

GENERATION PRIVATE – THE FUTURE FAMILY OFFICE

The Future Family Office

With the realisation of family wealth through liquidity events or wealth transitions, the concept of a family office is becoming more common and understandable by many families. It is an evolving concept but what will be the Family Office of the future.

1. What is a family office?

Before we embark on what a future family office may look like, let's define what a current family office's purpose is.

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, a family office provides a breadth of concierge services which eclipse any single stand-alone service required by ultra-high-net-worth (UHNW) families.

What was once a niche industry predominantly based in the United States, is now global. Over recent decades, family offices have rapidly evolved, thereby changing the way in which the wealthy manage and allocate capital.

Each family office is unique in set-up and structure requiring a different combination of services.

2. What will the future Family Office look like?

Increasing numbers

As the understanding of what a family office is increases and with an increasing number of family liquidity events, there will be an explosion of family offices over the next 10 years.

Use of Technology

Family offices (whether they be single or multifamily offices) will have an increased reliance on technology to measure and monitor their wealth. Whilst the use of technology is improving within family offices, its use to date could be viewed as being underwhelming. Many family offices are using technology software (like Xplan, Praemium, Netwealth (to name a few)) but these software products still require human intervention and with this, risk of error.

The requirement to have a system that can easily manage both custodian and non-custodian investments is paramount. Whilst there are other more sophisticated software applications like Addepar (as one example), these can be expensive and still require a large amount of human intervention.

In the recent Family Wealth Report, the article highlights the challenge for family offices to move away from the “unsecure and very inefficient tools of the 90s” – i.e. QuickBooks, Excel, and other programs which cannot scale for today’s complex investment and accounting needs.

Family offices waste huge chunks of the working week on manual workarounds as they struggle along with generic software for accounting and investment analysis. They spend many working hours on manual processes because they are trying to run high alternative allocations and scores of legal entities through multiple non-specialist systems.

The future technology solution will be a software application that can easily manage both custodian and non-custodian accounts, can easily consolidate data from multiple sources, can manage complex family ownership structures and has sophisticated data analytics to allow proper monitoring of investments which will allow Investment Committees to be able to make proper strategic decisions on asset allocations and quality of investments.

Use of Fund Managers

Fund managers have been criticised in the past for underperforming the market. As such, the future family office will be more inclined to invest directly into stocks, managed funds, private equity, venture capital and other alternative categories. Some family offices may continue to use a fund manager to invest in a particular asset category where they don’t believe they have an adequate skill set (eg domestic equities, international equities). As such the fund manager may be single asset class focused and will be able to be easily assessed against the asset class benchmark.

Notwithstanding that the future family office may be more of a direct investor, the question that remains is whether the family office has the appropriate skills to be a direct investor. To undertake this task successfully, the family office will need to employ a Chief Investment Officer or outsource this function to a specialist manager who can undertake the appropriate research and recommend to the investment committee the appropriateness of the investments. Given the greater cost involved in managing the direct investment approach may result in family offices joining forces to share the research cost.

This is not to suggest that fund managers will cease to exist. They have significant research capability and have significant insights on markets and opportunities. However, the future family office is unlikely to invest purely through fund managers and will be a direct investor or alternatively adopt a hybrid approach to investing which will entail a combination of investing through direct means as well as through fund managers, in areas where the family office lacks the expertise or does not want to gain that expertise.

Trust-based relationships

Family offices are built around the idea of long-lasting relationships. This personal touch creates the much-needed trust for wealthy families – where the family office advisors are in some ways seen as extensions of the family. Whilst many family offices have the trusted adviser, the role of the trusted adviser will become more paramount.

This will particularly be the case where there are numerous family interests and subgroups operating within the family office. The trusted adviser will be called upon even more to assist in navigating through the

myriad of family related issues that will arise from time to time. It will be more incumbent on the trusted adviser to provide that impartial view on matters and to have the strength of character to remain with their conviction rather than pander to the patriarch of the family.

Investment Committees

Whilst many family offices have an investment committee, it can lack to appropriate level of governance to be an effective committee. The family office of the future will have a strong and robust investment committee centred around both independence and strong corporate governance. All family members will benefit from this higher level of independence and governance. Whilst not expected to be mandated, it would be expected that the investment committee will have a majority of members who are not family members

Insource vs Outsource

The table below neatly outlines the various functions required by a family office. Many of these functions are outsourced to external accountants and lawyers. As family offices grow in number and sophistication, more of these functions will be insourced within the family office. We envisage that many family offices will join forces to reduce the cost of these services by forming multi family offices.



Conclusions

The future family office will be tech savvy having embraced new technology which reduces the amount of manual handling and can provide better real time access to investment performance.

They will also be more direct investors utilising the services of fund managers who have expertise in asset classes that the family office does not have nor want to obtain.

We will also see greater collaboration between likeminded family offices as they share resources to defray the costs that inevitably increase as family offices become more sophisticated and autonomous.