

# Global Family Office and Wealth Management Best Practices 2021

— Global Perspectives, Chinese Flair



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Honghu Best Global Family Office aims to tailor a full range of wealth inheritance and family affairs solutions for ultra high-net-worth clients, including international identity arrangement, family trust, asset allocation, charity planning, legal and tax consultation, enterprise strategic cooperation, etc. By the end of 2020, the main members of Honghu Best GFO have master's degree or above and have been engaged in public fund, trust, bank, law firm and accounting firm for more than 10 years. The team of Honghu Best GFO managed the first batch of charitable trusts and family trusts in China. In 2012, the team established the first onshore family trust in China. In 2016, it established the first batch of charitable trusts that successfully registered in China. Since 2017, it has designed more than 3000 wealth inheritance schemes.



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康朝鋒

Kang Chaofeng  
Chairman, Honghu Best Global Family Office

## Providing global perspectives with a Chinese flair

The world has gradually recovered from the worst of the pandemic since 2019. And in this silent war against the pandemic, the Chinese government has introduced policies and measures that achieved many successes. Thanks to its swift response, China's economic recovery outpaced other parts of the world; The world marvelled at the response of the Chinese government, the coordinated efforts from the Chinese people, and the comparative advantages of the Chinese system.

While the world enters the post-pandemic era, the COVID-19 situation remains severe, the global economic environment is less optimistic, and the Western world has changed its policies towards China. All these factors brought serious challenges for the Chinese economy and people. Amid the complexities and uncertainties, Honghu Best Global Family Office (Honghu Best GFO), as a globalised family office, needs to guide our clients to sail through headwinds, plan ahead and make all necessary preparations for family inheritance.

With years of experience in serving high net-worth families in wealth preservation and inheritance, we have found that Chinese billionaire families, companies and brands have all preferred to stay in China. However, staying home-bound doesn't mean they have overlooked the overseas markets. On the contrary, they possess a global vision – by working with professional institutions to design integrated wealth inheritance structures, onshore and offshore, these families can perfectly fuse their visions with their passions — a global perspective with Chinese flair.

Most of Honghu Best GFO's clients believe in our investment philosophy: diversification of risk in investment management is necessary for a family to prosper and flourish. One cannot place all of their hard-earned assets in a single fund manager or a sole product; Honghu Best GFO advocates family asset allocation concepts that are similar to that of the national social security fund (NSSF), which is to use risk parity model, together with indexation, diversification and globalisation, to effectively mitigate investment risks and provide steady gains to its investors.

We rely on the power of reason throughout life. But more importantly, we need a spiritual calling. Family inheritance not only, via the use of prudent legal frameworks, financial tools, and investment strategies, accumulates material wealth, but also passes on traditions and values that constitute spiritual wealth, such as children education, next generation succession, charity, and family values. The mission of Honghu Best GFO is to be the steward of the client's family, and to provide services to truly achieve goals for clients, including risk segregation, asset management, wealth inheritance, family business planning as well as legal and tax planning.

Meanwhile, we help families seek the core values that fuel further prosperity. We then conduct top-level planning for family governance, which ensures the orderly operation of family affairs. These could help our clients to pass on their core values to thrive for generations.

We benefit by benefiting others. We innovate by maintaining our integrity. What the most valuable assets worth passing-on to the next generations are the history of Chinese enterprises, brands, and how these great accomplishments are established by industrious precursors from scratch. Honghu Best GFO will continue to partner with Chinese families, enterprises, and brands to create a first-class Chinese and world-renowned global family office, and focus on maintaining and passing on an evergreen business for Chinese families!



Foo Boon Ping  
Managing Editor, The Asian Banker

## Roadmap to a better world for China's next generation wealth creators

China has a thriving private wealth management market that is accelerating along a steep upward trajectory. Amid the pandemic, China's economy continues to register growth. According to the International Monetary Fund's latest economic outlook in October 2021, China's gross domestic product (GDP) grew 2.3% in 2020, and the growth is expected to reach 8% in 2021. Meanwhile, China remains the world's largest savings market and fastest-growing wealth market.

Statistics from the World Economic Forum showed that China's savings rate has historically been higher than that of other countries, accounting for over 45% of GDP, with most savings going into bank deposits and real estate investment. However, the wealth and asset management industry has gradually developed and matured in the last decade, in particular, trust companies have been developing rapidly. The industry's total assets under management (AUM) have grown more than tenfold and was estimated to have reached RMB120 trillion (\$18.6 trillion) at the end of 2020.

While the emergence of financial technology companies in the last five years brought new competition and innovations, which had at one time accumulated trillions of renminbi in wealth management products, they have brought higher risks that investors may not necessarily understand fully. Recent tightening of regulations relating to such non-standardised financial products and institutions have put many marginal and grey-area operations out of business, directed fund flows back to the formal and regulated institutions and improved the safety factor of the industry as a whole.

The further liberalisation and opening up of China's booming capital markets and the introduction of the Shanghai-Hong Kong Stock Connect programme have also improved access for investors and institutions to the Chinese local market. It has also offered Chinese investors more opportunities and capabilities to access products from global institutions. Amid these integrated developments, China is also experiencing its greatest intergenerational wealth inheritance in history, with trillions of dollars of assets being transferred from first generation wealth creators to the next. This has created huge demands for family offices and trust services. Finally, with the environment, society, and governance (ESG)-based investment and ESG integration widely promoted and applied globally, and even mandated by some regulatory agencies (such as EU's disclosure regulations), the concept of sustainability and social responsibility in investment is flourishing in China's wealth and investment industry, and will serve as a roadmap to a better world for China's second-generation heirs to wealth.

## Key trends that define the important role of global family offices in private wealth management

Despite the impact of COVID-19, global wealth has maintained its growth. In 2020, global wealth went up by 7.4% (\$28.7 trillion) year-on-year and reached \$418 trillion by the end of the year. As an important member in the private wealth management industry, global family offices have seen the emergence of the following trends:

### ● *Focusing on more structured, efficient, and organised management*

In an increasingly volatile and uncertain environment, family offices' wealth management is rapidly transferring from family operation to that of professional talents, and family offices are becoming more structured, organised, and efficient.

### ● *Embracing technological transformation*

With increasing reliance on technological solutions, family offices have begun looking at adopting various innovative technologies for data aggregation and reporting, investment analysis, documentation, and general ledger processing.

### ● *Focusing on tax structuring planning*

The ongoing major intergenerational wealth transition attracts further attention to succession planning and family governance. The imposition of various taxes such as inheritance tax and gift tax leads to increasing consideration of tax structure optimisation in intergenerational wealth transition, which is evolving from direct giving, wills, and statutory succession to other inheritance options such as family trusts.

### ● *Focusing on the positive impact of wealth and sustainable investment*

Investors' awareness of social issues and desire to create positive changes are playing a positive and vital role in driving financial management and investment decisions. As sustainable investment gains global consensus, most global family offices are increasing their interest in ESG issues and responsible investment.

### ● *More cautious about future investment prospect*

Given increased uncertainties over COVID-19 recovery and challenges in the global geopolitical environment, family offices remain cautious about future investment prospect. In some developed markets, interest rates are close to zero or even negative and returns on income remain low. Thus, family offices and private banks need to gradually change their asset allocations.

● ***Increased interest in alternative assets due to low interest rate and sufficient liquidity***

In response to the declining interest rate, family offices are cautiously adjusting investment portfolio risks. They maintain strong interest in expansionary and growth stocks to support innovative companies that disrupt existing companies. With the global quantitative easing, more family offices have started to increase their investment in alternative assets, such as private equity, venture capital and direct investment.

● ***Succession planning is critical to intergenerational wealth transfer***

Intergenerational transition is a topic that every family office must face: facilitating the preservation and transfer of family wealth, strengthening family and business governance, passing on family values, and ensuring greater impact and more sustainable deployment of wealth in the future are all the tasks that need to be completed in the process of inheritance. However, most family offices do not prepare or plan for a smooth transition, leading to the partial or even full loss of wealth or family values that need to be passed on.

● ***Increased use of trusts for more efficient tax planning and asset protection***

Families are increasingly establishing trust structures rather than leaving assets in wills, especially in Asia. Trusts offer the option of holding financial assets along with shareholdings in businesses both for listed and unlisted companies. In addition, trust structures are used as a strategy not only for tax planning but also for the protection of assets associated with external risks that range from future creditor liabilities to divorce and separation claims.

● ***Next generation education and family governance***

The next generation of family members are seen as changemakers who are actively involved in family wealth management. However, they may not be as prepared for or confident about generational transfer despite their high degree of involvement in family wealth management. To increase their competency, family advisors must, in the interest of clients, fully leverage next generation clubs and various programmes and activities to offer networking and learning opportunities. Family governance is pivotal to family business. Family-run businesses have an additional layer of complexity as they must negotiate family relationships that are intertwined with business imperatives. A well-functioning management team needs to be in place, and the relationship between family members and non-family professionals also needs to be carefully crafted. Therefore, for any family-run enterprise, family governance is important for preparing and qualifying future family business owners.

## Introduction to research methodology

The research leverages the expertise of The Asian Banker in interviewing industry leaders and insiders. Semi-structural in-depth interviews were conducted with over 30 key middle and high-level managers from more than 20 world-leading family wealth management institutions (private bank, family trust and family office) in Asia Pacific, North America, and Europe. These in-depth interviews aim to obtain first-hand insights from leading family wealth management personnel. Quantitative research further strengthened the insights gained from these in-depth interviews, which helped to define the major trends and developments of family wealth management as well as the constantly changing laws and regulatory environment.

### **This report has the following two features and advantages:**

I. The research adopts the semi-structural in-depth interview as its main methodology, which is conducive to helping family wealth institutions to position their operations and competitive abilities more clearly based on the industry's best practices. Family wealth reports commonly seen in the market are often based on surveys and questionnaires—findings often lack in-depth details despite having a wide coverage, and inspirations cannot be obtained through exploratory questions. As a leader of strategic intelligence in the financial service industry since its establishment in 1996, The Asian Banker boasts a strong research capability, TABInsights, with rich interview experience and forward-looking research that can help family wealth management institutions to better understand the market.

II. The report covers a wide area and includes interviews with senior executives, whose opinions are necessary to offer a global view together with in-depth research. The interviewed institutions are from Asia Pacific, North America, and Europe, including global wealth management centres in Switzerland, Hong Kong, Singapore, and other markets. All interviewees play important senior management roles in key departments.

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## 1

# Current state and prospect of the global family wealth management industry

## 1.1

## Key developments in the global family wealth management and family office industry in 2020/21

Wealth is an important indicator of the risk-taking and risk mitigation capability of a financial system, as well as the fuel for economic growth. During the global financial crisis in 2008, financial wealth declined by 8%. However, a 2021 report from Credit Suisse stated that, despite COVID-19, global wealth rose by 7.4% or \$28.7 trillion in 2020 and reached \$418 trillion by the end of the year. In terms of regional breakdown, total wealth in North America rose by \$12.4 trillion, in Europe by \$9.2 trillion, in China by \$4.2 trillion, and in Asia Pacific (excluding China and India) by \$4.7 trillion. Moreover, the report also showed an increase in the number of millionaires, with 56.1 million individuals having assets worth over \$1 million in 2020. There has also been a rise in number in the middle-income group, especially in developing countries. The pandemic has had a severe impact on the global economy, but actions taken by governments in the form of stimulus mitigated the impact by the end of 2020. Nannette Hechler Fayd'herbe, chief investment officer and global head of economics and research at Credit Suisse, said, "It cannot be denied that massive income transfer programmes organised and actions including interest rate reduction taken by governments and central banks have strongly supported individuals and businesses most adversely affected by the pandemic, successfully avoiding a full-scale global crisis."

According to Morgan Stanley's report on wealth management, there will be significant variation in wealth between regions. With falling equity market due to the pandemic and a massive decline in global oil prices, HNW wealth in North America and Latin America are estimated to witness a steep fall. Assets under management (AUM) in the developed markets is expected to grow at a slow rate of 3% to 4% annually from 2019-2024.

On the other hand, short-term emerging market AUM growth will be slow. However, Morgan Stanley's report expects a rebound driven primarily by net new money (NNM). The projected growth with respect to NNM is 4% to 9% for the emerging economies as compared to 1% to 2% for the developed economies. In the emerging economies, growing NNM can be attributed to the new investible wealth creation. As a result, wealth managers must continue to focus on emerging economies, particularly in China.

Here are some of the key trends that have emerged within the family office industry as a result of the pandemic:

- Focusing on more structured, efficient, and organised management
- Embracing technological transformation
- Increasing interest in alternative assets
- Emphasising sustainable investment
- Focusing on tax structuring options
- Increasing focus on using wealth for positive impact

### Focusing on more structured, efficient, and organised management

Family offices are attempting to become more efficient, organised and structured in their management of wealth in an increasingly volatile, uncertain, and complex world. Wealthy families and family wealth managers understand that family wealth management is becoming more impactful. Therefore, robust structures and processes need to be put in place. They are looking for more avenues for cooperation and more sustainable models to manage their wealth to realise growth and help the society, which in turn boost the family's reputation.

### Embracing technological transformation

With increasing reliance on technological solutions, family offices have begun looking at adopting technologies for data aggregation and reporting, investment analysis, documentation, and general ledger processing. A sense of vulnerability when facing risks has also pushed family offices to protect themselves from technology-associated risks. Furthermore, norms developed during the pandemic and remote work arrangements have led to new challenges. Family offices must overcome such challenges and revamp their governance and communication systems. Jesse Mandell, senior vice president at Bank of America, resonated with the digitalisation theme of the wealth management industry. He said, "We're accelerating technological enhancements that transform the way our clients and their advisors do business. Over 80% of private banking clients actively use our online or mobile platforms – and we believe this can grow to 90% over the next few years."

### Increasing interest in alternative assets

Majority of the family offices are inclined towards investing in alternative assets in the form of private equity. Family offices consider private equity as an asset class that will derive higher returns during times of low-interest rates. UBS in its global family office report cited that in 2021, 68% of family offices agree with this view, and private equity accounts for a higher proportion of their alternative asset investment.

### Emphasising sustainable investment

Sustainable investment is another asset class that is drawing extensive attention among family offices. The UBS report showed that 56% of the families have sustainable investment in their portfolios, although still with wide regional differences. Family offices in Western Europe and Asia are spearheading sustainable investment, which is increasingly becoming an integral part of their investment portfolios. Both family offices and private banks are integrating environment, society, and governance

(ESG)-themed funds, establishing green classification standards compliant with investment targets, such as EU’s Sustainable Finance Disclosure Regulation (SFDR)<sup>1</sup> and UN’s Sustainable Development Goals (SDGs)<sup>2</sup>, and/or covering areas of circular economy and renewable energy.

### Focusing on tax structuring options

With the millennials starting to gradually take over their families’ wealth, succession planning and family governance have gained further focus. According to BNP Paribas’s report on next generation of wealth owners, 62% of the next generation own at least one operating business. Family offices in Singapore increased by five times between 2017 and 2019. Lee Woon Shiu of DBS Private Bank said, “COVID-19 and its indirect side effects, such as intensified populist sentiment and extraordinary monetary policies, will possibly lead to a world of tightened regulation and increased wealth taxes. This has triggered family offices to explore more tax-efficient structuring options.”

### Increasing focus on using wealth for positive impact

Bank of America’s Mandell highlighted another key trend. He said, “The awareness of social issues and desire to create positive changes are critical for many families. They are searching for ways to let their children and grandchildren make preparations to be stewards of their families. Our president Katy Knox recently said, ‘We’re finding that philanthropic goals and strategies are moving to the centre of the wealth planning process,’ and we are seeing that in real time.”

Mandell added, “One of the trends we see is a growing interest in leveraging donor-advised funds (DAFs)<sup>3</sup> across the wealth spectrum for the planning purpose and donation. DAFs enable clients to invest the proceeds from gift assets until they are granted out, determine best timing of grants to non-profit organisations, and engage family members as co-advisors and successor advisors. Most importantly, they are convenient and simple.” Lee of DBS Private Bank also shared a similar learning, “On a more positive note, the pandemic has also prompted family offices to rethink their role in society. Over the past year, we’ve had more clients expressing intentions to help communities in their home countries, or to give back to the society by funding or mentoring social enterprises (meaning dual bottom-line companies, DBL<sup>4</sup>), or setting up philanthropy trusts.”

① Subjects involved in Sustainable Finance Disclosure Regulation (SFDR) cover all EU financial market participants, advisors and external participants that promote products to EU investors. SFDR requires them to collect and report specified ESG data. This includes information regarding how sustainability risks affect investor returns, and how investment brings negative impact on sustainability factors like climate change.

② Sustainable Development Goals (SDGs) are a series of goals of the UN. These goals replaced the Millennium Development Goals at the end of 2015. The goals include 169 specific targets. SDGs aim to thoroughly solve the development problems in the three dimensions of society, economy and environment in a comprehensive way, and turn to the path of sustainable development from 2015 to 2030.

③ Donor-Advised Fund (DAF) is a kind of fund that helps donors to open exclusive accounts, enjoy tax benefits, and enjoy long-term right of suggestion in the use and investment of the donated funds. This donation mode has been growing and thriving rapidly over the past ten years. DAF’s donation is widely used in areas including poverty alleviation, disaster relief, elderly support, education, culture and environmental protection.

④ Dual bottom-line (DBL or 2BL) aims to expand the traditional bottom line. While measuring financial performance, it adds a second bottom line to measure the performance of for-profit enterprises in positive social impact.

## 1.2

## Family wealth portfolio allocation strategies and risk management

### Review of global financial markets and major asset classes in 2021

Family wealth continues to increase despite the economic downturn that should have become an obstacle to growth. Although global markets have recovered from the sharp decline, most family offices are cautious about investment in 2021 and beyond. Family offices and private banks indicated that asset allocation will gradually accelerate given that interest rates are close to zero or even negative in some developed markets. The allocation to alternative assets is gaining momentum as returns from income largely remain low due to low interest rates. According to UBS, on average, asset allocations of family offices are stable with 32% invested in stocks, 18% in fixed income, 18% in private equity, 13% in real estate, 10% in cash and 6% in hedge funds. Smaller allocations were made in gold, precious metals, commodities, and art and antiques.

In terms of regional distribution, the UBS report pointed out differences between US and Asian families. Private equity and hedge funds are more attractive avenues for US family offices, while Asian family offices allocate more funds in stocks in developing markets. It also states that investors are losing their faith in fixed income as it did not serve as an effective diversifying strategy for their portfolios. It also shows that family offices intend to lower their developed market fixed-income investments from 13% to 10% and developing market fixed income from 5% to 4%. Simultaneously, there are plans to raise private equity investment from 18% to 20%. In terms of increasing allocation to equity, 35% of the surveyed family offices indicated plans to invest in developed markets, 56% in developing markets and 42% in direct private equity.

The changes are gradually happening in the asset allocation strategies of family offices - to mitigate volatility, family offices are looking at further diversifying investment in terms of regions, sectors, and sub-asset classes. In terms of region, family offices are reallocating assets back to Asia. According to



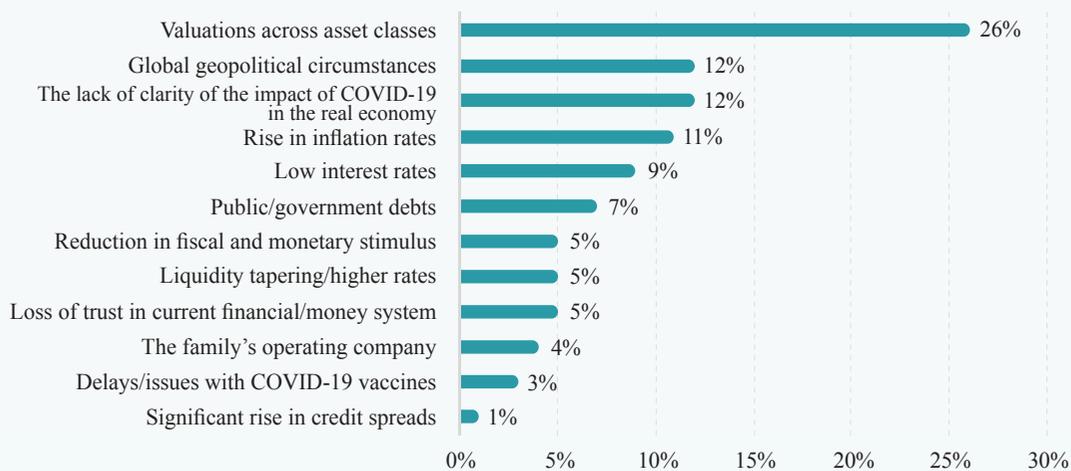
UBS, 61% of the family offices have plans to increase their allocation to China in the next five years while family offices in Western Europe have begun to divert resources from home to Asia. In the survey by The Asian Banker, Kang Chaofeng, chairman of Honghu Best Global Family Office, said, “Funds such as Norway’s Government Pension Fund, Danish Growth Fund and Canada Pension Plan Investments all adopt simple allocation logics. Honghu Best advocates family asset allocation concept similar to that of the National Social Security Fund, and makes indexed, diversified and globalised investments. Our investment covers five asset classes, including Chinese equities, overseas equities, commodity, long-term and mid-term government bonds, and cash. Our holdings are long-termed, and we select specific objects of each core asset class through class optimisation and position enhancement by adopting financial analytical technologies.”

### Risk and liquidity management during the pandemic

According to UBS, 49% of the survey respondents believe that low interest rates pose a major challenge to performance in the next three to five years. In terms of risk, 26% of the respondents in the UBS survey stated high valuations across asset classes as their greatest concern.

#### *High valuations across asset classes generated greatest concern among family offices*

Figure 1. Family offices are most concerned about the valuation of various asset classes



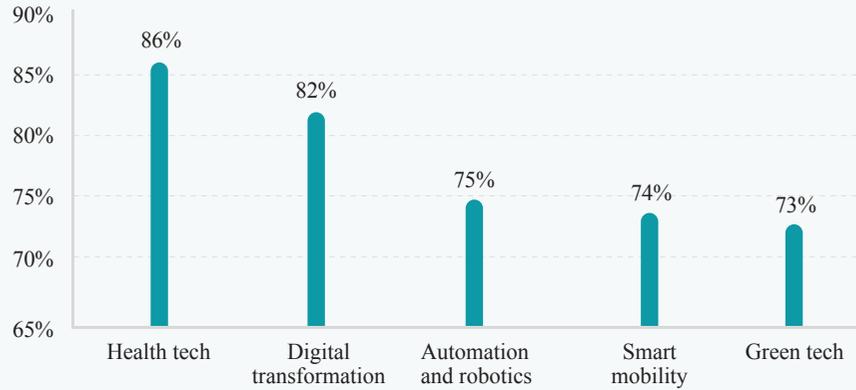
Source: UBS

Environmental and social issues have become the top themes of the global post-pandemic economy, and family offices are also inclined to invest in equity in these areas. Of the total family offices, 86% cite interest in healthcare technology and more than 70% are also looking at digital and green technologies for investments over the next three years.

According to the UBS report, 52% of the family offices prefer private equity as an investment opportunity. In terms of reasons for such a preference, 75% state that private equity has the potential to deliver higher returns than public equity, while 44% use it as an asset diversification strategy.

**Environmental and social issues are driving family offices' interest in health tech**

Figure 2. Investment priorities among family offices over the next three years



Source: UBS

The risk appetite is high as family offices are keen to invest in expansionary and growth stocks to support new innovative companies that are disrupting existing technologies. According to the UBS report, 77% of family offices are investing in growth stocks. This number is especially high in the US at 92% and Switzerland at 86%. There is also an increasing interest in venture capital funds, which ranks second place (61%) in the investment of all private equities, as shown in the table below.

**Rising risk appetite due to higher interest in growth equities among family offices**

Figure 3. Types of private equity investment allocated by family offices



Source: UBS

In the next 10 to 15 years, the next generation will become an influential part of wealth management and expansion. This generation has stronger risk preference and often aspires to create social impact with financial returns. Therefore, they will be keener to look for high-value alternative investment and

transaction opportunities. A wealth management director of a trust company revealed that family funds are a good platform for providing financial investment knowledge and coaching, as well as interaction for the second generation, and have been developing rapidly over the past two years. Clients throughout the country, including about 100 families in different industries and different sectors in Shanghai, Beijing, Guangdong, Sichuan, Chongqing, and Shandong, invest the capital into the equity investment platform in the form of family funds. The family fund service is well received, and it can enable UHNWI clients to acquire new knowledge while investing.

The trends show that with low interest rates, increasing government recovery stimulus, persistent volatility and anticipatory period of higher growth, family offices are more cautious about increasing risk asset allocation and the overall risk level of their investment portfolios.

### 1.3

## Major participants in family wealth management

Leading wealth managers from Switzerland and US boast the largest assets under management (AUM) in the world, while private banks in China and Singapore are picking up the pace thanks to the fast accumulation of wealth in the region.

### *Switzerland and US dominate wealth management market*

Figure 4. Major wealth managers around the world

Region	Country	Company	AUM in 2020 USD billion
Europe	Switzerland	UBS Global Wealth Management	3,016
	Switzerland	Credit Suisse	1,652
	France	BNP Paribas Wealth Management	477
	Switzerland	Julius Baer	490
	UK	HSBC Private Bank	394
US	US	Edward Jones	1,550
	US	Morgan Stanley Wealth Management	1,472
	US	Bank of America GWIM	1,408
	US	J.P Morgan Private Bank	689
	US	Goldman Sachs Wealth Management	615

<b>Asia</b>	China	China Merchants Bank Private Banking	425
	China	Bank of China Private Banking	290
	China	ICBC Private Banking	283
	Singapore	DBS Wealth Management	200
	Singapore	Bank of Singapore	121

Source: S&P Global

UBS Group ranks on top with \$3 trillion in AUM. The company is the largest wealth management company in Asia Pacific, while ranking second in Latin America and fourth in the US. The group's global wealth management division has about 24,000 employees, providing high-quality private banking and wealth management products to high-net-worth individuals (HNWIs) and families globally.

Credit Suisse, whose investment bank has recently incurred huge losses from scandals of Archegos Capital Management and Greensill Capital, will shift focus to its wealth-management business. It will inject about 3 billion Swiss francs (\$3.29 billion) of capital into its wealth-management division and hire about 500 new relationship managers by 2024.

With an AUM of \$1.47 trillion, Morgan Stanley supplies services to 3.6 million clients across the globe through a network comprising over 16,000 financial advisors. In 2020, the bank's wealth management division boasted net income of \$19.1 billion.

The Global Wealth and Investment Management (GWIM) division of Bank of America consists of two main business lines: Merrill Lynch Wealth Management and Bank of America Private Banking. Merrill Lynch has more than 14,000 financial advisors and provides services for HNWIs with investments of over \$250,000, while Bank of America Private Bank serves UHNWIs with investments of over \$3 million. Bank of America GWIM has an AUM of \$1,408 in 2020.

## 1.4 Services beyond investing

### Succession planning: Family offices help entrepreneurs realise stable intergenerational succession

Succession planning is an important activity for family offices and family-run businesses. It facilitates wealth preservation and family governance, and ensures wealth utilisation towards a positive social cause. Family wealth is a resource that demands active management and planning for a smooth transition between generations of the family. Moreover, the decisions around when and how to transfer wealth from one generation to another is a topic that is difficult to navigate for families.

In a report on intergenerational wealth transfer in 2020, Credit Suisse highlighted the largest



intergenerational wealth transfer among the wealthiest families globally. It estimates that wealth valued at nearly \$8.6 trillion will be transferred between generations from now until 2029. Seventy percent of the families reported failure in intergenerational wealth transfers, 67% cited succession planning and inheritance as their biggest concern and only 57% suggested that they have a formal succession plan in place.

A survey by Moore Stephens, an auditing and tax services network, on succession planning showed a high awareness of the importance of putting in place a succession plan among wealthy families, but there is a general laid-back attitude and failure to act. Among the respondents, 88% agreed that succession plans are critical for families, but 38% of families did not have a succession plan. Each family inevitably faces the difficult question of wealth transfer and succession. However, most of them are not well prepared for a smooth transition. DBS Private Bank 2019 report also stated that 70% of families felt that they failed in intergenerational wealth transfer despite 67% citing succession planning as their biggest concern.

Credit Suisse report also shed light on how intergenerational family disputes stem from communication issues among family members: 72% of wealth transfer failed due to poor communication in the family. In terms of barriers to succession planning, difficulties in consensus building and decision making have been cited as another reason. Only a small number (8%) of respondents believe that budget restriction is an obstacle for succession planning.

Mandell from Bank of America said, “Our goal with succession planning is to empower our clients to make the right decisions for their families and communities. Children are looking for different challenges or paths through the opportunities created by family businesses. A family’s balance sheet and the business’ balance sheet are often intertwined. We found in our Wealth and Worth survey (2018) that only 33% of owners have a robust, formal transition plan that has been communicated to family members involved. Oftentimes clients are unsure what their options are or where to begin.”

Thomas Ang, head of family office services in APAC at Credit Suisse, said, “In the APAC region, wealth is still largely generated and controlled by the first and second-generation entrepreneurs. As more of

our UHNWI clients are entering the mature phase of their wealth lifecycle in the coming years, they are starting to think about long-term wealth management and succession planning, and increasingly need advice on structuring their wealth and managing liquidity for the next generation.”

He added, “These families would thus experience the issues that European or American industrial families contended with one or two generations ago. While it might seem helpful to look towards these examples for guidance, we need to take into account cultural differences and values unique to Asia. That is why our approach will always be to take the time to understand what our clients’ objectives and concerns are in these areas and then to work through the complexity to advise on the simplest solutions.”

Hrshikesh Unni, CEO of Singapore-based family office Taurus Wealth Advisors, said, “We get so involved in what we like doing and forget the obvious, which is the simplest succession plan. There are some who don’t even have a will. It all comes down to the personality to some extent. It’s not right or wrong.” He added, “We do not mean to focus on clients’ main business, which is what they are good at. As a multi-family office (MFO), our duty is to highlight the importance of a succession plan to our clients and assist them in developing relevant succession plans. If you don’t want to do a trust, at least leave a will. We have some clients who think ahead and it’s an easy discussion to broach with them and get the nuts and bolts in place from a succession planning perspective. Some clients realise that, ‘Yes, I need to do something (about succession),’ but they table it for a little later. Again, it is our duty to remind them and help them design succession plans and implement relevant trust structures and solutions.”

Founder of a family office consulting institution for clients in both China and overseas revealed that when serving family clients, they often encounter situations where the first generation want the second generation to take over while the latter do not want to or just want to be the chairman or decision maker in the family trust. The second generation do not want to get involved in the routine operation but just want to vote. In such cases, family offices must assist the clients to put their equity into the trust, design the governance structure, and help the second generation to learn how to allocate assets, make decisions and be a good chairman.

### Tax planning: Strategies under the new tax regimes

HNWIs globally often choose to put substantial amounts of assets in offshore accounts for tax reduction or avoidance through legal planning. Since the financial crisis in 2008, an international anti-tax avoidance network has been built. Core regulatory documents, such as the Foreign Account Tax Compliance Act (FATCA)<sup>5</sup> and Common Reporting Standards Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (CRS MCAA), together with the development trends in the internationalisation of anti-money laundering rules and information transparency of beneficial owners, have ushered the world into an era of tax transparency.

China is no exception. China’s six ministries and commissions, including State Taxation Administration, Ministry of Finance, People’s Bank of China (PBOC), China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission, promulgated the Administrative Measures on Tax-Related Information Due Diligence of Non-Resident Financial Accounts on 9 May 2017, aiming to convert the international general standards to adapt to China’s national conditions to provide legal basis and operation guidelines

<sup>5</sup> The Foreign Account Tax Compliance Act (FATCA), also known as a foreign account tax, is a new act of the US which is enacted to prevent American taxpayers from evasion of American tax matters.

Financial institutions within China started to implement the new account opening process according to the standard from 1 July 2017, completed the due diligence of the existing accounts of over \$1 million within China by 31 December 2017, completed information reporting to China's tax authorities by 30 June 2018, and started automatic exchange of financial account information in tax matters on 30 September 2018 with 61 countries and regions that had signed the CRS agreement with China.

In recent years, the Chinese government has been intensifying its efforts in tax inspection by joining CRS, building a national network of real estate information, and unifying the personal tax identification number. As a result, the risk level of HNWI is increasing. Currently, tax authorities in China are adopting technologies and big data approaches such as the Golden Tax Project Phase III, and has connected information flows of different agencies for real-time comparison and enquiry. Hence, the invoice flow, capital flow and material flow can all be checked.

In the survey, multiple institutions in and outside of China mentioned the increasing interest of HNWI in tax planning services. A senior private banking manager at a large joint-stock commercial bank noted that at the moment, real estate tax and inheritance tax are not yet implemented extensively in China, but HNWI clients have concerns about tax compliance. For this reason, more clients are starting to look at tax planning services.

The surveyed institutions believe that the following common tax risks warrant the attention of HNWI in China:

Firstly, risks brought by the lack of individual income tax declaration. After the individual income tax reform, the obligation of individual declaration has been increased. Entrepreneurs who do not complete the annual individual income tax comprehensive income declaration may attract the attention of tax authorities.

Secondly, inheritance tax risk. This is related to HNWI who immigrate to other countries or hold foreign passports. Without tax planning, they may be subject to high inheritance tax of the countries they immigrate to, which can be as high as 40% in some places.

Thirdly, tax risk due to overseas property purchase. Overseas investment targets such as real estate may generate unexpected tax costs for some HNWI groups who have not done tax planning well.

Fourthly, unclear operational limits can lead to tax-related risk. This is more often seen among older Chinese entrepreneurs. At the start-up and development period of the business, they use personal assets to prop up the business, while in the growth period of the company, they treat the company as a piggy bank. The mix between the company and family may also bring tax risk.

Families are increasingly establishing trust structures for considerations such as tax planning and ring fencing of assets in addition to that of wealth inheritance. There has been a rise in the use of trust structures among wealthy families, especially in Asia. Trusts offer the option of holding financial assets along with shareholdings in businesses both for listed and unlisted companies. HNWI families can establish different trusts to ring fence different asset classes.

There is a growing interest among wealthy families to establish private trust structures to exercise greater involvement in the decision-making process especially when the asset class includes a high proportion of high-risk assets. Subsequently, families are investing time in setting up detailed governance strategies such as family constitutions. In addition, trust structures are used as an important strategy not only for tax planning but also for shielding assets from external risks (including future creditor liabilities and risks relating to marriage).

*Private trust structures are gaining prominence for wealthy families*

Figure 5. Common Trust Structure

Trust Type	Key Features	Reason(s) for Use
<b>Revocable Trust</b>	<ul style="list-style-type: none"> <li>• A trust that can be terminated or has terms that can be varied by the settlor.</li> </ul>	<ul style="list-style-type: none"> <li>• Settlor retains some degree of control.</li> </ul>
<b>Irrevocable Trust</b>	<ul style="list-style-type: none"> <li>• A trust that enables settlor to irrevocably assign assets to trustees for the benefit of the beneficiary.</li> </ul>	<ul style="list-style-type: none"> <li>• The assets included therein will not form part of the estate of the settlor upon his/her death.</li> </ul>
<b>Discretionary Trust</b>	<ul style="list-style-type: none"> <li>• A trust that gives trustees full discretion to determine how and when distributions are to be made and to whom among the beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>• This can be used to protect family assets from a divorce settlement.</li> <li>• This can also protect improvident beneficiaries against creditors.</li> <li>• This offers more flexibility to make changes based on uncertainties as the trust is not fixed.</li> </ul>
<b>Private Family Trust</b>	<ul style="list-style-type: none"> <li>• A trust that facilitates the transfer of assets to future generations.</li> <li>• It can be in the form of a will, deed, or declaration</li> </ul>	<ul style="list-style-type: none"> <li>• It helps with wealth protection with the settlor relinquishing her/his legal rights to the assets.</li> <li>• It ensures protection against creditors.</li> </ul>
<b>Living Trust</b>	<ul style="list-style-type: none"> <li>• A trust that is created during the settlor's lifetime and is a holistic legal entity. All the assets can be placed under the living trust even the person's insurance plans can also be assigned.</li> </ul>	<ul style="list-style-type: none"> <li>• In the event of mental incapacity of the settlor, the trustee is entrusted with the responsibility to look after the dependents/beneficiaries.</li> <li>• Living trust are ideal for tax effectiveness and to protect assets from creditors.</li> </ul>
<b>Testamentary Trust</b>	<ul style="list-style-type: none"> <li>• Formed as a will, it takes effect only after the demise of the settlor.</li> </ul>	<ul style="list-style-type: none"> <li>• Assets flow into testamentary trust only after the settlor's death and are then subjected to the terms and conditions mentioned in the will.</li> </ul>
<b>Standby Trust</b>	<ul style="list-style-type: none"> <li>• A trust that combines elements of a will trust and a living trust and is therefore popular as it offers the advantages of each of these trusts.</li> </ul>	<ul style="list-style-type: none"> <li>• Like the testamentary trust, there can either be no assets or few assets placed in the standby trust during the settlor's lifetime.</li> <li>• Option of inclusion of provision during mental incapacity, allows for assignment of insurance policies.</li> </ul>
<b>Dynasty Trust</b>	<ul style="list-style-type: none"> <li>• A trust that is designed to transfer wealth from generation to generation without bearing transfer taxes like gift tax, estate tax, and generation-skipping transfer tax if the assets remain in the trust.</li> </ul>	<ul style="list-style-type: none"> <li>• In a dynasty trust, wealth can be transferred for an unlimited amount of time, although the main benefit is tax advantage.</li> <li>• One can protect generational wealth long after the settlor's demise.</li> <li>• As the assets are owned by the trust, and not by the beneficiaries, the assets are not a part of their taxable estates.</li> <li>• It also offers protection from creditors and divorce courts.</li> </ul>

<b>Asset Protection Trust</b>	<ul style="list-style-type: none"> <li>• A type of discretionary trust.</li> </ul>	<ul style="list-style-type: none"> <li>• Does not form a part of an estate. It can be immediately distributed upon the demise of the settlor or held for a certain period.</li> <li>• Offers protection against creditors' claims.</li> <li>• Prevents beneficiaries' creditors from claiming entitlement in the fund.</li> </ul>
<b>Trading Trust</b>	<ul style="list-style-type: none"> <li>• A trust that carries on business activities for the benefit of the beneficiaries.</li> <li>• The trustee is a company engaged in business enterprise.</li> </ul>	<ul style="list-style-type: none"> <li>• The trustee is the legal person who is responsible to the creditors.</li> <li>• It separates legal ownership of assets from beneficial ownership and control.</li> </ul>
<b>Collective Investment Trust</b>	<ul style="list-style-type: none"> <li>• A trust used for investment purposes.</li> <li>• For example, business trusts and real estate investment trusts.</li> </ul>	<ul style="list-style-type: none"> <li>• Fewer restrictions.</li> <li>• This can help investors to avail of certain tax benefits in some countries.</li> <li>• Small capital requirement.</li> </ul>
<b>Employee Equity Incentive Trust</b>	<ul style="list-style-type: none"> <li>• A trust set up by a prospective or already public company to provide equity incentives to its core employees and executive team</li> </ul>	<ul style="list-style-type: none"> <li>• The equity of the proposed listed company to be used for equity incentive is held by the trust company and the beneficiaries are the employees participating in the equity incentive plan</li> <li>• The assets placed into the trust are usually stock options, restricted stock units and restricted stock units issued to employees by the founder according to the equity incentive plan.</li> <li>• This can avoid the double taxation problem of holding shares through holding company structure.</li> </ul>
<b>Overseas/ Offshore Trust</b>	<ul style="list-style-type: none"> <li>• It is managed offshore by trustees who are not the tax residents of that jurisdiction.</li> </ul>	<ul style="list-style-type: none"> <li>• It offers tax advantage if the trust is setup in the right jurisdiction.</li> <li>• This may be used to operate a business in another country or to separate a domestic business from an overseas subsidiary.</li> <li>• This may facilitate the diversification of assets.</li> </ul>
<b>Bucket Company</b>	<ul style="list-style-type: none"> <li>• A company that is set up as a beneficiary to a trust. The term "bucket" is used because the company sits below the trust, and money is transferred into a bucket company to reduce taxes.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax payable can be capped at a corporate tax rate.</li> <li>• It helps distribute the profits between the company and the trust (preferably a discretionary trust).</li> </ul>
<b>Charitable Trust</b>	<ul style="list-style-type: none"> <li>• A trust that has a charitable purpose and does not benefit any specific person.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax reliefs and exemptions are available in most countries.</li> <li>• It exempts from complying with specific strict rules in some countries.</li> </ul>

Source: TABInsights

Another strategy used by family offices is life insurance products for ring fencing assets. Wealthy families are also using private placement life insurance policies to shield their assets. Prenuptial agreements are also considered a commonly used strategy to protect assets from future uncertainties and risks. The pandemic has heightened the possibility of tightened regulatory regimes and higher wealth taxes, thus encouraging families to explore more tax-efficient structuring options.

In February 2019, Singapore introduced a more favourable tax exemption scheme for family offices when confirming the financial budget. The scheme expands the coverage of the exemptions and extends the current preference scheme under sections 13CA, 13R and 13X of existing tax exemption policies to 31 December 2024.

Under the structure of a family office in Singapore, the principal applicant sets up two companies in Singapore either established by himself/herself or together with his/her family members; one is a fund company, and the other is a fund management company (family office), which is subject to the shareholding in the name of an individual or a company. The holding company can be held by a trust company to segregate and pass on wealth. Investors hold 100% of their investment fund, including deposits in their bank accounts, insurance, bonds and stocks, and other financial products. The management company (family office) will provide daily wealth management operations and managers can apply for an employment pass through managing their own family offices. As the subject company is a Singaporean or offshore company, 13R and 13X are most frequently used.

### *Singapore offers favourable environment for setting up family offices*

Figure 6. Comparison of Singapore Tax Relief Schemes

	<b>Scheme 13CA: Tax Relief Scheme for Offshore Funds</b>	<b>Scheme 13R: Tax Relief Scheme for Onshore Funds</b>	<b>Scheme 13X: Enhanced Tax Relief Scheme for Funds</b>
<b>Asset holding entity/ Legal form of fund entity</b>	Enterprises, trusts and individuals Excluding limited partnerships	Enterprises incorporated in Singapore	All legal forms
<b>Asset holding entity/ Jurisdiction over the establishment of the fund entity</b>	Offshore	Singapore	Offshore or Singapore
<b>Asset holding entity/ Investors of the fund entity</b>	The full value of the securities issued by a fund under schemes 13CA or 13R can be held by a Singaporean citizen. However, the "qualified investor" test, which penalises certain non-individual Singaporean investors for exceeding specified limits, remains in place.		Unrestricted
<b>Managed by a Singaporean fund manager</b>	Yes. According to the following conditions, a single family office is required to: 1. Hold the Capital Market Service (CMS) permit as provided for in the Securities and Futures Act of Singapore; or 2. Register as a fund manager in accordance with the Securities and Futures Act of Singapore; or 3. Have the licence to hold such CMS for managing funds (i.e., related companies) is expressly exempted under the Act.		
<b>Fund managers</b>	Unrestricted	Based in Singapore	If this fund is a resident company incorporated in Singapore, it needs to be based in Singapore.
<b>Does it need prior Monetary Authority of Singapore approval?</b>	No	Yes No changes to investment principles are allowed after approval	
<b>Exemption is limited to "specified income" from "specified investments"</b>	Yes		

<b>Has signed a Singapore taxation agreement</b>	No	Yes	As the case may be
<b>Minimum total assets under management</b>	No	Yes, SGD 5 million (\$3.7 million)	Yes, SGD 50 million (\$36.6 million)
<b>Minimum annual business expenses</b>	No	Yes, SGD 200,000 (\$146,560) of business expenses	Yes, SGD 200,000 (\$146,560) local business expenses
<b>Employ at least three experienced investment specialists with an income of at least SGD 3,500 (\$2,565) per person per month</b>	No		Yes
<b>Declaration of income tax</b>	Usually not needed	Annual tax return requirements Submission to IRAS	Annual tax return requirements Submission to IRAS
<b>Declaration of annual financial reports</b>	Submit annual returns to investors. Non-qualified investors are required to file tax returns with the Inland Revenue Authority of Singapore (IRAS)	Submit annual returns to investors. Non-qualified investors are required to file tax returns with IRAS	Not needed
<b>Provide annual declarations to the Monetary Authority of Singapore</b>	No	Yes	

Source: Monetary Authority of Singapore, Ministry of Finance of Singapore

### Legal consulting and more services provided by family offices

Family offices also provide legal and tax advisory services. They intend to use outside resources to ensure that their clients are offered the best options. Taurus Wealth Advisors' Unni said, "As an MFO, we provide you with our services when you become our client. However, in addition, you can also choose one or two staff from our office and they will be dedicated to you. We can direct them in building family office. As an MFO, we are not only engaged in investment. If you're a single-family office (SFO), you can focus on investments; whereas an MFO needs to focus on more fields. Our clients need our advice in areas other than investments, such as family governance and succession planning. When you deal with a lot of money, you also need to consider risks and potential pitfalls, not just focusing on investments themselves. For those non-investment areas, we work with various professionals, including tax advisers, lawyers, accountants and corporate service providers to structure a solution for them so that they can then – under that structure or vehicle – do their investments right."



A wealth management director of a trust company revealed that by relying on the resources of the parent bank and external partners, wealth managers can provide services that include the establishment of family trusts, tax, and legal arrangements for beneficiaries with foreign identities. They can also provide stock financing services for reinvestment enterprises. By providing financing facilities, they can connect the needs of individuals and enterprises to provide comprehensive services. This has enabled the transformation from a single product supplier to a comprehensive solution provider for family wealth, which also meets the diversified needs of clients.

Family offices also offer the following services:

- 1) Compliance and regulatory assistance to make sure clients meet the requirements of global tax and regulatory compliance.
- 2) Risk management service, including well-documented disaster recovery plans, and high-level IT security and physical protection.
- 3) Philanthropic management services, including impact investing, strategic philanthropy, and helping setting up of trusts and foundations.
- 4) Training and education. There has been an increased emphasis on lifelong learning. With higher involvement of the next generation in wealth management and family businesses, it is critical to offer educational services. Family office staff and family members exchange know-how to ensure consistency and quality of learning for the next generation of wealth owners.
- 5) Business and financial advisory services, including building entrepreneurial skills among family members and efficient pooling of certain services among family members.

## 1.5

## Leveraging various jurisdictions in the family office industry

### Family wealth management in major geographical regions

In a highly interconnected world that consists of extensive international flows of financial resources, it is critical to have an international cooperation on tax compliance and information sharing. Therefore, the OECD and G20 countries developed the Standard for Automatic Exchange of Financial Account Information in Tax Matters, or commonly known as the Common Reporting Standard (CRS). As of January 2020, 113 countries have made a commitment to implement CRS in their own jurisdictions. CRS empowers participants to maintain transparency and share relevant information with other jurisdictions. It also requires reporting of financial account information related to account holders who are foreign tax residents.

In Switzerland, following the corporate tax reform (CTR), it is expected that most tax benefits enjoyed by corporate taxpayers will be abolished. CTR was implemented to ensure that the Swiss tax laws were in line with OECD and EU standards. However, one of the instruments that continues to be available even after the introduction of CTR is the Swiss tax holiday. It incentivises new businesses as these newly established or relocated businesses may boost employment and innovation. Switzerland also introduced the Financial Services Act (FinSA), and as a result, asset management companies face regulatory duties and new licensing requirements.

In Switzerland, family offices do not require a banking licence since they do not normally accept deposits from the public on a professional basis. Asset management is a standard activity for MFOs. Wealth management itself, i.e., acting in the name and for the account of the family, is not subject to licensing in Switzerland. Asset managers must join anti-money laundering self-regulation organisations or be directly subordinate to the Swiss Financial Markets Supervisory Authority (FINMA) and are subject to the Anti-Money Laundering Act. Switzerland follows a federal system, so taxes are levied on three different levels: federal, cantonal, and communal.

In the UK, family offices can be formed at various levels – from being run by a small group of trusted individuals or family members, to being managed by a professional service provider. Therefore, depending on the structure of a family office, the governing laws can vary. Moreover, investment advice can be provided either by a financial advisor or a stockbroker. However, both types of entities must be registered with the Financial Conduct Authority (FCA), and larger institutions must be registered with the Prudential Regulatory Authority. The FCA is an independent body that supervises and regulates the financial services industry in the UK. The FCA has been given statutory powers by the Financial Services and Markets Act 2000. Therefore, the FCA has a wide range of rule-making, investigatory and enforcement powers. A family office can be set up in the UK using any of the structures, such as limited company, partnerships, trust, informal or contractual relationship.

In Hong Kong, family offices offer a wide range of services to HNWIs, such as managing family assets, providing administrative services, and investment management. Like the UK, the laws in Hong Kong that govern family offices vary depending on the structure and business model. Asset management in Hong Kong is governed by the Securities and Futures Ordinance. Hong Kong also offers a stable legal environment for setting up a family office. Furthermore, the low taxation rate makes Hong Kong a popular offshore destination among HNWIs.

In Singapore, any activities related to securities, futures and fund management are governed under the



Securities and Futures Act. Typically, family offices in Singapore are structured as a limited company, but the trust structure is also commonly used, while partnerships are not as common. Singapore has a territorial and remittance-based tax system. Its tax law has special provisions of the tax relief reduction scheme whereby income accrued (i.e., 13CA, 13R and 13X as mentioned above) in or derived from Singapore or received in Singapore from overseas is taxable.

In the US, family offices also offer a broad range of services to the families they serve. Services provided by family offices may be regulated or subject to governmental oversight, with the exception of legal services. Family offices have the permission to provide consulting services; however, they are unable to practice law due to statutes that prohibit the practice of law by non-licensed attorneys and rules limiting certain associations between lawyers and non-lawyers where the practice of law is involved. According to the Investment Advisers Act of 1940 (Advisers Act), the US Securities Exchange Commission (SEC) has regulatory authority over all professionals and businesses that offer investment advice for a fee. Family offices may be subject to registration, SEC oversight and information reporting under the Advisers Act, unless they qualify for an exemption.

### Importance of tax havens and offshore financial markets to family wealth management

In 2020, the COVID-19 pandemic impacted the operations of financial services. Family offices were increasingly seen as a boon for international finance centres. Gradually, establishing a family office in a single location was no longer sufficient, and families have begun to explore offshore financial markets. The UK, Switzerland, Luxembourg, along with popular and well-established offshore centres, such as Hong Kong, Monaco, and the Channel Islands, continue to host offices of wealthy foreign families. To attract family offices, certain jurisdictions offer specialties such as options for hedge funds in the Cayman Islands or better risk management options in Bermuda.

Given the global economic trends, there is a rising competition from countries where new wealth is being generated, such as countries in Asia and the Middle East. Higher levels of foreign investment are now targeted in these regions. Therefore, family offices are looking to stay closer to where the wealth is concentrated. Singapore, Hong Kong, and Dubai have been the beneficiaries of this. The rising competition among

jurisdictions has only intensified since the outbreak of the COVID-19 pandemic. Family holding structures are looking for purpose trusts, private trust companies, family partnerships, limited liability partnerships and protected cell companies in these international financial centres. In terms of tax planning, Unni from Taurus Wealth Advisors said, “We’ve got trust structures where clients have it in Jersey, we have it in Singapore, we have it in the Isle of Man. These destinations offer certain incentives.”

The International Monetary Fund (IMF) reported in 2019 that \$12 trillion were invested globally by multinational firms via empty corporate shells. Moreover, citizens from financially unstable and oil-producing countries seem to hold a disproportionately large share of the \$7 trillion personal wealth stashed in tax havens. The eight major tax havens are the Netherlands, Luxembourg, Hong Kong, the British Virgin Islands (BVI), Bermuda, the Cayman Islands, Ireland, and Singapore. Together, these eight tax havens host more than 85% of the world’s investment in special purpose entities, which are often set up for tax reasons. The Pandora Papers, Swiss Leaks, Panama Papers, and other disclosures on the offshore industry have revealed the intricate ways that multinational firms and wealthy individuals deployed tax havens in their wealth management strategies as the offshore financial world remains highly opaque.

Lockdowns may have restricted people’s movements, but it did not stop the movement of wealth into offshore wealth management hubs. Prior to the COVID-19 pandemic, Switzerland was losing its attraction as an offshore haven as it could not maintain client secrecy. However, with its low COVID-19 infection rate and economic stability, Switzerland has regained its appeal.

HNWIs are buying foreign citizenship and permanent residency rights at a record high pace. Cyprus’ real estate associated investment migration programme was up by 250% in the first quarter of 2020 before it was suspended on 1 November 2020. Portugal also has a similar programme, the Golden Residence permit programme, which was up by 50%. Along with global investors, Chinese investors are also looking at countries that offer citizenship investment programmes. Head of a family office of a private banking department of a commercial bank stated that they provide global tax identity planning services for UHNWI clients. The clients would ask, “Do I take a US green card or give it up? Do I need to emigrate to Singapore or Canada?” The family office provides a comprehensive assessment based on the client's current family assets, future wealth goals and the future development of their children.

### Schemes to attract family offices to global financial centres

Singapore is rapidly emerging as the popular jurisdiction for setting up a family office. It offers attractive policies, strong regulatory frameworks, a well-established financial service industry, and greater transparency in taxation. According to the Monetary Authority of Singapore, there are about 200 SFOs in Singapore.

Singapore has a highly competitive tax structure: A direct corporate tax of 17% is imposed on income that is either sourced in or remitted into Singapore. Furthermore, there are no taxes imposed on capital gains. The Singapore government also has tax exemptions and tax incentives schemes for funds that are managed by family offices and requires fund managers to be either licensed or exempt under local securities law for providing wealth management services.

Recently, Singapore has also introduced the variable capital company (VCC) structure, which allows family offices to set up a standalone fund or as an umbrella fund with two or more funds. Under the 13R and 13X tax incentive schemes, family offices can set up as a VCC, which is regarded as a single company with a single identity for tax purpose, removing the need for multiple tax returns. Hong Kong has followed suit by modernising its trust laws. Other parts of the world, such as Jersey Island, the Isle of Man and Guernsey Island, have also introduced foundations to increase the fiduciary options to civil law jurisdictions. Countries

such as Luxembourg and Qatar are looking at Dubai as a model in wealth management and both have introduced a specific regulatory framework for family office activities. British Virgin Islands introduced Virgin Islands Special Trusts Act<sup>6</sup>, and the Special Trusts Alternative Regime (STAR) Law was established in Cayman<sup>7</sup>. These regulations help to further optimise the abilities of trusts.

The private banking department of a national joint-stock commercial bank has developed new business in Singapore recently. The head of the family office noted that the Monetary Authority of Singapore has introduced some policies at the national level to attract HNWI's wealth to family offices established in Singapore based on the situation changes over the past two years. In setting up a family office in Singapore, the entity of the family office is exempted from taxes in perpetuity. The Singapore government has also provided supportive measures. A family office can offer work permits to their clients. Alternatively, if a family office manages a significant amount of assets, the Singapore government may provide the policy of permanent residency. These measures are more suitable for the needs of some HNWI's.

There are also international developments in the transparency and accessibility of information for family offices and their offshore service providers. These include the US' FATCA, the European Union Savings Directive<sup>8</sup>, the Convention on Mutual Administrative Assistance in Tax Matters<sup>9</sup>, and the OECD's initiatives on Automatic Exchange of Information (AEOI)<sup>10</sup> and new global standards on Real Ownership and Base Erosion and Profit Shifting (BEPS).<sup>11</sup> If the jurisdictions around the globe fail to keep up with these regulatory developments, they may not be able to attract new family offices and/or retain existing family offices.

- 
- ⑥ The British Virgin Islands 'Vista Trust provides settlors with the ability to retain control over management of trust. It provides an ideal structure for settlors which provides asset protection for them while they are holding shares around the world. It can also be provided to foreigners to benefit foreign beneficiaries.
  - ⑦ STAR trust is a special and alternative type of trust. First, there is no limit to beneficiaries. Beneficiaries can be specific people, based on the realisation of the purpose of the trust, or broader beneficiaries compatible with the purpose of the trust. Besides, there is no limit on the number and type of beneficiaries, as long as the purpose of the trust does not violate laws or public policies. Second, a trustee is a licensed bank and a trust or a registered Private Trust Company (PTC), provided that there shall be not more than four trustees, and trustees outside the Cayman Islands may also act as co-trustees.
  - ⑧ European Union Savings Directive (EUSD). The EUSD is an agreement among EU members and it came into force in July 2005. According to this agreement, any information about the following holders of financial accounts can be exchanged automatically: an account holder receives savings income in one of the EU countries but resides in another EU country (as a tax resident of that country).
  - ⑨ States Parties need to strengthen cooperation among tax authorities, taking into account the fact that the development of cross-border movements of persons, capital, goods and services, although beneficial in itself, increases the possibility of tax avoidance and evasion; they welcome the efforts made in recent years at the international level to combat tax avoidance and evasion; taking into account the need for concerted efforts among States to promote all forms of administrative assistance in various tax-related matters while ensuring that taxpayers' rights are fully protected. For this purpose, the States Parties formulate the articles of this Convention.
  - ⑩ Automatic Exchange of Information (AEOI) refers to the exchange of financial account information among tax authorities of related countries. Financial institutions around the world are required by law to collect and report to tax authorities such information.
  - ⑪ Real Ownership and Base Erosion and Profit Shifting (BEPS) refers to the tax planning strategy using tax system differences and rule mismatch in different tax jurisdictions with the purpose to artificially cause the "disappearance" of taxable profits or transfer profits to the countries (regions) in which no or almost no substantial business activities have been carried out and there is low tax burden, so as to achieve the purpose of not paying or paying less corporate income tax. Multinational enterprises take advantage of the shortcomings of international tax rules, differences in tax systems and collection loopholes of various countries to minimise their overall tax burden around the globe, or even to the effect of double tax exemption, resulting in the erosion of the tax base of various countries.

1.6

## Finding the global best practice in family wealth management

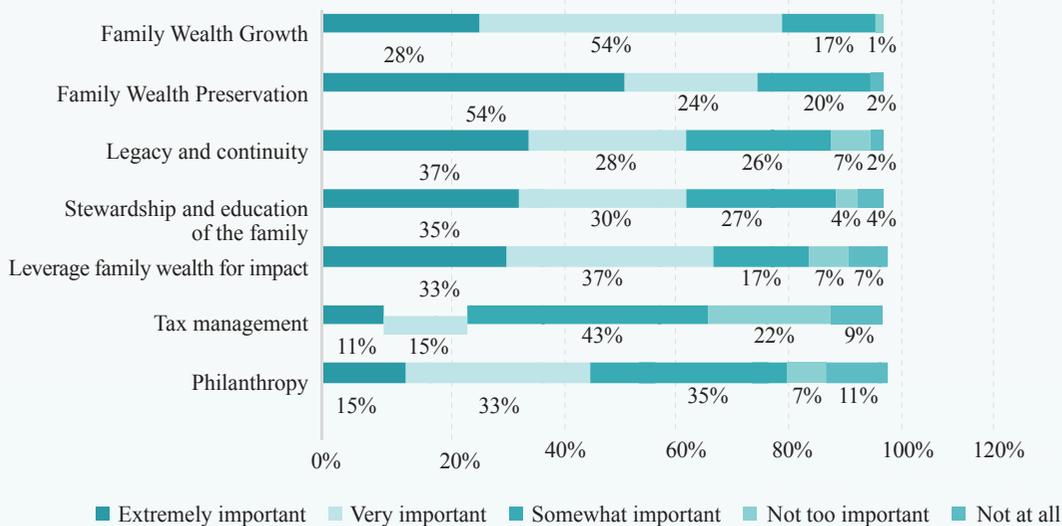
### Well-defined family mission and vision always come first

In a study by Morgan Stanley on the decision-making process of family offices, 58% of ultra-high net worth families surveyed indicated they had mission statements or have planned to create one. They see a tailored family mission statement as an important document that articulates their goals and values and aligns family members.

With respect to specific family needs, most wealthy families believe that it is important to have goals. They place particular emphasis on the preservation of family wealth (61% of participants considered this very important), family management and education (49%), and the growth of family wealth (46%).

### *Wealth preservation, growth and tax management are among the most important decisions of family offices*

Figure 7. The importance of goals of family offices



Source: Morgan Stanley

### A coherent and rigorous investment process helps deliver ideal outcomes

Investment management is the backbone of family offices, and the success of a family office depends on

whether an investment process can deliver desired portfolio results and achieve the family's long-term goals.

As part of its investment management best practices for family offices, Citi Private Bank indicated six common elements:

- I. An investment policy statement (IPS) that specifies specific objectives, time frames and benchmarks for family portfolio<sup>12</sup>;
- II. An asset allocation plan that reflects the true risk tolerance of family members;
- III. Being able to effectively build a portfolio based on rigorous investment research and analysis and continuous monitoring;
- IV. Preparing regular in-depth performance reports against benchmarks and targets;
- V. Risk management practices that manage downside risks and excessive volatility;
- VI. Clear decision-making and communication processes.

### Sound family governance is the backbone of a family's ultimate success

A family governance structure is defined as a set of rules for family decision making to achieve a family's stated mission and vision. A good family governance structure enables families to make fewer mistakes. Angelo Robles, CEO and founder of the Family Office Association, identified five key considerations for building a family governance structure in his List of Best Practices for Single Family Offices.

First, review/update the governance structure and approach: The family office should regularly review the family roadmap, processes, and decision-making framework to ensure they align with the family's mission and vision. Large multi-generational families should pay particular attention to having family influencers update the family governance structure in real time to encourage collaboration and optimise decision-making.

Second, engage an external consultant to review the structure to help identify potential conflicts of interest in governance and trust structures;

Third, regularly assess whether existing committees/councils are fulfilling the monitoring purpose they were set up for and adding value to the family;

Fourth, include non-family members in family governance: make sure to have impartial, critically thinking non-family members participate in management and serve on appropriate boards and committees;

Fifth, consider the involvement of the new generations: create a mechanism for the rising generation to sit in, participate, and engage in family governance.

<sup>12</sup> An investment policy statement (IPS) is a formal document drawn up between a portfolio manager or financial adviser and a client that outlines general rules for the manager.

## 2

## Current state and prospect of China's family wealth management industry

## 2.1

### Overview of China's family wealth management industry

#### The macro economy is stable and improving, and private wealth continues to grow

In 2020, as it faced the impact of the COVID-19 pandemic and the complex domestic and international environment, China became the first major economy in the world to restore positive economic growth. Its GDP exceeded RMB 100 trillion (\$15.7 trillion) for the first time, growing by 2.3% against the opposite trend, and its per capita GDP has exceeded \$10,000 for two consecutive years. The 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of the Vision for 2035 (hereinafter referred to as the “14th Five-year Plan”), released in March 2021, set out the vision that “per capita GDP will reach the level of moderately developed countries and the middle-income group will expand significantly.”

Against the backdrop of a stable and improving macro economy and increasing per capita wealth, China's private wealth market is also witnessing steady development. According to the 2021 CMB report on China's private wealth market, the total scale of individual investable assets in China reached RMB 241 trillion (\$38 trillion) in 2020, with a compound annual growth rate of 13% from 2018 to 2020. The total investable assets are expected to reach RMB 268 trillion (\$42 trillion) by the end of 2021. In 2020, the number of high-net-worth individuals with investable assets of more than RMB 10 million (\$1.6 million) in China reached 2.62 million, with a compound annual growth rate of 15% from 2018 to 2020. The number of high-net-worth individuals in China is expected to reach about 2.96 million by the end of 2021.

#### High net worth population is concentrated in the eastern coastal areas, and the proportion of first-generation wealth creators is starting to decline

According to the survey on Family Assets and Liabilities of China's Urban Residents in 2019 released by the Survey and Statistics Department of the PBOC, the total assets per family in eastern China were RMB 4.61 million (\$723,000) in 2019, higher than those in central China, western China, and northeast China by RMB 1.975 million (\$310,000), RMB 2.534 million (\$397,000) and RMB 2.96 million (\$464,000), respectively. Residents in Beijing, Shanghai and Jiangsu had the highest total assets per family, while Xinjiang, Jilin and Gansu had the lowest. According to 2021 CMB survey, the number of HNWI's in the five eastern coastal provinces and municipality of Guangdong, Shanghai, Beijing,

Jiangsu, and Zhejiang accounted for 44% national total in 2020.

Among the high-net-worth people, the trend of diversification and rejuvenation of population is prominent. The proportion of entrepreneurs who "create wealth" decreased, and the number of directors, supervisors and senior managers, professional managers (not directors, supervisors, or senior managers) and professionals surpassed the number of entrepreneurs "creating wealth" for the first time, accounting for 43% of the total. New economy groups emerged, rising from 16% of the total to 20%. High net worth individuals under the age of 40 have become the backbone, with the proportion rising from 29% in 2019 to 42% in 2021. This is due to the rising proportion of emerging industries, such as the internet and new energy. Moreover, most new economy groups achieved rapid growth of wealth through equity.

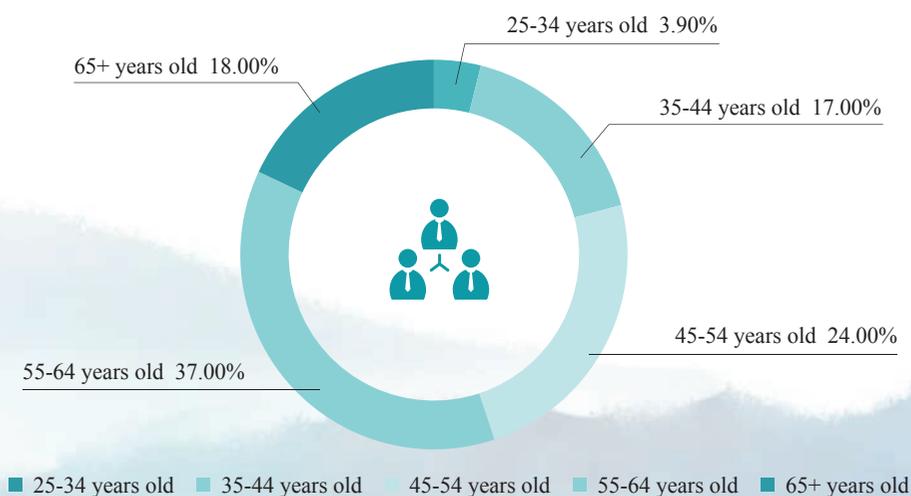
With respect to the demand and recent developments of high-net-worth clients within the territory of China, the head of family office of the private banking department of a national shareholding commercial bank said that the family wealth management industry witnessed an increase of development over the past two years. First, a large number of major entrepreneurs have reached the age and stage for succession and inheritance planning. Second, the pandemic over the past two years has made people feel that many things are uncontrollable. In the face of these uncertainties, they also hope to set down what they want to pass down and plan in the form of system. Third, younger clients in the new economy will learn from the experience in mature western markets and list their companies publicly overseas. They will set up family trust structures in advance whether in Hong Kong or the United States.

### With the acceleration of population ageing, the need for wealth inheritance has become imminent

According to the results of the seventh national population census released in May 2021, the proportion of China's population aged over 60 reached 18.70%. The Ministry of Human Resources and Social Security expects that during the 14th Five-Year Plan period, China's elderly population will exceed 300 million, indicating a shift from slight ageing to moderate ageing.

#### *Most family office clients are aged between 45 and 64 years old*

Figure 8. The average age of the generation in charge of family wealth



Source: UBS

It has been more than 40 years since China's launch of reform and opening-up in 1978, and most entrepreneurs who started their businesses then have already been in their old age. The 2021 CMB report also observed a declining proportion of the generation creating wealth for the first time. China's wealth-creation generation is about to face the situation of alteration of generations and ownership change, so they have urgent and diversified demands for family wealth management. Campden Wealth's research results also showed that the average age of the current generation in charge of family wealth was 55, with 18% people in charge of family wealth aged over 65. In China, RMB 17 trillion (\$2.7 trillion) of wealth will be passed down to next generation in the next 10 years. The number will reach RMB 42 trillion (\$6.6 trillion) and RMB 78 trillion (\$12.3 trillion) in the next 20 and 30 years, respectively.

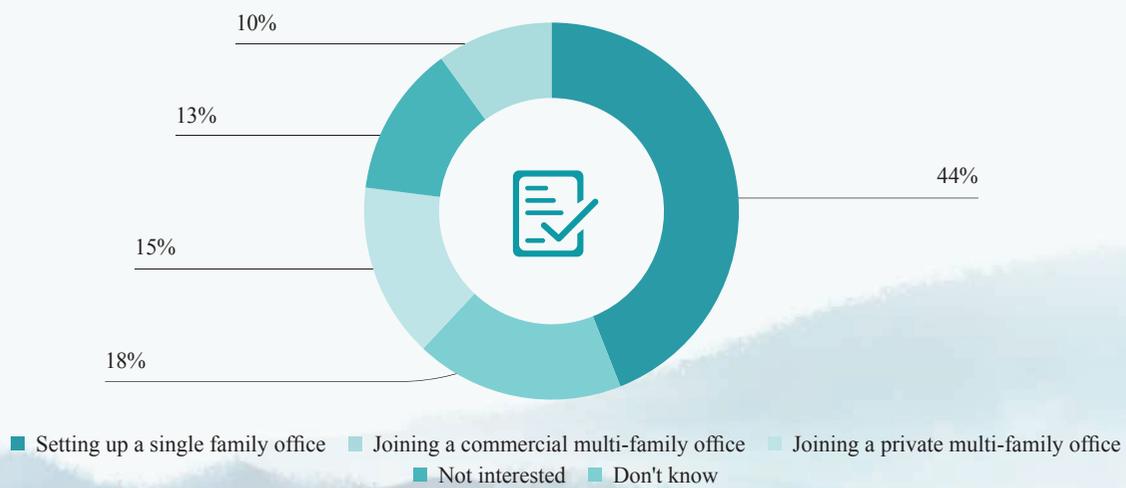
According to the private banking department of a national joint-stock commercial bank, the average age of a family office client is 51 years old, the oldest is 86 years old, and the youngest is 24 years old. About a third is aged from 45 to 55, among whom there are more aged from 50 to 55 and 35 to 45. In terms of gender ratio, men account for around 65% of the total.

### Family trust develops rapidly and family offices are gaining recognition

According to the data released by China Trust Registration Co., by the end of 2020, the size of family trusts had increased by 80.29% from the beginning of the year, registering a continuous rise for four consecutive quarters, with month-on-month growth of 11.2%, 8.34%, 35.94% and 10.09%, respectively. In the survey, several institutions, including Minmetals International Trust, CCB Trust and CMB Private Bank, said that stimulated by the COVID-19 pandemic, ultra-high net worth clients deepened their recognition of the necessity and urgency of ensuring wealth security and implementing wealth inheritance arrangements, resulting in the rapid development of family trust business in 2020. Moreover, it is believed that the clients who chose family trust had more diversified profiles and are younger.

### *Over two thirds of wealthy families are considering starting family offices*

Figure 9. Interest in using family office services



Source: UBS

According to a 2020 Campden Wealth survey on family offices in China, the awareness and acceptance of family offices among the super-rich is increasing. Among the respondents who have not used family office services so far, 44% is setting up a family office and 33% of the respondents said they would consider joining a multi-family office. Meanwhile, only 13% of respondents explicitly expressed their disinterest in family offices and 10% have not made up their minds.

At the same time of the rapid development of family trust business and family offices, the stock scale of family trusts and the number of family offices remain unable to meet the needs of ultra-high net worth clients in China, and there is immense potential for the future development of the industry. According to the statistics of China Trustee Association, the total size of family trust with 46 trust companies amounted to RMB 161.6 billion (\$25.3 billion) at the end of 2019; the total trusted assets of the trust industry was RMB 21.6 trillion (\$3.39 trillion) during the same period, and the proportion of family trust was less than 1%. According to a China family trust report by China Merchants Bank, in 2020, family trust was mentioned by more than 30% of the high-net-worth population, and the potential population of family trust exceeded 240,000. It is expected that by 2021, the assets transferable to family trust by potential population will exceed RMB 10 trillion (\$1.57 trillion). The number of family offices in China is estimated at around 2,000 to 3,000 at present.

A senior manager of a large trust company, described the core business of a family trust as positioned to protect the rights of participants in the private economy. It plays a vital role in stabilising the governance of family businesses and eliminate the dilemma of management and inheritance in the private economy. It is also of positive significance to the promotion of entrepreneurship. It not only does well in managing assets, but also in giving play to the pivotal role of the whole family inheritance platform by connecting the current and the next generations. A family trust is not just a financial product, but the business that reflects the origin of the trust industry, a protector of an entrepreneur heritage, a protector of corporate controls, and a trust of love. Family trusts can meet the two demands of clients, i.e., protection through isolation and oriented inheritance.



## 2.2

## Opportunities and challenges for family wealth management in China

### The regulation and supervision of wealth management industry in China

Since 2017, capital market reform has continued to deepen. With the issuance of multiple important regulatory documents which are related to various financial organisations in fields of banking, insurance, trust, securities, funds, futures, and some quasi-financial institutions, the pertinence and effectiveness of regulation were further enhanced; the market dislocation and risks were put under effective control, which is more conducive to the development and expansion of major market players with outstanding compliant operations and professional capabilities.

*Laws and regulations have been gradually improved, and the wealth management market has rules to follow*

Figure 10. Major regulatory policies for the wealth management industry (2017-2021)

Time	Policy name	Regulatory requirements
2017	<b>Notice on Intensified Rectification of Market Chaos of the Banking Industry</b>	Rectification of equity and investment in foreign countries, institutions and executives, rules and systems, business, products, involvement in illegal financial activities, etc.
2017	<b>Measures for the Administration and Supervision of Insurance Assets and Liabilities (Draft for Soliciting Opinions)</b>	Strengthening rigid constraints of the management of assets and liabilities, and intensifying the efforts to guard against the risk of mismatch of assets and liabilities
2018	<b>Guiding Opinions on Standardising Asset Management Business of Financial Institutions</b>	Breaking up rigid payment, centralised management of asset portfolio, etc.
2018	<b>Notice on Further Clarification of Matters Related to the Guiding Opinions on Standardising Asset Management Business of Financial Institutions</b>	Defining the scope of investment in public offering asset management products, product valuation methods during the transitional period, etc.
2018	<b>Notice on Matters Related to the Guiding Opinions on Strengthening and Standardising Asset Management Business of Financial Institutions</b>	Defining the applicable scope of new regulations on asset management, requirements for the issuance of existing and new products during the transitional period, and rectifications of non-conforming trust products during the transitional period
2018	<b>Notice on Matters Related to the Launch of Special Products by Insurance Asset Management Companies</b>	Giving play to the long-term and robust investment advantages of insurance funds, intensifying investment in good listed companies with insurance funds, participating in defusing liquidity risks of stock pledge of listed companies

2018	<b>Notice on Strengthening the Standardisation of Trust Regulation of Asset Management Business during the Transitional Period</b>	Financial regulators have made official rules on family trusts for the first time.
2018	<b>Measures on Management of Wealth Management Subsidiaries of Commercial Banks</b>	Allowing eligible banks to set up their own wealth management subsidiaries so that wealth management will return to the basics of asset management
2019	<b>Measures on Supervision and Administration of Sales Organisations of Publicly Raised Security Investment Funds (Draft for Soliciting Opinions)</b>	Indicating tightened supervision of sales licences of funds
2020	<b>The implementation of the new Securities Act</b>	Reform of the securities issuing system and the registration system of stock issuing, great increase of the cost of violations in terms of securities, strengthened investor protection and information disclosure, and expanded scope of application of the securities act
2020	<b>Tentative Measures on Management of Capital Trust of Trust Companies (Draft for Soliciting Opinions)</b>	Defining the restriction of 50% non-standard proportion of trust companies, capital trust positioned as private placement, complete ban on non-standard capital pool, strict limitation on concentration of clients
2020	<b>Measures on the Implementation of Administrative Licensing Matters for Trust Companies of China Banking and Insurance Regulatory Commission</b>	It has standardised and clarified the access standards for administrative licensing of trust companies, encourages trust companies to develop their original business and guides them to improve corporate governance
2021	<b>Notice on Matters Related to Engagement in Asset Management Business of Financial Asset Investment Companies</b>	Financial asset management companies, insurance asset management organisations, state-owned capital investment and operation companies, and other market-oriented debt-for-equity swap organisations are allowed to issue debt-for-equity asset management products
2021	<b>Measures on Management of Liquidity Risks of Wealth Management Products of Wealth Management Companies (Draft for Soliciting Opinions)</b>	Improving rule systems of wealth management companies, achieving whole-process control over liquidity risks

Source: China Securities Regulatory Commission, China Banking and Insurance Regulatory Commission

The transitional period for the Guiding Opinions on the Standardisation of Asset Management Business of Financial Institutions (hereinafter referred to as “New Regulations for Asset Management”), a significant regulatory document for the wealth management industry, will be over at the end of 2021. Over the past three years since the implementation of the New Regulations for Asset Management, several “chaotic phenomenon” which existed in the early stage of the asset management industry have been eliminated, and initial progress was made in the battle to forestall and defuse major financial risks. The New Regulations for Asset Management has effectively addressed many risk factors in the asset management industry. However, problems such as financing-oriented investment business and

investor education are yet to be solved. China's wealth management market will enter an increasingly standardised development track.

On 28 May 2020, the new Civil Code was deliberated and adopted at the third session of the 13th National People's Congress, and it was officially implemented on 1 January 2021. As the most important law for civil and commercial matters, the Civil Code provides updates in terms of identification and protection of different types of properties, definition of the scope of family members, determination of communal properties and debts, legacy management systems, etc. The China Banking Association believes that the promulgation of the Civil Code has updated the original infrastructure of wealth management and will write a new chapter for family wealth management and inheritance.

### Family trust may have greater development space

First, under the increased demand of the trust industry regulation, the capital trust, a form of financial trust that differs from traditional trusts and is more like a fixed income instrument, business has been restricted, and trust companies are facing the transformation to more traditional trust services. On 8 May 2020, the China Banking Regulatory Commission issued the "Tentative Measures on Capital Trust of Trust Companies" (hereinafter referred to as the "Measures"). These measures further adhere to the private placement orientation of capital trust and put forward stricter requirements for the capital trust of qualified investors to promote the return of capital trust to the origin of "caveat emptor - let the buyer beware." However, the measures make it clear that service trusts and charitable trusts are not subject to the regulations. Under the "high pressure" of the policy, the comprehensive inheritance planning services, including wealth management and inheritance, tax planning, legal consultation, corporate control and family charitable services provided by family trusts can help high net worth individuals achieve long-term development. Thus, service trusts represented by family trusts will have more room for development.

Second, high-level authorities have intensively voiced support for the improvement of family trust legislation. Xiao Gang, member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) and former chairman of the China Securities Regulatory Commission (CSRC), and Lai Xiufu, director of the Trust Supervision Department of the China Banking and Insurance Regulatory Commission (CBIRC), put forward proposals to reform family trust legislation during the "Two Sessions" in 2021. Xiao Gang, member of the Committee, believed that family trust is one of the most important institutional arrangements for the protection and inheritance of private enterprises' wealth. It can effectively insulate the risk of passive division of property rights, avoid scrambling for family property and children's extravagance, promote the smooth inheritance of wealth of private enterprises, prevent the serious decline of private enterprises' wealth in the process of inheritance, and maximise the social utility of private enterprises' wealth. He also pointed out that due to the imperfection of supporting systems of trusts, family trust assets such as cash, and shares in listed companies, private equity and real estate companies do not qualify as trust properties. This has limited the function and implementation of family trusts in China and created a disconnect between the wealth management and inheritance requirements of private entrepreneurs. Currently, the proposal has not been included in the 2021 legislative work plan of the NPC Standing Committee, but it is expected to receive attention in the future as the trust industry develops in tandem with the expansion of the family wealth management market.

The regulatory threshold for the establishment of a family trust is set at RMB 10 million (\$1.57 million). According to the head of the wealth management centre of a large trust company, cash assets account for a major share in the early stage of a family trust. Typically, the assets scale for a client

and a family office starts from RMB 50 million (\$7.85 million) and RMB 500 million (\$78.5 million), respectively. In addition, from a client's perspective, the more the wealth, the more assets that need to be protected. For clients who have gone through multiple marriages and have children from them, they would have more complex demands for asset segregation and privacy, thus naturally need the services of family trusts.

### *Weaknesses in the legal framework hamper family trust services*

Figure 11. Three major problems existing in the family trust industry

Question	Explanation
<b>Lack of non-transaction transfer of trust property</b>	Current trust law has vague provisions, and this make it impossible to directly handle the non-transaction transfer of trust property according to trust documents in practice, which seriously restricts the establishment of non-capital family trusts and weakens the core function of private entrepreneurs to protect equity property through family trusts.
<b>Lack of trust property registration system</b>	In China, trust companies can only hold trust property through the contract law, so they encounter many obstacles in terms of ownership transfer taxes and registration and approval. It is difficult to give full play to the institutional advantages of trust property in terms of independence and bankruptcy isolation, which restricts the development of family trust.
<b>Lack of trust tax system</b>	The current laws and regulations do not regulate the non-transactional transfer of family trust, so the tax authorities regard the placement of trust property as a market transaction, and the resulting high tax burden makes the establishment of family trust for other assets except cash still a big obstacle.

Source: China Trust Registration Co., Ltd., TABInsights

### **Regulation of the real estate market has been strengthened and the structure of asset allocation needs to be adjusted**

The Chinese government has always upheld the key focus of its policies for the real estate market is to provide properties for housing purposes and not for speculative investment, and expect the prices of land and houses to be stabilised. It has also put forward the “three red lines” requirement. As a result of this, some cities saw a small drop in housing prices. The legislation of real estate has also made a major step. In October 2021, the Standing Committee of the National People's Congress adopted the decision which authorised the State Council to perform pilot work of real estate tax reform in some regions. The Minister of Finance and the State Administration of Taxation will draft the measures on real estate tax pilot work according to authorisation of the Standing Committee of the NPC and do well in various preparations by following relevant procedures.

The Zhixin Wealth Index of Zhixin Research Institute showed that 70% of HNWIs' assets are in real estate. In recent years, the policy of stabilising housing prices, which have been strengthened over time, together with the upcoming real estate tax, will have a profound impact on real estate investments and affect the appetite of high-net-worth individuals. This also drives some HNWIs to move away from real estate to other stable financial assets with long-term cashflow. With respect to real estate tax, market analysis showed that Zhejiang, a wealth pilot area, and Shenzhen, a pilot zone for demonstrating socialism, have a bigger chance to become the pilot zone. These two regions are the hubs to many UHNWIs.

In addition to the housing price regulation measures, new tools for real estate investment REIT have been implemented in 2020. China Securities Regulatory Commission (CSRC) and the National Development and Reform Commission (NDRC) jointly issued the "Notice on Promoting the Pilot Work of Real Estate Investment Trust (REIT) in the Field of Infrastructure. The REIT will be launched in China, providing a new way for future investment in real estate and infrastructure.

### Common prosperity and third distribution will be favourable to wealth management products such as family and charitable trusts

After "common prosperity" was put forward in the 14th Five-year Plan, in October 2021, President Xi Jinping published the article of Making Solid Efforts to Promote Common Prosperity in the Qiushi magazine, in which he mentioned again that "we will strengthen the standardised management of public welfare and charity programmes, improve preferential tax policies, and encourage high-income groups and businesses to give back to society."

Another concept that parallels with common prosperity is the "third distribution", which was initially put forward by Professor Li Yining in the book of Joint Stock System and Modern Market Economy in 1994. The first-time distribution is salary, which is performed by the market; the second distribution is social security, which is led by the government; the third distribution is charity, which is driven by social ethics. The third distribution is to encourage wealthy people to give back to the society through charities in terms of education, healthcare, culture, sports, etc.

Investment tools specific to the wealth management industry such as family trust and charitable trust, will be more accepted by ultra-high net worth clients. Take charitable trust as an example. The research showed that Honghu Best Global Family Office, China Merchants Bank, Ping An Bank, Minmetals International Trust, CITIC Trust, and other organisations have made vigorous efforts to promote charitable trust.

Honghu Best Global Family Office took the lead to establish the Care for Children Charitable Trust for Xinhua Wealth in 2019 and China Resources Trust launched Zhi Ai Bai Shi (植爱百世) Charitable Trust for Zhongzhi Group in 2020, and it promoted the establishment of Hai Na Bai Chuan (海纳百川) Charitable Trust in 2021, which is designed to help philanthropy clients participate in charitable activities, promote the inculcation of family values, create sustainable charitable models, drive the strategic alliance of the family office industry and establish an industry benchmark for charitable trust.

"Shunde Community Charitable Trust 2017 of He Xiangjian Charity Foundation" launched by CITIC Trust, "Everbright Trust - Fixed-point Poverty Alleviation Series Charitable Trust" by Everbright Trust, and the "Source of Three Rivers Series Charitable Trust" by Minmetals International Trust have been awarded the 11th "China Charity Award" conferred by the Ministry of Civil Affairs this year.

According to one of the award winners, traditional charities have numerous weaknesses such as insufficient regulation and weak legal framework, it is difficult for a donor to legally obtain an

accounting information or to raise objections to the subsequent implementation of the project funds and the progress of the project. Firstly, if this is done with a view of the legal relationship of trust, it can ensure that the will of the settlors (i.e., Traditionally donors, good-hearted people and enterprises) is respected in fulfilling the purpose of assets and meeting the social charity objectives. Second, if charities are done in the form of trust, properties are not limited to cash and they can be intangible assets or even equity or real estate and other types of assets in the future. Third, ensure rigorous and multiple supervision of charitable trusts through civil administration and audit.

A senior manager of a large trust company emphasised that entrepreneurs want to fulfil their social responsibilities that mirror the idea of the third distribution. He said that these entrepreneurs are focusing on beneficiaries who are children with autism, the disabled and empty-nest elderlies. And the company makes arrangements to ensure that beneficiaries receive diligent care and treatment.

### The financial sector continues to open to international investors, with opportunities and challenges coexisting

China's economy has moved to the stage of quality development. China has accelerated and deepened the opening-up of its capital market. In 2020, the market value of foreign shareholding has grown to RMB 3 trillion (\$471 billion), accounting for over 4.6% of market value of A share. The international participation in China's futures market continues to rise, including in crude oil, copper, iron ores, etc.

Restrictions on foreign ownership in financial sectors such as futures companies, fund companies and securities companies, have been gradually removed, and more overseas financial institutions, including those in the wealth management industry, have actively entered China. The opening up of China's capital market is deepening. The China Banking and Insurance Regulatory Commission (CBIRC) issued the Guiding Opinions on Promoting High-quality Development of the Banking and Insurance Industry on 3 January 2020, encouraging foreign banks to strengthen interaction with their parent banks and develop featured businesses like wealth management.

#### *More foreign banks and private equity funds have entered China*

Figure 12. Number of foreign-owned financial institutions in China by the end of 2020



Source: China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, TABInsights



In January 2020, the China Banking and Insurance Regulatory Commission issued the "Guiding Opinions on Promoting the High Quality Development of the Banking and Insurance Industries", encouraging foreign institutions to participate in the wealth management business by the following means:

- (1) Encourage foreign banks to strengthen the interactions with their parent banks to develop wealth management and other featured business.
- (2) Encourage overseas financial institutions to participate in the establishment of and investment in wealth management subsidiaries of commercial banks.
- (3) Allow overseas asset management institutions to partner with subsidiaries of Chinese banks or insurance companies to set up wealth management companies controlled by foreign parties.

Foreign-invested institutions can also carry out asset management business by participating in or setting up securities companies (restrictions on foreign equity ratio have been fully liberalised since 1 December 2020), mutual fund management companies (restrictions on foreign equity ratio have been fully liberalised since 1 April 2020), futures companies (which can be 100% foreign owned), private equity fund managers (which can be 100% foreign owned) and other institutions. They can also participate in wealth management business by obtaining the qualification for fund sales business and the pilot qualification as mutual fund investment adviser.

In the context of financial liberalisation, France's Amundi Asset Management and BOC Wealth Management, BlackRock and CCB Wealth Management, and Schrodgers and Bank of Communications' capital management company respectively established joint venture wealth management companies. On 1 April 2020, China lifted the restrictions on foreign equity ratios of securities companies and fund management companies nationwide. On 13 July 2021, Morgan Stanley Huaxin Securities completed

the industrial and commercial registration of its shareholding transfer and changed its name to "Morgan Stanley Securities (China)". In August, BNP Paribas (China) announced that it had been granted the Qualified Foreign Institutional Investor (QFII) custody status and could directly help foreign institutional investors to access China's stock and bond markets and participate in the full range of China's capital markets. On the evening of 6 August, J.P. Morgan announced that it has become the sole shareholder of J.P. Morgan Securities (China) by acquiring the equity interests held by five domestic shareholders, and will become the first wholly foreign-owned securities company in China.

On the one hand, with the entry of top international wealth management institutions into China, Chinese players are facing the pressure of client diversion, and their business may be impacted. On the other hand, by virtue of local advantages, Chinese wealth management institutions can cooperate with top international counterparts on products and services, and leverage their strengths to further grow and thrive amid the competition.

## 2.3

### Regional differences and gaps from the global best standards

**Chinese families have accumulated wealth for a relatively brief period of time, and professional private wealth institutions were established relatively late**

According to Credit Suisse's Global Wealth Report 2021, global wealth reached \$418.3 trillion in 2020, with Chinese family wealth reaching \$74.88 trillion. Since the beginning of this century, Chinese family wealth has grown 21 times in just two decades, and the number of Chinese millionaires has increased from merely 41,000 in 2000 to 5 million today, an increase of more than 80 times, accounting for about 10% of the global total and ranking second in the world. Behind the rapid growth of Chinese families is the fact that compared to traditional affluent regions such as Europe, America and Japan, the wealth accumulation period is comparatively short, and a large amount of wealth is still gathered in the hands of the founding generation. The practical experience of wealth inheritance and family governance is far from abundant.

Compared to the rapid accumulation of wealth, Chinese private wealth management institutions started late, with the Bank of China and Bank of Scotland partnering to establish the first private bank in mainland China in 2007, only 14 years ago. UBS, an international wealth management giant, has been providing private wealth management services to the global rich since 1862, and the depth and breadth of its services are unparalleled by those of Chinese private wealth institutions, including private banks.

From the perspective of growth in wealth, the Asian wealth management market still boasts a great opportunity for growth in the future. Morgan Stanley predicts that HNW wealth in China will have a 10% growth in the next 5 years, followed by Latin America's 7% and APAC region's 6%. Europe, Japan, and North America will have the slowest growth in HNW wealth, with projected growth rate at 3%, 3% and 4% respectively.

Against the general backdrop mentioned above, both the supply side and demand side of China's private wealth management industry reflect some differences from the international market: on the demand side, the wealth creation generation accounts for a higher proportion, they understandably have a

higher demand for wealth creation and higher pan-financial demand for asset allocation and investment opportunities. According to the 2021 CMB report, the top three wealth goals of Chinese HNWI's in 2021 are to ensure wealth security (25%), create more wealth (18%) and educate their children (14%). While wealth inheritance accounts for only 11%, down nearly 10 percentage points from the last survey. CMB's China Private Wealth Report 2021 also shows that in terms of family demand segmentation, three out of the five most important demands are pan-financial, namely, more aggressive diversified asset allocation, robust broad asset allocation and globally customised products and services.

Secondly, the wealth structure may face a shift from real estate to financial assets. The 2019 PBOC survey of 30,000 Chinese families found that the proportion of financial assets in China in 2019 was about 20.4%, which is 22.1% lower than that of the US. On the other hand, real estate assets account for 59.1% of total family wealth in China, 28.5% higher than that of American family. As real estate investment has a crowding-out effect on financial assets, China's wealth structure may face a major shift from real estate to financial assets with the implementation of the "houses for living in, not speculation" policy.

On the supply side, due to the brief history of the private wealth management industry in mainland China, there is still a big gap between the capability and service concepts of institutions' practitioners compared with their international counterparts. These gaps are prominently reflected in the fact that some institutions still have a "seller's sales" mentality and lack the awareness and ability to provide comprehensive services to UHNW clients. We also note that some private wealth management institutions lack the corresponding investment research capability and investor education to meet the increasingly sophisticated wealth management needs of their clients. Finally, some local institutions still have difficulties in meeting clients' demand for cross-border and cross-market asset allocation.

### **Chinese families have yet to improve their understanding and use of family trusts and other inheritance tools**

Family trusts are one of the most important inheritance tools and have a long history in family succession planning in Europe and the United States. However, currently in the Chinese market, there is still confusions between the institutional function of trusts and the investment and wealth management, trustees of civil trust relationships and those holding financial licenses to engage in specific investment and financing services, leading to misconceptions among clients that family trusts are nothing more than trust products or wealth management products with changed names, or that family trusts must rely on trust companies, thus limiting the development prospects of family trusts.

### **Chinese UHNWIs are still less committed to charity than in Europe and the United States, but attention is heating up**

There is still a considerable gap between China's philanthropy and that of the developed countries. The 2018 Harvard Kennedy School research on global philanthropy found that the proportion of philanthropic assets to GDP in the United States and Europe surpassed that in other countries, with Netherlands, Switzerland and USA leading the world, while philanthropic assets accounted for only 0.1% of China's GDP.

***Philanthropic assets in the United States and Europe account for larger share of GDP***

Figure 13. Philanthropic assets as proportion of GDP (%)



Source: Harvard Kennedy School

There is also difference in the specific ways philanthropy is done in China and elsewhere. Take equity charitable trusts as an example, a significant percentage of overseas enterprises and UHNWIs use equity as the initial trust property. While the control of the company is in the hands of the settlor or heir, the charity is carried out through the annual equity dividends. This allows the company to receive more tax benefits and policy support, while using the public benefit trait to incentivise the wealth creation of family business. In China, charitable trusts are mainly cash-based, with the first equity charitable trust launched in 2017.

However, at the same time, we note that since the introduction of China's Charity Law in 2016, charity, especially charitable trusts, has been developed in China to some extent. According to the statistics of the Charitable Trust Committee of China Charity Federation, by 31 August 2021 the number of charitable trusts filed in China reached 633, and the scale of filed property reached RMB 3.49 billion (\$547 million). Among them, 87 were created this year, with a scale of RMB 131 million (\$20.62 million). According to the "Charitable Trust Development Report 2020" recently released by the Charitable Trust Committee of the China Charity Federation, by the end of June 2020, the value of equity held by the Lu Guanqiu Sannong Spiritual Support Fund's charitable trust has reached RMB 14.17 billion (\$2.22 billion), making it the largest domestic charitable trust by asset size and the first charitable trust with assets of more than RMB 10 billion (\$1.57 billion). In The Asian Banker interviews, many trust professionals believe that charitable trusts have multiple advantages in promoting common prosperity. They can realise the creation of property sources of public welfare, provide professional management and services for charitable property, achieve value preservation and appreciation as well as lawful and transparent operation, effectively expand the amount of funds that can be invested in rural revitalisation, and give donors more participation and decision-making rights, thus enhancing transparency and credibility.

## 3

## Three themes for Chinese family offices in 2022

## 3.1

### Impact investing

According to a survey by Campden Wealth, impact investing has doubled over the span of one year, accounting for 41% of the average portfolio in 2020, compared with 20% in 2019. It is projected to rise to 54% over the next five years. The survey also showed that 48% of the investors have begun integrating ESG<sup>13</sup> into their investment portfolios and 12% of them are consciously doing this for every investment they make.

In terms of motivation behind impact investing, the primary reason is to make the world a better place, with 64% of positive responses. This is followed by a moral belief that impact investing is the right thing to do (45%). Impact investments have also proven to be more resilient and rewarding during the uncertain times. More than a third (36%) reported to engage in impact investing as they believe it has the potential to offer better financial returns. Impact investing has been driven by events such as the global financial crisis in 2008, the Paris agreement in 2015 and most recently, the COVID-19 pandemic. According to Global Sustainable Investment Alliance's Sustainable Investment Review 2020, sustainable investing now accounts for \$35.3 trillion globally. The UBS report on global family office in 2021 also alluded to similar findings, with 62% of the respondents stating that they invest sustainably as they think it creates a positive impact, and 55% believe that it is the right thing to do.

There are rising concerns that the record flows to sustainable investing in 2020 represented a COVID-19 green bubble, which would disappear when the pandemic ends. However, according to Morning Star, sustainable investing continued to attract funds even in the first quarter of 2021, accounting for \$185 billion in net inflows, which was up by 17% compared with the previous quarter. This persistently high interest among investors shows that sustainable investing will soon become mainstream. Campden reported that 18% of respondents considered impact investing as their primary strategy.

<sup>13</sup> ESG investing refers to Environmental, Social and Governance (ESG), also known as "sustainable investing".

This information can be corroborated from the responses of stakeholders from private banks. Mandell from Bank of America said, “Sustainable investing is increasingly attractive. In the US, sustainable investing grew 42% from \$12 trillion in 2018 to \$17 trillion in 2020.”

Mueller from Deutsche Bank said, “There is certainly an opening for ESG and impact investing across the globe and in Asia. In our recent ESG survey, 75% of our surveyed clients agreed that their investments should ‘have a positive impact on the world’. Governments in Asian countries are increasing their ESG efforts, and this is also creating further engagement and discussion on ESG investing. China has the ambitious decarbonisation plan, ‘carbon peak by 2030; carbon neutrality by 2060’, while Singapore has the Green Plan 2030. These thematic topics create the potential for impact investing<sup>14</sup> across the region.”

In terms of goals under ESG, about 80% of the family offices tend to target both social and environmental goals, according to a survey by an authoritative consulting agency. Global Impact Investing Network’s 2020 annual survey also showed that 60% of the institutional investors focus on both social and environmental performance goals. Furthermore, Bloomberg has also estimated that ESG assets may reach \$53 trillion by 2025, accounting for a third of the global AUM.

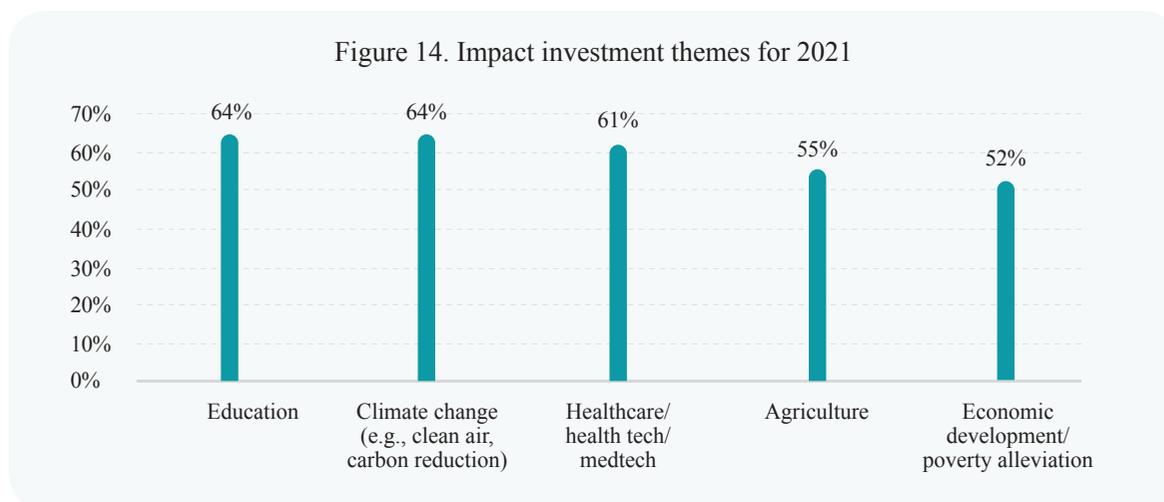
The UBS report on global wealth in 2021 also showed a growing interest in sustainable investments. According to the report, 56% of the families have sustainable investments entrenched in their portfolio. The report showed that 72% of the families in Western Europe invest sustainably, this is followed by Asia at 68%, the US at 45% and Eastern Europe at 26%. The attitude towards ESG has been rapidly evolving and family offices are looking at it as a measure to mitigate risks, increase returns and at the same time create a positive impact in the society. It is clear from the interview that, excluding investments that are unsustainable continues to dominate as an approach.

The family offices have begun to equip their teams with experts at integrating sustainable investments in their portfolio. According to the UBS report, 42% of the family offices have geared up their investment teams. In terms of other strategies such as exclusion and negative screening, Mueller from Deutsche Bank said, “We firmly believe that exclusions are a key ingredient when executing any ESG strategies, particularly given the large-scale transformation that is ongoing in the market, so as to avoid supporting harmful activities which negate sustainable growth and progress.”

Education and climate change are popular sectors, with 64% of responses each, followed by healthcare at 61%, agriculture and economic development, according to the UBS report. Mueller said, “Thematic topics create the potential for impact investing across the region. We see the opportunity to promote impact investing via the topics of ocean conservation and biodiversity. More than half of global GDP depends on biodiversity – the services that nature provides for free, such as clean water, raw material and air.”

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<sup>14</sup> Impact investing refers to the act of providing and using capital to generate social and financial returns. Social investors measure the expected social and financial returns generated by their investments in different ways. However, they tend to accept lower financial returns in order to sustainably address social issues and create greater social impacts.

*Impact investment themes are well diversified across education, climate change and health*

Source: UBS

There are regional differences in terms of sector preference, with family offices in Western Europe claiming that their impact investments are heavily inclined towards climate change initiatives. Joseph Poon, group head of DBS Private Bank, said, “Asian assets tend to have lower ESG ratings than their Western counterparts. This reflects the nature of the region, which is home to many developing nations – all of which are at various stages of economic development. But we are seeing the region play catch up in recent years, a trend slated to persist as consciousness of sustainability issues increasingly takes root across the stakeholder spectrum. We expect Asia’s ESG wave to further flourish over time, with more countries putting ESG-related regulations and standards in place, and as adopting sustainability practices becomes a norm rather than an exception among the business community.” Although impact investing is evolving and growing rapidly, it continues to remain a small part of the entire portfolio.

## 3.2

**Philanthropy**

Twenty-seven years after economist Li Yining proposed the concept of "three distributions," it was incorporated into China's basic institutional arrangements. As mentioned above, China began to accumulate wealth later than Western countries, and the concept of wealth inheritance for goodness was also in the process of being shaped.

With the first group of wealth creators in China entering the stage of keeping and passing on wealth, plus the background of "third distribution" and "common prosperity", a series of institutional arrangements and tax policies may be introduced soon, which will drive more HNWI's into

philanthropy. Charitable trusts have seen developments in recent years, following the introduction of China's Charity Law in 2016 with a dedicated chapter to provide for charitable trusts. According to the statistics of the Charitable Trust Committee of China Charity Federation, by 31 August 2021, the number of charitable trusts filed in China reached 633, and the scale of filed property reached RMB 3.49 billion (\$547 million). Among them, 87 were created this year, with a scale of RMB 131 million (\$20.62 million).

However, philanthropy is a brand-new field that is highly professional and extensive, so how has the growing demand of HNW clients for philanthropy put higher requirements on wealth management institutions? Kang Chaofeng, chairman of Honghu Best Global Family Office, who established the Ping An of China Education Development Charitable Trust in 2016, one of the first batch of successful charitable trusts in China, said that the introduction of the concept of "common prosperity" has led to increasing demand for charitable trust consulting. Countries around the world are actively addressing income distribution issues, and the rich are giving back to society through taxes (passive) and donations (active). The "common prosperity" concept will make charitable trusts and foundations more popular.

In the survey, several mainland trust companies and private banks have launched relevant philanthropic planning services through joint efforts with public welfare organisations and external philanthropic experts, covering the establishment of philanthropic entities, advice on the investment direction and post-investment management of philanthropic projects, planning of family philanthropic activities and social impact shaping activities, etc. These philanthropic planning services provide HNWI with philanthropic strategies and goals, and create more possibilities for HNWI to participate in philanthropic endeavours. With the introduction of relevant policies in China and the further enhancement of awareness of philanthropy among HNWI, financial institutions will continue to work hard in this field to help HNWI achieve the goal of "wealth for goodness".

In August 2021, Kang Chaofeng, Chairman of Honghu Best Global Family Office, launched the Hai Na Bai Chuan Charitable Trust, which aims to help clients participate in public charity, promote the dissemination and inheritance of excellent family customs, rules, and instructions, create a sustainable public charity model, and is committed to promoting strategic alliance in the family office sector and establishing a benchmark in the charitable trust sector. Hai Na Bai Chuan Charitable Trust is not the first charitable trust led by Honghu Best Global Family Office. Back in August 2020, the Zhi Ai Bai Shi Charitable Trust, led by Honghu Best Global Family Office and donated by Zhongzhi Enterprise Group, was established with charitable auction as the main donation method, aiming to improve the current situations in education, health and safety of Chinese children and promote the overall development of Chinese children.

Furthermore, we have noted that impact investing has also began to blend with philanthropy for a few global family offices. Poon added, "Some clients still confuse philanthropy with ESG investing. They think, 'Doing good means I'll underperform' – this is something we must face, educate, and correct. Unlike philanthropy, which is focused on doing good, ESG investing has a dual focus: it's about achieving financial outperformance in the long term, while also doing good."

Mueller also resonated with this as he said, "It is not an all or nothing proposition, and now more than ever people can have an impact. I am fascinated by the intersection between giving and responsible investing." According to the 2020 UBS report, 28% of the respondents stated that impact investing and philanthropy are blending, this percentage is higher in Switzerland at 37% and Western Europe at 39%.

## 3.3

## Next generation education and family governance

### Next generation education

There has been a significant rise in the value of the transition of wealth between the first and second generation of private wealth owners. Mandell from Bank of America said, “The next generation, of any age, is humbled or if not prepared, can be daunted by the responsibility that comes along with stewarding a family’s legacy. We see the most successful families starting early, having discussions with family members about financial basics at a young age and involving them in the infrastructure of the family wealth.”

Ang, head of family office services APAC at Credit Suisse, said, “Our experience with many clients is that they worry less about leaving money to the next generation per se, as money is seen as fungible and relatively easy to divide among inheritors in whatever manner is considered fair.”

The next generation of family members are the changemakers, the Credit Suisse report on Roadmap for Generational Wealth in Asia: Mentorship found greater involvement by the next generation in family wealth management. However, the report showed that only 27% of the elders are confident that their progeny is prepared for generation transfer despite the high degree of involvement of next-generation family members in family wealth management. In terms of preparedness for wealth transfer, only 8% of the respondents are confident. The results showed that most of the respondents who are in senior leadership roles are still uncertain.

Families with an unobstructed vision and a long-term outlook have a higher degree of confidence in wealth management decisions. Mentorship stands out as a driving force for building confidence for both senior members of the family and the next generation. Formal and self-directed education is important during the formative years of life for the next generation, and with age professional network becomes more important.

For the “financial quotient” education of the second generation, the private banking department of a national joint-stock commercial bank is working with some well-known private equity institutions to allow the children of family office clients to participate in the due diligence of investment projects, thus helping them understand the whole investment process in greater depth. In that way, the financial literacy of the second generation can be developed from the investment level to the leadership level, and to the entire process of values.

Mandell from Bank of America said, “Children are inheriting property later in life, perhaps when they have accumulated assets of their own. The conversation can be less about what people are getting and more about the manner in which it is received, whether outright, in trust or cross-generational inheritance. Giving those stakeholders a voice (not necessarily a vote) and including them in planning can help ensure the continuation of legacy.”

According to the 2021 UBS report on global family office, families have increasingly begun to put in place family constitution governance structures. The report shows that 62% to 74% of family offices have some forms of investment guidelines and monitoring strategies; 54% have put in place mission statements; and 54% provide market monitoring and analysis services.

According to Lee Woon Shiu at DBS Private Bank, “COVID-19 has triggered a sense of vulnerability among family offices, be it in terms of mortality or the possible transience of their assets. This has prompted many families to place greater urgency on structural, long-term needs such as wealth

preservation and governance, which may not have been top-of-mind previously.”

The DBS report on Family Offices and the Chinese Diaspora reported that risk management is one of the key priorities among the family offices under family governance. The diverse types of risks include health, geopolitical, divorce, climate and investments, and families have begun to adopt strategies to mitigate these risks. Effective family governance consists of a written agreement and/or a formalised structure that outlines guidelines for succession planning and risk management, designed to preserve the family’s wealth, harmony, and legacy. The DBS report also shared that governance is tightly linked with family goals. Therefore, families need to consider and set guidelines for succession, legacy and financial goals when setting up a family office and developing the governance structure.

The UBS report showed that the governance priorities for family offices include enhancing communication between the family office and family members, indicated by 66% of global family offices, creating awareness and educating family members at 55%, implementing a succession plan at 46%, and educating family members about how to become responsible shareholders and stewards of the family wealth at 44%.

The founder of a family office consulting agency explained that a truly effective family charter must value the process of forming a consensus that everyone feels in their hearts necessary to follow and contain the family's vision of honour and development. The family charter takes effect when the founder of the family passes away. When the founder is still alive, there is no need for a family charter, and he can make his own decisions. In fact, the family charter is written for the future members of the family. After the family charter is made, it will take five to ten years to implement step by step.

Unni of Taurus Wealth Advisors said, “Beyond the financial assets, there is succession planning. Insurance also falls into that succession planning mode. We work with insurance brokers to bring solutions for clients. Things like family governance, that’s also a topic we brought with clients. Most people will ask, what returns can you get me? That’s usually the starting point. But we try to make sure that they also take a step back and understand that sometimes planning for succession, planning for those unfortunate events is equally important. Hence, insurance, succession planning, family governance.”

### Family governance

Governance structures are pivotal as they can add value for a family business. Family-run businesses have an additional layer of complexity as they must negotiate family relationships that are intertwined with business imperatives. The relationship between family/managers and non-family professionals must also be carefully crafted to maintain a well-functioning management team and to lead the company to success. While each family has different dynamics, structures, and interpersonal relationships, identifying best practice in family governance can help ensure the smooth transition of businesses through generations of a family.

Unni of Taurus Wealth Advisors shared from his experience, “We’ve worked with certain families and helped them do charters. Although there’s no airtight solution, it does mitigate and address some of these anxieties in managing family businesses through structures and their ownership.”

Some countries, especially in Europe, have developed codes and national practice guidance specifically for family-owned and family-run businesses. Most guidance includes conceptual elements with general principles and definitions followed by practical recommendations on family and corporate governance that are tailored to family firms. Moreover, these codes and guidance are country-specific, reflecting differences in legal and regulatory systems. For a family-run enterprises, family governance gains importance to prepare and qualify future family business owners.

## 4

## Conclusion

### Global perspectives, Chinese flair: China's family wealth management and family office industry for the future

Throughout the world, the family wealth management industry has seen rapid development in recent years, with the overall assets under management growing, products and services deepening constantly, and the trend of achieving "wealth for goodness" through impact investment and philanthropy becoming clearer. Looking at China, over the past 40 years of reform and opening, Chinese UHNW families, most have entrepreneurial background, have seized the historical development opportunities, and achieved rapid accumulation of family wealth, laying the ground for product innovation and service iteration in the wealth management industry. Along with China's ageing population and the global wave of intergenerational wealth transfer, the UHNW families will have increasingly stronger needs for professional and comprehensive services in the areas of family wealth management, succession planning, tax planning and family governance.

Looking into the future, Chinese family wealth management institutions must, on the one hand, have a global perspective, actively learn from the development experience of leading international family wealth management institutions, grasp the global pulse, and promote innovation and progress to adapt to the fast-changing world. On the other hand, the Chinese family wealth management industry is still in its infancy. Hence Chinese institutions must have the entire world in view, be rooted in China, be introspective while exploring external trends, and provide comprehensive and excellent family wealth management products and service systems for UHNW clients through continuous exploration and strengthening of their professional capabilities.

We believe that China's stable macroeconomic environment provides a solid foundation for the sound and stable operation of family offices, and with the promotion of the "common prosperity" strategy and the continuous improvement of China's financial laws and regulations, China's family wealth management industry will also usher in historic development opportunities. A new chapter has been opened, and new opportunities will emerge along with the development of China's economy. The future-oriented Chinese family wealth management and family office industry will also become increasingly mature, helping Chinese families to achieve a long-lasting business that can be inherited by one hundred generations further on!

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## 公司简介

新湖财富投资管理有限公司作为综合金融服务平台，坚守“以客户为导向”的服务理念，为客户提供多元化财富管理及全球化资产配置的综合金融服务。新湖财富深耕财富管理、健康管理、公益新湖三大生态圈，凭借全面、专业、贴心的服务，赢得了客户广泛信赖。依托泓湖百世全球家族办公室，新湖财富以全球化的视野，帮助客户实现资产的稳健增长与家族财富的永续传承。

## 数据铭记成长 业绩见证发展

新湖财富自成立以来，已由最初的200名员工、39个分支机构发展到现在拥有4200多名员工、在近90个城市设立了近270个分支机构。累计为数十万客户提供了理财咨询服务，为7.2万个家庭提供了资产配置服务。服务企业客户1800家，其中上市公司120家，企业配置产品规模超过2000亿，为遍及25个省份101座城市的100余家企业提供综合金融解决方案。

2021年新增配置资产规模2070亿元，目前累计配置资产规模突破13000亿元。

数据截止日期为2021年11月30日。



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# 家族信托介绍

家族信托是指信托公司接受单一个人或者家庭的委托，以家庭财富的保护、传承和管理为主要信托目的，提供财产规划、风险隔离、资产配置、子女教育、家族治理、公益(慈善)事业等定制化事务管理和金融服务的信托业务。

家族信托财产金额或价值不低于1000万元，受益人应包括委托人在内的家庭成员，但委托人不得为惟一受益人。

## 家族信托的主要功能

### 世代传承

- 世代传承
- 防范挥霍
- 避免继承纠纷
- 遗产税规划
- 激励约束后代
- 境外身份税务筹划

### 财富管理

- 资产配置
- 财富保值增值
- 财富管理

### 风险隔离

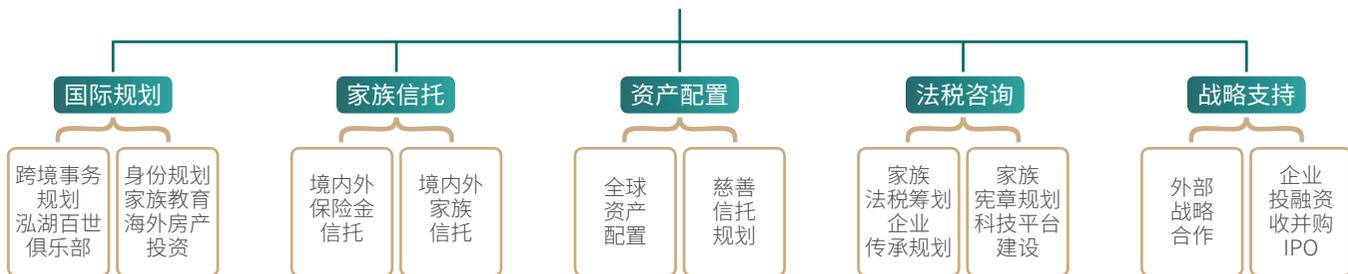
- 子女婚姻风险隔离
- 婚前风险隔离
- 债务风险隔离
- 公私资产隔离
- 防范侵占
- 隐私保密



HONGHU BEST GFO

## 泓湖百世全球家族办公室介绍及架构

### 泓湖百世全球家族办公室



泓湖百世全球家族办公室旨在为客户量身定制境内外一体化的家族信托、资产配置、慈善规划、法税筹划、国际身份安排、教育留学等全方位的财富传承与家族事务解决方案。

## 泓湖百世全球家族办公室的优势

服务模式	境内外一体化服务模式，接受资产包括境内外现金、股权、动产与不动产、保单、金融资产等。
团队经验	2012年成立了境内第一单在岸家族信托；2016年设立了国内第一批备案成功的慈善信托；累计近3000单家族信托及保险金信托经验。
投资管理	投资范围：全球资产配置，全市场投资；投资决策权：包括全委、顾问和客户指令型，客户自由选择；境内外专业资产配置团队，具备全球资产配置能力。
管理架构	独立公司，内设国际规划、家族信托、资产配置、法税咨询、战略支持多个业务部门全员参与；汇集行业顶级家族信托专家、财富管理规划师、律师、会计师、税务师、移民留学顾问等。
专业及服务能力	各领域专家一对一服务，专业度更高，服务力更强，提供境内外一体化的财富传承架构。
资质牌照	境内已获青岛、海口当地监管批复开展家办业务；境外已持有香港证监会颁发的1、4、9号牌照。



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