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EXCLUSIVE: Conference Hears About Family Office Structures, Achievements And Governance

ANNA HALLISSEY, REPORTER - FAMILY WEALTH REPORT
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Held at New York's prestigious Metropolitan Club in conjunction with Columbia Management, the first panel of the summit, entitled Developments In Family Office: Structures, Achievements and Governance, brought together big names in the family office space to discuss matters including the existence of a family office market, client education and the significance of culture.

Chaired by Joseph Reilly, founder of family office association The Mill, the panel featured: Rick Flynn, managing partner, Flynn Family Office; Jamie McLaughlin, founder and chief executive, J H McLaughlin & Co; Rebecca Meyer, managing director of client strategy, Pitcairn; and Chris Zander, chief wealth advisory officer, Evercore Wealth Management.

Kicking the panel off, McLaughlin cautioned that a "family office market" does not yet exist, attributing this to its lack of institutional character and citing the absence of patterns, limited reference group benchmarking, and, due to its opacity, limited visibility among and between firms. He said it was more of a "community" than a "market" and that it was inchoate; that is, at a very early stage of its development.

"There's an element of the practice of family offices that's almost the very opposite of institutional," said Pitcairn's Meyer. She suggested that a potential reason why there isn't a family office market is because they tend to use quite an individualized approach to business.

Zander of Evercore Wealth Management similarly noted that instead of viewing the family office space as a market, his firm defined its own offerings by how it engages, coordinates and advises a family.

"Every family is so different in what their needs are, who they trust and how they've managed their wealth," he said. "We have to move forward, it's about connecting with the generational point people in the family and being able to deliver advice to them," he said.

Flynn attributed the lack of a more defined market to the disparate levels of wealth family offices cater to and instead stressed that firms must focus on their specialties to succeed. He noted that the differences in the servicing requirements between a first and sixth generation high net worth individual can be vast – making it more difficult for a single firm to dominate across all areas.

As well as this, Flynn touched on the disaggregation of the family office space in the wake of the economic crash in 2008 as a factor in the lack of market concentration, observing "a trend toward the customization of a firm's engagement letter and scope of services."

Meanwhile, McLaughlin believes the fragmented RIA channel is best positioned to serve the forward demand from families who are looking for an alignment of interests between the firm and client, but that they suffer from weak capital structures, weak brands, weak organic growth and deteriorating cost-income ratios - all which pose challenges. He contrasted the RIA channel with wirehouse brokerages who enjoy national brands and strong organic growth, and who have largely shifted to a comparable fee-based model.

"RIAs demonize them...and do so at their own our peril," he said. With many brokerages offering fee-based relationships, McLaughlin singled out Merrill Lynch PBIG in particular for its offering, asserting they have "some of the greatest talent on earth". Their challenge is delivering the best thinking of the firm across all clients equally.

On the other hand, Flynn noted that, despite their scale, brokerages do not necessarily fit into the family office market due to how they commoditize asset management services. "The opportunity is in the 'un'-bundling of the services," he said. "There are very fine firms that have a lot of AuM for a lot of powerful families but we don't think that most are providing the full range of services that families require."

McLaughlin said firms shouldn't fear outsourcing and sorting out what is "core" from what is non-core or "adjacent."

He continued: "I believe the economic future for all wealth firms will be to stick to their knitting. Do the things you really do well that no-one else can do better than you. Those are the core services, and to systematically define and affirmatively execute on those things that you don't do as well as someone else, and put those into the hands of partners that you make agreements with, formal or informal, and provide services to clients where you lead the service provision," he said. "I can assure you that families don't believe any firm can do everything well. We're fooling ourselves to think that we can provide everything."

Zander added that the key to a successful family office is its ability to be nimble and adapt to the oncoming generational shift around the corner.

Education

With regards to welcoming in the next generation of wealth, panelists unanimously stressed the importance of education for clients.

"It's a way of engaging with the next generation so that the transition is not an event, it's something that you're part of and you've already built those relationships within the next generation," said Meyer of Pitcairn Family Offices.

Zander said that Evercore sees education as a two-prong strategy – firstly through focused personal meetings with families on technical matters and secondly the evolution and fine-tuning of these meetings into specialized topics to pique individuals' interest, such as philanthropy.

Flynn's eponymous Flynn Family Office, a recent breakaway from Rothstein Kass, has a large number of first-generation wealthy individuals amongst its client base. As such, he explained this came with its own unique challenges:

"Most first generation wealth creators do not want to deal with the transfer of wealth. They keep putting it off, often because they don't want to face their own mortality," he said.

The solution, Flynn suggested, is to get the first and second generations to work together on succession planning of advisors as a method for facilitating difficult conversations without confronting the mortality issue directly.

"Education could be the most important opportunity to deepen relationships and lower client acquisition [by another firm], so by combining issues around the client experience and business economics, one is well served at the business," family office consultant McLaughlin added.

Attracting the right talent is essential in education, he continued, as issues related to education are more abstract and borderline existential from the analytical problem-solving that is typically provided by the industry.

Culture

With regards to attracting and retaining clients, as well as how to stand out from the pack, all panelists were unanimous on the importance of culture.

"Culture is everything," McLaughlin said. "I would bottle whatever it is that your founding principles were, its essence, and define it. It's probably inherent and intrinsic to the firm. What we do is not differentiated. Who we are is differentiated. At that level, I would say culture matters, transcending everything else."

Culture is integral to retain talent and attract young practitioners to the industry, he continued. McLaughlin stressed that professional development rooted in enlightened founding principles and opportunities for compensation via equity and ownership will drive sustainability and culture.

For Flynn, his firm's culture is based on what he called the "Four Cs" – care for clients and teammates, confidentiality, competency and continuity. Furthermore, he stressed that family office executives should act in the interests of clients without judgement of how they choose to enjoy the benefits of their exceptional wealth.

Zander stated that when Evercore was founded six years ago, it centered on the principles of transparency, direct relationships with clients and high level of investment and wealth planning expertise. When hiring staff, the training into that culture is integral, he argued.

Pitcairn's culture lies within the values of the owner-operated family office, created by the three sons of Pittsburgh Plate Glass founder John Pitcairn.

"The notion of integrity, quality and excellence, and transparency are tenets of our philosophy, which are very important to us as a brand," Meyer said. "Along with continuous learning, collaborative partnerships, and long-term thinking, these principles are the recipe that defines Pitcairn's culture."

Virtual family offices

Looking to the future of family offices, Rick Flynn told the audience about relationships in the virtual family office space.

"With the concept of virtual family offices, the main thing that's occurring right now is the outsourcing or disaggregation of the bricks and mortar from a large SFO to other outside providers of select services.
But Millennials and inheritors want you to communicate with them differently - they want you to report to them differently, and they really don't want to spend a lot of time with you. They want to understand the situation as it unfolds and they want it on their new Apple Watch," he said.

"The younger generation want to understand their wealth in a very different way," he added, citing how Millennials will drive service providers to run family offices in a more virtual and transparent manner – even if this could result in a decline in staff headcount.