Family offices in the United Kingdom

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Someone's sitting in the shade today because someone planted a tree a long time ago. – Warren Buffett

People who create or inherit substantial wealth tend to want to preserve and grow it, to secure their families' future and, often, to fulfil philanthropic desires. Invariably, they also wish to maintain a distance between personal and business matters, while controlling their affairs flexibly and maintaining maximum confidentiality. The family office arrangement is one way of meeting these aspirations.

1. The United Kingdom and family offices: history and context

In the United States, during the 19th century, J P Morgan and the Rockefeller family established family offices with the express aim of managing family assets. The expertise was subsequently extended to other families and their legacy lives on today. According to the *Financial Times*, in an article published on November 25 2014, the Rockefellers' family office now has 259 clients.[1]

In contrast, the family office concept in the United Kingdom (UK) has grown incrementally over centuries. Medieval royalty and wealthy families would employ stewards to manage their domestic staff, household affairs and their wealth, including land. The steward's duties included, for example, preparation of accounts for review by the master of the house. This ethos of stewardship endures today in the management of private family wealth across the UK, whether or not that function is expressly labelled 'family office'.

Alongside this history of stewardship, London in particular has a long history of forming trade associations whose common themes are money, business and philanthropy. The origins of the livery companies of the City of London, for example, are rooted in Medieval guilds, and their remit extends far beyond aspects of training, maintenance of industry standards and regulation of the various trades they represent:

> *Each of them is a remarkable philanthropic fellowship… every Company has in its own way made its charitable work manifest either by supporting education, research and*

1 "Expansion of family-office industry leads to blurring of distinctions", Financial Times, November 25 2014.

welfare or by nurturing the skills of those actively involved…[2]

Together, these traditions of stewardship, the organisation of trading assets and understated philanthropy still inform much of the advice provided by professionals to family offices in the UK today. The market is diverse and includes families with relatively recently-forged UK links as well as those born and raised in the UK.

2. The UK market today

2.1 What is a family office?

Once you've seen one family office, you've seen ONE family office.[3]

No doubt every submission to this publication will seek to answer this question and it will be interesting to compare, once compiled, the ambit of definitions by jurisdiction. In this section, we keep the definition brief.

The core activities of a family office arrangement involve the centralised management of wealth derived from one family, or a few, in an environment where family influence affects decision-making. Each family will add services to this core activity, in line with its requirements and ability/ willingness to meet the costs associated with each activity.

2.2 Third-party providers

There is a range of providers of loosely defined family office services in the United Kingdom. Their remit varies according to expertise and can broadly be summarised as follows:

(a) Banks

Banks extend their expertise in investment and financial advisory services to third-party family offices. Some have in-house private investment offices acting as multi-family offices. In addition to investment management, services offered to families can include:

- financial planning;
- insurance planning;
- risk management;
- compliance and regulatory support;
- access to sophisticated banking platforms;
- global custody and consolidated reporting; and
- review and management of family investment philosophy and suitability of investments made.

(b) Consultancy firms

This group tends to support wealthy families by providing independent advice, often supported by research. Services include:

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2 Source: The Livery Profile leaflet, produced by the Mercers' Company and published on the City of London website.

3 Attributed to Patricia M Soldano, Chair of GenSpring Family Offices' Western region, in the following Forbes article: www.forbes.com/sites/toddganos/2013/08/13/what-is-a-family-office/.

- acting as the main or trusted advisers;
- financial reporting;
- evaluation and consolidation of information provided by other service providers, such as accountants and wealth-management firms; and
- selection of money managers.

(c) ***Law firms, accountancy firms and trust companies***

Each of these groups of professionals engages with wealthy families and family offices through the provision of services encompassing:

- advice in connection with establishing a family office;
- implementation of effective family governance;
- tax advice and reporting in relation to personal and business assets situated in the UK and overseas;
- trust and family office administration;
- advice in establishing a charity or philanthropic foundation;
- managing charitable donations;
- accounting and audit;
- expenses management;
- advice in relation to regulatory and compliance obligations of the family office;
- facilitating inter-generational change;
- immigration and employment law advice for family office staff and family members;
- wealth planning and matrimonial advice for family members; and
- review of overseas structures holding family wealth.

(d) ***Independent advisers and boutique firms***

These firms provide specialist services, including:

- concierge services;
- lifestyle management;
- reputation management;
- security services;
- property finding;
- advice on schools in the UK;
- health services;
- insurance; and
- coaching.

2.3 Single-family offices and multi-family offices in the UK

As will be well-rehearsed elsewhere in this book, the nature, purpose and structure of family offices are dictated by the needs of the families they serve. Single family offices and multi-family offices will also be defined elsewhere, so here we focus on the main characteristics of each, by reference to the UK market:

	Single family office	**Multi–family office**
Client(s)	– One family	– A number of families
Structure	– The structure can be as informal or formal as a family requires – Staff tend to be employed either directly by the family or by a family–owned vehicle (eg a company or partnership) – The family remains primarily responsible for aspects such as premises, IT and managing staff – Family affairs tend to dictate the level of activity and nature of the work carried out – Changes in staff can disrupt service levels disproportionately	– These are organisations independent of the founding family/families – Family members may hold offices within the organisation, but its services are provided at arm's length – Service levels are less disrupted by changes in staffing – Day–to–day management of premises, IT and staffing is the preserve of the organisation, not the
family Accountability	– The closeness to the family can engender high levels of trust, a deep sense of responsibility for actions and a highly personal level of service – The same closeness can result in tension and conflict if poorly managed and staff can become over–identified with the family they serve. In turn, this can lead to behaviour aimed at pleasing the family, rather than focusing objectively on best interests. Longevity of service can present a particular challenge here: resistance to change must not be the price of continuity	– In serving a number of families, staff must bear in mind diverging interests – Potential conflicts of interest between founding families and other clients must be carefully managed where a multi–family office has recently evolved from a single family office – Conflict resulting from over–identification with one family is less likely

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	Single family office	Multi-family office
Costs	– Costs are borne by one family – International families tend to want to base their London family offices in areas where the fixed costs of premises are high. This, in addition to other fixed costs, can be difficult to manage against unpredictable income – On the other hand, where asset management is carried out in–house, the high level of exclusivity, privacy and customisation can enhance returns in the absence of a product push	– Costs are shared among all the clients – Efficiencies of scale are easier to achieve – Situation of premises tends to be less of a personal choice for one family – Despite efficiencies on costs in other areas, some multi–family offices create and push their own financial products to help meet the cost of running the organisation

In terms of numbers, it is very difficult to say with any authority how many family offices there are in existence in the UK. This is partly because there is such a variety of arrangements falling within the concept (many of which may not identify themselves as family offices, though they function as such) and because one of the attractions of family offices is their discretion.

Recent research published by Ernst and Young states that “Family offices are arguably the fastest-growing investment vehicles in the world today… there are at least 3,000 single family offices in existence globally and at least half of these were set up in the last 15 years…”[4] Although this is not specific to the UK, it gives insight into the level of activity in this market in recent years.

In terms of the distribution of wealth as between single family offices and multi-family offices, in October 2013, Reuters reported that “Single-family offices managed about $1.2 trillion globally as of September 2011, while multi-family funds, which manage assets for several families, had assets of $777 billion in December 2012, a study by Boston-based Cerulli Associates showed.”[5]

A third concept has been added over recent years to the traditional single family office and multi-family office: the virtual family office. In practice, this describes the situation where a family is starting to organise its wealth using technology and is not yet ready to commit to the cost of premises. It is, effectively, the business start-up phase of the family office. Family members often figure prominently, and the extent of success in transitioning to greater organisation and delegation of functions over time is often determined by the range and quality of their business skills.

4 Source: EY Family Office Guide: www.ey.com/Publication/vwLUAssets/EY-Pathway-to-successful-family-and-wealth-management/$FILE/EY-Pathway-to-successful-family-and-wealth-management.pdf.
5 Source: uk.reuters.com/article/2013/10/04/frontier-investing-families-idUKL6N0HS21J20131004.

2.3 A UK case in point: single family office to multi-family office

When his father died in 1984, and he had to take over running the family business, Mark Pears was 21 years old. He and his brothers, Trevor and David, are the third generation of a family that has organised and grown its wealth – most notably through real estate investment in the UK – discreetly and very successfully for nearly 60 years.

The Pears Foundation was established by the same family. Trevor now acts as its executive chair and its website consciously identifies the foundation with its founding family, stating: "We are a British family foundation rooted in Jewish values." The foundation recently made its largest ever donation, of £5 million, to support the efforts of the Royal Free Hospital, in Hampstead, North London, in building what is described as "a world class centre to research cures for cancer and HIV."[6]

In addition to building their own wealth and pursuing philanthropic activities successfully, the Pears family group comprises an investment management arm that started as the family's private investment office. Talisman Global Asset Management Limited was once the Pears family's single family office. According to its website:

> *"Talisman was incorporated in 1998 as the asset management arm of a single family, following the sale of real estate assets which provided £50m of investment capital in 1994… The current Talisman structure was established in 2001 with [assets under management] of £250m…Today Talisman has [assets under management] of £2.4bn."*

At the foot of Talisman's minimalist website is a link: "Commitment to the UK Stewardship Code". This code is one of many aspects of UK financial regulation that can affect family offices. It sets standards relating to institutional investment and its opening section declares that "Effective stewardship benefits companies, investors and the economy as a whole."[7] The same may be said for stewardship in a family office context.

In a rare interview given to the *Sunday Telegraph* in 2011, Mark Pears addressed the various concerns of anyone running a family business:

> *A lot of them do struggle when they go past two or three or four generations. I hope that's not what's going to happen here…The way we've run it we have good quality people working here. If I were to get run over by a bus tomorrow, I think we've got very capable people who could run it already.*[8]

As anyone running their own family office knows, capable people who work well together are the most important determinant in the ultimate success or failure of the enterprise.

2.4 Staffing the family office in London

One of the attractions of establishing a family office in London is the availability of people able and willing to take on the role of running it. There is, in addition, a

6 Source: Ham & High news report dated September 30 2014.
7 Source: www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf.
8 Source: James Quinn, "Pears Family Comes Out Of The Property Shadows", Sunday Telegraph, June 12 2011.

thriving network of family offices where exchange of information and shared experience contribute to the maintenance of standards and a sense of context.

Staffing the family office may, therefore, seem like a relatively straightforward proposition. In terms of roles, a relatively well established family office providing administration and financial services is likely to comprise people fulfilling some or all of the following senior staff functions (although the job titles may be different in practice):

- chief executive officer – often someone with an accounting, legal or financial services background whose role is to run the family office, taking account of the family's wishes on one hand and his/ her legal, taxation, regulatory and corporate responsibility obligations on the other (the two often diverge);
- chief financial officer – core responsibilities include control and management of financial risk;
- chief operations officer – tends to be responsible for the day-to-day running of the family office. This role can be combined with that of chief executive officer or chief financial officer, depending upon the size of the family office; and
- chief investment officer – responsible for the investment aspects.

One of the relatively new challenges for senior staff concerns media and public relations. Online social networks and the incremental encroachment of cameras in public and private places together mean that privacy is under attack more than ever. Threats to the reputation and private lives of wealthy families are no longer the sole preserve of paparazzi. Senior staff would be well advised to include security and reputation management in their strategies.

This group of senior staff members requires administrative support from secretaries as well as colleagues providing general administrative support. This includes: payments processing; the effective marshalling and filing of information (particularly in terms of anti-money-laundering records and information exchange requirements); and general coordination and communication between family office staff, the family and external third parties, such as bankers and trustees.

In a family context, it is surprisingly easy for someone's role to grow wider and more challenging than the initial description envisaged. It can also seem artificial to impose formal boundaries around someone's role, in a context that feels personal and involves a family's most sensitive, private information. Nevertheless, the absence of objective management and focus on best interests often leads to employment-related disputes that can occupy a disproportionate amount of family and staff time and can be very disruptive to the operation of the family office.

It is, therefore, every bit as important that the family office team works well together as that each individual has the appropriate qualifications and skills to fulfil his role. Overlaid with family-centric interests, a good team is more likely to maintain objectivity and resist over-identification with the family than a dysfunctional team, where individuals can put self-interest or pleasing the family before doing the right thing.

As Casey Stengel once said in relation to baseball: "Finding good players is easy. Getting them to play as a team is another story."

2.5 Family businesses in the UK

According to the International Centre for Families in Business, family businesses based in the UK:

- account for two jobs out of every five in the UK private sector (9.2 million people);
- account for almost a quarter of the overall UK gross domestic product;
- contribute £73 billion of UK total tax revenues; and
- make up nearly 50% of mid-sized businesses in the United Kingdom (those in the range between £20 million and £500 million).

The same source also reveals that:

- approximately 60% fail to plan formally for succession;
- only 30% make it to second generation family ownership; and
- less than 10% make it to the third generation in the same family ownership.

This is an extract from the chapter 'Family offices in the United Kingdom' by Grania Baird, Marianne Kafena, Alison Springett, Sarah von Schmidt in Family Offices, The STEP Handbook for Adviser *published by Globe Law and Business.*