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## **Family offices in the United Kingdom**

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*Someone's sitting in the shade today because someone planted a tree a long time ago. – Warren Buffett*

People who create or inherit substantial wealth tend to want to preserve and grow it, to secure their families' future and, often, to fulfil philanthropic desires. Invariably, they also wish to maintain a distance between personal and business matters, while controlling their affairs flexibly and maintaining maximum confidentiality. The family office arrangement is one way of meeting these aspirations.

### **1. The United Kingdom and family offices: history and context**

In the United States, during the 19<sup>th</sup> century, J P Morgan and the Rockefeller family established family offices with the express aim of managing family assets. The expertise was subsequently extended to other families and their legacy lives on today. According to the *Financial Times*, in an article published on November 25 2014, the Rockefellers' family office now has 259 clients.<sup>1</sup>

In contrast, the family office concept in the United Kingdom (UK) has grown incrementally over centuries. Medieval royalty and wealthy families would employ stewards to manage their domestic staff, household affairs and their wealth, including land. The steward's duties included, for example, preparation of accounts for review by the master of the house. This ethos of stewardship endures today in the management of private family wealth across the UK, whether or not that function is expressly labelled 'family office'.

Alongside this history of stewardship, London in particular has a long history of forming trade associations whose common themes are money, business and philanthropy. The origins of the livery companies of the City of London, for example, are rooted in Medieval guilds, and their remit extends far beyond aspects of training, maintenance of industry standards and regulation of the various trades they represent:

*Each of them is a remarkable philanthropic fellowship... every Company has in its own way made its charitable work manifest either by supporting education, research and welfare or by nurturing the skills of those actively involved...<sup>2</sup>*

Together, these traditions of stewardship, the organisation of trading assets and understated philanthropy still inform much of the advice provided by professionals to family offices in the UK today. The market is

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<sup>1</sup> "Expansion of family-office industry leads to blurring of distinctions", *Financial Times*, November 25 2014.

<sup>2</sup> Source: *The Livery Profile* leaflet, produced by the Mercers' Company and published on the City of London website.

diverse and includes families with relatively recently-forged UK links as well as those born and raised in the UK.

## **2. The UK market today**

### **2.1 What is a family office?**

*Once you've seen one family office, you've seen ONE family office.*<sup>3</sup>

No doubt every submission to this publication will seek to answer this question and it will be interesting to compare, once compiled, the ambit of definitions by jurisdiction. In this section, we keep the definition brief.

The core activities of a family office arrangement involve the centralised management of wealth derived from one family, or a few, in an environment where family influence affects decision-making. Each family will add services to this core activity, in line with its requirements and ability/ willingness to meet the costs associated with each activity.

### **2.2 Third-party providers**

There is a range of providers of loosely defined family office services in the United Kingdom. Their remit varies according to expertise and can broadly be summarised as follows:

#### ***(a) Banks***

Banks extend their expertise in investment and financial advisory services to third-party family offices. Some have in-house private investment offices acting as multi-family offices. In addition to investment management, services offered to families can include:

- financial planning;
- insurance planning;
- risk management;
- compliance and regulatory support;
- access to sophisticated banking platforms;
- global custody and consolidated reporting; and
- review and management of family investment philosophy and suitability of investments made.

#### ***(b) Consultancy firms***

This group tends to support wealthy families by providing independent advice, often supported by research. Services include:

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<sup>3</sup> Attributed to Patricia M Soldano, Chair of GenSpring Family Offices' Western region, in the following Forbes article: [www.forbes.com/sites/toddganos/2013/08/13/what-is-a-family-office/](http://www.forbes.com/sites/toddganos/2013/08/13/what-is-a-family-office/).

- acting as the main or trusted advisers;
- financial reporting;
- evaluation and consolidation of information provided by other service providers, such as accountants and wealth-management firms; and
- selection of money managers.

***(c) Law firms, accountancy firms and trust companies***

Each of these groups of professionals engages with wealthy families and family offices through the provision of services encompassing:

- advice in connection with establishing a family office;
- implementation of effective family governance;
- tax advice and reporting in relation to personal and business assets situated in the UK and overseas;
- trust and family office administration;
- advice in establishing a charity or philanthropic foundation;
- managing charitable donations;
- accounting and audit;
- expenses management;
- advice in relation to regulatory and compliance obligations of the family office;
- facilitating inter-generational change;
- immigration and employment law advice for family office staff and family members;
- wealth planning and matrimonial advice for family members; and
- review of overseas structures holding family wealth.

***(d) Independent advisers and boutique firms***

These firms provide specialist services, including:

- concierge services;
- lifestyle management;
- reputation management;
- security services;
- property finding;
- advice on schools in the UK;
- health services;
- insurance; and
- coaching.

### 2.3 Single-family offices and multi-family offices in the UK

As will be well-rehearsed elsewhere in this book, the nature, purpose and structure of family offices are dictated by the needs of the families they serve. Single family offices and multi-family offices will also be defined elsewhere, so here we focus on the main characteristics of each, by reference to the UK market:

	Single family office	Multi-family office
<b>Client(s)</b>	<ul style="list-style-type: none"> <li>- One family</li> </ul>	<ul style="list-style-type: none"> <li>- A number of families</li> </ul>
<b>Structure</b>	<ul style="list-style-type: none"> <li>- The structure can be as informal or formal as a family requires</li> <li>- Staff tend to be employed either directly by the family or by a family-owned vehicle (eg a company or partnership)</li> <li>- The family remains primarily responsible for aspects such as premises, IT and managing staff</li> <li>- Family affairs tend to dictate the level of activity and nature of the work carried out</li> <li>- Changes in staff can disrupt service levels disproportionately</li> </ul>	<ul style="list-style-type: none"> <li>- These are organisations independent of the founding family/families</li> <li>- Family members may hold offices within the organisation, but its services are provided at arm's length</li> <li>- Service levels are less disrupted by changes in staffing</li> <li>- Day-to-day management of premises, IT and staffing is the preserve of the organisation, not the family</li> </ul>
<b>Accountability</b>	<ul style="list-style-type: none"> <li>- The closeness to the family can engender high levels of trust, a deep sense of responsibility for actions and a highly personal level of service</li> <li>- The same closeness can result in tension and conflict if poorly managed and staff can become over-identified with the family they serve. In turn, this can lead to behaviour aimed at pleasing the family, rather than focusing objectively on best interests. Longevity of service can present a particular challenge here: resistance to change must not be the price of continuity</li> </ul>	<ul style="list-style-type: none"> <li>- In serving a number of families, staff must bear in mind diverging interests</li> <li>- Potential conflicts of interest between founding families and other clients must be carefully managed where a multi-family office has recently evolved from a single family office</li> <li>- Conflict resulting from over-identification with one family is less likely</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>- Costs are borne by one family</li> <li>- International families tend to want to base their London family offices in areas where the fixed costs of premises are high. This, in addition to other fixed costs, can be difficult to manage against unpredictable income</li> <li>- On the other hand, where asset management is carried out in-house, the high level of exclusivity, privacy and customisation can enhance returns in the absence of a product push</li> </ul>	<ul style="list-style-type: none"> <li>- Costs are shared among all the clients</li> <li>- Efficiencies of scale are easier to achieve</li> <li>- Situation of premises tends to be less of a personal choice for one family</li> <li>- Despite efficiencies on costs in other areas, some multi-family offices create and push their own financial products to help meet the cost of running the organisation</li> </ul>

In terms of numbers, it is very difficult to say with any authority how many family offices there are in existence in the UK. This is partly because there is such a variety of arrangements falling within the concept (many of which may not identify themselves as family offices, though they function as such) and because one of the attractions of family offices is their discretion.

Recent research published by Ernst and Young states that "Family offices are arguably the fastest-growing investment vehicles in the world today... there are at least 3,000 single family offices in existence globally and at least half of these were set up in the last 15 years..."<sup>4</sup> Although this is not specific to the UK, it gives insight into the level of activity in this market in recent years.

In terms of the distribution of wealth as between single family offices and multi-family offices, in October 2013, Reuters reported that "Single-family offices managed about \$1.2 trillion globally as of September 2011, while multi-family funds, which manage assets for several families, had assets of \$777 billion in December 2012, a study by Boston-based Cerulli Associates showed."<sup>5</sup>

A third concept has been added over recent years to the traditional single family office and multi-family office: the virtual family office. In practice, this describes the situation where a family is starting to organise its wealth using technology and is not yet ready to commit to the cost of premises. It is, effectively, the business start-up phase of the family office. Family members often figure prominently, and the extent of success in transitioning to greater organisation and delegation of functions over time is often determined by the range and quality of their business skills.

### **2.3 A UK case in point: single family office to multi-family office**

When his father died in 1984, and he had to take over running the family business, Mark Pears was 21 years old. He and his brothers, Trevor and David, are the third generation of a family that has organised and grown its wealth – most notably through real estate investment in the UK – discreetly and very successfully for nearly 60 years.

The Pears Foundation was established by the same family. Trevor now acts as its executive chair and its website consciously identifies the foundation with its founding family, stating: "We are a British family foundation rooted in Jewish values." The foundation recently made its largest ever donation, of £5 million, to support the efforts of the Royal Free Hospital, in Hampstead, North London, in building what is described as "a world class centre to research cures for cancer and HIV."<sup>6</sup>

In addition to building their own wealth and pursuing philanthropic activities successfully, the Pears family group comprises an investment management arm that started as the family's private investment office.

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<sup>4</sup> Source: *EY Family Office Guide*: [www.ey.com/Publication/vwLUAssets/EY-Pathway-to-successful-family-and-wealth-management/\\$FILE/EY-Pathway-to-successful-family-and-wealth-management.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Pathway-to-successful-family-and-wealth-management/$FILE/EY-Pathway-to-successful-family-and-wealth-management.pdf).

<sup>5</sup> Source: [uk.reuters.com/article/2013/10/04/frontier-investing-families-idUKL6N0HS21J20131004](http://uk.reuters.com/article/2013/10/04/frontier-investing-families-idUKL6N0HS21J20131004).

<sup>6</sup> Source: *Ham & High* news report dated September 30 2014.

Talisman Global Asset Management Limited was once the Pears family's single family office. According to its website:

*"Talisman was incorporated in 1998 as the asset management arm of a single family, following the sale of real estate assets which provided £50m of investment capital in 1994... The current Talisman structure was established in 2001 with [assets under management] of £250m... Today Talisman has [assets under management] of £2.4bn."*

At the foot of Talisman's minimalist website is a link: "Commitment to the UK Stewardship Code". This code is one of many aspects of UK financial regulation that can affect family offices. It sets standards relating to institutional investment and its opening section declares that "Effective stewardship benefits companies, investors and the economy as a whole."<sup>7</sup> The same may be said for stewardship in a family office context.

In a rare interview given to the *Sunday Telegraph* in 2011, Mark Pears addressed the various concerns of anyone running a family business:

*A lot of them do struggle when they go past two or three or four generations. I hope that's not what's going to happen here... The way we've run it we have good quality people working here. If I were to get run over by a bus tomorrow, I think we've got very capable people who could run it already.<sup>8</sup>*

As anyone running their own family office knows, capable people who work well together are the most important determinant in the ultimate success or failure of the enterprise.

## **2.4 Staffing the family office in London**

One of the attractions of establishing a family office in London is the availability of people able and willing to take on the role of running it. There is, in addition, a thriving network of family offices where exchange of information and shared experience contribute to the maintenance of standards and a sense of context.

Staffing the family office may, therefore, seem like a relatively straightforward proposition. In terms of roles, a relatively well established family office providing administration and financial services is likely to comprise people fulfilling some or all of the following senior staff functions (although the job titles may be different in practice):

- chief executive officer – often someone with an accounting, legal or financial services background whose role is to run the family office, taking account of the family's wishes on one hand and his/ her legal, taxation, regulatory and corporate responsibility obligations on the other (the two often diverge);
- chief financial officer – core responsibilities include control and management of financial risk;

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<sup>7</sup> Source: [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf).

<sup>8</sup> Source: James Quinn, "Pears Family Comes Out Of The Property Shadows", *Sunday Telegraph*, June 12 2011.

- chief operations officer – tends to be responsible for the day-to-day running of the family office. This role can be combined with that of chief executive officer or chief financial officer, depending upon the size of the family office; and
- chief investment officer – responsible for the investment aspects.

One of the relatively new challenges for senior staff concerns media and public relations. Online social networks and the incremental encroachment of cameras in public and private places together mean that privacy is under attack more than ever. Threats to the reputation and private lives of wealthy families are no longer the sole preserve of paparazzi. Senior staff would be well advised to include security and reputation management in their strategies.

This group of senior staff members requires administrative support from secretaries as well as colleagues providing general administrative support. This includes: payments processing; the effective marshalling and filing of information (particularly in terms of anti-money-laundering records and information exchange requirements); and general coordination and communication between family office staff, the family and external third parties, such as bankers and trustees.

In a family context, it is surprisingly easy for someone's role to grow wider and more challenging than the initial description envisaged. It can also seem artificial to impose formal boundaries around someone's role, in a context that feels personal and involves a family's most sensitive, private information. Nevertheless, the absence of objective management and focus on best interests often leads to employment-related disputes that can occupy a disproportionate amount of family and staff time and can be very disruptive to the operation of the family office.

It is, therefore, every bit as important that the family office team works well together as that each individual has the appropriate qualifications and skills to fulfil his role. Overlaid with family-centric interests, a good team is more likely to maintain objectivity and resist over-identification with the family than a dysfunctional team, where individuals can put self-interest or pleasing the family before doing the right thing.

As Casey Stengel once said in relation to baseball: "Finding good players is easy. Getting them to play as a team is another story."

## **2.5 Family businesses in the UK**

According to the International Centre for Families in Business, family businesses based in the UK:

- account for two jobs out of every five in the UK private sector (9.2 million people);
- account for almost a quarter of the overall UK gross domestic product;
- contribute £73 billion of UK total tax revenues; and
- make up nearly 50% of mid-sized businesses in the United Kingdom (those in the range between £20 million and £500 million).

The same source also reveals that:

- approximately 60% fail to plan formally for succession;
- only 30% make it to second generation family ownership; and
- less than 10% make it to the third generation in the same family ownership.

### 3. Trends

The financial crisis of 2007 and 2008 caused a loss of capital severe enough to cause wealthy families all over the world to start taking control of managing their own assets, and many looked to London to establish family offices. In August 2008, the *Financial Times* reported: "More than 300 ultra-rich families with assets over £100m each have set up their own private offices in London to protect and enhance their wealth in the financial services sector's newest trend..."

A parallel trend is the move away from one relationship with a private bank towards using multiple financial service-providers. This, in itself, prompts a need for tailored administrative support, co-ordination of information and expertise in the oversight of those financial service-providers, with a focus on the particular family's requirements. A family office arrangement tends to grow in response to these needs, whether or not the family is conscious of it happening.

The remainder of this chapter will assume that the model under consideration is the single family office.

### 4. Why establish a family office in the UK?

Subject to its family's needs, a family office can fulfil a number of functions and can be tasked with providing some or all of the functions listed under the section on third-party providers above. The key aspect in a family office environment is that those services are delivered in a manner which, at its best, provides (among other things):

- centralised, highly tailored asset management;
- centralised management of assets such as art collections, yachts, real estate in multiple countries and private jets;
- effective co-ordination of third-party advisory relationships, often in different countries;
- a high level of confidentiality in relation to family information;
- streamlined reporting and quick decision-making;
- an environment in which a family with wealth can adapt to change privately, for example if the sale of a business yields significant additional wealth or a bad business decision erodes wealth;

- effective family governance support and implementation; and
- a means of facilitating generational change with little risk of dispute among family members.

The UK remains one of the world's leading centres for international services connected with wealth management and planning. The legal and accounting professions, in particular, are accustomed to advising families with inherited and business wealth situated in and outside the UK. For international families transacting business across continents, the UK can also be a particularly convenient place to do business in terms of time zone and proximity to European financial centres.

The wealth of experience and expertise available to family offices within the UK is a strong predictor for their success.

The UK is not, however, an entirely straightforward jurisdiction in terms of tax planning and financial regulation. International families often benefit from assets held within trusts and other non-UK structures. Often, these structures have been established with succession planning in mind, not the avoidance of taxation. Basing a family office in London tends to involve liaison between family office members and trustees of such non-UK trusts and their underlying companies. Unless this liaison is closely monitored and controlled, it can unwittingly bring a family's non-UK wealth within the UK tax net. In addition, family offices carrying out investment advice are likely to be subject to UK financial regulation and associated compliance obligations.

The next section summarises some of the essential considerations around good governance, UK tax and regulation. Appropriate professional advisers should be involved if these issues are relevant.

## **5. Good governance**

There are two aspects to good governance: first, the putting in place of a sound process for decision-making and second: facilitating implementation of those decisions.

In a family office context, good governance affects both the family itself and the family office. In relation to the family, there are various names for a document that sets out a family's history, values and goals with the intention of minimising disputes and preserving wealth. It can be called a family charter, a family constitution or a family contract, for example. These kinds of documents are often not legally binding. They nevertheless share certain features with legal contracts and should be drafted with care. Their power lies in the family's collective will to abide by the terms to which they sign up.

Separately, there are more technical issues of governance where members of a family office situated in London interact regularly with trustees or directors of family trusts and companies that are not UK resident. These issues can be complex. The summaries below highlight the main concerns in this area.

## 5.1 Management and control of non-UK resident companies

Every member of staff within the family office, including family members, must understand and remain within the limits of his role. In a family context, it can seem artificial and awkward to insist on the clear delineation of authority in this way. It is, however, very important to get this right.

Over time, as working practices become more and more familiar, it can be easy to forget who has the authority to do what, how and where. There is a risk, for example, that decisions that should properly be made outside the UK start being made within the UK, because someone within the UK has become used to calling the shots.

Mohamed Al-Fayed found out the hard way why calling the shots in the UK in relation to non-UK companies is not a good idea:

Her Majesty's Revenue and Customs (HMRC) benefits from wide powers to require taxpayers to provide information for the purpose of checking a taxpayer's position.

In 2004, Mohamed Al Fayed (the former owner of Harrods) tried to avoid having to complete his tax return, on the basis that he had a special agreement with HMRC.

One of the central issues in HMRC's case was 'management and control' and how that affected UK taxation. HMRC's affidavit stated: "...Mr Al-Fayed's perceived autocratic manner... directed my attention to the locus of central management and control of offshore companies. If the offshore companies are centrally managed and controlled in the UK, then it has taxing rights on profits..."

Outcome: Al Fayed failed and HMRC was granted the right to launch a full investigation into his tax affairs.

There are numerous other cases concerning management and control of non-UK resident companies. The main risks they highlight in a family office context are as follows:

- If decisions concerning the management and control of an offshore company are made in the UK, the company will be taxable in the UK;
- Those responsible for the administration of that company will be accountable for the tax; and
- Anyone who deliberately misleads HMRC in relation to the management and control of a company may be guilty of tax fraud.

These risks can be controlled in a variety of ways. It is wise for family offices to put in place protocols that limit the risk of tax breaches. These tend to be practical, setting out a framework for how and where important decisions should be made, and most importantly, by whom. Advisers with appropriate expertise should draft these protocols.

In addition to putting in place documented protocols, it can be useful to ensure that staff and family members receive training, so that protocols are implemented properly in the day-to-day of office business. This often helps members of a family office maintain a higher level of vigilance, so that there is a conscious attention to the location of management and control of non-UK resident companies.

## 5.2 The residence of trusts

It is common for international family wealth to be held within non-UK-resident trust (and other) structures. These assets are often intended to benefit a number of family members and they may hold a range of assets such as residential property, valuable art, wine, yachts, aircraft or operating businesses. The trustees, directors and other professionals who run these structures are key decision-makers. They are also often, understandably, eager to maintain their relationships with families.

As any experienced trust professional will tell you: a good trustee is not necessarily the family's friend, acquiescing to all demands. A trustee's primary duty is to manage and exercise control over assets put in its care, with the beneficiaries' best interests in mind. This is not the same thing as agreeing to everything a beneficiary (or settlor) wants.

The family office would do well to remember that, unlike a company or foundation, a trust does not have its own legal identity. It is a legal relationship whose flexibility brings many benefits to families planning wealth over generations. Equally, this flexibility makes trusts vulnerable to poor governance. The immunity of a trust from UK tax – indeed, its very existence – can be undermined by the behaviour of families and their advisers.

A non-UK resident trustee can be treated as carrying on trust business in the UK through the agency of someone resident in the UK, if that UK resident person is allowed to make decisions on behalf of the trustees in the UK.

Again, such risks can be controlled with effectively implemented protocols that have been prepared with the help of appropriate advisers. The protocols do not have to be complicated and, when drafted properly, they are tailored to specific family needs and are intended to provide practical know-how for the family office.

There are two final aspects of good governance that a family should consider and address: marital contracts and non-disclosure agreements. Failure to address the effect of a marriage or its eventual dissolution on overall family wealth is a common mistake, as is the failure to control the dissemination of private information. Even when these issues are addressed, they are often forgotten and addressed too late, with adverse consequences.

One of the most common failures of good governance is less a legal issue than a practical one: remembering that the purpose of the family office is to serve its family. Regular (at least annual) reviews are necessary to ensure everyone involved stays in touch with the family's overall requirements. It is important to aim to balance required or advisable change against the reason a family office was set up in the first place. Asking leading family members what a family actually wants seems obvious, but tends not to happen regularly enough in practice.

## 6. Regulatory considerations in the UK

As noted above, family offices are all different and whether they will be caught by the UK's financial services regulatory regime depends on the nature of the activities they are involved in and the services they provide. Indeed, family offices may escape regulation altogether. If, for example, their services are limited to general administration, coordination and lifestyle management – as might be the case for some single family offices – it is unlikely that these activities will be within the scope of the UK's financial services regulatory regime.

If, on the other hand, the range of services provided by the family office includes financial services, such as investment advice and asset management in relation to certain investments, these are potentially regulated activities and the family office may need to be authorised by the Financial Conduct Authority (FCA) in order to carry out the activity.

The regulation of financial services in the UK is the preserve of the FCA. Anyone providing investment advice in the UK must be registered with the FCA, which is an independent, non-governmental body. The FCA derives its powers from the Financial Services and Markets Act 2000. These are wide-ranging and extend to investigation, rule-making and enforcement.

Common regulated activities that family offices may be involved in and for which the FCA's authorisation may be required, include:

- arranging for investments to be bought or sold;
- advising on the merits of buying or selling an investment;
- managing investments; or
- managing a fund

Unless a relevant exclusion applies, carrying on a regulated activity in the UK by way of business and without authorisation is a criminal offence. The FCA is one of two financial services regulators in the UK and, together with the Prudential Regulation Authority, the FCA is responsible for authorising and regulating businesses that wish to carry on regulated activities in the UK. The FCA also has responsibility for protecting the people who use financial services and it achieves this through wide-ranging powers which regulate, monitor and enforce how financial services are carried on in the UK.

For a single family office, there are typically two routes that might lead to FCA regulation: first, organic growth, where, for example, a single family office extends its asset management expertise to a broader family group; or secondly, where the family office makes a conscious decision to establish an independent asset management arm, as in the case of the Pears family when they started Talisman Global Asset Management Limited. In each of these cases, the entity proposing to carry on the regulated activity would have to apply to the FCA for authorisation before it could provide financial services in the UK.

In contrast to single family offices, most multi-family offices are likely to be carrying on a range of financial services for the families they serve, and they will need to be regulated by the FCA in order to do so.

A family office that is authorised by the FCA will be subject to on-going fees and to monitoring by the FCA. It will also have to file annual reports with the FCA on aspects of its business activities. Additionally, individuals within the family office carrying out key functions will need to be personally approved by the FCA.

A family office that is involved in any potentially regulated activity should consider, at an early stage, whether the UK regulatory framework will apply to them so that, where necessary, the family office can be structured to avoid coming within the regulatory framework or the appropriate authorisations can be put in place.

A recent example of the FCA exercising its powers: on September 23 2014, the FCA's website published details of a fine imposed on Barclays Bank Plc for "... failing to properly protect clients' custody assets worth £16.5 billion..." The FCA fined Barclays £37,745,000 in respect of this breach.

## **7. Philanthropy**

The desire to do good is a common aspiration for families with wealth. Often, that desire is expressed in the establishment of family foundations or charities, such as the Pears Foundation mentioned earlier, the Sainsbury Family Charitable Trusts and the Ashley Family Foundation (formerly the Laura Ashley Foundation).

The main issues in this area can be summarised as follows:

- Most families struggle to balance their wish to do good with making a profit. This is not an easy balance for the investment manager to achieve, in a context of tension between public and private markets;
- The nature of family wealth and families' aspirations tend to mean, together, that investing is undertaken more patiently. This sits well with challenges around philanthropic impact, because impact investing is typically illiquid and of long duration. Family wealth dedicated to philanthropy tends to be characterised as patient capital, where horizons for returns can stretch to between five and 10 years; and
- This longer-term investing sits well with stewardship.

A family giving serious consideration to investing with philanthropic aims should address these issues with appropriately experienced investment advisers.

## **8. Costs**

It is obvious that the costs associated with running a family office will be linked to the range of services provided, location and size of any premises and the number of staff, among other things.

Advice on costs must be obtained from the right professionals, with particular circumstances in mind. Each family office arrangement must take into consideration the comparative costs of fulfilling a function in-house, against the cost of outsourcing it appropriately. This analysis must be done against the background of the family context. In other words, the family office is not like any other small business. There are multi-generational time horizons that necessitate a longer-term approach to costs management. This is a particularly important balance when it comes to deciding whether to recruit staff or outsource certain functions.

In June 2014, the *Wall Street Journal* reported Pierre-Alan Wavre (head of Pictet's multi-family office) as saying that, "To really get the most cost-effective pricing on investment products and afford the best staff, half a billion dollars in assets is probably a good rule of thumb," when it comes to fixing a threshold.<sup>9</sup>

The same report detailed research carried out by Merrill Lynch and Campden Research, that showed the average cost of running a family office is approximately 0.6% of assets under management.

It remains important to strike a clear balance between controlling immediate cost and assessing the longer-term impact of intelligently-incurred cost, for the benefit of the family over time.

## 9. Sink or swim

If a family office is to succeed, no matter where it is established, everyone affected by it must recognise and accept that it has a key role in protecting, as well as serving its family/ families. In 2006, Family Office Exchange published a "Thought Leaders Compendium" entitled *Recasting the Central Role of the Family Office as Risk Manager*. The analysis centred around the concept of the family office as an early warning system.

The research identified a number of risks that should be anticipated and controlled by any family office that is serious about protecting the family it serves. It is strongly recommended that family offices address these risks, to the extent that they have not already done so:

- the absence of a shared vision for the future
- lack of effective processes around decision-making
- absence of transparent communication within a family
- inappropriate ownership structure of assets
- lack of asset diversification
- poor focus on key family risks

Ultimately, the success or failure of a family office depends largely upon the behaviour, expertise and capabilities of the people within it, balanced against buy-in from the family and its members' willingness to accept change and guidance, where needed. This is particularly true when coping with generational change.

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<sup>9</sup> [online.wsj.com/articles/SB10001424052748704002104575290462495992430](http://online.wsj.com/articles/SB10001424052748704002104575290462495992430).

## 10. Conclusion

Family offices in the UK continue to thrive and there is no sign of contraction in the market. Each arrangement should suit the needs of the family it serves and everyone involved is well advised to remain conscious of the limits of their role.

Returning to where this chapter began: a family office arrangement is best implemented as a function of a family's circumstances. It makes sense only when a family has properly assessed its needs and the costs of meeting them. It is as important to know when a family would not benefit from one as when it would. There must be a vision shared by the family and implemented dynamically over time by anyone advising or working with the family.

Frank Stangenberg-Haverkamp is the chairman of the executive board of E Merck KG. He is also a member of the 11th generation of the family that controls the company. Here is what he has to say about family offices:

*When a family has invested everything in their company and there is no money lying around in need of an investment then you are not in need of a family office.<sup>10</sup>*

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<sup>10</sup> [online.wsj.com/articles/SB10001424052748704002104575290462495992430](https://online.wsj.com/articles/SB10001424052748704002104575290462495992430).