Wharton Global Family Alliance

Wisdom outweighs any wealth. – Sophocles

Single Family Offices: Private Wealth Management in the Family Context

Raphael Amit[1]
The Wharton School, University of Pennsylvania

Heinrich Liechtenstein[1]
IESE Business School, University of Navarra Spain

M. Julia Prats
IESE Business School, University of Navarra Spain

Todd Millay & Laird P. Pendleton
CCC Alliance, LLC

Wharton University *of* Pennsylvania

IESE Business School University of Navarra

[1] Corresponding authors. Please address all inquires to Raphael Amit (Americas & ROW) at +1 215 898 7731 or by email to amit@wharton.upenn.edu and to Heinrich Lichtenstein (Europe) at +34 93 253 4200 or by email to hl@iese.edu

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Wharton
University of Pennsylvania

IESE
Business School
University of Navarra

SMU
Singapore Management University

Università Commerciale
Luigi Bocconi

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Introduction

Single family offices (SFO) are professional organizations dedicated to managing the personal fortunes and lives of very wealthy families. Tracing their lineage back to the Roman major domus (head of the house) and the Medieval major-domo (chief steward), the modern SFO began to take shape in the mid-19th century, with the development of private banks and trust companies formed to help the Industrial Revolution's entrepreneurs manage their wealth. Their charge was—and still is—to protect their particular family's investments and assets for both current and subsequent generations. Since the beginning, affluent families have been attracted to SFOs, rather than to commercial banks, investment companies or other wealth optimization services, because of their promise of exclusivity, privacy and customization.

These characteristics may make SFOs increasingly attractive to the super rich, but they also make it particularly difficult for researchers to understand their operations, their abilities, and their achievements. The very confidentiality they afford impedes assessment of their competence. Moreover, since the SFO, by definition, focuses on the private affairs of one family, there is little comparative information available on the range and key differentiators among SFOs operating today. (See Appendix 1 and 2 for both a summary of the evolution of SFOs and a review of the prior research on the topic). It should be noted that the SFO is separate and distinct from the multi family office or MFO, the latter being a for profit business that serves multiple unrelated family clients.

This report begins to fill this knowledge gap by presenting the results of an international pilot study of SFOs responsible for managing at least US$100 million in investable assets in the Americas[2], Europe[3], and Rest of the World (RoW)[4]. The research has been conducted during 2006–2007 and is intended to survey the landscape of single family offices. This report is based on over 40 in person interviews and on 138 completed surveys. The sample size on which this report is based is, to our knowledge, the largest and most diverse in the SFO space, but it is not enough to make detailed comparisons among subsets of SFOs. The information we collected is not prescriptive; the survey is intended to illuminate family office structure and practices—particularly investment strategies, not to evaluate how well a given type of family office performs relative to another.

Findings from the study shed light on several important aspects of single family offices and the families behind them:

1) The majority of the families participating in our study are entrepreneurial. In most cases, families with SFOs are majority shareholders in their family's business operations and are intimately involved in the family business.

2) Approximately half of the family businesses in our survey report more than $1 billion[5] in revenue. Among survey respondents, total family wealth varies by region. Of those based in Europe, 53% of the families declared their wealth as exceeding $1 billion, compared to 26% of those from the Americas and 33% from the Rest of the World (RoW).

3) Most families view their SFO as mainly a private investment office. "Soft" responsibilities, like coordinating education, providing concierge services, and organizing philanthropy, are considered significantly less important SFO tasks.

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[2] Americas includes Bahamas, Brazil, Canada, El Salvador, and the United States.

[3] Europe includes Belgium, Finland, France, Germany, Ireland, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and United Kingdom.

[4] Rest of the World (RoW) includes Australia, Hong Kong, Japan, Malaysia, Philippines, and Singapore.

[5] $ sign throughout the report refers to US dollars.

4) Families are deeply involved in the operations of their SFO, and in nearly half of the offices studied, a family member acts as the head of the SFO. These SFO heads usually have a managerial background, either from working in the family's business or in the industry. Moreover, the extent of an SFO head's involvement in investment activities depends on how wealthy the family is and on how many generations of the family are involved. In the wealthiest SFOs, as well as in those serving multiple generations, the heads personally devote less time to investment activities than do those working in SFOs with lower levels of wealth and fewer generations.

5) To retain key SFO personnel, the emphasis is on creating attractive working environments and assuring job stability.

6) Regarding governance, first generation[6] SFOs tend to have fewer committees when compared to later generation[7] SFOs. The survey found no correlation, however, between total wealth level and the number of SFO committees. In addition, the study found no impact of wealth level on reporting practices. Interestingly, however, geography does matter: European SFOs typically have more committees and they provide more frequent and detailed information to family stakeholders than their counterparts in the Americas. This study also revealed that a higher percentage of billionaire SFOs have both a board of directors and an audit committee compared to millionaire SFOs.

7) Finally, geography, size and age all affect how SFOs decide to allocate their assets. The study found that families in the Americas invest more in equities, while European families invest more in principal investments and real estate. Principal investments and private equity allocations are more prevalent for SFOs serving first generation families.

These observations are the result of a joint project by four leading business schools—the Wharton School, IESE Business School, SDA Bocconi, and Singapore Management University—working together under the auspices of the Wharton Global Family Alliance (WGFA). Our objective is to fill the gap of sparse literature and information regarding the SFO worldwide. This pilot project forms the basis of one of the first comprehensive global academic studies of Single Family Offices. (See Appendix 3 for a detailed description of the methodology and Appendix 4 for a copy of the survey instrument and the detailed results.)

This report is organized into six main sections: (I) Family background, (II) SFO background, functions and service organization, (III) SFO team professionals, (IV) SFO governance mechanism, (V) SFO asset allocations, and (VI) Recommendations. Throughout this report, we also provide five case studies that illustrate the various ways in which SFOs are organized and governed.

[6] We defined first generation SFOs when the first generation is present.

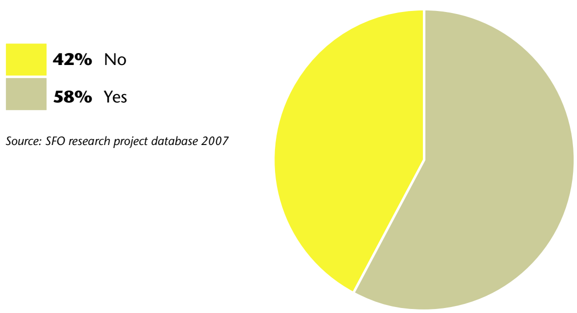
[7] We defined later generation SFOs when the first generation is no longer present.

I. Family Background and the nature of the family business

As we learned through our pilot interviews, SFO configuration is largely dependent on the family size, history and values, the SFO's overall mission, and its wealth management objectives. While some families continue to run their core operating business or other businesses, other families with SFOs have had a "liquidity event" and are now focused only on managing investment assets. As each family is different and has specific needs and challenges, so is the structure of its SFO. We try to depict these in the first section of the survey.

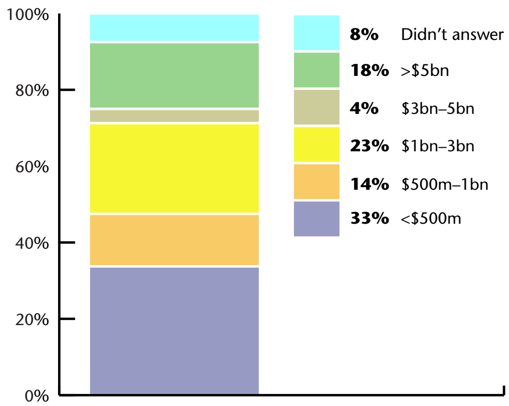
Among the families who participated in our survey, the majority (58%) remain involved in operating businesses, as depicted in Figure 1 below.

Figure 1 **Family involved in operating businesses**



Source: SFO research project database 2007

Figure 2 **Level of revenues of the operating businesses controlled by the family**



Source: SFO research project database 2007

The majority of the families who are involved in operating businesses (77.5%) indicated that they are the majority stakeholders of the holding company. Only 12.5% hold a minority with control rights and 5% hold a minority without control rights.

These families who continue to be involved in their operating business represent a range of industries, including manufacturing (14%), real estate (14%), diversified holding companies (11%), retail and trade (9%) and finance and insurance (8%), etc. (For a complete description of industries represented, please consult Appendix 4 Question 1.2.)

Of these families who are involved in operating businesses 78% indicated there is active participation of family members in the operating business. Only 15% do not have active participation in the operating business.

About half (45%) of the respondents who control operating businesses report annual revenues of their businesses of over $1 billion, 14% between $500 million and $1 billion and a third less than $500 million (See Figure 2).

The headquarters of the operating business controlled by the families represented in our survey are globally distributed: 30% are in the Americas[8], 56% are in Europe[9] and 9% in the Rest of the World (RoW)[10].

How involved family members are in operating their family business differs by geography: while 70% of European families work in their families' businesses and 89% of families from the RoW

[8] Americas includes Bahamas, Brazil, Canada, El Salvador, and the United States.

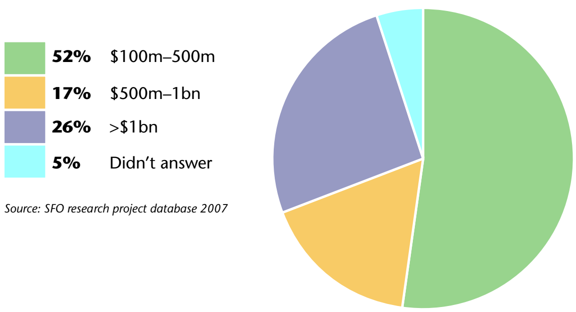
[9] Europe includes Belgium, Finland, France, Germany, Ireland, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and United Kingdom.

[10] Rest of the World (RoW) includes Australia, Hong Kong, Japan, Malaysia, Philippines, and Singapore.

report such involvement, only 40% of Americas families in our sample are involved in the family business. On average, two generations are involved in the operating business controlled by the family.

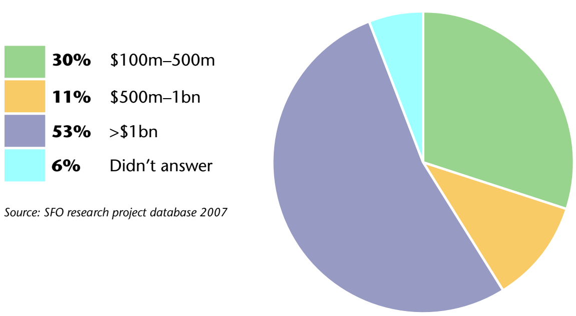
Total family wealth of survey respondents varies by region. In Europe, 53% of the families declared wealth of over $1 billion, while 26% of the families from the Americas and 33% from the Rest of the World (RoW) families fell into that category. Indeed, a remarkable number of billionaire families are represented in the responses (see Figure 3). Reporting fortunes ranging between $500 million and $1 billion are 11% of the European families studied, 17% families from the Americas and 33% of those in the RoW group. Finally, 30% of European, 52% of Americas, and 34% of RoW respondents declared family fortunes in the $100–$500 million range. Therefore, our sample has a bias towards larger family fortunes in Europe, while in the Americas there is a bias towards families with $100 million–$500 million in fortune.

Figure 3 **Family wealth: Americas**



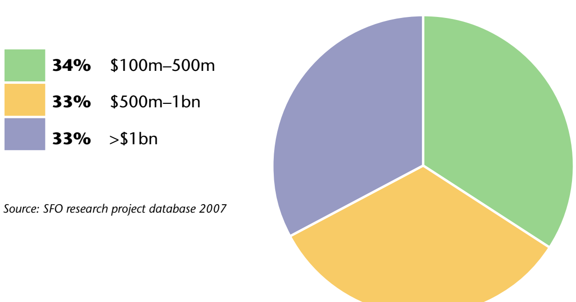
Source: SFO research project database 2007

Figure 3 **Family wealth: Europe**



Source: SFO research project database 2007

Figure 3 **Family wealth: RoW**



Source: SFO research project database 2007

CASE ONE:
Fully Staffed Private Investment Company

Created less than a decade ago, this was one of the largest and most professional SFOs we encountered. The family strategically located their SFO—which they refer to as a private investment company— not in a tax haven but in a financial center where they are constantly networking with top investment experts. Their main objective is the aggressive growth of the family fortune. Secondarily, they seek to give the family members, spanning just one generation and a handful of beneficiaries, more time to devote to their own businesses. Each month, the beneficiaries receive a comprehensive 40-page report. For every matter requiring a decision, there is a one-page summary of key data. Information flow and SFO supervision are enhanced through three committees that deal separately with investment, management issues, and audit. The SFO focuses on private equity and hedge fund investment, and almost all other matters are outsourced. The SFO head has an investment banking background and his team includes nine professional investors (among them analysts and traders), 10 accountants, one lawyer (other legal services are outsourced) and about 12 support staff. Co-investment possibilities, performance bonuses and broad investment experience helped lure these high performers from the wider commercial world.

Key Findings from SFO Family Participants:

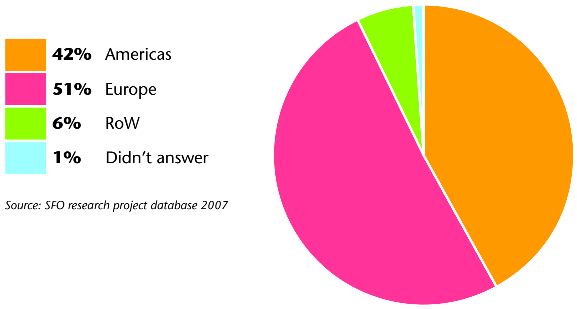
1. The majority of the families are entrepreneurial – they are involved in their family's operating business and are an active majority shareholder.

2. Approximately half of the family businesses in our survey have more than a $1 billion in annual revenues.

3. Over 50% of the families with a total family wealth over $1 billion are European. In the Americas over 50% of the families declared family fortunes in the $100–$500 million range.

II. SFO Background, Functions and Service Organization

Figure 4 **Location of SFO**



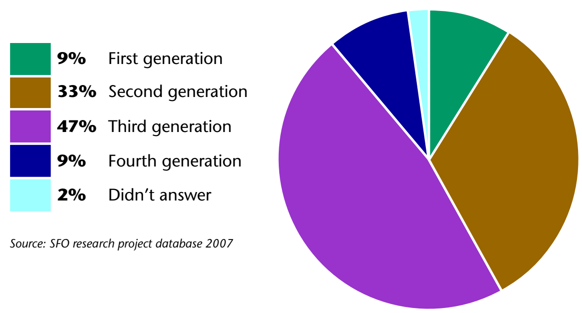
Source: SFO research project database 2007

Respondents represent SFOs around the world. Half of the SFOs surveyed have their headquarters in Europe. Another 42% are in the Americas and 6%[11] are located in the rest of the world (RoW) as depicted in Figure 4.

Our survey includes approximately 10 mature SFOs which were founded in the early 1900's through 1940. Another 10 SFOs were founded between 1940 and 1970. Most were created more recently. The median SFO in our survey was formed in 1998.

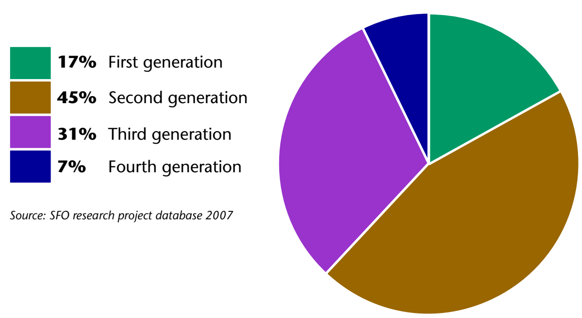
The majority of the SFOs serve two (45% in Europe, 33% in the Americas and 67% in RoW) or three generations (31% in Europe, 47% in the Americas 33% in RoW). Finally, there are smaller percentages serving one generation (in Europe 17%, and 9% in the Americas) or four generations or more (7% in Europe and 9% in the Americas—see Figures 5).

Figure 5 **Number of generations served by the SFO: Americas**



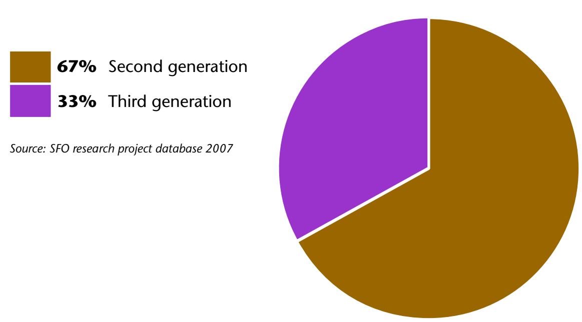
Source: SFO research project database 2007

Figure 5 **Number of generations served by the SFO: Europe**



Source: SFO research project database 2007

Figure 5 **Number of generations served by the SFO: RoW**



Source: SFO research project database 2007

[11] Only 6% of the respondents are from the RoW. Hence, all the results for the RoW are not statistically significant.

The average SFO in our sample serves 13 households, 40 family members and two to three generations (see Table 1). The median SFO serves four households and eight family members.

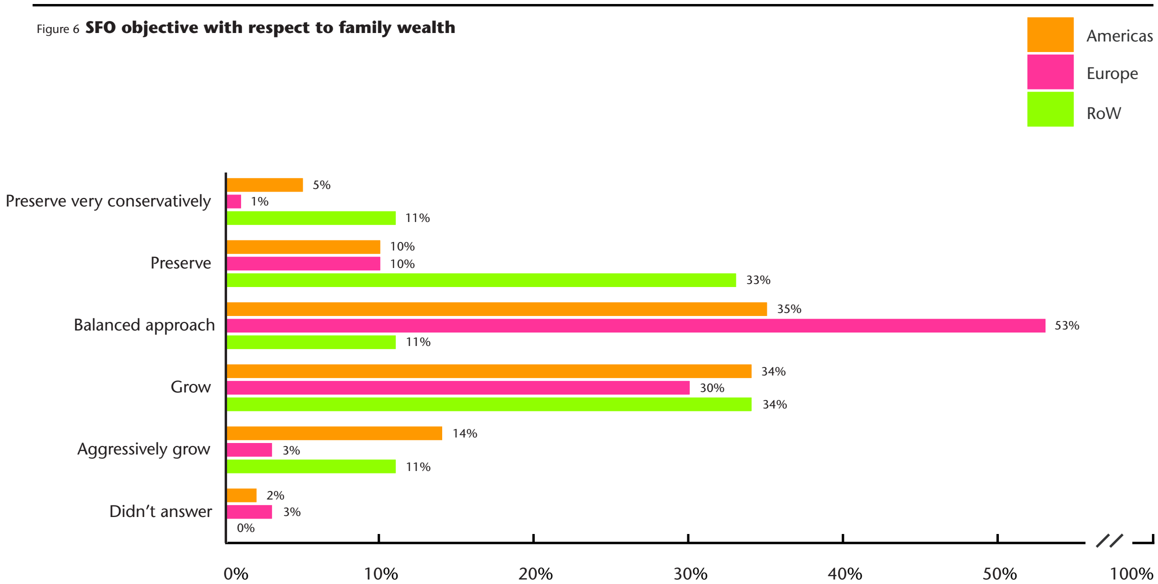
Table 1 **Number of households served by SFOs**

	Americas	Europe	RoW
Family involved in operating business (%)	40%	70%	89%
Number of households (average)	7	20	5
Number of households (median)	4	4	4

Source: SFO research project database 2007

Respondents to our survey indicated that family members are fairly knowledgeable about financial matters: The average score was 2.4 on a scale of 1 to 5 (1 = expert, 5 = no knowledge). When respondents were asked about their main objective with respect to family wealth, SFOs in the Americas report being more aggressive with respect to the objectives of family wealth management than European SFOs. In section V, we will compare these stated objectives with their asset allocation strategies. The following figure (Figure 6) depicts stated objectives with respect to family wealth.

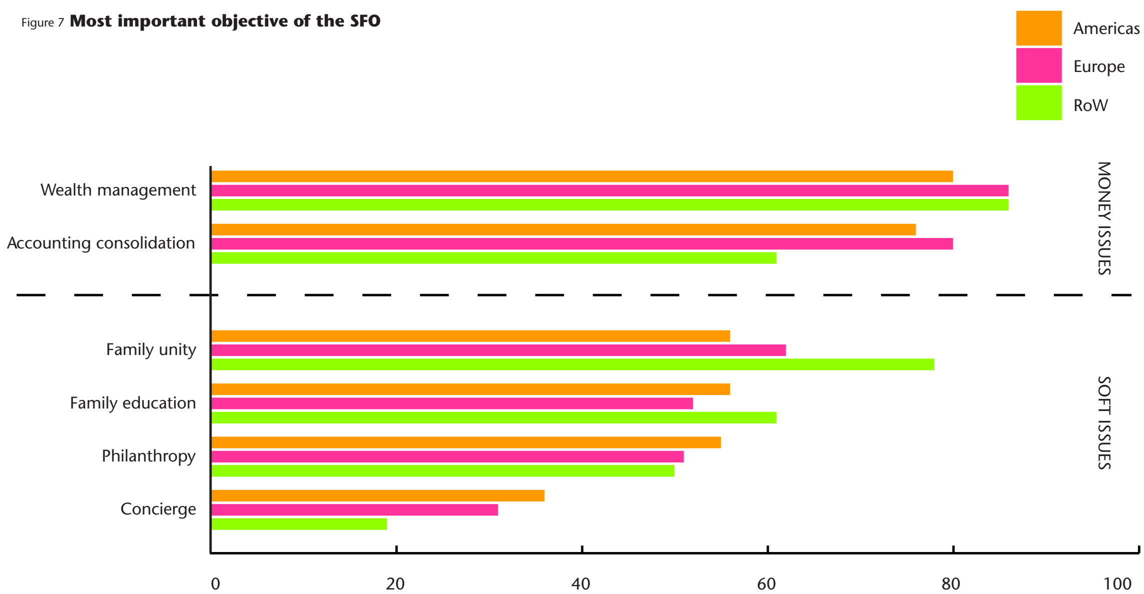
Figure 6 **SFO objective with respect to family wealth**



Source: SFO research project database 2007

We found that there is a common shared intent in creating an SFO across all sizes, generations, and geographies of families. Our survey shows that the most important objective the family has for the SFO, selected by 57% of respondents, is trans-generational wealth management. The second key objective, selected by 39% of respondents, is the consolidation function of accounting, tax and estate planning services (see Figure 7). This clearly shows that the SFO is usually seen by the families as a private investment office. Other—more “soft”—objectives of the single family office including family education, concierge services and philanthropy were significantly less important in the eyes of survey respondents.

Figure 7 **Most important objective of the SFO**



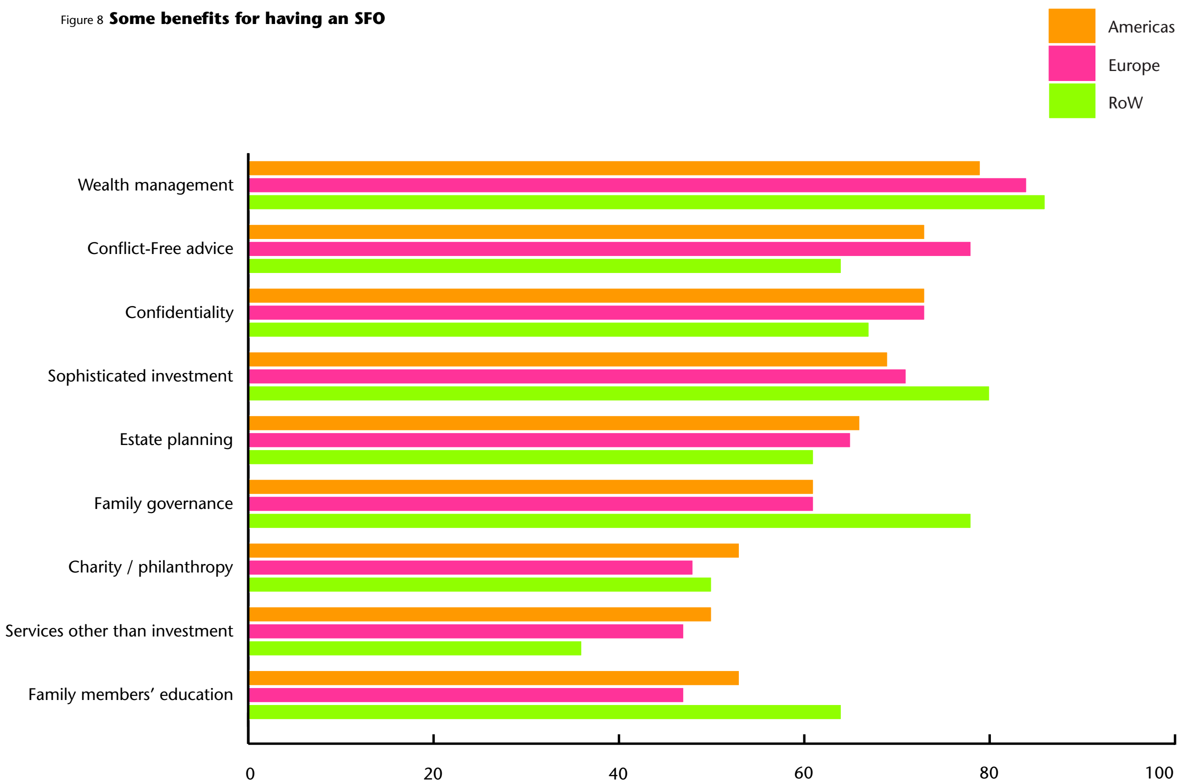
Source: SFO research project database 2007

0=Not important, 100=Extremely important

Similarly, the study found that the key perceived benefits of having an SFO related to money issues (see Figure 8). These results are consistent with the stated objectives the families have for the SFO. 43% of respondents indicated that the most important key *benefit* of having a SFO is consolidated management of family wealth and control.

From the personal interviews, we found some other common if unexpected reasons for having an SFO: freedom of career choice for family members, cost effective money management, stable, controlled, and scalable asset management, development of trust/loyalty of employees, and cheaper document administration. Although these factors emerge from only anecdotal data, they reflect an interesting diversity behind the general trends summarized in Figure 8.

Figure 8 **Some benefits for having an SFO**

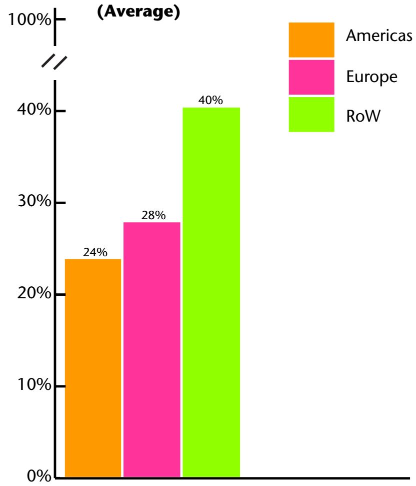


Source: SFO research project database 2007

Family objectives for the SFO and perceived key benefits of having an SFO are very similar across continents and across different wealth levels. The same results hold—that the family's most important objective for the SFO is trans-generational wealth management and the key benefit of having a SFO is to have the SFO operate more as a consolidation function of family wealth management and control.

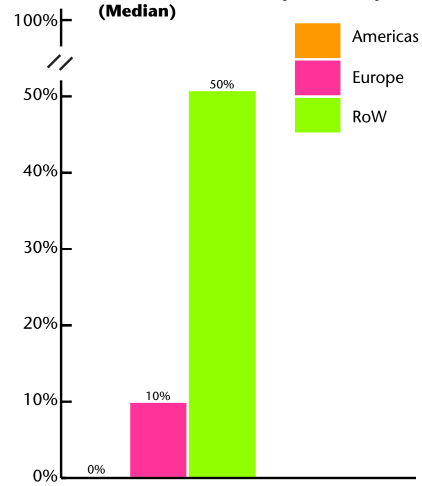
When comparing the percent of wealth managed by the SFO, we didn't find significant differences between the Americas and Europe. The percent of wealth managed by the SFO is 67% in the Americas and 65% in Europe on average and the percent of family wealth tied to operating business on average is 24% in the Americas and 28% in Europe. In our pilot interviews we learned that there is a small percentage of wealth (8%–7% on average) managed outside the SFO for various reasons. For example, some members of the family may be more entrepreneurial and looking to invest a small percentage of their wealth in new ventures, which do not necessarily conform to the family risk preferences (see Figure 9).

Figure 9 **% of family wealth tied to operating business controlled by the family (Average)**



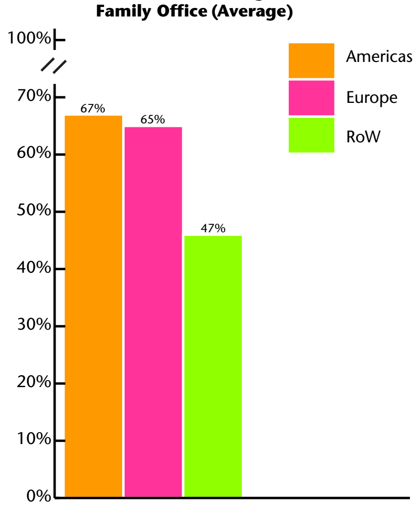
Source: SFO research project database 2007

Figure 9 **% of family wealth tied to operating business controlled by the family (Median)**



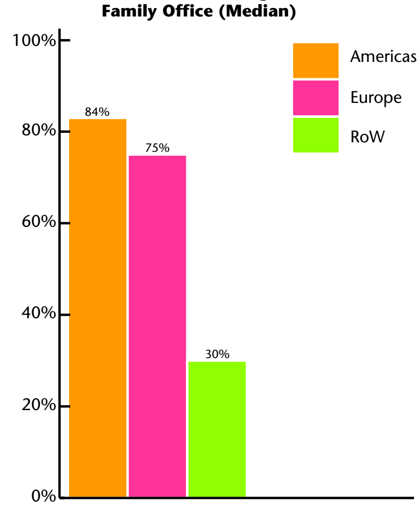
Source: SFO research project database 2007

Figure 9 **% of wealth managed in the Family Office (Average)**



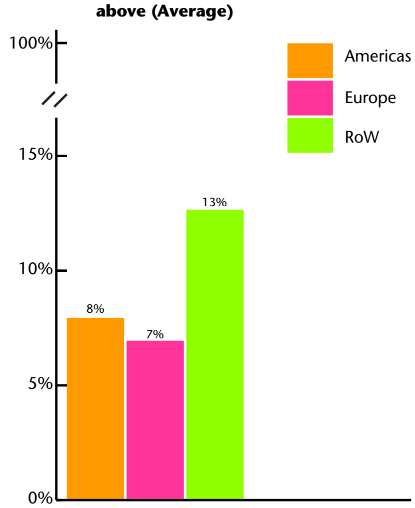
Source: SFO research project database 2007

Figure 9 **% of wealth managed in the Family Office (Median)**



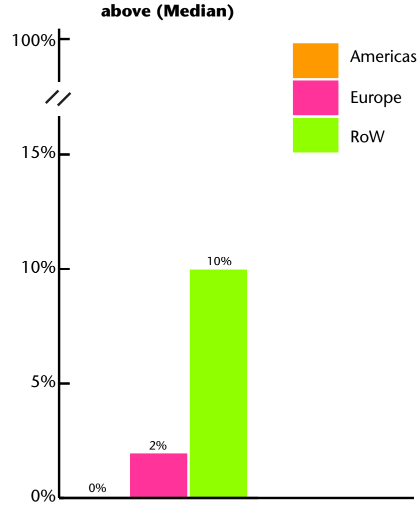
Source: SFO research project database 2007

Figure 9 **% of wealth not included in the above (Average)**



Source: SFO research project database 2007

Figure 9 **% of wealth not included in the above (Median)**



Source: SFO research project database 2007

The pilot interviews revealed a series of activities that SFOs commonly perform for families. Broadly speaking, these functions fall into three main categories: those related to wealth management related activities (e.g., asset allocation, manager selection and monitoring, risk management, and estate planning), administrative functions (financial administration and reporting, legal and tax services, etc.), and family-related activities (family education, counseling services, relationship management, etc.).

Among our sample, these services generally did not differ by region, with the exception of one area—estate planning. There is a statistically significant difference (53% in the Americas and 31% in Europe and 44% in RoW) between SFOs that consider this function quite important.

Our study found that providing family-related activities was more important for later generation SFOs than to first generation SFOs. Even considering that clear trend, functions concerned with wealth remained the paramount priority.

Table 2 shows families' perceived importance of the activities to be performed by their Single Family Office by the percentage of respondents who selected that prioritization.

CASE TWO:
Multi-Generational, Service-Oriented Family Office

Set up nearly 30 years ago and located in a tax haven, this SFO team comprises 15 professional investors and various lawyers, accountants, economists, and support staff. All investment management is outsourced to experts, while the SFO head devotes his time to dealing with a widely dispersed multi-billionaire family. A lawyer by profession, he estimates that he spends about half his time supervising investments and a substantial part of the remainder to uniting and even counseling family members. Spread over three generations, about 35 beneficiaries located on various continents, the family encompasses widely varying preferences. The SFO's forte is its ability to tailor asset allocations to each individual. The SFO head said capacity for investment flexibility and the ability to focus on trans-generational wealth management were essential, due to the very different needs and objectives of family members. Some family members sought aggressive growth, while others preferred a focus on capital preservation. Hand-holding of the next generation was an important task of the SFO. While its primary investment objective is balanced growth of the family wealth, tax optimization has also been set as a priority. The family's $2bn portfolio (approximately one fifth of their total wealth) is currently invested mainly in equities, fixed income, and real estate. The rest is tied up in a majority-owned family business in which two generations are closely involved. The SFO has a management committee and a client relationship committee. It reports quarterly to family members on their investments, providing detailed information.

Table 2 **SFO functions—top 5 priorities**[12]

	Americas		Europe	
Activities/Scope	Importance**	% of respondants	Importance**	% of respondants
Asset allocation	1	52%	1	57%
Manager selection & monitoring	1	43%	1	40%
Information aggregating & reporting	1	34%	2	41%
Estate planning	2	53%	2	31%
Legal services	2	47%	2	50%

Source: SFO research project database 2007

**Extremely important = 1, not important = 5

[12] For results of the complete list of SFO Functions – priorities see appendix 5

The data also allow us to understand how SFOs organize their services. Table 3 shows whether particular activities are handled both in-house and outsourced, only handled in-house, only outsourced, or not applicable (N/A) to the SFO because they do not manage this activity.

On average, we found that European SFOs in our sample are inclined to outsource fewer activities related to wealth management, especially investment related activities. For example, 63% of European SFOs perform asset allocation in-house vs. 47% of the SFOs in the Americas. 70% of financial administration is done in-house in European SFOs, while 41% is done in-house in the Americas. Regarding other activities, such as services related to the education of family members, counseling, or philanthropy, there are not many statistically significant differences across geographies.

Table 3 **SFO Functions—top 5 service organization**[13]

	Americas			Europe		
Activities/Scope	In-house	Outsource	Both***	In-house	Outsource	Both***
Asset allocation	47%	14%	24%	63%	6%	21%
Manager selection & monitoring	38%	14%	31%	56%	10%	20%
Estate planning	7%	40%	33%	31%	17%	36%
Information aggregating & reporting	41%	10%	29%	56%	7%	20%
Legal services	2%	60%	17%	16%	46%	23%

Source: SFO research project database 2007

*** "Both" includes in-house and outsource

Key Findings on the nature of the Single Family Office:

4. The average SFO serves 13 households, 40 family members and two to three generations.

5. A SFO is seen mainly as a private investment office. "Soft" issues like education, concierge and philanthropy were significantly less important to the families.

6. Perceived benefits and objectives of having a SFO are universal.

7. European SFOs outsource less than their similar counterparts in the Americas.

[13] For results of the complete list of SFO Functions – service organization see appendix 6

III. Team of Professionals

The number of professionals employed by the SFO depends on the particular configuration of the SFO. In general, however, our survey indicates that European SFOs employ on average more in-house professionals than do SFOs in the Americas (see Table 4).

Table 4 **Size and composition of SFO professionals by region**

Number of employees	Americas	Europe	RoW
	Average	Average	Average
Total number of employees in the family office	8.7	13.2	11.8
Head of the family office	0.9	1.2	1.0
Investment professionals	1.8	3.0	1.9
Accountants	1.6	2.1	2.3
Lawyers/legal advisors	0.4	1.0	0.2
Investment advisors	0.3	0.4	0.2
Education advisors	0.1	0.1	0.1
Client relationship advisors	0.2	0.5	0.0
Other professionals	0.8	1.1	0.1
Staff	2.7	3.9	5.9

Source: SFO research project database 2007

When controlling for the size of investable assets and comparing billionaires in the Americas to European billionaire families, and millionaires in Americas to their European counterparts, we note that the differences in the number of professionals are negligible (see Table 5). We note that billionaires in Europe hire 2 to 3 more professionals than their Americas counterparts. This fact, however, can be attributed to the age of the SFO. Mature SFOs tend to need to have more professionals to handle the increasing demands of a larger family.

Table 5 **Size and composition of SFO professionals by wealth level and region**

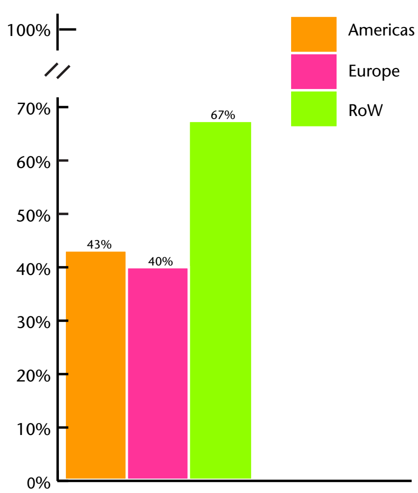
	Americas Billionaires		Europe Billionaires		Americas Millionaires		Europe Millionaires	
Number of employees	Average	Median	Average	Median	Average	Median	Average	Median
Total number of employees in the family office	17.6	9.0	18.9	12.0	6.1	4.0	6.4	5.0
Head of the family office	0.9	1.0	1.2	1.0	0.9	1.0	1.3	1.0
Investment professionals	4.4	1.5	4.3	3.0	1.1	1.0	1.4	1.0
Accountants	3.8	2.0	2.9	2.0	0.9	1.0	0.8	0.5
Lawyers/legal advisors	0.8	0.0	1.6	1.0	0.3	0.0	0.2	0.0
Investment advisors	0.3	0.0	0.4	0.0	0.3	0.0	0.4	0.0
Education advisors	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Client relationship advisors	0.4	0.0	0.9	0.0	0.1	0.0	0.1	0.0
Other professionals	0.8	0.0	1.9	0.0	0.9	0.0	0.2	0.0
Staff	6.3	3.0	6.0	3.0	1.6	1.0	1.4	1.5

Source: SFO research project database 2007

CASE THREE: *Focus on Wealth Preservation*

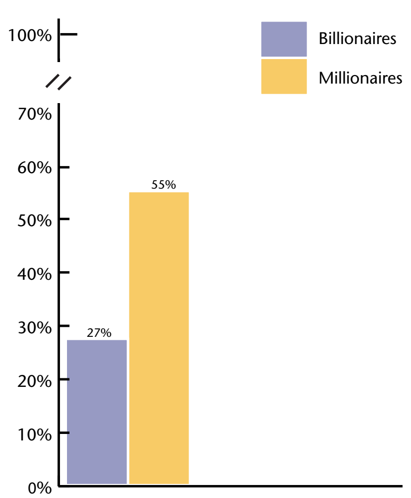
Spanning several generations, several countries, and about 15 beneficiaries, this SFO has been tasked with promoting family unity and orderly, intelligent wealth succession. Created about 20 years ago, it also helps the family with administrative duties such as banking, tax and reporting, as well as providing some concierge-type services and estate planning. The family behind this SFO states that they are happy with "plain vanilla" asset allocation. A separate family business brings in plenty of cash so the SFO is required only to pursue an unsophisticated, low-risk approach that helps minimize family disagreement. Most of the $200m investment pool is devoted to real estate and equity, arranged through outsourced investors. The family has approximately five times more wealth backing a minority-controlled family business that absorbs the time and energy of many family members. The SFO head is a family member, and her strength is in knowing and understanding the family while handling outside financial experts astutely. The 10-employee strong office benefits from the fact that the family has a clear constitution, leaving no doubt on important matters such as who has what powers and under what conditions, and how much each gets paid and when. There are regular family meetings and the beneficiaries receive a reasonably detailed quarterly investment report, although, according to the SFO head, most have a low level of financial knowledge.

Figure 10 **Family member heads the SFO (by region)**



Source: SFO research project database 2007

Figure 11 **Family member heads the SFO (by wealth level)**



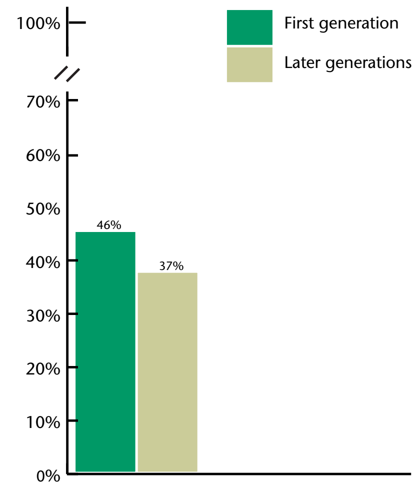
Source: SFO research project database 2007

In order to convey family values and make sure the family needs come first, some family members choose to be involved in the Family Office. One question many insiders in the family office industry ask is whether the head of the SFO should be a family member. In our survey, nearly half (43%) of the respondents chose a family member to head its SFO, while 51% chose a professional from outside instead[14]. When comparing the two regions—the Americas and Europe—43% and 40% of the respondents respectively chose a family member to take the role of head of the office (see Figure 10).

When comparing billionaire SFOs to millionaire SFOs, however, differences are clear. While 55% of the millionaire SFOs studied opted to have a family member as the head of the Family Office, only 27% of the billionaire SFOs decided to do the same (see Figure 11).

[14] 6% of survey respondents did not answer this question

Figure 12 **Family member heads the SFO (by generations served)**



Source: SFO research project database 2007

First generation SFOs are more likely to involve a family member in the office; in our survey 46% of first generation SFOs and 37% of later generation SFOs indicated that the head of the SFO is a family member. The larger and more diffused a family becomes, the more likely the family will be disengaged from its family office (see Figure 12).

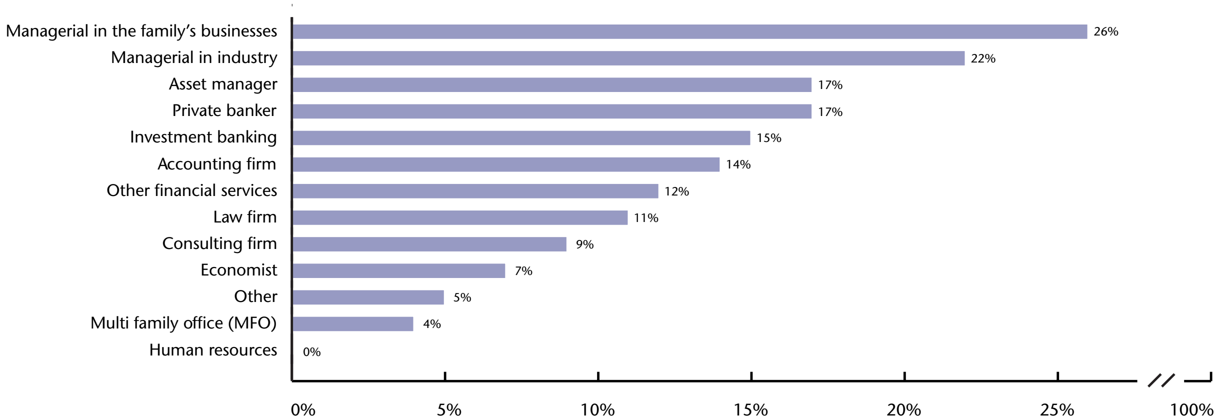
The more households the family office has to serve, the less family involvement there is. Among family offices serving only one household, 50% of those surveyed were headed by a family member. For the family offices serving two to 10 households, the head was a family member 43% of the time. And of those serving 11 or more households, the head of the family office was a family member in 35% of the SFOs surveyed. SFOs which are more mature and larger in size and subsequently serving more generations are particularly associated with more formal governance structures. Families need to take care formulating the initial structure of the family office, knowing that this dynamic is likely to unfold over time.

During our pilot interviews many of our interviewees wanted to find out how their peers approach hiring the head of the SFO and/or the CIO. In particular, they wanted to know which type of background is most important when hiring these professionals in order to successfully run an efficient SFO.

Our data shows that 26% of respondents chose as head of their SFO someone with managerial experience in the family's operating business. Another 22% selected a head with managerial experience in industry (unrelated to the family business). (See Figure 13)

During our pilot interviews we learned that some families chose professionals from the family business to be the head of the SFO since they were familiar with both the family business and the family and had established trust through the years while working in the family business. Conversely, some families specifically avoided hiring professionals from the family business because they value separation between the family fortune and the family business.

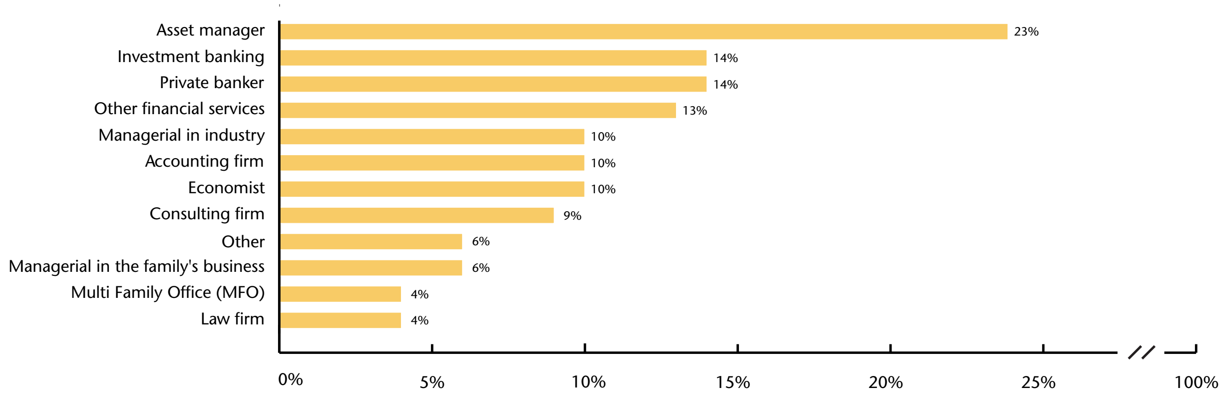
Figure 13 **Background of the head of the SFO**



Source: SFO research project database 2007

When hiring a CIO, 23% of respondents chose a professional with prior experience in asset allocation, 14% chose private banking experience, and another 14% chose investment banking experience (see Figure 14).

Figure 14 **Background of the CIO**



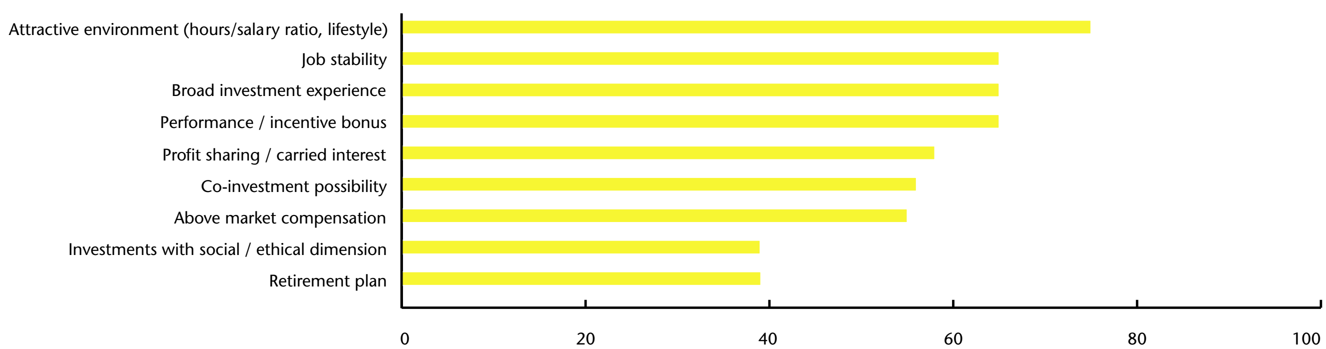
Source: SFO research project database 2007

With regard to talent, the previous experience of the SFO head will affect on the asset allocation on two occasions. Our analysis indicates that former private bankers make higher allocations to equities and former asset managers create more balanced portfolios. Other prior professional experiences had no effect.

Attracting and retaining the best professionals is a primary concern among SFO heads. Many of our interviewees asked how others were approaching this challange. Our personal interviews showed that the top attractions of choosing to work in an SFO were high job security, working in an environment of shared values (e.g., a preference for ethical investment), flexibility, and improved life style, less pressure, no fundraising, co-investment opportunities, informality, and greater opportunities for learning due to the need to perform a broad range of activities.

In our survey, the most important aspect selected by SFO professionals was an attractive environment (in terms of hours/salary ratio and lifestyle). The second most important aspect was job stability followed by broad investment experience and performance/ incentive bonus, both in third place (see Figure 15). Respondents commented that the professionals' incentives should be structured in a way that does not undermine their objectivity, which they also said is not easy to do. An example raised was concern about paying based on investment performance, which can create the incentive to take on more risk and "swing for the fences" in the hope of creating outsized returns.

Figure 15 **Retention of professionals**



Source: SFO research project database 2007

0=Not important, 100=Extremely important

Key Findings on the Single Family Office Team of Professionals:

8. About 50% of SFO heads are family members. Wealth and number of households served impact this percentage.

9. Most heads of SFO have managerial background in family business or in the industry.

10. Retention is focused on the attractive working environment and job stability.

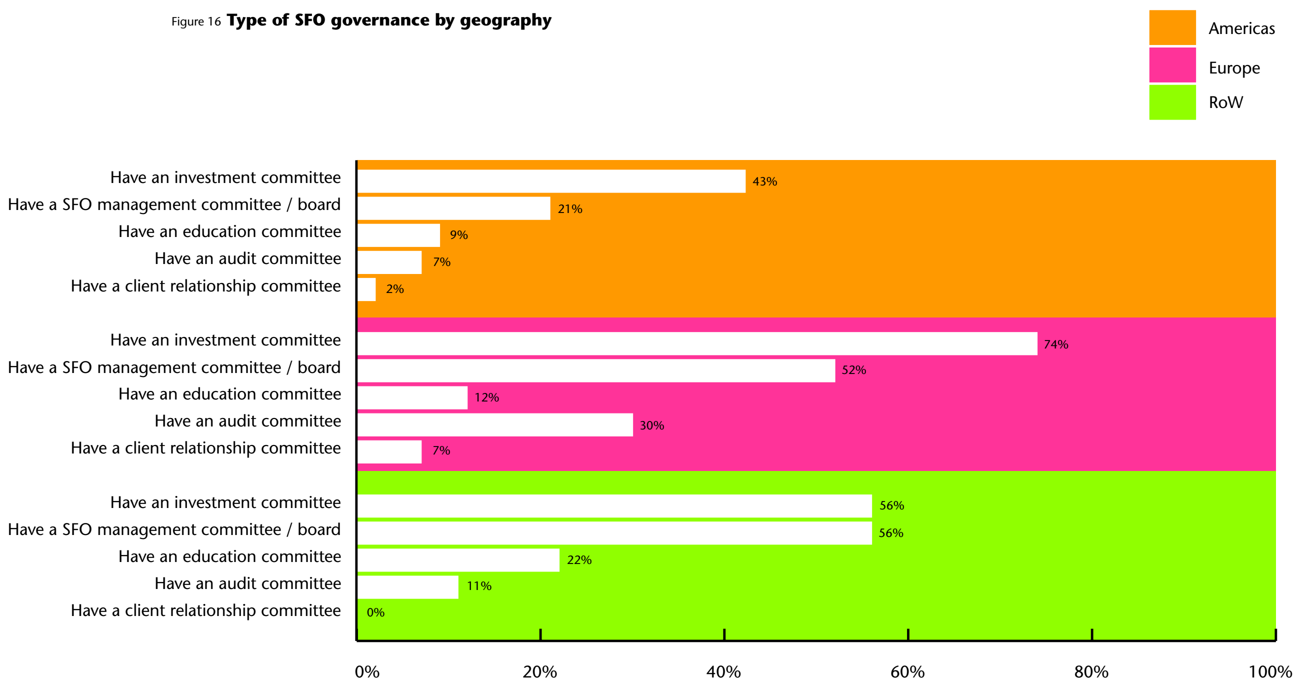
IV. SFO Governance Mechanisms

Family offices should have explicit governance practices that hold the professionals accountable. This can take the form of pre-determined benchmarks, regular evaluations according to set criteria, and clear reporting of outcomes. Accountability plus objectivity contribute to building trust, a key underlying reason to have a family office. Members of the extended family often participate in family office governance in some way—either informally or via established governance committees along with competent external professionals. Governance includes regular evaluations of external providers to ensure that their services are competitive and meet the family's needs.

Common assumptions notwithstanding, we found no clear indication that geography influences SFO configuration. There is a popular view that SFOs in the US are generally more sophisticated than their European counterparts, and that those in the UK are more advanced than SFOs elsewhere in Europe. However, we found no evidence for this belief: in fact, in our analysis several aspects pointed to an industry where configuration of the SFO is very global.

Although no correlation was found between total wealth level and the number of committees, which may suggest that wealth level does not affect governance structure, the results show a big geographical difference with regard to governance. Our survey found that European SFOs have more committees than SFOs in the Americas (Figure 16).

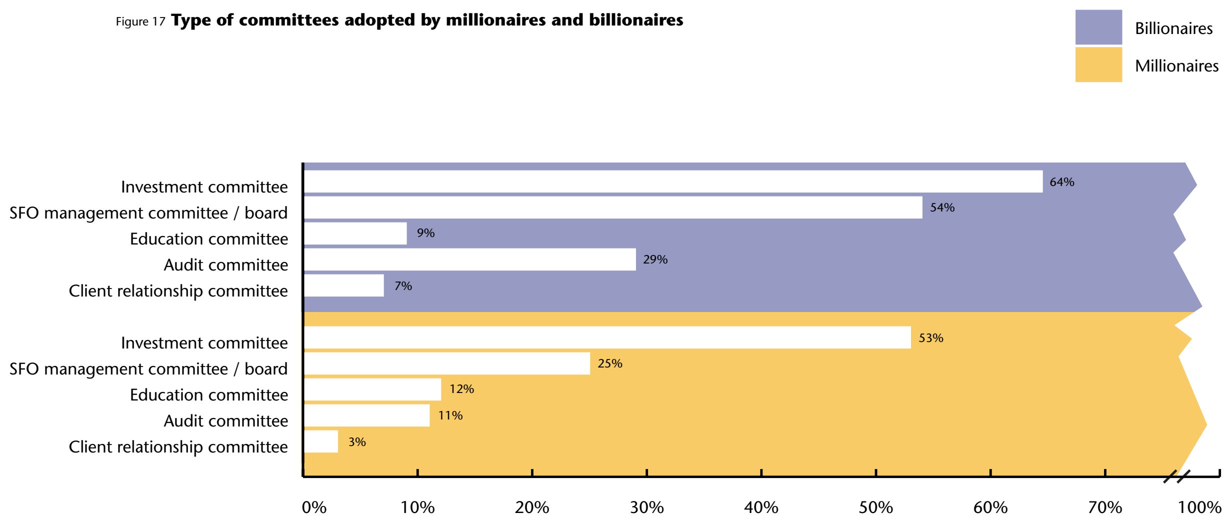
Figure 16 **Type of SFO governance by geography**



Source: SFO research project database 2007

However, there is a difference in the type of committees that wealthier families adopt (Figure 17). 64% percent of the billionaire SFOs have an investment committee while 53% of millionaire SFOs have one. Similarly, a higher percentage of billionaire SFOs have a board (54% versus 25%) and an audit committee (29% versus 11%). The percentage differences observed between family offices that have an education committee and client relationship committee are insignificant.

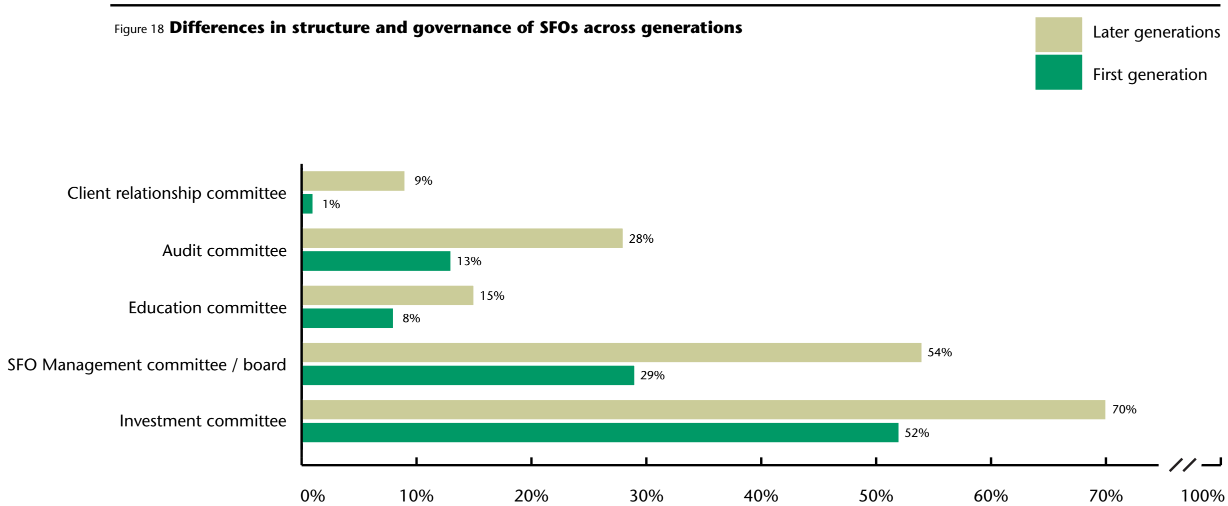
Figure 17 **Type of committees adopted by millionaires and billionaires**



Source: SFO research project database 2007

While, there are similarities when comparing first generation SFOs to later generations SFOs, with respect to the objectives the family has for its Family Office, the benefits of having an SFO and the scope of its activities, we do observe certain differences in structures and governance: as expected and as depicted in Figure 18, first generation SFOs tend to have fewer committees, while later generations have more governing committees in place. From our pilot interviews, it seems that an SFO will tend to follow an evolutionary path. When the wealth creator is present, decisions are typically made by him or her, with little reliance on governance committees. However, when that founder (first generation) is no longer present the family is forced to create more inclusive governance mechanisms.

Figure 18 **Differences in structure and governance of SFOs across generations**



Source: SFO research project database 2007

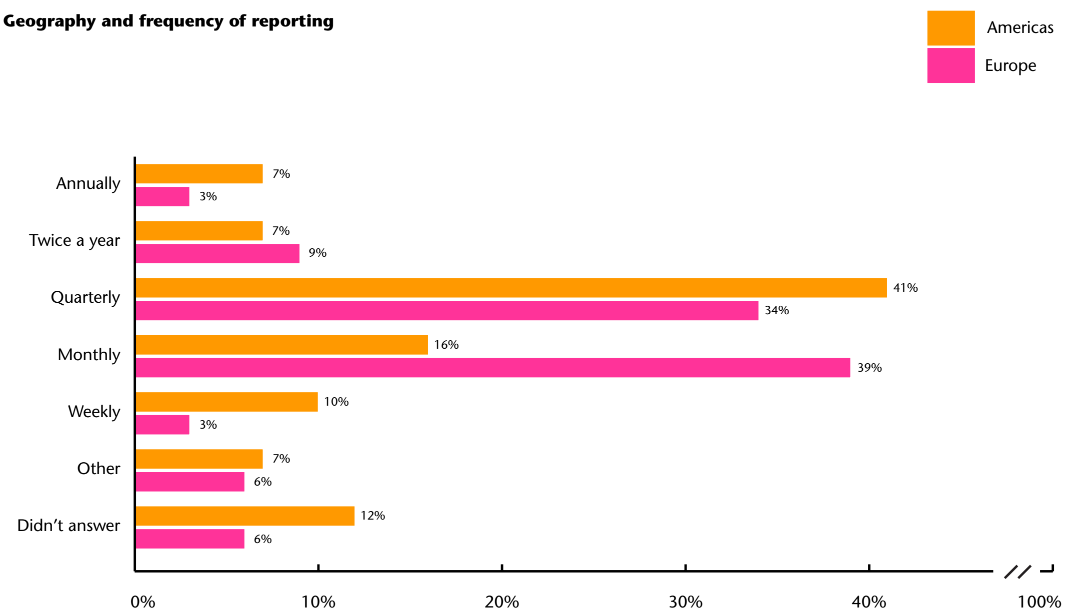
SFOs in our sample had very different reporting processes, which varied depending upon the age of the SFO, family personalities and how well informed family members wished to be. Some families are very much hands-off, due to their personality or lack of financial knowledge, while others received detailed information on a frequent basis. The content of these reports may include financial statements, income statements, balance sheets, cash-flow analysis, asset allocation, short- and long-term investment performance, investment valuations, risk analysis, return history, annual expenses, ad-hoc investment analyses, market commentary, undervalued and overvalued asset classes, and comparison to benchmarks and/or peer groups.

CASE FOUR: ***A Streamlined Family Investment Office***

The primary function of this single family office is investment. But "investment" means more to the Principal than publicly-traded securities. This SFO has a wide mandate, including venture capital, private equity, real estate, an extensive art collection, and private deals. Investments are made with an eye to preserving capital and generating a positive annual return at least 2% above the S&P 500. Other functions performed by the SFO include coordinating legal assistance, tax and estate planning, and overseeing philanthropy. The SFO employs a young, dynamic chief investment officer who has a very close relationship with and unlimited access to the Principal, who is prepared to make timely decisions. The family hired the CIO as their only full-time professional employee to take care of the investment function and to coordinate with other key outsource providers. These key providers are experts in their field. They provide legal assistance, deal with taxation, take care of real estate holdings and there is an art director in charge of the art collection. The CIO and Principal meet on a weekly basis to have broad ranging discussion on topics such as specific investments, trust portfolios, overall investment strategy, analyst reports and capital allocation. Between meetings, the CIO is largely "left alone" to carry out his duties. There is a more formal quarterly investment meeting to review performance and the Principal and his siblings (each with his own family office customized to varying needs, cultures, and values) meet annually to exchange ideas. The CIO created the family office based on input from the family, and was careful to minimize bureaucracy and to outsource wherever possible. He remarked that "most family offices have expectations that are too low and costs that are too high." He is grateful that the Principal is highly engaged in the investment decision process without becoming too emotional or "attached" to any one idea. He said that "good chemistry" between professionals and family is a key success factor for a family office. As he said, "I am not sure that there is a 'typical' family office—it is a very personal relationship and the nature of an SFO should reflect the particular circumstances and personality of the family that created it."

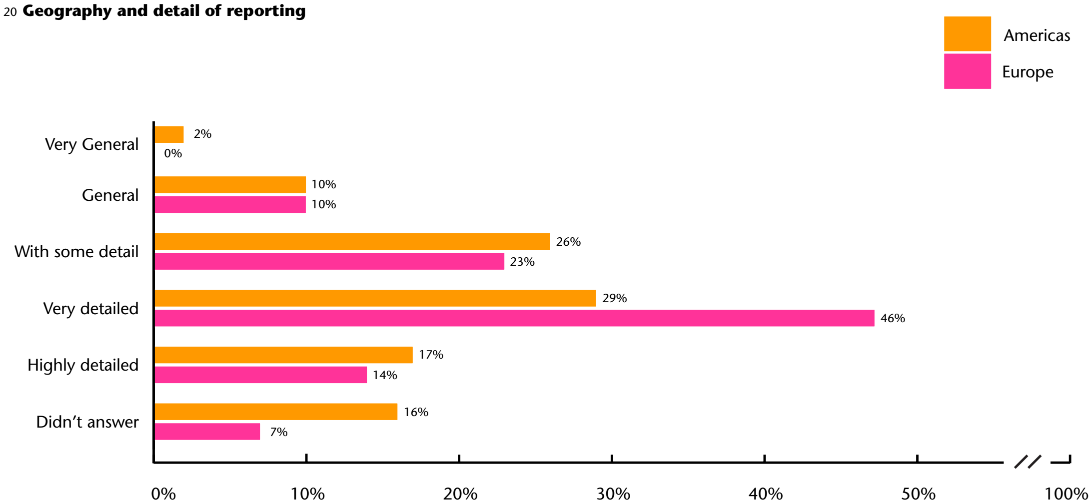
As depicted in Figures 19 and 20, the European respondents tended to be more frequently informed and to request more detailed information about their investments. In particular, 39% of European SFOs are informed monthly vs. 16% of SFOs in the Americas. The majority of SFOs are informed about their investments either quarterly or monthly. 46% of European SFOs provide very detailed data vs. only 29% of Americas SFOs.

Figure 19 **Geography and frequency of reporting**



Source: SFO research project database 2007

Figure 20 **Geography and detail of reporting**



Source: SFO research project database 2007

Although one may expect that frequency and detail of reporting would be correlated with size of assets, this is not the case. We did not find a significant difference either in the frequency of reporting or the amount of detail requested between the different wealth groups.

The data appear to confirm the assumption that first generation SFOs are more "hands-on" than later generation SFOs. First generation SFOs tend to be informed frequently about their investments: 37% on a monthly basis, 31% on a quarterly basis, and 11% on a weekly basis. By contrast, a remarkable number of later generation SFOs (19%), chose to be informed only twice a year, and none of the later generation SFOs in our sample were interested in being informed on a weekly basis about their investments. 19% of first generation SFOs request highly detailed information vs. only 9% of later generation SFOs.

While the data show investments and wealth management are the highest priority for the majority of families in our sample, when it comes to reporting on general activities the differences are insignificant. Our respondents indicated that reporting on general activities tend to include information about business opportunities, governance issues, family matters, family office operations, trustees, special events, philanthropic issues, lawsuits, and minutes of Family Council meetings. There was no substantial difference between SFOs in the Americas and European SFOs regarding the frequency of reporting on general activities.

CASE FIVE: *Long-term Evolution*

In the 1970s, the term SFO did not really exist, "but I suppose we had one even then" said the Principal we interviewed. Decades ago, the family used the employees they had around them in their family company (secretaries, book keepers, accountants, the company treasurer, attorneys). Changes in tax laws, increasingly complex estate planning needs, and the desire to pass the family wealth down the generations increased the demand of hiring experts. The family also wanted to diversify their investments into sectors which were not familiar to them, and so began to hire professionals with expertise in those areas. In the 1980s, the family began to see the downside of a large in-house professional staff. "What do you do with the guy you hired to invest in mid-cap stocks when three years later mid-cap stocks are out of favor?" The current incarnation of the SFO was created in the 1990s to facilitate a greater role for external professional expertise that is used on a flexible basis. "The evolution of our SFO primarily reflects changes in the generations. A SFO in the first generation will be different than in the 3rd or 4th generation, since each generation's objectives are different." For example, in this family the 2nd and 3rd generation require more "basic" financial education. The next generations are interested in the way their investments are being managed, and also want to understand how taxes affect them. "Like most families, we evaluate the success of the SFO based upon two main criteria: first, investments should be appropriately diversified and second, the family needs are taken care of." The family needs in this case include investments, cash management, providing education for the younger generation, concierge services, insurance, dealing with tax and legal issues, giving to charity, and making sure the family is not exposed to excessive risk. The SFO now employs a generalist responsible for "quarterbacking" a range of external experts to meet these needs. The family pursues a conservative investment strategy that is designed to preserve their wealth rather than to grow it aggressively. They all worry about going from "shirtsleeves to shirtsleeves in three generations" and hope that the education programming for the next generation will be sufficient to avoid that.

Key Findings for Single Family Office Governance:

11. There is no correlation between total wealth level and the number of committees in an SFO.

12. European SFOs have more committees than their counterparts in the Americas.

13. A higher percentage of billionaire SFOs have a board and an audit committee vs. millionaire SFOs.

14. First generation SFOs tend to have fewer committees when compared to later generation SFOs.

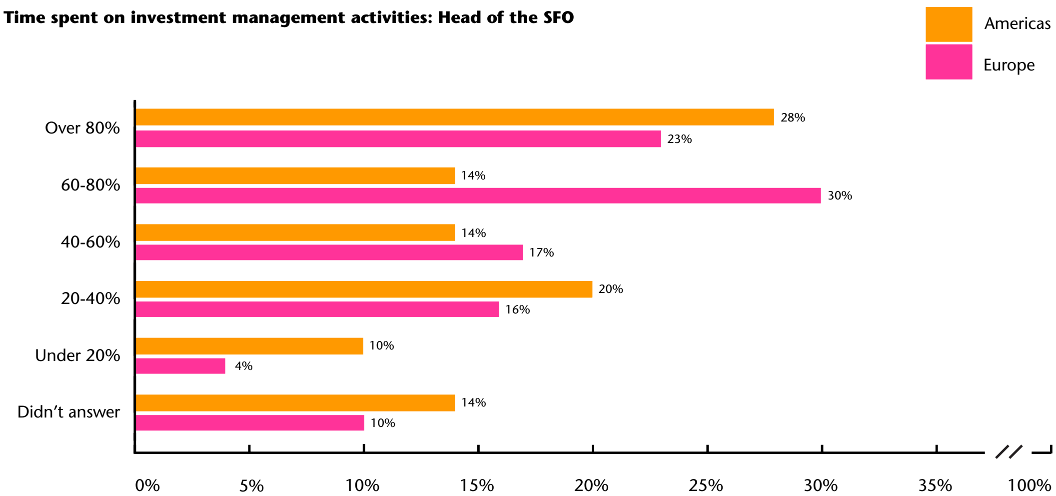
15. Wealth level has no impact on reporting.

16. European families require more frequent and detailed information when compared to their counterparts in the Americas.

V. SFO Asset Allocation

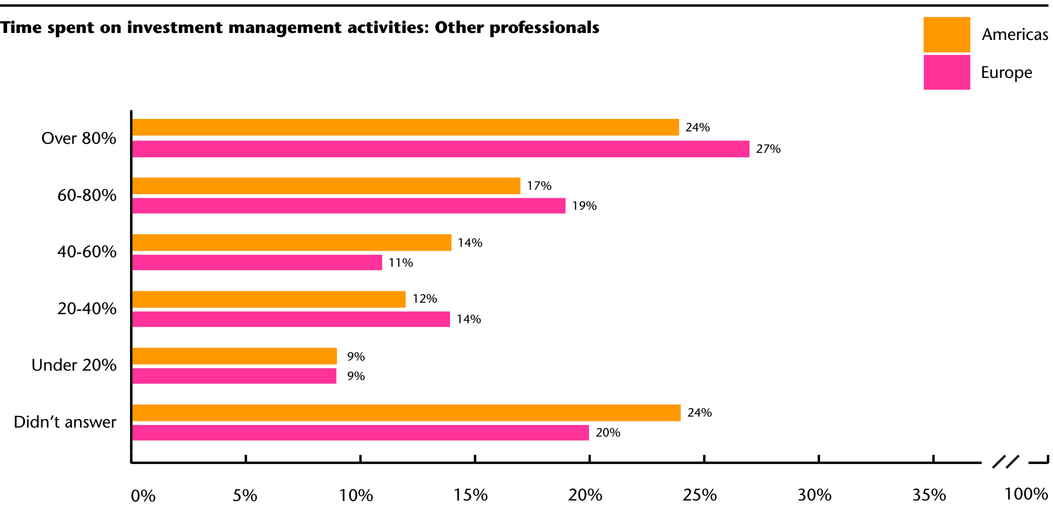
How SFO heads and other professionals spend their time is a revealing indicator of the relative importance of SFOs' activities. Consistent with our findings, SFO leaders and professionals spend a large amount of their time on investment-related activities (see Figure 21).

Figure 21 **Time spent on investment management activities: Head of the SFO**



Source: SFO research project database 2007

Figure 21 **Time spent on investment management activities: Other professionals**



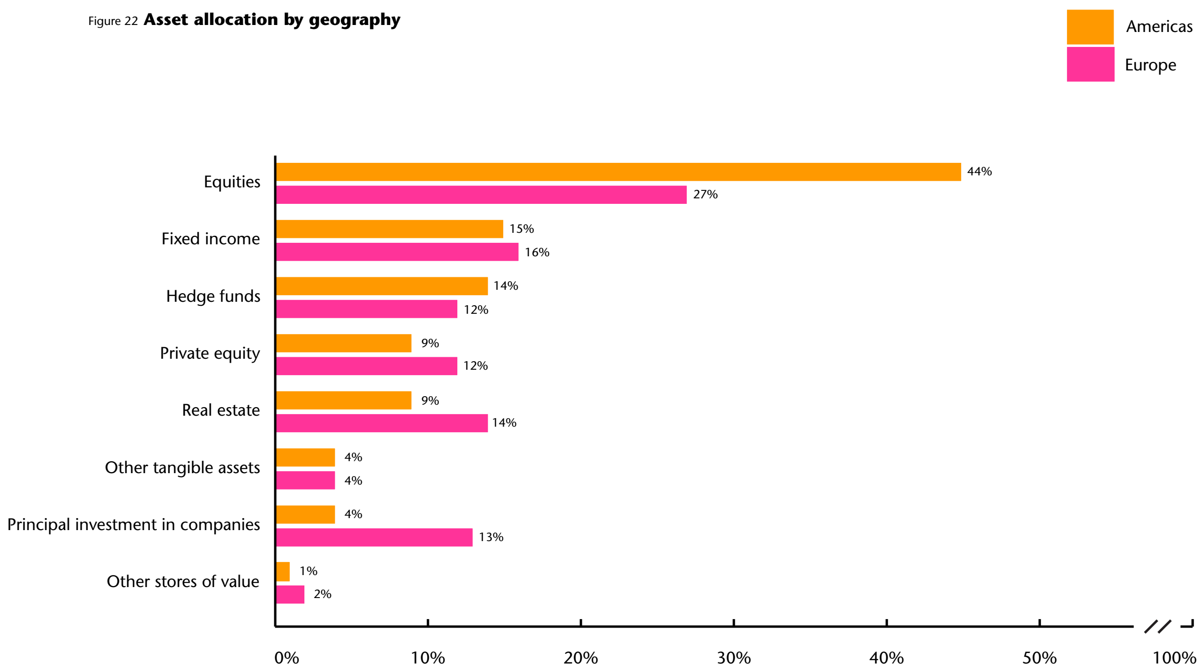
Source: SFO research project database 2007

In our sample, the heads of billionaires SFOs spend less time on investment management activities while other professionals in the office spend more time on investment management activities. The opposite is true for the millionaire SFOs.

The maturity of the SFO also affects the head's job. In a significant number (33%) of first generations SFOs, the head of the office spends more than 80% of his or her time on investment activities. By contrast, only 9% of the heads of later generation SFOs spend 80% or more of their time on investment activities.

There are significant geographical differences in the way assets are allocated (Figure 22): SFOs in the Americas allocate 44% of their wealth to equities while European SFOs allocate only 27%, and RoW SFOs allocate only 17%.

Figure 22 **Asset allocation by geography**



Source: SFO research project database 2007

Respondent SFOs in the Americas invest only 4% of the wealth as principal investment in companies, while European SFOs invests 13%, and RoW SFOs invest 42%.

When comparing billionaire and millionaire SFOs in the Americas to those in Europe, we find even greater differences. European billionaire SFOs invest on average 11% in real estate; in the Americas only 4% is invested in real estate investments. Comparing millionaire and billionaire SFOs on the two continents, there are also differences in investment mix, be they equities, hedge funds, private equity, and principal investments in companies (Table 6).

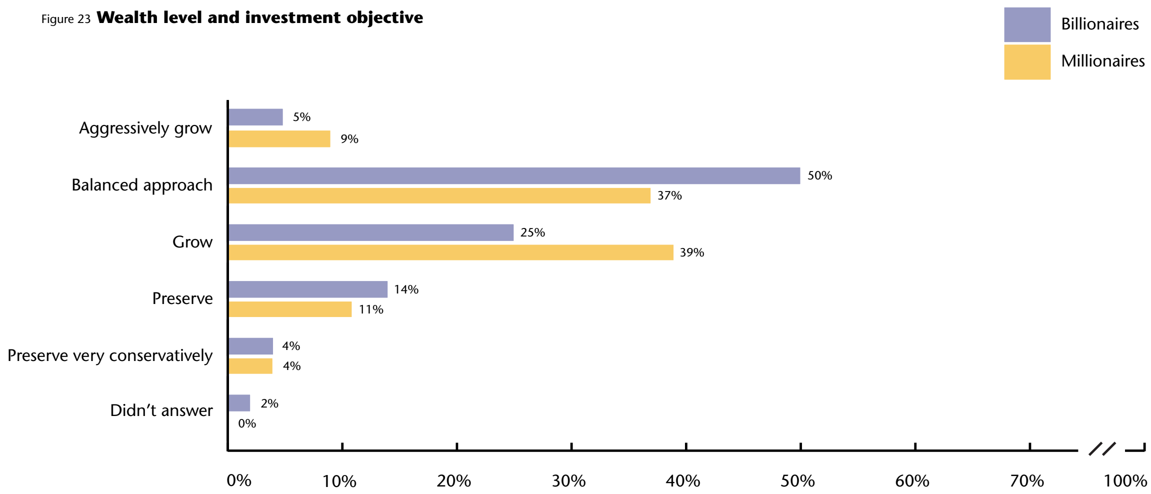
Table 6 **Asset allocation by wealth**

	Americas Billionaires Average	Europe Billionaires Average	Americas Millionaires Average	Europe Millionaires Average
Equities	47%	25%	45%	30%
Fixed income	16%	15%	15%	17%
Hedge funds	20%	12%	12%	13%
Private equity	9%	12%	9%	12%
Real estate	4%	11%	10%	18%
Other tangible assets (e.g., oil, gas, timber, and commodities)	3%	4%	4%	3%
Principal investment in companies	0%	20%	5%	6%
Other stores of value (e.g., art collection, wine cellar, etc.)	1%	2%	1%	2%

Source: SFO research project database 2007

Contrasting investment objectives with asset allocation of billionaire SFOs to millionaire SFOs (see Figure 23) reveals that while 50% of billionaire SFOs say they favor a balanced approach to investment objectives, they tend to commit a greater percentage of their assets to hedge funds and principal investment in companies, which are more volatile asset classes.

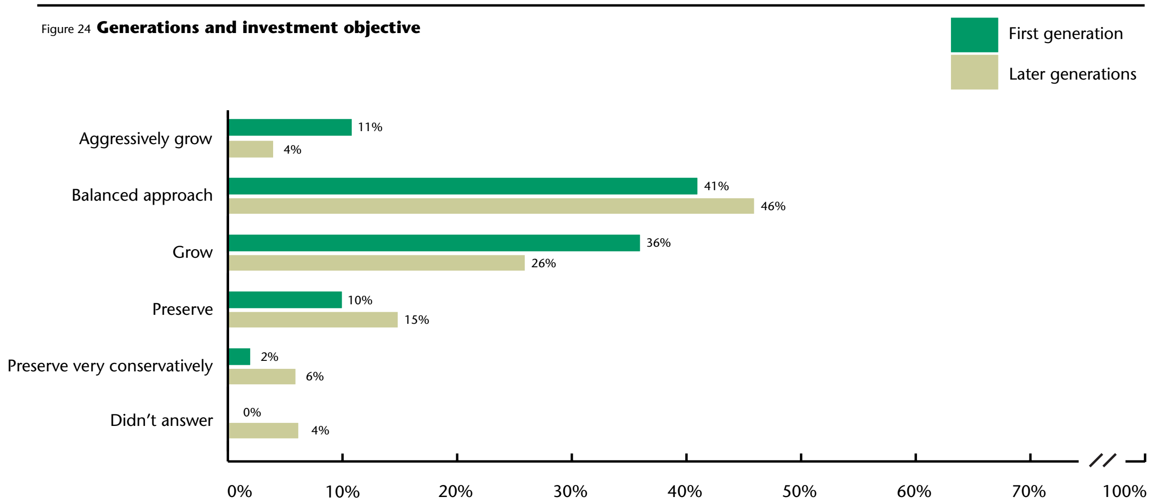
Figure 23 **Wealth level and investment objective**



Source: SFO research project database 2007

The number of generations that are served also has a substantial impact on asset allocation. When asked about their objectives with respect to investment, it seems that first generation SFOs are more aggressive with respect to investments, as shown in Figure 24.

Figure 24 **Generations and investment objective**



Source: SFO research project database 2007

Although, on average, asset allocation is very similar across first- and later-generation SFOs, there is a significant difference with regard to principal investment in companies. In our survey, among first generation SFOs, 10% (median) of the wealth is allocated toward private equity, while later generation SFOs allocate only 5% (median). First generation SFOs allocate on average 14% of their wealth to principle investment in companies, while later generations allocate 9% (Table 7).

Table 7 **Asset allocation by generations**

	First generation	Later generations
	Average	Average
Equities	32%	33%
Fixed income	15%	17%
Hedge funds	13%	13%
Private equity	11%	9%
Real estate	11%	12%
Other tangible assets (e.g., oil, gas, timber, and commodities)	3%	4%
Principal investment in companies	14%	9%
Other stores of value (e.g., art collection, wine cellar, etc.)	1%	3%

Source: SFO research project database 2007

Key Findings on the Asset Allocation for Single Family Offices:

17. The head of the SFO for wealthier families with higher multiples of generations spend less time on investment activities.

18. The families in the Americas are investing more in equities, while European families invest more in principal investments and real estate.

19. Principal investments and private equity allocations is more prevalent for SFOs serving first generation families.

VI. Recommendations

Based on our in-person interviews and on the survey data, we offer some preliminary observations for sound practice.

1. Having a purpose enhances performance. Well-functioning SFOs tend to be linked to families with a strong sense of purpose where it comes to their fortune. This is particularly true when the family invests not only its assets but also its enthusiasm in the pursuit of something beyond mere wealth preservation. This applies to a broad range of objectives, including involvement in entrepreneurial activities and business, worthy causes, philanthropic pursuits, research foundations, patronage of the arts, or taking on public responsibilities.

Families with a long-term vision tend to rally together (with the aid of their SFO) to ride out adverse external factors, such as financial crises, political turmoil, and war. Families lacking such consensus and/or ambition are less likely to provide the right leadership under unfavorable outside conditions. They are also more prone to internal strife.

The families with a clear purpose for their wealth, and hence more incentive to stay informed and in control, seem to have SFOs that enhance this, allowing them to concentrate on the big picture while the SFO sorts out the details. Freed from day-to-day management, and with reliable expert advice at their fingertips, family members can better combine the wealth of their intellects, inspiration, and experience with that of their fortune, creating more of a chance to add value to both their fortune and to society.

2. Seek excellence in every activity. Some families have closely analyzed their strengths—considering their background, experience or asset mix—and then structured their SFO to capitalize on these. They employ an in-house pool of experts to focus on areas of strength and then, as needed, outsource to tap excellence in other spheres.

This approach seems not only to concentrate expertise, it also helps attract and retain the best personnel. Several of the SFOs that focused on certain aspects of wealth management were on a par with the top professional investment firms active in this field. They were also shrewd users of out-sourcing, contracting other experts where necessary and conscious that, as pointed out to us by one SFO head, it's easier to sack a supplier than someone on your staff.

There should be no place for nepotism in an SFO. Yet some families appeared to be compromising the professionalism of their SFOs for reasons of family politics or even penny-pinching. In terms of SFO structure, strict separation of function seems to enhance performance. The highly paid hedge fund expert should not be distracted by dealing with the car fleet, let alone collecting the dry-cleaning.

This is not to say that SFOs cannot handle "softer" services, such as managing domestic staff and travel, but they appear to perform better overall when the functions are separated. A model that seems to work well is to have the equivalent of separate companies for the different specialized areas of asset management and concierge services, plus a discrete foundation for philanthropic activity.

To attract the right talent, SFOs can offer numerous advantages. There is the potential for profit-sharing and co-investment, the attraction of working in an environment closely aligned with employees' own values, the opportunity to gain broader investment experience, and to enjoy more flexible working conditions.

3. Keep it simple. Many SFOs preside over very complex corporate structures. One SFO in our pilot interviews dealt with 200 non-active (holding) companies. Few, in fact, dealt with fewer than 80. This can create problems for family members wanting to supervise, let alone direct, SFO decision-making properly. Many simply do not have the time, interest or expertise needed to find the devil in a huge amount of company detail.

There may be needs various holding companies (e.g., for corporate governance) and in various places, but this should be within reason. And one reason not to let the corporate structure get too unwieldy is Parkinson's Law—the tendency for bureaucracies to expand and fill the space they are given. Another is to keep family and SFO governance manageable.

Sophisticated families insist on the highest standards of governance, reporting and education not just in the SFO but within the family itself. Families that themselves have clearly defined internal procedures will create SFOs that are strong on governance. For example, we found that those with concise written guidelines, such as those delineating family members' different roles, powers, and entitlements, tended to have the equivalent in their SFO (documents clearly stipulating the frequency of reporting, who should report to whom, committee structures, meetings, etc.). Family governance is key to ensuring adherence to the family's value system, its overall purpose and successful trans-generational wealth transfer.

The SFO has a crucial role to play in promoting transparency and accountability, via the reporting process. This should be punctual, focused on key issues and, when providing important details for meetings, ideally kept to a maximum of one page per decision. Committees can be useful for this but should be few in number and efficiently run.

Many of these lessons can be applied by families with far fewer resources than hundreds of millions of dollars. Indeed, several of the family offices in our survey were responsible for multiple households (presumably with varying levels of individual wealth). As we noted earlier, there was no observable correlation between the amount of wealth a family office oversees and its sophistication in the form of governance committees or the professional background of its staff.

Appendix 1

The evolution of the family office

The single family office has a deep rooted history, beginning in ancient Rome and spreading steadily across continents and over many centuries. The role of the SFO arose early on in the form of the administrator of a wealthy single family household, the *major domus*, in ancient Rome (head of the house), later known as the *major-domo* (chief steward) during the Middle Ages. While the exact structure of the SFO and its particular practices continues to develop and change over the years, it is clear that the need for the SFO—for managing wealth, the family business and internal family matters simultaneously—is even more prudent in today's complex world than it was, say, in the mid 18th century when families in Europe handed their wealth down to future generations by way of the fideicomiss, which essentially prevented the sale or division of a family's core assets over the generations and was abolished throughout Europe during the first quarter of the 20th century. These same benefits were granted in England and Wales through the use of trusts.

With the spread of the European private bank model to the New World in the 18th century, the evolution of the modern SFO began to take shape. According to Gray (2005), "In 1853, the first trust company was formed to help entrepreneurs execute financial transactions and manage their wealth. To this point, the only trustees had been individuals. Creating a financial institution to handle trust and banking functions for the early business barons was an innovative, prescient idea." The need for the preservation of wealth remained.

With the Industrial Revolution came the expansion of the role of the bank trust officer. He increasingly became more entrusted with the responsibilities of protecting the assets of certain wealthy, nuclear families. Until this point, the SFO had remained basic, serving the financial needs of only one generation. But the Industrial Revolution marked the beginning of the truly individualized and separate SFO as ever increasing wealth levels signaled a need for wealth preservation across multiple generations—essentially outgrowing the current management structure of the time. Trust duties had become just one aspect of managing the wealth of the operating business as well as the family's personal and financial dealings (Gray 2005).

At the start of the 20th century entrepreneurs suddenly found themselves in executive positions of the budding corporations which had spawned from the Industrial Revolution. Entrepreneurs were managing their growing businesses while, at the same time, starting new businesses and investing in different businesses all together. This trend enabled entrepreneurs to diversify their holdings and therefore create liquidity in the burgeoning market (Gray 2005). Now, however, entrepreneurs were burdened with the difficult task of operating their businesses while concurrently managing their mounting wealth. Complicating matters even further, the entrepreneurs´ children were now entering adulthood and as inheritors of their parents´ wealth it was now their duty to grow the family's wealth and maintain the family's business endeavors. Responsibilities began to multiply as the family wealth began to encompass more relatives and an ever-expanding desire for more sophisticated wealth management and even concierge services.

Appendix 2

Prior SFO research

Literature on the modern family office is scarce, and there is even less on SFOs. Part of the reason is that wealthy families want privacy. Another hurdle is that, depending on how it is defined, "family office" can cover a multitude of structures, ranging from one family member doing administrative tasks for his or her family alongside other tasks in a family business, to a team of professionals focused on investment, accounting, legal affairs, and concierge services (Avery 2004; Martiros & Millay 2006).

Indeed, the various definitions proposed by practitioners include: an organization to support a specific family's financial needs (from strategic asset allocation to record keeping and reporting) (Wolosky 2002); a center of influence and stability to help exceptionally wealthy families ensure the preservation and growth of their financial assets and family heritage (Avery 2004); and a structure created to manage the assets of a wealthy family (Curtis 2001). Private banks that offer "Family Office" services also handle the management of the assorted financial and operating affairs of a family fortune, including providing financial expertise, privacy, and the integration of family's wealth and operations, serving as a clearinghouse for investment and accounting services, assisting with philanthropic endeavors, and offering additional educational and advisory programs.

Based on its comprehensiveness and simplicity, we adopted the following definition of an SFO: "a professional center dedicated to serving the financial and personal needs of an affluent family" (Amit 2006). An SFO can also take the form of a trust or any other legal structure.

As mentioned earlier, when a family business is highly successful it presents a dual challenge: the management of the Family business and the management of the Family and the fortune it has amassed. Many such families turn to specialized help in managing their assets, typically in accounting and record keeping (Wolosky 2002). This need for outside assistance is usually accentuated by the sale of the family business and the sudden liquidation of an immense amount of wealth (Avery 2004). Second and subsequent generations, who inherit large fortunes or acquire them suddenly through the sale of a family business, often lack the time and expertise to manage their wealth wisely.

It's easy to see why such families need help, but why turn to a family office rather than another wealth optimization service? Curtis (2001) quotes a family office manager in addressing this: "The most fundamental reason has to do with the challenge of stewardship: no one will take your issues as seriously as you will take them yourself." Indeed, previous studies suggest that individualized service, confidentiality, control, and flexibility are among the key benefits cited by families who have family offices (Avery 2004).

Family offices are thought to provide more customized and unbiased solutions, confidentiality, and greater involvement and commitment than other alternatives. They are also more trusted to handle issues that the family wants kept out of the public eye. The family office is typically treated almost as part of the family (Avery 2004; Newton 2002) and seen as the best means of preserving transgenerational wealth (Avery 2004). Other key factors are privacy, the absence of conflicting interests (such as those due to primary versus secondary clients' issues), flexible structure, exclusivity, and discretion (Allen 2007).

The literature also reveals some interesting differences in priorities. For example, increased control is one of the top reasons cited by families for using an SFO or multi family office (MFO)—a commercial enterprise serving several families. Yet ask the manager of a commercial family office what his or her top priority is and control is not even on the radar; profit generation is the most commonly cited prime pursuit. In contrast, profit generation was not even mentioned when SFO managers were surveyed on their key objectives (Shaw Grove & Prince 2004). In a similar vein, increasing the happiness and enhancing the lifestyle of family members, and providing family leadership by preparing the next generation for their responsibilities, are valid and important, though non-commercial, criteria for success in an SFO context (Gray 2004).

These different priorities and motivations are worth bearing in mind as they also affect decisions about services provided, recruitment criteria (both for in-house and outsourced personnel), governance mechanisms, performance measurement, and future vision for the family office market.

Finally, amid the increasing number of family offices and hybrid forms, there is also more demand for elite wealth management professionals to work in SFOs. Family offices often appeal to such professionals for lifestyle reasons, not just remuneration and career advancement (Avery 2004). Several articles cover the qualities needed to work in an SFO, including a desire for detail and dealing with family dynamics, and more than one area of expertise (Wolosky 2002). These qualities should be combined with the ability to handle multi-generational complexities, numerous entities, the unique goals of each family member, and the inevitable emotional issues (Bowen 2004).

The literature reflects this diversity. Most articles cover various alternatives for the management of great wealth, among them different types of family office service providers, rather than focusing on one specific type (Newton 2002; Shaw Grove & Prince 2004; Gray 2005; Avery 2004; Wolosky 2002; Gray 2004). It is also worth mentioning here that in recent years small companies that specialize in one service have been acquired by bigger companies that want to provide a full range of services to families. One example of these is concierge services, which often make the client feel they are receiving more personal attention (Avery 2004).

Other articles address issues of most relevance to practitioners employed or looking for work within the family office niche (Newton 2002; Curtis 2001; Bowen 2004; Prince & File 1998).

What is evident from the literature is why the very affluent are increasingly using SFOs—they value factors such as privacy, control, flexibility, and individualized service. What is lacking in the literature, however, is guidance on how to evaluate the performance of the SFO. In fact, preliminary research (Martiros & Millay 2006) suggests that SFOs are looking for knowledge forums that would provide standardization of practice and more market transparency, in order to ensure more consistent and effective experience. Another key knowledge gap, when it comes to setting benchmarks, is that not much is known about the main differentiators among the plethora of SFOs operating today.

Appendix 3

Methodology: Pilot Interviews and the Survey

The project had two sequential phases. The first exploratory phase was based on personal interviews. The objective was to identify key parameters to better describe the objectives, strategy, and structure of Single Family Offices. Based on what we learned, we designed a survey instruments to capture a larger sample of SFOs and identify new insights and general trends.

a. The pilot interviews

The first exploratory stage of our research involved an in-depth clinical analysis of individual cases as part of a pilot study of SFOs. To expand our understanding of SFOs, as well as to find out what families and SFO heads saw as priorities, we followed the example of Glaser and Strauss (1967) and Strauss (1987) who stress that practicing empirical research is the best way to uncover tacit knowledge.

To collect the necessary data it was important to use a method that allowed us to spend sufficient time with informants, the flexibility to change question sequencing where necessary, the handling of very complex issues, and avoidance of non-response issues (Dilman 1978). Flexibility was also important for detecting any new variables that might appear as the research progressed (Eisenhardt 1989).

Personal interviews are the most effective way of gathering essential information and meeting these criteria. They reveal categories, variables, concepts and potential measures, and, in turn, help to formulate a preliminary hypothesis for later follow-up study (Eisenhardt 1989). It was not the objective of this project to generalize the findings to the wider population of family offices (statistical generalization, Yin 1994); that goal was reserved for the next step in the research project.

Potential disadvantages, such as accuracy of response, problems of social desirability bias, omissions (under-reporting of frequency of events), telescoping (over-reporting) (Sudman and Bradburn 1974; Bradburn 1979) and the like were addressed by triangulating information where possible.

Our study was unique in that we decided to target only SFOs that manage more than $100m in investable assets. While some banks define assets under management (AuM) more narrowly, we agreed to a more inclusive concept of investable assets, encompassing real estate, private equity, and hedge funds.

To select subjects for our 42 pilot interviews we applied the following criteria to the SFOs we had identified. First, we sought SFOs of close proximity to the interviewee (to increase information depth and relevance), and second, we looked for variation in terms of geographical location, SFO age and family wealth level (although in keeping with our definition, all had to have a minimum of $100M in investable assets).

The pilot interviews—22 in Europe, 16 in the United States and four in the rest of the world (RoW)—took place from September to December 2006. About 75% took place with the head of the SFO or main investment professional (usually the Chief Investment Officer). The rest were with a family member who was well-informed about the SFO.

As various people were to conduct the interviews, we developed an interview protocol designed to facilitate internal congruency and strengthen the internal validity of the data (Yin, 1994).

We used wording that would be understood and interpreted equally in all countries. The questions were designed to identify key aspects of SFO structure, and to gather information such as the SFO's primary role, its rationale, use of outsourcing, reporting processes, and perceived importance of SFO's activities.

The pilot interviews involved recorded, one-to-one questioning. We have conducted 42 interview overall. Five of these interviews were done in person; the other thirty-seven interviews were conducted by telephone. Each interview lasted at least 90 minutes. In some cases the interviewer was not allowed to make notes until after the interview. While we tried to avoid any recalled bias, some may have been introduced.

Care was taken to protect interviewee anonymity and it was made clear that only non-identifying summaries of the interviews would be passed on to the rest of the research team by the interviewer. The research team met several times during the interview stage in order to review techniques and consider ways to provoke more profound interviewee responses.

b. The Surveys

Based on the findings of the pilot interviews, we created a survey instrument and distributed it to our pilot interview participants and to additional SFOs that met our criteria. The complete survey instrument is attached in Appendix 4 for reference.

The survey instrument was made up of five sections that enabled us to obtain information about the SFO and the family it serves. The first section of the survey explored family background, the size of the family's business, and the family's wealth category. The second section gave us background information about the SFO, its characteristics and the challenges it faced. The purpose of the third section was to evaluate the in-house team of professionals working at the SFO. The fourth section gave information about the SFO's governance structure, and the final section focused on investment management practices and other services provided by the SFO, and their importance to the family.

The survey instrument was sent directly or via intermediaries with established SFO networks and could be completed online as well as on paper. It was available in English, Spanish, Italian, and Chinese. The questionnaire reached approximately 900 family offices in Europe, the US, and RoW. We obtained 138 useable completed surveys from single family offices with over $100M in assets, a response rate of 15%.

Appendix 4

The Survey Instrument

This appendix includes the survey instrument used to collect data.

Single Family Office Survey

Thank you for agreeing to complete this survey, which is the first comprehensive study on Single Family Offices of its kind.

The information provided in this survey will be handled in confidence and will not be shared with anyone. The results will be presented in aggregate form only, and will be shared with you as we complete our analysis.

A. Background: Family/Operating Businesses Controlled by the Family

The purpose of this section is to understand the family background and the nature of the family business and wealth creation.

1. Is your family currently involved in operating businesses?

☐ Yes 58%
☐ No 42%

If your answer is yes, please answer the following questions 1.1 – 1.6.:
If your answer is no, please move on to question 2.

1.1 What is the stake in the holding company of the operating businesses?

☐ Majority	77.5%
☐ Minority with control rights	12.5%
☐ Minority without control rights	5%
* Didn't answer	5%

1.2 What is the primary industry of the operating business?

Industry	**Percentage**
Accommodation and Food Services	2.50%
Agriculture, Forestry, Fishing and Hunt	1.25%
Arts, Entertainment, and Recreation	3.75%
Construction	1.25%
Finance and Insurance	7.50%

Health Care and Social Assistance	3.75%
Information	5.00%
Management of Companies and Enterprises	11.25%
Manufacturing	13.75%
Other	17.50%
Real Estate and Rental and Leasing	13.75%
Retail Trade	8.75%
Transportation and Warehousing	1.25%
Utilities	1.25%
Wholesale Trade	2.50%
* Didn't answer	5.00%

1.3 Level of revenues of the operating businesses controlled by the family (consolidated):
(Please choose your preferred currency)

Level of revenues	**Percentage**
<$500m	33.75%
$500m-1bn	13.75%
$1bn-3bn	23.75%
$3bn-5bn	3.75%
>$5bn	17.50%
* Didn't answer	7.50%

1.4 Headquarters of the operating businesses controlled by the family:

Continent	**Percentage**
Americas	30.00%
Europe	56.25%
RoW	8.75%
* Didn't answer	5.00%

1.5 Is there any active participation (board or management) of family members in the operating businesses?

☐ Yes ___________77.5%
☐ No _____________15%
* Didn't answer ______7.5%

1.6 Number of generations currently involved in the operating businesses controlled by the family: _____

% of respondents	**Average**	**Median**	**Sd**
55.07%	1.8	2	0.77

2. Please evaluate the financial knowledge of the main beneficiaries (family members) of the Single Family Office (on average):

1	2	3	4	5
expert				no knowledge

% of respondents	Average	Median	Sd
98.55%	2.4	2	0.94

3. In your view, which are the objectives that the family has for the Single Family Office? **(Please rate <u>no more than two</u> as 'extremely important').**
   1= extremely important and 5=not important

Objectives	% of respondents	Average	Median	Sd
a. Trans-generational wealth management	99.28%	1.7	1	1.00
b. Family education	96.38%	2.8	3	1.13
c. Family unity	98.55%	2.6	2	1.26
d. Life style enhancement (concierge services)	99.28%	3.7	4	1.10
e. Philanthropy	98.55%	2.9	3	1.01
f. Consolidation function of accounting, tax and estate planning services	99.28%	1.9	2	0.90
g. Other	17.39%	2.2	1	1.69

B. Background: Single Family Office

The purpose of this section is to understand the characteristics and challenges for the Single Family Office.

4. Year of the Single Family Office formation: _________

% of respondents	Average	Median	Sd
96.38%	1989	1998	20.98

5. Single Family Office headquarters:

Continent	Percentage
Americas	42.03%
Europe	50.72%
RoW	6.52%
* Didn't answer	0.72%

6. Number of family members currently being served by the Single Family Office:

% of respondents	Average	Median	Sd
98.55%	40	8	148.85

7. Number of households currently being served by the Single Family Office:

% of respondents	Average	Median	Sd
96.38%	13	4	46.64

8. Which generations are currently being served by the family office? (Check all that apply)

% of respondents	Average	Median	Sd
99.28%	2.4	2	0.81

Generation	Percentage
1st	60%
2nd	67%
3rd	51%
4th	30%
5th	20%
6th	9%
7th	1%
8th	0%
9th & Above	1%

9. How would you describe the main objective of the Single Family Office investment activities with respect to family wealth?

Main objective with respect to family wealth	Percentage
Preserve very conservatively	3.63%
Preserve	11.60%
Balanced approach	42.75%
Grow	31.88%
Aggressively grow	7.97%
* Didn't answer	2.17%

10. What are the key benefits for the family of having a Single Family Office? **(Please rate <u>no more than two</u> as "extremely important").**
1= extremely important and 5= not important

Key benefits of having a Single Family Office	% of respondents	Average	Median	Sd
Confidentiality	98.55%	2.1	2	0.90
Conflict-free advice	96.38%	2.0	2	0.96
Promote/ensure family governance	96.38%	2.5	2	1.07
Access to sophisticated types of investment	97.83%	2.2	2	1.05
Provide services other than investment services to the family (concierge, taxes, etc.)	97.83%	3.1	3	1.05
Consolidated management of family wealth and control	96.38%	1.7	2	0.79
Charity / philanthropy	97.10%	3.0	3	1.07
Estate planning	97.10%	2.4	2	0.92
Educate family members	97.10%	3.0	3	1.04
Other	9.42%	2.9	2	1.75

11. Family total wealth level:

11.1 Family wealth level:

Family wealth level	Percentage
$100m-500m	39.13%
$500m-1bn	15.22%
>$1bn	40.58%
* Didn't answer	5.07%

11.2 Please fill out the table:

	% of respondents	Average	Median	Sd
% of family wealth tied to operating business controlled by the family	93.48%	26.84	5	32.24
% of wealth managed in the Family Office	93.48%	64.95	75	33.32
% of wealth not included in the above	93.48%	8.22	2	14.04

C. Single Family Office: The Professionals

The purpose of this section is to evaluate the in-house team of professionals working for the Single Family Office.

In this section please refer to In-house employees only. To the extent you rely on external advisors or outsource to external service providers, we will have a section later on in the survey.

12. Number of employees:

	% of respondents	Average	Median	Sd
Total number of employees in the Family Office:	92.75%	11.2	6	15.65
Head of the family office:	92.75%	1.1	1	0.46
Investment professionals:	92.75%	2.4	1	3.38
Accountants:	92.75%	1.9	1	2.33
Lawyers/legal advisors:	92.75%	0.7	0	1.62
Investment advisors:	92.75%	0.3	0	0.75
Education advisors:	92.75%	0.1	0	0.44
Client relationship advisors:	92.75%	0.3	0	1.61
Other professionals:	92.75%	0.9	0	3.59
Staff:	92.75%	3.5	2	7.18

13. Is the head of the Single Family Office a family member?

- ☐ Yes _____ 43%
- ☐ No ______51%
- * Didn’t answer ____6%

14. For each position below, indicate the prior professional experience (Check all that apply):

14.1 Head of the Single Family Office

- ☐ Law firm ____ 11%
- ☐ Private banker ____ 17%
- ☐ Asset manager ____ 17%
- ☐ Investment banking ____ 15%
- ☐ Economist ____ 7%
- ☐ Other financial services ____ 12%
- ☐ Multi Family Office (MFO) ____ 4%
- ☐ Consulting firm ____ 9%
- ☐ Accounting firm ____ 14%
- ☐ Human Resources ____ 0%
- ☐ Managerial experience in industry (unrelated to the family business) 22%
- ☐ Managerial experience in the family's operating businesses ____ 26%
- ☐ Other (specify: ____) ____ 5%

14.2. CIO

- ☐ Law firm ____ 4%
- ☐ Private banker ____ 14%
- ☐ Asset manager ____ 23%
- ☐ Investment banking ____ 14%
- ☐ Economist ____ 10%
- ☐ Other financial services ____ 13%
- ☐ Multi Family Office (MFO) ____ 4%
- ☐ Consulting firm ____ 9%
- ☐ Accounting firm ____ 10%
- ☐ Managerial experience in industry (unrelated to the family business) ____ 10%
- ☐ Managerial experience in the family's operating businesses ____ 6%
- ☐ Other (specify: ____) ____ 6%

15. How do you retain the best professionals? **(Please rate no more than two as "extremely important")**
1= extremely important and 5= not important
* N/A = Not Applicable

	% selected "1"	% selected "2"	% selected "3"	% selected "4"	% selected "5"	% selected "N/A"	% didn't answer
a. Attractive environment in terms of hours/salary ratio, and lifestyle	30.43%	33.33%	12.32%	7.97%	1.45%	0.72%	13.77%
b. Above market compensation	4.35%	28.98%	34.06%	15.22%	2.90%	0%	14.49%
c. Performance / incentive bonus	14.49%	31.16%	21.01%	9.42%	2.17%	7.25%	14.49%
d. Profit sharing /carried interest	11.59%	23.19%	19.57%	9.42%	7.25%	14.49%	14.49%
e. Co-investment possibility	13.77%	17.40%	11.60%	10.14%	10.14%	22.46%	14.49%
f. Job stability	14.49%	36.23%	22.46%	10.15%	1.45%	0%	15.22%
g. Investments with social/ethical dimension	2.17%	11.59%	21.74%	19.57%	12.32%	14.49%	18.12%
h. Retirement plan	0%	16.66%	21.74%	17.39%	15.22%	12.32%	16.67%
i. Broad investment experience	15.22%	32.61%	18.84%	6.52%	5.07%	5.80%	15.94%

D. Single Family Office: Governance Mechanisms

The purpose of this section is to understand the governance mechanisms the Single Family Office is required to provide to the family.

16. Data on current committees:

16.1 Investment committee:

Investment committee - exists	Percentage
Yes	59.42%
No	34.78%
Didn't answer	5.80%

Investment committee	% of respondents	Average	Median	Sd
Total number of members:	58.70%	4.8	5	2.16
Number of family members:	57.25%	2.1	2	1.55
Annual frequency of meetings reporting to the family:	55.80%	5.9	4	6.73

16.2 SFO Management committee/board:

SFO Management committee/board - exists	Percentage
Yes	39.13%
No	55.07%
Didn't answer	5.80%

SFO Management committee/board	% of respondents	Average	Median	Sd
Total number of members:	38.41%	5.1	5	2.34
Number of family members:	36.96%	2.6	2	2.38
Annual frequency of meetings reporting to the family:	36.96%	12.9	4	50.69

16.3 Education committee:

Education committee - exists	Percentage
Yes	10.87%
No	83.33%
Didn't answer	5.80%

Education committee	% of respondents	Average	Median	Sd
Total number of members:	10.87%	4.6	4	3.16
Number of family members:	10.14%	3.9	3.5	3.11
Annual frequency of meetings reporting to the family:	10.14%	2.1	2	1.38

16.4 Audit committee:

Audit committee - exists	Percentage
Yes	18.84%
No	75.36%
Didn't answer	5.80%

Audit committee	% of respondents	Average	Median	Sd
Total number of members:	18.84%	4.7	4	2.54
Number of family members:	18.84%	1.5	1	1.50
Annual frequency of meetings reporting to the family:	18.12%	3.0	2	2.32

16.5 Client relationship committee:

Client relationship committee - exists	Percentage
Yes	4.35%
No	89.85%
Didn't answer	5.80%

Client relationship committee	% of respondents	Average	Median	Sd
Total number of members:	4.35%	5.8	4	3.66
Number of family members:	3.62%	0.6	0	0.89
Annual frequency of meetings reporting to the family:	3.62%	5.8	4	3.63

16.6 Other (Please specify: ______________________________)

17. Reporting process

17.1 How often are family members informed about their investments?

Frequency of reporting	% of respondents
Annually	5.80%
Twice a Year	8.70%
Quarterly	36.96%
Monthly	28.25%
Weekly	6.52%
Other	5.80%
* Didn't answer	7.97%

17.2 Do family members also request and receive this information on an ad-hoc basis?

☐ Yes _____69%
☐ No ______23%
* Didn't answer _____8%

17.3 How detailed is this information?

Detailed information	% of respondents
Very general	0.72%
General	10.14%
With some detail	26.10%
Very detailed	37.68%
Highly detailed	15.22%
* Didn't answer	10.14%

17.4 Please describe the contents of the report: ___________________

____

____

17.5 How often are family members informed about general activities (excluding investments)?

Frequency of reporting	% of respondents
Annually	15.94%
Twice a Year	13.04%
Quarterly	31.16%
Monthly	11.59%
Weekly	8.70%
Other	10.87%
* Didn't answer	8.70%

17.6 Do family members also request and receive this information on an ad-hoc basis?

☐ Yes ____________64%

☐ No _____________27%

* Didn't answer _____9%

17.7 How detailed is this information?

Detailed information	% of respondents
Very general	2.90%
General	18.84%
With some detail	36.96%
Very detailed	20.28%
Highly detailed	7.25%
* Didn't answer	13.77%

17.8 Please describe the contents of the report: ___________________

____

____

E. Single Family Office: Investments and Other Services

The purpose of this section is to understand the importance of services perceived by the family which are provided by the Single Family Office. This ultimately determines the structure of the Single Family Office.

18. How much of your Family Office professionals' time is allocated for investment management activities?

18.1 Head of the Family Office:

Head of the Family Office	% of respondents
Over 80%	23.91%
60-80%	24.64%
40-60%	15.94%
20-40%	16.67%
Under 20%	7.97%
* Didn't answer	10.87%

18.2 Other Professionals (exclude SFO Head):

Other Professionals	% of respondents
Over 80%	26.81%
60-80%	16.67%
40-60%	13.77%
20-40%	13.04%
Under 20%	9.42%
* Didn't answer	20.29%

19. What are the primary functions of your Single Family Office? **(Please rate <u>no more than four</u> as "Most Valued")**
1= most valued and 5= least valued
Please select N/A (Not Applicable) if this service / activity is not provided at all by the in house team nor by external providers.

ACTIVITIES	In-House	Outsourced	Both	N/A	Didn't answer
a. Asset allocation	55.80%	10.14%	22.47%	0.72%	10.87%
b. Manager selection & monitoring	48.56%	11.59%	25.36%	2.90%	11.59%
c. Education of family members	34.78%	2.17%	24.64%	23.92%	14.49%
d. Personal/psychological counseling	12.32%	9.42%	8.70%	55.07%	14.49%
e. Philanthropy	47.83%	2.16%	19.57%	15.22%	15.22%
f. Risk management/insurance	40.58%	20.29%	18.12%	7.97%	13.04%
g. Concierge services & security	30.43%	9.42%	13.77%	31.16%	15.22%
h. Estate planning	20.29%	28.26%	34.06%	2.90%	14.49%
i. Banking	35.51%	31.88%	14.49%	5.08%	13.04%
j. Financial administration	57.25%	10.87%	12.32%	7.24%	12.32%
k. Information aggregating & reporting	50.72%	7.97%	23.19%	2.90%	15.22%
l. Legal services	8.70%	52.90%	21.01%	3.62%	13.77%

m. Tax services	13.04%	41.30%	28.26%	4.36%	13.04%
n. Relationship management	44.20%	0.72%	7.25%	30.44%	17.39%

ACTIVITIES	% of respondants	Average	Median	Sd
a. Asset allocation	88.41%	1.5	1	0.75
b. Manager selection & monitoring	86.23%	1.7	2	0.83
c. Education of family members	63.77%	2.6	3	0.95
d. Personal/psychological counseling	34.06%	2.9	3	1.05
e. Philanthropy	72.46%	2.7	3	0.99
f. Risk management/insurance	79.71%	2.5	2	0.90
g. Concierge services & security	57.25%	3.1	3	1.15
h. Estate planning	84.06%	2.2	2	0.85
i. Banking	83.33%	2.5	2	0.82
j. Financial administration	80.43%	2.3	2	0.87
k. Information aggregating & reporting	81.88%	1.8	2	0.79
l. Legal services	82.61%	2.3	2	0.71
m. Tax services	82.61%	1.9	2	0.80
n. Relationship management	54.35%	2.5	2	1.03

20. Please provide an overall view of the asset allocation (liquid assets), which is the portfolio of the wealth managed by the Single Family Office (exclude wealth tied to the operating business):
ASSET CLASS:

Investment management activities	In-House	Outsourced/ FoF	Both	N/A	Didn't answer
a. Equities	14.49%	30.44%	34.78%	2.17%	18.12%
b. Fixed income	18.84%	28.98%	23.19%	9.42%	19.57%
c. Hedge funds	12.32%	44.21%	10.87%	11.59%	21.01%
d. Private equity	31.88%	13.05%	21.74%	11.59%	21.74%
e. Real estate	38.41%	4.35%	21.01%	13.77%	22.46%
f. Other tangible assets	21.01%	5.80%	7.24%	39.86%	26.09%

Investment management activities	% of respondents	Average	Median	Sd
a. Equities	81.16%	33.7	30	23.19
b. Fixed income	78.99%	15.7	10	14.05
c. Hedge funds	80.43%	13.1	10	12.64
d. Private equity	80.43%	10.1	9	9.55
e. Real estate	81.16%	11.5	10	12.63
f. Other tangible assets (e.g. oil, gas, timber, and commodities)	76.09%	3.7	0	6.39
g. Principal investment in companies	84.06%	12.0	0	22.12
h. Other stores of value (e.g. art collection, wine cellar, etc.)	84.06%	1.7	0	5.38

Appendix 5

SFO Functions—priorities

SFO functions—priorities

	Americas		Europe	
Activities/Scope	Importance**	% of respondants	Importance**	% of respondants
Asset allocation	1	52%	1	57%
Manager selection & monitoring	1	43%	1	40%
Information aggregating & reporting	1	34%	2	41%
Education of family members	2	29%	3	23%
Philanthropy	2	36%	3	29%
Estate planning	2	53%	2	31%
Banking (e.g. loans, deposits)	2	34%	2	44%
Financial administration (e.g., bill paying, wire transfers)	2	40%	2	40%
Legal services	2	47%	2	50%
Tax services	2	45%	2	36%
Relationship management (maintaining relationships with groups of family members)	2	21%	3	24%
Personal/psychological counseling	3	12%	3	13%
Risk management/insurance	3	34%	2	33%
Concierge services & security	3	19%	4	20%

Source: SFO research project database 2007

**Extremely important = 1, not important = 5

Appendix 6

SFO Functions—service organization

SFO Functions—service organization

Activities/Scope	Americas In-house	Americas Outsource	Americas Both***	Americas N/A^	Europe In-house	Europe Outsource	Europe Both***	Europe N/A^
Asset allocation	47%	14%	24%	0%	63%	6%	21%	1%
Manager selection & monitoring	38%	14%	31%	2%	56%	10%	20%	4%
Education of family members	34%	2%	29%	17%	31%	3%	21%	30%
Personal/psychological counseling	7%	14%	9%	55%	17%	6%	9%	53%
Philanthropy	47%	2%	22%	10%	50%	3%	14%	19%
Risk management/insurance	29%	33%	19%	3%	49%	11%	16%	11%
Concierge services & security	24%	16%	19%	24%	37%	4%	11%	31%
Estate planning	7%	40%	33%	3%	31%	17%	36%	1%
Banking (e.g., loans, deposits)	17%	47%	19%	2%	46%	24%	11%	6%
Financial administration (e.g., bill paying, wire transfers	41%	14%	22%	5%	70%	9%	4%	7%
Information aggregating & reporting	41%	10%	29%	0%	56%	7%	20%	4%
Legal services	2%	60%	17%	3%	16%	46%	23%	3%
Tax services	12%	48%	19%	3%	14%	36%	36%	3%
Relationship management (maintaining relationships with groups of family members)	41%	0%	7%	29%	47%	1%	9%	27%

Source: SFO research project database 2007

*** "Both" includes in-house and outsource ^ "N/A" was selected if the SFO does not have this activity/function

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