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As Assets Rise, Family Offices Face More Complexity



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Family offices can expect both increasing assets and increasing complexity for the rest of the decade, say industry executives who attended the annual Family Office Forum in Chicago last week.

Aging baby boomers cashing out their assets are expected to pour money into family offices, said Sara Hamilton, chief executive of Chicago-based [Family Office Exchange](#). “We’re looking at a huge transfer of business owners’ liquidity,” Hamilton said. “There will be a tidal wave of transfer of assets in the next two decades.”

But the money won’t just be coming from baby boomers, according to Joseph Reilly, president of Greenwich, Connecticut-based [Family Office Association](#).

“We’re seeing more liquidity coming to people at a younger age,” Reilly said. “And they’re not just setting up family offices to preserve what they have. They’re still active, and family offices are incubating their new companies.”

These trends, bolstered by recent dramatic changes in the markets and the law, have contributed to the increasing complexity of the business, industry executives say. Not surprisingly, many of the resulting issues facing family offices surfaced at the conference. They include:

Sustainability of single family offices. Rising costs, lack of scalability and an inability to hire best-in-class executives are pushing a number of SFOs to review their options.

Outsourcing key functions like investing, collaborating or consolidating with other SFOs are all on the rise. Multi-family offices appear to be the main beneficiaries of this trend, either gaining new outsourced business functions from SFOs, or taking on the single family offices as new clients.

Recruiting top talent. Competition is fierce, and getting even more cut throat as the financial markets stabilize and restless executives start looking around, said Linda Mack, a Chicago-based executive recruiter. Because single family offices are perceived as having limited career paths, SFOs have to be particularly creative in fashioning compensation packages to attract top chief executives and chief investment and financial officers, Mack said. In addition to salaries, which can range from \$200,000 to approximately \$2 million, and generous incentives for performance, SFOs are trying to lure executives by offering them opportunities to invest with the family, as well as the use of family vacation homes and their private boats and planes.

Risk management. “Controlling risk is now top of mind,” said Tom Handler, partner of [Handler Thayer](#), a Chicago-based law firm that specializes in family offices. “The meltdown of 2008 highlighted the need to manage risk, not just in investment portfolios, but also when it comes to security, privacy, asset protection and increased due diligence.”

Indeed, families are still on edge, executives say. “Clients are still nervous about the recovery and apprehensive about making decisions,” said Patricia Soldano, president, California, for [GenSpring Family Offices](#).

Conference chair Howard Cooper, chief executive of Boca Raton-based [Cooper Family Office](#), said family office members attending the conference were most concerned with “protecting portfolios against the bumps coming up. That’s what all the private conversations were about.”

Pricing. The need to find alternatives to arbitrary and deep discounting pricing by wealth management firms was a highlight of the recently released report on global wealth trends by the [Boston Consulting Group](#). Family offices also need to look for alternatives, said executives at the Family Office Forum. For example, Steve Braverman, co-founder and managing director of New York- and Atlanta-based [Pathstone Family Office](#) said his firm used a dual revenue model of charging a fee, based on a percentage of assets under management as well as an annual retainer. Pathstone will also charge an additional project-basis fee if a client wants the firm to work on a major “out of scope” project, Braverman said.

Regulations. One major concern in the industry are the new rules from the Securities and Exchange Commission regarding registration for single family offices, which are expected to be issued next month. The new rules, mandated by the Dodd-Frank Act, are expected to dramatically limit registration exemptions, forcing SFOs who have not previously registered to make hard choices about their business.

“Regulatory oversight is a major structural issue,” Handler said. “Family offices are extremely concerned about their privacy and this is on every agenda right now.”