



The Family Investment Office: Running Wealth as a Business
Why the Rockefeller's financial approach isn't just for the mega-rich

No matter where family wealth comes from, it arrives escorted by the same 800 pound gorilla – the inevitable question of how and where the assets should be managed and invested, and by whom.

It's a good question. As the wealth management industry grows ever larger, more diverse and more competitive, families of means are barraged by organizations anxious to shepherd their financial assets. From monolithic national brokerages to boutique money managers touting exotic computer algorithms, many forks seek a piece of the wealth pie.

All of these organizations boldly claim to have only the client in mind, waving marketing mantras such as “customized portfolio tailored to reflect the unique needs of the client's family.” But wealthy individuals must evaluate these claims against reality in choosing who, really, is best equipped for the important job of managing one's financial matters. This evaluation can be an eye opening experience – in truth, many of these organizations are structured and operated in ways that do not align very well with the intrinsic needs of wealthy individuals, and their “custom” solutions are not always as custom as they sound.

One option, however, is emerging as more custom, more attentive and more attractive for this discriminating market segment. This appealing alternative – the family investment office – has flourished in recent years. Last year, assets managed by family offices grew three times as fast as those managed by Morgan Stanley and Merrill Lynch.

Today's family office model – a derivative of the approach pioneered by the Rockefellers and other iconic families of wealth – relies heavily on one simple and compelling idea: Family wealth should be managed like a family business.

One Roof. Singular Purpose.

The family office consolidates a broad range of financial services under one roof, seeking not only to optimize the management of family assets, but also to make the process simpler, less time-consuming and more private for family members. Family offices vary in scope, but generally offer services as diverse as investment planning and implementation, consolidated financial statements and reports, estate and trust services, insurance management and philanthropic services. Many pay bills and safeguard important documents for the family. Some become involved in family real estate matters. And some offer true concierge-style service, arranging last-minute travel, shopping for anniversary gifts and securing tickets behind home plate.

Generally only the wealthiest families, with assets in the billions, have their own full-service family offices. Multi-family offices are more common, where a single staff serves the needs of several to several dozen families.



Wealth as a Family Business

“Family business” – these two words capture the ideal approach to managing family wealth. They identify the two inextricable elements of family wealth management – the delicate interplay of personal and professional aspects of wealth.

Wealth is serious business. Managing assets of 10, 25, 50 million dollars is no do-it-yourself undertaking; such assets merit specific and tangible goals, careful strategy, talented and accountable leadership, world class data systems, vigilant oversight and a culture of continuous improvement. In short, family assets deserve the same professional attention and expertise that valuable business assets do. Treating these assets in any other fashion is an affront to the hard work that produced them, whether yesterday or generations ago.

But wealth is family too. Wealthy families seek a level of service and propriety that goes beyond the dispassionate mechanics of operating a business. Wealthy families value privacy, personal connection, continuity and predictability. Decisions about family money involve not only standard financial metrics but also life issues that may involve complex family dynamics, philanthropic interests and other items that do not fit neatly into consolidated financial statements. Time horizons for family wealth management are measured not only in quarters and years, but also in generations.

Approaching wealth as a family business harnesses the most sophisticated investment and financial planning methodologies, while staying true to the values and desires of the family. Family investment offices are designed from the ground up to do exactly this, integrating many diverse but interrelated disciplines – from portfolio and risk management to tax optimization and estate planning. Essentially, a family office runs the client’s wealth business on behalf of the family, where the client is the chairman of the board, but is not involved in the day-to-day minutia that operating such a company entails. One of the most important outputs of this business is peace of mind for family members that assets are being utilized and protected in accord with their wishes.

Symmetry of Interests

Why is the popularity of the family investment office surging today? In many ways, the success of this model reflects the limitations of the traditional alternatives – primarily brokers, private bankers and money managers.

Without question, the traditional managers of wealth provide valuable services, and often enhance those services to meet the higher expectations of their wealthiest clients. However, the basic business models of those organizations conflict with the family business concept in several important ways.

- **Structure** - First and foremost, these businesses are...businesses. They must satisfy shareholders and multiple tiers of management, all intently focused on short-term growth and profitability goals. They seek to stand out in the market by beating their peers quarter-to-quarter. And ultimately they are



businesses that make money by selling their own wares – including mutual funds, money management services and other proprietary, closed-end products. The basic structure of these organizations serves the interests of owners, not clients.

- **Staffing** - Likewise, these are businesses with employees, often thousands of employees, who compete with one another to bring in the most fees; seek to please multiple bosses up the line and, often, watch the classifieds for opportunities to make more elsewhere.
- **Size** - The big banks and brokers continually seek to be even bigger, through merger, acquisition and aggressive marketing. This growth obsession pays no benefit to each client, and only increases the distance between the CEO and the families the business intends to serve.

In general, the traditional avenues available to manage large portfolios fail to deliver the symmetry of interests – the shared values and perspective – that are most important to wealthy families. Wealthy families value the personal connection, continuity and privacy that comes from working with a small, consistent team driven by the aspirations of the family, not the direction of distant executives and shareholders.

Family investment offices have emerged as the best option for meeting the high expectations of this market segment by thinking and behaving like family businesses.

<i>Wealth Management Models</i>	Brokerage	Money Manager	Family Office
Business Model	Produce and sell investment products	Sell portfolio management	Serve complete financial needs of client for a fee
Time Horizon	Quarterly/ Annually	Quarterly/ Annually	Generations
Success defined by:	Shareholders/ public share price	Investors/ owners	Client
Source of growth	Marketing	Marketing	Referral and investment compounding
Mentality	Institutional	Institutional	Individual, service-oriented and structured

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