

The Apple – A modern family office

With the definition of a ‘family office’ becoming increasingly blurred in an industry that is fast becoming saturated and progressively commercialised, **Gunnlaugur Erlendsson** defines the modern family office

We all carry our own inherent bias when it comes to describing what a family office is, based on our own background and experiences working with and for family offices, which come in many shapes, sizes and flavours.

Each family office is inherently bespoke, structured ad hoc around the particular family and its wealth, then layered with discretion and confidentiality. This makes any comparisons inherently difficult.

To compound this difficulty further, the unregulated term ‘family office’ not only covers individual families and their wealth, but wealth management firms acting as multi-family offices (MFOs) and even practitioners in Mayfair without a family, or even an office. The term is also sometimes used to refer to the family itself and/or its wealth directly, rather than the bespoke structure created around the family and its wealth. Therefore, to source a useful definition of what is a modern family office can be seen as a courageous task, residing somewhere between bravery and stupidity.

However, driven by the need to answer what appears to be a simple question, I have created a minimalistic and holistic answer to what constitutes a modern family office, based on the core activities and the different skills required for each activity. I call this the ‘Apple’.

The Apple allows us to define and rationalise the world of family offices around five core activities, and identify the different skills required to navigate each in today’s environment. These core activities form the acronym APPLE and each is customised further according to the particular family and its wealth. These core activities that form the platform that is the modern family office are:

- Active wealth
- Passive wealth
- Philanthropy
- Lifestyle
- Estate & tax

Correspondingly, any structure that is unable to accommodate, co-ordinate and manage these core activities is not really a family office as they are central to the family and its wealth. I also believe that we must define the term family office narrowly, to avoid the term losing all meaning.

The modern family office is therefore a platform that has the ability to accommodate, co-ordinate and manage these core activities, whether or not all are pursued at any particular time,



for example, a family office may not to hold active wealth or participate in philanthropy at any given time. It is also irrelevant whether the activity is provided in-house or via third parties as, from the perspective of the family and its wealth, the family office is itself a third party where each activity needs to be clearly focused and based on the right skill sets.

Active wealth

Active wealth is a term to describe the active business activity of a family office, sometimes called the family business. The active wealth is focused around a material day-to-day participation in the management of a particular business, often reflecting the origin of the family’s wealth. For example, Gina Rinehart’s mining business in Australia, Walmart for the Walton family, the Tata group for the Tata family and Sergei Brin’s Google – each the inherent focus of the family and their respective family office.

Correspondingly, the skills required to manage the active wealth are centred on the actual business, requiring a dedicated team with knowledge and experience in a particular field, often vastly different from typical wealth management of financial instruments. Those with experience in direct private equity, business leadership and operations often fit best into this category.

Passive wealth

Passive wealth represents the investment activity of a family office that is separate to the active wealth, and is often

referred to as wealth management. For most family offices, this includes integrated financial planning and portfolio management of financial assets/instruments, including investment funds and trading, either in-house or in conjunction with third-party wealth advisers or MFOs, with the family often not taking an active day-to-day role in that wealth management.

The main skill required to manage passive wealth is the ability to manage financial instruments according to a particular risk profile and asset allocation. Those with a proven capability to preserve and grow a portfolio in the long term, while co-ordinating banks, custodians and other financial providers, are often best suited here, typically investment bankers, private bankers, hedge fund managers and senior seasoned city professionals, analysts and researchers. The skills required to manage the active wealth and the passive wealth are therefore quite different, and it is rare to find those able to consistently manage both at the highest level.

Philanthropy

The philanthropic and charitable activity of a family office, while teaching the next generation about the value and responsibility of wealth, also leaves a legacy by 'doing good', whether in private or public. John D. Rockefeller, for example, created the oil industry and then, as the wealthiest man in history, successfully gave away a majority of his wealth. One hundred years later, the Giving Pledge, launched by Bill Gates and Warren Buffet, is the largest commitment of the world's wealthiest families – each dedicating the majority of their respective fortunes to philanthropic causes.

Although not every family office is active today in philanthropy, many families have realised that the world now expects more from them, and hiding wealth from taxes is no longer an option, legally or morally. Deciding now where the wealth goes is more important, but with giving being more difficult than investing, working with experienced people always leads to the greatest impact. A family office may therefore have a key role in administering, researching, advising and monitoring the philanthropic and charitable activity of any given family.

Lifestyle

Lifestyle represents the lifestyle management of a family office in terms of tangible and intangible aspects such as staff, bills, travel, events, schools and health. It also includes the management, acquisition and disposal of lifestyle assets such as family homes, cars, planes, yachts, and so on. The focus here is on the needs of the family, rather than the wealth



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being grown and preserved, centred on the family's values, attitudes and preferences.

Lifestyle management demands highly personal skills, a delicate touch and a hands-on approach to the family. Those bred for finance often lack the requisite soft skills, although business skills, creative thinking and conflict resolution are all still required. As a time-consuming and complex service, soft-spoken generalists and lawyers often are the best in dealing with high-octane billionaires and their families, and in many instances it might be more cost effective to outsource certain functions to professional lifestyle companies

Estate & tax

Estate and tax includes the overall estate management and tax planning of a family office – in particular, structuring the efficient management and taxation of the wealth at every level. When a large and complex portfolio represents the net worth of the family, it is vital that the entire estate is efficiently managed throughout, to secure the wealth for future generations.

This requires substantial input from specialists in trusts and tax structures, as well as multi-generational and multi-jurisdictional wealth transfers focused on preserving – rather than creating – wealth. The family office must also keep a detailed overview of the overall estate at any time, as well as being able to apply and update any third-party advice. With current changes in taxation, enjoying the wealth and doing good while alive may increasingly become the preferred option.

Conclusion

Each family office is different, but I hope that discussing the modern family office around these five core activities avoids the risk of getting lost in the details of a particular family or its wealth. The Apple is, therefore, presented as a minimalistic, yet holistic reminder of what constitutes a modern family office, and the different skills required to manage one successfully.

It is, of course, the obligation of every apple to carry the seed of the future. Therefore, how we measure the success of a particular family office is not purely based on its ability to grow and preserve the family and its wealth, but the legacy it builds for each generation and the overall impact their wealth creates and harvests.

The apple does not fall far from the tree – the question is, what is at its core? ●

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