Family office fundamentals

Modern history of family offices

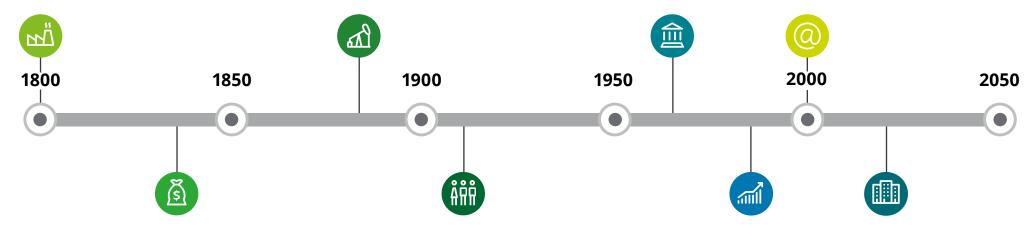
Family offices are not a recent phenomenon; their modern history within the United States has paralleled the growth of our country. It is now estimated that there are approximately 6,000-7,300* family offices in the United States.

1800s: The Industrial Revolution created the first "titans of industry" in the United States.

In **1882**, J.D. Rockefeller was widely credited with establishing the first full-service single family office in the United States. His fortune stood at \$1.4 billion at his death in 1937, which is equivalent to \$255 billion today.

1970s: Private banking with its customized services was already popular, and the concept of the multifamily office evolved.

2000s: The dot-com technology boom created many multimillionaires—and family offices.



In **1838**, the family of J.P. Morgan founded the House of Morgan to manage family assets.

Other very successful families—such as the Carnegies and Vanderbilts—followed suit and formed family office arrangements.

1990s: Many businesses founded after World War II were monetized as their owners retired, significantly increasing the number of family offices established to manage family wealth.

Today: Family offices are widely recognized as a distinct industry with trade organizations, events, and a variety of financial services firms tailoring their offerings to serve them.



^{*}Source: 2019 Family Office Exchange

Family office fundamentals

Characteristics of a family office

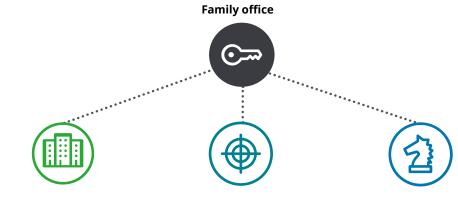
While each family office is as unique as the DNA of its individual founders, there are some common goals that most family offices strive to achieve.

- Provide formal structure for the management and governance of the family's wealth
- Promote the family's legacy, vision, and values
- Coordinate, integrate and consolidate customized services for the family
- Manage economic and personal risks for the family
- Capitalize on economies of scale gained from consolidated family wealth accumulation, such as preferential investment access and fee reductions
- Maintain confidentiality and privacy of family affairs



Figure 1. Traditional paths of the family office

One of several scenarios often results in the formation of a family office.



Scenario 1: Separation

A successful family business has grown significantly and profits from the business have been diversified into new active or passive investments. The management and administration of those investments has become highly demanding for family business personnel. To mitigate conflicts of interests and other risks, the family's nonbusiness operations embedded within the company are separated into a newly established family office.

Scenario 2: Liquidity event

A successful family business or entrepreneur-owned business is monetized through, for example, a minority-interest sale, majority-interest sale, or recapitalization. A family office is established following the liquidity event to provide a formal structure to promote family governance and decision making around the resulting wealth.

Scenario 3: Fund redemption

A hedge fund or private equity fund manager redeems out third-party investors of the fund. Subsequently, the fund manager evolves into a family office, now serving the principal and family members.



Family office fundamentals

When is it time?

While opinions vary widely, many people in the family office industry believe that a family needs at least \$100 million of investable assets to form a family office. Why? In general, it is believed that this amount of wealth is necessary for dedicated resources to provide favorable economies of scale from both a time and money perspective.

But the amount of wealth involved is not the only important consideration. There are a number of key integrated, qualitative factors that also should be considered (see figure 2). As more of the factors become relevant, so does the value proposition for the formation of a family office.

This due diligence process is an important step in assessing when and how to initiate the formation of a family office. With the guidance of trusted advisers, the diligence process provides a structure for weighing these important factors, which will help a family determine whether and when a family office makes sense.

Figure 2. Integrated factors in the decision to form a family office

The amount of wealth involved is only one of many factors that drive the decision to form a family office.

