Family Office

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Playing it safe

How multi-family offices are preserving funds to pass on to the next generation

Smaller-scale advisers seek edge by offering bespoke strategy

Safe as houses: family offices aim to preserve and grow capital, even in turbulent markets Alamy

Worldwide Competition is fierce to manage the global affairs of the newly affluent from emerging market countries, writes *Elaine Moore*

In the discreet world of private money management, relationships can evolve over generations.

The heartlands of this industry are Switzerland and London, where providers act as stewards for the world's richest families to ensure that the money inherited by one generation is preserved and passed down to the next.

As the world's wealth rebalances from west to east, this model is undergoing a transformation.

Although the family offices of global banks such as HSBC still dominate the sector by size of assets under management, they are coming under increasing pressure from smaller companies that are showing signs of faster growth.

Multi-family offices such as Stanhope Capital and Matter Family Office say the key to their success has been their efforts to gain clients in places such as Latin America and Asia.

The number of family offices managing investments for wealthy families is expected to triple in Asia within the next decade, according to research by Citigroup.

Catering to this new sector has its own challenges. Many wealthy families in these markets are still actively involved in the businesses that made them their fortune and prefer to plough money back into the company rather than hand it over to an investment adviser.

Bernard Rennell, global head of private wealth solutions at HSBC Private Bank says many markets have witnessed an unprecedented increase in wealth since the second world war, particularly in Asia.

As these entrepreneurs reach retirement age there is an opportunity for advisers to help them plan what will happen to their wealth and their businesses when they are no longer around.

"We reach out to these families and help them transition from a traditional model under which the patriarch or matriarch often had complete control of the business and managed it with long-standing, loyal staff to a more pluralistic one under the stewardship of the next generation which often has a more modern, international skill set," Mr Rennell says.

"There is a real need for this type of professional planning in new markets, as families become increasingly international with members living, studying or holding property abroad, family businesses expand across borders and different legal, tax and regulatory requirements need to be met."

In some ways, the global shift in wealth benefits the family office arms of big private banks that boast outlets in every major city in the world.

However, smaller multi-family offices say that they can offer a more personal relationship as well as better access to niche and flexible investment strategies.

Sebastian Dovey, managing partner of Scorpio Partnership, says smaller players can provide families with better direct contact and the option to control the management of their assets more closely.

Many multi-family offices pride themselves on their higher allocation of money to alternative investments such as private equity and hedge funds compared with banks. In an era of ultra-low interest rates these can offer more appealing returns but *caveat emptor*: the prices can be high and providers are often keen to take a generous slice of any profits.

Paul Kearney, head of private investment office at Kleinwort Benson, says families should remember that there are other services they may need.

"When you deal with very wealthy families, investment portfolios are only one part of the whole. Wealth is often anchored to a business or assets such as properties and other lifestyle assets and there will often be charitable endeavours. These things all have to be taken into account, which is why we are strong on good governance infrastructure."

Underpinning every offer made to families is the understanding that providers can help ensure that disagreements about the role money plays in each member's life do not fracture the family.

It is especially important to protect the interests of family members whose voices may not otherwise be heard in the middle of the storm, says Andrew Nolan, managing director of Stonehage's Family Office Division.

He recommends that families employ a codified set of rules to make the process of inheritance easier to navigate.

Written constitutions are designed to ensure that the passage of wealth from one generation to another is a smooth one. If the contracts minimise the potential for trouble in the future, they could become one of the most important services that family offices have to offer.

Go the family way

A new wave of single-family offices is entering the market as hedge funds adopt the structure to avoid regulations, *writes Tanya Powley*.

Growing compliance costs and regulatory scrutiny have led more hedge funds to move to a single-family office model in recent years. George Soros, the billionaire hedge fund manager decided, in 2011, to return money to investors in his Quantum hedge fund and convert the business into a family office. New York-based hedge funds Covepoint Capital and Brencourt Advisors have gone the same way.

New SEC regulations require hedge funds that have more than $150m in assets under management and manage the money of outside investors to register with the SEC. Family offices remain exempt if they advise only family clients.

In Europe, single-family offices are exempt from the Alternative Investment Fund Managers Directive, which aims to improve investor protection.

East plays catch-up in planning for the future

Asia

Generational shift may bring change, writes *Jeremy Grant*

Barely a week goes by without a new study showing the growth of wealth in Asia, and how the region is creating it faster than any other in the world.

One of the latest, by consultancy Capgemini and RBC Wealth Management, the Canadian bank, says that since 2007 the population with $1m in easily investable assets in Asia has grown by 31 per cent, with their combined wealth expanding by 27 per cent. That is well in excess of increases of 14 per cent and 9 per cent respectively for the rest of the world.

Although so much investable wealth exists in the region, the family office remains in its infancy. Campden Wealth, a research company, estimates that between 100 and 120 single family offices operate in Asia, with 75 per cent of them in Hong Kong and Singapore. That compares with an estimated 2,000 such companies in Europe and North America.

Many entrepreneurs still prefer to plough wealth back into their business, where they can get double-digit returns, rather than turn to a family office that might only generate single-digit growth.

"Wealth creation in the region is still very much tied up with the family business and family offices have yet to capture the imagination of the region's wealthiest families as they have done in Europe and North America," a report from Campden Wealth and UBS noted.

Anuj Kagalwala, family office leader at PwC in Singapore says it can cost between $500,000 and $1m a year to run a family office with two to four staff.

"The people we meet say they have never had a family office and have grown their wealth from almost nothing to $1bn and, if they have done so well without a family office, it's not an easy thing to convince them of it," he says.

Evidence suggests the pace of adoption is picking up in Singapore, a state with one of the highest concentrations of wealthy people in the world. It is a hub for wealth management in southeast Asia, with Indonesians and Malaysians attracted by its political stability, sound common law legal system and strong financial regulation.

Anuj Khanna, chief executive for south Asia wealth management at Pictet, the Swiss private bank, says very large clients "noticed the weaknesses of the traditional private banking set-up in servicing their needs, including conflicts of interest for bankers driven by weekly revenue targets and investment banking products where the bank may have its own interests".

Singapore has done much to attract family offices, offering tax and other incentives. "We are looking to Singapore as one of the top emerging hotbeds for family office activity," says Richard Wilson, chief executive of Family Offices Group, a networking association based in Oregon.

The number of hedge funds setting up shop to service family offices has increased. Mr Wilson cautions, however, that few hedge funds "have a clear strategy for targeting family offices and even fewer have a specific plan for raising capital from Singapore investors".

One recent initiative may help. A year ago, Singapore Management University launched the Business Families Institute (BFI) to educate family-owned businesses in governance and management.

"Some of the bankers have asked us specifically how they can learn more about family offices and that's something we have in mind to do," says Clare Lee, BFI business development manager.

Still, the UBS/Campden report finds that hedge fund investing by Asia's wealthiest families fell by nearly half in the last year.

Wealthy investors have been shifting money out of capital markets and hedge funds and into direct investments such as property, which accounted for 16 per cent of allocations this year, compared with just under 9 per cent in 2012.

Kathryn Shih, chief executive of UBS wealth management in Asia-Pacific says it may take a generational shift for the family office to take off as it has in Europe and North America.

"As the second and third generation assume roles of leadership within the family businesses, we are going to see the concept of family offices changing to focus more on planning for the future and putting strategies in place to ensure the continued success of long-lasting family legacies," she says.

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Reach for the skies: Bessemer Trust, one of the US's oldest family offices was founded in 1907 by Henry Phipps. Its headquarters are in New York's famous Rockefeller Center Dreamstime

Shroud of secrecy starts to slip away

International Very wealthy families are becoming more and more globalised, reports *Tanya Powley*

The family office world has long been cloaked in a shroud of secrecy as rich families have sought to keep their personal fortunes private. But the explosion of wealth in the past few decades and dissatisfaction with the poor performance of portfolios handled by global private banks has pushed the sector to greater prominence.

While many single family offices still prefer their anonymity, so-called multi-family offices (MFOs) – private companies that manage the investments and financial affairs of more than one family – are keen to raise their profiles as they look to develop their businesses.

The family office arms of the big private banks tend to be the biggest players in the market. In a list of the top 50 richest MFOs published by Bloomberg Markets in August, Hong Kong-based HSBC Private Wealth Solutions was ranked as the biggest, with assets under advisement of $137.3bn. BNY Mellon Wealth Management, Pictet and UBS Global Family Office feature in the top 10.

Many of the oldest and most famous family offices continue to do well.

Bessemer Trust, founded in 1907 by Henry Phipps, the right-hand man of steel magnate Andrew Carnegie, ranks third, with $77.9bn assets under advisement. Rockefeller & Co, which started out life in 1882 as a single family office before opening its doors in 1980, came 11th with $23.1bn.

Some of the more interesting family office players are those that are rapidly increasing their assets under advisement. Miami-based CV Advisors (see page eight) made it into the top 50 after becoming the fastest-growing MFO, with assets under advisement up 100 per cent to $2.5bn in 2012. The office has targeted its growth through Latin American families. US-based Ascent Private Capital Management, Tolleson Wealth Management and Bedrock have also grown considerably over the past year.

According to Maurice Ephrati, managing partner and co-founder of Bedrock – which sprouted out of the Republic National Bank of New York, owned by the high-profile Safra family – says its growth has been a combination of taking on new families in its core markets of Europe, the Middle East, Russia and Brazil, and internal growth and expansion from its existing families.

> Subsidiaries of the big private banks tend to be the biggest players in the market

Sebastian Dovey, managing partner at the wealth management consultancy Scorpio Partnership, says many family offices miss a trick by not adapting their model to cover multiple jurisdictions and are likely to see their growth suffer. "This is a part of the industry that's not fully matured yet. It's been a business model struggle for many offices over the past five or so years."

Stephen Skelly, head of private wealth solutions at HSBC Private Bank, says its global platform has helped give it an advantage.

"Very wealthy families are becoming more and more globalised. It's not just the fact that they are acquiring assets – like real estate – in several jurisdictions, but family members are scattered around the globe and need to be able to transact in those countries," Mr Skelly says.

Other smaller family offices have taken a similar view. Stanhope Capital, a fast-growing London-based private investment office, founded 10 years ago, opened an office in Geneva in 2008 to service the needs of families from Switzerland, Latin America and the Middle East who have traditionally banked there.

Daniel Pinto, Stanhope's co-founder and chief executive, says its choice has been to have its international capability housed out of two offices.

Mr Ephrati of Bedrock admits it is not an easy task to manage the changing regulations of each jurisdiction.

"Having said this, our clients see the value of our multi-jurisdictional set-up and of our local knowledge in different jurisdictions," he says.

MFOs Acknowledging the virtue of collective effort

Multi-family offices take varying approaches to gaining a global presence. In 2011, London-based SandAire joined with five other heavyweight MFOs from around the world to form the Wigmore Association and share investment research.

The founding members include Australian-based Myer Family Company, HQ Trust from Germany, Northwood Family Office from Canada and US-based Pitcairn and Progeny 3. Last year, it added Turim, one of the largest MFOs in Brazil. It may look to add one or two more members from Asia or the Middle East.

Karen Clark, a director at SandAire, says of the alliance between the MFOs: "What we are doing is sharing information to help us do a better job for our clients."

The chief investment officers of each MFO meet twice a year to share insights on strategies and meet local managers.

The Wigmore Association last met in September in Rio de Janeiro. They discussed the economic outlook, with a specific focus on Brazil and the South American region. Investment management companies from the region presented their ideas alongside the current and former deputy governors of the Central Bank of Brazil.

Ms Clark says the benefit of an alliance with other families becomes clear as the investment world becomes more global. "There's a need to condense and analyse information beyond the scope that a family office on its own would have," she says.

TP

Clients look to maintain a 'safe pot'

Strategies

The discussion revolves around the levels of risk investors are willing to take on and over what period of time, writes *Elliot Smither*

The very wealthy clients served by family offices tend to be astute financially, often running their own businesses. They bring with them a unique set of requirements for the capital they are looking to invest. Many express a desire to preserve that wealth for future generations.

"Most of the families that come to us are quite often putting aside wealth," says John Veale, chief investment officer at Stonehage Investment Partners, part of the Stonehage multi-family office (MFO). "They still have operating businesses that are generating revenue and they want a safe pot."

With an MFO typically looking after a relatively small number of clients – Stonehage offers a full advisory service to around 40 families each investing upwards of $10m – forming extremely close relationships is essential. Much of the discussion revolves around the levels of risk the investors are willing to take on and over what period of time. An MFO will have its house view on how best to build a portfolio, which it will look to match with the client's own ideas and expectations. For the sake of diversification, those with a large exposure to property in their other investments or businesses might instruct their family office to avoid that particular asset class.

Family offices tend to specialise in balanced portfolios that will preserve a client's wealth while making moderate gains, although they will tailor investments to take on more or less risk depending on individual needs.

To do this they often utilise external fund managers, although they may provide some in-house expertise in specific areas such as large-cap equities. They will have an approved list of fund providers covering a range of asset classes, allocating on behalf of clients when and where they see opportunities.

"I would say what really differentiates us from a bank is that we can be more niche," says Ariel Arazi, managing partner and co-founder of Bedrock, which offers family office services to more than 60 clients.

"We believe a lot in asset allocation [which] is where 90 per cent of your returns come from. Because we are smaller we have a lot more flexibility in what to invest in, what kind of managers and themes, and when we identify an idea then we can really analyse it, study it, and then find the best way to implement it for our clients."

This flexibility can lead family offices to invest in a much more diversified manner than institutional investors or private banks, which often lean towards large allocations in equities and bonds. While these still play an important role in many MFO client portfolios, they frequently display a greater willingness to consider alternatives such as hedge funds, private equity or distressed real estate, an approach that has found favour with investors in the wake of the 2008 crash and the volatility of mainstream assets since then.

While high-quality bonds might traditionally have been used to preserve capital, many MFOs are scaling this back and allocating to lower-grade fixed income or hedge funds to play a similar role.

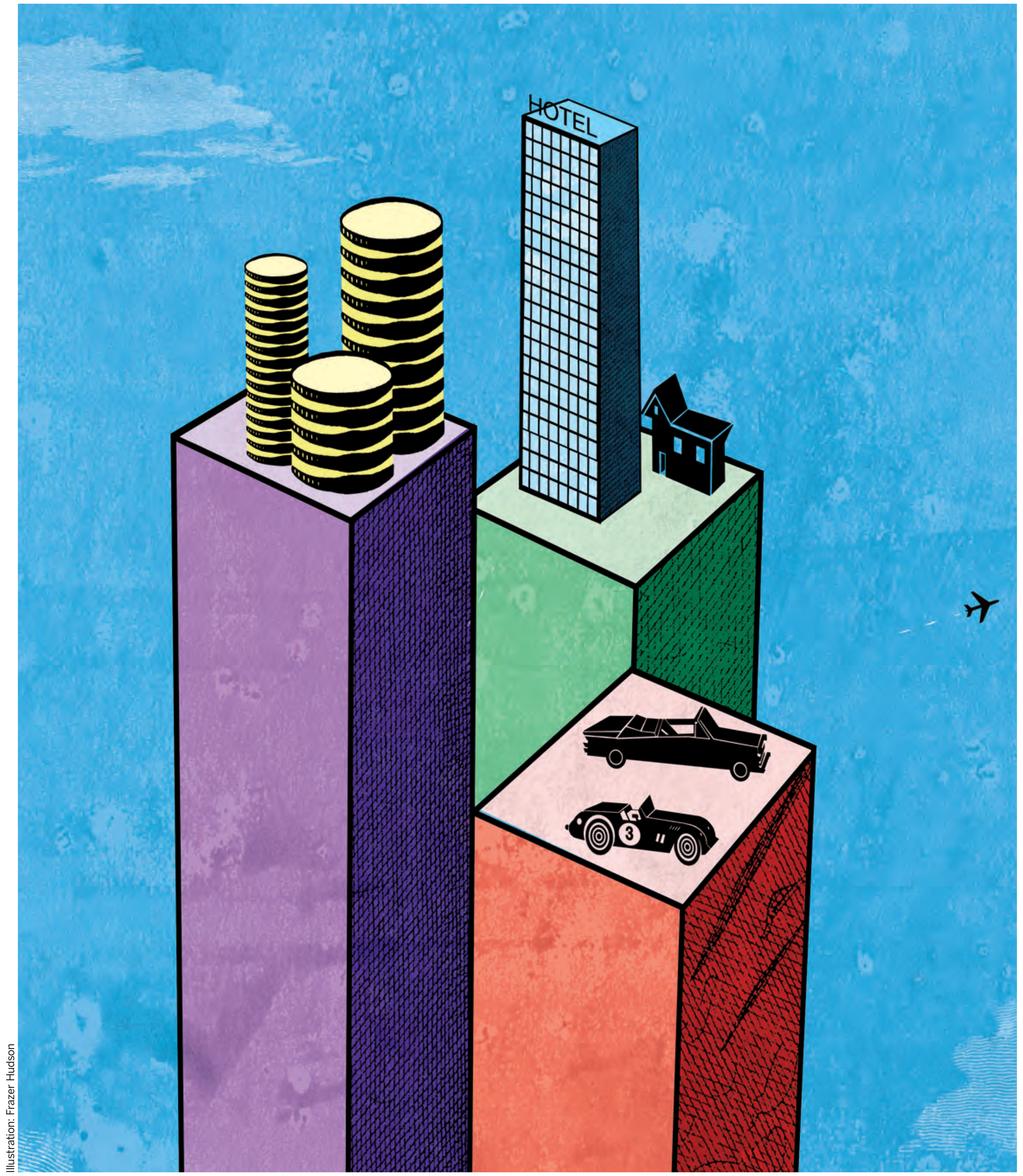

Illustration: Frazer Hudson

> Relatively long investment horizons have made private equity increasingly attractive

"We currently hold very few government securities and the implied view is that this is not a good way of preserving capital," says Arthur Grigoryants, head of investments at Fleming Family & Partners Asset Management. "Given our concerns about a possible correction in the other main asset class – which is equities – there is very little we can do to remain in the mainstream."

The relatively long investment horizons of many ultra-wealthy families, as well as their ability to stomach a certain lack of liquidity, have made private equity increasingly attractive to some. While many family offices recommend a fund-based approach, others have championed the use of club deals, where two or more families are brought together to invest in a venture.

Family offices very often show a propensity to be ahead of the curve, says Stuart MacDonald, managing director at Aquila Capital, an independent specialist in alternative investments that has long had dealing with family offices.

"That is what justifies the positions of the chief investment officers. Some of the very first investors in hedge funds were family offices and they tend to be quietly sophisticated when it comes to this sort of thing. There are family offices where the majority of their allocated capital is tied up in alternatives," says Mr MacDonald.

Family Office

Whatever you want, get it down in black and white

Written constitutions

Formal accords are on the rise, says *Lucy Warwick-Ching*

Disagreements over the asset allocation and direction of family businesses have driven some of the world's richest individuals to turn to written agreements to facilitate risk management strategies over the past few years of the financial crisis.

As wealthy families have seen cash flows decimated, it has become harder to agree long-term strategies for wealth and disputes have arisen over how capital should be allocated to support family businesses.

Family offices have reported a rise in the number of formal agreements, known in the industry as written constitutions,. These outline how wealth should be managed by future generations.

"There is no magic formula for ensuring long-term cast iron asset protection in terms of the family business or privately held assets or avoiding disputes within families", says Anna Steward, senior counsel at lawyers Charles Russell.

"However, using a constitution to set out strategies for communication and decision-making procedures between family members which strive to achieve fairness, a family is more likely to work together to protect and preserve the family business and accumulated family wealth."

Family constitutions have been around for generations in the form of trust deeds, partnerships, shareholder agreements or other documents, say experts.

"Equally," says Alexander Dickinson, partner at lawyer Bond Dickinson, "a family's wish to allocate capital between different family members, some of whom may be involved in the principal business and others who may not, is nothing new.

"Many families own several very different businesses requiring differing levels of capital and different management skills."

Such agreements tend to combine a number of separate documents that set out the framework for the family's self-governance. This can include a shareholders' agreement for the business, the constitution of a family council with agreed dispute resolution procedures and an investment advisory committee that can include non-family members.

It should set out the family's goals, overriding principles and access to information for family members, who may not have an active role in the management or oversight of business and other assets. It can cover requirements for family members to enter into prenuptial agreements and should account for circumstances under which the business may be sold.

One of the key features, says Ms Steward, is it should be capable of being amended – within limits.

For example, if the business is sold, the distribution and investment strategies are likely to change in focus. "Whilst a constitution will not in itself be a legally binding document, if members of current and successive generations are encouraged to sign up, there is increased likelihood that they will be willing to adhere to the principles within the constitution," she says.

They can have the added benefit of helping individuals to work out exactly what they want in terms of succession planning. "As well as having practical advantages, the process of drawing up a family constitution can be extremely useful in itself as it requires family members to stand back and consider the bigger picture, which is always time well spent," says David Baker, chief investment officer at Mazars Financial Planning.

It is important for younger family members to become involved and many families are using modern technology to engage them.

"We are now using innovative communication platforms to capture the 'soft information', either family network platforms, which are like private Facebook sites, or secure cloud-based depositories, which allow communications and updates to be passed between members," says Mike Batchelor, head of private office at Broadstone Pensions & Investments. He says this can help family members to make better decisions following a generational change in the key family decision makers.

Anna Steward, senior counsel at Charles Russell

Others say the process of writing a constitution can sometimes be more important than the document itself – allowing families to iron out problems.

Grégoire Imfeld, head of family governance at Pictet Family Office Services, says: "The real challenge is how those families keep it alive," he adds. "What happens once it is written? It often ends in a drawer and is forgotten."

One problem is that agreements can attempt to be too exhaustive. Experts recommend keeping them lean and relevant. They suggest leaving space for the next generation to express itself will help keep such agreements alive.

"Whatever the reason and scope of a constitution, it is worth taking time for such a process," argues Mr Imfeld. "As the Chinese say: The palest ink is better than the best memory."

Call goes out for specialist advice

Emerging markets

The well-heeled from fast-growing economies increasingly look to succession planning, writes *Ceri Jones*

Fast-growing emerging economies offer great business potential for multi-family offices, particularly for those prepared to go the extra mile for clients with recently acquired wealth. Many of these will have made their fortunes in the 1990s and are considering diversification and succession planning for the first time.

"China now has the second highest concentration of billionaires in the world," says Rolf Roetheli, a wealth and tax planning expert at Julius Baer, the Swiss private bank. "However, family offices in the region, which number just over 100, do not reflect the boom in regional wealth. The growth of HNWIs [high net worth individuals] and ultra-HNWIs in Asia has outpaced the availability of experienced wealth managers and relationship managers.

"There is a huge opportunity for providing services around structuring their families' wealth for the future such as intergenerational wealth transfer, philanthropy and estate planning."

In many cases, first-generation entrepreneurs will require several structures and services to be put in place from scratch, but they can be distrustful and more demanding than subsequent generations, who are typically educated in the west, and more responsive to professional advice.

"Russian, Arab, African and Chinese banks are opening branches to capture this business," says Mark Idriss, head of global emerging markets at UBS. "Several small Arab private banks have opened in London and Switzerland. Arab families can be complicated, as often more than one brother is involved at high level, and there are multiple families."

The Russian market is characterised by a high proportion of pioneers who have cashed out of a new idea or business opportunity and have become very wealthy very quickly, rather than entrepreneurs who are commercial in a traditional sense. They may not have solid, sustainable businesses to run, and are typically keen to diversify out of Russia to avoid political risk. Several multi-family offices have set up an international office outside Russia. London is a favoured destination, as it is a hub for international business and is seen as an attractive place to live.

Succession planning in emerging markets is a hard sell compared with the west, as it cannot be easily measured in terms of mitigating inheritance tax (IHT).

"Asian environments, don't have that inheritance tax driver so the value of a trust is in the convenience of the succession planning and the consolidation of the assets, and using the succession structure as a means to protect long-term wealth," says Mark Smallwood, head of franchise development and strategic initiatives, Asia Pacific, at Deutsche Bank.

"IHT is already in force in certain provinces and cities in China, and big law firms in India are beefing up their teams in the expectation that it won't be long arriving."

International families also have a need for cross-border planning, and this has become more challenging as countries become increasingly sophisticated in enforcing taxes.

Many argue that the solution would be to establish a large network with country-specific competence, which is an area in which few family offices can hope to compete.

Mark Idriss, head of global emerging markets, UBS

Lorne Baring
B Capital

B Capital was established in the autumn of 2008 by Lorne Baring, an old Etonian and former Life Guard, who set up offices in London and Geneva after a stint at Barclays' Swiss office. The business has 20 clients, with $500m in classic asset allocation strategies (such as bonds and equities) and roughly the same in private equity investments.

Mr Baring has been able to take advantage of high growth rates in emerging economies – particularly Russia – where he has family connections, and is well known in the energy and banking sectors. His brother Edward is a partner in finance at lawyers Herbert Smith Freehills in Moscow.

"Amongst very wealthy Russian families there is an overlap between the politics of the country and generic risk, and these families naturally want to diversify out of Russia due to proper risk mitigation," Lorne Baring says. "It is prudent to have a link outside, and the obvious places are Switzerland and the UK.

"If an oligarch arrives in London with $100m, he is likely to deploy it quickly, and that is good business," he adds. "There are services such as property lending, currency trading, precious metal storage and trading, and trust advice."

Mr Baring talks to half his clients every 48 hours, and each of them weekly, and says he really enjoys the client relationship side of his work. "I'm dealing with the most demanding and exciting entrepreneurs in the world," he says.

CJ

Elliot Dornbusch
CV Advisors

CV Advisors is the fastest-growing multi-family office in the world, according to recent rankings in Bloomberg Markets. The Miami-based company's assets under advisement grew 100 per cent to $2.5bn in 2012, with the growth coming from just six families.

CV's total assets stand at $2.9bn, representing the wealth of 42 families based in Latin America and the US.

Elliot Dornbusch, chief executive and founding partner, started investing his own wealth in 2003, after selling his Venezuelan construction company and moving to the US.

He was joined by his fellow founding partner and childhood friend Alex Mann in 2006, when other families started to ask Mr Dornbusch if he could manage their money, too.

By 2008, CV had approximately 10 clients and was joined by its third founding partner, Matthew Storm.

According to Mr Dornbusch, an economist by training, CV helped its clients preserve their wealth during the financial crisis through a "conservative" strategy of controlling volatility, rather than by targeting returns.

They invest mainly in corporate bonds with an average duration of six years to protect against rate rises, and aim to double their capital every 10 years. CV's clients are single-family offices, and their work is almost solely non-discretionary investment, rather than additional services such as advising on schools, Mr Dornbusch says.

"Nobody in our firm goes out looking for clients," he says, attributing its growth to word of mouth.

"We take an extremely long time," he adds, "to make sure that a family who joins us adds value."

Rachel Savage