

FOR GENERATIONS TO COME

FOR SERGE DE GANAY, THE SIXTH GENERATION DESCENDANT OF OTTO BEMBERG AND CHAIRMAN OF QUILVEST WEALTH MANAGEMENT, THE CONCEPT OF WEALTH PRESERVATION IS INGRAINED IN HIS GENE

By GENEVIEVE CUA

WEALTH preservation and diversification sound like mundane buzzwords that are routinely included in advice for wealthy individuals.

But for Serge de Ganay, sixth generation descendant of Otto Bemberg, who founded a brewery in Argentina in 1890, the admonition to preserve wealth and diversify has currency and pathos.

In 1952, the Bemberg family's vast fortune – valued at about US\$3 billion in today's money – was wiped out in one swoop when family assets were seized by the Juan Peron government. The cause, as described by *Forbes* magazine in a 1994 article, was that the family snubbed Evita Peron, refusing to let her stay in their Paris mansion. It was a slight that Evita reportedly would not let Juan forget.

Says Mr de Ganay: "We went through a major political crisis which was Peron. It was very dramatic. Everything related to racism or fascism was not our cup of tea. We had been fighting and hence, had almost all our wealth destroyed. So we're very familiar with political and geographical risk. And so we think we have in our gene, the concept of wealth preservation."

The properties then included breweries, a large bank, textile mills and more. The assets were later restored in the late 1950s, but not completely, he says.

Since then the family has diversified with a vengeance. Its core beer business in Argentina, called Quilmes Industrial, is listed on the Luxembourg stock exchange. It also set up a wealth management business, Quilvest, which was originally established in Paris in 1917 as a single family office to manage the family's wealth. Today Quilvest manages over US\$25 billion in assets. These comprise Quilvest Wealth Management which offers a multi-family office service looking after some US\$20 billion in assets; and Quilvest Private Equity, which manages an estimated US\$5 billion.

Quilvest Wealth Management has a presence in Singapore, through CBP Quilvest Singapore, set up in 2010. The latter is headed by Luke Peng, a veteran of over 20 years in trust and legal advisory, having set up SG Trust (Asia) in 2000. CBP Quilvest Singapore offers multi-family office services including wealth structuring, trust and investment advisory services.

To date, Asian families count among Quilvest Wealth Management's ultra wealthy clients. Based on a profile by *Camden FB* publication, the firm has around 4,000 clients, of whom about 100 use it as a one-stop family adviser.

Wealth preservation is a key theme and this is deliberate. Says Mr de Ganay: "This part of the world has created so much wealth so quickly. Maybe they know everything about creating wealth. But on wealth preservation, they may still need resources."

The firm recently hosted 20 of the world's ultra wealthy families here to discuss wealth preservation, "and they're very interested". Mr de Ganay, chairman of the board of Quilvest Wealth Management, is himself intimately familiar with the challenges to family wealth and has authored articles and studies relating to family-owned businesses.

After all, keeping wealth intact through generations is a challenge that extends well beyond investment asset allocation.

The latter may well be the easy part. Family dynamics are germane to the issue, as are governance and succession. These are issues that wealthy Asian families grapple with, particularly those whose businesses are the engines of wealth.

Mr de Ganay says that the biggest destroyer of family wealth is family in-fighting. He believes family unity is linked to the performance of the family business, where if the business deteriorates, unity becomes "very difficult". "If you want unity, focus first of all on the performance of the company."

The dividend policy is also key, perhaps even more so for private unlisted businesses which are typically illiquid in terms of a quoted

price. "Be very sharp, precise and consistent on the dividend policy... If you have non-liquid assets as a shareholder, you have to be compensated and that's done through the dividend. If I'm a shareholder of a business with a 10 per cent holding, I'm not in the driver's seat. I'm hands off. If they give me a good dividend I'll stick with the company, so the dividend policy is critical."

If the family is to remain united through generations, there are at least three key issues that must be addressed.

The first, he says, is a paradox. In a family business, family members must have a way to exit the business. This is an option that Asian patriarchs – in particular, first or second generation wealth builders – may find hard to swallow.

"One key concept is that you must organise freedom in a family. You must organise an exit. As soon as you put the exit system in place normally no one uses it. But as long as it's not there, everyone asks for the option of getting out."

"Let's take the case of Quilmes. We have a system that every year, up to 5 per cent of the company can be sold by anyone who wants to sell his shares, and bought back by the company. The value of the shares is at a discount of 10 per cent. We're not going to do a premium for you to sell your shares. But there is a way out. The concept of an exit is major."

The second issue is the decision for the family to be hands-on or off with regard to the business. The Bemberg family, currently in their seventh generation, has decided to take on non-executive roles in their business.

"In the hands-on approach, members of the family are executives and run the business. It's good because there is strong identification between the shareholders and the business. The bad news is if someone is a bad manager, you may have to fire your son, brother or nephew. You know it will be bloody... The governance must be very strict. For us at Quilvest, we (the family) decided to be hands-off. I'm chairman of the board, but not executive. I joined the company after I've had a professional career. The question must be dealt with."

Educational process

The third issue is how to educate the younger generation with respect to the business and the family's role. "In this world you have to be transparent which is very difficult. Do you want a kid of 18 to know the value of the company or the fortune of his parents which is half a billion (dollars)? You have to think about the educational process, that the family enterprise involves not just money, but also responsibility and accountability... Be careful with the young; get them into the loop as soon as you can."

In his family, a meeting with the younger generation between 18 and 30 years of age is held every 18 months. "We meet with the young people and the management comes to explain. We want them to be informed, to share and understand the values of the company, and to talk about the governance of the company."

Mr de Ganay observes that Asian families are much more concerned about succession than about family governance. This is a key difference from European families. The second topmost concern among Asians is geographical risk. "If I go speak with a European family, right away we talk about governance – how should the family be organised. Of course they have succession issues, but it's not on top of the list. But with Asian families, right away it's succession... What if my children get involved, or my wife. Succession is also a first-generation decision."

Governance may take the path of putting together a board comprising family members, but also to the extent of including external parties such as an academic to act as adviser. The board can tackle key issues such as succession and other risks such as political or geographical risks. Many of the concerns can be addressed through trust structures. "The patriarch is a very good entrepreneur, running the business, very successful and suddenly he has to plan and think in another way... So you start from scratch. The one that succeeds in doing it is the one whose wealth will be there for three generations."

There are those who may find transparency an uphill climb. Mr de Ganay says that there are typically two paths. One is that of the 19th century "noble house" which is autocratic. The second is to pursue modern governance.

"The noble house model might work, but the world is changing. When I discuss this with friends, guys under 40 say – we can't run things that way through an autocratic, black box style. For a new generation to step in, if there is no solid governance, the family puts itself at risk." ■

IN THE HANDS OF THE FAMILY OFFICE

By Genevieve Cua

THE family office concept is one that has caught private banks' attention. Burgeoning wealth in Asia suggests that there is a pool of ultra-high net worth families that may benefit from a family office, and some banks have rolled out services to help families start such offices.

Camden Wealth estimates that about US\$1.6 trillion is held in family offices globally. In Asia-Pacific alone, family offices manage some US\$66 billion in assets. These estimates are said to be conservative.

Serge de Ganay, chairman of the board of Quilvest Wealth Management, defines a single family office as simply one that manages a family's wealth and seeks to protect it. Staff could comprise as few as one to two people, to as many as 100.

Typically, a successful single family office expands to become a multi-family office, offering its services to other wealthy families. This has been the trajectory of Quilvest, which traces its roots to a single family office in 1917 to manage the wealth of the Bemberg family. It eventually expanded through the years to manage the wealth of other European families. Today, its wealth management and private equity businesses combined have assets under management of over US\$25 billion. It has 13 offices in 10 countries and employs nearly 400 professionals.

The decision to broaden its services to cater to other wealthy families is borne of economics, says Mr de Ganay.

"A family office is a cost oriented organisation, not revenue oriented. It costs money and doesn't make money."

At some point in a single family office's growth, there is a need and desire to hire best-in-class expertise. "Because you demand more in terms of service and expertise, you are challenged. You are confronted with having to rebalance a cost oriented organisation with a revenue oriented organisation. So you move to become a multi-family office. By attracting other clients who pay fees, you can hire the best people."

Mr de Ganay believes it will be "very very challenging" to start a single family office with less than US\$500 million. Assuming the family can put aside the equivalent of 0.5 per cent or US\$2.5 million for expenses, "... what kind of organisation can you support?" He adds: "But if you have a US\$1 billion family, with 50 basis points (for expenses), I start with US\$5 million on the table. I can start a team and work."

He says that private clients are open to non-bank multi-family office services. This is partly because many clients are disillusioned with the high turnover among relationship managers (RMs), for one thing. "Big is not systematically beautiful. Also when the turnover is high, it's like being in the bathroom and taking off your clothes each time. To tell the story to a different (RM) every three years is tough."

Clients also appreciate it when the wealth manager has himself put his own assets on the line in the service and products. "Quite a few people in this part of the world understand – you have money in the business, yes. The product you sell to me, you do to yourself, yes... There is room for everyone especially when there is growth. We have a chance to do something interesting."

It is no accident that private equity is a core part of the Quilvest business and the asset allocation of the family and its clients. Investments in public markets may generate 4 to 6 per cent in annual returns, says Mr de Ganay. But those who desire double digit returns are likely to have to look into investments in private companies. "There is a direct correlation between illiquid assets and performance. The objective is to beat the listed market by four to six percentage points. If the market is giving 6 to 7 per cent, you'd expect to do 12 to 13 per cent in PE," he says.

Quilvest's philosophy is to co-invest with its clients. It typically invests at least 20 per cent of its own capital in PE deals.

"If you think about the asset allocation of the university endowments such as Yale and Harvard, they allocate 20 to 25 per cent in PE. These are institutions with a lot of money, and they accept that it's illiquid... In our (family's) case, we're overexposed to private equity because we have a business. We have about 30 to 35 per cent, but we're getting to a limit, an inflection point." ■