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FAMILY OFFICES

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By

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¿Are you a client of a private bank? Well, you should know that you are obsolete, because private banking is *démodé*. Today, you are nobody if you don't have a family office".

MEDIEVAL TIMES SHIFT TO AVANT-GARDISM

Historic records show a concentration of fortunes and treasures, along with a high level of confidence, in what used to be Central Europe, as early as 400 years ago. If you examine European cities in the 21st Century, there are a few that still resemble the feudal framework that knights and vassals used to prowl. Zurich, Geneva, the principality of Liechtenstein and Luxembourg, have relied on mountains and high walls to protect the riches of an entire continent for ages. However, as secure as these measures might have been facing an attack from enemy forces, the assets protected were palpable and vault-envisioned. Not anymore.

With Europe on the brink of collapse due to instability arising from peripheral and core members growing weaker as collateral damage corrodes the influence invested in them, wealth has desperately sought for salvation.

But where to go?

Globalization and emerging powers have in recent years provided not one, but many, destinations capable of supplanting the rusty infrastructures held by the before mentioned feudal strongholds. Yet only a few of these can claim to provide the avant-garde structures to handle the inflow and the management of the world's oldest fortunes.

A small dictatorship turned city-state in South East of Asia has become the epicenter of wealth management in recent years due to its legal configuration, expat presence and solidification as one of the world's top financial centers. However, it is not Singapore who will hold the keys to the unforeseen future of financial sanctuaries.

LATIN AMERICAN WEALTH CENTERS

China and India might still look as the flag holders on top of the BRIC; yet it is these two emerging superpowers that initially gave Singapore its allure, but a change of tides, led by the resurgence of commodity markets, has placed the spotlight on Latin America.

A number of economic factors have contributed to the increase in wealth in the region including:

- Foreign acquisitions of local companies have produced new millionaires overnight.
- Commodities sold globally are creating growing fortunes for landowners and cattle farmers.
- Great family wealth created by land sales and other activities has led to an upsurge in family offices, which expect to see those assets professionally managed.
- Across the region, venture capital, private equity, and the growing importance of IPOs have increased access to capital and created excess capital to be reinvested.
- Increased financial activity has been complemented by an upsurge of new producers in extractive industries, mainly oil and mining, in Argentina, Brazil, Chile, Peru, and even Colombia.

There are at least 50 billionaires in Brazil, and more than 200 individuals worth more than $500 million. The lion's share of the local assets of nearly $1 trillion is managed by domestic players like Banco do Brasil, Itau Unibanco and Bradesco; however:

- The region is receiving increasing interest from the wealth management world, with some of the West's biggest players such as UBS, Societe Generale, Citigroup, JP Morgan, Julius Baer, Goldman Sachs and Morgan Stanley all increasing their presence in the market, especially in Brazil, the continent's largest economy.
- JP Morgan, Credit Suisse, BNP Paribas, BlackRock and Legg Mason are cracking into the market. BNY Mellon, Santander and HSBC are some of the international big hitters in local asset management.

CONCEPT

Many family offices (FO) started their business as so called single family offices, where the family owns the FO and serves only the owner family. Instead of covering the entire operative costs, many owners of single FO decided to offer its services to other families as well. This concept is called multi-family office (MFO) or multi-client family office. Only a few MFO have founded their business independently, without a large family backing it.

In addition, the development of the MFO came as a result of the growing number of wealthy families, as well as the rapid developments in technology within the financial markets which required greater sophistication and skill in financial advisors in the 1980s and 1990s. The difficulty in attracting and retaining such talented employees became more difficult. These changes, combined with the consolidation of the financial services industry, significantly diminished the role of the private banks and bank trust departments that traditionally served the wealthy families. These trends resulted in an increased need and cost for FO services. To defray such costs many families opened their FO to non-family members, resulting in multi-family offices.

A single family office (SFO) is a private company that manages investments, IBCs, foundations and trusts for a single wealthy family. The company's financial capital is the family's own wealth, often accumulated over many family generations. Traditional family offices provide personal services such as managing household staff and making travel arrangements. Other services typically handled by the traditional FO include property management, day-to-day accounting and payroll activities, and management of legal affairs. FO often provide family management services, which includes family governance, financial and investment education, philanthropy coordination, and succession planning. A family office can cost over $1 million per year to operate, so the family's net worth usually exceeds $100 million.

The SFO itself either is, or operates just like, a corporation with a president, CFO, CIO, etc. and a support staff, or as a private trust company. The officers are compensated per their arrangement with the family, usually with overrides based on the profits or capital gains generated by the office. Often, family offices are built around core assets that are professionally managed. In addition, a more aggressive and well-capitalized office may be engaged in private equity placement, venture capital opportunities, and real estate development. Many family offices turn to hedge funds for alignment of interest based on risk and return assessment goals.

Multi-family offices typically provide a variety of services including tax and estate planning, risk management, objective financial counsel, trusteeship, lifestyle management, coordination of professionals, investment advice, and foundation management. Some MFO are also known to offer personal services such as managing household staff and making travel arrangements. Because the customized services offered by a MFO can be costly, clients of a multi-family office typically have a net worth in excess of $50 million.

A family office is normally set up as a privately owned company (or private trust company – PTC) and supports wealthy families with the organization and maintenance of their wealth. Although, a family office can be established all over the world, you find them primarily in Europe (mainly in Switzerland, Luxembourg, Liechtenstein and London), the United States of America and more recently in Latin America. In the past couple of years, the first SFO and MFO emerged in Hong Kong and Singapore to provide these services.

As there is a worldwide growing number of high net worth individuals (HNWI), there is also a growing request for family office services. As a result of this, there are quite a lot of parties, like independent asset managers and former bankers, stating that they are offering family office services but actually only offering asset management services. There are also quite a number of FO connected to banks (as shareholders), making one question the reliability of their 'fully independent' advise.

MODERN FAMILY OFFICES

Modern family offices are typically separated into three classes:

Class A Family Offices provide estate and financial services and typically are operated by an independent company that receives direct oversight from a family trustee or administrator. A typical Class A family office:

- Offers comprehensive financial oversight of all liquid financial assets.
- Offers daily management of all illiquid assets, such as real estate.
- Can administer and manage the entire estate with little to no supervision.
- Charges a flat monthly fee for all family office services.
- Offers advice free from conflicts of interest and will not sell products.
- Offers a comprehensive monthly report of all estate activity for no additional fee.

Class B Family Offices focus on providing financial services and are typically operated by a bank, law firm, or accountant firm. A typical Class B family office:

- Offers investment advice for a fee.
- Can offer products and services outside the scope of a family office.
- Does not directly manage or administer illiquid assets in the estate.

Class C Family Offices focus on providing estate services and are typically operated by the family with the assistance of a small support staff. A typical Class C family office:

- Has a staff that will monitor the estate and report into the family trustee with any irregularities.
- Provides basic administrative functions, such as bookkeeping and mail sorting.
- May have an office inside a family member's home.

STARTING A FAMILY OFFICE

The family office is a unique family business that is created to provide tailored wealth management solutions (from investments to philanthropy) in an integrated fashion while promoting and preserving the identity and values of the family. Some families start an office to provide economies of scale for the family by leveraging the investment buying power of the group; others want control over the process, a dedicated staff, and a way to keep family members connected. All look to the family office to provide professional, private, and conflict-free management of their affairs to increase their chances of sustaining their human and financial capital for the long term.

STRUCTURE OF THE FAMILY OFFICE

An SFO and MFO usually operate as a corporation or private trust company, but it can manage a large number of IBCs, foundations and trusts depending on the family business.

Offshore IBCs

A company used or described as an offshore company is normally an International Business Company established in a jurisdiction like Panama, the British Virgin Islands, Seychelles, Belize, etc. These jurisdictions are often described as tax havens or offshore jurisdictions. A family office can assist with acquiring or managing an offshore company.

The main characteristic of an International Business Company is that income generated or kept outside the jurisdiction is not taxed in that specific jurisdiction. As a result of this, an offshore company is often used by a family office as the top holding for an international corporate structure when this is also tax beneficial from the perspective of the country of residency of the ultimate shareholder. That way the family can distribute profits generated by the active family business/es to a tax-exempt environment. In the offshore company the profits will accumulate until they are (partly) distributed to the family. This final distribution often triggers taxation in the country of residency of the family. It is due to this reason that a family office often advises that offshore companies are held by a family trust or foundation. Next to operational business being owned by an offshore company, also private airplanes, yachts and real estate are often owned via a structure including an offshore company.

Also, privacy reasons can play a role to set up an offshore company. There are numerous jurisdictions in the world in which it is better that the ownership of a successful company is not known to the public as this could jeopardize the safety of the family (i.e. risks of kidnapping, extortion, political pressure, etc.). As most offshore companies are (still) not registered in a public register (i.e. chamber of commerce) they can be used as a layer of privacy between the active companies of the family and the ultimate owners.

As there is growing international pressure on tax havens for more transparency and the international community is putting pressure on jurisdictions which do not levy any tax on income, a shift can be noticed to other jurisdictions as i.e. Malta, Singapore, Cyprus, Switzerland and New Zealand to establish a company. These other jurisdictions also offer beneficial tax regimes, but have more sophisticated taxation legislation including tax rates of over 10% , and combine the tax rate with all kind of exemptions (different per jurisdiction) resulting in very low to practically zero taxation. It is due to this that a lot of family offices nowadays prefer to structure via these jurisdictions.

A good family office offers quite a few services related to offshore companies. It can support your family with tax advice with respect to a solid international holding structure. And the family office can often also organize and/or coordinate the establishment of an offshore company and act as board member or nominee shareholder of the company.

Double tax treaty shopping is imperative as most family offices have investments in various countries applying different tax treatments.

Family Foundation or Private Foundation

Family foundations or private foundations can hold a wide range of assets. A foundation is a good instrument for asset protection and foundations are quite often used as an alternative for a last will or testament. Foundations are also used for charitable purposes.

Foundations can be used for similar purposes as trusts but where originally only set up in civil law countries. Nowadays also some common law countries offer the possibility to establish a foundation (i.e. Panama). Contrary to a trust, a foundation is a legal entity. A family foundation or private foundation can hold all kind of assets and is a good instrument for asset protection and can act as an alternative for a last will or testament.

Foundations fully own the assets contributed to them and are managed by a foundation board or council. The founder of the foundation (the person establishing the foundation) normally establishes the foundation for a particular purpose. The organs of the foundation are strictly bound to this purpose. The founder decides who the beneficiaries of the Foundation are and to which benefits the beneficiaries are entitled. All the intentions of the founder are written down in the bye-laws of the foundation. The foundation board is entitled to distribute assets to the beneficiaries of the Foundation, based on the bye-laws of the Foundation. The founder can also appoint an advisor or guardian in order to control the foundation board.

Often only investable assets are brought into the structure, with the goal to safeguard these assets for the next generation. The foundation can deal with concerns about specific family members and provides secured resources for spouses and children.

Foundations or trusts are not recognized in every jurisdiction. It is therefore important to seek professional advice before establishing this structure.

Trusts

All kind of assets can be held in a trust and trusts are therefore a great instrument for asset protection, protection of privacy and tax planning. For generations trusts have been used to protect wealthy family's assets from difficult economic & political conditions.

Trusts are a very complex subject for a lot of us, but they can be an excellent planning tool, especially for international wealthy families. Trust structures are used by numerous wealthy and well known families around the world. A trust can be best described as an arrangement (a legal form) by which a trustee receives the legal ownership of assets in order to keep these assets for the benefits of others, the beneficiaries. The equitable ownership of the assets is therefore considered being held by the beneficiaries.

The person establishing a trust is called the Settlor. The person or company managing and legally owning the assets is called a Trustee. The trustee is authorized to control and manage the assets but the beneficiaries are entitled to all (the benefits of) the assets and profits of all property being held by the trust. The settlor often appoints a Protector. A Protector is in short somebody who controls the (acts of the) trustee on behalf of the settlor or who can act as an advisor for certain decisions. Normally, the protector is somebody of the total trust of the settlor.

Trusts are not recognized in every civil law jurisdiction. As a result of the lack of recognition by tax authorities in civil law countries, it is sometimes unclear how and if the assets being held by trusts are taxed. It can also be unclear how and if distributions by the trust are taxed once received by the beneficiaries. On the other hand, the family's wealth can sometimes stay for generations fully compliant and untaxed due to trust structures.

FAMILY OFFICE SERVICES

Two of the most important services offered by a family office are asset management and (consolidated) reporting. A basic family office will only offer asset management to you. Such a family office is actually more an independent asset manager. A *real family office* will also offer other services. Other categories of services are i.e. wealth- and tax planning, trustee- and corporate services, support with real estate and family governance. There are

also family offices which support you less on the financial side but more on the personal side, acting for example as private secretary and making travel arrangements.

The chance that a family office provides all the services you require is fairly limited. It is therefore important to analyze before which services you really need. As it could have considerable influence on the costs charged to you, it is furthermore important to verify if the family office offers those services in-house or via external advisors.

Asset Management / Investment Services	Diagnosis of your overall financial situation
	Define investment objectives of the family
	Establishing risk profile and investment horizon
	Global asset allocation and investment strategy
	Evaluation of non-registered securities
	Administration of and advice on your banking relationships
	Opening of bank accounts on behalf of the family
	Discretionary and non-discretionary mandates
Monitoring and Reporting Services	Consolidation of global bank accounts
	Consolidation and reporting of non-bankable family assets
	Consolidation and reporting of all family assets
	Consolidated performance reporting
	Risk adjusted performance reporting and risk attribution
	Benchmark comparison
	Fiscal annual performance
	Risk reporting
	Offering an online reporting system
Budget & Cash Flow Management Services	Review of your actual wealth and current income, diagnosis of short and medium term liquidity requirements and long-term goals
	Cash flow projection
	Private accounting
	Cash management (bill paying, cash flow, budgeting, etc)
Wealth Planning Services	Structuring of assets and investments to aid in tax planning
	Advising on ownership, management and distribution of your assets
	Asset Protection structures
Taxes / Double Tax Treaty Planning Services	Double tax treaty planning for family owned companies and real estate
	Local and international tax advice
	Re-Domiciliation of companies and foundations
	Preparation of your tax returns (incl. your country of residence)
	Cross border tax advice
Estate Planning Services	Support with estate planning
	Support with drafting of testament/last will
	Marital contract planning
	Support with prenuptial agreements
	Retirement planning
	Executorships
International Relocation Services	Analysing tax and other benefits of international relocation
	Support with change of domicile
	Organization of international residence permits
	Assistance with locating and applying to foreign schools
	Coordination of contacts with various local and foreign authorities
Trustee and Corporate Services	Advice on issues of corporate incorporation and management in various jurisdictions
	Manage family shareholdings

	Selection of appropriate jurisdiction for trust, foundation and other (corporate) structures
	Set-up, administration and coordination of trust, foundation and other (corporate) structures
	Coordination of contacts with various local and foreign authorities
	Selection of independent trustees and protectors
	Cost control of external Trust providers
	Providing registered office facilities
	Providing nominee services
Business Development / Investment Banking / Private Equity Services	Merger & Acquisition advisory
	Support with Initial Public Offering (IPO)
	Structured finance
	Partner matching
	Support with raising equity finance
	Private equity investments and structures
Real Estate Services	Real estate advisory
	Bespoke property search
	Access to off-market luxurious properties
	Creating property portfolio
	Administrative property acquisition support
	Support with sale of real estate
	International real estate management
	Security protection of private residences
	Renovations of family real estate
	Real estate financing / mortgage
Aircraft, Yacht, Art, Horses and alike	Support with acquisition and sale of yachts, aircrafts, (classic) cars, horses and other valuables
	Aircraft financing // Yacht financing
	Refinancing of aircrafts, yachts and review of existing arrangements
	Set-up of tax-efficient structures for yachts, aircrafts, art and alike
	Providing digital images and condition reports of art in an online system
	Recording of insurance details of your assets
	Organising restoration and storage of art
Administrative Services	Support with general legal issues
	Document & record management
	Accounting
	Bookkeeping
	Collection and filing of your administrative documents
	Payment of invoices and taxes, and arranging tax compliance
Insurance Services	Evaluating a portfolio of insurances
	Implementing new insurance policies
	Renegotiating and amending existing policies
	Support with life insurance as a wealth planning tool

	Organising international health insurance
	Support with kidnap & ransom insurance
	International personal liability insurance
	Insurance related to specific assets like aircraft, yacht, art and alike
Charity & Philanthropy Services	Philanthropic planning
	Assistance and accompaniment in the establishment of charitable foundations and their administration
	Support with formulating a donor's giving strategy
	Technical advice and operational management of charities
	Formation of grant-making foundations and trusts
	Preparation and presentation of strategy initiatives
	Organising a charity event
	Operate own charitable structure (by the family office)
Family Governance Services	Support with bringing family governance in to place
	Arrangements for succession within the company
	Support with legacy protection
	Support with set up of a family constitution
	Organising family retreats
	Organising family assemblies
	Support family council meetings
	Offer mentoring to family members
	Individual education according to family members needs
Family / General Support	Travel arrangements
	Private secretary
	Concierge services
	Research of domestic staff (nannies, chefs, chauffeurs, private tutors and other household staff)
	Managing your household employees
	Private event organization (weddings, celebrations, birthday parties, etc.)
	Schooling - supporting your children
	Purchasing, insuring and shipping of assets
Miscellaneous	Access to an international network of peer families, to provide opportunities for co-investment and best practice sharing
	Support in setting up a single family office

FAMILY GOVERNANCE

The goal of family governance is to establish a sustainable family structure in relation to the family business. Family governance primarily intends to cover how in a family owned company, the business is run once more generations get involved in the company and/or more family members become active in the family business. How are business decisions taken in that case, and how is the further strategy of the business decided?

The term family governance is not immediately clear to most of us. Primarily family governance intends to cover how a family owned business is run once more generations get involved and/or more family members become active in the company. But in a family owned company it could be essential for the continuity of the business to put the right governance in place at the latest when, or just before, the next generation gets involved in the company.

There are various ways wealth can transfer to the next generation. In case wealth transfers to the next generation in the form of an operational company, it could be very important to put family governance in place at an early stage. Family governance will not be an issue if you own 100% of a company yourself and your only child will take over the company (See succession planning). But when you own your company e.g. jointly with other relatives and all of you have several children, you can imagine that the next generation of owners might not completely agree with each other on the way forward.

Unfortunately, wealth does not only have benefits. One could even say; the wealthier you get, the bigger the problems can get. Once wealth transfers to the next generation(s) even more problems arise, especially, when the wealth primarily consists of an operational company. The more family members get involved in the business, the more their opinions could differ. As a result of this, it could get difficult to find consensus between the family members when there is not a clear decision structure laid down. How will the company strategy be decided on when the family members do not agree with each other on the way forward? How are family members who hold shares of the company, but which are not active in the company, financially compensated? How do family members communicate with each other?

Also good communication between the company and the (in-active) family members is of high importance. If this does not function well, the company, and its performance, could get paralyzed. It could also have a negative impact on the relationship between the family members. And how will the company deal with potential threats to the business? This is especially problematic in case the shares of the company are publicly traded.

Although there are no set rules for family governance, mostly we see the following three components:

- A family constitution, in which the ground principals of the business and the family′s policies and views are laid down.
- A family council, a council that represents all the family members' vis-à-vis the company.
- Regular family assemblies, yearly or twice per year, including information about the business, education of the younger generation, strategy of the company, potential changes of ownership, etc.

Family governance addresses all these topics and more. Most of the business owning families find family governance a very difficult topic to address and a lot of family offices are not familiar with this topic at all.

THE NEW SWITZERLAND

An over used comparison? Perhaps. Multiple countries all over the world have been deemed as the next safe haven for wealthy estates, yet is has never been closer to reality as it is now.

Panama shines a bright light at the end of the tunnel. Already considered by many as the fulcrum of finance and the next family office playground in the upcoming future, here are a few of the reasons that make it the ideal substitute to a 400-year-old feudal banking system:

- Geographically, no other country in the world can boast the strategic position held by this country of close to 4 million inhabitants. It lies between North and South America, making it the perfect stop for financial endeavors along with a complimentary visit to the New York Time's 2012 #1 tourism destination in the world.
- With an economy that grew more than 10% last year, a democratic political system admired by every country in the region, and a rating as investment grade by S&P and Moody's, continued stability is a guarantee.
- The legal framework in Panama sits in the top echelons of offshore structuring. International Business Company legislation was crafted to satisfy from the simplest to the most complex transactions.
- Foundations and trusts are both accepted due to the country's hybrid background. Foundations are highly recommended and heavily enforced as wealth management mechanisms. Clauses in the law are specifically directed towards asset preservation (i.e. forced heirship claims and third party attacks).
- Panama's financial center has been built to meet the needs of a landmass that stretches from North to South Pole, yet in recent years, changes in international laws and expat inflow have seen it modeled towards those which Hong Kong, Dubai and Singapore so proudly boast.

A history of a canal, dictators and paradisiacal islands has impeded many wealthy families worldwide from seeing past the obscure headlines. Yet it is for this and many other reasons, that Panama has been able to maintain such a low profile while other business centers strive for the skies, attracting much attention.

Smart family offices looking to cement the main pillars of wealth preservation and succession will not place management in places calling for attention but instead, will look for destinations, such as Panama, holding every element necessary to ensure such objectives while maintaining a profile worth of the New Switzerland.

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