

Keeping it in the family? - An introduction to family offices

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One of the many consequences of the world-wide increase in wealth over the past half century has been the increased focus and interest in family offices.

While higher profile than ever before, there is still limited understanding as to what they are and how they operate.

While by no means the sole definition, a very useful one is provided by the Family Office Council, a membership group for single family offices, which defines a single family office (and our focus here is on those and not multi-family offices) as a private organisation that manages the investments for a single wealthy family. The assets are the family's own wealth, often accumulated over many family generations. In addition to investment management some family offices provide personal services such as managing household staff and making travel arrangements. Other services typically handled by the traditional family office include property management, day-to-day accounting and payroll activities, and management of legal affairs. Family offices often provide family management services, which includes family governance, financial and investment education, philanthropy coordination, and succession planning.

This definition is a very useful starting point to explore some important preliminary issues relating to family offices.

First, the definition makes clear the exceptionally wide range of matters that a family office can potentially cover – everything from investment management to family governance to employing and managing household staff. But this doesn't mean that all family offices do all of these things – in fact, quite the reverse. In our experience, every single family office is different and reflects the needs and interests of the family that it serves. In our view, the important lesson

from this is that a family office can do an almost limitless range of things, but whether it should do all those things is a matter to be considered very carefully at the outset.

Secondly, having determined what range of services the family office will provide, the next issue is how will it provide them? By way of example, will it employ its own full time staff to do everything, or will it outsource everything to third party specialists, or some combination of these? In our experience, most family offices make a pragmatic compromise on this issue and employ its own staff in critical roles and outsource for those matters where in-house expertise is either not available or not efficient. For example, a family may determine that it is better to employ their own team of investment professionals, but to outsource to third party providers accounting and corporate secretarial services.

Thirdly, the definition refers to a private organisation. This rightly reflects the fact that a family office may take an almost unlimited range of legal forms – from a conventional company limited by shares to a protected cell company to a limited partnership to a limited liability partnership to a unit trust to some other form of trust to a foundation or to some combination of these. There are an almost limitless range of factors which impact upon the choice of legal structure, but some the principal ones we see include – the purpose of the family office (if the family office is directed at only specific purposes, certain structures may not be suitable), simplicity (as a general rule it is usually best to adopt the simplest possible structure consistent with achieving the desired purpose), tax (the on-shore tax position of family members may restrict what structures may be available, especially where family governance will involve family members in decision making), regulation (while family offices normally fall outside financial services regulation (because by definition they are not providing services to the public) the increasing scope of regulation means that this is no longer an absolute given and so regulation does still need to be considered).

While this will never be a mainstream issue, it remains a fascinating, growing and important area for those who are focused on the private wealth sector.

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