



Inception of a family office

Is a family office right for you? Asking the right questions will help you and your advisers explore your options.

By Kirby Rosplock

IN THE WEALTH MANAGEMENT MARKETPLACE, the buzzword of the day is “family office,” especially now that celebrities such as Oprah Winfrey are setting up their own family offices. Once a relatively unknown concept, accessible only to the *über*-affluent such as the Rockefeller and Phipps families, the family office has increasingly become more mainstream—yet it continues to be an enigma.

As is true of “family business,” there is no one consistent definition of “family office.” Many families may not even realize that the folks who professionally manage their wealth, finance, accounting and concierge services would be considered a family office.

The Family Office Exchange (FOX), a professional organization providing research, education, networking and advice to family offices and the families they serve, defines a family office as “a unique family business that is created to provide tailored wealth management solutions in an integrated fashion while promoting and preserving the identity and values of the family.”

Similarly, a multi-family office is a family office that assists multiple families with a variety of issues related to their wealth management needs. The multi-family office is a more recent phenomenon, primarily in the U.S. Most multi-family offices are started when a single family begins to allow additional families to become members of their office.

Family offices are designed to prepare family members to collectively manage their wealth over multiple generations. They help manage tax, fiduciary and compliance needs; assist in investment management, risk management, estate planning and trust admin-

istration; provide support for philanthropic activities; conduct financial education programs for family members; and support family governance and wealth transfer.

Three paths to a family office

According to Barbara Hauser, a leading family adviser who consults to large international family enterprises (*Journal of Wealth Management*, 4:15-22, September 2001), families generally take one of three paths to a family office. In the first scenario, the family office emerges as an outgrowth of the family’s operating business. Initially, the family’s financial affairs are managed internally by employees of the business, but as the family’s assets grow and its financial, tax, estate planning and investment requirements become more complex, the wealth creator decides to hire dedicated, full-time staff to assist with these matters separately from the operating business. Further, with the growing complexity of the family’s personal financial affairs, there is an increasing interest in privacy and a need to separate family members’ personal financial affairs from the operating business.

In the second scenario, a family office is created after the sale of all or a significant portion of an operating business. The research firm CapitalIQ estimates that three-quarters of all private equity transactions between \$5 million and \$250 million involve a family business. After the sale of a family business, typically in a cash-out deal, family members may be left in unfamiliar territory. Having made their wealth via their family business, they often distrust larger institutions to manage their wealth affairs. Instead, they turn to a financial adviser to assist them with the setup and creation of a family office structure; or they may join a multi-family office.

The third scenario is a result of “sudden wealth syndrome.” The quintessential example of sudden wealth is a lottery winner who hits a megamillion-dollar jackpot. In the business world, many young entrepreneurs generated “overnight” wealth during the mid-1990s’ dot-com boom. Sudden wealth also may occur in high-net-worth families who experience generational wealth transfers. Inheritors may not have been properly educated about their inheritance and may be surprised to learn that a



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trust has terminated and they are now the outright beneficiaries of significant wealth.

Regardless of how they arrived at their wealth, families should arm themselves with information as they consider starting or joining a family office. There are a number of key issues to consider.

Single family office (SFO) vs. multi-family office (MFO)

Before the market meltdown of 2008, establishing a single family office was appropriate for families with liquid assets of \$100 million or more. However, with the recent erosion of wealth in the financial markets, Tom Livergood, CEO of the Family Wealth Alliance—a firm that advises wealthy families and family offices—has suggested that “a full-service family office requires well over \$500 million in assets today. A bare-bones family office with limited services—and most of them outsourced—could get by with \$200 million to \$300 million.”

More than financial wealth is needed to set up a single family office. Also required is a broader understanding of the design, function and approach of a family office and how it would fit your family’s goals, personality and expectations.

SFO family profile. The typical family that establishes a single family office cherishes privacy and anonymity and values having total control and oversight of the family’s wealth. The family leaders typically want to be at the proverbial center of managing their wealth and want their finger on the pulse of each of the advisers with whom they interact. The family leaders often have a strong “do-it-yourself” and “learn-by-doing” mentality and prefer to be “integrators” as opposed to “delegators.” Although they realize they must be discreet, they take great pride in

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having their name on the family office’s front door. They enjoy crafting a customizable platform to suit their family’s needs—one that is solely dedicated to their family’s interests. They are willing to pay a premium to outsource services that they may not need a full-time staff member to perform. For example, they may hire consultants or an MFO to provide services related to family education, governance, conflict management, beneficiary or trustee education, and family meeting facilitation.

MFO family profile. The family that opts to join a multi-family office is typically more comfortable delegat-

ing wealth management responsibilities to a team of professionals. The family leaders recognize that their wealth may require skills and knowledge that are out of their realm of expertise. Members of these families understand that setting up a family office is, in fact, starting another business and, for some, starting a whole new career. For families involved in a leadership transition, the challenges of establishing a single family office can be doubly daunting, making joining a MFO more appealing. These families appreciate the continuity and readily available resources and staff that an MFO affords. Additionally, because an MFO works with many different families facing similar issues, MFO staff are well versed in best practices in wealth transfer, structuring and allocation, and family education. The pooled wealth of many families affords greater access to a wide variety of services for those with a lower threshold of wealth.

Points to consider

No two families arrive at their wealth in the same manner; however, many find synergy at the end of one liquidity event and the beginning of a new journey to manage it. The single family office or multi-family office solution may be attractive to you, yet it is important to understand if it is the best fit for you and your family. Below are questions to ponder if you are considering a family office:

1. What are my aspirations for my wealth? How important is maintaining total control and the availability of immediate oversight?
2. Do I envision myself as the integrator of many different advisers and experts, or would I prefer to partner with a team of professional wealth advisers?
3. How important is the availability of services outside the core domain of a single family office? MFOs, for example, offer ancillary services such as lifestyle management, conflict resolution and family meeting facilitation.
4. How price-sensitive am I? Am I prepared to pay a premium to build a single family office?
5. Am I interested in building another business, or am I ready to enjoy the fruits of my labor?

Regardless of which option you select, the family office model is growing in demand. According to the Family Wealth Alliance, MFOs have experienced growth of more than 20% in assets under management since 2008. Barbara Hauser has been finding a dramatic increase internationally in the family office alternative to large investment institutions. She explains, “Families want to work with people they trust to serve the family’s interest and to stay with the family.” Although we don’t have solid research on growth in the SFO marketplace, we know that if Oprah is doing it, others will surely follow suit. **FB**