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EXCLUSIVE: Family Office Experts Look Back On 2015, Share Their Thoughts For 2016

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After a busy year, family office experts think about what issues have been top-of-mind for them, and what they predict for 2016.

It certainly hasn't been a dull year for the family office sector and wealth management sphere at large – not just in the US but globally. As examples of what have been – and still are – some of the industry's most pressing issues in North America in 2015, *Family Wealth Report* explored topics such as socially-responsible investing, tax-efficient investing, health in wealth management and value propositions during its industry Summits in March and September.

Here, various family office experts offer their thoughts on how the sector fared this year – the challenges and opportunities – and the road ahead in 2016.

Concerns around data protection at both the client and institutional level have escalated in recent years given that so much (often sensitive) information is now shared electronically. Most, if not all, players in the wealth management space have ramped up their security measures in response to emerging threats (internal and external) such as cybercrime, and the matter is certainly high on the agenda among family offices.

"In the family office world, the value of trust and safety is always a top priority, and became more so in 2015," said Marianne Young, president of Market Street Trust. "Better access for clients to their information can potentially mean more entry points for information theft, which means systems integrity, always important, has become a top priority, and will remain one."

Besides security, one of the biggest challenges of 2015 was market volatility, Young said. "The domestic stock market's performance this year has overall been pretty flat, but that included some volatile periods. In addition, many other assets, including foreign equities, the energy sector and emerging debt have fared poorly."

Market Street expects the challenging investment environment to continue into and through next year, she added. "Equity markets will remain volatile and returns may be muted. To some degree, this was expected, given the long period of solid returns since the financial crisis." These challenges will likely be magnified in 2016 due to the uncertainty of the upcoming US elections and ongoing geopolitical events and global instability, Young said.

Meanwhile, Market Street believes that family offices will see higher client interest in impact investing in 2016. "It is not merely a strategy for Millennials, but one that clients of all ages are inquiring about as they realize there may indeed be opportunities at the nexus of philanthropy and investment with the potential for attractive strong returns," she said.

Family office consultant Joe Reilly added: "First-generation West Coast wealth and Millennial inheritors see social responsibility as a natural and often essential approach rather than a curiosity or closet philanthropic endeavor."

Top-of-mind for Jamie McLaughlin of J H McLaughlin & CO, meanwhile, is "the slow but inexorable movement of an industry that is developing more institutional character in capital structure, strategy, management, talent and process."

Indeed, according to the Deloitte Center for Financial Services' private wealth outlook for 2015, a combination of factors including governance, organizational structure, risk management and technology are causing family offices "of all types" to gravitate towards a structure more akin to their institutional wealth and investment management peers.

Challenges here, McLaughlin said, include the tension between serving both a firm's (or family's) business economics and delivering on the client experience.

"More specifically, the single biggest economic challenge facing MFOs and wealth management firms, more broadly, is right-sizing pricing in the face of combined fee compression on investment services and increasing complexity for non-investment services; services where firms have traditionally lacked pricing power due to an unsystematic demand from client families," he said.

"An opportunity exists, however, as demand increasingly favors an approach anchored to a fully integrated service platform that requires specialized staffing and is at the heart of serving the 'whole client,'" McLaughlin continued. "Such an integrated platform will place MFOs in a position to earn client primacy and, in time, improved business economics as primacy confers pricing power; a prophylactic against increasing asset-based fee compression."

On the technology front, Reilly noted that the sector is still resisting major technological disruption, despite the ubiquity of mobile and innovations in fintech.

"This is because there is no substitute for good human advice," he said. "Good advice comes from experience, timely data and some conceptual space. Greater transparency and risk management will become better and cheaper, but only with corresponding internal talent. Robo-advising can be a part of that, but it is turning out to be more of a feature than a true solution, and not particularly relevant for UHNW."

Willem Hattink, CEO of GenSpring, emphasized that innovating to serve the evolving needs of ultra high net worth families is always top-of-mind. "For example, in multi-generational families there's a stronger demand for governance and education," Hattink said. "Families want their children to be financially educated – for good reason. These children, the Millennials, are technically advanced and will challenge the delivery of services, methods of communication and investment decision-making. In order to retain these clients, we are continually evolving our technology and tools to engage them through innovative offerings and communication."

Hattink also anticipates that succession planning for family offices will continue to be both a challenge and opportunity going forward. "Many SFOs were formed in the early 1990s, and many of the family office executives are nearing retirement," he said. "Many of those family offices do not have the infrastructure in place to manage this change and may find themselves without a clear succession plan."

He added: "There are several movements happening within SFOs that will likely continue into 2016. SFOs could determine that they should disband, decide to join an MFO or co-opt with other SFOs to form an organizational buying unit. In any case, the sustainability of the SFO is going to be challenged with the generational shift in assets and the succession of family office executives."

For Michael Zeuner, managing partner at WE Family Offices, helping families become engaged owners who feel confident and in control around the management of their complex wealth enterprises is a constant challenge.

He said attention is most often focused on urgent, typically investment-related decisions. As a result, families often overlook the following critical questions: "What's the overall purpose of the wealth? What are we trying to accomplish? Do we have a 'map' of the entire enterprise? What's the alignment between the day-to-day decisions we are making and our overall strategy? Do we have the right decision-making process in place? How engaged are other members of the family in the decision-making process? Are they prepared for their future role as owners? Do we have the right, high quality set of reports and information that can enable us to make effective decisions?"

Focusing on these questions can be the difference between a family feeling in control and engaged and empowered, versus feeling uncomfortable and concerned around the management of their wealth, he said.

Other hot topics this year have been health in wealth management as Baby Boomers edge closer to retirement and increasing longevity expands family inter-dependencies; the globalization of wealthy families and thus the growth of the cross-border family office model; and of course philanthropy. The battle for top talent also continues in the family office world - an industry where people are said to make or break the business. 2016 certainly seems set to be another busy year for the sector.