

Why is a family office worth a hedge fund returning money?

Ernest 'Doc' Werlin

Published: Thursday, September 29, 2011 at 1:00 a.m.

"We put our clients' interests first."

– Michael Cozene, senior vice president, GenSpring Family Offices, Sarasota

This summer, Soros Fund Management, the investment operation of hedge-fund billionaire George Soros, decided to return the money of outside investors and convert itself into a family office continuing to manage some \$24 billion.

Family offices, which have been created by Oprah Winfrey, Bill Gates and Michael Bloomberg, are popular because they combine competitive investment capabilities with wealth-stewardship services such as educational programs and legacy planning. More than 3,000 family offices are operate in the United States, with assets under management of nearly \$1 trillion.

But what are family offices? They essentially are concierge services for really rich families. They often provide family governance, financial and investment management and education, philanthropy and succession planning, focusing on solid, long-term returns at a controlled level of risk. They also can take responsibility for, among other things, real estate management, insurance needs, travel booking, tax advice, bill paying, and maintaining homes, yachts and private planes.

Family offices originally were set up by ultra-wealthy families, such as the Vanderbilts, the Fricks and the Rockefellers. John D. Rockefeller established an early model of a family office in 1882 with the goal of managing his family's wealth and maintaining a sense of family cohesion.

Henry Phipps, a partner of Andrew Carnegie, in 1907 founded the Bessemer Trust, the largest privately held wealth-management family office, managing more than \$60 billion for more than 2,000 families.

Generally, for a single family to set up its own private family office, the family would need more than \$100 million in assets. The minimum initial commitment for new clients of family offices varies from \$1 million to \$10 million.

Michael Cozene, senior vice president of the GenSpring Family Office in Sarasota, said, "Unlike traditional wealth-management firms such as banks, brokerage firms and trust companies, a family office does not sell investment and financial products.

"Family offices oversee and manage the complex lives of wealthy families and have the freedom to invest their money with providers around the world," Cozene said. "Family offices find and integrate the optimal combination of advice, service and solutions, wherever they may be, for each client's situation."

There are five core principals of a good family office, he said:

Put the client's best interest first.

Act with prudence; that is, with the skill, care, diligence and good judgment of a professional.

Do not mislead clients; provide conspicuous, full and fair disclosure of all key facts.

Avoid conflicts of interest.

Fully disclose and fairly manage, in the client's favor, unavoidable conflicts.

Michael Okun, managing director of Bessemer Trust's Office in Naples, emphasized that Bessemer focuses on long-term portfolio performance rather than quarterly performance. Okun feels that because the Phipps family is Bessemer's largest client and its majority owner, the interests of clients, owners and employees align.

Bessemer ensures there is "no investment banking, brokerage, underwriting, commercial lending operations and product inventory that can create a conflict of interest."

Family offices strive to disprove the proverb of a family going "shirt sleeves to shirt sleeves in three generations." It goes like this: The first generation starts off on a farm and builds up a fortune. The second generation moves to the city, puts on beautiful clothes and finds that its fortune plateaus. The third generation, with no experience of work, consumes the financial fortune and the fourth generation goes back to the farm.

In 1946, Soros was a penniless student in England. Only time will tell whether his family office succeeds in maintaining his family's wealth.

Ernest "Doc" Werlin is a local columnist who welcomes suggestions and comments at doc.werlin@gmail.com