**Jeff Steiner, director family office, Mutual Trust**

Jeff is a Certified Practicing Accountant with 20 years' financial industry and taxation experience. Jeff specialises in family business, inter-generational wealth planning, family strategy, governance, education and risk mitigation.

**Brad Simmons, director wealth management, Mutual Trust**

Brad has over 10 years of experience in law, finance and investment management. He specialises in delivering wealth management advice to family office clients across both listed portfolios as well as direct private equity and property holdings.

# BUILDING A FAMILY OFFICE WITH OUTCOMES IN MIND

Jeff Steiner and Brad Simmons

We are often asked "how much money do you need before you establish your own Single Family Office?" The short answer, as with many questions in life, is "it depends."

The question is a perfectly legitimate one - there is a threshold at which running your own family office is uneconomic. However, the important issue that the question skips straight past is "what outcomes do you want from your family office?" For example, building your own team of internal staff, systems and infrastructure may not be the right strategy if you wish to play a relatively passive role in the management of your wealth and spend your time pursuing other interests.

Establishing and maintaining a Single Family Office is an involved - and expensive - undertaking. All of the research that we have seen indicates that family offices should be run at somewhere between 0.75% and 1.25% of a family's gross asset base. So, if your family holds $50 million of assets, your running costs ought to be somewhere in the order of $375,000 to $625,000. You might be surprised how little that buys you in terms of systems and in-house professional capability! At that level, you are likely to get much more value from an outsourced solution.

## A means to an end

A family office is often mistaken as an end in itself. Establishing an office is sometimes seen by successful families as a symbol of having 'arrived'. While it is true that creating an office does often punctuate a family's journey on the road to success, it should only be seen for what it is - a means to an ends.

For some families, establishing a family office is simply about 'taking back' control of their finances after years of relying on an external accountant, stockbroker and/or other advisor. For others, it is about more than simply a sense of control. They may be seeking to create a significant legacy for the next generation - perhaps via an operating business, pooled investment fund or through a philanthropic foundation.

We spend a lot of time helping families with established offices with re-scoping and, ultimately, unwinding and reconstituting their family office infrastructure. Their sole purpose for doing so is to re-focus their family office ecosystem to achieve defined outcomes. This sometimes includes transition to an outsourced (or partially outsourced) model. I also help families who are at the beginning of their journey defining what it is that they actually need.

So, when assessing whether you should establish a single family office or outsource this function (or part thereof) to an external service provider, you should go back to basics and ask your family five questions:

1. What is the purpose of our family's wealth?
2. What are our key family goals or what outcomes does our family want to achieve?
3. What infrastructure does the family need to achieve those goals? Specifically, does the family need to employ people directly or does it make better sense to employ external service providers?
4. How will a family office aid delivery of these outcomes?
5. To what extent should the family office be insourced or outsourced?

## Defining the purpose of wealth

We are constantly amazed at the inquisitive looks that we draw when we ask the patriarch or matriarch of a family "what is the purpose of your wealth?" It is such a fundamental question, one that many families do spend time pondering. However, having identified the purpose, many of them have not been able to implement the appropriate structure required to deliver on that real purpose.

Is your goal or purpose in life to simply get richer? In a capitalist society, that is a perfectly legitimate endeavour. Or perhaps your goal is to leave your children with more than you inherited yourself so that they have the same opportunities that you did and can continue building a legacy for future generations.

We adopt a broad definition of what constitutes a family's wealth. It extends beyond just financial means and crosses over into the realm of a family's values, knowledge, education, health and wellbeing. The ultimate test of a family's wealth is whether there is harmony between family members and whether there is a sense of fulfilment amongst individual family members.

We start the journey with families – or help them navigate back on course if they have lost their way – through an intensive and often confronting interview and questionnaire process designed to uncover and define the family's collective vision and values. Unless families have a shared vision and purpose and adhere to a common set of values, it will be difficult for them to work harmoniously, let alone achieve their long term goals and objectives.

It is important to ensure that the family ecosystem is designed in a way that enables not only the achievement of collective family goals, but also goals and aspirations at an individual level. There needs to be flexibility and empowerment within the family framework to encourage individuals to prosper both independently from, and in conjunction with, the family unit.

By defining their shared vision, families can maintain their connection and strengthen the ties that bind them. It helps families put in place the appropriate governance structures to function effectively as a cohesive unit and enables them to make decisions about their wealth – both financial and non-financial – empowering them to create and preserve a legacy for future generations.

The notion of a legacy can be deeply personal and is often unique to a particular family. In its narrowest sense, a legacy may be defined as simply providing financial support to family members across generations. Often, once a family's financial interests have been secured, they will seek to create legacies that support many other purposes, such as family education and leadership, entrepreneurship and/or philanthropy. It is often these types of legacies that underpin the real purpose or meaning of a family's wealth.

Occasionally, by seeking to define their vision and values, some families discover that they do not necessarily have a shared vision or purpose. This can be an extremely valuable insight, as it sounds an early warning bell that perhaps the wealth journey might actually be better pursued alone. This discovery may provide a catalyst for families making a proactive decision to begin separating their wealth and pursuing their own goals and objectives under their own steam.

By identifying differences at an early stage, families have the opportunity to implement the necessary changes in an orderly manner in a way that protects and preserves personal relationships. This also avoids the substantial costs of restructuring their assets and affairs at a later point in time when the tax outcomes may be less favourable.

## Defining key family goals

With a vision in place and legacies defined, the family can then set goals to give substance to that vision. Those goals in turn inform the strategy that families will adopt to achieve the agreed outcomes.

In simple terms, we define goals by reference to three categories: operating businesses, investment and family. While each of these will have its own (and often competing) goals, it is important to have an overarching strategy across all these categories to ultimately achieve the family's desired outcomes.

Goals can be as narrow as defining a target rate of investment return or a defined level of tolerable risk. Or they can be as broad as defining certain knowledge and education outcomes for family members – for example, ensuring financial literacy and/or helping family members along their journey in pursuit of an independent career or vocation. Alternatively, a family may have a deep rooted belief in fostering entrepreneurship and may therefore be focussed on providing opportunities for family members to build and grow business ventures to create jobs, prosperity and continue adding value to the family's wealth. Broader again, families may define their objectives around having a meaningful impact in the community or environment.

One goal that virtually every family we meet universally shares is the desire for smooth and seamless transfer of wealth across generations. A large body of literature has been dedicated to this subject and it is not possible to do justice to the topic in this forum. However it is worth recognising that the core of the challenge centres on preparing the next generation of owners for the responsibility that comes with being a steward of wealth. We know from experience that this issue creates a great deal of anxiety for parents of children who stand to inherit wealth and/or assume responsibility for their family's legacy. We dedicate a large part of our time to helping families navigate through these challenges.

Irrespective of what constitutes a family's goals, it is critical that they are well defined, clearly understood and the family has executed the right strategies to achieve their desired outcomes.

## Building a Family Office to achieve outcomes

Ultimately, the breadth, depth and functionality of a family office infrastructure should be tailored to deliver

**The quote**

*A family office is often mistaken as an end in itself. Establishing an office is sometimes seen by successful families as a symbol of having 'arrived'.*

specific outcomes for the family. If your financial goals are to achieve a market rate of growth, there are plenty of low cost options for passive investment and there is little need to build in-house investment capability. Alternatively, if you are seeking to significantly grow your family's wealth to build on a legacy or fund some other pursuit (such as philanthropic interests), then you may need to weigh up the costs of hiring a 'best of breed' chief investment officer, or outsourcing to a firm which can provide specialist expertise across a magnitude of disciplines.

In determining how your family office can achieve your desired outcomes, we often refer to the following roadmap which can act as a useful guide to oversee your family office function and enable the optimum chance of success.

1. Clearly define your family vision, legacy and values
2. Agree what outcomes are to be achieved for the family as a 'collective' and for individual family members;
3. Agree and implement the appropriate governance structure, decision making processes, authorised delegations
4. Development wealth strategies to achieve desired outcomes
5. Assign accountability for implementation and delivery of those strategies across family members, family office executives and employees, outsourced providers and advisors
6. Scope and price all system infrastructure, services and advice required including remuneration for family members undertaking a role in the family office
7. Agree performance metrics with ongoing review

This roadmap is evolutionary in nature and provides the framework for the family office to change and reset as family circumstances change overtime and across generations.

If it is lifestyle that you're after, or if your time is consumed with other pursuits, then you are likely to have little interest or capacity to put in place the infrastructure required to operate a single family office and manage a team of people. In that situation, it may be that outsourcing some or all of your family office functionality helps you achieve your goals. Outsourcing this function can generate certain benefits that you may not be able to access on a standalone basis. For example, you will typically gain access to specialist and scalable expertise, systems and intellectual property at a lower cost and risk of doing it yourself.

There is a myriad of alternatives available for insourcing and outsourcing, either in part or in whole. We spend a great deal of our time helping families wade through the different alternatives and scope out their family office service requirements. But until you have defined what it is that you are seeking to achieve it is impossible to define what support you will need.

Whatever direction your family takes in regard to running a single family office or outsourcing this function to an external provider, we find that many successful families seek to have the following key pillars in place.

**The quote**

*Until you have defined what it is that you are seeking to achieve it is impossible to define what support you will need.*

**Family Legacy & Connection:**
The family is aligned around a shared vision, set of values and legacies are clearly defined. The family understands the purpose or meaning of its wealth and has a strategy in place to deliver on its vision.

**Governance Structure and Process:**
To provide a framework for making decisions and reviewing and benchmarking progress against predefined goals. Also provides forum to give voice to any concerns that might exist amongst stakeholders. The governance process itself can actually provide a great forum to engage with the next generation. Whether it's via contributing to debate around investment decisions, or sitting on a philanthropic subcommittee to provide input into decisions about giving programs and donations, 'learning by doing' can sometimes be the richest education that a family can offer the next generation of stewards.

**Financial Accountability and Management:**
It is important that a family office, irrespective of its structure, has a framework of understandable and meaningful reporting of financial data, including forecasts and changes, to inform and enable a robust review and decision making process. By providing transparency in this regard, families can endeavour to balance dividend / distribution expectations of the shareholders with the other demands on capital that might exist within the portfolio. Robust reporting is also key to managing long-term risks through reweighting investments within a strategic asset allocation framework to ensure appropriate diversification.

**Human Capital and Leadership Development:**
It is unfair to expect that the next generation of stewards of a family's wealth will necessarily have the innate skills, experience and expertise required to lead and govern the family's wealth when their time ultimately comes. By establishing an education and experiential program for family members which supports the family vision and values, the elders of a family can lead by example and instil enormous knowledge and empowerment to the next generation. For example, a program to teach younger members about the history of the family and its enterprises (businesses, investments, philanthropies) can create an enormous sense of engagement and ownership amongst younger family members. Tailored learning and development programs can also be rolled out, on an age-appropriate basis, to ensure that family members are adequately equipped to deal with the responsibility that they will ultimately inherit. **FS**