

its hedge fund portfolios to investment by select third parties.

A recent development is the so-called “multi-family office” (MFO) concept. Patricia White CA, MD of Legis Group in Guernsey, says: “Their development came later, resulting from both the growing number of wealthy families, combined with rapid developments in technology within the financial markets in the 1980s and 1990s. Consolidation within the financial services industry, together with challenges attracting and retaining employees with the required skill in providing financial advice significantly diminished the role of the traditional trust service provided by banks. This resulted in an increased need for family office-type services and in order to mitigate the additional costs many families opened their family offices to non-family members, resulting in multi-family offices.”

To explain their role, Alex Montgomery, CEO of Turcan Connell Asset Management, says: “The SFO is truest to the original concept of gathering together appropriate individuals with the required professional skills to meet the needs of one wealthy family. Whereas a family must be of very significant wealth to even contemplate establishing a SFO, MFO services can be available to families with more modest (but still substantial) means. The very broad range of types of MFO model means that each model will have its own pros and cons.”

Because a wealthy family’s needs and priorities extend beyond the financial, Michael Pagliari CA, a partner at Smith & Williamson Investment, notes that: “Family office structures may well occupy themselves with ‘soft’ issues, including family relationships and communications, governance structures, mentoring, succession planning, and legal advice.”

Over the last five years, according to the Palico study, family offices and high net worth individuals with more than \$10m in investable assets increased their average allocation to private equity by more than half, to 29 per cent from 19 per cent of their own portfolio assets. That makes wealthy families and individuals the highest allocators to private equity and the second most rapidly expanding source of capital for fund managers on an absolute basis, just behind sovereign wealth funds. Endowments, the second biggest allocators, currently earmark 13.6 per cent of their assets to private equity, up from 12.8 per cent five years ago.

WHAT DO THEY OFFER?

The key advantage of a family office over individual specialists boils down to one key factor: control.

According to Calum Cusiter CA, investment director at Souter Investments (the private investment office of Sir Brian Souter): “The key attribute for any family office is about responsiveness and control over the investment



KEEPING IT IN THE FAMILY

- ▶ The family office phenomenon started with wealthy dynasties like the Rockefeller, Martini and Agnelli clans.
- ▶ Single family offices (SFOs) are the preserve of the very richest.
- ▶ Multi-family offices (MFOs) represent a way to provide that bespoke service while mitigating some of the cost.
- ▶ The key advantage of the family office is the control over investment policy that it offers.
- ▶ Wealthy families are increasingly international and their investment needs reflect that.
- ▶ CAs advising family offices need to bear in mind that each one is different, and their needs are likely to be complex.

policy. Whilst there is an element of this with third-party managers, the connection is not as direct and their interests are not always as aligned as those within a family office. As an example, Souter Investments has a large percentage of its time and resources dedicated to investing in unquoted businesses, which would be unusual for most family offices.”

For Montgomery a key advantage is the “intelligent co-ordination of a truly multi-disciplinary and inter-disciplinary team”.

He explains: “Very often, due to the inevitable blurring of actual or potential lines of responsibility between the providers of different professional services, there is scope for either duplication of effort and cost, or for matters to fall through cracks between advisers

as each believes the other is covering that particular matter.”

White says: “The underlying aims of the family office are typically driven by the objectives, values and backgrounds of the principals behind them, which may not be aligned to the one-size-fits-all approach offered by financial advisers and private banks. This can be illustrated by family offices run for the benefit of Muslim families, where responsibility includes overseeing the smooth succession of family assets in accordance with Sharia principles. Another trend within the family office sector has been an increasing appetite for clean-tech investments.”

For Geoff Cook, CEO at Jersey Finance, a key advantage is knowledge of the client. He says: “The value of a family office lies in its ability to develop a thorough understanding of the family or families it supports so that it can react quickly and appropriately to the often very specific and bespoke needs of those families.”

POPULARITY ON THE RISE

Smith & Williamson’s Pagliari understands there are some 575 family offices in the UK and Continental Europe, each managing between £100m and £2bn-plus, but since there is no formal definition it is hard to be precise.

One reason for the sector’s growth, says Cusiter, is the growing popularity of direct investing: “I believe this is largely as a result of large parts of the market, particularly many hedge funds and private equity funds, performing poorly during the downturn whilst management fees were still charged.”

David Bell, senior wealth planner with Banque Lombard Odier & Cie SA, says: “Generally, we are seeing more ultra-high net worth clients wanting to use MFOs to add to the types of investment available in their discretionary mandates, generally in more sophisticated, specialist areas like property and specific private equity deals.”

Legis, too, is seeing growth, says White: “Global financial and political events of the past decade, coupled with recent legal and regulatory innovations in Guernsey, have led to an



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Alex Montgomery



increasing interest in the Island's family office and investment vehicle offerings."

Looking ahead, Cook points to a number of developments. One is the increasing internationalisation of wealthy families and their affairs. Another, he says, is that the volatility of the past few years is prompting a shift in attitude to wealth management.

He says: "Driving social impact, for instance, is set to become much more important for wealthy families – 77 per cent of family offices in the Asia Pacific region, for example, have some form of philanthropic engagement (*Global Family Office Report 2014*)."

Another change relates to Asia, Cook says: "In Asia, family offices are not only concerned with investable assets but also very much with the family businesses. This is perhaps not surprising – growth in the region has enabled many small family businesses to become much larger and, as globalisation has taken hold, there has been a greater need for these businesses to establish diverse relationships."

AN ELASTIC CONCEPT

Perhaps a less welcome development, though, is the apparent elasticity of the "family office" definition. Ian Macdonald, partner at Wright, Johnston & Mackenzie LLP, says that the breadth of service once associated with the concept is not reflected in most organisations that call themselves 'family offices'.

"The key attribute for any family office is about responsiveness and control over the investment policy"

Calum Cusiter CA



"In effect the term has been hijacked by investment managers who manage investments for the whole family but don't really do much more," he says.

Bell adds: "Family offices proliferated after the 2007-2008 financial crisis... numbers have continued to grow in recent years as an increasing number of organisations have rebranded themselves as 'family offices'. The term now spans anything from pure-play investment managers, to multi-faceted teams of investment specialists, accountants, analysts and lawyers."

For Kearney, MFOs are running the risk of becoming boutique investment managers rather than solutions to the needs of families with large and complex wealth.

He says: "Family offices are established for control and co-ordination of wealth. They do not take the place of financial advisers, fund managers or private banks."

SOME THOUGHTS FOR ACCOUNTANTS

How does the accountancy profession fit into the picture? Kearney says: "Accountants should bear in mind that all family offices are different. One may focus solely on so-called concierge services taking care of the family's day-to-day requirements. Another may concentrate solely on the principal's commercial activities."

White agrees, adding: "The family office's precise activities should be examined carefully and professional advice sought to ensure that it does not stray into regulated territory. To the extent that the investment activities of a family office are limited to managing its own assets, or those belonging to other entities forming part of the same group of companies, it is unlikely that those activities will be regulated."

Pagliari warns that accountants need to be aware of the wider issues a family faces: "In a complex situation the ultimate stakeholders in the family office may be many with different objectives. The advice given needs to meet all their needs."

Macdonald cautions against accepting anything at face value: "As with any complex family situation, it is vital to get full information on the personnel and structure of the family and its trusts, companies and other entities, who owns them and runs them and how they interact. One would hope that these entities have been set up in the most appropriate and tax-efficient way but those coming new to the situation should not assume this is the case and should always be prepared to carry out an initial review to check these aspects as well as familiarising themselves with the details."

Cook says: "Family office business is increasingly driven by a need for specific expertise and knowledge and, from an accountant's point of view, that advice isn't limited just to tax.

"The focus now is much more on ensuring those family offices have the sophisticated understanding and market access they need to take their global investment strategies to the next level, whether it's integrating business plans with family wealth strategies, ensuring the vehicles they are using are fit for purpose, having access to yacht and aviation registries or being able to draw on specialist investment support." **CA**

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