

## Single-family offices feeling the squeeze

Kanupriya Vashisht / July 20, 2009



Just about everyone's pulling their purse strings a little tighter — even the ultra-rich, many of whom are toying with abandoning the exclusivity of single family offices for the cost efficiency of the multi-family model.

John Benevides, president of the U.S.-based Family Office Exchange (FOX), which serves as an independent advisor to families of exceptional wealth, agrees the recession has stirred interest among the high net worth, in both Canada and America, to explore the multi-family option. "The trend actually emerged toward the end of 2006 and in early 2007; the recession accelerated it."

"Demand is especially high among the newly wealthy," he notes. "In the past, they've had to set up single-family offices (SFOs), but as awareness about the multi-family office (MFO) grows, there are more and more inquiries coming in from this segment."

Much of this interest, Benevides notes, is to do with the supply side, starting with the availability of more viable alternatives and multi-family options. On the demand side, he says, there's growing realization that running a single-family office is an actual business and entails hiring and managing staff. There are also a lot of technology and compliance-related costs.

Thane Stenner, founder of Stenner Investment Partners of GMP Private Client L.P., a Vancouver-based private multi-client family office group, which serves 47 families nationwide with a net worth above \$10 million, also attests to an increased interest from high net worth families and professionals who handle their finances — rising from one to two inquiries per month, to five or six.

A lot of the heavy lifting — due diligence, investment consulting services, and third-party research — is now being outsourced to multi-family offices, he says. "They've been given a mandate by the families they represent to cut costs, and are now trying to find a better model. They can see the cracks in their own system — prohibitive costs, and a lack of flow of proactive ideas. Approaching a multi-family office gives them access to a lot more research, a lot more information."

According to Stenner, who's also a managing director of the Private Client Group, cost effectiveness is the clear benefit the super-rich are seeing in a multi-family office (MFO). "If you're splitting the cost between 50 families as opposed to one, you're probably lowering your administrative cost by about 50%. They're also finding it's increasing their idea flow. MFOs already have a lot of intellectual capital."

A simple but technologically sound family office can end up costing about \$1 million per year — about \$750,000 in personnel compensation, and another \$250,000 in operating expenses such as rent and systems — in addition to any outside investment management or consulting fees, fiduciary fees, or other extraordinary expenses. "With these kinds of numbers, a family office probably only makes economic sense where family assets are greater than \$200 million," Stenner notes.

The relationship between SFOs and MFOs in Canada tends to be both complementary and adversarial, he says. "Some SFOs still haven't realized the MFO model can be very complementary to what they're doing."

Outsourcing to multi-family offices does not imply a complete dissolution of the single-family structure, as feared by some SFOs. According to Stenner a hybrid of the SFO and MFO model actually works best.

"We're like an outsourced extension, we aren't there to take over all the roles and duties; our job is to partner with [the SFO] and truly collaborate with their existing professionals," he says. "Single family offices, at the end of the day, still retain control over their wealth; the MFO is just an extension of what they're currently doing, only more efficient, practical and profitable."

According to Tom McCullough, president of Toronto-based Northwood Family Office, which serves about 20 families with assets ranging between \$20 million to \$500 million, another disadvantage of staying with the single-family office structure is that it can be quite inward looking.

"They look only at their own situation, whereas the MFO can use its experience with managing the wealth of other families and apply the lessons learned. It gives you a lot more perspective."

The biggest hurdle, however, given the expansion of the financial industry and the demand for talent, McCullough says, is attracting, motivating and retaining the "best of breed" staffers. "SFOs stand the risk of providing a mediocre service."

While he agrees the recession has exacerbated the trend, McCullough notes that many SFOs in Canada don't even know they have an option. "Most families don't have a family office, just a broker, accountant and lawyer who exit disjointedly."

Managing director of WaterStreet Family Wealth Counsel, Cestnick doesn't see a very obvious trend toward the multi-family office, but says families do tend to gravitate toward the services multi offices provide once they understand what they can offer. "We have a compelling value proposition, we bring objectivity and deep expertise in every core area of financial management. It's an integration of all professions."

In Cestnick's opinion, the reason for the scant awareness of MFOs in Canada is that, as opposed to the United States, most MFOs here weren't born out of SFOs, but were rather set up by individual accounting professionals.

Norm Trainor, founder and CEO of The Covenant Group, says the fundamental difference between single family and multi-family offices is in their mindset. The former have a very finite mentality, and try to maximize potential; the latter play more at the

infinite game, trying to address all of the client's needs at the highest level of capability.

"SFOs tend to manage the expense side rather than focusing on growth. They want to keep as much of the revenue as opposed to judiciously sharing it with appropriate collateral professionals," he says. "The larger firms, on the other hand, are looking to grow profitability, and willing to seek outside where core competence is not strong enough internally."

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