Beyond the Gilded Walls: LatAm's Affluent Seeking MFOs

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When the news came that Brazil won the bid as host country for the 2016 Summer Olympic Games, a BBC correspondent reported there was a collective, unbridled joy on Rio de Janeiro's famed Copacabana Beach - silver glitter floating through the air and voices singing, filling the skies.

"The golden sand disappeared under a sea of green and yellow, the colours of Brazil."

The win surprised many as Rio's colorful, sun-and-fun image is often tainted by the ugly side of lawlessness in the city. But in an interview in 2010 with the Wharton Management School, Carlos Roberto Osorio, secretary of the Brazilian Olympic Committee, gave some insight into Brazil's successful bid. In the interview, Osorio pointed to seeking the best advice it could get from the Brazilian government and Brazilian society, then turning to the outside world.

Osorio said, "So, we didn't pretend that we knew everything. We knew that we had many things to learn, and we got very good people from Australia, from the United States and from Europe, who added their talents to our team, to build a very strong [bid]. And this, I think, was one of the reasons for our success. We are very proud to say that we definitely had the best consultant teams in the bid process."

These words and the thinking behind them are easily transferrable to the financial industry - and in fact resonate well with the growing trend of multi-family offices throughout Latin America.

The concept, of working outside of a family's own walls is still approached with some trepidation. Single family offices, after all, provide a measure of safeness.

"The primary reason for having a [single] family office is confidentiality,"; says Nate Suppaiah, partner at Buenos Aires-based Capricorn Research Group. "There's paranoia involved, kidnapping, government crises, economic collapse. So having one person that no one knows about dealing with all of your money is very effective."

Today the dynamics are changing, such that opening doors to other families and advisors is perceived as being beneficial for the long term.

One reason is that families are becoming more sophisticated in the types of investment vehicles they are selecting. Things like private equity, sovereign debt, and offshore accounts have become popular, Suppaiah says. Families are also investing abroad other than focusing all of their efforts on the family business, he also points out.

Latin American investors have more to work with. The average HNWI in the US has $3 million. While Latin America may have fewer HNWIs, the average is $25 million, estimates Suppaiah.

"Latin American [single] family offices have really become extremely sophisticated entities with a lot of cash due to the liquidity events of the nineteen nineties", says Buenos Aires-based Daniel Melhem, founder and senior partner of Knightsbridge Partners, which works with clients globally. "And how well companies have done in the last twenty years across the region. And then you have the family offices that were naturally independent entities from those companies and are managing their wealth in a very sophisticated way on a global basis," he says.

Knightsbridge opened in 2003, partly driven by major events in 2001, 9/11 and the Argentine default. Melhem left his position at Morgan Stanley, opting to work on the client side, rather than that of a large institution because he felt that the products he was asked to sell at the bank didn't truly match a client's needs, particularly in 2001.

Melhem pinpoints the 1990s as a time when more Latin American families developed wealth through liquidity events. During that time, he says, there was a move to top capital markets by an initial public offering, both in local markets while also in the US with American Depository Receipts.

"So there was a liquidity event. And these families all of a sudden find themselves with a lot of cash in hand but they did not have the same level of professionals working for them, for instance, in their office to be able to manage and to allocate investments appropriately as they did in their companies or corporations," explains Melhem.

Santiago Ulloa, president of GenSpring International in Miami, claims fame to opening the first MFO - TBK Investments - in Latin America in 2000, due in part to this reason. (TBK was bought out by GenSpring Family Office in 2007.) Like Melhem, Ulloa expressed dissatisfaction with the large institutions.

"I was dealing with UHNW individuals in Latin America and I saw the service they were getting from the banks and brokers was not the optimal one," he says. "I saw how the industry was developing in the US. And I thought it would be a very good opportunity to create something based on similar products from American banks."

Ulloa emphasises families' needs to assist with fiduciary and fiscal work, contingent upon a trusted advisor. The problem in working with a bank, he says, is there is inevitably some form of conflict of interest. Their products weren't necessarily the right ones for a particular client and there was a growing need for someone to analyze their overall portfolios.

At the time, TBK Investments was not exactly met by investors with open arms.

"It was difficult because no one at that time really understood what a family office was," say Ulloa." It was really very complicated - [to get families and individuals to understand that] you have to pay for the service and understand what that service was. After awhile when we started working with a few clients, they saw that we had a much better approach, much more control - and risk control and were able to make more money with lower risk."

Right now, the transfer of wealth is playing a part in the growing popularity of the multi-family office.

"Many fortunes are now moving to the younger generations; many educated abroad who have a more global outlook and are also more open to more sophisticated investment vehicles," says Capricorn Research's Suppiah.

According to Knightsbridge's Melhem, the younger generations are studying abroad and attending top tier universities in places like the US (such as Harvard and Babson College) and the UK (including Oxford and London School of Economics).

"They are extraordinarily well-connected across the financial industry because they befriended people who are in the US, Middle East, Europe and Asia, who all went to the same universities together. And today, through immediate means of communication like email and social networks - you keep much more in close contact with these friends," he says.

Curiously, MFOs are facing a bit of the same challenges as before, though families are much more familiar with the benefits they offer now. On the one hand, more wealth holders recognize the advantages in signing on with a trusted advisor, particularly after taking significant hits to their wallets in 2008. Industry players see more families taking a proactive approach in going beyond working with the large institutions.

Knightsbridge's Melhem says wealthy Latin Americans may find it ideal to have a SFO, but also work with a MFO that has a particular area of expertise to suit their needs.

"They can have the local [single] family office to look at the local market and investments, while retaining a multi-family office to advise them on markets, like Europe or the US and so forth... that's where the trend is going," he says.

GenSpring's Ulloa agrees: "The concept of the family office is better known now than 12 years ago. So there are people realizing there are different ways of managing their net worth than just to hire an internal accountant and work with the different banks. There are more options. One is to set up their own single family or to hire a well-established multi-family office to help them do some of the things that they need. I see very high end multi-billion dollar people setting up their own single family offices. But, at the same time outsourcing some of their needs to third parties. For example, investment capabilities and in some cases when they don't want to have all of the information in their own country, they also outsource the accounting to third parties."

With more recognition, many new MFOs are being created.

One such entity is SP Family Office, which launched two years ago and works with clients from Argentina, Brazil, Chile, Mexico, Panama, Peru and Venezuela. Jorge Suarez-Velez, partner at the firm in New York, says he believes HNW families and individuals understand that working with the banks can be too time-consuming. If they hold accounts with five to seven banks, conversations will be with that many bankers.

"And you have to be listening to what they have to offer you with the 'flavor of the day.'... So if you have someone that basically does this for you, then it's much more efficient. This individual will summarize all of their account information with all of the banks, provide an outlook, who has been doing a good job with calls on the debt markets, who has good access to a hedge fund that is best in class... It's very hard for families to view their wealth as a whole," he says.

Suarez-Velez raises the point that families used to be asset rich.

"Now they are increasingly becoming cash rich. That puts them in a totally different environment that needs to be much more professional," he adds.

This is one of the reasons New York-based multi-family office Galileo Investment Management was launched in 2005. It has three founding partners from Mexico and works with families in the country as well as Europe and the US.

Says Oscar Alerhand, owner of Galileo: "[The firm] came about almost by accident in the sense that the conversations with some of our current clients came out of the frustrations of working very hard to create their businesses that took a long time to build. 'We don't want to play; we want to truly invest [our capital].'"

Alerhand notes that the families that initially signed on as clients own a small part of the firm.

"As a role in investing for high-net-worth individuals - we ensure that interests are completely aligned - that's very important to us," he says.

Globalization is playing a hand in the need for more sophisticated services. SP Family Office's Suarez-Velez points out that it "increasingly common to have members of [many] families to either be American or have some sort of presence in the US. So that adds another level of challenge where you want to make sure you are always complying with US law."

Growth in the industry is inevitable, says Galileo's Alerhand.

"Single family offices will soon see that they cannot do everything well... At some point and for certain investments you need specialized expertise [you need to have advisors]. [Single] family offices need to recognize what they do very well and what they need to hire services for. It's part of the evolution," he says.

That said, GenSpring's Ulloa warns there are many MFOs cropping up, but families should be wary as to whether or not they are truly adhering to the code of the structure. He sees a lot of entities that may have official ties to banks, for instance, that still create a level of conflict.

How can families avoid working with, essentially, the impostors?

"I would try to see if the [multi-] family office and the people serving them is based in the US," says Ulloa. "I would request a copy of their registration with the SEC and ask to see legal forms that describe how they are compensated. Questions to ask are: what is your compensation model? Do you receive any other source of income? How do you make recommendations? Do you have family governance, protocol, fiscal and fiduciary? Do you work with philanthropy?"

"We will see more people getting into the space, which is great for the industry because we are creating an industry right now. Twenty years ago it didn't exist. We really want to have more people in the space. But, it's important to know who are the real ones and who are not because that could cause harm to the families by saying they offer certain services, only to find their exists a conflict of interest."

