

Peace of Mind for Generations: Our Multi-Family Office Solution

By David Bokman, Chief Wealth Advisory Officer, GenSpring Family Offices

The number of ultra-high net worth families¹ has increased from 13,000 in 1995 to nearly 30,000 in 2005.² For many of these UHNW families, navigating and overseeing the many activities and advisors required to sustain their wealth into future generations is an overwhelming task. On average, UHNW families work with more than twenty-five providers,³ including banks, brokerage firms, money managers, lawyers, and accountants. It can be a struggle to coordinate these advisors and ensure they remain aligned with the family's objectives. In addition, families are up against a high failure rate for successfully sustaining wealth over generations —over 70 percent of families are unable to pass wealth from one generation to the next.⁴ This problem will continue to grow in the next ten years as an estimated \$4.6 trillion of equity in private businesses is sold and the number of wealthy families increases even more sharply.⁵

In the 1800s, prominent industrial families such as the Rockefellers and Carnegies who had amassed great wealth established “family offices” to address their wealth management concerns. Today there are about 4,000 family offices⁶ that are as different as the families they serve. Although there are benefits to having a family office solely dedicated to serving the needs of one family, it can be a challenge. Challenges arise in providing management oversight and attracting and retaining talented staff. Also it is often inefficient and costly to build a sustainable single family office enterprise structure. For an individual single family office, the operating cost averages between \$1 and \$2 Million annually.⁷

In an effort to more efficiently sustain wealth, families have recently begun seeking a model that provides the benefits of a single family office without the challenges. In response, family offices have begun to merge together and offer their services to multiple families in the form of “multi” family offices (“MFOs”).

Multi-Family Office Solution

In recent years, the multi-family office concept has been attracting some of the wealthiest families. Ten years ago, there were only about a dozen MFOs in the United States. Today, this number has grown

to well over fifty.⁸ The benefits of a MFO are powerful. The MFO allows wealthy families to learn from their peers and share best practices. It can provide greater access to investment options and the benefit of group

purchasing power. The operation of the office can be scaled and talent can be more easily attracted and retained than with a single family office.

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¹ UHNW families are defined in the 2006 Capgemini/Merrill Lynch World Wealth Report as having a net worth of at least \$30 million.

² VIP Forum, *Global Trends in the Ultra-High-Net-Worth Segment*, 2006

³ *Family Office Exchange Benchmarking Study*, October 2006

⁴ *Preparing Heirs*, Roy Williams and Vic Pressier

⁵ VIP Forum, *Global Trends in the Ultra-High-Net-Worth Segment*, 2006

⁶ *The Family Office: Insights into Their Development in the U.S., a Proposed Prototype, and Advice for Adaptation in Other Countries* by Barbara R. Hauser

⁷ *The-Family-Office.org* 2006

⁸ “Big or boutique for super-rich”, Lauren Foster, February 2007

There are, however, several drawbacks to MFOs. If the office is poorly managed, individual families may not receive the attention and tailored solutions they desire. There is the potential for conflicts due to a lack of alignment between the firm and the families it is set up to serve. Firms are realizing that serving wealthy families can be a lucrative business which has created an environment where although “many firms call themselves a ‘MFO’— some may not actually be providing all services that give them the right to the name.”⁹ A true family office solution requires more than clever marketing or mere repackaging of the financial services model.

GenSpring's Approach

GenSpring Family Offices takes a personal approach to managing family wealth in order to increase the odds of preserving that wealth across generations. We make certain that all of the services we offer a given family are appropriate, aligned, and integrated around the family's mission and objectives. Because we believe success is more than financial wealth, we begin our process by getting to know individual family members and learning what they want their wealth to achieve—both for themselves and for future generations. We have found that families typically want peace of mind about the sustainability of their wealth.¹⁰ In response, we have designed a unique, tailored approach to provide that peace of mind.

Proactive: To truly serve as a family's trusted partner, we must develop intimate service relationships with our families. Each local GenSpring office is small and high-touch, serving a maximum of 80 families. Within an office, each family has a team of three individuals working on its behalf: an experienced investment professional; a tax, estate planning, or other sophisticated family office professional; and an administrator. To ensure we provide our families with the highest quality service, our model limits each advisory team to serving a maxi-

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imum of 20 families. This model provides our advisors with the time to dedicate themselves to their client families' goals, traveling multiple times a year to facilitate family meetings and supporting individual family members as needed.

GenSpring's family-advisor ratio allows us to think proactively in order to anticipate lifestyle changes, prepare for changes to a family's tax and legal entities, educate the next generation, and plan for wealth transitions. In spotting issues for each client family, we capitalize on our experience of working with over 350 of the nation's wealthiest families over nearly 20 years.

Experienced: An important advantage of an appropriately aligned MFO over either a typical financial services firm or a single family office is that it can more easily attract and retain highly qualified professionals. Unlike other family offices or financial advisory firms, GenSpring's advisors do not have to be concerned with reaching sales goals, promoting products, or trying to manage an overwhelming client load. The typical GenSpring advisor has over a decade of experience and has a background as a Certified Public Accountant, Certified Financial Planner®, Chartered Financial Analyst®, Juris Doctorate, and/or Master of Law. Our family service teams are supported by a resource center staff that consists of over sixty professionals, including technical subject matter experts in investments, estate planning, philanthropy, tax planning, fiduciary services, education, and family systems.

Aligned: A key component to the success of our families is that our model provides us the opportunity to align ourselves with our families' long term goals, always acting in the families' best interests. We sit on the same side of the table as our families and provide objective and independent advice and guidance. We do not sell any products, nor do we receive financial benefit, in any circumstance, from the advice we give to families. We work in partnership with our families' other advisors, such as their accountants and attorneys, but we never act as a substitute for these individuals. When investing for families, we focus on minimizing the risk of capital loss while capitalizing on opportunities.

⁹ Family Office Exchange

¹⁰ For more information about sustaining family wealth, please read our white paper entitled “Sustainability: The Springboard for Future Generations”

We work with our families to set benchmarks for performance and accept accountability. We are results-oriented and follow through on our commitments to our client families regarding their financial wealth and their human and intellectual capital. Families dedicated to multi-generational wealth preservation simply must have a partner who can see planning initiatives through to completion and enhance them as necessary over time, rather than one who is incented to sell product. The focus of our business is making and preserving money *for* our families, not making money *off* of our families. This approach is unique in the financial advisory business.¹¹

Coordinated: GenSpring’s client service teams are designed so that equal attention is paid to both the financial and non-financial aspects of a family’s wealth. Each family has a dedicated Family Investment Officer who manages the investment portfolio. In addition, each family is assigned a Family Wealth Advisor who provides advice around all other activities, including philanthropy, fiduciary and tax advisory issues, family education, risk management, and governance. This two-to-one ratio provides families with dedicated, coordinated support in all areas of family wealth and provides powerful benefits over the more traditional approach, in which a firm gives clients a dedicated investment professional but only limited access to advisors in these other critical disciplines.

Expansive: GenSpring Family Offices realizes that for families to sustain wealth they must engage in activities that go beyond managing their money. Our model provides families with a broad spectrum of services and a unique advisory approach that covers five dimensions of family wealth: Financial Assets, Other Assets and Income, Intellectual and Human Capital, Other Family Members and Entities, and Multi-Generational Issues. Our process is expansive and ensures that a family’s financial capital is working in harmony with the human and intellectual capital of its members. Our unique Wealth Management Process helps families become well informed and organized in their approach to wealth and more strategic in their decision making. The process covers a broad spectrum of topics important to sustaining wealth, including: investing, tax planning, individual and family values, estate planning, family communication, family governance, philanthropy, family learning, and much more.

Conclusion

We have identified the five traits of being proactive, experienced, aligned, coordinated and expansive that are necessary for an effective MFO, but even these traits in isolation are not sufficient. The artistry of combining them all within a true client service ethic is what enables us to provide families peace of mind for generations. In the coming years, the MFO industry is forecasted to expand rapidly. The Family Office Exchange predicts that “more law firms, accounting firms, financial planners, and corporate trust companies [will be] working to transform themselves in an effort to remain viable in an increasingly competitive wealth management industry.” It will become more and more important for families to conduct extensive due diligence to ensure the family office they select has their best interests in mind and provides the services required to grow and sustain their wealth.

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GenSpring offers the collaborative benefits of a multi-family office with the attention of a single family office without any of the inherent drawbacks. We are able to hire the top talent in the industry, share best practices across our client families, and maintain a sustainable, cost effective model. Our advisory approach and low family-advisor ratio provides our families with thoughtful, tailored solutions most appropriate for their needs. We work to ensure our families’ wealth continues to grow with minimal risk. We believe that successful wealth management must develop all forms of family capital—human, intellectual, and financial. We have learned firsthand that each of these forms of capital is inextricably linked to the others. We manage family wealth proactively, giving objective, aligned advice for which we are held accountable across a broad spectrum of topics and invest our families’ money as if it were our own. GenSpring’s sole mission is to sustain family wealth.

¹¹ For more information on Alignment, please read our white paper entitled “Advisor Alignment: The Emerging Choice of Wealthy Families”



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