Family Office Management Consulting

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.

Does location matter?

The world has become global and this not only on business and private sides, but also family offices are seeking increasingly to get the most out of this international playing field at their hand. Whilst the majority of family offices in the past used to play the role of guardians of the owners' "nest egg" operating under a strategy of stringent wealth preservation, the family investment companies of today are driven by growth strategies set by their entrepreneurially investing owners. While renown families certainly maintain access to the most desirable investment deals in their own regions, international investment opportunities are not found at every corner; and are further certainly not that easy to access considering the required networks and expertise, especially in the newly-emerging regions on investors' maps.

While a number of family investors rely on the growing number of international family office circles, networks and roundtables, respectively try to team up with like-minded family offices in regions unknown to themselves, with Asia-Europe or Latin America-Europe being certainly among the most common know-how and investment axes, quite a number of owners are starting to invest in their own offices in emerging markets, respectively in Europe or the States taking the perspective the other way around. While such "mirror" offices may make a lot of sense from an investment point of view, the operational side typically looks differently and so will certainly the picture in terms of cost efficiency.

It is hereby not only the additional HR, office and platform requirements adding to the cost base, but also the regulatory tightening, that has to be taken into consideration; and it is not only subsidiary or mirror offices that are popping up on the family office landscape, but also quite a number of private investment companies, driven also by their owners desire to have them closer to their own residences and business operations in London or New York or other global financial centres, are exploring relocation options from their local, off-shore locations the choice of which was originally driven by reasons of tax efficiency, stability, investment and organisational flexibility as well as protection.

The drivers for relocation

Compared to their previous role as the rather "passive" safe-keepers of the family assets, the majority of family offices of today are active investment managers, be it in regard to the management of traditional liquid portfolios or strategic direct investments such as venture or real estate, sometimes being hardly distinguishable from hedge funds or private equity firms, require access to global markets and financial centres in regard to resources, spirit and culture as well as of course investments, something the traditional off-shore locations are seeking to compete with, may however never be able to achieve entirely.

In addition to the common reason of gaining access to high-calibre experts and resources, it is however also a number of soft factors driving thoughts of relocation. Amongst the most frequently mentioned by owners and family officers is being at proximity to the markets, as well as being perceived as a key player/investor amongst the local circles of hedge funds, private equity firms and other asset managers; another aspect is entrepreneurial spirit, investment drive or simply a general sense of competitiveness which is felt to be in the air in the global financial hubs.

The risks of relocation

In today's discussion on the choice of location, two aspects compete for the top spot on points to consider – regulation and costs.

The trend of regulatory tightening provides challenges to the global family office community as much as it does to the other financial and banking players. Obtaining regulatory status does not only come along with a number of regulatory conditions, but also with substantial additional initial and continuous cost burdens. Further is investment and operational flexibility as well as room for decision-making and fast manoeuvring likely to become hindered as a result of required conflict of interest/risk management measures, director/board requirements, internal control and due diligence processes as well as other administrational pre-requisites. Although loopholes and exceptions may still apply for investment companies being recognized under the family office status, and certain exceptions still being applicable, such are likely to disappear in the long term.

Further, not only in regard to regulatory changes, costs have to be taken into account, but also in regard to a number of other aspects related to the question of relocation. Increased costs for office space, salaries and other employee benefits in order to be in line with local market standards as well as to match the standard of living of the previous location, have to be taken into the calculation, in the same way as tax expenses including VAT. Other costs may include additional travelling requirements in order to maintain substance in another (off-shore) location, although the latter could be counterweighted against the fact that a somehow "remote", off-shore location set-up may result in substantial travelling as well. There are certainly also more personal aspects which are to be considered as well and so while some owners keep residences in the global hubs for private and business use and therefore spend a considerable amount of their time in these locations themselves, others may have to consider it more thoroughly whether or not setting up in an Asian, U.S/Anglo-Saxon, Swiss or any other environment where maybe the own language is not spoken, is actually a desirable option from a pure cultural perspective.

Due to the pre-eminence of the topic in current consulting discussions, FOMC will be issuing a series of special briefing notes on today's top locations for family offices starting in January 2013.

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