

## **Cavendish Family Office - White Paper**

**January 2017**

### **When does it make sense to set up a Family Office?**

#### **Family Wealth Background**

We are witnessing an era of unprecedented transfer of wealth from one generation to the next as the world's most affluent individuals approach retirement and contemplate their succession and wealth planning issues.

The needs of these families are extensive, complicated, and require expert advice, so many are considering a Family Office to help them manage this transition and provide a crucially provide a framework for the Next Generation (Next Gen).

The problem is especially difficult for many advisers is that they are ill-equipped to connect with these Next Gen clients who are technology savvy and expect a very different service experience than their parents did.

#### **Wealth Transfer in numbers**

There were 187,500 global ultra high-net-worth individuals (UHNWI), those with investable assets of over \$30 million, in 2016, according to Knight Frank in their annual Wealth Report.

According to Bank of America the great transfer of wealth will see a handover of about \$12 trillion from those born in 1920s and 1930s to the Baby Boomers. However, the Boomers are expected to transfer some \$30 trillion in assets to their heirs over the next 30-40 years in just the U.S. alone.

This transfer of wealth is staggering in its size and also in its execution as the children may not share the same goals or aspirations as their parents!

The simple, undeniable truth is this: 66% of children fire their parents' advisers after they inherit their parents' wealth, according to an InvestmentNews survey of 544 advisers in April 2015. However, with proper guidance, these new heirs will need to be better stewards of their family's wealth than past generations.

According to oft-cited research of 3,250 families conducted in 2003 by Mr. Preisser and Roy Williams, an independent wealth transfer consultant, 70% of family money disappears by the end of the second generation, and 90% is gone by the end of the third (this is "the shirt sleeves to shirt sleeves in 3 generations" analogy often cited).

Franco Lombardo, Veritage Family Office, a specialist in working with Next Gen clients:

"Bringing up wealth transfer with clients shows them you care about the future success of their children; it can be a huge differentiator, it's about taking the current relationships to a deeper level."

We will return to this crucial subject of the Next Gen in our next White Paper.

#### **What is a Family Office?**

This is a question that perplexes even those who work in the profession a every Family Office is not the same so "when you have seen one Family you seen one Family Office."

The tax, legal, business and regulatory environment for entrepreneurial families is constantly changing and not always favourably, which presents both obstacles and opportunities for families around the world.

Because family offices are, by definition, unique, involving complex and often idiosyncratic structures, critical decisions reached in one area of importance for the family will invariably lead to consequences, intended or otherwise, in another.

With families now facing an ever-growing array of complicated issues affecting every facet of their

global business endeavours, it has become mission critical for them to develop a comprehensive strategy deeply grounded in their stated values, and fully aligned with their cross-generational vision.

A modern Family Office exists primarily to centralise, preserve and transfer significant family wealth across generations while at the same time acting as an effective inter-generational safeguard and touchstone for the family's collective values, aspirations, heritage and legacy.

While the Family Office may not appear officially on an organisation chart detailing the family's business holdings, it will frequently operate as the strategic catalyst for the family's various enterprises.

### **What services does a Family Office provide?**

A Single Family Office (for those with a net worth above USD \$500m) is often structured as a formalized independent business entity or, alternatively, as a cost centre embedded within a private operating company, with the goal of centralizing services for the family.

This operation is usually out of reach to only the super wealthy, so a Multi Family Office (MFO) will typically supply an outsourced, but extremely comprehensive solution to managing a family's wealth and financial affairs.

The Family Office will handle a myriad of issues including wealth advisory and investment services, data aggregation and performance reporting, corporate and family governance, accounting, tax and legal issues, estate planning, philanthropy, risk mitigation, IT security, family education, as well as integrated personal financial planning.

As each family requires different solutions no mandate is ever the same, so each client has a bespoke solution created for them.

A Family Office may also specialise in managing the wealth of multiple generations within a family and advising on inter-generational wealth transfers and the financial security of family members.

For a select handful of global families, creating their own single family office may make sense in planning for the future. However, for the overwhelming majority, the administrative expenses, management concerns and compliance requirements swirling around the day-to-day operations of a single family office are astonishingly complex and utterly cost prohibitive.

This has therefore given rise to the independent MFO model, of which Cavendish Family Office has modelled its services around.

### **Finding the right MFO**

Designing and implementing an MFO to customise a family's unique circumstances and strategic requirements will certainly involve thoughtful discussion, careful preparation and nuanced execution, including consideration of key threshold questions that should ultimately help to frame an earnest and honest conversation amongst members of the family:

- Where is the family in the life cycle of wealth? (i.e. first-generation entrepreneurial wealth versus multi-generation established family fortune)
- What is the family's collective vision and game plan for the next 5, 10, 15 years and what is the family prepared to sacrifice in order to achieve this success?
- What are the family's special financial and personal goals and how do they align with one another?
- Is the strategic objective to preserve family values or family assets or both?
- Is the family genuinely aligned in its desire to implement a Family Office structure?

Experience reveals that a number of discreet indicators (perhaps better stated as "pain points") may often prompt a family to take deliberate and immediate action towards adopting some variety of Family Office model.

**Alignment**

The family's immediate financial horizon has become increasingly murky and uncertain, and family leaders have become overwhelmed with the details and financial minutiae required to manage increasingly tangled family matters and business operations, spurring a strong desire to achieve superior alignment between family advisors and family members.

**Framework**

The family wealth creator is considering alternative goals and benchmarks for the family business and requires a formal roadmap and aligned team in order to pivot successfully to the next stage.

**Strategy**

The family has multi-generational intentions and objectives, however it can no longer clearly and cogently articulate its long-term vision. Moreover, certain family members have moved in different and often incompatible directions from the strategic goals and aspirations originally embraced by the family.

**Family Cohesion**

Following a liquidity event or anticipated transfer of family wealth, a Family Office model can serve as a focal point of identification and cohesion for family members regarding any number of critical issues, including business exit planning and value acceleration considerations.

**Privacy and Confidentiality**

The overarching priority for the family has become to ensure absolute privacy and preserve strict confidentiality on all levels.

**Succession Planning**

The family has not selected a qualified successor and no clearly defined succession plan has yet to be considered.

**Wealth Preservation**

While the family has been traditionally focused on cost control, allocation, investment returns and dividend policy, wealth preservation is now becoming a rapidly growing priority owing to deep-seated concerns surrounding family cohesion and inevitable generational transitions.

**Governance Architecture**

Multi-generational family members are becoming increasingly alarmed that no formal governance architecture has been put into place to provide an effective and efficient operating structure by which to guide the family to the next level.

**Information Overload**

Critical family information has evolved into an eclectic amalgam of current and relevant, but also outdated and useless, information that is frequently impossible to decipher. The personal coordination of various investment managers, tax information and estate planning documentation has quite simply become overwhelming, chaotic and confused.

**Regulatory Regime**

The domestic and international tax, legal and regulatory regimes are constantly changing and more complex to manage, as the family's social and business relationships similarly evolve to include other like-minded families around the world.

**Perils of group think**

A certain amount of insularity may begin to settle in, and a "group think" mind-set can emerge within a family. Consistently reaching out to solicit advice and new ideas should help to mitigate this risk.

**Desire for flexibility**

The Family Office journey requires a sustained commitment of time, energy and resources to the mission, which may reduce the family's capability and bandwidth to pursue new business ventures or other opportunities. The family's desire to maintain maximum flexibility may argue for pursuing a Family Office strategy.

## **Evaluating the financial component**

A full-service Single Family Office can easily cost more than USD \$1 million annually to operate, and in many instances may cost considerably more. The single largest components are consistently compensation and benefits, which together generally average around 60% of the total, followed by office overhead at 12%-15%.

From a benchmarking perspective, Family Office costs are typically defined as a percentage of wealth (liquid and illiquid) and can vary widely depending on the nature of the wealth and the range of professional services required. A general rule of thumb is that annual costs will typically range between 50 and 150 basis points. A smaller Family Office will frequently come in at the higher end of the range because it has fewer economies of scale.

Resources and related costs for a Single Family Office are both internal and external:

- Internal costs include staff compensation and benefits, training and education, premises and infrastructure upkeep, office operations and overhead, technology and cybersecurity, and in-house regulatory costs.
- External costs include all the services and functions required by the family that are not otherwise covered internally.
- Whether to house a specific family office function internally or externally will depend on a number of factors including economies of scale, relative need for control, and the degree of active management required on components of wealth that may be unique to the family, amongst other factors.

A key additional consideration is the increased demand on free cashflow that a family office will require, which is in addition to funds required to cover the economically efficient operations.

In this instance an MFO may negate a number of the economic disadvantages of an SFO, as an MFO is generally better positioned to spread the cost of investments over a larger asset base and achieve higher cost efficiencies.

Whilst a SFO can be established at a lower cost (assuming you have a net worth above USD \$500m to justify it), its range will likely be limited to rudimentary services: administration, control of assets, consolidation and risk management.

For families on the cusp, where this narrower scope may be problematic, the tailored services of a multi-disciplinary MFO may make more sense than a stand-alone SFO.

A SFO by its nature is not as cost effective as an MFO (owing to its relative lack of scale), it will be called upon to revisit and re- evaluate its overall cost structure in order to maintain economically efficient operations.

## **Conclusions**

Highly successful families and family businesses the world over face an increasingly diverse and distinctly challenging array of risks and opportunities in today's hyper-connected global business environment. Entrepreneurial families clearly have unique needs and requirements in comparison to corporate business operations. Similar challenges confront Family Offices around the world.

The breadth, scope and focus of a Family Office are as unique and personal as the family that creates it. While the primary functions of a Family Office are to centralise the management and preservation of the family fortune and to effect over time a financially astute and tax- efficient transfer of the family's wealth, additional critical Family Office functions include family governance, estate planning, philanthropy, education and maintaining a critical complement to the core family business to the

extent it continues to operate in family hands.

Fashioning a successful Family Office is a business process requiring a clear vision, a realistic business plan, a thorough understanding of the resources available internally and externally and a granular roadmap by which to design, launch and operate.

The decision whether to embed certain functions in your own Family Office, or outsource all or part of the functions to an MFO, can be as weighty as many of the decisions that led to creating the family's wealth in the first place.

It is always in the best interests of a family to seek out the broad experience and wise counsel of recognized experts and trusted advisors in the Family Office community as it evaluates the benefits and opportunities, as well as the challenges and drawbacks, of designing and implementing a Family Office structure.

Your Cavendish Family Office team stands prepared to work closely with you at each step along the journey to consider all of these issues at hand and achieve the optimal result for you and your family.

## **Cavendish Family Office**

Cavendish Family Office is an independent and modern Multi Family Office (MFO) catering for entrepreneurial clients and their families. Qunmber Ehsan, one of London's pre-eminent Immigration Lawyers, founded the business as many of his international clients wanted a different service which incorporated other areas outside of Law.

Cavendish Family Office cater for clients from all over the globe including USA, UK, Europe, Middle East and Asia. They also help clients from the more "unusual" geographic jurisdictions or with political connections, such as PEPs.

Cavendish Family Office manages all aspects of wealth including Tax & Structuring, Accounting, Investment Management, Real Estate, Commodities, Alternative Assets (Art, Cars, Jewellery and so on) as well Concierge. They also have expertise in dealing with the Next Generation helping shape the family's legacy and ensuring that the wealth is maintained for future generations.

Qunmber Ehsan  
Founder & Chief Legal Counsel

[qunmber@cavofco.com](mailto:qunmber@cavofco.com)  
07917 358123