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A Simple guide to Family Offices

Family offices have been around since the 19th century, the Rockefeller family being the most notable example. For some, the term may conjure up images of an industry stuck in the dark ages – where business is done over whisky and cigars or on the golf course. Rather than a physical location, family offices are full-service private wealth advisory firms that serve the needs of ultra-high-net-worth.

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Family Office Guide

1. What is a family office?

Whether it is a single or a multi-family office, the overall purpose is to grow and transfer wealth over generations. In addition to investment management, they often provide a breadth of concierge service which eclipse any single stand-alone service required by ultra-high-net-worth (UHNW) families. These services can range from philanthropy to property management.

The average wealth for ultra-high-net-worth families operating family offices is around $100 million in investable assets, with the company's financial capital being the family's own wealth. However, there is an emerging market of multi-family offices that serve a historically underserved segment – the sub-$100m category.

Family offices are a unique breed and tend to be incredibly opportunistic when it comes to putting capital to work. Where the average institutional investors require longer and more protracted due diligence cycles, family offices have significantly greater thresholds for longer investment hold times.

What was once a niche industry focused mainly in the United States has now gone global. Over the past two decades or so, family offices have rapidly evolved, thereby reforming the way in which the ultra-wealthy manage and allocate capital. An increase in private wealth has continued to expand the creation of new family offices in areas that were essentially void of family offices in the past.

However, like any vertical dealing with the ultra-wealthy, each family office is unique in set-up and structure requiring a different combination of services. What's more, as a new influx of wealth owners enter the market and family offices 'come online', we can see a diversification of wealth categories. Tech wealth is growing twice as fast as other private wealth, leading to an increasing number of entrepreneurs establishing family offices to manage and professionalize their capital.

2. Why start a family office?

Complex financial needs

Ultra-high-net worth families financial needs can be extremely complicated, which is why a family office provides significant value through its integrated service model. Managing a large pool of wealth can also be time-consuming and difficult and therefore, an external partner (such as Generation Private) can ease the process.

Gaining an overview

Family offices are designed to help families best leverage assets and preserve wealth through legal support and wealth management services. When families work with multiple professional partners, it is often the case that important items fall through the cracks. Working with a family office can therefore provide oversight and reduce the silo effect.

Trust-based relationships

Where financial advisory firms often experience high-turnover, family offices are built around the idea of long-lasting relationships. This personal touch creates the much-needed trust for ultra-wealth families – where the family office advisors are in some ways seen as extensions of the family. This trust is crucial with advisors gaining deep insight into the business and finance operations and as a result, being able to provide more strategic guidance.

Dedicated support

Family offices focus on few clients and rely on good relationships with family members for income. As a result, they are incentivized to deliver high-quality service and support. Many financial advisory firms provide advisors a stable salary and a commission, which can mean the interest to serve isn't quite at the same level.

3. What services do family offices provide?

Family offices often provide a comprehensive list of services across financial management, strategic planning, administrative support, and advisory services. Each of these domains is crucial to establishing a well-oiled machine.

Financial management

Investment management, reporting, managing wealth transfers, and lifestyle management are fundamental to good financial management in family offices.

Strategic planning

In order to support strategic planning for ultra-wealthy families, family offices must offer business advice, strategic estate planning, succession planning and educational planning.

Administrative support

Whilst financial management may be the primary function of family offices, handling correspondence with other service providers as well as philanthropic management, form a large part of the role.

Advisory services

Additional to the other domains are advisory services where family offices provide tax, legal, compliance, regulatory advice alongside support on risk management.

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The great wealth transfer

$68 trillion changing hands.

The major wealth transfer is well underway.

There is a major wealth transfer underway with the baby-boomer wealth transferring to their heirs over the next 20 years. Family offices hold a unique opportunity to assist this transfer and ensure wealth is not only protected but also aligned to the ambitions and values of the next generation of owners.

4. Four tips for starting a family office

a) Establish clear internal communication

Though the shared history of a family can be an asset to communications – it can also be a hindrance. A key advantage of a family office is its external setup which can provide organization and structure for a family.

When starting a family office, keep lines of communication clear to ensure that everyone is on the same page. With more stakeholders involved, it becomes more important to structure and organize communication processes for the different circles – board members, shareholders, family members.

b) Invest in research & Innovation

Whilst family offices are primarily concerned with preserving family wealth, there is an adjacent need to maximize this wealth through investments in new growth areas.

Tracking the latest developments is crucial in family-owned businesses, to ensure that the business remains relevant. It further helps engender longevity by creating an adaptable structure that naturally creates space for future generations. Areas related to yours should be regularly scanned for developments that might affect your business.

c) Manage your reputation

Reputation management looks at how a family and business want to be seen from the outside. If you do not put out the story you want to be heard, the media is likely to simply make up their own story for you –and we know how that can turn out.

Storytelling is also important when it comes to positioning. A clear story creates clear positioning in the minds of the public and that helps a company attract the top partners and investment opportunities needed to stay profitable.

d) Have a good gate keeper

Once it becomes known that you are a high wealth individual or family, there will be no shortage of opportunities thrust upon you. Anyone and everyone will be coming t you with “the next best thing”. It is important to have the trusted adviser (such as Generation Private) who can act as the

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gate keeper to these investment opportunities. It is incumbent on the trusted adviser to sort the real opportunities from the not so good opportunities and only present to you the opportunities worth considering.

5. What you need to know before getting started

We often get asked questions around family office structures. Here are a couple of questions to get you started.

Q1) What is the difference between a single-family office and a multi-family office?

Traditionally, these were the two main options in terms of management structures and there was a correlation to the level of wealth, with the single-family office coming at a higher price. Today however this speaks more of the client focus, either dedicated to a single client, serving a closed group or clients, or open to bringing on new clients on an ongoing basis.

Q2) What is an "open" or a "closed" family office?

This term refers to the commercial focus of a family office. A "closed" family office being one dedicated to a serving a single or a defined small group of clients. An "open" family office provides a service to a group of clients, and they are open to accepting new clients on an ongoing basis.

Q3) How do I start a family office?

The process of starting a family office can take several years. To start off it is important to look at some of the examples of good single- and multi-family office operations and try and see if there is anything that appeals in particular. Next taking some conversations with various types of family offices to understand what sets them apart can be helpful to try and narrow down what type of family office would be well suited to your needs.

Q4) When should I start a family office?

Family offices can either be started when there is still a corporate business owned by the family or individual or after a major exit or inheritance when there is a need to start managing wealth like a proper business. We always recommend that the family office commence whilst the corporate business is still operating for a few reasons namely:

1. The dividend paid by the corporate business need to be managed within the family office.
2. The family or individual should consider to extract capital from the corporate business for diversification and asset protection reasons.
3. When it comes to a liquidity event, the family office (as the major or sole shareholder) will be able to assist (or even manage) the sale process on behalf of the family.