SINGLE FAMILY OFFICES
A TALE OF TWO GENERATIONS

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THE FAMILY OFFICE ASSOCIATION

A Tale of Two Generations

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EXECUTIVE SUMMARY

For the ultra-wealthy and more so the super-rich, single family offices are becoming the preferred means to manage their financial assets and other aspects of their lives. With the growth of the cohort – in numbers and size of wealth – interest from senior executives at single family offices and the array of prospective providers is escalating.

An area that has received relatively little attention is the differences between 1st generation and 2nd generation single family offices. There are a number of key areas where meaningful differences exist between the generations:

Focusing on Family Harmony
At many 1st generation single family offices there is a greater focus on promoting family harmony. Furthermore, senior management at 1st generation single family offices is more inclined to engage outside experts for this purpose.

Operational Family Involvement
Proportionately more family members are senior executives at 2nd generation single family offices. The founding ultra-wealthy family is more inclined to entrust carefully selected professionals to run their single family offices.

Passing the Baton
Both generations have taken steps to address the financial and legal transfer of their single family offices. However, there are a much greater percentage of senior executives at 1st generation single family offices that are attentive to implementing a formal operational succession plan.

Focusing on Philanthropy
In 2nd generation single family offices, the entity plays a greater role in the ultra-wealthy family's charitable activities. Meanwhile, senior

BY THE GENERATION

There are a number of key areas where meaningful differences exist between the generations of family offices.

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executives at 1st generation single family offices are more likely to use the services of philanthropic advisors.

Use of External Experts for Investment Management

Senior executives at 1st generation single family offices are more likely to engage external experts for investment manager search, selection, and monitoring as well as performance measurement and review than senior executives at 2nd generation single family offices. Both generations are inclined to perform the asset allocation function in house.

Beyond the Single Family Office: Interested in Becoming or Establishing a Multi-Family Office, or Providing Investment Expertise

Senior executives report the ultra-wealthy family at 2nd generation single family offices are more interested in making their expertise and capabilities available to other ultra-wealthy families. Their prime motivation is profit supported by an ability to leverage their investment acumen and competencies. For senior management at 1st generation single family offices, the appeal to open their doors is being driven by other ultra-wealthy families approaching them.

Sourcing External Experts

The most pronounced way senior management from either generation sources external experts is from referrals provided by professionals they are working with or are highly confident in. At 1st generation single family offices, previous experience and relationships with external experts is many times important. For senior executives in 2nd generation single family offices, self-directed research and referrals from senior executives at other single family offices as well as networking is often important.

For single family offices to be very successful and for the array of professionals and other providers seeking to work with them to be successful usually requires a solid understanding of the nature of single family offices and the ecosystem in which they operate.

The growth in the number and the amount of wealth controlled by single family offices is considerable and likely to increase in the future. There are a number of reasons for this including:

• The proliferation of ultra-wealthy families, especially super-rich families (net worth = US$500 million or more). The aggregate amount of private wealth is multiplying at a faster rate than ever before.

INDUSTRY GROWTH

The aggregate amount of private wealth is multiplying at a faster rate than ever before - the rich are getting disproportionately richer than ever before.

• The ultra-wealthy and the super-rich are financially distancing themselves from the masses as well as from the wealthy. In other words, the very rich are getting disproportionately richer compared to everyone else.

• The ultra-wealthy and the super-rich prefer engaging professionals truly dedicated to addressing and solving their needs and wants. While other types of providers exemplified by private banks, multi-family office, and some accounting and law firms can deliver many of the same services and products, only the single family office is completely dedicated to exceeding the expectations of their one client.

TREND WATCH

The trend of more and diverse single family offices is going to accelerate.

There are strong indications that the trend of more and diverse single family offices is going to accelerate. The dynamics surrounding this cohort often change quickly, which is a function of a very vibrant investment and professional services environment coupled with organizational entities (i.e., high-functioning single family offices) that are progressively structured and operated to be highly flexible and exceptionally responsive.

Related to the growth and adaptability of single family offices, is the recognition that while more of them are being formed, a percentage of founders are at the point in their lives when they have or are in the process of handing the reins over to the next generation. Because of the role and nature of single family offices, there is considerable overlap and consistency of deliverables among the two generations. However, here are areas of divergence – the focus of this report.

DEFINING SINGLE FAMILY OFFICES

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NOTES ABOUT THIS STUDY

Definitions of single family offices vary. For the purposes of this study a single family office is:

- A separate legal entity catering to the desires, requirements, and preferences of one ultra-wealthy or super-rich family.
- Identified by the ultra-wealthy or super-rich family and senior management as a single family office.
- Delivering directly or through accomplished professionals while providing oversight, investment management expertise.

There are also many ways to segment the single family office universe such as by the location of the operating entity and managerial structure. What has rarely, if ever, been considered is empirically examining single family offices based on the controlling generation. As documented below, there are circumstances where there are meaningful differences between the generations.

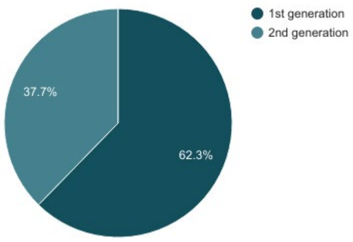
A SAMPLE OF SINGLE FAMILY OFFICES

Although it is widely believed that single family offices are experiencing unprecedented growth, because of their nature it is impossible to accurately quantify their number or the wealth they control, the general consensus of the ultra-wealthy as well as the professionals catering to them is that the industry is booming.

In extensively researching single family offices, it is apparent that most of them are relatively newly established. The individuals – the wealth creators – who have amassed sizable personal fortunes created them and are presently in control. By and large, these financial titans have a significant say in the direction and sometimes the operation of their single family offices.

With the intent of comparing the generations, employing a chain-referral sampling approach, a sample of 1st and 2nd generation single family offices was developed (Exhibit 1). Slightly more than three-fifths of the single family offices are controlled by the creating generation – the 1st generation. The remaining nearly almost two-fifths of the single family offices are controlled by the 2nd generation – the inheritors of the original creators of their single family offices.

Exhibit 1: Generation of Family Offices in Study



What is important to note is that, in this segmentation model, to be defined as a 2nd generation single family offices, the founders of the single family offices (i.e., 1st generation) had relinquish control and ownership to their heirs (i.e., 2nd generation). Unless there was a legal transfer between the two generations, the entity is defined as a 1st generation single family office.

Without question, there are numerous methodological complications when researching single family offices. It is important to keep in mind that surveys of single family offices are principally business-to-business surveys. Moreover, the potential universe of survey respondents is constructed using chain-referral sampling. Critically, there are most probably a large number of single family offices that are basically invisible and are therefore impossible to survey.

KEEP IN MIND

There are most probably a large number of single family offices that are basically invisible and are therefore impossible to survey.

Difficulties in conducting research are potentially exacerbated when looking at single family offices beyond the 1st generation. For example, there is the strong possibility of survivorship bias.

Nevertheless, for the senior management of single family offices and the professionals that cater to these boutique organizations, understanding the distinctions between 1st generation single family offices and 2nd generation single family offices can be extremely worthwhile. Although there are sample size constraints with this survey (as with all surveys of single family offices), a number of very clear distinctions can be made between the two generations.

The areas where there are meaningful differences between the generations that are addressed include:

- The importance and actions to ensure family harmony.
- The degree of operational involvement the family has in their single family office.
- The level of preparation in place to ensure the effective transferring of the single family to heirs.
- The degree to which the family is focused on philanthropy and engages philanthropic advisors.
- The use of external experts in managing the family's financial assets.
- The level of interest in becoming or establishing a multi-family office, or providing investment expertise to non-family ultra-wealthy individuals.
- The ways the two generations select external experts.

Before examining these areas, it is worth comparing the financial assets being controlled by each generation.

ASSETS UNDER MANAGEMENT

Overall about half of the surveyed single family offices were managing between US$500 million and US$1 billion (Exhibit 2). The remaining single family offices were pretty evenly split managing between managing US$250 million and US$500 million or managing more than US$1 billion.

These relationships change when considering the two generations. The 1st generation is wealthier than the 2nd generation. Nearly 30 percent are managing US$1 billion or more. About 60 percent have between US$500 million and US$1 billion under management. The remaining almost 15 percent are managing between US$250 million and US$500 million.

In the 2nd generation single family offices, however, nearly half of them are managing between US$250 million and US$500 million. About a third are managing between US$500 million and US$1 billion. The remaining fifth of them have US$1 billion or more under management.

Exhibit 2: Assets Under Management by Generation

Assets Under Management	1st Gen	2nd Gen	Weight Avg
US $250-500M	13.7%	45.3%	25.6%
US$500M-1B	56.5%	34.7%	48.2%
US$1B+	29.8%	20.0%	26.2%

N = 199 single family offices

A potential contributing factor to the differences in assets under management between generations is the dilution of wealth due to distributions to family members. When the single family office is passed down to heirs, some inheritors may disengage taking their inheritance and managing it with other professionals and not their "parents'" single family office. This might entail setting up their own single family office provided the costs establishing and managing one are justified. Many times it entails turning to multi-family offices and, to a lesser degree, other providers. This lesser amount of financial assets might be a factor in a greater percentage of the 2nd generation seeking to convert to or establish a multi-family office or provide their investment expertise to non-family individuals (see above).

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#01. SECTION 1

FOCUSING ON FAMILY HARMONY

FRAMING THE CONVERSATION

"Family harmony can be assured only when the focus is on the individual rather than the family. A monolithic vision of family suffocates individual members and leaves them feeling they have no freedom. Harmony occurs when every family member is encouraged to self-actualize, to be all he or she can be, free of any constraints dictated by 'family.' Governance, legacy, and expectations should all be designed to send the message that family success is rooted in the success of every individual, each chasing his or her own dream."

- Charles A. Lowenhaupt, Chairman, Lowenhaupt Global Advisors

"Recent EY research shows that the most important factor leading to failed family business succession is a lack of harmony and trust within the family unit. Single family office executives – together with qualified professionals – can work with the family to align expectations and disparate values to build family cohesion. Family cohesion will support the family legacy and most often leads to growth and success."

- Jonathan Carrol, Executive Director Private Client Services, Family Office Advisory Services, EY

The ability of family members to get along and be supportive is probably a goal of many families irrespective of their wealth. The senior executives of slightly less than half the single family offices noted that there is a strong desire from the ultra-wealthy or super-rich family for family harmony.

It is very easy for family conflicts to disrupt and sometimes destroy significant family fortunes. The ability make sure all the key family members are on the same page when it comes to major decisions can be critical to the success of the single family office including the maintenance or growth of their fortunes.

What is very telling is the generational difference between single family offices (Exhibit 3). In 1st generation single family offices, nearly two-thirds of the senior executives report the ultra-family is very concerned with family harmony. In contrast, only five percent of senior executives in 2nd generation single family offices say the ultra-family is similarly very concerned.

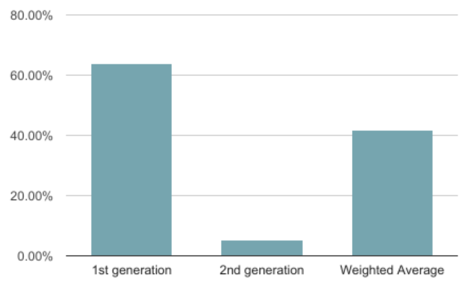
There is a major transition when single family offices are passed to the next generation. Very often the founder wants to hold his or her family together. This is much less likely to be the case with the heirs who many times have different perspectives from their parents. As noted, disgruntled inheritors may very well, if possible, disengage from the single family office potentially eliminating the issue of taking steps to promote family harmony.

A NOTE ON HARMONY

In cases where the first generation creates legal structures and trusts to strongly influence how families interact in the future, the question of harmony may be moot.

Another reason family harmony is less of a concern in the 2nd generation is that it is fairly common practice for the founders of family offices to structure the single family office and their wealth by using trusts and other corporate entities in ways that strongly influence how the family will interact in the future. In these scenarios, family harmony is made moot as matters of control are set by the legal structures.

Exhibit 3: Percentage of Senior Executives Saying Family is Concerned with Harmony



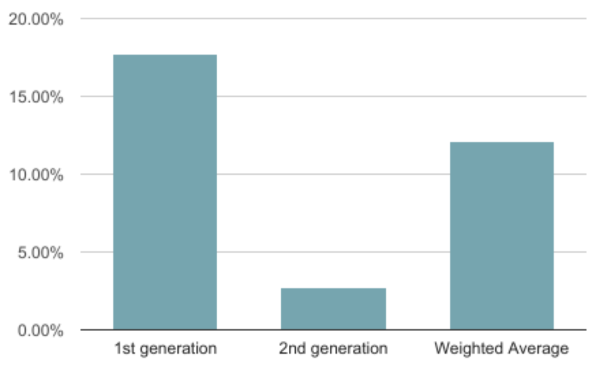
N = 199 single family offices

Relatively few senior executives at single family offices have engaged a professional to facilitate harmonious relationships between family members (Exhibit 4). However, again there is a decided difference between the generations.

Less than a fifth of senior management of 1st generation single family offices and less than three percent of the senior executive at 2nd generation single family offices hired family consultants to deal with this matter. A family consultant is an over-arching term encompassing life coaches, family therapists, family business consultants, and other professionals paid a fee to deal explicitly and exclusively with family conflicts and facilitating family harmony.

While most single family offices are not specifically hiring professionals to address matters of family harmony, many times other professionals such as wealth managers, bankers, attorneys, and accountants are involved in dealing with these issues. Technically, while not being directly paid for this service, their work on facilitating family harmony is intertwined with their core expertise.

Exhibit 4: Have Engaged Outside Experts to Facilitate Family Harmony



N = 199 single family offices

#02. SECTION 2

OPERATIONAL FAMILY INVOLVEMENT

FRAMING THE CONVERSATION

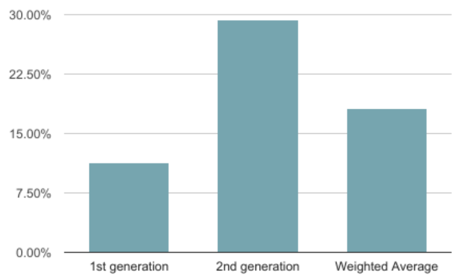
"We're seeing that for many heirs the family office is becoming their family business. Consequently, a growing percentage of them are taking a hands on approach to running their family offices, which can be very beneficial for family members."

- Richard J. Flynn, Co-CEO and founder, LVW/Flynn

In all single family offices, it is common for the ultra-wealthy family to have considerable oversight. This includes setting broad strategy and making key decisions. It also, very importantly, includes addressing the acquisition and compensation of talent such as senior management and other key personnel (e.g., dedicated investment professionals).

With respect to who is running and responsible on a day-to-day basis for the operations of single family offices, there is a clear distinction between the two generations (Exhibit 5). Overall, nearly one in five ultra-wealthy family members are senior executives in their single family offices. This is the case for a little more than ten percent of them in 1st generation single family offices. However, about 30 percent of ultra-wealthy family members are senior executives in 2nd generation single family offices.

Exhibit 5: Family Members as Executives by Generation



N = 199 Single Family Offices

In the first generation, the ultra-wealthy family creates an entity to address financial and lifestyle concerns – the single family office. They generally turn to outside professionals to manage their single family offices. It is not their area of expertise and they are inclined to take a strategic and oversight role. At the same time, many of them still have operating businesses to run – the source of their fortunes – or prefer to involve themselves in charitable or personal pursuits.

For a number of inheritors, the single family office is their family business. They are much less likely to be involved in other family business ventures. From formal and informal training and education to a desire to ensure their fortunes to not having other viable options, a greater percentage of inheritors gravitate to running their 2nd generation single family offices.

#03. SECTION 3

PASSING THE BATON

FRAMING THE CONVERSATION

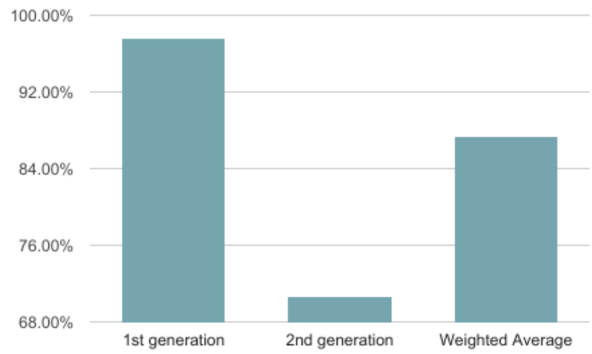
“In operational succession planning where the next generation will be tasked with running the single family office, it is not sufficient to simply identify which members of the next generation will be active in operations. It is essential that the outgoing generation define each participating family member’s respective role and responsibilities. That determination should be made based on the role best-suited for each family member, which does not necessarily correspond to his or her level of ownership or economic participation in the family office. By involving family members early in the succession planning process and openly communicating the plans with them, the outgoing generation will greatly increase the likelihood of a successful hand-off to the next generation.”
- R. Scott Beach, Chair of the Family Office Practice at Day Pitney LLP.

“With only 40% of single family offices having a formal operational succession plan, significant look-forward concerns exist for families that do not. Loss of focus on goals, family disharmony, and wealth dissipation are often side effects of poorly performed core operations. Even where such plans exist, single family offices are often vulnerable to key-personnel risk and continuity of organization issues. Families can avoid such risks by outsourcing the operational aspects of the family office on a long-term basis, allowing the family more time and ability to focus “passing the baton” on key financial and investment plans, philanthropic excellence, and ensuring family harmony, the parts of succession planning that are more difficult or impossible to outsource.”
- Kenneth M. Eyler, CPA, MBA, Member - Family Office Services, Arthur Bell CPAs

Single family offices are in many ways family business, where the day-to-day operations of the office are often the responsibility of hired talent (see above). Nevertheless, like family businesses, an often-critical consideration for many of them is transferring the single family office and the affluence of the ultra-wealthy family to the succeeding generation.

Overall, nearly nine out of ten single family offices anticipate handing the reins to the next generation (Exhibit 6). Senior management at 1st generation single family offices expects the ultra-wealthy family to pass the baton. Comparatively, only 70 percent of senior executives at 2nd generation single family offices anticipate a transition to the next generation.

Exhibit 6: Plan on Transferring the Single Family Office to the Next Generation

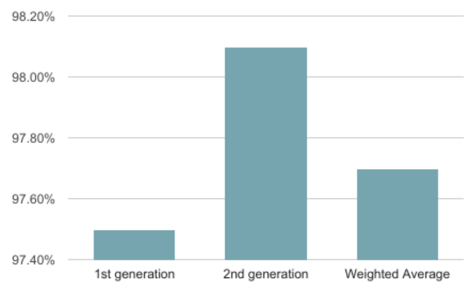


N = 199 single family offices

With the intent of transferring control and ownership of the single family office to the next generation, there are two major considerations – financial and operational. The former addresses ownership concerns in the context of taxes, legal control, and related issues. The later deals with matters such as management structure and ensuring the expertise to run the single family office is in place.

Having a formal financial succession plan is characteristic of nearly all the single family offices (Exhibit 7). Very often, the formal financial succession plan is interlaced with or subsumed under the estate plan. This does not mean that as part of the estate plan there are times when the ultra-wealthy family that owns the single family office is not transferring ownership, usually incrementally, to the next generation during their lives. It is just that built into their estate plans are the final transfer of ownership rights.

Exhibit 7: Formal Financial Succession Plan in Place



N = 174 single family offices

In some cases, the founders – the 1st generation single family offices – structured the financial succession plans of 2nd generation single family offices. In their estate plans, with attention to dynastic concerns, the founders has implemented structures and wishes to ensure the transfer of ownership across multiple generations. This impacts their concerns surrounding the desire for family harmony (see above).

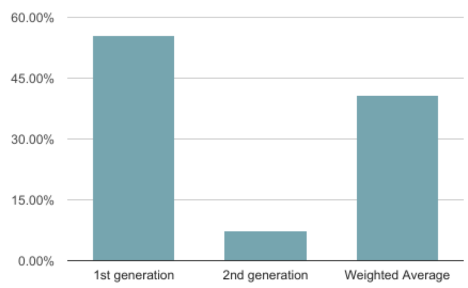
SUCCESSION PLANS

It's important to understand that while formal, legal succession plays may exist, they are often outdated and have not been evaluated.

All in all, the viability of these formal financial succession plans has not been evaluated. In other words, many times the ultra-wealthy have not capably addressed the matter of financial succession. Generally speaking, it is not uncommon for estate plans to be dated. And, while an array of wealth managers and tax professionals regularly push to get this type of planning done and updated, not all of them are adept and knowledgeable concerning the compilation of strategies and possibilities available to those with Croesus wealth.

While formal financial succession plans – good or bad – are in place, the same is not the case for formal operational succession plans (Exhibit 8). Two-fifths of the single family offices where the intent is for the subsequent generation to take over are engaged in systematic actions to prepare the next generation. More than half of senior executives at 1st generation compared to only seven and a half percent of senior executives at 2nd generation single family offices have implemented formal operational succession plans.

Exhibit 8: Formal Operational Succession Plan in Place



N = 174 single family offices

Overall, 40 percent taking such action can be considered low. Without a clear direction for running the single family office, there is great possibility they can falter. As for the 2nd generation, it is evident that many ultra-wealthy families do not see a need to presently prepare the heirs. The fact that the 2nd generation might have relatively recently taken control coupled with the probability that the 3rd generation might be young can contribute to a lack of interest in formal operational succession plans.

#04. SECTION 4

FOCUSING ON PHILANTHROPY

FRAMING THE CONVERSATION

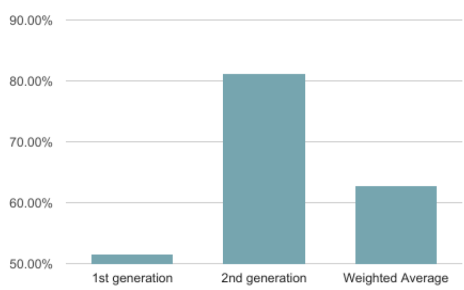
"st generation families tend to look for traditional philanthropic advising. I find that 2nd generation families seek more creativity within their grant making and with their endowment investment approach. 2nd generation is more aware of the power of leveraging those philanthropic dollars."

- Julie Shafer, Head of Strategic Philanthropy & Purpose Investments, Bank of the West Wealth Management / BNP Paribas

While about half of the single family offices are very or extremely involved in philanthropy, four out of five of the 2nd generation was so involved compared to about half of the 1st generation single family offices (Exhibit 9).

This does not necessarily mean the ultra-wealthy families were not extremely philanthropic, but that their charitable activities were not run through their single family offices. For example, some ultra-wealthy families have private foundations that are not connected to their single family offices. This tends to be more common with wealth creators than wealth inheritors. Nevertheless, the 2nd generation is generally highly focused on philanthropy and they more regularly run the activities of their private foundations in conjunction or through their single family offices.

Exhibit 9: High Philanthropic Involvement



N = 199 single family offices

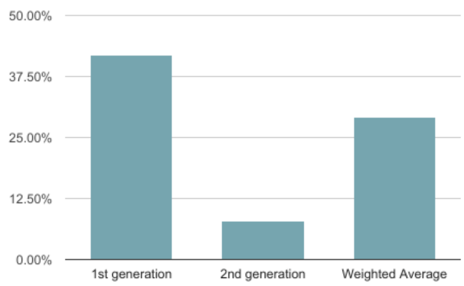
What is insightful is the extent to which the two generations have employed philanthropic advisors who are professionals that assist them in thinking through which charitable causes and nonprofits to support. The philanthropic advisors are rarely the professionals that will help them address the tax implications of their giving. To deal with the tax considerations, wealth managers, accountants, and attorneys are usually the go-to professionals.

BY THE GENERATION

First generation family offices are overwhelmingly more likely to see the help of outside philanthropic advisors than are generation 2 offices.

Overall 30 percent of the senior executives at single family offices engaged philanthropic advisors at one time or another (Exhibit 10). However, the differences between the generations is considerable with more than two out of five senior executives of 1st generation single family offices having engaged philanthropic advisors compared to less than ten percent of senior executives at 2nd generation single family offices hiring these professionals.

Exhibit 10: Use of Philanthropic Advisors



N = 199 single family offices

Many of the wealth creators, the founders of single family offices are more wrapped up in creating the family fortune that regularly involves growing the family business as well as other profit making ventures. Their involvement in philanthropy although potentially intense is quite often not their highest priority. As such, in order to help them accomplish their charitable goals, a percentage of them are turning to philanthropic advisors. In contrast, the heirs whether because they have been brought up in a charitably inclined family, have experience and learned from philanthropic advisors or other professionals employed by their parents, or have had the resources, insights, and opportunities to craft their own philanthropic visions do not see the need to engage philanthropic advisors.

#05. SECTION 5

EXTERNAL EXPERTS FOR INVESTMENT MANAGEMENT

FRAMING THE CONVERSATION

"The current generation of senior family office executives obviously has a much larger number of tools in its collective arsenal to supervise the family's investment domain. However, there will always be instances in which a family may feel challenged by the depth and breadth required to manage effectively all of their investments in-house, in which case discreet aspects of the family office asset management function may be properly outsourced."

- Marc J. Halsema, Managing Director and Senior Family Office Advisor with Fieldpoint Private in New

"Many family offices turn to outside investment specialists for a variety of services and expertise. This is especially the case when it comes to some of the more sophisticated solutions such as customized private placement insurance and mitigating investment taxes by implementing bright line cross-border arbitrage strategies."

- Richard J. Flynn, Co-CEO and founder, LVW/Flynn

Single family offices are, by definition, intended to address the investment management concerns of an ultra-wealthy family. All the survey respondents at the single family offices identify investment management as being extremely important. However, differences were apparent between the generations when considering the roles of external experts (Exhibit 12).

Overall, asset allocation is a function nearly all single family offices perform in-house. A little more than five percent of senior executives at single family offices rely on external experts for asset allocation. Eight percent of senior executives in 1st generation and just about one percent of senior executives in 2nd generation single family offices turn to external experts for this service. Without question, even with more and more examples of outsourced chief investment officers providing services to single family offices, presently asset allocation is usually done in house.

Slightly more than a quarter of senior management of single family offices are employing external experts to help them with investment manager search, selection, and monitoring. This is the case for a third of senior executives in 1st generation single family offices and thirteen percent of senior executives in 2nd generation single family offices.

Lastly, 30 percent of senior executives of the single family offices are using external experts in performance measurement and review. While 40 percent of senior executives of 1st generation single family offices are doing so, only 15 percent of senior executives of 2nd generation single family offices are engaging external experts for this service.

Exhibit 11: Roles of External Experts for Investment Management Services

External Expert Area	1st Gen	2nd Gen	Weight Avg
Asset Allocation	8.1%	1.3%	5.5%
Investment Manager search, election and monitoring	33.9%	13.3%	26.1%
Performance Measurement/Review	39.5%	14.7%	30.2%

N = 199 single family offices

BY THE GENERATION

First generation family offices seem much more likely to seek out the help of outside advisors across all areas surveyed.

What is important to recognize is that involvement can mean handing the responsibility over to external experts or working very closely with them or having these external experts provide information and guidance which might or might not be incorporated into the decision-making calculus at the single family office. Thus, it is impossible to discern the amount of influence external experts have in these situations. This said, what is very evident is that, when it comes to investment management services, senior executives of 1st generation single family offices are much more inclined to employ and likely rely on external experts.

Senior executives in 2nd generation single family offices – where there are a higher percentage of family members directly involved – are more inclined to "run the money" themselves. As noted, in many cases for the inheritors, the single family office is their core business. It is what they want to develop and grow. Consequently, the heirs are more often looking for

#06. SECTION 6

BEYOND THE SINGLE FAMILY OFFICE

FRAMING THE CONVERSATION

"As many inheritors of family offices are looking for ways to create value, some of them are opening their doors to other ultra-wealthy families. This is a trend that is likely to accelerate with the continued expansion and evolution of family offices."

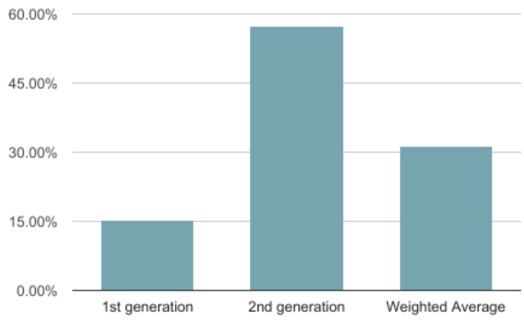
- Richard J. Flynn, Co-CEO and founder, LVW/Flynn

In evaluating the investment returns of many single family offices it is apparent that they often represent "smart money." That is, many single family offices have been able to produce superior investment returns over extended time frames. Some family members and non-family senior executives see this as an opportunity to expand and bring in additional ultra-wealthy families as clients. The result is:

- Becoming or establishing a multi-family office, or
- Creating investment products that accepts non-family monies, or
- Both

Slightly more than 30 percent of senior management said there was interest in becoming or establishing a multi-family office, or providing investment expertise in the form of products such as a fund to ultra-wealthy non-family clients (Exhibit 12). This can involve maintaining the existing single family office and creating new structures such as a "cousin" multi-family office or an investment fund. Whereas 15 percent of senior executives in 1st generation single family offices say the ultra-wealthy family has expressed interest in going in this direction, nearly 60 percent of senior executives in 2nd generation single family offices say the ultra-wealthy families are interested in the possibility.

Exhibit 12: Interested in Becoming or Establishing a Multi-Family Office or Providing Investment Expertise



N = 199 single family offices

BY THE GENERATION

Second generation offices have more interest in connecting to become multi-family offices.

The most prevalent reason for going in this direction is profit (Exhibit 13). Almost three-quarters of the senior executives say the motivation is to capitalize on the investment prowess and other services of the single family office in order to make money. This is the dominant motivation of the ultra-wealthy family in 2nd generation single family offices and appealing to about a fifth of ultra-wealthy families in 1st generation single family offices.

Almost two-thirds of the senior executives report that the ultra-wealthy families see the opportunity to leverage the investment expertise and capabilities of their single family offices. This is the case in a quarter of the senior executives in 1st generation single family offices but four out of five of the senior executives in 2nd generation single family offices. A related unobtrusive indicator is that in 2nd generation single family offices there is a greater focus on having investment management expertise in house (see above).

While nearly two out of five senior executives in single family offices reported that they or members of the ultra-wealthy family has receiving serious interest from other ultra-wealthy families is a strong reason they are considering a multi-family office structure or making certain investment capabilities available to non-family members. This is very much the case for 1st generation single family offices as nearly 85 percent of them are finding other ultra-wealthy families interested in what they are accomplishing. In contrast, only about 16 percent of 2nd generation single family offices finding the same reaction from other ultra-wealthy families.

Exhibit 13: Motivations to Become a Multi-Family Office or Providing Investment Expertise

Motivation	1st Gen	2nd Gen	Weight Avg
Profit	21.1%	95.3%	72.6%
Leverage Investment Expertise/Capabil-ities	26.3%	81.4%	64.5%
Interest from Other Ultra-Wealthy Families	84.2%	16.3%	37.1%

N = 62 single family offices

A small but meaningful percentage of ultra-wealthy families are considering converting or adding a multi-family office structure, or enabling other ultra-wealthy families to access their investment capabilities. For 1st generation single family offices the impetus is a function of other ultra-wealthy families wanting to access their proficiencies. In the case of 2nd generation single family offices the primary drivers are profit and the ability to leverage their investment acumen. Either way, there are likely to be an increasing number of single family offices that open their door in various ways to very wealthy non-family members.

FAMILY OFFICE ASSOCIATION

#07. SECTION 7

SOURCING EXTERNAL EXPERTS

FRAMING THE CONVERSATION

"Families may wish to consider additional sources of independent expertise covering a wide spectrum of disciplines, most especially when it comes to preserving and safeguarding the family's fortune as it passes to its heirs."

- Marc J. Halsema, Managing Director and Senior Family Office Advisor, Fieldpoint Private in New York

Senior management at single family offices engages external experts for a number of functions and solutions. Previous research shows strategic outsourcing is becoming increasingly the norm. There are a number of interrelated reasons for this including:

ACCESSING THE BEST OF THE BEST

Ultra-wealthy and especially super-rich families, like most everyone else, want to work with the most talented and capable professionals possible. Moreover, they have the financial resources to pay for the best that, very often, will not commit all their time and effort to a single family. Therefore, to engage these specialists entails doing so on an as needed basis.

EXPENSE MANAGEMENT

Leading authorities tend to be costly. At the same time, many of them are not required except in particular situations. Consequently, it is more cost effective to hire these external experts when their services are required than having them in house.

ABILITY TO CONCENTRATE ON CORE COMPETENCIES

Most single family offices are designed around certain core competencies. It is often more efficacious for senior management to focus on these functions and deliverables, strategically outsourcing and overseeing other expertise.

OUTSIDE EXPERTS

30% of senior management at SFOs turn to external experts with whom they have had previous good experiences.

What is evident is that senior management at single family offices turn to the professionals they are presently working with and have a lot of faith in to identify and provide introductions to high-caliber external experts (Exhibit 14). This is the case at about nine out of ten single family offices and there is no difference between the generations. As for other methods of sourcing external experts, none of them are as extensively employed as referrals from other professionals and differences between the generations become apparent.

Thirty percent of senior management of single family offices is turning to external experts with whom they have had good previous experiences. They are re-engaging external experts who have proven effective in the past. This is occurring at about 40 percent of 1st generation single family offices. However, only about a sixth of the senior executives at 2nd generation single family offices are inclined to hire previously engaged external experts. This is very likely a function of "cleaning house" and with new ownership comes a new cohort of external experts. It is very much a function of not using their "parents' people."

Exhibit 14: Sourcing External Experts

Method	1st Gen	2nd Gen	Weight Avg
Referrals from other professionals	91.1%	89.3%	90.5%
Previous experience/relationship	41.1%	12.0%	30.2%
Self-directed research	18.5%	41.3%	27.1%
Referrals from other SFO executives	12.9%	44.0%	24.6%
Networking activities/events	9.7%	42.7%	22.1%
Referrals from other people	0.0%	6.7%	2.5%
Unsolicited approach by professionals	0.8%	0.0%	0.5%

N = 199 single family offices

Approaching 30 percent of senior executives in single family offices are vigorously researching their options. They are taking a very proactive approach. This is the case at about two out of five 2nd generation single family offices and at about one out of five 1st generation single family offices.

Referrals from senior executives at other single family offices are instrumental to about a quarter of the senior executives surveyed. This approach to sourcing external experts is much more prevalent at 2nd generation single family offices than at 1st generation single family offices. This is indicative of the fact that the single family office world is evolving and those newer in charge are more readily looking to their peers for best practices and recommendations concerning leading professionals.

In a similar vein, the senior executives at 2nd generation single family offices are much more inclined to "network." In the process of networking they can source external experts. Across the board, there is a strong interest in effective networking. The complication is the ability or lack thereof to connect with individuals who can provide value in one-way or another. Senior executives at 2nd generation single family offices are often making a more concerted effort.

Referrals from other people and unsolicited approaches by professionals are inconsequential to just about all the senior executives in single family offices of either generation. That is why, for instance, obtaining lists of single family offices with the intent of approaching them cold is most times worthless.

TABLE OF EXHIBITS

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Angelo Robles is founder and CEO of the Greenwich CT-based Family Office Association (FOA), an exclusive global membership organization that delivers proprietary thought leadership and solutions to multiple generations of exceptionally wealthy families and the professionals who run their single family offices (SFOs).

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Robles's expertise is often sought by media outlets such as Bloomberg Television, the Wall Street Journal, and Institutional Investor, among others. Robles continues to lead in the SFO community with creative thinking on the future of the family office as demonstrated by his proprietary research, 'best practices and beyond' writing, master classes on family offices, global programming and podcasts.

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ABOUT the

FAMILY OFFICE ASSOCIATION

Family Office Association is a global community of ultra-high net worth families and their single family offices. We are committed to creating value for each family that we serve; value that grows wealth, strengthens legacy, and unites multiple generations by speaking to shared interests and passions. FOA has the resources to solve your most difficult challenges and help you achieve your collective goals: to invest intelligently, give strategically, and learn exponentially.

FOA is the community leader in serving all the key imperatives for ultra-high net worth families, respecting your privacy but enabling an intimate community of global families like yours. Our organization delivers private education and networking opportunities, proprietary research, and access to salient thought leadership that will interest all generations of your family.

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