China Family Office Report (2022)

September 2022

INTRODUCTION

As China is expected to see a rapid economic recovery with its effective pandemic response, it will continue to power ahead as a key player of the world's economic growth. In terms of wealth creation, according to Forbes World's Billionaires 2021, the number of wealthy individuals with a net worth of USD1 billion in China reached 745, overtaking the US and ranking first in the world for the first time. Driven by the consistent growth of the new economy and the comprehensive registration system reform, 40% of newcomers on the list were from Mainland China. Among them, next-generation high-tech new economy industries, such as new energy, big health, and digital technology, have become important drivers for wealth creation.

The growth of China's national wealth is the natural result of its high-quality economic development, while also promoting the booming development of the domestic wealth management industry. According to the "China Private Banking Development Report (2021)" published by the China Banking Association and Tsinghua University PBC School of Finance (Tsinghua PBCSF), the assets under management (AUM) of private banks in China increased from RMB14.1 trillion in 2019 to RMB17.3 trillion in 2020, representing a growth rate of 22.1%; the number of private banking customers increased from 1.03 million in 2019 to 1.25 million in 2020, with a growth rate of 21.5%. In parallel with the rapid growth of the wealth management industry, high-quality development on the supply side has seen stronger demand. It is difficult for traditional financial institutions to fully meet the heterogeneous needs of ultra-high-net-worth （UHNW） entrepreneurial groups in terms of both financial and non-financial services. FOs are also gaining significance, which is conducive to the vibrant development of the wealth management industry.

As the "jewel in the crown" of the global wealth management industry, FO is a commonly adopted wealth management option adopted by the CEOs of Fortune Global 500 companies and high-tech entrepreneurs. FOs are essentially backed up by entrepreneur groups that are the most innovative, creative, and capable of generating wealth – especially company founders from the new economy and high-tech industry. The companies they founded have high market value, along with a high corresponding net worth of shareholders. From a macro perspective, money follows the person, and the level of competition for FOs is essentially the most competitive in the global business environment. FOs play an important role which cannot be replaced by other institutional investors in terms of a country's scientific and technological innovation, industrial upgrading, and social civilisation. Such a phenomenon can be observed in the previous development stages of other economies.

Meanwhile, when it comes to intergenerational succession, the first generation of private entrepreneurs are facing increasingly severe challenges. According to the New Fortune 500 Rich List 2022, entrepreneurs aged 50 and above account for 82%; 60 and above account for 31%; and 70 and above account for 11%. China sees the imminent pressure of private enterprise succession in the next decade. For instance, tens of millions of private enterprises in China are facing the pressure of succession brought by the centralised wealth held by a generation of entrepreneurs for over four decades since the country's reform and opening up. Such a phenomenon differs from European and American enterprises, where succession has historically occurred gradually over the long course of development. As a result, it may bring greater systemic risk to China, which must be given full attention. As an important mainstream vehicle for intergenerational succession internationally, FOs are bound to play a more critical and active role.

In view of the important role played by FOs in terms of technological advancement, financial development, and economic growth, countries around the world have formulated proactive policies in recent years to promote the high-quality development of the industry. For example, Singapore has accelerated its efforts in the field of FOs since 2017, and has also launched a strong mix of multi-pronged policies to enhance its competitiveness in this area. Monetary Authority of Singapore data shows that the number of FOs established in Singapore increased fivefold from 2017 to 2019, with a total of 700 FOs settled in Singapore by the end of 2021.

As an important global region with the most dynamic economic development and technological creativity, the Greater China region has seen a substantial increase in the number of FOs and scale of assets under management in recent years. With reference to international experience, FOs often stay low profile and pragmatic. As such, the market is exceptionally eager to gain in-depth insights, with the help of reliable data and systematic research, regarding the following important issues: What is the latest panorama of the current FO landscape in Greater China? How do Chinese businesses and the financial sector view the FO industry? What are the key factors to consider when starting an FO? How do FOs formulate strategies, structures, and processes that align with heterogeneity? How can an FO contribute to professional wealth management and robust intergenerational succession? What unique challenges do Chinese FOs face?

In order to answer the above questions, the joint research team of the Financial Services Development Council (FSDC) and Tsinghua University PBC School of Finance (Tsinghua PBCSF) conducted a field survey and in-depth interviews with 30 leading Chinese FOs across the year of 2021. The average value of assets under management (AUM) of the FOs interviewed stood at RMB29.7 billion (approximately USD4.37 billion), and the estimated total AUM of the 30 FOs reached RMB891 billion (approximately USD131.2 billion). Over 80% of the interviewees managed a total of assets worth RMB5 billion or more. In conclusion, the FO survey samples herein are extensively representative and systemically important. Such samples are able to fully reflect the overall development of FOs in Greater China.

This report is a product of the collaboration between the FSDC and Tsinghua PBCSF. Through in-depth exploration and presenting the cutting-edge practices of FOs in Greater China, the research group conducts an analysis of the valuable experience in the establishment, operation, and development of FOs to provide up-to-date examples for entrepreneurs to design and build FOs, insights on promoting further development of the wealth management industry and reference for policy formulation. This report has aims to contribute to the sustainable development of FOs in Greater China, as well as to facilitate the continuous growth of the national economy and innovation of technology industries, in achieving the goal of common prosperity.

The research group would like to express their sincere gratitude to all FOs interviewed, as their data and insights made this report possible. This report is the result of a close collaboration between FSDC and Tsinghua PBCSF. The core members of the research group are shown as follows, and gratitude is hereby expressed to their colleagues for their assistance, including An Jing, Qu Yuanyu, Sun Zimou, and Xin Qi.

	Tsinghua PBCSF	**FSDC**
Research group leader	Gao Hao	Rocky Tung
Core members	Xu Lei	Wivinia Luk, Joyce Lee

KEY FINDINGS

The AUM of Chinese family offices has grown significantly, with an average value of nearly RMB30 billion, representing an increase of 200% as compared with 2018

The 30 leading FOs interviewed include 14 Single Family Offices (SFOs) and 16 Multi-Family Offices (MFOs). The average AUM of the interviewed FOs amounted to RMB29.7 billion (equivalent to approximately USD4.4 billion), and the estimated total AUM of the 30 FOs reached RMB891 billion (equivalent to approximately USD132.4 billion). The average AUM of Chinese FOs for the current year represents approximately three times the average value of RMB8.8–10 billion, as set out in the Chinese Family Office Report 2018 (Internal Edition) of the Tsinghua PBCSF Global Family Business Research Center, reflecting the significant growth in the AUM of Chinese FOs.

As shown by the structural characteristics of AUM in this research, more than 80% of the interviewed FOs have an AUM of more than RMB5 billion. Among them, the average AUM of an SFO amounts to RMB24.9 billion, the average net worth of its founding family is RMB38.7 billion, and the SFO manages 64% of the family's net wealth on average; the average AUM of an MFO is RMB35 billion.

Technology industry, traditional industry, and companies held for sale are the 3 major sources of Chinese SFOs

For technology entrepreneurs (i.e., the Internet, hard technology, new energy, and biopharmaceutical industries), their wealth principally consists of listed company stocks and equity in unlisted companies. The major motivation for the establishment of FOs is to manage financial assets that have arisen from stock sales or equity pledges. Due to the high-risk, high-growth, and high-return nature of the technology industry, such FOs tend to pay more attention to asset diversification to resist the risks and impacts of a single technology industry due to high uncertainty.

For traditional entrepreneurs (e.g., from manufacturing, real estate, and big consumption industries), most industrial enterprises are in a mature or recession phase, with strong profitability and significant dividends. Meanwhile, as one generation of entrepreneurs gets older, the complexity of the family structure tends to increase accordingly. Specialised, professional, and institution-based FOs can meet more complex wealth management and inheritance needs. By contrast, such FOs prefer strategic investment projects with long investment periods, high return potential, and low liquidity, while taking into account the synergies with the strategic transformation and industrial upgrading of industrial enterprises.

Some first-generation entrepreneurs who cannot achieve their own transformation and upgrading, or whose successors are not qualified, will choose to sell the controlling equity in industrial enterprises. Since such families no longer own industrial enterprises, and instead only hold financial assets, the FO pays more attention to wealth security and asset preservation, and emphasises sound asset allocation and a complete risk control system to achieve risk-adjusted investment returns.

Chinese family offices remain in the early stage of development, focusing on cost control, and there has been an increase in the number of employees

In terms of the time of establishment, FOs in Greater China remain a relatively “young” sunrise industry and is in an early stage of development. For instance, two-thirds of the interviewed FOs were established after 2013, and 90% of them were set up after 2010.

In terms of cost structure, due to the considerable amount of AUM of the interviewed FOs and the cost savings brought by making good use of outsourcing services, the operating cost of 65% of FOs account for less than 0.5% of AUM, which is significantly lower than the general 1% of annual operating cost of FOs internationally.

In terms of the number of full-time employees, SFOs have an average of 24 employees, with an average of 19 employees per physical office; MFOs have an average of 42 employees, with an average of 21 employees per physical office. At the same time, a few MFOs equipped with larger teams have emerged, with more than 100 employees. Compared with the average of 12–13 employees, as set out in the Chinese Family Office Report 2018 (Internal Edition) of the Tsinghua PBCSF Global Family Business Research Center, there is a significant increase.

New economy entrepreneurs are the major customer groups of Chinese MFOs

Recent years have witnessed the rapid growth of new economy industries, such as the

Internet, hard technology, new energy, and biopharmaceuticals, featuring rapid wealth creation and a huge amount of wealth. Therefore, these new economy entrepreneurs have become the major customer groups of MFOs. More than one-third of the MFOs involved in this interview principally serve business families in the new economy. Such customers are heavy users of digitalisation in their current work and life, and therefore have higher demands for the digitalisation of wealth management, thus becoming one of the major driving forces for the digital transformation and upgrading of the FO industry.

A clear tendency towards the digitalisation of Chinese FOs is demonstrated

This research indicates that digitalisation has become a key theme for the high-quality development of Chinese FOs. There are significant differences between the core demands of SFOs and MFOs in terms of digitalisation. SFOs place more emphasis on family security and control, and mainly rely on digitalisation to realise real-time and transparent functions, such as account information collection, investment performance improvement, risk compliance management, and employee evaluation management and control, so as to minimise the principal-agent issues within the organisation. Due to a large number of customers and outsourcers, MFOs tend to focus on strengthening trust and communication between different entities and improving operational efficiency through digitalisation. Therefore, they mainly focus on how to optimise customer interaction models by technological means, and provide high-quality, customised services at a controllable cost.

Talent and supervision represent the two major challenges for the future development of Chinese FOs

The FO industry is human capital intensive. As such, talent is the first resource for the high-quality development of FOs. Our research found that talent has become the primary constraint on the growth of Chinese FOs. Nearly half of the interviewed FOs indicated that there are numerous challenges in this industry, including the adequacy of available talent, the alignment of values, and the credibility of external talent.

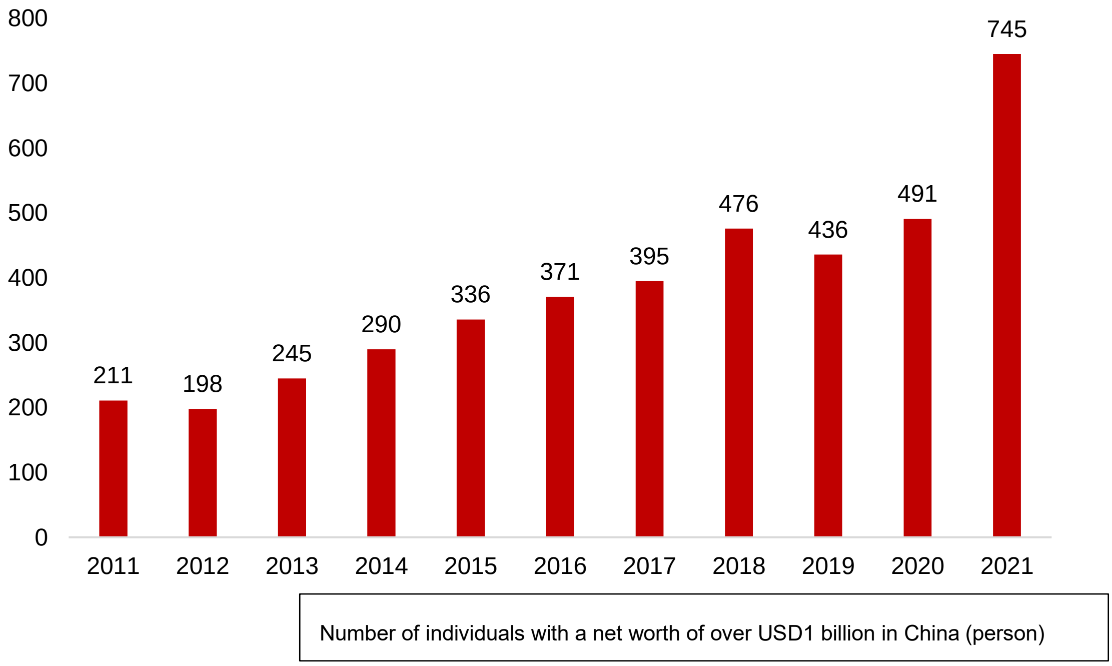
FOs in Mainland China remain in the early stage of industry development, featuring strong exploratory and weak regulation. Due to this relatively short history, there are no specific regulatory definitions or regulations. As a result, many institutions in the market claim themselves as FOs. Mixed players of different levels have become an important hidden danger for the high-quality and sustainable development of the industry. This report summarises the regulatory rules of FOs in the US, Singapore, and Hong Kong, China, while also aiming to provide a mirror for China's financial regulators to supervise and design the FO industry in the future.

CONTENTS

1. DEFINITION AND OVERVIEW OF FAMILY OFFICES

1.1. Overview of UHNW Groups in China

In recent years, China's economy has begun to transform from high-speed development to high-quality development, and national wealth has continued to increase, coupled with rapid growth in the number of UHNW groups. According to Forbes, as of 2021, the number of wealthy individuals with a net worth of USD1 billion in China reached 745, overtaking that of the US for the first time.



Source: Forbes China

Figure 1-1: Number of groups with a net worth of USD1 billion in China

In 2022, the threshold for the New Fortune 500 Richest Chinese List maintained its rising trend, reaching RMB9.37 billion, while the threshold in the previous three years was RMB4.5 billion, RMB6.3 billion, and RMB8.9 billion, respectively. The net worth of each of the top ten richest individuals now exceeds RMB150 billion. The whole list shows that 30 individuals have a net worth of RMB100 billion, and 464 have a net worth of RMB10 billion. Looking back on the list over the years, the rich in the manufacturing industry ranked first from 2003 to 2005, and seven of the top ten richest individuals in 2007 came from the real estate industry, occupying the top four positions on the list. As shown in the 2022 list, the rich from big consumption, new energy, and the Internet have taken up the majority of the top ten seats on the list, while those from the real estate industry have fallen below the top ten for the first time. The proportion of Internet-based wealthy individuals on the list is the highest, but it has decreased compared with the previous year, which is then followed by the pharmaceutical industry. The proportion of wealthy individuals from the advanced manufacturing industry, represented by new energy vehicles, photovoltaics, chips, etc. have experienced a significant increase, while gains in real estate saw a substantial decline.

The industry changes, as indicated in the New Fortune 500 Rich List, profoundly reflect the transformation of China's economic growth – from factor input to scientific and technological innovation. "New wealthy individuals" from the Internet, new energy, big health, and advanced manufacturing industries are constantly emerging with an extremely fast rate of wealth creation, along with wealth appreciation as their stock prices rise. However, some first-generation entrepreneurs who are unable achieve their own transformation and upgrading, or whose successors are not qualified, will choose to sell their enterprises and blaze a new trail after closely considering a merger and acquisition strategy.

FO_15:[1] *"The speed of wealth creation in the new economy is so high that they do not even realise it. In many cases, it happens quickly from the Series C and D rounds to the listing, and an engineer under the 996 work schedule may only learn from the news that the company has been invested. Suddenly, the finance staff would tell him that the company started a brokerage account for him after the IPO, with shares worth ×××× in it."*

[1] Considering the internationally accepted privacy protection requirements of the family office industry, and in order to encourage interviewees to voice out their thoughts freely, this report presents the development and interview content of the 30 interviewed family offices in coded form, so as to remove their identifiable information. The specific coding sequence is FO_01, FO_02, …, FO_30.

Table 1-1: Top 10 on the New Fortune 500 Rich List 2022

2022 Ranking	2021 Ranking	Wealth of RMB 100 million	Name	Principal company	Headquarter	Major industry	Gender	Age
1	1	5043.1	Zhong Shanshan	Nongfu Spring/ Wantai Biological	Hangzhou, Zhejiang /Beijing	Beverages, bio-pharmaceutical	Male	67
2	11	3348.2	Zeng Yuqun	CATL	Ningde, Fujian	Power battery	Male	54
3	3	3010.8	Ma Huateng	Tencent Holdings	Shenzhen, Guangdong	Internet	Male	51
4	16	2916	Zhang Yiming	Toutiao	Beijing	Recommendation engine, short video	Male	39
5	2	1972	Huang Zheng	Pinduoduo	Shanghai	E-commerce	Male	42
6	12	1937.2	Ding Lei	NetEase	Hangzhou, Zhejiang	Internet	Male	51
7	5	1890.1	He Xiangjian Family	Midea	Foshan, Guangdong	Home appliances	Male	79
8	6	1860.3	Wang Wei	S.F. Holding	Shenzhen, Guangdong	Logistics	Male	51
9	41	1535	Huang Shilin	CATL	Ningde, Fujian	Power battery	Male	55
10	19	1512.7	Qin Yinglin /Qian Ying	Muyuan Foods	Nanyang, Henan	Livestock and poultry breeding	Male /Female	57/ 56

Source: New Fortune

Figure 1-2: Top 10 on the New Fortune 500 Richest Chinese List in 2007

2007 Ranking	Wealth of RMB 100 million	Name	Principal company	Headquarter	Major industry	Gender	Age
1	455.1	Yang Huiyan	CG Holdings	Shunde, Guangdong	Real estate	Female	25
2	304.0	Xu Rongmao	Shimao Group	Shanghai	Real estate	Male	58
3	180.7	Li Silian	R&F Group	Guangzhou, Guangdong	Real estate	Male	50
4	180.2	Zhang Li	R&F Group	Guangzhou, Guangdong	Real estate	Male	44
5	176.6	Shi Zhengrong	Wuxi Suntech	Wuxi, Jiangsu	Photovoltaic power	Male	40
6	173.6	Chen Zhuolin's family	Agile Group	Zhongshan, Guangdong	Real estate	Male	49
7	161.4	Zhong Shengjian	Yanlord	Shanghai	Real estate	Male	48
8	151.7	Zhu Mengyi Family	Hopson Development	Guangzhou, Guangdong	Real estate	Male	48
9	148.4	Zhang Qian	Nine Dragons Paper	Dongguan, Guangdong	Manufacture of paper	Female	50
10	109.0	Zhang Jindong	Suning Appliance	Nanjing, Jiangsu	Retails of home appliance	Male	44

Source: New Fortune

1.2. Definition of a Family Office

For the UHNW group, whether from a traditional industry where they accumulate wealth mainly through dividends, or a new economy where they achieve rapid growth in equity value, or who have a large amount of cash available from selling their companies, the need for or the pressure of wealth management and intergenerational transition has led them to increasingly focus on the family office – a professional tool widely adopted by an internationally comparable group.

FO_14: "The establishment of a family office aims to organise family investments and businesses, as well as properly manage and increase wealth, so as to better realise the family concept."

FO_08: "After the disposal of the company, with more than ten years of exploration, a single-family office has been established for the major purposes of family governance and inheritance arrangements."

FOs exist in various forms or date back hundreds of years. For example, after the Crusades, European banking families such as the Medici family and Rothschild family began to manage their own and other families' wealth in the "analogous family office" form. In 1868, Thomas Mellon, founder of Mellon Bank, established the first regulated family office, providing investment, accounting, legal, and education and concierge services through a professional team. The Rockefeller family in the US established the Rockefeller Family Office (the famous "5600 Room") in 1934 to systematically manage family wealth, provide living security funds to family members, and support family charities.

Since the 1980s, as the number of UHNW families across the world have seen rapid growth, the number of FOs in Europe and the US have significantly increased. FOs have been adopted to manage family wealth and family affairs by the successive three richest individuals in the world – Bill Gates (founder of Microsoft), Jeff Bezos (founder of Amazon) and Elon Musk (CEO of Tesla), the Arnault Family (LVMH, the world's largest luxury group), the Agnelli Family (the largest industrial group in Italy), the Quante Family (the controlling shareholder of BMW in Germany), and the Mulliez Family (Auchan Group, a retail giant in France).

The Economist estimates that there are approximately 5,000–10,000 FOs in the world, with Europe and the US accounting for the highest proportion. As of the end of 2018, the worldwide assets under management of FOs had surpassed that of hedge funds, amounting to approximately USD4 trillion. FOs are important players in the global financial market, and continue to maintain rapid growth.

The Securities and Exchange Commission of the United States (SEC) defines the family office as an entity established by a wealthy family to provide wealth management and other services to family members.[2] The Family Office Exchange (FOX), a family office industry association of the US, believes that a family office can be regarded as a unique family business, providing the family with customised and integrated wealth management solutions, while promoting and preserving family identity and values. A family office may be established to meet the financial needs of the family as a whole after the disposal of the family business or a liquidity event such as a listing. An FO can provide family members with a spectrum of services, including asset allocation, portfolio management, tax planning, heritage planning, charity planning, family education, intergenerational inheritance, and life services.

Scholars, including Gao Hao, one of the authors of this report, have successively put forward two relatively concise definitions of an FO. Gao Hao and Liu Zhongxing (2013) pointed out that an FO is an institution that systematically manages and governs the balance sheet of an UHNW family. Based on the major trend changes in external environment and internal management, Gao Hao (2021) further refined the definition of an FO, and proposed that it is an institution that manages and governs major strategic matters of families. Major strategic matters include not only financial functions such as asset allocation, investment portfolio, and wealth distribution, but also increasingly important non-financial functions such as risk management, family governance, succession planning, and public charity.

Different from traditional wealth management institutions, such as private banks and trust companies, FOs do not provide services for a large number of high-net-worth individuals, and instead only focus on the customised needs of one or several UHNW families. One of the economic principles for the independent existence of FOs is their ability to align with the long-term goals and interests of the family clients they serve, thereby resolving the conflicts of interest that are widespread in the current wealth management industry. Meanwhile, FOs also

[2] Family Offices, Investment Advisers Act Release No. 3098 (Oct. 12, 2010) [75 FR 63753 (Oct. 18, 2010)] (“Proposing Release”).

have dominant advantages such as high integration, high customisability, strong professionalism, and strong privacy.

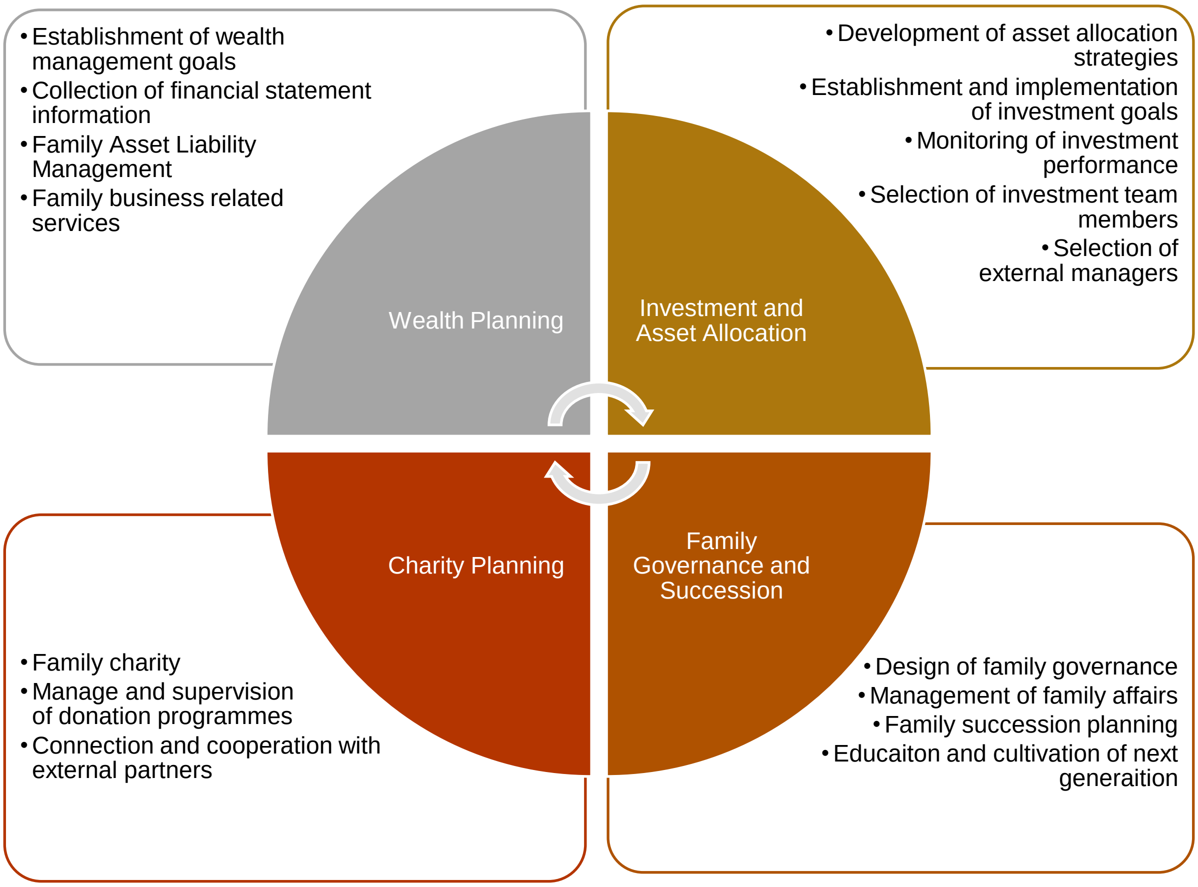


Figure 1-2: Main Functions of Family Offices

Subject to the number of families served, family off1ices can be defined as Single Family Offices (SFO, serving only one family) and Multi-Family Offices (MFO, serving multiple families). An SFO features high costs, but strong privacy and customisability. An MFO has a relatively low barrier to entry, and is widely recognised. There are three main types of MFOs: one is established by licensed financial institutions (such as banks, trusts, securities, etc.) to serve top clients; the other is an independent institution founded by experienced professionals; the third is an evolution of an SFO after absorbing other family clients.

We generally further subdivide FOs based on ownership and right of management. In the dimension of ownership, FOs can be divided into two types: family-owned and professionally-owned. The type of shareholders determines the strategic goals and governance structure of the FO to a large extent. Regarding management rights, FOs can be divided into two types:

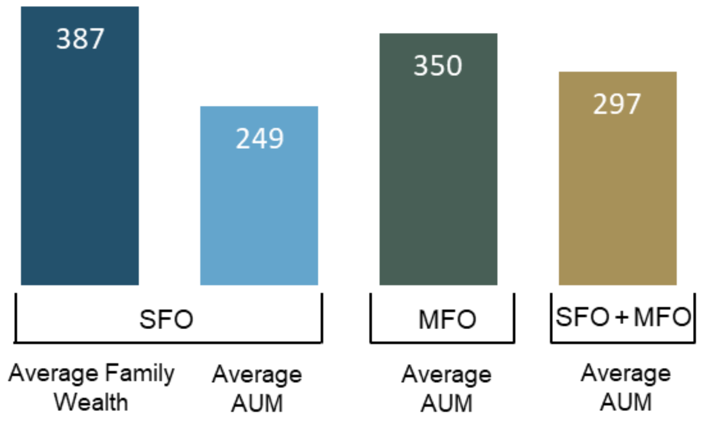
family-managed (FM) and professionally-managed. The distribution of management rights also has an impact on the operation management and investments of FOs to a considerable extent.

1.3. Overview of Interviewed Family Offices

1.3.1. Assets Under Management (AUM)

Despite the short history of FOs in China, they have achieved impressive, high-speed growth. In 2018, the Tsinghua PBCSF Global Family Business Research Center conducted research and interviews on 20 leading FOs in Greater China, and finalised their Chinese Family Office Report 2018 (Internal Edition). In this report, the average AUM of the interviewed FOs reached RMB8.8–10 billion. Our research data of 30 Chinese FOs indicates that the average AUM of the involved FOs amounted to RMB29.7 billion, representing approximately three times of that in 2018. This clearly shows that a significant increase has been achieved. The average value of an SFO was RMB24.9 billion, and RMB35.0 billion for an MFO.

We have analysed the potential reasons for the significant increase in the AUM of FOs. On the one hand, we found that the national wealth of China has achieved substantial growth during such period; on the other hand, the credibility necessary for the development of FOs has been increasing over time, and specific family clients have invested more wealth to be managed by FOs. Wealthy families generally invest a relatively small proportion of their wealth in the early stages of an FO's development, which is mainly for the purpose of experimental exploration and trial. As an FO becomes more institutionalised, specialised, and professional, family clients gradually increase their investment to a higher proportion of wealth. Therefore, according to the forecast of the laws of international development, the AUM of China's FO industry will maintain its momentum in the future. This will be driven by an increase in the number of customers brought by the improved penetration rate of the FO market, as well as an increase in assets per customer as a result of greater trust.



Unit: RMB100 million

Figure 1-3: Family Net Worth and AUM of Family Offices (N=25)

1.3.2. Classification of a Family Office

The 30 interviewed FOs include 14 Single Family Offices (SFOs) and 16 Multi-Family Offices (MFOs). Among them, 21 FOs are principally engaged in the provision of services for customers in Mainland China, and 9 are target customers both in Mainland China and Hong Kong. Among the MFOs, 14 are independent agencies founded by professionals, and 2 are MFOs formed by the opening of SFOs to other family clients.

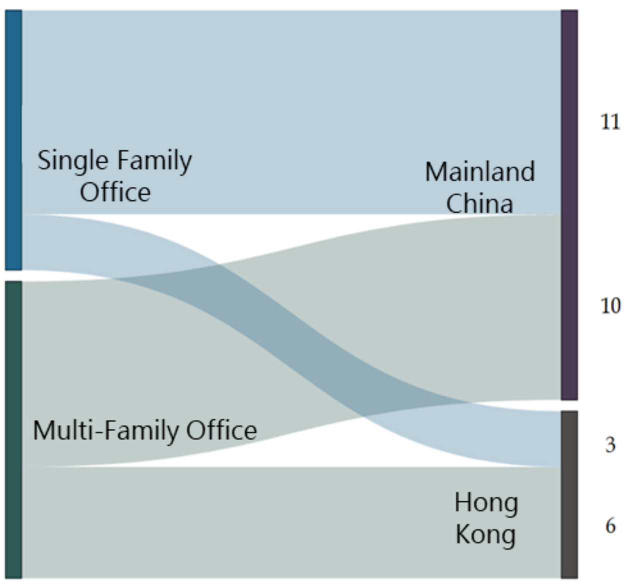


Figure 1-4: Types of Family Office and Source of Clients (N=30)

The type distribution of the 30 FOs is as shown in Figure 1-5 by the three dimensions of ownership, rights of management, and customers:

- Family-owned/Family-managed/Single Family Offices (total of 5):
  set up and managed by family members by organising a professional team to comprehensively manage family affairs and serve single family clients.

- Family-owned/Professional-managed/Single Family Offices (total of 9):
  invested and controlled by the family through the engagement of professionals for professional management and taking full responsibility for family affairs, which is complementary with industrial enterprises.

- Family-owned/Family-managed/Multi-family Offices (total of 2):
  initially set up by a certain family, and gradually open to other families in subsequent periods, whose clients are families in relevant industries or with similar backgrounds.

- Professionally-owned/Professional-managed/Multi-family Offices (total of 11):
  a model in which family services are provided by professionals or financial institutions, with a relatively low threshold of customers.

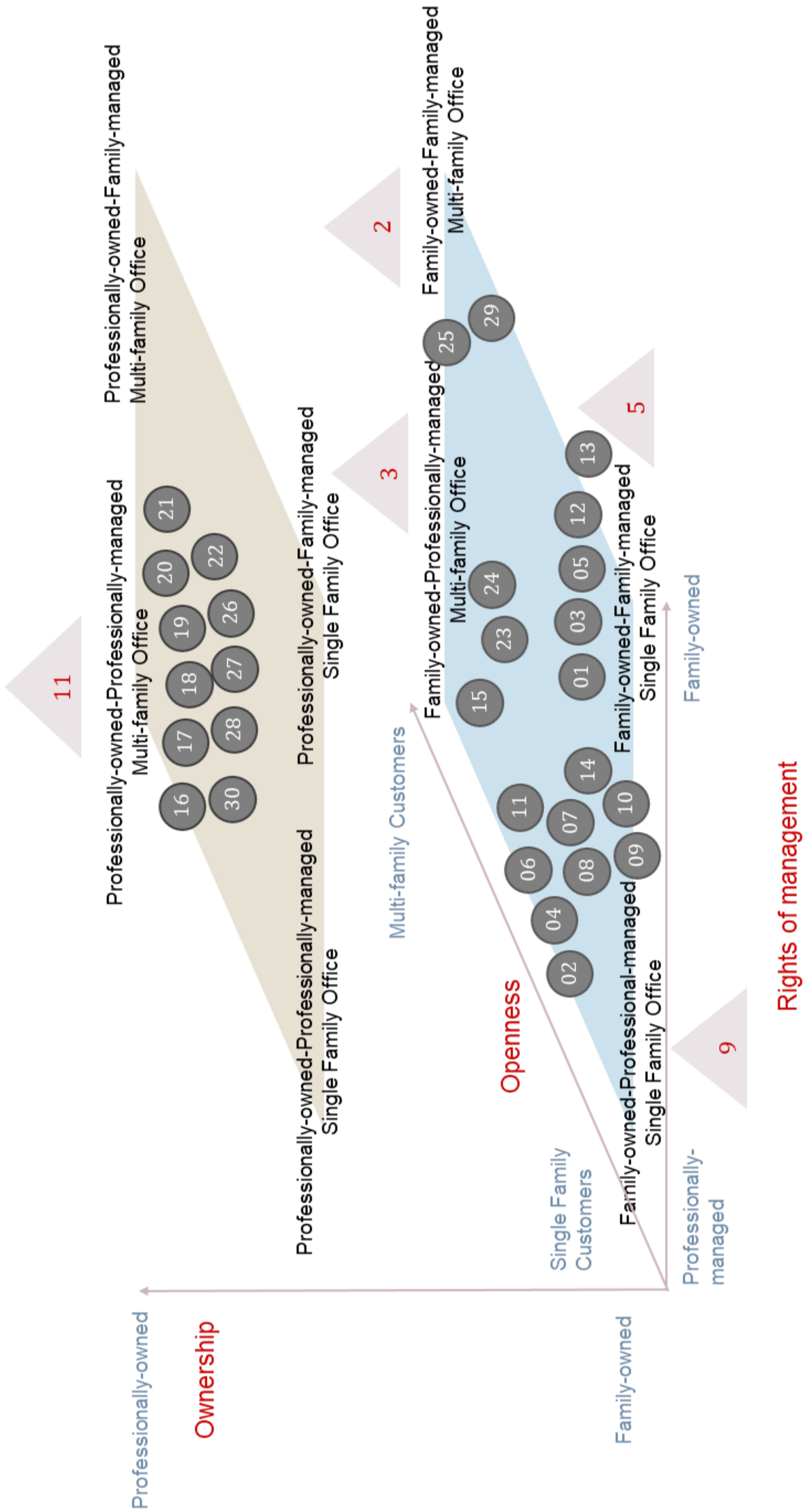


Figure 1-5: Three-dimensional Distribution of Family Offices (N=30)

1.3.3. Age, Costs, and Employees of a Family Office

In terms of the time of establishment, FOs in Greater China remain a relatively "young" sunrise industry and is in an early stage of development. For instance, two-thirds of the FOs interviewed were established after 2013, and 90% of them were established after 2010.

In terms of cost structure, due to the considerable amount of AUM of the interviewed FOs and the cost savings brought by making good use of outsourcing services, the operating cost of 65% of FOs account for less than 0.5% of AUM, which is significantly lower than the general 1% of annual operating costs for international FOs.

Regarding the number of full-time employees, SFOs have an average of 24 employees, with an average of 19 employees per physical office; MFOs have an average of 42 employees, with an average of 21 employees per physical office. Some of the larger MFOs have more than 100 employees. As compared with the average of 12–13 employees, as set out in the Chinese Family Office Report 2018 (Internal Edition) of Tsinghua PBCSF Global Family Business Research Center, there is a significant increase.

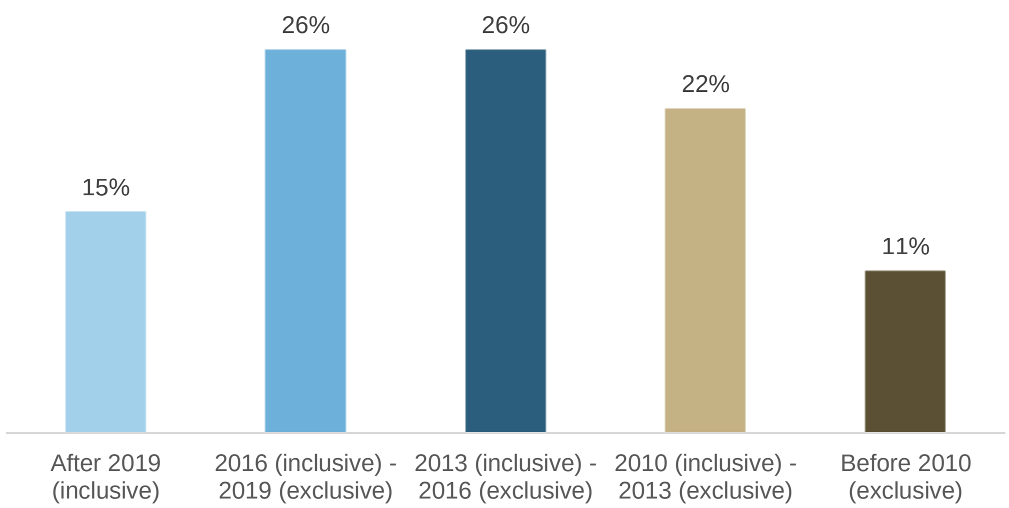


Figure 1-6: Time of Establishment of Family Offices (N=27)

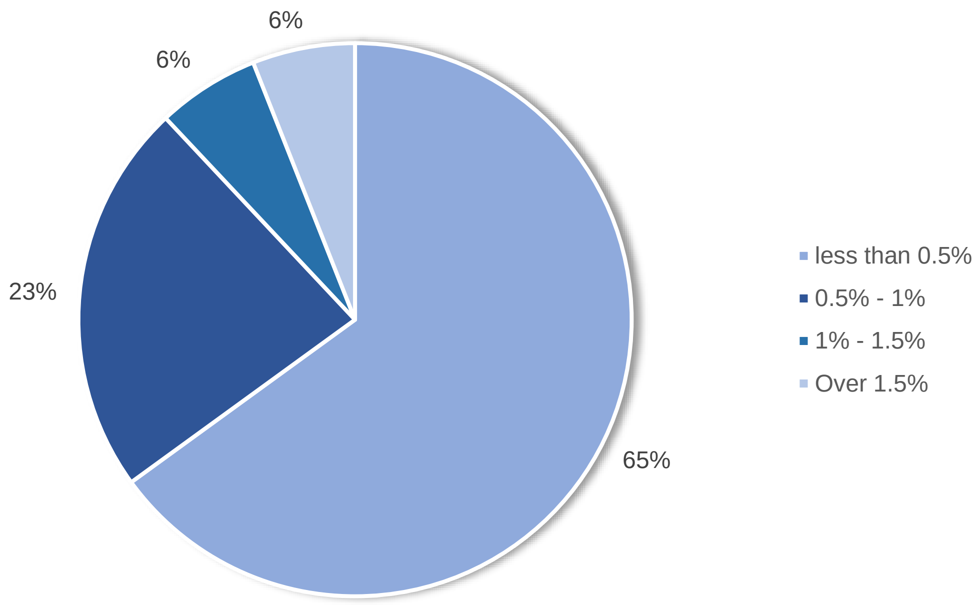


Figure 1-7: Proportion of AUM of Operating Costs of Family Offices (N=17)

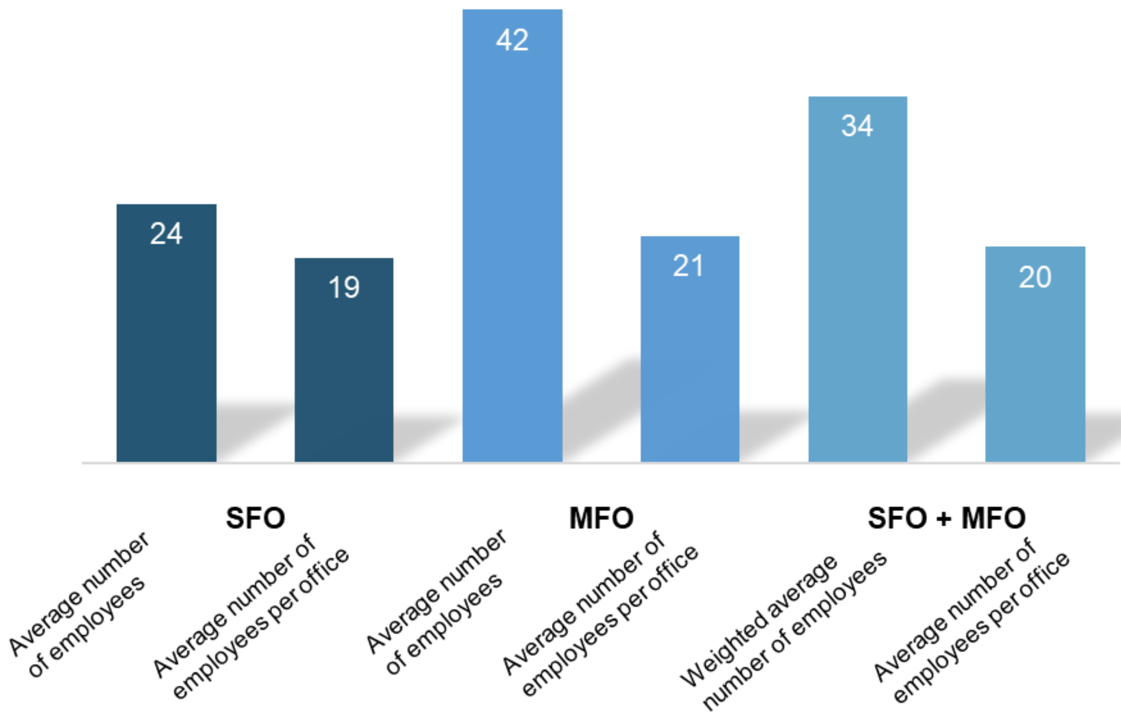


Figure 1-8: Number of Full-time Employees of Family Offices (N=29)

2. MOTIVATIONS FOR ESTABLISHING A FAMILY OFFICE

2.1. Trigger Point for Establishment: Liquidity Events for Industrial Enterprises

Generally, the establishment of an FO is closely related to the liquidity events of industrial enterprises. Such liquidity events may be either the realisation of part of the equity upon the listing of its enterprise, or a large amount of dividends received by the family from such an enterprise, or a great amount of consideration received by the family upon the disposal of such an enterprise.

Regarding the 14 SFOs involved in our research, among the current or past holding companies of single-family clients, 57% are listed companies, 36% have been unlisted, and 7% have been privatised and delisted after listing. The proportion of listed companies with a market value of less than RMB20 billion, RMB20–50 billion, RMB50–200 billion, and more than RMB200 billion is 33%, 25%, 17%, and 25%, respectively. Despite the establishment of an SFO, 71% of the interviewed families have maintained their equity control over and involvement in the management of their industrial enterprises, while the remaining 39% had formed an SFO after the disposal of their businesses.

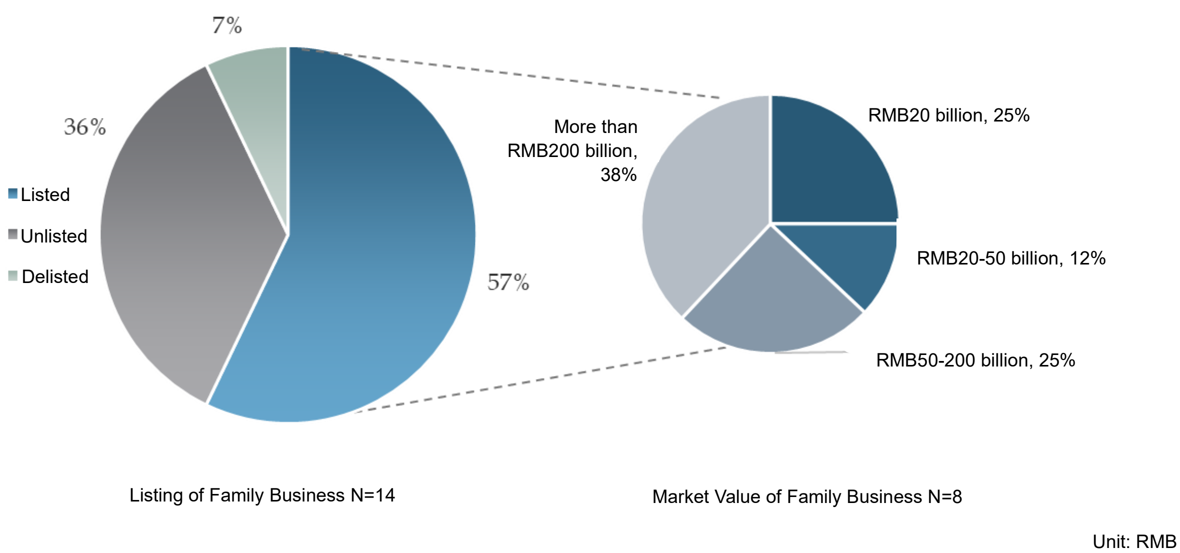


Figure 2-1: Listing Features of Industrial Enterprises of SFO Family

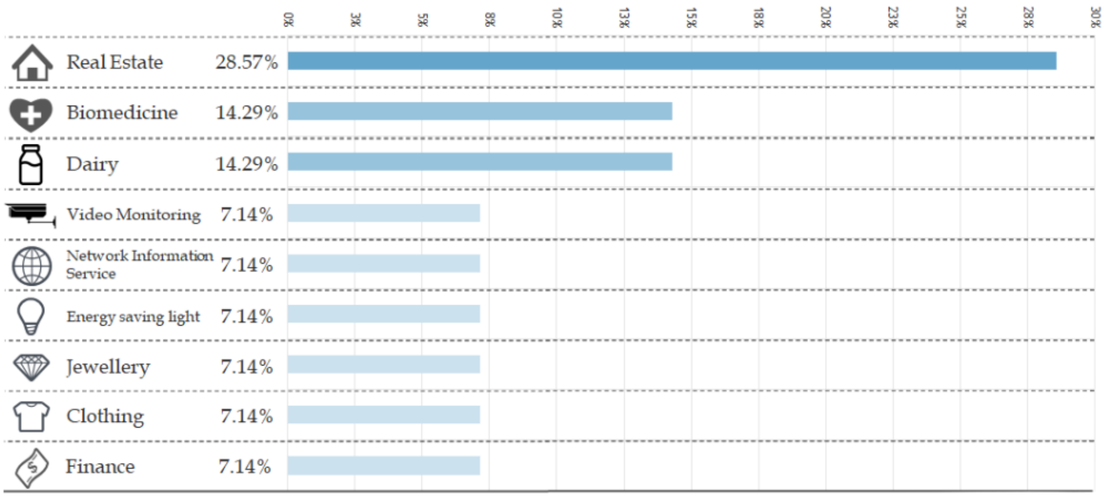


Figure 2-2: Industry Distribution of Industrial Enterprises of SFO Family (N=14)

Liquidity events have not only brought abundant financial assets to business families, but also impose new challenges on wealth management, which requires professional expertise and extensive experience. In addition to returns, business families must fully consider several factors such as risk, maturity, and liquidity based on their own conditions, and achieve strategic synergy or risk hedging with industrial enterprises. Moreover, due to differences in fundamental interests, various financial institutions such as banks, trusts, securities, etc. inevitably have conflicts of interest with family businesses to some extent. This is also the reason that drives entrepreneurs to set up their own FO or choose to join an FO that already exists.

FO_05: "After the withdrawal from the founding business, the family would quickly sell all the shares in the secondary market in exchange for a large amount of cash. At that time, many private banks from Hong Kong, Singapore, and Switzerland contacted me, but we were unsatisfied with them. In order to better manage liquid wealth, I set up a family office, while being engaged in impact investment and equity investment."

For a business family that has sold its industrial enterprise, founding an FO is more like a "second entrepreneurship". The family will inevitably lose a competent management team when it disposes of its industrial enterprise after a significant amount of consideration. As the industrial enterprise generally adopts the refined family culture and values, its disposal may cause the family to lose its identity, social status, and development goals. In which case, the FO will become a vehicle for various family members to unite and fight for it again, which is more like a new "family business".

FO_07: "The family office is essentially the second entrepreneurship (of the founder), since he is young enough to start new attempts and explorations after withdrawing the company. At that time, we went to study in many European countries and America , and produced a lot of new thinking."

In terms of motivation for the establishment, among the 14 interviewed SFOs, 13 of them were established for the systematic management of family wealth, and 3 were set up for the management of family affairs and promotion of intergenerational inheritance. Additionally, 3 offices represent a second business startup after the disposal of industrial enterprises, and 2 offices were established to support the transformation and upgrading of industrial enterprises.[3]

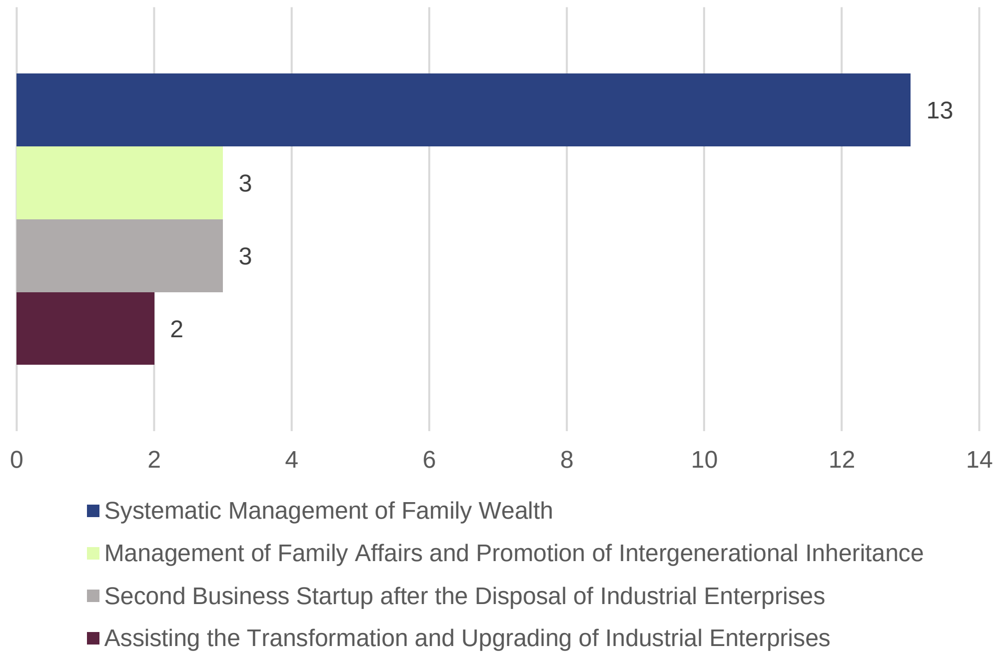


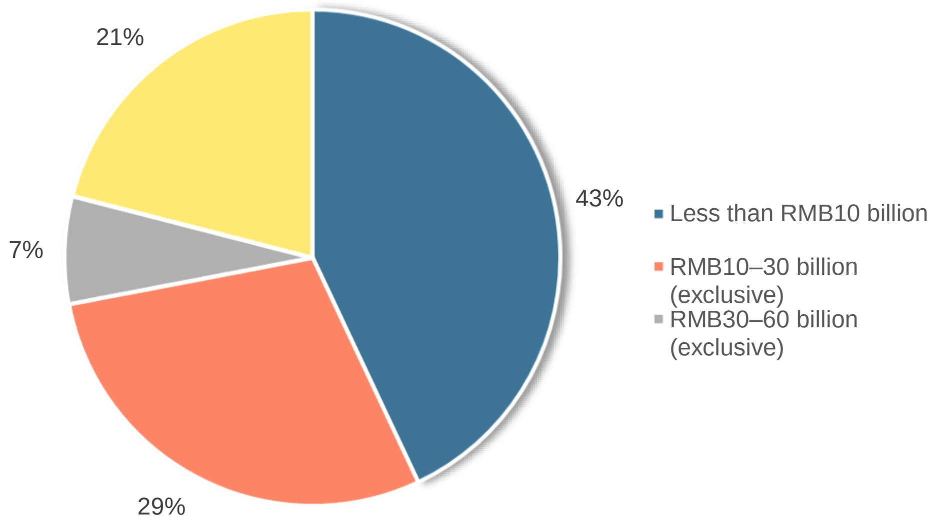
Figure 2-3: Motivations for the Establishment of Single Family Offices (N=14)

2.2. Financial Goals: Long-term Preservation and Appreciation of Wealth

The primary goal of FOs, especially for Chinese FOs, is generally to pursue the long-term preservation and appreciation of family wealth. In this survey, the net worth of families who have established single FOs ranges from billions to hundreds of billions in RMB. The net worth

[3] This report only includes the motivations for the establishment of the SFOs, as they can more directly reflect the family concept. Since FOs are generally set up for diverse purposes, the sum of the percentages may be greater than 100%.

of 43% of them is less than RMB10 billion, 29% is between RMB10–30 billion, 7% is between RMB30–60 billion, and 21% is more than RMB60 billion. From the perspective of international experience, FOs represent an important tool for professional wealth management, and value preservation and appreciation.



Unit: RMB

Figure 2-4: Wealth of SFO Family (N=14)

FOs can provide professional, transparent, and customised asset allocation and investment management services to meet the heterogeneous needs of family clients and help families achieve long-term and even intergenerational wealth management goals.

For entrepreneurs in the technology industry, such as FO_02 and FO_06, whose wealth is mainly composed of stocks of listed companies or equity in unlisted companies, the establishment of an FO principally aims to manage financial assets generated by shareholding reduction or equity pledge. Since the distribution of dividends is not common practice for growing technology companies, wealth appreciation mainly comes from an increase in stock prices rather than dividend accumulation. Tech entrepreneurs tend to pay more attention to the diversification of their asset allocation to withstand the shocks that a high-growth, high-risk single tech industry may be subject to.

For entrepreneurs in traditional industries, such as FO_04, FO_07, FO_10, FO_11, FO_13, and FO_14, whose wealth mainly comes from mature industries such as real estate, retail, and big consumption, which annually generate a large amount of cash flow, payment of dividends has become the major source of the growth of family wealth. At the same time, as one generation of entrepreneurs get older, the family structure becomes more complex. The professional management of an FO can better meet the needs of family governance, wealth management, and intergenerational inheritance. As traditional entrepreneurs have relatively stable sources of wealth and strong risk tolerance, they prefer asset classes and direct investment projects featuring high-risk, high-growth, and high-uncertainty for particular investments in high-tech industries. Additionally, such financial investments of an FO are always combined with the strategic development needs of industrial enterprises.

For entrepreneurs who have sold their businesses, since they no longer own any industrial enterprise and cannot create new wealth through the enterprise, they attach the most importance to wealth safety and asset preservation, thus emphasising a sound asset allocation model and a complete risk management system.

FO_01: "Our investment philosophy is safety and stability, long-term distribution, and value investing. We have a large amount of cash at hand after we sell our industrial companies, but have no engine for wealth creation. Therefore, the stability and controllability of returns is of top importance, and we do not deliberately pursue the high return of a certain type of assets."

The primary task of an FO is to establish a regular financial information reporting system (e.g., a balance sheet) to collect and conduct the systematic management of key information including assets, liabilities, income, risk, maturity, and liquidity of clients' wealth. It is worth noting that a few wealthy families may have diversified their investments many times in the past, which would generally cause complex and less transparent asset structures. Some entrepreneurs have never even systematically sorted out their own assets and liabilities, let alone an overall planning. By setting up a family-wide asset and liability management system, the FO realises the collection and management of financial and non-financial assets that are widely scattered in different financial institutions, asset types, and geographical regions, and make further optimisation and adjustments on this basis.

FO_08: "Some of my entrepreneur friends do not even know what they have invested in.

On a case-by-case basis, each of the investments seems to be good. However, it is clear that the risk exposure is too significant on an aggregated basis, as these investments are highly concentrated in one industry. Even he was surprised when the financial staff presented him the statistical table of investment projects one day."

FO_03: "We started investing as early as the 1990s. At that time, my parents were investing in many successful projects. Later, as the number of projects and the size of the fund increased, a small office was established. Some professionals were appointed to conduct project sorting and post-investment management – this was a prototype of an FO. By around 2010, it should be regarded as a real FO."

FO_15: "Today, many UHNW individuals in the new economy industry maintain full positions in stocks, especially in their own industries, which are definitely overweight. This is very worrying, especially as recently the stock prices of industries such as the Internet experienced a sharp decrease. However, it is difficult for FO clients to shift from full positions in high-risk, high-yield equity assets to a more balanced asset allocation model. In particular, it is hard to accomplish such a shift for those who have made a large proportion of allocation to fixed-income assets for a long term."

2.3. Non-financial Goals: Family Governance, Succession, and Others

As family affairs are becoming increasingly complex with the increase in the number of family members and the complexity of their relationships, the importance of family governance is highlighted. Various non-financial needs of family members, such as trusts, wills, taxation, law, and insurance are increasingly apparent. As such, it is more necessary to carry out top-level design and coordinated development. Additionally, an FO often has to carry out strategic planning and capital operation of industrial enterprises at the level of controlling shareholders. Therefore, it is closely integrated with the needs of industrial enterprises such as cash management, mergers and acquisitions, split and reorganisation, transformation and upgrading.

FO_12: "In terms of intergenerational inheritance, our family office had already made a trust and will in 2018, and all the preparations had been set up. This is because my parents remained focused on the management of the listed companies previously, and were concerned that the rights and interests of siblings of the same generation might not be guaranteed.

Subsequently, we established a clear and complete trust and will arrangement through the FO. You are welcome to review for more information. Our FO is very transparent to family members."

FO_13: "Family office shall study how to make strategic layouts based on the status quo of the company, rather than only considering financial investment. Investment researchers of the FO will help our real estate company conduct upstream and downstream industry research. In the future, we also hope the FO will help in health management. The medical fund we have previously invested in has already played a role, such as providing resources for family members in medical demands."

FO_08: "Asset allocation and liquidity plans are made by our FO by focusing on the investment needs of family charitable funds, so we have a strong sense of purpose for the investment period."

3. ESTABLISHMENT AND SITE SELECTION OF A FAMILY OFFICE

3.1. Selecting the Proper Type of Family Office

For UHNW individuals intending to seek FO services, the first question is whether to find their own SFO or join an existing MFO. Such a decision can be made by fulling understanding the type of FO and allowing a comprehensive consideration of its own circumstances.

- **Single Family Office**

An SFO provides greater control, privacy, and customisation. UHNW individuals who choose to set up their own SFO often pay more attention to the organisational structure, investment strategy, and governance model of an FO, or expect deep involvement in the "second entrepreneurship" beyond the industrial enterprises.

Different from the business models of large wealth management institutions, such as investment consultation, sales commissions, and credit spreads, SFOs are born with "family clients", and therefore are free from pressures of client resources and industry competition. As a result, an SFO is conducive to greatly reducing principal-agent issues and conflicts of interest between owners and wealth managers, thereby achieving alignment of family values and wealth goals with the long-term vision. At the same time, it is easier to establish trust and trustworthiness between family clients and an SFO, which represents the most important cornerstone of the wealth management industry.

Despite several advantages, an SFO possesses some disadvantages in terms of "selection, cultivation, engagement, and retaining" of top talents due to differences with large financial institutions in institutional reputation, AUM scale, and career development. Furthermore, the operating cost of an SFO is relatively high. According to the Family Office Guide, jointly issued by UBS and the Cambridge Institute for Family Enterprise (CIFE), the annual costs of SFOs may exceed 1.2% of AUM, and such a proportion would be higher for small FOs equipped with complete internal functions.

Source: Boris Canessa, Jens Escher, Alexander Koeberle-Schmid, Peter Preller, Christoph Weber. *The Family Office: A Practical Guide to Strategically and Operationally Managing Family Wealth*, Palgrave Macmillan, 2018

Figure 3-1: SWOT Analysis of Single Family Office

- Multi-family Office (MFO)

An MFO serves several families. According to the Family Office Exchange (FOX), a family office industry association of the US, an MFO has an average of 83 clients and a median AUM of USD200 million. Chinese FOs are still in an early stage of development, with the number of clients lower than the international average. The survey shows that half of the interviewed MFOs have no more than 10 clients, but nearly 20% of them have more than 100 clients, indicating that large Chinese MFOs have started to take shape.

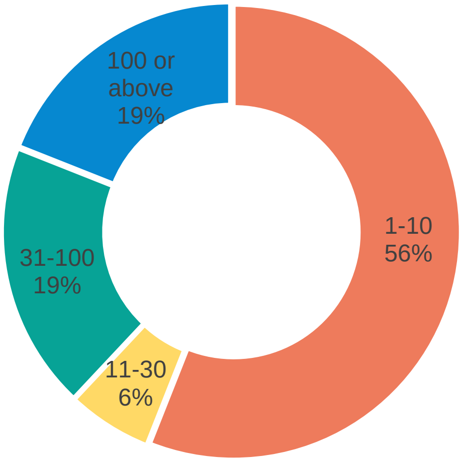


Figure 3-2: Number of Clients of MFOs (N=16)

For UHNW individuals who have no sufficient economies of scale or time devotion to set up an SFO, or have not yet determined the necessity of an FO, an MFO is a compromise or a way to make the first stride. An MFO generally charges management fees based on a certain percentage of AUM, or charges based on specific service items, which helps customers to control costs and improve cost performance. As compared with SFOs, despite the loss of certain customisation and privacy, MFOs have many advantages, such as cost sharing, more external experts, and larger internal teams. Having served a large number of clients, MFOs are often more experienced in handling client needs, and able to help clients build learning curves, thus facilitating communication and collaboration with other client families. MFOs tend to put more emphasis on external resource expansion, and are therefore more likely to be innovative. For example, this current research found that MFOs have a higher level of digitalisation than SFOs.

Nevertheless, it should also be noted that most MFOs are profitable commercial organisations, featuring strong profit-driven outcomes. As a higher degree of standardisation is required for MFOs to serve many customers, customer service is often less customised and real-time than SFOs. In light of multiple considerations such as price-performance analysis and standardised operations, product and service offerings of MFOs are at a lower level in terms of depth. At the same time, compared with SFOs, in essence, its customers bear the additional costs of MFO's business expansion and marketing.

FO_17: "One of the challenges we face is that it grows too fast. As many businesses remain in the early stage of exploration, we still have blind spots in knowledge and experience. We are crossing the river by feeling the stones. The realisation of comprehensive business operations has excreted high requirement on our capabilities. For example, how to match the speed of business development with the quality of customer service is a challenge we must confront."

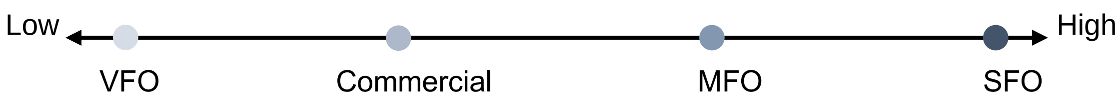
Source: Boris Canessa, Jens Escher, Alexander Koeberle-Schmid, Peter Preller, Christoph Weber. *The Family Office: A Practical Guide to Strategically and Operationally Managing Family Wealth*, Palgrave Macmillan, 2018

Figure 3-3: SWOT Analysis of Multi-family Office

The UBS-CIFE Family Office Guide points out industry benchmarks such as wealth, cost structure, and family size for a Single Family Office (SFO), Multi-family Office (MFO) and Virtual Family Office (VFO), providing guidance for families to choose the appropriate type of FO. The Family Office Guide states that clients with a net worth greater than USD500 million are more suitable for SFO services. The most mature SFO can provide comprehensive services for over100 family members with more than three generations. Clients with a net worth of less than USD50 million are more suitable for VFO services. VFO is a family office that outsources most or all of its business activities and only engages full-time staff and uses products and services as and when necessary. In such an event, it usually requires one to two full-time staff.

Table 3-1: Characteristics of Different Types of Family Offices

Less than USD50 million	**Family Wealth**	**More than USD500 million**
$< 0.5\%$	**Cost**	$> 1.2\%$
Low	**Confidentiality**	High
Limited services	**Service scope**	Extensive services
Non-customisable	**Customisation**	Fully customisable
Resource sharing	**Exclusive service**	Exclusive
No	**Soft service**	Yes
<10 persons+1 generation	**Family size/complexity**	>100 persons+3 generations
Limited knowledge	**Family overview**	Comprehensive insight
No resource/expertise	**Special projects**	Capable



Source: UBS-CIFE Family Office Guide

3.2. How to Set up a Single Family Office

As a more sophisticated professional tool, an SFO is designed to help achieve the long-term strategic goals of the family as a whole and the personal development goals of family members. How should the SFO be integrated into the overall development strategy and management structure of the family? Before setting up an SFO, the family must arrange top-level planning to design the family office structure and maintain iterative upgrades, which includes the following aspects:

- Strategic goals of the family: To clarify the long-term financial and non-financial goals that the family expects to achieve, covering family governance, corporate governance, equity governance, wealth management, etc., and involving financial wealth, industrial enterprises, risk taking, public welfare and social influence, development goals of family members, family culture and values, and the ways in which different family members participate in the FO;

- Asset integration: As families generally hold various types of assets before establishing an SFO, including industrial enterprises, financial assets, direct investments, physical assets, etc., the SFO must set up a series of financial management information systems, such as a complete family balance sheet, and comprehensively consider key elements such as income, risk, term and liquidity;
- Physical location and structure: The family chooses one or more operation bases of the SFO as well as legal structures tailored to local conditions in accordance with its FO strategic goals, combined with the office location or listing place of the industrial enterprise, the residence and identity of family members, the development strategy of the industrial enterprise and locations of family assets, etc., after taking comprehensive considerations of the legal and tax requirements of different jurisdictions;
- Management and operation scheme: Based on family needs and budget constraints, the family determines the internal functions and outsourced functions that should be covered by the SFO; designs the management methods and governance models of the SFO, including senior management composition, organisational structure, decision-making mechanism, key processes, incentives and constraints, information system, etc.;
- Implementation: On-site registration, team formation, and formal operations are carried out according to the design plan;
- Review and optimisation: The family will regularly review and assess the operation of the SFO, give feedback to family shareholders and maintain communication with them, and make adjustments and optimisations in a timely manner to ensure the realisation of long-term goals.

This report finds that, although the founding process of each SFO is different, it generally follows the four stages below: concept introduction stage, learning and thinking stage, design and formation stage, and development and improvement stage.

The concept introduction stage is generally initiated by private bankers, corporate senior management, or family members of the second generation. After a generation of founders or their spouses are exposed to the core concepts of the FO and of the view that it fits the needs of the family, they are usually more devoted to in-depth study and thinking by deepening their understanding through participating in private banking forums, college training courses, or visiting FOs at home and abroad. Furthermore, after taking preliminary consideration of the family situation, they depict the prototype of the SFO concept and move forward to the design and formation stage in a timely manner.

Upon completing the top-level design, the family starts to recruit the senior management and teams of the SFO. Practically, as talent in the early stage of the SFO require strong mutual acquaintance and trust, the founding team members are usually provided by social networks such as existing kinship relationships (such as second generation), learning relationships (such as classmates), or working relationships (such as corporate senior managers, former colleagues, or professionals). After the SFO forms a solid foundation, more external professionals will be invited to join.

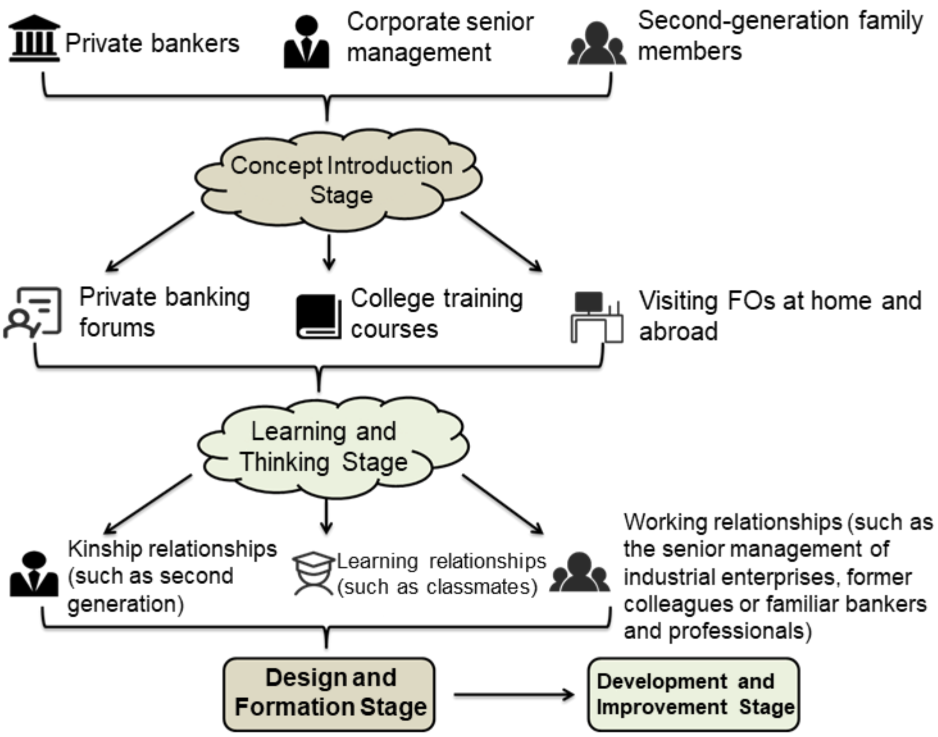


Figure 3-4: Stages of Establishment of an SFO

Case 3-1: Founding History of FO_07

The founder of FO_07 quit the management of the listed company in 2009 and began to explore a new direction in life. In 2011, the founder hired the former senior management of the family business (who subsequently served as the CEO of the family office), and established an investment company in Mainland China.

In the learning and thinking stage for one or two years, they gained more knowledge of FOs by participating in an FO special training programme organised by private banks. In 2013, they transformed the investment company into an FO, and embarked on a study tour of advanced foreign FOs. They personally visited the Dell family and Walton family in the US, and well-known local families in Brazil. “We decided to identify generalities for the first step, and then to seek for individualities from generalities.”

Upon completing the concept introduction and the learning and thinking stages, they officially registered and established an FO in Hong Kong. This was decided after taking into account the legally favourable environment of Hong Kong, China, abundant talent available, and because the family members are Hong Kong residents and the industrial enterprises are also listed there.

In 2014, the founder and CEO jointly determined the top-level design of the FO, and began to promote the development of the SFO in an institution-based manner, forming functions including financial accounting, treasury management, tax planning, IT system, and asset management. In terms of personnel structure, at the beginning of its establishment, they chose to recruit employees who were well acquainted with in the past. Later, as the investment expanded, they began to hire professional talent from world-class universities, well-known asset management institutions, and international law firms.

As the number of investment projects increased, the FO set up a US office and further upgraded its management structure in combination of globalisation with localisation. The US office is able to trade during the closure for trading in Asia. Building a local team and social networks will also help capture investment opportunities.

Case 3-2: Founding History of FO_01

The founder of FO_01 gained a large amount of cash after they fully sold their startup in 2014. The former head of the corporate strategy department introduced the concept of an FO to the founder. The founder considered it and concluded that it was highly consistent with the family goals, and has been exploring it since then.

From 2015–2016, the founder consulted various domestic and foreign FOs with a systematic study of relevant courses, while learning practices from cooperation with private banks. The founder's niece joined in the FO at the very beginning of its inception, and was responsible for investment management.

In 2017, the FO business gradually matured and began to assume functions such as asset allocation, financial investment, and family governance. It also opened overseas offices and hired a large-scale professional investment and research team.

Case 3-3: Founding History of FO_11

The founding family of FO_11 began to manage family investments as early as 2007–2008 through the internal department of the industrial enterprise (which in fact assumed the function of a built-in FO). In 2012, the current CEO of the FO worked as an external investment advisor and introduced the FO concept to the family.

With the continuous growth of investment scale, the family showed interest in establishing an FO in 2016. The current CEO and a generation of founders jointly selected the person in charge of the FO, and interviewed many veterans from the private banking industry in Hong Kong, who were not chosen in consideration of trust. Instead, they jointly determined to empower the current CEO to plan and form the FO.

The current CEO visited overseas FOs in the US, Switzerland, and various other countries, and gained a profound understanding of this industry. The FO started with only three full-time employees. In 2020, with the expansion in investment scale, the number of employees increased to seven, and they were responsible for functions including operation management, fund investment, and family governance.

3.3. How to Choose a Multi-Family Office

Different from SFOs, which are mainly family-led, most MFOs are founded by financial institutions or professionals. Of the 16 MFOs involved in this report, 8 were founded by former private bankers, 3 were founded by families and managed by professionals, 2 were co-founded and managed by multiple families, and 1 was founded by the former CEO of a certain SFO. The remaining 2 were established by senior professionals from insurance companies and law firms.

Considering the diversity of MFOs, families should conduct sufficient research before choosing to join one, which should also confirm the alignment of services provided by the MFO with the family's needs. Since the regulatory stewardship of MFOs are not specified in China, and MFOs are of uneven quality, families should uphold the principle of prudence before joining. Below is a typical due diligence list for selecting an MFO.

Table 3-2: List of Questions for Due Diligence of an MFO

Institution background

- Date of reasons for establishment
- Purposes and original intention
- Annual plans, and medium and long-term goals for 3-5 years
- Shareholding structure, including the shareholding percentage of family (if any family equity participation) and shareholding percentage of professionals
- Organisational structure
- Key processes

Service capabilities

- Professional capabilities in fields including inheritance planning, financial planning, investment planning, investment management, taxation planning, charity planning
- Core competitiveness and service advantages
- Plans for services to be adjusted and improved, and types of services to be added
- Cooperation with external consultants and service outsourcing

Customer relations

- Number and size of family customers served
- Distribution of types of existing family customers
- Standards for selction of customers and expansion in the compensation structure for employees of customers
- Respective number of customers who joined/left in the previous 1/3/5 years and reasons thereof

Employees

- Number and position distribution of full-time employees (senior management/partners, account managers, investment managers, tax accountants, charity planning, IT experts, operations management employees, administrative support employees
- Number of family accounts managed by each account manager
- Composition and assignment of responsibilities of the customer relationship team
- Dimission rate and turnover in the past 3 years

Customer interaction and customer education

- Ways and the frequency of customer interaction
- Ways and the frequency of customer report
- Whether seminars are held regularly/text version of research briefs are provided

Pricing of charges

- Charging model
- Is there a service level agreement (SLA), including schedule of charges
- Minimum fee standards and minimum account size requirements
- Whether the charging structure is subject to adjustment (depending on different customer situations)
- Ways to determine the pricing of charges if other members of the same family join the MFO

3.4. Site Selection of a Family Office

As the family office is at the intersection of family, wealth, and enterprise, the above three factors should be comprehensively considered in terms of the selection of its physical location. Due to the increasing convenience brought by digital technology and means of transportation, site selection for an FO is no longer limited to the family residence, but should be decided after closely considering various factors such as business environment, talent quality, liveability, and enterprise development.

3.4.1. Considerations for the Site Selection of a Family Office

In this survey, the primary consideration for the site selection of an FO is the business environment, including factors related to institutional environment, regulatory environment, and talent supply. Among them, the most important subdivision factors are the legal environment, talent supply, and tax environment. A stable legal environment provides the basic conditions for the long-term development of an FO. Standardised supervision will also reduce various risks faced by FOs and improve the professionalism of their own operations and external financial institutions.

FO_03: "The government should have a supportive policy in place, while also maintaining long-term stability. We previously put funds overseas, but there is no particularly specific legal structure to deal with this issue. I think the most important thing is the clarity and continuity of the legal structure, especially the legal environment."

As human capital is the cornerstone for the development of an FO, the quality of talent is particularly important. Most FOs not only need to be distributed geographically, but also connected to major global investment destinations and professionals from different countries. Therefore, the openness of the financial market will determine the availability of FO talent to a large extent. Efficient visa and residence policies can meet the employment needs of FO talent. For FOs that make global investment allocations, market openness and access to investment projects are also highly significant.

FO_01: "An FO prefers regions with a developed financial industry and abundant talent and outsourcers. Hong Kong is a very popular destination for FOs, as it is one of the top three financial centres in the world, and enjoys a very mature financial industry and world-leading *talent supply."*

When selecting the operation base for an FO, the importance of family-related factors is second only to the business environment. An FO prefers areas with expansive family networks and high co-investment density to improve the efficiency and security of investment. The place where the FO is established and where family members reside is often highly overlapped. If the FO is geographically closer to the place of residence, it is more convenient for the interaction between family members and the FO. It is also easier to understand the operation and management of the FO, along with the ability to control the development direction and monitor workplace performance. Therefore, when selecting the operation base of an FO, certain factors are often taken into account, including residency policy, medical environment, pension environment, education level, and liveability. Time difference and Chinese language and culture will also be considered when selecting an appropriate location.

FO_04: "Many of our family members are from Hong Kong and mainly live there, so it is natural to set up a family office in Hong Kong."

FO_13: "Families are more willing to choose areas with the same culture, liveability, and closer proximity to establish a family office."

In addition to business environment and family factors, the industrial enterprise is also an important consideration, such as the location of its headquarters, listing place, strategic development destination (such as the location of R&D centres or M&A targets), financing environment, etc. However, compared with the previously mentioned two types of considerations, corporate factors are lowly weighted in the final decision-making for the site selection. The family will first consider whether the operation base of the FO is consistent with the place where the business is located or listed. Such consistency enables the FO to better support the development of industrial enterprises at the strategic level. Meanwhile, any dividend distribution to shareholders by the enterprise and any equity reduction by shareholders will generate cash flow, and investment in the same currency where the cash flow is dominated will also provide favourable conditions for the efficient operation of an FO to some extent.

FO_06: "Our industrial enterprises are listed in Hong Kong, and proceeds from the dividend distribution and equity reduction are dominated in HKD. Therefore, we have *established a family office in Hong Kong, which facilitates the use of funds and is also conducive to global allocation."*

In light of the above three factors, Hong Kong, Beijing, Shanghai, and Singapore are the top four popular locations for operation bases in this research. Among them, the number of FOs that chose Hong Kong as the location of their offices is the largest, reaching 22. At the same time, most of the interviewed FOs have multiple physical office locations in order to meet the needs of multiple targets and global allocations.

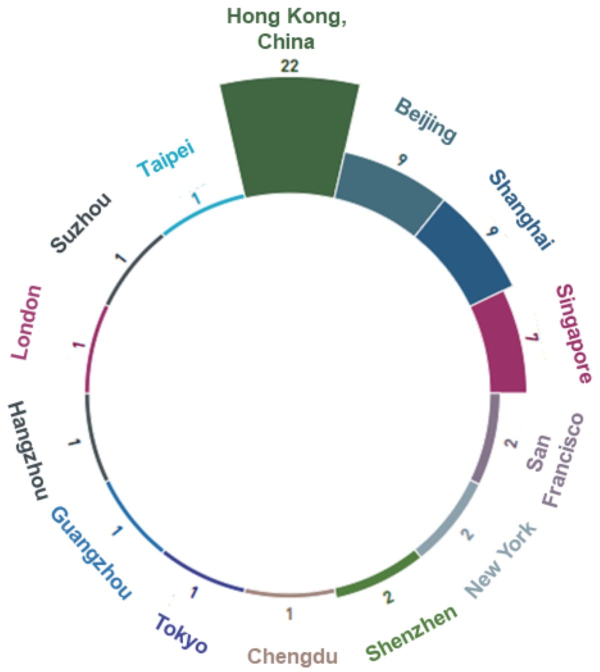


Figure 3-5: Geographical Distribution of Family Offices[4] (N=30)

[4] Some FOs have offices around the world, so the total number of physically located offices is greater than 30.

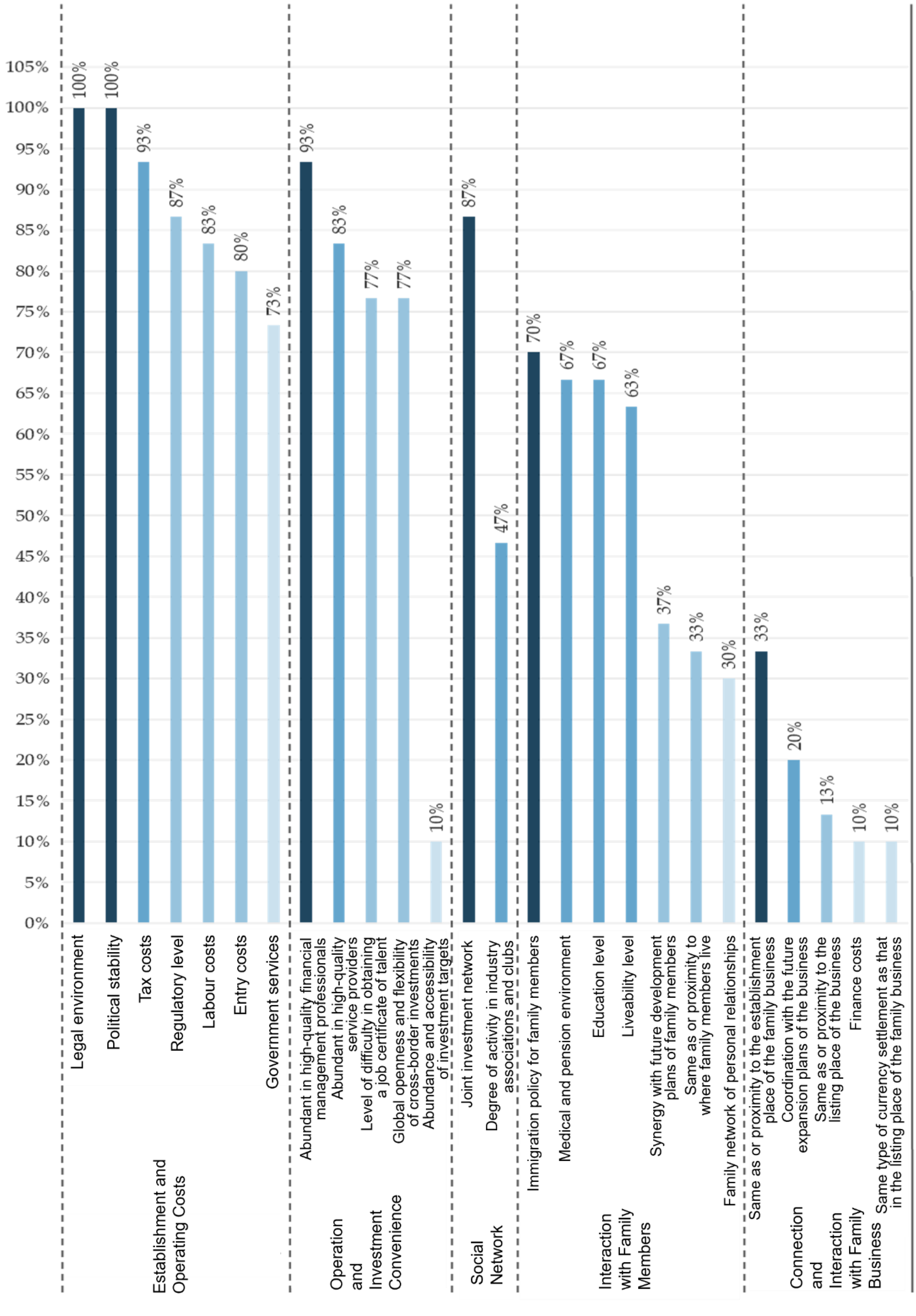


Figure 3-6: Considerations for the Site Selection of a Family Office (N=30)

3.4.2. Examples of Policies in the Operation Base of FOs in the Asia-Pacific Region

Recent years have seen fierce global competition in the field of wealth management. As the “jewel in the crown” of the global wealth management industry, and the highest level of competition in the business environment, FOs have become one of the most critical and widely concerned core areas for global wealth management centres. Both Hong Kong and Singapore are the global financial centres and most popular operation bases of FOs in the Asia-Pacific region. As efforts to enhance respective competitiveness, these two locations have launched a “combination” of policies to vigorously attract FOs from all over the world.

Hong Kong launched its Limited Partnership Fund (LPF) regime in August 2020. The LPF implements the partnership system, under which the GP manages the fund, and the LP assumes limited liability within the limit of the capital contribution, and is entitled to enjoy corresponding income distribution. At the tax level, Hong Kong does not levy any profit tax, and no stamp duty will be imposed on the contribution to, transfer and withdrawal of LPF equity. Subject to the satisfaction of certain conditions, an LPF can enjoy exemption from profits tax under the unified fund exemption regime.

An LPF is applicable to venture capital funds, private equity funds, buyout funds, real estate funds, infrastructure and project funds, special opportunity funds, hybrid funds, distressed asset funds, credit funds, digital asset funds (e.g., cryptocurrencies, digital assets), etc. Against the international background of the deepening implementation of CRS and the “Cayman Islands Economic Substance Law”, an LPF provides a new institutional option for the global asset allocation of UHNW families.

In terms of tax incentives, Hong Kong Financial Services and the Treasury Bureau issued a public consultation paper titled “Proposed Tax Concession for Family Offices” to industry professional groups on 8 March 2022. A relevant proposal was submitted to the Panel of the Financial Affairs of the Legislative Council in April of the same year, to provide tax exemptions for Family-owned Investment Holding Vehicles (FIHVs) with operations in Hong Kong, which would be in effect from the assessment year 2022/23. FIHVs managed by SFOs that meet certain conditions can be subject to a tax exemption on Hong Kong profits tax corresponding to profits from qualified transactions and incidental transactions thereto. Tax exemptions are available to FIHVs that satisfy the following conditions:

- the total assets under management under the SFO shall not be less than HKD240 million;

- core income-generating activities in relation to asset management must be carried out in Hong Kong;

- each FIHV shall engage at least two full-time eligible employees in Hong Kong and carry out core income-generating activities;

- operating expenses related to core income-generating activities conducted by each FIHV on an annual basis in Hong Kong shall not be less than HKD2 million.

In 2019, Singapore launched the Fund Tax Exemption Scheme (13R and 13X) to provide concessions for the establishment of FOs. The structure of the fund tax exemption plan includes two companies: ① fund company, which holds various family assets; ② fund management company, namely an FO. The fund management company provides fund management services to the fund company. Any fund company that meets certain conditions is applicable to the tax exemption scheme under the 1947 Income Tax Act of Singapore, namely the 13R Scheme and 13X Scheme.

On 11 April 2022, the Monetary Authority of Singapore issued new regulations for the Fund Tax Exemption Scheme, to raise the applicable threshold of the above Scheme and make adjustments in terms of fund size, local investment ratio, business expenses, and number of employees. The new Fund Tax Exemption Scheme, also known as 13O (the original 13R) Scheme and 13U (the original 13X) scheme, was officially implemented on April 18 of the same year. The following is the summarised 13O and 13U, as well as the comparison with 13R and 13X:

Table 3-3: Comparison of the 13O Scheme and 13R Scheme

	13O Scheme	13R Scheme
AUM	No less than SGD10 million (equivalent to approximately RMB48 million) at the time of establishment, and undertake to increase to SGD20 million (equivalent to approximately RMB96 million) within 2 years after its establishment	No AUM requirement
Investment professional	Engaging at least 2 investment professionals, and in the event of failure to do so at the time of application, engaging the second professional within 1 year after the establishment	Engaging at least 1 investment professional
Business expenses	• if the AUM is less than SGD50 million (equivalent to approximately RMB240 million), the annual business expenses shall not be less than SGD200,000 (equivalent to approximately RMB960,000); • if the AUM is between SGD50 million and SGD100 million (equivalent to approximately RMB480 million), the annual business expenses shall not be less than SGD500,000 (equivalent to approximately RMB2.4 million); • if the AUM is more than SGD100 million, the annual business expenses shall not be less than SGD1 million (equivalent to approximately RMB4.8 million)	Business expenses of not less than SGD200,000 per annum, not subject to the AUM
Local investment	At least 10% of AUM or SGD10 million (whichever is lower) shall be invested locally in Singapore	No requirement of local investment in Singapore

Table 3-4: Comparison of the 13U Scheme and 13X Scheme

	13U Scheme	13X Scheme
AUM	No less than SGD50 million at the time of establishment	No less than SGD50 million at the time of establishment
Investment professional	Engaging at least 3 investment professionals, at least 1 of whom is a non-family member. If it is unable to engage 1 non-family member as an investment professional at the time of application, such engagement shall be conducted within 1 year after the establishment	No requirement to engage non-family member
Business expenses	If the AUM is less than or equal to SGD100 million, the annual business expenses shall not be less than SGD500,000; if the AUM is greater than SGD100 million, the annual business expenses shall not be less than SGD1 million	Business expenses of no less than SGD200,000 per annum, not subject to the AUM
Local investment	At least 10% of AUM or SGD10 million (whichever is lower) shall be invested locally in Singapore	No requirement of local investment in Singapore

4. ORGANISATIONAL STRUCTURE AND TALENT OF FAMILY OFFICES

4.1. Organisational Structure of a Family Office

The organisational structure design of an FO is highly heterogeneous, and therefore it is difficult to be generalised. In most cases, for the early stages of development, the chief executive officer (CEO), chief financial officer (CFO), and chief investment officer (CIO) are the three essential roles. As IT needs to be established, the FO may also be equipped with a chief technology officer (CTO). At the same time, MFOs usually set up the role of chief customer officer (CCO). Some MFOs may adopt a partnership system.

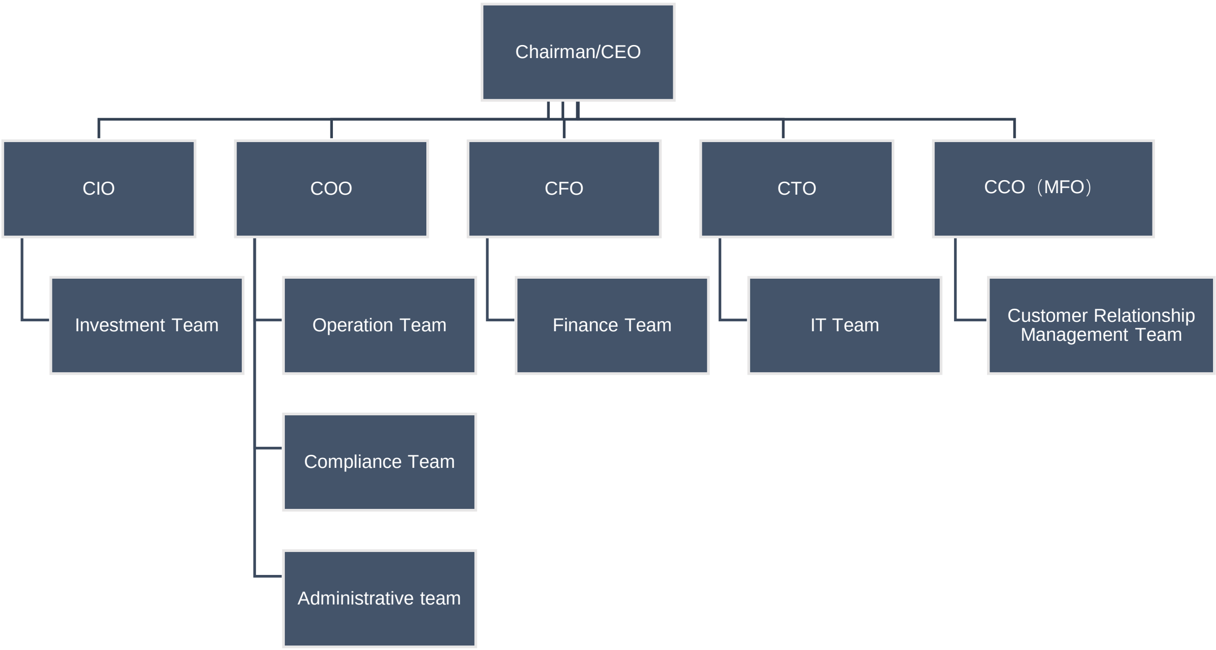


Figure 4-1: Typical Organisational Structure of a Family Office

- **Chairman of the Board/Chief Executive Officer (CEO)**

In an SFO, the role of chairman of the board or CEO is usually performed by a family member. In a family where one generation of founders is getting older and subject to intergenerational inheritance, a second-generation family member may serve as the CEO. After the family sells and exits the business, a generation of founders may also take charge of the family office if they are passionate and have a strong willingness to succeed.

For SFOs with low family involvement, the CEO is generally an external professional. Our survey found that former senior management of the family business, senior family advisors (e.g., financial or legal advisors), private bankers, or investment bankers with long-term cooperation are high-frequency candidates for becoming the CEO of an SFO. They have long-term interaction and cooperation experience with families, and have established deep trust and rapport with each other.

In an MFO, the CEO position is usually held by the principal founder, who is the most experienced or has the most client resources, and may also perform the role of CCO.

- **Chief Investment Officer (CIO)**

The CIO is responsible for investment affairs, including determining investment ideas, formulating and implementing investment strategies, and designing asset allocation plans. The CIO should have extensive experience in financial investment, asset allocation and portfolio management, keen insight into macro and micro economic conditions, and strike a balance between short-term tactical investment and medium and long-term strategic investment. The role of CIO is generally held by senior investment professionals or the second generation of families who have more practical investment experience.

- **Chief Financial Officer (CFO)**

The CFO is generally a finance or taxation expert with primary responsibility for financial management, including tracking investment performance and compiling reports, treasury management, preparation of budgets and financial reports, dealing with tax issues, managing trusts and insurance, etc.

- **Chief Operating Officer (COO) and Chief Technology Officer (CTO)**

The COO is responsible for the overall operation, including operation process supervision and management, compliance and risk management, contract review and management, administrative file management, family affairs management, etc. The CTO is principally responsible for the development and management of IT systems, data management, and data security.

According to our management survey of 30 interviewed FOs, 26 of them have established the role of CEO, and the remaining 4 have adopted a partnership structure. The number of FOs with a full-time CIO, COO, and CFO is 18, 14, and 3, respectively. One FO is equipped with a dedicated CTO. Family members serve as chairman, partner, CIO, CEO, CFO, COO, and other positions based on the FO structure and their own capabilities and interests.

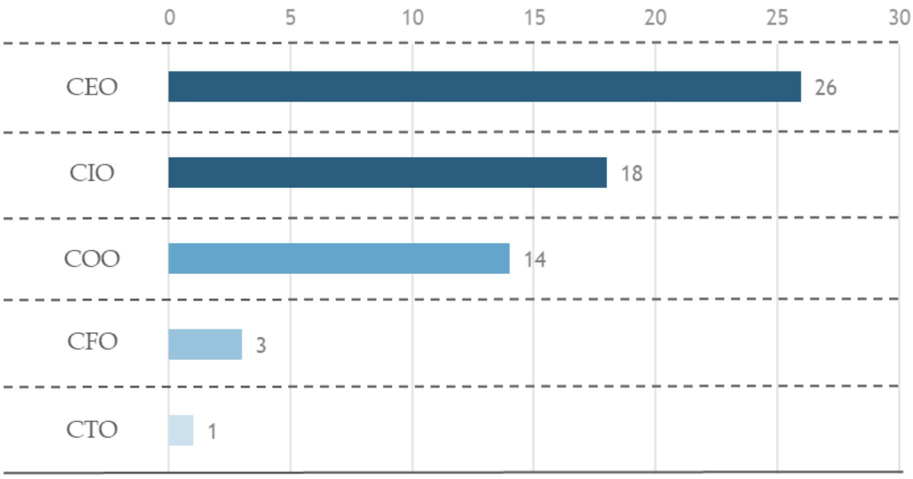


Figure 4-2: Setting of Roles of the Family Office (N=30)

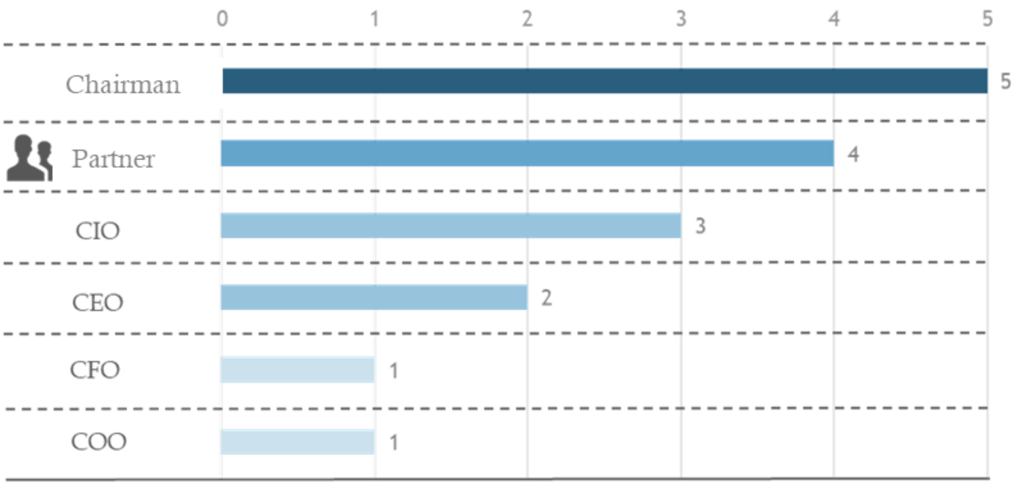


Figure 4-3: Roles Played by Family Members (N=12)

4.2. Talent in Family Offices

Talent is the most important asset of an FO. The “selection, cultivation, engagement and retaining” of top talent is crucial to the high-quality development of an FO. In other business organisations, talent-related work is generally performed by the human resources department. However, since the FO tends to be a small, flat organisation, talent-related work is generally done directly by family members or executives.

According to the FOX, a family office industry association of the US, the following steps can effectively optimise the recruitment process of an FO:

1. **Specific job descriptions**: As the senior management of an FO may perform multiple roles, whether recruiting chief officers or employees, job descriptions can make talent assessment methods more explicit, and enable candidates to have more definite career development expectations.

2. **Establishment of an interview committee:** Decisions on the key roles of an FO (such as CEO, CIO, and CFO) should not be made by a single interviewer. The establishment of an interview committee consisting of several individuals is conducive to reducing risks and conducting a more comprehensive, rational, and objective assessment of talent.

3. **Prudent background checks or scientific assessments:** Conclusions from short interviews require further background checks or scientific assessments for verification. FOs generally seek long-term business partners, and should conduct cross validation with careful and comprehensive background checks and scientific tests.

FO_07: "We have strict talent entry criteria, and apply various human resources and psychological assessment models. Such assessment is not only a consideration of skills and experience, but also a test of cognition and thinking. We have been applying such a comprehensive evaluation system for seven years, which has shown effective results. For example, the evaluation results of an employee in the initial interview show he/she is extremely open-minded – it took only three years to cultivate such high-potential talent from middle to senior level."

Compared with large financial institutions, FOs can provide a more flexible and performance-oriented salary structure. The work environment and culture of an FO can also attract "chemistry-fit" talent.

FO_12: "I prefer to recruit talent from middle-class families who rarely have negative *emotions due to salary issues, but, more importantly, can understand the operational logic of the whole family office."*

In order to retain talent, other common incentives include equity incentives, spirit incentives, etc.

Equity incentives refer to the provision of other means of capital gains in addition to fixed remunerations. For example, certain FOs have designed an employee co-investment mechanism, which is conducive to realising the consistency of the interests of the principal and the agent, reducing the negative impact of short-termism behaviours, and improving the overall income level of employees in an objective way.

FO_12: "Our FO has an employee co-investment mechanism in place. A certain share of each investment project will be given to employees to sign up, with the investment amount ranging from one or two million to tens of millions in RMB. Any cost incurred in the co-investment process will be borne by myself. This way of bundling everyone's interests together shows good results. After all, the wages and benefits that the FO provides to employees are limited. So, I hope each of my employees can live a decent life in this way."

FO_07: "At present, the FO has set up a co-investment mechanism, and employees can choose to co-invest or not based on their own actual situations. In the future, we will consider implementing a mandatory co-investment mechanism for the management to enhance the consistency of interests."

In order to retain core talent, some FOs open equity to external talent, and establish a higher level of mutual trust through the partnership system, which is conducive to achieving deep and long-term win-win cooperation.

FO_04: "The partnership system can truly reflect the cooperative relationship between us (professional managers) and family shareholders. All have co-investment and joint investment mechanisms on various levels. The management team is responsible for managing and allocating the family's overall assets. We will also enjoy the return on investment. We not only share the benefits, but also jointly share the risks as we need to invest money."

FO_03: "We want to build an open platform and cooperate with the best partners in the world, to form a market-oriented incentive system. This is a new attempt we have made in the *past year, and we are also considering gradually opening the SFO to an MFO.”*

Spirit incentives. The family office is often referred to as the “last stop” of a professional’s career, and the senior management of FOs often have long-term working experience in large financial institutions. Different from large financial institutions, a family office with a flat and loose structure may not have rigorous performance evaluation criteria. Some studies suggest that CEOs of FOs often feel “unimportant” due to a lack of communication and feedback. Therefore, empowering employees and timely communication and feedback is an important part of retaining talent. The overall organisational goals and personal development goals are organically combined through spiritual elements such as vision concepts, cultural values, public welfare, and environmental, social, and governance (ESG). For example, FO_18 attaches great importance to the shaping of team values in order to achieve a consistency of ideas and interests.

4.3. Insourcing and Outsourcing of Functions of Family Offices

Our research has shown that, compared with mature markets such as those in Europe and the US, Chinese FOs are still in an early stage of development, indicating that they mainly undertake financial functions such as investment management and asset allocation so as to maintain the long-term real purchasing power of wealth. Of the 30 FOs surveyed, 29 have a financial investment function and 28 have an asset allocation and risk management function. Most FOs have established relationships with external private banks, investment banks, and investment funds. In addition to direct investments, FOs made good use of information and opportunity sourcing functions of various external investment platforms. A very small number of FOs only undertake asset allocation and portfolio management instead of the direct investment function.

Regarding the non-financial functions, the common insourced functions of FOs include financial planning, tax planning, family governance, inheritance planning, charity, and legal services. Some FOs choose to outsource their IT, legal, tax, and other functions to external professional organisations with which those FOs have established partnerships.

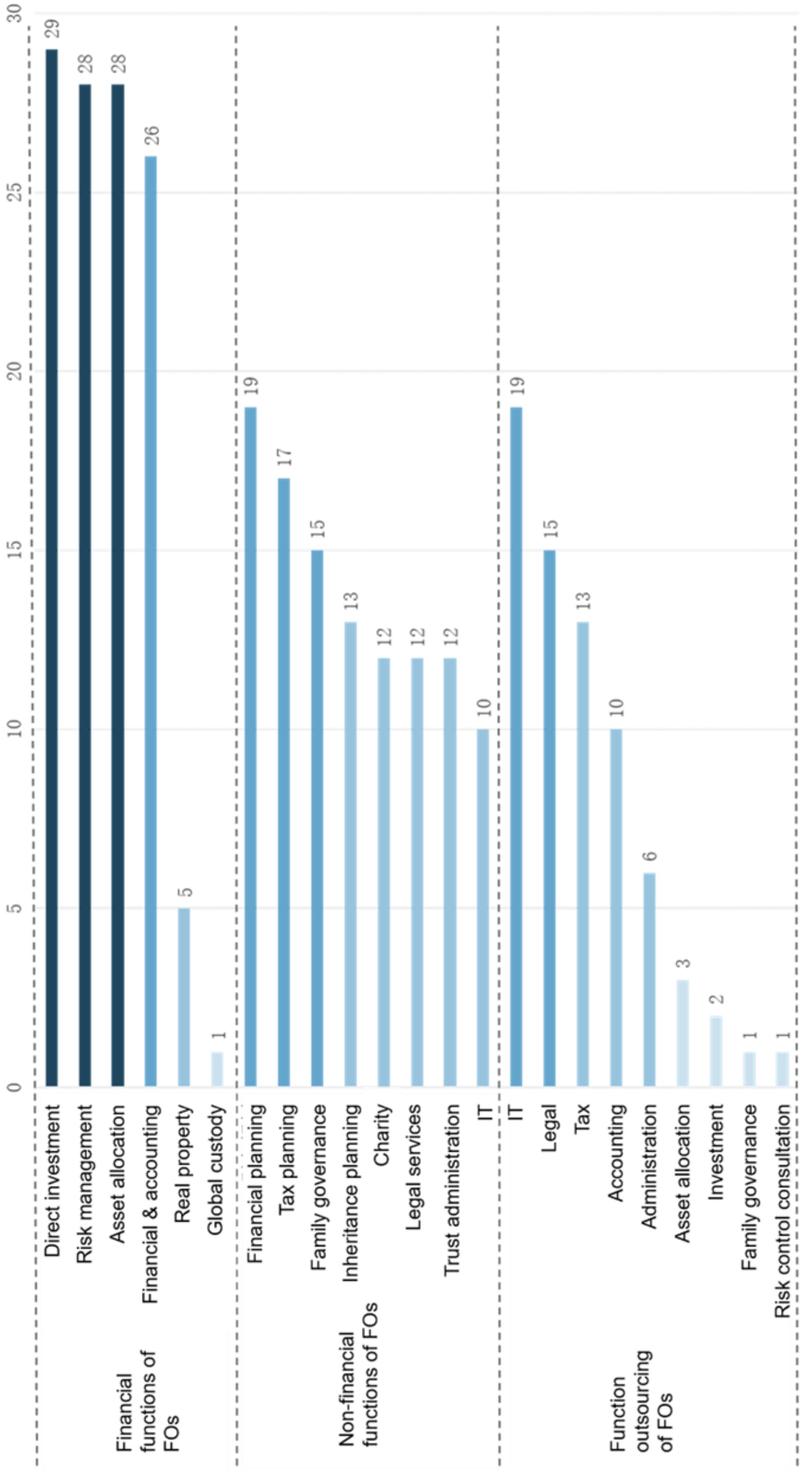


Fig. 4-4: Functions of FOs (N=30)

For an FO, the advantages of function insourcing include powerful control, high degree of customisation, excellent privacy protection, low conflict of interest, and strong sustainability; while the disadvantages include high financial costs and a tremendous amount of time and effort. Function outsourcing, on the other hand, offers cost savings, a streamlined team, a wide range of options, and experienced specialists; while the disadvantages are slow response times and weak privacy protection.

Each family office should make its decision to insource or outsource a function that is appropriate to its own characteristics. As a general rule, an FO should take into account at least the following factors when making any such decision:

1. Budget and structure: Outsourcing allows an FO to obtain professional services at a lower cost, therefore it is suitable for FOs with a limited budget. FOs prefer outsourcing of function as they typically prefer to be small-sized teams;

2. Frequency and importance: A family office should insource its core and high-frequency functions for independence and high-quality delivery; however, it is more economical for a family office to outsource low-frequency specialised standardised services (e.g., tax and legal);

3. Complexity and privacy: If a family needs a service that involves certain specialised niche skills (e.g., legacy planning), it may be necessary for the family to engage external experts; if a family requires a high level of confidentiality of information and data, or if the service requires close interaction with family members over time, the family is more likely to favour insourcing of functions (e.g., family governance or next-generation development).

FO_07: "To keep our organisation lean, we outsource such localised businesses we operate abroad as US-related tax services. In addition, we have also outsourced the management of the hotel, for which we act as the owner, due to the complexity of managing the hotel. The decision to outsource this management is largely based on efficiency, cost effectiveness, and comparative advantage. We would still choose to outsource the management of the hotel even if we were able to insource it ourselves, provided that the cost of outsourcing is low enough."

FO_17: "We provide MFO customers with services such as certain administrative work in *relation to trust, education, and immigration. These solutions are mainly provided by reliable specialised service providers we select in the market. This type of work is rather fragmented and can even include geographical issues if they involve overseas parties. We will systematically categorise these service providers in the future so that customers can select a more precise segment service provider."*

Table 4-1: Analysis on Common Insourced/Outsourced Functions of FOs

Type of function	Insourcing	Outsourcing
Asset allocation/ portfolio	Insourcing is recommended for core functions such as asset allocation and portfolio management	Certain investments with great difficulty, high threshold, and demanding professional knowledge (such as PE investment) may be made on an outsourcing basis
Bookkeeping/ reporting	Insourcing would be more appropriate if the booking/reporting involves internal data and family privacy	IT systems related to bookkeeping/reporting is generally outsourced
Risk management	A risk management framework should be established since risk management is one of the core functions of FOs	An FO may consult with external experts regarding certain specialised segments.
Tax/legal	Determine whether to insource the tax/legal functions on the basis of budget and size of the organisation	Outsourcing is a more common practice. While FOs often insource tax/legal positions, most will engage outside agencies on a project basis
Wealth distribution/ inheritance	Insourcing is more suitable for wealth distribution as it involves family privacy/significant strategy	A family office may rely on an external advisor to provide advice regarding an inheritance scheme of the family and then optimise the scheme; while instrumental services such as trusts and insurance are more commonly outsourced
Administration service	Insourcing is more appropriate in order to ensure responsiveness/ customisation of the service	Certain specific standardised services may be outsourced

5. INVESTMENT AND ASSET ALLOCATION OF FAMILY OFFICES

Intergenerational succession is the essential feature that significantly distinguishes FOs from other institutional investors. Unlike most investment institutions that set short-term investment goals such as annual, quarterly, or monthly goals, an FO may make its investment with a horizon of several decades or even several generations. At the same time, FOs face a more relaxed regulatory environment. Thanks to these factors, FOs are able to develop specific investment strategies, select asset classes, and implement asset allocations with greater freedom and flexibility.

Since FOs essentially represent the most innovative, creative, and wealth-creating group of entrepreneurs – especially the founders from the new economy and high-tech fields – they often have a strong passion for investing in the future and technological innovation, thus providing long-term “patient capital” that facilitates innovation and entrepreneurship. Compared with other types of institutional investors, FOs have a higher tolerance for risk, are able to assume greater uncertainty and longer investment horizons, and are committed to pursuing long-term asset appreciation, which is objectively more conducive to the technological innovation of a country. Data have shown that nearly 20% of the assets of FOs go to managers with long horizons, such as private equity, venture capital, and angel investments, and those FOs have seldom turned over their assets.[5]

Column: Technology investments of the Wallenberg family office

In Sweden, the largest company is the Wallenberg family’s industry group that has survived five generations in business, which comprises three Fortune 500 companies (ABB, Ericsson, and AstraZeneca) as well as a group of well-known enterprises such as, Electrolux, Saab, Scandinavian Airlines, and telecommunications company Three, all of which together accounted for 40% of the market capitalisation of all listed companies in Sweden at one time. The core decisions of the industry group are made by the FOs of Wallenberg, i.e., Investor AB and FAM.

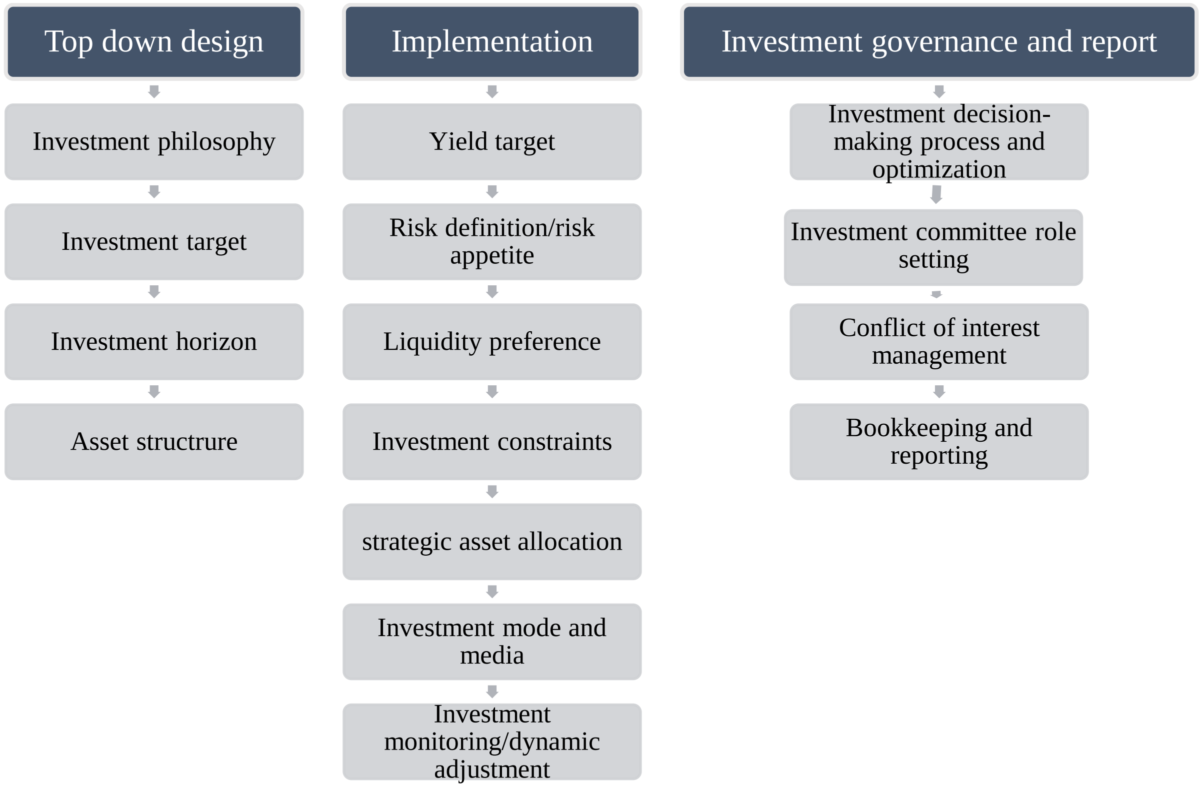
[5] Jason Zweig. How the Rich Play the Market，Wall Street Journal. May 10, 2013

As the lead investor, the Wallenberg family office has, along with Goldman Sachs and Fidelity, invested USD5 million in Alibaba in Series A investment round as early as 1999, which has become a typical case of an FO making a high-risk, high-growth, and high-yield strategic investment. FOs provide invaluable initial investment support as “patient capital” for disruptive innovations with a high degree of uncertainty.

There is a true story about a Taiwanese man who gave up his annual salary of USD700,000 in 1999 to join Alibaba with a monthly salary of RMB500 – the “man behind Jack Ma” is Cai Chongxin, former CFO and Vice Chairman of Alibaba. What job would have paid such a high salary more than 20 years ago? Cai Chongxin had worked in Wall Street for a few years after he graduated from Yale University with a doctorate in law. He was then hired by the fifth-generation head of the Wallenberg family as the investment manager of the Wallenberg family office in China. It was Mr. Cai, then 35 years old, who discovered the talent of Jack Ma. Despite the multiple failure in starting his own business, Mr. Cai strongly believed in Ma and advocated to invest in Alibaba, which laid the foundation for the success of Alibaba today.

The logic behind this classic case is worthy of analysis. The Wallenberg family arrived in Stockholm earlier than the Swedish royal family, while ABB commenced its presence in-/ Shanghai as early as 1908. Its FO began investing in China, which was still a small economy at the time, more than 20 years ago. The Wallenberg family firmly believes that only by continuously identifying the most innovative entrepreneurs and making bold investments can we ultimately achieve a long-lasting fortune. It was based on clear strategic logic that the Wallenberg family could hire top-notch young talent and entrust them with important tasks to systematically implement investment strategies.

At the same time, the “patient capital” underlying the intergenerational succession of FOs offers the most talented young entrepreneurs the time and space to develop their talent and make “0 to 1” ventures. This is because FOs have the risk appetite, investment horizon, technology orientation, and entrepreneurial spirit that other types of institutional investors do not have. Similar classic investment cases have repeatedly appeared in the world’s most successful technology innovation enterprises, such as Ellison’s early investment in Tesla, Li Ka-shing’s early investment in Facebook, and Li Tzar Kai’s early investment in Tencent, all of which provided crucial support for the technology enterprises that were unknown or controversial at that time. In fact, early investments in disruptive technology companies by FOs have become an essential part of a country's innovation system.



Source: Brunel (2006); Haynes, Daniel and Hamilton (2008)

Fig. 5-1 Investment methodology of FOs

5.1. Investment Philosophy and Objectives

Investment philosophy is a highly condensed representation of the core elements such as investment principles, benchmarks, methodologies, and values. A systematic, clear, and accurate investment philosophy can lead to a systematic guide within and outside the FO, set benchmarks for investment decisions and subsequent evaluation, and provide guidelines and boundaries for the execution on part of the investment team.

FO_02: "Our founder has reverse thinking. He wants to do big and challenging things, and is willing to invest in areas that others are reluctant to invest in, such as food waste, stem cells, turbine engines, and so on. He prefers long term investments and is relatively open-minded about financial returns, rather than just making purely financial investments."

FO_03: "In terms of investment, we prefer innovative and radical projects, which may be related to the personality of the founder. We invest in novel, and high-growth technology-based companies – the key is to invest in the future."

When setting investment targets, an FO must make reasonable calculations and plans based on the pace of capital needs and family expenditures, as different family members face different needs for education, entrepreneurship, healthcare, retirement, and philanthropy at different stages of their lives. Based on the needs of intergenerational succession of a family, the FO typically makes investments with an investment horizon spanning multiple economic cycles. This makes investment targets and boundary conditions of the FO more complex and diversified.

FO_08: "What the FO pursues is not high risk and high return, but long-term philanthropy and legacy. Since the donation commitment of the family philanthropy requires an annual spending intensity of $100 million or more, the asset allocation model is required to ensure healthy cash flow. Therefore, we made an asset allocation model with a stepped investment horizon arrangement based on spending needs, which ensures asset preservation and appreciation while meeting the cash flow needs of charitable spending."

The complexity of the investment model is further compounded by the presence of industrial companies. For many FOs, dividends and equity reductions from industrial enterprises are the main source of funding, and sometimes even large-scale funding support or financing arrangements are required to meet the transformation, expansion, and M&A needs of the family industry. As a result, the investment activities of FOs are structurally constrained by the cash flow of non-investment income and expenses. Considering the operational risk, industry risk, and policy risk faced by industrial enterprises, FOs should also design a corresponding hedging scheme to mitigate the risk exposure of family wealth in a particular industry or territory.

FO_04: "At the beginning of 2019, the family restructured its industrial enterprises, which required cooperation and interaction with the family office. Simply put, the FO must provide financing for the FB, so the FO must adjust its own financial investment pace accordingly."

FO_13: "There are significant differences between FOs and financial institutions, and we must carry out our work, such as research and investment in the upstream and downstream of real estate, while taking into account the main business of the family."

5.2. Asset Allocation Model

The majority of FOs regard asset allocation as their core task. Since Harry M. Markowitz introduced the Modern Portfolio Theory in 1952, institutional investors, including sovereign wealth funds, university endowment funds, pension funds, insurance companies, and FOs have been increasingly focusing on optimising their investment portfolios through asset allocation to achieve stable long-term return.

For FOs who are involved in family governance and industrial enterprises, their investment framework also needs to incorporate the asset and liability management of families and enterprises to meet the needs of family expenditures such as consumption and charity, as well as the needs of industrial enterprises such as investment and M&A.

5.2.1. Major Theoretical Basis

- **Modern Portfolio Theory, MPT**

Recognised as the foundation of modern portfolio theory, portfolio Selection in a paper published by Markowitz in 1952 detailed that risks and returns always coexist in an investment process, and assets with higher average returns came with higher risks. , Modern portfolio selection theory then established the mean-variance portfolio model, identifying a methodology for balancing the contradictory goals of benefit and risk.. The theory states that the expected return of an asset is positively related to systematic risk and is determined by the covariance between the asset and a fully diversified market portfolio. Once the expected return is given, the optimal portfolio could be obtained by minimising the variance of the portfolio return.

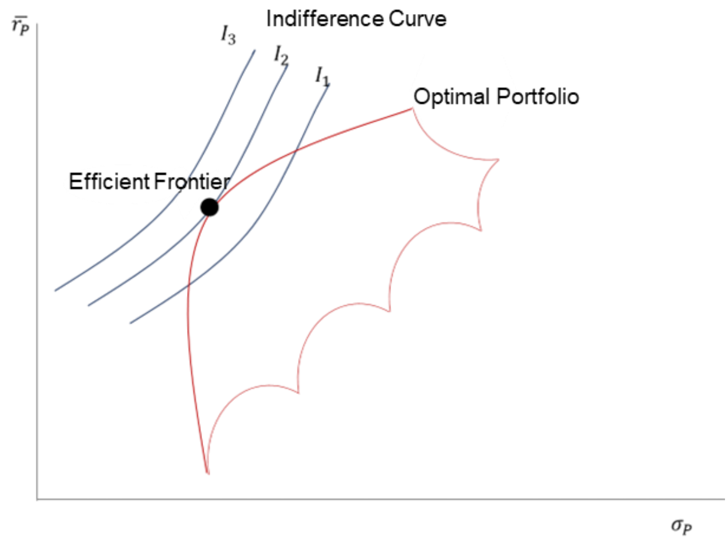


Figure 5-2: Optimal Portfolio

The portfolio theory, in layman's terms, could be construed as "don't put all your eggs in one basket" and suggests that a diversified portfolio could effectively reduce investment risk. The asset classes mainly include equity, bond, real estate, commodity, and monetary fund.

- **Capital Asset Pricing Model**

The Capital Asset Pricing Model (CAPM), developed by Markowitz's student William F. Sharpe, divides the expected return of an asset into two parts: the risk-free rate and the risk premium. Risk premium refers to the risk compensation for assuming market risk. Assets with higher market risk should have a higher expected return.

Risk can be classified as systematic risk and unsystematic risk. Systemic risk (β), also known as market risk (such as economic recession and war risk), cannot be eliminated by diversification, whereas unsystematic risk is a risk specific to individual assets that can be eliminated through diversification. CAPM introduces the capital market line and security market line to illustrate the equilibrium relationship between the expected return and risk of an efficient portfolio, and the linear relationship between the security market covariance and the expected return, respectively.

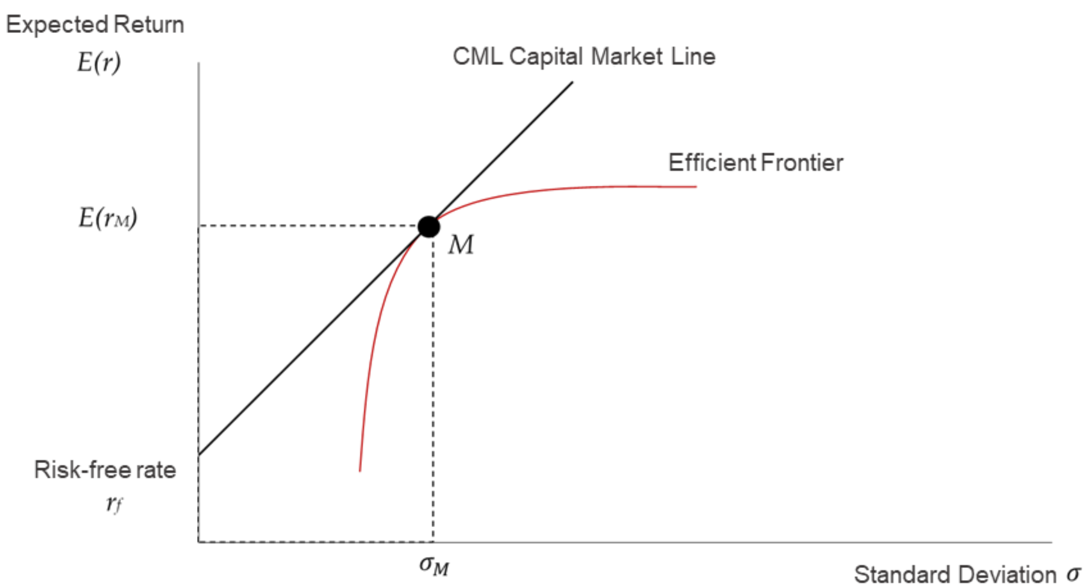


Figure 5-3: Efficient Frontier and Capital Market Line of CAPM Model

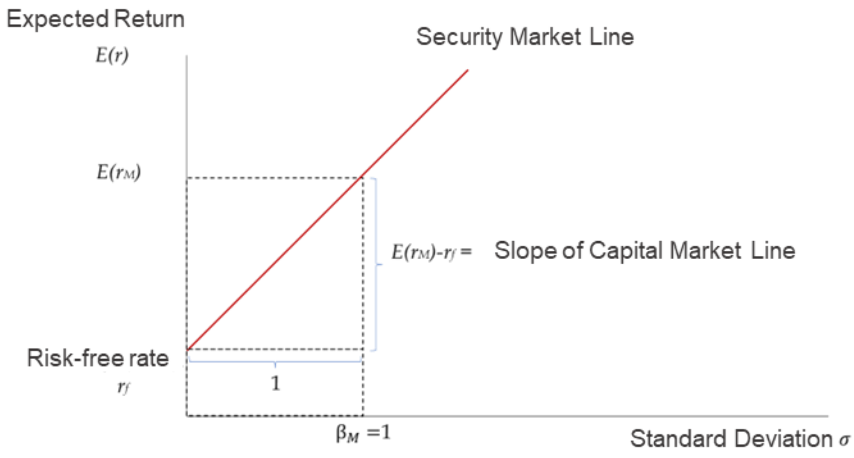


Figure 5-4: Security Market Line of CAPM Model

- **Arbitrage Pricing Theory, APT, and Three-factor Model**

The Arbitrage Pricing Model was introduced by Stephen Ross in 1976. The model points out that the return of securities is tied to the combined effect of various factors, such as GDP growth, and inflation, and thus establishes a theoretical paradigm of multi-factor analysis. In 1993, Eugene F. Fama and Kenneth R. French proposed a three-factor model, stating that the return of a portfolio (or a security) could be explained by three factors: market portfolio, market value, and book-to-market ratio.

- **Asset-Liability Management**

Asset-Liability Management (ALM) refers to the asset management based on the relationship between assets and liabilities. The assets under management aims at satisfying expenditure needs while generating a satisfactory return on investment under various uncertainties.

In terms of FOs, asset-liability management requires the dynamic management of all family assets and liabilities. There are three main objectives of asset-liability management: ① to ensure that the current and future expenditure needs of family members are met, including consumption, education, entrepreneurship, healthcare, and charity; ② to increase investment return within the acceptable risk level; ③ to carry out capital activities including dividend payout, shareholding reduction, and repurchase in accordance with the strategic needs of industrial enterprises such as investment, M&A, divestiture, and restructuring. FOs are required to plan, trace, and adjust elements such as assets, liabilities, equity, and cash flow to balance goals including profitability, liquidity, and safety.

FO_11: “We are an SFO that manages 99% of the family’s fund. The family business is a listed company, and the FO manages the capital of the major shareholders and formulates plans with the listed company. In short, the FO could propose and execute the reduction of shareholding of major shareholders in the listed company or the undertaking of margin financing and securities lending.”

FO_07: “Treasury management is one of the most essential duties in FO asset management, with the most important task being efficient balance sheet management. How do we realise the returns through the optimisation of debt structure without investing additional capital? We refer to it as structural return.”

5.2.2. Asset Allocation

In terms of asset allocation practices, the Yale Endowment Fund is well-recognised throughout the world for its high investment return across cycles. The Yale Endowment Fund focuses on asset allocation and alternative investments and adjusts its allocation of assets in response to changes in the external environment. One of its key features is concentrated investing in alternative assets (particularly PE funds), with the goal of exchanging liquidity for excess return. The asset allocation model of the Yale Endowment Fund provides a strong reference for long-term investors (such as FOs).

- **Asset Allocation of the Yale Endowment Fund**

In 1985, Yale University recruited David Swensen as chief investment officer. Under his 35-year management, the Yale Endowment Fund has maintained exceptional performance and the management size has risen from USD1.3 billion to USD31.2 billion, considerably promoting the development of Yale University.

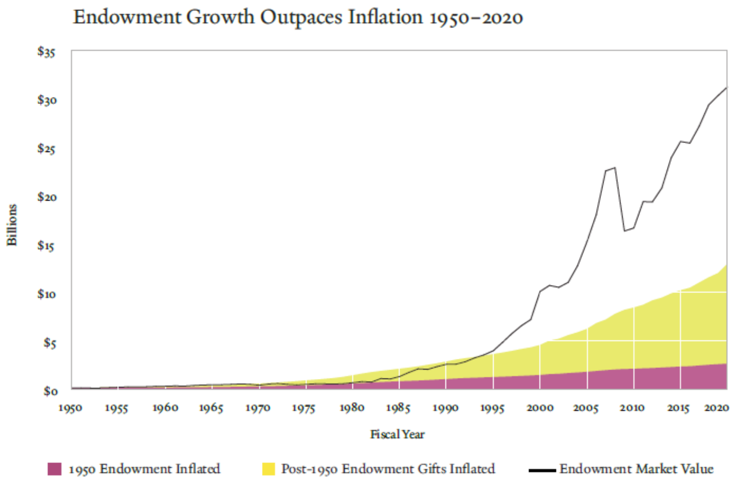


Figure 5-5: Size of Yale Endowment Fund (1950-2020) [6]

The asset allocation of the Yale Endowment Fund mainly includes absolute return, domestic equity, foreign equity, private equity, real estate, and fixed income. The proportion of private equity and absolute return have increased significantly in the asset allocation of the endowment fund, while the proportion of domestic equity has been declining year-over-year. As of 2020, the allocation of private equity, absolute return, real estate, foreign equity, domestic equity, and bonds and cash were 38.4%, 21.6%, 12.5%, 11.4%, 2.3%, and 13.7%, respectively.

- Private Equity

Private equity (PE) mainly invests in the equity of non-listed companies or the private equity of listed companies, and then divests through listing, M&A, and repurchase. The PE investment of the Yale Endowment Fund primarily includes venture capital and leveraged buyouts. The proportion of PE investment has been increasing since the 1990s and has now become the asset class with the highest proportion. According to the latest annual report of Yale University, in 2020, PE investment accounted for 38.4% of the endowment fund, of which 15.8% were leveraged buyouts and 22.6% were venture capital.

- Absolute Return

Absolute return mainly invests based on event-driven strategy and value-driven strategy. Event-driven strategy refers to investments based on mergers, divestiture, bankruptcy, and reorganisation, whereas value-driven strategy primarily refers to securities investment.

[6] Source: Yale Endowment Fund 2020 Annual Report

Absolute return has been included as a separate asset class in the asset allocation of the Yale Endowment Fund since 1991 and has maintained a stable proportion at about 20% in recent years.

- Real Estate

The real estate investments of the Yale Endowment Fund primarily include real estate and natural resources (e.g., oil, natural gas, forestry, and agriculture). Real estate, with the features of both stocks and bonds, could counter inflation and bring stable rental returns. However, the proportion of real estate has been declining in recent years.

- Domestic Equity

Prior to 1990, domestic equity comprised more than half of the Yale Endowment Fund. The proportion has been decreasing year-over-year since Swenson took office, with only 2.3% in 2020. When compared with the three major US stock indexes, the Yale Endowment Fund has achieved a more stable return.

- Foreign Equity

The proportion of foreign equity of the Yale Endowment Fund has remained at around 10%. In recent years, a trend of decreasing allocation to developed markets and increasing allocation to emerging markets is evident. In 2020, emerging market equity accounted for 6.5%, with an expected return of 11%; developed market equity accounted for 5.25%, with an expected return of 8%.

- Fixed Income

The fixed income assets of the Yale Endowment Fund are mainly bonds and cash, which accounted for 13.7% in 2020, representing a significant increase from 4.7% in 2018.

The asset allocation of interviewed FOs, which are similar to the Yale Endowment Fund, revealed that private equity is the most favoured asset class. Nevertheless, in recent years, the proportion has been declined due to the inversion of valuation in the primary and secondary markets, poor liquidity, and fluctuations of Chinese equities. The majority of FOs have allocated secondary market equity and fixed income assets. These standardised securities assets have high liquidity and their proportion has been increased significantly. Certain FOs have begun to allocate such assets with the rapid emergence of domestic quantitative funds. Physical assets including real estate, gold, and artwork are deemed by some FOs as a “must-have” asset class in their allocation. It is notable that digital assets are coming to the attention of FOs. Most of the interviewed FOs stated that they have allocated or are preparing to allocate a small amount of digital assets.

Table 5-1: Asset Allocation of Family Offices (N=30)

	Asset Classes							
	Equity	Fixed Income	Hedge Fund	Private Equity	Real Estate	Commodity	Cash	Gold/Artwork /Digital Assets
FO_01	•	•		•				•
FO_02	•	•		•			•	•
FO_03		•		•			•	•
FO_04		•	•	•			•	
FO_05	•	•		•		•		•
FO_06		•	•	•				•
FO_07	•	•		•	•			
FO_08		•	•	•			•	
FO_09	•			•	•			
FO_10	•	•		•				
FO_11	•	•		•	•			•
FO_12	•	•	•	•				•
FO_13	•	•		•	•	•		
FO_14	•	•		•	•			
FO_15	•	•		•			•	
FO_16		•	•	•				
FO_17		•	•	•				•
FO_18	•	•		•	•		•	•
FO_19	•	•	•	•	•			
FO_20	•	•		•				
FO_21	•	•		•				
FO_22	Not disclosed							
FO_23	•			•	•			
FO_24	•			•	•			•
FO_25	•	•		•	•			
FO_26	•	•		•				
FO_27	•	•		•				
FO_28		•		•		•		
FO_29	Not disclosed							
FO_30	•	•						

The asset allocation of the FOs interviewed indicated that most of the asset allocation models have made reference to the university endowment fund model. For instance, FO_06 expressly stated that its asset allocation model is based on the allocation of the Yale Endowment Fund with certain adjustments: “Our average performance over the past few years has outperformed that of the Yale or Stanford endowment funds, largely due to higher exposure to emerging markets and large position in the healthcare sector.”

FO_08 considered cash flow to be the most important factor of family concern, and hence developed an investment model similar to university endowment fund models based on the cash flow expenditure needs of family philanthropy. The model established laddered investment periods by estimating the future cash flow of the family, thus satisfying both the needs of asset appreciation and cash flow expenditure.

FO_18 classified assets into the following four categories: ① core assets, i.e., mature industries with stable payouts, such as power, expressways, and textiles; ② growth assets, i.e., high-growth industries, such as semi-conductors, the Internet, and hard technology; ③ yielding assets for stable cash return, such as bonds; ④ real estate, such as office buildings and industrial parks, as well as “real estate-like” assets such as real estate investment trusts and high dividend stocks.

5.2.3. Industries and Regions of Investment

China’s economy has entered a period of transformation and upgrading in recent years. Traditional industries are gradually transforming into new economies such as green and intelligent, new energy, hard technology, and biopharmaceuticals, and have seen a booming development and a shift from factor-driven growth to innovation-driven growth. Emerging new economic investment opportunities resulting from the national development strategies have become the “must-have” investments for the interviewed FOs.

Among the interviewed FOs, the majority of assets are allocated to China, followed by the US. Over one-third of the interviewed FOs have allocation in Europe. In addition to the above three major investment regions, certain FOs are also optimistic about the growth opportunities in Asia-Pacific regions such as Hong Kong, China, Japan, Singapore, and New Zealand, as well as regions such as Canada and South America.

FO_10: “Our allocation in the US is now slightly higher, but we are making adjustments to increase our investment in Mainland China. We are more positive about the long-term development of China’s economy – money must seek greater yields, after all.”

Certain FOs interviewed are interested in directly investing in sectors such as biopharmaceuticals, digital technology, large consumption, and new energy, while others may invest in carbon neutrality, high-end manufacturing, agriculture and animal husbandry, and finance.

FO_03: "One of our core investment philosophies is to support industries that benefit society, such as new energy, big health, and carbon neutrality. An agricultural project that we invested in at an early stage produces non-polluting catalyst fertiliser, which could increase the yield of barren land by 300%."

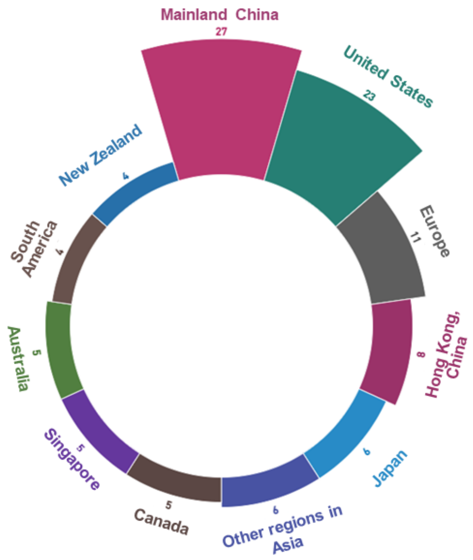


Figure 5-6: Investment Regions of Family Offices (N=27)

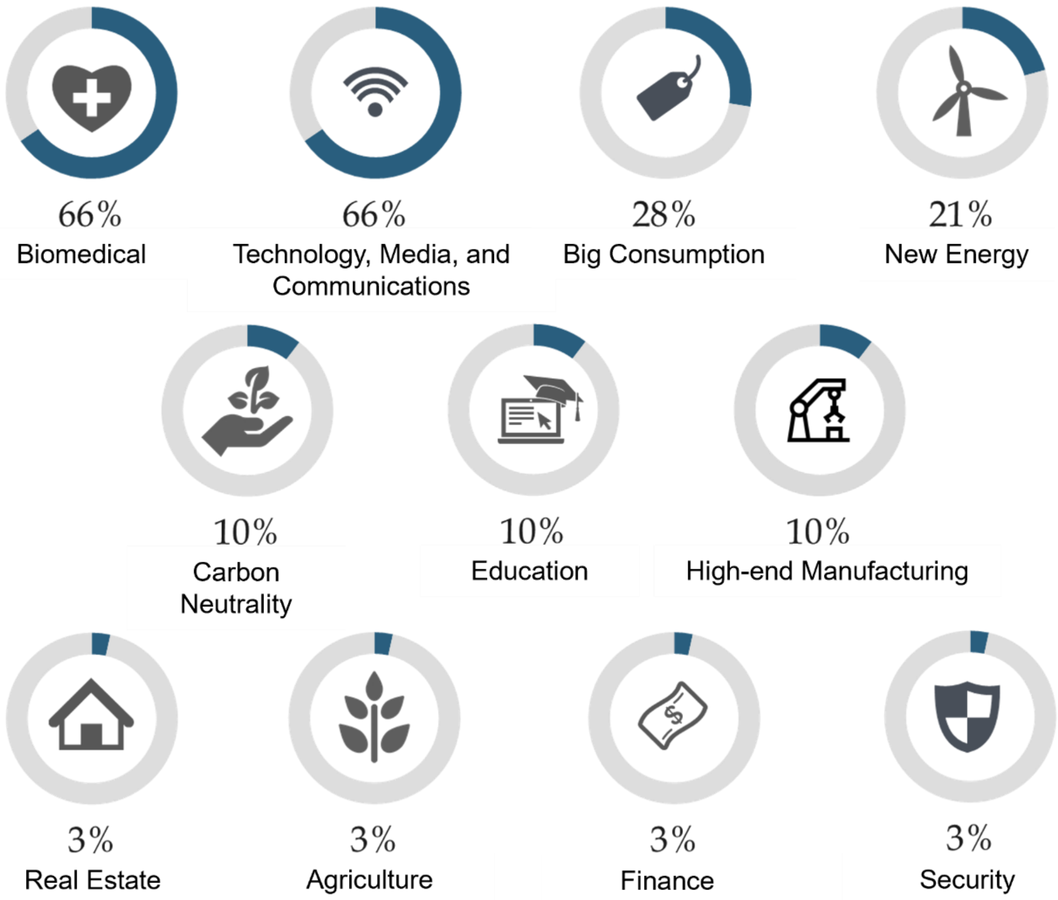


Figure 5-7: Direct Investment by Industry of Family Offices (N=29)

5.3. Investment Style and Approach

The interviewed FOs have adopted both an active and passive management approach. FOs with an active management approach pursue excess return and are dedicated to exploring undervalued assets in the market; FOs with a passive management approach strive for steady risk-adjusted return through asset allocation. With the advancement of digital technology, factor investing, which falls between active investing and passive investing, is increasingly favoured by FOs.

5.3.1. Passive Investing

The goal of passive investing is to gradually accumulate wealth and capture the value growth of the market over a longer investment horizon. Passive investing often adheres to the principle of market efficiency and adopts a long-term investment strategy of “buy + hold”. In fact, it is extremely difficult for asset managers to outperform the market after deducting costs such as transaction fees, management fees, and taxes. Passive asset managers strive to capture an average return on an asset class in the market and invest broadly in the investment subject in the target asset class. A typical passive investing approach is “index investing”, which entails buying all the securities contained in a stock market benchmark index with reference to the weights.

The investment style of FO_01 tends to be passive management, with a share/debt ratio of 40/60, i.e., 40% in equity assets and 60% in debt assets. “The family’s investment philosophy aims at stable and safe long-term value investment. Stable return is essential for families like us that has sold the entire business and solely kept cash in the portfolio. Hence, it is not our intention to pursue high returns on a single type of asset and take high risk.”

5.3.2. Active Investing

Active investing aims to beat the market (or related benchmarks) through stock selection and market timing. Active asset managers believe that they can achieve the goal of outperforming the market by building a unique portfolio through in-depth analysis and research. The market timing strategy involves making investment decisions by predicting the future trend of the market; the stock selection strategy involves finding the assets that are mispriced by the market and profiting from the price adjustment. In contrast to the asset allocation concept of passive asset managers, for outperforming the benchmarks, active asset managers tend to have a “concentrated portfolio”, holding a relatively large portion of assets that are expected to generate excess return.

The investment strategies of FO_07, as an active asset manager, include: ① Contrarian investment strategy – looking for undervalued companies and becoming a contrarian investor; ② reversal strategy – investing in a few companies with poor profitability and hoping for a turnaround in the future; ③ second player strategy – focusing on undervalued market players who may become the industry leader; ④ portfolio strategy – dividing the companies in the portfolio into “core investment”, large investment, and small investment according to the level of shareholding, and holding 10%–15% of the “core investment”, and improving operations through participation in corporate governance and decision-making.

FO_11 also favours active management and mainly adopts the market timing strategy: “We increase or decrease our positions based on our judgment on the market. As the market *volatility increased amidst the pandemic, we made stronger and more frequent adjustments. For instance, we significantly reduced our secondary market positions in 2021."*

Some FOs adopt both passive and active management strategies. For instance, FO_10 employs different strategies in the primary/secondary market and emerging/developed markets: "When we see a good sector or company in the primary market, we will make a sizeable investment on it; but in the secondary market, we will diversify our investments, i.e., looking at 50–100 companies, and investing in small sums. The growth attributes of different markets vary. In the Chinese market, we prefer to invest in growing companies; in the European and American markets, we are looking for specified opportunities to make contrarian investments, such as investing in distressed companies or undervalued companies, and buying the dip."

5.3.3. Factor Investing

Factor Investing explains stock return using quantifiable indicators (i.e., risk factors). By finding the correlation between the factors and stock return, excess return is achieved through holding assets that meet the selection criteria for that factor. Asset return is driven by risk factors, where the factor return refers to the risk premium for taking this systemic risk. For instance, the risk premium for small-cap factors stems from poor liquidity, low transparency, and a high probability of bankruptcy.

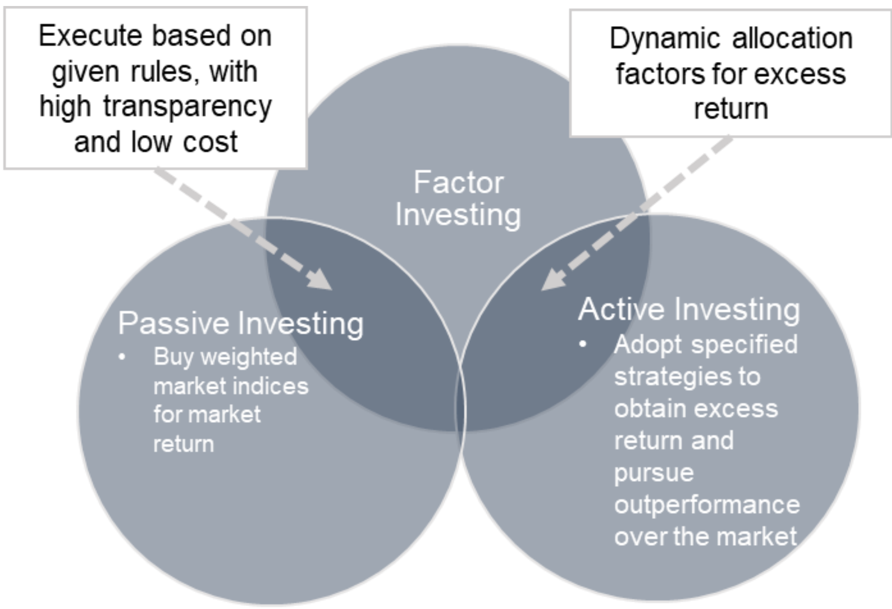


Figure 5-8: Factor Investing, Passive Investing, and Active Investing

Factor investing focuses on how to allocate different risk factors and maximise the exposure of different factors on the basis of diversification, so as to obtain excess return. Common factors in practice include:

- **Market factor**: country factor, which refers to a common factor affecting all stocks in a country, usually represented by a constant; industry factor, which refers to the proportion of stocks in an industry, which can be measured by asset value, sales, etc.

- **Style factor**: value factor, i.e., value stocks vs growth stocks; quality factor, which refers to the measurement of the quality of a listed company based on its fundamentals, including profitability, growth ability, earnings quality, operational risk, financial risk, etc.; momentum factor, which is related to market capital expectations, and the return obtained by adopting the strategy of buying on rallies and selling on dips; market capitalisation factor, referring to the difference in returns between large-cap companies and small-cap companies; etc.

- **Strategy factor:** earn rewards by reducing portfolio volatility through strategy optimisation.

FO_07: "What is the biggest risk of investing? It is that money cannot be invested, and there is opportunity cost but no opportunity benefit. If the rationale of risk management is to eliminate risk, then investment cannot be made, because investing is a risk-reward pursuit. I communicated with other FOs, and they asked me where I bought the product? It can be seen that most of them are still at the product level. We rely on in-depth research on the asset structure and the market to obtain risk-adjusted return within a certain risk range."

5.4. Investment Management

Investment is one of the most important tasks of an FO, which requires professional management and closed-loop evaluation. A common practice for investment management is to establish an investment committee with different decision-making bodies and mechanisms based on different investment sizes or types, overseeing investment activities and forming balances on the executive team.

The investment committee of an SFO is generally composed of family members, internal executives (CEO or CIO), and external experts (e.g., economists, fund managers, bankers, etc.). The investment committee of an MFO is generally composed of internal executives and external experts.

An investment committee shall have a mechanism for regular meetings and ad hoc meetings. Regular meetings are generally held on a monthly or quarterly basis to review investment proposals, review investment activities, report on investment performance, and revise investment direction. Ad hoc meetings are held on an as-needed basis for emergencies and major projects, etc. In order to ensure the efficiency and professionalism of the meetings, the investment committee shall set the agenda and personnel arrangement before the convening of meetings and form formal minutes in respect thereof.

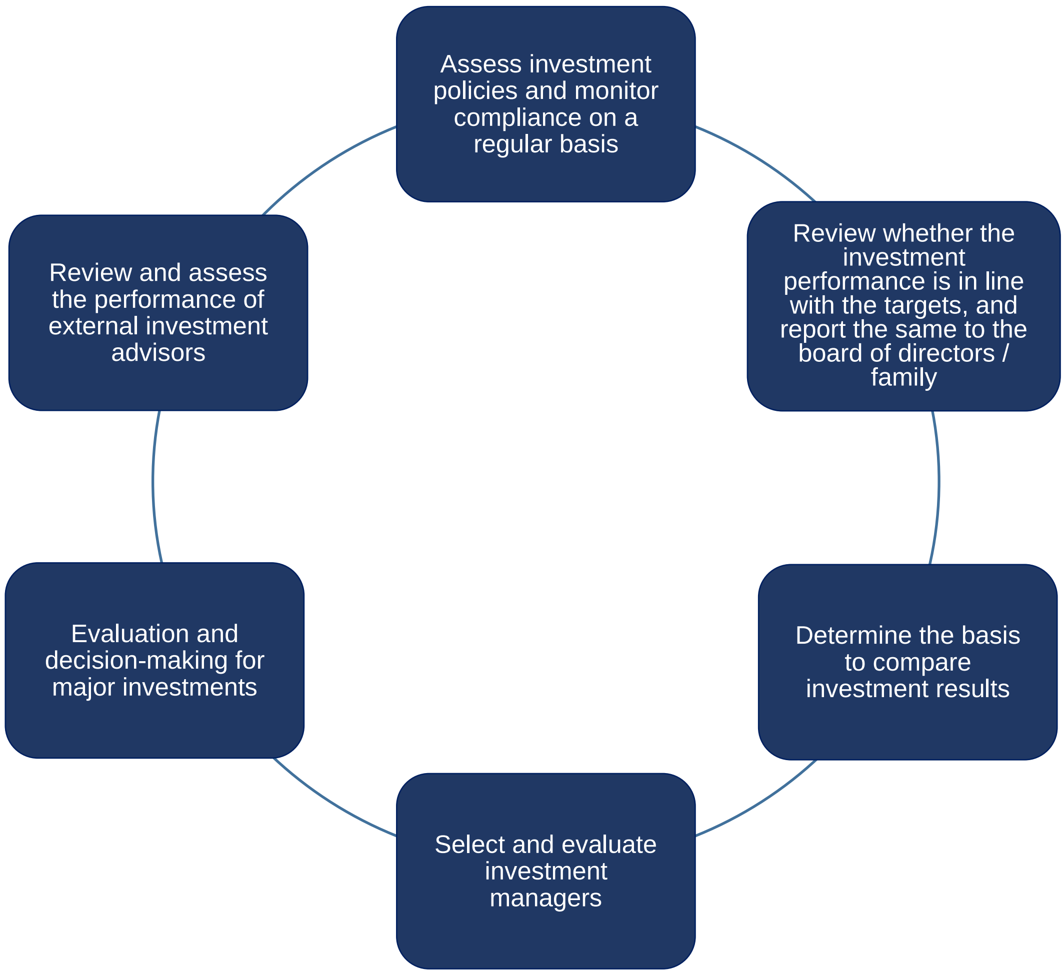


Chart 5-9: Demonstration of an investment committee’s duties

6. FAMILY OFFICE AND FAMILY SUCCESSION

For an entrepreneur possessing a physical business, the typical pattern of inheritance can be categorised into the following four types:

(1) Succession by physical business

Succession by physical business means a take-over by the next generation of the established business founded by the previous generation. Take FO_13 for instance, where the next generation commences take-over of his/her family's principal business while creating the FO for wealth management. This also includes exploring – through the FO – the investment layout around the upstream and downstream of the principal business to empower the development of the physical business.

"We have started to focus more on the management of the physical business since last year, targeting to realise the stable development of the family business. The investment and research staff of the FO study the upstream and downstream around the principal business, and assets are allocated with an aim to foster a mutually beneficial development with the family."

(2) Succession by entrepreneurship

Succession by entrepreneurship means to establish new business or expand into new business lines on the basis of the existing one. For instance, the CEO of FO_12 is a family member of the second generation, and his spouse and sister have respectively founded new companies of which the operations differ from the family's principal business, and even more, the company founded by the sister has been successfully listed.

"Normally, I operate our family office, while my sister is mainly involved in her own listed company. As for my wife, she holds certain small-sized logistics and property companies with good performance. I wish I could make the FO a safe "harbour" where my family members could be afforded with sufficient capital to restart in case of failure in their entrepreneurship."

(3) Succession by investment

Wealth preservation and appreciation through investment, such as succession through creation of an FO. For example, a second-generation member of FO_01 participated in establishing the FO and is taking charge of investment related affairs, and another second-generation member recently joined the FO and passed on the family business by way of wealth management.

“The family succession plan is moving forward and is expected to be completed in approximately 10 years. The aforementioned two second-generation members who have entered the FO are engaged in management and investment research, respectively, and will be pinpointed by reference to their abilities, interests, and personalities in the future until the final succession is completed and the FO is under general management.”

(4) Succession by charity

Succession by charity means to continue family values and social influence through public charity activities. Taking FO_08 as an example, the founder thereof is committed to charity events after withdrawal from business operation. Under the guidance of family culture, two second-generation members have all established public charity foundations to undertake spiritual wealth through developing such charities.

“We have taken reference to the two-line model, ‘Foundation + Trust’, adopted by Bill Gates, under which, the Foundation is responsible for expenditure, while the Trust is for income, since only balance between inflow and outflow can achieve the sustainable development of public charity business. Our family adopted this two streams of development a long time ago: one stream for charity and another for investment, with the charity business constantly fed by funds from the investment stream, so that legacy can be passed down generation to generation.”

According to global statistics, it is difficult for a family to pass on its undertakings across different generations. The data in Business Week indicates that only less than 40% of family business in the US can be passed on to the second generation successfully, and less than 13%

for the third generation. In addition to determining the succession direction, the family shall make proper asset arrangements and leadership succession design, while also taking into account the development targets for different family members.

A family succession plan involves multiple levels of succession in terms of management power, governance power, equity interest and wealth, etc. Succession often represents the most vulnerable time for a family and its business. However, when professionals that are trusted by the family are involved in the succession advancement process, tensions and conflicts in relation thereto can be reduced to certain extent, helping different stakeholders reach consensus and reduce significant risks in the succession.

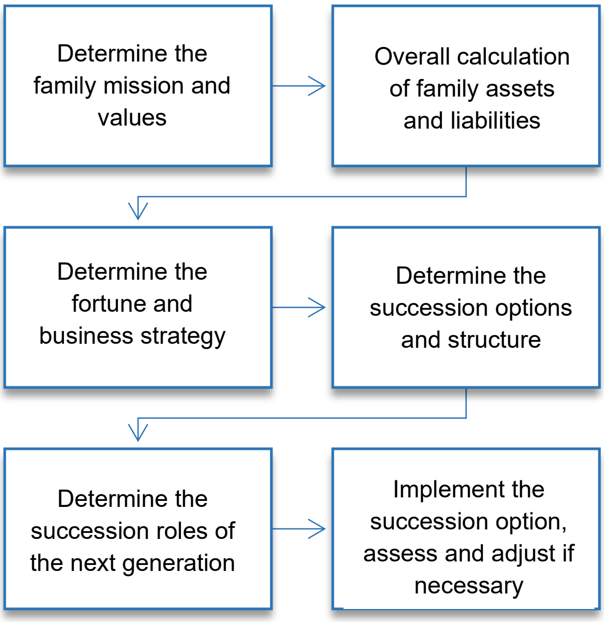


Chart 6-1: Family succession roadmap

The **family mission and values** are the “beacon” of the succession plan, which should be a combination of the willingness and vision of multiple family members (including the first-generation founder(s)), representing the development vision of the family as a whole. The mission and values are proposed to strengthen family bonds and identity, and keep the family cohered and united. The FO can help family members understand the importance of a soft culture through various means (e.g., family constitution, family ancestral rituals, family genealogy and motto, etc.), and formal documenting of the same will also help the heritage of family culture and values.

FO_11: "The succession structure is mainly completed via a family trust, which is occasionally subject to adjustment in actual practice. The complexity of family succession is relatively low due to a fewer number of family members, in which case, many coordination works could be completed merely through a breakfast or lunch meeting. However, our core family philosophy and code of conduct are repeatedly emphasised, which must be strictly followed by the second generation as the first generation. We have a complete family constitution, with a length of about 4–5 slides of PPT, for which we engage a Harvard professor to comb through and subsequently revise on an on-going basis to make it more in line with the reality of our family."

A comprehensive stock-take of family assets and development of wealth strategy and business strategy are important steps in the succession process. Family wealth strategy is designed to ensure the real purchasing power of the wealth over a long period of time while also protecting wealth and managing risks. The foundation is responsible for clarifying the family's assets and liabilities, consumption and investments, income and expenses, and to plan investment and corporate strategies based on the balance sheet. An FO establishes family wealth strategy based on certain inputs, including, among others, business dividends, financial investments, family consumption, and financial planning.

To maintain control over a business through intergenerational succession is a significant challenge. As a company grows and develops (especially when it goes public), it is common for the gradual dilution of equity interests. In order to maintain such control, establishing an "internal capital market" within a family will facilitate an orderly transfer of equity interests within the family. For example, when a shareholder wants to liquidate his or her shares, other family members have the right of first refusal as compared to members outside of the family. In this process, the FO can offer assistance in determining share valuation, brokerage and sale demands, and providing financing for transactions to minimise potential conflicts to the largest degree.

Talent is viewed as the "cornerstone" of a succession. However, since talent within a family tends to be limited, human investment is often one of the most important non-financial responsibilities of an FO. For example, the next generation can be positioned as chairman of the board, shareholder, entrepreneur, investor, philanthropist, etc. The FO can play an important role in talent cultivation, role assessment, and leadership development, which is beneficial when it comes to strengthening the family's human capital. Moreover, the FO can also provide internal educational resources on family history, business operations, asset allocation, etc., to shape the next generation's sense of identity and responsibility, cultivate an entrepreneurial spirit, enhance management and investment skills, and ultimately promote a long-lasting family business.

FO_19: "As an MFO, we make legacy arrangements for our clients, especially in terms of next generation development. We have summer internships every year, which attract the participation of some famous entrepreneurs' children. In 2021, we set up the "Backwave Club (后浪俱乐部)" to hold various activities, such as a Summer Investment Evolution Camp* (暑期投资进化营). In the future, we also plan to run a programme called "Second Generation Private Council* (二代私董会)", which will be tailored to the second generations who are ready to take over, and organise corporate visits to exchange and learn from other entrepreneurs and industry elites.*

We also want to strengthen communication between the two generations while helping them pass on. Communication between first-generation entrepreneurs and the next generation is generally insufficient. Therefore, we organised the "Exchange Children Education* (易子而教)" campaign to see the future world through the eyes of the next generation. The previous generation often lacks sensitivity to new things, so we organised the next generation to "invest for the future", for which the FO provides professional advice and evaluation feedback, and finally arranges the next generation to give a presentation to their parents. The core goal is to improve and enhance communication and understanding between the two generations."

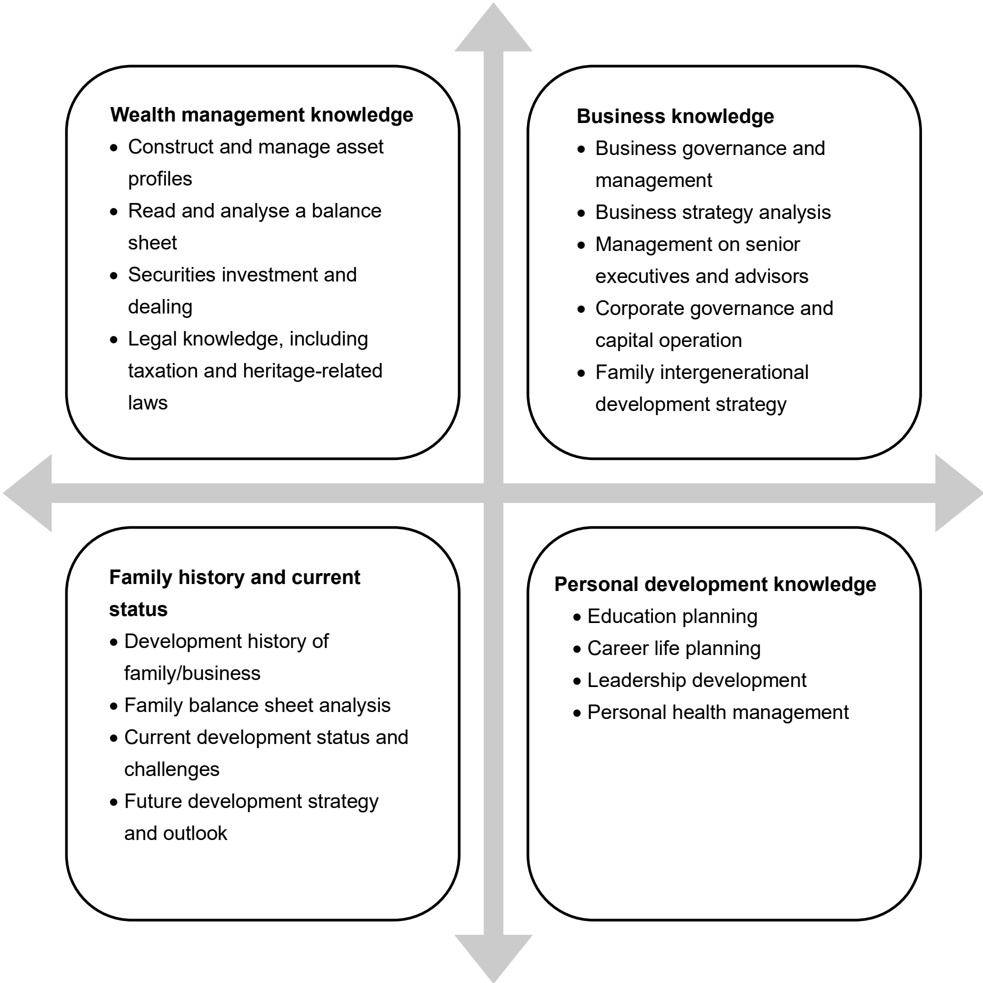


Chart 6-2: Internal family education under the operation of an FO

7. DIGITALISATION OF A FAMILY OFFICE

The entrepreneurial spirit of the FO founders profoundly shapes the FO and drives its ongoing optimisation and innovation. As discovered in the research, Chinese FOs have very distinct characteristics in terms of digitalisation. For the shareholders' family or customers' family of an FO, "numbers refer to language". Transparent data, processes, and standards can significantly enhance the trust between the family and the FO. For managers of an FO, "numbers refer to tools". The use of data is able to effectively empower organisational management, investment management, financial management, risk management, etc.

FO_07: "The goal of FO digitisation is to break free of dependence on specific individuals. For example, as a CEO, my actual work cannot be affected no matter where I am working. Even if I take one month from my annual leave, the operational management of the FO must be able to function normally without being affected."

The digital requirements of FOs involve accounting, consolidated statements, financial and tax analysis, transaction systems, customer information, data security, and other aspects. The global asset allocation of an FO also needs to be carried out separately in accordance with the laws and regulatory norms of each jurisdiction, followed by aggregation of the data to achieve centralised management. As shown in our research, two-thirds of the FOs are able to meet their daily digital needs through outsourcing.

The low cost and high efficiency of using external information systems make it more cost-effective for FOs in the early stages. However, as an FO's functions become more optimised and complex, the assets become more complex and the number of employees increases. Moreover, the compatibility of standardised external IT systems with the customisation of the FO's own work should be considered with priority, along with data confidentiality, security, and other issues.

A customised digital system can fully support the diverse needs of an FO (such as direct connection to the trading system, obtaining real-time data, executing trading orders, obtaining real-time information including net asset value and profit and loss reports, cash management and reconciliation, etc.) to optimise the management effectiveness and efficiency of an investment portfolio. Digitisation can solve the issues of pain points such as information transparency and traceability, improve the governance process at the source, and establish a comprehensive accountability system, while offering great help in precipitating the knowledge and experience of the organisation.

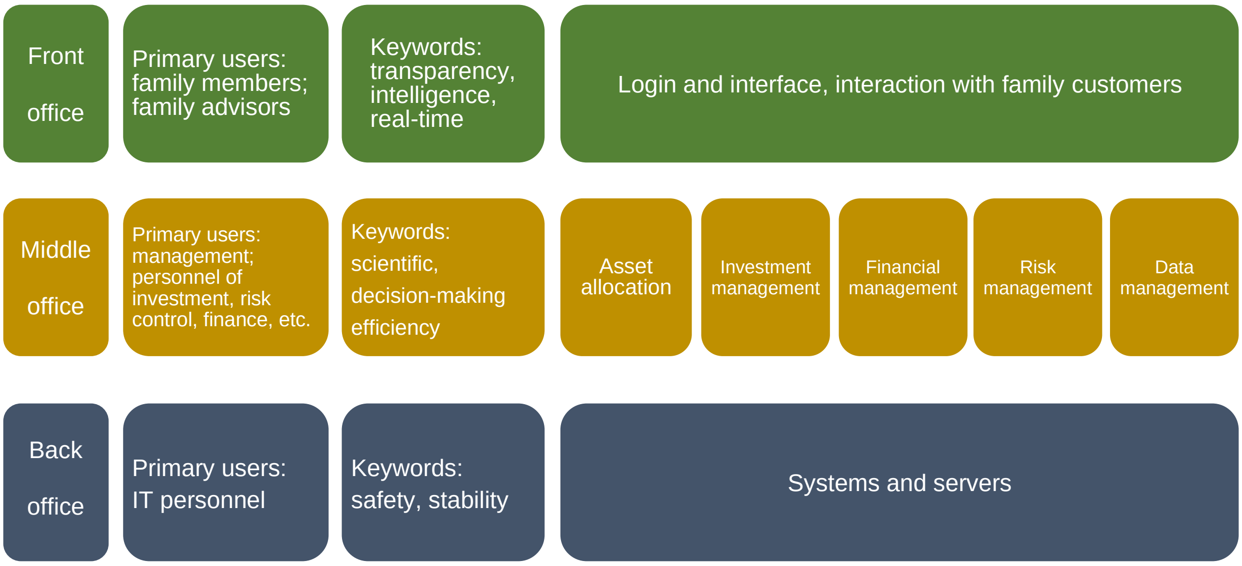


Chart 7-1: Examples of digital systems for family offices

The personnel structure of most FOs is relatively streamlined. However, features including extensive investment layout, frequent cross-border business trips, or multi-location offices around the globe determine that the use of remote cooperation and an online office is suitable for FOs to promote daily work. Digitalisation offers organisational flexibility for FOs and significantly enhances the efficiency of a “cloud office”. Based on our interviews and research, the key points of digital empowerment are summarised in this research as follows:

1. Select employees with matching values: Personnel management is one of the greatest challenges of a cloud office. The segregation of physical space creates great difficulties for communication, management, and work motivation. Only by selecting employees with values in line with those of family shareholders and managers, and establishing a common vision, can the internal drive of employees be fully mobilised and work obstacles caused by cultural differences and physical distances be eliminated. As stated by multiple FOs surveyed, they will carry out psychological tests and personality tests when recruiting employees, with the aim of selecting employees with compatible cultural values, and arrange suitable positions based on the

characteristics of each person.

2. Establish an effective communication system with a clear structure: Long-distance collaboration often leaves employees at a loss, and it is unclear who to communicate with, when, and how to communicate regarding in issue. A clear work flow, reporting line, and decision-making path should be established in the system of an FO, setting the time limit node of the process and promoting the smooth progress of each work in time.

3. Establish visible and measurable mission objectives: A “result-oriented” organisational culture helps to improve the productivity of a cloud office. Digitalising a mission can form clear targets and motivate employees to work hard. An FO can formulate short, medium, and long-term comprehensive quantitative targets for employees according to its own development requirements, and carry out regular inspections, evaluations, and feedback communication.

4. Create a caring culture: Employees who work from home or work alone are more prone to feeling isolated or disconnected. FOs can regularly hold online events to allow employees to express themselves and interact with each other. For instance, some FOs will hold online birthday parties or knowledge sharing sessions for employees to establish emotional connections, pass on care and concern, and enhance the organisational cultural identity of the employees.

This research also found that there are significant differences in the core demands of SFOs and MFOs at the digital level. For instance, SFOs emphasise family control, open multiple accounts, improve investment performance, and perform efficient risk management and employee evaluation and control mainly through digitalisation. MFOs have a large number of customers and subcontractors, and digitisation can help solve trust and communication issues efficiently. Therefore, the digitalisation of MFOs is mainly concerned with how to optimise the interaction mode with customers through technological means, and the provision of customised, high-quality information flow. For example, the use of visual tools to provide account services such as independent browsing, data analysis, and report generation for different family customers can reduce operating costs and improve real-time services while enhancing transparency.

This research also discovered that with the rapid rise of new economies such as the Internet, hard technology, and biopharmaceuticals, more than one-third of the MFO customers surveyed are from the new economy sectors. These customers accumulate wealth in high speed and with large quantity, becoming an important source of customers for the rapid growth of MFOs. These younger customers in the new economy have higher requirements for digitalisation, and have become an important driving force for improving the level of digitalisation in the FO industry.

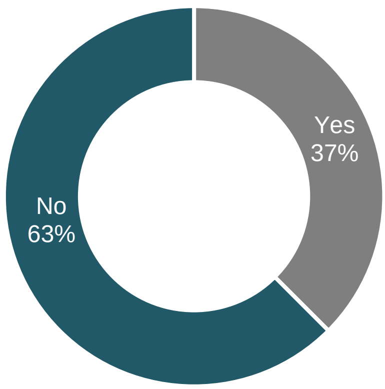


Chart 7-2: Engagement of MFOs with customers from the new economy (N=16)

Case 7-1: Digitalisation of SFOs – enhancement of management and control, comprehensive empowerment

FO_07 would like to maintain a flat, lean, and flexible model of a small organisation. In the background of increasing the scale of FO asset management, "stronger management and control are needed". The goal of the management information system is to achieve digitisation of the whole process of governance, decision-making, and execution to reduce the risk of personnel turnover and realise the real-time accounting report. The CEO considers that one of the measures of the success or failure of an information system is the lack of immediate impact on the operation of the organisation and the business when the CEO resigns.

The digital 1.0 stage of FO_07 was designed and implemented by a well-known domestic software company after sorting out its own needs. The entire management information system is based on data. It meets complex business needs, supports the efficiency improvement of small organisations, converts macro analysis and family preferences into various contents (e.g., asset allocation, asset structure, investment model, personnel management, etc.), and supports the investment decision-making process and post-investment management. Another important function of the IT system is data logging and traceability, providing data for organisational knowledge management and family descendant learning. The CEO explained that, “To protect privacy of the family, capital must be dispersed globally, but management and information must be centralised.”

The IT system is divided into three levels: ① targeting the family, CEO, and core senior management to provide consolidated statements and maintain monthly updates; ② targeting middle management personnel, including investment portfolio, assets and liabilities, liquidity, and other information; ③ targeting business teams, automatically generating reports for each asset class or investment project.

With the increase in asset management scale and the progress of globalisation, it is necessary to further establish a unified interface for IT systems, while meeting the local reporting standards, tax reporting standards, and management accounting standards of each jurisdiction. The digital 1.0 system is gradually becoming inapplicable. The founder and CEO have realised that the ready-made software services on the market can only be used as “tools” and are difficult to reflect the management logic of FOs. In order to truly build a digital organisation and realise digital empowerment, achieving a certain purpose solely through the system is not enough. For instance, the fixed income department, secondary market department, finance department, legal department, and digital department, which are distributed in different countries and regions around the world, should independently develop systems that are suitable for their own development characteristics.

Such an FO has abolished the digital 1.0 system and established the digital 2.0 system on its own to promote organisational digitisation, process digitisation, and digital empowerment. Organisational digitalisation integrates physical offices and different functional departments distributed in various countries and regions to form “cloud headquarters”. Process digitisation turns all processes online. Digital empowerment effectively supports core tasks such as decision-making efficiency, results efficiency, risk management and control, and strategic management through data collection and integrated analysis.

"Until now, I have yet to see some of the new employees offline, mainly because I have not been to Singapore or the US due to the pandemic, but we can still carry out high-quality collaboration with these new colleagues."

"Digital empowerment is to achieve a certain job that can be done by three people and also by 200 people. We intend to carry out 'small organisation, big business', which is the starting point of digitisation."

Benefiting from the construction of the data middle office, the extraction of reports from multiple locations is no longer required for the asset analysis work of FOs. Instead, data from the system is directly extracted for analysis. Structural data is provided for treasury management through penetrating the balance sheet, which is able to achieve substantially considerable "structural benefits" through debt structure optimisation without additional capital investment.

In terms of risk management, the digital system allows real-time monitoring and recording of the asset structure and risk exposure of each fund manager, helping senior management perform rapid risk management and evaluate the performance of fund managers. For example, two different fund managers contribute annual results at the same level of revenue, but the data records in the system reveal the psychological qualities and trading characteristics of the different fund managers. Different characteristics imply different risk levels, and digital risk control provides the possibility for FOs to conduct a comprehensive risk analysis.

Strategic management optimisation "pairs" configuration strategies with specific operations through a complete data system. The key function of digitisation is to integrate fragmented information into a system. For instance, for a three-year trading plan for the Pound and Euro set in the digital system, when these two currencies are oversold in the foreign exchange market, the FO can buy on dips based on the target position.

Case 7-2: Digitalisation of MFOs – turn numbers into a unified language

The two founders of FO_15 are continuous entrepreneurs in the new economy industry. Co-founder A has participated in the creation of a well-known Internet platform in China. Co-founder B used to work in an international investment bank. After resigning, he co-developed a well-known WeChat applet. The two of them founded an MFO mainly to serve the wealth management needs of new economy entrepreneurs and senior management.

In the process of communicating with customers in the new economy, the FO identified that such customers have a heavy demand for digitalisation and high requirements for real-time and visibility of services. In the past, the offline interaction mode among people was difficult to meet the needs of such customers. It is necessary to rely on comprehensive figures, information, and consultation as support to deeply understand and grasp the reasons for the rise and fall of their own assets. Based on the digital needs of customers, the FO has established a team of eight members – half of whom have technical backgrounds – to build a digital MFO.

Digitisation mainly meets the needs of customers in two aspects: information interaction and real-time customer education. For information interaction, in the past, market information updates and investment decision-making discussions were achieved face-to-face, through video conferences or telephone calls. For MFOs serving multiple families, a lot of human resources input is required for daily customer communication. Considering the different needs of each customer, the manpower requirements for customer relationship management are relatively high. To conclude, there are “pain points” for traditional interaction methods in respect of customer experience and operating costs. The FO has achieved online information transmission through digitisation. For example, customers can keep up-to-date with the asset changes of the previous day in the form of a data dashboard, thereby improving the frequency, depth, and autonomy of information reporting.

The “touch points” between new economic entrepreneurs and the capital market are limited. There is a need to gain more financial knowledge such as asset allocation, investment portfolio, and risk and return. The irregular development speed of the new economy industry can easily lead to a certain degree of “misunderstanding” of the yield rate among customers. “Some customers consider that the annualised rate of return of 15% is too low. The annualised rate of a good investment should have been 40–50%. It would be challenging to convince them otherwise by explaining the market benchmark for a certain class of asset’s return. This requires the establishment of a strong relationship of trust before he or she is willing to take the time and energy to understand.”

If investor education is conducted offline one-on-one by account managers, it requires long-term, high-density, high-quality communication, which is an extremely time-consuming process with doubtful effects. Digitisation can be effectively used to assist customers in investor education. For instance, the transparency of China's private equity market is relatively low, and non-professional investors must invest a lot of time and effort to identify the authenticity and validity of private fund information. If an MFO integrates the historical performance of private funds on the digital platform and updates the data, the investor education of family customers could be completed more effectively through information transparency, cross-validation, and other methods.

Case 7-3: Digitalisation of MFOs – building an effective service platform

The main customers of FO_17 also come from the new economy sector, and a large number of customers have been accumulated in the Internet "listing tide". Founders and "wealth free" senior management are among the customers. The requirements for service efficiency of this type of customers are very high. "Many customers have reported that the traditional services provided by private banks have shown difficulties in meeting their needs, especially in terms of response speed."

Therefore, the digitisation of the FO emphasises especially on improving operational efficiency and service efficiency, and enhancing customer interaction experience through digital platforms. In terms of asset allocation, investment consultation, product supply, and other aspects, MFOs outsource part of the work to financial institutions such as private banks, intervene in teams at the middle and back offices, and provide solutions to the customers. In order to ensure quality, the service process is managed by the FO.

Matching the provider and the receiver on the asset side, and combining the FO's own views, the efficiency of information conversion and reception can be improved. Private banks, asset management companies, and other external institutions provide professional information such as research reports, which are translated by the investment research team of the FO to generate information that is "readable and understandable" to the customers, which is then summarised and refined. Most of the offshore private banking practitioners are locals from

Hong Kong, Singapore, and other regions, with differences from the Mainland Chinese customers in terms of language and culture. Moderate translation by MFOs is highly valuable for customers to understand relevant information in an accurate and deep manner, which is beneficial to improving the overall customer experience. MFOs send information flow to customers through APPs, hoping to finally implement functions such as artificial intelligence similar to Toutiao, and push customised information in real time according to a customer's position and preference characteristics.

8. CHALLENGES OF FAMILY OFFICES

It should be noted that although FOs in Greater China have achieved remarkable development, there are still many challenges that restrict their high-quality development, which should be noted by the industry, academia, regulators, and other sectors.

The FO is a labour-intensive industry, and the quality of talent is essential for the success of an FO. In this survey, we found that talent shortage has become the primary factor restricting the high-quality development of FOs. Nearly half of the interviewed FOs said that they are facing challenges such as talent storage, credibility, and similarity of value concepts.

Additionally, the FOs of Greater China have also entered a new stage of standardised development after experiencing a high-speed development brought by fierce competition of the industry. The development history of FOs in Mainland China is short, so there are no clear classification or regulatory systems at the moment. Many institutions in the market claim themselves to be FOs, and there are even unprofessional and substandard companies, which is not favourable to the overall healthy development of the industry.

8.1. Talent Shortage in Family Offices

As the “jewel in the crown” of the wealth management industry, FOs desire specific traits when selecting talent, such as ability, character, and value concepts. However, it is difficult to find well-rounded senior talent who adhere to long-termism, with outstanding experience and trustworthiness. FOs frequently handle lots of internal information and large amounts of capital, and also face complex situations which involve vested interest, presenting the talent with challenges that are associated with ability and human desire. As China’s social structure and culture is mainly based on a “diversity-orderly structure”, recruiting external professionals has become a huge challenge for the development of FOs.

“The family office industry is currently lacking in professional, high-quality, and shortly available talent. The appropriate talent of the family office must have a professional background, similar value concepts with the clients, and the ability to help the growth of the next generation of clients,” said FO_01.

"How can an MFO avoid agency issues and truly maintain the long-term alignment of interest? The marketisation challenges faced by an MFO are greater, and if they encounter major issues or difficulties, managers may simply quit," said FO_16.

"I think the biggest challenge is leading the team. How should an FO make employees accept its upheld values and truly realise the unity of family interest and employee interest?" said FO_18.

"Every industry faces different challenges at different stages of development. Asset management by itself is not a difficult job, and it can be done well when the right team is formed. The level of an FO ultimately depends on the level of talent; therefore, the biggest challenge is the talent pool. If an FO is willing to spend a lot of money, of course, it can attract some more talent. However, those who only show interest in money are more likely to leave if they have better job offers," said FO_21.

In any industry, high-quality talent has always been a "scarce resource", especially for FOs, which is an industry that contains strong heterogeneity and low transparency. Compared with financial institutions such as banks, insurance, securities, and trusts, or other types of institutional investors such as national sovereign wealth funds, pension funds, and university endowments, an FO's scale of asset management is relatively small. At the same time, the FO industry has strong heterogeneity and its talent often have different career paths. As such, it is difficult to provide clear development expectations for talent, which further increases the difficulty of attracting the right talent for an FO.

"It is not easy for FOs to attract talent. An FO is highly non-standard, with asymmetric information, and there is no particular or predictable career path for talent to refer to. For example, if I want to hire a hedge fund manager or an investment banker, I know where to find relevant the talent. I just need to recruit talent from the top institutions in the market. For example, Goldman Sachs is one of the best investment banks. However, an FO is very different. Every time I recruit, I must spend a lot of time explaining what an FO is, what are the characteristics and styles of our FO, and what are the benefits for personal development," said FO_04.

"For an FO, high-quality talent is scarce and expensive. Based on my communication with Bill Gates' family office, only all-round family offices like this are able to recruit the best

talent. However, its success is due to their high AUM. Most FOs do not have enough AUM to attract top talent, as the salary package of one top talent might equal the entire service fee of the family office. Therefore, finding the right candidate to fill in a suitable position is definitely a challenge for most FOs," said FO_08.

"I think the biggest challenge is finding the best talent. In the existing financial system, outstanding bankers with entrepreneurial spirit are actually hard to find. For talent with outstanding performance, the banks would offer them high salaries and decent social status. I think this is the biggest challenge of FOs – finding talent with a high level of professionalism and entrepreneurial spirit at the same time," said FO_19.

"Acquiring talent is a challenge, especially talent from the middle and back office. Talent in an FO has always been positioned as specialists, or 'grey-haired' talent (often the final job of their careers). How does an FO make dynamic young talent think it is a career worthy of a lifetime? This is a challenge we are facing now. The government is positioning FOs as an important industry for building an international financial centre. However, without a detailed sustainable development path, it is difficult to attract well-rounded high-quality talent to join the industry," said FO_28.

8.2. Regulatory Challenges of Family Offices

Driven by strong market demand, China's FO industry has been developing rapidly. Not only rich families, but also licensed financial institutions have tried to establish their own FO; for example, banks, trusts, and securities, as well as law firms, accounting firms, and other professionals have joined the industry. However, as it is still at an early stage of development, the regulatory system of China's FO industry has not yet been implemented, and the barriers to entry, business nature, and regulatory rules are still unclear. Some institutions that claim themselves to be FOs are in fact not operating normal FO business. As a result, their irregular behaviour has damaged the industry's image and affected its sustainable and high-quality development.

"The chaos of the multi-family office industry is worrying. Many people in China think that an FO's principal business is investment, and some people claiming to be an FO are carrying out financing activities, which is going too far," said FO_08.

"The strength of the multi-family office is marketisation; however, the biggest challenge is

disorderly marketisation. In particular, people think FOs are professional and consider it a high-end industry, causing many to follow the trend blindly. I am worried that when the trend has passed, the entire industry will be destroyed. Many local governments in China take FOs as an important way for investment promotion and financial development nowadays; a lot of new FOs have been incorporated. However, many participants in the industry, who lack professional morality and qualification, are running other businesses that are not related to FOs, some of which are illegal businesses," said FO_16.

Our report summarises the legal and regulatory experience of FOs in the US, Singapore, and Hong Kong SAR, with a view of providing some references for the future regulatory system of FOs in China.

Regulations of Family Office in the United States

- **Single Family Office: Conditional Regulatory Exemption**

For the US regulatory framework, an SFO is a type of private equity fund and eligible for **registration exemption**. In Rule 202(a)(11)(G)-1 the family office rule of the US Securities and Exchange Commission (SEC) ("The Family Office Rule of US SEC"), the single family office is defined, and clearly stipulates the scope of clients, ownership and control, and public image. The single family offices fulfilling this definition are exempted for registration with SEC.

Table 8-1: Conditions of Regulation Exemption for US Single Family Offices

Scope of Clients	A single family office only provides services for family clients. A family client can be any family member, former family member, current and former key family office employee, family trust and estate, family non-profit organisation and charity, and other family **entities**, and must meet the criteria in Table 8-2.
Ownership and Control	Ownership of a single family office belong to the family client exclusively and must be directly or indirectly controlled by family members or family entities. The main point for the provision is that a single family office is essentially a vehicle for a family to manage its own wealth. A family member or family entity (for example, a wholly

	family-owned company or family trust) must have control of the single family office.
Public Image	A single family office cannot appear to the public as an investment advisory firm. Appearing in public as an investment advisory firm means that the single family office is looking for the possibility of establishing business relationships with non-family clients, which should be governed by the multi-family office regulations and cannot be exempted from the Dodd-Frank Act.

Table 8-2: Definition of Family Clients in US Family Offices

Type of Family Clients	Judgment Criteria
Family Members	Direct descendants and spouses (including adopted descendants and stepchildren) within ten generations of the common ancestor
Former Family Members	Ex-spouse, stepchild, etc. of a family member who is no longer part of the family due to divorce
Key Employees	Directors and senior management of the family offices, including presidents, vice presidents, directors, trustees, partners, and other employees in key positions, and spouses who hold common assets with them
Former Key Employee	Investments before the employment of the former employee end *That is, the family office can advise on investments made before the ex-employee's employment ends; however, it cannot advise on new investments after the ex- employee's employment ends*
Family Trusts	Irrevocable trusts whose current beneficiaries are only family clients; a revocable trust with the current trustors only for the family clients
Family Legacies	Legacies of a family member, former family member, key employee, or former key employee
Family Non-Profit Organisations and Charities	A non-profit organisation, charitable foundation, charitable trust, or other type of charitable organisation wholly funded by a family client
Other Family entities	A company wholly owned, exclusively managed, and exclusively benefiting by a family client
Non-Intentionally Transferred Assets	Assets that are transferred to a non-family client non-intentionally within one year *That is, assets that are non-intentionally controlled and are transferred to non-family clients (for example, assets bequeathed by family members to friends) can be identified as family clients, and the family office can provide them with investment advice within one year after the transfer*

Although single family offices are exempted from registration, it is still subject to certain **information disclosure and compliance requirements**, including:

- Form ADV: A single family office must submit a Form ADV to the SEC after obtaining the exemption, and disclose information including main business, shareholding status, asset management scale (the range it belongs to), clients, employees, branches, etc., and update the abovementioned annually. Additionally, a single family office should record and maintain its financial information in accordance with generally accepted accounting principles (GAAP). For the public interest, the SEC may require FOs to file annual and other reports and conduct necessary reviews of single family offices.

- Comply with disclosure requirements under Section 13(d) of the Securities Exchange Act of 1934: Section 13(d) of the Securities Exchange Act of 1934 states that if an investor's voting power in a public company exceeds 5%, the investors must submit a 13D report to the SEC, disclosing information such as the name of the investor, the number of shares held, and the purpose of the transaction, etc. If the situation of the single family office fulfils the above criteria, it also needs to be reported.

- Comply with disclosure requirements under Section 13(f) of the Securities Exchange Act of 1934: Section 13(f) of the Securities Exchange Act of 1934 requires institutional investors with financial assets in excess of USD100 million to file a 13F report to the SEC. The 13F report helps the SEC assess the potential impact of investors to the securities market, so as to maintain market order and fairness. Furthermore, the 13F report boosts investor confidence by enhancing market transparency. Disclosure of related information is required if the financial assets held by a single family office exceeds USD100 million.

- **Multi-Family Office: Regulated under the Dodd-Frank Act**

Most multi-family offices are commercial in nature and serve multiple family clients at the same time, most of which are unrelated to each other. From a regulatory aspect, these institutions provide investment advice to multiple clients. Therefore, US SEC considers that these institutions are regulated under the Dodd-Frank Act as investment advisory agencies, and do not need to be defined separately.

Source: Gao Hao, Xu Lei. Regulatory References for Single Family Office, China Finance, Volume 4, 2022

Regulatory regime for family offices in HKSAR

The licensing department of the Intermediaries Division of Securities and Futures Commission (SFC) in Hong Kong issued the Circular on the Licensing Obligations of Family Offices (the Circular) on 7 January, 2020, and FOs frequently-asked questions (FAQs) on 8 September 2020. According to the Circular and FAQs, there is no licensing mechanism tailored for FOs. The licensing regime under the Securities and Futures Ordinance (the Ordinance) in Hong Kong is activity-based. If services provided by the FO do not constitute a regulated activity or are applicable to any exemption, or services provided by such an FO are not operated in any form of business, this type of FO is not required to obtain a licence under the Ordinance.

Single Family Office:

According to the Circular, the way in which an SFO operates can lead to different consequences under the licensing regime. In cases where a family appoints a trustee to hold its assets of a family trust, and the trustee operates an FO as an internal unit to manage the trust's assets, the FO will not need a licence because it will not be providing asset management services to a third party.

Multi-Family Office

The Circular also states that if a multi-family office provides services to clients who are not related entities, it will not be able to make use of the intra-group carve-out. When a multi-family office is granted full discretionary investment authority, "its asset management activity would generally be similar to that of a licensed asset management company"; therefore, it would likely need to be licensed for a Type 9 regulated activity. If it has not been delegated full discretionary investment authority and only provides securities investment advice and executes securities transactions, it may need to be licensed for other types of regulated activities (see table below).

Table 8-3: Regulated activities

Family Office Business	Corresponding SFC Regulatory Category
Dealing in securities	Type 1 regulated activities

Advising on securities transactions	Type 4 regulated activities
Dealing in futures contracts	Type 2 regulated activities
Advising on futures contracts	Type 5 regulated activities
Full discretionary asset management	Type 9 regulated activities

Regulations of Family Offices in Singapore

Single Family Office: Exemption from Registration

The Monetary Authority of Singapore (the "Singapore MAS") defines a family office as "a unit that manages assets for a single family and is wholly owned or controlled by its family member(s)". It is not necessary for a single family office to hold a license; in other words, a single family office can obtain a license exemption through a license exemption arrangement for the management of funds for related business. Additionally, for units that essentially manage assets for a single family but do not structurally meet the existing license exemption requirements, a case-by-case special exemption arrangement can also be applied through Singapore MAS.

Multi-Family Office: Under the Same Regulations as a Fund Management Company

For entry barriers, Singapore MAS classifies multi-family offices as fund management companies (FMC), and further classifies three types of entry barriers as shown in Table 8-4.

Table 8-4: Entry Barriers Classification of Multi-Family Offices in Singapore

Type of FMC		**Allowed Activities**
Licensed fund management companies (LFMC)	Retail LFMC	Carry out fund management services with all types of investors; there is no limit on the number of investors
	Accredited/Institutional LFMC	Carry out fund management services with accredited investors/institutions;
Registered fund management companies (RFMC)		Carry out fund management services with up to 30 accredited investors, and total assets under management (AUM) up to SGD250 million

Accredited investor means an individual with net assets amounting to more than SGD2 million, including financial assets amounting to more than SGD1 million or an income of more than SGD300,000 during the preceding 12 months; or a company with net assets amounting to more than SGD10 million.

Source: Gao Hao, Luo Jun. Regulations of Family Offices from a Global Perspective, China Finance, Volume 14, 2020

9. KEY ADVANTAGES OF DEVELOPING A FAMILY OFFICE IN HONG KONG, CHINA[7]

1. Hong Kong as an International Financial Centre

As one of the most important international financial centres in the world, Hong Kong Special Administrative Region (hereinafter referred to as "Hong Kong") brings together the world's most important financial institutions across the full-spectrum of sectors, such as banking, insurance, securities, and funds. Nearly 80[8] of the world's 100 largest banks and around 70 of the world's top 100 asset management companies have presence in Hong Kong. Hong Kong is one of the most open insurance hubs across the globe. As of May 2022, there were 164 authorised insurance companies in Hong Kong, of which 97 were incorporated in Hong Kong and the remaining 67 were incorporated in Mainland China or 20 overseas countries.[9] As at the end of 2021, there were in total 48,657 licensed securities and futures licensed persons and registered institutions in Hong Kong, which included securities brokers, futures dealers, investment advisers, and fund managers and their representatives, maintaining a steady and increasing trend.[10]

According to the Global Financial Centres Index[11] report jointly published by the China Development Institute (CDI) in Shenzhen and Z/Yen in the United Kingdom, Hong Kong placed fourth in the overall ranking in the world. Moreover, according to the Deloitte International Wealth Management Centre Ranking 2021,[12] Hong Kong placed third in the overall ranking for competitiveness among the world's top wealth management centres. In 2021, the International Monetary Fund (IMF) Mission has affirmed Hong Kong's position as an international financial centre with a resilient financial system, sound macroeconomic and prudential policies, and robust regulatory and supervisory frameworks.[13, 14] In 2020, the financial sector employed over 276,000 people (7.5% of the city's workforce) and directly

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7 https://www.familyoffices.hk/zh-hk.html
8 https://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf
9 https://www.ia.org.hk/sc/infocenter/statistics/files/c-poi.pdf
10 https://www.sfc.hk/-/media/EN/files/SOM/MarketStatistics/c01.pdf
11 https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/
12 https://www2.deloitte.com/ch/en/pages/financial-services/articles/wealth-management-centre-ranking.html
13 https://www.imf.org/en/News/Articles/2021/06/08/pr21163-hong-kong-sar-imf-executive-board-concludes-financial-system-stability-assessment
14 https://www.info.gov.hk/gia/general/202106/09/P2021060900233.htm?fontSize=1

contributed 23.4% to Hong Kong's GDP.[15]

Compared with other international wealth management centres, Hong Kong is uniquely positioned to access investment opportunities in China. At the end of 2021, there were over 1,200 Mainland Chinese companies listed in Hong Kong, accounting for 47% of the total number of Hong Kong-listed companies. In recent years, the financial connectivity between Hong Kong and the Mainland has been further enhanced with the launch of Hong Kong-Shanghai Stock Connect, Hong Kong-Shenzhen Stock Connect, and Bond Connect in 2014, 2016, and 2017, respectively. In May 2022, the China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission agreed in-principle that the stock exchanges in the Mainland and Hong Kong will include eligible exchange-traded funds (ETFs) in Stock Connect, further deepening the connectivity of the stock markets in Mainland China and Hong Kong, and promoting the mutual development of the two capital markets.

Hong Kong also serves as the largest offshore RMB settlement centre in the world. According to the data[16] released by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in July 2022, 70.93% of the global offshore RMB payments were proceeded via Hong Kong, which is far ahead of second place (United Kingdom, 6.35%) and third place (Russian Federation, 3.90%). In July 2022, RMB deposits in Hong Kong totalled RMB8,137 billion,[17] and RMB settlement transactions in August reached RMB32.10 trillion.[18]

2. A Free Economy under "One Country, Two Systems"

"One country, two systems" is the cornerstone of Hong Kong's long-term prosperity and stability. Under the principle of "one country, two systems", Hong Kong retains its independent immigration, monetary, fiscal, and taxation systems. As a free port, it also has a separate, independent customs territory. The city has no restriction on foreign ownership, and the free flow of capital within, into, and out of Hong Kong is safeguarded by Article 112 of the Basic Law. As such, Hong Kong is one of the world's most competitive economies. According to the Global Competitiveness Report 2019[19] published by the World Economic Forum, Hong Kong

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15 https://www.censtatd.gov.hk/tc/web_table.html?id=188
16 https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/rmb-tracker-document-centre
17 https://www.hkma.gov.hk/media/eng/doc/market-data-and-statistics/monthly-statistical-bulletin/T030302.xls
18 https://www.hkicl.com.hk/chi/information_centre/statistics_of_clearing_transaction_volume_and_value.php
19 https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

ranked third among 141 economies in the world. Additionally, according to the World Competitiveness Yearbook 2022[20] published by the International Institute for Management Development (IMD), Hong Kong ranked fifth among 63 economies and second in Asia.

China has continued to deepen its economic reform to optimise its development model. Furthermore, Hong Kong will gain new opportunities for development in the process of expanding the opening-up of the Belt and Road Initiative and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. While benefitting from the economic development of Mainland China, Hong Kong maintains its unique economic and legal system. According to the Fraser Institute in Canada, Hong Kong has been the world's freest economy since 1996.[21] Apart from that, Hong Kong ranked first across the globe in terms of economic openness, according to the Global Index of Economic Openness 2019,[22] published by the Legatum Institute.

3. Strategic Location Connecting China and Foreign Countries

Located in the heart of Asia, Hong Kong offers a high level of international connectivity. There are over 1,100 daily flights by 120 airlines that go to and from 220 destinations worldwide, including 50 destinations in Mainland China. Half of the world's population can be reached within five-hour flight. The construction of a Three-Runway System (3RS), expected to be completed in 2024, will allow Hong Kong International Airport to have the capacity to handle over 100 million passengers and nine million tonnes of cargo annually. Moreover, Hong Kong has an Air Services Agreement or International Air Services Transit Agreements with about 50 countries along the Belt and Road, further enhancing the convenience of air travel to and from these countries.

In addition to being Asia's transportation and business hub, Hong Kong is also a unique gateway to Mainland China. It takes just four hours to fly from Hong Kong to major cities in Mainland China, and only one hour to travel between Hong Kong, Macau, and the western part of the Pearl River Delta. The Hong Kong-Zhuhai-Macao Bridge, commissioned in 2018, enables the Western Pearl River Delta to fall within a three-hour commuting radius of Hong Kong. At present, the bridge slashes journey times between Zhuhai and Hong Kong

[20] https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/
[21] https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2021-annual-report
[22] https://li.com/wp-content/uploads/2019/05/GIEO-2019.pdf

International Airport to 45 minutes. Leveraging its strategic location, Hong Kong can enable companies across the globe to connect closely with the fast-growing Mainland China market.

4. Well-established Legal and Tax System

Hong Kong offers a variety of tax incentives for the financial industry, including tax incentives for corporate treasury centres, profits tax exemption for offshore funds, and profits tax exemption for mutual funds, collective investment schemes, and unit trusts.[23] According to the Paying Taxes 2020, a joint annual publication by PricewaterhouseCoopers and the World Bank Group, Hong Kong's business tax system ranked second in the world.

The judiciary in Hong Kong is well-known for its independence and respect for the rule of law. Among all the common law jurisdictions, Hong Kong is the only one that is truly bilingual, with Chinese and English as its official languages. According to the World Competitiveness Yearbook 2022, published by the IMD, Hong Kong ranked first in the world in terms of business regulations, and ranked in the top three in terms of public finance, tax policies, and international investment. Additionally, according to the Global Competitiveness Report 2019 published by the World Economic Forum, Hong Kong ranked second in Asia and eighth in the world in terms of judicial independence.

5. World-class Professional Services and Talent

Hong Kong has an abundant pool of wealth management talent, financial investment, professional consulting, and other fields. Around 70 of the world's top 100 asset management companies have presence in Hong Kong. In Hong Kong, there are over 42,000 practitioners in the asset and wealth management business, over 45,000 certified public accountants, and over 13,000 practicing solicitors and barristers.[24] An abundant supply of quality talent and service providers lay a solid foundation for the development of the FO industry.

Hong Kong's professional services are widely recognised for upholding and possessing professionalism, ethics, efficiency, and international vision. The strong professional services industry is supported by cross-field professionals that are multi-lingual, making them quality providers of services to large and cross-boundary projects and commercial disputes, among others. From banking, fund management, and financial accounting, to legal advice, tax

[23] https://research.hktdc.com/tc/article/MzU2MDk4MDUz
[24] Source: *Hong Kong: A Leading Hub for Family Offices*, a report published by Family Office HK in April 2021

consultancy, and more, FOs in Hong Kong can enjoy a full range of professional services to support their growth.

CONCLUSION

Since the reform and opening up in China, more than 40 million private enterprises in the country have created a series of economic miracles, i.e., contributing more than 50% of state tax revenue, more than 60% of gross domestic product, more than 70% of technological innovation, more than 80% of urban labour employment, and more than 90% of the number of enterprises, and thus a trillion-yuan wealth management market has also been developed in the Greater China region. As the "jewel in the crown" of the wealth management businesses, FOs have shown remarkably rapid growth in terms of, among others, the number of institutions and the scale of assets under management despite its short history in the Greater China region. At the same time, FOs are in essence the highest level of competition in the business environment of all countries and regions worldwide, and thus play an important role in a country's technological innovation, industrial upgrading, and social progress that cannot be replaced by other institutional investors. Its positive significance to economic and social development should be fully recognised.

While embracing the huge opportunities brought by the FO industry, we should also note the challenges facing its development. In March 2021, the implosion of Archegos Capital, a single family office in the US, inflicted tens of billions of US dollars in losses for investment banks. As a result, financial regulators began to re-examine the role of FOs in the financial system, and also considered whether to strengthen their regulations over the industry. The FO industry is still new to China, and some problems still exist, such as unclear definitions, absence of entry barriers, and which regulatory bodies to supervise. Guiding the FO industry to achieve healthy and orderly development has become an important issue facing regulators, the industry itself, and academia in China.

Furthermore, practitioners and players in China's burgeoning FO industry should fully recognise their mission of the times by sustaining the longevity of the industry with professional core competencies. This includes cultivating technological innovation with consistent patient capital, and promoting common prosperity with generous community investment and charitable donations, thereby achieving stable growth and long-term success with the industry.

Financial Services Development Council

The FSDC was established in January 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of financial services industry of Hong Kong and to map out the strategic direction for the development. The FSDC focuses on how to further develop Hong Kong's financial industry, promote the diversification of the financial industry, enhance Hong Kong's status and role as an international financial centre in the country and region, and seize global opportunities to consolidate Hong Kong's competitiveness by leveraging national advantages.

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Tsinghua University PBC School of Finance (Tsinghua PBCSF)

Tsinghua PBCSF, Tsinghua University's 17th school, was founded on 29 March 2012 as a joint venture between Tsinghua University and the People's Bank of China (PBC). It was built on the successes of the Graduate School of PBC, an esteemed school founded by the People's Bank of China in 1981. With the mission of promoting excellence in the finance industry and financial regulation through top-notch education and cutting-edge research, Tsinghua PBCSF, following advanced education modes of international financial programmes and business schools, is committed to building a world-class platform for financial education and finance and policy research.

Global Family Business Research Center (GFBC), Tsinghua University PBC School of Finance

GFBC's mission is to create knowledge of family businesses, cultivate multi-generational family leaders, promote and enable the development of wealth management industry, and contribute to China's long-range development. GFBC has published more than 200 articles and case studies in domestic and international academic journals and magazines, and 16 books on family business and wealth management, and has co-authored several Harvard Business School (HBS) cases. GFBC provides superior research for Chinese and foreign policymakers, regulators and organisations, such as Office of the Central Financial and Economic Affairs Commission, Ministry of Finance, Ministry of Education, Ministry of Civil Affairs, China Banking and Insurance Regulatory Commission, All-China Federation of Industry and Commerce, Financial Services Development Council and China Banking Association, and collaborates closely on research projects with governmental agencies and reputational institutions globally, such as the World Economic Forum, Bill & Melinda Gates Foundation, and the Economic Development Board. Based on the intellectual contributions it makes, GFBC is aiming to become a leading centre with great international impact in the fields of family business and wealth management.

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