

Who needs an independent Family Office?

by Ulrich Burkhard

What defines a financial family?

Financial families usually own a fortune lasting beyond two generations. They are frequently struggling with the many complexities wealth management involves. Typically, their assets are held in various legal structures in jurisdictions spread around the globe. Key decisions are made by different family members or groups, sometimes stretching over three generations. A network of eager, sometimes power-hungry advisors offer their recommendations.

Who needs a Family Office?

The world of finance has become so complex for wealthy families that the coordination of wealth issues is a full time job. Tasks range from consolidation of assets, establishment of investment strategies, manager selection to supervision of accountants and bankers. This requires knowledge and experience and may absorb both time and energy. Wealth should do more than create increasing wealth and additional work. Tremendous value can be added if the fortune is used as a basis to define a common mission for the family. Ideally, it will create family unity and foster family education and opportunities for the current and future generations. Should a family or individual feel uncomfortable dealing with all the specialists and the financial issues, a Family Office may offer an interesting alternative.

Objectives of a Family Office

A Family Office provides an efficient administration platform to facilitate the integration of various tasks related to wealth management. To start with all relevant financial information must be consolidated and stored at one place. Only the ability to look at a consolidated financial statement will allow the family or investor to understand the consequences of

investments and assess the risk taken. Based on these findings a long-term investment strategy that is in line with the families' long-term goals will be defined. This integration of various financial tasks and information management produces the overall picture for sound decisions. In a next step the Family Office will help the client to formulate and implement the financial strategy and family philosophy. Very often, estate and tax planning strategies may add more value than chasing incremental returns. As necessities vary in each case one of the critical tasks of a Family Office is to identify and coordinate the outside experts in order to achieve the best possible solution for the families' issues. Therefore, family office clients will always benefit from valuable know-how, network and expertise.

Is your advisor independent?

Providers in the financial industry are increasingly forced to standardise their products to optimise profits. Complex or structured products will offer higher margins for the banks. These are then sold aggressively across all client segments and frequently retail products end up in portfolios which in size are comparable to pension funds or institutions. However the banker's compensation is linked to his sales commission. This is a conflict of interest that most banks cannot resolve if family office services are offered along with proprietary products. The buyer requires sound advice of an independent specialist to achieve the best value. Since there are thousands of products and managers to select from it is highly unlikely that the one offered to the client is also the best one. Very often these products simply do not make sense in the portfolio as there may be unnecessary overlaps, no diversification or the cost structure is unfavourable for the client.

At the same time the framework of the family and its environment may alter quickly and therefore, needs

timely adjustment. It is widely recognised that an advisor working with an open architecture will be better equipped to offer the flexibility needed in today's fast changing environment. A multi-client Family Office will outsource some of the functions that are clearly better served by external specialists. In its role of 'general contractor' it has to ensure that the overall strategy is followed and executed as agreed with the client. Outsourcing may also eliminate obvious conflicts of interest. For instance will a good trustee replace the asset manager if the performance is not satisfactory. If both asset management and trusteeship is carried out by the same institution this may become a tough decision to take. Unbiased and independent advice is critically important, but it is also scarce and hard to get.

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