

# Family Fortunes

The firms at the top of the wealth pyramid, which manage the money of Europe's wealthiest families, cost millions to run

By TARA LOADER-WILKINSON

**T**he number of family offices - secretive firms that manage the financial affairs of Europe's richest families - has proliferated in the past few years as ultra-wealthy clients have become increasingly disenchanted with mainstream private banks and wealth managers. But family offices don't suit every investor's needs. They also cost a fortune to run.

They vary in size - some are small outfits employing just two or three people for administrative tasks. Others are fully-fledged investment offices employing 10 to 20 professionals responsible for day-to-day investment decisions.

European families with their own investment offices include the Sainsburys, the Pears and the Guinneses.

Wharton Global Family Alliance, a specialist unit at the Wharton School at the University of Pennsylvania, estimates there are around 1,000 single family offices in the world. Paul Pratt, managing director of the London branch of the Family Office Exchange, an advisory consultancy, thinks this is an underestimate. He says: "A more realistic estimate is likely to be closer to 1,000 just in Europe."

## Cost-Efficiency

Families need to be exceptionally wealthy to consider setting up their own offices. "To really get the most cost-effective pricing on investment products and afford the best staff, half a billion dollars in assets is probably a good rule of thumb," says Pierre-Alan Wavre, the head of the multi-family office at Pictet, a Swiss private bank.

Greycourt, a US-based financial advisory firm to some of America's wealthiest families, has estimates it takes a \$1 billion fortune to justify a "fully integrated" family office, handling the full array of investment, accounting, legal, educational and concierge services.

A survey of European family offices by Merrill Lynch and Campden Research found that the average cost of running an office is around 0.6% of assets under management. The bigger the family office, the cheaper the costs, said the report.

Costs for staff alone can run into the millions a year. Typically a fully-integrated family office would have a chief executive, chief finance officer, chief investment officer, at least two investment analysts, four accountants, one controller and five administration staff. Some might also employ a lawyer.

"The cost of employing a good chief investment officer will run into at least €100,000 a year before bonus," says Mr. Pratt. A chief executive for a family office will typically cost around €150,000 - plus bonus - a year.

Those with only tens or a few hundred million dollars are increasingly turning to private investment offices which cater for a small number of like-minded families. Sometimes these are single family offices that have decided to take on third party assets. Some multi-family offices accept as little - these things are of course relative - as €20 million in liquid assets.

Multi-family offices claim to have the advantage of greater resources. Daniel Pinto, founder of multi-family office Stanhope Capital, says: "In a single family office, it is often difficult to have the breadth and depth of expertise required to build truly diversified portfolios. Screening and selecting managers across asset classes and regions takes a large team."

Specialists say the financial crisis has prompted more wealthy families to turn away from the large global banks to family offices. Bespoke money management solutions have become increasingly appealing for investors that have been hit by the credit crunch.

Critics argue that family offices concentrate management risk and that wealthy investors should still talk to other fund managers to get a more balanced range of advice. Thierry Lombard, sixth generation of the Swiss banking family and managing partner of the private bank Lombard Odier & Cie, says: "A family office cannot be a substitute for a wealth manager - it cannot have the breadth and depth of expertise, resources and experience that a bank can provide."

Some wealthy families don't like the idea of family offices. For an unseasoned investor they can be

"fraught with dangers and potential disappointments", according to Mr. Pinto. The family that controls Merck, one of Europe's biggest pharmaceutical companies, thinks the money is better spent on the company.

Frank Stangenberg-Haverkamp, chairman of the board of partners of Merck and a member of the 11th generation of the family that controls the company, says: "When a family has invested everything in their company and there is no money lying around in need of an investment then you are not in need of a family office."

For those that are persuaded by the rationale for multi-family offices there is a plenty of choice with more than 100 independent firms in Europe alone.

But making an informed choice can be difficult. There is no independent body that evaluates the performance of multi-family offices, although Asset Risk Consultants, which tracks the portfolios of many wealth managers - including some multi-family offices - does offer some insights for those based in the U.K. through its private client indices.

Multi-family offices often have a longer-term investment horizon than more traditional wealth managers. This resulted in some missing out on the equity market rebound last year. Marcuard Family Office, a multi-family office based in Zurich, says its medium-risk portfolios were up an average of 12% last year, compared with the 30% achieved by the MSCI World Index.

But it hopes its longer-term perspective will prove right. "We like physical assets, like gold and agricultural land," says Jonathan Guest, a partner at Marcuard.

William Drake, co-founder of London-based Lord North Street Ltd., a multi-family office that accepts clients with at least £25 million in liquid assets, thinks private equity might offer a good opportunity over the long term. He says: "The merger and acquisition market is starting to revive and initial public offerings will follow - that should spark private equity into action."

Marc Hendriks, chief investment







officer at multi-family office Sand Aire, also sees opportunities in private equity, especially investments linked to distressed assets. But he still likes equities, despite last year's surge.

A long position in equities last year helped Sand Aire to post buoyant returns in 2009 for most of its portfolios. Mr. Hendriks said returns were between 17% and 31% depending on the client's risk profile.

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## European Family Office Market Map

A list of the most prominent multi-family offices in the continent and the functions they offer: from investment advice to concierge services

### KEY:

Full Service: FS  
Investment Advice: IA  
Wealth Structuring: WS  
Consultancy: C  
Consolidated Reporting: CR  
Concierge Services: CS

### AUSTRIA

Seyer & Partner: IA, WS, CR

### BELGIUM

Praxis NV: WS, CS, CR  
Portolani NV: W  
Also provides advice on real estate

### FRANCE

Financiere-MJ: FS

### GERMANY

HQ Trust: IA, C  
Set up to manage the assets of the Harald Quant family

### LUXEMBOURG

Quilvest Family Office: FS  
The Bemberg family office, which branched out into banking

### LEICHTENSTEIN

Kaiser Ritter Partner: IA, WS

### SWITZERLAND

GWM Group: IA, WS, C, CR  
Has merchant banking and corporate governance arms

Private Client Partners: IA, WS, CR  
Run by Andreas Bodenmann and Andreas Limburg

Ferguson Partners Family Office: FS  
Specialises in bespoke co-investments, consultancy and networking

Guggenheim Partners: FS  
Famous U.S. family office with operations in Geneva and London

Arlan SA: IA, WS, C, CR  
Also has independent advisory for less-wealthy clients

Ramella Family Office: IA, WS, CR  
Kehrli & Zehnder Global Wealth Management AG: FS

IJ Partners: IA  
Founded last year by Theodore Margellos, a former senior director at the World Economic Forum  
Marcuard Family Office AG: FS  
Unigestion: IA

### NETHERLANDS

Commenda Family Office: IA, C, CR  
Administrative focus  
Guidato Family Office BV: IA, WS, C, CR  
Founded by former private bankers Raimund Kamp & Marijke Kujipers

### UK

Sand Aire Ltd: FS  
Founded by the Scott Family  
Stonehage: FS  
Stanhope Capital LLP: IA, CR  
Five founding families. U.S.-based Bessemer Trust owns a stake

Iveagh: IA  
Multi-family investment office founded by a branch of the Guinness brewing dynasty.

Fleming Family & Partners: IA, WS  
Manages €5 billion with a hedge fund management arm.

Elystone Capital: FS  
Backed by Francesco Trpani, chief executive of luxury goods firm Bulgari  
Capital Generation Partners LLP: IA  
Set up by Khaled Said, son of Syrian-born billionaire Wafic Said.

Hassium Asset Management LLP: IA, WS, C, CR

Set up by former Goldman Sachs private banker Yogesh Dewan.

Lord North Street Ltd: IA  
Co-founded by William Drake and Adam Wethered.

MaxCap Partners LLP: IA  
Founded by Michael George, whose family made money in the food business  
Nean Wealth Advisers: WS, C, CS, CR  
Run by ex-private banker Simon Evans.