

The Financial Crisis : Lessons Learned

Campden Conferences

The Asia Pacific Family Office Conference

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Reactions

- Case 1: A family member running a family investment committee – felt it was time to take the money off the table in early 2008 – on a holiday in the US, just could not see how the US economy was supposed to be strong, could not see any trickle down of wealth into the wider economy – gut instinct paid off & it is important to look around for yourself
- Case 2: A family office professional: “In times of crisis, the thing to watch was how the bankers and managers reacted to the situation – the banks had clearly put too much risk onto their clients; the interests of the bankers and their clients were not aligned; pay determines culture”
- Case 3: A family member very focused on running a business; too busy to focus much on their private wealth; reliant on their private bankers; did not realize some of their investments lacked liquidity – now a bit more cautious

Education is critical

- A lawyer acting as a trustee was very fearful about calling the income beneficiary, an old lady, and telling her that her income had to be halved. The beneficiary said “I know, I have been waiting for your call. I know what is going on in the markets”
- A client: “How can I make sure that the money in this trust will last for my grandchildren? And how can I make sure that they are educated to be good owners and good beneficiaries?”.
- The topic of providing a Financial Education for the next generation is an important one in Asia
 - The Wharton SFO survey says education is a key task for the FO

The World on Hold

- In many cases it was “all hands on deck” focusing on the family’s operating businesses or listed companies, worrying about their commercial banking relationships and their loans
- Activities like succession planning or progress on setting up a family office, or family governance topics, setting up trusts, all put on hold
- The financial crisis may have been a set back for succession planning – which is very bad because it is usually the internal factors which result in family wealth dissipating
- In times of crisis, there is a tendency for the older generation in Asian families to want to step back in and take control
 - In Asian families, there is often a tug of war between generations
 - This difficulty in “letting go” is very bad for succession
 - But this is emotional – not rational - and its cultural – so what can you do about it?

What really matters?

- For some the crisis has given pause to think about “what really matters?”
- What is “family wealth” without the family? During the crisis, what was the impact on your family relationships?
- During the crisis, did the decision making processes that you built up during good times hold up, or were there some stresses?
- Was the crisis actually a great antidote against “entitlement” ?
- In times of anxiety families tend to react more than think. In such times it’s the job of the family leaders and the family’s advisors to set the example by making decisions based on thinking (not feelings).

Family Business

- One client's observation "One underlying cause was that the bankers and the structurers who kept giving away these mortgages and creating these securities had no connection to the people who were taking out these home loans. They had no understanding of their situation"
- Their response in their family business is to focus on CSR programs that get their executives and staff out of the office and into the communities in which they do business to meet the real people that are their end users – community involvement rather than cheque writing
- In the corporate world the focus is on the short term; on the quarter; on this years bonus. In a family business you can take a longer term view. If you are "investing for perpetuity"; if you are a steward; it tends to make you think about a wider group of stakeholders

Trust

- In the midst of the crisis client mistrust impacted on lawyers, family therapists, coaches ... people who have no role in providing investment advice. For all advisors this meant you need to be fully transparent
- In response to the crisis, many of the Private Banks in Asia said “we need to go back to basics, we need to focus on overall wealth management, we need to become the client’s trusted advisor”.
- This points to private banks wanting to be more of a one stop shop – a generalist approach. But if you have a Family Office you want to cherry pick the specialists, you don’t want generalists.

Understanding

- Families and Family Offices are working harder to make sure they have understanding
- Back to basics investing: “We wont invest in it unless we understand it”
- Private Trust Company structures are promoted & administered by some of the private banks in Asia, often to hold non financial assets
 - These are promoted as complicated structures that provide a “total solution”
 - One family: “we need to understand exactly what we are getting here & what we are paying for”

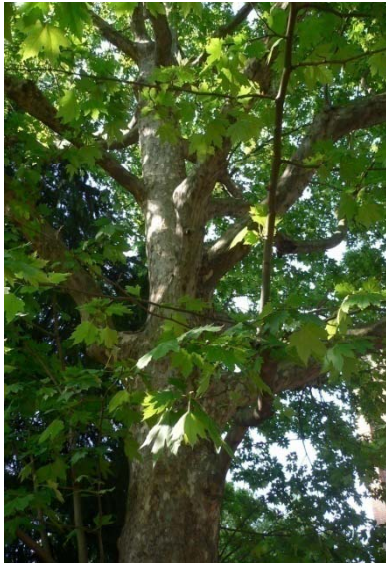
Madoff

- Many charitable foundations suffered great loss as a result of the Madoff fraud
- One client's reaction "long term foundations only benefit the money managers – it is better to give while you live and have a sunset clause"
- Other reactions "only invest with people that you can meet and get to know"

The year that bank secrecy died

- UBS and the IRS
- Tax Information Exchange Agreements

Family Legacy Asia (HK) Limited



The goal of Family Legacy Asia is to help families in Asia preserve their Human, Intellectual, Social and Financial Capital across the generations.

But this is not an easy task. Only one in three family controlled businesses successfully pass into the second generation and only about 12% last to the third generation.

In Chinese there is a saying that wealth only lasts for three generations.

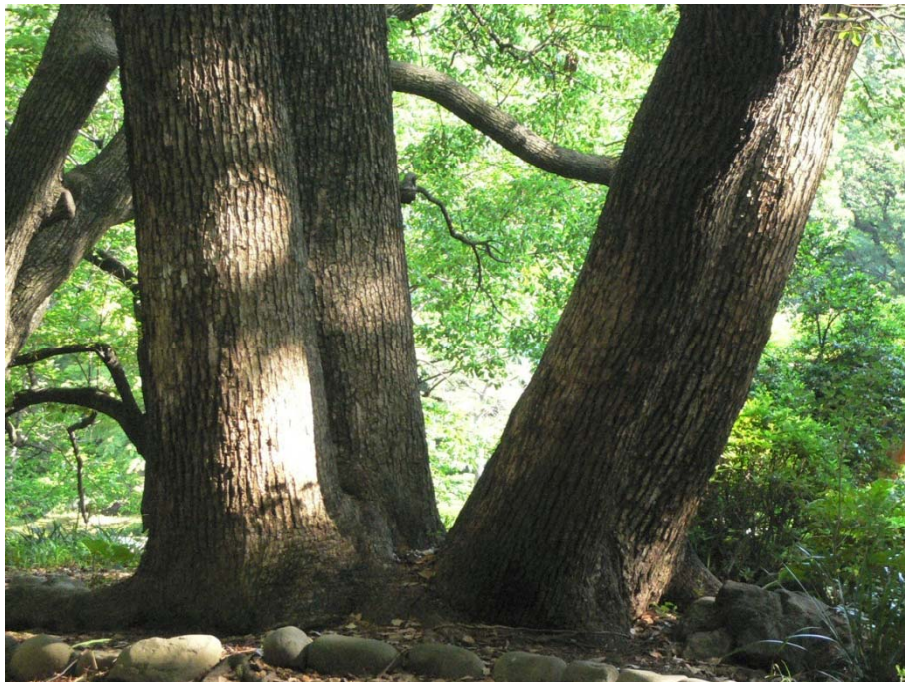
While the above statistics are well known, it would still be the exception rather than the norm to see a family in Asia with a written succession plan, a family shareholders agreement or a formal “Family Council”.

Family Legacy Asia was established to provide Asian families with an independent alternative that is focused solely on helping families plan and then implement best succession and family governance practices.

Christian Stewart

Christian Stewart founded Family Legacy Asia in 2008 to help Asian families preserve their family wealth for generations, by providing them with independent and objective advice on good family governance.

An Australian solicitor by background, he has nineteen years experience in advising high net worth individuals and families on complex trust structuring, estate planning and succession matters, including fifteen years in Asia. Before founding Family Legacy Asia, Christian was a Managing Director and the head of the Wealth Advisory Team in Asia for JPMorgan Private Bank. Before joining JPMorgan he was a Partner at PricewaterhouseCoopers in Hong Kong



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