

# PORTRAITS DU LUXEMBOURG

© Shutterstock 61184200



15

€

**AGEFI**  
Luxembourg

# Family Offices: a Vehicle to Invest Cash or an Institution to Guide and Preserve the Family Fortune and Investment

**T**he Family office is coming from an old tradition which dates back to Roman times. The new Family office was born to the 19th century in the United States, where the Rockefeller family created its own office. The development was done through a trust structure or a bank dedicated to the private interests of the family and their descendants.

Initially the structures were used to avoid the division of the family's wealth through the generations to come. The first trust was created to execute financial transactions. With the industrial revolution came the «Bank trust officer» who had the responsibility to protect the heritage of the wealthy. At that time the family office took care of the financial needs of just one generation. Because of the accumulation of wealth and wealth levels a need to structure became very important. They had to manage the operational business as well as personal and financial dealings so they set up a separate structure.

With the 20th century industrials and entrepreneurs were managing their business which became more and more important. Alongside they set up new businesses. The responsibilities multiplied and the family was expanding. **The FAMILY OFFICE was born!** The office covered a multitude of structures where some family members were performing administrative work; others worked in the family business and managed entire teams of professionals focussing on investment, accounting, legal affairs, structuring, concierge services...

Wealthy entrepreneurial families have in general three components in common: the company, the shareholders and the actual family unit.

This last component is the less well organized and armed to preserve and grow capital. The Family office is ensuring a comprehensive monitoring that takes into account family structure and increase the heritage through generations, preserving the interests and harmony of the whole family. I insist heavily on this concept of independent management because it really is the most important characteristic

## THE FAMILY PERSPECTIVE

The Family office is there to preserve the values of the family through generations and guarantees the transmission of the wealth of the Patriarch. Concentrations of common interests put at the disposal of family members. Family offices have different shapes, sizes and colours.

Nevertheless in the US we detect two main forms: Single and Multi-Family Office. The legislation allows centralizing common interests up to 15 family clients without being subject to register with the SEC. In Europe we see the single and multi-Family office and another type of multiple family offices as service provider for UHNWI.

## SINGLE FAMILY OFFICE

The family defines the office and its way of functioning. The independence from the initial wealth creator is crucial. It is also characterized by the size of the family and the number of its members. Its purpose, its design and operation and services offered will vary from family to family and depend on the importance of fortune. The Single Family Office, often first-generation founder was among the Council members. It is independent of service providers, often working with other families (club deals) or multiple service providers.

## MULTI FAMILY OFFICE

On the one hand we have the Multi Family Office serving several families (George Soros' Financial Times August 23, 2011 «- Frank Dodd Act» US disclosure rules leave world's rich families with a tough choice «- Dan Mc Crum New York) or more descendants who are less linked. Their purpose is primarily to optimize or share costs, services and investment opportunities.

On the other hand an evolution has occurred in recent years after the various financial and banking crises on the multiple service providers in «Wealth Management». The biggest challenge here is primarily the independence! Only organizations which are totally independent with highly qualified professionals available to family clients having a long-term vision and experience will have success.

## THE GENERATIONS OF THE PATRIARCH

The initial founder is the entrepreneur who is the creator of the wealth. He has a real know-how and expertise of the Business. He is aware of his mission and has a goal. He cultivates what he has achieved. This is the type «NO RISK NO FUN»

The second generation will try to preserve the heritage and will take less risk so less profit. He remains in the shadow of the founder and is very different. The third generation has less connection with the family business and has different interests. Assets will diminish in value! Costs rise with more family members and the economic environment has changed. Some manage to restart the engine others are very cautious and seeking long-term growth. After the fourth generation the family has grown around the world, governance will be internationalized and the needs are increasing. An institutional office is required.

### **GOALS OF THE FAMILY OFFICE**

The main purpose is holding considerable long-term investments. Avoid the dilution of fortune following the inheritances, divorces....

Some families (Peugeot, Quandt,...) keep everything under a big investment and so avoid dilution. Others will diversify following a liquidity event but pursue other investments (Tesla for EBay founder (Capricorn) ... Microsoft, Google and Facebook's principals, one hit wonders.

The aim is above all to prevent the destruction through sale. Typical Silicon Valley Case: Sell the company, buy a car, buy a house, buy a yacht, and declare bankruptcy!

Besides the goals achieved by the founder, the Family Office has other activities than the preservation and transmission of the wealth. Some families have real charity activities, social investment or research and development....

Secure the future for subsequent generations. There are real prototypes of Patriarchs who will do anything to avoid family disputes with a focus on family governance. Others do not succeed: Only 8% of the Wealthy will transmit their wealth across three generations. A real waste! A family office can prevent this.

We can detect Family Offices with the following types of activities:

The Multi-generational Single Family Office as mentioned above. The Financial Family Office which deals mainly with financial affairs. The Family Office Trust which focuses on charitable trusts depending on the interests of the family. The

Family Investment Office who deals mainly with families who have had a liquidity event and with a focus on the management of their investment. The Family Legal Office who prepares the transition of the fortune. The Family Business Office running the family business and deals with the operational activities. Finally, the Administrative Family Office that organizes the daily administrative activities and financial affairs, reporting...

However, let's not forget the funny side: concierge services, cultural and musical education, life style services: yachts, private jets ... Often services that the Founder didn't consume nor had no time for!

### **THE SERVICES OFFERED WITHIN A SINGLE AND MULTI-FAMILY OFFICE**

The services of a family office are numerous, either through a Single or Multi Family Office, whether internal or external. The cost for a Single Family Office is considerable and has proven his efficiency.

The following services are available: Transmission of wealth : real estate, foundation, philanthropy, trust administration; Succession: family governance; Wealth Management: investment strategy, asset allocation, investment monitoring, control of wealth managers, risk control; Family Meetings: monitoring members, organisation of events, education and planning of generations, governance; Administrative services: monitoring reports and consolidation, legal documents, archiving documents; Financial organization: cash flow management, editing and control of budgets, invoices, payments, banking and financial management; International relocation: because of the internationalization of families relocation is very important today; Taxes: preparation, planning, optimization double taxation; Structuring: establishment of corporate structures, optimization of infrastructure costs, ...

The list is long! For this reason the office needs high-calibre experts, people like a «Chief Financial Officer», an «Operational Officer», a «Wealth Advisor», a «Trust Advisor» ....

Everything shows that the Family has his complexity. A Family Chart will be drafted to guarantee the objective of the Patriarch.

**Diana Diels**

*Président*

*Luxembourg For Family Offices*