



SPECIAL REPORT

***THE MANY FORMS OF
THE FAMILY OFFICE***



LESSONS FROM THE SUPER RICH

The Many Forms of the Family Office



KEY TAKEAWAYS

- Multiple forms of family offices exist—including single-family, multifamily and virtual.
- Virtual family offices offer many of the advantages of single-family offices, in cost-effective ways.
- Technology helps enable virtual family offices to coordinate with top experts across the country—or even in other nations.

Family offices are increasingly becoming the preferred way for the Super Rich—those with a net worth of \$500 million or more—to manage their financial lives, as well as many aspects of their personal lives.

There is, however, a complication: When people talk about family offices, they are not all talking about the same thing.

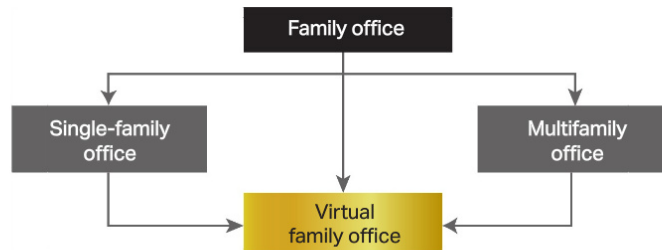
The term “family office” is bandied about a lot, and is likely to become even more widely used as more wealthy and accomplished families (as well as more financial professionals) embrace the concept. That means families exploring the family office arena should take some care. For example, some so-called family offices are primarily money managers using the moniker for marketing purposes.

It's best to think of family offices as a category as opposed to one particular thing. There really is no one universally accepted set of criteria that makes a firm a family office. That is why there is no generally accepted definition of a family office—which in turn leads to a plethora of structures and approaches all being called a family office.



That said, there is consensus that there are three basic types (see Exhibit 5)—single-family offices, multifamily offices and virtual family offices.

EXHIBIT 5
Types of Family Offices




Versions of single-family offices

A single-family office is a separate legal entity dedicated to optimizing the financial and related world of one successful, wealthy family. Families who use single-family offices often are members of family-run businesses. However, to have a single-family office, a family commonly has to have significant wealth outside of their business interests.

A single-family office is often considered the best way for a wealthy, successful family to achieve superior results in a variety of financial-related areas and to maintain the greatest amount of control. The cost of operating a single-family office varies extensively. The more expertise that is housed within the single-family office, the more it costs to run.

Because each wealthy family may (and often does) have particular and even unique issues, single-family offices tend to come in all shapes and sizes. Versions of single-family offices include the following:

1. **An embedded family office** is often encased within a family business. A group or unit of the company provides the family some or many of the services of a single-family office. Embedded family offices are rarely defined as formal family offices. Instead, they are seen as people within the family business that help the family address certain matters (usually including tax planning and compliance, and sometimes investment management). Where possible, the costs of the embedded family office are covered by the family business.
2. **A hub-and-spoke single-family office** is a way for different family members to take control of certain aspects of their financial lives while mitigating the costs of having their own single-family office. In this model, a central single-family office delivers a range of




wealth planning, administrative and lifestyle expertise (the hub), while different family members or family branches manage their own investments (the spokes). Sometimes, investment opportunities are shared among the spokes.

3. **A single-multifamily office** is the combination of a small number of single-family offices initially in the service of unrelated families. What tends to happen is that a few smaller (as measured by assets being managed) single-family offices with an aligned investment philosophy and a desire to offer more capabilities merge in order to increase their investment clout, deliver greater value and mitigate costs. Note: The single-multifamily office is not to be confused with the virtual family office (see below).
4. **A limited single-family office** provides only select expertise, such as investment management. For example, a number of hedge funds have turned into single-family offices. By making this transition, the funds are essentially disgorging themselves of clients and only managing the wealth of the founder(s). Limited single-family offices are usually private investment companies. Many times, these entities end up adding on other capabilities, with some of them becoming comprehensive single-family offices.
5. **A communal family office** is a single-family office created for a group of closely aligned nonfamily members, such as a religious organization. While the people involved are not connected by blood, they consider themselves family. Their resources are pooled and they often operate in ways that resemble a family. Their single-family office tends to operate just as it would if there were only one family involved.

Versions of multifamily offices

The other broad category of family office is the multifamily office. Here, too, we see various versions at work. For example:

1. **A traditional multifamily office** provides multiple successful families with a suite of deliverables characteristic of a single-family office. In most cases, multifamily offices are an extension of the wealth management model. The aim is often to work with fewer but wealthier clients. Certain expertise is in-house, and it often generates a substantial amount of the firm's revenues.
2. **An outpost family office** is a traditional multifamily office that serves the needs of different families only when they are in a particular geographic area. A common reason to engage an outpost family office is when a wealthy family has a single-family office in one country and some of the family's children are going to school in another country. Instead of building a support system for the children in the new country, the family engages a multifamily office that's geographically close to the school. Outpost family offices are also often used when a family is conducting business dealings in countries besides their own.

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3. **A family office practice** is a professional firm that provides its expertise, and usually only its expertise, to a successful family. The services and products provided are a subset of what a single-family office would often provide. For example, there are many accounting firms delivering tax services (including planning, bill paying, financial statements and so forth) that refer to this group in their firm as their family office practice. Some investment managers focus the bulk of their energies on managing money and just a bit of their efforts on other client matters but refer to themselves as a family office. Most family office practices are delivering a small set of expertise compared with what a single-family office might provide. However, some family office practices are adept at coordinating other professionals for a family or an individual—making them more like a virtual family office.

Virtual family offices emerge

The virtual family office is a relatively recent innovation that makes numerous advantages of single-family offices available to a wider array of the affluent.

This means it's possible for some affluent families who don't yet possess massive amounts of wealth to access quasi family office-level expertise from consummate professionals across the country—or even in other nations. Increasingly, high-performing virtual family offices can pull together resources and experts from diverse locations and coordinate their actions on behalf of families with significant—but not King Croesus-level—wealth.

For example, a virtual family office created for a family in Connecticut might have relationships with venture capital groups in Silicon Valley for investment opportunities as well as attorneys in Europe for international tax planning concerns. All those professionals' efforts can be managed through the virtual family office—without the clients ever having to travel across the country or to another continent to access those resources.

On one level, the virtual family office is like a multifamily office in that the coordinator is working with a select group of affluent individuals and families. But there is a nuanced and significant difference between virtual family offices and most traditional multifamily offices that makes the virtual family office more akin to the single-family offices of the Super Rich than to traditional multifamily offices.

The difference: Virtual family offices are customized to each individual affluent client, very much like single-family offices are customized to their incredibly wealthy families. In contrast, a large percentage of multifamily offices (and the expertise they provide) are structured in ways that focus more on addressing their organizations' needs and corporate structures.

Ultimately, high-performing virtual family offices provide the range of single-family office services to affluent clients who otherwise may not have access to them.

The “magic” of a high-performing virtual family office is that it aims to mirror a single-family office as much as possible. This outcome can be pursued because the wealth manager who structures a virtual family office can connect to networks of experts who are linked together—usually via technology. This virtual aspect enables the wealth manager to provide single-family-office-esque services in cost-effective ways. Therefore, driven families who don’t (yet) have hundreds of millions or billions in the bank can increasingly have their own personalized virtual versions of the traditional single-family office.

Conclusion

Clearly, there are many versions of family offices aimed at a variety of different wealthy, successful families. We find that these family offices are often superior in many ways to more traditional providers that are only focused on a few services and products they can deliver themselves.

In particular, you may find that a virtual family office is within your reach—and by gaining an understanding of the broader family office approach, you can get a sense of the types of benefits that a virtual family office could potentially deliver to you and the people you care about most.



VFO Inner Circle Special Report

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