By **Marianne W. Young** & **Beth A. Landin**

Shared Family Office

A collaborative structure to consider

The family office landscape has shifted dramatically in the last few years. Increasing regulation, a rise in overall family wealth, the challenges of finding and retaining top talent, the ever-changing technology environment and general turmoil within banks and the financial industry have put tremendous pressure on family offices. More so than ever, family offices are merging and seeking strategic relationships with one another to share the burden.

For some families, collaborating with other like-minded families and/or individuals to share in the ownership of a designated family office is an attractive option; we'll refer to this type of collaboration as a "shared family office." Though this structure is somewhat unique, in the family office world, it's an appealing alternative to establishing a single-family office (SFO) or joining a commercial multi-family office (MFO). Collaborating with an existing shared family office may be the perfect solution for SFOs facing continued cost pressures, management succession issues or difficulty finding and retaining talent. Families can retain the control that they value, and they can be guaranteed that management will be free of conflicts and accountable to the family on the highest level.

Different Forms

Although family offices generally provide similar core services for their clients, they come in different forms.

SFO. This is a privately owned structure that manages the financial and personal affairs of one wealthy family or individual. Its sole focus is typically to protect and grow the family's wealth for current and future generations. Activities of an SFO may range from administrative to comprehensive investment and family office services. An SFO traditionally offers control, security and privacy in a trusted environment, under a defined family strategy. It also reflects the values of the founding family, and the family office may become the "new family business" over time, as the family becomes generationally removed from the operating business that generated the family's wealth.

MFO. This is an organization that manages the wealth of multiple families and individuals. If private, it's typically owned either by the founding family or the management. Some MFOs are publicly held and may be affiliated with large institutional banks. Some are experienced with multi-generational, extended families with longstanding trusts and substantial investment assets. Others primarily engage with first and second generation business-owning families with illiquid wealth. Still others have a mixed clientele. These offices span a wide spectrum of structures and have different types of ownership, governance systems, services and margin targets. Most are run with an eye toward profit and growth.

Shared family office. For certain wealthy families, an SFO is the ideal solution. But for others, building their own designated office isn't an option, due to the high costs associated with creating and maintaining sufficient infrastructure. Attracting and retaining highly qualified talent, investing in the appropriate technology, creating and obtaining access to world-class services and investment vehicles, navigating the complex regulatory landscape and securing office space require a significant


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commitment of time and capital. For these families, a shared family office is an attractive option. In such a structure, each client typically has an ownership interest in the office proportional to the assets they've entrusted to it. This structure can result in significant economies of scale for the family and allow it to maintain a considerable level of control over its financial assets and family strategy.

Regulatory Changes

New Securities and Exchange Commission (SEC) requirements, as set forth by the Dodd-Frank Act,

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have only increased the costs and complexity associated with maintaining family offices. Under these rules, family offices that serve more than one family (as specifically defined by the SEC) must register with the SEC and be subject to additional layers of regulation. Bob Casey, senior managing director, research, at the Family Wealth Alliance, a Wheaton, Ill.-based research and consulting firm that tracks the family office and private wealth business, thinks there are very few shared family offices in existence, although he believes the model could gather some steam in the next several years, in part because of the current regulatory landscape. Casey notes that a shared office arrangement can allow families to retain the things they value the most—privacy and control—which can be a reasonable tradeoff for the added complexities of registering. "We expect that this kind of model will become of more interest, and Dodd-Frank will help that along," he says.[1] He's clear to point out, however, that the model will likely never be widely adopted.

Shared Values and Collaboration

Though the collaborative, shared ownership model can work in the right situation, it requires a high level of shared values among client-owners and a clear governance structure, so that owners can part ways if necessary. Indeed, for a shared office to work, families and individuals need to have more in common than their wealth. Both families and the office itself need to conduct thorough due diligence and careful vetting of each other the same way they would when entering a formal partnership, because that's exactly what they're doing—entering a collaborative relationship with the other owners and the management. That means the approach has to be different, and shared offices can't just be "asset-gatherers." The wrong partner could lead to discord and division on how the office is being run, so shared goals, expectations and values are essential. Culture and "fit" are crucial to the success of the shared office.

Aligned Goals

Like an SFO, the primary goal of the shared family office is to meet the distinct needs of the families and individuals it serves. Because the shared family office model wasn't designed with dividends or ownership profit in mind, no conflict of interest exists between the management and the owners. And, because the clients own the firm, financial goals are precisely aligned and any profits are reinvested into the office. In addition, employees of the shared family office have no incentive to sell products to clients.

Typically, the fees associated with the shared family office are limited to the costs necessary to run the office, ensure future service enhancements and attract and retain highly qualified professionals. By sharing costs and leveraging resources through their collective buying power, the families, ultimately, benefit from their collaboration.

Control and Decisionmaking

Wealthy families put a high degree of value on being able to control their personal and financial affairs. In a shared family office, the ultimate decision-making power lies

within the ownership community, and clients have a voice in how and what services are delivered to them. While there are numerous ways to accomplish this goal, in a shared family office, it's often possible for clients to serve on the board of directors, as well as to nominate and elect directors. Clients can serve on committees that determine firm-wide policies and be privy to office decisions that they might not be aware of under another structure.

Finding Balance

Running a shared family office requires a careful balance: generating a profit isn't the stated goal, but some level of growth is important because dedicated, talented employees need to be compensated competitively and have opportunities for professional advancement. It's in the owners' long-term best interest to cultivate an environment where the management team feels a sense of "ownership" and engagement in the organization and its success. Of course, the firm also needs to be financially stable.

Avoiding turnover and retaining key employees, particularly at the senior level, is an essential component of running a successful shared family office. Providing employees with the tools they need to do their jobs effectively is just as important. That means having access to the best technological tools for investment analysis and reporting, financial planning and client communications. And, of course, it means being able to attract the right employees in the first place, all of which require solid financial footing.

Typical Components

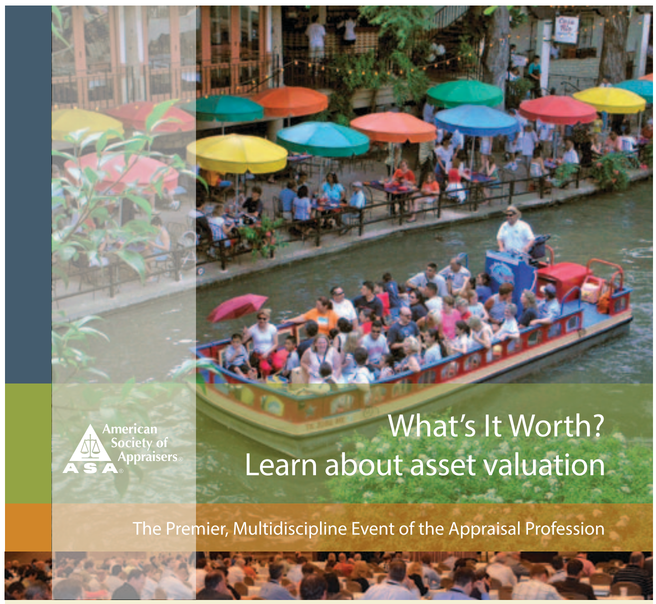
Here are some examples of typical components that make a shared family office structure work well:

- **Operating agreements for client owners, which outline how the owners operate together.** The agreements may contain elements including guidelines for sharing ownership, capital outlay, a structure for the owner community, voting rights and provisions for how to handle an owner leaving the shared family office.
- **Formal governance and clear succession planning for the board of directors.** These provide a foundation for the shared structure.
- **Consistent, formal ongoing communication and meetings among the owners, board of directors and management.** These are paramount to the success of the shared family office. Open and consistent communication ensures agreement on strategic direction and a model that's completely focused on providing conflict-free service to client families.

—We want to acknowledge Sara Hamilton, founder and CEO of the Family Office Exchange in Chicago, for her invaluable support and input over the years, as we've developed our client ownership and governance structure.

Endnote

1. Phone interview July 2, 2013, between Bob Casey, senior managing director, research at the Family Wealth Alliance, in Wheaton, Ill. and Beth A. Landin.



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