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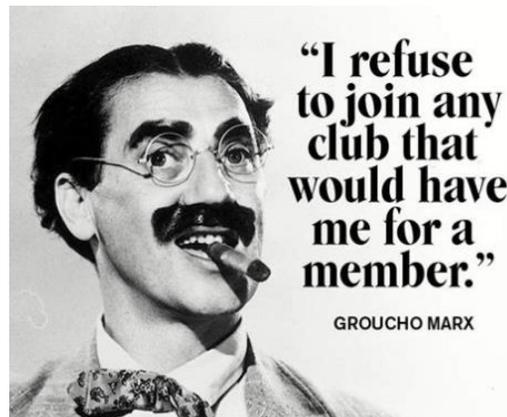
Texas Family Office Association, LLC

SERVING THE SINGLE FAMILY OFFICE COMMUNITY SINCE 2007

Family Office Networks, Clubs & Associations: What would Groucho Marx Do?

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New and established single family offices are beset on all sides with family office networking opportunities. Most of the self-proclaimed family office networks are run for-profit, with a few notable 'non-commercial' exceptions. Some of the networks look like multi-family offices, or loosely affiliated groups of family offices; others are simply trying to cobble together industry-specific conferences or deal platforms. When it comes to the issue of how best to navigate these networking opportunities, we recommend a Marxist approach. Not Karl, but Groucho: "Refuse to join any club that would have [you] as a member."



Groucho's self-deprecating criticism of club culture reminds us to always proceed with skepticism and caution. His humorous refrain raises a question about the core intention of any club that is targeting you as their ideal member. This question should always be at the front of one's mind when considering joining any family office network or community or attending any family office conference.

The world of family offices is growing, but it is still relatively small. While multiple reports have put the number of family offices around the world in 2019 at around 7,300 -- which represents about a 38% increase over the last two years -- we believe the number of true single family offices to be considerably smaller.¹ This small, asset rich, but growing market has seen a precipitous rise over the past five years in the number of networks, clubs, and associations that claim to connect and serve family offices.

Despite the rarity of true single-family offices — especially multi-generational, sustainable family offices, with stewardship across the entire spectrum of a family's assets and wealth — the family office space has become increasingly filled with '*everybody and their dog*' claiming to have a family office. Part of the problem is that the term 'family office' is used broadly and loosely; and what constitutes a family office for some, may not rise to the same level for others. As a corollary to this increase in the recent preponderance of family offices, there is an associated rise in the number of family office networks, associations, peer groups, and third party service organizations claiming a foothold in the space. The result of all this growth is a feedback loop where more and more high net worth investors claim the status of family office (than probably should) and more and more groups claim to have access to networks of family offices (than probably exist).

When faced with the noisy complexity of this situation, Groucho's famous quote rings like a bell. Although most wealthy families are used to managing the social and business responsibilities that come with their status, there is a qualitative and quantitative difference with the kinds of groups and organizations that are increasingly clamoring for attention within the single-family office community. Simply put, it is often difficult to differentiate one group from another; and it is becoming increasingly harder to understand the true value proposition for the family offices they claim to serve. At the same time, family offices are increasingly seeking a network of their peers to help them with a host of issues -- whether it be a 'safe' place to ask questions, to share due diligence, or to pool capital for (no or low fee) co-investment opportunities.

In today's competitive marketplace, many family offices are looking to deploy their private capital in non-banked, proprietary opportunities; so, the promise of a network of other family offices with whom to co-invest with is highly desirable and very tempting. As family office

¹ Mordor Intelligence LLP, <https://www.mordorintelligence.com/industry-reports/global-family-offices-industry> (2020)Campden Research Report, <http://www.campdenwealth.com/article/global-family-office-report-2019> (2019).

professionals, it falls to us to understand and evaluate the networks and service providers that are pitching their products, services, and relationship capital. That journey begins with understanding the various business models and alignments (or conflicts) of interest that they entail.

In an effort to provide some clarity, this whitepaper offers an analytical framework to categorize the many groups one might encounter within the family office ecosystem. We suggest that the various business and revenue models they embrace should frame how you think about these groups; more than the service claims they make. With that in mind, we believe three broad business models of family office networks currently exist:²

1. Member-based Models;
2. Advertising-based Models.
3. Commission-based Models; and

Similar to any private investment opportunity, our overall methodology is to subject these organizations to a certain amount of diligence. In fact, every family office network or partner group should be evaluated like a private equity opportunity. Good diligence begins with a clear vision of the desired outcomes. Like the development of an investment mandate, the family office should create a strategy or mandate for their objectives with these network opportunities. Having a clear idea of what you're looking for from the family office community you would like to join will make working with these groups much easier and more productive.

Member-based Model (MBM)

Member-based models provide, for a fee, an exclusive network for family office principals (and sometimes also professionals) seeking to learn from one another and stay current on the best-practices in the family office space. When evaluating an organization with a member-based model, one must weigh the exclusivity of the group against the size of the organization. Exclusivity considerations include the quality of the membership, the number of members and how they are organized, and the culture and principles that members abide by. Exclusive membership is fairly easy to evaluate: do they limit membership to single family offices (and

² Some groups blend these different organizational and revenue-based strategies, but for the sake of simplicity we will limit our discussion to a hypothetically pure version of each network. Of course, when undertaking your own diligence, you should consider the ways in which the family office organization(s) under consideration blend these different approaches and tailor your diligence accordingly.

perhaps 'closed' multi-family offices) only? How do they verify their members? An extremely exclusive group may function more like a small social organization, while a large group with a national presence may function more like a pseudo-industry association. Can they offer the best of both worlds, with local trust and national (or international) reach? Organizations that manage scale and growth through autonomous regional chapters may be able to strike a happy balance between these two ends of the spectrum, so be sure to ask the question!

The issue of group norms, organizational culture, and operating principles speaks to the kind of member participation the group nurtures and encourages. It is important to align your own desired outcomes with the kind of participation the group fosters. The key issue here will turn on matters of privacy, confidentiality, and whether active solicitation is allowed or frowned upon. Organizations can quickly devolve into trading platforms if the main activity becomes simply pitching deals. While this is not necessarily a bad thing — especially if you're in the market for deals — one consequence of a "deals-focused" association is that the spirit of collaboration and peer-learning usually takes a backseat (and at the extreme the group breaks apart as family office members compete for 'the best' deals). In addition, if privacy and confidentiality is not strictly enforced as a core principle of the group, then don't be surprised if your name and contact details are sold on a list and your family office becomes inundated with calls from a long line of service providers.

Member-based models typically finance their operations through membership fees. Besides keeping the lights on, a reasonable level for dues shows commitment and some skin in the game to the network from members. However, some member-based family office groups charge fees in the tens of thousands of dollars. They aim to be exclusive, but often experience significant turnover as their value quickly diminishes, and family offices are unable to justify the expense. If possible, examine how other peer groups interface with the network. Is there a sizable contingent of family offices that regularly participate in events, or do family offices come and go with limited engagement?

Peer-networks are a special class of member-based groups and deserve particular attention. A true peer network allows family office principals and professionals to interface directly with each other in order to learn from one another and build bonds of friendship and trust. The true test of a peer-network is the peer-group itself. The best peer-groups provide opportunities for principals (and professionals) of family offices to meet in a commercial-free environment. In the best

cases, the digital platform, annual or semi-annual meetings, and overall engagement with the network all point to a community with diverse interests and a shared purpose. While there are many peer networks forming, there are only a special few who have survived the test of time and continually add value to their members in a safe and trusted environment.

Commission-based model

Commission-based networks are 'for-profit' enterprises that generate income through commissions associated with executing commercial transactions. Like any for-profit business, profit motive determines action, and these groups are incented to sell investments or deals, preferably in volume. In the strictest sense, these groups aren't *really* family-office networks, but rather they are sell-side focused businesses or deal platforms. However, it's important to consider these groups because they often claim to associate with family offices and represent large networks of family office investors. Occasionally, these groups emerge from a profitable family office investment practice. If a family office investment team is growing and building a profitable base, they may seek to register themselves as a broker-dealer and become their own business. While these businesses may offer ancillary services, because of their close connection with family offices, the fundamental relationship they offer is deal-focused and commercial. As their primary interest is in generating transaction or commission-based revenue, it's best to let your dedicated family office investment team evaluate the viability of the commercial offering before fully committing to any network opportunities.³

One variety of a fee-based model to consider is the multi-family office (MFO), operating as a Registered Investment Advisor (RIA), which typically charges a fee based on assets under management (AUM) and occasionally assets under supervision (AUS). One important distinction to understand and evaluate is whether these groups operate as an 'open' or a 'closed' MFO. Open MFOs have a core group of family office clients but offer a set of services to any potential client who is willing to pay them a fee. Closed MFOs have a finite set of families that agree to share overhead and pool buying power; and are generally not soliciting for or open to new clients.

Within the spectrum of open/closed MFOs, there is a variety of different kinds of service and/or collaboration models. At one end of the spectrum, an open MFO looks very much like an RIA,

³ If their model involves selling securities, a thorough review of the relevant SEC and FINRA documents is in order, especially as it relates to their model and their role as (or relationship to) a licensed broker dealer.

perhaps with a few large family office clients that anchor the business. On the other end of the spectrum, a closed MFO may look like a single-family office with a complex structure of sub-organizations, estates, and trusts. From the perspective of evaluating potential partnerships with groups like these, the naming conventions are not as important as the working relationships. One important question to ask yourself when evaluating these groups for your own objectives is whether or not you will be treated as a client or a peer. If the answer is the former, then you're likely speaking with an open MFO that faces the same incentives and challenges as a typical RIA. If it's the latter, then you may be dealing with a closed MFO, which has a different set of challenges (which will require a future whitepaper from us at a later time to explore in depth!).

Advertising-based model

Viewed in the context of fee-based models, the advertising-based model appears at first to solve for the issue of mis-aligned profit-motives by generating profits for the family office network, club, or organization through the sale of advertising relevant to the family office ecosystem. As a result, these networks often organize events and engagements that require little financial commitment from a family office. Typically, these family office networking organizations rely on a diverse array of advertisers and sponsors to cover the costs. In the case of large institutions looking to promote a specific area of their business, the organization itself will be its own sponsor — like a private bank or insurance company, for example, hosting an industry-specific conference.

However, to borrow a concept from digital marketing and the tech industry, it's important to keep in mind that “when the product is free, you are the product”. In other words, these organizations invert the commercial-based model by creating a context where your family office will be “sold” to any commercial interest willing to pay for the lead. We don't present these relationships in stark terms in order to offer critique, but simply to lay out the fundamental business dynamics that are at work here. Indeed, this model is one of the most common and can produce “win-win” scenarios: single family office professionals gain valuable insights into best practices and new industries, new relationships are forged, and advertisers / service providers may gain important new clients. As in the discussion above, it is always important to understand the motives of the involved parties: what is the objective of the organizers, advertisers, and your fellow participants? And, how do these objectives line up with the objectives of your family office? Special attention should be paid to any data that your family office provides. As we have seen in

digital marketing trends, the data generated by users is often more valuable than the product itself.

Final Thoughts

While the number of family offices and family office networks appears complex, our advice for building a peer-network of like-minded single family offices is simple: begin with local and regional groups, consider the underlying business models that drive either profitability (in the case of your commercial enterprise) or mission (in the case of a peer network), and align your organization with groups that share your objectives. When evaluating the merits of any individual organization, seek a diverse array of researched and practiced experts. Ultimately the network that you build is a reflection of your own organization and the mission that is driving your family office. The relationships and goodwill that are forged through these groups can last a lifetime. The task may be daunting, but the rewards can be plentiful. Caveat emptor!

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