Risk and reward in Asia: a family office's experience

Stuart Lucas's family portfolio has been increasingly weighted towards Asian alternative assets over the past 11 years. Now, as the region gains relative vigour, the portfolio's Asian component may be further augmented. Bee Ong reports

"I expect returns in Asia to continue to be higher, so our asset allocation to Asia will also increase, over the long run"

In the late 1990s, as Asia's economies unravelled, foreign investors got the opportunity to gain control of the region's closely guarded companies and assets for the first time. Stuart Lucas, a fourth-generation beneficiary of the Carnation wealth, was one of these earliest investors.

That first investment, made via a private equity fund in 1998, has since been liquidated with "a small return, not much". But Lucas is not one who takes a short-sighted approach to investing his family's assets.

Over the next 11 years, Lucas built his knowledge of and contacts in Asia in much the same way his maternal great-grandfather, EA Stuart, built the Carnation company — with meticulous patience.

Today, Asian assets make a substantial portion of the family's portfolio. About 16% is invested in alternative assets in Asia, primarily in private equity in China and India and a smaller proportion in hedge funds.

The rest of the portfolio has 18% in US equity; 11% international long-only equity which is again substantially weighted towards Asia; 3% in investment real estate of which all is in the US; 18% in distressed debt; 21% in US and European private equity; 5% in venture capital, and 8% in energy as a cyclical element.

Unrealised gains from the Asian investments are about 18% over the five years ending December 2008 even with the market swoon in 2008.

"I would consider investing more in Asia. I expect returns in Asia to continue to be higher

Preserving multi-generational wealth begins with values

As Asia's family offices manage a growing number of generations, what potential issues will they face? IPA presents key lessons learnt from the Stuart family office, where five generations have benefitted from the Carnation fortune

As an active manager of his family's investment office, Stuart Lucas navigates far more complexities than most other chief investment officers. Investment decisions such as where to invest and when to exit is actually the facile part of his job. The trickiest part is multigenerational dynamics because it ultimately determines the investment strategy.

This has emerged as the salient issue five generations after Lucas's maternal great-grandfather, EA Stuart, began the Carnation business.

It all started with Carnation's nearly US$3 billion sale to Nestlé in 1985 and proceeds were distributed among a large number of Stuart's descendants. For the first 10 years, seven branches of the family pursued separate investment strategies and goals and the results varied as widely.

The family wealth was placed into trusts and was largely invested into stock and bond portfolios with annual dividends. But these investments underperformed astoundingly. From 1987 to 1994, the US stock market accelerated 133% and the bond market, 92.4%. It meant that a portfolio of 60% stocks and 40% bonds should have gained 117%. But the family's main portfolio only made 31%.

By the early 1990s, income distribution to the family members began to fall. The poor investment performance was exacerbated by the fact that the family was beginning to grow as the fourth generation had their own children, who would also be beneficiaries.

Lucas persuaded his family that a coordinated, carefully reasoned investment path was needed. It's what he calls "strategic wealth management".

In a book that describes the family's wealth-accumulation and wealth-preservation journey, *Wealth: Grow It, Protect It, Spend It And Share It*, Lucas says, "Strategic wealth management is a philosophy and approach to wealth building that involves a number of key components – defining values; setting investment goals; deciding on a time horizon for wealth management planning (your lifetime or multiple generations); asset, liability, and cash flow management; control of spending; wealth transfer; and tax and risk mitigation — all coordinated in a strategic, synchronised way that results in a whole being worth more than the sum of the parts."

Since then, the family's wealth has been managed via a family office, overseen by several family members, with clear objectives.

The investment objectives, for example, are determined by a long-term goal of maintaining real per capita wealth over generations. This has worked out to a required return of 12% to 13% per annum over the long range.

But, as most investment veterans know, that's not a sustainable level over extended periods and may require taking inordinate levels of risk.

In fact, the family office has a policy to exclude investment-grade fixed-income assets because their returns would be insufficient, in addition to other rationales such as tax inefficiency.

Eight principles for sustaining wealth

Stuart Lucas has distilled more than 25 years of managing his family's wealth, his personal funds and clients' money into the Eight Principles of Strategic Wealth Management, which underlie his investment decision-making:

1. **Take charge and do it early**
2. **Align family and business interests around wealth-building goals and strategies**
3. **Create a culture of accountability**
4. **Capitalise on your family's combined resources**
5. **Delegate, empower, and respect independence**
6. **Diversify but focus**
7. **Err on the side of simplicity where possible**
8. **Develop future family leaders with strong wealth management skills**