THE FAMILY WEALTH REPORT 2018

A ROADMAP FOR THE INDIAN FAMILY OFFICE

Edelweiss
Ideas create, values protect
PRIVATE WEALTH MANAGEMENT

Campden Research
A division of Campden Wealth

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The Family Wealth Report 2018

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FOREWORDS

ANSHU KAPOOR
HEAD, EDELWEISS PRIVATE WEALTH MANAGEMENT

Dear reader,

India's GDP touched $1 trillion – 59 years post-independence. It took us another eight years to add $1 trillion more and we believe we will be at $5 trillion by 2025. Thereafter, we could be adding $1 trillion every two years. It is evident that India is growing at a rapid pace, independent of the global uncertainties. Yes, we might see short-term volatility in the economy and capital markets, but the long-term growth story yet remains and India maintains its position as the only bright spot amongst major global economies.

India has about 150,000 UHNW families with a cumulative net worth of $2 trillion. With the projected growth rate, this number is expected to rise to 400,000 UNHW families with a net worth of $5 trillion by 2025. The next gen of India is far more exposed and has the vision to think globally. At Edelweiss, we provide a unique platform across asset classes, customised to help our new age clients create and protect their wealth and aspirations. Our Family Office Business has been created to dedicatedly deal with such families and partner with them in their journey.

A Family Office is an institutional framework in which the affairs of a family can be managed. The Edelweiss Family Office Business addresses five of the broad needs of families – wealth structuring and succession planning, operating business advisory, family office setup and management, next-gen mentoring and education, andphilanthropy.

Client success and constant learning are the key pillars of our culture. Collaborating with partners like Campden to conduct such research activities enables us to continue our learning to improve our platform and add value to the overall industry.

The team has done quantitative and qualitative primary research with 78 families across India on a diverse set of issues which are relevant to this community. This activity is in sync with our core philosophy of listening to our clients/potential clients and constantly evolving ourselves to cater to their needs. We hope you find this report enriching and educative. Happy reading!

Yours faithfully,

Anshu Kapoor

DOMINIC SAMUELSON
CHIEF EXECUTIVE OFFICER, CAMPDEN WEALTH

Dear reader,

I am delighted to present Campden Wealth's and Campden Family Connect's first research report on ultra-high net worth private wealth management and family offices in India.

Since 1997 Campden Wealth has operated at the forefront of innovation and best practice in the global private wealth community. Our publications, events and research, have all informed and facilitated dialogue amongst families. Following the creation of Campden Family Connect, a Patni family Campden alliance, in 2015, we now provide support, education and connectivity to families of substantial wealth across India. This report offers key insights into how these families manage their wealth. We look at the current trend towards family offices, how they are structured, asset allocation, the use of external advisors, governance and succession, and how the families are giving back.

India is now the sixth largest economy in the world and the second most populous nation after the People's Republic of China. Growth has been sustained with a booming services industry and a budding technology sector. In the backdrop of this growth, family offices may still be in a nascent stage, but this study has found that nearly half (49%) of the 78 families represented within this research now utilise some form of family office services. An encouraging 50% of respondents also stated that they are actively professionalising their investment operations which should, in turn, lead to further growth in the private wealth management sphere.

Interestingly, wealth holders in India are still making decisions quite differently to those in many Western economies. For example, 64% of respondents said that they prefer the advice of 'close friends' over consultants, whilst 73% said that they identify their advisers through close personal contacts. Family-related considerations are also a key theme throughout the report, with succession planning denoted as the number one governance priority for the year.

The report also contains fascinating insight into how the next generation is making its mark, and how it will influence both investing and philanthropy in the future.

I am most grateful to the families and family office executives who participated in this study, and to Edelweiss for its support in our effort to better understand the changing trends within the private wealth management space in India.

I hope you will find this study to be both insightful and useful as you make important decisions for your families future.

Yours faithfully,

DSl

Dominic Samuelson

EXECUTIVE SUMMARY

The family office space is starting to take root in India

The concept of a 'family office' – including what a family office is, why one is established, how one can be structured, what services and benefits it can provide - is still relatively nascent in India. With that said, Campden FamilyConnect estimates that there are currently between 40-45 formal family office structures in existence in India today.

Average family wealth USD $645m; average family office AUM $318m

The average assets under management (AUM) of the family offices represented within this report stands at $318 million. The average net worth of the families is $645 million.

Nearly half utilise family office services

Of the 78 families of wealth in India studied for this report, nearly half (49%) utilise family office services. These services most often come in the form of hybrid family offices which are family office services that are embedded in the family business (22%), which is a common form of early family office development.

However, the wealth community in India has shown signs of further professionalising their wealth management structures and has been establishing single family offices that are independent of the family business, as denoted by 19% of respondents, or establishing/joining multi-family offices as noted by 8%. The remaining families either do not use wealth management services (32%), take their wealth management advice from family or friends (18%), or they rely on external advisers (31%).

Further professionalising a family's business/investment structures is the core reason for setting up a family office

Survey respondents reported that the core reasons their family offices were founded is to add a layer of professionalism to their family business and investment structures (53%), to help successfully transfer wealth between generations (44%) and to embark on co-investing opportunities (38%).

Family offices have a myriad of responsibilities

The responsibilities that families allocate to their family offices vary considerably from wealth management to family-related. At present, the most common are: 1) to act as an investment management service (69%); 2) to support new family businesses (63%); and 3) to provide tax and legal advice (57%). Services that are also offered, but to a lesser degree, include family counselling/relationship management (44%), administrative services (42%), and concierge and/or security services for family members (24%).

India remains the focus for family investment

Nearly every family represented within this research invests in India (99%). Outside of this, 14% also invest in North America, 11% in Europe, 10% in Asia-Pacific, 7% in the Middle East and 5% in Africa.

Succession planning needs to remain in sharp focus

In preparation for the large-scale generational transition that has already begun to take place globally, 62% of families in India now have some form of succession plan in place. However, only 19% of these are written and formally agreed. The remainder are either simply verbally agreed (14%) or informally written (29%), suggesting that succession planning needs to remain in sharp focus.

The next generation is coming into the fold

Over half (56%) of those surveyed reported that the next generation of family members currently hold family office/wealth management roles, while a fifth (20%) sit on the board. Roughly two-thirds (64%) said that they have a strong influence over the family business, while notable proportions also claimed that they have a strong influence over long-term investment decisions (57%) and the operations of the family office (43%).

Nearly all families give philanthropically

The vast majority, 95%, of the families give philanthropically. The most common areas to give to are education, children/youth and poverty alleviation.

1

INTRODUCTION

INTRODUCTION

In 2018, India experienced the fastest growth across all of the world's major economies, leading it to rank as the sixth largest economy globally[1].

Economic projections suggest that this pattern will likely continue and predict that India will become the second largest global economy by 2050, behind only China[2]. The driving force behind this growth is a raft of economic reforms introduced in India in the 1990s.

These reforms led to a reduction in interest rates and taxes, a deregulation of the markets, and the promotion of private sector participation in the manufacturing and services sectors[3]. Increasing globalisation also aided development in India through the lowering of tariffs and the phasing out of non-tariff barriers such as quotas. This allowed far greater levels of foreign and private investment into India[3]. As a result, India has experienced an average of 6% - 7% gross domestic product (GDP) growth annually for the last two decades[4].

Today, India has one of the fastest growing service sector economies in the world, with an average annual growth rate of 9% since 2015[5]. It is one of the largest distributors of IT services, the second largest exporter of 'farm output' globally[6], and it boasts one of the biggest automobile industries in the world[7].

Perhaps unsurprisingly, therefore, India has been a hotbed for many families to set up businesses and generate vast sums of personal wealth. In fact, the number of ultra-high-net worth (UHNW) individuals in India (defined as having a total net worth exceeding $30 million) grew by 290% between 2006 and 2016. Moreover, it is predicted that this trend will continue with India producing more than 1,000 UHNW individuals each year over the next decade[8].

As a consequence of this wealth generation, there has been an increasing proliferation of wealth management services being offered within India's financial services sector. A report by the research firm, Vito India, found that within the private banking sector, there are 45 institutional companies that manage wealth and 2,500 private bankers – 200 of whom are each managing over ₹ 1000 crores in assets ($10 billion).

The highest demand for private bankers is in the west, where Mumbai is situated. There is also a growing demand for wealth managers and private bankers in the north, in places such as New Delhi[9]. However, it is reported that less than a quarter of all the wealth in India is managed by institutional players[9], thus suggesting that it is being managed through other means.

In recent times, family offices have emerged as an increasingly popular vehicle for families looking to further professionalise their wealth management practices. They can also be established to provide other services that are relevant to the family (e.g. succession planning, trust and estate planning, philanthropic giving, concierge services, etc.).

This report analyses the current state of play of private wealth management in India. At a time when families of ultra-wealth are being generated at an unusually rapid pace, it reveals unique insight into how families of great means are revolutionising the way wealth is both preserved and grown, not only for their generation, but for the many generations to come.

As a prerequisite to the disclosure of this report's findings, the following offers some useful background information that helps to define the family office space.

What is a family office?

In its simplest form, a family office is a private office for a family with considerable wealth[10]. Some of its functions include, but are not limited to, wealth management, investing, managing corporate and family governance issues and performing administrative and concierge duties. The number of staff working within a family office depends on the type of family office it is and the services it provides. Thus, family offices can vary from just a couple of members of staff to 100 or more. As the report unfolds, the concept of a family office will be explored with a final chapter outlining the benefits of a family office, the costs associated with setting one up, the key questions that families should be asking themselves and where to go for additional information.

Family offices in India

While there is a rich history of entrepreneurialism and family business in India, family offices remain a fairly new entity. Traditionally, Indian families have kept tight control over their family businesses, investing and re-investing profits back into operations and buying up public shares to ensure that they maintain close control over the business. Diversity has primarily been done through subsidiaries of the family business with little appetite being shown for risk, despite the potential rewards.

However, the rapid expansion of UHNW individuals in India has led to a growing appetite for more efficient, effective and prosperous ways to invest money and manage assets. Fuelled by global trends and a desire to further professionalise a family's practice, families of great wealth are starting to set up family offices as vehicles through which they can invest their wealth into different asset classes such as equities, private equity, real estate, fixed income and hedge funds.

Employing investment professionals who are savvy and skilled at operating across the different asset classes enables families to flexibly navigate changing tides, both in pursuit of alpha and when needing to balance high and low risk investments. This enables families to not only preserve, but grow their wealth for current and future generations.

Given the relative newness of the westernised model of family offices in India compared to Europe and the United States, which have housed family offices since the 19th century, this report aims to uncover where India currently resides in its private wealth management evolution. Explaining the features, uses and benefits of family offices globally will serve as a beneficial guide and benchmarking tool for families in India as they develop their own strategies for wealth management which can help them to both preserve and grow wealth for the future.

Methodology

This research used a mixed-methods design to collect the data. The quantitative component involved collecting primary data from families in India with wealth of $30 million or more or with the family office/wealth management executives who support them. This includes families that either have or have had a family business and/or a family office. The data was collected using an online survey designed by Campden Wealth to explore a range of topics pertaining to wealth management in India.

Participants were identified through Campden Wealth's and its India-based partner Campden Family Connect's existing community of family offices and family businesses in India. In total, 78 participants completed the online survey. The data collection period took place between May and July 2018.

To provide greater detail and insight to explain the quantitative data, Campden Wealth also conducted qualitative interviews with five of the survey respondents. Through these interviews, Campden explored each of the key topics to understand why and how the quantitative trends may have occurred.

This report furthermore includes three case studies – two from families that have successfully set up a family office in India and one from a family which has chosen not to set up a family office. Through these case studies, this report presents some of the benefits and challenges associated with having a family office in India, along with beneficial lessons families have learned along the way.

2

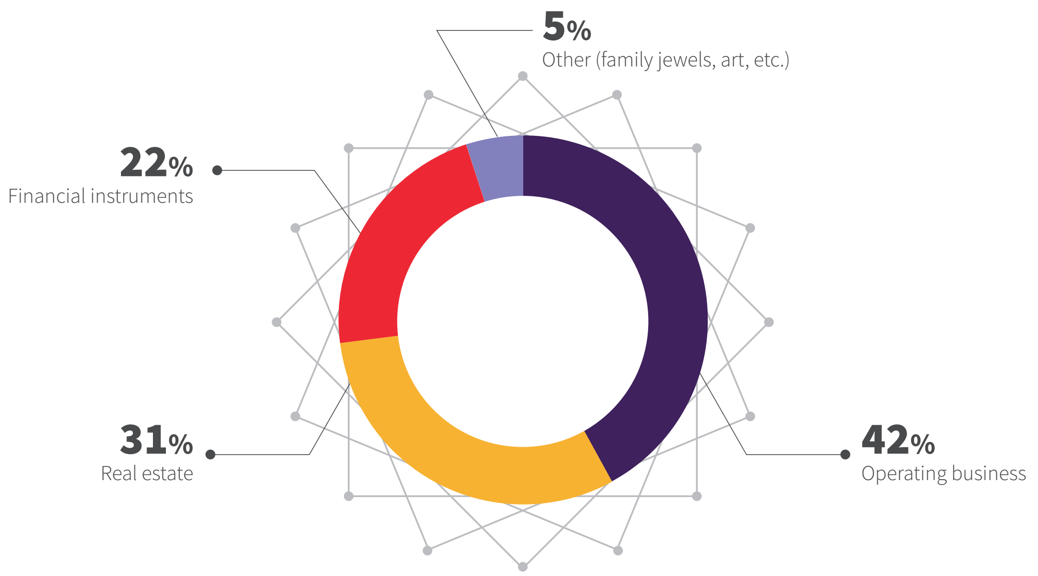
THE OPERATING BUSINESS

THE OPERATING BUSINESS

As a precursor for understanding how ultra-high net worth families in India manage their wealth, it is helpful to first understand where their wealth originated.

To make vast sums of money, individuals typically own highly successful businesses. And, it can sometimes take these businesses multiple generations of fruitful profits before its founders eventually become UHNW individuals.

Figure 1: How the family wealth is split across holdings



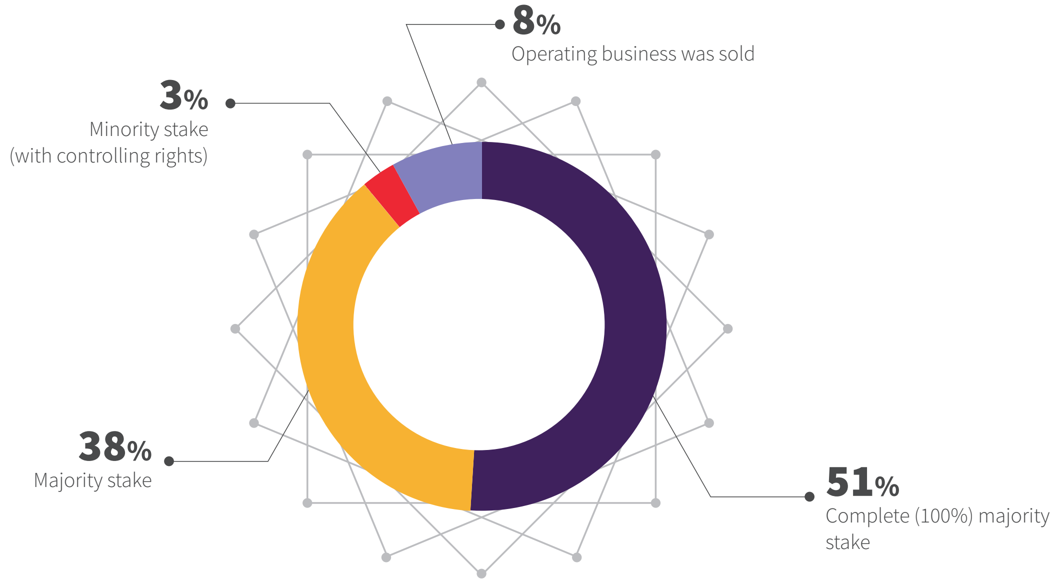
Source: The Edelweiss/Campden Family Wealth Report 2018

The average level of wealth of the families studied within this report stands at $645 million. This is compared to an average wealth of $1.1 billion for family office holders globally, according to the UBS/Campden Wealth 2018 Global Family Office Report.

In terms of where the family wealth in India resides across individuals' assets, an average of 42% sit in families' operating businesses, 31% in real estate, 22% in financial instruments and 5% in 'other' assets including jewels, art, yachts, etc. (figure 1).

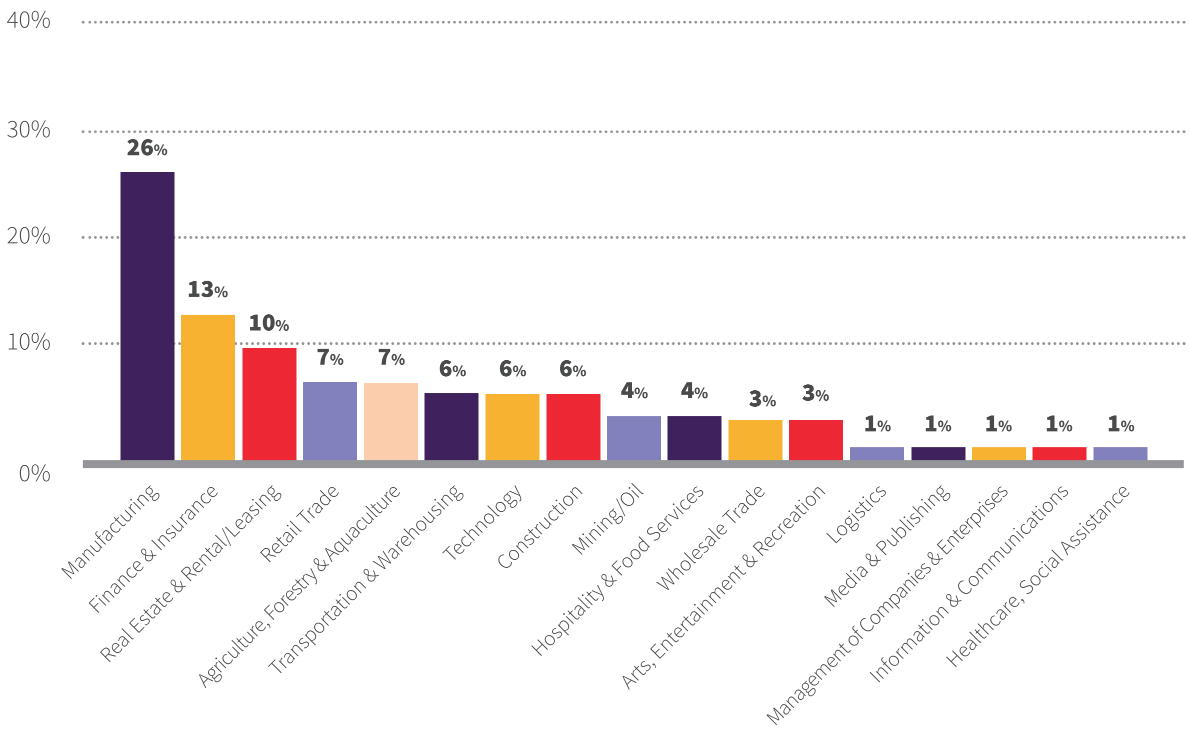
More than half of the families represented in this research have retained a complete (100%) stake in their operating business (51%), while 38% hold a majority stake, 3% a minority stake (with controlling rights) and 8% have sold their operating business (figure 2).

Figure 2: Controlling stake of the family over the operating business



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 3: Industry of the operating business

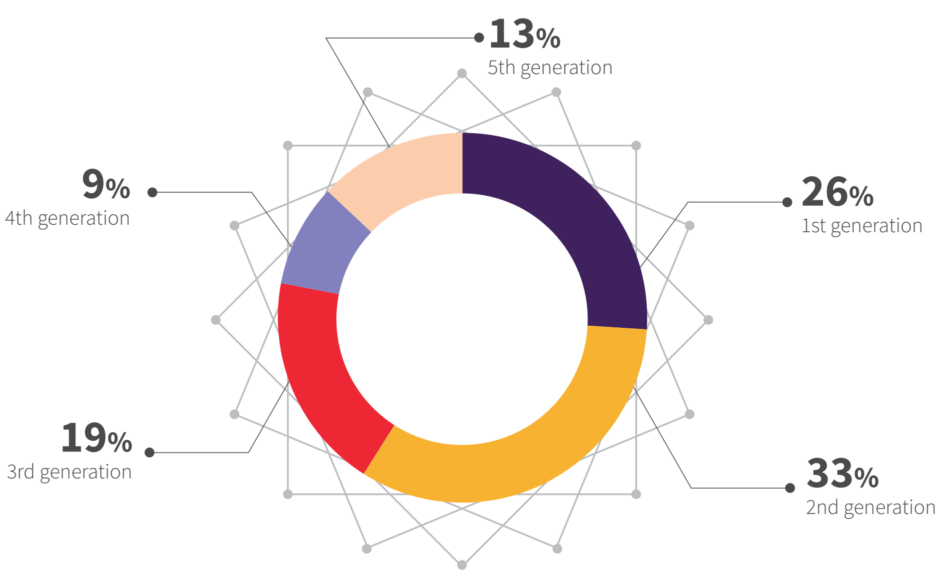


Source: The Edelweiss/Campden Family Wealth Report 2018

The most common industries these businesses operate in are manufacturing, as denoted by 26% of respondents, finance and insurance (13%), real estate/rental leasing (10%), retail trade (7%), and agriculture, forestry and aquaculture (7%). The least common industries to operate in are logistics, media and publishing, management of companies and enterprises, information and communications, and healthcare (a 1% share each) (figure 3).

Mumbai was the most common location to house operating businesses' headquarters (61%) with Hyderabad (9%) and Chennai (7%) a distant second and third, respectively. Families tended not to have an operating business in a second location but if they did, Bangalore (20%), Mumbai (15%), New Delhi (10%) and Pondicherry (10%) were the preferred locations (figure 4).

Figure 5: Generations currently or previously involved in the operating business



Source: The Edelweiss/Campden Family Wealth Report 2018

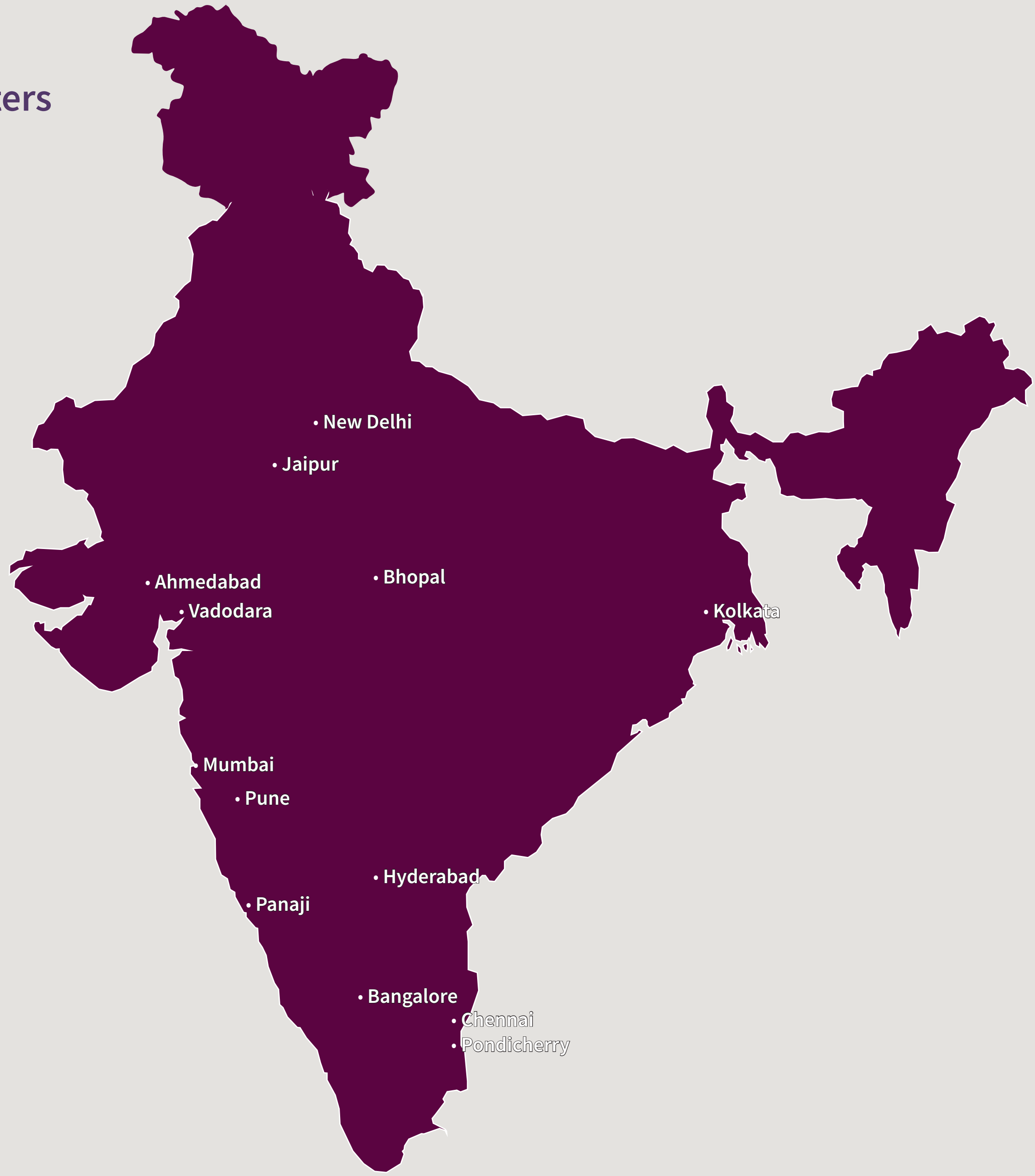
Figure 4: Location of the operating business headquarters and the second branch

Headquarters

1% Ahmedabad
3% Bangalore
3% Bhopal
7% Chennai
9% Hyderabad
3% Jaipur
3% Kolkata
61% Mumbai
4% New Delhi
3% Panaji
1% Pondicherry
1% Pune
1% Vadodara

Location 2

5% Ahmedabad
20% Bangalore
5% Bhopal
5% Chennai
5% Guragon
5% Hyderabad
5% Jaipur
15% Mumbai
10% New Delhi
5% Panaji
10% Pondicherry
5% Pune
5% Vadodara



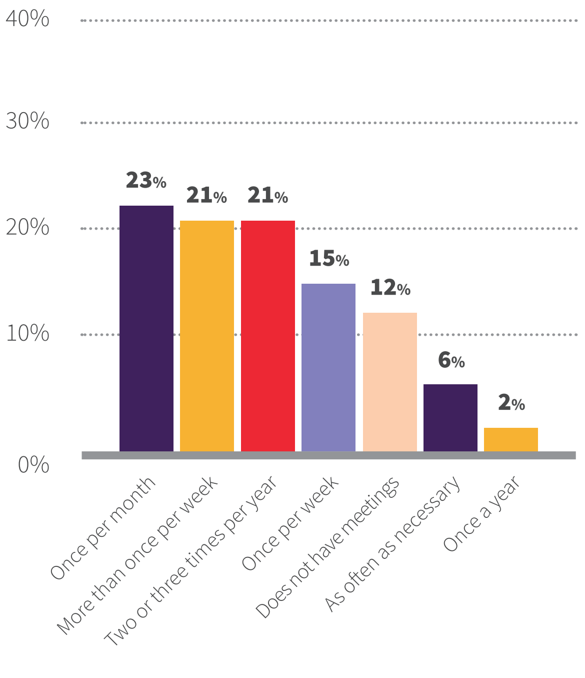
Source: The Edelweiss/Campden Family Wealth Report 2018

While there are several generations that are often involved in family businesses in India, the second generation (33%) has the greatest proportionate representation (figure 5).

In order to discuss the handling of the operating business, nearly 60% of the families have meetings at least once a month, with a further 23% having at least one meeting per year.

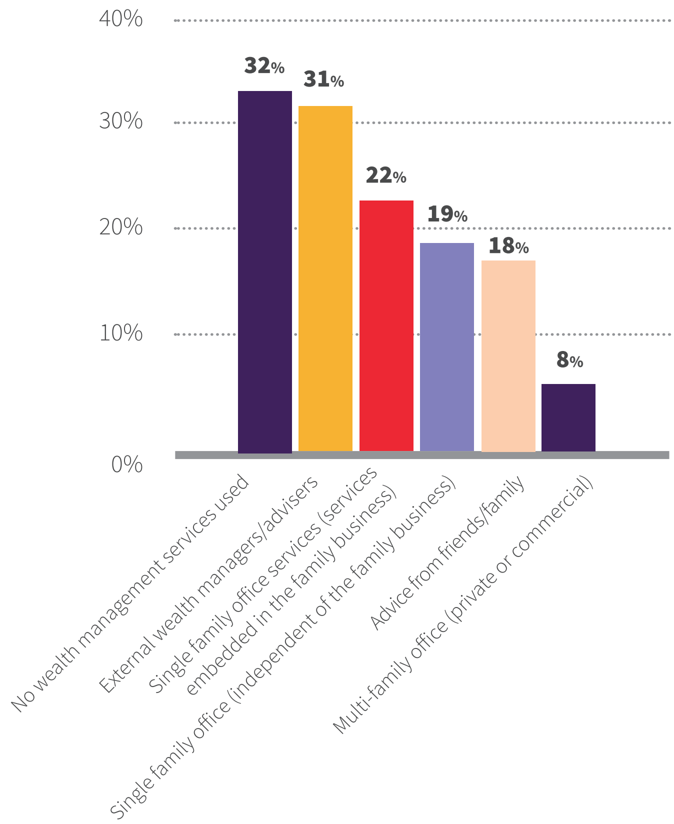
Six percent have meetings 'as often as necessary' and just 12% said that they do not have any meetings (figure 6). This suggests that communication, which is often central to the success of family planning and succession, can be sporadic for some and frequent for others.

Figure 6: Frequency of family meetings to discuss the operating business



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 7: Wealth management services used by the families (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

The Family Office Landscape

Families of dynastic, multi-generational wealth often think beyond their own lifetimes. They think about what their legacies and the legacies of their businesses will be in the years to come. They think about how to provide financially for their families for generations into the future, and how to establish business and wealth management structures that can survive in spite of unforeseen events.

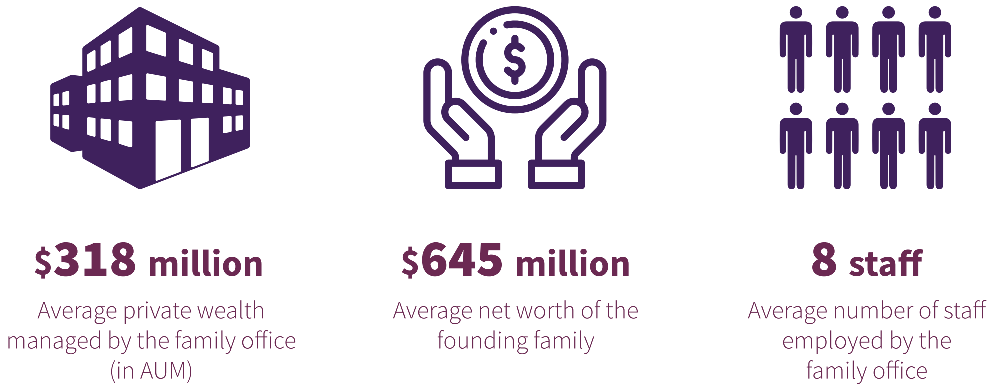
To help families such as these navigate the complexities of their business and financial planning, many turn to outside experts for advice or wealth management services. A growing number have also taken the added step of establishing their own family offices or joining a multi-family office, where matters relating to both wealth management and general family planning and support are offered.

Amongst the families of wealth in India, the majority of those represented within this research use some form of independent wealth management service to preserve and/or grow their wealth. Just under a third (31%) use external advisers, 22% have hybrid family offices, 19% have single family offices and 8% belong to a multi-family office. Just 32% report to use no such services at all (figure 7).

Family offices' average AUM is $318 million; families' average wealth $645 million

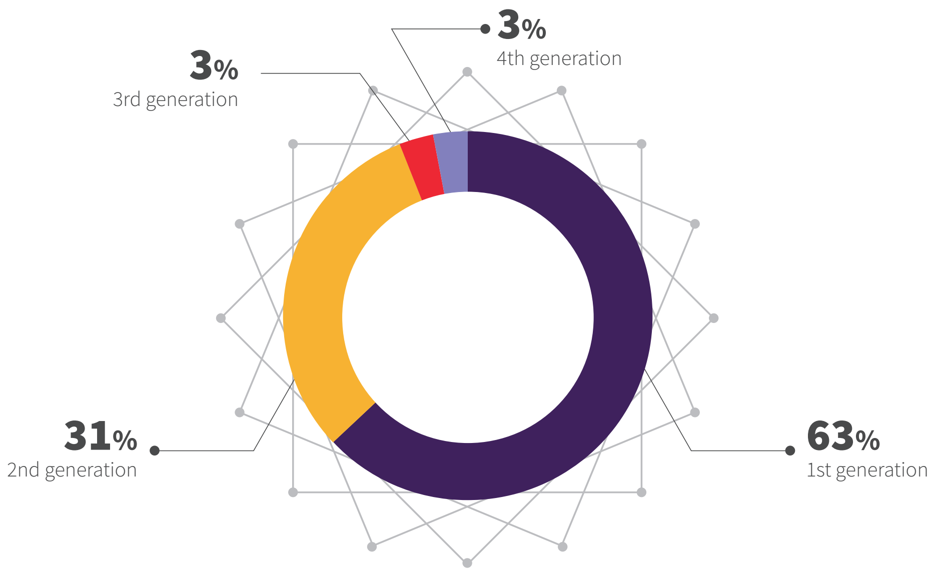
Of those respondents who have a family office, the average amount of private wealth they manage stands at $318 million, while the average wealth of the families across this report stands at $645 million (figure 8). Each family office also employs an average of eight members of staff, which is slightly lower than the global average of 11 (Global Family Office Report, 2018).

Figure 8: Average private wealth managed by the family office and the average number of employees working in the family office (USD $)



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 9: Generation that founded the family office



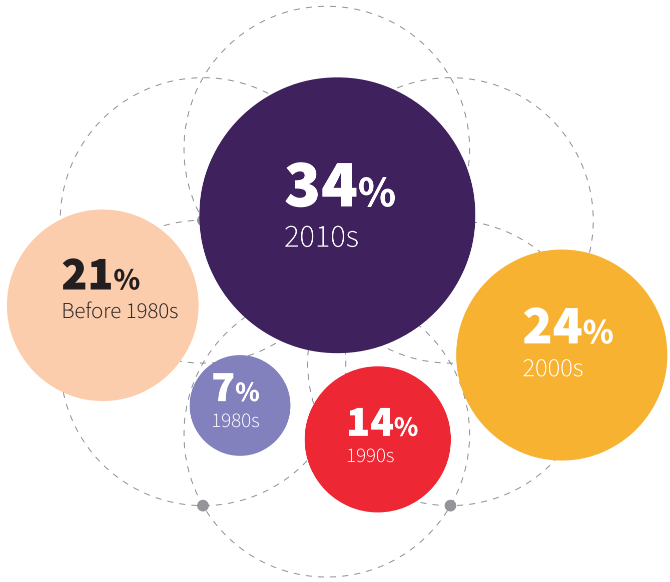
Source: The Edelweiss/Campden Family Wealth Report 2018

Newer generations are driving the trend toward family offices

Nearly two-thirds (63%) of the family offices in operation in India were founded by the first generation of wealth holders, with just 37% founded by the second, third or fourth generations (figure 9).

Reflecting the more recent emergence of family offices in India, more than half (58%) were founded in 2000 or later (figure 10). Whilst those interviewed remarked that family offices were a relatively new phenomenon in India, the Global Family Office Report 2018 reveals that over two-thirds (67%) of family offices globally were founded on or after the millennium. This suggests that the recent expansion of the family office space is common in more places than just India

Figure 10: Decade the family office was founded



Source: The Edelweiss/Campden Family Wealth Report 2018

as other areas, such as Singapore, Australia and the United Arab Emirates, have also seen a rise in family offices since this time.

An interest in further professionalising wealth management is driving the rise in family offices

Survey respondents reported that the core reasons their family offices were founded were to add a layer of professionalism to their family business and investment structures (53%), to help successfully transfer wealth between generations (44%) and to embark on co-investing opportunities (38%) (figure 11). Other, less salient reasons related to the sale of the family's original operating business (15%) or to diversify as a means to mitigate risk (6%).

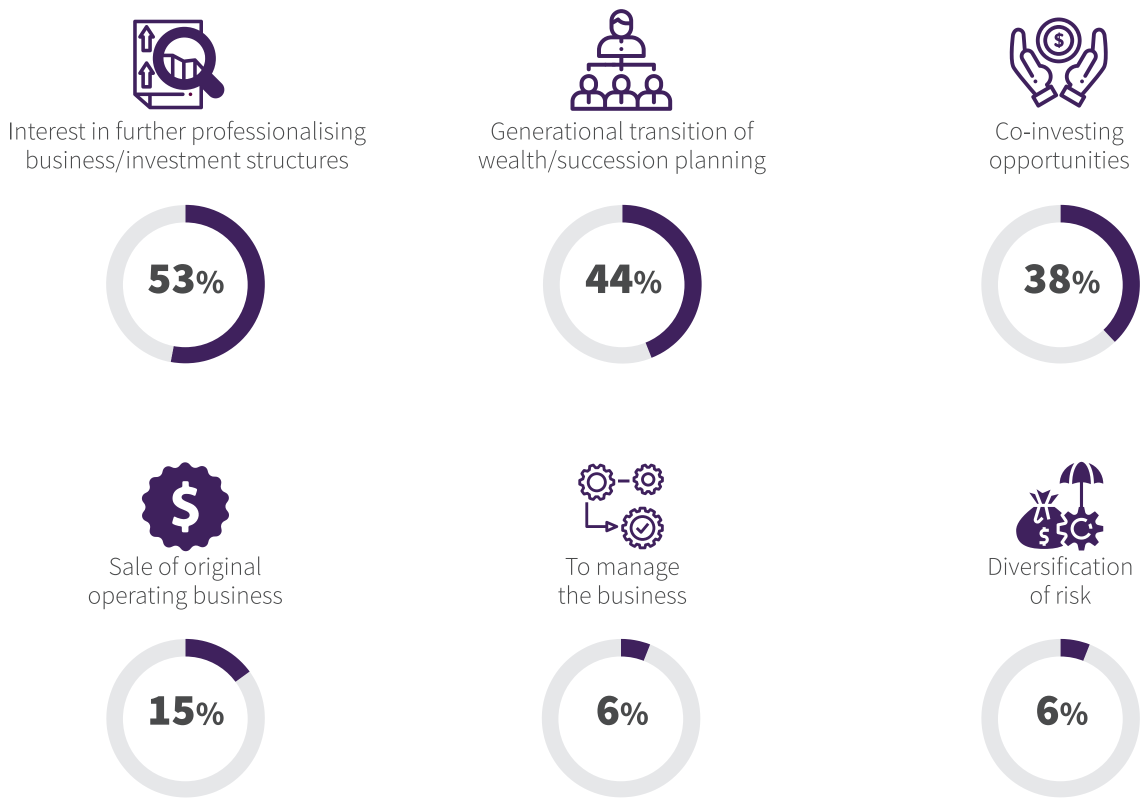
Family offices do more than just wealth management

The responsibilities families allocate to their family offices vary considerably from investment to family-related. At present the most common are: 1) to act as an investment management service (69%); 2) to support new family businesses (63%); and 3) to provide tax and legal advice (57%).

Services that are also offered, but to a lesser degree, include family counselling/relationship management (44%), administrative services (42%), and concierge and/or security services for family members (24%) (figure 12).

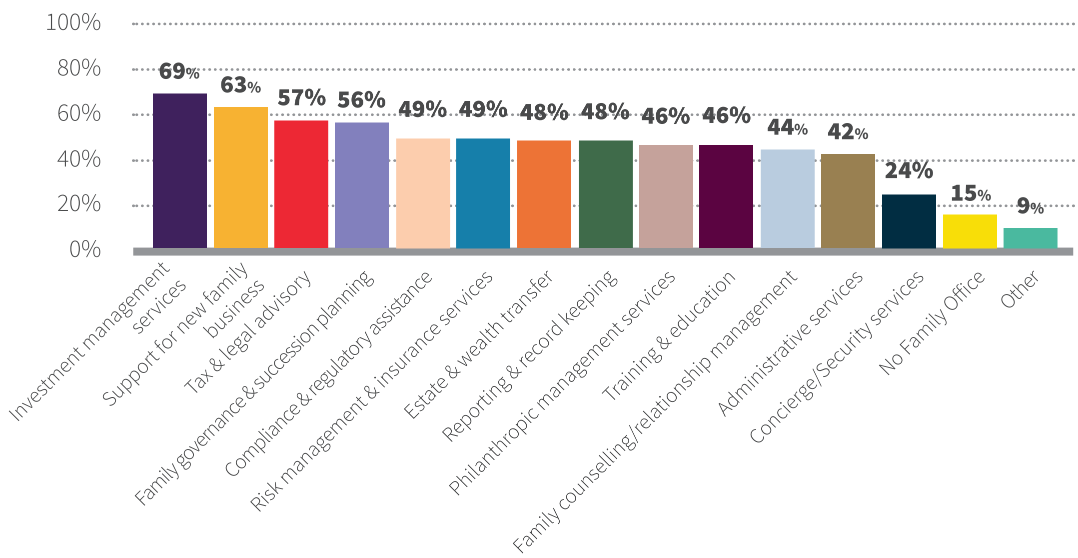
When asked about the most important functions family offices perform, 70% of respondents ranked 'consolidating information and reporting on investments and operations' as very important, followed by 'family administration and professional services' (56%), 'centralised control and risk management' (48%) and 'intergenerational wealth management' (47%) (figure 13). Real asset management, co-investing and concierge services ranked the least important.

Figure 11: Reason for setting up the family office (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 12: Responsibilities of the family office (multiple options permitted)



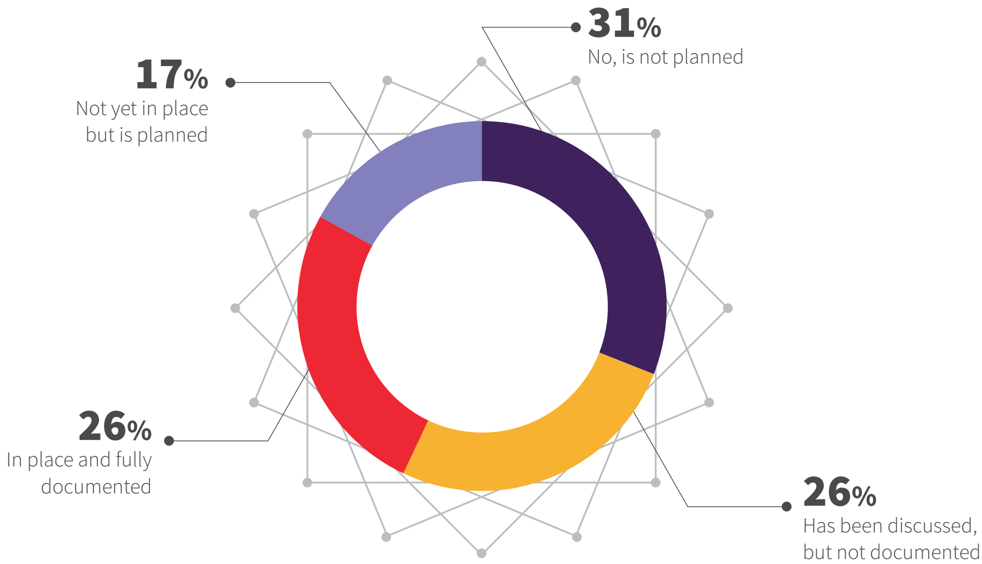
Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 13: The perceived importance of different services provided by the family office

Service	Very important	Important
Consolidating information and reporting on investments and operations	70%	23%
Family administration and professional services – accounting, bill paying, staff, insurance, and tax/legal/estate planning	56%	31%
Centralised control and risk management	48%	35%
Intergenerational wealth management	47%	41%
Family governance – family council secretariat, family meetings/events, and Next Generation development	39%	35%
Philanthropy	62%	38%
Real asset management – real estate, planes, and collectibles	23%	45%
Co-investing	14%	48%
Concierge services	7%	33%

Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 14: Status of the family office mission statement



Source: The Edelweiss/Campden Family Wealth Report 2018

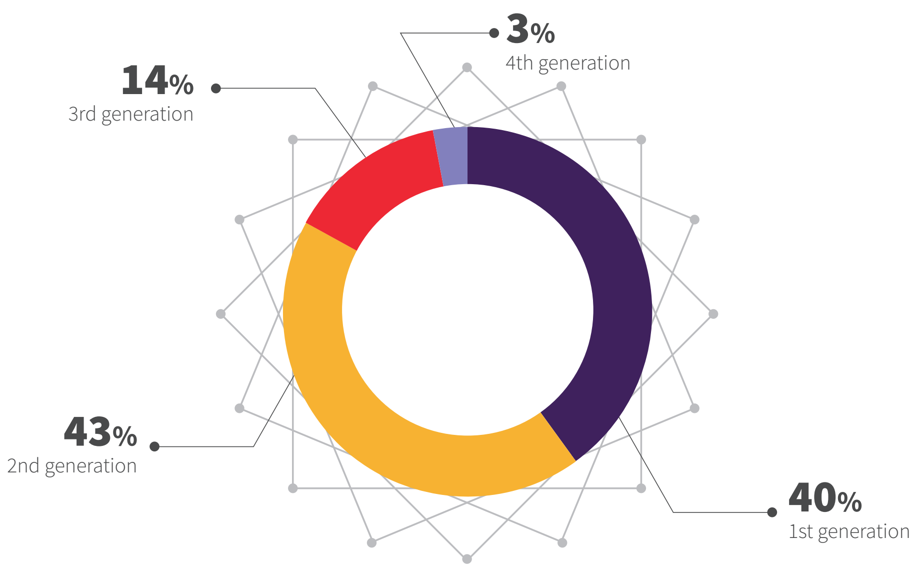
Just 26% of families have mission statements

Gobally speaking, whilst in the private sector mission statements are becoming an increasingly popular method of clarifying and asserting an organisation's directives, just a quarter (26%) of the family offices surveyed here had documented mission statements in place. This is slightly lower than the global average of 32%, as denoted in the Global Family Office Report 2018. Promisingly though, another quarter (26%) have started to discuss their mission statements, while 17% plan to in the future (figure 14).

Family members often play senior roles within the family office

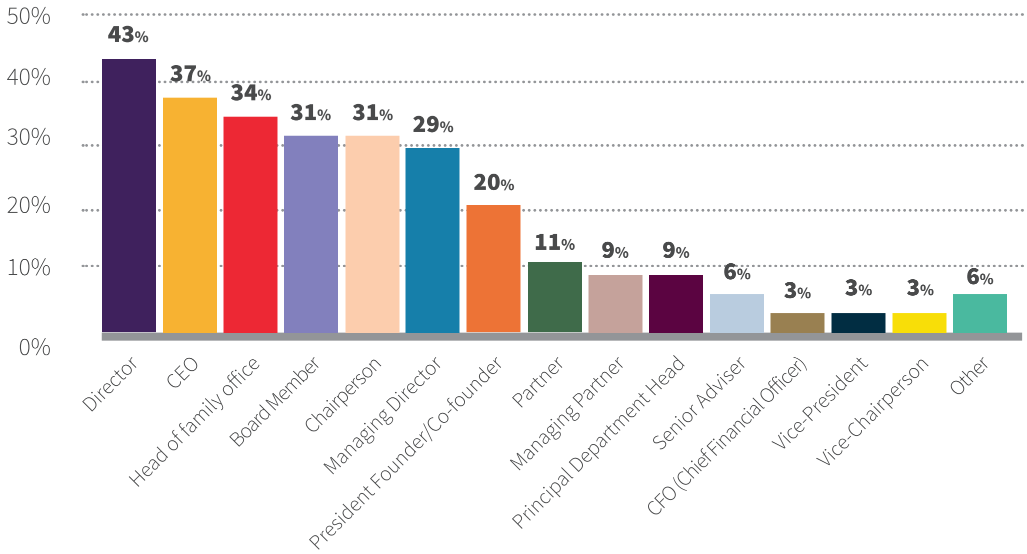
More than four-fifths (83%) of the first and second generation are served by the family office (figure 15). For those family offices that employ family members, most are in senior positions such as directors (43%), chief executives (37%) or as family office heads (34%) (figure 16).

Figure 15: Family members served by the family office



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 16: The roles of family members in the family office (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

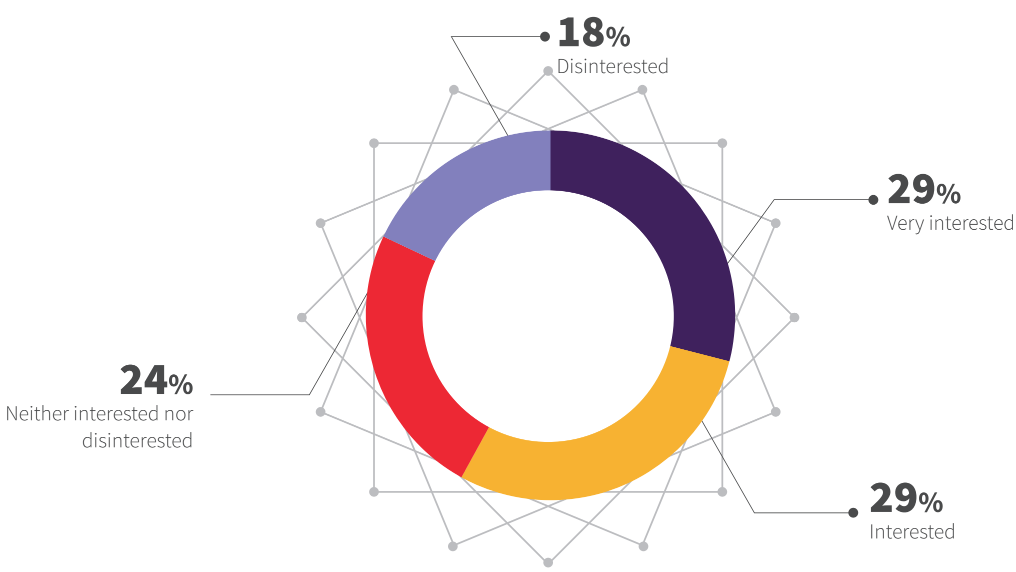
58% of families without family offices are interested in setting one up...

Amongst the responding families which do not currently have a family office, a significant 58% reported that they are either interested or very interested in setting one up. Just 18% reported to have no interest in the idea at all (figure 17).

...and 50% have already started the process...

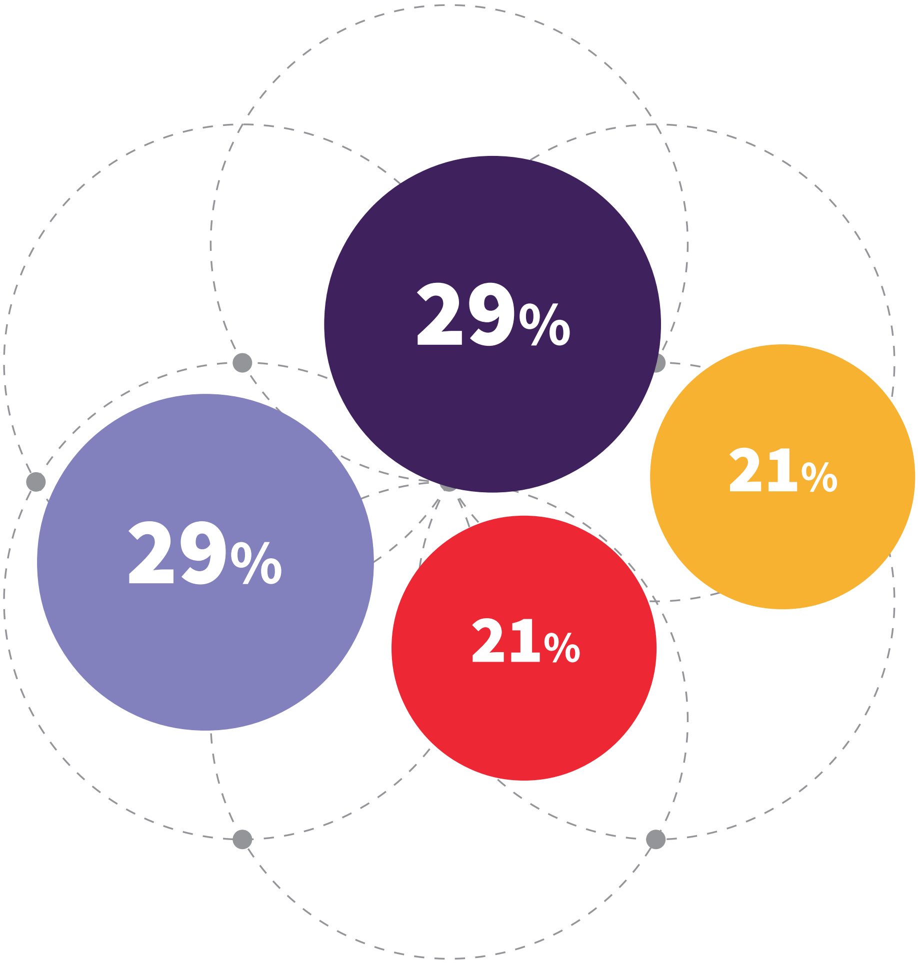
Amongst those in the interested category, 29% are in fact in the process of establishing a single family office, while 21% are in the midst of establishing or joining a multi-family office. The remainder are in stages still too premature to define (figure 18).

Figure 17: Current interest in setting up a family office



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 18: Is the family in the process of setting up or joining a family office?



Yes, setting up a single family office
Yes, joining a multi-family office
No
Don't know

Source: The Edelweiss/Campden Family Wealth Report 2018

THE IMPORTANCE OF OUTSIDE COUNSEL

Despite its rapidly evolving reputation as a wealth management centre, the number of family offices in India remains small, with an estimated 40-45 thought to exist across the country.

To put this into context, London alone is home to more than 300 family offices. Part of the reason for this is because wealthy families are reluctant to adopt external services that can provide the necessary expertise required to set up a family office.

With a firm belief in getting involved in companies from the very beginning, the interviewee has been an active angel investor in more than 50 companies since 2012, many of which are focussed on renewable energies. Educated mostly in the US, the interviewee, head of his family office and a family member, spoke about the importance of external services to his family when they made the decision to set up a family office.

Why did you decide to set up your family office?

The interviewee explained that he was responsible for setting up the family office to help manage the wealth the family business had amassed and to reduce the stress on key family members. *"I saw my father and my uncle generate a lot of wealth, in a lot of ways. And, I saw that they experienced a lot of stress from managing it"*, he remarked. The family office was also set up to improve the scale of their operations and to use the family office as an investment vehicle to make more money. The family very much has a long-term view in mind, and it hopes that one day, it can combine with other family offices to share knowledge and support other families.

Which external advisers did you work with to set up the family office?

"We hired any person we thought we needed to help set up the family office. It is a huge task", the interviewee explains. Chartered accountants were brought on board to help manage the finances throughout the process, as well as dealing with all of the tax implications that accompany the setting up of a family office. Lawyers were largely responsible for handling the family office's legal requirements and making sure that it was compliant with all necessary regulations.

The family consulted with investment managers specialised in investing through family offices and asset managers experienced in understanding the market. The family also spoke at length with other well-established family offices to seek out their advice regarding what could be done to ensure that the family office's processes ran as smoothly as possible. Perhaps unsurprisingly, the interviewee remarked, *"It took some time, but we got there."*

How do you ensure that everyone is pulling in the same direction for the benefit of the family office?

He was quite forthright in stating that all of the family office employees, family member or otherwise, and any external agency they employ are clear on the goals of the family office. *"We set out the long-term plan early on and made sure that everyone knew their role"*, he remarked. Moreover, the interviewee explained that as the family office grows, there could be the opportunity to work with other family offices as part of a larger private multi family office model. This, he explains, could increase the scale of their operation and give each employee, and any external service employed by the family office, a chance to grow too.

Would you do anything differently?

"I would ask for more capital at the very beginning. I underestimated how good the returns would be." He explained that while setting up the family office took longer than he thought, the only decision he would change would be to invest more capital in the investment portfolio earlier on. This comment, however, might have been different if India was not such a profitable region to invest in over the past few years.

"I saw my father and my uncle generate a lot of wealth, in a lot of ways. And, I saw that they experienced a lot of stress from managing it."

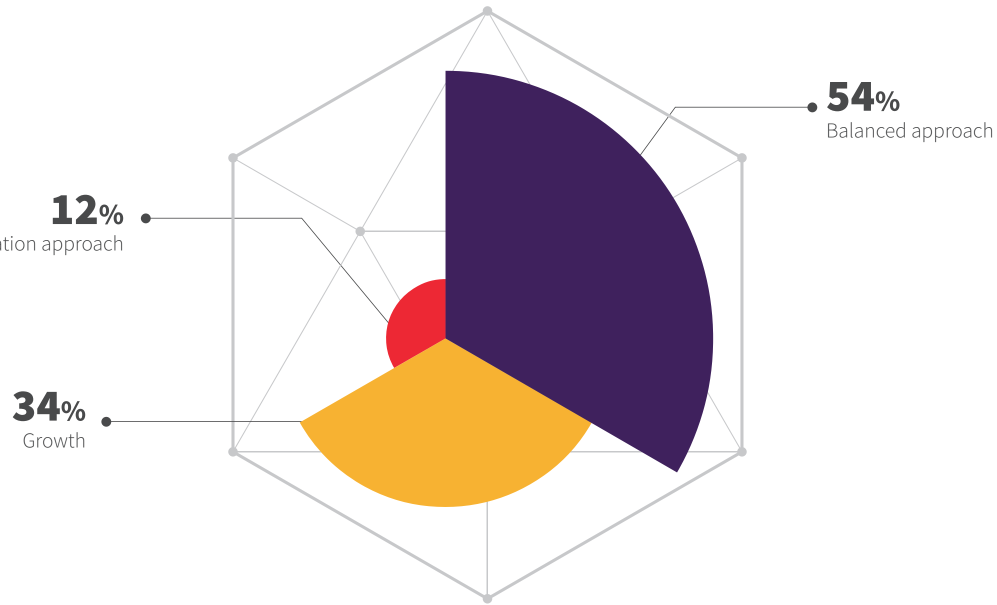
3

ASSET ALLOCATIONS

ASSET ALLOCATIONS

The quantitative data shows that the most common investment strategy is a balanced, preservation plus growth-oriented approach (54%), followed by a growth-focused (34%) and preservation-focused (12%) strategy (figure 19).

Figure 19: Investment strategy



Source: The Edelweiss/Campden Family Wealth Report 2018

Interestingly, the qualitative data suggests that a balanced investment strategy is the result of the older generation preferring a preservationist approach and the younger generation favouring a more aggressive growth-oriented model. In fact, each of the five family members interviewed for this research substantiated this claim. In the words of one family member:

"He [an older generation member] is definitely conservative. We invest in funds of fixed deposits which are very low risk. I am looking to make changes to invest at least 10% into more aggressive funds, looking at greater equity exposure. Change is happening, but it is very slow."

- Family member and family business executive

This finding is also supported by a 2017 study conducted by Deloitte into the next generation of wealth holders. The report found that the next generation is willing to take on greater amounts of risk by investing in wider geographical markets and facilitating growth by investing in innovative technologies[11]. Moreover, a paper published by McKinsey & Company posits that for family businesses to succeed through the generations, they must have a dynamic investment portfolio in order to raise capital and expand[12].

The interviewees were cognisant of this, with each remarking that they wanted to invest more in 'riskier' asset classes that can return a higher potential yield on investment. Given the recent findings published in the Global Family Office Report 2018 that reveal developing market equities yielded a steep average return of 38% in 2017 and private equity venture capital 18%, this approach, if managed sensibly, might be strategically and financially prosperous if the economic climate is right[10].

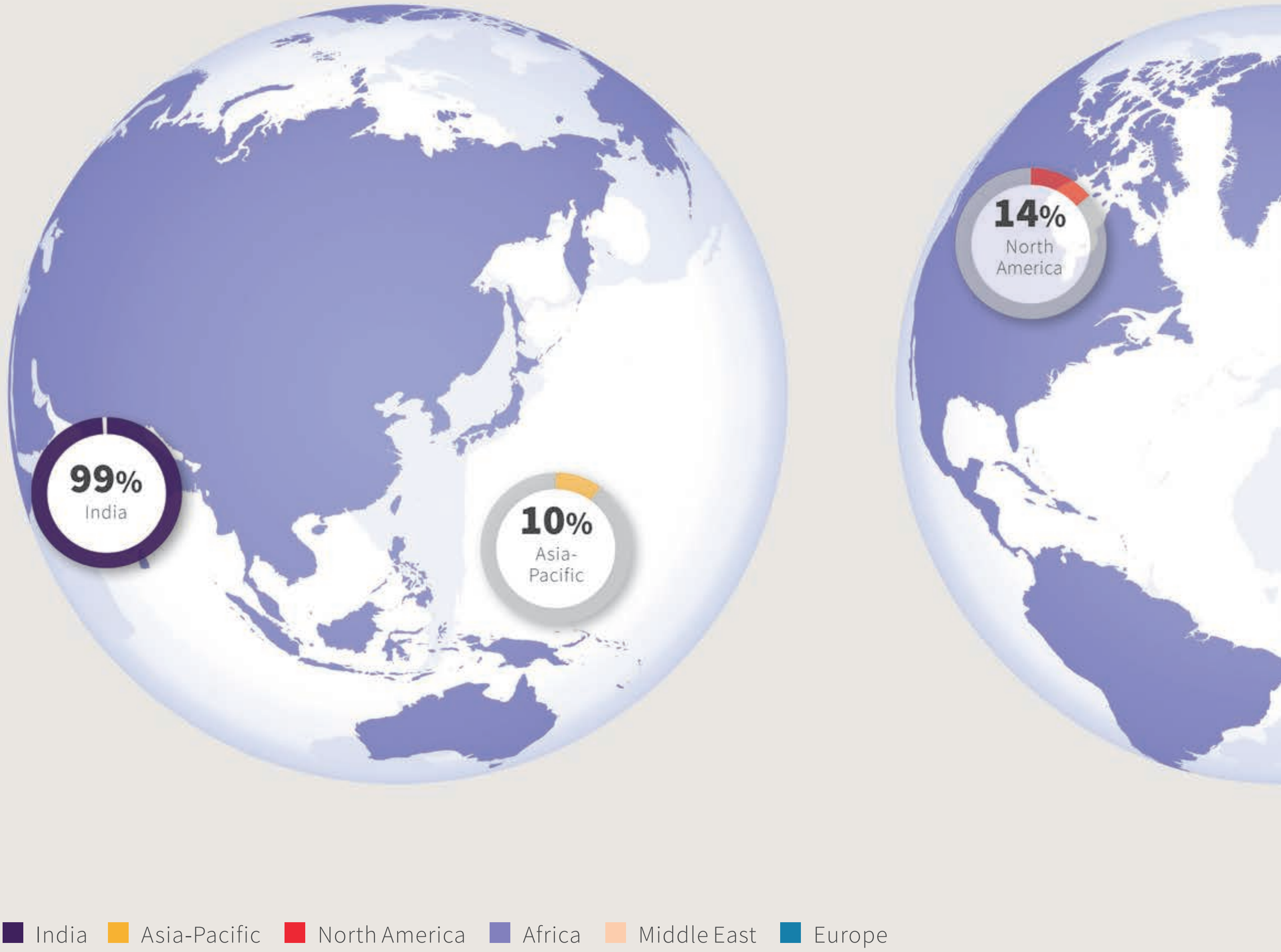
India remains the focus for family investment. Across the survey respondents, nearly every family invested in India (99%).

Outside of this, 14% also invested in North America, 11% in Europe, 10% in Asia-Pacific, 7% in the Middle East and 5% in Africa (figure 20).

"I am looking to make changes to invest at least 10% into more aggressive funds, looking at greater equity exposure. Change is happening, but it is very slow."

Family member and family office executive

Figure 20: Region the family invests in (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

A growing enthusiasm for equities

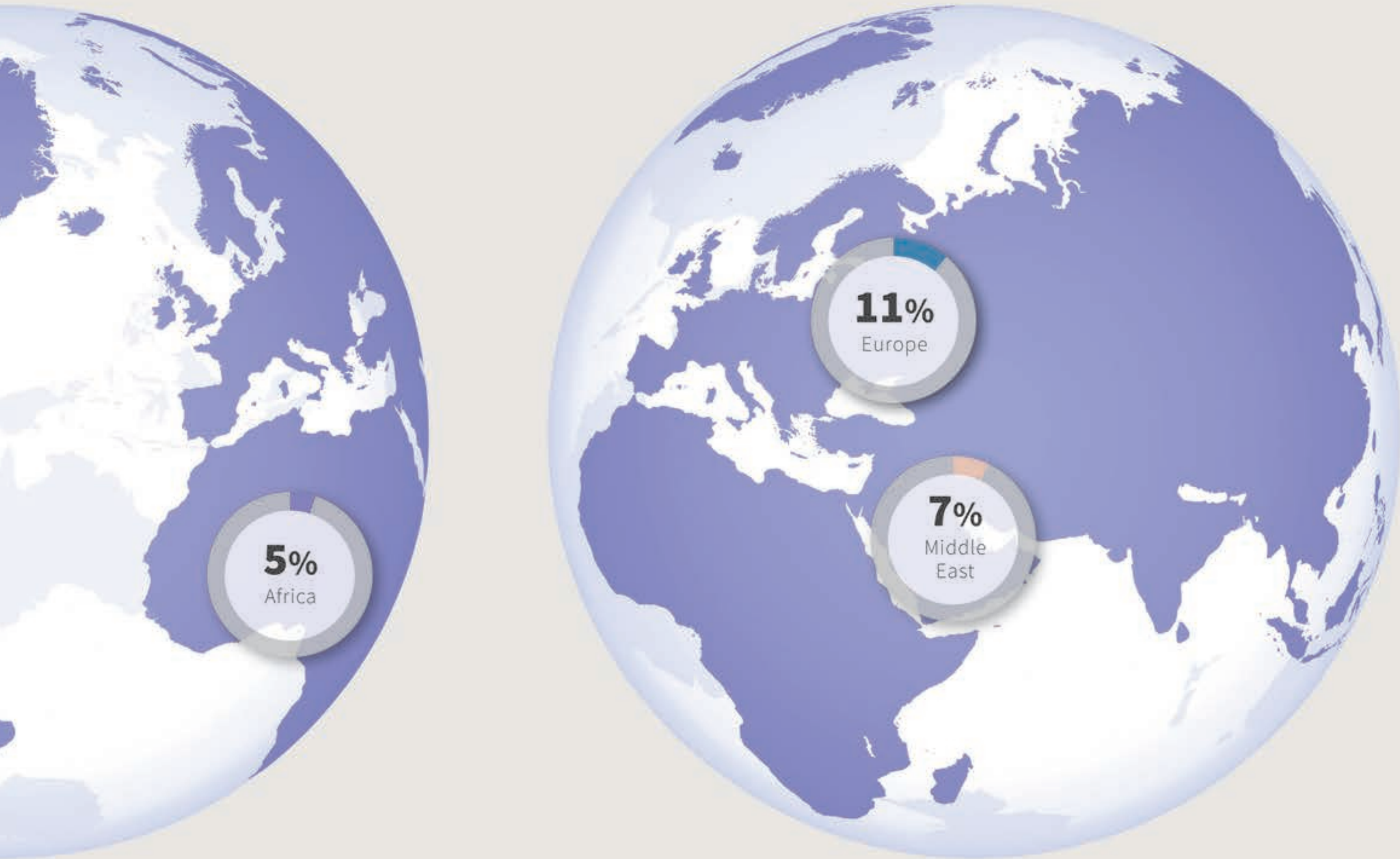
Asset allocations were spread fairly evenly across the different asset classes with emerging market equities (22%), emerging market fixed income (15%), developed market fixed income (13%), real estate (12%) and private equity direct investments (12%) being the most common asset classes to invest in (figure 21).

The qualitative data shows a strong desire for families in India to move further towards private equity allocations, albeit with a degree of caution:

"We may look into private equity as we go ahead. The returns can be potentially very high, but those are things that require a lot of time from the family members themselves, because you wouldn't want to make an investment based on lack of knowledge. I would hire a chief investment officer if we make the move into the private equity market."

- Family member and family office executive

Despite a growing interest among younger generations to diversify portfolios, there remains a propensity to invest in the asset classes that families have the most knowledge about and that offer somewhat limited risk:



"We do debt financing through fixed income. There's normally a fixed rate of return of about 8%. If you keep it in for about three years then you can get okay returns and it's fairly safe."

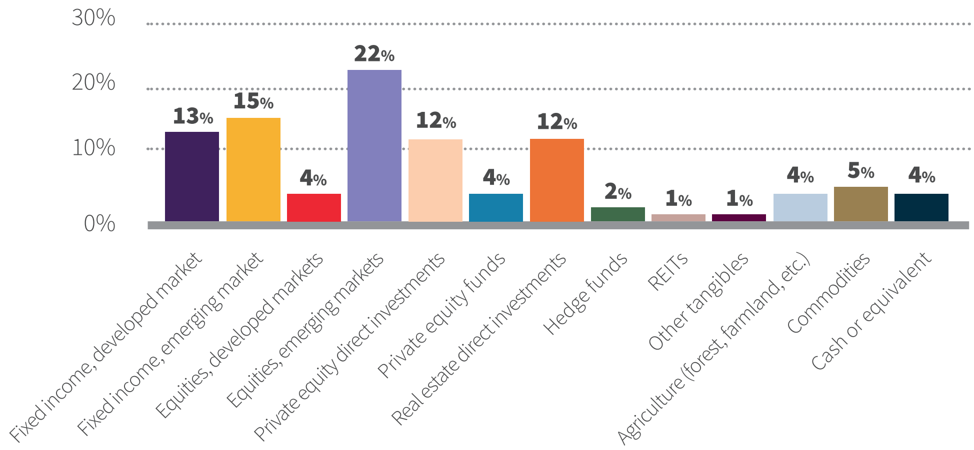
- Family member and family office executive

Various assets are held onshore

There is a notable distribution of assets being held onshore in India with emerging market equities (17%), emerging market fixed income (15%), private equity direct investments (14%) and real estate direct investments (14%) being the most common (figure 22).

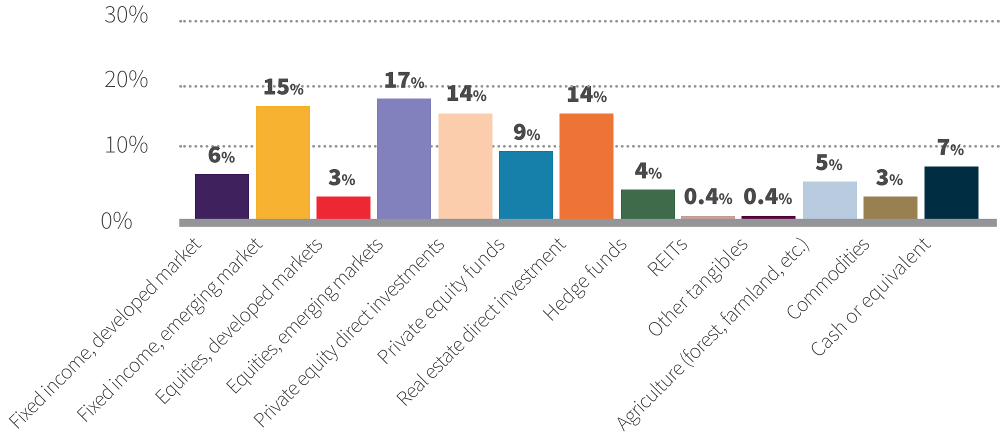
Impacting India's onshore holdings, it is also important to note that the rupee is not a fully convertible currency. A currency is fully convertible when there are no capital or current account restrictions on the free movement of money in and out of a country. India's economy is still relatively closed, with various restrictions in place leading to limitations on the free flow of funds and the lack of a surplus account, meaning that India's goods and services exports are far greater than its imports.

Figure 21: Asset allocations



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 22: Proportion of assets held onshore in India



Source: The Edelweiss/Campden Family Wealth Report 2018

Equities and private equity allocations likely to increase over the next year

When respondents were asked how their asset allocations may change over the next 12 months, the most common response was to maintain the same level of investment, suggesting that for many a balanced investment strategy will endure (figure 23).

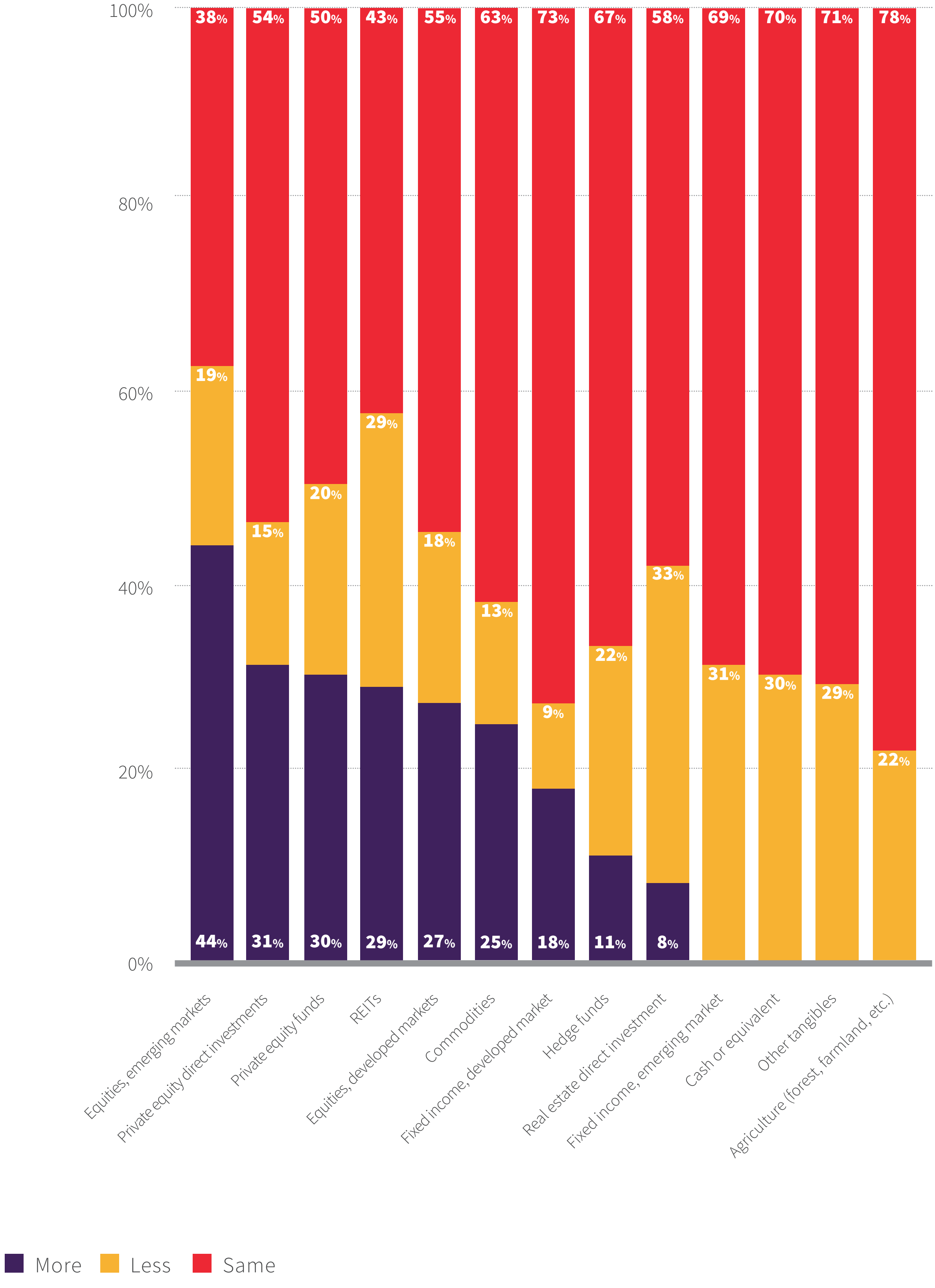
However, there were notable exceptions for families increasing their level of allocations to equities in both emerging and developed markets (44% and 27% respectively), and to direct private equity (31%) and fund investments (30%). This supports the notion that a proportion of families in India are willing to take on more risk in return for potentially higher rewards:

"Equities get you the highest returns. Currently, India's got a booming economy, a lot of businesses are doing well, so we want to participate through buying their equity. We will do this by liquidating some of the real estate assets and diverting it towards equity holdings."

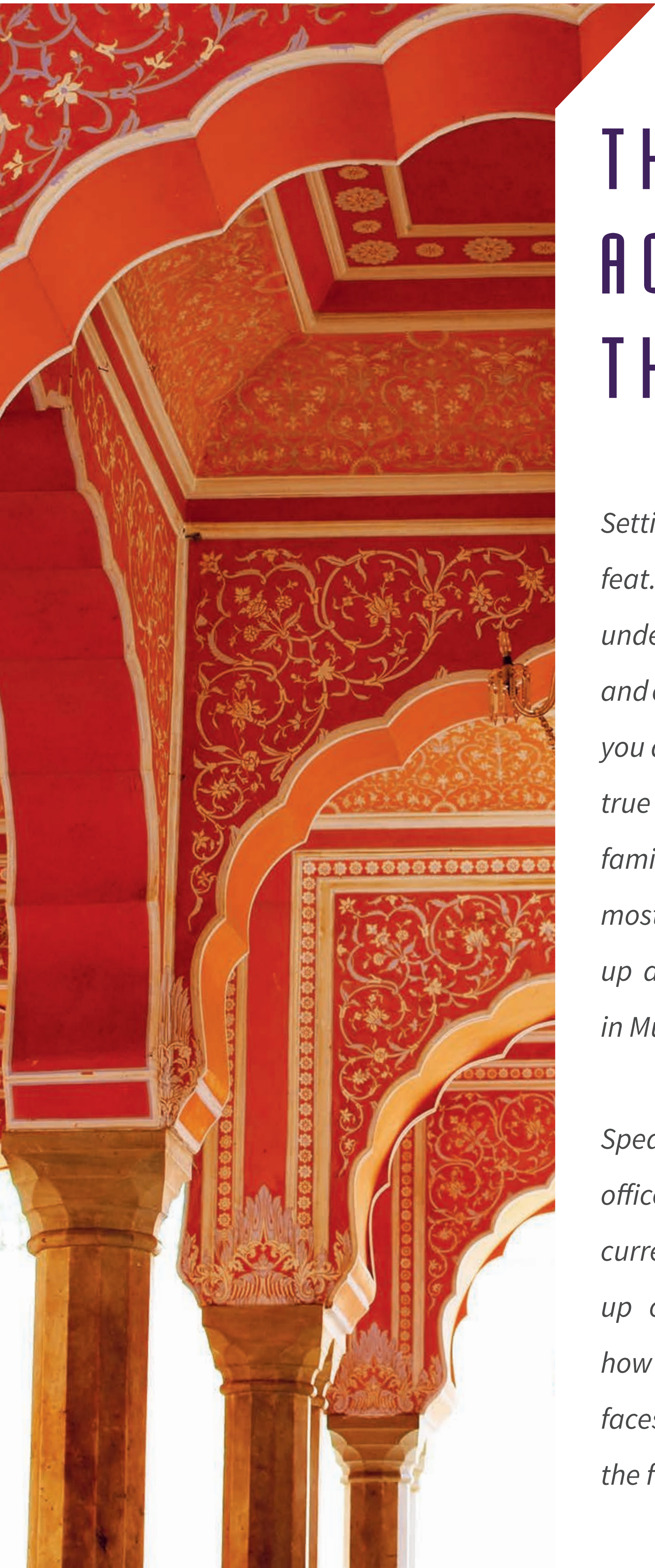
- Family member and family office executive

Indeed, a recent report published by the International Monetary Fund (IMF) reaffirmed that India will likely be the fastest growing major economy in 2018 with a growth rate of 7.4%; a trend expected to continue into 2019, with growth estimated at 7.9%[13]. This suggests that the equities market could be a very lucrative asset class to invest in over the next 12 months.

Figure 23: Predicted amount of allocation change to the different asset classes over the next 12 months



Source: The Edelweiss/Campden Family Wealth Report 2018



THE NEED TO ACCOMODATE THE NEXT GEN

Setting up a family office is no mean feat. It takes vast amounts of capital, understanding, hard work, dedication and commitment to set one up wherever you are in the world. This is particularly true in India, primarily because the family office scene is fairly nascent, with most of the expertise required to set-up a family office being concentrated in Mumbai.

Speaking to the head of a family office and non-family member who is currently trying to complete the set-up of the family office, he explains how it has evolved, the challenges he faces and the benefits of having one to the family.

Why was the family office set-up?

Perhaps unsurprisingly, the family office was set up as a way to manage the vast amount of liquid cash that was being generated by the family business. With a business operating in more than 40 countries, the family needed a way to manage its wealth and a vehicle to invest its capital.

How has the family office evolved since it was first set up?

"What it was when it [the family office] was set up, is very different to what it is now", the interviewee remarked. Originally set up in 2010, the family office was seen as a way to manage the vast sums of capital that were being generated by the family businesses. It was also seen as a useful vehicle to reinvest the family's capital into business start-ups, venture capital projects and in growth capital enterprises; all of which are keen interests of the family. However, the family office was largely overseen by one family member, a situation which made the family a little uneasy, "he was very closely involved with the money and he knew a lot more than other family members. This made everything quite uncomfortable".

When he left the family office in the middle part of this decade (with a sum of money that would allow him to set-up his own family office), the family realised it was time for a change. The family office was restructured so that it is now operated by five non-family member professionals, which has helped to ensure that no family member is favoured above another, information is disseminated fairly and everyone has an equal say. Its focus has changed too. Where the family office was once a vehicle for wealth management and investing, its primary focus now is to manage succession, and to ensure that the roles and responsibilities of the next generation are accounted for.

During the evolution of the family office, the family has always chosen not to consult with outside expertise, opting instead, for the advice and counsel of close friends and family. *"They are a very private family and are not comfortable with people they do not trust",* he explained. While he recognises the importance of outside expertise, the family prefers to consult with individuals from other known and trusted families.

What has been the greatest challenge you have faced and what are you doing to resolve it?

"The biggest challenge for the family office is defining the role of the next gen", in part, because this is an area that is totally out of the family office head's control. He went on to say that he can control how the wealth is managed and where it is invested, however, he cannot control how the next generation will behave. This conundrum is compounded by the generational transition that is beginning to occur within the family.

To tackle the problem, he is having regular, informal discussions with the next generation to understand what its members want to do in the future and connecting them with other families in the same position as them. He also explained that by having professionals work in the family office, all of whom are closer in age to the next generation, it has created a natural space within which the younger family members feel more comfortable talking about their issues and what they want in the future. This is a great example of how the family office can be structured to support a generational transition.

"The biggest challenge for the family office is defining the role of the next gen."

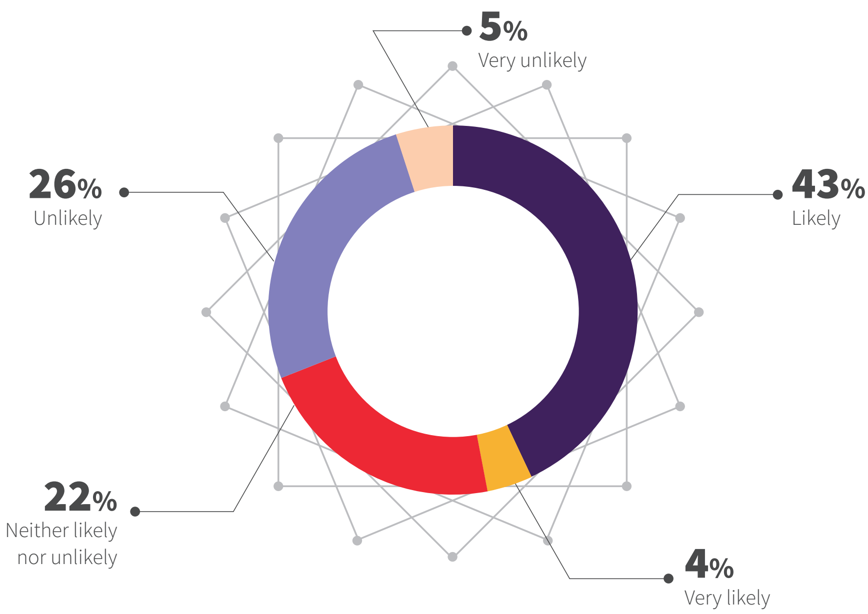
4

EXTERNAL ADVISERS, GOVERNANCE & PHILANTHROPY

EXTERNAL ADVISERS

Nearly half of families are likely or very likely to use external wealth managers as formal advisers rather than product or transaction partners. Conversely, 31% are unlikely or very unlikely to do so (figure 24).

Figure 24: Likelihood of using external wealth managers as formal advisers rather than product/transaction partners



Source: The Edelweiss/Campden Family Wealth Report 2018

Advice and recommendations about advisers is preferred from close friends

Expert advice in the form of attorneys (26%), family business executives (26%), independent consultants (24%) and trust managers (21%) scored as less important than advice from close friends (64%) (figure 25). This is also likely the reason why external advisers are mostly identified through personal recommendations from close friends and family (73%) (figure 26).

The qualitative data affirms this sentiment. While some interviewees explained that they rely on external advisers for support in areas they do not fully understand, several noted that they are not in need of advice:

"I don't need advisers. We subscribe to a few schemes, but I don't use them. They are not useful to me at all at the moment."

- Family member and family office executive

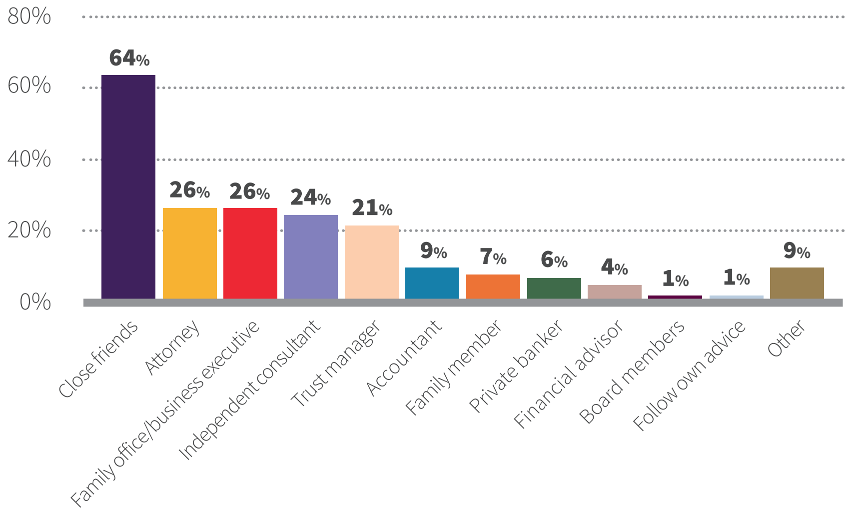
However, interviewees did acknowledge that they will likely need to recruit outside expertise in the coming years, primarily because they intend to diversify their investments into areas they are not sufficiently knowledgeable about. Two interviewees also noted that they relied on external advice when they first set up their family offices. One family member, for example, recruited advisers from other regions in India as she remarked, *"there simply is a lack of skilled people who can advise on setting up family offices where we are based."*

Looking a little deeper into this quote, the interviewee is purporting that there is a lack of skilled professionals outside of Mumbai. The result is that there are relatively few family offices established outside of the city.

To overcome this problem, other parts of India may wish to attract talent away from Mumbai or to bring in international expertise if they are to evolve their own family office landscape. This might include offering competitive financial incentives, the opportunity for career progression and the chance to work in different parts of India. Moreover, cities such as Bangalore, Chennai, Hyderabad and New Delhi should look to cultivate their skill-sets on offer by providing training courses to professionals interested in the family office space. London is a good example of a destination that offers extensive family office training that India could look to emulate here.

London offers a plethora of accredited courses that cover a range of important topics related to family offices, such as corporate and family governance, investing through the family office, engaging with external service providers, administration and concierge services, wealth management, and estate planning and management. Some courses even specialise in managing fine art, yachts and expensive collectibles, such as cars and jewellery.

Figure 25: Who provides the best advice to the family (multiple responses permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

While London offers an example of some of the courses that benefit family office professionals, India can look to build on its current platform of educational courses. For instance, the Association of International Wealth Management in India (AIWMI) offers two online courses: the Qualified Family Office Professional (QFOP) and the Certificate in Family Office Advising (CFOA). Both are accredited programmes that look specifically at family office fundamentals, best practice, trends, investing (all covered in the QFOP) and the essentials of setting up successful family offices (CFOA). These courses provide detailed insights into the implementation and running of family offices in India and would be a good starting point for any family member thinking about setting up a family office.

However, if India wants to invest in the family office space, courses such as the QFOP and the CFOA need to be better promoted and more widely available to professionals. Lessons must also be learnt from existing research if the family office space is going to evolve. For example, a report exploring family businesses in India, conducted by PricewaterhouseCoopers (PwC), found that external talent is often reluctant to join family businesses because of a perceived lack of operational freedom and a lack of career progression as the top jobs are often held by family members[14]. Given the interconnected nature of family businesses and the family offices, it is important for professionals to see clear career progression opportunities.

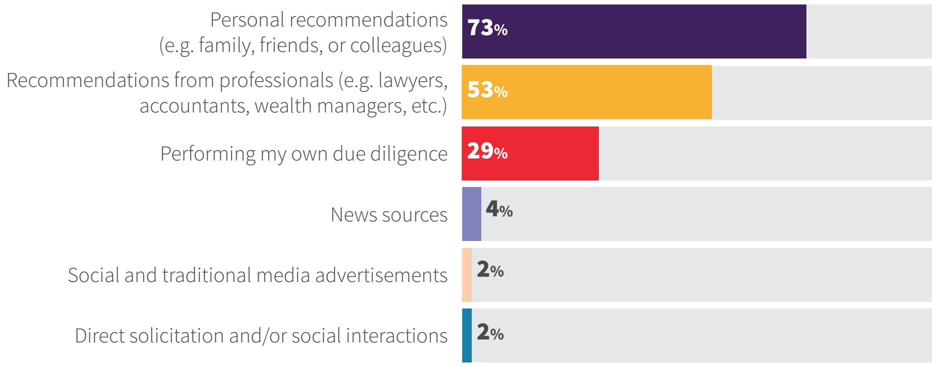
Trust is key

For those respondents who did utilise external relationships, 'trust' (94%) was the most important factor to them, followed by speedy response times (30%) and advisers' ability to act responsibly (both in corporate and social situations) (16%) (figure 27). In the words of one family member:

"Trust is always really important. If I don't trust the person, what they are doing or what they stand for, then I simply won't deal with them."

Family member and family office executive

Figure 26: Methods for identifying external advisers (multiple responses permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

Unaligned views between family members and external advisers can prevent outside advice being used

The most popular advisory service used by the families is investment management (87%), followed by tax and legal (70%), and compliance and regulatory services (40%) (figure 28). While the quantitative data suggests that Indian families readily use external services, the qualitative data suggests that some families are reluctant to use them because their views often do not align with the views and intended direction of the family:

"They pull us in different directions to what we want. Like investing, we want to grow, but not as quickly as they want. We still need to be cautious. I don't know how to sort this out, but I think it is an important area to work on because we don't know everything. I know a lot of people in the same position."

- Family office executive and family member

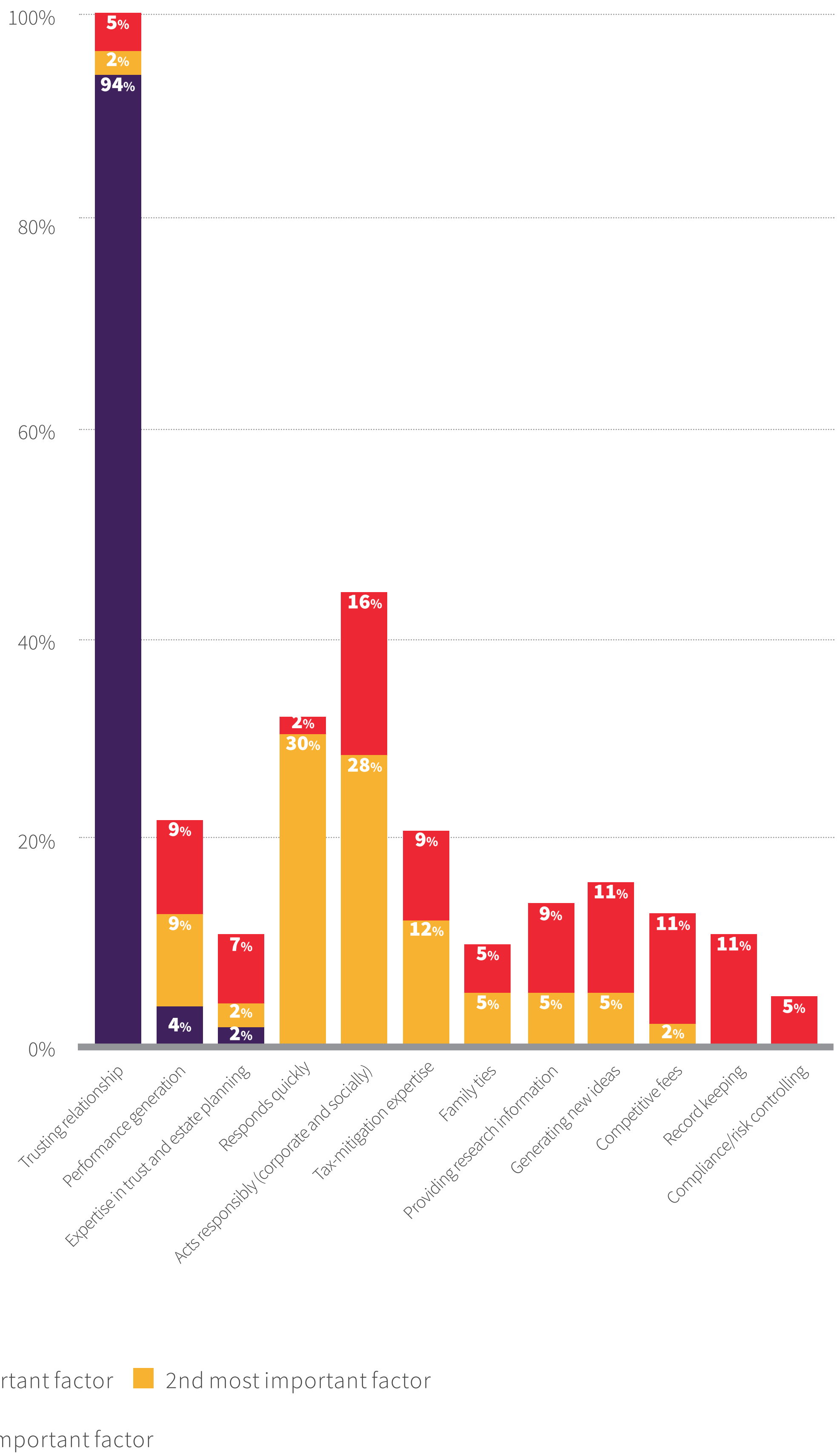
Families need to find a way to work with external service providers if they are to address their lack of understanding in key areas - one of which is the implementation and running of family offices. If outside help can be appropriately utilised, it can create structure and confidence for the future. One of the interviewees used succession planning as an example of where they have engaged outside counsel:

"We have just undergone a succession management plan and a succession planning exercise. After that we hired two independent advisers to help us implement the plan. We just did not know where to start."

- Family member and family office executive

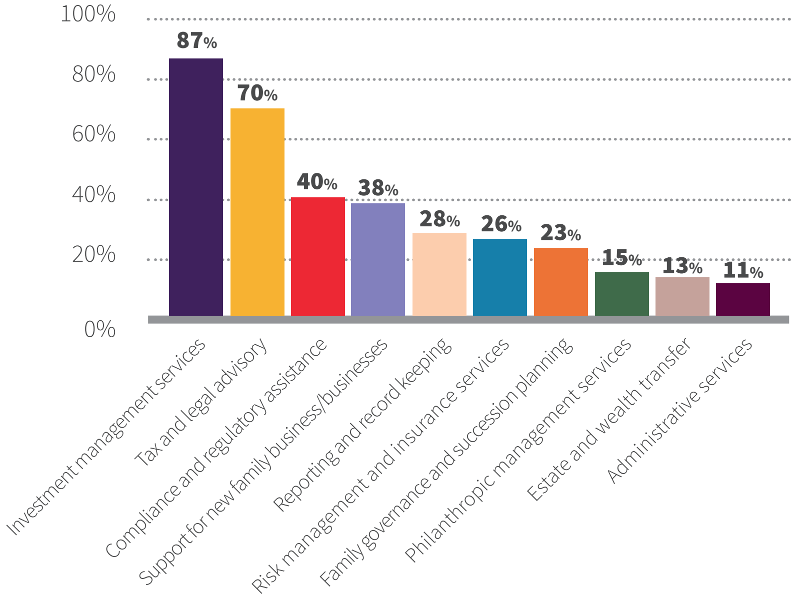
The interviewee was very open about her lack of knowledge in the area, leading her to recruit external professionals with a specific expertise in succession planning. She went on to explain that she also instated an independent board of directors and an executive board, made up of family members and managers within the business. For succession planning, the importance of these boards and the advice they have received cannot be understated. Consequently, her family has a very detailed succession plan in place that has given its members peace of mind.

Figure 27: Key factors that families value in external advisers



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 28: Advisory services used by the family (multiple responses permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

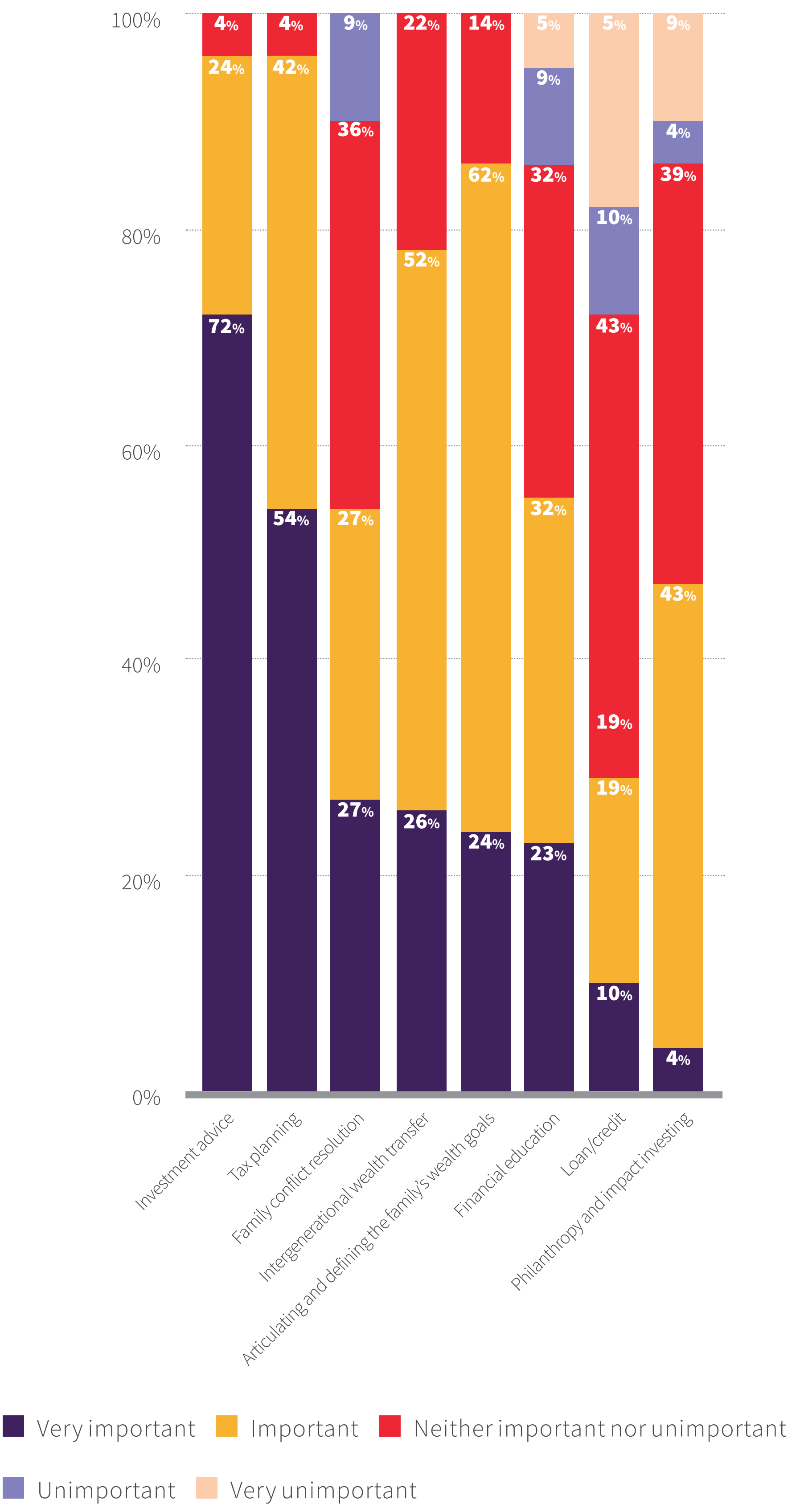
Investment and tax advice perceived to be most important

All of the respondents were asked to rate how they perceived the importance of external services, even if they did not use them. On average, respondents placed the greatest value on outside support when it came to investment advice (96%), tax planning (96%), articulating and defining the family's goals (86%) and intergenerational wealth transfers (78%), as these areas were deemed either important or very important to respondents (figure 29). The areas noted to be the least important pertained to loans/credit, philanthropy/impact investing and family conflict resolution.

Two-thirds of Next Gens will use the current generation's advisers; 21% likely won't

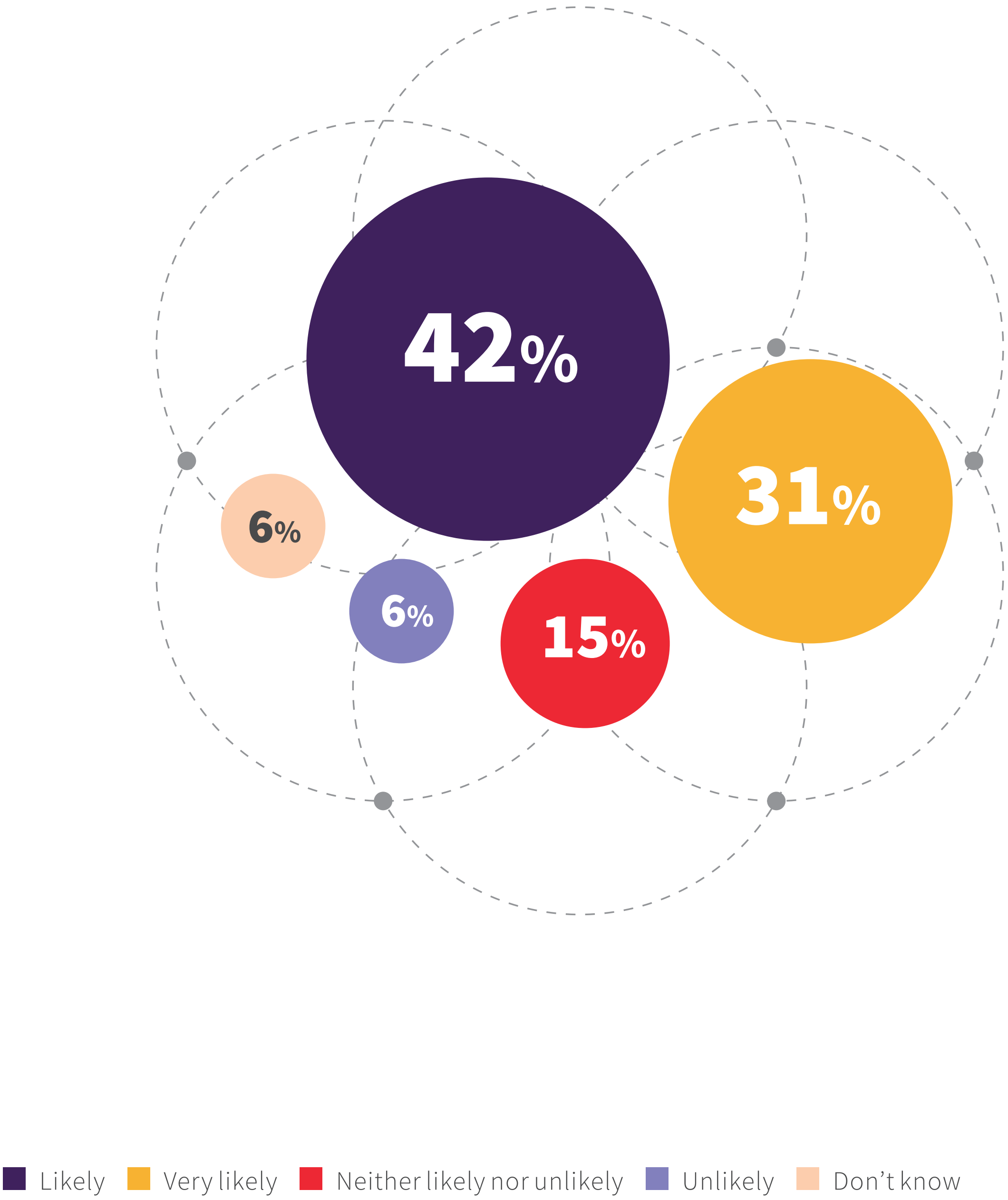
Nearly two-thirds of the survey respondents explained that the next generation will use the same advisers as the current one; 21% likely will not (figure 30). Given the propensity to rely on close friends and family for advice, it is unsurprising that the same advisers will continue to be used.

Figure 29: The perceived importance of different advisory services to the family office



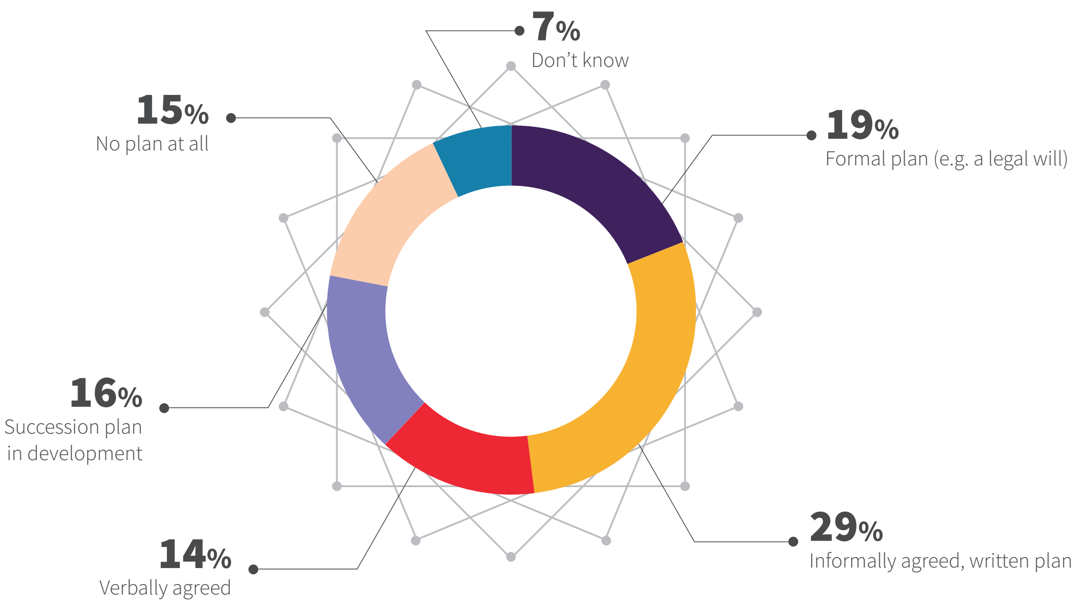
Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 30: Likelihood that the next generation will use the same advisers as the current generation



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 31: Status of the families' succession plans



Source: The Edelweiss/Campden Family Wealth Report 2018

Governance and succession planning

Having appropriately structured governance frameworks in place is vitally important to ensure the success of any family office or family business[15]. Whilst 'governance' is a broad topic, there are various themes that tend to emerge as priorities within the arena of family wealth management. This includes, for instance, ensuring that appropriate investment guidelines are in place, that risks are adequately managed and mitigated, and that succession plans are implemented which adequately ready the next generation to assume control.

To address these matters, there are a number of steps that families can take. They can draft charters or mission statements to clearly and succinctly define the family's principles, goals and strategies. They can instate governance teams to oversee the progress of activities and to help steer decision-making, such as is the responsibility of boards, trustees and family councils[16].

However, prior to implementing these measures, a family should first clearly define what its top governance priorities are. When respondents in India were asked to rank their priorities, 'investment guidelines' came in at number one, followed by 'risk management' (e.g. investment, IT, cyber risks) (figure 32). 'Succession planning' was also seen as a key governance priority. Other notably important, but less emphasised priorities, were to re-design the board and/or the key responsibilities of senior staff, and to include non-family members in the activities of the family office.

Succession planning needs to come into sharp focus

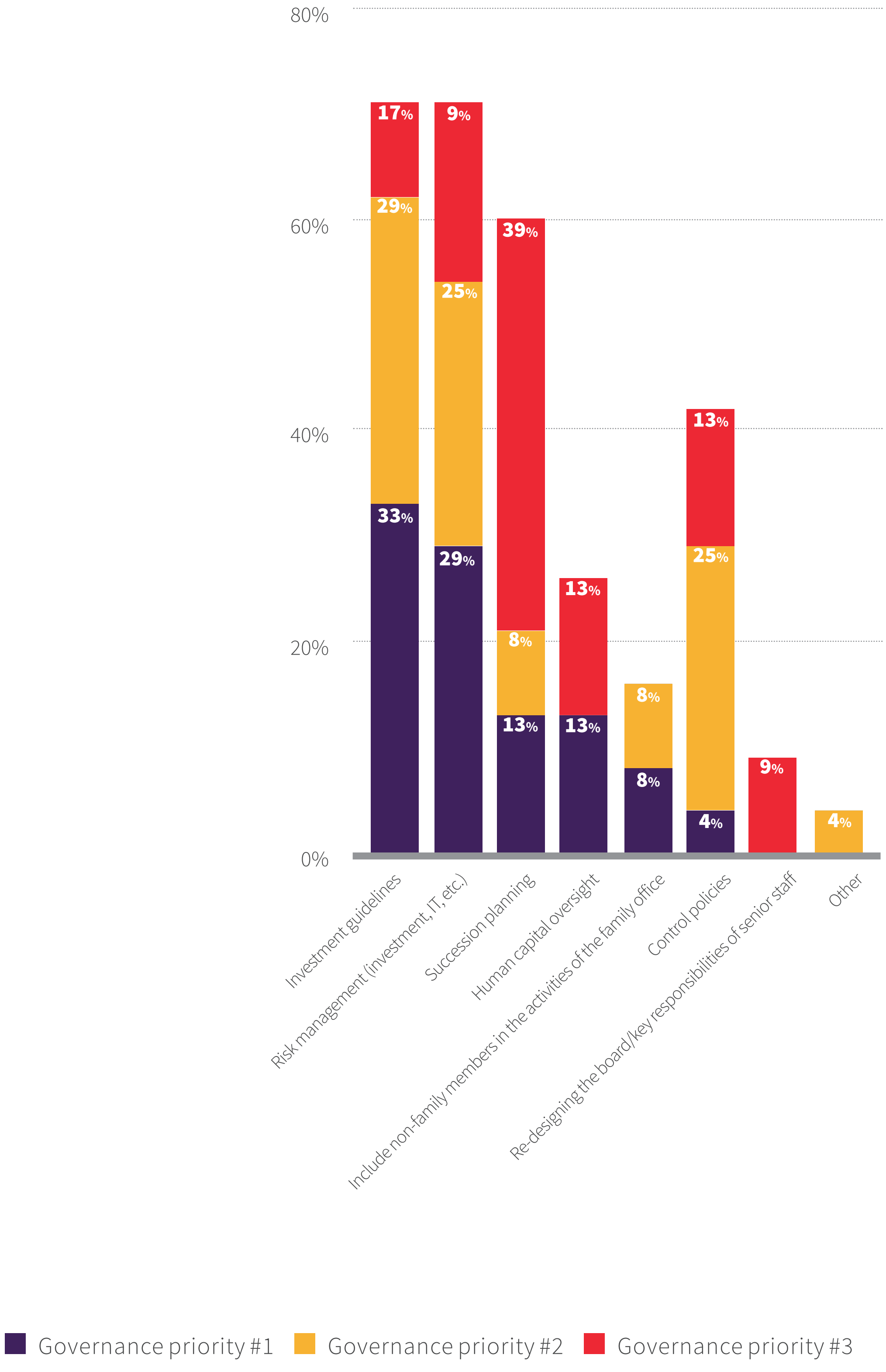
Succession planning is an evolving area of concern for families, particularly in India as "the services and skills are just not there", remarked one family member. This is perhaps why succession planning was noted as one of the key governance priorities for the year. However, despite this, only 19% of the families in India currently have a formally agreed, written succession plan in place. A further 29% have informally agreed, written plans and 14% have verbally agreed plans (see figure 31).

Looking at the significance of the matter more broadly, in 2016 Campden Wealth asked family offices around the globe when they expected to undergo the next generational transition and nearly 70% said within the next 10 – 15 years. This suggests that families of great means are on the precipice of a seismic shift in wealth transferring hands between generations.

Realising the looming nature of this significant move, family offices at the time reported that their number one governance priority for the year was to prepare for succession. And, since this time, families have been readying themselves in an assortment of ways, from putting trusts in place, to educating the next generation about how to become good stewards of wealth, to defining who the future leadership of families' organisations will be.

In India, families' concentration on succession should remain in sharp focus. As the saying goes, 'shirtsleeves to shirtsleeves in three generations'. This means that a family typically loses much of their wealth by the third generation, as important

Figure 32 : The top three governance priorities for families



Source: The Edelweiss/Campden Family Wealth Report 2018

lessons from the original wealth creators often do not get effectively passed on.

In light of this, all five of the family members interviewed were forthright in explaining that succession is a major concern for them. Having addressed this issue head-on, one went on to remark about the details of her family's succession plan:

"In terms of the key points regarding our succession plan, mainly the plan starts off by explaining the history of our family and its business to new members so that they can understand where the business has come from. Then from there we go on to explain our business environment, the kind of business we're in, the kind of ethics we have, the kind of values the family has. All of this is collectively put together to reflect our mission statement.

After this we outline the structure of the working arrangements for existing and new family members. This includes how they can get into the business, what the education policy is and what the minimum requirements are. Then it addresses expenses – what is the car policy for family members, how much can they expense – all of these sorts of things.

And, of course, we explain how the board works – what its structure is, how we induct a director, what the minimum requirements for that are. In the business we have different levels of committees, so we outline how different family members enter those levels. We also outline how sons and daughters in law can get into the business.

By doing all of this, we eventually came to a good structure that helped streamline the business. It made it more efficient. I think that there is less stress now among the family members pertaining to petty matters, or expenses, or other things. Earlier there were no guidelines. Now everything is calculated; everything is clear cut. So it has made things more streamlined and it has helped the family to be a bit more stress-free compared to what we were earlier."

- Family member and family business executive

Another separate interviewee, from a smaller family than the previous respondent, stated that whilst his family's succession plan was not formal or written down, he felt comfortable that key individuals knew what their prospective roles and responsibilities were to be:

"We are pretty professional in terms of what we are doing, so I would say the succession plan is in place. It is not a formally written succession plan, however, we know that I will be in charge of the family office and my brother will be in charge of the family business. There will be overlap with our responsibilities, but it is clear what our roles will be when my father dies."

- Family member and family business executive

There was one challenge to succession planning that a separate interviewee raised. He remarked that there is sometimes a tendency in Asian families for the patriarch or matriarch to remain in control of the family business until they pass away, often overlooking the need to appoint a successor. While one source considers this to be short-sighted and even "egotistical" in some cases[17], another suggests that heirs in Asian families don't like favouritism, opting for several family members to run the business instead[18]. He remarked:

"I don't want any one of the inheritors to be above the others, so I'm thinking of a structure on that. It will not be one-on-one. It is a kind of community succession - everyone must be treated fairly."

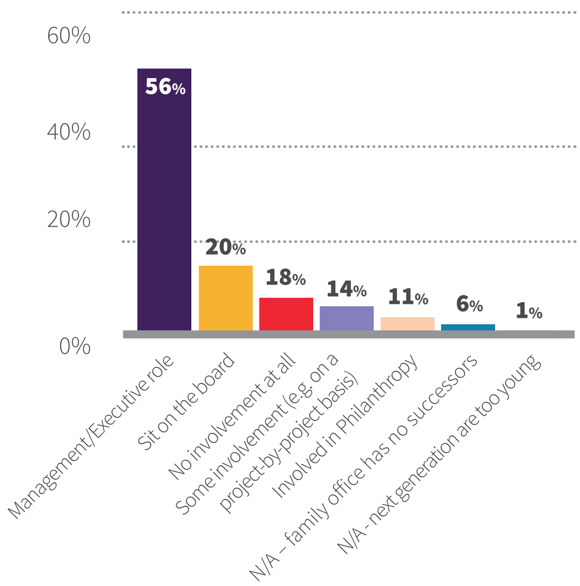
- Family member and family business executive

This approach may work to reduce favouritism, but it could create conflicts if roles and responsibilities are not clearly defined in advance. An age old conundrum that continually resurfaces across family businesses is the 'ownership versus management' problem. It is a problem that can occur due to the proliferation of the family as successive generations become involved in the family business. It can be difficult to ascertain the roles each will play and the influence each will yield.

For example, generation one and two may have the luxury of owning and managing the business as there is room to do so. However, as generations three and four get involved, there becomes less operational and strategic space for family members to be owners and managers of the family business. This is further exacerbated by non-family members who have married into the family who feel a sense of entitlement to some part of the family business. Ultimately, this can become a breeding ground for conflict between family members and is cited as one of the reasons why family businesses fail in generation three[19].

To overcome this problem, official charters can be used to set out the roles and responsibilities of all family and non-family members in the business/office, what benefits they can expect to receive (e.g. salaries, bonuses, etc.), conflict resolution protocols, decision-making protocols, what role the advisory board will play and so forth. A board of directors made up of both family and non-family members involved with the business and independent non-executive board members would help to ensure that the charters are appropriately implemented and followed.

Figure 33: The next generation's involvement within the family office/wealth management protocol (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

From a family governance standpoint, having clearly defined charters that set out the family constitution or mission statement and the role of non-family members who marry into the family (for example, pre-nuptial agreements and wills) will help to instil order, reduce conflict and better protect the family business moving forward.

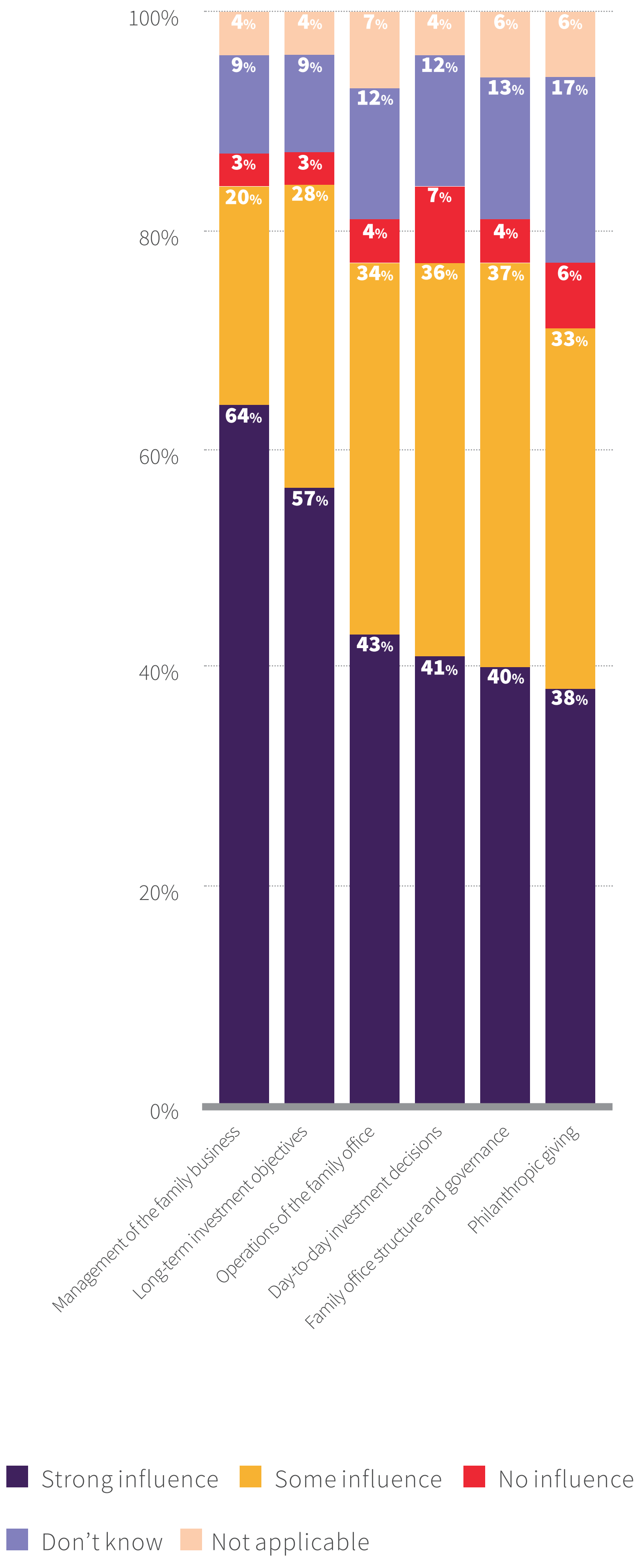
A final family governance charter that would benefit families in India is to have a clearly defined 'exit strategy' for the patriarch or matriarch as they leave the business and pass it on to the next generation. An exit strategy will set out the role for the departing head of the family which could include them assuming an ambassadorial role for the family or as someone who educates the younger generations. Alternatively, it could mean a clean break from the family business entirely. Combined with the charter that sets out the roles and responsibilities of the wider family members, the exit strategy will help to smooth the transition between generations, even in the event of death.

Over half of Next Gens hold management/executive roles in the family office

As a means to prepare the next generation to assume wealth management responsibilities, it is very common for them to gain experience by working in the family office. In fact, over half of respondents (56%) noted that the next generation around them hold management/executive roles in the family office, a notably higher proportion than the 29% global average[10]. A fifth (20%) also noted that they sit on the board, which is fairly consistent with the 23% global average.

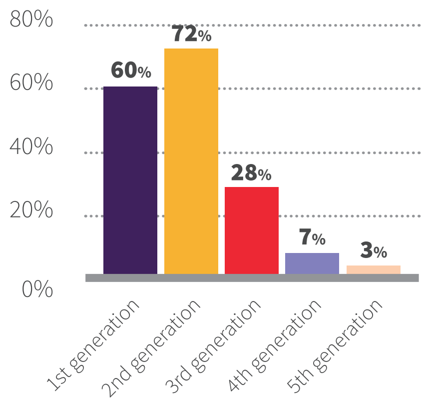
A further 14% get involved in wealth management matters on a project-by-project basis, while one-in-ten contribute to the family's philanthropic giving, such as via their foundation. Only 18% said that they have no wealth management responsibilities whatsoever (figure 33). To ensure that conflict does not arise over the roles and responsibilities of family and non-family members, clearly defined charters should set out the position and duties of each individual connected to the business.

Figure 34: The level of influence that the next generation will have when they assume control of the family business



Source: The Edelweiss/Campden Family Wealth Report 2018

Figure 35: Generations currently involved in philanthropy (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

The next generation will have influence over 84% of family businesses and 77% of family offices

It is unsurprising given the fairly significant level of involvement from the next generation in the operations of the family, that 84% report that the next generation will have either some or a strong influence over the management of the family business.

A similarly high proportion will have influence over the family's long-term investment objectives (85%). And, over three-quarters will have influence over the family's day-to-day investment decisions, the operations of the family office and the family office's structure/governance (each 77%) (figure 34).

Philanthropic giving as a moral and legal responsibility

Due to the great level of wealth the families within this community hold, philanthropic giving is customary worldwide. In fact, it is often seen as one interviewee described, *"a moral duty".*

In India, a near universal number of the families surveyed (95%) give philanthropically, with the first and second generations being the most involved in these charitable works (figure 35).

While much of this giving is done via the family foundation (47%, compared to a global average of 69%[10]), a notable proportion is administered by the family business (28%) or the family office (18%) (figure 36).

One feature that is unique to India is that due to high proportions of poverty, it has become a legal requirement for companies with annual revenues of more than 10 billion rupees ($138 million) to donate at least 2% of their net profit to charity. In the words of one family office executive:

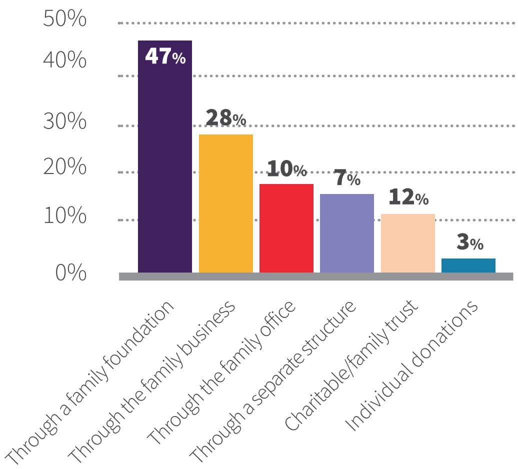
"Giving is a legal requirement now. A few years ago a law came into force which required all profitable companies in India to give 2% of their net profits to poverty alleviation."

- Family member and family office executive

However, despite this new law mandating businesses to give philanthropically, all of the interviewees were vociferous in their belief that helping others and 'giving back' to those less fortunate is engrained in them. In fact, all of the interviewees said that they intend to give a great deal more to philanthropic causes in the future, with one interviewee stating that his family currently donates 10% of their profits to local community projects.

A strong theme to emerge from the qualitative data, and one that was discussed passionately by all the interviewees, is their desire to reduce the poverty that ravages parts of India.

Figure 36: Structures used to give philanthropically (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018

While they have all come from positions of wealth, each witnesses poverty and social inequality on a regular basis. It is unsurprising, therefore, that 'education' (82%), 'children and youth' (32%) and 'poverty alleviation' (26%) were the three most common areas to receive philanthropic donations from those studied here (see figure 37). One interviewee remarked that they try to support as many different philanthropic causes as possible:

"We support a school for underprivileged and homeless children, and a hospital that does cancer treatment. We also run a jungle lodge which is about three hours from our city. There are quite a few different villages nearby actually, so we work with the villagers to offer bicycles to the kids so that they can cycle to school. We also hook them up with a honey collection programme, whereby we send them boxes and bees, and we've got an NGO which buys the honey from them."

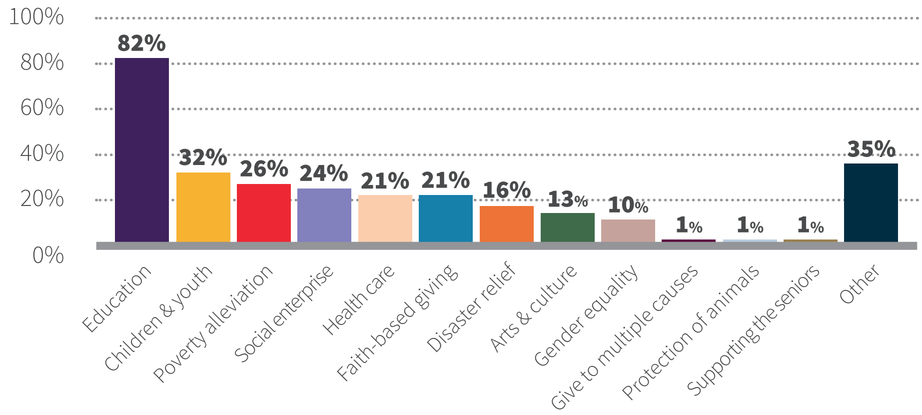
- Family member and family business executive

One of the biggest hurdles globally that prevents individuals from donating more, or even getting more involved in impact investing, is the lack of visibility around how the money is being spent and the associated positive benefits[10]. This was less so the case amongst those interviewed as they often donated to their local areas and were able to see the direct benefits in doing so, or they set up and managed their own charitable schemes, giving themselves greater visibility of the positive outcomes of their efforts. As one family member remarked:

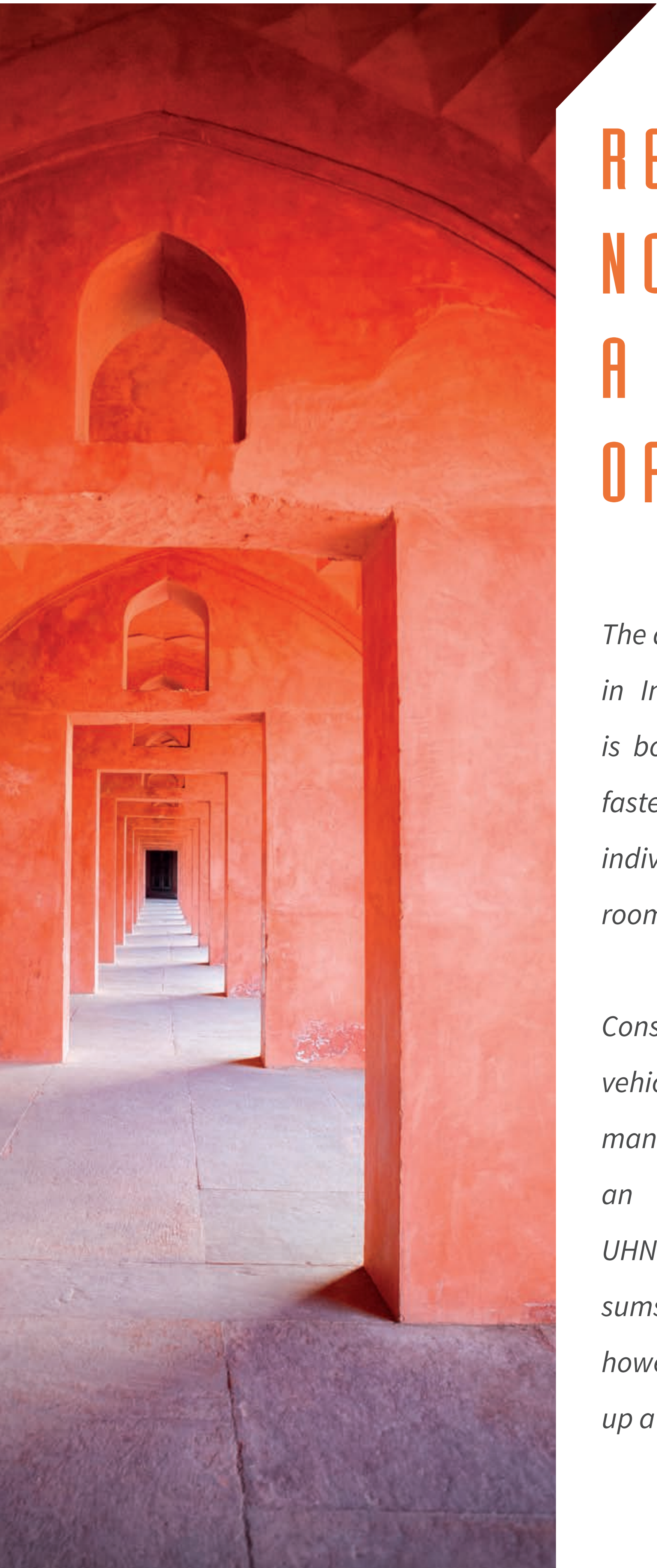
"We take people with no education and train them to be automobile mechanics. We train them up and guarantee them a job at the end."

Family member and family office executive

Figure 37: Areas of philanthropic donation (multiple options permitted)



Source: The Edelweiss/Campden Family Wealth Report 2018



REASONS FOR NOT HAVING A FAMILY OFFICE

The amount of wealth being generated in India is remarkable. Its economy is booming, it is home to one of the fastest evolving populations of UHNW individuals globally and there is still room for growth.

Consequently, family offices, a vehicle through which wealth can be managed and invested, are becoming an increasingly attractive way for UHNW individuals to manage their vast sums of wealth. The question remains however, why do some chose not to set up a family office?

Speaking to a third generation family member and chief investment strategist of a successful family business in India, he explains why the family has chosen not to set-up a family office.

What industries are the family businesses involved in?

The main industry of the family business is in infrastructure, specifically in the engineering and building of hydroelectric dams across large parts of India. *"We have a very diversified family business model though"*, he remarked with the family business extending into a number of different industries. These include having six or seven automobile dealerships in northern parts of India, manufacturing businesses that develop fibre optic cables and plastic packaging, and real estate (primarily in building residential homes and not-for-profit education centres). The family also owns and runs a successful boutique hotel, a legacy of the grandfather.

Why have you chosen not to have a family office?

The interviewee was very clear that the family does not have a family office for three reasons. Firstly, he explained that family offices are very expensive to set up and run on a daily basis. Having spoken with several of his close friends and colleagues who run and work in family offices, he is convinced that they do not offer great value for money. Secondly, he feels that in their current form, family offices are set-up as profit-making business entities rather than to cater for the needs of the family, *"they do not have the needs of the family at the heart of what they do, they tend to operate based on profit gaining"*, he remarked. While he accepted that this is not the case for all family offices, he felt that he is able to meet the needs of the family with the support of close mentors and confidents.

Finally, and arguably most importantly to him, *"investing is my passion. I love doing it and I believe I am better than most other investors out there."* His self-confidence is most definitely justified by the impressive growth and return on investments the family businesses have seen over the last few years under his guidance. His passion for investing is definitely more than just a role for him. He explained that he is always reading books on investing, particularly those written by some of the behemoths of the investing world such as Warren Buffett.

He was keen to point out that in addition to being self-educated, he has a mentor he trusts implicitly. This relationship is built on mutual respect, and it is one that he uses to learn more about areas he is less knowledgeable on such as the public stocks market.

How do you think the family office space will evolve in India over the next decade?

"The family office space is a massively growing industry", he explained. This, he is quite certain, is because of India's GDP growing at a *"phenomenal rate"* and because of the increasing number of families exiting or selling off their family business, resulting in vast amounts of liquid cash and not many useful ways of managing it. Given that one of the primary roles of the family office is to manage wealth, it makes them a natural vehicle for any UHNW individual. He was very open about the benefits of a family office and why a family may choose to set one up, but his self-confident approach means that for the time being, he will not consider a family office of his own.

> *"Investing is my passion. I love doing it and I believe I am better than most other investors out there."*

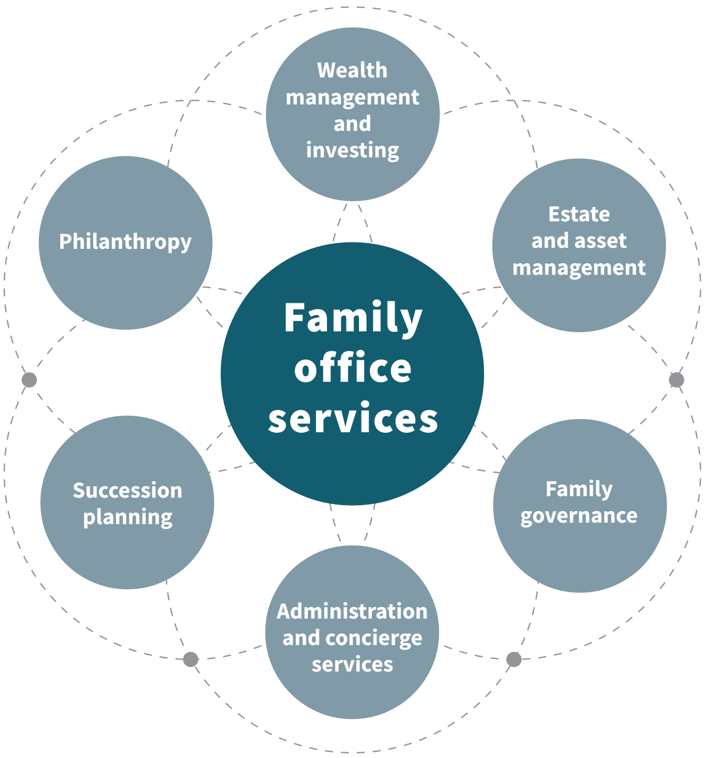
4

SETTING UP A FAMILY OFFICE, FACTORS TO CONSIDER

SETTING UP A FAMILY OFFICE, FACTORS TO CONSIDER

If you are a family which is considering setting up or joining a family office, the first step is to ascertain what your family's core requirements are and if having a family office is right for you.

Figure 38: Functions of the family office



Source: The Edelweiss/Campden Family Wealth Report 2018

If a family office is right for you, it is important to understand what type of family office will best suit your family's individual needs. To help those families which are thinking about setting up (or joining) a family office embark on their first steps of discovery, the following chapter outlines: the purposes of a family office; what types of family offices are available; the different services they can provide; what their running costs are; what questions a family needs to ask itself before setting up a family office; and where families can go for advice and additional information about family offices.

What is a family office?

As noted, in its simplest form, a family office is a private office dedicated to the needs of a family of significant wealth. The number of staff working within a family office can vary considerably, from one or two employees to 100 or more, depending upon the breadth of services it provides. Figure 38 demonstrates the types of services that a family office can offer. Furthermore, some family offices cater to single nuclear families, while others cater to a myriad of families across different generations and familial links.

The purpose of a family office

In turn, family offices are as unique as the families they serve. Thus, they are set up to serve a variety of purposes, such as to:

- preserve and/or grow the family's wealth through a consolidated organisation;
- further professionalise and maximise a family's investment function;
- prepare the forthcoming generation to become good stewards of wealth;
- successfully transfer wealth between generations;
- serve as a philanthropic arm for the family;
- support the family's entrepreneurial endeavours;
- create and manage co-investing opportunities;
- coordinate family governance structures, family activity planning and communication vehicles;
- Manage any liabilities of the family at a parent/family level;
- Manage the group holding companies;

With these purposes in mind, there are broadly five categories of family offices currently in the global market today.

Types of family offices

- **Hybrid family office** – A private office for a family of significant wealth that is embedded in the family business.

- **Single family office** – A private office for a family of significant wealth that is independent of the family business.

- **Virtual family office** – A private office that outsources the large majority of its work to service providers, thus only needing circa one or two internal staff. These staff can be either family members or outside professionals.

- **Private multi-family office** – A private office that typically has a founding family before widening out its offering to multiple families. These offices are owned by families and operated for their benefit.

- **Commercial multi-family office** – A commercial office that looks after the interests of multiple families, often with wealth of less than £150 million. Unlike private multi-family offices, these are often owned by commercial third-parties.

The services a family office can provide

The services family offices provide generally fall under four categories – family professional services, administrative services, general advisory services and investment related services.

Whilst larger family offices may offer all of these services, smaller ones may pick and choose their offering based on families' individual needs. In other words, family offices are a reflection of the families themselves. Therefore, for instance, if a family has sold its operating business and chooses to focus on philanthropy it might have a family office that is directed towards this goal. Alternatively, if a family is heavily involved in real estate, its members might choose to form a family office that reflects this, hiring real estate experts to administer its working endeavours.

General description of service categories

Family professional services – Family governance and succession planning; support for new family business and other projects; concierge services and security; family counselling/relationship management; management of high-value physical assets (e.g. property, yachts, art, aircrafts); entrepreneurial projects; education planning; next generation mentoring; entrepreneurship; communication between generations

Administrative services – Accounting; bookkeeping; mail sorting; office overheads; IT costs; management of contracts

General advisory services – Financial planning; tax planning; trust management; legal services; estate planning; insurance planning

Investment related activities – Asset allocation; traditional investments; manager selection/oversight; real estate direct investment; financial accounting/reporting; alternative investments; investment banking functions; risk management; global custody and integrated investment reporting; private banking; foreign exchange management; philanthropy

To in source or outsource services

A family office has the option of deciding what services to offer in house versus which ones to outsource to third-parties.

Beneficially, outsourcing options provide families with flexibility and reduces their obligation to pay permanent staff wages and office costs. It should also be noted that family offices are often small outfits, with the average employing just 11 members of staff. Therefore, it is sometimes more pragmatic and cost effective to outsource certain services (e.g. IT, cyber security, tax and legal work), particularly for newly established family offices that are trying to find their feet.

Over time, however, if the level of work required is consistently high enough to merit bringing staff in house, this can be a fruitful option to allow family offices greater control over certain work streams, along with the ability to reduce third-party fees.

According to the Global Family Office Report 2018, family offices most often outsource their legal (70% of respondents), private banking (67%), insurance planning (56%) and IT services (54%).

Outside of paying for office overheads, which are naturally an in house expense, they are most likely to handle in house their philanthropic giving (73%), support for new family businesses (72%), concierge services and security (67%) and family counselling/relationship management (66%).

The costs of setting up a family office

Family offices are costly enterprises to operate, therefore the decision of setting one up should be made carefully. Those who endeavour to establish a single family office incur the cost of setting it up, along with the cost of its ongoing operation. Families which prefer not to incur the full breadth of these costs can join a multi-family office, as the running fees are lower and can be more predictable at times.

As outlined by the Global Family Office Report 2018, the average cost of running a single family office is 109 basis points of AUM. This includes 74 basis points in operating costs and 35 basis points in external investment management, administration and performance fees.

The average cost of running a multi-family office is 121 basis points – but that is a cost that is divided between the families. This includes 70 basis points in operating costs and 51 basis points in external investment management, administration and performance fees.

Is a family office right for you?

Single family offices are ideal for families with private wealth in excess of $150 million.

Some of the smaller family offices operate successfully by reducing the number/nature of the services they provide or by outsourcing their services to external firms or advisers.

Multi-family offices and virtual family offices can be well suited to families with somewhat less wealth and/or fewer service requirements than those with single family offices. For purposes of comparison, amongst those who responded to the 2018 Global Family Office Report, the average wealth of families with single family offices stood at $1.2 billion, while the average wealth of the founding members of multi-family offices was $922 million.

On average, the larger and more complex a family is, the more likely it is to require the multi-faceted offerings of a single family office. It is therefore important to consider questions such as: how many generations must a family office serve; how many family members will be actively involved in the family office and in what capacity; where will the family members be geographically spread; how complicated the family's investments and the management of their assets, etc.

If you are new to the family office space, one way to 'dip your toe' in before committing fully to a single family office, is to join a multi-family office to learn from like-minded peers and better understand how a family office operates. Another option is to create a virtual family office, which namely relies on outsourcing its services. This can be done before a larger and more permanent commit to offering such services is made.

Questions for families considering setting up a family office

- What is the family's level of wealth? Is it enough to sustain the ongoing participation in, or running of, a single or multi-family office?

- How much AUM would the family office be expected to oversee on the family's behalf? Is it also enough to sustain the ongoing participation in, or running of, a single or multi-family office?

- For what purpose/s is the family interested in setting up a family office?

- What services would the family like the family office to provide?

- How complex is the family and its needs (e.g. How many generations/family members would the family office need to look after? Does the family wish to invest across the different asset classes or just invest in one or two? How complicated is the management of the family's physical assets, such as property, yachts, aeroplanes, art?)

- Who would be accountable for both the upfront and ongoing costs of running a family office? How will these costs be split or charged for between different family members who rely on different services?

- Who would oversee the family office from both a general management and investing perspective (e.g. family members, outside professionals)?

- What types of professionals would be best placed to fulfil the family's objectives (e.g. experts in banking and finance, legal, tax, specialists in certain investment asset classes, specialists in managing personal assets, etc.)?

- Will the family require a board and, if so, who will sit on it – family members or outside professionals?
- Does the family understand the benefits/incentives associated with opening a family office in different geographic hubs?
- Does the location in question provide a sufficient pool of experts to hire in house and/or to outsource the family office services to?
- What services would the family like the family office to provide in house versus what services would it like to outsource?

Looking for advice?

For help in answering these questions or to get advice about any of the relevant areas, families can consult family office consultants, their peers who own or work in a family office, or external professionals within the banking, finance, tax or legal spheres.

Families can also join membership organisations, such as Campden Family Connect, investment/angel clubs, and philanthropy circles to meet other like-minded families of wealth or to partake in various wealth management/family office workshops and conferences.

5

CONCLUSION

CONCLUSION

The purpose of this report is to provide empirical data to shed light on how wealth is managed in India and the role that family offices can play. This report has found that while family offices are starting to gain a foothold within the ultra-high net worth community in India, they still remain fairly embryonic.

To overcome this hurdle, this following highlights various key areas where family offices can add value, along with some wider points that may be of help to families.

A need for experts across India

Currently, most of the expertise that benefit families of wealth are located in Mumbai. This is unsurprising given that most of India's wealth is managed in Mumbai. However, if families in other parts of India were to set-up family offices, they could attract expertise away from Mumbai as it would give them an environment in which they could work. This would not only help to spread expertise across India but it could lead to a reduction in costs for the families as they would no longer have to pay external adviser fees each time they require outside counsel.

The next generation could be the key

Traditionally, India has a culture aimed at preserving wealth, with many investment decisions being made by senior family members who typically like to maintain close control of the family business, and who have a low appetite for risk. The next generation, however, offer a break from this conservative culture as they are beginning to see the benefits of taking a more growth-oriented strategy.

As family offices globally have been shifting somewhat more towards growth in pursuit of alpha – and the gamble has been largely paying off with the generation of promising returns – those in India might consider some of the benefits of reconsidering their investment strategy. For instance: 1) Experts across different and potentially new asset classes can be employed by the family office to manage new investments, bringing in additional skill-sets not currently held by family members; 2) The private equity space can be an excellent avenue for families which are interested in co-investing alongside like-minded peers, and these additional contacts can potentially introduce new deals to the family; and 3) In 2017, family offices' global average portfolio return stood at a significant 15.5%, with developing market equities reaching a remarkable 38%, developed market equities 23% and private equity 18%. Therefore, investments into these assets classes are certainly paying off in the current economic climate.

A need to 'professionalise'

Managing wealth is becoming an increasingly complex field to navigate which, to date, families have commonly negotiated by consulting close friends and family members for advice. Given that there is a strong desire for families to further 'professionalise', they might benefit from not only relying on these individuals for advice, but also seeking outside counsel from proven experts. Creating a family office or hiring outside wealth management experts, either to work in the family office or to serve as external advisers, is one way to do this. These professionals can help the family implement useful corporate/family charters, mission statements and other relevant governance practices, along with supporting the family in a range of other useful ways relating to succession planning, wealth management and more.

Look overseas for support

Family offices in Europe and the United States have been overseeing dynastic wealth since the 19th century, ensuring its safe passage through generation after generation. In turn, these offices have become highly sophisticated in terms of: their organisational structures; the diversity and flexibility with which they manage their investments; their long-term and forward-thinking approach to governance; their access to top wealth, trust, tax and legal advisers from around the world; and their ability to offer a multitude of diverse services to the family beyond just wealth management (e.g. counselling, mediation, concierge services, etc.).

As the family office space in India is still just taking root, one might benefit from seeking advice from experts in more mature family office markets, such as London or New York. It might also be fruitful to send key personnel or family members to these family office hubs to get trained first-hand in wealth management or to take educational courses institutions offer on family office services. Gaining the insight of generations of tried and tested experience can be invaluable to families in India, as it can short-cut mishaps, and allow families to establish successful and sophisticated structures to help ensure that their wealth is safeguarded through the generations.

Succession planning needs greater focus

It is often reported that families lose 95% of their wealth by the third generation because there is not an effective plan in place to facilitate wealth transferring hands between generations. This high rate of failure reflects the difficulty of succession. With many multi-generational families of wealth preparing for succession decades in advance, successful transitions are often continuous in nature and updated routinely.

Forward-thinking families also plan for both long-term (planned) succession and short-term (contingent) succession. They also address the myriad of salient issues families face, from economic through to human. And, they involve all the key players, including the important family members, advisers, influencers and colleagues. Some useful tips for a successful transition are to:

- Review the family's overall legacy plan and specific succession needs;
- Outline the future leadership model and identify critical gaps or issues;
- Identify what skills and attributes are needed within a leadership team to best ensure their success;
- Define and implement a fair and effective selection process for future leaders;
- Educate and prepare these leaders in advance of their service;
- Create an effective system to review leaders' performance;
- Prepare for a clean transfer of leadership; and
- After succession, support the new leaders and work with them to prepare for the next succession.

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About

Edelweiss

Edelweiss Private Wealth Management (EPWM), part of the Edelweiss Group, is one of India's fastest growing wealth management businesses in India. With an AUA of 98000 Cr, we are currently among the top three wealth management firms in India (APB 2017 league tables). Our clientele includes New Age Entrepreneurs, Business Owners/ Promoters, Family Offices, CXOs and Corporate Treasuries. EPW has received numerous awards, chief among them being the 'Best Wealth Manager, India 2018' by The Asset Hong Kong, 'Excellence in Wealth Management India 2017', by Asian Private Banker, the 'Best Private Bank', India at the Asiamoney Best Bank Awards 2018 and most recently 'Best Private Bank 2019', India by Global Finance North America's premier wealth management research and media house.

Our experienced Edelweiss Group's and EPWM's Financial Advisers enable solutions that span:

- Family Governance and Wealth Structuring
- Asset Protection and Asset Transfer Strategies
- Investment Management - Capital Markets, Real Estate and Alternatives
- Financing
- Investment Banking
- Risk Management
- Insurance Advisory

The Family Office group of Edelweiss is an independent platform, which ensures the long term sustainability of the family legacy. This platform has been created to dedicatedly deal with new age clients to help create and protect their wealth and aspirations. A Family Office enables an intuitional framework in which the affairs of a family can be managed.

The Edelweiss Family Office Business addresses five of the broad needs of families

1 Wealth structuring and succession planning
2 Operating business advisory
3 Family office setup and management
4 Next-gen mentoring and education
5 Philanthropy

Campden Family Connect

Campden Family Connect is the pre-eminent membership network for India's ultra-high net worth community, family business owners and their family offices. An alliance between RAAY – the Amit Patni Family office-, Arihant Patni and Campden Wealth, UK, this is a first of its kind venture in the family office and family business space. Campden Family Connect delivers both local and global networking opportunities and access to international best practices in family business, family office and generational education.

What distinguishes Campden Family Connect network is the membership criteria that enrols only principals of families. These members are supported by globally flavoured initiatives in the form of peer-to-peer networking events, pioneering research work, progressive publication material and advanced education programs.

Campden Wealth

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

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

Campden Wealth publishes the leading international business title CampdenFB, aimed at members of family-owned companies in at least their second generation.

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

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