TFOA

Texas Family Office Association, LLC

SERVING THE SINGLE FAMILY OFFICE COMMUNITY SINCE 2007

How Will You Know A Single Family Office When You Find One?

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The modern concept and understanding of family offices was developed in the 19th century. In 1838, the family of J.P. Morgan founded the House of Morgan, which managed the family's assets and in 1882, the Rockefellers founded their family office, which prevailed until today. Family offices started gaining significant popularity in the 1980's; and since 2005, as the ranks of the super-rich have grown to record proportions, family offices have also swelled proportionately.

A single family office ("SFO") provides information, education, opportunities for networking, idea sharing, and pooling of buying power, to affluent families, and prepare the next generation for their wealth. Importantly, an SFO is a private company that manages investments and trusts for a single family. The company's financial capital is the family's own wealth, often accumulated over many family generations. Traditional 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.

The SFO's are run by trusted professionals with a fiduciary responsibility to a single family. The professionals running these family offices have broadly defined roles, covering multiple areas and multiple skill sets. The offices tend to be staffed with talented individuals who can span accounting, legal, operational, and investment management activities, among others. Defining the service proposition is not straightforward and a common phrase used by industry insiders is: "When you have seen one single family office, you've seen one single family office".

The wealth management industry likes to classify family offices based on size of assets under management. Some believe the monetary threshold before an SFO makes sense is at least $200 million in total assets.

A better question to ask is: “Are my family’s financial and non-financial interests best served by our existing (or additional) outsourced advisors?” If the answer is “no” then a single family office might be the solution.

Some SFOs are substantial wealth management institutions, with large teams of experienced professional overseeing fully diversified portfolios, including hedge funds, private equity, oil & gas interests, direct investments, real estate, commodities, and other alternative investments, as well as accounting, asset management, legal, security, and other functions. Other SFOs are more lightly staffed, with a variety of activities outsourced. Almost all SFOs share the following features:

- Dedicated focus on the specific needs and requirements of the family
- Alignment with the family’s legacy, vision, and values
- Privacy and confidentiality are strictly maintained
- Investment timeline typically spans multiple generations
- Oversees a complex mix of investment and personal assets
- Purchasing leverage, fee minimization and cost savings
- Avoids many of the conflicts inherent in the wealth-management industry
- Strong coordination between investment, business, philanthropic and personal services

All global families, regardless of geography, industry, ethnic make-up, dynamics and individual objectives, share these certain common imperatives to operate effectively:

- Retaining top management talent
- Sustaining growth and profitability
- Optimizing capital structure
- Adapting to evolving risk profile
- Developing a coherent family agenda
- Mapping tax, legal and regulatory priorities
- Evaluating strategic relationships
- Embedding family vision and values in the SFO culture

SFO success depends in large part on how effectively the family reevaluates and reexamines its goals and objectives, especially as family leadership changes.

Depending on the needs of the family, and the size and complexity of the assets under management, the services provided by the SFO can vary widely. They may coordinate and oversee various types of investment-related services, management of complex assets, accounting, tax planning and compliance, asset protection and risk management, as well as family services. Here are the most common elements that each category may include:

Investment Management Services

- Design and implementation of asset allocation
- Development of an investment policy statement (ISP)
- Aggregation and reporting of investment performance
- Sourcing and due diligence for investment opportunities

Management of Complex Assets

- Mineral and O&G interests
- Collections and sports teams
- Socially responsible investments
- Family bank and intra-family loans
- Residential and commercial real estate

Accounting, Tax Planning and Compliance

- Trust implementation and administration
- Accounting and tax filings, and tax planning
- Administration of private family trust company
- Identification and engagement of outsourced providers
- Development and coordination of estate plans for all family members

Asset Protection and Risk Management

- Insurance policies
- Medical management
- Reputation management
- Personal security services
- Hiring and background checking
- Management of household and family office staff

Family Services

- Organization of family retreats
- Philanthropy and charitable activities
- Next generation education and engagement
- Family mission, constitution, and governance
- Personal and property security systems and procedures

- Concierge services (e.g. travel, private aviation, personal shopping)

Reliable data is hard to find, but according to Forbes' latest billionaires list, which analyzes all assets an individual can hold, there were over 2,000 individuals from across the world with personal 10-figure fortunes. They control an estimated $10 trillion. In the U.S. alone, Forbes estimates there's over 450 American billionaires. In addition, there are currently more than 5,000 U.S. households worth $100 million or more. China is second with more than 1,000 ultra-rich households.

Estimates of the number of SFOs around the world is much harder to find but is likely currently around 3,000. This doesn't include quasi-family offices: small private family investment companies of limited scale, or family offices embedded within family-owned and – managed businesses. Given the number of ultra-high net worth individuals, why are there so few SFOs? Part of the reason is lack of awareness and education regarding the benefits of an SFO, fear of potential cost and complexity of set-up and management, challenges in hiring capable staff, and lack of professional guidance. All these factors make families reluctant to create their own SFO.

But families that forego an SFO, whether by conscious decision or lack of awareness, face significant challenges. These families often have fragmented and uncoordinated relationships with multiple private banks, wealth managers and other business, investment and personal service providers. The family pays high fees for this disorganized array of overlapping services. Worse, those fees likely are not fully disclosed, so the family can't quantify or compare them, or effectively negotiate with the service providers. Furthermore, many of the institutions they work with have built-in conflicts of interest: brokers and other client-facing staff often receive higher commissions for selling the institution's own investment products, giving them an incentive to push these products rather than choose the product that best suits the client's needs and circumstances. Families also rarely have the staff or the expertise to vet investment advisors or individual investment opportunities, thereby heightening the chances they may inadvertently enter into a subpar investment, or worse, a Ponzi scheme or other fraud.

Wealthy families are increasingly demanding independent, thoughtful and tailored advice. Instead of buying opaque financial products from third party financial advisors – often incented to meet artificially mandated sales quotas – SFOs provide an objective filter through which everything can be carefully screened to meet the complex business and personal needs of the families. Now more than ever, wealthy families need to coordinate their business, investment and personal relationships, centralize management and oversight, implement appropriate due diligence and risk management procedures, and manage their family affairs more effectively. For a family of significant wealth, an appropriately structured and well-run SFO is likely the answer.

Marc J. Sharpe is the founder and Chairman of TFOA, an organization formed in 2007 to provide a forum for education and networking and to serve as a resource for single family office principals and professionals to share ideas and best practices, pool buying power, leverage talent and conduct due diligence. Mr. Sharpe is active in the community and has served on the Board of the Holocaust Museum Houston, the HBS Houston Angels, and on the Investment Committee for two Texas based foundations. Contact: Marc Sharpe