CHINESE WEALTH MANAGEMENT

Navigating a new investment environment

WSI OMFIF Wealth Strategy Institute

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ABOUT OMFIF

With a presence in London, Washington and New York, OMFIF is an independent forum for central banking, economic policy and public investment – a neutral platform for best practice in worldwide public-private sector exchanges.

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China's generational shift

The country's high-net-worth investors continue to grow in global influence.

By Lily Zhu, Managing Director, Wealth Strategy Institute

FROM many points of view, China is the most fascinating and most crucial global market for wealth management. The nation's burgeoning wealth – driven by hugely successful family businesses that have transformed China's economic landscape – continues to follow an impressive trajectory of growth, maturation and professionalisation. Chinese ultra-high-net-worth investors, with admirable adaptability, have embraced the ever-changing circumstances of the post-pandemic era.

However, this transformation extends beyond economics. For wealthy families in China, the shift from the first generation to the second is a pivotal moment. As they navigate this critical phase, a noticeable trend emerges. The second generation is actively involved in diversifying their investment portfolios and broadening their financial horizons. As a result, they are more likely to catalyse progress in global phenomena such as artificial intelligence, digitalisation and sustainable investing. The future is in their hands.

For the past three years, OMFIF's Wealth Strategy Institute has diligently traced the trail left by these Chinese families. Our exploration has involved conversations with key players within the Chinese ultra-wealthy sector. We have engaged with domestic and international private bankers, chief investment officers, family offices and representatives of prominent financial hubs that cater to wealth managers. In doing so, we've harnessed a comprehensive understanding of the current state and future outlook of the global market for Chinese UHNW individuals.

As we delve into this journey, one thing becomes abundantly clear: during times of uncertainty, safeguarding wealth, effective risk management and sound estate planning assume greater significance for high-net-worth individuals. It's a testament to the evolving dynamics of wealth management in a rapidly changing world.

In 2024, OMFIF is excited to host the Global wealth strategy summit in London. This summit will be complemented by a series of exclusive family events in Norway, Switzerland, Germany, China, Miami and Saudi Arabia. These gatherings promise to be essential platforms for dialogue, knowledge exchange and forging connections within the global wealth community.

This report seeks to further understand key trends in emerging wealth and investment in China and beyond. It is our hope that the insights and perspectives shared in this report will provide a valuable compass for both investors and wealth professionals navigating the ever-evolving landscape of global finance. •

Navigating China's wealth renaissance

China's ultra-wealthy population is becoming more complex and discerning, so wealth managers are having to use every trick in the book to meet their evolving demands.

AS the world witnesses a seismic power shift on the global stage, there is one area where China's ascent has been nothing short of breathtaking: the world of wealth.

Over the past four decades, the nation has undergone a metamorphosis. By transforming from a predominantly agrarian society into an economic powerhouse, China is generating a breed of millionaires and billionaires at a staggering rate.

Behind the US, China has the world's second largest high-net-worth population. These high- as well as ultra-high-net-worth individuals and families have seen their fair share of trouble, not least in the past three years. Forced to contend with a difficult global environment, a public health crisis and a fast-changing regulatory environment, China's wealthy faced challenges that frequently tested their ability to preserve and grow their wealth.

The numbers reflect this in a somewhat sombre picture of China's wealth industry. According to the Hurun Research Institute's latest China Rich List, the number of individuals with wealth of more than Rmb5bn ($710m) fell 11% year on year to 1,305 in 2022. Their total wealth tumbled by 18% to $3.5tn. The number of people with wealth of over $10bn also shrank, as did the number of dollar billionaires.

This, said Hurun, was the biggest fall in the number of individuals and their wealth in its China Rich List in 24 years. A global economic downturn, a sharp drop in the technology sector, a slow recovery from Covid-19 and the crisis in China's property sector were all to blame.

But the numbers are still nothing short of impressive. China boasts 50% more wealthy individuals than it did five years ago, four times higher than 10 years ago and more than 400 times higher than 20 years ago. The financial revolution that has propelled China's wealth industry to astonishing heights is only likely to continue.

'The financial revolution that has propelled China's wealth industry to astonishing heights is only likely to continue.'

With a population of 1.4bn, China has a group of middle-class wealthy that is burgeoning. The Hurun Research Institute recorded a 2.1% yearly rise in the number of affluent families (those with wealth of Rmb6m) last year, a 2.5% spurt in the number of HNW families with Rmb10m of wealth and a 3.5% jump in UHNW families with wealth of Rmb100m.

Investable assets among China's HNW saw a compound annual growth rate of over 13% between 2016 and 2021, as shown in research by Frost & Sullivan. Between 2021 and 2026, this is expected to rise by another 10.5%.

Naturally, this has benefitted the wealth management sector as newly minted millionaires – and old-money wealthy – seek advice on everything from investment decisions and portfolio management, to preserving wealth and passing their fortunes to the next generation.

This need for advice has been particularly stark in the past couple of years. No longer content with traditional approaches, the Chinese wealthy has charted a new course of wealth management that has embraced external advisers like never before.

A wealth 'ecosystem for everyone'

China's elite – many of whom have businesses and wealth within Mainland China and internationally – have a plethora of advisers they can tap for advice and strategies tailored to their needs and ambitions.

Nick Xiao, chief executive officer of Hywin International, the Hong Kong subsidiary of Nasdaq-listed Chinese wealth manager Hywin Holdings, said one of the most interesting aspects of China's wealth management industry is that this is 'an ecosystem for everyone'.

Large domestic banks like the Industrial and Commercial Bank of China or China Merchants Bank have dedicated private banking arms to cater to the wealthy. Brokerage houses like Huatai Securities, China International Capital Corporation or CITIC Securities leverage their investment banking strengths to offer investment solutions to private clients. Global firms like Citi, Goldman Sachs, UBS and JP Morgan offer an international investment perspective to the ultra-wealthy. And there are independent wealth managers like Hywin, Noah Holdings and Heritvest (previously CreditEase Wealth Management) that focus purely on HNW clients and families.

In the past decade, single- and multi-family offices have also cropped up across Greater China to cater exclusively to the needs of an individual family or several UHNW families, respectively. These family offices may be tasked not just with managing the wealth of a family but also assisting them with non-financial matters like risk management, family governance and succession planning.

'Chinese entrepreneurs have started to realise that the past 10-20 years of very good market environment and high-speed growth is no more.'

Andrew Yan, a former UBS banker who founded Panhe Family Office in 2013

All these advisers have been busier than ever in the past three years as the priorities of China's UHNW individuals and families underwent a profound change in the face of market upheavals and uncertainty caused by Covid-19 and rising geopolitical tensions. This means their demands of advisers have also changed.

'Chinese entrepreneurs have started to realise that the past 10-20 years of very good market environment and high-speed growth is no more,' said Andrew Yan, a former UBS banker who founded Panhe Family Office in 2013. 'They know they have to be conservative and build up the family fortune to pass on to the next generation. So, in the past year, we have had many discussions on how to implement the family governance and succession structure and how to build their ecosystem of family wealth.'

Yan added that this was a big change. 'Before, they were asking why they had to do it. They thought ➤

The wealth market can be broadly divided into two groups of wealthy: the new wealth in Mainland China and the new-plus-old wealth in the Hong Kong Special Administrative Region

they were still young, that their business was still growing and that their children were not yet ready for the business. But Covid-19 made them realise that they need to plan very seriously to build their ecosystem.'

The Hurun Research Institute estimates that affluent families in China will pass on roughly Rmb19tn of wealth in the next 10 years, Rmb51tn over 20 years and Rmb98tn over three decades. Banks and wealth managers stand to make a handsome windfall if they position themselves correctly.

The change is already starting. Carol Wu, DBS Bank's head of private banking for North Asia, said a big theme in the past couple of years was first-generation ultra-wealthy planning to pass their fortunes to the next generation. 'That's why family office wealth planning has become important to this group of people,' said Wu. She added that, in the past, only the super-UHNW were interested in establishing family offices, but now both UHNW and HNW clients are setting their sights on this framework.

Another mindset change concerns how the wealthy are looking at generating returns and expanding their business operations.

Panhe's Yan said the focus has shifted from demanding high rates of return on investments to instead having more stable and consistent returns. This is being reflected in the sectors that the wealthy target for investments, the way they are shaping their portfolios and how they are building a network outside of the Mainland.

'A lot of Chinese ultra-high-net-worth or billionaires usually like to focus on sectors and regions that they know best,' said Ulysses Lau, head of investments and engagement in JP Morgan's Asia private banking business. 'For example, if you're a tech founder or a property tycoon, a lot of the things you pay attention to will be in tech or property. But in the past couple of years, as market turmoil changed things significantly, the mindset of these billionaires changed as well.'

Lau added: 'They are now focusing a lot more on diversification and looking for different opportunities, even if it may generate lower returns, as a way to protect their wealth in the long term.'

Part of that diversification is a growing interest in building a network of contacts with other UHNW individuals in different industries outside of China. This, said market participants, is not only with the intention of expanding their business connections globally, but also to set up their children or next-generation business leaders in a strong position for the future.

'Networking has become very important and clients are looking to see if their wealth manager can really provide them with these networking opportunities,' said Lau. 'It's also no longer just about how we can provide the right wealth management advice to navigate the current environment. It's also about how we can help them think about what they really want over the long term based on their ultimate goals for themselves, for their companies and for the next generation.'

Old versus new wealth: beyond borders

The wealth market can be broadly divided into two groups of wealthy: the new wealth in Mainland China and the new-plus-old wealth in the Hong Kong special administrative region. The SAR is a key financial hub often viewed as a gateway for Chinese investors looking outside for opportunities and global investors looking for onshore assets.

Winnie Qian Peng, director of the Roger King Center for Asian Family Business and Family Office at the Hong Kong University of Science and Technology, describes new wealth as money generated within one generation of a family.

This is true for a lot of wealthy in the Mainland, given family or private businesses have only been allowed to exist since 1978. As a result of this short history, many founders – or the first generation – are still in control of their companies and fortunes and are the ones most likely to set up family offices to manage their assets more efficiently.

Hong Kong, on the other hand, has a group of newly made rich that migrated from the Mainland and started their businesses there, as well as old, established family businesses that have existed for decades. Their fortunes come from a host of industries, including real estate and manufacturing, as well as more novel industries like technology, telecommunication and healthcare. Increasingly, there are also professionals who made their money on the stock market or high-flying lawyers that have made it into the HNW groups.

As a result, a lot of the money sits onshore within Mainland China, while the ultra-wealthy have also found ways to park their assets in hubs like Hong Kong, Singapore, Dubai, London and the US.

'When it comes to jurisdiction, any client anywhere wants their asset allocation to be global in nature because, if it's global, the correlation across geographies, countries and markets work in the clients' favour,' said Xiao at Hywin. 'In general, Chinese clients tend to favour bookings in Hong Kong and Singapore as the main financial centres.'

China has long had tight controls on moving capital outside of the country. But, over the years, it has provided Chinese investors with a host of avenues to access international markets.

Starting in 2006, the Qualified Domestic Institutional Investor scheme allows domestic institutions, including fund managers, to invest offshore, subject to some criteria. HNW and affluent investors used this framework initially to gain international exposure by using local fund managers as the middlemen.

Shanghai unveiled another initiative called the Qualified Domestic Limited Partnership in 2013, which allows foreign and domestic asset managers to raise renminbi – within a capped amount – from HNW and other institutional investors in China, solely to make overseas investments in publicly traded stocks, bonds, financial derivatives and in private equity.

A year later, Shenzhen launched a Qualified Domestic Investment Entity programme, which was similar to the QDLP scheme but focused on investments only in private equities, before being expanded in 2021 to the securities market.

Foreign asset managers looking to get a share of the wealth management pie in China did so by setting up wholly owned foreign enterprises or getting a private fund management licence to sell products to qualified wealthy clients onshore.

More game-changers followed, including the launch of the Shanghai and Shenzhen stock connect programmes with Hong Kong and the bond connect scheme for fixed-income investments across borders. Another breakthrough was in September 2021 through the wealth management connect scheme for the Greater Bay Area, a region linking Guangdong, Hong Kong and Macau, which is estimated to be home to over 450,000 HNW individuals and families with investable assets of around $375bn.

While public and private market connectivity between Hong Kong and China is now quite seamless, a lot of the money often must stay within a closed loop system, meaning the money needs to go back onshore.

One way around it has been through offshore listings. The Hong Kong Stock Exchange has long been a popular destination for founders of Mainland Chinese companies seeking international liquidity and global visibility, like the New York Stock Exchange and Nasdaq in the US.

As of 9 January 2023, there were 252 Chinese companies listed on the NYSE, Nasdaq and the NYSE American exchanges, data from the US-China Economic and Security Review Commission show. Many technology behemoths had previously flocked to the US for initial public offerings before China's regulator clamped down on the sector in 2021, effectively halting China-into-US listings.

Wider scrutiny on international IPOs, particularly through the variable interest entity structure favoured by Mainland firms, also limited Hong Kong listings, but there is hope both markets will kick back into gear before too long.

One thing the wealthy are increasingly keen to focus on is protecting their businesses and fortunes, whether onshore or offshore, especially given closer ties between Hong Kong and Mainland China.

Yang Liu, partner and deputy investment director at Hefeng Family Office, one of the first Chinese family offices to be set up in 2013, says the combination of economic and ecosystem changes, changes around compliance requirements and shifts in the international business model are making entrepreneurs and first-generation business owners focus more on safeguarding their assets and wealth.

'They need to evolve. They need new capital, new technology and talent, and they maybe need to restructure their family business and even investments by using new experts and advisers,' said Yang. 'Wealth management, protection and succession are important trends.'

Family office boom

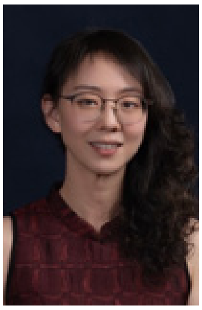
While private banks and wealth management firms have long been a core part of the Greater China market, a relatively newer breed of advisers is rapidly growing in importance: family offices.

Most of the family offices in Greater China were established after 2010, with a big chunk after 2013. But they have quickly become a pivotal tool for managing offshore wealth. These bespoke advisory platforms – whether they are single-family offices catering to just one family or multi-family offices working with a handful of wealthy families – provide comprehensive services. These include investment management, intergenerational wealth transfer planning, philanthropy and lifestyle concierge, catering to the complex needs of wealthy families.

Angel Chia, chair of the Family Office Association of Hong Kong and former chief strategy officer at multi-family office Fountainhead Partners, explained that MFOs are commercialised services usually run by people with backgrounds in private banking, investment management, law or fund administration.

Wealthy families tend to use family offices when they realise that they need professional expertise to help them manage, invest, grow and preserve their money, as well as to manage their family affairs, help with governance issues and succession planning in case of transfer of businesses to their children. But choosing the ideal destination to establish a family office requires a lot of thought.

Over the past year, Hong Kong and Singapore have been racing to attract Chinese ultra-wealthy ➤



'From a jurisdiction point of view for family offices, China is not a level playing field compared to Hong Kong or Singapore because the regulation is not quite mapped out yet for family offices.'

Angel Chia, chair, Family Office Association of Hong Kong and former chief strategy officer, Fountainhead Partners wanting to establish single family offices. During Covid-19, Singapore gained a lot of ground as tight quarantine measures and travel restrictions in Hong Kong forced wealthy clients to look elsewhere for safer havens. The pro-democracy protests and the implementation of the national security law on the city by China didn't help either. The rich looked for alternative avenues to keep their money amid concerns about political stability in Hong Kong.

Singapore proved an attractive and ideal destination. Its geopolitical stability, high standard of living, strong education framework, multicultural society and similarities in languages appealed to the wealthy, as did tax concessions for family offices.

The number of family offices in the city-state soared to 700 by 2021, up from 400 at end-2020. This was in part thanks to the efforts of the family office development team, set up in 2019 by the Monetary Authority of Singapore and the Singapore Economic Development Board to boost Singapore's positioning as Asia's family office hub.

Two amendments to the Income Tax Act in April 2022 by the MAS have also helped. Section 13O offers tax exemptions on income earned by a Singapore-incorporated or variable capital company through investments in funds managed by a family office. Section 13U gives tax exemptions on income from funds managed by a Singapore-based fund manager or family office. For both, the family offices must meet multiple criteria, including around minimum assets under management, but market watchers said they have helped pave the way for more rich families, including from China, to pivot to Singapore for their family offices.

Hong Kong is taking great pains to appeal to family offices, particularly single-family offices. The city's chief executive John Lee said last year that the city was targeting 200 family offices to either be established or expanded in Hong Kong by the end of 2025.

To that end, the Financial Services and the Treasury Bureau unveiled a number of concessions for family offices in March this year. These included a new capital investment entrant scheme for asset owners, tax concessions for single-family offices, establishing a new Academy for Wealthy Legacy that will offer training around wealth preservation and inheritance, tax levies on philanthropic work and setting up a dedicated FamilyOfficeHK team within InvestHK, a body tasked with promoting the city as an international business destination.

Hong Kong or Singapore?

News headlines have been dominated by how the Chinese wealthy are ditching Hong Kong in favour of Singapore for setting up their family offices. But the reality isn't quite as dramatic, many argue.

'If you look at the growth of Hong Kong-based wealth managers or the increase in the AUM of Hong Kong-managed or administered funds or the AUM of private banks, everything's growing,' said Xiao. 'So the interplay between Hong Kong and Singapore as twin cities, with competition, with partnership, with complementariness, has not changed substantially.'

Xiao added that the wealthy look at Hong Kong as the New York of Asia – capital markets-driven, dynamic and with solid equity trading levels – and Singapore as the Zurich of Asia – tranquil and steady.

'The thing is Hong Kong-generated wealth can be booked in Singapore in a Singapore bank account, and managed by a Hong Kong asset manager. Inversely, a Singapore private bank's assets can be invested into the Hong Kong equity market, or even into a Hong Kong limited partnership fund through Hywin, which invests it into a Chinese unicorn that eventually lists in Shanghai,' said Xiao. 'China is where the entrepreneur activity is, Hong Kong where the capital market activity happens and Singapore is where clients like to book money, with Hong Kong being an equally attractive option.'

It's not always about tax though. Geopolitics plays a big role in the decision-making process, as does the trajectory of the family business.

In March, reports emerged that the Chearavanont family, one of the wealthiest Thai families behind food, property and pharmaceutical conglomerate Charoen Pokphand Group, was considering setting up a family office in Hong Kong. The family has long been a big investor in the Mainland China market.

'Families have to consider the future of their business,' said Chia. 'If they have an operating business, instead of just thinking about where their assets are going to be diversified, it is probably more important to be thinking about where their core business should be positioned for growth when setting up a family office. That will be more helpful for longer-term growth beyond the current generation.'

This means that families with a strong view on China's potential and growth prospects would opt to set up their family offices in Hong Kong for its solid regulatory framework and its positioning as a gateway to China.

'From a jurisdiction point of view for family offices, China is not a level playing field compared to Hong Kong or Singapore because the regulation is not quite mapped out yet for family offices,' added Chia. 'If you see a good chunk of your future growth coming from China, it makes absolute sense to set up the family office in Hong Kong.'

The term 'multi-family office' is often used interchangeably with 'external asset manager', 'independent wealth manager' or 'independent asset manager'. But Chia said there are some nuanced differences between the two.

EAMs were born from the traditional Swiss private

50%

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Nick Xiao, chief executive officer, Hywin International

'A lot of Chinese ultra-high-net-worth or billionaires usually like to focus on sectors and regions that they know best.'

Ulysses Lau, head of investments and engagement for Asia, JP Morgan

banking model of wanting to be an independent manager, as the name suggests. Chia said the early EAMs were borne out of the response of private bankers operating within a private bank but feeling like they weren't always acting in the best interests of the client, given they were subject to targets and key performance indicators from their employer.

By being outside the bank, they are in a 'better position' to act independently to manage the wealth of the client, said Chia. In Asia, the EAM business model is quite prevalent, with many banks also setting up separate EAM desks over the past few years in response to the growing demand from the UHNW for independent financial advice.

'Many external asset managers consider themselves multi-family offices in spirit,' said Chia. 'There's a way to argue in favour of that because they are serving HNW and UHNW that are ultimately families anyway. But usually, the motivation for a client to appoint a multi-family office for asset management is a sense of general dissatisfaction towards either the level or performance of services they are receiving from their private banks.'

She added: 'The global financial crises triggered a lot of pain for clients, which is when they started to think seriously about what the banks are doing for them and realising that sometimes the practices are less than perfect.'

Whether a rich family turns to a private bank or an MFO depends entirely on the focus and goal of the client. But, in general, bankers say the Chinese wealthy tend to put their money with a number of asset managers and private banks as a way of diversifying their wealth.

High stakes

China's uber-wealthy and their advisers are undoubtedly facing a formidable array of challenges. Navigating China's intricate regulatory maze, taming the ever-shifting tides of global market volatility and finding growth opportunities when they don't exist will all be critical in the years ahead.

The regulatory uncertainty is particularly important. In the past couple of years, investors have been overwhelmed when China's regulators cracked down on some of the nation's hottest industries like technology and online education, triggering big stock market losses and the wealth of individuals.

China's common prosperity drive – to bolster social equality and economic equity – is also forcing entrepreneurs to keep their wealth and ambitions in check.

Hefeng Family Office's Yang said one major concern is the lack of clear regulations still for China's family office industry. While a crop of family offices has sprung up in recent years, some that claim to be a family office are not operating as a traditional family office, thereby damaging the industry's image.

There are conversations to regulate the sector, said market watchers, but there is fear that the regulator may introduce an iron-fist policy that could be detrimental to the industry's growth and progress.

Another worry is geopolitics. 'In the short term, we are optimistic because we have good trends,' said Yang. 'But when our clients discuss five years or 10 years ahead with us, we have a lot of concern, mainly due to geopolitics, because the current world model is near the end of the globalisation cycle and a lot of conflicts can't be solved economically or politically. So, for families, if they want to preserve the wealth for generations, the key is to prepare now.'

This means plenty of opportunities still for private banks and other external advisers. Estimates show that the total amount of China's wealth stands at roughly $19tn-$20tn, of which $3.4tn sits offshore.

Given stiff competition within wealth management, DBS is putting more emphasis on being 'client-centric' over 'transactional', said Wu. 'We've spent a lot of resources on upskilling our relationship managers to transform them into trusted advisers,' she added. 'They need to be portfolio-focused and make investment recommendations, but they also need to carry out a strategic dialogue about clients' personal and business or corporate needs.'

This propensity among advisers to dig deeper into clients' ambitions and goals has unearthed another focus area for the wealthy, and one of growing importance: philanthropy and environmental, social and governance concerns.

Both Hong Kong and Singapore have unveiled potential tax exemptions for charitable activities undertaken by family offices. China's wealthy can set up a charitable trust structure to undertake their philanthropic work or use the China Donor Advised Fund Charity model, established in 2018.

Focus on this has gathered steam. By the end of 2022, China had 1,184 charitable trusts with a collective net worth of over Rmb5.2bn ($768m), according to a report from the China Charity Alliance and China Trustee Association. Some 392 new charitable trusts were set up just last year.

Peng, from the Roger King Center for Asian Family Business and Family Office, said both the old and new wealthy care about philanthropy and want to see how they can contribute to society. 'Besides the financial roles for a family office, the wealthy are also thinking about the softer roles the family offices can play, like around philanthropy.'

Needless to say, the Chinese wealth management industry is entering a new era characterised by an evolving ecosystem, diversified investment options and changing investor priorities. As the rich navigate this dynamic landscape, they have greater opportunities to grow their wealth while aligning their investments with their values. China's wealth industry is poised to thrive and contribute to the nation's economic growth and development. •

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The methods in writing 'Yong', composed by 8 different strokes, demonstrate the highest artistry level of Chinese calligraphy masterpieces in simplest way

CMB Wing Lung Private Banking Service leverages the comprehensive financial advantages, providing whole solutions to achieve long-lasting family prosperity, face life challenges and complete wealth inheritance for our distinguished clients.

For detail information about CMB Wing Lung Private Banking Service

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CMB Wing Lung Bank Limited

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Chinese wisdom, global vision

CMB Wing Lung Bank's private banking business has gone from strength to strength in recent years, demonstrating the innovation it brings to the table.

WITH 90 years of history, CMB Wing Lung Bank Limited is a venerable financial institution in Hong Kong. Founded in 1933, the bank became a wholly owned subsidiary of China Merchants Bank in 2009 – a trailblazer in Mainland China's wealth management landscape.

CMB's wealth management credentials are reflected in its impressive roster of over 140,000 private banking clients, with assets under management for private banking clients reaching approximately Rmb4tn ($548.8bn) as of 30 June 2023.

Since setting up its offshore CMB Wing Lung Private Banking Centre in August 2014, the private banking segment has witnessed rapid growth. It has fast become one of the leading wealth management platforms for high- and ultra-high-net-worth individuals in Mainland China and Hong Kong. By 30 June 2023, the AUM of CMB Wing Lung private banking and private wealth management clients hit HK$300bn ($38.3bn) – an 11% surge from the end of 2022.

A suite of services is offered to clients, encompassing retail, private banking, wealth management and corporate finance. This comprehensive package, combined with the deep understanding of the Chinese market, allows the bank to provide one-stop customised solutions that maximise value for clients.

Leveraging globalised vision and local insights

CMB Wing Lung Bank follows the best practices and experiences of its parent company with the knowledge of the culture and traditions in Hong Kong to better understand clients' complex needs.

This expertise allows the team to offer clients the right solutions in accordance with their life cycle, be it for their investment needs and portfolio management or family succession planning and wealth transfer.

As the needs of Asia's HNW families have evolved with the changing times, so has CMB Wing Lung Private Bank Service's business model. CMB Wing Lung Private Banking Service's team is now growing between its parent company, CMB, as well as different business sectors, subsidiaries and overseas business units within the bank.

Thanks to this model, CMB Wing Lung Private Banking Service's team has an edge over its peers. In being able to identify customers' complex needs immediately, the team can then deploy a holistic approach to cater to their demands.

Equally critical, CMB Wing Lung Private Banking Service is conscious of the changing wealth management landscape. The way that people – including the HNW – deal with banks has changed dramatically over the years. These dealings have shifted even further since the advent of financial technology and digi-banking.

Catering to global asset allocation needs

CMB Wing Lung Bank has optimised its mobile banking services to build it into a leading fintech platform – a feat that has helped it cater better to HNW clients.

It has done so by adding numerous standout features within mobile banking, some of which are specifically tailored for cross-border, HNW clients. Its 24/7 integrated platform also allows clients to manage their portfolio easily, having it to hand at any time.

Beyond fintech, CMB Wing Lung Bank continues to optimise its protection and wealth succession solutions to support HNW clients.

In early 2023, the Hong Kong government released new incentives for family offices to bolster the financial market, as well as the asset and wealth management industry. These measures and offerings are likely to increase the pool of wealth capital coming into Hong Kong.

CMB Wing Lung Private Banking Service is well-positioned to capture the opportunity. Its customer-centric approach, deep ties with parent company, CMB, and all-in-one asset planning solutions for HNW cross-border clients hold plenty of appeal for families looking for a trusted long-term adviser to manage their wealth and assets.

The bank is also keenly aware that wealthy families in Asia are no longer just looking for the fulfilment of investment needs. As clients get ready to move wealth from first-generation entrepreneurs and business owners to the next generation, there is growing demand for expert advice on everything from succession and estate planning to family office set-up and legacy planning.

CMB Wing Lung Bank is planning to recruit talent from diverse backgrounds to further bolster its wealth management and private banking capabilities.

This kind of commitment to its wealthy clients and their needs holds CMB Wing Lung Private Banking Service apart, ensuring that it is in pole position in shaping the future of wealth management in the region.

For more information on CMB Wing Lung Private Banking Service, please contact CMB Wing Lung Private Banking Service's Designated Hotline (852) 268 95555 or visit their website: ***www.cmbwinglungbank.com/privatebanking***.

All products or services mentioned are intended for customers located in Hong Kong. Products and services are subject to relevant terms and conditions. •

Note: China Merchants Bank refers to China Merchants Bank in Mainland China.

Unravelling the shifting wealth investment landscape

China's ultra-wealthy are confronting a shift in the investment climate. After realising that their old ways of putting money to work need an overhaul, the time has come to consider how they want to grow and preserve wealth for the next generation.

IN a rapidly evolving global economy, where uncertainty seems to be the only constant, the investment behaviour of China's wealthy has proved captivating.

As financial markets experience heightened volatility, with China's growth coming under pressure after nearly three years of tight Covid-19 restrictions, the high-net-worth base – like many other investors – are being pushed to think bigger and broader.

Traditionally, Chinese investors have had a strong preference for real estate and domestic equity markets, which were seen as relatively safe havens for wealth preservation. However, the past decade has witnessed a remarkable shift in investment behaviour among China's wealthy. As global financial markets become increasingly interconnected and complex to navigate, China's affluent class are recognising the need to diversify their portfolios and explore new avenues for wealth creation.

Perhaps equally important is the realisation that this class lacks the tools and knowledge to make all investment decisions alone. Understandably, private banks and other external wealth managers have risen in importance as trusted advisers to China's ultra-wealthy population.

'Clients are increasingly reliant on us to be their risk manager first and foremost,' said Roger Bacon, head of investment advisory – Asia North & Australia and Asia South, Citi Private Bank. 'It's been a difficult journey on the equities side for Mainland investors, both domestically, regionally and globally, as they have been heavily invested in equities over many years. That has proven to be a good decision sometimes and sometimes not. The approach over the last 12 months has really been to help them with the asset allocation shift to de-risk their portfolios.'

China's stock gauges have long taken on their own form, often disparate from the performance of other major indices.

The Hang Seng China Enterprises Index, which tracks the performance of Mainland securities traded in Hong Kong, has lost about 45% in the past five years, and about 10% in the past 12 months alone, as of mid-June. Stocks in markets like Japan, India and South Korea have beaten their Chinese peers more often than not since 2020 when the Covid-19 crisis first began, due to concerns around the nation's shrinking population, regulatory uncertainty and waning growth.

There are three reasons behind this shift. First is an increase in allocation to fixed-income assets over equity. Second, HNW clients are taking a much more cautious view on leverage than before. Third, these clients are seeking out ways to hedge their foreign exchange exposures given the backdrop of a relatively volatile renminbi against the dollar. This emerges as the HNW recognise that they have financing needs in multiple currencies. They are also shifting money to alternative investments, private equity, private credit and hedge funds.

'It's been all about helping the wealthy with risk management and asset allocation to help them ➤

understand that the China equity exposure needs to be rigorously assessed on a regular basis,' said Bacon. 'It's not just the aggregate level of equity exposure, but also what you have within it. This has become increasingly important to clients over the last two years as the regulators have clamped down on certain sectors. Many of our clients historically have had very large allocations to the headline names that have shown fantastic performance over many years, so this risk management exercise has been to mitigate that in the face of the macro headwinds we have seen from a regulatory standpoint.'

Taming the dragon

China's unprecedented surge in wealth creation over the past decade has been impressive. After all, the number of HNW and UHNW individuals in China has grown exponentially, ushering in a new wave of sophisticated investors with diverse financial aspirations.

According to Knight Frank, Mainland China had roughly 5.6m HNW individuals in 2017 (those with more than $1m in wealth), rising to 9.5m in 2021 and to 10.4m last year. This is expected to double to over 20.8m HNW individuals by 2027.

As for UHNW individuals, or those with more than $30m in wealth, Knight Frank counted 46,849 people in 2017. This soared to 93,500 by 2021, before falling to 88,024 people last year amid market turbulence and a regulatory attack on key sectors. However, the numbers are estimated to grow to 131,855 by 2027, reflecting a 49.8% jump.

A similar story unfolds in the Hong Kong special administrative region. HNW individual numbers grew by 64% between 2017 and 2021 to 757,086, according to Knight Frank, before falling 3.5% to some 730,675 people last year. It is expected to grow to over 1.1m by 2027, while the number of UHNW individuals is set to rise 28% by 2027 to over 7,200 people.

But their rise has also led China's regulators to proceed with caution. In an attempt to balance growth and control, regulators are adopting a more assertive and unwavering approach to curb risks within sectors.

One of the sectors to feel the weight of China's regulatory crackdown most is technology. Once hailed as the epitome of innovation and disruption, financial technology giants faced the ire of regulators as their rise in popularity triggered concerns over everything from monopolistic practices to data security and consumer protection.

China's UHNW have been forced to face a formidable truth. Their time-honoured investment strategies and advisers have become relics in an ever-changing financial and regulatory landscape.

The regulator's clampdown on its best and brightest tech companies came swiftly in late 2020. It started with the shock cancellation of Ant Group's – the payments platform of Alibaba Group – jumbo simultaneous listing in Hong Kong and Shanghai's Star Market in November that year. With a planned size of $34bn, this would have been the largest listing in history globally.

This was followed by a hard-hitting probe into ride-hailing major DiDi in June 2021, just days after it completed its US initial public offering. These moves sent shockwaves through the industry, forcing DiDi to de-list from the New York Stock Exchange in less than a year and prompting a re-evaluation of its business models and market dominance.

Another sector that came under fire was online education, which had become popular during Covid-19 lockdowns and in for-profit education centres. After-school tutoring firms were put in the limelight, as was foreign investment into the industry, triggering large stock market losses and intensifying investor anxieties on further unexpected shocks.

The pressure on the real estate sector has also showed little sign of subsiding since the first major default on debt happened in late 2021 by China's Evergrande Group. Since then, numerous other developers who have missed payments on their onshore and international bonds have attempted to restructure their debt and have been all but closed off from tapping public markets to raise funds to meet their debt obligations. Before, property companies were among the biggest issuers of hugely popular high-yielding dollar bonds in Asia.

These moves hit many of the wealthy hard. The Hurun Research Institute's China Rich List for 2022 showed that a drop in Chinese internet company ByteDance's valuation pushed TikTok founder Zhang Yiming's wealth down by a whopping 28% to $35bn. The crisis in the real estate sector saw Country Garden Holdings' Yang Huiyan's wealth tumble by the largest amount on the list ($15.7bn), while Tencent Holdings' Ma Huateng's wealth dropped by $14.6bn – the second largest fall – due to a slump in the share price of his technology empire. Businessman and entrepreneur Jack Ma's wealth fell by 29% as Alibaba Group Holdings' share price took a hammering and Ant Group underwent a large-scale reorganisation that hit its valuation.

Such upheavals meant China's HNW and UHNW individuals and families – and their advisers – have had to reassess their risk appetite, tweak their investment strategies and be constantly agile.

'Our overall investment approach is defensive over cyclical and growth over value,' said Citi's Bacon. 'This means we have been managing down some of the quite aggressive allocations to the tech and education sectors by clients and started positioning ourselves for China's reopening at the end of last year by tilting portfolios to sectors that would do well in the reopening scenario.'

Private bankers said they are also keeping an eye on the beaten-down sectors and assessing whether there is an opportunity to get back in at much lower levels if the risk premium is worthy of reinvestment.

Ulysses Lau, head of investments and engagement for Asia at JP Morgan Private Bank, said the mindset change among the ultra-wealthy has been propelled by their growing sophistication as well as the volatility of the last couple of years.

He cited a private banking client, who, in the past, has said that his way of managing his wealth was focused on concentration of risk as opposed to diversification. But by the end of 2022, the conversation shifted towards diversification of assets. 'You don't want to have all your eggs in one basket on the business side and the wealth side. That's why the wealthy are opening up to looking for different opportunities to build a global diversified book,' said Lau.

Their change in approach is being reflected in other ways too, such as in how they run their family offices and businesses. In the past, the wealthy were focused on passing their businesses on to the next generation and were less open-minded about hiring external professionals to run their business or manage their wealth.

'Over the past two or three years, we've seen a huge change of mindset,' said Lau. 'A lot of second-generation members are not that interested in taking over the business, so the owners are looking for guidance on migrating to professions for the long-term stability of the business and for wealth management to ensure the next generations continue to have a good quality of life.'

The same applies to wealth managers. Lau said the UHNW are increasingly interested in building a family office and appointing professionals to manage the office and their wealth for the long run.

Looking afar

The hunt for yield has helped with this kind of transition. Market participants said that, over the past two years, Chinese investors could get more attractive returns through investments in their home market – including in bonds – but those yields have become less attractive as the US Federal Reserve embarked on a rate hike spree to combat inflation.

As a result, the wealthy are turning their focus to global investment-grade bonds, global stocks and other structured products that offer a better risk-reward balance.

'With our partnership with the majority of the largest asset managers around the world, we can offer a lot of different views on other investments for our clients,' said Lau. 'And usually, wealthy Chinese clients enjoy meeting with our connections around the world, so they can discover strategic partners and build a network outside of China as well.'

In general, China's UHNW have been forced to face a formidable truth. Their time-honoured investment strategies and advisers have become relics in an ever-changing financial and regulatory landscape. This has been a wake-up call for both wealth managers and their wealthy clients.

'The events of the last two years were a big shock as some of the basic assumptions of the wealthy changed and challenged their investment experience,' said Yang Liu, partner and deputy investment director at Hefeng Family Office, which services wealthy families with their investment and other needs from its offices in Beijing, Guangzhou and Hong Kong.

'They realised that their usual investment method will not last long and won't work in a complex environment, so many started to search for new methods and new service providers to help them manage their wealth,' added Yang.

Here, there is both onshore and offshore wealth as well as assets to manage. China has long focused its policy on restricting the outflow of capital and currency from the country, meaning companies and businessmen have had to reinvest their money into the domestic economy rather than internationally.

One advantage that the wealthy have is that, in many cases, the second-generation family members have already left the Mainland, for instance, to study abroad. They have also already obtained an international passport as a result, effectively making them a foreigner for the purpose of China's policies.

These second-generation members can set up an offshore company and make investments into the onshore family business. This structure is viewed as an onshore-offshore joint venture. The JV can then pay taxes on profits in Mainland China and can also pay dividends to the offshore shareholder – a family member. This structuring and payment approach is often used to skirt restrictions on capital movement, given that dividend payments to foreign shareholders are permitted by law.

The other way to move money offshore is simply through listing the business on international exchanges like Hong Kong or the US. This is also a tool that has long been deployed by Chinese businesses.

For the money still sitting in China, Yang said that high-yielding trust products had been a popular asset class for investments, typically sold to the wealthy by private banks. But Yang said that, in the past few years, China's wealthy diaspora has been parking more money into hedge funds run by star fund managers. Private equity funds, which may have even invested in the early days of a technology company, are also being favoured by technology entrepreneurs keen to bet on the country's next hot startup.

'In general,' said Yang, 'The Chinese wealthy ➤

'The events of the last two years were a big shock as some of the basic assumptions of the wealthy changed and challenged their investment experience. So many started to search for new methods and new service providers to help them manage their wealth.'

Yang Liu, partner and deputy investment director, Hefeng Family Office focus on manager selection. They choose a famous manager and they focus on the private equity's past record. They also rely on relationships. They may not care about an underlying company, for example, but they may buy the trust product from a bank because they trust the bank that sells it.'

Panhe Family Office's founder Andrew Yan saw a different response from the wealthy families his firm advises. He said the wealthy's first focus during the volatility of the past year was to ensure sustainable cash flows.

This meant Yan advised them to park one-third to half of the wealth to build a stable cash flow and put the rest towards their investment needs and interests. 'In my view, only cash flow can be passed within a family, decade to decade and generation to generation,' said Yan. 'Not investments that can provide a high rate of return this year or next year.'

Different strokes

In China's wealth market, a dichotomy is emerging in the way the HNW and the UHNW view their businesses, their investments and their approach to wealth management.

Hywin Group in Mainland China is a wealth manager focused on serving HNW clients onshore. Its global arm, Hywin International in Hong Kong, serves UHNW offshore across Asia. Hywin International's chief executive Nick Xiao said the UHNW group typically comprises entrepreneurs who are 'acutely conscious of government policies', macroeconomic issues and geopolitics and are 'very familiar with cross-border capital flow' and how money can be deployed across jurisdictions.

'For entrepreneurs who are at the monetisation phase of their growth journey, they know what the capital market wants and, because they want to get their company listed on offshore exchanges, they know how to position the company's valuation story,' said Xiao. 'They have a 360-degree view of the world and are seasoned and sophisticated.'

This means their relationship with wealth managers tends to be more of a partnership, whereby the experts propose ideas for their portfolios and get the client's feedback. The wealthy deploy the strategy depending on what they want and the wealth manager then offers further commentary on markets through independent research.

There may also be situations where families reward a wealth manager with funds to invest as a gesture of thanks for other services they may have provided.

On the other hand, the HNW clients give their wealth managers money to invest because they believe they can 'present the right solution in the right way and deliver year on year,' said Xiao. 'Dealing with HNW versus UHNW is simpler but also more challenging because the relative smaller size of the wealth wallet and their lower sophistication require their wealth managers and advisers to take extra care on suitability and handholding during volatility,' he added.

Citi's Bacon added that HNW investors from China tend to be more defensive and income-focused in their approach, given they may not always have a big nest egg to fall back on. This means they are reasonably cautious around structured and esoteric products that wealth managers may offer.

The UHNW client base, however, may be more flexible in their approach to use their balance sheet. They will usually bank with four or five banks to harness the best ideas from them all and have a slightly bigger risk appetite than the HNW, said Bacon.

But in both cases, portfolios would need to be tailored based on each client's view on risk and their willingness to take on losses in case the market goes south.

Yang of Hefeng Family Office added that the risks are certainly not over, even if the interest rate cycle and the US Federal Reserve's rate hike spree may be ending soon. Fears of geopolitical and recessionary risks are still rampant, so to offer alternatives to clients, Hefeng Family Office has started delving into providing fund-of-funds solutions.

A fund of funds is a pooled investment fund that invests in other types of funds, typically mutual funds or hedge funds. The idea is to diversify risk by investing across a pool of assets that are wrapped within a portfolio, rather than singling out specific stocks or individual funds that may be riskier. This appeals to the UHNW, given hedge funds more broadly have posted positive returns amid the crises of the last few years.

The pressure has certainly been on private banks and external asset managers in the past two or more years of market volatility, catalysed by the Covid-19 health crisis, a rising US interest rate environment, lacklustre growth across the world and a complete shift in market functionality.

Angel Chia, chair of the Family Office Association of Hong Kong and former chief strategy officer at multi-family office Fountainhead Partners, said the response among the wealthy she deals with was one of 'shellshock' over the past six to 12 months. 'It wasn't about wealth preservation,' she said. 'It was more about 'I don't want to think about it, I am extremely scared of the volatility and uncertainty so I'm just not going to do anything.'

Globally, the healthcare sector has seen a boom in investments by venture funds and private equity players in the past few years. China has witnessed a similar rise in public and private spending. Healthcare spending in the country has risen threefold in a

'Even though it's longer term, the risk-adjusted return rewards can be quite attractive. In private equity, there are products that offer a quarterly dividend payout or some that could generate yearly or semi-yearly dividends. Clients are more receptive to these products.'

Carol Wu, head of private banking, North China, DBS Bank decade to $931bn in 2019, a report from King & Wood Mallesons published in August 2022 found.

The wealthy, too, are propelling the sector forward. Chia said healthcare investments by the UHNW are not borne out of a need for a longer-term alpha generation. 'Rather, it's because people realised over the past two years that healthcare and the pharmaceutical sectors and their responses are so important. There's probably a thesis that this kind of a black swan global healthcare event is going to be more frequent so, strategically, I'm going to put some money into that space.'

Broadly, the older established families and their respective family offices focus on impact and philanthropy as a means of giving back to society. The next-generation wealthy, on the other hand, act more so out of passion as it represents values that they think are important.

Another outcome of the market choppiness has been the pivot to private investments. This spans illiquid asset groups like private credit, private equity, hedge funds and real estate. These pockets of investment have raised a lot of interest from the wealthy in the past 12 to 18 months.

There are different forces for each. Citi's Bacon said that investments into hedge funds are propelled largely by strong performance from traders, irrespective of what the underlying strategy may be of the hedge fund. On private equity and private credit, it's more about selectively identifying opportunities for achieving returns 'that won't be available in liquid public markets,' added Bacon. This means focusing on disruptive innovation, digitalisation and environmental, social and governance investment to some extent, as well as semi-stressed, stressed or distressed opportunities in the credit markets.

'For private investments, clients in China are reliant on banks to help them identify the source of opportunity, particularly opportunities outside their country where they don't have the same connectivity and familiarity,' said Bacon.

DBS Bank's Carol Wu, head of private banking for North China, admits that the wealthy are not always receptive to their fund managers' advice. There is often some pushback when advised on investments where the client would need to wait five to seven years to earn their returns.

'But they are getting more receptive recently,' she said. 'They are starting to realise that, even though it's longer term, the risk-adjusted return rewards can be quite attractive. Even in the private equity space, there are some products that offer a quarterly dividend payout, which clients are quite happy with, or some that could generate yearly or semi-yearly dividends. Clients are more receptive to these products.'

JP Morgan's Lau added that infrastructure and real estate are among the top picks for clients. This is true especially during times when inflation is higher, as well as private investment opportunities they can source through the bank's network and partnerships with asset managers around the world.

'There's still very much a home bias within the Asian investment community, particularly UHNW and HNW.'

Roger Bacon, head of investment advisory – Asia North & Australia and Asia South, Citi Private Bank

But market participants also point out that China's wealthy population is equally savvy in using its own contacts to identify an investment opportunity when it may arise. However, despite all this talk about diversification, there is something still to be said for the wealthy putting money into things they like and are familiar with – which are usually local.

'There's still very much a home bias within the Asian investment community, particularly UHNW and HNW,' observed Bacon. 'They will always be predisposed towards increasing their exposure to assets that are closer to home, particularly if there's less certainty around the trajectory for the dollar and for US risk assets.'

Hands-on

A residual effect from Covid-19 has been just how involved China's rich families and individuals are becoming with their investment portfolios. Bacon said the level of engagement from Chinese clients during the pandemic had gone 'through the roof and has stayed constant' even after Covid-19 lockdowns.

A key reason for their increased involvement was simply the lack of anything else to do. With major cities in China shut down, factories and businesses closed and travel rendered impossible, networking opportunities were minimal.

'It was an opportunity for our clients to become much more engaged with their investment portfolios in a way that they weren't prior to Covid-19,' said Bacon. 'You want your clients to be interested in what you're trying to do, pushing back and challenging you on your recommendations. The biggest surprise for me is that Covid-19 has really accelerated that process.'

He added that Greater China clients are active and 'hungry for information'. 'They're calling us up every day asking us what's going on,' he said. 'They are not necessarily trading on the back of that but are very engaged in what's going on and looking for opportunities to put money to work.'

As China evolves as a global economic powerhouse, the investment behaviour of its HNW and UHNW individuals and families will undoubtedly shape the trajectory of its financial landscape, having far-reaching implications for the global economy.

Through all the upheavals, one thing is clear. The future potential of China's growing wealthy population is huge. Only by understanding the wealthy's preferences, motivations and ambitions can private banks, family offices and wealth managers better navigate the market and capitalise on the opportunities these changes present.•

Shaping the future: next-generation connectivity

Family offices in China are entering a new phase of development, but for long-term success, bridging the gap between different generations will be critical, said experts and entrepreneurs at an OMFIF event in Hong Kong.

CHINA'S private wealth has grown at an extraordinary pace over the past 50 years. What stands is a wealth management industry with assets under management of around $17.3tn by the end of 2022. Such a rise in wealth has naturally benefitted domestic and global private banks, but the heterogenous needs of China's ultra-high-net-worth families and entrepreneurs have also fuelled growth in its family office industry.

The family office landscape in Greater China is still nascent, with many controlled by first-generation entrepreneurs and business owners. The wealth industry, however, is on the cusp of change.

Some $3tn of the wealth in China is estimated to pass on to the next generation within 10 years, some $8tn within 20 years and $15tn within 30 years, according to the 2022 Chinese Family Office Industry Trends Report published by Union Bancaire Privée and the Hurun Research Institute.

'There are certain universal concerns that many family offices around the world share,' said Henry Lee, managing general partner at Hong Kong-based investment firm Hendale Capital, speaking at a panel during OMFIF's Global finance forum in the special administrative region. 'Among them are succession and having the right governance structure. But the Chinese family office question is rather different from the discussion of family offices around the world – especially in Europe where there's a longer history and tradition of family office structures and governance – as it's a relatively new phenomenon in China,' Lee said.

This means preparing for that first stage of transition of family businesses, wealth and assets from the first to the second generation is essential.

Building trust

Jiang Chen, chairman of Chinese automotive parts company VIE Group, is a second-generation family member in the business. Speaking at the same OMFIF panel, Chen said that one of the biggest challenges facing privately owned companies in the eastern Chinese province of Zhejiang, where VIE is headquartered, is planning for succession from the first to the second generation.

Chen, who is also a director of Zhejiang VIE Science & Technology and Zhejiang VIE Zhiqu Technology, cited examples of some large companies whose owners had unexpectedly been taken ill or passed away in recent years, urging the next generation to take up the mantle. Such instances and firsthand experience have made Chen understand that early planning will be beneficial for family businesses and family offices.

In the case of VIE Group, Chen returned to Mainland China over 10 years ago and it took him the better part of the last decade to ensure a smooth business transition. He said he has learned two things in the process. First, if the second-generation family members have ideas that go beyond the knowledge levels and experience of the first generation, the founders become incredibly wary. Second, that the older generation prefers investing in tangible and fixed assets over intangible opportunities. As a result, building trust between the older and younger generation becomes all the more important.

Jason Wong, president of the Zhongguancun Private Equity & Venture Capital Association, said that advice from external experts or professional associations and bodies can go a long way, as can learning from the successful transition stories at many Asian and global family offices and businesses.

Entrepreneurial spirit

For Clarence Chun Kit Ling, a third-generation director in Hong Kong-based, family-controlled property developer and investment conglomerate Kwai Hung Group, being entrepreneurial and pushing the older generation out of their comfort zones can be the secret to building trust between family members.

After graduating from university in the US and returning to Hong Kong, Ling turned to helping Chinese state-owned companies invest overseas. In 2013, he helped Dalian Wanda Group acquire the UK yacht-maker Sunseeker in a £320m deal.

'I made my first bucket of gold on my own and started investing in startups,' said Ling in the panel. 'Back then, investment

'The Chinese family office question is rather different from the discussion of family offices around the world – especially in Europe where there's a longer history and tradition of family office structures and governance – as it's a relatively new phenomenon in China.'

Henry Lee, managing general partner, Hendale Capital

in startups, to my family, was something extraordinary and definitely didn't fit my family's risk profile. So I started doing things on my own, trying to make them understand.'

This included investing in a Series A funding round in Lalamove, a technology company providing delivery services. Subsequently, Ling was making other investments in companies across the US, Europe and Mainland China, eventually launching his own startup, e-commerce group Ztore, which he sold to TVB and Shaw Brothers in August 2021.

'The investment in Lalamove made a close to 200 times return, which was unheard of in my family,' explained Ling. 'I was always doing something that was different from what my family would do. But gradually, they started to understand and I got them to start making private equity and venture capital investments in different geographical locations.'

His views were echoed by Edoardo Tomassini Rothschild, the 12th generation of the pre-eminent European banking and wine family, who works along with his grandfather on the Rothschild Foundation as well as the family office. He said on the panel that his family has long emphasised following one's passion.

'You're only going to truly engage and truly throw yourself into something that you believe in and enjoy,' he said. 'Wealth preservation is just as important as wealth creation. But in order to truly create wealth, you have to go down your own path; that's something that I've experienced.' That entrepreneurial spirit can pay off and help bring multiple generations on to the same page with the family office's priorities and investment behaviour.

Hendale's Lee said family offices in Asia, including China, are increasingly 'becoming direct investors in their own right'. Family offices are taking on the role of general partners or sponsors of deals and are interested in sourcing deals directly and syndicating them, he said.

Ling says his family office started doing private equity investments some 10 years ago. It has been a gradual process in getting members comfortable with investments outside of real estate, given this sector has long been the bread and butter of the Kwai Hung Group. Now, the family office has a private credit fund and has co-general partner funds with several city governments in Mainland China to invest in different companies.

As China's family offices embark on a new phase of development, the realisation is clear. The preservation of wealth and prosperity hinges on a seamless connection between generations. Inter-generational harmony of this kind can transform challenges into opportunities and help the families' legacies thrive for generations to come. •

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