HOW THE STRUCTURES OF FAMILY OFFICES ARE EVOLVING

to Meet The Growing Needs of The UHNW

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The COVID-19 pandemic has been a clarion call for many ultra-high-net-worth (UHNW) families, as global uncertainty arising from health concerns and market volatility have accentuated the need for an agile, global total-balance-sheet wealth management solution. And time spent in quarantine has provided opportunities for families to evaluate the current management and stewardship of their wealth, allowing many to identify gaps and stress points that exist in their overall financial and wealth structuring strategy that may not be capable of adapting as quickly as the world is changing.

Since the 1800s when family offices first began to emerge, they have continued to evolve. What started as the single-family office (SFO) model soon gave birth to a different strategy – the multi-family office (MFO) that allowed certain SFOs to benefit from economies of scale and the power of networks.

Each model certainly has its strengths, but they also have their weaknesses, which has led to a new crossbreed that provides the best of both worlds – the multi-single-family-office (MSFO).

Here's a primer to help UHNW families decide which family office structure is best for them.

Single Family Offices:
Customizable But Resource-Intensive

Single Family Offices have been embraced and adopted by forward-thinking ultra-wealthy families since the Rockefellers pioneered the idea. And there are many benefits – the ultimate being the ability for patriarchs and matriarchs to completely customize their solutions, as well as completely control every aspect and dimension of their family office. This includes absolute control over hiring, firing and partnering, building bespoke areas of focus and team expertise, as well as establishing business processes, critical infrastructure, and investment policies and procedures.

As for disadvantages, running one's own family office consumes tremendous resources, both in terms of time and money invested, not to mention the stress involved with effectively managing another stand-alone business.

Given these inherent challenges, it may introduce additional pressures and burdens in addition to costly inefficiencies. In most instances, ultra-wealthy individuals are extremely busy and pre-occupied with their business and family affairs, which is especially true with entrepreneurs. Running and managing their family office introduces challenges and headaches analogous to operating another business. Decisions on personnel, governance and policy matters to building technical infrastructure require big commitments, and in the end, they may not yield the best and most optimal results to justify the efforts.

Lastly, SFOs tend to work more effectively when under the control of the matriarch and patriarch who built the wealth. Once they release the reins for various reasons, such as death, incapacity, or retirement, structural problems start surfacing. While democratic processes work well for national governments, empirical observations indicate that splitting power across multiple generations and numerous beneficiaries proves very ineffective and dysfunctional in the single-family office setting.

More often than not, disagreements as to how wealth should be invested, distributed, given to philanthropy and spent often lead to large SFOs breaking into smaller, independent structures. Institutional protections and safeguards can be added to prevent or remedy these family feuds and break-ups (i.e. private trust companies, multi-generational trusts, co-investment vehicles, and other legal/institutional barriers, etc.), but dismantling of the SFOs often becomes inevitable.

Another trend among the larger SFOs is starting to create blurred lines and broaden their focus beyond a single family. Successful SFOs have assembled incredibly broad investment teams powered by institutional advisory support systems, platforms, and other intellectual property, facilitating reporting, monitoring, tracking and implementing at faster speeds and lower costs. With the gilded "2 and 20" model still an industry standard, and exceptional talent and infrastructure in place, the ability for these organizations to scale their infrastructure and boost returns with other peoples' money has become way too attractive.

There is a bit of irony in the fact that many of the attributes that have fostered the creation of successful SFOs are helping to dissolve that model into a more multi-family approach. And when you add that to the inherent cost and complexities, it becomes clear that the advantages of a SFO that can endure across multiple generations are only worthwhile (and feasible) in a very limited number of circumstances.

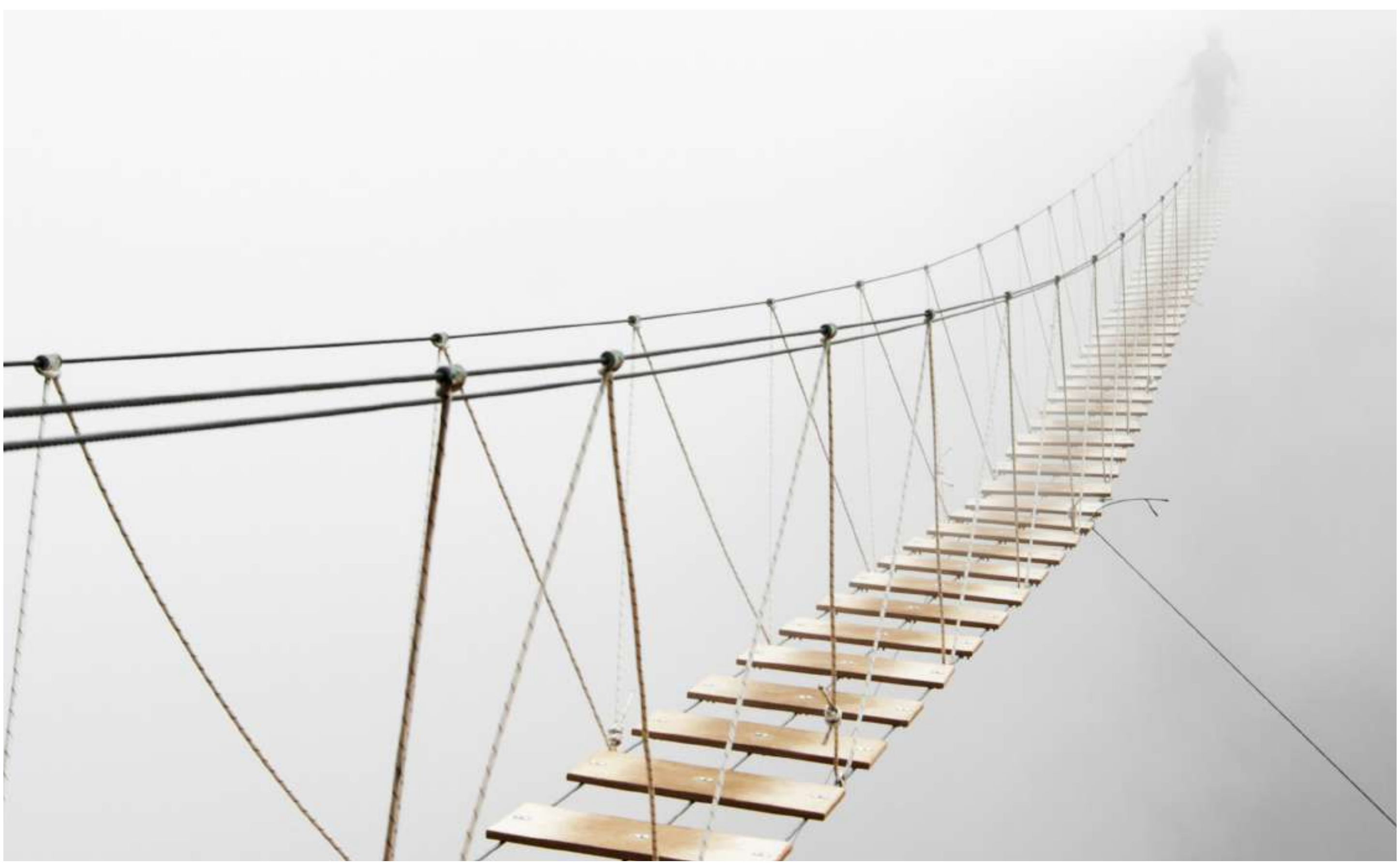
Multi-Family Offices:
Scalable, To a Fault

The multi-family office concept was born because UHNW families need more choices and services as they amass wealth, but in many cases, are not big enough to justify their own, fully-integrated team and infrastructure. As a remedy, MFOs share resources between multiple wealthy families, while alleviating many of the challenges faced by a SFO.

The most obvious benefit of a multi-family office is the ability to share resources – investment (i.e., the power of the network) and planning staff and technology being among the most significant. Not having to build or maintain the infrastructure on their own translates into significant savings in terms of a family's time and financial resources. Another less obvious, but extremely important advantage of the MFO, is direct and objective advice. The team at a MFO is comprised of independent advisors who do not receive their paycheck directly from the matriarch/patriarch of a family. And as a result, they can feel empowered to provide unbiased opinions and advice.

And this fundamental objectivity is quite often a difficult dynamic for many SFO teams to navigate. While a client's decisions should always be respected, it is important to ensure that they are always presented with all of the alternatives to allow them to make fully-informed decisions. This is much easier to accomplish with a MFO.

While there are many benefits to employing a multifamily office, the needs of UHNW families continue to change. Their lives – and balance sheets – have become more complex and they need a much more robust suite of services capable of matching that complexity without having to fit inside of a box. For example, multi-generational wealth creation and tax efficient transfers are a focus for many UHNW families today. These families need much more than investment management advice; they need to know when and in what proportion to use various legal vehicles to solve their multi-generational objectives and they need a team of investment advisors to build custom investment solutions for each of those objectives. These new demands – especially in today's changing landscape – require a much more expansive set of skills and expertise.



If MFOs want to compete effectively, they now must employ large teams of professionals with broader ranges of expertise to make them more scalable and attractive to the UHNW. However, this is a double-edged sword where migration away from pure investment management services and expansion into other services comes at the cost of MFO scalability.

As MFOs expand, their ability to put every client's best interest first may suffer. And when this happens, MFOs often misrepresent the services they provide. When their offerings are spread too thin, they end up focusing primarily on investment solutions, engineering products at the cost of other services that are essential for managing wealth in today's complex environment. To maintain margins, they become unrecognizable from the big bank solutions, they lose objectivity and they focus on pushing product with greater margins – a clear conflict. Firms that adopt this mentality move far away from the original intent of the family office that dates to the Rockefellers.

The Multi-Single-Family-Office:
A Crossbreed With Dynamic Equilibrium

If the past few months have proven anything, it is that the world is quickly changing. And in this already complex environment where each day is different than the next, UHNW families need an option that is agile, flexible, and adaptable to their individual needs, without requiring exorbitant costs and more importantly, time. They need a model that offers the customizability and personal services of SFOs, with the vast and deep resources of MFOs.

The multi-single-family office crossbreed is just as it sounds. It is a family office model that is structured in a way that offers the hands-on, bespoke approach and depth and breadth of customized SFO offerings, with the scalability associated with a multi-disciplinary MFO. As family needs change, having a MSFO's comprehensive approach to wealth management expertise (i.e. investment, tax, real estate, estate planning, philanthropic, etc.) all under one roof means that the most comprehensive, conflict-free advice is always available.

Exceptional wealth continues to be created by ultra-wealthy families and individuals. There are numerous options for UHNW families looking to enhance and preserve their wealth, but in today's complex environment that requires an adaptable, bespoke solution. As such, the multi-single-family-office will define the future of wealth management for the UHNW family.