



IBF Connect (Wealth Management 2016) **“Transformation of the Wealth Management Industry”**

SFOs and MFOs **An Institutional Approach to Private Wealth Management**

One Family’s Perspective from the Buy-Side

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SFOs and MFOs

An Institutional Approach to Private Wealth Management

Life Cycle of Family Wealth

Origins as family business	Liquidity drives diversification	Redefinition of the “business” to a family financial business	<ul style="list-style-type: none"> • Sophisticated wealth transfer • Younger generational succession/leadership • Entrepreneurial wealth recreation
<ul style="list-style-type: none"> •Entrepreneur builds the wealth •Highly concentrated, non-diversified assets •Little financial markets investment expertise •General illiquidity •Management succession planning may/may not exist •May be cash flow constrained but balance sheet rich 	<ul style="list-style-type: none"> •Sale/diversification creates liquidity •Ownership structures created, funded with distributions •Trust & estate planning opportunities explored •Philanthropic thinking begins •Roles/responsibilities open ended 	<ul style="list-style-type: none"> •Family Office governance & structures examined & developed •Asset allocation, manager selection, performance monitoring begins •Risk management practices put in place •Family education & succession planning •Philanthropic values finalized 	<ul style="list-style-type: none"> •Commitment made to multi generational family stewardship •Commitment to succession planning empowers younger generation •Patriarchal/matriarchal influence wanes •Entrepreneurial culture recreates the wealth & cycle begins again

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SETTING UP A SFO: MOTIVATING FACTORS

- ❑ **Focus** on wealth management as separate process from business operations.
- ❑ **Alignment of interests** among family members and with service providers.
- ❑ Family sets **agenda** (not service providers) in achieving investment objectives.
- ❑ **Centralization** of relationship with service providers for all family members: achieve “relationship” pricing advantages.
- ❑ Use of **professional managers** helps to ensure objectivity in evaluating investments and projects.
- ❑ Existence of family-sponsored organization **takes pressure off** family members who are not inclined towards financial matters.

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MFOs: DIVERSITY IN BUSINESS MODELS

- ❑ Traditional model I – family-sponsored SFO opening up to other families
- ❑ Traditional model II – merger of one SFO with another or several other SFOs
- ❑ Start-up by a team of professionals (typically with some combination of investment, tax and/or legal professional credentials)
- ❑ A wealth management subsidiary set up by a financial institution to cater to private clients
- ❑ All are generally fee-based providers of investment and support services

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FACTORS AFFECTING TRANSFORMATION IN BUYING BEHAVIOR OF WEALTH OWNERS

- ❑ Intergenerational **transfer** of influence/control over assets
- ❑ Increased **globalization** of interests and residencies
- ❑ Increased **regulation**
- ❑ **Technology** revolution

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HOW SERVICE-PROVIDERS NEED TO ADDRESS CHANGES IN CLIENTS' BUYING BEHAVIOR

- ❑ Be more **attuned to younger generations'** sensibilities.
- ❑ Being an **Advisor** vs being a **Broker**.
- ❑ Manage **conflicts of interest** with **sincerity**.
- ❑ Don't **use technology** just for the sake of being cool.