

# FOMC - News

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In response to the increasing demand for information within the family office market, Family Office Management Consulting publishes its quarterly newsletter as well as ad-hoc briefing notes on various subjects relating to the family office theme. The selection of topics results from the experience in working with families, entrepreneurs and family offices on a daily basis, current developments in local and international markets and requests by clients.

In the aftermath of the financial market crisis of recent years, as well as in light of the most recent market turbulences, FOMC explores in this and next quarter's newsletter, key aspects of risk management in the family office context.

## **The importance of solid investment structures and processes**

In a family office context, risk management is often perceived as being restricted to the financial side, although it extends far beyond. As the strategic advisor to a single business and wealth owner, respectively a family in multiple generations, wealth preservation and asset protection go hand in hand with financial and operational controlling. As a result of global markets and increasingly international ownership combined with a multitude of investment opportunities in regard to alternative asset classes and newly-emerging regions, the wealth structures of today are more complex than ever; equally resulting in the fact that wealth owners are in need of not only best-in-class advice and state-of-the-art structuring, but also a higher level of protection and security. The family office as the central coordinator has to be equipped with the right tools and this in regard to infrastructures, platforms as well as in-house and outsourced expertise.

Further, as entrepreneurial as the owners they are advising, as entrepreneurial tend to be investment styles of family offices themselves. In addition to the classic real estate investments commonly found

in the portfolios of business families, strategic investments, private equity and co-ventures are favourites. Solid asset/liability as well as cash management and liquidity monitoring are therefore as essential as professional consolidation systems combined with the respective investment vehicles and holding structures.

## *Risk management through fund structures*

Private placement funds are one popular and efficient vehicle for professionalizing investment processes as part of a family office set-up providing simultaneously strong governance while at the same time giving family members continued flexibility to invest according to their very own risk and return profile and preferences; in addition to the possibility to bring in external investors under a well-structured approach or even simply to transfer shares in case of a succession event on one side of the family whereby avoiding having to liquidate at inconvenient times.

It is the clearly defined investment processes in combination with solid legal and holding structures making these set-ups increasingly attractive to the family office world. Segregated portfolio companies, as in the case of Cayman vehicles, enable risk control, in addition to the back-office support provided by professional service partners on site. A fund structure further allocates responsibilities efficiently through a solid governance framework, so that the family office can focus and excel in its role as strategic advisor on manager selection as well as the implementation and monitoring of overall family

and individual asset allocations, while the day-to-day servicing of the structure remains with professionals.

A variety of jurisdictions are preferred choices, including, for instance, Jersey, Malta and also Ireland, with Luxembourg particularly standing out through its newly established and highly flexible SIF vehicles. It is flexibility in terms of investment restrictions as well as the landscape of professional on-site service providers, which are often deciding criteria in regard to fund locations. Also, many of the well-known providers of fund services have reacted to the increasing number of family office clients across the globe by extending their international reach and by setting up worldwide platforms in order to offer not only a variety of booking centres, but also administration and day-to-day operations regionally and in proximity to the family or family office client.

Fund structures and specifically umbrella structures, servicing the alternative and growth portfolios, are common building blocks of today's family office set-ups, as continue to be the classic trust and foundation structures used for asset protection and tax/succession planning purposes and the overarching target of wealth preservation.

### *Risk aspects in succession planning*

In face of recent regulatory and market changes, owners are seeking greater involvement in structural set-ups and increasingly control in regard to the day-to-day operations of their family office and even estate planning structures, resulting in the fact that not only private trust companies are attracting increased interest, but also family offices themselves have become an integral part of estate and succession planning set-ups, staffing advisory and investment committees as much as board of trustees per se; and this as part of single as well as multi-family office set-ups.

The real test for a family office comes with the transfer to the next, respectively all succeeding generations. While the structuring itself is a standardized process with many experts on hand, it is how these structures will work in practice where risk aspects have to be well considered. Can decisions be taken timely and by the core decision-makers? What are contingency plans if the latter are temporarily or permanently not available? Do we have the "right" experts in our boards as well as a good balance between family and external decision-makers? Which are our very individual contingencies and risk gaps? – These are only some of the questions that need to be asked. Risk reviews nowadays, do by far not only take into account portfolio holdings, but the entire family office platform including estate and succession planning, internal and operations control, as well as governance frameworks.

*FOMC's briefing note, published on November 1, 2011: "A comprehensive family office risk review out of FOMC's day-to-day consulting practice"*