

PART  
**One**

**Family Office  
Fundamentals**





## CHAPTER 1

# The Family Office Industry

*We often tell our ultra-wealthy clients that they have been in the get-rich business and we are in the stay-rich business.*

—Paul Tramontano (CEO of Constellation Wealth Advisors, a top 50 multi-family office who we recently interviewed)

*Chapter Preview:* The family office industry can be challenging to learn about. This chapter will provide you with a high-level, 10,000-foot view of the family office industry. It will cover the basics of how the industry operates and serve as a foundation upon which the rest of the book will build upon.

**T**he family office industry is secretive. While speaking at the Latin American Family Office Summit recently, I was reminded by Thomas Handler (interviewed later in this book) of an adage I hear used often in the industry: “A submerged whale does not get harpooned.” This quote sums up why so many family offices are so secretive and difficult to learn more about. Many family offices and ultra-high net worth individuals see that media attention and press often attracts sales professionals, possibly compliance headaches, and others looking only to harvest ideas or competitive angles on the family’s operating business.

The goal of this book and chapter is to show you exactly how family offices operate, provide their services, and invest their capital.

## WHAT IS A FAMILY OFFICE?

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See the video “What Is a Family Office?” at [www.FamilyOfficesGroup.com/Video3](http://www.FamilyOfficesGroup.com/Video3).

A family office is a 360-degree financial management firm and personal chief financial officer for the ultra-affluent, often providing investment, charitable giving, budgeting, insurance, taxation, and multigenerational guidance to an individual or family. The most direct way of understanding the purpose of a family office is to think of a very robust and comprehensive wealth management solution that looks at every financial aspect of an ultra-wealthy person's or family's life.

*Single Family Office Definition:* A single family office is a full-balance-sheet 360-degree ultra-affluent wealth management and CFO solution for a single individual or family.

The Security and Exchange Commission (SEC) recently defined single family offices as “entities established by wealthy families to manage their wealth, plan for their families’ financial future, and provide other services to family members. Single family offices generally serve families with at least \$100 million or more of investable assets. Industry observers have estimated that there are 2,500 to 3,000 single family offices managing more than \$1.2 trillion in assets.”

John Gryzmala, a single family office executive we recently interviewed, states: “The definition of the single family office for me is: an entity or an individual that helps relieve the family members of certain, if not all, mundane tasks that they would prefer not dealing with, be it investments, be it household staff, be it insurance, be it handling legal issues, trusts and estates issues, and tax planning. That’s it. So however you want to structure it to handle and help you, the family member, with those issues is my definition of the single family office.”

*Multi-Family Office Definition:* A multi-family office is a full-balance-sheet, 360-degree ultra-affluent wealth management and CFO solution for multiple individuals and families.

Multi-family offices can serve anywhere from two clients to 500-plus ultra-wealthy individuals and families. In both the single family and multi-family office, what is really being offered is a full balance sheet financial management solution to ultra-high net worth individuals. The implementation of the family office model is diverse. In both single and multi-family offices, a very narrow set of services could be offered so that one family office has just one or two functions, while others can provide a fully comprehensive solution. Every family's model is unique as a result of its budget, needs, and wants also being unique.

It is important to note that many hybrid models are very much closed-door single family offices, yet they serve just two to three families and never accept outside money. This is an exception to the rule, but important to fully understanding how the industry operates.

Traditional wealth management firms advise on your investments and sometimes help you make insurance-related or budget-related decisions. Most wealth management firms are not specialists in taxation, charitable giving, or even in multigenerational wealth management. Family offices can provide those solutions and more with a single team, allowing several diverse experts to speak with one another in order to create a cohesive plan for preserving and/or growing the wealth of the ultra-high net worth client.

There is a constant debate over the definition of a “true” family office. Some professionals believe single family offices are the only authentic family offices, and multi-family offices are simply wealth management firms in disguise. Others believe that you must have \$250 million to launch a single family office, though there are many successful single family offices with as little as \$50 million. I believe that a family office is defined by how it operates and what solution it provides to the family, not by its asset size. A hedge fund is a hedge fund and a venture capital firm is a venture capital firm, based on the structure of their investments, fees, and purpose, not by their asset size; the same goes for family offices.

This will be covered in more detail later in this book, but it is important to note that some multi-family offices start out as single family offices and gradually add more clients. The recent rising costs of talent and compliance has driven up interest in converting single family offices into multi-family offices.

## **THE FAMILY OFFICE UNIVERSE**

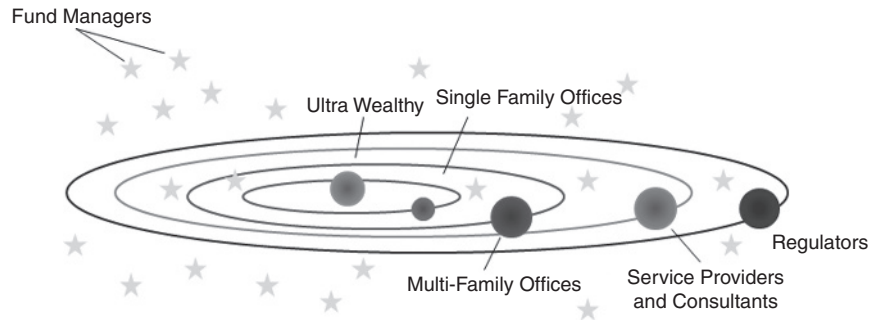
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It is helpful to look at the family office industry and think about how closely aligned different parties are to the central needs of ultra-wealthy clients. The diagram in Figure 1.1 depicts how closely aligned the goals of various parties are to the needs and goals of ultra-wealthy clients.

You can see that there is a symmetrical ring around the ultra-wealthy. That first ring represents single family offices that focus solely on the needs of an ultra-wealthy individual or single family.

The second ring represents multi-family offices that are almost completely aligned with the ultra-wealthy client; at the same time they need to please several or even hundreds of other ultra-wealthy clients as well, so they are not 100 percent aligned with the goals of a single ultra-wealthy client, but close.

The third and fourth rings represent service providers and regulators. The service provider grouping includes consultants, placement agents, traditional wealth management firms, and general accountants or tax attorneys.



**FIGURE 1.1** The Family Office Universe

While a tax attorney is surely more focused on ultra-wealthy client needs than is a regulator (as depicted later in this chapter), all of these groups are, for the most part, not focused on and built around the needs of ultra-wealthy clients or family offices.

The stars within the Family Office Universe diagram represent the tens of thousands of fund managers and investment professionals who are constantly trying to seek capital from family offices. They are sometimes connected to multi-family offices or service providers, or they are disconnected from the industry to the extent that they don't really understand what a family office is or how most of the ultra-wealthy are having their capital managed.

## **THE HISTORY OF FAMILY OFFICES**

Single family offices have existed in different forms for thousands of years. In the article "Family Offices in Europe and the United States" by Dr. Steen Ehlern, the managing director of the Ferguson Partners Family Office, noted that the merchants of ancient Japan and the Shang dynasty in China (1600 B.C.) both used multigenerational wealth management strategies. There are also several accounts of "trusts" being set up for the first time during the Crusades (A.D. 1100). Later, many wealthy banking families of Europe, including the Medicis Bardi and Rothschilds, were said to have used a family office-like structure. These organizations often offered their services to other wealthy families, and in the late 1800s and 1900s they started to look more like modern day multi-family office operations. These operations grew out of single family offices that were asked to serve connected business families and out of private banks and early trust company establishments that were looking to serve more affluent clientele.

Even now the family office industry is relatively obscure and not very well understood. While everyone in the financial industry has a rough idea of what a hedge fund is (or at least knows that they exist), many finance professionals don't know what a family office is or what it does. When it comes to the general public, knowledge of a family office or its operations is close to nonexistent.

Looking at the growth of the hedge fund industry, I believe the model really started to take off between 1970 and 2000. The family office industry is on a parallel growth track, and our market research and interviews have uncovered that we are just 10 years into a 30-year surge of growth in the family office space. For example, I recently spoke on stage at an event with a wealth management professional who has 17 years of experience; while he was very successful and bright and did know what a hedge fund was, he did not know what a family office was. If someone who works in wealth management is not aware of the family office industry, many of the ultra-wealthy are not either. There are more than 10,000 family offices in the industry; I predict that the industry will double in size by 2020.

The wealthy will continue to expand their wealth, and family offices will continue to grow in numbers. That growth is accompanied by an increasing need and desire among the wealthy for wealth management services. Around the globe, more and more wealthy families are looking for something similar to the family offices seen in the United States and Western Europe.

I was fortunate to recently record an interview with one of the founding fathers of the modern-day family office industry, Charles Grace. Charles is a director at the Threshold Group. He is known for founding Ashbridge Investment Management and for building the first open-architecture platform for family office investment management. Charles not only knows the history of the family office industry but also has helped shape it as well. Here is a short excerpt from that interview:

Richard Wilson: Charles, you have been in the family office industry for over 50 years, which is longer than anybody else we are interviewing for this book and our monthly newsletter. So how have you seen the industry evolve?

Charles Grace: It used to be that family offices were based in the financial office of the operating company. There was perhaps a dedicated accountant in there that took care of the operating company. So that was the beginning, and then some of the wealthier families set up distinct offices that were not necessarily housed in the operating company, but which were a part of it, and they provided services to the family. Not too long ago, maybe, say, I don't know, 20 years ago,

some of these larger family offices started to provide services to other families and the founding family. And a couple of names that come to mind are us, the Rockefellers, and there were a couple of others that built a multi-family office business on a family office, and so that was the first level of development.

Next came the trust companies. The trust companies were always in this business too, not as family offices, but as a part of the trust work—trust and investment work—and they were always there as competitors in this business and still are. Then along came the brokers; while the brokers were very transaction-oriented in the early days, they found out that they wanted to provide more advice than transactions because transactions were very cyclical. They became involved in the family office's business and they started selling the family office business model. They provide other services, too, primarily outsourced I think, but some of them are housed in-house. I mean I think Goldman Sachs and some of those guys provide other services to their wealthy clients rather than just a dozen products. So that is a third level of development.

Now then out of that came people that spun out of the investment banks, the trust companies, and the family offices and started their own multi-family offices. So you can see there is sort of a tree growing here and you see that the branches have now gone out to sort of third, fourth generation, where you have people spinning out of the family offices, the brokerage houses, the banks in order to start multi-family offices.

Richard Wilson: I think that's a great, brief overview of how the industry has evolved. It was back in the early 1980s that your firm was one of the pioneering family offices that came up with an open-architecture investing platform. Can you talk about that in a little bit more detail since you became well known for offering that early on in the family office space?

Charles Grace: Well that's another revolution, Richard. We started out by—this was in the old days 25 years ago whereby hedge funds were less developed than they are now. Private equity was there, but less developed. So the investment question was sort of a simple one: a set of asset allocation and manager selection. It was based upon rather simple



strategies, I mean various types of stocks—big and small stocks, international stocks—weren't regularly considered until later on in the industry's development. Hedge funds came along, I don't know, not at the very beginning. The investment program developed from, it used to be an asset allocation model, just an efficient frontier which was by definition backward looking.



See the video “History of Family Offices,” at [www.FamilyOfficesGroup.com/Video4](http://www.FamilyOfficesGroup.com/Video4).

Then it grew into an emphasis on manager selection and identifying “the best managers,” who generally reverted to the mean, but nonetheless were very good, and so there was lot of work done on the organization and the people themselves, investment managers. Then, [it grew] to a form of a tactical asset allocation rather than just strategic. Strategic asset allocation, manager selection, and now it's moved into much more emphasis on tactical asset allocation across a very, very broad spectrum of investment strategies. So there has been a lot of change in the way investment advice has been offered and utilized by the family offices.

Stay tuned for more of our interview with Charles Grace in Part Two of this book.

## **STATE OF THE FAMILY OFFICE INDUSTRY**

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See the video “State of the Family Office Industry,” at [www.FamilyOfficesGroup.com/Video5](http://www.FamilyOfficesGroup.com/Video5).

The family office wealth management industry is larger and faster-growing than ever before. Family offices are thriving. Ultra-high net worth families shape our economy and communities; that can be seen all around us through their operation of franchises, apartment buildings, operating businesses, and capital infusions. Family offices are an important source of capital for small and medium-sized businesses and investments, which fuel much of the global economy.

Family offices are often global in their presence and investing. To date, I have spoken in more than 20 countries around the world, and every region shows evidence of a thriving industry that is only just beginning to become

more widely understood and defined. Throughout this book, you will have the chance to learn more about these industry hot spots, recent trends, operations, investments, and the future of both single and multi-family offices.

### **WHO USES A SINGLE OR MULTI-FAMILY OFFICE?**

While some family office clients inherit their wealth and others earn their wealth as an athlete or movie star, a high percentage of family office clients have recently taken a company public or sold a business. As a result, their net worth is now \$20 million, \$300 million, or more, assets they did not have to manage in the past. Family offices try to help manage and preserve that wealth, and the goal of this book is to explore how they attempt to do that on a consistent basis.

Examples of well-known individuals who use family offices are Michael Jordan, Paul Allen, Oprah Winfrey, Bill Gates, and Donald Trump. Almost everyone who runs a single family office has between \$100 million and \$1 billion in assets, with a smaller percentage having over \$1 billion and an even smaller percentage having under \$100 million under management.

Most multi-family offices require \$20 million to \$30 million in investable assets to join their platform, but due to economic conditions and hunger for business growth, some family offices are allowing \$5 million and \$10 million clients in the door. At the other end of the spectrum, some high-end family offices, including several we interviewed for this book, require \$100 million to \$250 million in investable assets to participate in their multi-family office. For the purposes of this book, we will be referring to ultra-affluent clients as individuals or families with more than \$20 million in investable assets.



See the video “Ultra-Affluent Clients,” at [www.FamilyOfficesGroup.com/Video6](http://www.FamilyOfficesGroup.com/Video6).

While we don’t have room in this book to detail the line item costs or requirements of running a family office, I want to dispel one myth: Many industry studies will tell you that you need \$100 million to \$250 million or more to set up your own single family office solution. Experts will tell you that running a family office will cost at least \$1 million a year. I don’t believe that is true. Due to technology and the ability to leverage taxation and risk management experts and consultants, I have found some successful single family offices with “only” \$30 million to \$50 million in assets.

I asked one successful single family office executive, Louis Hanna of Corigin Holdings, when it makes sense to consider forming a single family

office instead of working with a multi-family office. “I think it’s kind of on a case-by-case basis, but arguably and it’s a large subset, but I would say beginning at 50 approaching 100 million, again depending upon the situation. And also obviously it is not based upon just asset level but also investment management experience, level of financial sophistication, and goals of family members.” The amount of assets needed to set up a single family office depends on the type of risk the family has to manage, what they invest in, what global taxation issues they face, and what goals they have for the family and family office, but, as Louis notes, other factors besides assets should be considered before forming a single family office.

I had the opportunity to interview Angelo Robles, head of the Family Office Association, an exclusive association for single family offices. You can hear exactly how he responded to my question on this topic during the recorded audio interview.

Richard Wilson: How much in assets do you think that someone needs to have before it makes sense to form a single family office?

Angelo Robles: I often think those numbers are thrown about, and sometimes I am guilty of that as well. So, why not \$67.2 million, how come \$50 million or a \$100 million? My views on this issue have also changed in the three years since I launched FOA. A part of the reason for my change was about a year ago, I had a chance to come across a significant wealth owner who noted to me, “You know, Angelo, I’m liquid in the ballpark of about \$45 million.” And I said, “\$45 million, I mean congratulations, you are successful. But I think you may be a little bit small for creating your own entity, your single family office. And it’s expensive relative to your assets.”

And he leans forward and says, “Let’s get a couple of things straight, Angelo. First of all, don’t tell me what’s expensive. If I have, whatever, \$45 million, and I want to create for a couple of thousand dollars a private operating company and hire someone who may be paid a couple of hundred thousand dollars, I have got \$45 million. I think I have the resources to do that. And by doing that, I am taking control of my assets and my money. I have talent; it may be one person, but talent that’s going to be exclusive for me. Why do I have to have a billion dollars? Isn’t that a little different than a traditional definition but still a definition of a single family office?” And that really caused me to rethink.

Now, I think, to be optimized to have a multiple of talent inside the single family office, sure, it's going to be superior to have \$200 million, if not even more. But I have come around to the gentleman's point of view that there really is no clear-cut definition on how much assets someone has to have to find it worthwhile because a lot of people that want to create an single family office, they are *entrepreneurial* in nature; they are type A personalities; they are successful on some level; and they believe in the opportunity for control, customization, and privacy. And if they are able to build the governance and the philosophy around that and hire even one person to help them in their initiative, doesn't that qualify to be a single family office? Just because they are not worth \$300 million, \$400 million, or \$500 million yet, doesn't mean that they don't have the opportunity to build something that we would broadly still describe as an single family office.

There is probably a sweet spot or a medium, \$500 million to \$1 billion, and we have some families that are Forbes 100, a couple of Forbes 10. Those families have tens of billions of dollars. But we also have some that are "only"—and again I use that word loosely—\$50 million or \$100 million or \$150 million. So I think the opportunity here is to not define an single family office by too restrictive of a definition. If someone sees value in the benefit of control, privacy, and customization, then I don't think we could contain their desire to create one or maintain one just because we perceive they don't have the classic \$100 million in assets.



To download the full 40-minute audio interview with Angelo Robles, please visit [www.FamilyOfficesGroup.com/audio1](http://www.FamilyOfficesGroup.com/audio1).

## **WHY FAMILY OFFICES?**

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There are many reasons why the ultra-high-net-worth are forming and joining family offices faster than ever before. We will explore the four drivers of growth in the industry within Chapter 10, "The Future of the Family Office Industry," because you may be wondering, "*What are the core motivations of these ultra-wealthy individuals looking to start or join a family office?*"

Once you begin dealing with \$10 million, \$100 million, or \$500 million or more in assets, many issues that may sound small become very important to manage closely. These issues include global taxation, risk management, and even things like cash management. A section of this book in Chapter 6 will focus exclusively on cash management best practices; well-managed cash can often pay for most (if not all) of the expenses of using a family office.

### **MORE MONEY, MORE PROBLEMS**

It really is true: The more money you have, the more problems and challenges you face, no matter how “high quality” the problem may be seen by some. A good analogy for understanding how small details become more important as wealth grows is the managing of currency risk exposure for Procter & Gamble versus managing that same risk within a \$1 million-a-year small business with global clients. Surely the small business does not have a full-time currency risk expert on its team, while Procter & Gamble most likely employs several full-time professionals who do nothing but hedge global currency risks. The same goes for the importance of tax matters for someone with \$80 million to invest versus \$800,000.

Here is a list of the top benefits of working with a family office instead of a single CPA or traditional wealth management professional:

- Central financial management center for the wealth so more holistic decision making can be made.
- Higher chance of an efficient and successful transfer of family assets, heritage, values, and relationships.
- Access to institutional quality talent, fund managers, and resources that would be difficult or impossible to obtain as an individual.
- Reduced costs in achieving a full balance sheet financial management and investment solution.



See the video “More Money, More Problems,” at [www.FamilyOfficesGroup.com/Video7](http://www.FamilyOfficesGroup.com/Video7).

### **FAMILY OFFICE INDUSTRY CONFERENCES**

Around the world, there is a growing awareness and interest in family office wealth management. Fund managers want to raise capital from family offices, wealth management firms want to convert into family offices, and

ultra-wealthy individuals want to learn more about the industry before starting their own single family office or joining a family office. One way to reach family offices is to attend a conference. Like other types of conferences, some are more valuable than others. Some family office conferences are invitation only, some are free to attend if you operate a family office, and most of them are held annually.

These conferences are most useful for family offices that are looking to connect with fund managers, service providers, and fellow family offices to explore partnerships and trends. While it may add to your credibility in the industry to speak at such an event, you will most likely not directly get any new clients for your family office business by attending such a conference. I attend family office conferences every quarter and I've spoken at more than 50 conferences now. Please do come up and introduce yourself if you see me at one of these events; it would be great to meet you in person.

## **CONCLUSION**

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Family offices have been around for a long time in different forms, but for only a very short amount of time in their current state. The industry is quickly evolving and provides a critical solution to the ultra-affluent who are willing to pay for more holistic management of their finances. In the following chapter, we will expand on the actual services that many family offices are providing.