Office secrets of the world

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A survey reveals insights from Single Family Offices in Europe, the Americas and Asia that manage at least $100 million in investable assets.

Extreme wealth carries with it obligations and privileges. The super rich must often continue to operate their business while managing their mounting wealth and planning for future generations. Other, more "soft" objectives that require attention include family education, concierge services and philanthropy.

For reasons of privacy, exclusivity and customization, affluent families are attracted to the Single Family Office (SFO), whose charge is to protect a family's investments and assets for both current and subsequent generations. Unlike the Multi-Family Office (MFO), the SFO looks after the affairs of one family and one family alone.

To better understand the structure and practices of the Single Family Office, the Wharton Global Family Alliance and IESE Business School teamed up to interview and survey the leaders of SFOs in Europe, the Americas and Asia.

Prof. Raphael (Raffi) Amit, chairman of the Wharton GFA Executive Committee, explained: "By joining forces with a network of strong research partners such as IESE, we gained both depth and breadth. Our data represents a significant sample size, offering intimate glimpses into how SFOs are structured and governed."

Besides Prof. Amit, the research team included Heinrich Liechtenstein and M. Julia Prats of IESE Business School and Todd Millay and Laird P. Pendleton of the CCC Alliance, LLC.

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The research, conducted between 2006 and 2007, evaluated SFO investment strategies, not how well one family office performs in relation to another. The survey included SFOs that manage at least $100 million in investable assets. About half of the participants manage more than $1 billion. The study's findings shed light on several important aspects of Single Family Offices and the families behind them.

- Most families view their SFO as mainly a private investment office. The "soft" responsibilities like coordinating education, providing concierge services and organizing philanthropy are considered significantly less important SFO tasks.
- The majority of the families participating in the study are entrepreneurial. In most cases, families with SFOs are majority shareholders in their family's business operations and are intimately involved in the family business.
- Families are deeply involved in the operations of their SFO, and in nearly half of the offices studied, a family member acts as the head of the SFO. These SFO heads usually have a managerial background, either from working in the family business or in industry.
- SFOs in the Americas more often recommend equity investments compared to those in Europe, which prefer real estate.
- To retain key SFO personnel, the families emphasize creating attractive work environments and assuring job stability.
- The extent of an SFO head's involvement in investment activities depends on how wealthy the family is and the number of generations involved. In the wealthiest SFOs, as well as in those that serve multiple generations, the heads personally devote less time to investment activities than do those working in SFOs with lower levels of wealth and fewer generations.
- With regards to governance, SFOs that include the presence of the first generation tend to have fewer committees. Also, European SFOs typically have more committees and they provide more frequent and detailed information to family stakeholders than do their counterparts in the Americas. The study also reveals that a higher percentage of billionaire SFOs have both a board of directors and an audit committee than do millionaire SFOs.

A formula for each family

Every family in the sample faces different challenges, which is not surprising since the average SFO serves 13 households, 40 family members or three generations.

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To meet the individual needs of each family member, SFO heads make attracting and retaining talent a primary concern. The family office can cover a multitude of structures, ranging from one family member doing administrative tasks alongside other tasks in a family business, to a team of professionals focused on investment, accounting, legal affairs and concierge services.

And there are advantages to working for an SFO. What SFOs can offer to former private bankers or asset managers is job security, an improved lifestyle, flexibility, less pressure and even co-investment opportunities.

The case studies reveal that families across the globe approach the SFO in very different ways. For example, one family views its SFO as a fully staffed private investment company whose objective is aggressive growth of the family fortune. The SFO is located in a bustling financial center - not in a tax haven - so that the staff (which includes nine investors, 10 accountants, one lawyer and 12 support staff members) can network daily with top investment experts.

Another family, which spans several generations and countries and includes 15 beneficiaries, leans on the SFO to preserve its wealth. The SFO's task is to promote family unity and orderly, intelligent wealth succession. It also assists the family with administrative duties such as banking, tax and reporting, and provides some concierge-type services and estate planning.

Recommendations for managing family wealth

No matter how the SFO is structured, the researchers offer some recommendations for sound practice.

Know Your Purpose. Well-functioning SFOs tend to be linked to families with a strong sense of purpose when it comes to their fortune. This is particularly true when the family invests not only its assets but also its enthusiasm in the pursuit of something beyond wealth preservation, whether it's a worthy cause, a philanthropic pursuit, patronage of the arts, or taking on public responsibilities.

Seek Excellence in Every Activity. Some families have closely analyzed their strengths - considering their background, experience or asset mix - and have structured their SFO to capitalize on these strengths. This approach concentrates expertise and helps attract and retain the best personnel. When it comes to handling "soft" services, a model that seems to

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work well is to have separate companies for asset management and concierge services, plus a discrete foundation for philanthropic activity.

Keep It Simple. Though many SFOs oversee complex corporate structures, they don't let the structure get too unwieldy. Family governance is key for adhering to the family's value system and to its overall purpose and for insuring the successful transfer of trans-generational wealth.

It has been said that family businesses are highly successful when they both manage the business and manage the family. With these sound practices in place, the Single Family Office can both build private wealth and keep the family - and its business - together.

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