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FAMILY OFFICES

Structures and organisation

October 2023

Contents

introduction

Examples of Family Offices ‘as unique as each family’

- Family office for an English family who established a business empire in late 1800s. A London single family office now represents the interests of approx. three hundred family members, involving historic trusts.

- Family office for significant Middle Eastern family, first established in the 1960s, and now have offices in New York and London. Inherited wealth but the family businesses have been successfully grown internationally by the next generation.

- The reputation for the family office for managing investments has become so strong that they launched a public facing arm in New York.

- Family offices established 10-20 years ago, from hugely successful exits from tech businesses. Relatively young entrepreneurs who are the wealth creators.

Examples of Family Office corporate structures

- Family Investment Company for 1st and 2nd generation entrepreneurs of highly profitable private business who have made several successful exits of early-stage investments and now appointed investment adviser with a view to wider participation from additional families.

- Structures for UK-based 2nd Generation property owning family to give flexibility on dividends and succession planning using growth shares and additional classes of shares.

- Advice to family following a listed PLC take private on structure of asset allocation between residual property and non-property assets, and establishment of charitable foundation.

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Trends we are seeing

- Sense is that concept of family office is becoming more popular – a bespoke organisation, working exclusively for them

- Reducing the conflict of interest - helping them manage their assets and wealth management relationships (can be overwhelming), having your best team on the job, being completely aligned and committed to them

- Separation between business and personal assets

- Challenge of older family offices staying relevant to future generations

Timing – when do people consider a family office

- Single family offices - only for those with significant wealth

- Highly bespoke

- Professionalised approach similar to institutional clients

- Decision triggered by a liquidity event (often required in the lead up too). Focus may be on wealth preservation and managing costs

- Need to separate business and non-business assets – privacy and conflict of interest

The changing landscape for family offices

- Family offices have evolved significantly over time

- Sophistication, efficiency, sustainability and performance have been some of the key drivers changing the face of family offices, and their structuring

- The appropriate organisational, legal and governance structure is essential, but will also vary depending on the family office and its size and purpose/s

sectionone

Types of Family Offices

Types of family offices - embedded

- In the past, it was not uncommon to see family offices created informally using existing resources within the family and the family business to carry out various administrative, accounting and wealth management functions

- Such embedded family offices can become problematic as family wealth increases and family demands become more complex and nuanced

- Difficulties arise in splitting resources between the needs of the operating business and the family, but also compliance and governance issues pose greater challenges

Types of family offices – single-family office (SFO)

- Single-family offices (SFOs) generally have several staff members. The bigger, more established ones will typically include an executive team comprising a CEO, CIO, CFO, operations manager and legal counsel

- This team will manage a diverse set of employees ranging from administrators, accountants and book-keepers to those responsible for HR, IT and real estate to name but a few

- Complicated tax planning, specialised private equity and wealth transfer planning are still often outsourced

- SFOs are therefore expensive to run and are most appropriate for ultra-high net worth families who prioritise investment autonomy, privacy and purpose

Types of family offices – multi - family office (MFO)

- The multi-family office (MFOs) has emerged as a significant and fast-growing player in the sector, as HNW families look to pool together their resources efficiently to create a collaborate and mutually beneficial family office structure

- We have seen MFOs arise out of SFOs that have grown to an extent that they could become a commercial entity offering their services to other family offices. More recently we have seen private banks and wealth management firms offering dedicate in-house family offices teams to service multiple families

- MFOs do not offer the same level of control and autonomy as SFOs, but offer cost efficiency, and in some instances a greater range of services and resources

sectiontwo

Services

Consideration of Proposed Services of Family Office

- What services should the family office provide?

- What services should be outsourced?

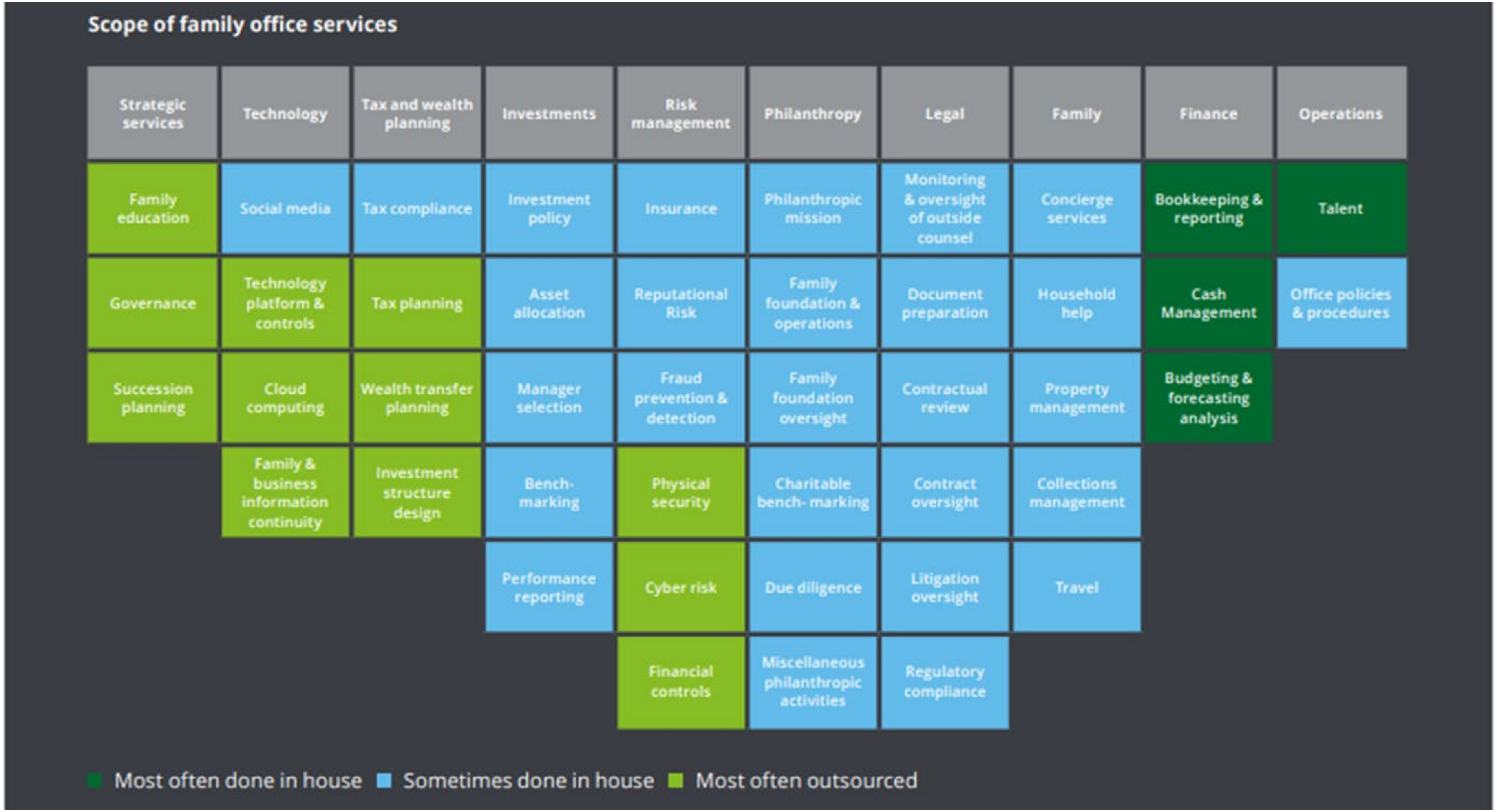
- Challenges of employing staff v trusted third party relationships

- Who are the services being provided to? Need to identify which family members are intended recipient of services

Key Services

- Liaising and coordinating external advisors
- Budgeting
- Asset allocation
- Reporting
- Bill pay
- Concierge

Scope of family offices services



Deloitte Private – The Family Office Handbook. 2020.

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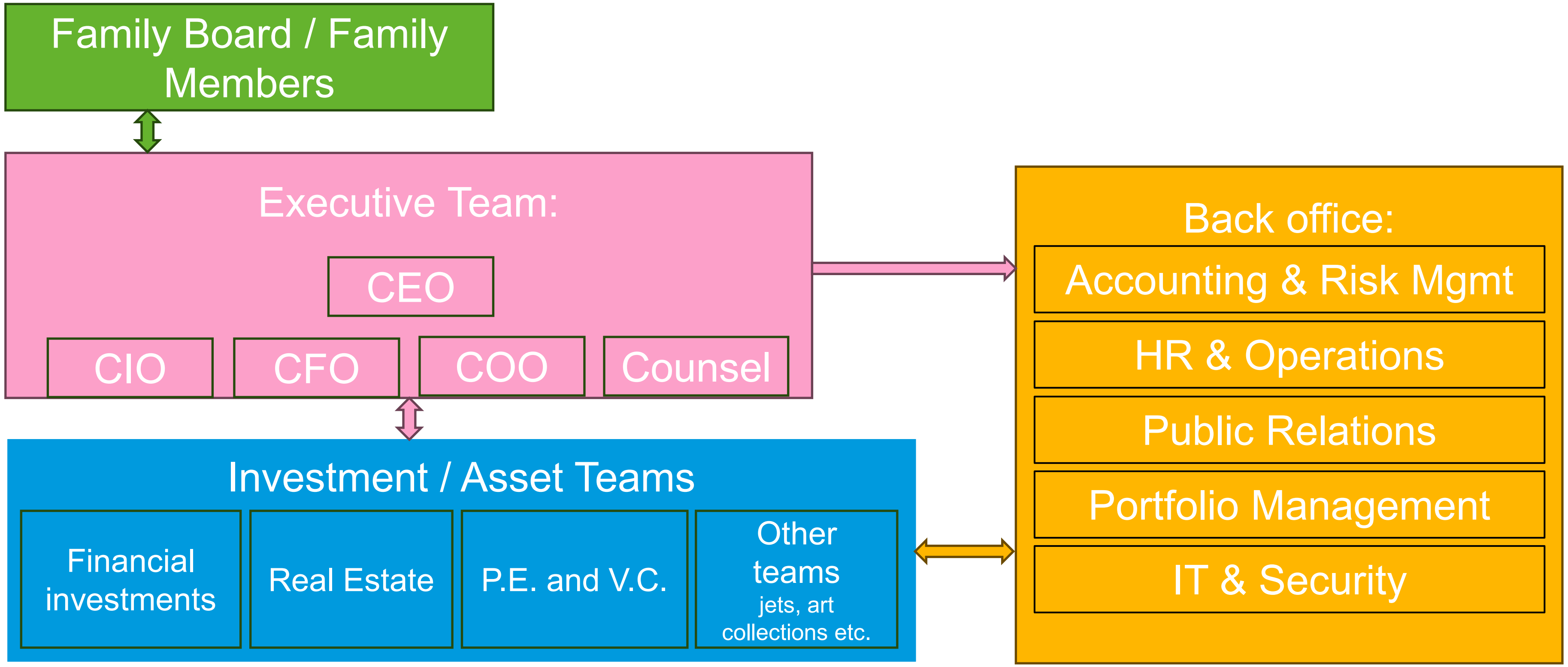
sectionthree

Organisational and structural considerations

The single-family office (SFO) - Organisation

An optimal organisation structure for a SFO could look something like this:



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What is a family office?

- Investment vehicle?
- Private Trust company structure?
- Collection of dedicated professionals, whether separate from a family business or not, which provide personal and professional services to a family

Structure considerations

- Generally, we see family offices structured as corporations and trusts (including private trust companies) but more recently have seen fund structures driven by the US

- It can be most optimal for family offices to comprise multiple legal structures to account for specific regulatory, liability and asset preservation considerations

- It is common for there to be a central family office operation, with ancillary property management, private trust, investment and holding companies

Structure considerations

- How will the family office be funded?
- Charge a fee?
- Significant ongoing costs but these may not be tax deductible
- Fund structure becoming popular for US family offices with the aim of investment performance within the structure paying expenses and rewarding employees (including use of carry)
- Regulatory considerations – strong investment regulatory framework such as Jersey, the UK, the US

Separate Entity to employ domestic staff

- Sometimes use offshore entity to employ staff for privacy reasons
- Flag that for UK resident families, there is a potential VAT trap for using an entity to employ staff
- Possible for non-UK resident families to avoid that additional cost by using a non-UK entity for employment

sectionfour

Jurisdiction

Where should family office be located?

- Location of key family members – close proximity
- Location of assets
- Tax considerations

Jurisdiction

- It can be important for family members to develop good relationships with those running the family members, and therefore it can be beneficial for the office to be located in the same jurisdiction as the family, or where the most senior members live

- Counter-balancing this, the family may wish to deliberately separate the family office from the jurisdiction which they are most closely connected with, to assist with diversification, confidentiality and security

- Other considerations include where the wealth is managed and where the top investment professionals are found

section five

Governance

Governance considerations

- Checks and balances to ensure significant decisions can only be made by family members
- Reporting protocols
- Important to keep staff properly remunerated and incentivised
- Some family office counsel are rewarded by how much they can reduce legal and professional fees!
- Other ways to incentivise?

Governance

- Drawing up a constitution in consultation with all family members is a good starting point. This would include a mission statement.

- The family must establish the purpose of the family office and the underlying wealth. Questions include:
  - Is the primary objective wealth preservation or to actively enhance it, or does the family prefer a balance approach? What is the collective risk appetite?
  - How should income be distributed? Should those most actively involved in the family business receive a greater share? How will inter-generational fairness be achieved?
  - What is the attitude to wider social benefit, i.e. impact and ESG investing, and/or philanthropic objects?

Governance cont…

- Setting up a board of directors to manage the strategic direction of the family office, in line with the family's long-term vision, is crucial

- Consider the role of the family in their own family office. Too heavy a family influence can risk underperforming in an increasingly challenging investment world, and can increase risk of factionalism

- A balance can be achieved by ensuring that the family are fully represented at the top governance level, but the majority of operating positions being filled by specialist non-family professionals

Challenges

- Challenges of consolidated investment reporting
- Challenges of data management and protection – particularly cross border
- Cyber risk
- Fraud risk
- Physical security
- Changing tax residence of family members
- Managing different family members expectations regarding investments, role of the family office, philanthropy
- Transition to next generation

anyquestions?

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