



Evolution of the Family Office

Written by Brian Clarke, Managing Director, Key Trust



→The concept of the Family Office has evolved since John D Rockefeller invented it in 1882 to manage his family's assets and sustain their wealth – an example soon followed by other ultra wealthy families.

Brian Clarke, Managing Director of Key Trust outlines how the Family Office has become the means not only of handling a family's commercial and investment expertise, but also of providing structures for wealth preservation for future generations.

Few families today would find it cost-effective to maintain their own Family Office. Over time it has become increasingly difficult to recruit professional managers who combine outstanding financial expertise with 'people management' skills (of which more later). And so the Family Office has evolved into its 21st-century successor, the Multi Office Family Office, which is what we offer at Key Trust. For us this means delivering bespoke family office services to each family client – not only managing and administering the investment and preservation of significant wealth, but also looking after generational issues and family dynamics.

The family will want to gain maximum enjoyment from the wealth that has been created – with minimum difficulties. We help them to achieve this through careful contingency planning, financial education for the younger family members and creating structures that enable each individual to make their own lifestyle choices while enjoying the benefits of a well organised family wealth system.

The basic principle from which we start is: *take care of the business and it will take care of the family*. If you take care of the family only, the business may not ultimately benefit anybody. Giancarlo Di Risio, the non-family CEO of the Versace family business empire, expresses this idea in another way: "Every company today should run itself as though it were a public company...with clarity and transparency."

I describe Key Trust's service as bespoke, and it is. Too many wealth management businesses offer products – whereas the family requires service. This is especially true of a wealthy→

→family, whose individual members will have a diverse range of expectations and objectives.

We deliver our service by appointing a director and a manager to look after each family. They will get to understand their requirements in detail and so provide a response that meets the best interests of everyone concerned.

Our independence and focus on service helps us to achieve this. Having no products to sell, we concentrate on selecting the best of the best investment managers, monitoring their performance on the family's behalf.

We are also able to actively participate in family wealth matters, setting up formal family meetings each year at which we work through the logic of all the issues in a way that is plainly seen to be impartial.

Initially this approach may produce tensions. But as a plan for the future emerges and everyone feels more secure about his or her own position, the family meetings become more enjoyable and constructive, even relaxed and sociable.

To prepare a structured transparent and fair approach to a well planned succession, we ask each family member a number of questions (see panel on page 11). Their answers give us real insights into their personal and emotional aims. They also enable us to put wider questions to the family as a whole – for example:

- What is the role of the family business?
- Is it purely economic?
- Is it to provide the family with a means of transferring wealth to future generations?
- How is the family to go about achieving their business goals?
- Are there social or charitable purposes that should also be kept in mind?

The controlling parties in the family business spend a tremendous amount of their time creating value and driving the business forward. Even if they have the right skills to develop a business that might have been started 3 or 4 decades earlier, →

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Brian Clarke continues..



→at some point in time they have to leave it and receive their reward. At that point they need to transfer some of the value and the organisation they have created either to a family member or deserving employee.

It is most important that this exit strategy should not be left until the moment when it needs to be implemented. An exit strategy needs to be thought out well in advance, even during the building stages of the business itself. In the end, an exit strategy should produce a transaction that is an almost insignificant event, because it has been planned and prepared for long before it comes to execution. It is in the planning and preparation that true value can be created.

This is where the Multi Office Family Office can play a particularly valuable role. Historic issues within the family often require an outsider to help resolve the interpersonal tensions that can exist between family members and the in-laws.

This works best when the outsider is someone who, with little to prove to him or herself, is able to work to the family's agenda rather than their own. It obviously takes somebody with facilitation skills, an open and impartial communicator whose emotional maturity enables them to cope with dissent without expending undue amounts of time on individual family obstacles. This sometimes can require a person who can live with ambiguity and who also has a thick skin!

Ultimately the outsider the family uses should enjoy building things and working with people, a person with compassion and empathy who can think strategically and not just tactically.

In the case of my own firm, Key Trust, →

→we certainly adhere to these principles in working with wealthy families. When we first get to know a family, the issues that we try to address from the outset include establishing our engagement with a clear legal contract and a defined financial position.

We then seek to meet and understand all the key stakeholders and characters inside and outside the business. Typically we will draw a 'genogram' – a family tree that shows who is male, who is female, who is a controlling party and so on. We like to try and understand the role of the various parties involved and the extent of their power. This enables us to distinguish from the beginning the difference between ownership and management.

Would John D Rockefeller recognise the modern Multi Office Family Office? I think he would: even while he was giving away more than half of his \$900 million fortune, succession planning and the interests of each future generation were as much part of his thinking as they are of ours.□

Key Trust typical questions to families

What is an ideal day for you? What would you be doing? How would it challenge you? What responsibility does it involve?

If you were given £25 million today – how would it change your life?

How would you like to be remembered when you have gone? What legacy do you want to leave?

What would you like to accomplish in the next five years – and what are the obstacles?

Finally, what does the phrase "to make a difference" mean to you? This helps us perceive to what extent their thinking involves money, and whether it is centred on the family or on wider community and social issues.

We then prepare a structured, transparent and fair approach to a well planned succession.
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