

KNOW HOW BULLETIN

DEFINING THE NEED FOR A FAMILY OFFICE

JUNE 2017

Many wealthy individuals, particularly successful entrepreneurs, reach a stage when they might benefit from the services of a family office. Their affairs become so complex and their transactions so numerous that they need an individual or team to keep on top of it all, to handle day to day matters as they arise, conduct necessary research, and brief them on the background when decisions are required.

They may wonder how the service of a family office differs from that of a typical wealth manager? The clue is probably in the name, in that the family office is at least as much focused on the family itself, as it is on the wealth.

FAMILY FOCUSED APPROACH

The 'family focused' approach recognises that the long-term preservation of wealth, across generations, is far more dependent on the family itself than on professional advisers and that engaging family members in the purpose and process of stewardship is a crucial ingredient of the service.

Equally, just as the family impacts on the wealth, so the wealth has a deep impact on the family and family members. There is little point in creating and handing on wealth if it does not help those who inherit to have fulfilling as well as prosperous lives.

So part of the reason for a family office is to integrate a plan for the management and administration of wealth with a plan for the family succession, which usually includes collective agreement on the purpose of the wealth and key objectives. It also includes family governance, essentially the framework for decision making, leadership and family communication. This is designed to unite the family in common purpose (as regards assets they collectively own), to help reconcile differences of view and minimise the potential for dispute.

In every family there will be some members who are actively interested in and motivated by the opportunity to manage and create wealth

and others for whom wealth is simply a means of funding their lifestyle, thus being more inclined to rely on professional advisers. These differing perspectives need to be reconciled, which can have a major bearing on decisions concerning family assets.

The family office role thus demands deep knowledge and understanding of the family, as well as the assets they own and expertise across all aspects of their affairs, sufficient to contribute to high level decisions. For larger 'multi-family' offices, they will also contribute great practical experience drawn from other families going through similar circumstances.

But this is only part of the reason for having a family office.

KEEPING ON TOP OF COMPLEX ARRANGEMENTS

Apart from the significance of the word 'family', the other word is 'office'.

The need for a private office can simply reflect the number and complexity of tasks to be undertaken and decisions to be made, bearing in mind that many of these decisions cannot be taken in isolation, and require the input of someone with detailed understanding of the broader picture.

Many entrepreneurs have numerous investments and ventures, perhaps held through different holding entities, with complex tax issues and sometimes quite sensitive family considerations. There comes a point when it is almost impossible to carry all the necessary background in your head and the need arises for more disciplined and well-structured processes and record keeping, supported by an individual who understands all the issues.

He or she must be able to identify problems, offer opinions and bring a degree of expertise and

experience. In some cases, such an individual can become indispensable, allowing the entrepreneur to focus on his or her core activity, without having to worry continually about the details of their financial and family arrangements. Crucially, such an individual also gives peace of mind to those who are concerned by the prospect of an unexpected event leaving their spouse or children with a complex financial situation, of which they have very limited understanding.

THE VALUE LIES IN THE COMBINATION

Overlaying this, some aspects of the arrangements may demand significant professional input and the family office procures such input either from within its own professional staff or from an external firm.

It is this **combination** of managing family arrangements, providing expert administrative support, and bringing high levels of technical expertise and experience, that make the family office highly valuable and very different from a typical wealth manager.

The precise needs of an individual or family vary enormously, depending on circumstances. For example how large or complicated is the family? What is the mix of assets and how are they held, in which countries? What are the capabilities and objectives of family members and how is this likely to change in the future? To what extent are they primarily looking for administrative support and technical advice or do they also want someone who really contributes to major decisions and long-term strategy / succession?

Only after addressing all these issues is a family able to begin considering what sort of family office they require. The most important decision is whether to have their own dedicated family office (single family office) or to find a so called 'multi family office' which operates as a commercial business, serving a number of different families. In some cases a combination of the two may be appropriate.

FUNCTIONS OF A FAMILY OFFICE

The functions of a family office are, by definition, many and varied, to meet the needs and preferences of the particular family:

SOPHISTICATED ADMINISTRATION

A family office always provides extensive administration and reporting, which may require a sophisticated operating platform, depending on the nature of the family assets and structures.

This can cover numerous trusts and companies, bank accounts, investments, commercial ventures, properties, art collections and leisure assets. In many cases, the structures, the assets and the family are spread across a number of different countries, which adds to the complexity and the need for tax and legal advice to be followed meticulously in every movement of assets.

FAMILY GOVERNANCE

The family office will usually have responsibility for operating family governance, ensuring a proper framework for making decisions, arranging and facilitating family meetings, and organising family communications, which will include trustees, directors, and professional advisers, as well as family members. This is far more than an administrative task, as it involves proposing and agreeing the agenda, providing relevant information and analysis, obtaining and interpreting professional advice, prior to the meetings, often helping to resolve differences of view.

ASSET MANAGEMENT

Nearly all family offices are directly responsible for the management of liquid assets, such as cash and investments, although the day to day running of portfolios is often outsourced to professional managers. The investments may include private equity holdings, both directly held and through

funds, so it is common for family offices to have an in house private equity or corporate finance team.

THE FAMILY BUSINESS

For those who have a family business, the family office will also play a role in helping to manage the relationship between the family and the business and, in particular, ensuring the interests of all family shareholders and beneficiaries are properly considered, when major decisions are taken.

PROPERTY, ART AND LEISURE ASSETS

Residential and commercial property have always played a central role for most families and the management of art collections has become an increasingly important function as the value of the art has grown. Many families also own boats, aircraft and other leisure assets.

PHILANTHROPY AND IMPACT INVESTING

Recognition of the need to focus more formally on their contribution to society has increased emphasis on philanthropy and impact investing, both of which also play an important role in passing down values from one generation to the next and helping to shape the family culture.

MANAGING TRANSACTIONS

Some families are very active in terms of regular transactions involving commercial ventures, property, art and leisure assets, and their family offices must be equipped to manage these transactions, including appraisals, diligence, structuring and funding.

TAX AND FINANCIAL PLANNING

Overlaying all the above, will be tax planning and coordination of advice, which is an ongoing process, as tax will probably have a bearing on nearly every substantial transaction.

TOTAL RISK MANAGEMENT

A sophisticated family office will operate a framework for risk management across the spectrum of the family's affairs, including risks arising within the family as well as risks attached to particular assets. In the current environment, there is increasing focus on reputational risk and cyber security.

FAMILY EVENTS AND DISPUTES

They will deal with the implications of all routine family events, such as births, marriages and deaths and may play a key role in the event of family disputes, divorces and other problems. This deep and often sensitive involvement in personal issues means they develop a very close understanding of the family itself, which is extremely helpful in their guardianship of the family wealth.

STRATEGIC REVIEWS AND SUCCESSION PLANNING

Finally, the family office will normally be involved in all strategic reviews and major decisions and may play a leadership or facilitation role. This will nearly always include developing and implementing plans to pass the legacy to the next and subsequent generations, which is arguably the most important component of long-term wealth management.

ADVANTAGES OF SINGLE FAMILY OFFICE

The main advantage of the dedicated, single family office is direct control over the staff, who are entirely focused on the affairs of one family, free from the inevitable conflicts of serving other families or pursuing the corporate objectives of a commercial business (including targets etc). It should therefore be hoped that any advice received is unbiased and that the office will be flexible enough to respond to the changing needs of the family at any given time.

Privacy is also a considerable advantage, with sensitive information confined to the minimum possible number of people, all of whom are directly known to and employed by the family itself. Given concerns about data security this is an important factor for some families.

Finally, the single family office is usually not subject to regulation, which is an increasingly cumbersome and expensive burden for commercial providers.

These advantages can be of great importance to a family, but need to be weighed against the fact that depending on size of assets, they may not have the economies of scale of a commercial operation. In addition, there are a number of other attractions of going down the 'multi family office' route, or indeed of finding a compromise between the two.

ADVANTAGES OF MULTI FAMILY OFFICE

In theory, the main advantage of the multi family office (MFO) is that it has the economies of scale, and hence can offer a more sophisticated operating platform, much greater diversity of expertise and invaluable practical experience of other families, addressing similar issues.

The complexities of managing wealth in all its forms have increased dramatically over the last decade and require increasing input from specialist advisers. Having extensive expertise 'in house' can thus be much more effective in ensuring the correct advice is always sought and applied. In some cases they can apply the same advice across a number of families, also reducing costs.

For potential clients, the practical experience of other families is among the most attractive features of a multi family office, in that they are usually keen to learn how other families have dealt with similar situations and what lessons have been learnt.

The operating platform is of particular importance for those with diverse assets and holding structures, as it enhances efficiency and enables flexible reporting tailored to particular circumstances.

Finally, a further advantage claimed by MFO's is that they provide a more attractive career for staff seeking the opportunities of a more commercial environment. They are hence better placed to attract and retain staff of the quality required and less dependent on a single individual.

THE INTERNATIONAL FAMILY OFFICE

Whilst the above advantages can be claimed in theory, the practice is that most MFO's are quite small boutiques with perhaps only 30 – 50 staff in one or two locations, and a relatively small number of client families. Such 'boutiques' are limited in the expertise they can carry and in their international representation. They hence tend to focus on certain types of families with limited needs, some of them, for example, primarily focusing on the management of liquid assets, rather than the broader wealth of the families they serve.

For international families with a wide variety of assets, held through multiple structures, the future must be for larger, more international MFO's, which can genuinely meet their needs. This means being able to add value across the totality of their affairs, but nearly always working in partnership with other professional advisers.

THE COMPROMISE SOLUTION

In general, the wealthier the family, the more likely they will want their own dedicated family office, especially to deal with more personal family issues. However, it is now common for such families also to use a multi family office, for aspects of their affairs which will benefit from greater economies of scale, access to a broader range of expertise, capabilities in a number of geographies and a more sophisticated operating platform.

CONCLUSIONS

Deciding on the need for a family office service is typically driven by the realisation that day to day management of the family's affairs is becoming a task which exceeds the capacity of a single individual family leader, without restricting their involvement in other matters (such as running the family business). This often coincides with the wish to begin involving the next generation, which also increases the need for more formal decision making processes and family communication.

The very wealthiest families will nearly always want their own, dedicated family office, but quite frequently combine it with using selected services of a MFO or International Family Office to access its broader range of expertise and operating platform.

For all families, the decision about which type of family office must start with a thorough and frank appraisal of the family's principal needs. They should think very hard before putting in place an expensive bespoke operation, if they can find a multi or international family office which already has the infrastructure, expertise and experience to meet their needs more effectively.

FOR MORE INFORMATION



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Mark is a Partner and the Chief Executive Officer of the Family Office Division. He serves as a Key Adviser to a number of high net worth international families.

Mark joined the Stonehage Fleming Group in 2001 and was based in our Neuchatel office before moving to the Geneva office in 2009. Prior to this he worked for four years in London with DLJ and CSFB. Mark has completed his professional training with Deloitte and Touche in South Africa and the USA.

Mark is a Chartered Accountant and has a Bachelor of Commerce degree and Post Graduate Diploma in Accountancy from the University of Cape Town. He is a member of SAICA and affiliate member of STEP.



Jacqui Cheshire
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Jacqui is Head of our Family Office Division in Switzerland. She serves as a Key Adviser to a number of high net worth international families.

Jacqui joined the Stonehage Fleming Group in 2000 and was based in our London office before moving to the Geneva office in 2009. Prior to joining the Group she worked for Deloitte & Touche in South Africa in their tax department. Jacqui has a Bachelor of Business Science degree from the University of Cape Town and a higher diploma in Tax Law from the University of the Witwatersrand.



Roelof Botha
Director - Head of Family Office, London

Roelof is Head of our UK Family Office Division which provides advice and operational support to high net worth families and individuals using Stonehage Fleming as an outsourced family office. He assists global families in managing their worldwide affairs and controlling their risk.

Roelof joined the Group in 2012 from Deutsche Bank in London and was based in our Neuchatel office before moving back to London in 2016. He holds a Bachelor of Accounting (Honours) Degree and qualified as a Chartered Accountant with KPMG in 2007. Roelof is a member of the SAICA and an affiliate member of STEP.

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