

## *A Susan Campbell Writing Sample*

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### **Family Office Fundamentals**

*Family offices are increasing along with American wealth*

The Rothchilds did. The Rockefellers did. And the newly wealthy who want to leave financial legacies, like these families, can too. They can institutionalize their personal wealth through a business structure called the family office. Interest in family offices has proliferated with the number of wealthy American families. There are an estimated 30,000 who have more than \$10 million in investable assets, according to the Institute for Private Investors (IPI). But the complexity of one's personal business affairs is often a better litmus test for establishing a family office than dollars alone.

Family offices centralize all the functions of private wealth management — asset allocation, investment policy, tax and estate planning, risk management, fiduciary, philanthropy — and hire one or more executives to strategize, implement and govern these in the best interest of the family as it grows, ages and passes on wealth. Personal services and the influence of family dynamics on investment and business decisions also play a role in managing a family's private wealth. The family office traditionally combines the best of private wealth, personal service and family relationship management.

There are basic two types of family offices. The single-family office provides a dedicated resource for meeting one family's specific objectives, while multi-family offices pool the wealth of two or more unrelated families for economies of scale. This article examines three organizations' views of some challenges and trends affecting both types.

### **Networking and getting educated**

A family or fiduciary looking to establish a family office can network with other wealthy families through an organization such as Family Office Exchange (FOX), an advocate for owners of exceptional wealth. FOX members can also educate themselves about the many areas of private wealth management that might interest them by accessing the FOX database. According to Sara Hamilton, founder and CEO of FOX, "In our early years, our role was to find anything out there about private wealth management. Today there is so much information that our current role is to filter it all and help clients better understand what they really need to know."

Beyond the scope of a typical wealth advisory firm that oversees investment, tax and estate matters, the family office can take on broader and intricate functions unique to the very wealthy: managing airplanes, artwork or real estate, organizing household affairs, paying bills and performing other concierge services. "It has become more important for

the wealth owner to be thoroughly educated about ways to own assets, not simply how to invest them, and to have someone representing them on the buy-side of services,” Hamilton says.

Support like this will be a growing industry trend, Hamilton says, as investors want to avoid conflicts of interest between the advisor and the product offered. She said FOX is creating tools to help educate wealth owners about the way financial institutions do business in order to anticipate biased advice.

### **Building an infrastructure**

For family heads to achieve their objectives, such as buying or selling a company or transferring ownership to the next generation, they benefit from a family office structure that manages efficiency and mitigates risk. Family Office Metrics (FOM) gives advice to family offices about successful practices in business organization. “The two key variables when a family considers if they want to build a family office are: complexity of the infrastructure needed to achieve their goals and how much control they wish to keep or delegate to a fiduciary,” said CEO and founder Jon Carroll.

Using a complete business review process to identify issues, advocate solutions and recommend the technology to implement the solutions, FOM views family offices as an extension of a family’s purpose and its legacy. “The assets of the ultra-rich are so large that the focus is usually on investment management. That’s short-sighted,” said Carroll. “Families that endure develop their human capital.” Assessing the human capital available, discussing with the family its best use and the resulting wealth management implications are ingredients rarely found among traditional wealth advisory firms. Family office advisors can add greater value by being cognizant of family dynamics and governance structure.

As a result of their growing popularity, family offices are also hitting regulatory radar screens. Carroll believes that in the next few years, the SEC may aim to regulate family offices more thoroughly as investment advisors. “As generations go on and the number of family office participants increases, there may be some difference of opinion on how accounting should be done,” he said. “Families should prepare a point of view on what may become a confusing area in the near future.”

### **Identifying trusted advisors**

Trusting relationships are the glue of successful family offices. That is why founder and CEO Charlotte Beyer gave The Institute for Private Investment (IPI) a mission to bring together private wealth investors and their advisors and to improve the way they work together. “I kept hearing from both the family and the family office executive how isolated they felt,” said Beyer. “There was no one to go to and learn how to be a good CEO of their wealth, who didn’t compromise their privacy or make them a feeding frenzy for salesmen.” IPI provides educational events and a “safe harbor” forum for networking.

This confidential electronic community furnishes case studies and cutting edge thinking on topics such as, how does one know if their portfolio is balanced? What questions

should be asked of a private banker? What's important to know about hedge funds? More notably, clients can post any question to the membership in private. "If members thought that advisors were getting their names or that someone would get their email address, our electronic community would never have grown," she said.

With education as its mission, IPI is working to help wealth owners engage the next generation. "An old proverb says, teach a person to fish and he'll eat for a lifetime. I don't believe investors want to learn to fish or want to replace their portfolio managers. But they do want to know how to pick the fisherman and know it was the right choice five years later," said Beyer.

*Susan Campbell has more than 20 years of experience implementing creative solutions to financial services marketing communications problems.*

Sidebar:

### **Family Office Facts**

#### **How much money is needed to form a family office?**

Family Office Metrics (FOM) says that single family offices are viable at \$100 million because of the costs associated with running one: between 50 and 100 basis points, depending on the complexity of the family's financial affairs. One needs to hire at least two persons, such as an investment advisor and a controller, and perhaps a personal assistant. These need a place to work, telephone and computer systems, travel and other expenses totaling approximately \$100,000 per year. Add up to \$400,000 if the family's more complicated affairs require more back office work, trusts, portfolio analytics or systems to manage assets, allocate them and report to the various family members. FOM says families with \$25-\$75 million can become clients of multi-family offices.

#### **How many single family offices exist today?**

The Institute for Private Investors estimates 2,500 to 3,000 single family offices operating in the United States, and another 6,000 family offices existing informally within privately controlled businesses. There are approximately 50 multi-family offices involving some 100 US families, up from 20 only three years ago.

#### **Are family offices outside the United States?**

According to Family Office Exchange (FOX), family office is a new concept outside of the US, and therefore data is difficult to collect. FOX says Europe is setting trends in another critical way: Legislation was implemented in Britain on March 1<sup>st</sup> that requires financial professionals to report any suspicion of tax evasion or face a 14-year imprisonment. That responsibility would fall to the due diligence gatekeeper of a family office should US regulators follow suit.

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