FAMILY OFFICE · HISTORY

Family Office: Milestones and Development

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LUXEMBOURG FOR FAMILY OFFICE

The family office is not an invention: it comes from an ancestral tradition that can be traced back to Roman antiquity. Since the mid-19th century, the modern Family Office began to take shape in the United States and Europe, through the development of investment trusts and banks with private interests dedicated to their descendants.

Examples are the great family dynasties such as Rockefeller, Bessemer and Deutsch de la Meurthe. In the beginning, these structures were used to prevent the sale or division of the family's wealth over the generations. The first trust company was created to execute financial transactions and manage the wealth of entrepreneurs. With the industrial revolution came the bank trust officer, responsible for protecting the assets of wealthy families. The Family Office thus served the financial needs of only one generation. As wealth levels increased, the need for wealth preservation across multiple generations became very important, and the family's personal and financial dealings, alongside the operating business, were supported by a separate structure.

In the 20th century, entrepreneurs and industrialists managed their growing businesses while starting new ones. Responsibilities multiplied and the family expanded. The Family Office was born, covering a multitude of structures ranging from a single family member handling administrative tasks alongside other duties in the family business, to a team of professionals focused on investment, accounting, legal affairs and concierge services. In Europe, the concept developed especially over the last two decades.

Characteristics of family offices

Some families run their core operating business or other businesses; others focus more on managing investment assets, having sold their company. European families invest more in real estate and core investments, Americans more in equities.

First-generation Family Offices involve a family member. The larger the family becomes, the more it becomes disengaged from its Family Office. If the wealth creator is present, most decisions are made by him. When the first generation is no longer present, the family has to introduce governance. European Family Offices typically have more committees and provide more frequent, detailed reporting to their family members: the first generation tends to be informed monthly, later generations twice a year. Reporting covers business opportunities, governance, family matters, trustees, philanthropic issues, special events, lawsuits and the minutes of board meetings.

The most important function for Family Offices is trans-generational wealth management. The second is the consolidation of accounting, followed by tax and estate planning services. Softer, frequently requested skills are family education, concierge services and philanthropy. The office is a private one, with a consolidated management of wealth that controls everything. In Europe, Family Offices tend to outsource fewer activities to wealth managers; for most of them, asset allocation is done in-house. Other important factors are cost-effective money management; stable, controlled and scalable asset management; the development of trust; and cheaper administration.

There are three main categories of function inside the Family Office: those related to wealth management (asset allocation, manager selection and monitoring, risk management, estate planning); those related to administrative functions (financial administration and reporting, legal and tax services); and those related to the family (family education, counselling services, relationship management).

Different examples of family offices

A first example is a fully staffed private investment company located in a financial centre, where it can constantly network with top investment experts. The head of the office has an investment-banking background, and the team includes professionals (analysts and traders), accountants, a lawyer and supporting staff. They outsource some legal services and run different committees (investment, management and audit). Reporting is monthly.

A second example is a multi-generational, service-oriented family office, with a large team of professional investors, lawyers, accountants, economists and support staff. Investment management is outsourced to experts. The head of the office, a lawyer by profession, spends much of his time supervising investments and family governance. They tailor asset allocations to each individual and focus on trans-generational wealth management; the first objective is balanced growth, but tax optimisation is also a priority. They have a management committee and a client-relationship committee, and report quarterly to all family members with detailed information on their investments.

A third case is a Family Office focused on wealth preservation, present in several countries. Family governance is very important, as is wealth succession. The office also supports administrative functions such as cash and tax reporting and estate planning, and provides concierge services. They invest in real estate and equity but outsource this to external managers. The office has ten employees and reports quarterly.

Rockefeller Financial Services

Founded in 1882, this is probably the best-known Family Office in the world. The first structure, Rockefeller Family and Associates, was launched to preserve the wealth and manage the philanthropic missions of the family (medical research, education, church). In 1980 they welcomed other wealthy families' trusts and foundations, and decided to found Rockefeller & Co., offering asset management, wealth advisory services, capital advice, private equity and hedge funds through external funds, with the goal of long-term sustainable growth. The Rockefellers have proven that consolidating a family's wealth pays dividends in the future.

Fleming Family & Partners

Robert Fleming founded a group of Scottish investment trusts and was well known for his banking firms. He sold his business to Chase Manhattan Bank in 2000 and, to sustain the considerable assets, created his Family Office, managed by a group of advisers with a hub of boutique investment institutions. They opened the Single Family Office in 2002 for their first non-Fleming family client. Today the Multi Family Office serves more than 40 families and employs 150 people, offering services in private equity, corporate advisory, financial planning, real estate and asset management.

Sand Aire

Provincial Insurance Company, founded in 1903 by Sir James, was sold to AXA in 1994. His personal adviser was Keynes, who contributed to the success of its asset management division. The Scotts decided to form a Family Office in 1996, becoming a Multi Family Office in 2002 and acting as trusted advisor. They used third-party managers and were pioneers in multi-management, offering a higher level of professionalism to their clients.

Conclusion

The dual challenge of a Family Office is the management of the family business as well as the management of the family and its amassed wealth. Most important is that families want to be kept out of the public eye, convinced that no one will take their issues as seriously as they do themselves. The Family Office is not a different way of managing assets but serves all kinds of families; it requires a high level of discipline across wealth management, international corporate and tax law, corporate finance, economics, psychology, sociology and political science.

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