

OUTSOURCING FOR FAMILY OFFICES

Author:
Craig Holland
Managing Director
August 2023



INTRODUCTION

From accessing specialised expertise to improving efficiency and reducing costs, outsourcing offers numerous benefits to family offices. Read our latest insight to learn more about the functions they outsource, the benefits and drawbacks, and key considerations for a successful outsourcing experience, and how Generation Private can help.

What you need to know:

- Family offices outsource to access specialised expertise, increase efficiency, and reduce costs.
- Commonly outsourced functions include investment management, advisory services, accounting and financial reporting, software and IT consulting, and compliance and regulatory services.
- While there are some drawbacks, the benefits of outsourcing include accessing expert talent at cost-effective rates. Thorough due diligence and clear service level agreements are essential for a successful outsourcing experience.

In this insight, we explore why family offices choose to outsource, what and who they typically outsource to, and how to determine which services are suitable for outsourcing.



WHY DO FAMILY OFFICES TURN TO OUTSOURCING?

Family offices often outsource to access specialised expertise, increase efficiency, and reduce costs. Although internal staff may handle day-to-day operations, sometimes external skillsets are required to handle special situations.

A recent research report by Ocorian showed that a significant proportion of family offices already rely on third-party support. The report revealed that 63% of family offices use third-party assistance for managing illiquid assets, such as private equity, while 60% seek help with personal financial management for family members. Additionally, nearly half (48%) receive support for liquid investments.

WHO AND WHAT FUNCTIONS TO FAMILY OFFICES OUTSOURCE?

Finding the right provider to meet the needs of the family can be a challenge. As the industry grows, more and more financial institutions are opening up segments of their businesses to offer customised solutions for wealthy families. In addition, there are specialised firms offering bespoke solutions, such as Generation Private.

Investment Management

Family offices can outsource investment management to external professionals or firms that specialise in portfolio management. This is becoming a growing trend in dealing with today's uncertainty. One way to potentially improve investment performance for family offices is by seeking the assistance of an Outsourced Chief Investment Officers (OCIOs).



WHO AND WHAT FUNCTIONS TO FAMILY OFFICES OUTSOURCE?

Investment Management cont...

At Generation Private we provide this service for numerous clients who don't wish to employ these services internally.

At Generation Private we draft the Investment Policy Statement (IPS) in conjunction with input from the family. From there we seek tenders from fund managers and then make the recommendation to the family as to the preferred manager or managers. Once the funds are allocated to fund managers, we monitor investment performance on a monthly basis and report back to the family through our snapshot reporting. Each quarter we prepare a detailed investment dashboard comparing investment performance against the IPS targets, industry benchmarks and peer to peer reviews and comparisons.

Each quarter we also chair the Investment Committee (IC) meetings, inviting the fund managers to the meeting to discuss investment performance, investment changes (if any) and market outlook. This gives the IC (which includes family members) an opportunity to be across the investment performance and to ask the fund managers any relevant questions.

Advisory Services

When special circumstances arise, such as purchasing of a new asset class, the family offices can engage external advisors for strategic guidance. Perhaps an infamous example is the acquisition of Twitter by Elon Musk. The tech billionaire assembled a team of advisors to help with the takeover.

At Generation Private, in addition to investment management, we also perform due diligence on direct investment opportunities. We will report back to the family with our due diligence report and provide a recommendation on whether to proceed or not.

Furthermore, where the family is divesting itself of an asset, we liaise and coordinate with the relevant advisers to ensure a coordinated approach for the family. This is the same approach we take when undertaking estate planning for family members.



WHO AND WHAT FUNCTIONS TO FAMILY OFFICES OUTSOURCE?

Accounting and financial reporting

Another area where family offices can outsource their activities is managing accounting functions, financial reporting, bookkeeping, and payroll services. They need to ensure there are internal controls to prevent any mishaps. In addition, family offices should have the legal authority to prosecute any wrongdoing.

Generation Private has expertise in all of the above areas and more, offering a complete and tailored outsourcing solution for multiple family offices.

Other services that can be outsourced include software providers or IT consultants for technology infrastructure, as well as compliance and regulatory services to manage governance frameworks.

The costs and fees associated with outsourcing these services depend on the complexity of the engagement, the scope of work, and the providers' pricing models. Establishing clear fee structures and understanding the cost implications before entering into outsourcing arrangements is essential.

At Generation Private most of our family office engagements are fixed price retainer arrangements. This provides clarity and certainty to the family. We do not charge a performance fee for our services.

Family offices often outsource to access specialised expertise, increase efficiency, and reduce costs.



WHAT ARE THE BENEFITS AND DRAWBACKS OF OUTSOURCING?

Outsourcing services are becoming increasingly popular in family offices due to rising inflation and compliance pressures. Some of the benefits of outsourcing include accessing a wide range of expert talent at cost-effective rates. And in particular, smaller firms can rely on third parties to offer more sophisticated services and resources. However, outsourcing has some drawbacks, such as losing control of operations and becoming dependent on external providers. Confidentiality breaches are also a significant concern.

Conducting thorough due diligence on potential service providers is essential when outsourcing services in family offices. That includes assessing their reputation, track record, and regulatory compliance. It is also vital to define clear service level agreements, maintain open communication channels, and ensure data security and confidentiality. These factors are crucial to consider for a successful outsourcing experience.



HOW TO DETERMINE WHICH SERVICES TO OUTSOURCE?

It is important to assess the goals, capabilities, and resource limitations of the family office to decide which services to outsource. Some tasks are more cost-effective and efficient for larger firms to handle. For example, if customised performance reporting requires expensive software and takes up a lot of personnel time, outsourcing to a partner firm already invested in this service may be a wise choice.

Providing their own tax planning, preparation, and legal services can be challenging for many family offices. Outsourcing these functions may be a good decision. Also, outsourcing administrative services is common practice. That allows family offices to concentrate on more important matters.

Family offices frequently outsource certain tasks to gain access to specialised knowledge, streamline operations, and lower expenses. This trend is rising, with many family offices already turning to third parties to manage their illiquid assets, personal finance, and liquid investments.

It is essential to conduct extensive research, establish unambiguous service level agreements, and guarantee data privacy and confidentiality to ensure a successful outsourcing venture.

If any family wishes to have a more detailed and confidential discussion on the Generation Private service offering, they can contact Craig Holland on 0414 252 290 or craig@generationprivate.com.au.



GENERATION PRIVATE

Generation Private is a multi-family office practice servicing the needs of High Wealth Families. Generation Private provide a specialist tailored offering to its clients to seek and provide solutions to the many of the issues they may encounter. Whether it is compliance service, estate planning, investment management and reporting to family constitution development, Generation Private provides a holistic service to its high wealth client base.

Disclaimers

This publication has been prepared by Generation Private and reflects their views and beliefs at the time of preparation, which are subject to change without notice. This publication may contain forward-looking statements based on the author's beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. The publication is distributed by Jackabbey Road Pty Ltd ABN 38 116 959 972, trading as Generation Private ("Generation Private") authorised representative no. 1298223 of Omada Wealth Pty Ltd ABN 32 126 987 308 AFSL 538 532. Generation Private, its directors, officers or employees make no representations or warranties, explicit or implied as to the fairness, accuracy or completeness of the information contained in this publication. This publication contains general information only and is not intended to provide any person with financial product advice. It does not take into account any person's investment objectives, financial situation or needs. Generation Private recommends that you obtain professional advice before making any decision in relation to your particular requirements or circumstances. To the extent permitted by law, no liability is accepted by Generation Private, its directors, officers or employees, for any loss or damage as a result of reliance on this information contained in the publication. Past performance is not a reliable indicator of future performance. This document is for the exclusive use of the persons to whom it is provided being its wholesale clients and must not be used or relied upon by any other person. If you are not the intended recipient, you must not use or disclose the information in this research in any way without written authorisation.

Generation Private is a CPA Practice

Liability limited by a scheme approved under Professional Standards Legislation