The Multi-Family Office Mania

Suddenly a wildly popular platform for delivering services to the affluent, MFOs are being snatched up, merged, and imitated. But while many are calling themselves "MFO" these days, not all deserve the name.

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The Multi-family Office model is rapidly becoming the most sought after platform for serving the ultra-affluent. Evidence of this change abounds. For example, an increasing number of private family offices are opening their doors to outside families, including, in 1999, Whittier Trust Company of South Pasadena, Calif., and, in 2000, the Tolleson Group of Dallas, Texas. And an unexpected variety of professional and wealth management firms—from major financial institutions like U.S. Trust Company of New York, to Oxford Financial Services—have adopted the MFO model. There also has been a tremendous amount of acquisition activity surrounding established MFOs.

The reason for all the interest is clear: The client base is significant—and lucrative. The average net worth of an MFO client is typically at least $20 million in liquid assets per family relationship. According to Merrill Lynch/Cap Gemini Ernst & Young's World Wealth Report 2002, 18,000 individuals in the U.S. had assets of $30 million or more in 2001.

These clients require services so customized that profit levels are less than half those for traditional money management. Still, the business is apparently attractive. Today, more than 50 organizations claim to offer interdisciplinary wealth advisory services through an MFO platform, with nearly one-third of these offices hav-

REVEALED FOR THE FIRST TIME

THE FOX LIST

The top 10 multi-family offices, based on assets managed and experience; compiled by The Family Office Exchange, LLC.

Rank	Firm	Location(s)	Sold to/ Merged with	Assets under Advisement
1	Atlantic Trust Pell Rudman	Mass., Del.	AMVESCAP	$8 Billion
2	Family Wealth Group (US Trust)	N.Y., Del., Minn., Calif.	Schwab	8 Billion
3	Rockefeller & Company	N.Y., Del.		4 Billion
4	Whittier Trust Company	Calif., Nev.		4 Billion
5	TAG Associates	N.Y.	GF Capital Management	3 Billion
6	Asset Management Advisors	Fla., Wyo.	SunTrust	2.5 Billion
7	Laird Norton Trust Co.	Wash.		2.2 Billion
8	Pitcairn Trust	Pa.		2 Billion
9	Vogel Consulting Group	Wis.		1.5 Billion
10	Frye-Louis Capital Management	Ill.	Credit Suisse	1.3 Billion

ing been formed in the past three years. But while many firms call themselves MFOs, some may not actually be providing all the services that give them the right to the name.

A True MFO

Family Office Exchange, a professional association that serves as a clearinghouse for best practices and leading-edge concepts within the global wealth management, defines an MFO as a multi-disciplined firm that offers integrated financial advice to its clients in eight or nine key categories. The MFO also may serve more than one core family group who is not a direct descendent of, or related to, the creator of the office. The most common legal structure found among MFOs is a state-chartered trust company, because trusteeship becomes one of the core services for intergenerational families.

The services MFOs must provide include:

- integrated tax and estate planning
- investment strategy
- trusteeship
- risk management
- lifestyle management
- recordkeeping and reporting
- family continuity
- family philanthropy

Of course, under each of these broad categories a vast menu of customized services are possible. Some MFOs offer different services to clients based on their asset size and the complexity of the situation. Firms may choose to expand their ranges of service as clients' assets grow, offering a broader array to those with more complex portfolios. This strategy helps MFOs control fees and profit margins for each level of service. (See "A Typical Menu," page 41).

Getting into the Game

Traditional trust companies see the MFO model as a way to retain the younger generations of large families awaiting the termination of trusts. Major financial institutions are purchasing existing MFOs as a means to diversify their service offerings for the highest end of the high-net-worth family market.

In fact, four of the 10 MFOs most experienced in dealing with complex cases will have changed ownership between mid-2001 and the end of 2002. These include the largest of the family-controlled organizations as well as several other leading manager-owned firms. For example, Credit Suisse Private Banking in Sept. 2001 acquired Chicago-based Frye-Louis Capital Management, Inc., the tenth largest MFO in the country with nearly $1.5 billion in ultra-affluent-client assets and one of the most experienced. (See "The FOX List," page 39.)

The Frye-Louis purchase price was not disclosed, but the benefits of the transaction to each organization are clear: Frye-Louis was suddenly able to expand at a faster pace; Credit Suisse gained instant access to the highly specialized expertise unique to MFOs.

Most recent MFO mergers and acquisitions have been similarly motivated. The MFO gains new growth capabilities, access to better technologies, a larger asset base for diversifying products and an improved ability to attract and retain a highly skilled team of professionals to run the firm; financial institutions acquire not only expertise that would have taken them years to develop on their own but also instant access to highly desirable ultra-affluent clients.

Even among MFOs, there have been some important consolidations and mergers in the past three years. For example, TAG Associates merged with a mid-size mergers and acquisitions firm where the core businesses were complimentary. In addition, AMVESCAP bought Pell Rudman (now Atlantic Trust Pell Rudman) in order to develop a distribution platform for money management products. At the same time, some niche wealth management advisory firms like Tiedemann Trust Company have been expanding their professional expertise and services so that they might be more like MFOs, that is to say like a centralized resource for high-end clients. Variations on the MFO theme have materialized from just about every sort of wealth management and professional advisor including corporate trust companies, financial planners, investment advisors, and integrated legal, tax and accounting firms. Examples include the accounting firm of Mahoney Cohen and the investment management firm Neuberger Berman Trust Company. Many see an opportunity not only to expand and enhance their wealth management service menu for existing clients, but also to attract new, more sophisticated clients with larger asset bases, with an eye to keeping them as clients longer because their relationships are deeper. But not all are true multi-family offices.

An MFO advising a combined asset base of more than $1 billion can better afford sophisticated systems.

Successful MFOs

For the ultra-affluent family, using an MFO can bring certain benefits that might not be easily achieved through a dedicated single-family office. An MFO has a stronger team of professionals to collaborate on complex problems and to tap the expertise of

THE TYPICAL MENU

The greater the clients' assets under advisement, the more services multi-family offices tend to offer them.

$20 Million

Tax Plans
Financial Plans
Retirement Plans
Bank Financing
Recordkeeping and Reporting
Custody
Investment Policy
Asset Allocation
In-house Managers
Performance Reporting

$50 Million

Estate, Tax & Financial Plans
Fee Analysis
Bank Financing
Tax Compliance
Cashflow Management
Insurance Oversight
Corporate Trust Selection
Recordkeeping and Reporting
Master Custody
Consolidated Statements
Investment Policy
Asset Allocation
Internal Core Managers
External Alternatives Managers
Performance Reporting
Client Education
Foundation Administration

$100 Million

Integrated Planning
Estate & Tax Plans
Financial Plans
Fee Analysis

Risk Management
Liability Management
Bank Financing
Insurance Oversight

Trusteeship
Private Trust Services
Agent for the Trustee
Corporate Trust Selection
Estate Administration

Recordkeeping & Reporting
Master Custody
Consolidated Statements & Analysis
Partnership Accounting

Investment Strategy
Asset Allocation
External Manager Selection
Performance Reporting & Analysis

Family Continuity
Family Assets
Family Governance
Client Education
Family Meetings

Family Philanthropy
Philanthropic Mission
Family Foundation Management
Personal Giving

Lifestyle Management
Bill Paying &Payroll
Tax Compliance
Cashflow Management
Property Management
Private Travel Management
Collectibles Management
(no dog walking!)

the firm's content specialists whenever necessary. An MFO team structure can help ensure continuity if a relationship manager leaves the firm. There is also strength in handling a number of large portfolios: An MFO that is advising a combined asset base of more than $1 billion can better afford to invest in more sophisticated systems and better risk management policies and procedures. Such MFOs can implement relationship pricing and offer greater economies of scale shared across multiple family groups.

Most successful MFOs feature the following:

1. *Objective Financial Advice.* The MFO must not have conflicts of interest. Because most private bankers are paid to gather assets under management, they may not have the time or inclination to seek the best financial advice from all providers. But the team in a good MFO works to choose from all suppliers.

2. *Creative Solutions to Financial Problems.* The MFO teams must be knowledgeable about a broad array of sophisticated strategies to ensure the best solutions for the financial problems of their clients. This means that the team must comprise skilled professionals with experience across many technical disciplines including tax, legal, investment, and risk management.

3. *Consistent Delivery of Complex Services.* The MFO must have the ability to deliver a high quality of service in a consistent manner to a growing number of clients. This requires the team to work together to solve unique, complex issues for the client. It also means there must be a sophisticated back office system that can keep track of financial details.

4. *Long-Term View of Relationship Building.* Most financial firms realize that working with clients in a comprehensive manner leads to deeper relationships and lower attrition rates. However, building good relationships can take a long time. Some institutions have come to and gone from the periphery of the MFO business because they didn't see

AN INDUSTRY EVOLVES

Once upon a time there were just financial planning firms, but over time they grew more complex, offering greater services, until eventually, they became today's multi-family offices .

FINANCIAL PLANNING FIRMS

- Budgets & Cash Balances
- Investment Diversification
- Event-driven Planning

INVESTMENT ADVISORY FIRMS (RIAS)

- Strategy & Policy Development
- Manager Selection & Oversight
- Performance Measurement & Analysis

WEALTH ADVISORY FIRMS

- Tax Planning
- Estate Planning
- Financial Planning
- Investment Diversification

INTEGRATED WEALTH ADVISORY FIRMS–MFOS

- Integrated Planning
- Investment Planning
- Trusteeship
- Lifestyle Management
- Risk Management
- Strategic Philanthropy
- Family Continuity

tangible financial results fast enough.

Demanding Clients

The MFO ideally responds directly to the complex needs and demands of the ultra-affluent, intergenerational family. Because the MFO evolved from the family office model, where all services are centered and customized around the needs of the owner, there is a need to replicate that experience with the MFO. That means responding to clients in creative ways with customized services, capabilities and best-in-class product solutions.

The creative integration of specialized services and product solutions can extend far beyond those typical of private banks. For example, owners set up complex legal structures like family investment partnerships to hold assets and create tax-advantaged transitions to younger generations. But management of multiple partnerships with numerous shareholders can be a nightmare.

The inherent service orientation of an MFO fosters a powerful dynamic offering solutions tailored to unique client situations. It is extremely difficult, if not impossible, to use a generic approach for this type of client. The process is relationship-intensive and requires a personal approach in order to gain an understanding of how to best serve the famiy. However, because the business is customized, its profit levels are relatively low.

On the buyer side of the equation, the ultra-affluent client is increasingly aware of the need to choose his MFO carefully, as no two are exactly alike. It is important that a family select an MFO with goals aligned with those of the family. Family Office Exchange has created a list of more than 50 questions for families to ask when evaluating MFOs. The full battery is available at www.familyoffice.com.

Benefits of the MFO

While all the benefits of MFOs are not evident, families who participate find they have most of the advantages of dedicated family offices. Here is what we have observed:

• Sophisticated families benefit greatly from integrated financial advice.

• Participating families have access to a wide array of integrated services that are not offered collectively anywhere else.

• Families enjoy the cost savings and benefits of relationship pricing for smaller family assets.

• These families find they maintain more direct family control over financial matters.

• They have the assurance of confidentiality in the management of financial and personal affairs.

Because it is the interest of most ultra-affluent families to join MFOs, the MFO approach to wealth management services likely will continue to grow and thrive. In the coming years, expect to see more MFOs being acquired by large institutions and more alliances within the industry itself as MFOs work to augment their skills and capabilities. Also expect to see more law firms, accounting firms, financial planners and corporate trust companies working to transform themselves in an effort to remain viable in an increasingly competitive wealth management industry. ◆