The New Standard of Service: What Clients Expect from the 21st-Century Family Office

Hannah Shaw Grove
Principal
HSGrove LLC
Edison, NJ

The dynamics of single-family and multifamily offices have changed over time as greater sums of wealth are created each year. Family offices have become closer in style and service to investment advisory and wealth management organizations, and those organizations have adopted many characteristics and philosophies of family offices in order to attract and service a wealthier and more demanding clientele. Single-family offices are driven by a desire for confidentiality and control, whereas multifamily offices are driven by such business factors as profitability and scalability.

Over the last two decades, my career has been focused on conducting research on wealth creators, wealthholders, and inheritors around the world in order to understand who they are, what motivates them, and what they expect from their advisers. I have also sought to learn what these wealthy individuals do with their discretionary assets so I can have a complete picture of what it means to have them as clients. My ultimate objective has been to determine how to work more effectively with them and appeal to their sensibilities and concerns.

Along the way, I have taken a closer look into a couple of specific areas to understand unique segments of wealth. One of those areas is family offices. Historically, say, 150–200 years ago, family offices were the domain of families like the Rothschilds, the Guggenheims, and the Rockefellers—large, multigenerational families with businesses and significant wealth to manage. These family offices were large infrastructures that were used as a means of passing on the wealth from generation to generation and addressing all of the issues that were important in sustaining their wealth. They also allowed for dialogue with extended family members, which allowed everyone to take an active role in the management and the perpetuation of the family wealth.

As more and more private wealth is generated around the world, more people have become interested in what large families like the Rockefellers and the Guggenheims did to create and sustain their wealth. They want to learn from them, borrow from them, and create similar infrastructures that allow newer wealth to grow and be sustained.

Over the past few decades, a lot of new information regarding single-family and multifamily offices has come to the forefront. I have seen how these organizations are changing and how they are becoming closer to investment advisory and wealth management organizations in terms of the integrated financial services they offer to the wealthy population.

Single-Family Offices

A single-family office is just what it sounds like—an entity set up to help one family. It could be one extended family with multiple generations, or it could be just one immediate family—perhaps a couple and their children. For the most part, these offices are standalone entities, and like most standalone entities, they require a lot of resources—both human and capital—to keep them running. Consequently, conventional wisdom in the industry says that it takes at least $100 million to warrant having a single-family office.

In my experience, most people who have single-family offices actually have a lot more than $100 million. My research over the last two decades shows that people with single-family offices usually have total assets somewhere between $600 million and $1 billion or more. In the survey data I have collected over time, the median net worth of single-family offices is $324 million and the median investable

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assets are $128 million. The mean net worth is about $550 million; billionaires tend to skew things.

The use of single-family offices has less to do with the technical aspects of managing wealth and more to do with control and confidentiality. Single-family offices are unregulated entities; by design, they fly under the radar, not just of regulators but also of colleagues, competitors, and peers. The single-family office structure allows families to act as a defense for themselves and to control all of their personal and financial affairs internally. The overriding motivation for people who set up single-family offices is autonomy; they can be the final decision makers, and they can do it without comment or judgment from other people.

Multifamily Offices

Many multifamily offices, such as Rockefeller & Co. and Guggenheim Partners, started out as single-family offices. Over time, these families realized that they had assembled a group of experts and an infrastructure that was needed by other people like them. They were ultimately willing to open their doors and bring other families in, allowing others to benefit from their resources and their expertise. Bringing in other families also created the opportunity for them to network and learn from one another and create a community of like-minded people.

The multifamily office space has changed over time. In recent years, the term "multifamily office" has been defined by the investment advisory and wealth management communities as a euphemism for an organization that provides integrated wealth management services to wealthy families. In effect, the investment advisory and wealth management communities have borrowed the term to offer their clients a more holistic and comprehensive platform of capabilities.

The motivations behind the creation of most multifamily offices are profitability, the ability to leverage infrastructure across multiple families, and access to a more appealing platform to attract wealthier clients. These motivations are different from those of single-family offices—that is, control and confidentiality. The key change in the multifamily office over time is the shift in focus from a family-oriented mindset to a business-oriented mindset.

Also, multifamily offices, by design, create a more scalable model so they can attract families with fewer assets than those who have the money to set up and run their own single-family offices. This category of families has less, but still significant, wealth and wants to have that same family office experience. In terms of net worth, according to my research, the clients of multifamily offices have a median net worth of $89 million and median investable assets of $36 million. Again, the wealth is significant but not enough to substantiate having a standalone, dedicated entity that requires staffing, technical expertise, and all of the things that go into running a single-family office.

Traditional Family Office Platform

One of the key elements of a family office is the degree to which the services they provide can be coordinated and intertwined with one another in a customized way for clients. This integrated approach is in stark contrast to a discrete environment, where services are delivered as individual transactions without real relationships among them.

Exhibit 1 shows the typical range of functions in today's family offices. There are five major areas of products and services that they deliver to clients: investment management, advanced planning, administrative services, lifestyle services, and investment banking. The last two categories—lifestyle and investment banking—are newer in scope based on what I have seen among family offices around the globe in recent years.

Investment Management. Most family offices are organized around the investment management function. I have encountered only a handful of single-family offices that do not manage their own

Exhibit 1. Family Office Services

Investment Management	Advanced Planning	Administrative Services	Lifestyle Services	Investment Banking
Policy and governance	Tax mitigation	Financial reporting and recordkeeping	Family security	Buying and selling
Manager selection	Estate planning	Data aggregation	Concierge services	Business interests and other assets
Portfolio construction	Wealth transfer	Bill payment	Private health care	Capital raising
Direct investments	Business succession	Tax preparation	Philanthropy	Loan sourcing
Research and analysis	Asset protection	Day-to-day office operations	Advisory services	Investor sourcing
	Charitable gifts	Certified public accountant (CPA)/accounting duties	Family education	
			Fine art and collectibles	
			Property management	

wealth. In these cases, the family office was set up to be more of a defense structure for family members. But most family offices—both single-family offices and multifamily offices—and, increasingly, the wealth management community in general are structured around helping clients oversee their investments, whether on an in-house basis or outsourced to professionals.

Investment management means different things to different family offices. For some organizations, it means having in-house investment personnel with an established investment strategy, including an investment policy committee, portfolio construction, and ongoing management—all managed internally. There are many family offices that opt for something slightly less robust; they are managers of managers. Some family offices simply outsource everything.

The level of involvement also differs between single-family offices and multifamily offices. Single-family offices enjoy the flexibility that goes along with being a dedicated, privately held entity. As such, investing can often be a dynamic and fluid process without the layers of governance and oversight that is found in larger, public organizations. In contrast, multifamily offices are usually registered investment advisers and operate like traditional advisory businesses with structured investment processes and oversight.

In recent years, multifamily offices have been bringing a broader suite of capabilities to the table. Many single-family offices are realizing they might be able to learn from multifamily offices. Consequently, some single-family offices are partnering up with multifamily offices to broaden their capabilities. Similarly, wealth management firms and registered investment advisory firms are looking at the single-family office market for opportunities. Such opportunities might be new clients or new business partners. In summary, the overlap in the wealth community around how people source, acquire, and experience services—particularly in the investment space—has increased over time.

Advanced Planning. The second major category of services provided by family offices is advanced planning. This category includes a focus on mitigating tax obligations—developing tax strategies to help with income taxes, capital gains taxes, estate taxes, and the tax efficiency of portfolios. Other types of services in the advanced planning category include philanthropy as well as estate and wealth transfer planning. One specific category relates to business succession strategies because a lot of private wealth is wrapped up in closely held businesses.

About 15–20 years ago, most advanced planning services were implemented in isolation. Recently, there has been more integration between the areas of advanced planning and investment management, which can yield more specific outcomes and higher satisfaction levels from wealthholders. For instance, when an adviser works with clients to develop an investment strategy that considers and supports their tax strategy and philanthropic goals, it is easier to understand how the adviser is helping them address their concerns and priorities.

Advanced planning is becoming increasingly important as more wealth is being generated and more people are being thoughtful about how that wealth gets passed from generation to generation or to the organizations and causes that they care about. So, clients are looking to have a more open dialogue with their advisers regarding what they want to do with their wealth. They are seeking specific advice on how their wealth should be structured and how they should talk about it with their family members. They want to know how their wealth can have the greatest impact for the people who will inherit it and how they can protect it.

Administrative Services. The third major category of services within family offices is administrative in nature—financial reporting and record keeping. This category involves consolidating data across many different platforms so that family members can see and understand the data easily. Many times, this process requires accounting, tax preparation, and tax strategies. In recent years, accounting has taken on a more important role in the context of managing a family's overall wealth.

When the desire to manage taxes eclipses the desire to have great returns, wealthholders begin to understand the profundity of tax strategies and that accountants are capable of killing deals. Many clients will not commit to significant investments or get involved in new business ventures without first discussing the tax implications with their accountants. Thus, wealth advisers should get to know the accounting professionals their wealthy clients are working with because they have the ears of their clients and are capable of derailing even the best-laid plans.

Other parts of the administrative category are operational in nature, such as making sure that the family office runs smoothly.

Lifestyle Services. The lifestyle category relates to how the overall management of clients' wealth is intertwined with the way they live. Clients are often looking for support to make that integration easier.

For some families, it is about organizing their estate, their property, and perhaps any collectibles that they own. For others, it might mean helping with travel arrangements or with their philanthropic advisory planning. It could mean providing financial education to family members or getting great concert and theater tickets. Some clients are looking for support dealing with insurance providers and health care providers.

The lifestyle category is where the character of the family shines through a little bit more and the priorities for how the wealth is deployed on behalf of the family begin to take form. Across family offices, the activities in the investment management, advanced planning, and administration areas are largely similar from family to family. Investment strategies may differ, but the functions are the same. In contrast, the functions of the lifestyle space can vary dramatically across families. So, lifestyle services is an area that can help cement advisers' relationships with wealthy families and can allow them to distinguish themselves from other providers.

Investment Banking. This last category in the family office can take on a couple of different forms. It can include traditional banking—lending and credit—but more recently, there has been a greater emphasis on investment banking services. Most significant private wealth is created through the ownership of an asset, and in many cases, that asset is a business or intellectual property that has been monetized in some way. People who generate their wealth that way are often interested in generating more wealth that way. So, they want to buy and sell substantial assets and to understand what else is going on in the fields where they generated their initial wealth. Consequently, more family offices are looking for partnerships that allow them to access these types of services. It may also be the case that some clients need to raise capital for ventures that they are starting up.

In the past few years, a few things have happened with the last two categories—lifestyle services and investment banking. In 2008, we saw a real retraction and retrenchment among family offices—particularly in the multifamily office space—and within wealth management firms that were engaging in traditional investment management with some coordination between wealth transfer and estate planning. They had moved far down the path of offering a series of lifestyle services they felt distinguished them from their competitors, which allowed them to engage with their clients much more effectively on a personal level.

After 2008, many wealth managers realized that their focus was not on what really matters. A lot of organizations decided they were going to outsource certain tasks or stop offering them. Honest discussions with boards and key principals at these family offices revealed that they needed to focus on the original purpose of the family office. Then, more outsourcing relationships began to crop up, which changed the overall structure of the family office to allow people who specialize in investments and nonfinancial services to become partners to help deliver a complete solution.

More recently, there has been more delineation between financial and nonfinancial services offered by family offices. Many organizations are saying they will handle the financial coordination of all of a client's assets and strategies but rely on partners to help with the nonfinancial areas. This slight shift has taken place over the last five to seven years, and it is changing the way products and services are sourced and experienced by clients. At the same time, there seems to be a shift toward more integration between advanced planning and investment management. In some sense, integration is required by the clients to make sure that their investment strategies are in line with meeting their overarching personal and social ideologies.

Family Offices and Alternative Investments

Alternative assets are becoming an important focus for family offices as they consider their value proposition for clients. For years, family offices have been heavily invested in hedge funds; almost 100% of them invest in some sort of hedge fund. For advisers working with traditional, long-only investments in the public markets, moving into hedge funds is a fairly smooth transition because the similarities to traditional investments make it easy for clients to understand. Furthermore, they are fairly easy for an adviser to integrate into a portfolio.

About 15 years ago, family offices were typically using a fund-of-funds approach because it was a nice way to diversify across managers. But the use of that approach has declined over time as family offices have been becoming more sensitive to fees. Interestingly, over the past 18 months or so, there has been a trend in some family offices of reaching out to their underperforming hedge fund providers and demanding that fees be renegotiated. My research partner and I collected some data on the topic, and he published a piece in *Forbes* about it.[1] We found that, on average, these family offices were getting the management fee lowered by 0.70% and the incentive fee lowered by about 3.2%.

Of course, some of these family offices are large enough to be the size of institutions, so they are able to use that purchasing power to try to get institutional-level pricing. As it turns out, many institutional investors are now coming to the table and renegotiating

[1]Russ Alan Prince, "Single-Family Offices Are Negotiating Down Hedge Fund Fees," *Forbes* (17 September 2013): www.forbes.com/sites/russalanprince/2013/09/17/single-family-offices-are-negotiating-down-hedge-fund-fees/.

their hedge fund fees. Generally, it is institutional investors that pioneer policies and standards that the high-net-worth community then follows. In this case, however, the high-net-worth community led the way and the institutional investors followed.

About two-thirds of all family offices help their clients invest in private equity, either through funds or direct investments. Again, it is important to remember that most of these families earned their wealth from some sort of private investment that they figured out how to monetize. There is a fairly strong entrepreneurial spirit within most families of significant wealth to pass the wealth down from generation to generation. At the same time, these families are usually interested in making unique strategic investments in the private sector. Such investments may include things like investing in a local restaurant, investing in an acquaintance's landscaping business, or investing in more structured investments, such as private equity funds with professional management.

Interestingly, the two-thirds number has been very consistent over the decades—one of the things in the family office space that has not changed much. There is a group of people who are comfortable with private equity, and there is a group who are not yet comfortable. For those family offices invested in private equity, our research indicates that their continued interest in the private equity space is partially driven by performance. About 70% of all family offices believe that their private equity funds have outperformed all the other assets in their portfolio, and 75% of them say their direct investments have outperformed. Thus, it is not surprising to see these families continue to use private equity investments as a vehicle to generate and sustain their wealth.

The Influence of the Younger Generation

In recent years, private equity has caught the attention of the younger generation. Consequently, younger wealth inheritors—those who have not yet come into their wealth but will inherit $100 million or more—are increasingly interested in getting involved in the decisions of the family office. **Table 1** shows that about one in five inheritors are already involved in some deals, and two-thirds of them want to become more involved in the buying and selling of significant assets. Furthermore, many of these inheritors are interested in club deals—that is, getting involved with other people with similar interests so that they can get preferential terms.

Table 1. Increasing Involvement in Private Investments by Wealthy Inheritors

Level of Involvement	Percent
Are currently doing deals	21.9%
Want to be more involved in buying and selling substantial assets	64.9
Are highly interested in club deals	86.4

Note: Data are from a survey of 114 inheritors.

The other factor that is of great interest to the younger generation is impact investing. It is very important to them to use their money wisely and to try to change the world in some positive way. They are bringing that thinking back to their families with the hopes that it will influence the way they choose to deploy their assets.

As a result, there is an increasing effort to manage trusts, foundations, and other gifting vehicles—and the assets within those vehicles—in line with an impact investing sensibility. This is not yet happening in the core portfolios of family offices, but it will probably happen soon. Some of the deals these younger inheritors are pursuing are about impact, such as clean energy and green technology businesses and more humane mining practices. Ultimately, as this younger generation becomes more involved in the structure, management, and oversight of family wealth, it will demand that impact investing be integrated into the family's core strategy.

Estate Planning, Tax Planning, and Asset Protection

When wealthholders without an estate plan are asked about it, about half of them say it is just too difficult to tackle, that these decisions involve too many emotions. They do not know how to broach the subject, and they do not have the right kind of emotional support and infrastructure around them to deal with it. Interestingly, about 30% of those without an estate plan say they do not need one. In some cases, this response is from people who do not have control of their assets or are not going to be able to change the way the assets transfer because of generation-skipping trusts.

For the 75% of the wealthy who do have estate plans, most of the plans are outdated. About 90% of their estate plans are over two years old, and two-thirds of them are over five years old. For most people, family relationships change, personal relationships change, and wealth changes, so much so that any document drafted five years ago is fairly obsolete. So, even for those people who have done some estate planning, it was often a one-off transaction that should be revisited. More importantly, their adviser has not likely helped them revisit their plan, so they still have not yet completely coordinated those advanced planning services with investment management to be fully prepared for what could happen.

Similar things happen with respect to tax planning. Most wealthy people say that they are very interested in tax reduction strategies. But my research indicates that only about 25% of these people have actually done anything about it. Again, it seems there is a lack of integration between advanced planning capabilities and investment management, or at least, there is room for improvement.

About 85% of wealthholders have not done anything about asset protection, even though almost all of them have significant assets that probably warrant some form of protection from unjust lawsuits, creditors, litigants, and other financial predators. Everyone with significant wealth feels like a target, and most of them have witnessed somebody close to them becoming the victim of an opportunistic lawsuit or some other calculated predatory activity.

There is a lot of misinformation in the asset protection space because it is not a well-defined area. About two-thirds of wealthholders say they have not done anything to protect their assets because they do not know what to do or whom to talk to. They are not sure what professionals they need to turn to—insurance, legal, accounting—and what actions they need to take to fully protect their assets.

Interestingly, a quarter of wealthholders think asset protection is illegal. So, there is definitely some misinformation out there around what is legal and illegal and what strategies can be pursued to help minimize risk exposures to themselves and their wealth. For the most part, they have not yet taken the necessary actions to resolve what they see as potential frustrations or potential areas of risk. Collectively, issues relating to estate planning, tax planning, and asset protection weigh heavily on the minds of wealthholders.

Lifestyle Concerns

Looking forward, the key lifestyle issues that most wealthholders are concerned about relate to health care and protecting themselves and their assets. **Table 2** demonstrates the wealthy's emphasis on making sure that top medical and health care resources are accessible. Wealthholders want to have emergency response solutions in place for when they are traveling or when a family member gets into an accident or is the victim of a crime. They also want to make sure that they are physically safe and that their assets are safe. The advisers who realize the sensitivity of these lifestyle issues will likely have more effective engagement with clients and prospective clients.

Table 2. Lifestyle Concerns of the Wealthy Population

Lifestyle Concerns	Percent
Top medical resources	95.6%
Emergency health care	83.3
Family security	69.3
Emergency response	78.9
Confidential information	83.3

Note: Data are from a survey of 114 inheritors.

There has been more and more outsourcing by family offices that have decided to focus on what they do well and then find the people who can do the other things that their clients need. This is particularly true in the area of lifestyle support, where the services and skill sets are unique and distinctly different from the financial and investment activities within family offices.

Based on conversations with organizations that have successfully engaged in these partnerships, I have identified key factors these providers consider to determine whether they will outsource and how they will find the right partner(s). First, they look at how often the service is needed, the percentage of their client base affected by the service, and how critical the service is to the nature of the relationship and retaining the assets from generation to generation. Second, they compare costs across outside providers. Third, they consider the degree to which having the service—as an exclusive offering—will make them look attractive relative to competitors.

Conclusion

In my discussions with wealthholders, I have found that the key reason for moving to a family office is better service. They make the move because they have not received great service from their private bank, their broker, their adviser, their accountant, or their attorney. They do *not* move to a family office because such offices specialize in managing multigenerational wealth or because they can help in setting up strategic gifting structures that allow for philanthropic deployment or other family-specific reasons, but rather, they move for better service.

They want more responsiveness from their service professionals, and they are looking for more customized solutions and fewer transaction-like interactions. They want that integrated consultative support that allows them to believe their provider is thinking about the management of their financial affairs as a whole. They want to engage with providers who bring technical expertise and proficiency to the table without pushing products. They want to work with people and organizations that can harness extensive expertise on their behalf. In essence, they are looking for someone who is going to call them back and talk to them within a framework that is meaningful to them on a timeline that works best for them.

Again, the younger generation has slightly different goals from their parents' generation and the current controlling generation. For most of them, those goals include helping their family manage and deploy their wealth in a strategic, wise, and responsible manner. Some of them want to generate their own wealth. They want to figure out how to leverage their personal and family networks to help them acquire the skills that will allow them to be more productive members of their community.

Advisers can have a direct impact on their clients' loyalty. In my discussions with wealthholders, it seems that half of the loyalty equation comes down to such core qualities as the character, integrity, and competence of the adviser. Another major element of client loyalty is how consultative advisers frame their expertise in ways that are meaningful to their clients. Interestingly, fees charged by advisers seem to have only a minor impact on client loyalty.

Lastly, the future of wealth management certainly has some challenges. The competitive landscape for wealth management services has increased, making it more difficult to attract new clients and retain existing ones. The good news is that more wealth is being generated every year, but getting to these new wealthholders, cultivating a relationship, and retaining their business is going to be more challenging moving forward and will require a suite of comprehensive services that are delivered in a customized, high-touch fashion, much like what is done in family offices.

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Question and Answer Session

Hannah Shaw Grove

Question: In single-family offices, is it typical for these firms to have advisory boards or investment committees providing some type of external oversight of the investment process? If the investments are outsourced, is there little tolerance for failure?

Grove: There are some single-family offices that do not have a lot of governance structures in place, but most of them do. Multifamily offices operate as registered investment advisers, so they certainly have investment committees, and they often have boards of directors and trustees that add additional layers of oversight. Many families operate the same way in the sense that they will add non-family members to the board, such as academics or other professionals who have the technical expertise and can provide that extra layer.

In terms of tolerance for performance, the key is all about setting expectations. Nobody likes surprises, and nobody likes underperformance. So, it is important to have regular and ongoing communications with the client, particularly if anything looks like it is not going according to plan.

Question: How does goals-based planning tie into single-family offices and how these offices allocate assets among generations?

Grove: I think that goals-based planning is an area where there is a bit of tension for families because one generation generally has goals, concerns, and priorities that are different from those of the younger generations. So, it helps to have a third party or some objective voices that can help temper and mediate those conversations. I do not see that happening really well in the single-family office space. It is happening in the multifamily office space and among wealth management firms that can bring this kind of thinking and strategic facilitation to the table.

Question: Is client turnover an issue in multifamily offices? If it is, does it affect the clients who stay?

Grove: The firms that have the best luck with retention are those that are doing the best job integrating all the services on the platform. That is, clients are going to find it difficult to move their business if the firm is doing a good job helping them buy and sell significant privately held assets, helping with their estate planning, and helping with tax preparation. Retention happens when the firm gets more involved with the family across a broader range of things. Greater involvement gives the firm more touch points with the client, and it allows the firm to have multiple ways to get involved in different aspects of their lives and their financial affairs.

But a number of firms focus on only a few core areas. Consequently, these firms will lose clients from time to time, which can cause disruption. Specifically, if a large client leaves, then some of the smaller clients become larger clients and realize that they are shouldering a bigger burden of responsibility within the firm. Many families are not comfortable with that. Most families do not want to be the anchor family in a firm, as much as it sounds like that might come with some special treatment and attention. They do not like the responsibility and the exposure that they believe that carries.

Question: There are a number of associations of family offices that advisers can join. What are the pros and cons of those?

Grove: Yes, there are a number of associations, and they all vary a little bit. They are good to get involved with, particularly for those who want to understand more about the families who want this type of service and how other organizations are structured. I would encourage people to attend a couple of the events to better understand them. Some of them tend to attract more multifamily offices, some of them attract more single-family offices, and some of them are more like networking organizations.

Question: What are the biggest mistakes that you have seen family offices make?

Grove: I think one of the biggest mistakes—and I do not see it changing anytime soon—is that a lot of single-family offices were created by a patriarch who was also the wealth creator. For any founder of a business, it is very hard to step aside and cede responsibility and control to somebody else. Some single-family offices are still run with an iron fist around their original principles and strategies. There is always a need for renewal—keeping up with the times and letting the organization avail itself of the newest technologies in response to industry changes. Another mistake is a lack of networking and open communication among family offices. Increased communication may allow these family offices to learn from one another and avoid mistakes.