

The Family Office in the 21st Century: Converting to a Multifamily Office

Perspectives on the multifamily office model from Dick Townsend, former president, Sargent Management and executive vice president, Meristem

Nothing encapsulates the image and responsibilities of wealth better than the private family office—a source of financial stability that serves to protect the family's assets and legacy, and manage their private financial affairs.

Many private family offices are created to serve the complex needs of wealthy families, be they first-generation entrepreneurs or multi-generational families who have acquired and grown their net worth through the years. In fact, many private family offices were founded by the barons of commerce who made their fortunes in an era when the financial services industry was in its relative infancy. The family office provided family members with a comprehensive slate of financial and personal services that helped manage the wealth responsibly. Those services were individualized and intimate among the family members.

With the maturity of the financial services industry, there are a multitude of options for persons of wealth who need professional assistance managing their affairs. It has been estimated that it takes a minimum of \$300 million in assets to successfully start a private family office. Many families are considering their alternatives and looking to the multi-client family office model, which in many cases makes sense.

When families are considering setting up a private family office, I encourage them to look at all of the wealth management platforms. The private family office comes with status and security; it also comes with a menu of future challenges as the family continues to grow. By the third generation for example, private family offices show signs of inefficiencies. Private family offices experience a depletion of per-client assets, geographic dispersion of members, and become more complicated and expensive to operate.

FINANCES

The finances of a private family office can be summed up as follows: the family tree grows faster than the assets under management, which decreases per client assets, raising the cost of per client services as a percentage of assets managed.

In addition, the demand for increased, more diverse services rises. Different generations need different kinds of services. Let's face it, we need different kinds of services than our grandparents; and our grandchildren will need different services than we need today.

Geographic dispersion of family members adds cost to the private family office. Typically by the third generation, family members reside in multiple states and sometimes countries. Delivering increased services to more people requires investments in technology, processes and people.

Serving so many different generational needs strains the resources of a private family office. A continuing diversification of needs is a challenge for any private family office.

GOVERNANCE

Family member management of the office is fraught with mine fields. Privacy matters also emerge in governance when cousins have authority over other cousins; or when one cousin knows the personal financial situation of another in the form of: salary, personal investment statements, tax returns, the use of personal services, etc. Power struggles, allocation of cost disagreements, frequency and types of service usage differences are just a few of the potential problem areas.

The most efficient and effective private family offices are operated as real businesses by thoughtful, experienced CEOs. Getting there is the real challenge. When family members don't want to run the office, important questions arise: What is the process for hiring outside management? Who makes that decision? Who owns the office at that point? Who sits on the board? And who profits from it?

Questions when selecting a multifamily office.

- What precisely do you want for your family and future generations?
- What kinds of financial and asset management services do you require?
- Is objective advice important to you?
- How much control do you want over the process?
- Do you want to be CEO, CFO, or both?
- How many personal services do you desire?
- How will you manage financial and liability risks?

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FAMILY RELATIONSHIPS

Not surprising, the most personal matters of the family office deal with family relationships. Some familial dynamics are natural and expected; others cause disharmony within the family office.

A common and natural decline of family intimacy occurs over generations. Family members marry, move out of state or abroad and otherwise go their own way. With that decline, families experience less cohesion and begin to have divergent ideas about how the family office and wealth are managed, and what services are offered.

And since a family office is a business, it comes with similar dynamics of owning a family business whose sole purpose is to manage the family's personal finances. Given that, and the inevitable geographic and generational dispersion families experience, it is very difficult and expensive to maintain the effectiveness of the family office over generations.

A MULTIFAMILY OFFICE DELIVERS SERVICES WITHOUT PRIVATE FAMILY OFFICE CHALLENGES

Depletion of assets, governance and family matters often oblige owners or trustees to convert the private family office to a different wealth management platform in order to sustain the benefits provided to the family members. In the past, that conversion meant turning to a large, impersonal product-driven financial institution. In today's sophisticated wealth management industry, there is another choice.

For today's high net-worth individuals, families and organizations, a distinct wealth management platform has evolved out of the private family office. That platform is the multifamily office. A true multifamily office offers the services of a traditional private family office without the challenges of asset depletion, governance and family relationship dynamics.

The challenge is finding a true multifamily office that can provide the same level of service and personal touch that the family is accustomed to receiving. When we began our search to find an organization that could not only manage the families' assets, but be certain that all of their personal matters were handled with the utmost care, we found that there were very few organizations out there who were really capable of handling such a feat.

A significant advantage today's multifamily offices enjoy over traditional private family offices is economies of scale. A true multifamily office can afford to employ seasoned managers to look after all the various pieces that compose a person's wealth — asset management, risk management, estate planning, tax planning, financial planning and charitable giving. That breadth of required services takes experience and skill traditional private family offices can no longer afford to provide.



In addition to asset management, a true multi-family office will offer a host of other financial and personal services. Typically, they fall under four general categories: Wealth Enhancement; Wealth Protection; Wealth Transfer and Personal Services. Each of these disciplines will have a varying number of specific services depending on the firm.

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Multifamily Office Model

- In-depth relationship
- Dedicated team
- All things in one place, a total financial picture
- Multiple disciplines
- Economies of scale for cost savings/shared expenses
- Access to products and services due to aggregation of assets
- Ala carte services allow customized services based on your exact needs
- Pay for what you use with fee customization

CONCLUSION

The trend in family offices is a movement away from private family offices and their inherent challenges toward multifamily offices with their economies of scale and stability. A wealthy individual, family or organization no longer needs to own the family office to enjoy all the wealth management benefits traditionally offered. Converting to a multifamily office will protect the asset base; ensure consistent, professional governance; guard families against profiteers and allow families to consume and pay for only what they need from the multifamily office rather than own it.

Dick Townsend has been doing the hands-on, innovative work of this industry for better than three decades. His industry reputation prompted one advisor to appoint him "the Dean of Family Offices." Most recently, Dick served for 15 years as president of Sargent Management, now a part of Meristem, one of the country's premier integrated wealth advisory firms, or "multi-family office." Previously, Mr. Townsend served as managing partner of Grant Thornton's Minneapolis Office. Dick is a C.P.A in Minnesota and Illinois, and earned his B.S. and J.D. from the University of Illinois.

Meristem leads clients through a process based on genuine contemplation. Multifamily services include wealth management, risk management and asset protection, tax planning, estate planning and wealth transfer, charitable planning and administration, multi-generational planning, consolidated reporting and monitoring, family meetings, and personal services.

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