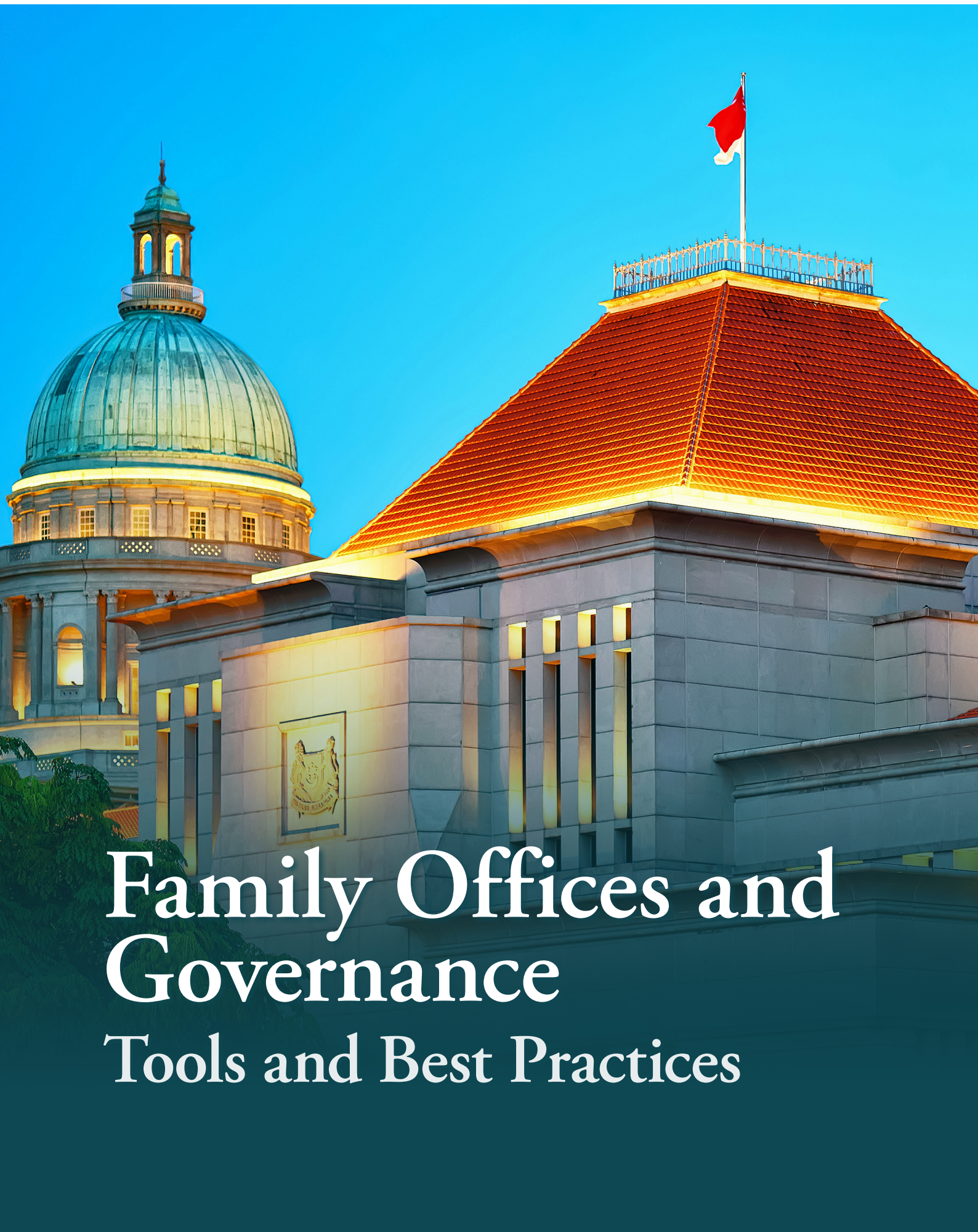




IMPACT

**THE FAMILY OFFICE
JOURNAL**

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Family Offices and Governance Tools and Best Practices

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Contents

03



Part One The Need for Family Governance

Every Family's Bespoke Journey
– How Should Your Family Office
Look Like and Be Governed?
by PwC Singapore

10

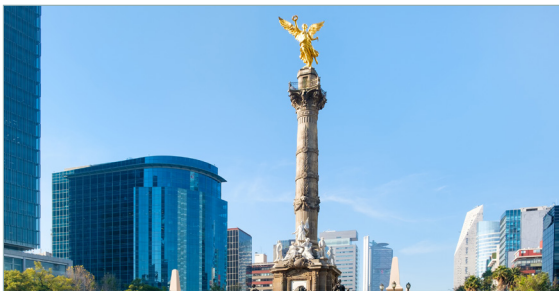


Part Two Tools for Effective Family Governance

What is a Family Charter, and
Do You Need It?
by Dentons Rodyk & Davidson LLP

Family Charters:
Should They Be Legally Binding?
by WongPartnership LLP

23



Part Three Family Governance in Action

Beyond Asia – A look at
Family Offices in Europe and
Latin America
by J.P. Morgan

33



About the Contributors



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Foreword

Welcome again to **WMI Impact: The Family Office Journal**.

In professionalising family offices, **governance** is a crucial aspect, and we have seen this topic quickly gain currency as the number of family offices grows in Singapore. Having a clear set of rules that guide a family in its investment strategies, philanthropy, succession planning, conflict resolution and broader decision-making processes is clearly beneficial. Not only does it help the family achieve its aims, but it is also key to maintaining harmony among family members.

However, while the industry has seen much discourse on the importance of governance, the discussion often remains general, leaving many family office professionals unsure of what actions they need to take. In this edition of WMI Impact, we are privileged to tap on the wealth of experience among our Global-Asia Family Office (GFO) Circle to shed light on this issue and enable concrete steps among family offices.

First and foremost, family governance exists to serve the purpose of the family office. For example, family offices primarily focused on wealth management will likely have governance structures centred around investment decisions, risk management, and other contingencies. Similarly, a family office with a philanthropic orientation will tailor its governance to focus on giving strategies, due diligence, and impact evaluation.

Therefore, as we delve into the intricacies of family governance, we first want to examine the different requirements of individual

families in designing their family office. Which is why we have kicked off this edition with an analysis in Part One by **PwC Singapore** of the key questions that a family should consider as they embark on their family office journey. Only after a family has determined their ideal family office setup, can they decide on the proper structural, operational, and ultimately governance arrangements.

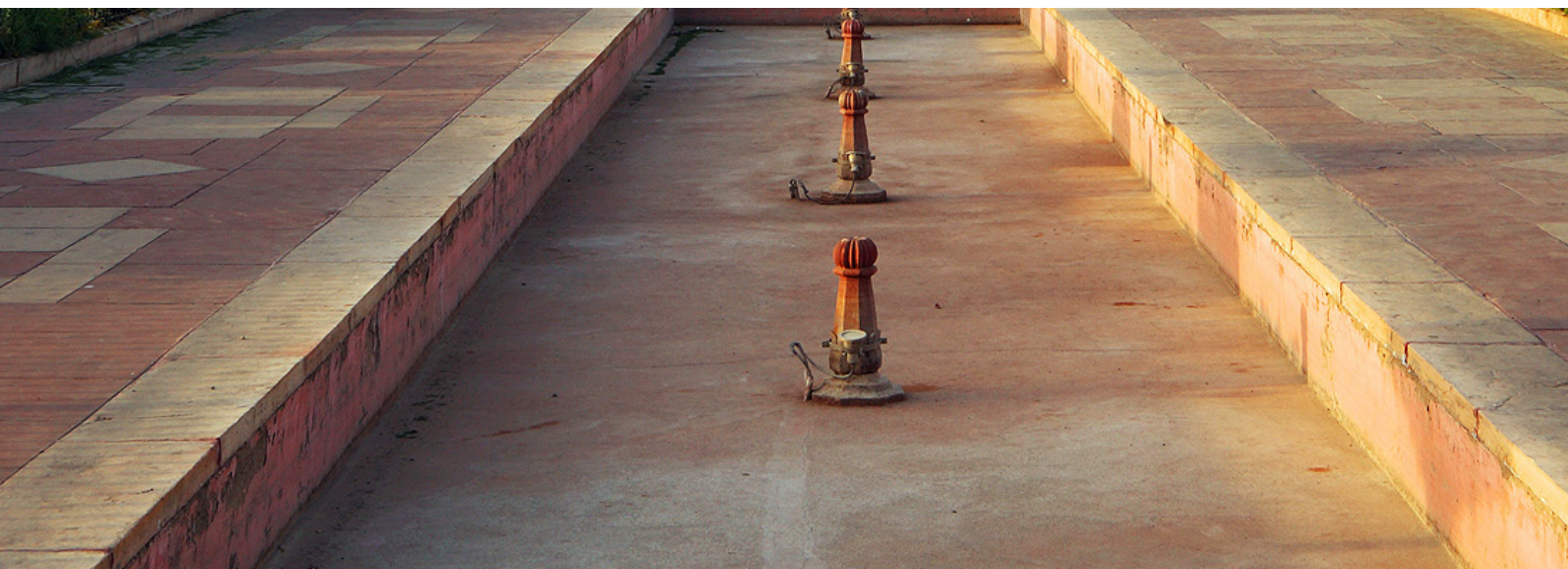
In Part Two, we deep dive into the family charter, which is a common and effective tool for family governance. **Dentons Rodyk & Davidson LLP** shares a practical how-to guide on developing this bespoke document, outlining key items that families should consider to ensure continuity, foster unity and mitigate conflict, thus safeguarding wealth across generations. Extending the discussion, **WongPartnership LLP** highlights a thought-provoking debate on whether the family charter should be legally binding, and the implications.

As the family office phenomenon takes off in Asia, we also seek learnings from counterparts across the world. In Part Three, **J.P. Morgan Private Bank** shares experiences with family governance in Europe, the Middle East and Africa (EMEA), as well as Latin America.

I wish you an enlightening and enjoyable read. Going forward, WMI Impact will continue to invite our GFO Circle to contribute deep insights so that we can provide you with effective tools and best practices in navigating this complex family office space. Stay tuned.

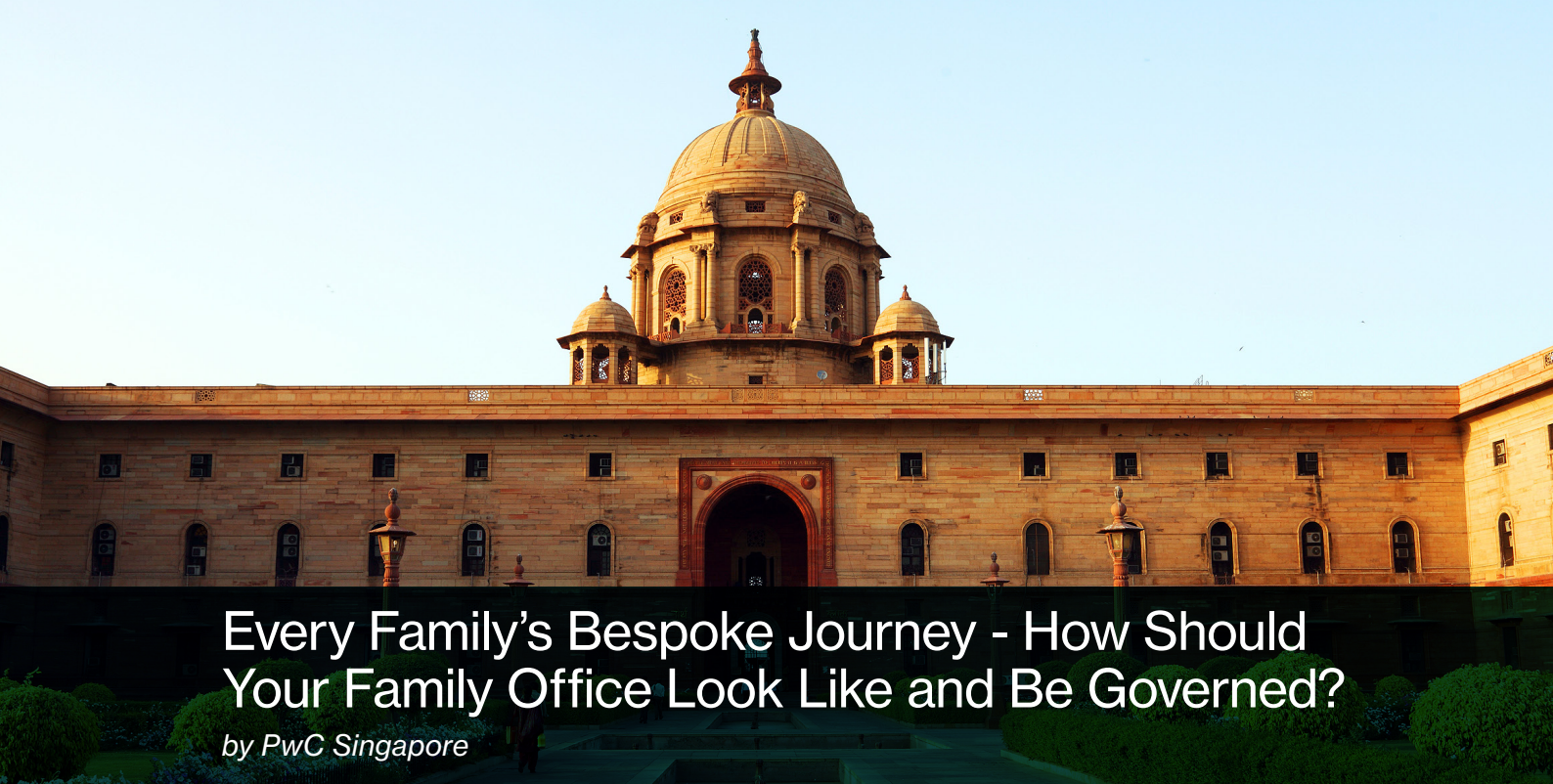


Part One
The Need for Family
Governance



KEY TAKEAWAYS

- ☑ Family offices can support their founding families in a wide range of services beyond investment management, including philanthropy, ESG, tax advisory, and concierge services, tailored to support the family's goals and individual members' aspirations.
- ☑ Hence, setting up a family office involves first assessing the family's needs, asset management goals, philanthropic ambitions, and succession planning.
- ☑ These requirements ultimately inform the necessary governance and decision-making rules within a family office. Governance can cover decisions such as choosing appropriate legal and tax structures, accountability mechanisms and digital systems, balancing control with empowerment, and conducting regular reviews to maintain relevance and family harmony.



Every Family's Bespoke Journey - How Should Your Family Office Look Like and Be Governed?

by PwC Singapore



As families expand across generations, widen their international footprint, and evolve, the need for more structured, customised ways to manage their personal matters and wealth increases. Many ultra-high net worth families have hence turned to family offices as their preferred platform.

Family Offices and their development

This is evidenced by rising global family office numbers and high-profile expansion and investment plans by major family offices reported in the media. In Singapore, the registered single-family offices increased 7-fold from around 200 in October 2020 to 1,400 by the end of 2023 (according to official figures released by the Monetary Authority of Singapore (MAS)). Beyond single family offices, families have also turned to third-party multi-family offices or relied on more informal family office-type setups embedded within business structures to manage their affairs.

The concept of the family office is not new. While the Rockefeller family is widely credited with creating the first modern formal single-family office in the late 19th century, the family office concept can be traced back to historical estate management practices from Rome and European landowners to Japanese wealthy families.

A single-family office, at its core, is an investment advisory entity that allows ultra-high net worth families to manage their wealth and consolidate the necessary

attention needed for their personal affairs. Unlike independent asset management firms, a family office can be a bespoke, private outfit that caters to the specific requirements of one or more branches of a family.

Conversely, a multi-family office is an outfit where several independent families contribute towards a collective investment pot whether through one or more vehicles and receive shared multi-family office services. Whilst a single-family office is typically customised for each family, the economies of scale achievable through a multi-family office, i.e. by splitting costs, sharing team expertise, and pooling investment capital, is appealing for some.

How should your family office look like?

Embarking on a family office journey is a long-term commitment. It is thus important that the family takes stock of their requirements before deciding on a set-up that best suits them.

A good place to start is by considering these key (non-exhaustive) questions:

- ☑ Who is included in your definition of family today and in the mid to long-term future? What are their profiles and geographical footprints?
- ☑ What key personal needs does your family have and how are they served today? Are these needs now adequately managed on an outsourced/in-sourced basis?
- ☑ Who are the current gatekeepers of the family who may continue to support the family office?
- ☑ What key assets should the family office manage?
- ☑ What is the current and envisioned scale of the family's assets?
- ☑ How important are cost considerations vs privacy and customisation for the family?
- ☑ What are the family's plans for ownership vs management succession?

Once these are mapped and agreed by family members, families can then make an informed decision about their family office structure.

What matters should your family office handle?

We observe that some families in Singapore associate their family offices only with asset management and the Section 13 series fund tax incentive schemes. While important, a pure investment management function would limit a family office's potential. As the Singapore family office landscape matures, we anticipate this to change given collective efforts by key stakeholders - such as the MAS, Economic Development Board, Wealth Management Institute, private banks, and professional services networks like PwC - to educate families about wider possibilities.

There are, technically, no limits to what functions a family office can encompass. It can hire, and/or gather, not just investment management specialists to grow wealth, but also experts - such as in philanthropy, environment social governance (ESG) matters, tax advisory, concierge services and more to help the family better achieve its aims. The family office should support collective objectives, individuals' aspirations and evolve as the family develops.

Another advantage of a family office is that it can provide opportunities for the Next Generation (NextGen) to be involved in managing the family's financial affairs and inculcate family values, even for those not involved in the family's operational businesses. This can be organised independently or alongside the current generation and trusted advisors for mentorship as the NextGens learn their family's parameters to earn trust. This approach is supported by the findings in PwC's [bi-annual NextGen Survey 2024](#), which interviewed over 900 global NextGens, and revealed that NextGens are keen to step up and assume greater responsibility and leadership within their families.

Depending on the scale, complexity and support needed, the family can then determine whether a single-family office, embedded family office or multi-family office is a more suitable fit.

What structural and operational family office considerations need to be determined?

After identifying the family's desired family office set-up, for it to properly serve its function, the hardware such as the family office's legal and tax structures will need to be carefully balanced with its "heart-ware" like the governance and management processes.

Depending on the family's own footprint vs their family office jurisdiction of choice, structural considerations would have to be made based on the regulatory and tax frameworks as well as notable limitations (e.g. on foreign exchange capital controls or foreign investment restrictions), if any. Choosing an appropriate family office location(s) is therefore critical.

Based on PwC's family office [location study](#), key questions to consider when selecting a jurisdiction include:

- ☑ What is the proximity to the assets and/or family?
- ☑ Where do the current and NextGen family members want to live or work?
- ☑ If a family office core team has been identified, where is their preferred location?
- ☑ What are the local tax and regulatory frameworks supporting the family office ecosystem?

- ☑ How good is the location's access to deal flow or investment asset classes?
- ☑ Is there an opportunity to make a meaningful impact in the ecosystem of the short-listed family office location?
- ☑ What are the various privacy, stability and security considerations?

While Singapore has become a strategic global location of choice for many families, it is not the only possible jurisdiction. Popular locations of interest include Dubai, Hong Kong, London and Geneva, among others.

Arrangements are affected by whether the family office is the sole, principal or secondary set-up for the family too. Increasingly, we support large single-family offices in establishing multi-jurisdictional structures that complement each other by managing the family's affairs in different regions, building expertise in different asset classes and/or aligning with family members who settle down in-country. For instance:

- ☑ An American mature family office may establish a new Singapore family office for proximity to explore emerging APAC markets.
- ☑ An Indonesian family may maintain an informal embedded family office in their family holding company to manage local real estate and venture portfolios, while their offshore single-family office in Hong Kong or Singapore focuses on international financial investments.
- ☑ An Indian family may decide on a domestic family office to maximise investment opportunities for their onshore liquidity while planning to set up another onshore Gujarat International Finance Tec-City (GIFT city) family office for tax-incentivised international investments with less stringent forex capital controls.

Both family and professional team members (where relevant) need to be mapped to ownership, governance board, operational management, and advisory roles. There are also critical, yet difficult, questions relating to personnel and stakeholder strategy and interactions that families and their family offices will need to decide upon.

Firstly, will economic benefits of the family office investments be shared with multi-generational or designated family members through structured distributions? How, and who will decide the family office's priorities? Careful consideration should be given to the composition of the board - should it solely consist of current-generation family members, and how will succession be managed as branches of families expand? Who will arbitrate in event of disputes? Should qualified NextGen individuals be allowed to lead or understudy investment professional teams? Do local requirements, such as Singapore's family office fund tax incentive

schemes, mandate involvement of non-family investment professionals? Lastly, will independent experts be involved in the family committees to help arbitrate views? These considerations underscore the importance of deliberate decision-making for both families and their family offices as they navigate the complexities of setting up a family office.

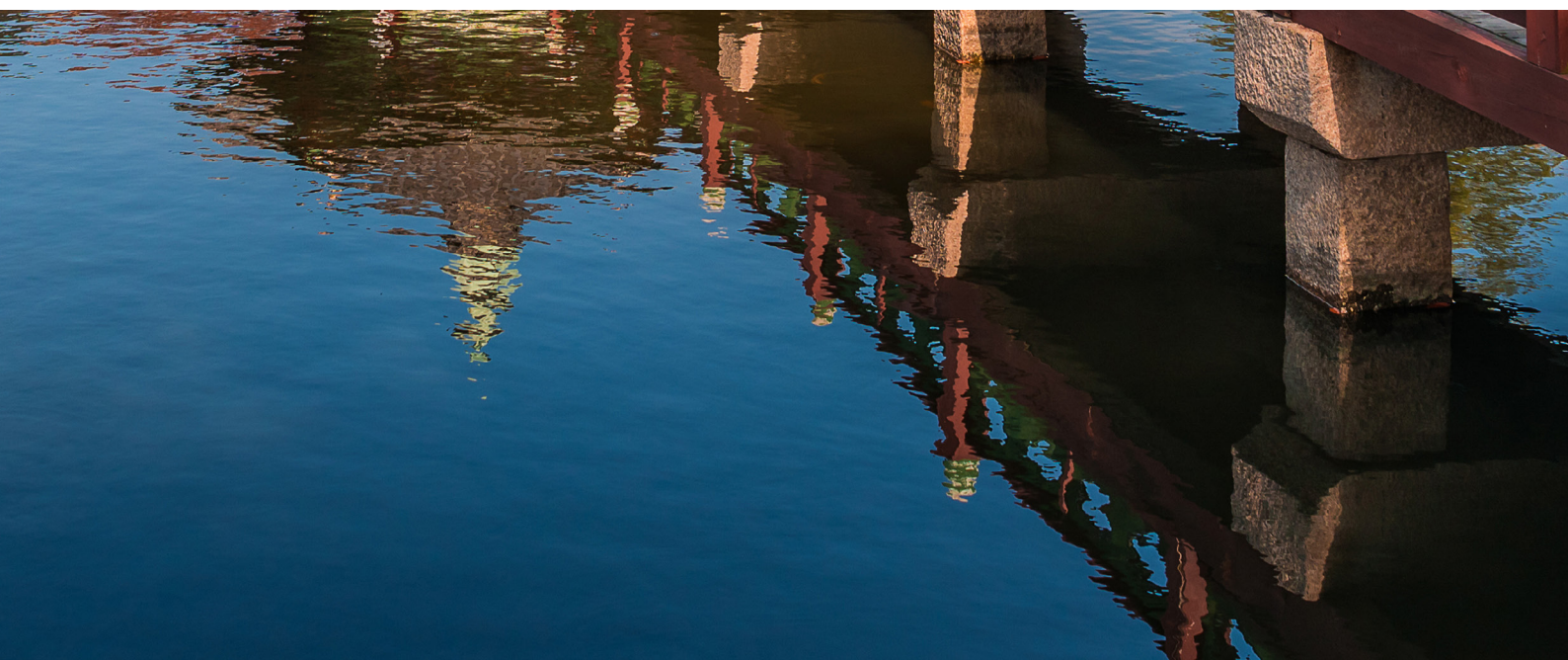
Key decisions such as selecting the right digital systems, establishing communication protocols, performance monitoring and incentive structures need to be made. Balancing controls with empowerment in investment decisions is crucial, as is balancing priorities between appropriate spending and distribution. Regular and robust reviews of established frameworks and structures also should be conducted.

Establishing family offices are challenging, but we hope to have shed light on the first steps of a family's multi-year family office journey.

Given different risk appetites, priorities and measures of success, every family's journey is inherently unique and distinct. Governance parameters, monitoring and accountability mechanisms are key to maintaining harmony among family members. Only with a comprehensive evaluation, thoughtful set-up and regular checks can families, their teams, and advisors ensure the family offices remain relevant vis-a-vis the family's changing profiles, needs and an evolving global landscape.



Part Two
Tools for Effective Family
Governance



KEY TAKEAWAYS

- ☑ A family charter serves as a mission statement for the family, outlining aspirations for current and future generations, with a focus on governance, communication, succession planning, and wealth management.
- ☑ Unlike legal documents, such as shareholder agreements, a family charter adopts a more humanistic approach, written in accessible language that encompasses emotional considerations rather than pure legal, financial and commercial factors. There is no fixed template; common themes emerge organically through dialogue among family members and advisors.
- ☑ It is a living document that evolves over time, requiring ongoing review and refinement.
- ☑ Due to its normative, aspirational and flexible nature, a family charter is typically not legally binding.
- ☑ This means certain key components, such as legal provisions addressing conflict resolution and stakeholder exits from family businesses, may be undermined by disruptive members.
- ☑ To better safeguard legacy, families may wish to take a more nuanced approach with different tiers in the family charter.



What is a Family Charter and do you need it?

by Dentons Rodyk & Davidson LLP

DENTONS RODYK

The greatest transfer of wealth in modern history is underway. Much of this wealth has been created in one generation, particularly in regions that do not have long histories of wealth aggregation, such as Asia Pacific. Many families and their advisors are in new territory and traditional estate planning techniques are not fit for purpose. Some families may be unprepared for this transition of value and power. That said, well-advised families are starting to professionalise and organise the family wealth.

It is important for families to start off with a roadmap for their wealth preservation and transfer. The family charter serves as this roadmap, and gets the family started on putting in place proper governance.

What is a family charter?

A family charter is, at its core, **the mission statement for the family and some clearly stated aspirations for the current and future generations**. It typically sets out broad principles around governance, management, and the use of family assets and profits. It may also include specific policies on matters like investment, education, the family business, and the resolution of conflict within the family.

A humanistic not legalistic document

Often family wealth is held in legal structures constituted by shareholders' agreements, trust deeds, and other documents that are drawn up and interpreted by lawyers. While these are vital for commercial and legal reasons, they may not resonate with the family in the same way as a more humanistic document, such as a family charter.

A family charter is written in human, non-legal terms and often encompasses and embodies emotional considerations rather than pure legal, financial and commercial factors. It binds together all the legal documents in a way that can be clearly and easily accessible and readable for the family and provides context to their creation, purpose and interpretation.

A Bespoke document

There is no template, but there are common themes that emerge organically as members of the family, their business and advisors engage in dialogue.

Usually, a family charter will include a mission statement. Often it will record the history of the family. There may be a family tree, family crest, family mantra, structure chart, a map of the main assets, liabilities, and the way they are structured.

Often there will be an assessment of risks relevant to the family, strategic assets will be identified, family leaders will assign special roles, followed by some decision-making protocols, organisational chart, and allocation of power and responsibility.

The section relating to the family business may reference the shareholder agreement, board share ownership arrangements, voting rights, dividend policies, etc. There may also be references to employment policies, profit distribution policies, dispute resolution procedures, conflicts of interest procedures, and contingency planning.

Items like media policies, family meeting protocols, codes of conduct can also be included in a family charter. There may be a section that references key legal documents such as trust deeds and shareholders' agreements, and business plans. In addition, there may be a directory of key professionals in the advisory ecosystem.

A living document

The family charter provides a framework. Preparation involves going through various iterations until it is finally agreed and approved by the family.

However, this is only the beginning. Unlike a trust deed or shareholder's agreement, which are typically static documents, a family charter is a living document. It will evolve over time and should be revisited and constantly referred to in family meetings.

A well-designed family succession plan can articulate the vision and values of the founders and help ensure a smooth transition to the next generation. There are many examples where careful and sometimes innovative planning has led to the aggregation of wealth and inter-generational prosperity for future generations of the family and the communities in which they live and work.

Why a family charter?

The primary goal of a family charter is to provide a framework for effective governance. By setting in place sound governance principles and mechanism, the family charter ensures continuity, fosters unity and mitigates conflict, thus safeguarding family wealth across generations.

1. *Prevention of conflicts* – Family conflicts can arise due to differences in financial expectations, decision-making and distribution of wealth. A family charter outlines clear guidelines and procedures for addressing disputes, helping to prevent conflicts before they escalate, and may provide alternative dispute resolution options to deal with such disputes.
2. *Preservation of unity* – As a common Chinese saying goes, unity breeds prosperity. High net worth families recognise the importance of maintaining family cohesion and unity across generations. A family charter promotes open communication, shared values and a sense of purpose, fostering stronger family bonds.
3. *Addressing family business dynamics* – In cases where the family owns a business, a charter can help define roles, responsibilities and processes for decision-making. This ensures a smoother transition of leadership and helps family members working in the business collaborate more effectively.
4. *Wealth management* – Managing substantial wealth can be challenging and may involve complex financial decisions. A family charter provides a framework for managing investments, estate planning and philanthropic activities, ensuring the family's financial goals align across generations.
5. *Succession planning* – A family charter can define a clear plan for succession, ensuring a smooth transition of leadership within the family business or other assets. This reduces uncertainty and minimises disruptions during leadership changes.
6. *Accountability* – By setting expectations for family members' roles and contributions, a family charter promotes accountability and discourages entitlement. This is particularly important when family members have varying degrees of involvement in the family's financial affairs. Establishing roles of leadership is important not just for business purposes, but also to ensure the charter is followed and respected.
7. *Facilitation of communication* – A family charter encourages open communication and regular family meetings. It provides a structured platform for discussing financial matters, sharing insights and addressing concerns.

8. *Management of continued growth and navigation of complexities* – As wealth and family dynamics evolve, complexity increases. A family charter helps manage this complexity by providing a clear roadmap for decision-making and governance.
9. *Protection of family values* – High net worth families often have specific values, traditions and charitable goals. A charter ensures that these values are upheld, guiding financial decisions and philanthropic activities for generations to come.
10. *Creation of legacy* – A family charter allows families to create a legacy that spans generations. It helps articulate the family's story, values and aspirations for the future.

Key Considerations

Creating a family charter is a complex and important process that involves addressing various aspects of family governance, wealth management and inter-generational communication. Some key considerations and questions to ask include:

1. Purpose and Vision –
 - a. What are the family's values, goals and long-term vision for wealth preservation and transfer?
 - b. What are the key objectives of creating a family charter?
2. Governance Structure –
 - a. How will decision-making processes be structured within the family?
 - b. What roles will family members play in governance? How will they be defined and communicated? Will there be one or two persons identified as the main stewards (i.e., leaders) of the family legacy, or otherwise?
 - c. What role will professional advisors (legal, financial, estate planning, etc.) play in developing and implementing the family charter?
 - d. How often will the family charter be reviewed and updated?
 - e. What process will be followed to make amendments based on changing circumstances?
3. Family Participation –
 - a. Who will be involved in the charter-building process?
 - b. How will you ensure representation from different generations and branches of the family?
4. Wealth Management –
 - a. What are the family's policies and guidelines for managing the family's wealth, investments and assets?
 - b. How will considerations related to risk management, diversification and investment strategies be addressed?

5. Education and Communication –
 - a. How will family members be informed and educated about the family charter and financial matters? To what extent does each family member need to be involved in each aspect of the family's matters?
 - b. What channels and platforms will be used for effective communication among family members?
6. Succession Planning –
 - a. How will the family address leadership and ownership transitions across generations?
 - b. What mechanisms will be put in place to ensure a smooth transition of family roles and responsibilities?
7. Conflict Resolution –
 - a. How will conflicts and disputes that may arise within the family be handled?
 - b. What processes will be established to resolve conflicts in a fair and constructive manner?
8. Philanthropy and Social Impact –
 - a. How will the family approach philanthropy and giving back to the community?
 - b. What guidelines or principles will guide the family's philanthropic efforts?

For families with substantial family business(es), they would also want to address issues relating to the business. The additional issues to consider include:

1. Business Governance
 - a. How is the family business currently governed? What roles do family members play in decision-making and management?
 - b. How can the family charter align with, or enhance, the existing governance structure of the business?
2. Family Participation in Business Roles
 - a. How will the family charter define roles and responsibilities for family members within the family business?
3. Family vs Business Interests
 - a. How can the family charter balance the interests of the family as a whole with the needs of the business for growth and profitability?
 - b. What mechanisms can be put in place to address potential conflicts between family members' interests and the business' best interests?

4. Entry and Exit Procedures
 - a. How will family members enter the business, if desired, and what criteria will be set for their involvement?
 - b. How will the family charter address family members' exit from the business, whether due to retirement, changes in career paths, or other reasons?
5. Professional Management
 - a. If there are non-family members in management roles, how will their roles and responsibilities be defined within the family charter?
 - b. How can the family charter ensure a balance between family members and professional managers?
6. Conflict Resolution – Business context
 - a. What mechanisms will be established in the family charter to address conflicts that may arise within the business?
 - b. How can the charter facilitate effective communication and resolution of disagreements to prevent disruptions to business operations?
7. Business Growth and Strategy
 - a. How will the family charter support the business' growth and strategic objectives?
 - b. How can the family charter accommodate changes in the business landscape and market conditions?
8. Legacy and Values
 - a. How can the family charter help preserve the legacy, values and culture of the family business across generations?
 - b. What provisions can be included to ensure that the family business' mission aligns with the family's broader values?

Case Study

We set out some examples of prominent families that have recognised the importance of the family charter as a form of governance mechanism to preserve the family's legacy, align business operations with family values, and prepare for smooth generational transition.

Lee Kum Kee, Hong Kong

The Lee family has a family charter that serves as a cornerstone to their succession plans. The family charter included a clear, merit-based process for family members to qualify for leadership positions within the company, ensuring that only qualified individuals can take on significant roles. This approach helped smooth the transition when the founder passed the leadership to his sons, and subsequently, through to the fourth generation.

The family charter also constituted a family council and mandated regular family council meetings to discuss business operations, family member roles, plans and strategies for the future. This fostered open communication and aligned members of the family with the vision and values set out in the charter.

Zobel de Ayala, Ayala Corporation, Philippines

The Ayala family's charter addresses the delineation between family ownership interest and company management, allowing the family business to professionalise management by involving non-family executives while ensuring that the family retains control over strategic decisions.

A separate section addresses philanthropy and social responsibility, outlining the family's commitment to community development and environment sustainability, which is a significant value of the family and Ayala Corporation's identity.

Conclusion

In conclusion, establishing a family charter helps to set up effective governance frameworks that safeguard a family's wealth and values across generations. Drawing upon insights from case studies such as the Ayala and Lee Kum Kee families, it becomes evident that tailored governance structures, supported by experienced professionals, are essential to successfully navigate the complexities of family wealth management.

By prioritising transparency, accountability and long-term planning, families can preserve their legacies and ensure sustainable prosperity for future generations.



Family Charters: Should They Be Legally Binding?

by WongPartnership LLP



The term “charter” invokes a formal, legalistic connotation. Much like a country or company’s constitution, these are foundational legal documents that establish key governance structures and decision-making processes as well as set out the rights, privileges and restrictions of the various stakeholders (whether these are the citizens of a country or a company’s officers and shareholders). It would be difficult to conceive of such an omnipresent document to not be legally binding.

How different then is a family charter, such that the inevitable response to the legal effect of a family charter is generally a resounding chorus that it is not legally binding?

A family charter is broadly understood to be an overarching document that sets out rules, guidelines or expectations for the family and its relationship to and interactions with the family’s succession structure(s) and the family’s business(es). Whilst it can differ substantially from family to family, it typically will set up a governing body (e.g. the family council), the succession rules and decision-making process of this governing body, as well as the rights, privileges and restrictions on its family members and stakeholders.

The family charter is a key, and often central, piece in family governance. It has gained greater traction with Asian families in the last decade and is becoming an increasingly important piece in governance structures.

A key question for the family to consider in establishing a family charter is whether **moral force or symbolic weight is sufficient to achieve the family’s objectives** – not just amongst present members of the family, but also in future generations.

This requires a careful examination of each component of the charter and adapting it for the unique circumstances of each family whilst addressing potential risks and providing for contingencies. This article explores the question of whether a family charter can or even ought to be legally binding on the family and its successive generations.

The aspirational family charter

A common reason for the view that a family charter should not be legally binding is that it contains normative or aspirational statements and is thus intended to have more of a symbolic function. In other words, the family charter should not turn aspirations into obligations, which in any event cannot be enforced in a court of law. From this perspective, the family charter should contain soft and collaborative language without legal jargon or technicalities.

This is certainly the case in setting out the family's mission, vision and values in the family charter, or where the family charter is essentially a set of "house rules" that spell out the morals, ethics and beliefs of the family. This rationale also applies to other aspects of the charter that tend to serve more as a guide, for instance, expectations as to participation in the family business.

There are, however, other provisions that would require legal effect for the family to benefit from them, for instance, conflict resolution provisions. The reality is that many family businesses and families themselves face challenges due to internal factors, such as a breakdown in relationships between family members or fractures in the transition from centralised decision-making by the founder to a distribution of authority and roles amongst subsequent generations. **Conflicts is one of the biggest concerns** of many patriarchs and matriarchs, especially those that materialise after their lifetimes. One of their biggest fears is to have the "family secrets" dragged into the public arena and discussed in the media or courtroom. Such conflicts can result in a permanent breakdown in family relationships and ultimately the demise or forced sale of the family business. Visible examples include the Yung Kee roast goose saga in Hong Kong, and the Yeo Hiap Seng and Jumabhoy family disputes in Singapore.

Conflict resolution provisions are thus important in providing a structured manner for the family to ventilate any disputes, in an environment that would not cause further damage to the family. It is thus not uncommon to have process-oriented provisions to manage conflicts and unhappiness amongst family members. For instance, the provisions may require a disputing family member to discuss the matter in good faith with a senior family member at first instance and, if that fails, to progress to confidential mediation with the assistance of a neutral third-party mediator, and finally, to arbitration. Such a process will resolve the dispute while maintaining the privacy of the family.

In a non-legally binding document, such a conflict resolution provision may be less effective as a member of the family may simply decide to take his case to the media or the courts in full public view without needing to respect the process at all.

Another relevant provision is one that allows unhappy or disruptive stakeholders to exit the family business or structure in a planned and least disruptive manner. This tends to be by way of a carefully tuned exit mechanism by, for instance, hardwiring a formula for the “cash out” price and an exit timeline at sensible junctures considering the family’s cashflow at any one point in time. Such a formula could address agitations as to how a departing family member’s share of the pie is to be calculated, the valuation of the family business, and concerns as to whether there would be sufficient liquidity to fund the payout. Again, it would not make sense if such an exit mechanism was not legally binding.

Families may therefore wish to actively consider whether these protocols and mechanisms in the family charter that are developed to address the risk of conflict should go beyond the aspirational to the realm of the legally binding.

The evolving family charter

Another reason in support of the non-binding nature of the family charter is that it should be able to evolve and adapt to changing circumstances – a “living” document that will continue to remain relevant for generations to come. In this view, making the family charter legally binding may inhibit the necessary flexibility to ensure that it can continue to function in different times and under different circumstances.

Whilst flexibility is an important consideration, so is continuity. Just like fundamental freedoms in a country’s constitution, the family may consider that certain components of the family charter should withstand the test of time and bind every generation of the family, such as the process-oriented provisions mentioned above.

Of course, this does not mean that there are no avenues to amend or vary such provisions. Mechanisms can be carefully crafted to enable such provisions to be amended upon certain conditions being met, for instance, first carrying out a consultative process with the family and for a supermajority of the family council to vote in favour of the proposed change.

The processual family charter

There is a school of thought which argues that the predominant benefit of the family charter is the inclusive process that creates the document – fostering family togetherness and creating the buy-in when the entire family participates in crafting this document. In this view, it is the process of crafting the charter that manufactures the stickiness to and enduring benefit of the family charter, and it is therefore unnecessary for it to have legally binding effect.

Whilst the preparation process is undoubtedly an important benefit, it should not overshadow the utility of the product itself. After all, the family charter may lose its stickiness in successive generations who were not involved in the preparatory groundwork or in crafting the charter itself. They would not have the same buy-in, and thus have less (or no) incentive to be part of the family structures or to abide by the same expectations.

In any event, after investing the time, financial cost and effort to develop the family constitution, the family would likely desire that the constitution cannot be undermined by a single disruptive member in a subsequent generation. Having legally binding provisions ensures that any black sheep is not presented with an opening to unilaterally attack what earlier generations had strived so hard to build.

A pathway to family governance

There have been calls to take a more nuanced approach to the family charter. Some industry voices have suggested the implementation of different tiers in the family constitution, organised according to the nature of the provisions and whether they are legally binding or serve more as a guide to the family.

Such an approach to the family constitution dovetails with the larger concept of family governance, which seeks to institutionalize rules, processes and structures to regulate a family's affairs, prevent conflict and safeguard the family legacy.



Part Three Family Governance in Action



KEY TAKEAWAYS

- ✔ Family offices in Europe, the Middle East and Africa (EMEA), as well as Latin America (LATAM) have evolved from simple entities managing financial assets to institutionalised structures offering a wide array of services, driven by the need to manage increasingly complex portfolios and address broader family needs.
- ✔ Balancing cost management with talent retention is a significant challenge, leading to a trend of strategic outsourcing and a focus on constructing tailored teams with diverse skill sets.
- ✔ Effective governance is crucial for family offices, necessitating clear communication, decision-making frameworks, and customised structures to accommodate multi-generational participation and succession planning.
- ✔ Empowering the younger generation with financial education and preparing them for wealth inheritance are critical objectives, requiring structured approaches and alignment with broader governance strategies.
- ✔ Location choice is influenced by factors such as tax policies, ease of operation, and family links to specific regions, emphasising the importance of aligning operational strategies with family objectives.



Beyond Asia – A look at Family Offices in Europe and Latin America

by J.P. Morgan

J.P.Morgan

PRIVATE BANK



What are some key considerations for family offices in EMEA and LATAM?

Maya Prabhu

Our founder, John Pierpont Morgan, was a pioneer in establishing family offices in the US. It was his stint in Europe that informed this as he saw first-hand how European families were establishing distinct entities for their businesses to manage landed estates, philanthropy activities to name a few.

Like John Pierpoint Morgan set out, the most important consideration today is the needs and ambitions of the families. But having the right team is key. Once the direction is agreed, then a team can be constructed.

We recently surveyed 190 family offices from across the world with an average net worth of US\$1.4 billion to share insights into how J.P. Morgan's family office clients manage investments, governance, succession planning and family office operations. Interestingly, one of the main findings was that family offices are focused on managing costs while recruiting and retaining top talent. Like any business, these two objectives may find themselves at odds while staffing roles and services. Outsourcing certain functions through a hybrid approach is becoming more common among family offices of all sizes.

Large, established family offices with US\$1 billion or more in assets under supervision have average annual operating costs of US\$6.1 million, making management and strategic outsourcing a priority. Nearly 40% of small and midsize family offices, with assets under supervision ranging from US\$50 million to US\$999 million, outsource investment management to some extent.

So, while the cost of finding the right talent continues to dominate the concern list of family offices, establishing the profile of talent is also key. There is no "one size fits all" approach. Both EQ and IQ are needed, and a tailored team is key. When constructing the correct team, there are several factors and key questions to consider:

1. How can the family access the talent and services it needs in a cost-efficient way?
2. Does everything need to be done in-house? Should you outsource some of the services? If so, which ones? How can you leverage existing relationships with, for example, the family's trusted banking partners to access some services?
3. Who are the key stakeholders that the team will engage with within the family? How can they all be involved in the recruitment of key people?
4. How does the family find people they trust, who are also forward thinking and a good fit for the role?

Alfonso Baigorri

While Maya provides a broader overview of family offices and their relationship with ecosystems, I will speak specifically on Latin America. In Latin America, the family office ecosystem has been developing more rapidly in the last 20 years, particularly with regard to how institutionalised these offices have become. A common thread shared with other regions is the starting point of the formation of a family office; where there is an operating business owned by the family, the office is usually embedded within the business organization and run by the CFO or other executives of the business. The decision-making power is concentrated in the founder, or a reduced group of shareholders, and the services provided to the family are limited in scope, mostly related to managing financial assets. Where there has been a partial or total sale of the family enterprise, or where the size and maturity of the business allows for significant dividends to be distributed, Latin American family offices are much more institutionalised.

The reason for a more structured family office arises from the broader needs of a family that has significant financial capital to deploy. New investments in a wide variety of asset classes are typically made and the family construct itself now changes in the face of a more liquid patrimony. The institutionalisation process typically involves a larger footprint, with some offices having 100+ employees, mostly located in-country although lately it is more common to open a second office outside of Mexico, with a strong preference for the US, offering a wider array of specialised services, frequently outsourced, such as wealth advisory, succession planning and preparing/educating the rising generation, philanthropy, art collection planning and administration, venture capital and private equity investments, and managing financial assets.

In some major Latin American markets like Mexico, they have income tax but no asset, gift, or estate tax. Others, like Brazil and Argentina, have some form of asset, gift, or estate tax. Typically, the income tax allows for a wide array of expenses to be deducted and the tax rates are in line with those of developed economies, or sometimes significantly lower. A family office arrangement could in some cases also provide added flexibility for the family to manage their investments in a tax aware manner. For example, in Mexico, many family offices set up their investment operations outside of the country in order not to run afoul of local “mind and management” rules which would deny the benefit of a lower tax rate.

With regard to talent, Latin America has much to offer. The region has solid offerings of higher education options, and several family offices work directly with the most well-known colleges to directly access top talent. It is also common to find Latin American professionals educated in the United States or in Europe.



Sometimes, people like to make comparisons between Singapore and other locations popular with family offices such as Dubai or Hong Kong. How relevant are these comparisons?

Maya

There are certain jurisdictions that are popular such as London, Switzerland and Luxembourg, with centres such as the Channel Islands and Dubai growing in popularity. But rather than compare locations, it is most important to consider the needs of the families. It is factors such as the goals of the family office, a family’s links to a location, ease of travel, tax policy and ease of operation that determine which location suits best for the family office operations.



How do you get family offices to think about governance? I can imagine this to be difficult for new family offices to wrap their head around.

Maya

Governance is very simply about communication, information sharing and decision making. So, it starts with a number of “who” questions.

1. **Who** is making what decision?
2. **Who** is making operational decisions?
3. **Who** is making strategic decisions?
4. What information is shared with **who**?

Let me give you a very practical example. We had a client, and they are the senior generation. They have a family office, and plan to onboard their five children into the decision-making process. When thinking about governance, they decided to create a family board, or council, where they meet every six months to make strategic decisions. These decisions can range from investment, philanthropy, family cohesion and retreats. They delegate day-to-day operational decisions to the family members who have both insight and interest in the specific domain. So, investment decisions are being made by one parent who is highly active in the space together with two children who are also keen to work in the space. The three make the necessary investment decisions and every six months, they report back to the wider family council.

Alfonso

Just to add on to this discussion on investment decisions, there is a peculiar phenomenon happening among Mexican family offices and their approach to investment governance. Changes in the geopolitical landscape have translated into what is called *nearshoring* - shifting United States manufacturing and production lines closer to home and transforming areas of Mexico. There is an economic boom that is happening in cities in the northern part of the country like Monterrey. Family offices in this region are quickly adapting to capitalise on the opportunity presented. For example, families are venturing into new types of investments, such as automotive, aerospace, pharmaceutical and electronic device manufacturing.

The investment processes needed to accurately assess these ventures are different than those of financial assets, often the sole asset class they were expected to manage until now. Family offices are revamping their internal governance to incorporate proper due diligence processes, risk management policies, and oversight. This involves hiring, utilising both internal resources

and engaging outside experts, to weigh the merits of these prospective investments and technology upgrades, including properly tracking and reporting the valuations of these private investments to stakeholders. It also involves revisiting succession plans and incorporating new areas of knowledge into educational programs for future generations. So, we are seeing a more methodical and professionalised approach to governance now among Mexican family offices.



In your experience, are there certain family governance issues that are universal regardless of location?

Alfonso Baigorri

Like other regions, it is common for the family offices in Latin America to be one of the governance bodies working as part of a larger framework comprised of family councils, family-wide assemblies, family constitutions, and board of directors where there is a family enterprise, a philanthropy council, and more.

Depending on the family size and complexity, this often creates challenges in the communication structures between the executives of the family office and family members with decision-making powers. **Communication is at the core of any governance system** and to overcome these challenges, I have seen families implement different models aimed at having clearer communication channels. For example, some governance bodies tasked with a specific mission, say the philanthropy council, designate a family member who is part of such council to serve as the communicator of the family's plans and wishes with regard to philanthropy to the family office and is responsible for reporting back to the council on the philanthropic activities conducted. Other family offices centralise the role through a Chief Communications Officer. It is also becoming more common to use technology platforms to promptly direct the information that each stakeholder or professional playing a role requires to stay adequately informed.

I have also seen family offices serving a constituency of over a hundred family members. We need to ask ourselves **what the family office is for** and the scope of their empowerment to make decisions. Family offices in Latin America are typically not formed as holding entities, but rather as administrative bodies that are authorised to manage assets held in separately managed fiduciary structures. Most family offices are set up to execute a part of the broader governance strategy of the family..

Because the management of financial assets is what triggers the need for a family office, questions surrounding the **governance of these assets** arise over time. Unlike what you see in other jurisdictions, in Mexico a typical scenario involves having a part of the financial assets invested locally in Mexican financial institutions and a part offshore in a different jurisdiction

held at foreign financial institutions. There is a strong risk management part behind the decision of how to distribute the investments between the local and the offshore financial institutions. Typically, there is a large concentration in the home country since the family enterprise, often the most important asset, is based there, and families look to deploy their financial capital diversifying both financial and geographical risks.

In Latin America, there is also a strong trend to gradually increase the allocation of the portfolio that is invested in private equity and venture capital. There is continuous tension between investment models where the family is more involved in portfolio construction and those where the family defines a vision and a purpose for the financial assets and outsources the task. The family office articulates these by defining and monitoring mandates to institutional investment managers who implement the portfolio construction. **Effective portfolio management** is the result of an investment process with the aim of deploying financial capital in global markets with ever-increasing complexity. It is dynamic and it requires institutional-level resources and access to more information. Investing in these resources is an expensive proposition for a single-family office. What we see in the more institutionalised family offices is a flexible model of a strong investment committee, or committees, which can pursue policy and strategy, while leaving the execution to financial institutions.



What are some tensions you have noticed when family offices deal with governance?

Maya

Maya: When looking at our recent report, a primary concern identified by family offices regarding the upcoming generation is their **preparedness to inherit wealth**. Nearly 30% of respondents lack a structured approach to prepare the younger generation for this responsibility. This is even though most of the surveyed family offices note succession planning and preparing for the next generation as primary objectives while also identifying them as areas where they need help.

Interestingly, more than one in five respondents globally say they shield the rising generation from knowing the full extent of the family's wealth, a consistent figure across regions. This approach was more frequently mentioned by smaller family offices than the largest family offices, 27% to 15%, respectively. Unfortunately, keeping interested young family members completely unaware of the family's wealth may not be realistic in today's global, digital world – nor may it be a good practice.

To combat these concerns, the most crucial step is to have a conversation and to co-create a vision and strategy for what success would look like for the family in the future.

The process of creating a family charter can offer a roadmap for these conversations. It typically captures a family's aligned views on areas such as:

- Vision, values, and purpose of their wealth.
 - Governance practices – including forums such as a family council and an investment committee – that will enable the family to make decisions smoothly.
 - Agreed policies such as on family employment, distributions, investments and even on exit.
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Alfonso

In Latin America, respect for elders and traditions are both cultural traits. Family is at the centre of the gravity of life. Family members tend to know each other well in a typical Hispanic family household as there are many gatherings and celebrations. As a result, cousins grow up knowing one another and start to develop a keen sense of belonging to their families while understanding the hierarchy. Colloquial common conflict resolution mechanisms are part of their daily relationships, and it is easier to separate individuals from their problems. My belief is that most family offices deal with second and third generation members directly and fourth generation members indirectly. It is important to recognise and understand the cultural traits that lead to a particular set of family dynamics.

Family offices in Latin America serve as a vehicle to help drive change in the culture from one of “do not talk about money” to one of “talking about our wealth and being wealthy”. The origin of the lack of communication around money often comes from fear. Often, people worry about what money might do to their kids. We are seeing more properly empowered family offices provide programmes where financial information is progressively disclosed to the younger members of the family, coupled with educational programmes, often provided by third-party experts from different professional fields. They are collaborating with other governance bodies, like family councils and the families themselves, to align fostering a values-based culture among family members. Educating family members is now becoming a full-time job with many advanced family offices having their own version of a Chief Learning Officer. In these cases, we also see a larger number of grounded individuals with their own life and work plans that are curious, knowledgeable, and vested in the family's aims, who one could argue are better prepared to manage wealth.



In your experience, what are some common shared visions that family offices have that can remain true across generations?

Alfonso

One shared vision I have noticed with Latin American family offices is that there is a sincere philanthropic spirit in many of the entrepreneurial families I work with. That translates not only into economic support for initiatives helping their local communities, but also contributing their time and talent. This is particularly true today.

Regardless of tax incentives, many families deploy their financial and human capital often through their family offices. I have seen families that are enthusiastic about improving the early childhood education system, creation of meaningful jobs to fight poverty, access to healthcare services, medical research, housing to confront the migrant crises, and other systemic issues to foster prosperity and quality of life into their communities and countries.

Regardless of locations or history, once families find this shared vision, it is then easier for the family to make informed decisions together.



As a wrap up, what do you think are the future trends for Latin America's family offices?

Alfonso

Latin America is a region rich in history, tradition and culture. The product of the rise and fall of great civilisations for thousands of years, and the fusion of many cultures that came to the continent over time. Latin American enterprising families are innovative, resilient, hardworking and generous with their communities, and we are privileged to learn from them.

In my experience, the secret ingredient is values: families are united by their values and shared history. There is a great future ahead for Latin American enterprising families.



About the Contributors

Kexin Lim is a Tax Partner at PwC Singapore and a core member of PwC's global Entrepreneurial and Private Business (EPB) team. She leads PwC Singapore's EPB Tax practice providing families, entrepreneurs, family offices and NextGens end-to-end support across their businesses and wealth. Kexin oversees the firm's Indonesia business desk alongside supporting the firm's Greater China initiative. Kexin is passionate about fostering knowledge exchange among the NextGen of business families and actively drives PwC's NextGen club activities at both the Asia Pacific and local levels.

With an extensive 19-year career spanning Singapore, London, and Indonesia, Kexin advises clients on a multitude of issues such as on inbound-outbound investments, international tax structuring, incentive planning, operational and asset and wealth management tax, succession-related issues among others. She also works closely with global and regional family offices, principals, and their management teams, facilitating their set-up, operations and strategy.

Award winning and widely profiled in the media, Kexin has dedicated her time volunteering actively since she was 17, and serves actively across non-profit, government, and professional bodies to give back. Graduating as Valedictorian from the Singapore Management University (SMU), Kexin is now SMU's first alumni University Trustee. She is also a senior member of the Global-Asia Family Office Circle and a faculty member at WMI.

The authors are key members of the Dentons family office and high net worth practice group. With a unique depth and breadth of knowledge and experience, as well as an unsurpassed network of relationships across the globe, their representation of family office and ultra-high-net-worth individuals spans six continents. The team takes a holistic approach to the personal, business, legal and regulatory issues impacting each unique family.

Edmund Leow, Senior Counsel, is a highly recognised individual in various legal directories for his expertise in tax and private wealth law. He heads the Tax practice and Trust, Estates & Wealth Preservation/Family Office practice in Singapore and is the President and an honorary member of the Singapore Trustees Association, which he co-founded.

Quek Ling Yi is a Partner in the Tax practice and Trust, Estates & Wealth Preservation/Family Office, and co-heads the Philanthropy practice in Singapore. She has been recognised in Asian Legal Business (2020) list of outstanding 40 under 40 legal professionals in the region and in The Legal 500 Asia Pacific (2024) as key lawyer in Private Wealth and Family Law.

Henry Brandts-Giesen focuses on private wealth planning, family office design and governance, family business succession, trust law, fiduciary risk management, cross-border wealth structuring, strategic philanthropy and global tax reporting and compliance. He has been ranked a Band 1 Lawyer for Private Wealth in Chambers High Net Worth 2022 and 2023 and is recommended for Private Client practice in Who's Who Legal.

Vivien Teu, Head of Asset Management & ESG at Dentons Hong Kong, has more than 20 years' experience in the areas of asset management. She has been named Thought Leader of the Year, North Asia at the inaugural ALB Women in Law Awards 2021 and is listed by China Business Law Journal in the 2020 and 2021 A-List Elite 100 foreign lawyers for China practice.

Sim Bock Eng is the Head of the Specialist & Private Client Disputes Practice and Private Wealth Practice. She has over 20 years of experience in trusts, estates, and family laws – both front-end, as well as litigation. She regularly advises ultra-high-net-worth individuals and families on succession and estate planning and business continuity.

Alvin Lim is a Partner in the Specialist & Private Client Disputes Practice and Private Wealth Practice. He regularly advises both institutional and individual clients on a broad spectrum of contentious and non-contentious matters in the succession, trust, and estates space.

Maya Prabhu is a business leader and a specialist family governance adviser. She leads the Wealth Advisory practice across the EMEA region and the Family Governance practice for the International Private Bank. She helps individuals and families articulate the goals for their wealth and then advises on strategies to hold, protect, and transfer their wealth and on the establishment or review of their family offices. She advises families on strategies to plan for and support the continuity of their wealth and family businesses to the next generation.

Her areas of experience include developing family governance (including processes for developing culture, teamwork, and communication), next generation engagement and development, and in crafting effective and rewarding philanthropy strategies. She has helped many individuals and families to capture their agreements in their own Mission Statement or Family Constitution.

Maya is experienced in working with families from a range of cultures including the UK, across Europe, Latin America, the Middle East, and Asia.

Alfonso Baigorri is a Wealth Advisor at J.P. Morgan Private Bank. He advises individuals and families on strategies to hold and transfer wealth across generations.

Prior to joining J.P. Morgan Private Bank in 2008, Mr. Baigorri was a partner in a large U.S. based international law firm. Mr. Baigorri's practice focused on the development and implementation of estate plans for global families. He represented families and family enterprises in the development of worldwide income, estate and inheritance tax, international wealth preservation structures and pre-immigration international tax planning.

About Wealth Management Institute

Established in 2003, the Wealth Management Institute (WMI) is committed to building capabilities for investing in a better tomorrow. Founded by GIC and Temasek, our vision is to be Asia's Centre of Excellence for wealth and asset management education and research. WMI has been appointed as Singapore's Lead Training Provider for Private Banking by the Institute of Banking and Finance Singapore (IBF) and supported by the Monetary Authority of Singapore (MAS).

WMI provides a comprehensive suite of practice-based certification and diploma programmes and collaborates with leading universities for master's qualifications. With over 20,000 annual enrolments, WMI provides training in asset management, wealth management, compliance, risk management, family office, as well as the development of the next generation across more than 130 programmes.

WMI helms the Global-Asia Family Office Circle, a network platform that fosters a trusted environment to build capabilities and community in the family office sector.

WMI also hosts the Asia Centre for Changemakers (ACC), a newly founded centre dedicated to building capacity and nurturing a pipeline of active and informed philanthropic changemakers with a focus on Asia. The ACC houses the Impact Philanthropy Partnership, a joint initiative with the Private Banking Industry Group (PBIG) and supported by the Monetary Authority of Singapore (MAS).



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