

## As Chinese Wealth Flourishes, Opportunity Emerges For The Family Office

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By some estimates, there are 400 billionaire families in Mainland China today – now roughly the same as in the United States. Chinese are buying real estate, farms, residential property and office buildings in Australia. By at least one report, capital raised through IPOs in Hong Kong, Shanghai and Shenzhen during in the first 11 months of 2010 was almost 1.5 times the amount raised in New York and London combined. Chinese are investing in businesses in the Philippines and Thailand. Chinese tourists are packing the hotel-casinos of Singapore. Everywhere one looks in Asia, Chinese wealth is flourishing.

What does all of this prosperity mean for wealth holders worldwide and for the private wealth management industry? For the industry, it signals a tremendous growth opportunity by fulfilling the accelerating demand for single-family offices throughout Asia. For wealthy Chinese families, the emergence of single-family offices in Asia will improve the way families handle investment strategy, educate children, manage philanthropic initiatives and plan for intergenerational wealth transfer.

### **More Similarities Than Differences**

To understand wealth that originated from the Chinese mainland, it's important to note just how similar the needs of wealthy Chinese families are to those of other families around the world. In fact, Chinese families have much in common with the wealthy of Europe, South America, Asia and the United States despite differences in language, customs and history.

Two recent conversations, which took place worlds apart, are indicative of the commonalities. At a recent family office conference in Switzerland, a European asked me what was the “best long-term investment for a family.” I replied that it was farmland in a country that has a tradition of common law and a solid system of recording conveyances. In a recent conversation in Singapore, I learned that

a Beijing wealth creator independently came to the same conclusion: The best long-term investment for his family, he confided, is farmland in the US, Australia or Canada.

As their fortunes grow, Chinese wealth creators share another common goal with wealthy families worldwide: the importance of education, particularly a Western education. Chinese increasingly understand that wealth today is global. That requires a global education for children, along with a global network.

Some Chinese are even moving to the US for several years to ensure that their children are educated by America's higher standards. Recently, I learned of a Chinese wealth holder temporarily residing in the US saying, "Here are the best ten colleges in the US I want my child in one of them."

When it comes to philanthropy, the Chinese are just like wealthy families the world over. They open their hearts and invest in community with a sense of what was once called "noblesse oblige." However, the Chinese will tell you openly they do not like the term "charity." A friend of mine was even more direct: "Don't mention philanthropy in China."

Yet, this same wealth creator spends some of his fortune supporting schools and hospitals and even building roads to fulfill his "duty" to community. Over and over, Chinese wealth creators talk about the "duty" of wealthy families, but never mention the word "philanthropy." Whatever the vernacular used, investing back in the community is a vital objective for many Chinese families. For Chinese as for all other wealth holders, strategic investment in community is a need that must be carefully planned and executed.

### **The Curse of Vestigial Thinking**

Surprisingly, despite the cross-cultural opportunities for families and industry professionals, the world's members in the community of private wealth are not generally embracing their Chinese counterparts. With rare exception, new wealth from China remains largely outside the established community of private wealth. That has thwarted the traditional relationships in which wealthy families invest together, share common ideas and evolve their wealth. As one European family office executive put it: "We do not find the Mainland Chinese trustworthy," yet he is very open to partnering with a Hong Kong family.

The reluctance to work together is due to a number of factors – all of which need to be acknowledged so they can be overcome. First, significant modern wealth from Mainland China is relatively new, so there has been less time to make connections with more established family fortunes. China has been a relatively closed society, so that adds a measure of caution for both Chinese and Western families. And, unlike like newly wealthy Indians, whose British ties have given them entry to European families, wealthy Chinese have not had the same access.

The lack of democratic institutions in China and convoluted ownership laws of the country have also dampened enthusiasm for mutually beneficial relationships. “Chinese families are too new to all this – their values are different from ours,” said one investment expert in a recent conversation with a European family office. He alluded to the usual belief that Chinese investors are “gamblers” willing to take very high risks throughout their portfolio. Paradoxically, those who work with the wealthy Chinese (wherever they are located) will tell you that most built a relatively small part of their portfolio around high-risk wagers and the bulk around a disciplined and sound philosophy of long-term patience in investments.

In spite of the misgivings, the time is right to integrate wealthy Chinese families into the broader community of private wealth. The wealth management industry must do more to understand the cultural differences and view those differences as opportunities. Providers need to open conversations about how to introduce Chinese wealth holders to the old wealth of Europe and the U. and the new wealth of South America, the Middle East, and Eastern Europe. Non-Hong Kong Chinese need to be encouraged to participate in forums and networking opportunities hosted by the Institute for Private Investors, Family Office Exchange, Campden, Family Office Channel, Terrapinn or Marcus Evans.

We stand at an opportune moment to bring newly wealthy Chinese families into the global community of private wealth. It is up to all of us figure out how to engage Chinese families so that we can learn from them and build with them.

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