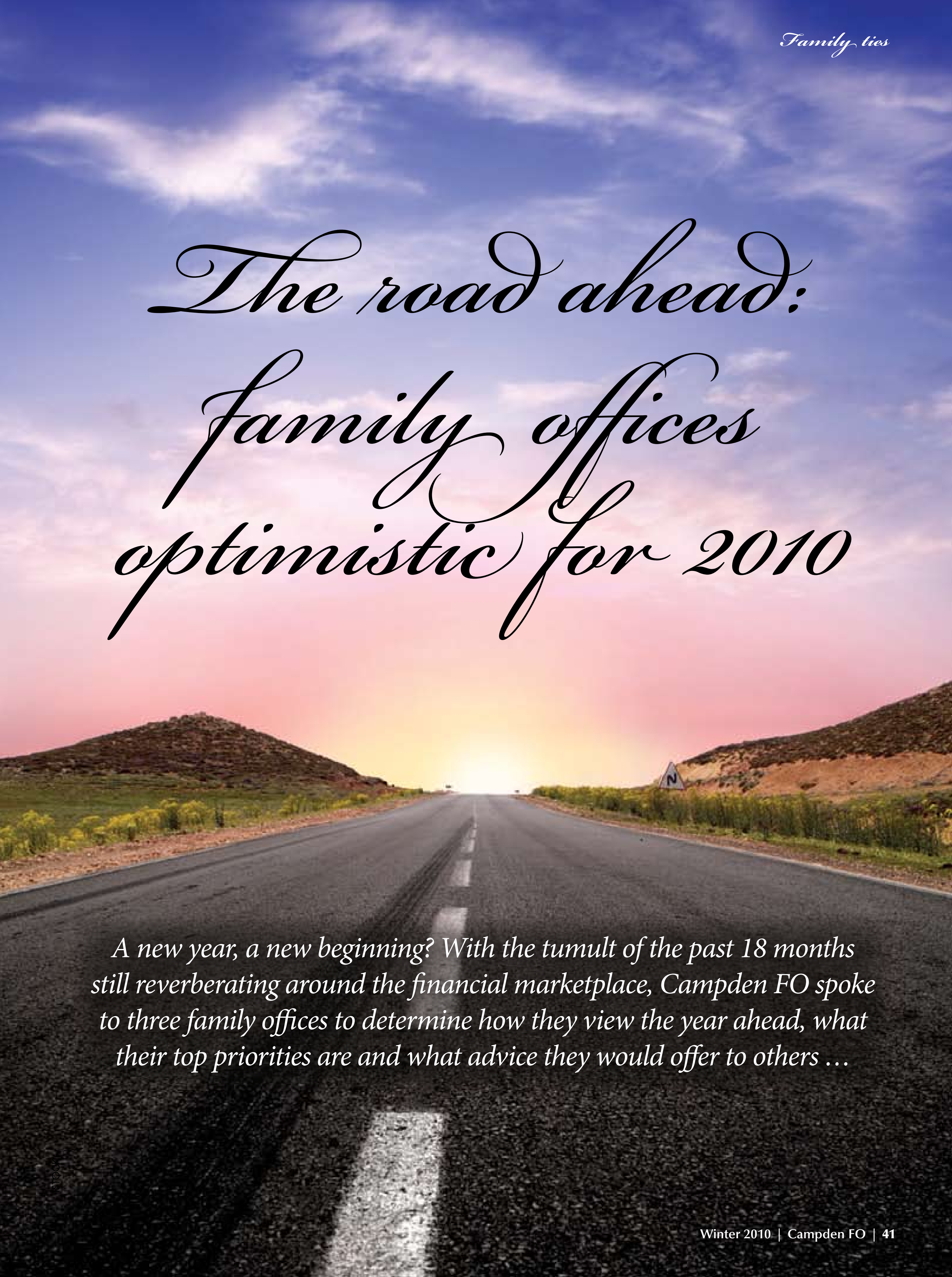

The road ahead: family offices optimistic for 2010

A new year, a new beginning? With the tumult of the past 18 months still reverberating around the financial marketplace, Campden FO spoke to three family offices to determine how they view the year ahead, what their top priorities are and what advice they would offer to others …

Given the difficult last couple of years, how optimistic are you about the next 12-18 months?

Louise Adams, head of the London single family office of a large global family who still own an operating business: *As an organisation we are reasonably optimistic about the next 12-18 months. Performance in our family businesses has begun to noticeably improve and it is clear that the family's policy of diversification over the past 10 years has stood it in very good stead during the downturn. Clearly, improving fortunes in the family businesses have a directly positive effect on the family office.*

Marianne W Young, president of Market Street, a US-based multifamily office that celebrated its centenary in 2009: *I would say I am cautiously optimistic but we're certainly not going to see the returns of last year which, although impressive, were pretty volatile. There are signs that the global economy is better but there are still a lot of unknown and underlying weaknesses. For example, corporate profits have been driven by a reduction in expenses rather than revenue. I also have major concerns over federal, state and local deficits in the US that continue to grow. We could be in low growth environment for a while.*

Michael Penniman, former director of a large family office based in Bahrain: *We are very optimistic, but that's because we are opportunistic, so it all depends on your investment approach. We are definitely not looking at any mutual funds. Direct investing is not for most family offices, but it's a space we are fairly comfortable in and that's where opportunities lie. The watchwords are transparency, liquidity and non-correlated returns. We are also sticking to asset classes we have a good understanding of and keeping our finger on the pulse, because things will go bump in the night over the next few quarters.*

In terms of your family office, what are your top priorities as we enter 2010?

Adams: *My top priorities for 2010 are as follows:*

- *Cost control*
- *Some organisational restructuring*
- *Implementing a programme of cross-border secondments for family office staff*
- *As ever, tax and fiscal structuring of family members' assets and affairs*
- *The new offshore fund rules, which have proved particularly vexing for us.*

Young: *My top priority is to focus on our clients and develop our team. We are developing "centres of excellence" within the family office so colleagues can excel in specific areas that we work in. We also have a five-year rolling business plan that outlines what we want to be doing so another priority is to spend time thinking about the next five years.*

The biggest challenge is going to be the regulatory environment

Penniman: *All family offices have the soft and the hard side - governance and investment prowess. Lately we've been more concerned with the soft side, getting and keeping good people, training, developing better due diligence on all assets and liabilities.*

On the investment side, we are doing no more buy and hold, no top-down asset allocation and no VAR. Quarterly reviews are nice but useless. It is also a particularly good time to network and to benchmark with peers, with other family offices and with smart investment managers. The final priority is alignment. We follow the golden principle that there's no way you can see the next truck coming your way. We invest abroad, but we try to do so by way of strategic investments with smart business people who are on the ground – without "our man in Havana" we don't invest.

What do you perceive to be the biggest challenge or challenges in the year ahead?

Adams: *My biggest challenge is going to be the pincer movement of the various tax authorities around the family.*

Young: *The biggest challenge is going to be the regulatory environment. There are a number of issues, such as estate taxes and hedge fund legislation, which are creating uncertainty. We have to stay on top of what is going on. Regulations are good from a policy standpoint but let's not do things that have no value.*

Penniman: *Reporting requirements for regulatory and tax purposes are becoming a more of a challenge, and will only multiply although good prime brokerages and global custodians help considerably on that front.*

Family governance is a big challenge as the many ashtrays that were thrown about last year will prove! Training is key, particularly when family constitutions say you cannot engage family members in the business until they have experience elsewhere. It produces a chicken and egg situation because it is currently difficult to place newly graduated family members in a real job environment, but they're also too green and it's too risky to fund their pet projects like we used to.

Do you foresee any major changes to your family office? If so, what?

Adams: *I don't foresee any major changes in the family office for the year ahead and indeed I feel we are in a period of stability.*

Young: *I do not see any major changes as I*

am incredibly proud of our team for getting through the last 18 months. But what I have taken away from that time is the importance of thinking outside the box. We will be doing a lot more collaboration with other families.

Penniman: *I don't really foresee any major changes. Corporate culture versus family values or, to put it another way, the management "suits" versus the family members in polo shirts, is an issue, particularly when the suits are being compensated better than some of the family members. Alignment then comes to the fore and balancing is needed, such as deferred compensation tied to rolling 3-year performance and much closer attention paid to family office KPIs.*

If you had to offer one piece of advice to other family offices for the year ahead, what would it be?

Adams: *The one piece of advice I would offer other family offices for the year ahead is to ensure that your charity budget is maintained and applied in the right direction given the increasing need during the recession.*

Young: *In terms of advice, lean, stressful times make organisations stronger so remember what you have learned from the economic crisis. We're not out of the woods yet but you need to focus on what's important.*

Penniman: *Alignment is my mantra – both on the investment side (between investment managers and investors) and on the soft side (internally, first among the family members but also between the management and the family members). This pre-supposes some accurate MIS, and transparency, but also an organisational and decision-making culture that is not opaque.*

Many family offices found that during the financial they did not have the necessary "corporate-style" infrastructure – ie, an investment committee, a management committee, and most importantly, an ALCO or sources and uses committee – or they had them in name only. Luckily we had them, and they helped us survive the melt down. Committees are notorious for ineffective decision-making, so don't pick members by seniority or politics. Get the best and smartest. These are times that demand leadership, a unified vision, and a sharp knife to cut through the needless complexity, internal inconsistencies, logical flaws and banality that so many larger investment companies and banks are plagued with. The whole point of being a family office is to be able to move with agility. FO