



## FAMILY OFFICE SERVICES

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### *An Introduction to Family Offices*

What is a family office? This question is a difficult one to answer given the vast differences that exist from one family office to the next. It has been said that “if you have seen one family office, you have seen one family office.” The most generalized definition is that a family office assumes the day to day administration and management of a family’s financial affairs.

With the dramatic expansion of family wealth in the United States and around the world, family offices are a growing part of the global financial landscape. Early affluent families such as the Rockefellers and DuPonts gave rise to many of today’s U.S.-based private investment companies, family offices, and trust companies. The significance of their wealth led to the evolution of the family office that we know today.

As the number of affluent families increased, so did the demand for full-time professionals with the expertise and skills to serve them. Today, there are an estimated 3,500 family offices<sup>1</sup> in the U.S. managing more than one trillion dollars in assets. Family offices are cited as the fastest growing investment vehicles in the world.<sup>2</sup>

# AN INTRODUCTION TO FAMILY OFFICES

## When to Consider a Family Office

While every family is unique, there are common situations that might call for a family to consider the advantages of establishing a family office:

- Families with privately-owned businesses have established family offices to control ownership and management of an ongoing enterprise. A family office can help the business remain private for future generations and maintain family financial privacy. Establishing a family office can also help separate family wealth, and other managed wealth, from the family business.
- Families that realize a significant liquidity event from the sale of a business or inheritance may form a family office to help administer and manage wealth for current and future generations. It can also be used to educate next generation family members, manage family liquidity, or develop talent for new family businesses. The family office can provide targeted advice and help execute specific tax and wealth transfer strategies.
- Families that own unique, non-liquid assets such as real estate, art, and fine collectibles may establish a family office to help manage and preserve these unique assets. Developing or hiring staff with unique expertise managing these unique assets could benefit the family over the long term.
- The passing or incapacity of the family patriarch or matriarch may require next generation family members to turn to professional advisors or organize a family office to help manage wealth.

## Key Considerations of a Family Office

To consider whether a family office is appropriate, it is important to understand the array of services offered, financial and familial objectives, and potential means to meet those objectives. Let's begin with exploring the full array of services offered to families.

Typically, a family office handles standard wealth management functions, including tax planning, estate planning, and centralized management or oversight of investments. Many family offices provide greater, hands-on support for the family's needs, including philanthropic services, next generation education, family governance, and succession planning.

As families consider why they would want to establish a family office, four main operating tenets should be considered:

- Services required for the family
- How advisory needs will be managed
- The appropriate operating governance
- How ongoing business and estate planning strategies will be maintained

Depending on the family's mission, service needs, professional skill set of individual family members, and their existing advisor network, a family office may be appropriate.

## Family Office Services

The chart below, created by Ernst & Young, provides a simple illustration of the broad range of service capabilities found in many, well-formed family offices.



## Primary Family Office Structures

Consideration and planning for a family office begins with selecting the structure which will best align with a family's needs and goals. The primary decision is whether to create a family office specific to one family's needs, join forces with another family, or to outsource some or all of the duties to external organizations. A combination of these is also possible.

For example, major banks, private trust companies, and brokerage and investment advisory firms have developed services and professionals to deliver unique services to meet the needs of families managing new and multi-generational wealth.

## Family Office Structures

| Structure                  | Approach                                                                                                                                                                                                                       | Examples                                                                                                                                                                                                                                                                         |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Single Family Office (SFO) | A family enterprise in which family members or employees of the family provide the services to meet the needs of family members.                                                                                               | A family office embedded in the family's privately held operating business.                                                                                                                                                                                                      |
| Multi-Family Office (MFO)  | Partnership among several family enterprises to build and share resources.                                                                                                                                                     | Several families who have shared interests—such as partners in a closely-held, private operating business—form an MFO to oversee and manage their wealth from the business and separately for their family's personal wealth outside of the business.                            |
| Outsourced Family Office   | Advisory firms providing a suite of services to multiple family enterprises that are unaffiliated with each other.                                                                                                             | Private wealth management services provided by entities such as financial institutions, corporate trust companies, registered investment advisers (RIA), virtual family offices (VFO), and accounting firms.                                                                     |
| Combination of approaches  | Combination of select services provided in-house by an SFO or MFO, along with outsourcing other services to advisory firms. The advisory firm engages with both the family members and the professionals of the family office. | The SFO is set up as a Private Family Trust Company to administer the family's trusts and the day-to-day affairs of the family office while outsourcing the asset management services for the family's investment portfolios and the wealth planning to a financial institution. |

### Initial Planning and Assessment for Your Family Office

Families should begin this assessment with a firm grasp on the family's objectives, an understanding of who in the family will participate in the family office, and the expected timeframe for the enterprise. In addition, families should consider the following when assessing what type of family office is right for them.

**Depth and Breadth of Services:** An MFO or outsourced model can often provide for greater depth and breadth of services than an in-house SFO.

**Privacy and Confidentiality:** An SFO allows for greater privacy and confidentiality compared to an MFO or outsourced model with professionals working for multiple families. On the other hand, the advantage of an established MFO model is access to a more secure platform and formalized safe guards than what an SFO may put in place.

**Expertise and Staffing:** Many SFOs pull their top talent from the family operating business or pull key advisors into the family office. These trusted relationships help enhance consistency, knowledge of the family, and family values and mission. However, the professionals working in the operating business may not be the most skilled experts for a particular family office structure. Another consideration is the difficulty of attracting and retaining top talent in an SFO, which is one of the top reasons families choose an MFO or outsourced solution. Professionalized structures and scale found in an MFO or outsourced model can allow for enhanced recruiting, higher pay, and better benefits.

**Control and Oversight:** Families should consider to what extent they are interested and able to direct and oversee the family office operations. All family office structures require some family oversight and family involvement. If the family wants to be extremely active in decision making and oversight, an SFO model may be more appropriate.

**Cost:** Cost is one of the main reasons families decide to use an MFO or outsourced solution, tapping into the benefit from economies of scale. The average cost of a full-service SFO can cost more than 100 basis points, while an outsourced or MFO model would charge between 40 and 60 basis points depending on assets under management.<sup>3</sup>

### Conclusion

Family offices are operated for many reasons and come in many forms. The key decision criteria should include the number of family generations being served, the current status of the wealth, the objective of the family office business entity, the significance of the wealth and its composition, and the expertise and talent of the family members or close advisors. Once it is decided to form a family office, please reach out to an Abbot Downing relationship manager or visit our website for additional insights.

For more information on Abbot Downing, our people, and our services, we invite you to visit our website.



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Endnotes:

<sup>1</sup> Family Office Exchange (FOX), [www.familyoffice.com](http://www.familyoffice.com)

<sup>2</sup> Ernst & Young, [www.ey.com/familyoffice](http://www.ey.com/familyoffice)

<sup>3</sup> FOX

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