Single Family Offices: the art of effective wealth management[1]

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Abstract

Single family offices (SFOs) are professional organizations dedicated to managing family wealth and family matters. Despite the substantial and growing importance of SFOs, however, there is little systematic knowledge of how they are structured and what services they deliver to families. Because SFOs typically focus on the private affairs of one family, there is little comparative information available about the range of SFO types and the key differentiators among the variety of SFOs existing today. This chapter begins to fill this gap by presenting the results of an international pilot study based on over 40 personal interviews and 138 follow-up surveys with the heads of SFOs managing US $100m or more in investable assets across the United States, Europe and Asia. The project reveals several learning points on how to run an SFO effectively across continents and generations.

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Single family offices (SFOs), which are professional organizations dedicated to managing family wealth and family matters, represent the leading edge of a broad trend in substantial personal wealth accumulation. The worldwide concentration of wealth in the hands of relatively few is well-documented. As the rich grow even richer, and particularly as fortunes filter down through generations, wealth management becomes ever more complex. It is in this context that SFOs—dedicated to the service of one multi-millionaire or billionaire family—have evolved.

The combination of substantial resources and individual decision making can result in a great deal of creativity. Indeed, large private investors have been at the forefront of the development of new asset classes and investment vehicles such as hedge funds, private equity, and venture capital. Given the scale of family offices, even slight improvements in practices can yield substantial benefits, particularly when these incremental enhancements are compounded over long periods of time. Most family offices are designed with a multi-generational perspective and a core purpose of ensuring the smooth transfer of family wealth from one generation to another.

Yet it is not easy for family offices to compare themselves against a standard, as no such aggregated perspective exists on a global scale. There is, however, a clear desire among family offices to understand better how their own organization and practices compare to those of their peers. Family members and professionals in SFOs participated in our study because they recognized that by doing so they would have an opportunity to learn about a wide range of family office structures and practices without sacrificing their anonymity or risking a commercial solicitation

We therefore developed a research project to find out more about how SFOs are configured and function in countries around the world, aiming to identify major trends or common structures. Our hypothesis was that although SFOs vary according to each family's needs, some general trends would exist. Furthermore, we believed that valuable insights were likely to result from exploring SFO characteristics and practices across a range of cultures and political systems.

Our international pilot study took place in 2006–2007 and forms the basis of one of the first comprehensive international academic studies of SFOs, conducted under the auspices of the Wharton Global Family Alliance. We believe that this research will pave the way for more comprehensive studies in the future as well as provide a starting point for families to compare their family office structure and practices—particularly investment strategies—to those of their peers around the world.

We begin this chapter by first, reviewing the historical evolution of SFOs and the scant literature about them. We go on to explain the parameters of our study, and its methodology—the 42 pilot in-person interviews, and the subsequent development of our survey instrument Finally, we discuss some of our preliminary findings, and insights that emerge from the data we collected.

1. The evolution of the family office

Single family offices have a long history. In ancient Rome, the *major domus* (head of the house) was in charge of the treasury and servants, a role that was transformed into the major-domo, or chief steward of a great household, by the Middle Ages. In the Frankish kingdoms of the seventh and eighth centuries, the major-domo was often the true power behind the throne. From the 14th to 18th centuries the term “superintendent” was often used to describe the person who managed the household of a rich family.

Trusts, an important tool of intergenerational wealth transfer, had their origin in the wars and crusades of the 12th and 13th centuries. They largely evolved out of the problems of returning English crusaders, who had entrusted someone to mind the family lands and assets during their absence but found it hard to reclaim their property upon return. From the mid-18th century, continental European families traditionally handed down their wealth to future generations by way of the fideicomissum, which essentially prevented the sale or division of a family’s core assets over generations. These same benefits were granted in England and Wales through the use of trusts.

During the Industrial Revolution, bank trust officers took on an increasingly fiduciary role in assisting wealthy families. The family offices of the time were very basic, focusing on serving a single-generation family and protecting its assets. As the Industrial Revolution spawned bigger corporations, with new forms of ownership and sources of wealth, the need to separate the management of wealth from the operating business and the family’s personal and financial affairs became evident, spawning the first separate family offices.

According to Gray (2005), the European private banking model was carried to the New World in the 18th century by people such as John Pierpont Morgan (J. P. Morgan, 1800s) and Stephen Girard (Bank of Stephen Girard in Philadelphia, 1812, which became part of Mellon Financial Corporation in 1983). Private banks, which grew out of the goldsmith banks, eventually partnered trust companies to provide a wider range of services for the affluent.

Successful entrepreneurs found themselves at the helm of big corporations, running ever-expanding businesses or starting new ones, investing in other companies and diversifying their holdings. Families such as the Rockefellers, Carnegies, Fords, Vanderbilts, Roosevelts, and Morgans built up such large fortunes that they faced the dual demand of managing both their businesses and their huge asset pools (Gray 2005). The responsibility for wealth management was increasingly borne by the family’s business staff, not all of whom were family members. In 1838, the Morgan family created the House of Morgan to manage family patrimony issues. The House of Morgan gave rise to one of the first modern family offices, a model then also applied by Guggenheim, Dupont and Vanderbilt families.

2. Prior SFO research

Literature on the modern family office is scarce, and there is even less on SFOs. Part of the reason is that wealthy families want privacy. Another hurdle is that, depending on how it is defined, "family office" can cover a multitude of office structures, ranging from one family member doing administrative tasks for his or her family alongside other tasks in a family business, to a team of professionals focused on investment, accounting, legal affairs, and concierge services (Avery 2004; Martiros & Millay 2006).

Indeed, the various definitions proposed by practitioners include: an organization to support a specific family's financial needs (from strategic asset allocation to record keeping and reporting) (Wolosky 2002); a center of influence and stability to help exceptionally wealthy families ensure the preservation and growth of their financial assets and family heritage (Avery 2004); and a structure created to manage the assets of a wealthy family (Curtis 2001). Private Banks that offer Family Office services also handle the management of the assorted financial and operating affairs of a family fortune, including providing financial expertise, privacy, and the integration of family's wealth and operations, serving as a clearinghouse for investment and accounting services, assisting with philanthropic endeavors, and offering additional educational and advisory programs.

Based on its comprehensiveness and simplicity, we adopted the following definition of an SFO: "a professional center dedicated to serving the financial and personal needs of an affluent family" (Amit 2006). An SFO could also take the form of a trust or any other legal structure.

As mentioned earlier, a common scenario is when a family business is so successful that it presents a dual challenge: the continuing management of the business itself and that of the fortune that the family has amassed. Many such families resort to specialized help in managing their assets, typically in accounting and record keeping (Wolosky 2002). This need for outside assistance is usually accentuated by the sale of the family business and the sudden liquidation of an immense amount of wealth (Avery 2004). Second and subsequent generations, who inherit large fortunes or acquire them suddenly through the sale of a family business, often lack the time and expertise to manage their vast wealth wisely.

It's easy to see why such families need help, but why turn to a family office rather than another wealth optimization service? Curtis (2001) quotes a family office manager in addressing this: "The most fundamental reason has to do with the challenge of stewardship: no one will take your issues as seriously as you will take them yourself." Indeed, previous studies suggest that individualized service, confidentiality, control and flexibility are among the key benefits cited by families who have family offices (Avery 2004).

Family offices are reckoned to provide more customized solutions, confidentiality, and greater involvement and commitment than other alternatives. They are also more trusted to handle issues that the family wants kept away from the public eye. The family office is typically treated almost as part of the family (Avery 2004; Newton 2002) and seen as the best means of preserving trans-generational wealth (Avery 2004). Other key factors are privacy, the absence of conflicting interests (such as those due to primary versus secondary clients' issues), flexible structure, exclusivity, and discretion (Allen 2007).

The literature also reveals some interesting differences in priorities. For example, increased control is one of the top reasons cited by families for using an SFO or multi family office (MFO)—a commercial enterprise serving several families. Yet ask the manager of a commercial family office what his or her top priority is and control is not even on the radar—profit generation is the most commonly cited prime pursuit. In contrast, profit generation was not even mentioned when SFO managers were surveyed on their key objectives (Shaw Grove & Prince 2004). In a similar vein, increasing the happiness and enhancing the lifestyle of family members, and providing family leadership by preparing the next generation for their responsibilities, are valid and important, though non-commercial, criteria for success in an SFO context (Gray 2004).

These different priorities and motivations are worth bearing in mind as they also affect decisions about services provided, recruitment criteria (both for in-house and outsourced personnel), governance mechanisms, performance measurement, and future vision for the family office market.

Finally, amid the increasing number of family offices and hybrid forms, there is also more demand for elite wealth management professionals to work in SFOs. Family offices often appeal to such professionals for lifestyle reasons, not just remuneration and career advancement (Avery 2004). Several articles cover the qualities needed to work in an SFO, including a liking for detail and dealing with family dynamics, and more than one area of expertise (Wolosky 2002). These qualities should be combined with the ability to handle multi-generational complexities, numerous entities, the unique goals of each family member, and the inevitable emotional issues (Bowen 2004).

The literature reflects this diversity. Most articles cover various alternatives for the management of great wealth, among them different types of family office service providers, rather than focusing on one specific type (Newton 2002; Shaw Grove & Prince 2004; Gray 2005; Avery 2004; Wolosky 2002; Gray 2004). It is also worth mentioning here that in recent years small companies that specialize in one service have been acquired by bigger companies that want to provide a full range of services to families. One example of these is concierge services, which often make the client feel they are receiving more personal attention (Avery 2004).

Other articles address issues of most relevance to practitioners employed or looking for work within the family office niche (Newton 2002; Curtis 2001; Bowen 2004; Prince & File 1998).

What is evident from the literature is why the very affluent are increasingly using SFOs—they value factors such as privacy, control, flexibility, and individualized service. What is lacking in the literature, however, is guidance on how to gauge how well SFOs are delivering on these and other key performance criteria. The very confidentiality they afford impedes assessment of their competence. In fact, preliminary research (Martiros & Millay 2006) suggests that SFOs are looking for knowledge forums that would provide standardization of practice and more market transparency, in order to ensure more consistent and effective experience. Another key knowledge gap, when it comes to setting benchmarks, is that not much is known about the main differentiators among the plethora of SFOs operating today.

3. The pilot interviews

The study presented here was part of a joint project by four leading business schools—Wharton, IESE Business School, SDA Bocconi, and Singapore Management University—under the auspices of the Wharton Global Family Alliance (GFA). Specifically, it is part of an ongoing Family Office Research Project, a cross-continental study that has the aim of researching and sharing best practices of globally influential family enterprises, and establishing a framework for understanding the evolution of family offices.

The popular perception is that each SFO is idiosyncratic, reflecting the objectives, priorities and history of a unique family. Although there is some truth in this, we hypothesized that there were some trends and common configurations that could be discerned.

The first exploratory stage of our research involved an in-depth clinical analysis of individual cases as part of a pilot study of SFOs.[2] To expand our understanding of SFOs, as well as to find out what families and SFO heads saw as priorities, we followed the example of Glaser and Strauss (1967) and Strauss (1987) who stress that practicing empirical research is the best way to uncover tacit knowledge.

To collect the necessary data it was important to use a method that allowed us to spend sufficient time with informants, the flexibility to change question sequencing where necessary, the handling of very complex issues, and avoidance of non-response issues (Dilman 1978). Flexibility was also important for detecting any new variables that might appear as the research progressed (Eisenhardt 1989).

Personal interviews are the most effective way of gathering essential information and meeting these criteria. They reveal categories, variables, concepts and potential measures, in turn helping to formulate a preliminary hypothesis for later follow-up study (Eisenhardt 1989). It was not the objective of this project to generalize the findings to the wider SFO population (statistical generalization, Yin 1994): that goal was reserved for the next step in the research project.

Potential disadvantages such as accuracy of response, problems of social desirability bias, omissions (under-reporting of frequency of events), telescoping (over-reporting) (Sudman and Bradburn 1974; Bradburn 1979) and the like were addressed by triangulating information where possible.

Our study was unique in that we decided to target only non-commercial SFOs managing more than $100m (approximately €83m) in investable assets. While some banks

[2] "The case study strategy may be used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes" (Yin 1994 p.15).

define assets under management (AuM) more narrowly, we agreed to a more inclusive concept of investable assets, encompassing real estate, private equity, and hedge funds.

To select subjects for our 42 pilot interviews we applied the following criteria to the SFOs we had identified. First, we sought SFOs of close proximity to the interviewee (to increase information depth and relevance), and second, we looked for variation in terms of geographical location, SFO age and family wealth level (although in keeping with our definition, all had to have a minimum of $100m in investable assets).

The pilot interviews—22 in Europe, 16 in the United States and four in the rest of the world (RoW)—took place from September to December 2006. About 75 per cent took place with the head of the SFO or main investment professional (usually the Chief Investment Officer) and the rest with a family member who was well-informed about the SFO.

As various people were to conduct the interviews, we developed an interview protocol designed to facilitate internal congruency and strengthen the internal validity of the data (Yin, 1994). We used wording that would be understood and interpreted equally in all countries. The questions were designed to identify key aspects of SFO structure, and to gather information such as the SFO's primary role, its rationale, use of outsourcing, reporting processes, and perceived performance.

The pilot interviews involved recorded, one-to-one questioning, in person for all but five of the 42, which were conducted by telephone. Each interview lasted at least 90 minutes. In some cases the interviewer was not allowed to make notes until after the interview. While we tried to avoid any recalled bias, some may have been introduced.

Care was taken to protect interviewee anonymity and it was made clear that only non-identifying summaries of the interviews would be passed on to the rest of the research team by the interviewer. The research team met several times during the interview stage in order to review techniques and consider ways to provoke more profound interviewee responses.

The following cases provide non-identifying details of three of the 42 SFOs covered in the pilot interviews. We include them to illustrate SFO variety and the kind of data obtained through the interviews. The first two deal with billion-dollar asset pools and the third with a smaller fortune; they are all distinct in terms of SFO model, age, and asset allocation.

CASE ONE

Created less than a decade ago, this was one of the most professional SFOs we encountered. The family strategically located their SFO—which they refer to as a private investment company— not in a tax haven but in a financial center where they are constantly networking with top investment experts. Their main objective is the aggressive growth of the family fortune. Secondarily, they seek to give the family members, spanning just one generation and a handful of beneficiaries, more time to devote to their own businesses. Each month, the beneficiaries receive a comprehensive 40-page report. For every matter requiring a decision, there is a one-page summary of key data. Information flow and SFO supervision are enhanced through three committees that deal separately with investment, management issues, and audit. The SFO focuses on private equity and hedge fund investment, and almost all other matters are outsourced. The SFO head has an investment banking background and his team includes nine professional investors (among them analysts and traders), 10 accountants, one lawyer (other legal services are outsourced) and about 12 support staff. Co-investment possibilities, performance bonuses and broad investment experience helped lure these high performers from the wider commercial world.

CASE TWO

Set up nearly 30 years ago and located in a tax haven, this SFO team comprises 15 professional investors and various lawyers, accountants, economists, and support staff. All investment management is outsourced to experts, while the SFO head devotes himself to dealing with a widely dispersed multi-billionaire family. A lawyer by profession, he estimates he spends half his time supervising investments and a substantial part of the remainder in uniting and even counseling the family. Spread over three generations, about 35 beneficiaries and various continents, the family encompasses widely varying preferences. The SFO's forte is its ability to tailor asset allocations to each individual. The SFO head said capacity for investment flexibility and the ability to focus on trans-generational wealth management were essential, due to the very different needs and objectives of family members. Some sought aggressive growth, some wanted fund of funds and others hand-holding of the next generation. While its primary investment objective is balanced growth of the family wealth, tax optimization has also been set as a priority. The family's $2b portfolio (approximately one fifth of their total wealth) is currently invested mainly in equities, fixed income, and real estate. The rest is tied up in a majority-owned family business in which two generations are closely involved. The SFO has a management committee and a client relationship committee. It reports quarterly to family members on their investments, providing detailed information.

CASE THREE

Spanning several generations, several countries, and about 15 beneficiaries, this SFO has been tasked with promoting family unity and orderly, intelligent wealth succession. Created about 20 years ago, it also helps the family with administrative duties such as banking, tax and reporting, as well as providing some concierge-type services and estate planning. The family behind this SFO states that they are happy with "plain vanilla" asset allocation. A separate family business brings in plenty of cash so the SFO is required only to pursue an unsophisticated, low-risk approach that helps minimize family disagreement. Most of the $200m investment pool is devoted to real estate and equity, arranged through outsourced investors. The family has approximately five times more wealth backing a minority-controlled family business that absorbs the time and energy of many family members. The SFO head is a family member, and her strength is in knowing and understanding the family while handling outside financial experts astutely. The 10-employee strong office benefits from the fact that the family has a clear constitution, leaving no doubt on important matters such as who has what powers and under what conditions, and how much each gets paid and when. There are regular family meetings and the beneficiaries receive a reasonably detailed quarterly investment report, although, according to the SFO head, most have a low level of financial knowledge.

These three very different propositions are largely a reflection of differing family priorities. The first family spans only one generation, is directly involved and is looking for aggressive growth. The second, spread over three generations, is more laissez-faire and worried about family unity. Meanwhile the third SFO has a smaller investment pool and a family largely happy with “standard” asset allocation.

4. The surveys

Based on the findings of the pilot interviews, we created a survey instrument and distributed it to our pilot interview participants and to additional SFOs that met our criteria.

The survey instrument was made up of five sections that enabled us to obtain information about the SFO and the family that owns it. The first section of the survey explored family background, the size of the family's business, and the family's wealth category. The second section gave us background information about the SFO, its characteristics and the challenges it faced. The purpose of the third section was to evaluate the in-house team of professionals working at the SFO. The fourth section gave information about the SFO's governance structure, and the final section focused on investment management practices and other services provided by the SFO, and their importance to the family.

The survey instrument was sent directly or via our support networks and could be completed online as well as on paper. It was available in English, Spanish, Italian, and Chinese.

The questionnaire reached approximately 900 family offices in Europe, the US, and RoW. We obtained 138 useable completed surveys from single family offices with over $100m in assets, a response rate of 15%.

a. General background on respondent SFOs

Respondents represent SFOs around the world, as depicted in Figure 1 below. Fifty-one percent of the SFOs have their headquarters in Europe, 42% in the Americas and 7% are located around the world. Only 1% of the respondents did not identify the SFO headquarters.

PLEASE INSERT FIGURE 1 HERE

Total family wealth of survey respondents varies by region. In Europe, 53% of the families declared wealth over $1 billion, while 26% of American families and 33% of Rest of the Worl (RoW) families fall into that category. Indeed, a remarkable number of billionaire families are represented in the responses (see Figure 2). The distribution of respondents for fortunes between $500 million and $1 billion is 11% in Europe, 17% in the Americas and 33% in RoW. Finally, 30% of European, 52% of American, and 34% of RoW respondents declared family fortunes in the $100–$500 million range. Therefore, our sample has a bias towards larger family fortunes in Europe.

PLEASE INSERT FIGURE 2 HERE

The SFOs surveyed served a wide range of generations. In Europe 17% of SFOs serve one generation exclusively, while this percentage is 9% in the Americas and zero in RoW. Figures for SFOs serving two generations is 45% in Europe, 33% in the Americas and 67% in RoW. The distribution of SFOs serving three generations is 31% in Europe, 47% in the Americas and 33% in RoW. Finally, there is a smaller percentage serving four generations: 7% in Europe, 9% in the Americas and none in respondents from RoW (see Figure 3).

PLEASE INSERT FIGURE 3 HERE

In our sample, SFOs serve on average four households. We note that only 40% of families in the Americas who own an SFO operate businesses while 70% of European families and 89% of RoW families are involved in an operating business (see Figure 4). The sample reveals an interesting mix: 41% of our sample are dollar billionaire families; the families are largely entrepreneurial—half are involved in operating and controlling a business; and the SFOs serve on average two to three generations and four households.

	Americas	Europe	Rest of the World
Family involved in operating business (%)	40	70	89
Number of households (average)	7	20	5
Number of households (median)	4	4	4

Figure 4 Number of households served by SFOs

b. Objectives and benefits

There is a common shared intent in creating an SFO across all sizes, generations, and geographies. Our survey shows that the most important objective the family has for the SFO, selected by 57% of respondents, is trans-generational wealth management. The second key objective, selected by 39% of respondents, is the consolidation function of accounting, tax and estate planning services (see Figure 5). In brief, Figure 5 shows that SFOs are really about managing family wealth; education, concierge services and philanthrophy are considered significantly less important. The SFO functions primarily as a private investment office. In addition, 43% of respondents indicated that the most important key *benefit* of an SFO is consolidated management of family wealth and control.

PLEASE INSERT FIGURE 5 HERE

From the personal interviews, we found some other common if unexpected reasons for having an SFO: freedom of career choice for family members; cost effective money management; stable controlled scalable asset management; development of trust/loyalty of employees; and cheaper document administration. Although these factors emerge from only anecdotal data, they reflect an interesting diversity behind the general trends summarized in Figure 5.

This is consistent with perceived benefits. When the head of the SFO was asked "What are the key benefits for the family of having an SFO?" Key perceived benefits again related to money issues (Figure 6).

PLEASE INSERT FIGURE 6 HERE

Common assumption notwithstanding, we found no clear indication that geography influences configuration. There is a popular view that SFOs in the US are generally more sophisticated than their European counterparts, and that those in the UK are more advanced than SFOs elsewhere in Europe. However, we found no evidence for this belief: in fact, in our analysis several aspects pointed to an industry where the upper segment is very global.

Family objectives for the SFO and perceived key benefits of having an SFO are very similar across continents and across different wealth levels. The same results—that the family's most important objective for the SFO is trans-generational wealth management—hold.

c. SFO functions

Our survey defined a series of activities that emerged during the pilot interviews as common services performed for families by SFOs. Broadly speaking, functions fall into three main categories: wealth management related activities (e.g., asset allocation, manager selection and monitoring, risk management, and estate planning), administrative functions (financial administration and reporting, legal and tax services, etc.), and family related activities (family education, counselling services, relationship management, and so on).

Consistent with the results presented in previous sections, the most important functions are those related to wealth management. The sample does not show significant differences between SFOs in the different regions, with the exception of one area—estate planning—where there a statistically significant difference (53% in the Americas and 31% in Europe) between SFOs that consider this function quite important.

However, when we analyze the importance given to the different functions performed by SFOs serving different generations, we find a clear trend that accords higher importance to family related functions, although functions concerned with wealth remain paramount.

Table 1 presents the perceived importance that each specific activity has for a family and the percentage of respondents that selected that prioritization.

Table 1 SFO functions—perceived importance

	Americas*		Europe	
Activities/Scope	Importance**	% of respondents	Importance	% of respondents
Asset allocation	1	52%	1	57%
Manager selection & monitoring	1	43%	1	40%
Education of family members	2	29%	3	23%

Personal/psychological counselling	3	12%	3	13%
Philanthropy	2	36%	3	29%
Risk management/insurance	3	34%	2	33%
Concierge services & security	3	19%	4	20%
Estate planning	2	53%	2	31%
Banking (e.g. loans, deposits)	2	34%	2	44%
Financial administration (e.g., bill paying, wire transfers)	2	40%	2	40%
Information aggregating & reporting	1	34%	2	41%
Legal services	2	47%	2	50%
Tax services	2	45%	2	36%
Relationship management (maintaining relationships with groups of family members)	2	21%	3	24%

Source: SFO research project database 2007
**Most important = 1, less important = 5

The data collected allowed us to understand how SFOs organize their services. Table 2 shows whether these activities are both handled in-house and outsourced, only handled in-house, only outsourced, or not applicable (N/A) to the SFO, because they do not manage this activity.

On average we found that Europeans are inclined to outsource fewer activities related to wealth management, specially investment related activities. For example, 63% of Europeans perform asset allocation in-house as against 47% in the Americas. Similarly, 49% of European SFOs in the sample have in-house risk management services compared to only 29% in the Americas; 70% of financial administration is done in-house in European SFOs, while 41% is done in-house in the Americas. However, there are not many statistical significant differences across geographies in other activities such as services related to the education of family members, counselling or philanthropy.

Table 2 SFO Functions—service organization

	Americas*				Europe			
Activities/ Scope	Both	In	N/A	Out	Both	In	N/A	Out

Asset allocation	24%	47%	0%	14%	21%	63%	1%	6%
Manager selection & monitoring	31%	38%	2%	14%	20%	56%	4%	10%
Education of family members	29%	34%	17%	2%	21%	31%	30%	3%
Personal/psychological counselling	9%	7%	55%	14%	9%	17%	53%	6%
Philanthropy	22%	47%	10%	2%	14%	50%	19%	3%
Risk management/insurance	19%	29%	3%	33%	16%	49%	11%	11%
Concierge services & security	19%	24%	24%	16%	11%	37%	31%	4%
Estate planning	33%	7%	3%	40%	36%	31%	1%	17%
Banking (e.g., loans, deposits)	19%	17%	2%	47%	11%	46%	6%	24%
Financial administration (e.g., bill paying, wire transfers)	22%	41%	5%	14%	4%	70%	7%	9%
Information aggregating & reporting	29%	41%	0%	10%	20%	56%	4%	7%
Legal services	17%	2%	3%	60%	23%	16%	3%	46%
Tax services	19%	12%	3%	48%	36%	14%	3%	36%
Relationship management (maintaining relationships with groups of family members)	7%	41%	29%	0%	9%	47%	27%	1%

Source: SFO research project database 2007

d. Team and governance

How to attract and retain the best professionals appears to be one of the common concerns of SFO heads. Many expressed interest in how others were doing this. Our personal interviews showed that the top attractions of working in an SFO were high job security, working in an environment of shared values (e.g., a preference for ethical investment), earning the market rate plus a performance incentive/bonus, flexibility, improved life style, less pressure, no fundraising, co-investment opportunities, informality, and greater opportunities for learning due to the need to perform a broad range of activities.

One question many insiders in the family office industry have is whether the head of the SFO should be family member. First generation SFOs are more likely to involve a family member in the office; in our survey 46% of first generation SFOs and 37% of later generation SFOs indicated that the head of the SFO is a family member. The larger and more diffuse a family becomes, the more likely the family will be disengaged from its family office. The more households the family office has to serve, the less family involvement there will be.

When the family office serves only one household, in 50% of the SFOs surveyed the head of the family office is also a family member; when the family office serves two to 10 households, the head of the family office is a family member in 43% of SFOs; and when the family office serves 11 or more households, the head of the family office is also a family member in 35% of SFOs. These family offices are particularly associated with more formal governance structures. Families need to take care formulating the initial structure of the family office, knowing that this dynamic is likely to unfold over time.

Although no correlation was found between total wealth level and the number of committees, which may suggest that wealth level does not affect governance structure, the results show a big gegraphical difference with regard to governance; European SFOs have more governance than SFOs in the Americas (Figure 7).

PLEASE INSERT FIGURE 7 HERE

Among our respondents there was no correlation between wealth level and the total number of committees. However, there is a difference in the type of committees that wealthier families manage (Figure 8). Sixty-four percent of the billionaire SFOs have an investment committee while only 53% of millionaire SFOs have one. Similarly, a higher percentage of billionaire SFOs have a board (54% versus 25%) and an audit committee (29% versus 11%). The percentage differences observed between family offices that have an education committee and client relationship committee are insignificant. Our results show, somewhat unexpectedly, that wealth level has no impact on governance structures.

PLEASE INSERT FIGURE 8 HERE

e. Asset allocation

There are significant geographical differences in the way assets are allocated (Figure 9): SFOs in the Americas allocate 44% of their wealth to equities while European SFOs allocate only 28%.

PLEASE INSERT FIGURE 9 HERE

As for principle investment in companies, the Americas invest only 4% of the wealth while Europe invests 13%: these findings may suggest that European SFOs are more aggressive toward investments and more entrepreneurial.

When comparing billionaires and millionaires in the Americas to those in Europe, we find these differences are even greater. American billionaire SFOs invest 20% in hedge funds while the European equivalent invest only 12% in hedge funds; European billionaire SFOs invest on average 11% in real estate, the Americas only 4%. Comparing millionaire SFOs on the two continents, we can see differences in equities, fixed income, private equity and real estate (Table 3).

Table 3 Asset allocation

	Billionaires Americas	Billionaires Europe	Millionaires Americas	Millionaires Europe
	Average			
Equities	47%	25%	45%	30%
Fixed income	16%	15%	15%	17%
Hedge funds	20%	12%	12%	13%
Private equity	9%	12%	9%	12%
Real estate	4%	11%	10%	18%
Other tangible assets (e.g., oil, gas, timber, and commodities)	3%	4%	4%	3%
Principal investment in companies	0%	20%	5%	6%
Other stores of value (e.g., art collection, wine cellar, etc.)	1%	2%	1%	2%

Source: SFO research project database 2007

It seems that billionaires invest more aggressively than millionaires, on average investing more in hedge funds and private equity, putting principle investment in companies and less in equities.

This is surprising because it contradicts the stated objectives for their respective investment strategies (Figure 10). As we would expect, the billionaires have a broader and more balanced approached toward investments, while millionaires are more aggressive. However, this does not conform to the asset allocations described in Table 3.

PLEASE INSERT FIGURE 10 HERE

Looking at the impact of the number of generations that are served, we see some substantial differences in ways of allocating assets.

First generation SFOs spend more time on investment activities; 33% of the heads of the first generation SFOs spend over 80% of their time on investment activities, while only 9% of heads of later generation SFOs spend over 80% of their time similarly. Also, when asked about their objectives with respect to investment, it seems that first generation SFOs are more aggressive with respect to investments, as shown in Figure 11.

PLEASE INSERT FIGURE 11 HERE

Although on average asset allocation is very similar across the two groups, there is a significant difference with regard to principle investment in companies and investing in other stores of value (e.g., art collections, wine cellars, etc.). In our survey, among first generation SFOs, 10% (median) of the wealth is allocated toward private equity, while later generation SFOs allocate only 5% (median). First generation SFOs allocate on average 14% of their wealth to principle investment in companies, while later generations allocate only 9%. Also, while first generation SFOs invest only 1% of their wealth in other stores of value, such as art and wine, later generations invest 3% of their wealth in these sorts of assets (Table 4).

Table 4 Asset allocation by generations

	First generation	Later generations	First generation	Later generations
	average		median	
Equities	32%	33%	30%	30%
Fixed income	15%	17%	13%	10%
Hedge funds	13%	13%	10%	10%
Private equity	11%	9%	10%	5%
Real estate	11%	12%	10%	10%
Other tangible assets (e.g., oil, gas, timber, and commodities)	3%	4%	0%	1%
Principal investment in companies	14%	9%	3%	0%
Other stores of value (e.g., art collection, wine cellar, etc.)	1%	3%	0%	0%

Source: SFO research project database 2007

Our research was intended to survey the landscape of family offices. The data we collected are consistent with our initial expectations about the wide variety and arc of development of SFOs we would find. While 138 full responses is a remarkable level of response from this demographic, which is not easy to reach, it is not enough to make detailed comparisons between the sub-sets of family offices in our sample. Nor is the information we collected prescriptive—the survey is intended to illuminate what is currently being done, not to evaluate how well a given type of family office performs relative to another, nor to provide data on best practices of SFOs.

5. Implications of our research

Based on our observations of various well-functioning SFOs, we offer some recommendations for sound practice.

1. Having a purpose enhances performance. Well-functioning SFOs tend to be linked to families that have a strong sense of purpose for their fortune. This is particularly true where the rich invest not only their assets but also their enthusiasm in the pursuit of something beyond mere wealth preservation. This applies to a broad range of objectives, including involvement in entrepreneurial activities and business, worthy causes, philanthropic pursuits, research foundations, patronage of the arts, or taking on public responsibilities.

Families with a long-term vision tend to rally together (with the aid of their SFO) to ride out adverse external factors, such as financial crises, political turmoil, and war. Families lacking such consensus and/or ambition are less likely to provide the right leadership under unfavorable outside conditions. They are also more prone to internal strife.

The families with a clear purpose for their wealth, and hence more incentive to stay informed and in control, seem to have SFOs that enhance this, allowing them to concentrate on the big picture while the SFO sorts out the detail. Freed from being bogged down in the paperwork, and with reliable expert advice at their fingertips, family members can better combine the wealth of their intellects, inspiration and experience with that of their fortune, with more chance of adding value both to their wealth and society.

2. Seek excellence in every activity. Some families have closely analyzed their strengths—considering their background, experience or asset mix—then cleverly structured their SFO to capitalize on them. They employ in-house a pool of experts to focus on areas of strength and then, as needed, out-source to tap excellence in any other spheres.

This approach seems not only to concentrate expertise, it also helps attract and retain the best personnel. Several of the SFOs that focused on certain aspects of wealth management were on a par with the top professional investment firms active in this field. They were also shrewd users of out-sourcing, contracting other experts where necessary and conscious that, as pointed out to us by one SFO head, it's easier to sack a supplier than someone on your staff.

There should be no place for nepotism in an SFO. Yet some families appeared to be compromising the professionalism of their SFOs for reasons of family politics and even penny-pinching. We find that a family member might be good as chairman of the SFO supervisory board, but on average may not be as good as the chief investment officer.

In terms of SFO structure, strict separation of function seems to enhance performance. The highly paid hedge fund expert should not be distracted by dealing with the car fleet, let alone collecting the dry-cleaning.

This is not to say that SFOs cannot handle "softer" services, such as art collection and travel, but they appear to perform optimally when the functions are separated. A model that seems to work well is to have the equivalent of separate companies for the different specialized areas of asset management and concierge services, and a discrete foundation for philanthropic activity.

To attract the right talent, SFOs can offer numerous advantages. There is the potential for profit-sharing and co-investment, the attraction of working in an environment closely aligned with employees' own values, the opportunity to gain broader investment experience, and to enjoy more flexible working conditions.

3. Keep it simple. Many SFOs preside over very complex corporate structures. One SFO in our pilot interviews dealt with 200 non-active (holding) companies and few dealt with fewer than 80. This can create problems for family members wanting to supervise let alone direct SFO decision-making properly. Many simply do not have the time, interest or expertise needed to find the devil in a huge amount of company detail. As a result, their wealth ends up increasingly under the control of the SFO accountants.

There is a need for various holding companies (e.g., for corporate governance, not just tax factors) and in various places, but within reason. And one reason not to let the corporate structure get too unwieldy is Parkinson's Law—the tendency for bureaucracies to expand fill the space they are given. Another is to keep family and SFO governance achievable.

Sophisticated families insist on the highest standards of governance, reporting and education not just in the SFO but within the family itself. Families that themselves have clearly defined internal procedures will create SFOs that are strong on governance. For example, we found that those with concise written guidelines or even constitutions (for example, on family members' different roles, powers and entitlements) tended to have the equivalent in their SFO (documents clearly stipulating the frequency of reporting, who should report to whom, committee structures, meetings, etc.). Family governance is key to ensuring adherence to the family's value system, its overall purpose and successful trans-generational wealth transfer.

The SFO has a crucial role to play in promoting transparency and accountability, namely by making an art of reporting. This should be punctual, focused on key issues and, when providing important details for meetings, ideally kept to a maximum of one page per decision. Committees are important for this but should be few in number and efficiently run.

Many of these lessons can be applied by families with far fewer resources than hundreds of millions of dollars. Indeed, several of the family offices in our survey were responsible for multiple households (presumably with varying levels of individual wealth). As we noted earlier, there was no observable correlation between the amount of wealth a family office oversees and its sophistication in the form of governance committees or the professional background of its staff.

6. Concluding remarks

SFOs are redefining the art of effective wealth management. They are a potent tool, allowing super-affluent families to meld the might of their vast fortunes with the mastery of top professionals in order to pursue closely—and confidentially—whatever matters most to them.

In our encounters with key SFOs around the world, we saw little evidence of a correlation between effectiveness in SFO operation and factors such as geographical location, length of existence, and links to a former or current family business. However, what did seem critical was clarity. Families that had clearly-defined goals and priorities in setting up and running their SFOs also seemed to have SFOs that delivered on these objectives.

As has been stated, this is a field ripe for research well beyond the scant existing literature. Indeed, many of our interviewees expressed keen interest in finding some way to benchmark their performance against that of their peers both in other SFOs and wider commercial services. Specifically, many wanted to know more about how other offices handled asset allocation, recruitment and remuneration of SFO staff.

We believe that our study not only contributes to the literature on family business and wealth management but helps pave the way for best practice guidelines to be established for SFOs. Our project will widen general knowledge and deepen the general understanding of SFOs and form a sound basis for much-needed further research.

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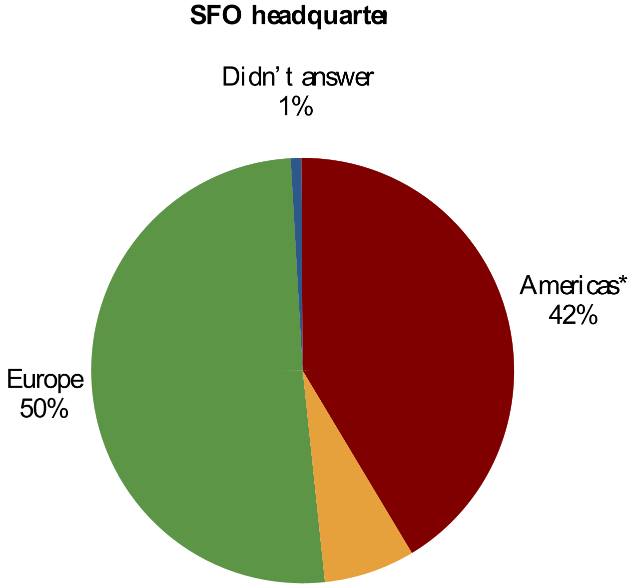
Source: SFO research project database 2007

Figure 1 Location of SFO headquarters



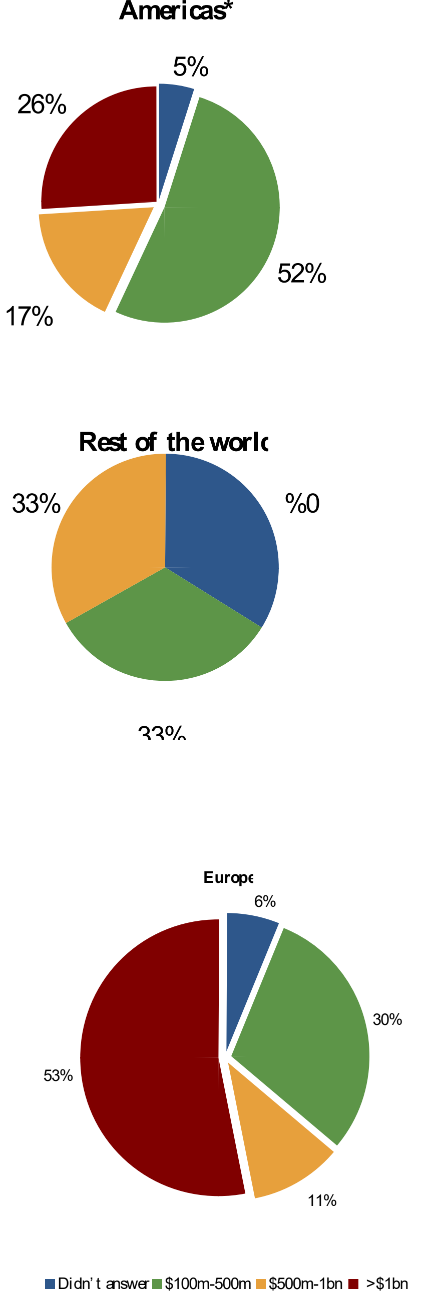
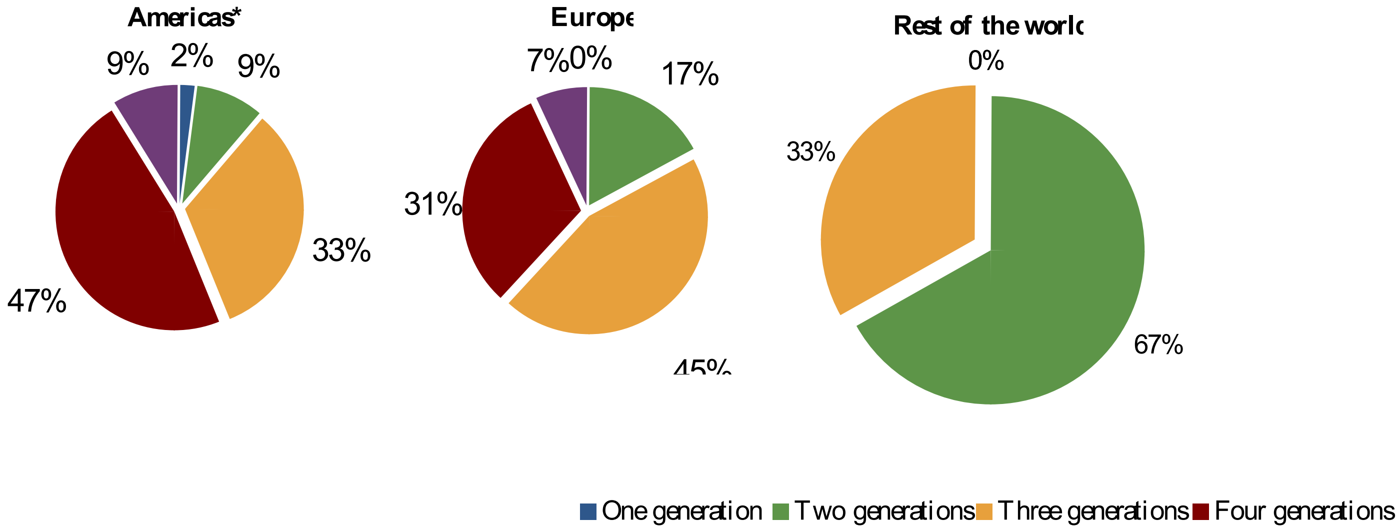


Figure 2 Family wealth distribution

Source: SFO research project database 2007



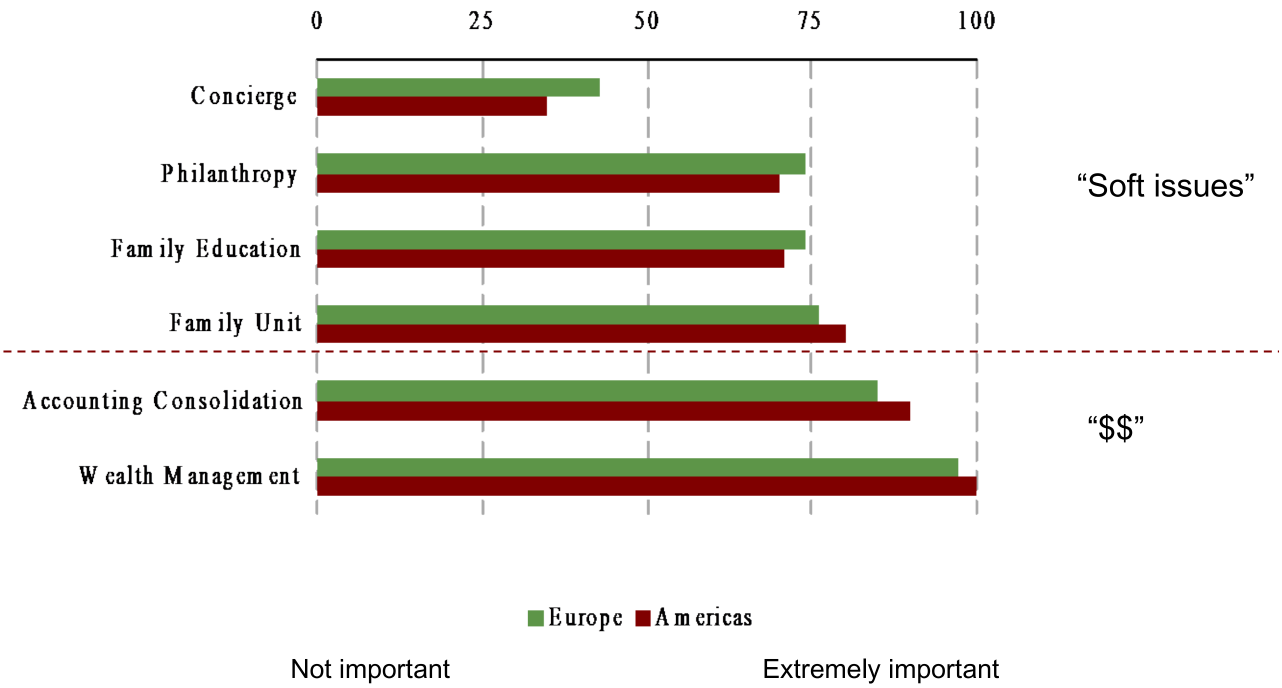
Source: SFO research project database 2007

Figure 3 Number of generations served by the SFO

	Americas	Europe	Rest of the world
Family involved in operating business (%)	40	70	89
Number of households (average)	7	20	5
Number of households (median)	4	4	4

Source: SFO research project database 2007

Figure 4 Number of households served by SFOs



Source: SFO research project database 2007

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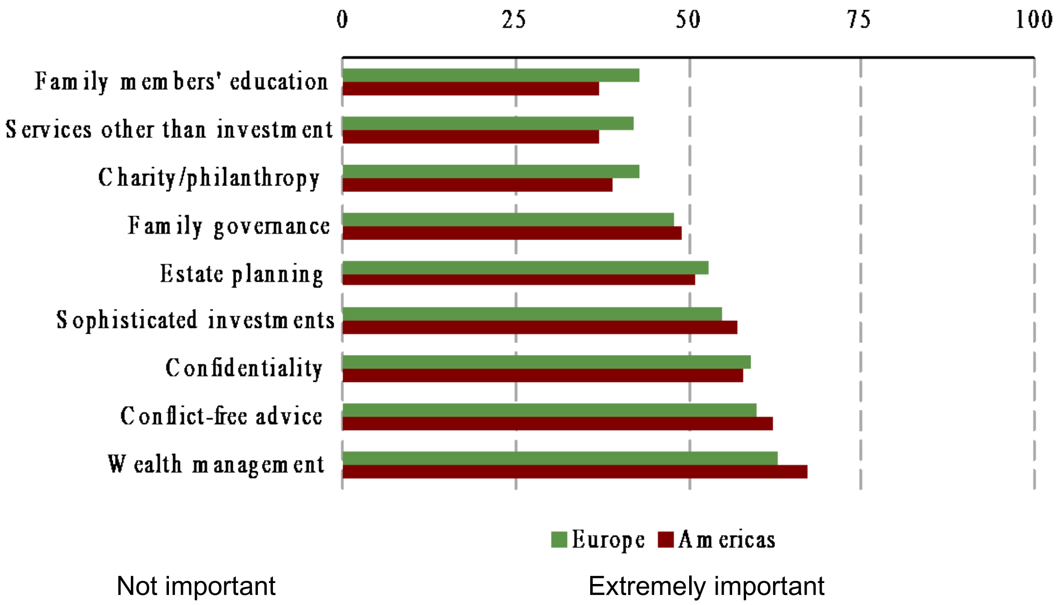

Source: SFO research project database 2007

Figure 6 SFO benefits

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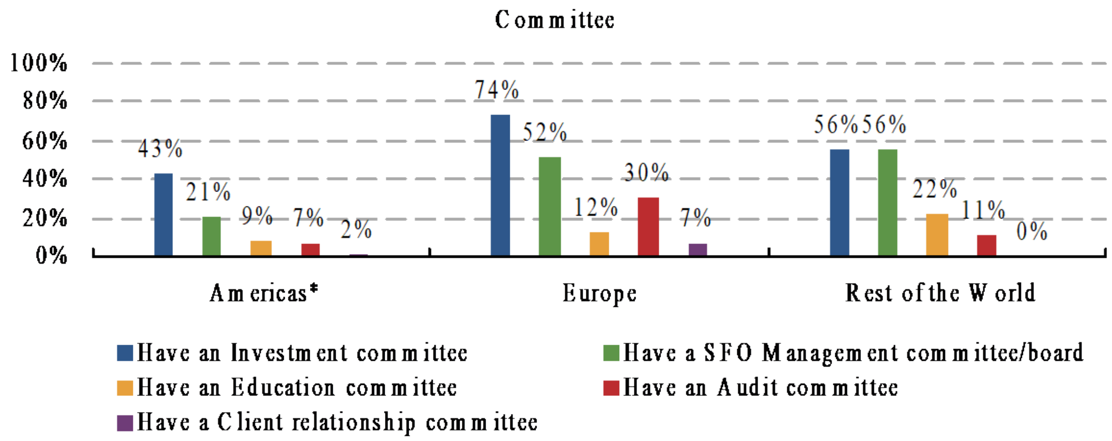
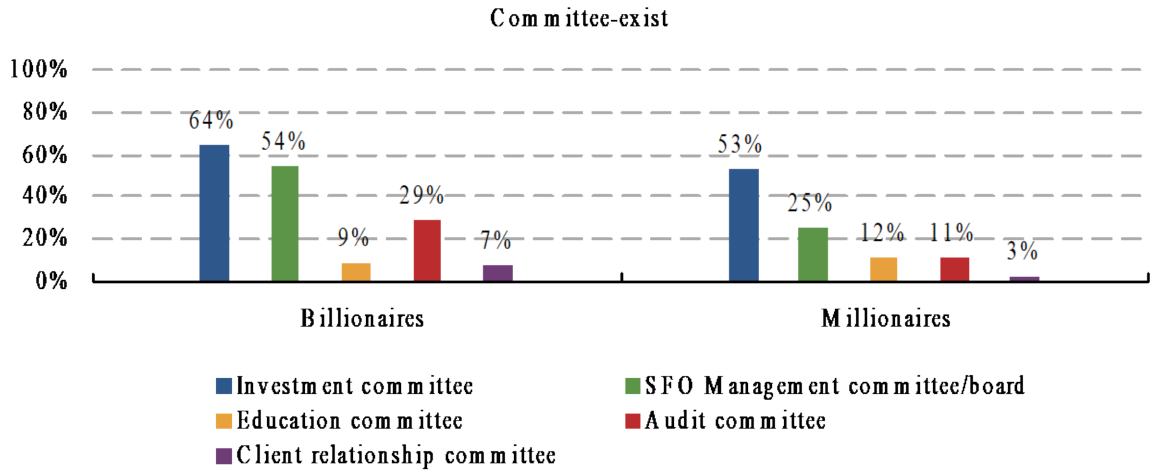


Source: SFO research project database 2007

Figure 7 SFO governance—types of committee



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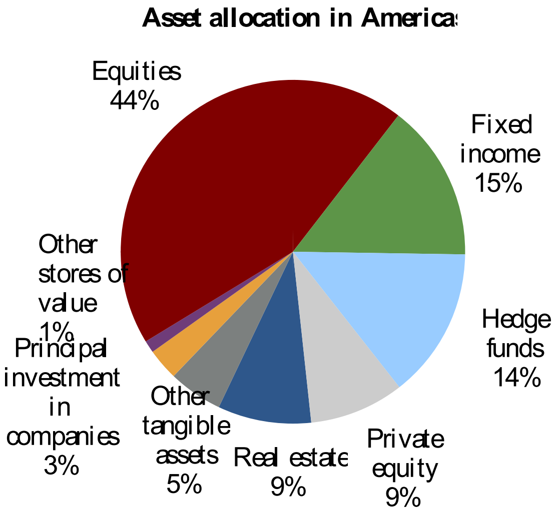
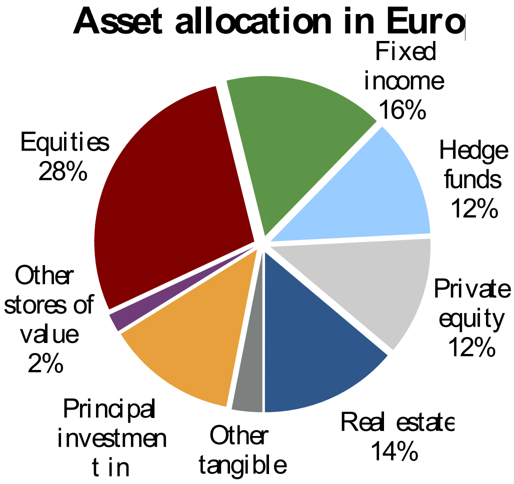
ource: SFO research project database 2007

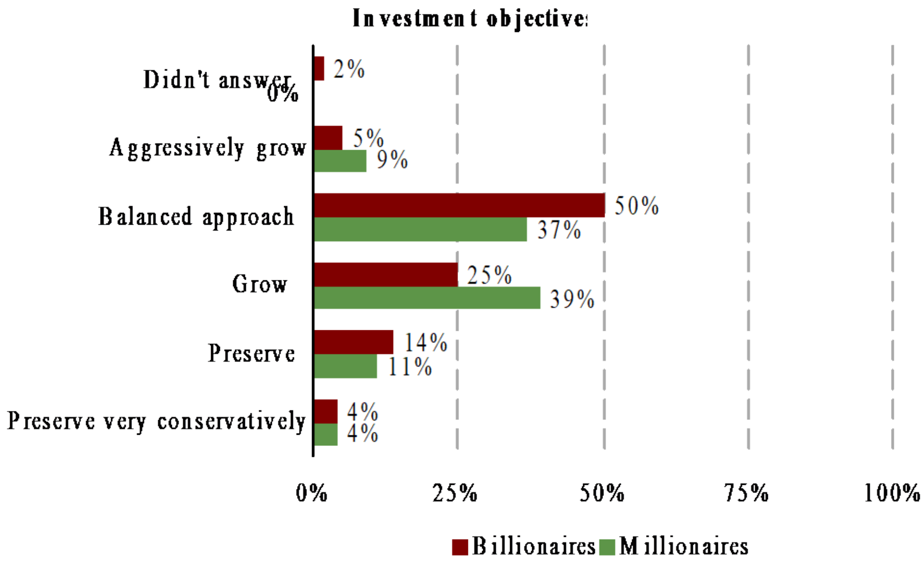
Figure 8 Use of governance committees





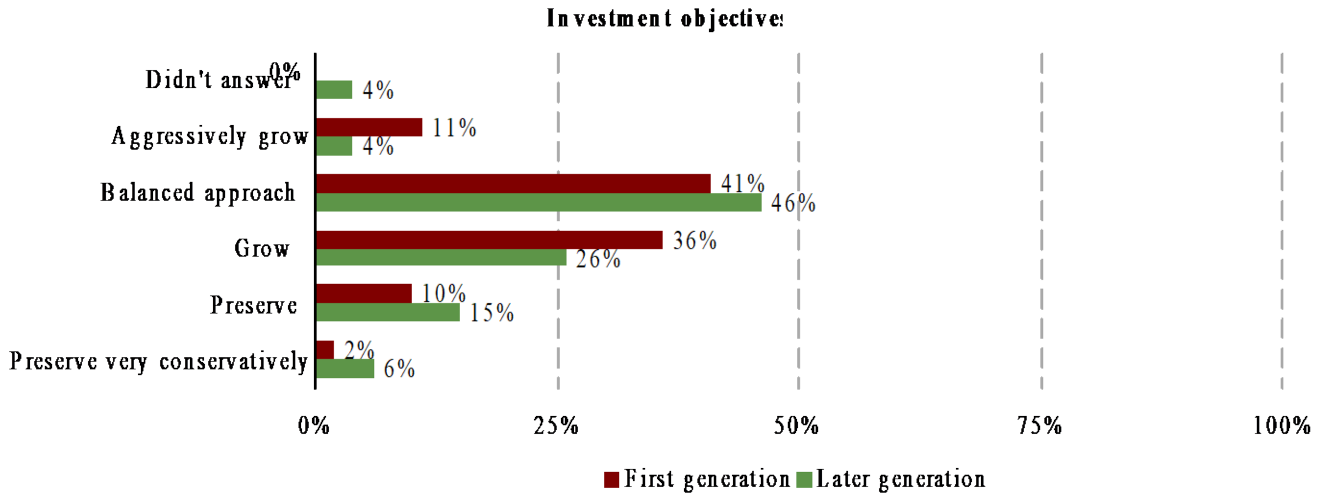
Source: SFO research project database 2007

Figure 9 Asset allocation (by geography)



Source: SFO research project database 2007

Figure 10 Investment objectives—billionaire versus millionaire SFOs



Source: SFO research project database 2007

Figure 11 Investment objectives—first generation versus later generation SFOs