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The Family Office – Structuring for Family Wealth

At a time of unprecedented wealth and ever-changing tax and regulatory regimes, the management, administration and protection of diverse family assets, often located worldwide and used by and retained for both the current and future generations, can be both a challenge and a burden.

To resolve the challenges facing them, many families are now embracing the concept of the Family Office and utilising the experience and expertise of globally located, highly specialised teams of professional advisors to achieve the security and future growth they desire for their assets.

Joe Smith of XYZ Wealth Management, explains the concept of the Family Office, discusses the various ways in which they can function and highlights the key benefits that make them increasingly attractive to the modern, wealthy family.

The Family Office is rapidly becoming the fundamental wealth management tool for wealthy families, whether for the management and administration of newly generated entrepreneurial wealth and the assets their wealth is purchasing, or for previously created generational wealth that is being handed down, alongside existing portfolios of estates, luxury items and investments.

There are many reasons for the increased popularity of the Family Office, but perhaps key amongst them are -

- the increasingly difficult logistics of co-ordinating a multitude of advisors of different disciplines, each within a different organisation, some of whom will be situated in different countries and different time zones;
- the truism that the extremely wealthy are 'asset rich, but time poor' whether through still working to create additional wealth or taking the time to enjoy the wealth already created; and,
- the fact that it is virtually impossible for a single person (historically the father or eldest son) to acquire, develop and keep up to date with all the modern skill sets required to create and maintain a long term wealth management strategy - as well as handling any issues or crises arising from the assets or family members.



Undoubtedly, there will be additional reasons driving the need to create a Family Office but, taken together, the result is that wealthy families have now created a niche (and highly specialised) industry that is the Family Office. So much so, that different forms have developed that will suit the individual wealth, needs and strategies of different families.

Single Family Office

For the extremely wealthy, a stand alone Single Family Office, perhaps housed in its own bespoke offices, with permanent, skilled staff handling all of the affairs of the family, may be the answer. Such an office may have in-house legal counsel, an investment team to manage the investment portfolios, real-estate managers to oversee commercial and residential property portfolios, a payroll system to pay staff worldwide, a manager for the private yacht and jet (together with full-time skipper and pilot), and perhaps even a human resources manager.

This also creates the need for an accounting team who will be monitoring tax, compliance and regulatory requirements as well as family budgets and expenditure. At the end of the required periods, the accountants will produce consolidated accounts of all the assets and activities for presentation to the head of the family. In essence, the Single Family Office is a business in its own right and its business is looking after the family.

Multi-Family Office

More commonly used though and more accessible, is the Multi-Family Office. The difference is that instead of working exclusively on the affairs of a single family, teams of individuals with the skill sets already mentioned, will manage the affairs of more than one family, thereby bringing the benefits of the same resources and expertise, but at a lower overhead.

Also, because teams are involved, there is the opportunity to bring in a greater range of specialisms if necessary. For example, at XYZ we are able to offer specialist investment managers in different sectors such as hedge funds, commodities and bonds.





The Family ethos

Every Family Office will be unique in its structure, its assets and its objectives, some of which will be short-term while others will be long-term. This makes it essential to ensure the Family Office is built on firm foundations from the outset in order to achieve its goals.

To do this it is necessary to have a clear and thorough understanding of the family, its members, the family business and their hopes and aspirations for the future - in essence, the ethos of the family. Frequently, the family will also want to include philanthropic gestures such as establishing Foundations and Charitable Trusts.

Structuring

A typical Family Office structure may include trusts and companies, both onshore and offshore, into which will be decanted family assets. These may be shares in the family company (or perhaps, in the first instance, cash from the sale of the family company), investment portfolios, and, if already purchased, assets such as yachts and planes as well as precious items such as art collections. If not already purchased, the Family Office structure is flexible enough for additional holding structures to be added as and when needed.

A very wealthy family may even take advantage of more specialised corporate structuring, such as the Protected Cell Company, to segregate those assets with an opportunity for capital growth from those that may attract a liability or be of a depreciating nature.

Another alternative for trust structuring may be to establish a stand-alone managed trust company within the Family Office to assist with multi-generational planning and the separating of assets between family members.

Layered on top of this will be detailed tax advice that will take into account the location of family members, their residence for tax, the location of the assets and current and future business activity or retirement plans.

Finally, consideration will need to be given to the control and governance of the assets, not only in relation to any immediate tax implications (for example, how much input and control over some or all of the assets can the family have for tax purposes), but also in relation to succession planning for future generations and the general ethos of the founder.





Professional wealth managers

Under-pinning the family office and its success are the legal advisors and wealth managers. The legal aspects may cover family dispute resolution, employment contracts and issues together with legal support to the business operations, while the wealth manager takes on the responsibility for the preservation and growth of the family wealth throughout the generations.

The central role played by the breadth and depth of experience and expertise of a global wealth manager such as XYZ Wealth is key. There will be a need for the management and administration of trusts and companies and the assets they hold. The trusts and companies may be established and incorporated in different jurisdictions and the range of asset types, classes and sectors covered will be diverse, as will be the global nature of the investments.

Managing and administering investment assets that may include a hedge fund within a Jersey-based protected cell, to an actively trading currency portfolio in Hong Kong, held within a Cayman Island company, needs the international presence of a wealth manager such as XYZ Wealth.

Similarly, with a more straightforward investment portfolio, knowledge of local markets and sectors and the ability to access market research and intelligence on all sectors and markets globally, is essential. This may also be necessary to maintain the correct balance within the family office based on the location of the family members.

The Family Office solves the needs of the modern, wealthy family

Without question the needs of the modern, wealthy family have become increasingly complex, global and diverse. Investment portfolios, properties worldwide, tax residence, fine art collections, philanthropy and business interests create a heady mix which increasingly has cross-border elements requiring careful and strategic planning. The Family Office and specialised, professional global teams such as XYZ Wealth, are together providing the answer.

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