

# The Multi-family Office: Unlocking Your Family's Potential

By Deb Doran, Managing Director and  
Ron Gong, Managing Director



# **Over the last few decades, families have taken advantage of unprecedented opportunities to accumulate wealth.**

**As a result, a new financial tier has emerged in which 90,000 ultra high net worth individuals around the world held \$13.85 trillion in investable assets at the end of 2009<sup>1</sup>. As these families confront increasingly complex and volatile financial landscapes, many are reexamining both their financial services and those they entrust to execute them.**

**Yet this financial focus can sometimes obscure the broader picture—and leave such important issues as business succession planning, liquidity planning and multi-generational planning unaddressed. Today, families with significant wealth are discovering the value of an integrated financial strategy for managing all of their financial affairs. Many are turning to multi-family offices to provide the objectivity, transparency, guidance and expertise required to protect and preserve wealth and support unique daily transactional needs.**

<sup>1</sup>2009 World Wealth Report, Cap Gemini and Bank of America Corp.

## COMPLEX LIFESTYLES

Members of affluent families and successful entrepreneurs are typically busy people with complex lives and financial affairs. As wealth increases, personal activities and interests expand, new entities form and new generations enter the picture. Before long, wealth owners can find themselves interacting with more than 20 different professionals who provide a broad range of services. These include specialists who help them manage businesses and investments; buy, sell and protect physical assets; address tax and legal challenges; and plan for multi-generational needs.

It takes time and energy to collect, organize and assess the information required to manage wealth effectively, and too often these responsibilities mean less time to enjoy the benefits of wealth. The challenge may grow more acute with proposed legislation that could intensify compliance, recordkeeping and reporting requirements—and make family wealth even more costly and time consuming to manage.

Beyond time, each family has unique preferences, dynamics and fundamental requirements, and it takes experience and perspective to offer objective advice on the different circumstances that arise. For example, planning often extends beyond the wealth owner and on to multiple entities and generations. Each entity and generation requires a different asset allocation strategy, and individual family members may hold their assets in different locations.

In addition, each family entity typically adheres to its own investment policy and asset allocation strategy and has its own reporting and tax filing requirements. All of these moving pieces require careful and proactive management. At the same time, it's critical to consider the larger picture of wealth preservation so assets can continue to serve a growing family.

To address this complexity, many families require a financial guide who can look across silos and understand how all the interdependent parts operate. This guide can bring together an advisory team with diverse expertise to organize and report on the family's comprehensive activities, and can ensure they are well coordinated and integrated with one another.

In an environment full of global risks, families also place a high priority on privacy, discretion, trust and asset protection. Given the availability of public and personal information on the internet, families should consider all options to protect their privacy. For example, when purchasing and selling assets many use specific entities to shield the family's identity from the public domain. An experienced family office professional can actively plan to protect assets and preempt outside exposure. Such privacy concerns are especially important at a time when regulators are applying greater scrutiny to ultra affluent taxpayers and the financial institutions serving them. Proposed regulatory changes could mandate even greater disclosure of confidential family information.

These issues are difficult enough without the additional challenges of the current economic and regulatory environment. A period of high volatility and weak relative returns, culminating with a severe economic downturn, has made revisiting asset allocation a priority. These events have led families to rethink their long- and short-term investment strategies and to have a better understanding of the underlying risk embedded in their portfolios. In some cases these risks have also created short-term liquidity problems and a low- or no-return environment that may have prompted lifestyle adjustments.

## A SENSIBLE SOLUTION

Families take vastly different paths to wealth creation. But regardless of the journey, they face similar challenges that multi-family offices are uniquely positioned to address.

**Entrepreneurs.** Affluent families are sometimes led by entrepreneurs who have built successful enterprises in such varied industries as agriculture, manufacturing, technology, real estate and financial and professional services. It's tempting for owners of closely-held businesses to rely on the existing business infrastructure to support everything from compiling tax and financial data to basic cash management and financial accounting.

This approach often places a strain on both the business and the family. It requires employees to wear multiple hats and make tough decisions about how to allocate their time and resources. Moreover, conflicts of interest may surface when divorce or other family issues arise, or when it's time for the owner to plan for and ultimately execute a liquidity event. Further, there are typically gaps in the business infrastructure that either leave vital services unattended, or that require the owner to integrate internal and

external resources. Many entrepreneurs discover the hard way that preserving, protecting and growing family wealth requires the same amount of attention as operating their business, and that they need to manage it separately.

**Executives.** Senior executives can accumulate significant wealth during their careers. Over time, many build complex financial structures that include stock options, proceeds from the outcome of public offerings or mergers and acquisitions, international holdings and deferred compensation plans. In addition, these executives may earn large annual performance bonuses. Unlike a family business, they cannot lean on the business infrastructure to provide financial support services.

This reality makes it even more important to establish a mechanism to manage personal financial affairs. A comprehensive support system gives them greater flexibility to balance their breakneck work schedules with family responsibilities, plant the seeds for philanthropic engagement or new business ventures and plan for the future.

**Sudden wealth.** As the country's most prosperous generation advances in age, many entrepreneurs generate substantial wealth after selling their businesses, participating in initial public offerings or experiencing other liquidity events. There's simply no predicting how quickly a start-up concept will gain momentum and generate a windfall. Others stand to inherit significant wealth from family members and look for different family office professional than their parents have had.

Stories abound of those who have been overwhelmed by the opportunities and responsibilities of sudden wealth. They have immediate need for financial education and trusted advice on how to protect, manage and grow their assets. Implementing strategic planning early in the process gives them the opportunity to utilize once-in-a-lifetime planning concepts.

A multi-family office can offer a full and coordinated range of services. It can provide much-needed relief from the day-to-day transactional responsibilities of managing wealth—including the coordination of professionals serving the family's interests. This integrated approach allows the family to speak with one clear voice.

It can help clients understand the financial liabilities they face and how to take appropriate measures to protect their assets. It can establish clear, ongoing performance goals for family assets—whether it's asset preservation or accumulation—and offer objective advice on how to attain them. A family office professional can work with your investment advisor to assist in designing a big picture strategy, and look across the entities, generations and asset classes in the portfolio to identify opportunities to offset losses or gains. Importantly, it can also offer perspective and leadership as families face the complex issues surrounding equitable and tax-efficient wealth transfer across generations.

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## HOW CAN A MULTI-FAMILY OFFICE HELP?

For many years, affluent families have relied on their own single family office to help protect and grow their wealth and free up time to enjoy personal and business endeavors. Single-family offices vary widely in their scale, composition and the range of services they provide. However, they all consist of groups of individuals across a range of disciplines who are dedicated to managing a family's wealth.

A fully scaled family office typically consists of executives and a support staff of wealth managers, accountants, lawyers and personal assistants who provide advice and highly customized services to multiple family members across generations. As such, they commonly face a full range of human resource issues—including attracting and retaining best-of-class talent to ensuring that professionals perform at a high level. Because family offices can cost as much as \$1 million or more a year to operate, the operating costs may be impractical for certain families with less than \$250 million in investable assets.

Some of these long-established family offices have now extended their services to additional families/ investors to help defray their own operating costs, leverage the existing infrastructure for investments, maintain qualified staff and increase assets under management. These family groups focus primarily on investment management. While most have cultivated global investment expertise, they often do not offer a full range of services, such as tax compliance or risk management, in house.

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Other multi-family offices offer a different structure and approach. These are typically formed independently of families to manage the investments, tax and accounting, trusts and other financial and transactional services for multiple affluent families. Some have originated from law firms and public accounting firms or are boutique stand-alone entities. Others are operating divisions of large financial institutions or business units of banks, trust companies, brokerage firms that seek to manage the assets of the country's wealthiest families.

Within this group, families may find extra value in a firm that provides unbiased advice, transparency of reporting and fee structures, discretion and the ability to take a holistic view of financial activities.

Flexible in structure, multi-family offices may provide families with a variety of customized advisory services that range from investment management, tax and estate planning, philanthropy, and risk management to trusteeship and financial counsel. Some also offer personalized services that extend into lifestyle management—such activities as managing household budgets and payroll for domestic staff, purchasing or selling assets and overseeing construction of homes.

Among other benefits, these offices free business owners and families from the financial conflicts of managing wealth through the family business. The multi-family structure also gives families the flexibility to choose and customize the precise blend of services they need and value most.

Multi-family offices are also differentiating themselves by providing increasingly sophisticated portfolio risk management services. In some instances, they offer qualitative services that help families rethink their investment policies in light of recent market turbulence.

They're working side by side to establish new objectives, redefine liquidity requirements, outline appropriate asset allocation ranges and time horizons, set reasonable expectations for returns and ensure ongoing regulatory compliance. Many are also expanding their research and due diligence capabilities and are recruiting professionals with institutional grade experience—and who also understand that the families they serve consider asset preservation the cornerstone of their long-term investment strategy.

## VALUABLE SUPPORT

Multi-family offices demonstrate value in many ways. But as the following vignettes show, their real benefit lies in the ability of their teams to provide integrated services. The most effective multi-family offices combine in-depth insights into generational dynamics and individual values and preferences with a big-picture view of the practical issues, challenges and opportunities that embrace wealth.

## CHANGING DIRECTION

Three siblings who own and operate a second-generation family business held a regularly scheduled meeting with their multi-family office professional. One agenda item focused on reevaluating the family's current investment strategy, which was based on generating long-term growth and income. The family's decision to retain a large legacy equity holding resulted in some assets losing significant value during the downturn. As a result, the owners endured both reduced cash flow and liquidity issues from long-term investment lock-ups.

Together, they examined opportunities to reallocate some assets into shorter-term vehicles that would offer greater liquidity. They also considered short-term lifestyle adjustments that would help them weather the uncertain economic storm. In light of these discussions, the family asked its multi-family office to help develop a new investment policy that would reflect a new set of financial guidelines to encourage greater investment and spending discipline. They also reviewed the tax implications of shifting assets into shorter-term vehicles while mitigating the tax cost of rebalancing the portfolio. The family office professional facilitated the discussion with family members that resulted in solid consensus—and a practical path forward.

## BUILDING A LEGACY

Many affluent families encourage generations to collaborate by establishing estate plans that allocate funds for charitable giving. When parents created a new private foundation as part of their overall estate plan, they envisioned it would provide a vehicle for their children to become involved in the family's wealth in a meaningful way. The family worked with the philanthropy expert at its multi-family office to define a mission statement around the family's core charitable interests and social values.

This exercise positioned the foundation to serve in part as a training vehicle for the next generation to engage in both the investment process and in philanthropic decisions. Asset allocation strategies were formed, due diligence was conducted and charitable decisions were made timely. Meanwhile, the philanthropy expert met with children and educated them on the social and practical charitable giving issues they would need to understand. This was an ideal platform for engaging this family in a meaningful dialog and teaching the next generation skills they could use over a lifetime.

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## PLANNING FOR SUCCESSION

For years, the second generation owner of a closely-held family business focused on day-to-day responsibilities but had not performed succession planning for the company. The owner was not ready to give up control and hoped a clear choice for succession would emerge as the next generation matured.

While managing the financial affairs of the owner and children who worked in the business, professionals from the multi-family office realized that the family faced significant near-term risks if something unexpected happened to the owner. Professionals from the multi-family office drew on their knowledge of the business and their understanding of family dynamics to demonstrate the financial and tax benefits of transferring ownership at a low value. They also showed that the lack of a clear succession plan could put the entire family at odds and threaten the long-term viability of the business if something were to happen.

Professionals helped the owner explore the various options available to him, including sale of the business to outside investors, structuring an employee buyout or designating one of the children as the company's next leader. The owner decided that it was important to keep the family business intact and to develop a mechanism for distributing shares fairly among the children and their respective families. The family established a family council and drafted a shareholder agreement. The agreement included a buy/sell option and addressed such issues as how the family would conduct business and how decisions would be made. By having a clear roadmap in place, the family increased its odds of a successful transition.

## ALL IN THE FAMILY

An established family enterprise needed a way to protect wealth as new generations grow older and experience life events. Family leaders were especially concerned about the possibility of divorce given existing community property laws. As children approached adulthood, the enterprise engaged its multi-family office to help design a long-term estate plan that would enable the family to maintain control of and preserve the family assets.

On the surface, the creation of multiple entities—including LLCs, partnerships, trusts, pre- and post-nuptial agreements and other legal structures—seemed complex. Nevertheless, professionals from the multi-family office made the daily execution seamless so the family could continue to focus on other important matters. The plan spans multiple generations and provides an equitable way to support children—whether they enter the business or not.

Finally, the family office now facilitates ongoing family meetings to provide a forum for open communication and comprehensive strategy. It also holds annual meetings with children on a family-by-family basis to discuss how such major life events as birth and death, marriage and divorce, illness, lawsuits and the like can impact their individual wealth and wealth objectives—and what it takes to prepare for them. This structure provides a legal framework for all future generations to follow and facilitates ongoing reporting to multiple generations. Open communication among family members will also enhance the success of the estate plan.

## FINDING THE RIGHT PARTNER

The decision to work with a multi-family office requires careful consideration. After all, the relationship that develops may span multiple generations, bridge business and individual interests and explore intricate and personal family dynamics. The multi-family office also manages and integrates a broad range of financial activities—from investment, taxation and estate planning to data collection and analysis to cash management, bill pay and financial reporting.

Given these complex issues and opportunities, affluent families benefit most from a multi-family office that offers deep experience in all key areas that impact family wealth. A firm with an integrated, comprehensive platform of services is best equipped to create visibility across every dimension of family wealth and ensure the complete oversight and coordination of wealth management services. Such firms understand and monitor independent family goals, objectives and values and act as a financial guide to keep all the moving parts working toward the same goals.

Families should also view technology positively and seek a platform that supports customized investment reporting and can generate current information on cash flow, balance sheets, income, after-tax investment returns, bill payment by generation and legal entity and much more. The reporting requirements are especially complex for large, multi-generational families, and a flexible platform allows the family office to create custom reports for individuals and aggregate information across various custodial accounts. Systems that consolidate information each day from various investment and custodial accounts can make it easy to view the total financial picture in a meaningful way.

Some multi-family offices have leveraged their scale to invest in processes, technologies and a reporting environment that creates important internal controls, provides backup facilities to help ensure business continuity, delivers sophisticated reporting capabilities and promotes cyber security.

The best multi-family offices also offer the talent, resources and commitment to take personal financial service to the highest level. They have the proven ability to attract and retain top talent across multiple disciplines and leverage the broad networks these professionals have built.

Importantly, families should also look for a multi-family office with strong financial roots and internal control environments. Such firms have an enhanced focus on risk management that promotes long-term financial stability, they adhere to disciplined governance processes and they benefit from compliance oversight.

Multi-family offices create value by bringing greater focus and simplicity to a family's financial affairs. They bring together and integrate all the essential financial services that affluent families require and implement them across multiple generations and entities. They free family members from the time and effort required to manage wealth and pursue their independent objectives. Multi-family offices also act as strong and unbiased family advocates, managing family wealth with the same level of experience and depth of resources that executives use to run a business enterprise.

**Deb Doran** is a Managing Director with Harris myCFO, Inc. for the organization's Seattle office. Ms. Doran specializes in advising families and closely held businesses on the transition issues related to wealth transfer including tax and estate planning. She has more than 23 years of professional experience in accounting and taxes.

**Ron Gong** is a Managing Director with Harris myCFO, Inc. for the organization's Menlo Park and San Francisco offices. In this role, he is responsible for the design and implementation of comprehensive family office solutions with a focus on multi-generational wealth planning. Mr. Gong advises clients on a broad range of tax and financial matters, including pre-liquidity transaction planning, technology-related merger and acquisitions, executive compensation, stock options and family succession planning.

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