

KNOW HOW BULLETIN

SINGLE AND MULTI FAMILY OFFICES

JUNE 2010

A CASE OF COMPETITION OR CONCORD?

Wealthy families are bombarded with offers of advice and service. Private bankers, lawyers, trustees, investment managers, accountants, insurers, art consultants and security advisers scramble over one another for the role of trusted adviser to the family. To even the most assured navigator of the wealth management world, the profusion of organisations purporting to 'be on their side' and offering an 'alignment of interests' can be bewildering.

Many families look to the idea of a Family Office for this alignment of interest.

But what sort of Family Office is required?

For some families the principal need is the management of investments. Others require a diverse range of professional and administrative services to meet the complex planning needs of international families, with extensive business interests, property and leisure assets, owned through complex fiduciary structures.

Should families build their own operations from scratch or use the expertise and infrastructure developed by others?

Whilst personal preferences play their part, this choice is best determined by the particular needs and circumstances of the family.

It can be reasonably argued that the simpler the needs of the family, the stronger the case for using a Multi Family Office. Indeed, many organisations describing themselves as Family Offices are essentially asset managers focused on the needs of wealthy families. By contrast, the more complex the needs of the family, the more difficult it is for families to find the right external support.

The central task is to identify the right practical arrangements to meet a family's needs. This will often include an assessment of the degree to which responsibilities are allocated internally and externally. This paper seeks to assist families in this deliberation and will focus on the comparative merits of the Single Family Office and the Multi Family Office.

FUNCTIONS OF A FAMILY OFFICE

'Family Office' is a flag flown by a wide range of organisations. It is taken here to describe a multi-disciplinary platform that enables families to identify and achieve their strategic goals.

A true Family Office will play a key role in determining the 'family approach' to a wide range of affairs, including *inter alia*:

- Family governance
- Fiduciaries
- Legal and tax planning
- Aggregated reporting
- Family business
- Property investment and management
- Banking and cash management
- Philanthropy
- Portfolio investments

The last item is obviously extremely important. Critically however, it is not the only item and the term 'Family Office' should not be taken as synonymous with 'Family Investment Office'.

THE SINGLE FAMILY OFFICE

The strategic and technical requirements of each family are different. There are no rigid rules as to the right approach. However, several perceived advantages are often associated with the Single Family Office model.

Privacy

There is clear evidence that many of those choosing to set up a Single Family Office do so in order to increase the level of privacy that they might enjoy.

More work is undertaken by a small, hand-picked group and less information about the family is circulated. Theoretically, data can be tightly managed and access to it monitored.

On the face of it, these are fair points. However, the fact that Single Family Offices have smaller operational teams can cause problems in respect of privacy. There is a greater need for the use of external agencies such as IT providers. It can be tough to properly vet the support teams and impossible in the event of need for external support to restrict access.

The concentration of a great deal of information and responsibility with a few people can also be problematic if the relationship sours. Larger organisations are able to put in place oversight mechanisms and 'Chinese walls' to ensure that information is managed on a need to know basis, regardless of seniority.

The physical and electronic security of smaller Single Family Offices can also be harder to protect.



Control

A family with its own Single Family Office need not fear that it will be sold or merged with another organisation. The family is sole master of its destiny.

Ownership and control can occasionally present new issues. Great care needs to be applied to the regulatory and tax issues that pertain in each relevant jurisdiction and the consequences of control being held by residents of each jurisdiction.

Dedication

A Single Family Office is a dedicated resource, devoted to one family. The personnel involved have no competing demands from other clients. The team should have an understanding of the family's affairs that is second to none.

There is an important drawback here. Often the Single Family Office team can be seen as essentially tied to one member or sub-group of a family. They can be 'Dad's people'. This association can, in pressured circumstances, generate a perception of partisanship. This in turn can mean that the Single Family Office team is not in a position, for example, to navigate through tricky succession issues or other disputes. Professional organisations are able to deploy different personnel and better manage these perceived conflicts as they bring an inherent independence to the table.

Bespoke

The Single Family Office can be designed perfectly to meet the needs of the family in question. The right expertise can be sourced. There are no commercial pressures on the organisation to do anything other than serve the client family.

However, needs change and a smaller organisation can be less well placed to meet them than a larger, better resourced one.

Alignment of interests

The family can in theory, be confident that their own Single Family Office staff is motivated solely by a desire to do the best for the family. They are not, after all, selling any products.

However, great care should be taken to ensure that the employees' and employers' agenda do not diverge. Even in a Single Family Office, staff with investment roles can feel just as compelled to chase performance through inappropriate risk taking as their counterparts in the broader market, especially if their remuneration depends upon it.

This concern extends elsewhere across the multi-disciplinary spectrum. Single Family Office teams may instinctively drift towards their comfort zones in terms of expertise or even areas of personal interest. This is particularly true if they are being encouraged to keep external contact and fees to a minimum. They may, for example, be reluctant to engage lawyers on a specific issue and prefer either to avoid the issue altogether or proceed in the absence of advice. A multi-disciplinary Multi Family Office can afford to retain a breadth of in-house expertise available to advise quickly and cost effectively on a day to day basis.



THE MULTI FAMILY OFFICE

Other families prefer to use a multi-disciplinary Family Office provided through an independent professional services group. Different arguments are available to advance in favour of this model.

People

Larger organisations may well be more able to attract talented personnel. They can often offer more compelling career paths and remuneration packages as they can include equity ownership in a growing business and the possibility to work with a number of families. This is often seen to make the work more interesting and to mitigate the career risk of an executive who is reluctant to put all his or her eggs in one basket.

Expertise

A larger organisation is also able to employ more specialists, producing greater breadth and depth of expertise available in-house to clients. This can produce conflict of interest which need to be properly managed.

This should then generate a genuine culture of learning, in which different disciplines are able to interact and produce very advanced intellectual capital.

Inter-disciplinary oversight is invaluable to families. Lawyers, accountants and bankers in reality need to be able to communicate briefly and regularly. A professional Multi Family Office is able to coordinate this in-house.

However at this stage there are very few Multi Family Offices with the infrastructure and expertise to deliver a full service to international families with interests spread across several jurisdictions.

Economies of scale

The economies of scale touched upon above extend to other areas. The grouping of families within one organisation can result in enhanced buying power that reduces costs and improves standards.

This can also stretch to the opportunities to leverage off the group's knowledge of markets, industries and other issues affecting wealthy families. Many families feel a need to find a forum in which they can exchange ideas with like-minded people who are facing similar issues. The Multi Family Office can provide this platform.

The Multi Family Office can also give the families it serves a voice in public debate. This means that policymakers' decisions can be informed by more direct contact with groups of those affected, without any loss of privacy or the need for 'to put heads above the parapet'.

Continuity

One of the fundamental purposes of a Family Office, whether it serves one or many families, is to make sure that in the event of crisis there is an operational structure in place to ensure the family can function effectively.

Crises happen in Family Offices too. Clients of Multi Family Offices depend on an organisation and not an individual or small group of individuals. Internal control systems and alternates are in place to provide continuity to the client in the event that key advisers are not available. Checks and balances mitigate the risks associated with putting too much responsibility in one person's hands.



Regulation

The banking crisis and the subsequent economic conditions have left governments looking for more control of the financial services sector. Heightened regulation seems inevitable. Single Family Offices are not necessarily regulated but may be. It appears likely that an increasing number will fall into the regulatory net.

The effective management of regulatory issues requires considerable resources and a strong corporate discipline. Multi Family Offices do not have a monopoly over either. Nonetheless, it might be reasonable to assume that a larger professional organisation with an established compliance culture would be more adept at dealing with the changing regulatory environment.

Longevity

Hard data on the typical duration of a Family Office is tough to find. A Multi Family Office with a track record of surviving both economic turbulence and transition through generations of clients is an attractive option.

Choice

A family can reverse out of a Multi Family Office with relative ease if their needs change or a better alternative is found. It is extremely hard to disentangle a family from a Single Family Office.

Multi Family Offices have other clients and a reputation to consider. In practice they are likely to end client relationships in a way that is as mutually satisfactory as possible.

Technology

Many aspects of a complex family's life can be improved by the use of the right technology. Accounting, aggregated wealth reporting, treasury functions, investment management and research are all areas in which technological solutions abound. Larger organisations have the resources and expertise to select, set up and maintain systems that are cutting edge and integrated. They are also able to maintain fully vetted teams to manage the inevitable glitches that all IT produces. They do not need to involve outside agencies either in a support function or as service providers, for example to supply server space. This improves security.

Cost

Research suggests that the maintenance of a Single Family Office can cost in the region of 65bps of total wealth. It is unlikely that a Multi Family Office would charge fees anywhere near this amount. The economies of scale available to Multi Family Offices mean that in respect of costs the balance tips heavily towards them. This is especially relevant for those families who, in terms of net worth, fall towards the mid to lower range of those likely to require Family Office services. These families may feel that a Multi Family Office can deliver the right services within a proportionate budget.



THE RIGHT BALANCE

The importance of these individual considerations will vary from family to family. The scale of family wealth will be a particularly important factor in determining the right approach.

No complex international family can function without a significant in-house function. The question is the extent to which responsibilities should be retained or devolved. In other words, families should not feel they face a choice between the two models. The challenge is to create the right relationship between them.

The fact that those closest to the family will have strong preferences and personal interests in the matter does not make this balancing act any simpler.

As always in the area, excellent advice that is truly independent remains at a premium.

FOR MORE INFORMATION



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