



# Family values

Why and when a family office should be created or called in to manage wealth

BY ARTHUR SALZER

**FAMILY OFFICES** seem to be the rage from a marketing standpoint in the financial industry. Stockbrokers, who called themselves financial advisors for decades, now say they're family offices. So, too, do insurance salespeople, once called financial and estate planners. Unfortunately, this waters down the term family office and begets caveat emptor.

If history is any guide, it is believed Judge Thomas Mellon in Pittsburgh established North America's first true family office in 1868. John D. Rockefeller followed in 1882 with the Rockefeller Family Office. Their objective was to employ a team of professionals that provides the full complement of investment, accounting, legal, educational and concierge services required by complex families to preserve their legacies for future generations. It's a key point of distinction that these employees were solely compensated by the family office and not externally through commissions or payment from a third party such as a bank, trust or insurer. As employees, they were held to the highest standard of care under the law, the fiduciary standard, which ensures that only the family's needs and objectives were considered.

Creating a family office can make sense if a family has sizable assets that are external to their operating business. In many cases, a family office begins its life as a small operation with an objective to manage excess liquidity and cash. The people responsible may be the company founder or the current CEO along with a bookkeeper and/or accountant. At this stage, investment ideas come from external advisors who either manufacture or distribute products for the firms they work at. These may include private-equity deals or investment management services at one of the major banks or brokers.

There is nothing wrong with this model, but the lack of transparency and access to an open-architecture investment platform can result in

excessive fees and fewer high-quality opportunities for a family to diversify their assets. Over time, that results in a portfolio of patchwork deals generally lacking an overall strategy, due diligence and risk management.

The first step for a family wishing to preserve wealth for the next century is to consider the family itself and not the family office. Where does the family want to go? What does the family want to do with their financial, human, cultural and social capital? Once some sense of direction is established, a mission statement is drafted for the family office that provides the roadmap to accomplish the family's goals and objectives.

The next step is to create a business plan, covering such issues as a legal structure, the services the family office will provide, and which functions will be handled internally and which will be outsourced. Part of the business plan relates to the financial budget, detailing matters such as the family office's operating costs and how they will be allocated among the various family members and related entities such as trusts. Important issues like the location and type of office accommodations will also be determined, as well as the governance structure along with guidelines for financial and investment reporting. Finally, it should say which family members are to be supported and what the consequences are should a family member have a marital breakdown.

Services that are typically kept in-house include: direct investing, bookkeeping and reporting, philanthropy, education of younger generations and oversight of the family business. The most frequent outsourced services include: investment management (chief investment officer), asset custody, tax accounting, estate and trust planning and soft issues such as inter-generational conflict resolution where an objective viewpoint may be very useful.

A family of significant wealth that wants ultimate privacy and total staff dedication may internalize many or all these functions. However, this can be an expensive endeavour given that a full-time chief investment officer alone will cost in the range of \$250,000

to more than a \$1 million. A good rule of thumb is that a dedicated, full-service family office typically doesn't make financial sense until the family's net worth is in excess of \$500 million.

The extensive overhead necessary to operate a successful stand-alone family office is a big reason why multi-family offices (MFOs) have been developed. These firms are independent and not associated with large financial services firms such as banks, investment dealers, trusts or insurance companies. MFOs operate as a fiduciary to the families they serve and provide great value since operating costs are shared across multiple families.

During a recent lunch in New York, Justin Rockefeller (a great-grandson of John D. Rockefeller) explained to me the advantages of dealing with an independent multi-family office, most notably having an open-architecture investment platform that offers a wide range of impact investing opportunities. It's this appeal to the next generations' heart and mind, as well as having a trusted fiduciary relationship, that may be the winning combination for the longevity of a family and the family office.

Long live the family office, long live the family. **FPM**

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