CRACKING *the family office* SECTOR

For decades the family office service has been confined to the domain of the United States and European markets, however, as VICTORIA PAPANDREA *reports, this niche offering is gradually forging a trail through the Australian advice landscape.*

The family office has been an established business model for wealth management advisers in the United States and Europe for many decades, traditionally providing a wide range of services to clients with large family fortunes and old wealth.

The evolution of this niche offering to ultra high net worth (HNW) clients has reached such a highly advanced state in the US that it is becoming the flavour of the day to offer a family office service, National Australia Bank Private Wealth chief investment officer Philip Kimball says.

"It's almost like the hedge fund industry was six years ago; everyone and their brother wants to look at a family office, but what does it really mean?" Kimball says.

"I think that's where clients need to be sufficiently armed with information to be able to evaluate whether the family office is truly the right solution for them."

The personal and financial needs of Australia's HNW market are increasingly complex and a range of professional advisers, such as financial planners, private bankers, tax accountants, investment advisers, stockbrokers and tax estate lawyers, now seek to meet the wealth management needs of this group.

As Australian advisory firms become more competitive in finding and keeping their HNW clients, they are exploring opportunities to serve these individuals more fully and, as a result, the family office proposition is gradually making a footprint on the Australian advice landscape.

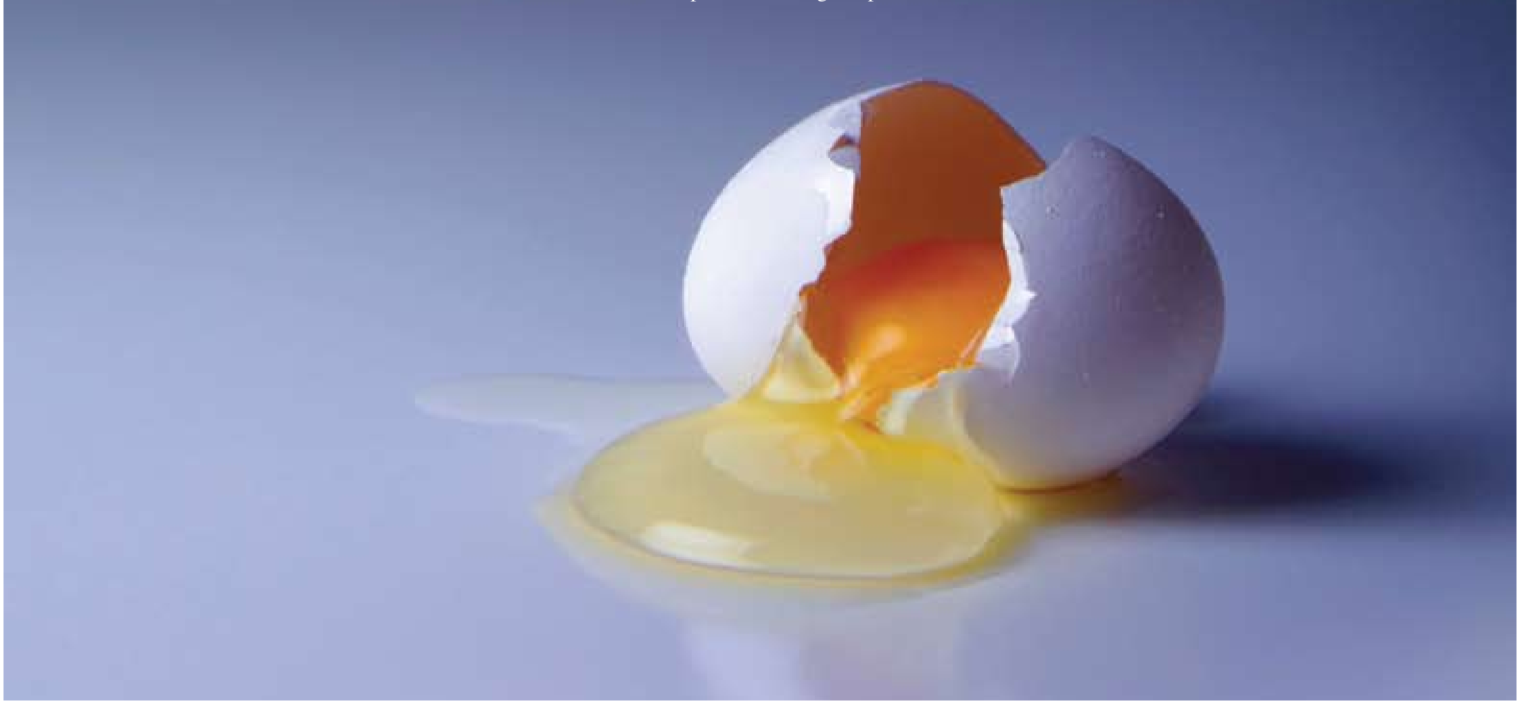
This development has been driven in part by the global trend of escalating personal wealth, according to a recent research report by the Queensland University of Technology (QUT).

The study, "Looking for the value-add: Private advice needs of high net worth Australians", found staggering fortunes are being accumulated at the pinnacle of wealth in Australia.

In just two years to 2008, the 200 largest fortunes in Australia were estimated to have increased in average value from $101.5 billion to $139.6 billion.

The report found family wealth is also coming to the fore. Of the 200 largest fortunes in Australia, 54 now belong to families rather than individuals, up from 46 in 2007.

Furthermore, the total net worth of these families increased from $28.1 billion in 2007 to $32.6 billion in 2008.



Photography: iStockPhoto

The report also notes the accumulation of wealth at the top end of the population is projected to continue, fuelled by various trends.

One key trend set to significantly impact on the family office space in Australia is the intergenerational transfer of wealth.

Citigroup head of private banking Jeremy Nestel says many family offices in Australia are only one or two generations old and they are facing their first intergenerational transition.

"And that is a deeply rooted emotional issue; it's not just financial. It's very personal and indeed many families in Australia are going through this for the very first time," Nestel says.

"Some have already been through it and are already into their second or third generation, so there's a formula that they are able to apply.

"But many of the migrants that came to this country in the 1940s for instance and who have been extraordinarily successful in business are only just going through this transition. It is certainly an important trend."

Goodman Private Wealth Advisers chief executive and senior adviser Brad Church agrees, noting this transfer of affluence presents a real challenge for wealthy families in the coming years.

"In terms of the ability to offer these kinds of services, it's very much dependent on understanding their needs and their concerns," Church says.

"And what worries a family with $30 million is very different to what worries a family with $300,000."

As many wealthy families are relying less on generating new wealth through directly managed business operations and more on preserving their capital, Nestel says another trend impacting on this market segment is the diversification of portfolio investments.

"Portfolio investments are becoming more international. There is growing demand for portfolio investments that are outside of Australia both in private as well as the public markets," he says.

"With clients now trading in securities and buying private stakes in businesses in the US, Europe, Japan and Asia, including China, the globalisation of their wealth portfolio is on the increase."

Furthermore, the QUT study indicates that as the wealth of HNW individuals grows in Australia, interest in charitable giving is also likely to increase.

Therefore, philanthropy is poised to be another area of service development that providers may increasingly offer within their family office proposition in the future.

"I think there is a growing level of awareness about philanthropy and the importance of it," Church says.

"I think people in the past, particularly in this client target market, have been a little reluctant to talk about their money and talk about their giving.

"But more and more we're starting to see it become more accepted and more the norm to talk about giving, and the more that happens I think the more other families will be encouraged to do it."

Both the single and multi-family office models seek to meet the complex personal and financial affairs of one or more successful families over several generations by using a breadth of services to meet the individual needs within that family.

While a handful of financial services providers have rolled out different forms of this proposition in the Australian market in recent years, Kimball argues the family office sector is currently a misunderstood space by a lot of new entrants.

"Is it an offering or a segmentation? I think a lot of new entrants into this space feel it's a segmentation; so if you have wealth of over $50 million, then you're a family office-type client," he says.

"For NAB, it's an offering. If you have $10 million, $200 million or a billion, not all ultra HNW investors fit the profile of what a family office should provide.

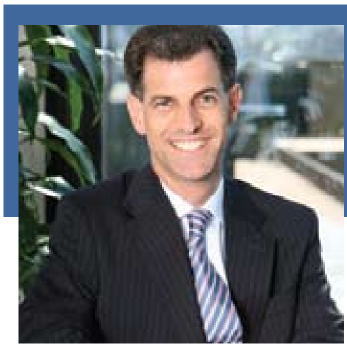
"Family office really means not just coordinated services across wealth, tax, investment solutions and planning, but having that be integrated and the Australian landscape just isn't there yet in terms of that.

"The coordination may be there but the integration is not there, and that's certainly what we're looking to build and leverage."

According to Nestel, the further development of the family office service in Australia depends on the institution organising its resources and capabilities so that they are aligned to this particular client segment.

"The challenge is that this segment is not large or high volume, but it's high value for the right services, so it is a niche segment as opposed to the broad scale opportunity

> "I don't think anybody has really cracked the family office space in the industry today. I think this is very much a developing area for the industry and ourselves."
>
> ***MICHAEL PILLEMER***
> ***Centric Wealth***



offered in the retail or superannuation market," he says.

"I can see that this will evolve over time in Australia and certain institutions will choose to apply resources to it, and perhaps target different categories."

Centric Wealth chief executive Michael Pillemer says financial services providers that have a number of multi-disciplinary teams will be the organisations best placed to tap into the family office market in the future.

"When the markets were booming there were a lot of players looking at putting their toe in the water in this space, but I think what we're finding now is that firms are less inclined to spend a lot of time and energy in this area and are just going back to basics by focusing on their bread-and-butter market, rather than spending too much energy in this space," Pillemar says.

"But I think this space will only be sustainable for two or three players in this part of the market because of the margins. While family office clients are prepared to pay more, often it's very time consuming and can be quite costly.

"A lot of the families we deal with speak to us every day, so it is very time intensive."

Likewise, the clients Citigroup deals with in the family office space value the relationship and the service standard very highly, Nestel says.

"So access 24/7 is something they expect and we provide, so they can reach me or any of my bankers 365 days, 24/7."

He says the threshold at which it makes sense to establish a family office is around $100 million.

"If you have less than that, then it's a borderline case as to whether or not it makes sense to establish a family office," he argues.

"So if there are 200 families in this country with over $100 million, how many institutions can support a business that is

PHILIP KIMBALL

focused against that segment?

"And when I say support a business, I mean really deliver the full power and intellectual capital of a global institution, and do it competitively.

For that reason, there is not a great deal of space for many competitors in the family office market, he says.

"We position ourselves to deliver what we believe are our core competencies and the very best service available in the market."

He says the family office space is always going to be a competitive market, however, he adds there will be different layers of competition.

"The competition across different products is very competitive, but financial services provided on a holistic basis – whole-of-balance-sheet management spanning markets around the world – at the moment I think the competition is thin," he says.

Church also agrees there is only room for a limited number of operators in the family office space. "Those operators will have to be very good because you really only have one shot at doing this well," he says.

"This kind of service is not suited to everyone; some people in this target market choose to do it themselves, through a single family office, or through a multi-family office.

"I think at present there's room for the existing number of family offices. Certainly we don't yet believe the market has been saturated, but I also don't see there being a huge opportunity for there to be many more."

While Australia has a small HNW population, Church also points out a large concentration of this wealth resides in Melbourne and Sydney.

"There's a few more family offices operating out of Sydney and Melbourne and that's natural because there is a lot of older money down in Sydney and particularly Melbourne," he says.

> "Family office really means not just coordinated services across wealth, tax, investment solutions and planning, but having that be integrated, and the Australian landscape just isn't there yet in terms of that."
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> ***PHILIP KIMBALL***
> ***NAB***

"We're based in Brisbane and to our knowledge there's only a couple of family offices operating in Queensland, so there is an opportunity for us to offer a family office service and I guess do reasonably successfully."

Furthermore, it also requires a particular calibre of adviser to work in the family office space.

According to Nestel, to work in this market segment it takes a seasoned, highly-experienced adviser who has a very broad background in capital markets and in credit particularly.

"We find that in this segment most clients have professional tax and legal services provided to them by legal and accounting firms so they don't turn to a bank for those kinds of services," he says.

"So the skill sets that are required are experienced bankers in global markets who may have once worked on institutional desks and who are going to be strong client advocates with credibility with family office professionals."

Church says the adviser also needs to have a deep understanding of the families, their situations and their needs.

"The adviser needs to have a very strong technical background I believe, that's almost a given, and certainly they need to have strong interpersonal skills," he says.

"You need to picture that these people are often very successful business owners and they've been at the top of their game in their own area of expertise, so they're looking for a partnership of equals."

At times the adviser also needs to act as a sounding board to the family office client, according to Pillemer.

"It's very much a relationship manager, communicator-type role, and just being that trusted adviser for the family, almost like an internal CFO [chief financial officer]," he says.

"Definitely you need advisers who can hold their own and who can be quite firm, really know their information, but they need to be able to stand toe-to-toe with some of these families and some of these individuals.

"Sometimes we have the families where the adviser has to manage the relationships with the husband and wife, but then their children with MBAs get involved and everyone has a different opinion, so the adviser is in the middle of this and they've got to be able to put forward their own view and manage those types of situations."

In 2002, Citigroup decided to provide family office services to its ultra HNW clients and since then this has become the group's main business within the private bank in Australia.

"At that time, we identified the family office group and customers with a net worth of over $50 million and a particular need to access international markets as being under served in Australia," Nestel says.

"So given Citi's global footprint, intellectual capital and pre-eminent position in private banking, we decided that this would be the segment on which we would focus our business in Australia and New Zealand."

Citigroup's family office clients have a need for access to best-of-breed managers, investment opportunities and information flow, he says.

"What they're most interested in getting is an institutional execution capability, institutional quality research, information and service, institutional quality pricing

FAMILY OFFICE SERVICES
at a glance

The range of services that may be offered by a family office include:

- account keeping
- bill paying
- booking private jet
- buying a car or house
- cash management
- conducting family meetings
- establishing trusts
- estate planning
- finding a general contractor
- getting tickets to sold-out shows
- hiring a nanny
- insurance
- investment management
- legal services
- maintaining the family website
- managing vacation properties
- organising charities
- philanthropic advice
- tax planning
- teaching basic financial literacy

SOURCE: Queensland University of Technology report, "Looking for the value-add: Private advice needs of high net worth Australians" and institutional quality professionals," he says.

"So investment is one aspect of it, but the other aspect we provide family offices with is credit, be it financing lifestyle assets, aircraft, property, homes, fine art collections and, in certain cases, yachts."

Kimball says NAB's family office service offering sits as a single family office, however, he points out it is also supported by a very large organisation that can offer the client greater scale.

"That's the choice I think really facing the family office-type client in Australia right now; you can look at an organisation that provides that family office offering with a strong backing parent like NAB who can open doors globally," he says.

"Or, you can go with a multi-family office that has that same type of philosophy around private clients, but it may not have the same scale, strength and backing.

"I think that's really the choice that's confronting a lot of the ultra HNW investors now."

For Centric Wealth, Pillemer says rolling out a family office model has been a natural progression over the years, driven by identifying the needs of their HNW clients and delivering on these by leveraging off the organisation's existing skill sets.

"Because some of our existing shareholders and our clients already fit into this space and we're focused on meeting their needs, this has been an area where we've been gradually building up our offering and our client base, however, it's not our bread and butter," he says.

"Our family office offering is still evolving and I don't think anybody has really cracked the space in the industry today. I think this is very much a developing area for the industry and ourselves."

When servicing family office clients, he says it is not only about dealing with their personal financial needs but also their private family business requirements.

"As such it's not only about providing an integrated offering at an individual level, but then understanding their individual situations in the context of the family business," he says.

Goodman Private Wealth Advisors currently delivers its family office suite of services to one family, but Church says the firm has recently made this offering available to other families.

The firm's family office model consists of a suite of six services: private wealth planning; financial and tax strategies; investment selection and management; intergenerational wealth transfer advice; administration filing and bookkeeping; and philanthropy advice.

"Our existing family office client has taken up all six, but the way the services have been designed actually allows a family to choose what they want to take up and it will be dependent on their needs," Church says.

"We've obviously got a core set of processes that sit behind the service that we deliver, but as we bring on additional families and their needs differ we're going to have to modify those processes so that they are truly tailored."

When Goodman decided to set up a family office model, Church says looking to overseas models was an important part of the research and development process.

"The US is the home of the family office, so we travelled over there to visit a couple of single family offices. There was one that we visited in San Diego who also had an office in Hong Kong as well," he says.

"This particular family had family members in Asia, they had them spread around the States and these family offices dealt with mum and dad, sisters, brothers, kids, grand kids and they were dealing with a couple of big businesses that were spread around the world, so it was one family but incredibly complex."

Centric Wealth also looked at some of the US models in the family office space and European private banking models to find out some of the services they offered to the larger end of their client base.

"But really our model has evolved more through looking at the requirements of our existing clients and building our offering around that, rather than looking at what some of the overseas models are doing," Pillemer says.

"For example, we found our clients had very little need for the concierge services that everybody talks about in the US, such as walking the dog."

The concierge service was one that Citigroup's family office service provided in various countries 20 years ago, however, Nestel says clients have since moved on and now demand intellectual content and services.

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> ***Goodman Private Wealth Advisors***

BRAD CHURCH

"The concierge service entailed preparing families' dwellings for them when they went on holiday to make sure that their holiday homes were cleaned, flowers in the pots, milk in the fridge, but that's a service we don't offer anymore," he says.

"Our service is now very much more around assisting in the management of the financial assets of the client and less around their lifestyle."

While the family office structure is a proposition currently only available to the ultra HNW market, most argue it is a model that cannot translate to the broader market.

"It is far too expensive. The resources you need, including the global reach and balance sheet required to service this segment, is very intensive, and this drives the transaction threshold you're able to service," Nestel says.

"There is a high cost of delivery; you're paying for very experienced, seasoned, technically-qualified people in the business."

Along with high costs, he adds there is also a large compliance overlay to manage.

"There's full compliance with all the laws and regulations and that becomes much more complex when you're dealing across jurisdictions," he says.

Church concurs, adding the proposition would be a difficult proposition to translate to clients other than HNW individuals because of the amount of time, work and complexity involved.

"For example, with our bookkeeping service, a mum and dad with a few thousand dollars don't need to pay us to do their bookkeeping, whereas a family with $30 million and family companies, trusts and charitable funds are going to be inclined to outsource that kind of work to a professional and pay for it," he says. «