



Indian Family Office Benchmarking Study 2023

Knowledge Partner

Spark Capital 
Private Wealth Management



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NETWORK

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*We are delighted to present our inaugural
Indian Family Office Benchmarking Study Report 2023!*

This academic exercise is a comprehensive exploration into the dynamics that define the landscape of family offices. As we delve into the intricate details of this study, we embark on a journey of understanding, reflection, and shared insights that will undoubtedly shape the future of family offices.

In an era where the intricacies of family office operations are becoming increasingly sophisticated, the importance of benchmarking cannot be overstated. It serves as a compass, guiding family offices toward excellence by providing a yardstick against which to measure performance, identify areas of strength, and pinpoint opportunities for improvement.

This benchmarking study is not just a collection of data; it is a testament to the collaborative spirit of the family office community. The insights encapsulated within these pages are the result of the collective wisdom, experiences, and contributions of family office professionals, industry experts, and thought leaders who generously shared their time and expertise.

As we navigate the complexities of wealth management, the findings of this benchmarking study offer a panoramic view of industry trends, emerging best practices, and benchmarks that can inform strategic decision-making. From investment strategies and risk management to governance structures and philanthropic endeavors, each facet has been meticulously examined to provide a holistic understanding of the family office landscape.

We extend our heartfelt gratitude to all those who participated in and supported this benchmarking initiative. Your willingness to share insights, challenges, and successes has been the driving force behind the creation of a valuable resource that will benefit family offices, professionals, and stakeholders alike.

We would also like to thank Spark PWM for supporting this initiative.

May this benchmarking study serve as a catalyst for innovation, collaboration, and continuous improvement within the family office community. As we collectively raise the bar of excellence, we envision a future where family offices not only preserve wealth but also pave the way for enduring legacies and positive impact.

Thank you for your commitment to excellence, and we hope you find this benchmarking study both insightful and inspiring.



Aditya Gadge

Founder
Equalifi | Priwexus

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BUILDING WEALTH WITH WISDOM

serving and assisting clients with their wealth requirements backed by deep understanding validated by research, knowledge driven insights and decades of experience.

COMPREHENSIVE WEALTH PROPOSITION

- Research
- Investment & Asset Allocation Advisory
- Product Ideation & Diligence
- Alpha Ideas & Deals
- Pro Equities Brokerage
- Multi-family Office Services

We, at Spark Private Wealth Management are thrilled to be a Knowledge Partner for Priwexus's inaugural Indian Family Office Benchmarking Study 2023.

Supporting a first-of-its-kind knowledge initiative like this is a way for us to contribute to the development of this community. We strongly believe family office research initiatives can offer a range of benefits to individuals, families, professionals, and the broader family office community. Here are our reasons for supporting such initiatives:

Knowledge Enrichment:

Family office research initiatives contribute to enrich the collective understanding of best practices, challenges, and emerging trends in the field.

Enhanced Decision-Making:

Access to well-researched and up-to-date information contributes to the creation of valuable insights that can guide family offices in navigating complex financial landscapes and achieving their goals.

Industry Advancement:

Such research initiatives help elevate standards, improve practices, and foster innovation. This benefits not only individual family offices but also the industry as a whole.

Community Building:

Research initiatives often bring together professionals, academicians, and practitioners to create a robust network where stakeholders can collaborate, share experiences, and benefit mutually.

Philanthropic Impact:

Supporting such initiatives can lead to a better understanding of effective philanthropic practices, promoting positive social change and community development.

Professional Development:

Family office professionals, including wealth managers, advisors, and executives, benefit from research-driven insights that enhance their skills and knowledge.

Policy Advocacy:

Research can inform policy discussions and advocacy efforts related to family office regulation and governance.

Legacy Building:

Family office research can be a way for families to contribute to the long-term success and sustainability of the family office model.

As you navigate through the rich tapestry of data and analyses presented in this study, envision it not merely as a compilation of metrics but as a roadmap for the journey ahead. From investment strategies to governance structures, risk management practices to philanthropic initiatives, each benchmark is a beacon lighting the way toward operational excellence and the achievement of family goals.

We extend our sincere gratitude to all those who have played a role in bringing this benchmarking study to fruition. Your openness, enthusiasm, and dedication to the family office community have made this collaborative endeavor possible.

We are confident this study will serve as a valuable resource, sparking conversations, fostering innovation, and empowering family offices to thrive in an ever-changing financial landscape.

Arpita Vinay, MD & Co-CEO Spark PWM

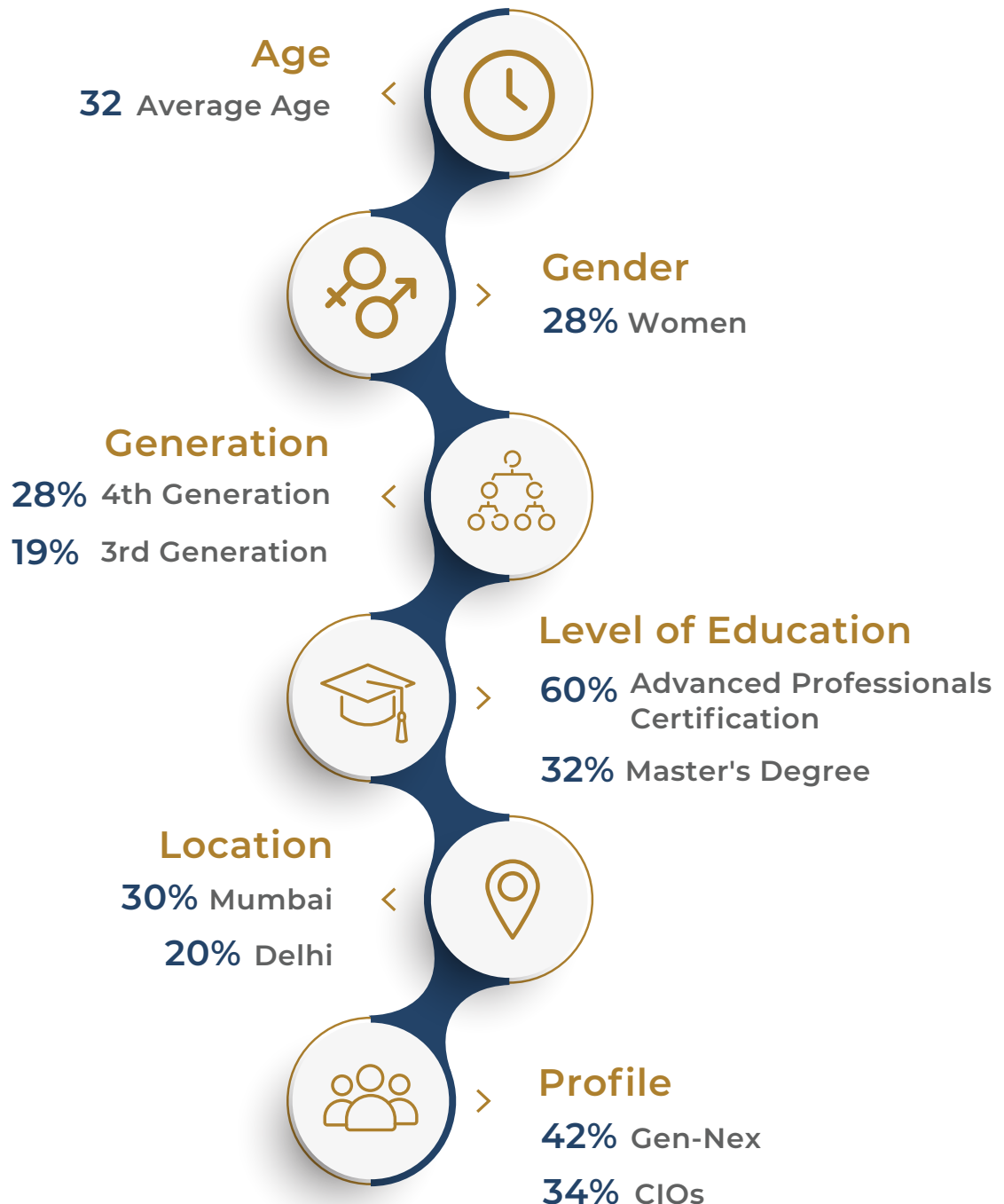


A modern office interior with large glass windows and a desk. The scene is dimly lit, with light coming from the windows, creating a professional and sophisticated atmosphere. The desk has a computer monitor and an office chair. The background shows a reflection of the office space on the glass.

Indian Family Office Benchmarking Study

Respondents

Respondents of Priwexus's Indian Family Office Benchmarking Study 2023 include Family Office Principals, Family Office CEOs/CIOs and UHNW Business Family Promoters. We received a maximum number of responses from the next generation members of principal families.



Methodology

The 2023 Indian Family Office Benchmarking Study is designed to gather critical insights and data from prominent Indian Single Family Offices, Family Office Leaders and Professionals with an objective to enable:



The report will provide a mix of validation of what's working well in the family office space and inspiration to move forward on issues that are posing challenges currently.

Priwexus and Spark PWM Teams designed a structured approach to collecting, analysing, and interpreting data to gain insights into the practices, performance, and trends among the Indian Family Offices.

We are grateful to the 58 ultra-high networth families that made time and efforts to complete the survey. Their generous contribution of time to this research initiative was critical to our success and towards our objective to better serve the family office community. In addition to those who partook in an online survey, a further 20 qualitative interviews were conducted with Family Office Principals, Chief Executive Officers and Chief Investment Officers. The results from both the online survey and the qualitative interviews are represented in this benchmark report.

Questions are categorized in to:

- M** Respondents were asked to pick multiple options.
- S** Respondents were asked to pick only one option.

Key Findings

Lifestyle



63%

Respondents find an acute shortage of quality concierge services

Location



82%

Are positively considering a presence in GIFT City

Technology



65%

Respondents are not happy with currently available family office tech solutions

Risk Management



69%

Respondents want to focus more on data security and other risk management protocols

Investments



73%

Are bullish on ESG opportunities

Strategy



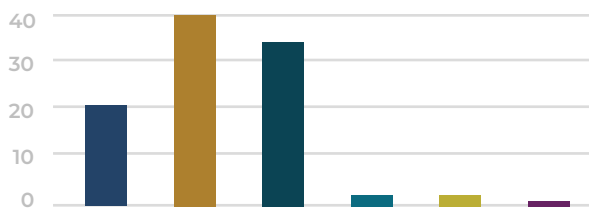
65%

Respondents are planning to change the operating model of their family office

Family Office Structure

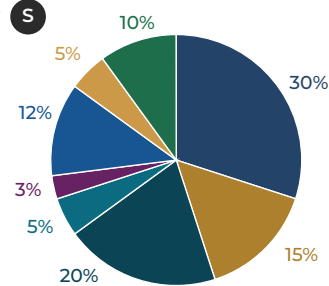
In the intricate architecture of wealth, the family office stands as the masterfully designed structure, where financial wisdom lays the foundation, governance forms the pillars, and legacy constructs the timeless walls. It is within this structure that the family's dreams are nurtured, its values fortified, and the promise of prosperity echoes across generations. Family offices and their activities are often poorly understood and mostly under utilized. This is partly because there is no single template for what a family office is and there is enormous variation in what they each do.

What Best Describes The Structure Of Your Family Office? S



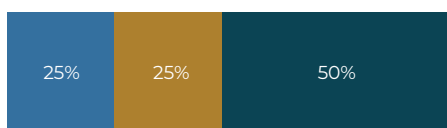
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Single Family Office	20%
2.	Client of a Multi-Family Office	40%
3.	Family Investment Office	35%
4.	Family Philanthropy Office	2%
5.	Family Office embedded in the Operating Business	2%
6.	Others	01%

Where Is Your Family Office Primarily Located? S



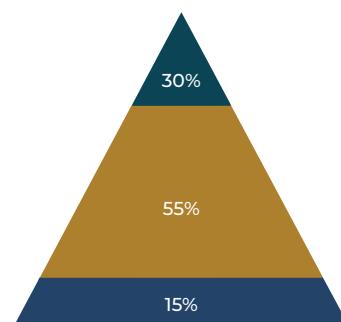
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Mumbai	30%
2.	Bangalore	15%
3.	Delhi	20%
4.	Hyderabad	5%
5.	Kolkata	3%
6.	Chennai	12%
7.	Ahmedabad	5%
8.	Others	10%

How Many Generations Are Being Served By Your Family Office? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	1 generation	25%
2.	2 generations	25%
3.	3 generations	50%

How Many Years Has Your Family Office Operated In Its Current Form? S

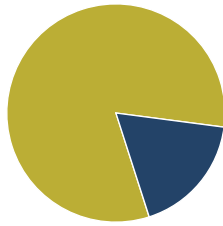


Sr. No.	ANSWER CHOICES	RESPONSES
1.	0-5 years	15%
2.	6-15 years	55%
3.	16 or more years	30%

Family Office Governance

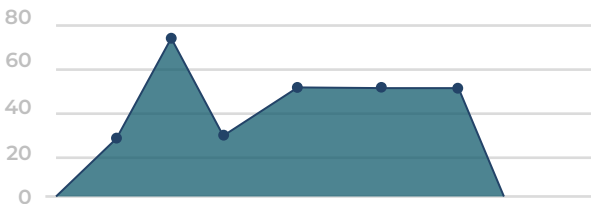
Family office governance model serves as the compass guiding the intricate journey of wealth management within a familial context. Beyond the conventional structures of corporate governance, it intertwines financial acumen with the delicate nuances of family dynamics. The governance framework is a living organism, adapting to the evolving needs and aspirations of the family over generations.

Are You Considering Gift City For Your Family Office? S



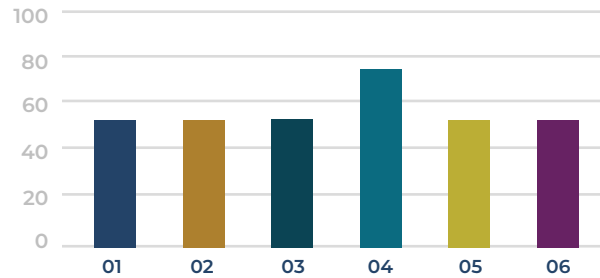
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Yes	82%
2.	No	18%

What Are Your Top Governance Priorities Over The Next 12 Months? M



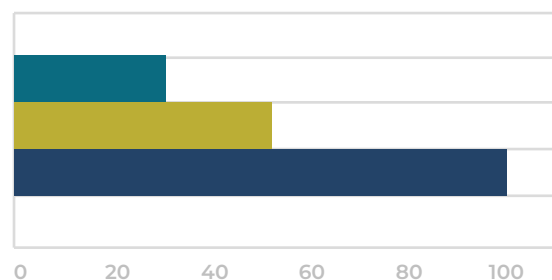
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Implement a Succession Plan	25%
2.	Educating Family Members on Family Office best practices	75%
3.	Implement a Risk Management Process for Family Office	25%
4.	Communication between Family Office & family members	50%
5.	Redesigning key responsibilities of key family office staff	50%
6.	Include non-family members in the activities of family office	50%

What Governance Structure Have You Put In Place To Manage Your Family Office? M



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Family Board of Directors	50%
2.	Non-family Advisory Board	50%
3.	Family Council	50%
4.	Family Constitution	75%
5.	Family Committees	50%
6.	Family Meetings	50%

Which Of The Following Activities Does Your Family Office Engage In? M

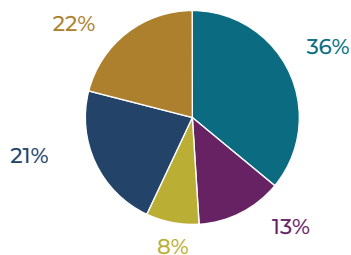


Sr. No.	ANSWER CHOICES	RESPONSES
1.	Philanthropy (with a foundation)	100%
2.	Impact investing	50%
3.	Philanthropy (within your Family office)	25%

Family Business Background

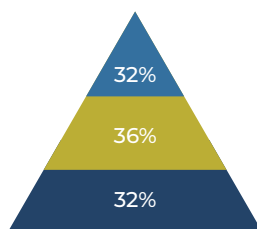
Family businesses in India form the bedrock of the nation's economic landscape, blending traditional values with entrepreneurial spirit. Spanning diverse sectors from manufacturing to technology, these businesses are often characterized by a strong sense of legacy and a commitment to familial bonds

What is the source of family wealth? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Manufacturing	36%
2.	Financial Services	13%
3.	Real Estate	8%
4.	Technology	22%
5.	Others	21%

What Share Of Your Family's Network Is Tied To Your Operating Business/es? S



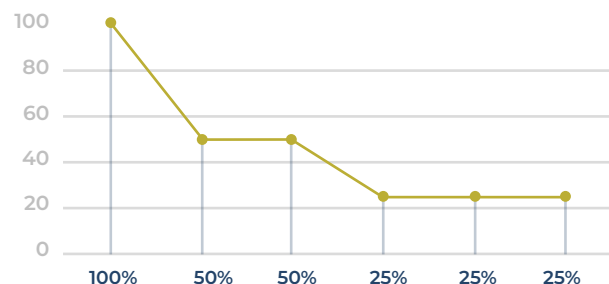
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Up to 25%	0%
2.	26%-50%	32%
3.	51-75%	36%
4.	76-100%	32%

Is The Original Business That Generated The Family Wealth Still Retained By Family Members? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Yes	50%
2.	Majority owned	25%
3.	Minority owned	25%

How Important Are The Following Objectives For Your Family Office? M

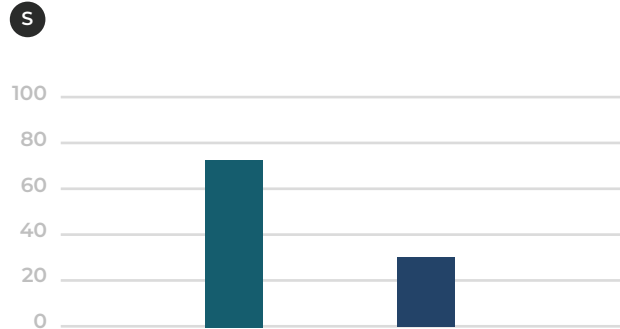


Sr. No.	ANSWER CHOICES	RESPONSES
1.	Inter-generation wealth management	100%
2.	Focused Investments	50%
3.	Consolidation of functions like accounting, tax and estate planning, etc.	50%
4.	Family Education	25%
5.	Philanthropy	25%
6.	Other	25%

Family Office Team

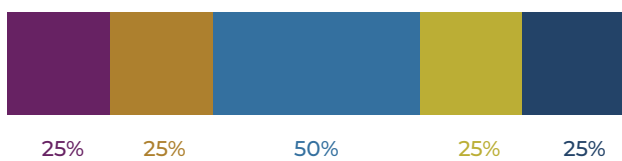
The family office team operates as the heart of this mammoth exercise, bringing together a diverse ensemble of professionals from fields such as investment management, tax planning, legal affairs, and philanthropy. Family Office teams are those who translates the family's aspirations into strategic actions.

What Is The Number Of Non-family Member Employees Working For Your Family Office? S



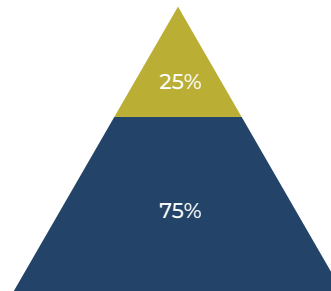
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Up to 10	75%
2.	11-25	25%

How Do You Determine The Salaries And Annual Increments For The Professionals Managing Your Family Office? M



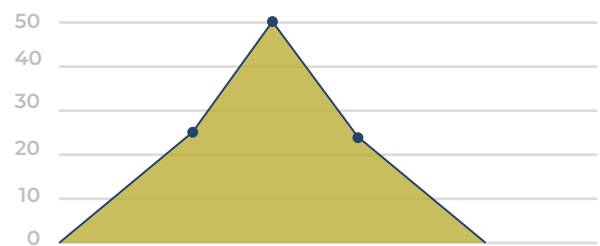
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Individual performance	25%
2.	Discretionary decision making	25%
3.	Market data sources	50%
4.	Internal factors	25%
5.	Do not wish to answer	25%

What Percentage Of Family Office Employees Are Also A Part Of Your Other Operating Businesses? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	None	25%
2.	1-10%	75%

On What Basis Do You Award Bonuses To Your Family Office Staff? S

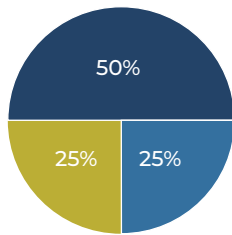


Sr. No.	ANSWER CHOICES	RESPONSES
1.	Discretionary basis	25%
2.	Discretionary basis + Formalized Plan	50%
3.	Do not wish to answer	25%

Family Office Team

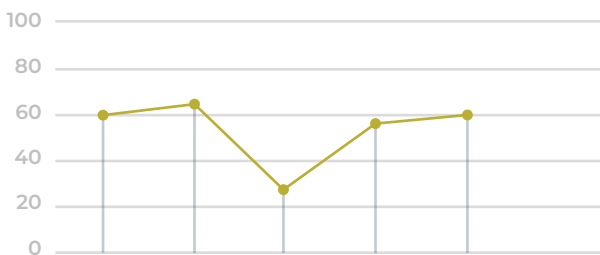
Beyond technical expertise, the family office teams often serve as custodians of the family's values and legacy, as they navigate the complex intersection of financial acumen and familial intricacies, ensuring that every decision resonates with the overarching goals and enduring vision of the family.

Do You Have Formal Employee Agreements In Place For Your Family Office Executives? S



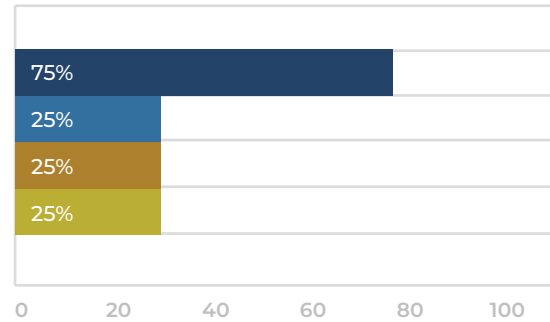
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Yes	50%
2.	No	25%
3.	Do not wish to answer	25%

In which category of family office service providers are you finding an acute shortage of quality options? M



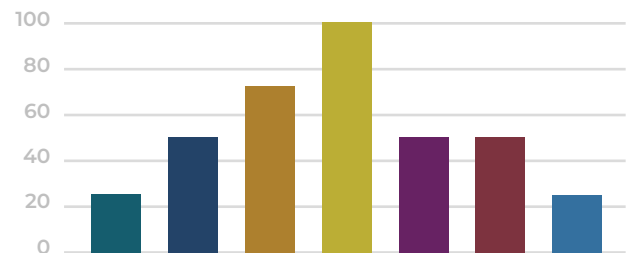
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Technology Providers	60%
2.	Concierge Services	63%
3.	Global Real Estate Investment Platforms	29%
4.	Family Office Consultants	58%
5.	Multi Family Offices	60%

What Kind Of Long-term Incentive Plans Do You Offer To Your Family Office Staff? M



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Carried interest	25%
2.	Phantom equity	25%
3.	Operating company equity	25%
4.	Do not wish to answer	75%

What Kind Of External Service Providers Do You Work With For Smooth Functioning Of Your Family Office? M

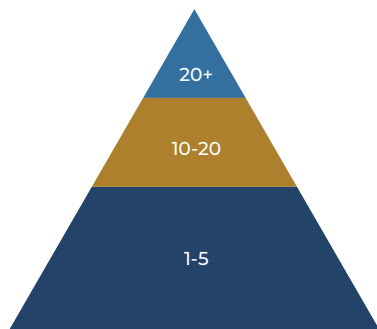


Sr. No.	ANSWER CHOICES	RESPONSES
1.	Technology Platforms	25%
2.	Trustees	50%
3.	Law Firms	75%
4.	Accounting Firms	100%
5.	Family Business Consultants	50%
6.	Investment Managers	50%
7.	Impact Investment Platforms	25%

Family Office Investments

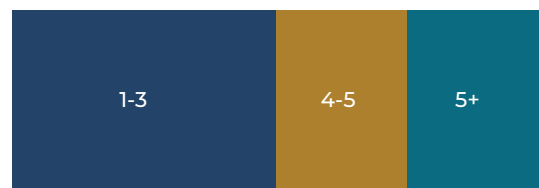
Family office investments encompass a broad spectrum of strategies and asset classes tailored to meet the financial goals and objectives of high-net-worth families. These offices, established to manage and preserve family wealth over generations, deploy diverse investment approaches. Traditional investments like equities and bonds may form a core part of portfolios, complemented by alternative investments such as private equity, real estate, hedge funds, and venture capital.

How Many Investment Ideas Do You Receive Each Month? S



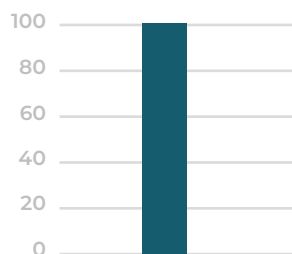
Sr. No.	ANSWER CHOICES	RESPONSES
1.	1-5	50%
2.	10-20	25%
3.	20+	25%

How Many New Opportunities Do You Invest In Over A Year? S



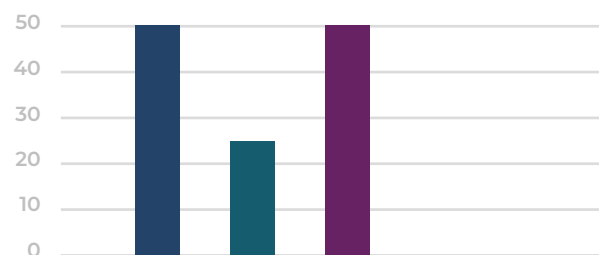
Sr. No.	ANSWER CHOICES	RESPONSES
1.	1-3	50%
2.	4-5	25%
3.	5+	25%

Does Your Family Office Benchmark Performance? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Yes	100%

How Does Your Family Office Benchmark Performance? M

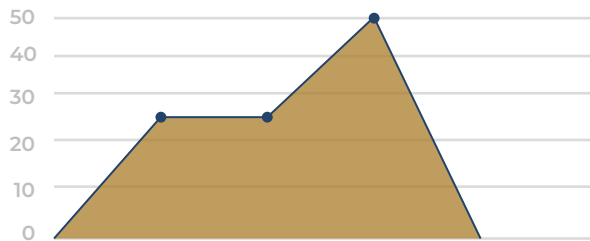


Sr. No.	ANSWER CHOICES	RESPONSES
1.	Construct a detailed benchmark on the basis of strategic asset allocation	50%
2.	Use an absolute benchmark	25%
3.	Use a relative benchmark	50%

Family Office Investments

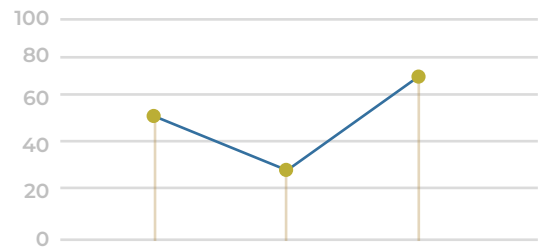
Family offices often seek to diversify across sectors and geographies, managing risk while pursuing opportunities for growth. Furthermore, impact investing has gained traction, reflecting a commitment to both financial returns and positive societal or environmental outcomes.

What Is The Aum Of Your Family Office? S



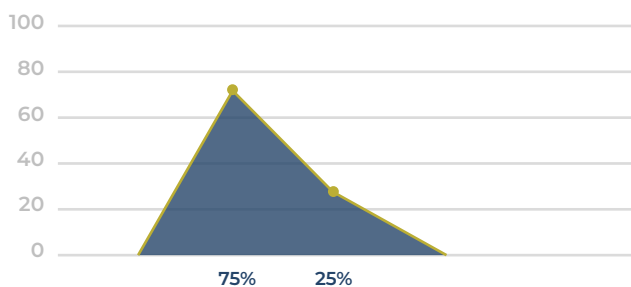
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Less than USD 25 Million	25%
2.	USD 100 Million – USD 1 Billion	25%
3.	More than USD 1 Billion	50%

How Are Investment Decisions Made? M



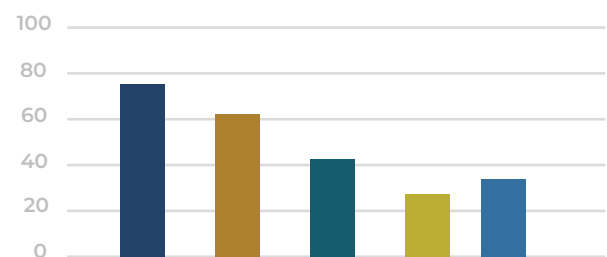
Sr. No.	ANSWER CHOICES	RESPONSES
1.	By a CIO who is not a family member	50%
2.	By the investment committee	25%
3.	By the Family Principal	75%

What Is The Range Of Investment You Make Into Any One Investment Opportunity Directly (In USD)? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Up to USD 1 Million	75%
2.	USD 1 Million – USD 2.5 Million	25%

Which Investment Themes Are You Bullish On? M

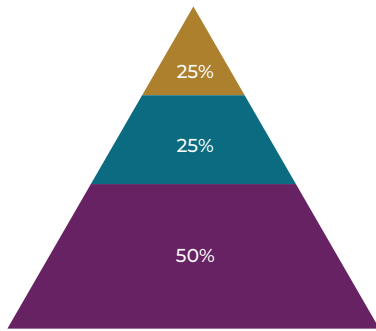


Sr. No.	ANSWER CHOICES	RESPONSES
1.	ESG	73%
2.	Credit	62%
3.	Listed Equity	42%
4.	Real Estate	32%
	Fintech	35%

Family Office Investments

The intricacies of family office investments lie not just in the selection of assets but in the alignment of strategies with the family's values, risk tolerance, and long-term vision, ensuring a resilient and purpose-driven approach to wealth management.

What Is The Net-worth Of The Principal Family? S



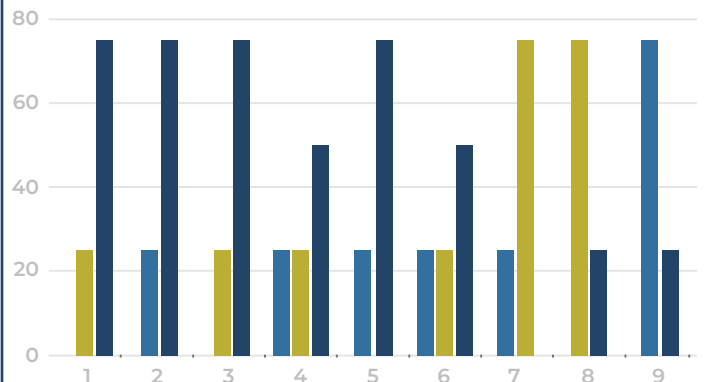
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Up to USD 50 Million	25%
2.	USD 200 Million- USD 1 Billion	25%
3.	USD 1 Billion +	50%

What Is Your Current Asset Allocation Split By Geography? S



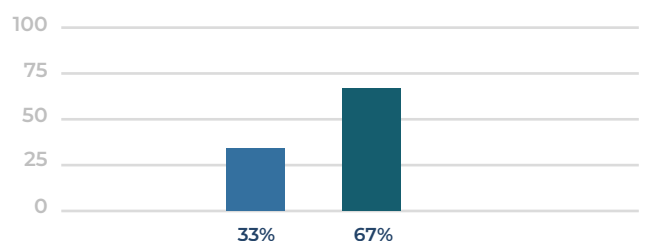
Sr. No.	ANSWER CHOICES	RESPONSES
1.	India	100%
2.	US / North American	25%
3.	UK/ Europe	25%
4.	Middle East	50%

How Important Are The Following In Driving Your Investment Decisions? M



	NOT VERY IMPORTANT	NEUTRAL	VERY IMPORTANT
Capital preservation	0%	25%	75%
Validity of Investments	25%	0%	75%
Portfolio concentration risk	0%	25%	75%
Tax optimization	25%	25%	50%
Succession planning	25%	0%	75%
Need for liquidity for taxes, in private equity investment	25%	25%	50%
Family expenditure	25%	75%	0%
Specific preferences of individual family members	0%	75%	25%
Leverage	75%	0%	25%

With Regards To Investing Directly , Which Of The Following Appeals To You Most? M



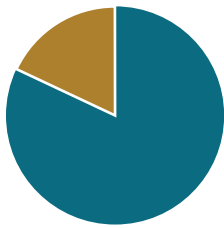
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Taking majority interests as the sole investor	33%
2.	Taking minority interests and being passive	67%



Gen-Nex

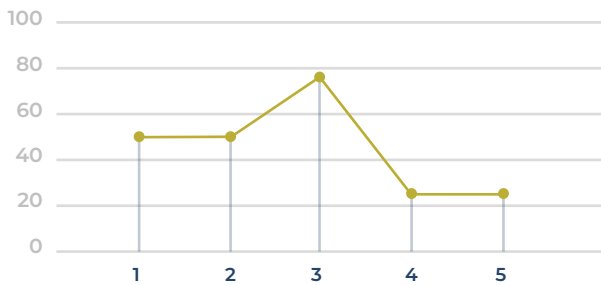
The importance of next-generation members in a family business cannot be overstated, as they represent the bridge between tradition and innovation, ensuring the continued vibrancy and sustainability of the enterprise. Infusing fresh perspectives, technological acumen, and a forward-thinking mindset, the next generation plays a pivotal role in steering the business through evolving markets and dynamics.

Are Your Gen-Nex Family Members Involved In The Family Office? S



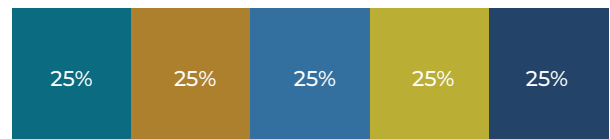
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Yes	82%
2.	No	18%

What Measures Are You Putting In Place To Ensure That The Gen-Nex Has A Sense Of Personal Achievement? M



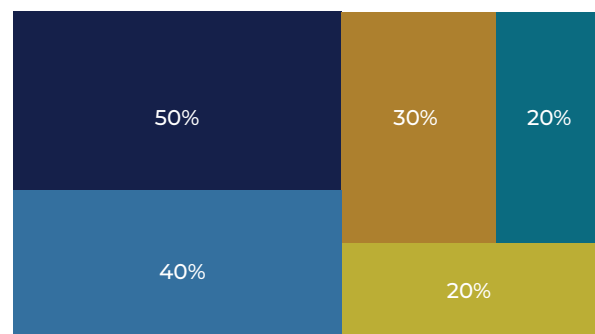
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Involve Nex-Gen in operating business	50%
2.	Encourage work experience outside the operating business	50%
3.	Encourage entrepreneurial spirit by providing access to capital	75%
4.	Encourage philanthropic endeavors	25%
5.	No structured approach	25%

With Respect To Gen-Nex, What Are The Areas Of Concern? M



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Lack of preparedness for the responsibility of inheriting wealth	25%
2.	Lack of fiscal responsibility	25%
3.	Conflicts over inheritance and succession	25%
4.	Involvement of Next-Generation members' spouses in the Family Office or operating businesses	25%
5.	None	25%

In What Ways Can Gex-Nex Engage With The Families? M

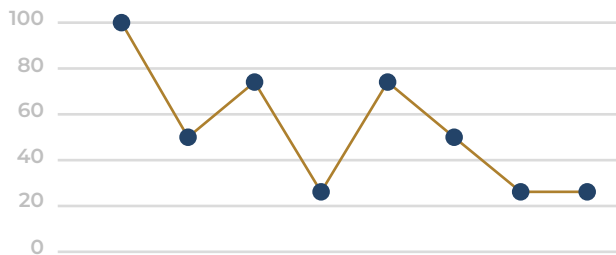


Sr. No.	ANSWER CHOICES	RESPONSES
1.	Attend family meetings	50%
2.	Serve on the family council	30%
3.	Serve on the foundation board	20%
4.	Attend board meetings as observers	40%
5.	Intern with the family office/ business	20%

Risks

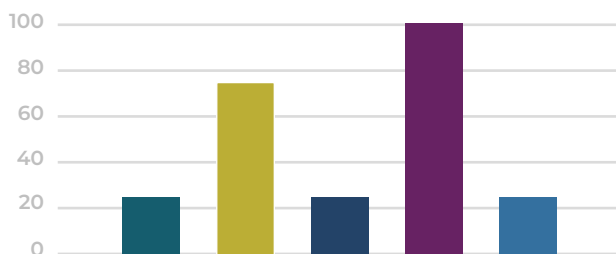
Family offices face a spectrum of risks like market volatility, governance, succession risks, economic downturns, regulatory changes, and geopolitical and cybersecurity risks that stem from the intersection of financial management, family dynamics, and external factors. Comprehensive risk assessment and mitigation plans are crucial for family offices to navigate these multifaceted challenges.

What Risks Are Of Most Concern To You? M



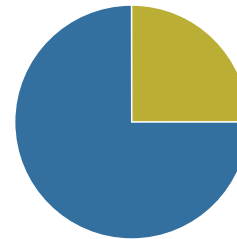
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Investment Risk	100%
2.	Political Risk	50%
3.	Family Reputation	75%
4.	Custody Risk	25%
5.	Succession Risk	75%
6.	Family Data	50%
7.	Cyber security Risk	25%
8.	Risk to tangible assets	25%

Which Aspect Of Socio – Political Risk Concerns You Most? M



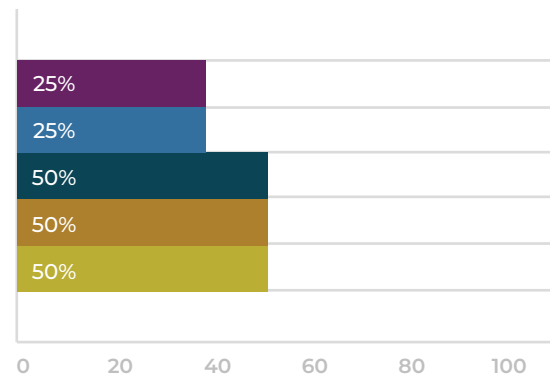
Sr. No.	ANSWER CHOICES	RESPONSES
1.	Personal security	25%
2.	Tax changes	75%
3.	Civil unrest	25%
4.	Over – regulation	100%
5.	Expropriation of assets	25%

What Is Your Risk Appetite For Financial Assets? S



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Aggressive- Focused on aggressively growing wealth	25%
2.	Moderate- Focused on modestly growing wealth	75%

How Are You Managing Your Cyber-security Risks? M



Sr. No.	ANSWER CHOICES	RESPONSES
1.	Technology platform provider monitors the cyber-security risk	50%
2.	Have hired an external cyber defense provider	50%
3.	Family Office members and employees undergo regular cyber-safety trainings	50%
4.	Have hired an in-house cyber defense team	25%
5.	None at this point	25%

About Spark PWM

Spark PWM Private Limited (formerly known as Spark Family Office and Investment Advisors (India) Private Limited), is a subsidiary of Spark Capital Advisors (India) Limited. The company extends the core DNA of Spark Capital - Knowledge, Integrity, Trust, and Transparency - to help Affluent Families, Business Owners / Promoters, Family Offices, New Age Entrepreneurs and CXOs in navigating a world full of opportunities.

With a vastly experienced team of seasoned private bankers and domain experts, Spark PWM offers solutions and services designed to help their clients create, preserve, and pass-on their wealth seamlessly across generations. Their true to label open-architecture platform enables the team to offer best of breed ideas through some of the most experienced Investment Managers in the industry. The team also leverages the Group's Equity Research DNA and Investment Banking expertise to curate bespoke ideas and provide solutions for investment banking related requirements like capital raising, private placements, mergers and acquisitions among others. The Multi-Family Office proposition offers comprehensive Portfolio Monitoring and Investment Management (across Wealth Managers/Advisors), Estate Planning, and Tax Structuring services to Ultra HNI families ensuring complete alignment of interest.

These offerings are backed by a robust Investments and Engagement Framework, customised and tailor made for each client, and supported by rigorous research and efficient execution with the aim of meeting client needs and objectives.

Spark PWM has a strong presence in key Indian cities of Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, and Pune, with provisions for servicing satellite locations.

Management Team



Y Rama Rao

*Senior Managing Director
& CEO
Spark Capital*



Arpita Vinay

*MD & Co-CEO
Spark PWM*



Ganashyam S

*MD & Co-CEO
Spark PWM*



**From the
Experts**

Quick Bytes

Aditya Gadge, Equalifi | Priwexus

Family businesses are the bedrock of the Indian economy and family offices are gradually becoming a first-choice structure for high-net-worth families. A large number of first-generation and multi-generation business families are increasingly cashing out significant portions of their businesses. Many of these families are setting up family offices to invest their wealth in diversified asset classes while at the same time managing other critical issues, such as taxation and succession planning. It is still early days for Indian single family office teams. Most have lean structures, with six to 10 team members managing primary functions such as asset allocation, compliance, book-keeping, legal issues and operations. As India is expected to continue its ascent on the global stage, this is the time for Indian business families to consider the family office structure.

Anil Sainani, BAF Consultants

Every family business already has in place some unwritten guidelines that bind them together. Over the last decade many have made a formalised governance mechanism in the name of family constitution. However, many of these families falter in the implementation of the constitution and dealing with day-to-day challenges in business and family .

Soumya Rajan, Waterfield Advisors

In 2024 we expect Indian Family Offices to increase their asset allocation to private markets, with the moderation in valuations giving them the right entry points; an increased focus on climate and sustainability themes in their investment portfolios; and diversifying their geographic India risk with allocations to international markets. With “higher for longer” interest rates, fixed income allocations will move towards seeking high yield opportunities in structured debt and performing credit.

Sougata Ray, Thomas Schmidheiny Centre for Family Enterprise, ISB

India stands at the precipice of transformative growth, where the enduring commitment of family businesses, with their patient capital, emerges as a cornerstone for sustainable wealth creation. The pivotal role of family offices in seeding innovation, scaling businesses, and investing in nationally significant projects underscores their vital contribution. The Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business shares common dreams with the business families and is dedicated to fostering knowledge creation, championing best and next practices, and partnering in their exciting transformative journey of growing family business, wealth, identity and legacy while further solidifying the nation-building role.

Rishabh Shroff, Cyril Amarchand Mangaldas

In India, there are various options for setting up family offices (eg, private company, limited liability partnership and trust). Generally, the trust structure is preferred due to the flexibility it offers. There are also different options available for appointing a trustee.



Aarti Gupta, Gupta Family Office & Anikarth Ventures

Family Offices are essential custodians of wealth, guiding your family through the complexities of generational wealth and managing diverse interests for sustained growth. They are a necessity today for most business families, serving as vehicles not just for wealth preservation but also for strategic growth.

Nitai Utkarsh, Hero MotoCorp

"A family office professional is the silent architect of generational success, shaping not only the dynamics of a business but the legacy it leaves behind. With wisdom as their blueprint and empathy as their mortar, they navigate the delicate balance between tradition and innovation, ensuring that both the family business and family office thrive not just for today, but as a resilient and enduring force across the chapters of time."

Sonu Bhasin, Families & Business

Family Offices are emerging as key investors in start ups in India. This is an extremely good development as the start up eco system had little options for funding. Family Offices need to ensure that they, swept away by the enthusiasm of start up success, do not take undue or high risks in the future as they are the custodians of the family wealth

Arpita Vinay, Spark PWM

External wealth managers serve as the compass guiding family offices through financial intricacies and complex domains. They offer not just expertise but a crucial external perspective. In this collaborative journey, they help pave the path to meeting the needs of the family and their goals. They help the family navigate with confidence through the changing tides of markets, risks, and opportunities.

Ashvini Chopra, Aventus

"In a family business, passing on family values to the next generation is the golden thread that weaves integrity into strategy, ethics into decision-making, and legacy into every transaction. As the baton transitions, it's not just about handing over the reins; it's a sacred transfer of principles, a commitment to a timeless legacy where success isn't just measured in profit, but in the enduring character of the family and its enterprise."

Prasad Kumar, Human Endeavour

"The Family Charter is a participative and systematic process of open discussions amongst family members and owners. It enables an integration of the three dimensions of family, business and ownership. The involvement of an experienced and skilled family business advisor facilitates discussion of difficult subjects. The outcome of these rigorous and persistent conversations will be a set of agreed principles and protocols for governance of a family business. This is often called a Family Charter

The Evolution of the Single Family Office

IQ-EQ & Barton Consulting

History of the single family office

The single family office has its origins in the sudden establishment of enormous new wealth from the early 19th century. Until this period, the greatest fortunes in history mainly belonged to aristocratic families in Europe that held and grew power and influence over a longer period, often multiple generations.

With the establishment of the United States of America at the end of the 18th century, a new social order was born, one without an aristocracy or gentry of its own. And with the advent of the Industrial Revolution, large fortunes – which had hitherto been associated with large land- holdings – could be made from manufacturing, transportation and trading goods.

The establishment of these new fortunes in the New World, many of which dwarfed the old aristocratic ones, led to a need for a new way of managing and investing great wealth. As the aristocracy's wealth had largely been connected with land and art, these had been provided for by specialists for centuries. Newly wealthy families, with little land to speak of and no sense of inherited continuance, had capital but had to make do with banks and broking houses, which usually lacked the expertise and focus required to make the most of such large fortunes.

It was with the establishment of the House of Morgan in 1838 by JP Morgan's grandfather, Joseph Morgan III, that the modern 'single family office' was born.

Focusing on managing the family's assets, they hired specialists whose daily focus would be both safeguarding and growing the family wealth.

Other wealthy families followed suit throughout the 19th century. John D Rockefeller opened what is considered to be the first full-service single-family office (incorporating the likes of philanthropy and generational planning as well as investment) in 1882. Other families with very large, newly created fortunes from the Gilded Age followed suit. Single family offices like this, with both professional and administrative capabilities and dedicated specialists, enabled them to circumvent the need to contract larger firms to handle their various affairs.

In the late 19th and early 20th centuries, single family offices were primarily focused on sustaining family assets and carrying out philanthropic work, such as the Ford Foundation, created in 1936. They have evolved to offer a variety of distinct services, such as milestone expenses for family members. This could be real estate purchases or an investment in

education, or it could be handling a family's succession through a family council, composed of both family members and other advisors.

Single family offices today

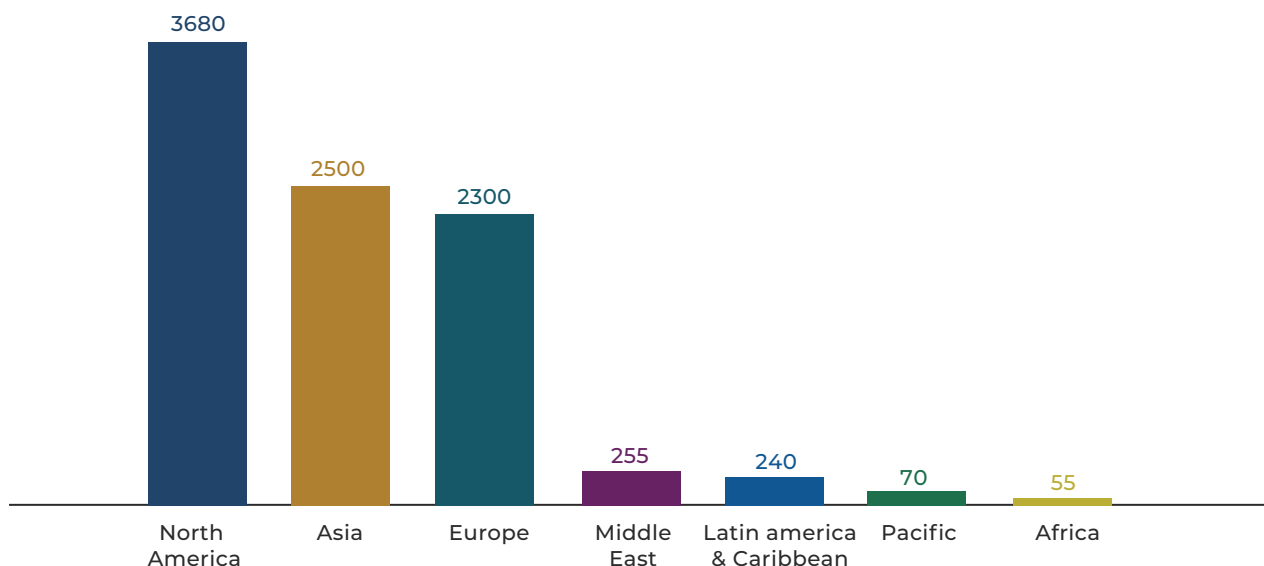
As the number of large fortunes across the world grew throughout the 20th century – both in number and sheer scale – so grew the number of single family offices. We estimate that by 2022, the total number of single family offices in the world had grown to 9,100.

Of these, around 40% are representing families in North America, which makes it the most significant global region for the creation of single family offices. The next largest region is Asia, the fastest growing wealth region in the world, with approximately 27% of the world's total, and most of which will have been created in the last two decades alone.

Europe, the oldest wealth region of the world, is third with 25% of the world's single family offices, leaving around 8% distributed amongst the remaining regions of the world: the Middle East, Latin America and the Caribbean, the Pacific, and Africa.

North America, the region in which the modern single family office originated, is also the region with the largest UHNW population overall, with 134,560 ultra-wealthy, equivalent to a 34% global share of the population, 6% under its global share of single family offices.

Asia has around 29.6% of the global UHNW population (116,080), slightly above its single family office share, and Europe has 100,370 as of 2022, around a quarter (25.6%) of the global UHNW population and the same proportion as its share of single family offices.



The future of single family offices

Given these trends, in the next few years, the global number of single family offices (SFOs) is estimated to exceed 10,000. A reflection of the growth of global ultra-wealth, but also of the enduring popularity of the modern single family office concept. For though it has evolved, the principle of the concept has remained constant over one and a half centuries: dedicated, long-term protection and enhancement of family capital.

Indeed, it is that focus on the long-term, and in particular effective succession in transferring family businesses and assets, that makes the single family office of peculiar attraction. This is reflected in the greater role that various family members of wealthy families have in the modern world. Whilst in the past, younger and less experienced members may have had less significant input compared to the patriarch or matriarch of the family, there are strong signs of them becoming involved at an earlier stage in family wealth matters. This reflects a greater interest in such matters from younger family members, particularly as many investment and philanthropic interests of the younger generations have diverged from that of the previous generation, such as ethical investment portfolios, which are often pursued more keenly by younger members. More than half of family offices now have allocations in sustainable investments. ESG integration continues to rise, with a growing focus on delivering on measurable targets and around four in ten single family offices expected their portfolios to be sustainable by 2025¹.

However, it is also a reflection of the fact that elder members of the family are now wanting younger members to get involved earlier in the governance process of family wealth, better preparing them for the transfer of wealth when it comes, avoiding bad practices and irresponsible disposition of capital, and providing education when it comes to investment and donations.

There is also a growing need amongst single family offices to invest in private markets either directly or through co-investment vehicles. A recent survey² of single family offices conducted by Credit Suisse found that, on average, each SFO was involved in seven private deals in the past two years and only 13% did not invest in private markets at all.

Single family offices are becoming increasingly sophisticated and adopting institution-like practices. 40% for the largest SFOs (over \$1 billion in assets) make decisions through a formal governance structure involving family members³. There is a convergence between single family offices and institutional asset owners such as pension funds and sovereign wealth funds.

Key numbers

Estimated number of
SFOs

9,100

4 in 10

SFOs expected their
portfolios to be sustainable
by 2025

40%

of large SFOs make
decisions through formal
governance





AMICORP TRUSTEES ESTATE AND SUCCESSION PLANNING SERVICES

Estate and succession planning; understand and determine how to handle your asset management and benefit during your lifetime or fence in the assets for the benefit of your spouse and children. Alternatively, plan how to distribute your assets after your death. Our dedicated teams specialize in onshore estate and succession planning services. We have local expertise to provide personalized structured solutions for multiple families i.e., joint and nuclear families, family businesses, and individuals in India.

SERVICES WE OFFER

Amicorp Trustees (India) Private Limited (ATIPL), is an integral part of Amicorp Group. We concentrate exclusively on estate & succession planning services offering tailor-made solutions for effective succession planning, fund structuring, company management services, family enterprise consulting, escrow, and custodial services.

Our comprehensive range of services are aimed at high-net-worth individuals, entrepreneurs, and family businesses and include but are not limited to:

SET UP

- ➔ We offer drafting, registration and safe custody of wills.

TRUST FORMATION

- ➔ Drafting of trust deeds and other ancillary documents;
- ➔ Registration of trust deeds; and
- ➔ Management of trust as trustee or managing trustee.

EXECUTORSHIP SERVICES

- ➔ Obtaining letter of administration and probate from the court;
- ➔ Identifying assets of the testator; and
- ➔ Distributing the assets to the beneficiaries.

TRUSTEES OR MANAGING TRUSTEES

- ➔ Smooth administration of the trust;
- ➔ Providing a clear structure that will support the objectives of the family well into the future;
- ➔ Seamless transmission of assets with minimum administrative hassle;
- ➔ Efficiently managing trust assets with professional guidance;

- ➔ Family welfare and distribution of trust assets as expressed in the trust deed;
- ➔ Secure the interests of beneficiaries;
- ➔ Assistance in filing of tax return on behalf of the trust;
- ➔ Providing a clear structure supporting the objectives of the family well into the future; and
- ➔ Meeting all compliance and regulatory requirements.

REASONS FOR CREATING A PRIVATE TRUST

CONTROL OVER THE ASSETS

A trust gives you control over how the beneficiary receives the assets. For example, if you leave a large sum of money to your child in a trust, the trust can set forth how and when the child will receive the money after you are gone.

The trust may provide protection from any estate duty laws if re-introduced in India.

ESTATE DUTY PROTECTION

ASSET PROTECTION

In some situations, it is possible to protect your assets by settling them under a trust. In this manner, the assets are safe from claims made by the creditors of the Settlor.

It works as a single platform and holds all the investments of the family.

CONSOLIDATED HOLDING

PHILANTHROPY

The Settlor may set up a philanthropy initiative and fund it via the trust.

ADVANTAGES OF HAVING A CORPORATE TRUSTEE

INDEPENDENCE	CORPORATE EXPERTISE	CONTINUITY AND LONGEVITY	EXECUTION
Unbiased loyalty and independence to carry out the wishes of the Settlor;	All services under one umbrella facilitator who provides a whole range of services from legal, compliance, investments, tax planning, and governance and management;	Unlike living persons, corporate trustee being a legal entity has longevity and continuity, thus eliminating or reducing the need for the frequent appointment of new trustees; and	Executing all the wishes of the Settlor and ensuring mandatory disbursements are made to the beneficiaries as per the terms of the trust documents.

We welcome you to contact us for more information, questions or proposal requests.
www.amicorp.com/offices/mumbai-trustees

AMICORP GROUP YOUR BUSINESS IS OUR BUSINESS

Amicorp Group is a fast-growing global company with dedicated teams of international experts and specialists. We offer customized solutions around cross-border structures, corporate assurance support, regulatory compliance support, specialized business support alternatives, and multi-facet family governance and wealth structuring. In addition, we offer fund administration, financial services and global family office solutions, all addressing the distinct needs of our clients. We collaborate with and support clients in over 100 countries around the world; we offer them proprietary research and solutions that they are looking for in today's ever-changing macro environment.

*International networking
and global experience by a team of 750+ knowledgeable experts*



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A Private Family Trust Is A Haven To Park Personal And Business Assets

Tariq Aboobaker, Amicorp

In the past few years, the need of succession planning has increased significantly. Families want clarity as to the management and distribution of the family wealth. One common goal of estate planning for families is to ensure maximum enjoyment of the property while the owners are alive, and then at death transfer it according to their wishes.

The reason for having clarity with respect to the family assets and business assets is the increasing disputes between the family members.

While managing property during one's lifetime, there are various risks which arise and needed to be addressed. During succession planning the primary concerns could be, care for the spouse and children. All these scenarios demand the formation of a Private Trust whose main objective is to manage the present property and make necessary distributions when primary bread-earner is not around.

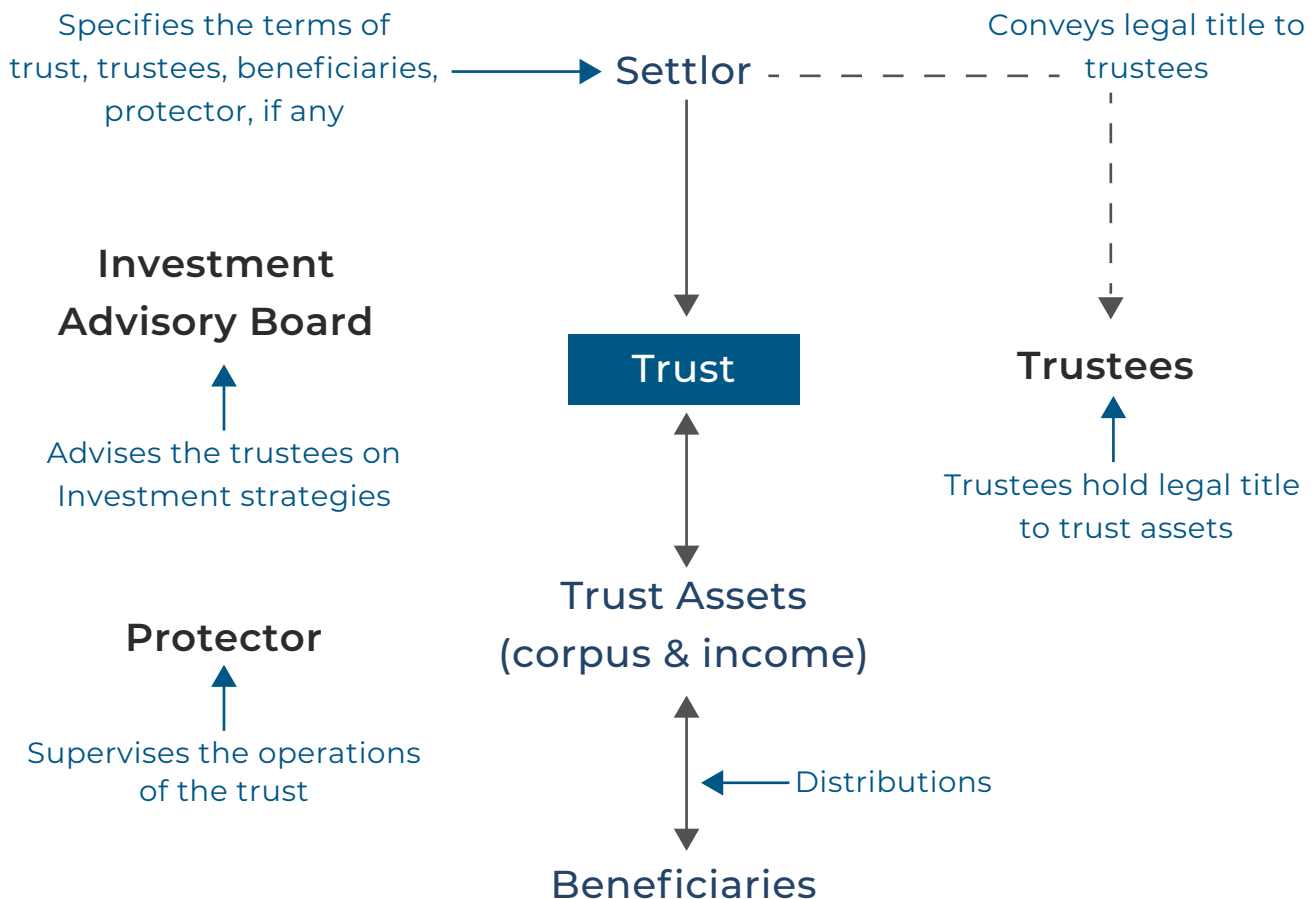
A Trust structure is now being expediently used as an instrument for succession. Trust structure also helps to safeguard the business as well as the personal assets and ensure distribution of the assets as per the desire of the settlor or the patriarch.

Creating a private trust is more beneficial than just writing a Will, but it all depends on the amount of assets one has and how you want to bequeath your property. A Will gets effective only after your demise while a trust can still be run even when you are around. To ensure your trust runs efficiently remember the following points while creating it:

- Lay down your long term objectives very clearly. It will help the trust to accommodate any changes later;
- Identify clearly who will be your beneficiaries to avoid any dissatisfaction later; and
- Identify the list of assets which you want to include during your lifetime and in future when you are not around.

As per the Indian Trusts Act, 1882, a "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.

Typical Trust Structure



Benefits Of Setting Up A Private Family And Business Trust

- It establishes a long-term succession plan mechanism, which will be effective during and post lifetime.
- Provides a single platform to address control & succession issues.
- The structure effectively provides for an option of preservation of family wealth from internal and external eventualities for next three generations.
- This mechanism will ensure end-use monitoring of wealth both during & after your lifetime.
- All distributions can be subject to specific objectives/ conditions/ with limits put on them.
- It will provide confidentiality and will provide riddance from the complex probate process, saves on monetary, emotional & time costs which otherwise come along with disputes & litigation.
- It helps in structured repatriation of assets to NRI beneficiaries subject to limits specified in Exchange Control Laws



- It will provide bankruptcy remoteness for protection of Indian assets.
- It helps in minimization of potential family disputes, since it is very difficult to contest a validly set up trust.
- The structure can also take care maintenance expenses of beneficiaries.
- Protection from any estate duty laws if re-introduced in India and any other jurisdiction.
- Helps in building a business governance and succession model.

Trust Structures For Continuity Of Family Business

“Succession means planning for the prolonged success of your family business – not just discovering a buyer or substituting one person”.

An incomplete succession arrangement endangers the continuity of a family business! Family or closely-held businesses will endure or die depending upon how effectively they plan for the future. Those who survive will have managed to re-create the energy and wonder that fueled the original entrepreneurial spirit.



Your concerns/ Some Key Aspects the Patriarch/Matriarch of the Family needs to consider:

- How do I prepare the family succession of my business?
- Is a gift the best option?
- Can I still receive a part of the periodical business income after the succession?
- Can I still control the company after the succession?
- How can I treat my children equally including those who are not actively involved in the company?
- How can I draft a family charter in order to avoid future conflicts?
- How can I create a strong circle of trust between the managers and the family shareholders?



- Is the family currently united in the vision for the future?
- What are the criteria for leadership and when should it change?
- What restrictions should be imposed on realization or withdrawal of business interests?
- Where family members are spread geographically, how should the family governance processes deal with this?

REMEMBER: Managerial Ability is more important than birthright!

Among high net worth families and family offices, the topic of governance often comes up. Governance – whether in a business or family setting – provides the framework in which roles, policies, processes, and controls needed to guide decisions can be established, monitored, and modified to attain organizational goals and objectives.

Creating or updating the family businesses governance structure is one of the key prerogatives of a family owner. And virtually all high net worth families in this country acquired their wealth through one or more business ventures.

A stable ownership, inclusive and action-oriented decisions, and clarity on the role of family members will help in maintaining the business for future generations. Sometimes, family business founders may not be comfortable with the idea that on their retirement, their children might not be able or willing to run the business that they founded. This is a critical issue, especially for a country like India, where 70% to 80% of businesses are run by families.

Define Your Vision and Develop the Plan

What is family governance, and why is it important? For the high net worth family, the need to focus on governance (or, perhaps, the implications if there isn't such a focus) tends to emerge as the family's holdings become more complex and diversified among a multitude of passive and active investment.

As a family's wealth diversifies, decisions must be made concerning that kinds of assets to invest in, for what purpose, and for whose benefits.

Sound business practices should include a robust system of governance that is dynamic, affords protections, fosters communication inputs and supports effective business operations.

As families become more diverse in geography, financial interests, and points of view – while growing in number with spouses, children, in-laws, and others – It's typically not feasible to make decisions around a dinner table. A governance structure can provide a forum to address issues, particularly those that people would prefer to avoid or have difficulty broaching.

Governance can also promote accountability among family members, helping them to become more responsive to other's needs and questions. A family member who plays a lead role in a planning the family's investments and welfare may be less inclined to act unilaterally when a governance structure is in place that requires a formal decision of investment strategy.

Having a governance structure in place can be especially critical when hard times set in, in such times, tough questions can arise. Were adequate controls in place? How were these investments picked? What was the level of family involvement? What were the structures through which decisions were made? Without a governance structure, even a basic one, answering these and other questions to the satisfaction of family members can be difficult. Further, a governance structure can provide a much –needed forum for airing and resolving disputes, in addition to helping prevent family members from having to resort to the courts.

Stakeholders in family governance

Proper attention to governance can benefit family members and other stakeholders in the family's well-being and success. Good governance helps create an environment in which stakeholders feel their interests are being met and they have a voice in matters related to their roles. Stakeholders can include:

The people running the family's businesses - financial professionals who oversee securities, real estate, private equity, and other investments on behalf of the family. Their compensation can be tied to investment performance.

The family office - The management team that oversees family operations and makes sure various investments fit cohesively in the family portfolio. Their success can be difficult to quantify.

Active family members - Family members directly involved in the family business as directors and managers. Along with having a financial interest, they invest their time and energy in family matters.

Passive family members- Family members (and their relatives) not actively involved in the family business but highly interested in the family's financial condition and performance.

Fiduciaries – People called upon by the family to serve as trustees, board members, or otherwise who assume a fiduciary interest in the family's welfare.

As family businesses get transferred from one generation to other, several family members need to jointly govern what was previously in the hands of the family owner. A stable ownership foundation, inclusive and action-oriented decision making processes and, lastly, clarity on the role of family members will all help in sustaining the business for generations to come.

Stakeholders in family governance

With large family owned business houses in India, a trust structure may help in safeguarding the assets from the creditors in a bankruptcy situation (if any).

Also, in a globalized environment, Indian family business houses are also exploring options for favorable jurisdictional offshore trust. Offshore trust, in Indian context would mean a trust formed outside India.

Under the Indian exchange control regulations, while an Indian resident can remit funds abroad to set up an offshore trust, there are some restrictions wherein an offshore trust cannot hold assets situated in India (eg. An offshore trust cannot hold an immovable property situated in India) i.e. while settling the offshore trust, the resident may not be able to transfer any immovable property in India to the offshore trust. Accordingly, it is pertinent to note that India exchange control regulations needs to be adhered with in relation to transfer of assets to the offshore trust(s).

Further, there are certain Income-tax considerations which needs to be considered in respect to income earned by beneficiaries (being resident as well as non-resident) from the trust (being an onshore or an offshore one). Particularly, there are several open questions with regard to the taxation on the offshore trusts viz. determining the residential status of the offshore trust (if managed from India), point of taxation in case of accrual and distribution, whether the same would be treated as an association, etc.

Practically, major family businesses also create a master family trust wherein the business assets (shareholding) are transferred and managed. This helps in regularizing the holding of the assets via a structured manner. The beneficiaries of the said master family trust are the family members who earn income from the trust at regular point in time.

Indian Family Offices Look For Greener Pastures Overseas

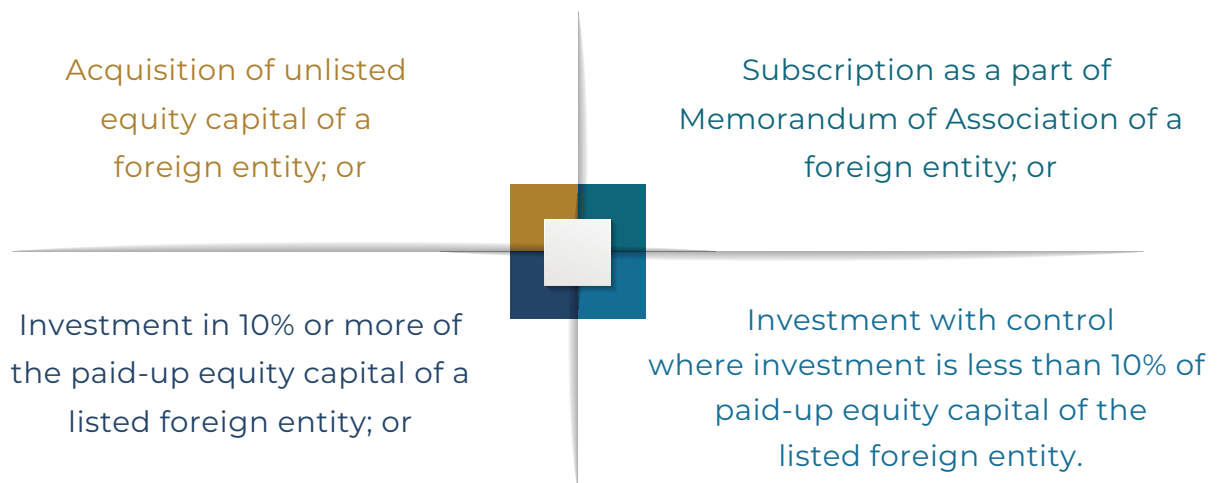
Rishabh Shroff & Chirag Gandhi, Cyril Amarchand Mangaldas

In the dynamic landscape of India's rapid economic growth, the rapid evolution of wealth has been remarkable. With financial wealth expected to increase at ~10% per year by 2025, an increasing number of affluent individuals and families have chosen family offices (FOs) as their desired vehicle for investments. Data shows there are around 300 FOs in India, with average assets under management of around \$100 Million, and the number of FOs are expected to reach 1000+ shortly.

There has been a noticeable trend of Indian families seeking to establish their FOs in India and abroad for diversifying their investment portfolios. Considerations for establishing FOs overseas include mitigating risks associated with regional economic fluctuations and the constant devaluation of the Indian currency against the dollar; and at a deeper level, having an overseas pool of wealth serves as a hedge to India. As they say, don't keep all your eggs in one basket – and this the core reason why Indian families want an international FO. Structured allocation of wealth and diversification of portfolios to make them robust have become crucial.

Indian regulatory framework for setting up an overseas FO

In an attempt to enhance ease of doing business and simplifying / liberalizing the investment environment, the new overseas direct investment (ODI) regime introduced in August 2022 replaced the earlier overseas investment regime. Typically, Indian entities having foreign subsidiaries (i.e., investment by an Indian entity in the shares of their foreign subsidiaries) constitutes 'overseas direct investment', and fall under the scope of the ODI regime. The new regime has distinguished between 'overseas portfolio investments' (OPI) and the ODI regime. While the limits of ODI have not changed, the ODI regime now seeks to simplify the manner and modality of making overseas investments from India. An ODI includes:



ODI by an Indian entity: Subject to certain conditions, an Indian entity (i.e., company, partnership firm or limited liability partnership) is permitted to a make total financial commitment of up to (i) USD 1 Billion or (ii) 400% of its net worth, whichever is lower.

Overseas investments are only permitted in entities performing 'bona fide business activity' which means any business activity permissible under any law in force in India and the host country. Overseas investments in real estate activity, gambling or in rupee-linked financial products are not permitted without specific RBI approval. In addition, the new regime now allows for Indian entities from non-financial sectors to undertake ODI in a foreign entity engaged in financial services activity, subject to certain additional conditions.

OPI by Indian entity: The ODI regime defines OPI as investments other than ODI, in foreign securities, but not in any unlisted debt instruments. OPI by an Indian entity is subject to certain conditions and is allowed only in specified scenarios, such as by way of rights/ bonus issue, permitted capitalisation of dues, swap of securities or restructuring. An Indian entity is allowed to make OPI up to 50% of its net worth as on the date of last audited balance sheet.

ODI / OPI by a resident individual: Subject to certain conditions, resident individuals are allowed to make ODI/ OPI and in a foreign entity, within the overall threshold of USD 250,000 specified under the Liberalised Remittance Scheme (LRS).

Unfortunately, the RBI is keeping a close watch on overseas outflows from India. Recently, several domestic entities, including FOs in India using the ODI route, received RBI notices seeking the status of the money remitted out of India via the ODI route. In 2023, it appears tht the RBI had provided an informal advisory towards authorized dealer banks that the current ODI regime is not in place to have wealthy individuals setting up FOs overseas, and that such structures are not permitted under current regulations. Various questions and ambiguities remain in this regard, and the RBI is expected to release clarifications in the near future.

GIFT City: The International Financial Services Centre Authority (IFSCA) is the unified authority for the development and regulation of financial products, services and institutions in the International Financial Services Centre (IFSC) in India. In order to compete with global jurisdictions, FOs are now permitted to accumulate their funds in the form of a Family Investment Fund (FIF) in GIFT City, India's maiden IFSC. The IFSCA has permitted FIFs to be funded even by entities in which an individual or a group of individuals of a single-family hold, either directly or indirectly, substantial economic interest. The comprehensive rules, specifically for the purposes of the establishment and functioning of FOs are yet to be framed and hence, until the same are introduced, there is limited clarity on the setting up of FOs in GIFT City.

Prominent offshore jurisdictions

The desire to have a global footprint, easy access to investment opportunities in global markets, being in a well-regulated financial centre, and attractive tax regimes are key considerations for Indian FOs. Many FOs are also aiming at tie-ups and favourable alliances with financial advisers in foreign jurisdictions. Many Indians are exploring jurisdictions such as Singapore and Dubai to set up their FOs. The corporate tax is ~17% in Singapore while Dubai has newly introduced a corporate tax of ~9%.

Conclusion

Despite the legal ambiguity surrounding overseas remittances through ODI structures, the rising appetite of Indians is causing an increase in such remittances. Needless to say, such outward remittances should be planned and structured meticulously to avoid legal complications with the RBI. We recommend keeping an eye on the developments in GIFT City in the future, especially the FO related developments which could potentially make GIFT City as promising as jurisdictions such as Singapore and Dubai. With ease in existing exchange control regime and positive developments in the coming years, the concept of 'Global Indians' and 'Global Indian FOs' will become even more prominent.



THE INVESTMENT TRUST OF INDIA

LONG-SHORT EQUITY FUND

SEBI CATEGORY III AIF

Fund Objective



Achieving Superior Risk-Adjusted Returns



Delivering Downside Protection & Upside Equity Participation



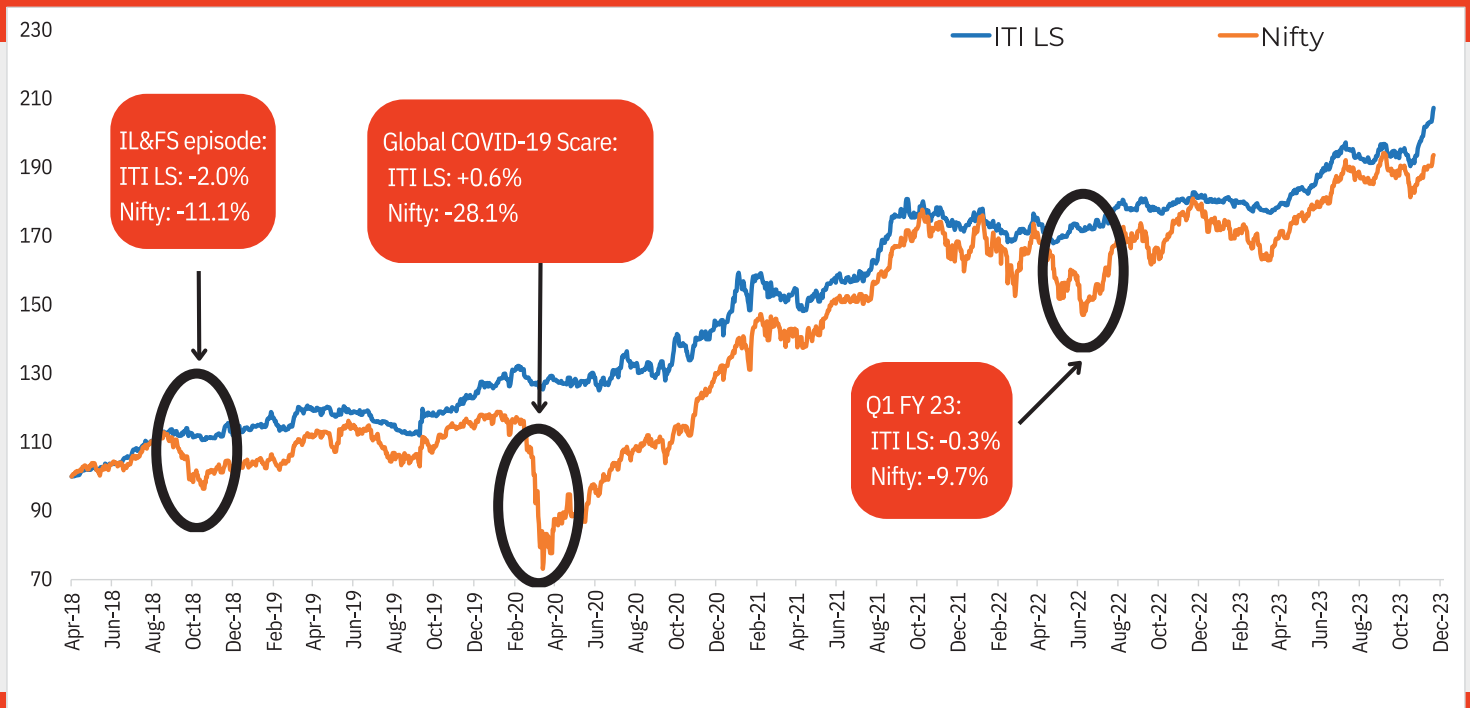
Deliver Alpha over Nifty Across Full Market Cycle

Our Approach

- Strategic Stock Picking:** Primarily fundamental-driven for both long and short positions, emphasizing absolute return.
- Differentiated Approach:** Each stock pick stands on its own merit, breaking away from index-hugging strategies.
- Dynamic Checklist:** Utilising a comprehensive and evolving checklist to filter opportunities, providing a robust thinking framework.
- Tactical Navigation:** Navigating market cycles strategically, increasing risk in undervalued markets and reducing risk in overvalued ones.

Asymmetric Return Profile

5+ Years Track Record – ITI Long Short Equity Fund



ITI LS Returns - 105.33% | Nifty - 93.55%

Cumulative - *Till 30th November 2023

*from 11 th April, 2018, Fund returns are post operation expenses, before management fees and taxes

ITI Long-Short Equity Fund

The Investment Trust of India

ITI House, 36, Dr RK Shirodkar Marg, Parel, Mumbai, Maharashtra 400012

P: +91-22-69093782 | **M:** +91 86577 35895

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W: www.aifls.itiorg.com

The Family Office & Wise Wealth

Rajmohan Krishnan, Entrust Family Office

The conventional role of the Family Office in preserving, nurturing and growing wealth is readily understood. However, the rise of ethical capitalism in recent decades is throwing up a new opportunity in this space. As more and more working professionals become rupee and dollar billionaires, we see an increase in the number of philanthropists in India. These philanthropists are not satisfied writing cheques. They want to ensure that their money is used exclusively to make a positive difference in society. In fact, many want hands-on involvement in their philanthropic efforts. One might say that they bring the same rigour to this domain as they did to their careers.

The term Wise Wealth is coined to capture this outlook towards wealth. A wisely wealthy person is one who creates wealth legally and transparently, grows it without succumbing to greed and fear and, of course, uses it to benefit himself, his family, his community and society at large. Therefore, wise wealth is a concept that covers the entire life cycle of capital – from its creation to its ultimate disbursement.

The Family Office of the future will and must play a huge role in the noble endeavour of promoting Wise Wealth. At a very high-level, the Family Office can help their clients:

Acquire a stable and long-term viewpoint towards investment and manage the entire portfolio in such a manner that it minimizes the client's need to oversee it

Diligently study the impact investing space and encourage clients to invest in viable and visionary projects in this space

Run an autonomous philanthropic arm that will internalize the client's social vision and implement it at the grassroots – perhaps by collaborating with authentic and aligned NGOs

Today's Family Offices run on the engine of a supple financial brain. Tomorrow's Family Offices will also have hearts that beat excitedly at the prospect of creating an egalitarian world.

My Journey Of Setting Up The Tycoon's Secret Chamber

Benaifer Malandkar, RAAI

About a decade ago, large business families that once built businesses to hand them over to the next generation started to monetize or sell assets when the going was good. The thinking and priorities of new scions changed. The economy had opened up, and opportunities for them to make and multiply money were abundant. So they didn't necessarily want to limit themselves to entering their family line of work. They had their own ambitions and were keen on growing what they had inherited on their own terms and to give wings to their entrepreneurial dreams. This, along with an explosion of a new breed of ultra high net worth individuals in India's post liberalization economy, paved the way for the appearance of an old Western construct - the family office - to Indian shores. Family Offices are essentially investment vehicles formed to preserve, protect and grow the fortunes of UHNI families and undertake other non-financial functions like philanthropy, tax compliance, succession planning, concierge servicing or anything else that the family may need.

Among the early adopters of this trend in India was the Patni family.

The Windfall

The year was 2011 and Indian outsourcing was still very much a sector in bloom. In early January that year, US based software giant iGate announced that it was buying out Patni Computers, the Mumbai based mid-sized IT services company listed in New York in a deal valued at a whopping \$1.22 billion. It was a landmark transaction - the second largest deal in the high technology space in terms of value. I was a private banker then with a foreign bank, responsible for expanding the bank's client base and providing customers with tailored investment solutions based on their risk appetite and wealth goals. I had read about the acquisition, but with the fleeting, everyday curiosity of an ordinary corporate executive. Little did I know, that it would change my own life and career trajectory so significantly.

The Patnis came into a considerable amount of money as a result of the deal, becoming among the early 'encashed' business families in India post the sale. The three founder brothers had offloaded their entire combined stake of 45.6 percent to iGate. While at a personal level the brothers were very much a united force and held close-knit family ties, they were pragmatic enough to want to untangle the financial knots that tied their fortunes together post the sale. They were keen to ensure that each brother could chart his own path, and the differing business interests and professional aspirations of the next generation wouldn't create personal rifts in the future.

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It was this matter-of-fact prescience that led, among many other things, to the formation of RAAY Global Investments Pvt. Ltd, the single family office (SFO) of Amit Patni - the older son of Gajendra Patni in 2012. And I, unexpectedly became instrumental in getting it off the ground.

Family offices weren't exactly well-known concepts back then, so when an HR consultant asked me to go & meet Amit, I was naturally reluctant. What would I, a banker with an eclectic career graph spanning asset management, debt markets and foreign private banks, do in a fledgling sub-segment of finance that I knew nothing about and that wasn't even formally recognized? But the recruiter persisted, and I relented, thinking that if nothing else, I would convert Amit into a client.

Alas, that wasn't to be. Amit was looking for someone precisely with my breadth of experience. And that, along with the natural camaraderie that we developed in a just a few early meetings convinced both him and me, that I should take the plunge and swim into these uncharted waters. He asked his staff to give him a list of the 5- 6 companies whose domain names that they had registered, but were dormant, told me to pick a name, and start the office.

I chose RAAY, an acronym of all his family members, and set the ball rolling.

Getting Started

Family offices had existed in the West for a very long time. The Rockefellers are said to have been the pioneers of the concept, and along with old money clans like the Rothschilds had them in operation since the late 19th century. In India though, even as late as in 2012, not more than 4-5 professionally managed offices existed as entities separate from the operational business of the promoter. Many corporate houses, such as the Tatas had formed trusts, while others managed their wealth in close cohesion with their company's management. So it was for us, quite frankly, an environment without precedence or guidance.

- His goals were quite different from his family's.
- He didn;t wish to engage with wealth advisors because they didn't give long term, unswerving commitment, and vanished when things didn't go according to plan or a product failed to deliver the returns promised.
- He didn't know what his peer group was doing because there was no transparent information sharing happening between them.

In such an environment, it became incumbent upon me to seek out global know-how and best practices and contextualize them to the Indian set up with a few tweaks. A lot of my time in the initial days was spent attending conferences and meeting families abroad to understand the various moving parts that would need to be put in place to get a SFO undertaking going.

FOs have many manifestations and exist in various forms and shapes. But in order to give the enterprise a solid footing, it was critical for me, as the Chief Executive and Amit as the promoter to have absolute agreement on at least 5-6 critical operational aspects.

I'll delineate them in a short paragraph each.

Unity of Purpose/Alignment on Goals: It was absolutely vital that we understood each other's psyche and were on the same page about a host of things - the precise purpose of the SFO, the extent of its mandate, its investment strategy, the promoter's risk appetite, the governance norms and a broadalignment on the outlying philosophy to be employed to achieve our targets. It was important to be systematic and unambiguous about our exact motivations and broad vision to achieve our internally set goals. This was private wealth and we could go any way we wanted - from sleeping with very high risk to earn high double digit returns, or being very conservative in our approach - we could do exactly as we deemed fit.

Office Structure: The next step was to decide on the operating structure of the office. This involved developing a governing charter, deciding the key divisions/investment arms, the suite of services to offer and putting in place a solid management and board structure.

Appropriate Reporting Systems: In a business where trust and transparency are worth their weight in gold, it was important to emphasize the need for a set of controls and reporting systems that could be used for transparent monitoring of all FO activities. Systems were put in place to ensure the strict adherence of everyone involved, from members of the staff to different individuals of the family, to the guidelines that had been laid down.

Control & Autonomy: SFOs can be run by one or more family members or by a dedicated Chief Executive who comes in to professionalize the set up. At RAAY we had decided to operate on the latter principle and so it was imperative for me to ensure that the promoter & his family had full faith in my capacity to execute high value decisions for them. There

was an implicit understanding that I had the independence to exercise my own discretion, as long as those decisions were in-tune with the promoter's aspirations.

But it is foolhardy for anyone to expect trust factor to develop overnight, so I was quite firm that for at least in the first couple of years, Amit would allocate 20% of his time to the office and be closely engaged with the day-to-day activities. Once I had his confidence, his engagement would gradually reduce and the set-up would be fully professionalized.

People & Staff: Setting up a family office entails building a 15-20 member team, from the Chief Investment Officer to accounts and finance personnel, portfolio managers, analysts, reporting teams, administrative staff and last but not the least, external advisors who come in to offer domain expertise.

A whole new bunch of investment avenues have opened up for FOs to park their money in, and it is not possible for a CIO to be an expert on all of those, which is why for Amit, picking 3-4 asset classes from his laundry list and hiring someone like me with a breadth of experience that matched with those became vital.

A big quandary before promoters looking to set up a family office remains the question of who should be leading it. What qualifications must the Chief Investment Officer of a family office have? Should they have a breadth of experience, or should they be experts from specific segments of the financial markets?

These metrics need to be carefully considered. Today, as investment opportunities mushroom, with a selection of new-age products in the market, from crypto-currencies to alternative investment funds, it is critical that we as staff members continuously update ourselves, and build the capacity to spot and navigate these exciting new, emerging avenues.

Orientation Of Family Offices In India: Impact Of The Stage Of Family Business

Nitai Utkarsh, Hero MotoCorp

For a country that ranks third in the world in terms of the number of family-owned businesses, and where out of the top 100 companies, more than 65 are family owned/controlled, the impact of such businesses over the concerned families' lives can't be over-stated. Correspondingly, any decision related to the formation or operation of a Family Office by any such family is guided in most cases, by the reality and demands of the Family Business. It's often observed that unlike overseas, Indian family-owned businesses often don't distinguish ownership from management. The families' fortunes are deeply linked to the respective businesses they own.

A good way to get a measure of this link is to figure out the stage at which the family-owned business is. As can be appreciated, businesses in general, range from ones that have been partially or fully liquidated and lead to a windfall, to those that are in the prime of their cycles and generate regular cash, and finally to the ones that have reached a plateau and can no longer be the cash cows they once were.

Partial Liquidity

Full Liquidity

No/Low Liquidity

Intermittent Liquidity

Any formal Family Office construct in India has to deal with the business management and succession aspect first, unlike most western countries where a bigger objective is family wealth preservation and growth. It follows thus that in the Indian context, it may be a misconception to believe that only those families that have undergone a liquidity event (whether in full or part) need a Family Office.

As a simple example, for a family that has experienced Full Liquidity, and got into big money through an outright business sale, the focus is likely to be on creating a Family Office that can help them re-group and re-invest the proceeds. These Family Offices are expected to give the family a purpose, much beyond financial returns. Similarly, families that have seen Partial Liquidity by partly selling a business and have already experienced great return multiples, may be keen to continue taking the risk of incubating new businesses. However, since these families are still engaged with their core businesses that have not been fully liquidated, the Family Offices they create will have relatively limited time, effort, and risk tolerance towards making such incubation investments.

On the other hand, families that have Intermittent Liquidity coming in through regular cash flows (dividends) from their respective businesses, tend to look at an asset allocation approach for their Family Office activities. If there is No/Low Liquidity, and hardly any cash distributions being made by the family-owned business however, the role of Family Offices becomes more critical towards the families' sustenance. Such Family Offices are responsible for not only providing the families enough income generation opportunities but also end up spending a lot of time professionalizing the family owned businesses, and creating distribution frameworks to ensure fair, equitable, and adequate income to principals and their family members as per the family's mandate.

Investing Through a Family Office

Dinesh Vaswani, Acuitas Capital Advisors

Just as most businesses have a strategic plan that lays out a roadmap for several years, so too is it essential for a family to have a tailor-made investment plan. Otherwise, there is a high risk that one will simply invest in products that are marketed best, rather than those that meet a family's investment objectives.

Asset Allocation

Before investing, the first and most important consideration is to determine the optimal asset allocation for your particular circumstances. One of the distinguishing aspects of a Family Office is that allocation is customized for the unique circumstances of a particular family. It has been this writer's experience that in the majority of cases, not enough thought was put into asset allocation. In fact, at Acuitas Capital Advisors we have had situations where, despite a family being advised by 5 different wealth managers (before Acuitas' engagement) not one had conducted an asset allocation exercise. Following a months-long exercise, the strategic asset allocation underwent a shift of 180 degrees.

Asset allocation accounts for 90% of the variability of portfolio returns, so its importance cannot be over-estimated. Said differently, market timing and instrument selection (e.g. a particular stock) accounts for only 10% of variance in returns (Source: Brinson, Singer & Beebower).

Prudent investment norms suggest that one should have a reasonably diversified portfolio. As such, it is extremely unlikely that over a period of time a single investment will account for the bulk of portfolio returns. However, significant differences in long-period returns between asset classes such as equities and debt mean that one's exposure to a particular asset class will instead drive returns.

It is important to distinguish between strategic asset allocation and short-term or tactical allocation. The former is a roadmap for at least 3-5 years, while the latter reflects one's current view of factors (such as the global and local economy, markets and political environment) that may influence markets over a period of a few months. As an example, the strategic asset allocation plan may call for 60% to be invested in equities, but based on a composite reading of factors at present, one could choose to invest only 50%.

There are many factors to consider when determining the optimal asset allocation for a given family. These include ages of family members, family dynamics/circumstances, whether there will be ongoing income flows, source of such income, overall quantum of assets, investment time horizon, need for income from the investment portfolio, expectation of returns, and a need to balance liquid and illiquid investments. Last, and perhaps most important, is to determine risk capacity and risk appetite.

Risk in this context is defined as the ability to handle volatility. Most families that have a sufficient quantum of assets to justify a Family Office typically have the capacity for risk, i.e. they can financially withstand the impact of volatility.

However, they may not in fact have the risk appetite to do so. One view of money is that it can give one peace of mind. However, if the volatility of financial markets causes one to lose sleep, it can be argued that money is causing stress rather than providing security and comfort.

For example, equities in India have significantly outperformed debt over the longer term. However, this outperformance has come at the cost of greater short-term volatility. Specifically, even excluding 2 extreme events since 1991, equity markets have seen drops of as much as 40% from then-prevailing levels. While in the overwhelming % of cases equities generated positive returns over the ensuing 10 year period, an investor would have had to have the courage to stay invested in order to reap the returns rather than lock in losses during the downturn. Unfortunately, a significant number of investors did not have the courage or conviction and in fact sold their holdings at a loss.

A corollary of this is the investor who, while having risk capacity, does not have the appetite and hence opts for a “safe”, debt-oriented portfolio. The problem with this approach is that the longer the investment horizon, the greater the risk that post-tax returns from debt do not keep up with inflation, thereby eroding purchasing power of the portfolio.

The point is that asset allocation involves a complex interplay of various factors, and that it needs to be customized for each family.

Expected long-period returns from each asset class (e.g. equity and debt) are key inputs to the asset allocation exercise. To determine these, it is essential to start with historical long-period returns (as far back as reliable data is available, but no less than 10 years), and then tailor these based on the current and expected environment taking into variables including but not limited to expected inflation rates, global macroeconomic conditions and government policies. This enables projection of the range of expected nominal and real (i.e. adjusted for inflation) portfolio returns and volatility based on varying exposure to each asset class.

One of the key tenets of most family offices is to at a minimum preserve, if not grow, the purchasing power of the investment portfolio over time. Accordingly, it is important to focus on expected real rather than nominal returns. This throws up another variable, i.e. what measure to use as a gauge of inflation. While in India the CPI-Urban inflation gauge is most closely aligned to inflation that wealthy families will experience, it can be argued that asset price inflation may in fact trend higher than the prices of food and other common household expenses.

Once one has determined the optimal strategic asset allocation, it is necessary to take an inventory of existing assets. Families that have accumulated wealth over time are often surprised at the value of illiquid assets such as real estate that were acquired for a fraction of their current value. This can lead to a material difference in the current or starting asset allocation. It can also throw up potential risks by highlighting that individual assets may have appreciated to a level that they individually represent a disproportionate percentage of overall assets.

Establishing Investment Criteria

Once one has determined asset allocation, and before actually investing, it is important to clarify investment criteria or parameters. At Acuitas Capital Advisors, we are focused on risk-adjusted, post-fee and post-tax returns.

The first measure, i.e. risk-adjusted returns, pertain to whether one is being compensated for the underlying risks prevalent in any investment. There are many sources of risk, with some of the more common ones being illiquidity, governance and execution. To give an extreme example, if a private company 1/10th the size of a publicly traded market leader and with unproven management is expected to return just 1% more annually over the next 5 years, but with substantially greater volatility in business performance, which is the preferred choice?

The other 2 parameters (returns net of fees and taxes) reflect the fact that what matters to an investor is the net return from a given investment. Too often, an asset manager or distributor quotes returns before all fees and/or before considering the impact of taxes. The gap between the gross and net returns can be substantial and often leads to the conclusion that on a net basis, returns are not commensurate with the level of risk. This is especially true in context of returns from other alternatives.

One should also specify the parameters to use to determine the universe of fund managers to evaluate. At Acuitas, we believe that for established asset classes such as public equities, restricting the universe to managers who have been managing their fund within their current organization for a minimum of 5 years allows one to make a more realistic assessment of the institution and team when operating in a variety of economic environments.

Investing

The next step is to actually invest in specific investment instruments. Investments can be made in a variety of ways, including directly, through active asset managers and through passive funds such as ETFs, which track a particular index or basket of securities.

The size of the investment portfolio may itself help determine this choice. Below a certain size, it may be neither economical nor viable to build and retain an investment team to invest directly. Moreover, a family needs to think through whether they have the time, inclination and ability to do justice to the process of investing. In many cases, family members are running a business or have other interests so may not be able to devote adequate time to directly managing an investment portfolio.

While index-based funds such as ETFs have grown rapidly in some developed markets, the availability of relevant information and the wide variance in governance and quality of businesses in India has historically provided skilled managers the ability to outperform indices by careful selection of stocks and sectors. However, as disclosure and governance standards have improved, and as the regulator has enforced common definitions of fund categories, the degree of outperformance an active manager can generate has shrunk. This is especially true in the large-cap space, where regulators have standardized the way of categorizing the largest 100 companies by market capitalization. It can be argued that for many investors, investing in large caps through an index fund would make the most sense, especially given the lower expense ratios. However, as one moves down the market cap curve, the ability of an active manager to outperform, or generate “alpha” rises meaningfully

Understanding the structure and commercial terms of a fund are also important. The risk of a fund with only fixed fees is that in the pursuit of growth, the Asset Management Company (“AMC”) and/or fund manager spend a disproportionate amount of time and resources on the sales and marketing functions, often at the expense of investment performance.

Size may not be an issue for funds focused on large capitalization companies, but for those focused on small and mid-capitalization companies, beyond a point size is usually inversely correlated to performance. The amount of money that can be invested in most mid and small-cap companies is limited, both because of their lower market capitalizations and also because their stocks are thinly traded. Accordingly, if a fund grows too large for its market segment, the manager’s ability to select stocks becomes severely constrained.

Conversely, funds that have no or low fixed fees with commensurately higher variable fees may seem to be more investor-friendly, but in fact could promote undue risk-taking. This is because if a manager’s picks pan out, they will be compensated handsomely, whereas if they don’t, the manager would be no worse off than if they had not made the bets. The asymmetric nature of the structure in effect acts much as an option does. The first rule of making money is to not lose it – and there are times where market conditions call for prudence rather than risk-taking.

Variable fee structures come in many flavors, which one needs to understand. Are fees calculated based on absolute gains? Relative to a fixed hurdle? To a benchmark? If the last, is the benchmark appropriate for the fund’s stated investment focus? Is there a high-water

mark? A high-water mark means that an investor will not pay fees twice for the same performance.

As a general rule, the bar to invest in traded securities (e.g. publicly listed equities) through closed-end or fixed-term funds should be set much higher. While it is preferable to minimize churn amongst funds, there is value in having the option to do so. Investment themes that appear attractive today may not remain so over the life of a fund.

In selecting fund managers, while past performance is a useful measure, it needs to be looked at in context of a manager's investment approach and process. Is the approach "ever-green" or is it unique to the environment at a particular point in time? Has the manager and strategy delivered over a full market cycle? One often finds that a manager does well in a particular phase of the cycle (e.g. bullish phase) while doing poorly in others phases. It's also important to assess whether the manager adhered to the stated approach through swings in the market, or whether they deviated to try the flavor of the day. The former is usually sustainable while the latter is predominantly not so.

It is also important to understand an institution and team's incentives. An investment team's incentive structure (e.g. fixed versus variable compensation) as well as the time period on which they are assessed can play important roles in behavior. For example, a team that is assessed in equal measure on 1, 3 and 5 year periods is likely to have a different mindset to one assessed exclusively on 1 year performance.

There are many different approaches to investing successfully. While no style or approach will work at all times, choosing managers with different styles means that an investor does not have to guess which one will work at any point in time. This approach has the added benefit of helping smoothen overall portfolio returns. However, an investor must have the conviction to stay the course even if a particular manager or style is not working well at a particular point in time. What matters is adherence to the stated investment approach while of course validating that the approach delivers returns over a minimum period of 3-5 years.

While style and manager diversification can improve both the absolute level and nature of portfolio returns, investing in too many funds will result in over-diversification. Investors can lose sight of the fact that a fund is only a vehicle through which to invest, and that ultimately it is the sum total of all stocks across all funds in which one invests that drives returns. An over-diversified portfolio will increasingly take on the characteristics of an index fund, but at a higher cost.

Family offices have a major advantage in that they can assess opportunities across asset classes. While a traditional debt or equity manager usually evaluates an investment only in context of the peer group, a Family Office can evaluate the underlying risks from a given

opportunity and determine whether they are being compensated appropriately given risks and returns from other asset classes. This could, for example, mean that it would be preferable to invest in rent-yielding commercial property rather than a corporate debt fund.

Finally, as long as one remains satisfied that the basic thesis behind an investment holds, it is important not to feel the need to “do something”. Too often people confuse action and outcome. Very often, the best course of action is to not make any changes.

Alternative Investments

Investing in alternative investments such as Private Equity and Venture Capital raise a different set of issues to consider.

At the outset, an investor should think through whether they are willing to accept the illiquidity and inherently higher risk of investing in small companies whose business models and management teams have yet to be proven. Cocktail party chatter usually focuses only on the investment that paid off. Few mention the dozens of investments that may not have returned capital let alone yielded returns. As such, when evaluating whether to invest in alternative investments it is even more important to consider portfolio-level returns rather than returns (good or bad) from a single company in the portfolio.

The earlier the stage of the company, the greater the importance of the founders – and of luck! While the business model is important, the reality is that more often than not the business model undergoes significant changes (in contemporary terms, “pivots”). Accordingly, the ability of the founders to identify the need to change, and to execute the change, often matters most.

Luck also plays a disproportionate role in the success or failure of early-stage companies. A chance meeting, a minor regulatory change, illness of a key technical architect – any can have an outsized role in the future of a start-up.

through a fund. Investors often make the mistake of focusing only on the process of finding and evaluating an investment opportunity, little realizing that it is only the start of a long and arduous journey before achieving the holy grail of an exit, or money in the bank! Accordingly, when deciding whether to invest directly, an investor needs to think about not just how they can source a deal, but more importantly who will see the investment through to a point where there is a viable and profitable exit.

The significant role of luck in early stage companies, and the low hit rate compared to large, established companies also mean that it is imperative to invest in a sufficient number of early stage companies so as to allow the laws of probability to play out. An admittedly unscientific approach suggests that this number is in excess of 15 companies.

Conversely, the later the stage of the company, the higher should be the hit rate and therefore the fewer the number of companies required in a portfolio.

These factors suggest that for many investors, investing through funds is the preferred alternative. After all, managers of these funds devote all their time and resources to finding, helping grow, and exiting portfolio companies.

However, the track record of investing through VC and PE funds in India has been mixed at best to-date. The problems have been many-fold. At root has been the fact that companies in India have needed far longer gestation periods compared to peers in markets such as the US and China. This means that exits have been few and far between. The long gestation period has meant that even where there have been exits in a portfolio, the long holding period has suppressed portfolio IRRs, especially compared to public equities.

A further problem has been the stability of the team. There have been numerous instances where the founding partners have split during the tenure of the fund, thereby leaving “orphaned” companies for other team members to salvage.

One option open to families with strong brands and/or who have relevant domain expertise is to co-invest with PE/VC funds, which may not necessarily require capital but value the endorsement of a blue-chip family and/or are seeking the engagement of the family to help scale the investee company.

A significant benefit of co-investing is that an investor can gain much greater visibility into a prospective investment compared to investing through a blind-pool fund structure where the fund manager makes the investment decision. Co-investing with credible, successful funds also means that there are more people around the table to help grow the investee company and to support it in times of difficulty. Finally, a co-investment approach allows for a sharing of diligence. Depending upon the value provided by a co-investor, it may also mean that they pay no or lower fees.

Evidence from markets that have a much longer history of venture capital and private equity investments (such as the US) shows that the time period in which the investment is made can play an important role in the eventual returns from a given investment. Known as “vintage risk”, it means that when making investments in the alternatives space, it is typically necessary to invest in a portfolio of companies over a period of at least 3-4 years. Accordingly, before making a single investment a family should be prepared to embark upon a program of investing over a number of companies and over a number of years.

Finally, and perhaps most importantly, direct investing in the alternatives space almost inevitably requires passion to work with young founders and companies experimenting with new products, services and business models. It can be exciting, exhilarating and

immensely rewarding – but also take up a significant amount of mental and emotional bandwidth with little to show for it in terms of financial returns.

Reporting, Risk Management and Analytics

A comprehensive, standardized way of reporting is essential to analyze performance and to ensure risk metrics are being adhered to. This is especially relevant when one invests through funds, as they often have different ways of reporting. Obvious differences include whether returns are shown net of all fees or only on a base fee, excluding profit share if applicable. However, other more subtle (and technical) differences include the basis of an IRR calculation (e.g. time-weighted or asset-weighted). These differences, while seemingly arcane, can yield surprisingly different results.

Beyond the headline, normalized numbers, it is important to understand the source of performance – good or bad – to truly assess how a given manager is performing. For example, are the bulk of the returns from just one or two stocks? What is the overall hit rate (i.e. stocks that have outperformed their respective peer group)? How consistent are the returns?

It is also necessary to go beyond the numbers to assess whether a manager remains consistent with their stated investment approach. For example, if the stated focus is on value, but in fact the portfolio is heavily concentrated in stocks in the top 25th percentile of P/E ratios, it would suggest investment style drift. Similarly, if a manager states that they invest only in ultra-safe debt investments, but the portfolio has a significant weightage to entities with murky pasts or reputations, caution would be warranted.

Risk management also calls for establishing prudent limits to an individual issuer of securities (e.g. a borrower), to an asset management firm, to a fund manager, to individual sectors (e.g. financials) and to an individual stock. A more evolved version of risk management would include impact on the portfolio of changes in interest and currency rates, as also to oil prices.

Preserving and growing wealth is probably the single most important objective of a family office. The success or failure of the investment portfolio can determine whether there is even need for a family office over time. Investing successfully over generations requires a structured, measured approach, with oversight from people who have the skills and temperament and can commit the appropriate amount of time and resources. In the context of a family office, it is not a weekend pastime.

If, after considering the myriad of factors outlined in this chapter, a family determines that all the pieces are not in place for it to set up and manage its own captive or single-family office (“SFO”), it should consider working with a Multi-Family Office (“MFO”).

MFOs will still customize asset allocation for each family. Moreover, by pooling assets across families (while managing each portfolio separately) MFOs can deliver the benefits of scale which an SFO may not be able to do. To start with, the asset base allows for recruitment and retention of skilled professionals who are likely to be attracted by growth opportunities an SFO cannot provide. Moreover, pooling of assets creates the ability for a MFO to negotiate preferred terms directly with an asset manager. This is in contrast to a typical retail investor who has to go through a distributor, with the attendant higher cost.

To ensure alignment of interest with the investor, and to eliminate even the possibility of a conflict of interest, a MFO should earn income only from a client family. It should not accept distribution fees or commissions of any kind from asset managers.

Investing does not necessarily require that one be the smartest person in the room. Instead, it usually involves a mix of intelligence, judgement (few things in life progress exactly as projections in a spreadsheet imply) - and luck. While luck is by definition not something one can control, at the same time one has to be prepared to take advantage of it when it favors you.

Done in a haphazard manner, investing can be daunting. However, done in a structured and measured manner, it can be hugely rewarding, both intellectually and financially.

Family Offices & Succession Planning

Neelu Jalan, PwC

India is a country where family-run businesses continue to dominate the entrepreneurial framework, despite an increase in the number of professionally owned and managed companies. However, the concept of a family office is nascent and still finding its feet in India. Traditionally, families have preferred to plough profits earned back into their businesses. However, with changing times, more families are diversifying their business interests by investing in other assets, such as art, real estate, yachts, aircrafts, sports clubs, treasury portfolios, start-ups and other companies. Such investments are often made purely for financial returns, as against actual involvement, except sometimes in an advisory capacity. To manage all this, increasingly, a family office is being setup, which manages all the investments and interests of the family, including its philanthropic ventures. Unlike a professionally managed organisation, a family office may or not be structured as a formal entity and staffing would depend on the requirements.

Though a family office aims to last for generations, succession planning is still an oft-ignored area because of the hesitation of owners and the fear of losing control. Succession planning can take many forms, including formal education of the next generation and ensuring they obtain relevant and varied experience both within and outside the family business. Proper succession planning can also help to set and maintain the structure of the family office such that business legacies are kept alive, even in the face of rapidly evolving times.

Succession planning in India can be a convoluted and multifaceted task. The large size of families and involvement of multiple groups and cliques in the business, some of whom have varying aspirations, along with the commonly observed reluctance of elders to surrender control prematurely, make discussions on succession planning difficult. The various laws, including tax laws, do not help in simplifying matters.

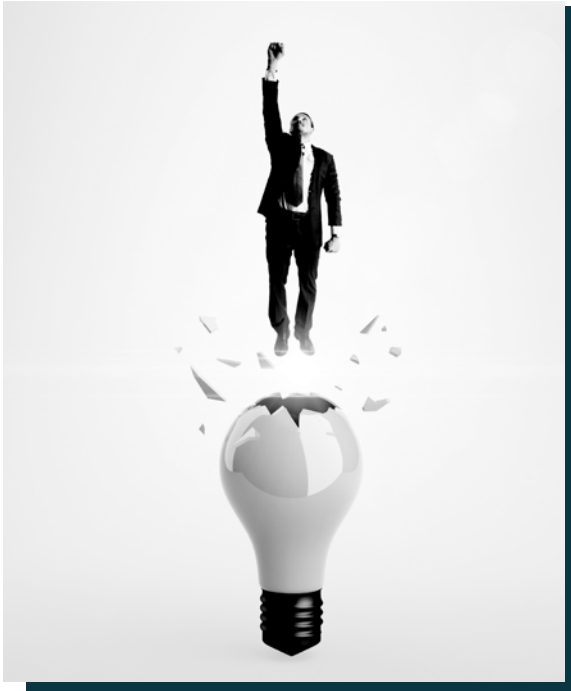
Notwithstanding the various factors stacked against it, not planning for succession is not an advisable option for the sustainability of any family business. It is an imperative, which goes to the very core of a family office. Some of the largest business houses of India have almost disappeared or become a shadow of their former selves, primarily because of the lack of adequate succession planning. There have been cases where businesses have suffered due to absent or inadequate planning, often resulting in breakdown of family ties, not to mention interminable litigation, all of which drain family resources.

Most families still rely on wills to hand down wealth and business responsibilities through generations. These often come with significant limitations, the foremost being the risk of challenging the contents of wills, which could lead to endless litigation. Fragmentation of assets is also a major concern, as keeping family assets together is difficult and could lead to logjams between succeeding generations.

India currently does not levy estate duty as the old law (Estate Duty Act, 1953, or the ED Act) was abolished in 1985. However, talks of its resurrection often do the rounds in business circles. Although not even a draft law is in place, going by the old law or even the law in other countries, it would not be unreasonable to assume that property which passes on to the inheritor after the owner's death would be subject to estate duty – another negative aspect of a will. In addition, continuing to hold assets in a personal capacity during one's lifetime does not allow for the ring-fencing of assets from legal issues. India Inc. has seen several examples of promoters' wealth being pledged and used to pay off business liabilities.

Given such limitations, India Inc. is slowly gravitating towards private trusts as an essential structure for succession planning, including for family offices.

About Priwexus



Priwexus is a unique membership community of single family offices, prominent business families and individuals of significant wealth in India. Priwexus is an impartial peer-to-peer networking forum dedicated to serve all the key focus areas of successful families including investments, philanthropy, family governance, tax, legal, estate management and next-gen education.

Priwexus offers a premier gateway to Indian Family Offices & HNW Families to connect and learn from their counterparts across the global Family Office Community

Priwexus VFO

Priwexus VFO is a collective of experts who can manage all the family office needs in an integrated, holistic manner while remaining affordable, flexible, and easy for a family to manage.

The VFO Partners come from different specializations; however, instead of being in siloes, these professionals work together to create a seamless approach, facilitated through well-defined governance, structure, and process.

Benefits of the VFO:



Infinite access to the right professionals (no gatekeepers)



Harness the experience and competencies of your existing, proven professionals



Variable cost model



Client does not need to integrate advice



Focused on client (objective advice)



Eliminates planning gaps







Qualitative rather than quantitative

AS A FAMILY OFFICE, DO YOU FACE THESE INVESTMENT CHALLENGES?

- ▲ Pressure to invest perpetual wealth
- ▲ Prevent permanent loss of capital
- ▲ Allocate across assets and geographies
- ▲ Overload of investment ideas
- ▲ Keep investment costs low
- ▲ Conflicted interest of your advisors

Multi-Act has been helping Family Offices address these challenges successfully for 25 years by creating bespoke investment solutions.

Connect with us on    

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