

STATE OF THE ART FAMILY OFFICES

Family offices are becoming an increasingly common feature of the wealth management market in Europe, the Far East and the United States. A large number of very rich families now use this structure to administer and manage their wealth. Furthermore, for a variety of reasons, family offices seem set to become even more commonplace. This is reflected in the number of wealth management institutions establishing dedicated family

in the near future, not least because it provides a plethora of information on both the aims and objectives of family offices and the manner in which these are realised.

The report contains information on investment priorities; asset allocation and manager selection; performance measurement; how families deal with internal and external service providers; state-of-the-art record keeping and reporting; and details of the most trusted strategic advisers.

Perhaps not surprisingly, given the fact that they all have substantial wealth, the 40 family offices featured in the report have several mutual characteristics as well as a number of noteworthy differences.

FOX found that both European and US family offices share a commitment to growing and preserving assets for future generations and an ongoing interest in

philanthropic activities. They also desire objective trusted advisors and value-based pricing for products and services used in the process of managing wealth.

But they also identified significant differences. Culture, traditions and values vary significantly between Americans and Europeans and this is often reflected in the way in which family offices are operated and managed. Legal and tax considerations tend to be more complex in Europe than in the US. There are also significant differences between family offices based in Europe and the US as far as short and longer-term management priorities are concerned as well as investment objectives and asset allocation.

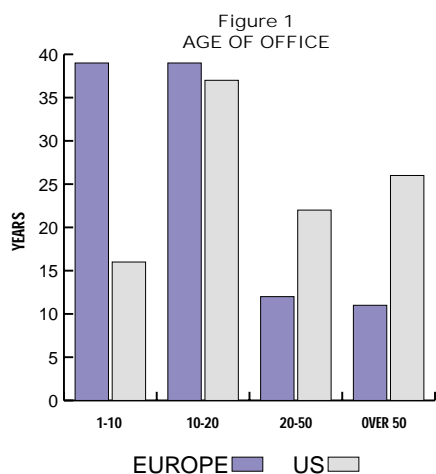
FOX selected the 40 family offices that participated in the study on the basis of

preliminary interviews conducted with a much bigger universe. They were then interviewed in depth by senior FOX consultants. The 20 European offices were drawn from 7 different countries. All 40 participants had liquid investment portfolios of more than \$100 million. In total, the assets controlled by participating offices exceeded \$50 billion. Seventeen (42 percent) of the survey participants were billionaires.

The survey results focus on family office activities in five general categories: mission and current priorities; governance and family leadership; family office management; the investment process and the role of technology. Within each category the survey addressed a number of other issues that influence the effectiveness of the office, its staff and professional advisors.

The participant offices ranged in age from just under one year to more than 200 years. The family office is not a recent invention! Nonetheless, the average age of the US offices included in the survey was 36 years old compared with 36 years for European offices (Figure 1).

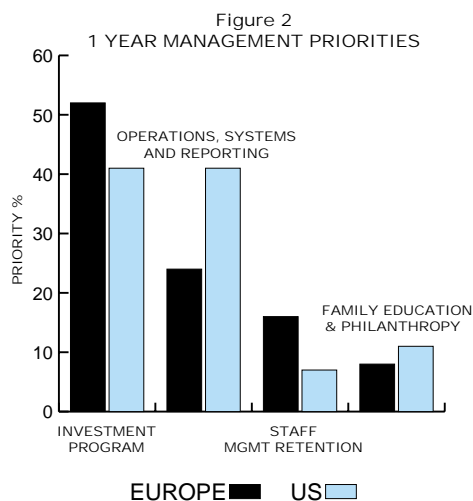
Investment success was the main short-term priority for all participants. This was especially the case amongst the European offices where investment success was ranked as the most important priority by 52 percent of participants (Figure 2). Specific priorities



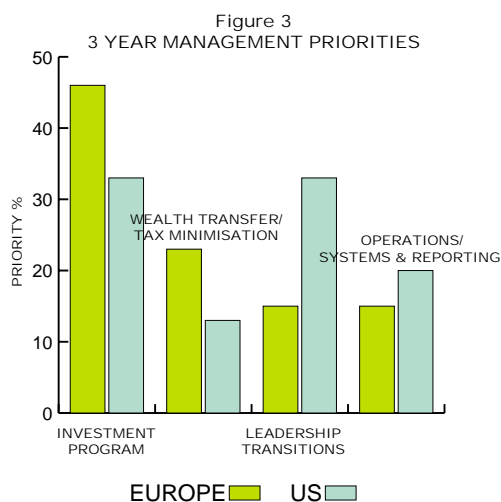
office units. Most private banks of any significance now offer dedicated family office facilities as do a number of accountancy and legal firms.

Like so many elements in the wealth management universe, however, the family office is not a homogeneous entity. Family offices exhibit considerable diversity as far as size, objectives and management are concerned. This is fully illustrated in a new report from the Chicago-based Family Office Exchange (FOX) sponsored by JP Morgan, Pictet & Cie and LGT.

The aim of the study was to identify, explore, compare and contrast family office wealth management practices in Europe and the United States to provide the basis for the creation of a set of clear 'best practice' guidelines for establishing a state-of-the-art global family office. But the report will also be of considerable interest to firms that either currently service family offices or intend to do so



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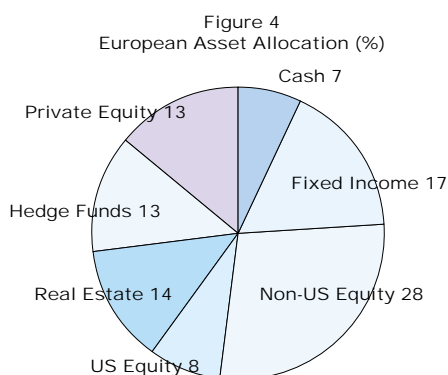


mentioned within this category ranged from formalising a long-term investment plan to reviewing and selected strategic business partners for co-investing opportunities.

Operations, systems and reporting, which includes issues such as enhancing consolidated reporting, was also considered to be important. This was especially the case in the US where these activities were considered to be just as important as investment performance.

Staff management and retention are increasingly mentioned as key challenges faced by family offices. This is perhaps hardly surprising. The demand for experienced high quality professionals has increased significantly over the past five years as a growing number of institutions attempt to either expand or start up their own wealth management operations.

Each of the issues identified as important over the short term also surfaced as priorities over the medium term.



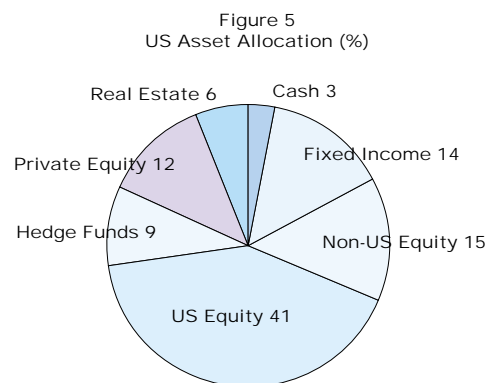
Nonetheless, longer term issues such as wealth transfer/tax minimisation and leadership transition started to assume much greater importance. In the US, for example, leadership transition was considered to be as important as investment success (Figure 3).

The FOX survey reveals that there are significant differences in asset allocation between US and European offices (Figures 4 and 5). European participants' cash allocations are much greater but have greater allocations to hedge funds (13 percent), fixed income (17 percent), private equity (13 percent) and real estate (14 percent). Conversely, US participants had much greater equity allocations.

European family offices also tend to have a much greater international orientation. They allocated twice as much to US equities, for example, as US participants allocated to non-US equity. There were also significant allocations to US hedge funds. Overall, the allocation to US hedge funds substantially exceeded the allocation to European vehicles.

Mary Jane Frederickson, the managing director of FOX, who played a significant role in the survey, admits that both the overall asset allocation and the differences between Europe and the US are the result of a plethora of factors. Some reflect longer-term economic and political developments.

Compared with the US, for example, Europe has been much more unstable politically for much of



the twentieth century. In these circumstances keeping a relatively high proportion of a family's wealth in relatively liquid assets made good sense. Political stability, coupled with greater economic fragmentation, probably acted as a disincentive to equity investment. Similarly, Europe's greater exposure to US hedge funds probably also reflected the limited availability of European hedge funds.

But the asset allocations also reflect the aims, aspirations and needs of the various families covered in the survey. It is interesting to note that both sets of participants have significant investments in relatively illiquid sectors such as private equity and real estate.

"This is symptomatic of the longer-term planning horizon that family offices can employ," said Ms Frederickson. "The greater the underlying assets the longer the planning horizon the family can take. A family with free assets of around \$30 million can probably afford to plan over a 10 year to 25 year perspective. Beyond this level the horizon can stretch to 100 years or more."

For further details of the survey phone Mary Jane Frederickson on (001) 708 848 2030 in the US or e-mail her at mfredrickson@familyoffice.com Alternatively call Ilona Thykier in the UK at (44) 0207 937 8867 e-mail: ithykier@aol.com Source for all charts Family Office Exchange.