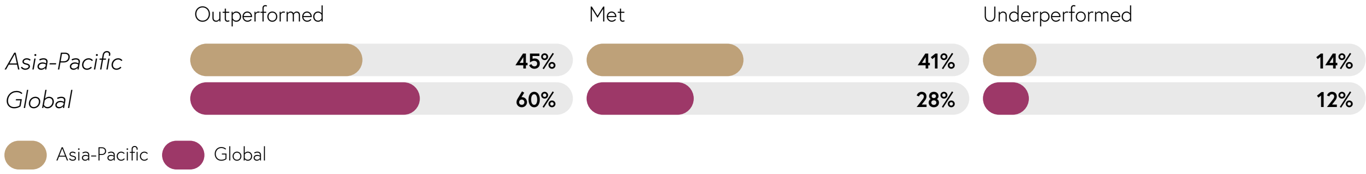
Chief Executive Officer, single family office, Singapore

2.2 Performance

2021, an exceptional outcome

Forty-five percent of Asia-Pacific family offices claim to have outperformed their benchmark in 2021 and only 12% underperformed which could be viewed as an exceptional outcome (**Figure 2.11**).

Figure 2.11: *Percentage of family offices where investments out-performed, met or under-performed their overall benchmark in 2021*



Note: Figures may not sum to 100% due to rounding.
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Returns: a detailed look

Looking at returns in more detail in **Figure 2.12**, mid-teens from private equity and low double digits from equities were clearly creditable outcomes but they were somewhat overshadowed by exceptional returns from European and North American family offices. Some of this can be attributed to the lackluster performances of regional stock market indexes like the Hang Seng and CSI 300 relative to the S&P 500, which rose 27% over the course of the year. Further, with buoyant stock markets, economies recovering from the pandemic, and ultra-low interest rates, the backdrop for private equity realizations in Europe and North America could hardly have been more propitious. Without a tail-wind from these positive factors, and possibly slightly hamstrung by their conservative investment strategies favoring wealth preservation over growth, it's not surprising the average return on investment for Asia-Pacific family offices, at an estimated 10%, was three percentage points lower than the global average, and five percentage points lower than in 2020.

Figure 2.12: *Average net return by asset class generated by family office in 2021*

	Global	Asia-Pacific	Europe	North America
Bonds				
Fixed income – developed markets	5%	6%	5%	3%
Fixed income – developing markets	4%	7%	3%	4%
Equities				
Equities – developed markets	17%	11%	17%	18%
Equities – developing markets	10%	10%	11%	8%
Private equity				
Private equity – direct investments	20%	15%	22%	21%
Private equity – funds	19%	13%	17%	22%
Venture capital	21%	15%	17%	26%
Private debt / direct lending	9%	8%	4%	11%
Real estate				
Real estate – direct investments	14%	9%	11%	17%
REITs	9%	5%	9%	10%
Alternatives				
Hedge funds	8%	9%	6%	10%
Agriculture (forest, farmland, etc.)	8%	6%	9%	3%
Commodities	11%	8%	8%	13%
Gold / precious metals	3%	4%	4%	1%
Other				
Cash or cash equivalent	2%	5%	1%	1%
Cryptocurrency	11%	12%	13%	11%
SPACs (special purpose acquisition company)	1%	0%	0%	2%
Weighted average return	13%	10%	13%	15%

Global Asia-Pacific Europe North America

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Outlook

Going forward, given the year-to-date performance of public markets, there is a clear perception that the 2022 outcome won't match that of the last two years. When asked whether the economic outlook for 2022/2023 was positive, 68% of Asia-Pacific executives disagreed. But Asia-Pacific family offices did not benefit from the buoyant conditions of 2021 to the same extent as their global counterparts. Conceivably this may provide some insulation against the difficult conditions now evident.

"In current market circumstances, it's going to be much harder to get exits from private equity positions. We thought we'd have a couple of exits through public offerings later this year, but the likelihood of that happening is now very low. We have had to adjust our capital allocation accordingly by not making any new investments. We may miss a few good opportunities on the other hand if there is a recession. That would be a good time to jump back in."

Director, single family office, Australia

"In mid-2021, some of our investments would have been held on the balance sheet at a much lower valuation than their market value. I think the opposite is true today. We recognize that if we want to liquidate our portfolio, we will definitely take a hit. Eventually what happens in public markets filters through into private market valuations."

Chief Executive Officer, single family office, Singapore

Singapore: The view from the top

The Director of a multi-family office in Singapore explains the development of family offices in the region, the factors which distinguish them from their global counterparts, and the rivalry between Hong Kong and Singapore. In his role as a fund manager, he's hopeful that China's long-term prospects will survive the current political turbulence. He believes inflationary pressures will ease if supply side issues are addressed.

Why do so many family offices in Asia-Pacific still have a family business attached to them?

"This difference is a feature of different stages of economic development. Here in Asia, much of the wealth has been built up in the last two generations and families still tend to retain the original businesses from which the wealth was created. In the U.S. and to an even greater extent in Europe, wealth has been accumulated over several generations, and the family businesses were sold a long time ago, or otherwise converted into financial assets. This of course is entirely logical; it's diversification removing concentration risk from the family portfolio. Anecdotally, what I notice about the wealth creation generation in Asia is that it is incredibly street-smart and driven. The next generation often achieves great things academically, and then goes on to spend a few years working in a bank or other financial institution. At the end of this, they are often more interested in the world of finance than in running or developing the family business. This is, of course, a huge generalization, but extrapolating from this, it follows that over time Asian family offices will move closer to their U.S. and European counterparts.

Furthermore, it's much easier and cheaper to start a family office in Hong Kong or Singapore than in the U.S. or Europe. One reason is that we don't need as much tax planning advice as there is in the U.S. and Europe, where mitigation of taxation requires the beneficiaries of wealth to be kept at arm's length away from it. Governments are perennially attempting to find ways to expropriate assets. This hasn't been a feature in Asia."

There have been several well-publicized cases of family offices moving from Hong Kong to Singapore. What's behind this trend?

"Singapore is trying to attract sources of capital, but an easy one for it to appeal to is very wealthy Chinese. It's Chinese-speaking with a large ethnic Chinese diaspora. This is the generation that made its fortune post China's entry into the World Trade Organization in 2001, and Singapore is the easiest, and most familiar place they can get to outside mainland China. It's also in the same time-zone as the mainland. The Singapore Government has been careful to avoid giving the Chinese leadership the impression it is actively trying to attract this flow. There has been a flow of money coming down from Hong Kong to Singapore, but I do not believe Singapore has been actively promoting this. That said, ethnic Chinese Singaporeans who provide financial services and who have strong relationships in China are marketing Singapore like crazy, and they are pushing their clients to switch custody from Hong Kong to Singapore.

Though not specifically aimed at winning business from Hong Kong, the Singapore authorities have improved the competitive position of their asset management industry through the introduction of the variable capital company (VCC). A VCC is a corporate structure applied to collective investment schemes. When investments are made, shares are created and vice versa, mirroring open-ended funds in the U.S. and Europe. VCCs are very useful for wealth managers seeking to service family offices with segregated client accounts."

How do you feel about the poor performance of regional stock markets over the past year?

"China has been through an extraordinary period of growth, which has lifted an unbelievable number of people out of poverty. WTO membership brought an extended period of stability and an influx of foreign capital with a long-term investment horizon. But China did not always fulfil its WTO obligations. Access to its domestic market was restricted and problem strategic industries were supported by the state. Hence, the tension with the U.S. But, nonetheless, some forecasters believe China will be the world's largest economy by 2030.

It is now an industrialized nation. Two-thirds of the population live in cities, and they are well-educated. At the moment China depends on the U.S., Europe and the rest of Asia to buy their goods and services. What they really need to do is develop their own domestic market so that growth becomes self-perpetuating. Once that happens, China could well overtake the U.S. Currently political issues make owning Asian equities a difficult trade. We take some comfort that global equities are trading at historically high price to book multiples while Asian equities are at historically low valuations. Global equities are trading at a very high price to book on a historic basis, and Asian equities are trading at a very low price to book. Part of that is due to China, since it is such a big component of Asian equities. However, other Asian equities look very cheap on this basis.

I'm not that concerned by the Chinese property market. I think, ultimately, it comes down to the banking system, and China still has a closed capital account and state directed banking system. Policymakers can socialize the losses through the banking system, and this will have an impact on money supply. Coupled with lockdowns this is negatively impacting economic growth.

Having said that, I am concerned from the perspective of being a foreign investor. The problem is that whether you are a provider of equity or credit, you are subordinated to local capital providers. There have only been a handful of companies that have been successful in enforcing their domestic rights."

Isn't there too much debt in China?

"There is probably too much debt everywhere. I'm worried about all markets where leverage is high, interest rates are rising, and the economy is stagnating. But which sector of the economy is the most highly leveraged? Is it private individuals, corporates, or government? Government debt levels were at unsustainable levels going into the pandemic and were much worse coming out. More concerning, during the pandemic they adopted a monetary policy approach to solving all the problems, which was just printing money. And now we've got the U.S. with debt more than GDP and certain Western economies with debt of 120% to 130% of GDP. And there's narrative about how these countries need to stamp down on inflation. But they can't afford to do this because inflation reduces the real cost of debt. The holder of government debt sees its real value fall, whilst the government actually benefit. So permitting inflation is the default option for many governments.

In consequence, I don't think authorities are going to clamp down on inflation by pushing rates up to extreme levels. The principal causes of current inflation include Covid-19-related supply chain issues in China and energy-related input costs due to the war in Ukraine. Lockdowns have had a dramatic impact on Chinese economic activity and supply chain issues have permeated through the system, raising the cost of shipping, fuel, logistics, everything. This has global ramifications. So, I don't think that raising interest rates is going to make any difference whatsoever to controlling that inflation. All it's going to do is just impose more suffering on western consumers."

I hope your analysis is right because it points to inflation looking a lot better in 2023.

"Well, that's certainly what policymakers are hoping. China's zero Covid-19 policy will lift at some point, the country will get back to producing again, and I think this will cause inflation to fall. I'm not saying that loose monetary conditions haven't been responsible for some of the inflation we've been seeing; you can't increase supply by 30% and not see an impact in either asset price inflation or consumer price inflation. But the biggest factor contributing to inflation is supply chain bottlenecks. The good news is that some of these supply chain issues are beginning to ease, as evidenced by declining shipping container rates and natural gas prices."

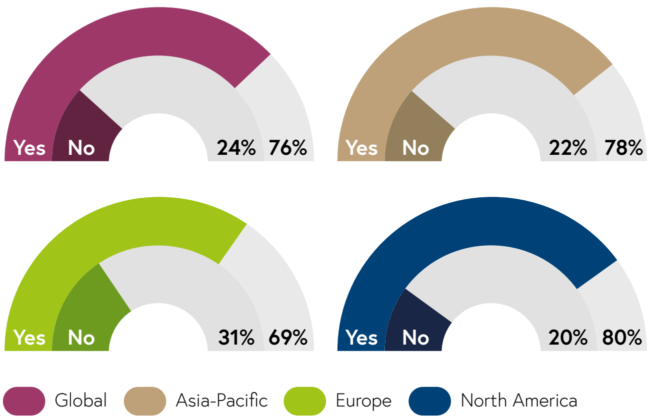
2.3 Asset class focus

Real estate

Staying close to home

Direct real estate investment is only 10% of the aggregate AUM of Asia-Pacific family offices, but 78% own a property portfolio (**Figure 2.13**). The split of portfolios is fairly even between commercial and residential, very close to the composition of family offices globally (**Figure 2.14**). More than half of commercial and residential developments are in close proximity to the family office, demonstrating the importance of understanding local market conditions in the investment process. But Asia-Pacific family offices are more likely to invest cross-border than in a different region within their own market.

Figure 2.13: *Whether the family office invests in real estate*



Note: Figures may not sum to 100% due to rounding.
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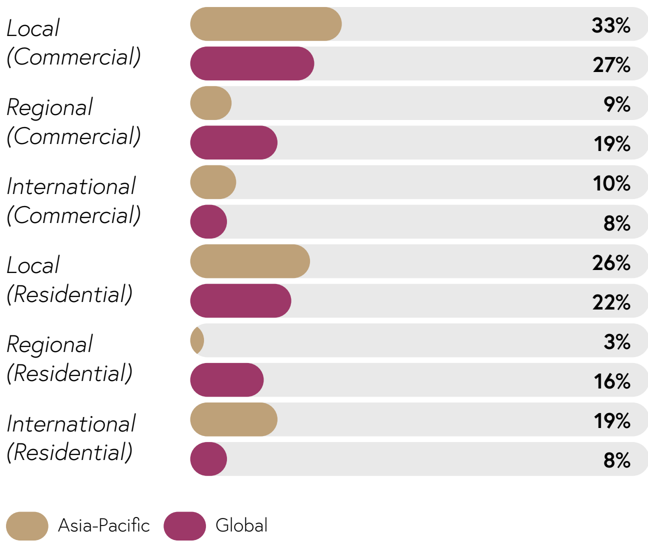
Figure 2.14: *Composition of family offices' real estate portfolios*



Note: Figures may not sum to 100% due to rounding.
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2021 real estate returns prove somewhat flat

2021 returns from Asia-Pacific real estate portfolios look rather flat alongside the global average (**Figure 2.15**). But the global average is the product of exceptional capital appreciation in the U.S. fueled by loose monetary policy; nationally, residential home prices increased 19%[4]. By contrast, key Asia-Pacific property markets have been lackluster, a condition which, excluding Singapore, has continued into the current year.

"China has seen a near 10% decline in residential property prices this year. Hong Kong has suffered too, but not quite to the same extent. This is mainly due to the zero Covid-19 policy. It will take time, but these markets are expected to recover as lockdown measures ease."

Chief Executive Officer, multi-family office, Hong Kong

"In some segments of Indian real estate, such as high-end residential, there is an oversupply. There are no buyers and processes are stagnant. Developers have had to change their view and start constructing middle- and low-income housing."

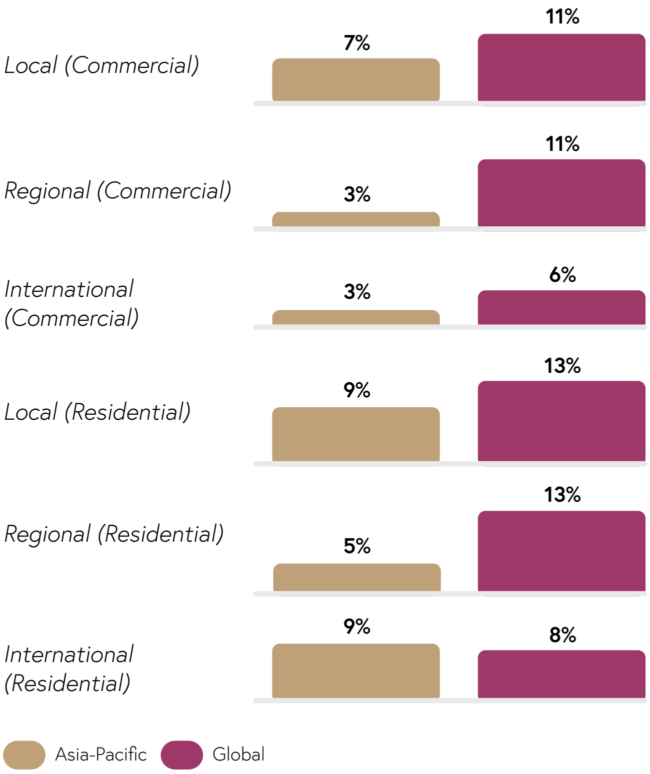
Director and family member, single family office, India

"Singapore's residential market has remained very strong this year. Supply is tight because of construction delays during the pandemic while demand has been boosted by an influx of people leaving Hong Kong. This includes many very wealthy families. The upshot is a double- digit increase in the rents of high-value residential property."

Chief Executive Officer, single family office, Singapore

[4] US National Home Price YoY % change, US Bureau of Labor Statistics, https://www.bls.gov/

Figure 2.15: *Family offices' average 2021 return from real estate investments by asset class*



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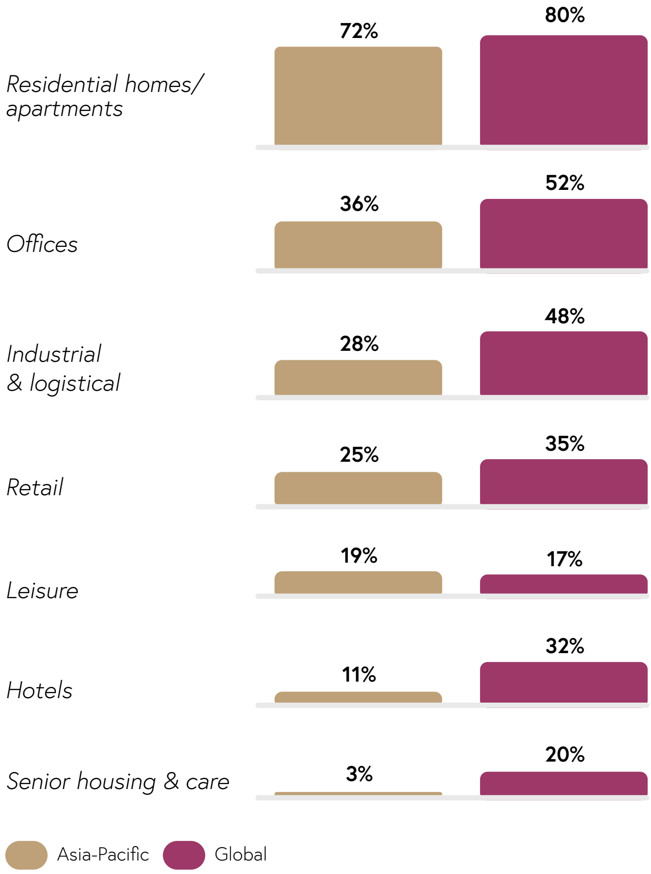
Residential property most popular

Residential homes/apartments are the most popular type of real estate investment while the mix of commercial portfolios is conservative. Proportionately fewer Asia-Pacific family offices invest in the more esoteric sectors of the property market, such as industrial and logistics, hotels, or senior housing, when compared with the global average (**Figure 2.16**).

Figure 2.16: *Percentage of family offices with real estate investments by sector*



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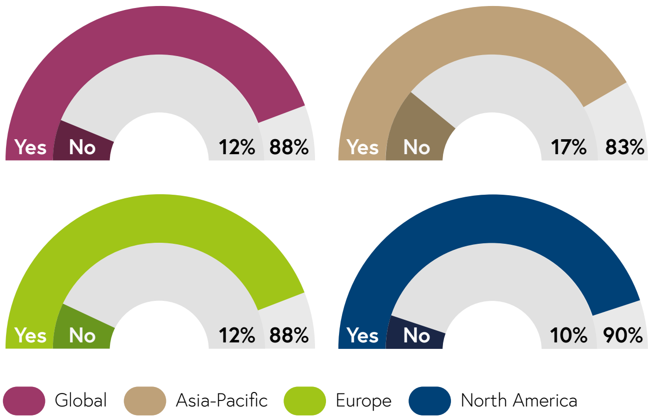
Private equity

Direct active approach works best

With 83% of Asia-Pacific family offices investing in private equity (up from 80% last year), it stands out as the second-largest asset class, comprising on average, 23% of AUM (**Figures 2.5, 2.17**). There is a preference for investment through funds (44%), but direct investment is still 47% of portfolios, which is similar to the global average of 49% (**Figure 2.18**). This table also shows that with the majority of their direct investments, Asia-Pacific family offices are prepared to take an active role, advising and mentoring management and giving them access to the family network.

Figure 2.17: *Whether the family office invests in private equity*



Note: Figures may not sum to 100% due to rounding.
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As in prior years, active management produced the best investment returns, both for Asia-Pacific family offices and family offices globally. But overall returns of Asia-Pacific family offices were significantly lower than those achieved globally, which benefited from surging U.S. stock market valuations and buoyant exit activity. This is evidenced by both the returns data in **Figure 2.18** and, with the exception of direct active investment, the limited number of Asia-Pacific family offices reporting returns outperforming expectations (**Figure 2.19**).

"The expansion of private markets in Hong Kong has been driven by the poor performance of the public market. Family offices are led by entrepreneurs and these entrepreneurs are always looking for private businesses in sectors which they understand."

Chief Executive Officer, multi-family office, Hong Kong

"There are two factors which count against private equity as far as families are concerned. First, it's still possible to make good money in public markets – at least until quite recently. Second, private equity is something of a black hole. You never know when you will get your money back. It could be an eight- or nine-year wait, and that could impact on a family's lifestyle."

Head of single family office and family member, India

"We've had a handful of successful exits over the last 24 months. A very well timed liquidity event involving just one direct venture capital investment produced a very significant increase in family wealth last year."

Director, single family office, Australia

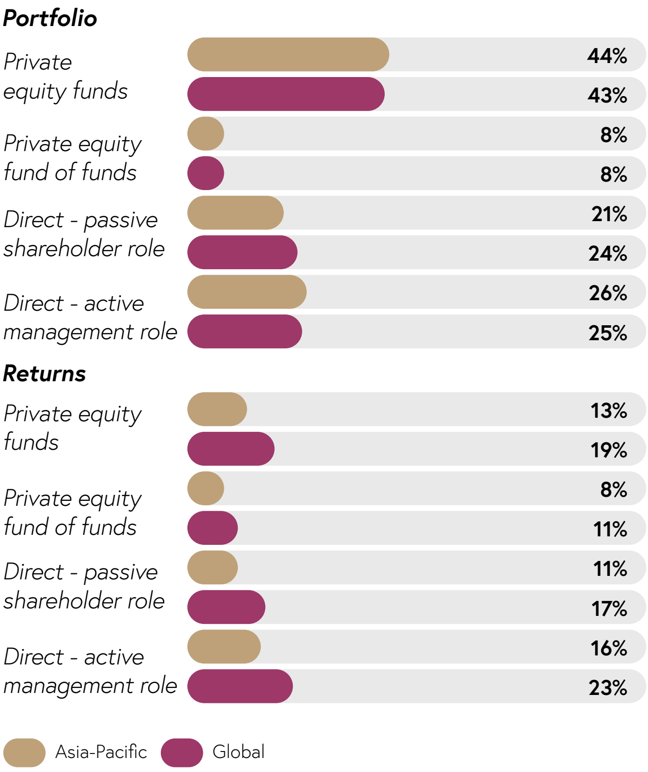
"Starting from a low base, private equity is becoming a more popular asset class for Indian family offices. A few years ago, it was only 1 or 2% of portfolios. For our family office it's now up to 10%. There is more going on in private equity now and cash is being returned from older investments."

Head of single family office and family member, India

"We're not keen on private equity. We would prefer to own quoted shares at a fair market value which have the ability to either reduce costs or pass on price increases to the end user. By contrast, a private equity fund will typically pay a 25% premium to take something off market. Then they have to make it work. I think a lot of syndicated property and these kinds of vehicles are only possible with extreme low interest rates so that excessive gearing enables them to earn sufficient returns."

Chief Executive Officer and family member,
multi-family office, Australia

Figure 2.18: *Family offices' average private equity portfolio and 2021 returns by asset category*



Note: Figures may not sum to 100% due to rounding.
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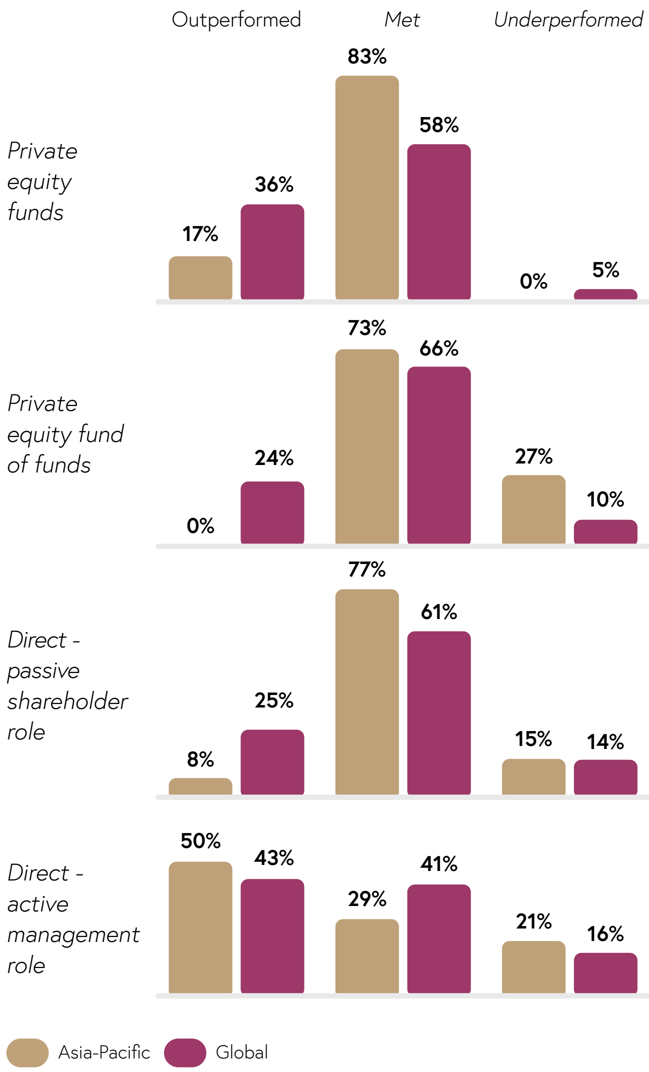
Figure 2.19: *Percentage of family offices reporting 2021 private equity performance outperforming, meeting, or underperforming expectations*



Note: Figures may not sum to 100% due to rounding.
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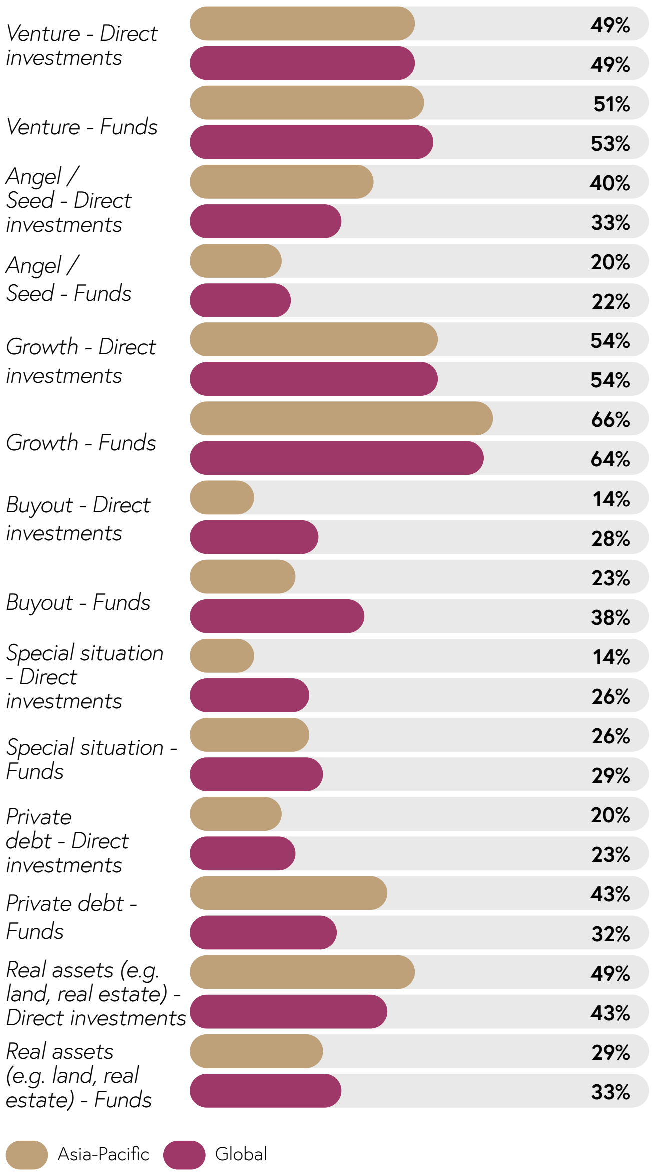
Asia-Pacific family offices favour growth and venture capital

The most attractive category when selecting private equity investments (**Figure 2.20**) is growth, either direct (54%) or through funds (66%). Venture capital investment in early-stage innovative businesses, typically although not exclusively technology-based, is also popular (49%), as is direct seed investing in start-ups (40%) and direct investment in real assets (49%). Buyouts (14%) and other special situations (14%) are not popular with Asia-Pacific family offices.

Figure 2.20: *Percentage of family offices with exposure to private equity investing directly or through funds in the relevant categories*



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"I think the supply of capital into Asian venture capital markets is not broad enough and economies are poorer for it. Hence there's a massive opportunity for venture capital in Asia, particularly given the huge entrepreneurial endeavour in this part of the world."

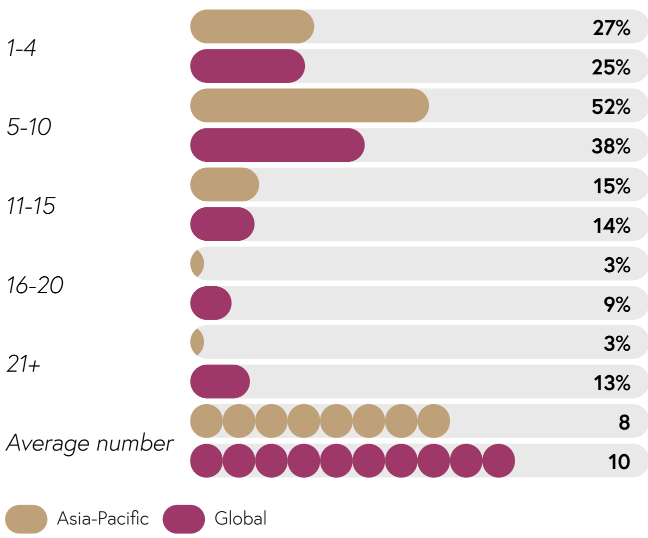
Vice Chairman, single family office, Singapore

"In the UK, there are many investment institutions which provide equity finance to small and medium sized businesses. In Hong Kong these types of funding through unit trusts, or through a junior market like London's Alternative Investment Market don't exist, and so small and medium- sized businesses look towards family offices as a major source of funding."

Chief Executive Officer, multi-family office, Hong Kong

The majority of Asia-Pacific family offices engaged in private equity run between five and 10 transactions at the same time. There are proportionately fewer Asia-Pacific family offices with more than 10 deals in operation and as a result the average Asia-Pacific portfolio is smaller than the global average (**Figure 2.21**).

Figure 2.21: *Number of private equity deals run in parallel by family offices*



Note: Figures may not sum to 100% due to rounding.
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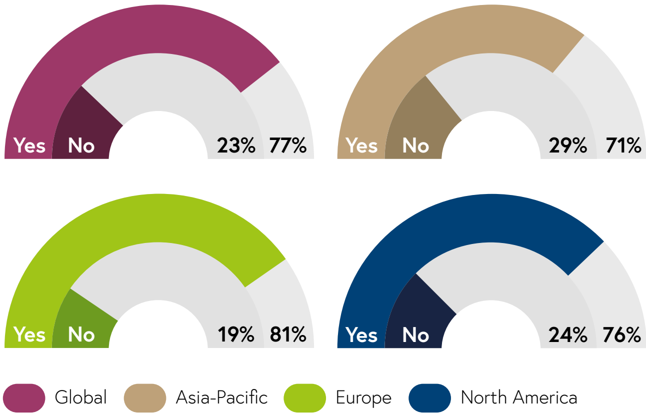
Direct investment

Family offices still enthusiastic but caution required

Just over 70% of Asia-Pacific family offices are engaged in direct investing and our survey reveals that interest in this asset class is increasing, most probably because of the double-digit returns achieved in 2021. (**Figures 2.18, 2.22, 2.23**).

Figure 2.22: *Whether the family office makes direct investments*



Note: Figures may not sum to 100% due to rounding.
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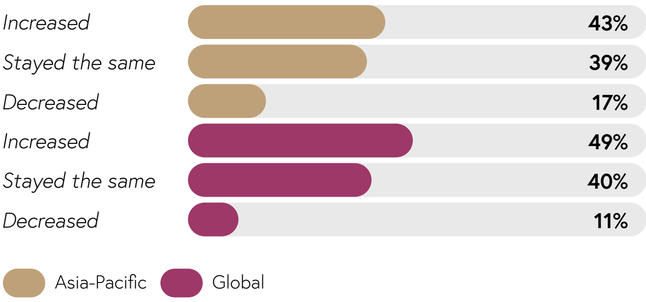
But stock markets have rolled over and major developed economies are on the cusp of a recession. What happens in public markets will eventually impact private markets and with a more difficult environment in prospect, it remains to be seen whether this enthusiasm will persist.

Figure 2.23: *Whether the family's interest in direct investment increased, stayed the same or decreased over the last 12 months*



Note: Figures may not sum to 100% due to rounding.
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Co-investment

Technically, an equity co-investment is a minority interest acquired by an investor in conjunction with a private equity fund manager and funded through an independent co-investment vehicle[5]. However in this report the term is also used more broadly to refer to family offices which invest alongside other family offices. The advantage of both types of co-investment structure is that it enables a family office to obtain a larger share of a desirable investment with less due diligence.

These positives were referred to by respondents to our survey and explain why co-investments are 32% of the typical Asia-Pacific family's private equity portfolio (**Figure 2.24**). Less popular are club deals, which involve the acquisition of a controlling interest by different private equity firms acting collectively.

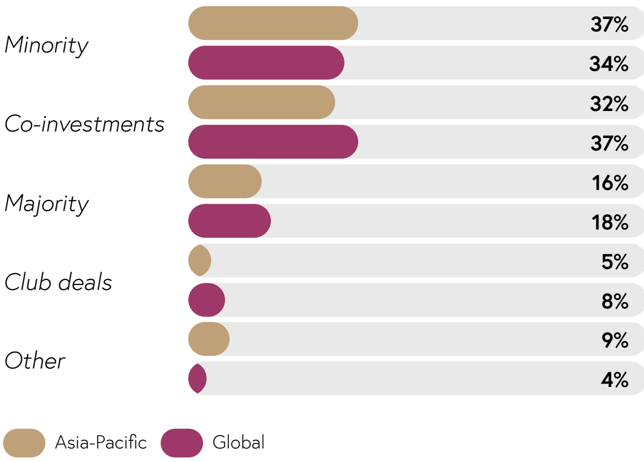
"A lot of the direct deals we do are in partnership with a manager through co-investing opportunities. Either we will own the stock directly ourselves, or through a segregated special purpose vehicle. This iteration, over time, has enabled us to do more direct investing."

Director, single family office, Australia

"At any one time we might have a handful of investments of meaningful size, and then another handful of mid-size and then quite a long tail of venture capital tiddlers. Here, we will typically be co-investing so we're not entirely responsible for the due diligence. Rather, we are leveraging off the due diligence of venture capital managers."

Director, single family office, Australia

Figure 2.24: *Breakdown of family offices' average direct investment portfolio by type of investment*



Note: Figures may not sum to 100% due to rounding.
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[5] https://www.investopedia.com/terms/e/equity-coinvestment.asp

For both Asia-Pacific family offices and family offices globally, some 70% of respondents report that their own family networks are the primary source of new private equity investment (**Figure 2.25**). Family offices that have established themselves as major private equity investors act as magnets attracting aspiring entrepreneurs. Networks of family offices (67%) and professional advisers (63%) are also important sources of new deals, but interestingly not the banking system (17%).

"We have a dedicated team for direct investment. Originally it was organized around a handful of verticals, including renewables and green tech. But we are moving away from that, and our aim is to support entrepreneurs who we trust, it's not restricted to specific sectors. We look for businesses where a real competitive advantage can be established and low valuations."

Chief Executive Officer, single family office, Singapore

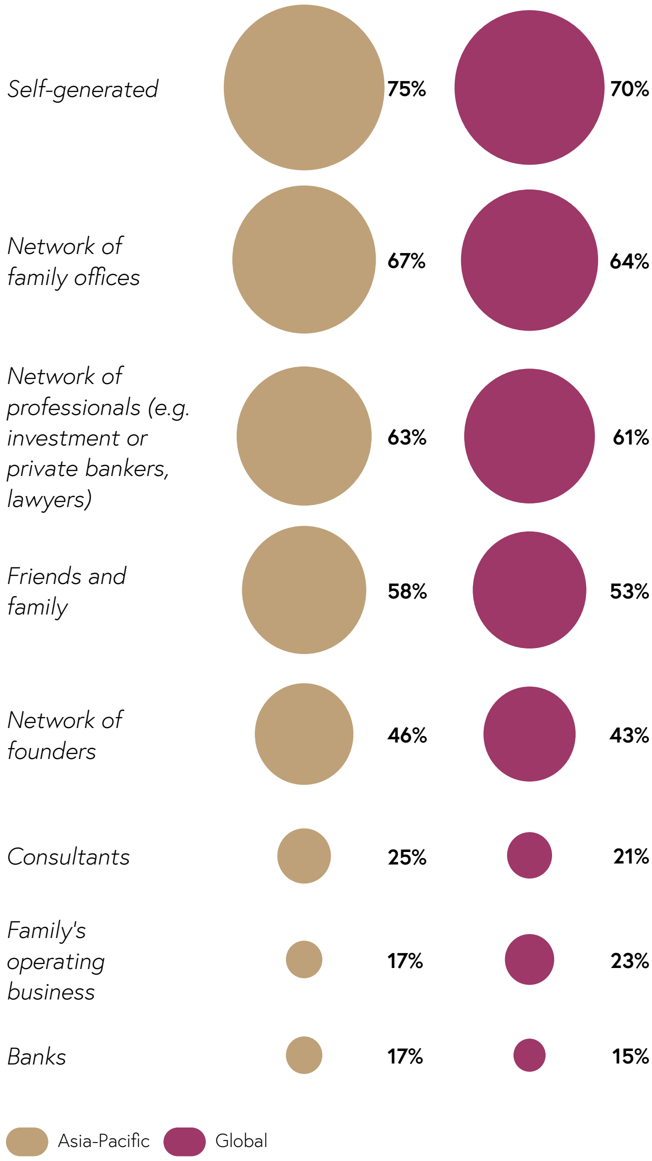
"We won't make an investment, no matter how good it looks, unless it comes to us through someone in our network that we know and trust or through a co-investment manager that we know and trust, or that we have a particular edge assessing it. It's really a function of where the deals come from, and where we have an edge, and where we know people, and who we know we can trust. That's generally how it works."

Chief Executive Officer, multi-family office, Hong Kong

"We have over a decade of experience of private equity investment into sustainable businesses projects. We could monetize this by overlaying a co-investment strategy on our direct investment mandate. This could provide us with the opportunity to generate external revenues by managing third-party capital."

Vice Chairman, single family office, Singapore

Figure 2.25: *Where direct investments are sourced*



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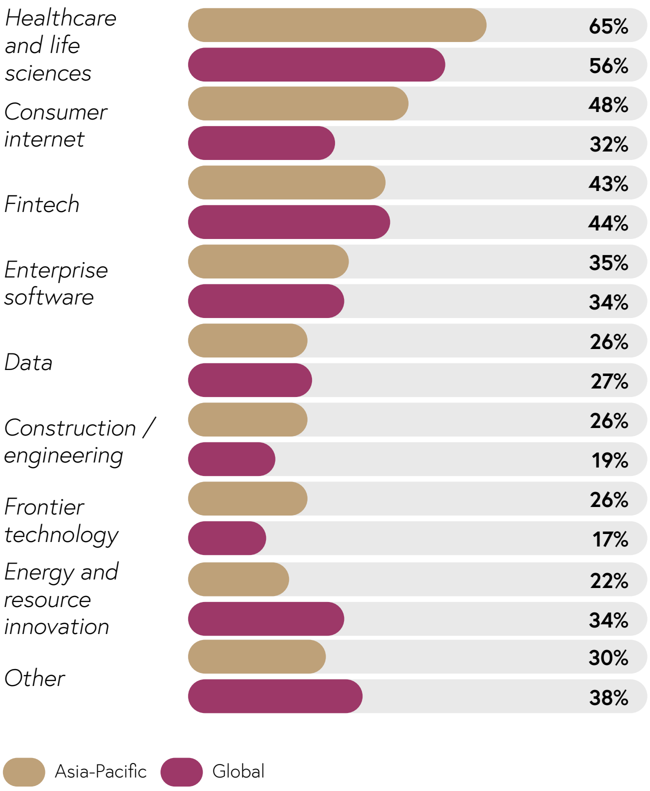
Direct investment in new technologies

The most popular industries for direct investment are healthcare and life sciences (65% of family offices with direct investments), consumer internet (48%) and fintech (43%) (**Figure 2.26**). Compared to family offices globally, Asia-Pacific family offices appear to prefer consumer internet and frontier technology, but are relatively indifferent to energy and resources.

Figure 2.26: *Percentage of family offices having direct investments, with direct investments in the following technologies*



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Sustainable investing

ESG embedded in the investment process

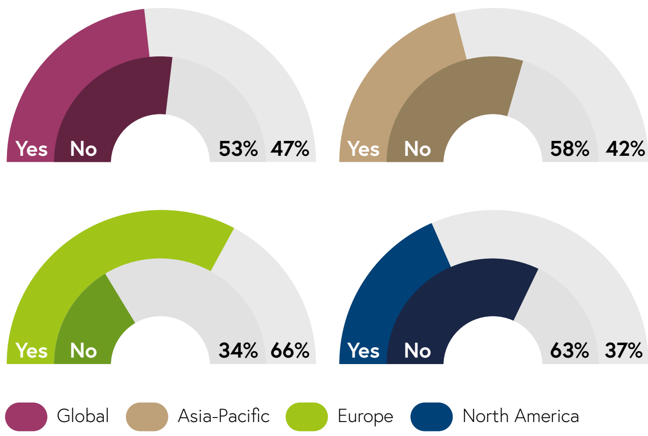
Sustainable investing involves consideration of environmental, social, and governance (ESG) factors in the investment process. There are three distinct sub-approaches which can be used individually or in combination; 1) exclusion - excluding investments that are not aligned with the investor's values; 2) integration - incorporating ESG factors into traditional investment processes; and 3) impact investing – investing with the intention of generating a measurable environmental or social impact. All three approaches should nonetheless provide a competitive financial return.

Global ESG assets are expected to exceed US$41 trillion during 2022, or roughly one third of all AUM[6]. Approximately half this total is in North America, and one third in Europe, leaving around 15% for Asia-Pacific and Japan[7]. However, in terms of UHNW family engagement, our survey points to North America lagging behind Asia-Pacific, which in turn lags behind Europe (**Figure 2.27**).

Sustainable investing: 42% of Asia-Pacific family offices onboard

Forty-two percent of Asia-Pacific family offices include sustainability considerations in their investment process, and the percentage of sustainable investments within their portfolios is 29%. This represents a four percentage point increase on last year, and is two percentage points higher than the global average. Participants expect the percentage of their portfolios dedicated to sustainable investing will expand dramatically over the next five years to 50% (**Figure 2.28**).

Figure 2.27: *Whether the family office is engaged in sustainable investing*



Note: Figures may not sum to 100% due to rounding.
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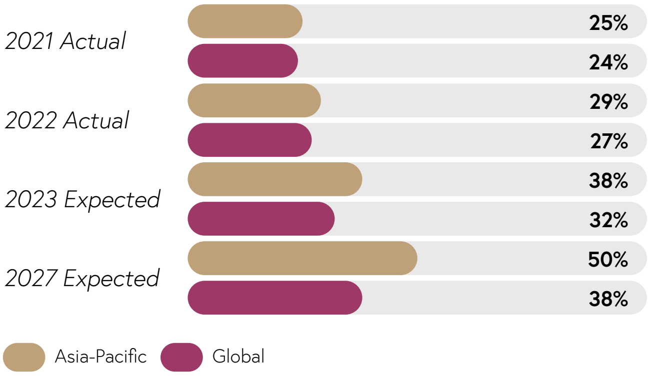
[6] Global Sustainable Investment Alliance fifth Global Sustainable Investment Review, http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf
[7] Bloomberg Intelligence, https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/

Figure 2.28: *Approximate percentage of investment portfolio allocated to sustainable investments in 2021 and 2022, plus expected allocation in 12 months and five years' time*



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"We have two arms, a traditional balanced investment portfolio holding stocks, bonds, private equity, and venture capital, and a 'change' arm. The former generates returns which then enables the other arm to initiate environmental projects aimed mainly at urban rejuvenation. Though the projects are generally not-for-profit, we would like them to be self-sustaining so that we do not have to keep funding them."

Chief Investment Officer, single family office, New Zealand

"When we invest directly in reasonably mature businesses, like sustainable fashion, we can persuade management to reduce waste or source raw materials responsibly. The environmental outcome is probably better than from interesting but flawed impact investments like insect farming or solar panels in African villages."

Chief Executive Officer, single family office, Singapore

"It is difficult to measure the success of impact investing if the target is something like emissions reduction or biodiversity. But the most difficult thing we come up against is the amount of resource required to monitor and support small projects. When you have an employee working virtually full-time on the project you wonder if it makes sense."

Chief Financial Officer, single family office, Australia

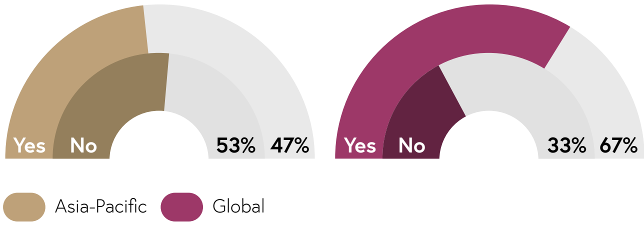
"I have a problem with ESG. Investors want to buy shares in electric car manufacturers but want to divest from mining. But to manufacture batteries for EVs you need nickel, lithium, and cobalt, so ESG is contradictory. We have our own metrics for responsible investment. It's imperative we have our own views on that and are not forced to adhere to some ill-conceived pre-existing standard."

Vice Chairman, single family office, Singapore

Over half of families believe they should be doing more

Supporting the notion that sustainable investing will continue to grow in Asia-Pacific, over half (53%) of families reportedly believe they are not currently investing enough in this space (global average 33%) (**Figure 2.29**).

Figure 2.29: *Whether the family believes it has invested enough in sustainable investments*



Note: Figures may not sum to 100% due to rounding.
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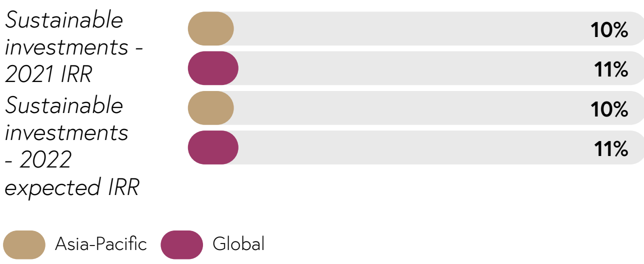
Average sustainable return at 10%

Sustainable investing should provide a competitive financial return but this need not necessarily be the optimal financial return. For Asia-Pacific family offices in 2021, the return from sustainable investments of 10% matched the average investment portfolio return (**Figures 2.12, 2.30**); consequently, returns were both competitive and optimal.

"In order to get the impact, do we need to sacrifice financially or not? What are the metrics we're measuring? And how do we ensure that the impact being achieved is exactly what it says on the tin?"

Chief Investment Officer, single family office, New Zealand

Figure 2.30: *Family offices' average annual return on sustainable investments in 2021 and expected return in 2022*



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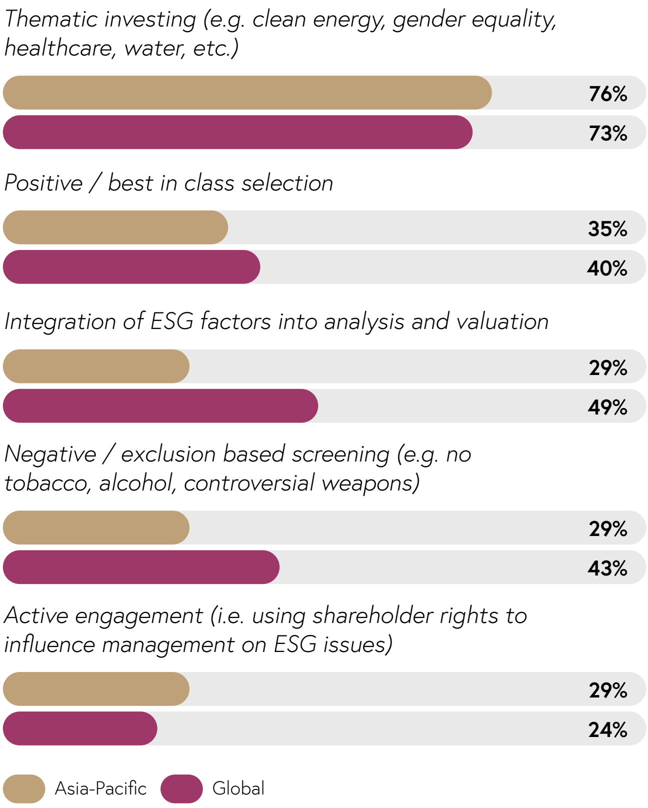
Thematic investment is the most popular approach

There are a number of different approaches to sustainable investing. The most popular, thematic investing has been adopted by 76% of Asia-Pacific family offices which have committed to sustainability (**Figure 2.31**). Under this approach investors select a relevant theme and seek to identify, and invest in, technologies capable of delivering environmental and / or social benefits relevant to that theme, as well as provide a financial return. Positive / best in class selection, which restricts investment to companies that meet a defined ESG hurdle (35%), and integration of ESG factors into the investment process (29%) are also popular approaches.

Figure 2.31: *Sustainable investment approaches used by family offices*



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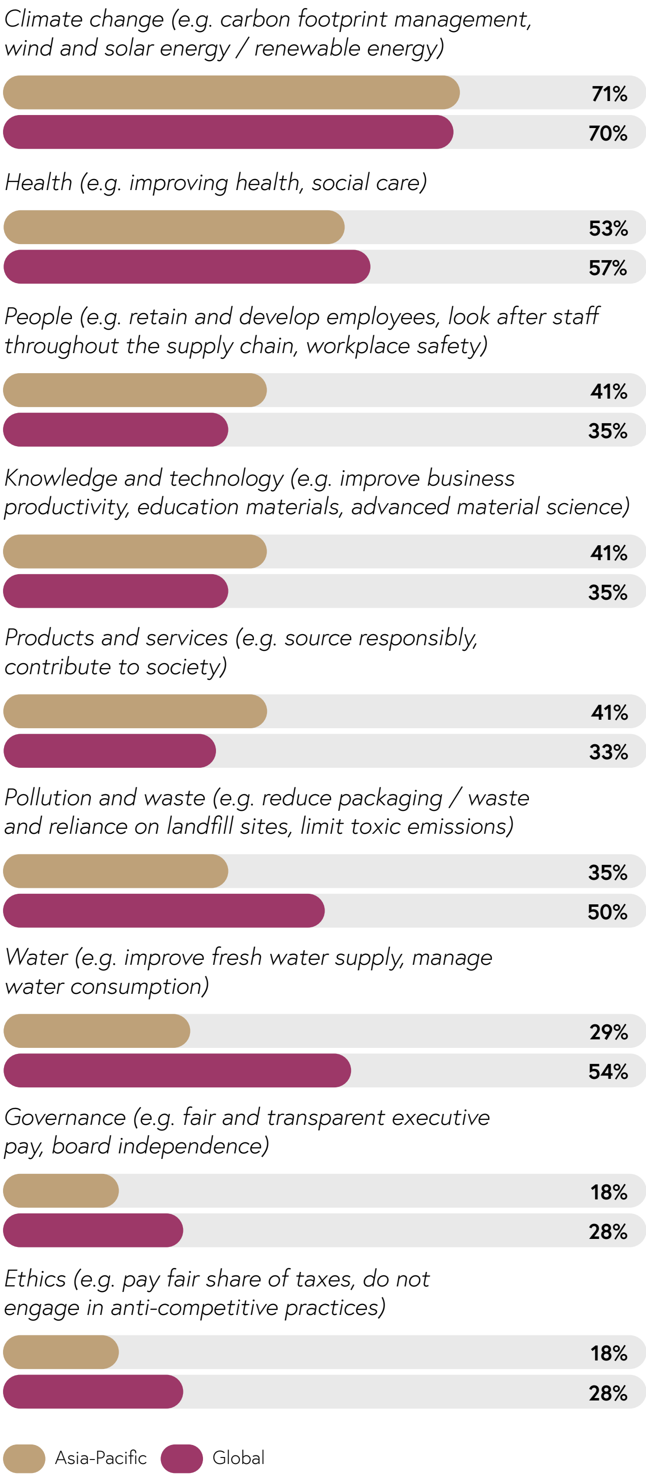
The most popular sustainable investment theme is climate change

Climate change (71%) is the most common theme adopted by family offices engaging in sustainable investment, followed by health and social care (53%) (**Figure 2.32**). Noticeably Asia-Pacific family offices appear more concerned about the fair treatment of employees (41%) and responsible sourcing of products (41%) than their global counterparts, but less concerned about waste disposal (35%) and water technology (29%).

Figure 2.32: *Main focus of family offices' sustainable investments*



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It's not all altruism

Both Asia-Pacific (65% of respondents) and family offices globally (71%) recognize their responsibility to make the world a better place, and this is their primary motivation for sustainable investing (**Figure 2.33**). Both sets of family offices are keen to demonstrate that their wealth can be used to create positive outcomes (53% and 55% respectively), and this is perceived as a more compelling reason to embrace sustainability than next generation influence (35% and 33% respectively). But for 65% of Asia-Pacific family offices, engagement with sustainability also provides an opportunity to investigate new sectors, industries, and technologies which could be the source of attractive investments in the future.

Investment managers are family offices' primary source of information on sustainable investing (**Figure 2.34**). But 29% of Asia-Pacific family offices also rely on the advice of other family offices, reflecting the importance of co-investing.

Figure 2.33: *The family's motivations for sustainable investing*

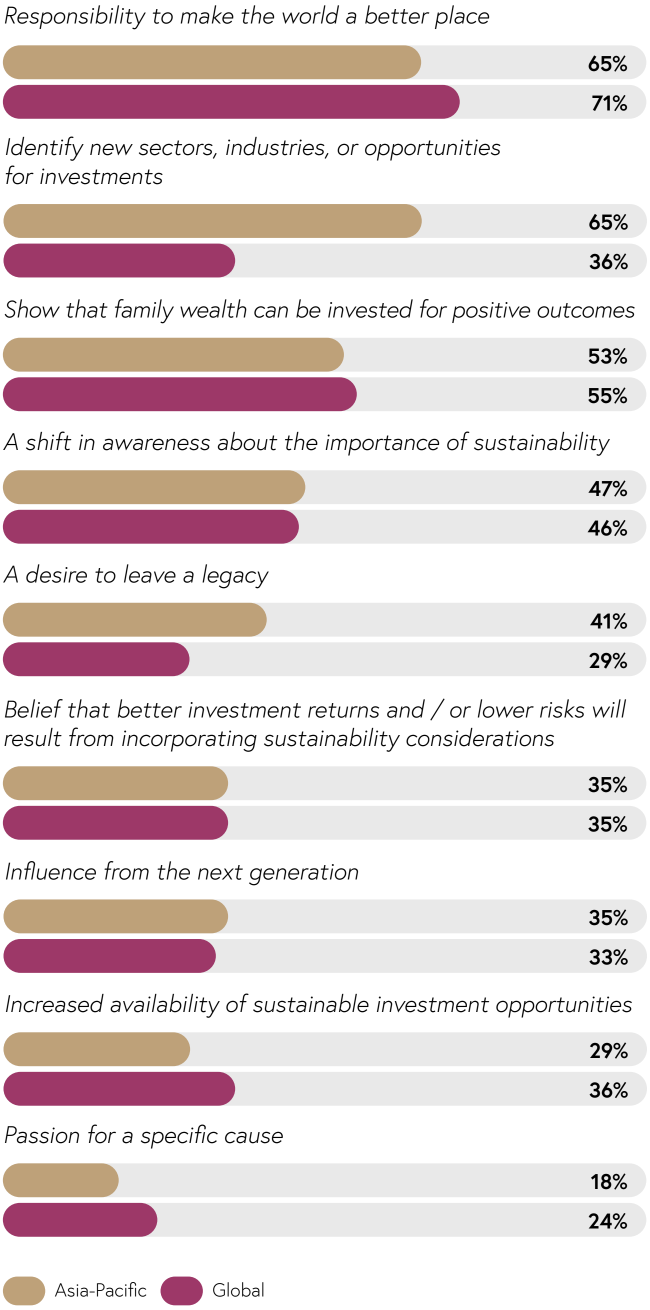

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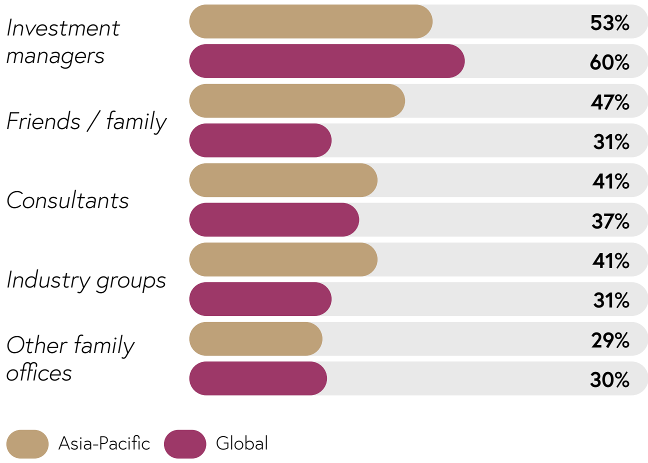
Figure 2.34: *Sources of advice on sustainable investing*



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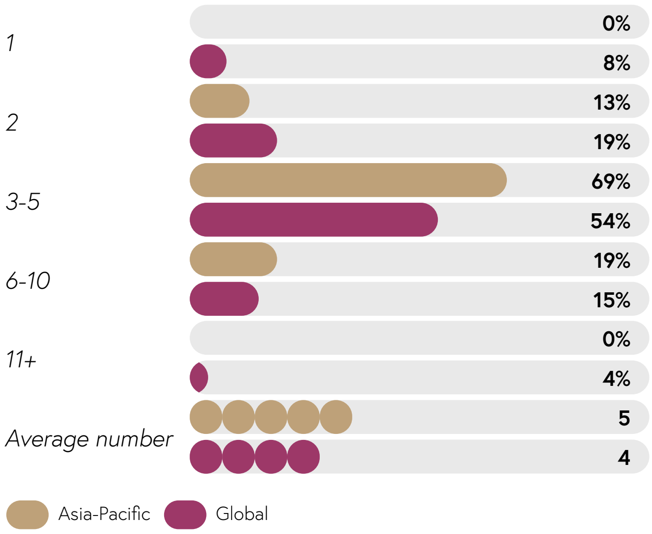
2.4 Service provision

Between three and five banking relationships is the norm

Most family offices in Asia-Pacific and globally have between three and five banking relationships (**Figure 2.35**).

Figure 2.35: *Number of banks the family office works with*



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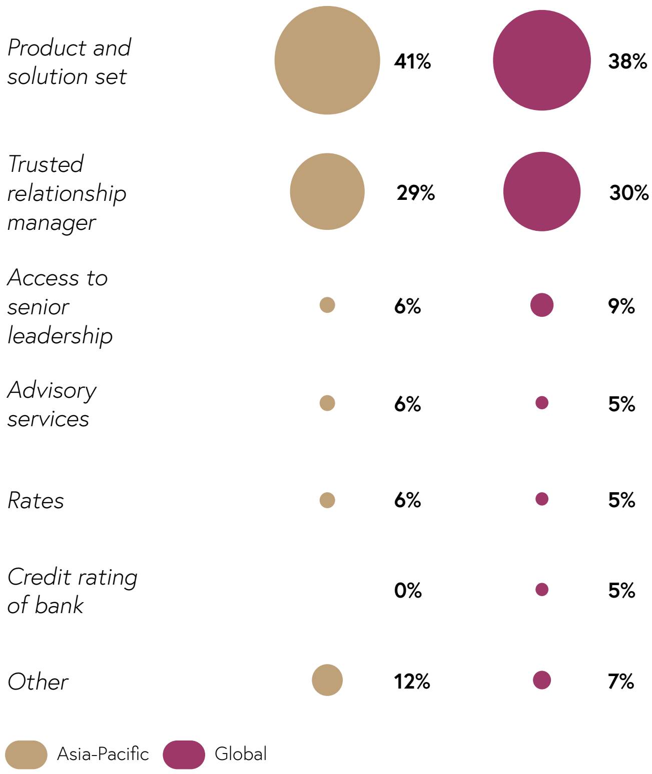
Trust and product / solution sets are prized most

The development of banking relationships depends on the quality and breadth of solutions offered (41%), and to a lesser extent the presence of a trusted relationship manager (29%) (**Figure 2.36**).

Figure 2.36: *The family's primary reason for selecting/working with a bank*



Note: Figures may not sum to 100% due to rounding.
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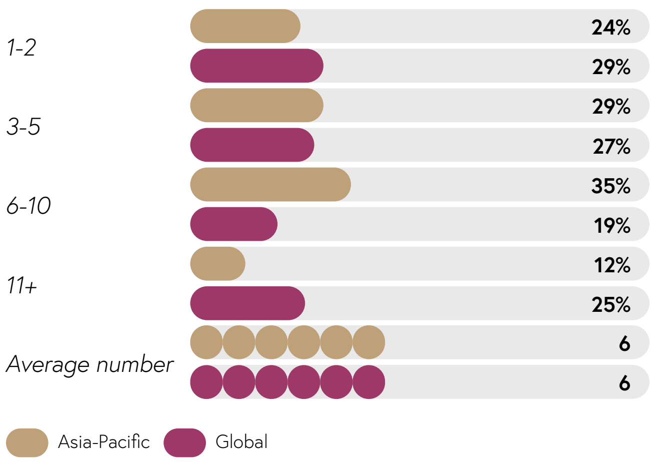
Selection of investment managers

Family offices use an average of six investment managers. Most commonly, family offices invest with between six and 10 investment managers (**Figure 2.37**).

Figure 2.37: *Number of investment managers the family invests with*



Note: Figures may not sum to 100% due to rounding.
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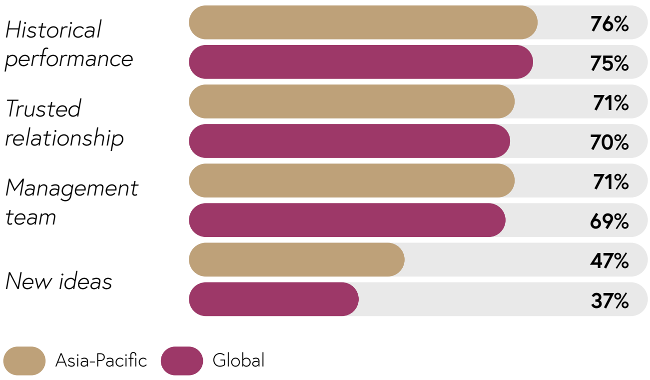
When selecting investment managers, 76% of family offices view historic performance as the key factor, with relatively little attention (47%) paid to new investment ideas (**Figure 2.38**).

Figure 2.38: *Criteria used by the family in selection of their investment managers*



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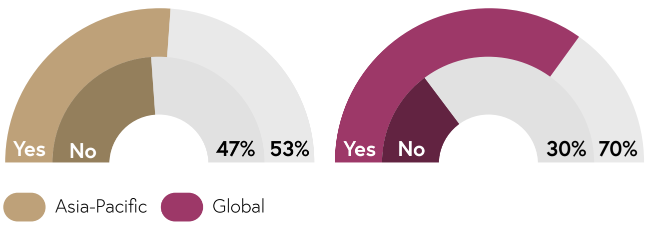
Investment policy

The relationship between the family office and the investment manager is governed by an investment policy statement. This outlines the guidelines and strategies the manager should utilise to meet objectives. However, the use of formal policy statements is less common in Asia-Pacific (53%) than elsewhere (70%) (**Figure 2.39**).

Figure 2.39: *Whether the family office has an investment policy statement*



Note: Figures may not sum to 100% due to rounding.
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APAC venture capital: Very much a family affair

The head of this Hong Kong based multi-family office runs a sizeable venture capital incubator and accelerator. He talks about the factors which have driven the rapid growth of family offices across Asia-Pacific, his enthusiasm for blockchain technology, and why venture capital in the region is very much a family affair.

What factors explain the rapid expansion of Asia-Pacific family offices?

"Twenty years ago people thought the only way to get seriously rich in Asia was through property. But family office leaders came to appreciate that wealth creation was becoming closely linked with innovation. This was something of a wake-up call for the family offices, and the principals of those businesses began to think they should employ venture capitalists and technologists to advise them on their investments.

We have about 20 people in our family office. It's not all venture capital-focused. We do some corporate advisory work, make investments in movies and media, and work closely with other families. At any point, we are likely to have around 20 startups or early-stage businesses in our incubator and accelerator portfolio.

I think the growth of family offices will continue. Geographically, it will be focused on three centers, Hong Kong, Singapore, and Dubai. Hong Kong will attract families from China, Singapore is the center of expertise in Southeast Asia, and Dubai has the expertise needed for those in the Middle East and Africa. Also, Dubai has attracted a lot of new money because the government is very supportive of innovation."

Many family offices in Hong Kong and Singapore are still embedded in the family business, whereas in Europe and North America they are more often independent entities. Does this impact how investment managers and service providers interact with the family office?

"A lot of western family wealth has been around for a very long time. Perhaps the family office is into its third, fourth or fifth generation. In contrast, most family offices in Hong Kong and Singapore are first or the second generation. The founder is still involved in running the family business. Does this make the job easier or harder? I don't really know. It certainly makes the job more varied. If you talk to an Asian family office, you are more likely to talk to the founder. If he likes you and your investment proposition, then he could invest with you very quickly, because he is the ultimate decision-

taker. The venture capital companies I've sponsored generally like engaging with Asian family offices because if they can win over the founder, then he can make everything happen very fast."

Why are networks of family offices important sources of venture capital and private equity deals in Asia-Pacific?

"In the Western model, venture capitalists establish a fund which then makes investments. But a lot of the venture capital or early-stage investment in Hong Kong is done by a limited number of families. These families come together informally to back a particular entrepreneur. This is because there's very limited institutional money to back new ventures, so family offices have an open invitation to get involved. They are happy to because they now see innovative new technologies as the route to wealth creation, whereas 20 years ago it would have been the property market. Families like to find an entrepreneur they can trust and then they spread the risk by co-investing and possibly managing the company together. The ideas don't come from private equity houses or from banks, they come from an expanded network of families."

Your view of the most interesting new technology?

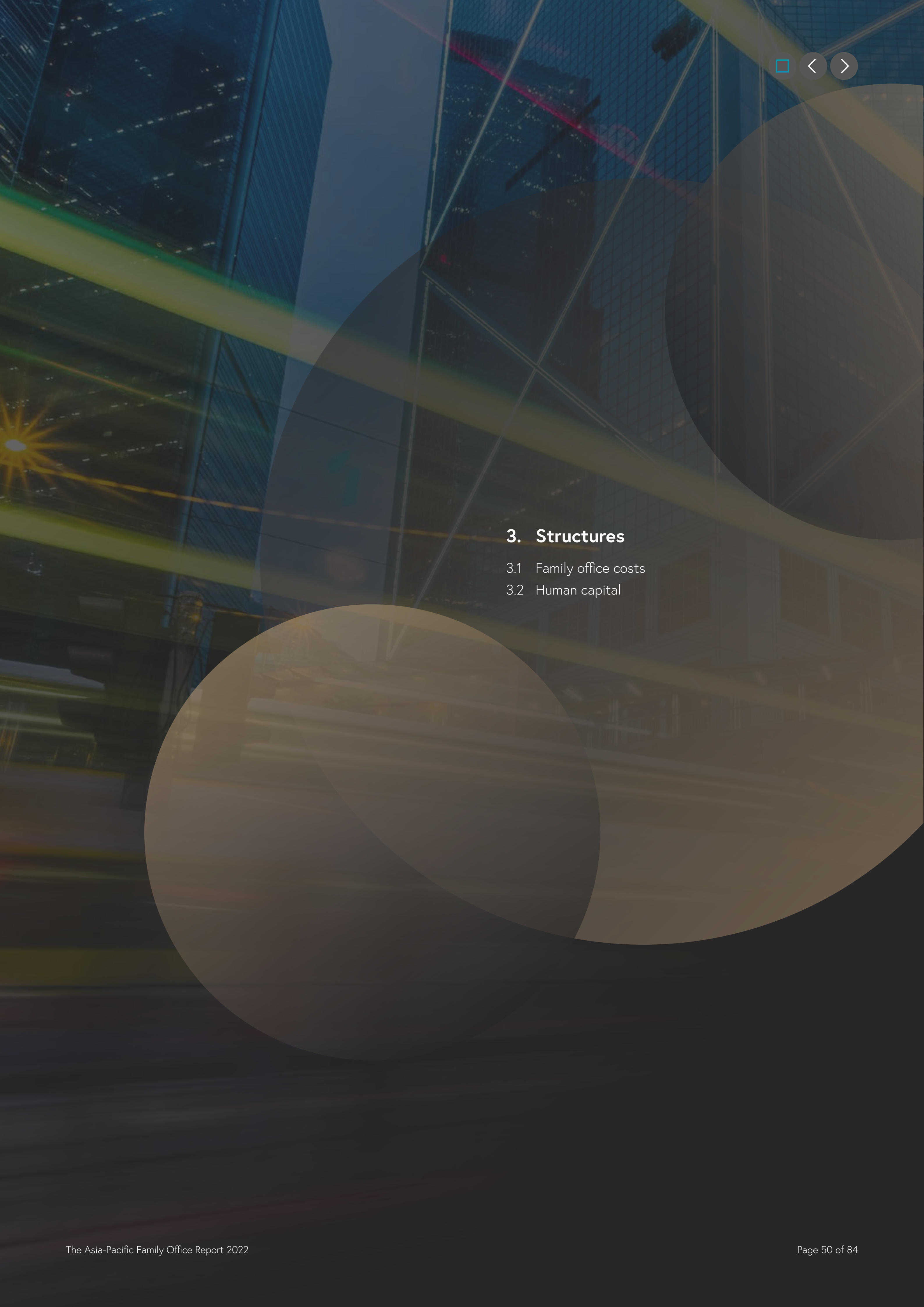
"We are looking at a lot of blockchain projects. I'm learning a lot about decentralized data storage. If you store your data in the cloud, then it's all centralized. Blockchain is very different. A database usually structures its data into tables, whereas blockchain packages it into linked blocks. As new data comes in, it is entered into a fresh block and once this is filled it's chained onto the previous block using various codes and cryptography, creating an immutable timeline of data. This is the differentiating feature of blockchain technology; the other is decentralized data spread out among several networks. So, if one version of the data is corrupted or tampered with, then other networks recognize the inconsistency. A 100% accurate timeline always exists. This is why digital currencies couldn't exist without blockchain technology.

Blockchain could be used for storing and maintaining lots of other sorts of data. There are all sorts of applications. It is possible the next generation of companies will be structured as DAOs (decentralized autonomous organizations), which are member-owned communities with rules and records preserved on blockchain. They won't need a board of directors, it would be easy to arrange for shareholders to vote on all important decisions. Similarly, today if you hire an Uber, you pay the driver through Uber with a bank or payment company acting as the intermediary. But in the future with a smart contract the driver and the passenger could transact directly. When the driver delivers you from A to B, your phone detects that you have arrived at B and then digital money is automatically transferred from your wallet to the driver's wallet. Banks and payment companies could be squeezed out.

We take the view that blockchain technology will be a winner simply because it has so many potential applications. Our prediction is that every three or four years the amount of data that will need to be stored will double, and this data will be stored on decentralized networks to guarantee its security. This is why venture capitalists are looking at data processing centers."

Doesn't all this depend on the security of blockchain?

"Yes, it does, and the big plus point is that blockchain is impossible to hack. To succeed 51% or more of the copies of the code on the blockchain must be simultaneously controlled and altered, so that the new altered copy becomes the majority copy and the agreed chain. Such an attack would require an immense amount of money and computing power, because it would need to reset the time stamps and hash codes of all the blocks. This drastic alteration to the blockchain would be visible to other network members. They would then hard fork off to a new version of the chain that has not been affected, and the attacked version would be discarded."



3. Structures

3.1 Family office costs

3.2 Human capital

3. Structures

- The average Asia-Pacific family office has 11 employees and total expenses of US$10.5 million. This includes US$5.0 million for internal operating costs and US$5.5 million for external investment management fees. Overall, expenses are only two-thirds of those of the average family office globally. However, Asia-Pacific family offices are smaller in terms of AUM and therefore internal costs are slightly ahead of global peers when expressed as a proportion of AUM; 85 basis points (bps) compared to 77 bps.

- Family offices rely on a mix of in-house and outsourced services. Some activities are undertaken exclusively in-house, while others are wholly outsourced, and some are a mix of the two. In 2021, 22% of Asia-Pacific family offices reported an increase in outsourcing to third parties and 22% recorded an increase in in-house services, confirming that both are viable models for family offices. The optimum model depends on the distinct business and portfolio mix of each individual office, among other factors.

- The average base salaries for senior executives of Asia-Pacific family offices are lower than the salaries of their global counterparts. Not only are salaries lower but the percentage of salaries paid as (most often discretionary) bonuses are lower too. Nonetheless, demand for professional staff is likely to keep remuneration on an upward trajectory.

- Almost a quarter of Asia-Pacific family offices have diversity policies in place, and are actively promoting diversity, equity, and inclusion.

$5.0m

(US$) Average operating costs of Asia-Pacific family offices

$282k

(US$) Average base salary of Asia-Pacific family office CEO

24%

of Asia-Pacific family offices with diversity policies in place

3.1 Family office costs

Costs as percentage of AUM

This section of the report highlights the average costs family offices incur on their operations and on external investment management.

This year, expenses of the average Asia-Pacific family office are expected to absorb 177 bps of AUM, comprising 85 bps of internal costs and 92 bps of investment management fees payable to external providers (**Figures 3.1** and **3.2**). Both categories of cost are higher than their respective global averages.

It might be expected that smaller Asia-Pacific family offices, with less AUM over which to spread internal operating costs, would have an operating cost/AUM ratio higher than the average of 85 bps. On splitting our sample of 76 family offices into two near-equal groups with AUM under and over US$500 million, we found average cost ratios to be 86 bps and 83 bps, respectively. Size appears to have only limited influence on the cost ratio.

External costs, which are the fees paid to investment managers, totalled 92 bps. This is larger than in the prior year, principally because of higher performance fees.

Figure 3.1: *Average 2022 family office internal operating costs (excluding external investment management fees) as basis points of AUM*

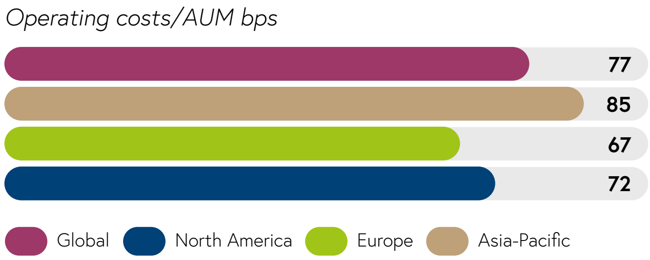


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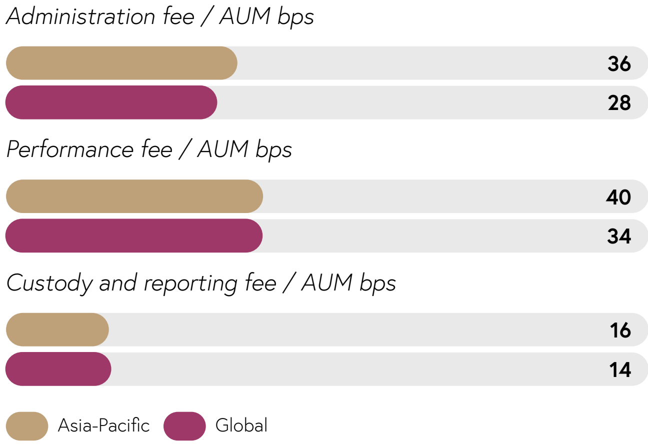
Figure 3.2: *External investment management fees as basis points of AUM*



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Costs by activity

Internal costs break down into four broad categories; advisory (20%), investment-related (34%), professional services (24%), and administration (22%). Key elements of the first category are legal services and financial, tax, and estate planning. Investment-related services includes custody fees, accounting and reporting, deal sourcing, and due diligence. The cost of security and maintenance of high-value assets (e.g. planes, yachts) is incorporated within professional services.

An estimated breakdown of these costs is given in **Figure 3.3**. In terms of activity, the expense profile of Asia-Pacific family offices is very similar to those of family offices globally, but in absolute terms operating costs are on average lower at US$5.0 million per family office compared to US$7.9 million globally. This differential stems from the larger average AUM of family offices globally (US$1.0 billion) compared to their Asia-Pacific counterparts (US$592 million).

Including external investment management costs, total expenses for the average Asia-Pacific family office are US$10.5 million compared to US$15.7 million globally.

Figure 3.3: *Breakdown of Asia-Pacific family office operating costs 2022 and comparison with global average*

	Percent average family office operating costs	Basis points of AUM	Operating cost for average family office	Percent average family office operating costs	Basis points of AUM	Operating cost for average family office
Advisory services	20%	17	$989,000	20%	16	$1,609,000
Financial planning	4%	3	$191,000	4%	3	$341,000
Tax planning	3%	3	$165,000	3%	3	$272,000
Tax compliance	4%	3	$197,000	4%	3	$280,000
Estate planning	2%	1	$85,000	2%	2	$165,000
Legal services	4%	3	$195,000	3%	2	$238,000
Insurance planning	1%	1	$35,000	1%	1	$103,000
Trust management	2%	2	$120,000	3%	2	$210,000
Investment activities	34%	29	$1,704,000	35%	27	$2,743,000
Asset allocation	3%	3	$176,000	4%	3	$333,000
Risk management	2%	1	$86,000	3%	2	$204,000
Management selection	2%	2	$103,000	3%	2	$256,000
Private banking	2%	2	$111,000	2%	1	$121,000
Traditional investment	4%	3	$190,000	3%	3	$259,000
Alternative investment	4%	3	$199,000	4%	3	$299,000
Real estate	2%	1	$86,000	3%	2	$231,000
Deal sourcing, due diligence	3%	2	$133,000	2%	2	$196,000
Investment strategy	3%	2	$143,000	3%	2	$216,000
Financial accounting	3%	2	$139,000	3%	3	$259,000
Custody / reporting	5%	4	$229,000	2%	2	$181,000
FX management	1%	1	$42,000	1%	1	$55,000
Philanthropy	1%	1	$67,000	2%	1	$134,000
Professional services	24%	21	$1,215,000	22%	17	$1,738,000
Concierge, security	4%	4	$210,000	4%	3	$299,000
Family counselling	3%	3	$169,000	4%	3	$306,000
Family governance	5%	5	$266,000	4%	3	$343,000
High-value assets	4%	4	$220,000	4%	3	$282,000
New family business projects	3%	3	$165,000	3%	3	$259,000
Educating Next Gen	4%	3	$185,000	3%	2	$249,000
Administrative activities	22%	19	$1,119,000	23%	18	$1,836,000
IT costs	4%	3	$200,000	5%	4	$403,000
Office overheads	11%	9	$552,000	9%	7	$720,000
Cybersecurity	3%	2	$133,000	3%	2	$233,000
Other	5%	4	$234,000	6%	5	$480,000
Total operating costs	100%	85	$5,028,000	100%	77	$7,926,000
Investment management administration fee		36	$2,123,000		28	$2,896,000
Investment management performance fee		40	$2,355,000		34	$3,434,000
Investment management custody fee		16	$961,000		14	$1,417,000
Total investment management fees		92	$5,439,000		76	7,747,000
Total expenses *(operating costs plus investment management fees)*		177	$10,467,000		153	$15,673,000

Asia-Pacific Global

Note: Figures may not sum to 100% due to rounding.
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In-housing versus outsourcing

Family offices rely on a mix of in-house and outsourced services as detailed in **Figure 3.4**. The investment-related activities most likely to be undertaken in-house are the selection of investment managers (90% of respondents), asset allocation (86%), and other functions relating to traditional investments (83%). The activities most likely to be outsourced are custody (57%), private banking (45%), and FX management (29%). Many activities are provided through a mix of in-house and outsourced resources, including deal sourcing and due diligence (44%), management of real estate (45%) and alternative investments (45%).

Compared to family offices globally, those in Asia-Pacific are more likely to keep most investment functions in-house, and less likely to outsource. However they are more likely to apply a hybrid approach to the management of real estate and alternative investments, deal sourcing, and due diligence.

Either strategies could be appropriate

Twenty-two percent of Asia-Pacific family offices reported an increase in outsourcing to third parties and 22% recorded an increase in in-house services (**Figure 1.7**). This confirms that both are viable options for family offices. The optimum model depends on the distinct business and portfolio mix of each individual office. In theory, in-house operations should be confined to activities where the family office has specific expertise and consistent workflow. This would point to outsourcing being more popular among smaller family offices than larger ones. However, splitting our sample of families into two near-equal groups with AUM under or over US$500 million, we found this was only true for five of the 13 categories in **Figure 3.4**, management of real estate and alternative investments, financial accounting, FX management, and philanthropy.

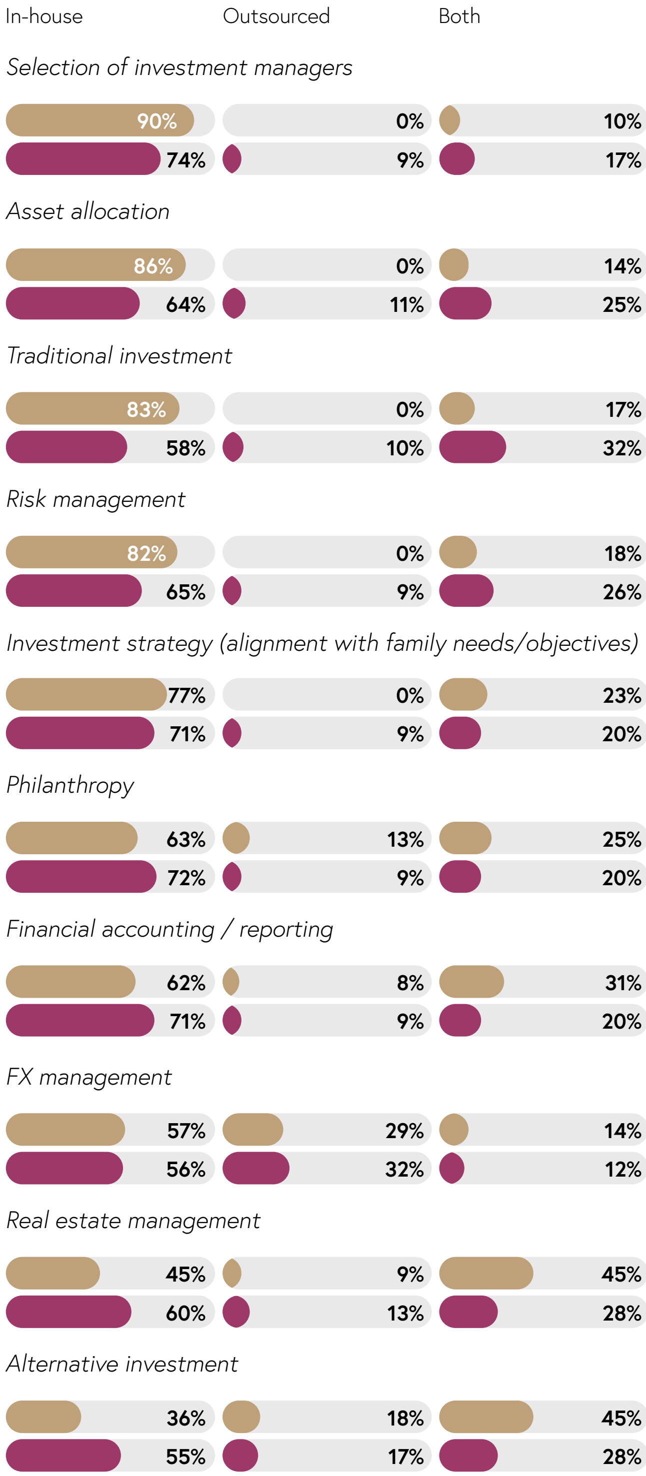
"Multi-family offices tend to do more in-house, which makes economic sense. We repeat certain tasks, get better at them, and come to see them as a competitive advantage, so we keep them in-house."

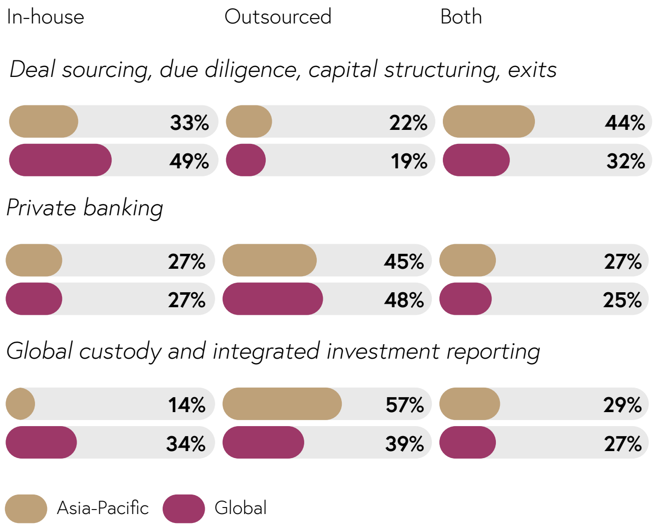
Chief Executive Officer and family member,
multi-family office, Australia

"Functions like estate planning, taxation, and investment administration are all done in-house. This is because operating a family office is quite cheap in India. Between the family office, the family business, and the foundation we employ 90 people."

Director and family member, single family office, India

Figure 3.4: *Investment-related services provided by the family office (in-house, outsourced, or both)*





Note: Figures may not sum to 100% due to rounding.
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3.2 Human capital

Staff numbers

The average Asia-Pacific family office has 11 employees, which is somewhat higher than the global average of nine (**Figure 3.5**). On average three are family members. The higher staff complement and proportion of family members of Asia-Pacific family offices is influenced by the inclusion of Indian family offices, some of which have over 100 employees.

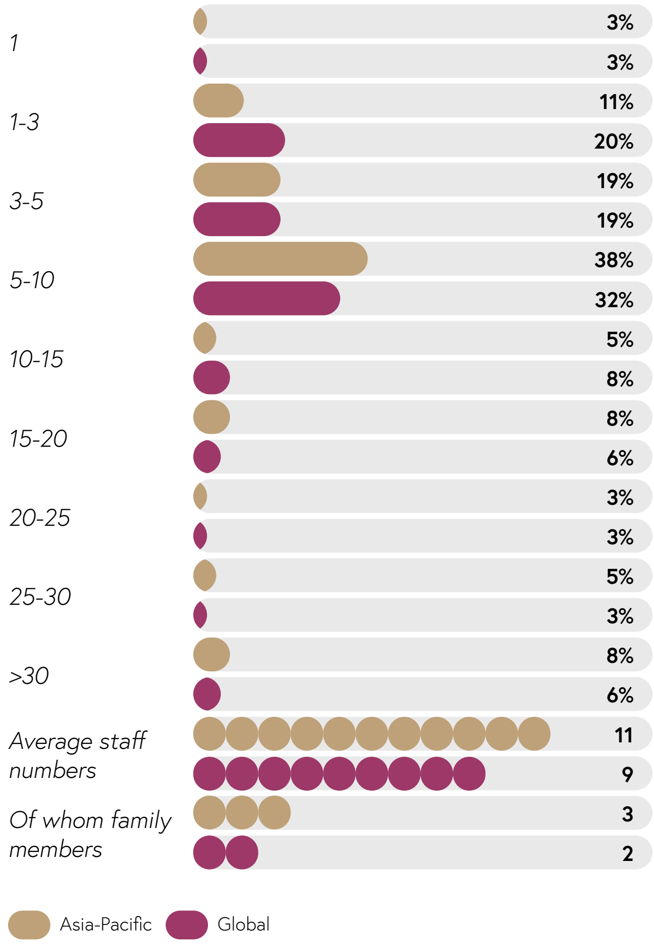
There is some anecdotal evidence that the concept of the family office being run for the benefit of the whole family rather than its individual members is taking hold.

"Two family members work in the family office. They had to compete with everyone else for their jobs. I told the recruiter, if there are better people who want the job, we'll take them. It's not a place where a family member can just expect to get a job."

Family member and CEO, multi-family office, Australia

In addition, almost 60% of Asia-Pacific family offices require next generation members to work elsewhere, normally a service provider to the family office such as a bank, hedge fund, or asset manager, before joining the family office or family business (**Figure 4.16**).

Figure 3.5: *Family office staff numbers and family members*



Note: Figures may not sum to 100% due to rounding.
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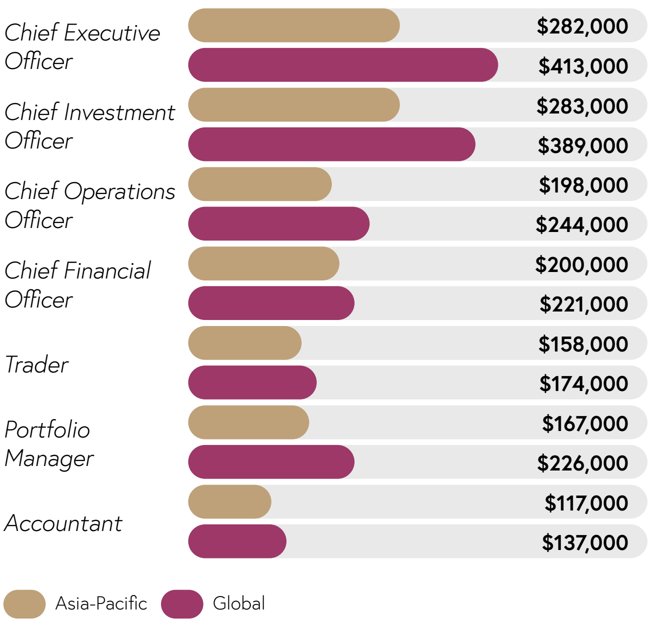
Salary differentials

The average base salary for CEOs of Asia-Pacific family offices is US$282,000 (**Figure 3.6**), which is 32% less than their global CEO counterparts. Earnings of Asia-Pacific CIOs, COOs, and CFOs are also lower than global peers although the percentage disparity is somewhat lower. Base salaries may be lower but they are still increasing; average chief executive pay is 9% higher than in 2021 and chief financial officers earn 7% more. This positive trajectory is the product of competition for professional staff, and in some instances high levels of staff turnover. Over 90% of Asia-Pacific family offices agreed with the statement that competition for professional staff will remain intense.

It's noteworthy that although Asia-Pacific family offices have the lowest salary costs they have the highest ratio of internal costs to AUM (85bp). This points to their elevated cost ratio being the product of their relatively small asset size rather than an excessive cost base.

Figure 3.6: *Base salaries of senior family office executives (US$)*



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"In Singapore, it's easy to find staff who can take on administrative, accounting, legal, and investment functions. We try to find people who are the right cultural fit and understand the local ecosystems. Unfortunately, younger people tend to leave after a few years. They come to gain the experience necessary to go elsewhere. It's easier to keep foreign staff who want to be in Singapore for the long run, but it's difficult to find them because of limitations on immigration."

Chief Executive Officer, single family office, Singapore

"We used to employ analysts from traditional investment banking backgrounds to run our venture capital portfolio. But over the last two years our focus has been on the metaverse, blockchain, and decentralized data storage. In turn, we've had to retrain our staff, and experienced financial analysts don't make the best technologists. It's a different skill-set. We've found that it's the younger generation who understand this technology best."

Chief Executive Officer, multi-family office, Hong Kong

Bonuses are commonplace

Approximately 80% to 90% of senior officers are paid bonuses. For the most part, these bonuses are discretionary, or at least have a discretionary as well as a formulaic element (**Figure 3.7**). Discretionary bonuses provide greater flexibility when it comes to controlling costs.

Furthermore, bonuses range from between 21% to 46% for the C-suite level, but tend to be at the lower end of this range in the Asia-Pacific region (**Figure 3.8**).

Figure 3.7: *Bonus structures for senior family office executives*

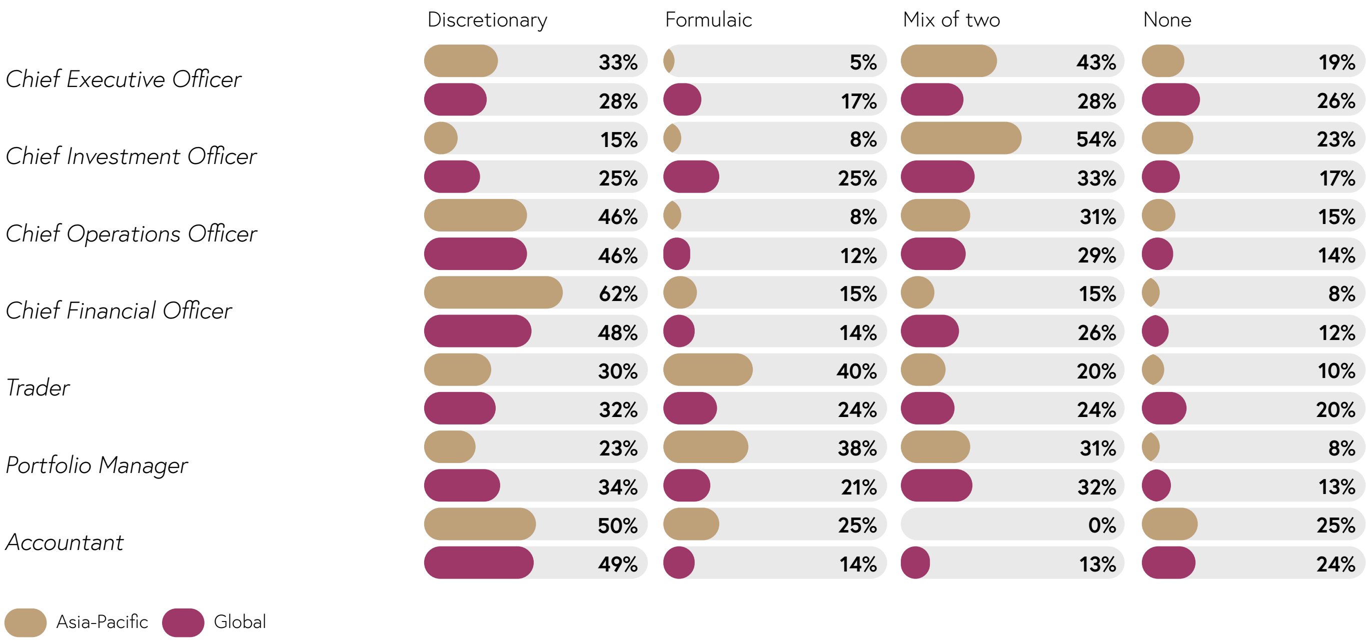

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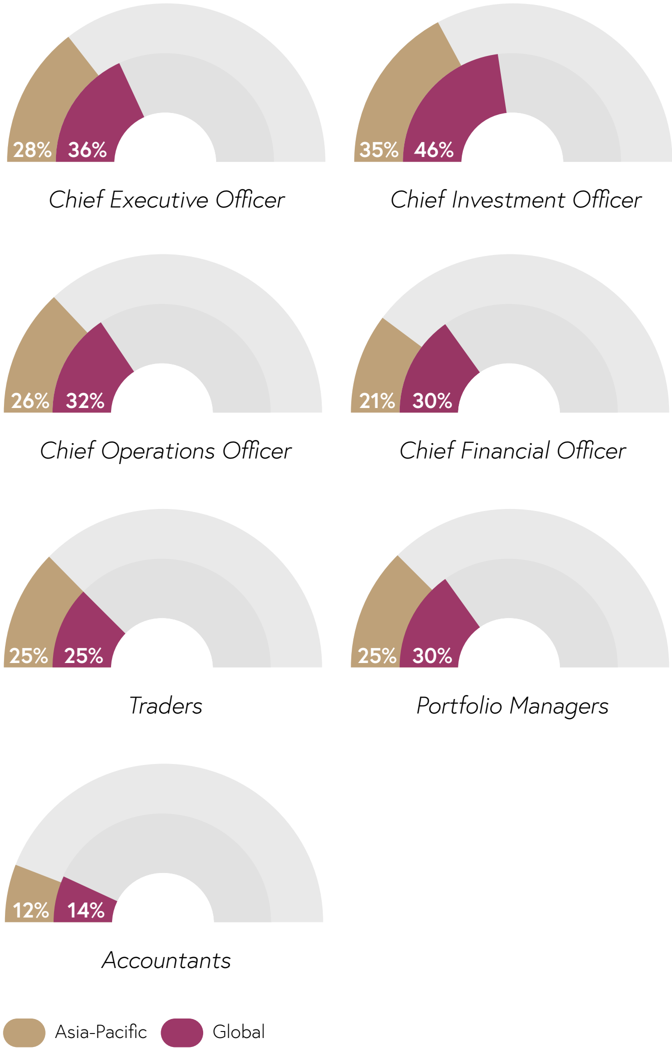
Figure 3.8: *Value of bonus paid as percentage of base salary*



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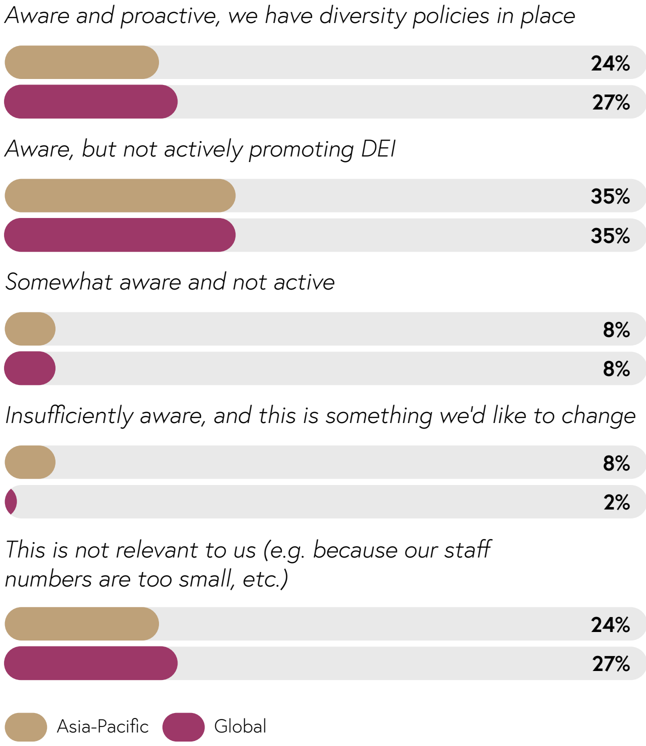
Moving in the right direction

Almost a quarter of Asia-Pacific family offices have diversity policies in place, which is marginally lower than the global average of 27% (**Figure 3.9**). Separately, 83% report that they are moving towards greater diversity and expect their external providers to do the same.

Figure 3.9: *Extent of family office awareness to issues of diversity / equity / inclusion (DEI)*



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4. Purpose

4.1 Family office governance
- Risk management

4.2 Family office risk and cybersecurity
- Risks
- Cybersecurity

4.3 Succession planning and the next generation
- Succession planning
- The next generation
- New horizons for digital assets

4.4 Philanthropy

4. Purpose

- The top governance priority for Asia-Pacific family offices over the next 12-24 months is risk management, and correspondingly 77% of family offices cite investment risk as their biggest concern. The war in Ukraine and tensions over Taiwan have pushed political and country risk up the "worry list". Unpreparedness of the next generation for succession and data / identity theft also figure prominently. The top governance priority for families is improving communication between the family office and family members. Implementation of a succession plan and education of family members are also priorities.

- Despite one in four family offices experiencing a cyber-attack over the past 12 months, 24% don't have a cybersecurity plan in place, and importantly, have no intention of getting one.

- Seventy percent of family offices in Asia-Pacific have a succession plan in place, which is nine percentage points higher than the global average. However, three-quarters of these plans are relatively casual, being only informally agreed or unwritten, which raises a question mark regarding implementation.

- Discussing sensitive matters, particularly with a patriarch or matriarch who is reluctant to relinquish control, makes succession planning problematic for roughly a third of Asia-Pacific respondents. Challenges also arise because the next generation may be too young or inadequately qualified to take over. The importance of succession planning is underpinned by the prospect of intergenerational wealth transfer. Nearly a third of Asia-Pacific respondents expect to see the next generation assume control over the coming decade.

- Nearly nine in 10 Asia-Pacific families make philanthropic donations (85%), compared to 82% in North America and 76% in Europe. Over the last 12 months, the average donation per family has stood at US$1.8 million, compared to a global average of US$11 million. Family foundations are popular in Asia-Pacific, with 76% of families using them as a vehicle for philanthropy.

59%

of Asia-Pacific family offices cite risk management as their number one governance priority

70%

of Asia-Pacific families have a succession plan in place

85%

of Asia-Pacific family offices make philanthropic donations

4.1 Family office governance

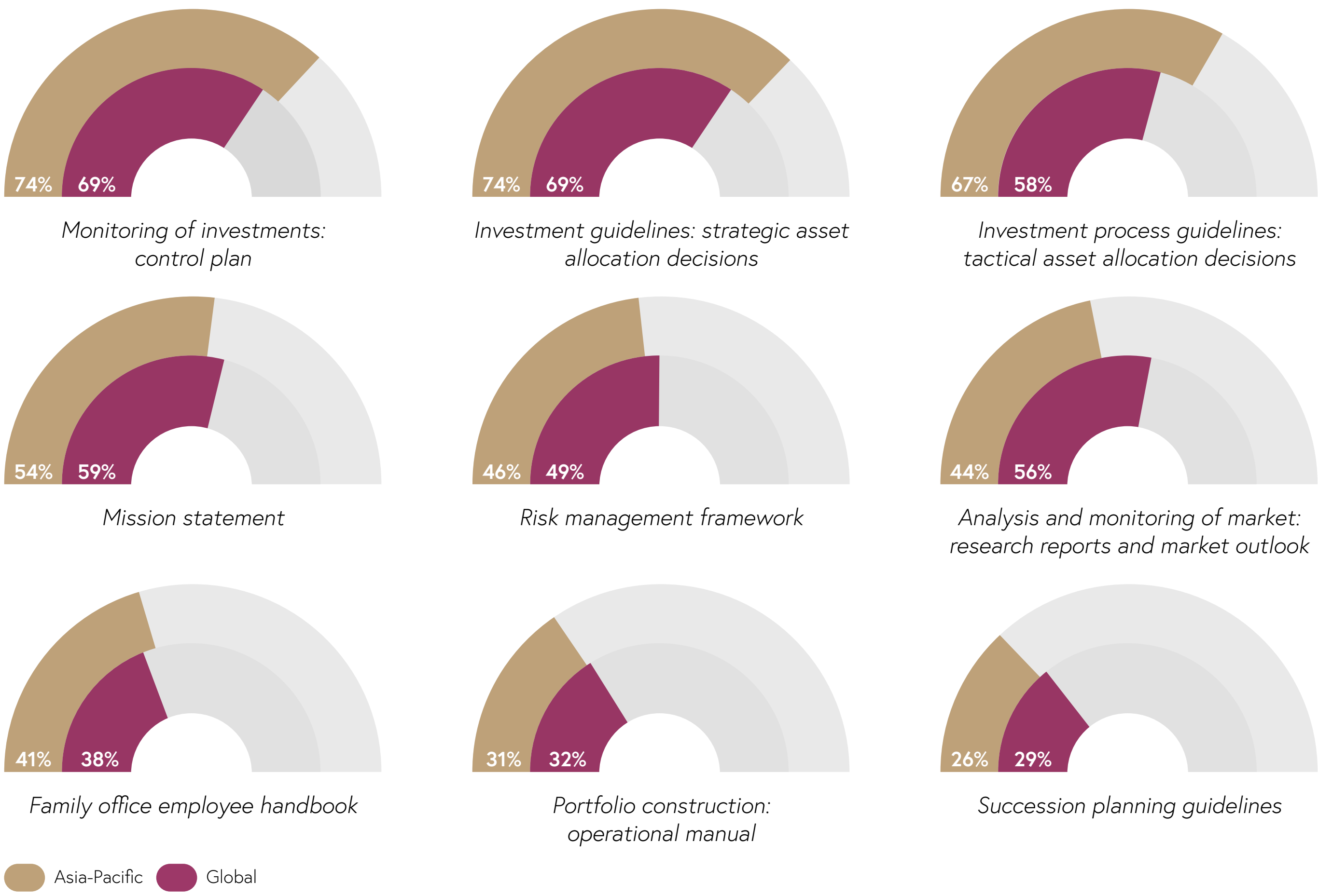
Governance framework focused on investments

The purpose of governance is to align the interests of all family members in an agreed and well-documented structure. This should help unify the family, preserve its wealth, and as a result extend the life of the family office. The structures family offices employ in their governance frameworks vary widely, but the most common relate to the monitoring of investments and strategic / tactical asset allocation. All three of these governance structures are more likely to be found in Asia-Pacific family offices than among their global peers (**Figure 4.1**). But surprisingly, only around half of Asia-Pacific family offices have a mission statement (54%) or employee handbook (41%). Everything else being equal, the former might unify the family around a sense of purpose, the latter might limit the scope for fraud or damage to the family's reputation.

"We have a well-developed governance framework determining investment policy, and broad ranges of asset allocations, but nothing mandated. There's an investment return target, a board of directors, and two investment committees in Australia and the United Kingdom. But there are no broad overarching restrictions, and it's often an iterative process, where the family consider their risk appetite and what they want to get out of the portfolio."

Director, single family office, Australia

Figure 4.1: *Governance structures in family offices*



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Improving communication between family and family office

Families almost invariably state that improving communication with the family office is their top governance priority, and this year it's cited by 54% of Asia-Pacific families **(Figure 4.2)**. Implementation of a succession plan (49%), and education of family members (38%) in both the activities of the family office and their responsibilities as stakeholders, appear respectively in second and third positions. For both Asia-Pacific and family offices globally, a document aligning family members (22%) and establishing a family council (19%) are not high up the list of priorities, presumably because these governance structures are already in place.

"We help large business families to establish governance structures, preparing the next generation to take up leadership roles, and setting up the right ownership structure to ensure that the family office remains viable. We consider the family and the family office holistically to minimize conflicts of interest."

Adviser, multi-family office, China

"The different generations within a family look at everything from a different perspective. The older generation, that had hard-working parents who scrimped and saved, are very different from the younger generation who have had it served up on a plate. It's very difficult to find people who can straddle these generations and persuade them to establish a code of behavior where they co-operate with each other to preserve their mutual wealth."

Chief Executive Officer and family member,
multi-family office, Australia

Figure 4.2: *Top three governance priorities for the family in the next 12-24 months*

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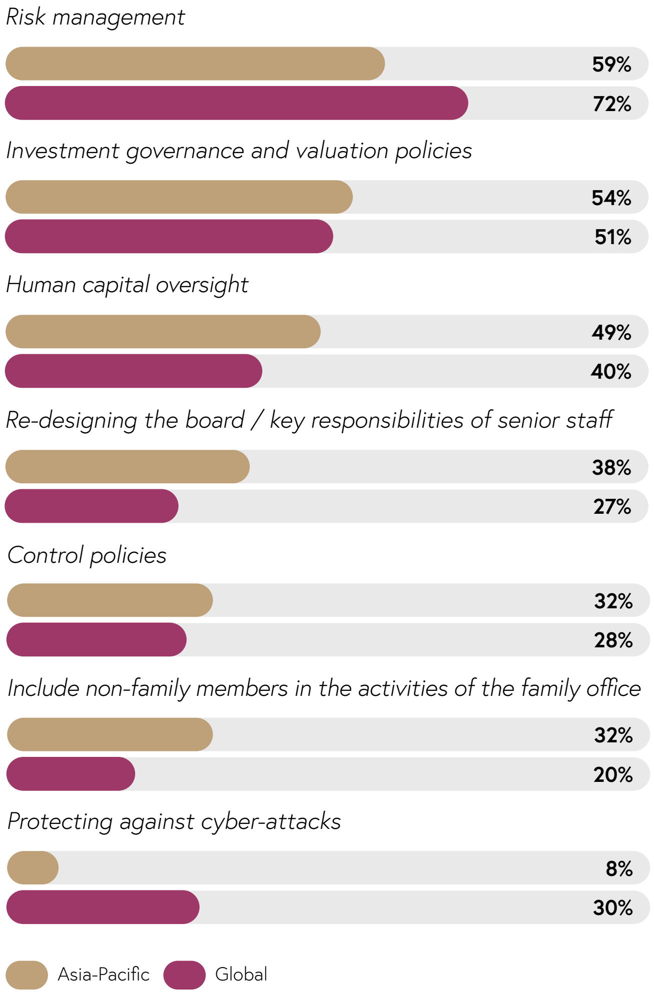
Risk management

The top governance priority for both Asia-Pacific and family offices globally is risk management, though the higher percentage of the latter (72%) citing this as a priority, compared to 59% for the former, may indicate something about the state of financial markets in North America and Europe (**Figure 4.3**). The second priority, investment governance (54%), reflects the importance attached to investment monitoring and investment guidelines that form an integral part of the overall governance framework (**Figure 4.1**). Looking after human capital (49%), the third priority, is an essential priority for any successful organization. Protection against cyber-attacks (8%) is not seen as a governance priority for Asia-Pacific family offices; presumably it is just viewed as a normal business objective.

Figure 4.3: *Top three governance priorities for the family office in the next 12-24 months*



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4.2 Family office risk and cybersecurity

Risks

Seventy-seven percent of respondents, in both Asia-Pacific and globally, deem investment risk to be the number one threat facing family offices over the coming three to five years (**Figure 4.4**). The war in Ukraine and tensions over Taiwan have pushed political and country risk (43%) up the ranking this year, demoting unpreparedness for next generation succession into third place (32%). Data / identity theft (28%) and risks to information architecture (26%) have also become more significant issues for Asia-Pacific families, up from 9% and 13% respectively last year. Clearly, family reputation and the health of financial institutions are justifiable concerns, but they are currently at the bottom end of the "worry list".

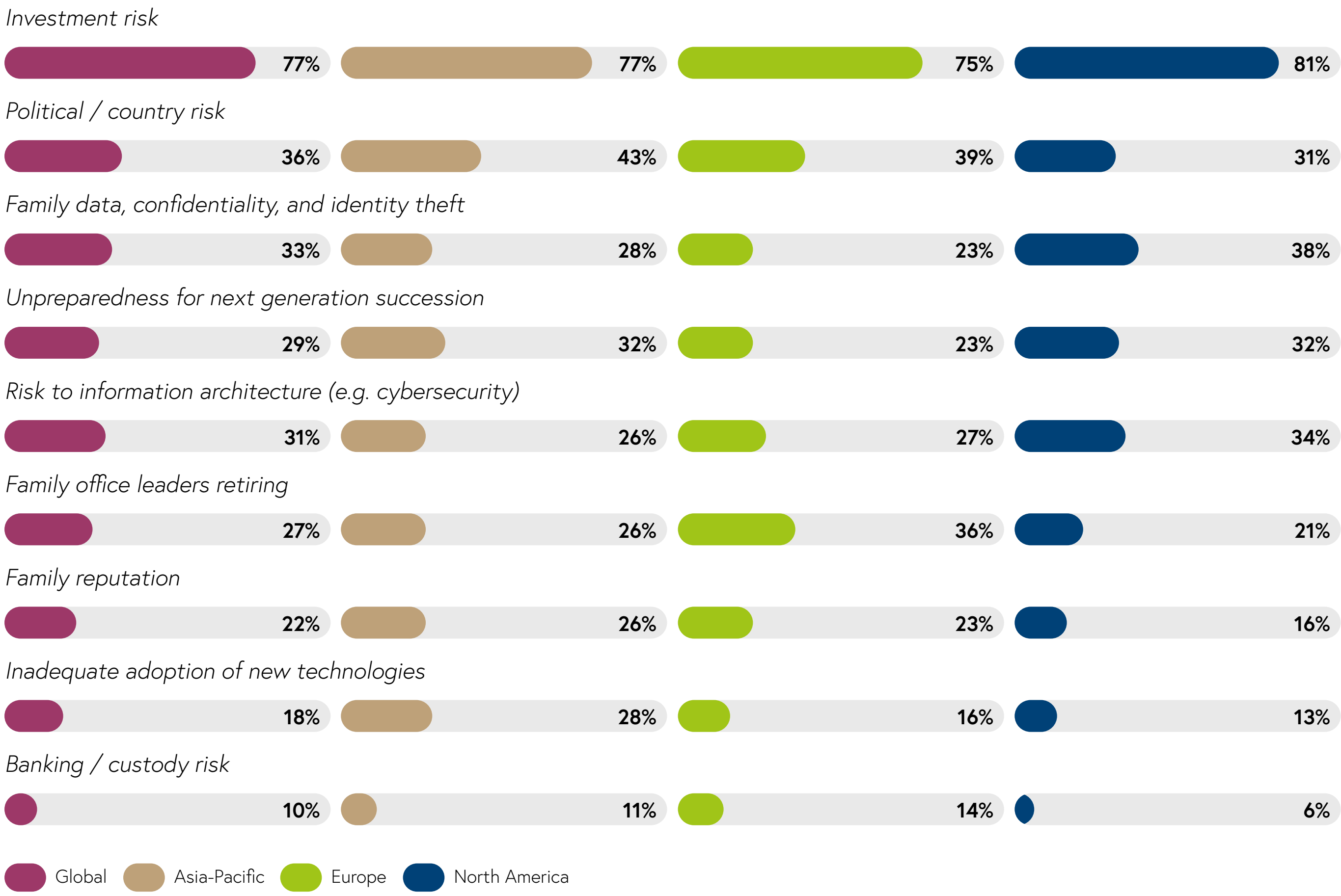
"The family is here for the long term. They want to make sure that they are seen to be contributing, never seen to be acting unethically or taking advantage, or being difficult people to deal with. There's definitely care paid to reputation."

Chief Investment Officer, single family office, New Zealand

"Family offices need plans B and C as well as plan A. I may be unduly pessimistic but the risk of societal collapse is much higher than it was five years ago. It could be triggered by war, food and energy insecurity, or inflation. Family offices will have to consider where they will move to. London, for example, looks less secure after the sanctioning of Russian oligarchs. Sanctions are justified, but Government action against residents' private property creates an unwelcome precedent."

Chief Executive Officer, single family office, Singapore

Figure 4.4: *Biggest risk factors identified by family offices over the next three to five years*



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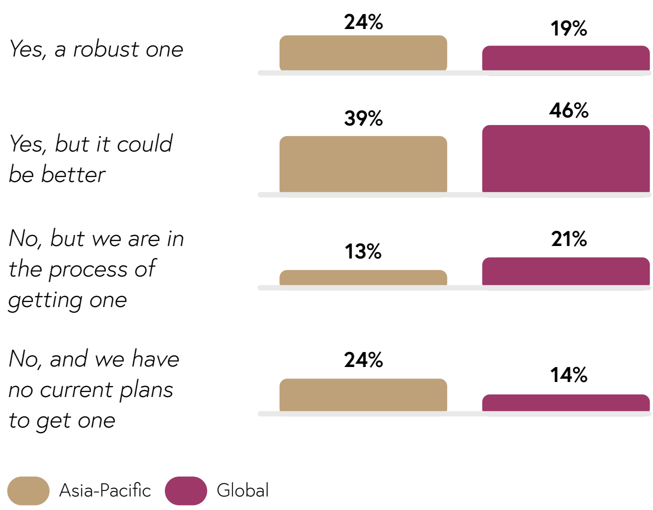
Cybersecurity

A quarter have no plan

It is estimated that, on average, 30,000 websites are hacked every day, a company falls victim to a cyber-attack every 39 seconds, and more than 60% of organizations globally have experienced at least one of the five forms of cyber-attack[8] (phishing, ransomware, malware, data breach, and denial of service).

According to Check Point Research the number of global cyber-attacks increased 42% during the first half of 2022[9]. With the frequency of attacks increasing at this pace, family offices need to respond to the emerging threat. But 24% of Asia-Pacific family offices (14% of family offices globally) don't have a cybersecurity plan in place and have no intention of getting one (**Figure 4.5**). Further, the percentage of families in the process of setting up a plan is a relatively modest 13%.

Figure 4.5: *Whether the family office has a cybersecurity plan in place*



Note: Figures may not sum to 100% due to rounding.
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[8] Check Point Research https://research.checkpoint.com
[9] Check Point Research https://research.checkpoint.com/2022/check-point-softwares-mid-year-security-report-reveals-42-global-increase-in-cyber-attacks-with-ransomware-the-number-one-threat/

One in four family offices have experienced an attack

It's conceivable that Asia-Pacific family offices' apparent reluctance to take appropriate measures to counter cyber-attacks is because the frequency of attacks in the region is somewhat lower than in other geographies. Seventy-six percent of family offices claim to have never experienced an attack, compared to 64% globally (**Figure 4.6**). Additionally, the number of family offices experiencing repeated (three or more) attacks is just 6% compared to 14% globally. With that said, individuals can often be unaware they have been attacked, since information can be stolen, or data compromised without the owner's knowledge.

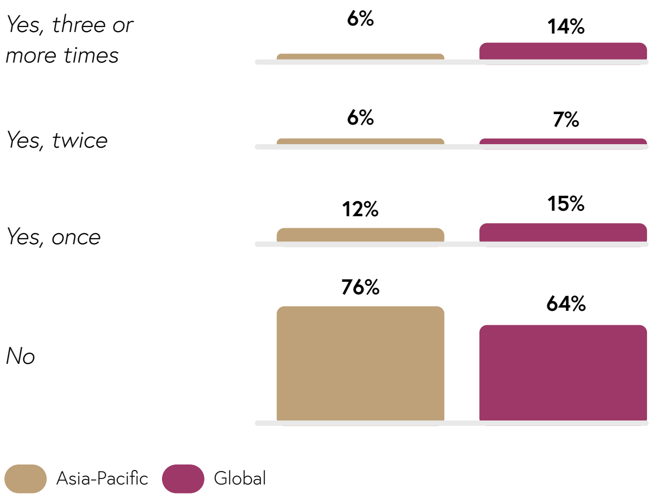
"Because everything is in-house and our back office is in our main office, we can keep track of security levels. To date, there have been no cybersecurity issues."

Director and family member, single family office, India

"We received phishing emails trying to find transfer instructions. Sometimes it's a bit obvious because they're sent by bots. But sometimes they know the names of the people from whom an instruction will come. That's scary."

Chief Executive Officer, single family office, Singapore

Figure 4.6: *Number of cyber-attacks experienced by family offices over the past 12 months (e.g. phishing emails, identity theft, hacking, etc.)*



Note: Figures may not sum to 100% due to rounding.
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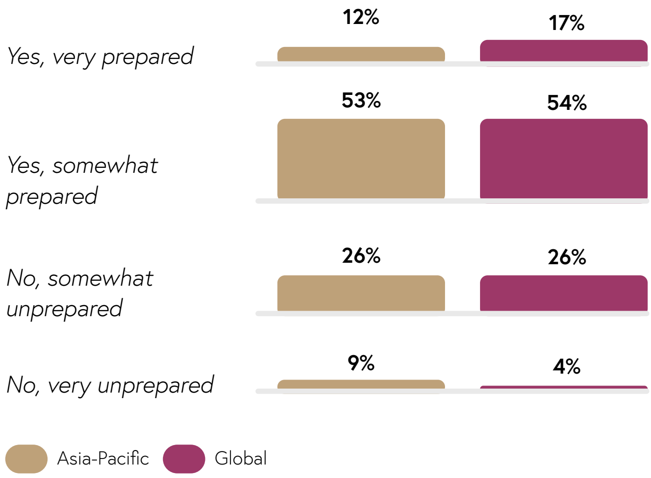
Many feel unprepared

Thirty-five percent of Asia-Pacific family offices feel either very or somewhat unprepared to face a cyber-attack (**Figure 4.7**). This almost exactly corresponds with the 37% which have no cybersecurity plan or are in the process of acquiring one (**Figure 4.5**).

Figure 4.7: *Whether the family office is adequately prepared / educated to safeguard itself from cyber-attacks*



Note: Figures may not sum to 100% due to rounding.
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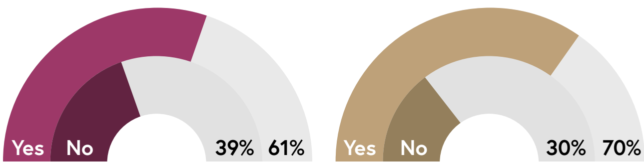
4.3 Succession planning and the next generation

Succession planning

Majority of Asia-Pacific families have plans in place

Seventy percent of the families in Asia-Pacific have a succession plan in place, which is a higher percentage than their global counterparts (**Figure 4.8**). However a high percentage of these succession plans are only informally agreed (18%), unwritten (25%), or in the process of development (32%), all factors which raise a question mark regarding implementation (**Figure 4.9**). In terms of enforceable formal written plans, Asia-Pacific families (25%) are seriously lagging behind their global peers (42%).

Figure 4.8: *Whether the family has a succession plan in place*



Asia-Pacific Global

Note: Figures may not sum to 100% due to rounding.
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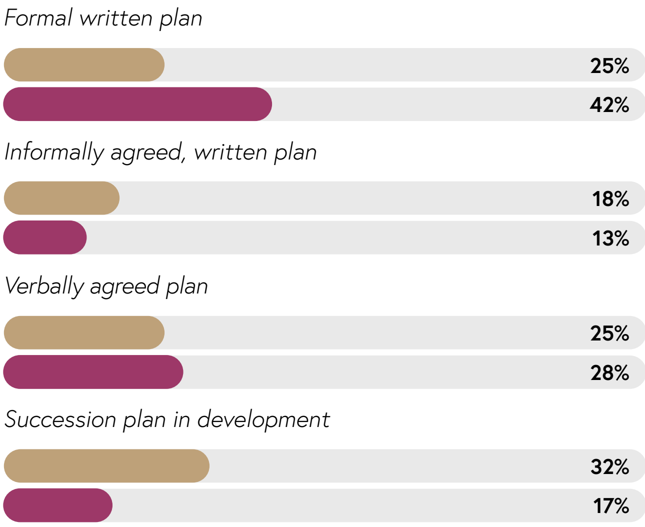
Figure 4.9: *Type of succession plan*



Asia-Pacific Global

Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Succession challenges faced

Where succession plans are under development or even in place there are still challenges. Some of these are set out in **Figure 4.10**. Foremost among these is discomfort in discussing sensitive matters, highlighted by 34% of respondents. Similarly, there is a sensitivity about succession when engaging with a patriarch or matriarch who is reluctant to relinquish control (30%). Both these issues are more problematic for Asia-Pacific families than those in Europe and North America, which points to some important cultural differences. Interestingly for family offices globally the principal challenges are the next generation being too young (36%) or inadequately qualified to take over (36%), but these are much less of a concern for Asia-Pacific families (23% and 26% respectively). Interestingly, Next Gens tend to assume control at an earlier age than in North America and Europe, and a larger percentage have external work experience. Conceivably, this may explain why age and qualification are less of an issue among Asia-Pacific families.

"We have a succession plan, but we've never told anyone. It's just between me and my siblings who are involved in the family office. The younger generation is too young to be involved."

Chief Executive Officer, single family office, Singapore

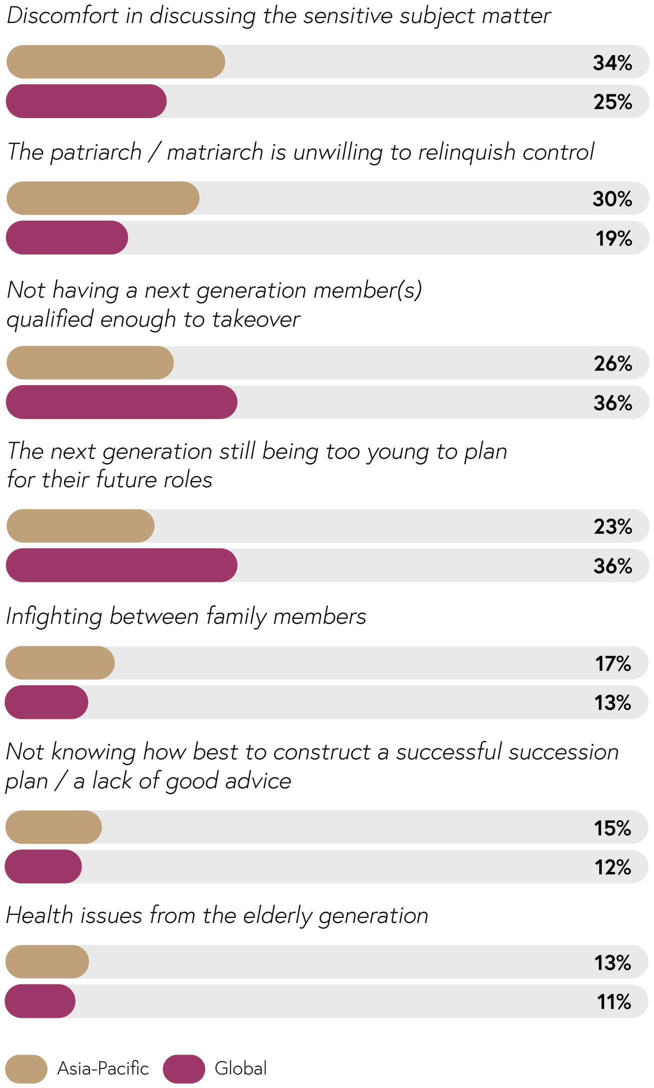
"Succession planning is a very difficult thing. Take Warren Buffett and Charlie Munger at Berkshire Hathaway, both are in their nineties. At some point, they're not going to be around and sure they've got succession plans, but whoever succeeds them will not be Warren Buffett or Charlie Munger. In my experience succession planning is only possible if there are not too many family members, and there's a strong family culture."

Chief Executive Officer and family member, multi-family office, Australia

"Succession planning is always a topic of interest for Indian family offices. One of the main issues for families is deciding whether the next generation want to keep the family business, and if so is it necessary to inject professional management or is there a family member capable of running it? If there is a family member, how is he going to be groomed or mentored for this important role? If there are several brothers working in the family business, it's often the case that they decide to sell out to avoid future conflict. The future of the family business and family office may depend on how many members of the family are working in them."

Head of single family office and family member, India

Figure 4.10: *Greatest challenges the family face with regard to succession planning*



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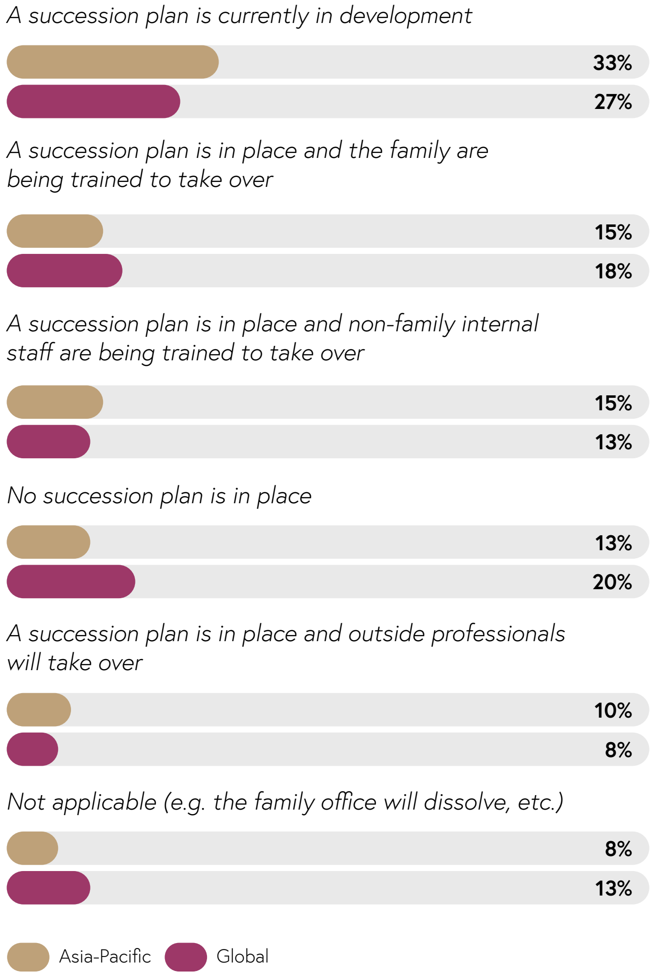
Succession planning should consider retiring family office executives too

Some family offices need to consider the succession of senior family office executives, be they a family member or otherwise. At present 40% of Asia-Pacific family offices have plans in place to deal with this contingency; 15% are training family members to take over the family office, 15% are training other internal staff, and 10% are relying on outside professionals to step in (**Figure 4.11**). Only 13% of Asia-Pacific family offices have no succession plans, indicating that, again, they are better prepared than their global peers where 20% of family offices have no plans, and a significant proportion may voluntarily dissolve.

Figure 4.11: *Preparations for the retirement of family office leaders*



Note: Figures may not sum to 100% due to rounding.
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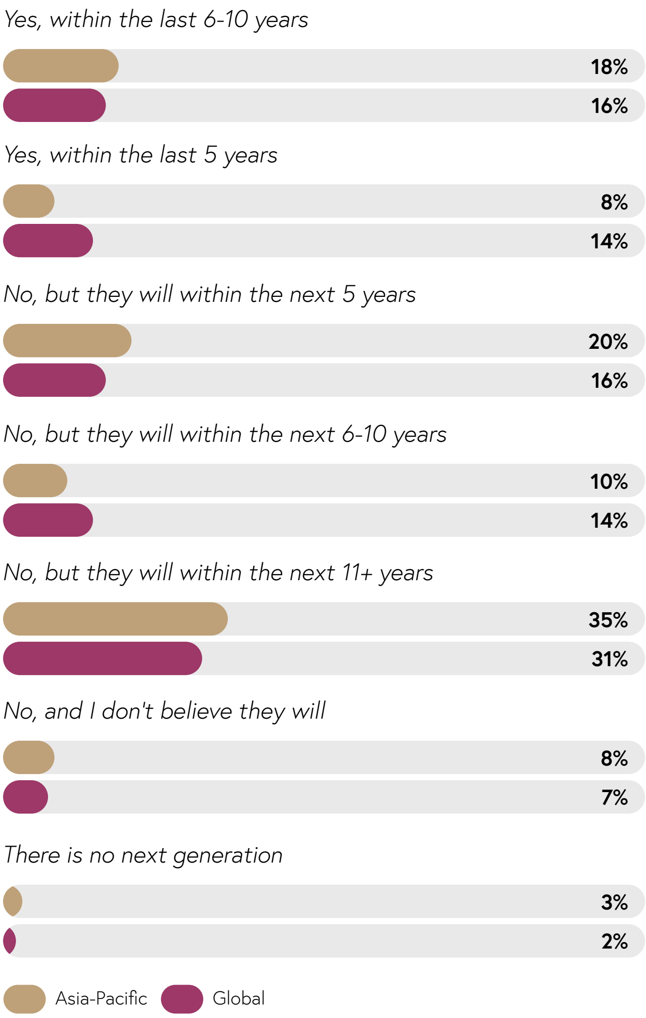
The next generation

The Next Gens are coming

A huge intergenerational wealth transfer is in prospect (**Figure 4.12**). Thirty percent of both Asia-Pacific and family offices globally expect to see the next generation assume control over the coming decade, highlighting the importance of succession planning. For the former, this represents catching up with a process that's already well underway elsewhere, since 14% of their global counterparts have already experienced a change of control over the last five years, compared to only 8% in Asia-Pacific. As previously indicated (**Figure 1.6**), Asia-Pacific family offices are the newcomers to the wealth community, 80% were founded post-millennium by a generation now reaching retirement. This explains not only why wealth transfer has lagged, but also why it's now expected to accelerate.

Figure 4.12: *Timescale over which next generation will assume control*



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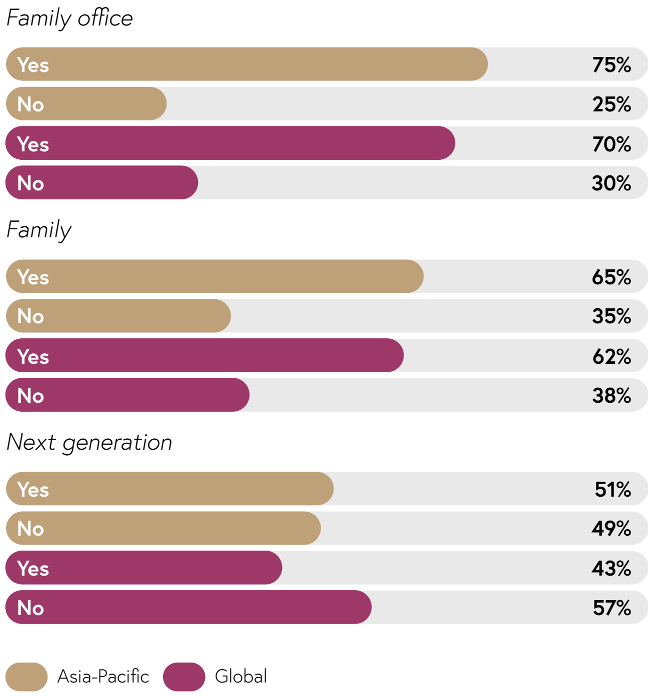
Asia-Pacific Next Gens are well prepared

There are three protagonists in any succession: the family, the family office, and the next generation. Generally more family offices believe themselves sufficiently prepared for succession than their respective families, and more families are prepared than the next generation. This pattern is repeated in **Figure 4.13**. But noticeably, a higher percentage of Asia-Pacific family offices (51%) see their Next Gens as sufficiently prepared than the global average (43%). This is the case even though a previous survey[10] revealed that Asia-Pacific Next Gens tend to take control at an earlier age than those in Europe and North America.

Figure 4.13: *Whether the family / next generation / family office is sufficiently prepared for succession*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

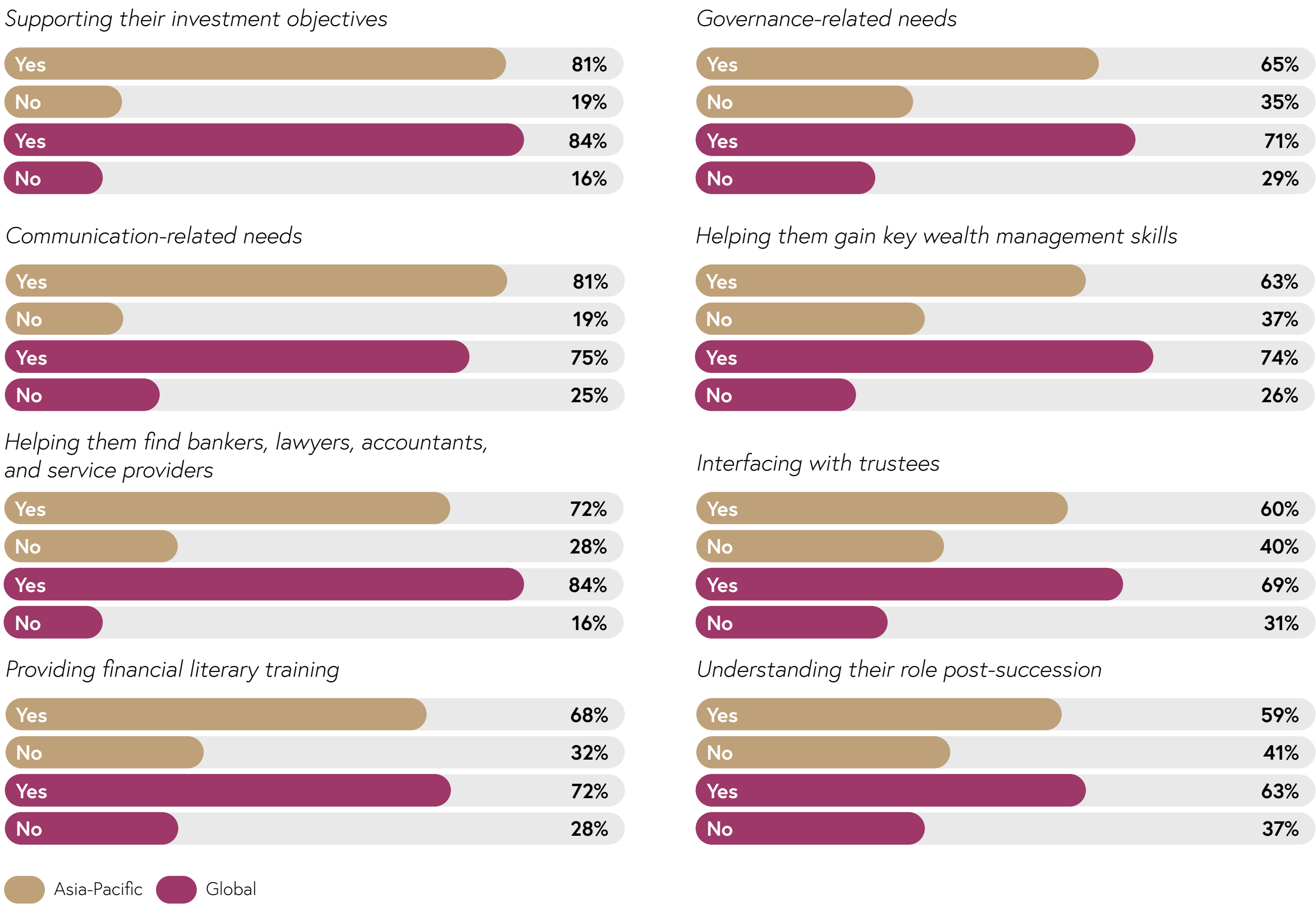
[10] UBS/Campden Wealth, The Global Family Office Report 2019

Some aspects of preparation not addressed

Some aspects of preparation not addressed

Preparing the next generation for their post-succession role is an important part of the work of family offices and they do this through a variety of activities (**Figure 4.14**). Most Asia-Pacific family offices believe they are well-prepared to support the Next Gens' investment objectives (81%) and communication needs (81%). But when it comes to more important functions, such as helping Next Gens learn key wealth management skills or understand their post-succession role, a much lower percentage (63% and 59% respectively) believe themselves to be well prepared. These educational issues are characteristically addressed by the office arranging work experience at family businesses and service providers, or through workshops and conferences. In their own subjective assessment of their capacity to meet Next Gens' needs, Asia-Pacific family offices do not score themselves as highly as their global counterparts.

Figure 4.14: *Whether the family office is sufficiently prepared to meet the Next Generation's needs in relation to succession*



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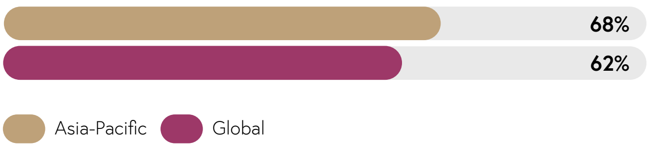
Most family offices employ the family's Next Gen

At present 68% of Asia-Pacific family offices have a next generation member working in them (**Figure 4.15**).

Figure 4.15: *Percentage of family offices employing Next Gen members*



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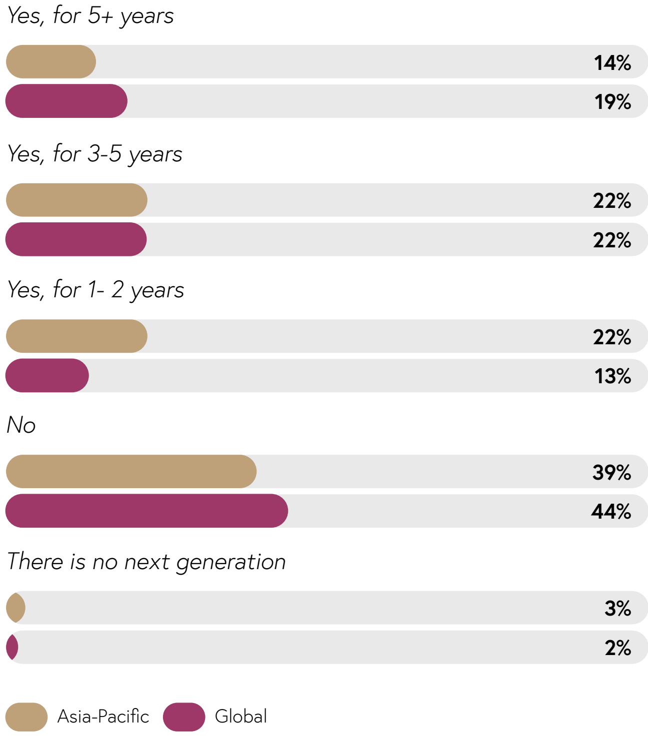
Next Gens expected to gain external work experience

While family offices and family businesses can be a useful training ground for Next Gens' educational development, 58% of Asia-Pacific families also expect them to gain work experience elsewhere, such as at a bank or hedge fund, before joining the family firm (**Figure 4.16**). This provides Next Gens with external experience which may prove beneficial to the family office / business itself.

Figure 4.16: *Whether next generation members are required to work elsewhere (e.g. investment bank, hedge fund) before joining the family office / family business*



Note: Figures may not sum to 100% due to rounding.
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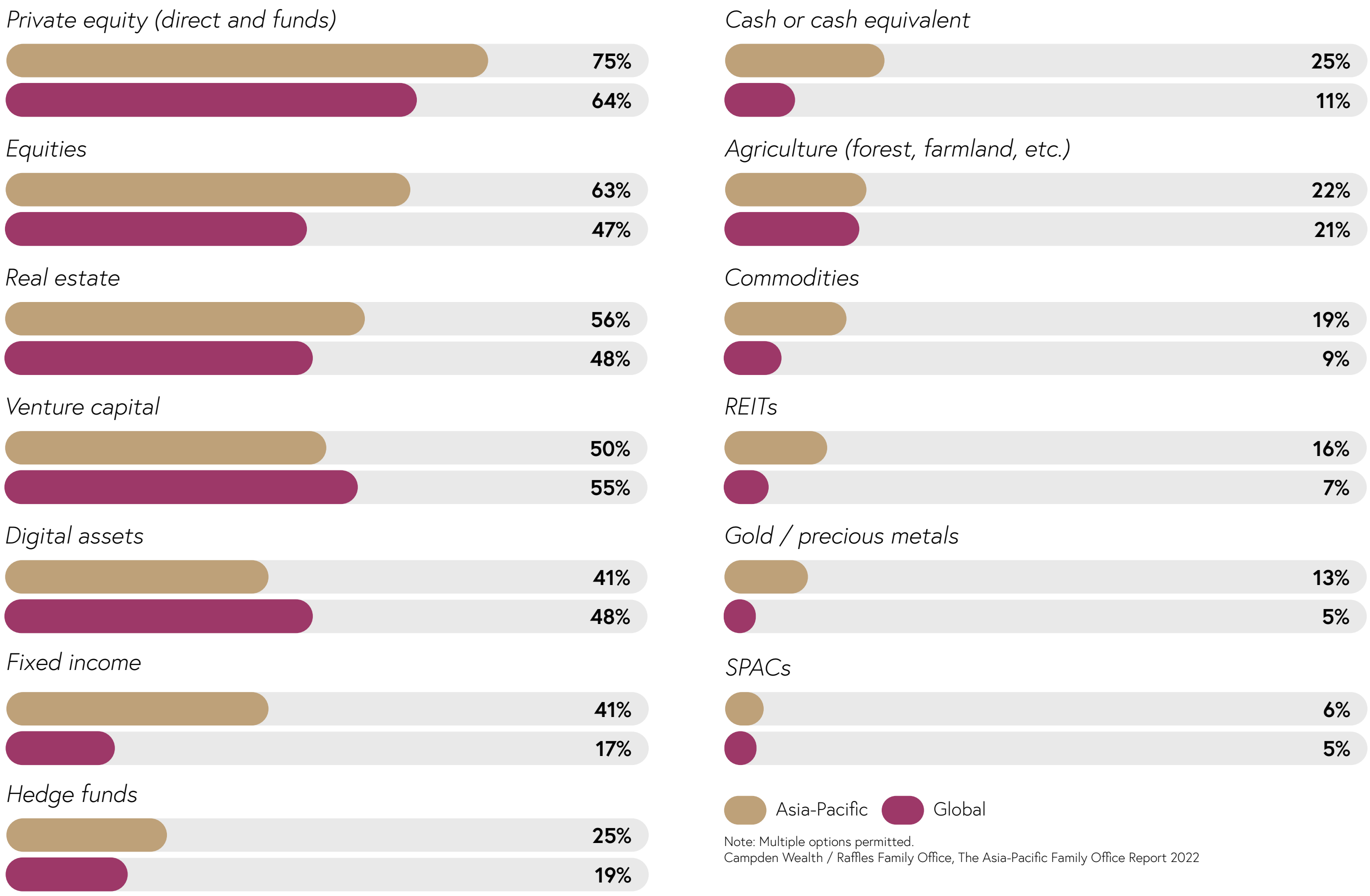
Investment preferences

The most popular asset classes among Asia-Pacific Next Gens are private equity, equities, real estate, and venture capital (**Figure 4.17**). This selection follows the current preferences of family offices which, as highlighted in **Figure 2.6**, are most likely to increase their portfolio holdings of private equity funds, equities, venture capital, and real estate. From **Figure 4.17** it would appear that Next Gens are more positive than family offices on digital assets (e.g. cryptocurrency, NFTs), and indeed that is how family offices themselves perceive the situation. When asked whether they believe Next Gens are driving cryptocurrency investment, 72% replied affirmatively.

Figure 4.17: *Next Gens' interest in the following asset classes*



Note: Multiple options permitted.
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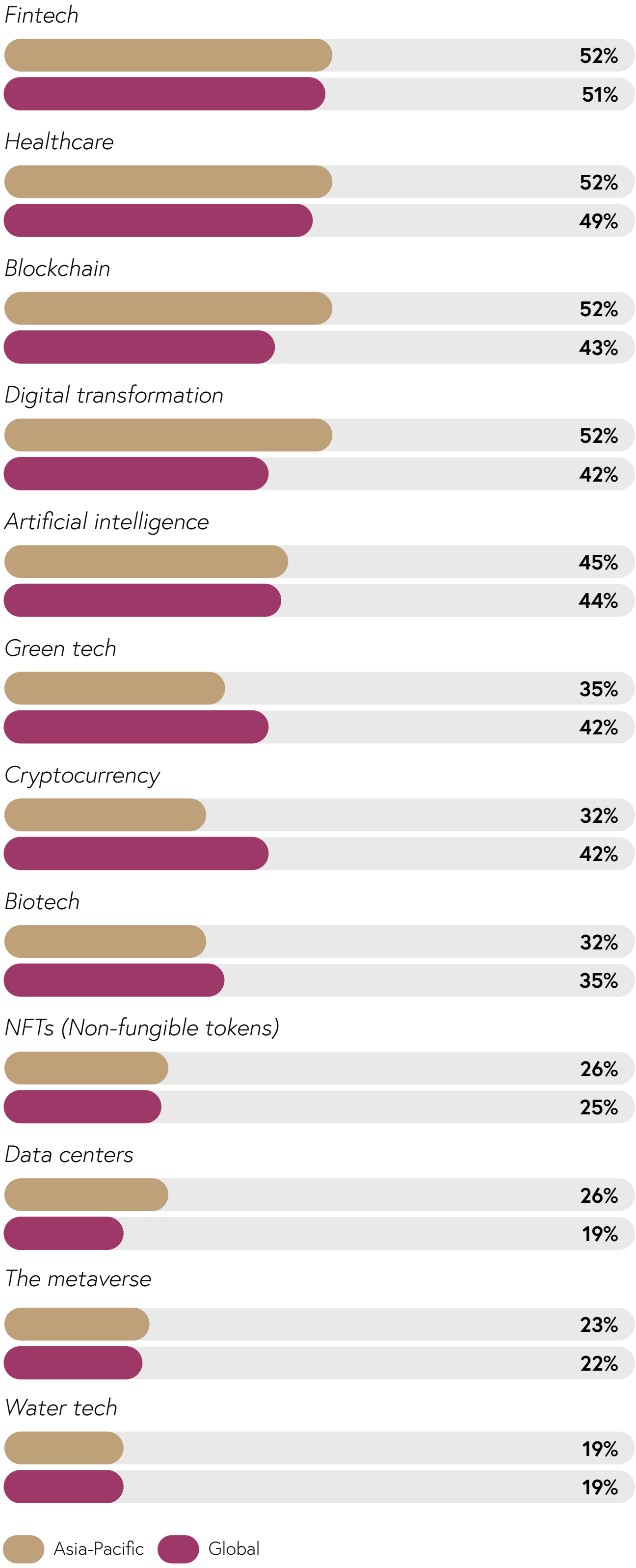
Next Gens have an avid interest in technology

Asia-Pacific Next Gens rank fintech, healthcare, blockchain, digital transformation, artificial intelligence, and green tech as the top six most interesting technologies (**Figure 4.18**). Five of these are technologies in which the highest percentages of family offices intend to increase their investment (the exception is blockchain), see **Figure 2.7**. Interestingly, Next Gens are much more positive on blockchain than cryptocurrency, recognizing that the former has potentially many more applications than the latter. At present, Next Gens' interest in NFTs and the metaverse is comparatively modest (26% and 23% respectively), but these are very new technologies which have yet to become fully established.

Figure 4.18: *Next Gens' interest in the following technologies*



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"We believe in the underlying technology which is blockchain, and we believe this technology can be applied to literally millions of individual processes. But we're sceptical on cryptocurrency being a replacement for money. It's the Wild West out there."

Chief Financial Officer, single family office, Australia

"It's not our area of expertise but we have considerable scepticism around bizarre artworks which purport to be high-value NFTs. But I think low-value NFTs, which are not trying to be an art form, could be traded or exchanged securely through a blockchain-enabled network and this market could be huge."

Director, single family office, Australia

"We are setting up a fund to breed racing horses. The blockchain will allow participants to vote and decide whether they want to bid for a particular horse, sell a yearling, or whatever. I think this kind of lifestyle business will generate a lot of stakeholder participation and become very popular."

Adviser, multi-family office, China

"Rather than owning cryptocurrencies directly, our latest investment is in a company which uses blockchain technology to build applications onto cryptocurrency networks. Networks could then be used for decentralized applications involving smart contracts, minting and trading NFTs, and for gaming."

Chief Financial Officer, single family office, Australia

New horizons for digital assets

The following is an interview with Cheah Capital's Managing Director, Datin' Seri Eva Cheah[11]. Cheah Capital is a single family office based in Hong Kong and Singapore. The family's investment expertise lies in the Greater China region investments, but AUM are well diversified across asset classes, industries, and geographies. Cheah Capital's founder, Cheah Cheng Hye, is the co-founder of asset management firm Value Partners Group, the only listed asset management firm in Hong Kong.

What is your view on digital assets?

"Digital assets comprise a very interesting asset class from several perspectives. Though cryptocurrencies dominate headlines, the increasingly diverse array of digital assets shows the potentially transformative effects of technological change, such as the implementation of blockchain. While blockchain technology was initially most associated with Bitcoin, it is the more recent applications of it that could provide the most benefits for our single-family office. For example, decentralised finance, NFTs, and numerous real-world applications hold out the promise of superior solutions for finance functions like insurance, accounting and trading, not just as investments in and of themselves.

Turning to investments, digital currencies are maturing at a rapid rate, with major central banks like the Bank of England examining the feasibility of bringing in a blockchain-based digital national currency, while others have already started testing central bank digital currencies, most notably China with its digital yuan. As these digital currencies become more mainstream, digital assets will garner more recognition, and it's reasonable to conclude that central bank digital currencies will soon be traded just like fiat currencies are today.

As the digital asset class has yet to mature, the risks are high, but then so are the potential returns. But because the asset class is nascent, a lot of work needs to be done around education, understanding risks and rewards, and the role digital assets might play in a single family office portfolio."

What services would you find helpful when assessing digital assets?

"Given our remit to grow and preserve wealth across generations, we would only consider working with trusted partners with proven expertise in their field. But experience in digital assets is limited because the asset class has only existed for 13 years. This means that finding the right, tailored expertise is more challenging than with long-established asset classes like equities or real assets.

Because the digital asset class is developing quickly, with new coins, tokens, and other assets emerging frequently – as well as new technological applications like the metaverse – it's important that digital asset service providers can demonstrate a strong grasp of their field, a deep understanding of the technology, and the ability to service us like a professional private wealth manager.

These attributes will enable providers to deliver incisive insights on the various components of the digital asset universe, which for a single family office, building a foundation of knowledge, is absolutely invaluable. That advice should also extend to the fintech infrastructure that is required to assess and potentially invest in digital assets, such as crypto wallets, and automated know your client (KYC) and anti-money laundering (AML) compliance solutions."

Are the digital asset service providers in the market today adequate for family offices?

"As digital assets are a relatively new investment area, regulations and commonly accepted standards and

[11] Datin' Seri Eva Cheah's comments reflect her personal views and not that of Cheah Capital or any of its affiliates.

protections are changing rapidly. Understanding these changes is crucial if the family office is to seriously consider digital assets and be confident in understanding the technology and potential risks to the degree required.

While early adopters have built up a decade or more of experience in digital assets, many family offices are just starting their digital asset journey, and therefore need to better understand blockchain technology, the digital asset ecosystem, and fintech infrastructure. Digital asset service providers must be capable of furnishing family offices with the expertise that relates specifically to their own unique requirements."

How do you see digital assets fitting into your family office's investment strategy?

"While we are actively engaged in better understanding the digital asset space, it is too early to definitively determine the role digital assets will fulfil in our investment remit. One of the reasons family offices are only now embarking on the road to adopting digital assets is the long-term investment horizons that are involved in managing family wealth. However, because of digital assets' unique attributes, their benefits for investors would include direct ownership and control of assets, the reduced need for intermediaries, and faster processing times. They are also attractive because of their potential upside and diversification effect."

What are your key concerns with digital assets?

"The risks associated with digital assets are numerous, so a crucial element of the assessment process is understanding these risks, building the required expertise to navigate them, and partnering with the most suitable service providers. As the asset class matures, best industry practices, regulations, guidelines, and policies will emerge, boosting confidence in digital assets and creating a robust ecosystem. For example, a key concern is the origin of assets and compliance with KYC and AML policies. At the same time as regulation brings greater clarity, there is the potential for onerous regulatory changes as grey areas are nailed down. Issues around safeguarding and custody are also top of mind. Therefore, establishing trust is key to engaging with digital asset partners.

The recent cryptocurrency market downturn also highlights the importance of market stability and market volume, though notably market volume has held up, which is an encouraging sign. So, while media coverage has focused on the collapse of some decentralized stablecoins, it's important to remember that every asset class has experienced similar disruptions at some point, and that these episodes do not negate the many benefits of digital assets.

With the climate emergency unfolding, environmental, sustainable and governance criteria are also vital elements of the investment process, and there are valid questions around the environmental impact of digital assets, for example, that generated by cryptocurrency mining. This issue is being addressed, and more energy-efficient cryptocurrencies like IOTA, which doesn't involve a mining process, have emerged. Alignment with investment ESG criteria would be a critical test for any digital asset to pass."

Has the recent crypto market downturn changed your perception of digital assets?

"All markets experience downturns. Moreover, all markets experience disruptions. But the digital asset universe is much larger than crypto currencies, and includes the likes of NFTs, tokens, and peer-to-peer debt. The long-term advantages of digital assets remain intact.

For instance, digital assets hasten transaction settlement, boost transparency, increase traceability, and provide an immutable record of transactions.

Digital assets have the potential to become an important element of the spectrum of investments, and as the range of digital assets increases, so do the potential opportunities."

What is your view on the regulation around digital assets?

"Regulators are scrambling to catch up with digital asset innovation, but there is a lot of regulation coming online this year, which will help to increase certainty and clarity around the asset class. For instance, the European Union this year brought in the Distributed Ledger Technology (DLT) Pilot Regime Regulation, the United Kingdom is conducting a consultation process for the regulation of crypto-assets, and the New York State Department of Financial Services issued guidance on the issuance of U.S. dollar-backed stablecoins.

Presently, regulation is fragmented, but with more cohesive regulation being implemented in major markets, greater stability will quickly follow. Also, regulators are increasingly joining up policy, which will spur innovation and encourage more participants to engage in the digital asset space."

What do you see as the benefits of digital assets for your single family office?

"While our family office does not invest in digital assets, we do recognize their potential to help family offices from a diversification standpoint.

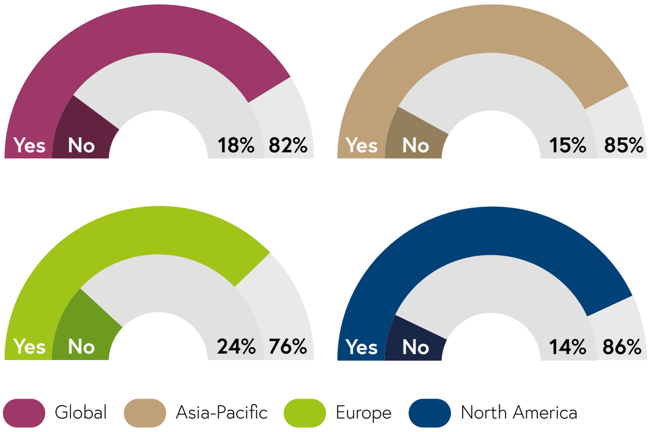
Moreover, the adoption of digital assets will usher in better fintech infrastructure, create efficiency gains and boost flexibility.

Today's technology revolution will profoundly transform the investment space to the benefit of the family office community."

4.4 Philanthropy

Eighty-five percent of Asia-Pacific family offices make philanthropic donations. This is comparable to North America (86%), but ahead of Europe (76%) (**Figure 4.19**).

Figure 4.19: *Whether the family is involved in philanthropic giving*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth / Raffles Family Office, The Asia-Pacific Family Office Report 2022

Average family donation, US$1.8 million

Although the philanthropic habit is widely spread among Asia-Pacific family offices, the average donation per family of US$1.8 million over the last 12 months is significantly smaller than the global average of US$11 million (**Figure 4.20**). However, this result is somewhat distorted by very large North American family foundations.

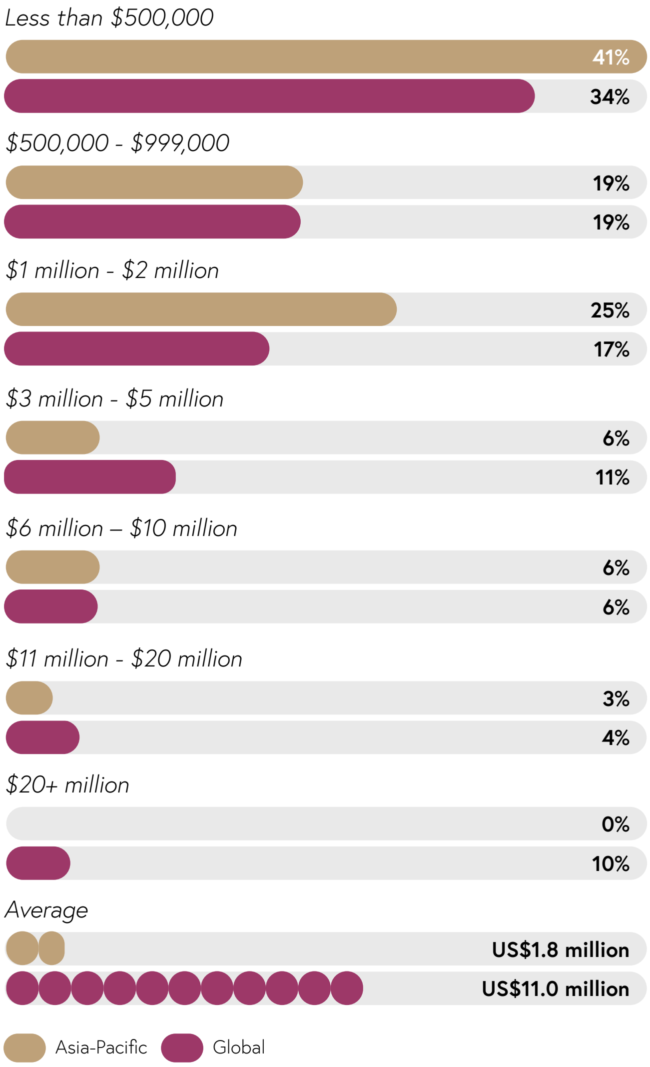
"In the end, it's a cultural thing. A lot of the Asian families play a big part in philanthropy and charitable donations. Even if they don't do it officially under the banner of their family office, they donate as individuals. I've read research somewhere that Hong Kong has the highest rate of charitable donations per capita."

Adviser, multi-family office, China

"Some families are very passionate about the arts. They were very generous during the pandemic because many of these institutions faced serious difficulty. Supporting good causes is fundamental to these families."

Family member and CEO, multi-family office, Australia

Figure 4.20: *Family donations in the last 12 months*



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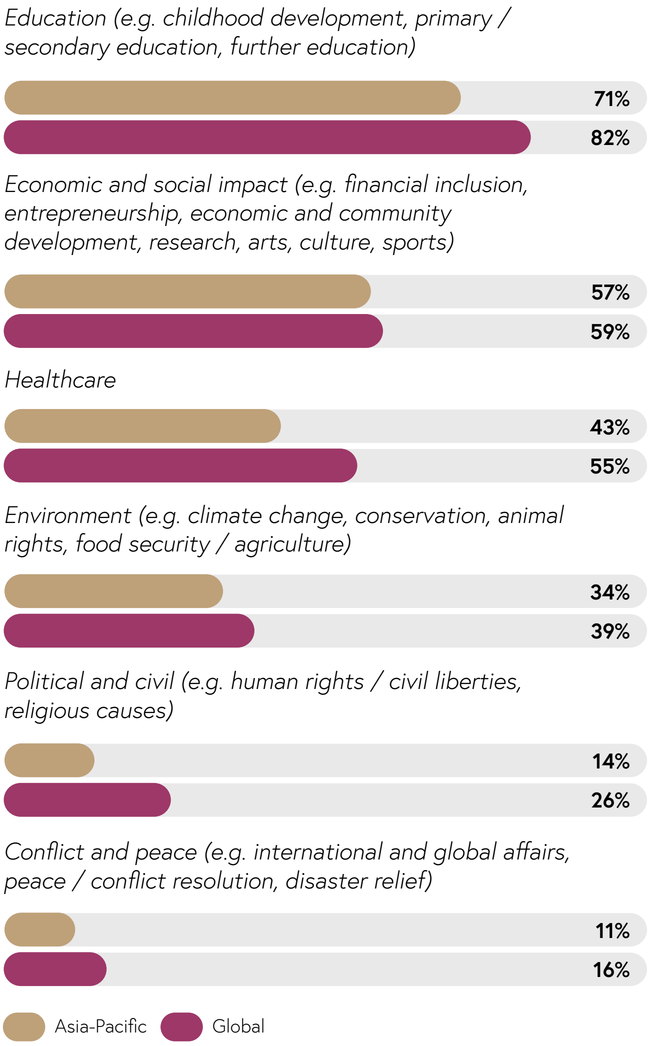
Education is the top cause supported

Education tops the list of causes supported by Asia-Pacific families, followed by those with an economic and social impact, and those promoting healthcare (**Figure 4.21**). Overall, except for causes devoted to promoting political and civil rights, the mix of beneficiaries is very similar to those supported by family offices globally.

Figure 4.21: *Philanthropic causes supported by the family*



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Playing their part

Family foundations are popular in Asia-Pacific (**Figure 4.22**). This is the case even though there are no inheritance taxes across the region and no capital gains taxes in Hong Kong and Singapore, and therefore foundations do not have the same tax advantages as similar institutions in the United States.

"In Australia, families donate through a private ancillary fund. These have some of the characteristics of a U.S. family foundation, namely tax deductibility and 5% minimum distribution requirement. Once money is donated to the fund the donor receives a tax deduction and can determine, with agreement of the trustees, which charities benefit."

Family member and CEO, multi-family office Australia

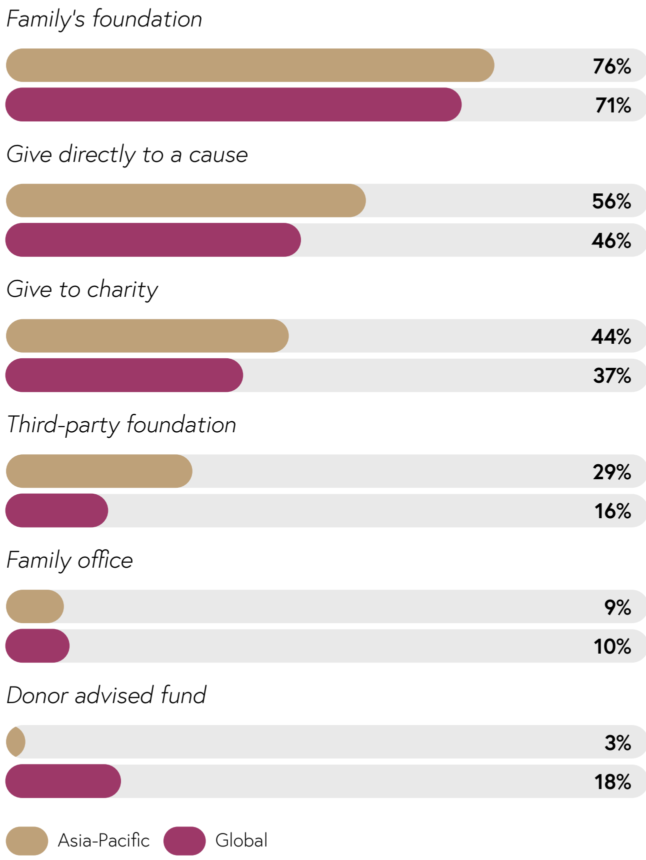
"We have a foundation which we started way back in 1995 and supports about seven thousand children from very poor families who study at public schools in Bombay. Even at the age of seven or eight many were exploited as child labour."

Director and family member, single family office, India

"We built a portfolio of impact investments to benefit underprivileged children. We thought we could prove that we would get a better long-term impact and solve issues with a market response. That was better than just writing checks. Unfortunately, we were too concentrated on a limited number of projects that didn't work. So we are now back to conventional philanthropy."

Chief Executive Officer, single family office, Singapore

Figure 4.22: *Vehicles used by the family in support of philanthropic giving*



Note: Multiple options permitted.
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5. Conclusion

5.1 Looking ahead

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Risk management to underwrite consistent investment performance

Risk management is cited by 59% of Asia-Pacific family offices as the top governance priority for the next 12 to 24 months. This is hardly surprising given the setback to financial markets in the early part of the year. However, while there's no room for complacency, there is evidence that sound risk management systems are making a difference. Significantly, last year 69% of respondents identified inflation as the biggest risk to financial markets and 38% rising interest rates. Unfortunately, those risks crystallized in the first quarter of 2022, but our survey reveals that many family offices were ahead of the game, increasing equity and real estate exposure, while shortening the duration of bond portfolios to reduce sensitivity to adverse interest rate movements. Although overall investment returns in 2022 will almost certainly be lower than the estimated average of 10% achieved in 2021, or the 15% in 2020, it is likely that professional investment management will mitigate the worst outcomes.

Portfolio diversification is crucial for long-term wealth preservation

Long-term wealth preservation often relies on having a diverse portfolio of investments. This diversification should be in terms of asset classes, sectors, currencies, and geographies. A portfolio of diverse investments can mitigate the risk of "black swan" outcomes.

A particular risk for Asia-Pacific family offices arises from many families retaining their original businesses. Nearly one-fifth of respondents to our survey were hybrid single family offices where the office was embedded within the family business. Though founders and their families are very familiar with these businesses, they inevitably represent a very significant concentration of risk within their portfolio. Liquidation and re-investment into financial assets may be emotionally challenging, but diversification is an important step towards wealth preservation.

Strengthening governance through investment monitoring and mission statements

Family offices rely on many different structures within their governance frameworks. But most commonly these relate to the monitoring of investments and strategic and tactical asset allocations. Surprisingly, only around half of Asia-Pacific family offices have a mission statement or a family office employee handbook. Roughly a quarter (24%) have no cybersecurity plan or even the intension to acquire one. These would all be useful adjuncts to existing governance structures and protocols mitigating investment risk, fraud, and binding the family with a common purpose. Improving the robustness of systems and business processing is an important way to futureproof family offices.

The next generation is only a heartbeat away

Effective succession planning is critical to ensuring the longevity of the family office and family legacy. This makes developing effective succession plans a key priority. Most family offices in Asia-Pacific were set up within the last two decades, and therefore have not experienced a transition to the next generation. It's true that 70% of family offices have a succession plan in place, which is a higher percentage than the global average, but three-quarters of these are informal, unwritten, or still in the process of development, leaving a question mark over enforceability. Since roughly a third of families expect wealth to transfer to the next generation over the forthcoming decade, inadequate succession planning could be problematic for many. A particular issue making planning difficult for Asia-Pacific families is a reluctance to discuss sensitive issues. Challenges also arise because the next generation may be too young or inadequately qualified to take over.

Understand and address the needs of the next generation

Overall, a high percentage of Asia-Pacific family offices believe they adequately address the needs of the next generation when it comes to supporting their investment objectives, helping them communicate with other stakeholders, and selecting bankers and lawyers. But around 40% admit they don't feel sufficiently well prepared to help Next Gens learn wealth management skills, and importantly, to understand their post-succession roles. Not surprisingly, around half of family offices believe their Next Gens are insufficiently prepared for succession. The important educational role undertaken by family offices is well understood but, as ever, more could be done. Possible strategies include arranging work experience in family businesses and service providers, organizing workshops, and sponsoring higher education courses.

Nepotism may not be the best solution

Although family-owned businesses are built on the expectation that the management of the business will pass onto the next generation, this is not always the best outcome. What may be good for the individual may not be good for the family over the long term. Families need to give adequate attention to successor selection and to create an environment where important conversations can take place around whether next generation family members are suited to run the family office or family business.

Don't skimp on talent

Families are comfortable working with known and trusted individuals. But periodically it is important to bring in new recruits to bring in fresh ideas and skill-sets. This explains why many family offices have looked to hire top professionals from investment banks, private equity houses, and hedge funds to support their evolution. It also explains why competition to attract top leadership professionals has been, and will remain, intense.

About family offices

What is a family office?

A family office is, in its simplest form, the private office for a family of significant wealth. The number of staff working in the office can vary from one or two employees, to 100 or more staff, depending on the type and number of services it provides.

The purpose of an office can range from handling key family assets and core holdings (tax and accountancy, property and estate management) to include more sophisticated wealth management structures, while often providing family members with educational, professional and lifestyle services.

Generally, family offices manage key areas of family assets, including real estate holdings and direct or indirect investments, tax consolidation and estate management.

They can serve as the central hub for a family's legacy, governance and succession. Furthermore, they can support the education and development of family members, facilitate family governance, coordinate communication and resolve issues within the family enterprise. A typical family office:

- Affords structure to the management of family wealth, establishing increased control and oversight of the family wealth strategy and costs of managing investments;

- Consolidates tax, accountancy and wealth management reporting execution under one roof;

- Provides a clearly-articulated, efficient governance framework for investment decision-making, as well as family legacy and succession functions (including philanthropic foundations and initiatives);

- Coordinates with service providers, achieving economies of scale (especially in the case of multi-family offices) and preferential deal access and products;

- Ensures confidentiality and privacy for family members, liberating them from the burden of wealth.

Who would benefit from using a family office?

Families with private wealth in excess of US$150 million are ideal candidates for establishing a single family office structure. While it is not uncommon for first generation entrepreneurs to establish a family office, these offices often support families with greater complexity in terms of households and generations. This is a key characteristic of family office structures and one that offices must account for when designing and executing investment strategies and family governance plans.

While each household may share some similar needs, from the perspective of the family office, each household merits special consideration. Such consideration cannot always be restricted to typical generational needs (i.e. retirees require income, while younger family members can accommodate more risk and longer horizons), because households themselves have differing liquidity requirements (for example, sibling benefactors may hold quite distinct professional ambitions).

Multiple wealthy families which might not necessarily be related to each other but nonetheless share some common values or goals may opt to consolidate and leverage resources by creating a multi-family office, rather than a single family office to manage the family wealth. Such a structure provides the benefit of economies of scale and investment deal opportunities that formal collaboration and a consolidated management structure afford. Naturally, family complexity factors arise for the multi-family office, only on another level of magnitude.

Here things can get quite messy. As such, traditionally, for a multi-family office to be successful and sustainable, families should share a common purpose, interest and risk appetite or, alternatively, comparable levels of wealth.

Traditionally for multi-family offices to be sustainable over the medium to long-term, they must manage cumulative assets of more than US$3.5 billion. For the sake of clarity, a number of terms with specific meaning in this report are defined below:

Private multi-family office: Will all have had a founding family before widening out their offering to multiple families. These offices are owned by families and operated for their benefit.

Commercial multi-family office: These will look after the interests of multiple families often with wealth of less than US$150 million. Unlike private multi-family offices, they are owned by commercial third parties.

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About the creators

About Raffles Family Office

Raffles Family Office (RFO) is an award-winning commercial multi-family office with a full suite of investment management services for ultra-high net worth individuals. An integrated platform that combines independence with advisory expertise across a broad range of asset classes, and an expansive global partnership network built for seamless collaboration with the world's leading financial institutions, RFO is uniquely placed to offer comprehensive, lasting and highly bespoke wealth growth and preservation solutions. RFO is headquartered in Hong Kong and has branch offices in multiple Asian financial centres, including Singapore, Shanghai, Beijing and Taipei. For additional information, visit **www.rafflesgroup.co**

Independent Asset Management

Working in partnership with RFO's dedicated client advisors, the company's Independent Asset Management arm provides world-class advisory and discretionary management services pertaining to listed equities and fixed-income assets across global markets. Highly experienced and solely driven by client objectives, the team offers exceptionally informed and strictly unbiased counsel and support.

Advanced Wealth Solutions

Raffles Real Estate (RRE) is a diversified investment platform with a comprehensive suite of real estate offerings for clients in the ultra-high net worth segment. Its key services include portfolio strategy management and optimization; as well as acquisition and repositioning support. Catering to a variety of risk profiles, from core through to opportunistic, RRE specializes in the hospitality, commercial and residential segments. The firm's 360-degree and highly bespoke approach is purpose-built to safeguard and enhance real estate portfolios across multiple generations.

RRE is a wholly owned subsidiary of Raffles Family Office, a pan-Asian multi-family office with a full range of wealth management services covering numerous asset classes.

Risk and Resilience Services

RFO additionally provides a host of supporting offerings under its Risk and Resilience Services unit to ensure continuity and succession in line with the intent of family principals, but also shifting economic conditions and societal norms. The platform encompasses trusts, insurance, family governance frameworks, as well as tax, immigration, philanthropy and sustainable-investing advice.

About Campden Wealth

Campden Wealth is a family-owned, global membership organisation providing education, research, and networking opportunities to families of significant wealth, supporting their critical decisions, helping to achieve enduring success for their enterprises, family offices and safeguarding their family legacy.

The Campden Club is a private, qualified, invitation only Members club. Representing 1,400 multi-generational business owning families, family offices and private investors across 39 countries. The Club delivers peer networking, bespoke connections, shared knowledge and best practices. Campden Club members also enjoy privileged access to generational education programmes held in collaboration with leading global universities.

Campden Research supplies market insight on key sector issues for its client community and their advisers and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique proprietary data and analysis based on primary sources.

Campden Education delivers a virtual training platform empowering families with practical knowledge and the tools to make informed decisions. Drawing on deep expertise and real-world experiences, our programmes are designed to guide the whole family through all stages of ownership and growth.

Campden Wealth owns the Institute for Private Investors (IPI), the pre-eminent membership network for private investors in the United States founded in 1991. In 2015 Campden Wealth further enhanced its international reach with the establishment of Campden Family Connect PVT. Ltd., a joint venture with the Patni family in Mumbai.

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