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Family Offices: Should You Build or Outsource?

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What is a Family Office?

- Family offices are family-owned organizations that manage investments, taxes, and other affairs for families of significant wealth to facilitate multigenerational wealth creation and preservation
- Family offices continue to be one of the world's fastest growing financial management strategies for wealthy families and are anticipated to expand even further
- Private family capital (i.e., family offices) is now larger than private equity and venture capital combined[1]

[1] E&Y Family office study, 2022

Why You Should Consider a Family Office?

1. Reduce complexity by gaining greater control over family investments and fiduciary affairs
2. Support a rapid increase in wealth, or preserve current wealth and ensure its generational transfer
3. Provide a clear distinction between the family business and the family's wealth
4. Engage with dedicated financial advisors who are directly aligned with the family's interests

What Are the Key Decision Points in Creating Your Own Family Office?

We will primarily focus on the first key decision point, which is whether to build your own family office or outsource all or a portion of your family office services.

1
Structure
Build your own vs. outsource vs. hybrid approach?

2
Governance
Who is making what decisions?

3
Metrics
How will you asses value and performance?

4
Communication
How will you communicate to family members?

5
Transition
How will you transition to the next generation?

Typical Drivers Behind Building or Outsourcing[1,2]

Establishing a family office is a substantial undertaking. Performing initial due diligence is essential to ensuring that the established structure meets your unique needs and expectations.

Best practice is based on the following goals:

1. Balance convenience and customization with cost efficiency
2. Minimize operational risk (e.g., cyber risk, audit risk, etc.)
3. Determine which structure will withstand generational transitions, as returns and wealth preservation depend largely on longevity

Foundational considerations

- Assets under management in relation to return expectations/targets and fixed costs
- Total number of stakeholders and if the family office will be the asset manager for all members
- The family's geographical spread
- The importance of confidentiality, privacy, and control
- Whether the goal is to manage services 'gratis' to family members (cost center) or to expand wealth over generations (profit center)
- The family's overall interest and time available to set up and manage family office operations

[1] The Global State of Family Offices, Cap Gemini, 2012;
[2] Family Office Primer, Family Office Exchange, 2013

What Are the Costs of Building Your Own Family Office?

Size	Full-Time Professionals	Full-time Support	Implied Minimum AUM[1]	Low-end annual cost	High-end annual cost
Small	2	4	$150 million	$1.5 million	$1.8 million
Medium	4	11	$300 million	$3.0 million	$3.8 million
Large	8	16	$800 million	$8.0 million	$10.0 million
Very Large	16	32	$1.4 billion	$14.0 million	$22.0 million

[1] Calculated based on the low-end estimate of 1% of active assets under management; Counting the costs of running a family office, Citi Private Bank, 2022.

Outsourcing Your Family Office

Potential Advantages and Disadvantages

Advantages

1. Reduced costs and overhead
2. Helps to deliver economies of scale, enabling lower prices for services
3. Increased access to investment opportunities
4. Access to a larger pool of talented professionals
5. Select or change professionals according to needs and performance
6. Access to the most up-to-date systems, technology, and security
7. Ability to easily add and subtract services as needed
8. Potentially less responsibility/burden on family members

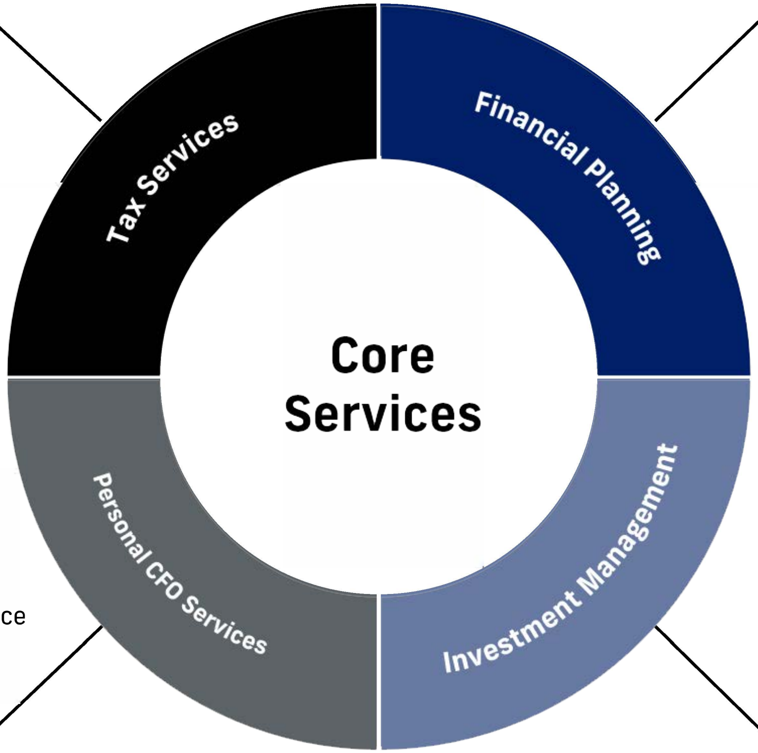
Disadvantages

1. Less privacy and control
2. Adviser Act registration and reporting forms are publicly available (e.g., Form ADV)
3. Must coordinate services and service providers
4. Matching systems to what you already have may be difficult
5. Monitor and perform due diligence on providers

Most Common Family Office Services

Tax Services
Tax Planning
Accounting

Financial Planning
Estate Planning
Wealth Transfer
Business Advisory
Training & Education



Personal CFO Services
Administration & Record Keeping
Compliance & Regulatory Assistance
Budgeting
Risk Management & Insurance
Life Management & Concierge

Investment Management
Asset Allocation
Risk Profiles
Managing Liquidity
Sustainable/Impact Investing
Investment Reporting

Ancillary Services

- Philanthropy
- Real Estate and Construction Management
- Technology and Cyber Protection
- Aviation

Staffing Consideration

Hire staff to manage in-house or outsource to outside experts.

How Corient Can Help

ASSESS

Want to assess the effectiveness of your family office?

Evaluate your existing family office structure, find gaps in structure or service, and identify areas that can be improved. Our team of experienced professionals conduct reviews and provide observations and recommendations for potential enhancements.

- Comprehensive Wealth Diagnostic
- Bespoke Consulting

SUPPLEMENT

Interested in a service not currently provided by your family office or service provider(s)?

As your family's needs grow, Corient provides outsourced solutions tailored to meet the specifics of unique, evolving circumstances.

- Investment Management
- Tax Services
- Personal CFO Services
- Aviation Services
- Entity Tax Planning

OUTSOURCE

Interested in outsourcing your family office?

Our team meets with you to discuss your goals and identify the appropriate solutions to meet your family's needs.

- Comprehensive family office services, inclusive of Financial Planning, Investment Management, Tax Services & Personal CFO Services
- Ancillary services to manage wealth complexities

The Most Common Types of Family Offices

Today, families have the ability to customize a model to their particular needs. The evolving needs of wealthy families—and the unique nature of family office—has resulted in the formation of many structural variations over the years, including (but not limited to):

Build	**Informal/Ad-Hoc:** Embedded in a family-owned business **Single Family Office (SFO):** A private company that manages one family's affairs (can often grow into an MFO*)
Outsource	**Multi-Family Office (MFO):** A company that offers (and often sells) its services to multiple families **Virtual Family Office:** Provides outsourced family office services (some MFOs can begin to operate as a one)

*The term "MFO" refers to Multi-Family Office.

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