WHO ACTUALLY NEEDS A FAMILY OFFICE?

It is not unusual for wealthy individuals to visit me at my practice saying, "I need a family office". But who actually needs a family office? And for what purpose? Before deciding, there are a few things to consider:

Dr. Ariel Sergio Davidoff, LL.M.
–
Davidoff Frey Family Office (UK) Ltd
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arielsergio.davidoff@lindemannlaw.ch

1. Origin of Wealth

The source of funds determines much of what can happen in a family office. According to my research, there are five ways in which individuals or families acquire wealth:

a) Inheritance/gift
b) Sale of company/company fruits
c) Lucrative investments / speculation
d) Professional income of people in high positions in the economy in large companies, top performers in sport, culture, science, etc.
e) Divorces / settlements

In my experience the majority of assets are drawn from categories a) and b).

2. Family Office Types

The next question is, what does a family office actually do? There are different definitions of what a family office is. Sometimes something that is not formally defined as a family office actually operates as a family office. For example, when a CFO in a family-controlled company also takes care of the tax returns, asset management, property investments, etc. of the individual family members. Another example is when the family lawyer who, as a person of trust, manages these matters for key family members. Another example is when there is a trustee, either trained or appointed by other family members. Banks and asset managers may also take on this role, but this is viewed critically in the industry, as there can be potential conflicts of interest that needs to be addressed in advance.

The above types of family offices are often very closely linked to the founding generation and their company.

Other types of family offices often seen in practise, and in contrast to the above, are independent:

- Single Family Offices: one person or a team of specialists looks after a single family in all matters delegated by the family. Our understanding is that the cost of such a family office is in excess of £2m per annum and therefore, the assets need to be north of the £100m threshold for the cost to be justified (2% of assets per annum in costs). Such family offices are usually created after the family has decided to exit a company, i.e. after a liquidity event.
- Multi-Family Offices: one person or a team of specialists looks after several families and their members. On the one hand, this helps to reduce costs and, on the other, increases the clout of the combined families, for example in the area of private equity investment.

3. Money at the Centre of the Family Office

In our experience, what a family office can do depends very much on the spiritual and moral values of a family.

There are families who set up a family office not for the purpose of multiplying assets, but because they want to anchor and cultivate a certain tradition of family values and pass them on from generation to generation. These are, for example, families who attach importance to the humanistic education of their children, who value the fact that the family adds value to society as a whole, who want to pass on traditions and the ideas of the founding generation to future generations. These families tend to be larger, i.e. with more than fifty descendants, and there is an annual meeting where they exchange ideas, give younger members the opportunity to get to know older and more influential members better and, if there is still a family business, select the next generation of managers.

Some of these family offices also record family history, discuss quotes from ancestors as well as wills and legacies from previous generations and how they translate into the present day. It is, as the saying goes, about passing on the fire to the next generation, not the ashes.

This type of family also often engages in philanthropic endeavours such as running a charitable foundation that benefits the wider community. Foundations are, in my view, useful educational vehicles for the next generation. Because they are charitable, they are also available as an attractive field of activity for the third and fourth generation after wealth creation. These generations learn many useful activities in these types of organisations that they would otherwise not knowingly choose. For example, project selection, project management, measuring the benefits of a project, project controlling, reporting, in larger foundations also employee management, negotiation tactics and strategy and other things that either open their eyes to entering the family's own business or at least give them the tools to survive and succeed independently in life.

The Buddenbrocks paradigm refers to scenario whereby the first generation builds a business, the second develops it further and makes it flourish, then the third perhaps sells it and focuses on golfing and the fourth generation of artists, intellectuals and even trust junkies no longer preserve the wealth but consume it. This last generation is often considered woke and would rather devote itself to topics that are not associated with capitalist profit thinking. That is why topics related to ESG, philanthropy, art, culture, etc. appeals to them – this is said without criticism, because these subjects are equally necessary in a balanced society. However, family wealth is no longer being preserved but being consumed.

4. What is the Goal of a Family Office?

Again, there are as many variants as there are family offices. We discussed one type in the second paragraph, the family office, which is dedicated to the psychological and moral values of the family. In principle, a distinction can be made between two types of objectives.

- The family office looks after and selects the family's investments across all areas, from property, capital markets, private equity and private debt to crypto investments and art collections, race horses etc. It is therefore about asset management in the broadest sense, which can also include holding structures for companies and trusts and, of course, the relocation of individual family members for tax or business reasons.
- The other approach is for the family office to take care of all the family's needs in other areas. This can range from organising travel, restaurants and hotels and household management to tax advice, inheritance advice, compliance and risk management, reputation management, family marketing and PR, and other convenience issues that are specific to the family.

Both of these objectives can be combined on a case-by-case basis, depending on the family's needs. The goals can also change over the generations. One generation may have successfully sold the family estate and company, while the next may build up a successful winery and suddenly become entrepreneurially active in the wine trade. Other family offices originally looked after the founding generation and the company, and then after the sale they took care of private equity investment selection and portfolio management.

It is also important to mention that family offices can keep their costs low by purchasing these services on a case-by-case basis rather than employing specialists. The old question of "make or buy" arises in any case, and each family case is individual.

5. What does it Mean for Me, do I Need a Family Office?

Having considered these matters, and deciding you need a family office, there are a few questions to ask yourself:

- Should my family office be more service-orientated or investment-orientated? Which specialists would I need?
- What are the issues that interest my family as a whole? Because if there are no common themes, it will be difficult for a family office to provide added value to the family and to flourish
- Do I even want to build up this cost block and intimacy with my own employees?
- Does my family have a dynastic or value tradition that I want to pass on? Which one?
- Where should this family office be set up and what is the budget?

It is best to discuss these matters with either a trusted person within the family, or an expert outside the family, if you do not have these traits combined in the same person in the family. Good luck!