

COVER STORY

AT THE TOP OF EUROPE'S WEALTH PYRAMID SIT THE FAMILY OFFICES THAT ADVISE THE SUPER-RICH. THEIR APPROACH IS BASED ON INDEPENDENCE, TRANSPARENCY AND SAVVY ASSET ALLOCATION. AND THERE ARE LESSONS FOR INVESTORS OF ANY SIZE

BY JAMES RUTTER

The INSIDER'S

guide to family offices

While the wealth management industry nurses a hangover from the end of the credit-fuelled boom, the discreet offices that manage the financial affairs of Europe's wealthiest families are enjoying a surge in popularity.

The multifamily offices that have mushroomed in London and Switzerland over the past decade report a stream of enquiries from ultra-wealthy clients alienated by mainstream wealth managers and private banks.

Markus Stadlmann, head of HQ Trust in Frankfurt, a multifamily office established by the descendants of BMW founder Harald Quandt, says: "We've had increasing interest simply because the financial and economic crisis has initiated within a number of wealthy families a discussion about how they should go forward."

Guy Paterson, chief executive of Unigestion's family investment office, says: "Families who have suffered private banking relationships over the years are asking themselves why?"

Europe's richest dynasties, such as biotech company owners the Bertarellis and the Rausing, of packaging giant Tetra Pak fame, often prefer to operate their own investment offices, but those with merely tens or hundreds of millions are increasingly favouring private investment offices which cater for a small number of like-minded families.

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MULTIFAMILY OFFICES

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And the attributes that are attracting the super-rich to these boutique operations – namely independent advice, transparent fees and consistent investment returns – are trickling down to less wealthy clients.

Graham Harvey, a director at wealth consultancy Scorpio Partnership, says: “Think of the aviation industry. Services that were only in first class 10 years ago can now be found in economy.”

William Drake, co-founder of Lord North Street, a London-based multifamily investment office where clients need at least £25m (€28m) in liquid assets, says: “If the way we’re looking at investments is right, why isn’t it right for smaller clients as well?”

The growing sense of dissatisfaction among clients of mainstream wealth managers makes his question more pertinent.

PERFORMANCE

Research conducted by Dow Jones Wealth Bulletin and The Wall Street Journal Europe, to be published next month, shows a large divergence of opinion between how professional wealth managers felt they performed during the credit crunch and what their clients think. While the wealth managers believe they acquitted themselves well, many clients feel they were poorly served and are reviewing their relationships as a result.

The success of multifamily offices at the top end of the market may hold the secret to reinventing the industry.

The abiding problem with wealth management is the conflict of interest facing most advisers: they are supposed to advise clients on what is best for them in the long run but are incentivised in the near term to sell financial products. While these interests may converge, frequently they do not.

A research paper published in March for the UK’s Centre for Economic Policy Research highlighted the problem. Andreas Hackethal and Michalis Haliassos, from the Goethe University Frankfurt and Tullio Jappelli from the University of Naples, analysed more than five years of data from a German discount brokerage that gave clients the option of managing portfolios on their own or with the help of an independent financial adviser. They found that clients who used an adviser tended to have lower returns and take a greater degree of investment risk than those who made decisions on their own.

Scepticism over the value and independence of advice permeates the wealth management market. Multifamily offices claim to overcome

this by being wholly independent of product providers and having transparent fees.

Of course, it is easy to claim independence but tricky to deliver. Harvey says: “The idea of independence that so many family offices emphasise is often difficult to actualise.”

For Stadlmann at HQ Trust, the imperative for family offices is that they act solely as buyers and never as sellers of products. “To be an organisation that really serves families well requires independence from intermediaries, like banks,” he says.

The waters are muddied, however, by family offices that expand to offer standalone investment products or even banking services, and by the numerous private banks and wealth managers that also have so-called family office divisions. Steen Ehlerl at Ferguson Partners Family Office says: “Many investment companies claiming to be family offices are nothing more than hedge funds and asset managers looking for clients and assets.”

FEES

Whatever claims of independence a wealth manager may make, the truth is only revealed by dissecting the fees they charge. Drake says: “Only one question really gets to the heart of the issue: how are you paid?”

At Lord North Street, the answer is through a flat fee in basis points, or fractions of a percent, depending on the size of the portfolio. Drake says: “We have absolutely no in-house funds or products and have a method of charging that leaves us neutral, regardless of the strategy we choose. The flat basis point charge is every penny we will get, ever.”

This approach is favoured by many multifamily offices. They also emphasise that any “retrocessions” they receive from product providers – kickbacks paid for investing in a particular fund – will be passed on to clients, something that seldom happens in mainstream wealth management.

For family offices that offer varied advisory, consultancy or concierge services, another option is to charge

Going solo

Ernesto Bertarelli has Kedge Capital; Hans Rausing has Alta Advisers; Alicia Koplowitz has Omega Capital. Admission to the top tier of Europe’s wealth club virtually requires setting up your own family investment office.

“There is a vanity factor,” says a banker who deals with family offices.

“Someone wants to be able to stand on the quarterdeck of their yacht off Portofino and say their family office is doing this or that.”

But the financial crisis has made some question the price of their vanity. While a single family office delivers full control and confidentiality, the running costs can be significant.

The banker says: “Some single family offices are closing. An office doesn’t have to be profitable but it has to achieve what it was set up for.”

Wealth industry sources suggest some single family offices posted particularly poor investment returns last year, often due to illiquid or distressed private equity and hedge fund investments.

Mark Nixon, head of the family office team at Merrill Lynch global wealth management, says: “The costs of running a single family office will probably go up and there is likely to be a migration of smaller offices to larger multifamily offices.”

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clients for time, much as a lawyer would. Andrew Rodger, a director at Stonehage, which has 1,000 families and €20bn (\$27.3bn) of assets on its books, says investments form only a part of a service which covers all areas of technical, legal, financial and strategic advice a wealthy family might need. He says: “The family office advisory work is charged on a time basis or we sometimes agree a fixed fee. We don’t charge a percentage of assets unless and until our investment team is given a specific portfolio to oversee.”

The third, and most controversial option, is to include some form of performance-related fee. Global Wealth Management, a Geneva-based family office which manages \$2bn (€1.5bn) for 25 families, prefers this approach. Peter Sartogo, managing partner, says: “We wanted to be perceived as entrepreneurs for entrepreneurial clients. They like the fact our interests are aligned. It is like sharing a passion.”

INCENTIVE

But others suggest performance fees reintroduce the risk of conflicted interests which the family office structure is meant to overcome. Drake says: “Performance fees create an incentive to take risk with clients’ money.”

HQ Trust also believes in performance-based fees, says Stadlmann, but goes to great lengths to ensure the interests of all parties are aligned. He says: “When we make an investment, the Harald Quandt family, the third-party family and the managers all co-invest. The Quandts are invested in everything as are the management, although other families will not make all the same investments. A fixed fee covers the running costs of the business and we only get more if we meet the objectives of the third-party families.”

The proof that independence and transparent fees work comes only through performance figures.

As with most wealth managers, multifamily offices are generally reluctant to divulge returns, claiming the bespoke nature of their portfolios means averages are misleading.

The anecdotal evidence suggests the best-performing offices delivered positive returns last year while the worst saw negative returns in the low teens in percentage point terms.

At the lower end, at least, this is not much different from the mainstream wealth industry. The private client index compiled by Asset Risk Consultants, which tracks the performance of 35 UK-based wealth managers, returned -12.4% for balanced sterling portfolios last year, although dollar returns were lower at -19%.

Nevertheless, Unigestion’s Paterson says: “2008 was a wonderful year

Market map

for multifamily offices in general in terms of differentiation because it was the first year for a while in which it was easy to spot the difference. Our client portfolios significantly outperformed the private banks and we were able to avoid all the nasty elephant traps.”

Paterson says most of his clients saw their portfolios deliver single-digit losses in percentage terms, while the best-performing client portfolios were “up significantly”.

Sartogo at Global Wealth Management says families with conservative, capital preservation strategies finished last year flat, while those with aggressive mandates were down considerably.

Luis Palacios, founder of Elystone Capital, says his clients were down by about 10% last year. At HQ Trust, Stadlmann says negative returns were in the low teens: “It was nothing to cheer about but was within the range we consider acceptable given the investment approach we take.”

Listed funds run by Sand Aire, a London-based multifamily office, showed negative returns of between 14.7% and 21.7% last year, according to publicly available figures – although the funds reflect only a portion of clients’ assets.

On average, it seems likely multifamily offices easily outperformed the broader wealth management industry. But Harvey says returns tell only part of the story. He says: “Multifamily offices have been winners from the financial crisis not because they are multifamily offices but because they are independent advisers. Rather than a flight to quality, there is a flight to advice with clients happy to pay for what they believe to be independent.” **WB**

“MULTIFAMILY OFFICES HAVE BEEN WINNERS FROM THE FINANCIAL CRISIS WITH CLIENTS HAPPY TO PAY FOR WHAT THEY BELIEVE TO BE INDEPENDENT ADVICE”



Independent winner: Jorge Lorenzo of Spain celebrates victory in the Japanese motorcycle Grand Prix

Defining a multifamily office is tricky. The purists will say it must provide all the services a family might expect of their own private office, from managing investments to co-ordinating tax and legal advice, property management, travel, security and interior design arrangements. Few, however, do the lot.

Andrew Rodger, head of the family office at Stonehage, says: “We are not aware of many multifamily offices that offer a full, multi-

disciplinary service.” Stonehage claims to be among the minority of full service firms, as does London-based Sand Aire. Joan Major, a director at Sand Aire, says: “We aspire to clients feeling this is their single family office.”

At the other end of the spectrum is Lord North Street which styles itself as a private investment office. Co-founder Adam Wethered says: “We didn’t feel

there was a gap in the market for non-investment activities.”

Some multifamily offices do not even offer investments, concentrating instead on consolidating reports from other service providers and monitoring their performance.

Scorpio Partnership estimates there are about 100 independent multifamily offices in Europe, defined as those not affiliated to a bank or mainstream wealth manager. Our table lists the most prominent.



AUSTRIA
Seyer & Partner ■●●

BELGIUM
Praxis ●◆◆

FRANCE
Financiere-MJ ★

LUXEMBOURG
Quilvest ★
Bemberg family office branched out into banking.

GERMANY
HQ Trust ■▲

SWITZERLAND
Global Wealth Mngmt ■●▲◆

Has merchant bank and corporate governance arms.

Private Client Partners ■●●
Headed by Andreas Bodenmann and Andreas Limburg.

Ferguson Partners ★
Specialises in bespoke co-investments, consultancy and networking.

Guggenheim ★
Famous US family office has operations in Geneva and London.

Arlan ■●▲◆
Also has independent advisory for less-wealthy clients.

Ramella FO ■●●

Kehrli & Zehnder ★

NETHERLANDS
Commenda FO ■▲◆

Administrative focus.

UK
Sand Aire ★
Founded by the Scott family.

Stonehage ★
Stanhope Capital ■◆
Five founding families. Bessemer Trust of the US owns a stake.

Iveagh ■
See panel (left).

Fleming Family & Partners ■●
Manages €5bn with a hedge fund management offshoot.

Elystone Capital ★
Backed by Francesco Trapani, chief executive of luxury goods firm Bulgari.

Capital Generation Partners ■
Set up by Khaled Said, son of Syrian-born billionaire Wafic Said.

Lord North Street ■

MaxCap Partners ■
Founded by financier Michael George.

Nean Wealth Advisers ●▲◆
Run by ex-private banker, Simon Evans.

Unigestion ■

KEY: ★ Full-service family office ■ Investment ● Wealth structuring ▲ Consultancy ◆ Concierge ◆ Consolidated reporting/monitoring

Source: Company Websites

For the masses

You no longer need to be part of the jet set to invest alongside some of Europe’s wealthiest families.

Iveagh, a multifamily investment office founded by a branch of the Guinness brewing dynasty, last year launched a fund, Iveagh Wealth, open to anyone with £50,000 or more to invest. It has raised more than £50m since September and is adding a Swiss franc share class to the existing sterling, euro and dollar classes.

While the move appears to turn Iveagh from an independent adviser to a product seller, Chris Wylie, head of private clients, stresses that the public fund uses exactly the same asset allocation approach as the bespoke portfolios the firm manage for wealthy families, including

Edward, Earl of Iveagh and his relations, who have all their financial assets with the firm. Wylie says: “They’re not hedging their bets.”

As with many multifamily offices, the investment approach emphasises picking the right asset classes at the right times, rather than choosing the best fund managers. John Ricciardi, head of asset allocation at Iveagh, says: “All the evidence shows 90% of returns are delivered by asset allocation.” Performance so far has been impressive, with the fund returning -2.1% last year. However, the fees are far more in tune with the investment industry than multifamily offices, with a 1.5% annual management charge and a performance fee of 10% above a hurdle.

BUSINESS

Family VALUES back IN vogue



By James Rutter

Amid the hand-wringing and soul-searching as European policymakers count the cost of the financial crisis and attempt to chart a course to recovery, one sector of the economy has been largely overlooked: family businesses.

While it has been a rough ride for Europe's top family companies, they have fared better than the market at large. Credit Suisse's index of listed companies in which families have substantial shareholdings is 4.1% ahead of the MSCI World equities index since the start of last year.

Wealth Bulletin's second annual ranking of Europe's top 10 listed family businesses, compiled by Credit Suisse, shows the best performers have delivered impressive share price gains over five years despite the recent precipitous declines in equities.

Germany's SolarWorld, headed by founder Frank Asbeck, tops the ranking for the second year. New entrants include French internet services provider Iliad and 200-year-old Portuguese retail group Jerónimo Martins.

Michael O'Sullivan, head of global asset allocation at Credit Suisse's private banking business in London, says: "The characteristics of the family business model offer other companies, but also policymakers,

a good reference point as they look to pick up the pieces from the credit crisis. Family businesses also capture the ethos of the post-credit crisis world – the collective over the individual, long-term over short-term decision-making, low leverage-over financial engineering and stability over volatility."

Joachim Schwass, a professor specialising in family business at the IMD business school in Lausanne, also sees the changed business landscape as benefiting family firms. He says: "Greater cynicism over the activities of public companies is a great opportunity for family businesses. They have a values-based approach and mean it. That is working in their favour."

BUFFETT

One man who needs no convincing of the merits of family businesses is Warren Buffett, chairman of Berkshire Hathaway. Dubbed the Sage of Omaha for his far-sighted investing, Buffett suffered along with many others last year making, by his own admission, some "dumb" investments. Yet he remains an avid suitor of family-run companies.

When he took a four-city tour of Europe a year ago he was looking specifically for established, family-

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owned businesses to add to Berkshire Hathaway's portfolio. In his annual letter to shareholders in February, Buffett wrote: "Our long-avowed goal is to be the buyer of choice for businesses – particularly those built and owned by families."

Deals have yet to follow from his European trip. But as Angelo Moratti, president of family-run Italian oil refining company Saras and Buffett's guide on the tour, told Bloomberg at the time: "They may not be ready to sell now, but they may be ready in five years."

TOUGH QUESTIONS

Some may be ready much sooner. The tumultuous 12 months since Buffett toured Europe have forced many families to question their commitment to being long-term business owners.

Grant Gordon, chief executive of the UK's Institute for Family Business, which represents 120 companies with a combined turnover of £29bn (€32bn), says: "The crisis has created pressure to ask tough questions. Previously, it was easy for inactive shareholders to sit back and wait for their dividend cheque to arrive on their doormat twice a year. Now they have to ask themselves: do we want to continue as a family having all our eggs in one basket? Do we all as shareholders buy into the vision we have as family business owners?"

Karina Challons, a director at HSBC Private Bank, suggests some entrepreneurs who were confident of selling their businesses are facing an uncomfortable period. She says: "Deals that were almost signed and sealed have fallen by the wayside. But some owners are not prepared to accept significantly less than the business was worth last year, even though the figure was probably based on fresh air."

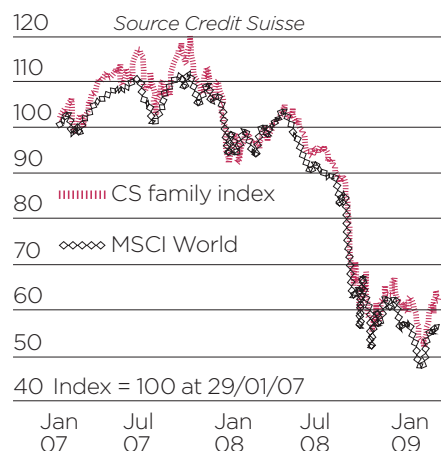
With company valuations depressed, and private equity firms chastened by the credit crunch, Gordon expects to see few outright sales of established family businesses. He says: "The question is not so much around whether or not to exit, but around which of the owners are genuinely committed to the business. That may mean realigning the ownership structure and finding mechanisms to trade shares within the family."

WEALTH

The financial crisis has nevertheless been a shocking experience for many family business owners. Luis Palacios, founder of multifamily office Elystone Capital, which has a group of European entrepreneurs as clients, says: "Some have had to think the previously unthinkable: that their business could disappear. They have weathered the storm but as a result are much more focused on preserving their personal wealth and making sure they have planned for future generations."

Challons agrees: "Families are putting aside pockets of money to

FAMILY BUSINESS VALUE



cover them in the worst of times. They are not quite putting it under the mattress but making sure it is as safe as possible. They regard their risks as being in the business."

Schwass has also observed a change in mindset among family business owners when it comes to their personal wealth. "The vast majority are very critical of the banks they traditionally trusted to preserve and grow their wealth, but there is blame on both sides. Advisers and families were perhaps not focused enough on preservation; the growth paradigm became ingrained. That has now changed."

What remains, however, is the sense of perspective that multi-generation family businesses can bring to the current crisis. Schwass says: "I've been dealing with three family businesses where the senior members are in their 90s. They've seen it all before. For them, this is just another blip." **WB**

Europe's top 10 listed family businesses Best performers over five years*

1

(1) SolarWorld

Est: 1998

Business type: Solar energy
Return: 1441%

The Asbeck family, headed by founder and chairman Frank, owns 25% of Germany's fourth largest energy company.

2

(2) Eramet

Est: 1880

Business type: Mining
Return: 286%

The Duval family owns 37% of the French nickel miner originally controlled by the Rothschilds.

3

(NEW) Iliad

Est: 1993

Business type: Internet service provider
Return: 282%

Colourful founder, Xavier Niel, keeps a tight grip on the French internet services company, with a 65.5% shareholding.

4

(4) Ubisoft Entertainment

Est: 1986

Business type: Online entertainment
Return: 188%

Five Guillemot brothers founded the French computer games company and the family retains a near 11% stake.

5

(NEW) Antofagasta

Est: 1888

Business type: Mining
Return: 173%

London-listed mining conglomerate controlled by Chile's Luksic family. Jean-Paul Luksic, 44, is executive chairman.

6

(NEW) Alfa Laval

Est: 1883

Business type: Engineering
Return: 157%

Part of the empire of Sweden's Rausing dynasty. Privately-held family company Tetra Laval owns 18.4% of Alfa Laval.

7

(NEW) Software

Est: 1969

Business type: Business software provider
Return: 147%

Founder Peter Schnell owns 29.3% through the Software AG Foundation. This year he received Germany's order of merit.

8

(NEW) Jeronimo Martins

Est: 1792

Business type: Food distribution and manufacturing
Return: 139%

Portuguese company controlled by the Soares dos Santos family, headed by company chairman, Alexandre.

9

(5) Sonova Holding

Est: 1947

Business type: Hearing healthcare
Return: 136%

Andreas and Hans-Ueli Rihs, sons of founder Ernst, own 11% and 9% respectively of the Swiss hearing-aids company.

10

(NEW) Ratos

Est: 1792

Business type: Private equity
Return: 128%

Descendants of founders Ragnar and Torsten Söderberg own 20% directly and 17% through family foundations.

*Share price performance five years to March 25

SOURCE: CREDIT SUISSE

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