William Blair

Private Wealth Management

Does My Family Need a Family Office?



Introduction

For centuries, sophisticated families with significant resources have used a formalized family office structure to manage their assets. In recent years, family offices have become increasingly popular as more and more families have amassed resources substantial enough to merit their own office.

Additionally, the investment landscape has grown more complex, and the range of issues and responsibilities associated with significant wealth has grown—including risk management, governance, reporting, and cybersecurity.

Entrusting the oversight of these and many other areas to professionals gives families access to specialists and experts. Having a family office alleviates the burden of day-to-day administration, freeing families to pursue their goals, passions, and desired lifestyle. Family offices can also serve to bring together the family and their collective interests while presenting them with the opportunity to strategize for their future legacy within a formalized structure.

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- **Embrace your complexity**
- **Identify your purpose**
- **Understand the critical capabilities**
- **Select the optimal structure**

Embrace Your Complexity

An important first step is assessing whether your life is complex enough to necessitate having a family office. The assessment begins by considering the complexities of your family's specific situation.

- Are there multiple branches and/or generations in your family tree?
- Is there a family business?
- Do you have multiple properties, extensive private equity investments, significant collections, or patents/catalogues?
- What is the potential involvement in the family office of various family members?
- Are clear decision-making protocols in place?

It's also critical that all involved family members transparently address the total expenses for the new office and how they will be allocated. This can be especially important for family offices with wealth generated from family-owned and/or operated businesses, as some family members are also part-owners, and others may be actively involved in running/managing the enterprise. Family members who are not directly involved in the business may feel excluded in other, less tangible, ways.

Finally, it is important to focus not only on numbers, as nonfinancial or intangible complexities can unite or divide a family. That's why "the soft stuff is the hard stuff" when it comes to navigating a smooth course across generations and family branches.

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Identify Your Purpose

If you have determined that your situation is adequately complex to proceed, the next step is a collaborative and strategic process centered on these questions:

- What is the purpose of our family office?
- What key thing(s) are we trying to accomplish?
- How can a family office help guide and solidify our legacy and vision for the future?

Every family is unique, and so is every family office, giving credence to the adage, "If you've met one family office, you've met one family office." But one thing is true in nearly all cases—identifying a purpose is critical.

Some families want their new office to focus on fiscal management, others on philanthropic endeavors. Perhaps the intent is to prepare the next generation to manage the family's wealth—or maybe it's to make direct investments. Some families might decide there's a secondary purpose involving opportunities to engage family members early in their careers and find ways to leverage their talents. One family might create their own family-led innovation hub for members, encouraging entrepreneurial initiatives and fostering creativity that could lead to new ventures. Others might develop family members to oversee digital transformation projects, including optimizing operational efficiencies or implementing new software.

Establishing the purpose and strategy up front sets up the family office, and its leadership and staff, for success. Indeed, hiring operational personnel without first deciding on a clear purpose can cause problems, often at considerable investment in human and capital resources. The CEO and office staff should have skills and experience that align with the office's purpose and goals—along with qualities such as loyalty, discretion, and faithful stewardship.



Understand the Critical Capabilities

Once you have determined the need and purpose, it is appropriate to begin a more granular exercise to understand the capabilities and skills needed to achieve your family's goals.

Questions we hear often are:

- How do families like mine use a family office?
- Are there specific categories we should focus on?
- What types of professionals should we hire to staff our family office?

There are several elements of a high-functioning family office. While not every family needs them all, it is a helpful exercise to consider each of them.

Investments

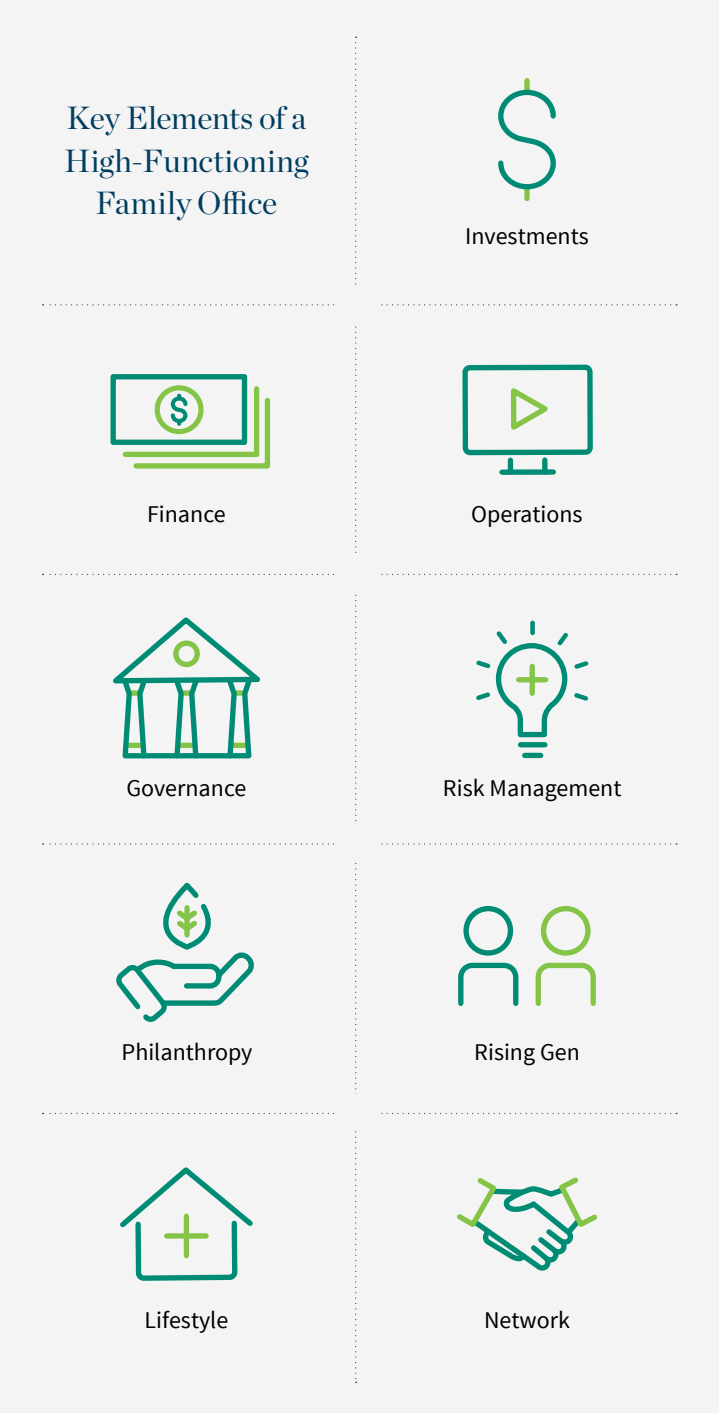
Proper asset management enables the family's purpose and lifestyle aspirations. Wealth advisors draw on proprietary research from equity research analysts, macroeconomists, and open-architecture platforms, as well as merchant banking direct investments and in-house discrete private shares trading; deal flow and private investments are highly prized according to our recent survey of family offices. Supporting the relationship with your advisor, a team of financial planners, executive services specialists, and diversification/allocation experts manages the protection and growth of your investments.

Finance

Wealth advisors offer a complete menu of consolidated reporting, cash flow and liquidity planning, and back-office services, complemented by bill pay, lending, and trust administration solutions.

Operations

This function can include information technology, administrative services, project management, a consolidated reporting platform, and HR needs; talent acquisition and upskilling existing staff is another area on the minds of surveyed family offices.



Governance
Wealth advisors offer guidance and assistance with investment policy statements, family mission-vision-values and constitutions, and events. Additionally, our team facilitates multi-generation family meetings and helps families discuss and design their decision-making processes and application to myriad facets of their family's assets and dynamics.

Risk Management
In addition to wealth advisors quarterbacking your accounting, insurance, and legal teams, there are resources available when it comes to cybersecurity, physical and property protection, reputation management, and health advisory.

Philanthropy and Impact Strategies
Dedicated philanthropy strategy advisors consult with you and collaborate on an integrated plan to support your philanthropic endeavors, advising on appropriate and tax-efficient structures, grant-making strategies, impact investing, and engaging multiple generations in your family.

Rising Gen Development
Wealth advisors can help to customize financial education and leadership preparation for the next-generation family members, encouraging engagement across a spectrum of learning opportunities as well as succession planning for business and family leadership and stewardship of the family's interests.

Lifestyle Management
This area includes estate and property management, private aviation and watercraft, art-wine-jewelry collections, travel and event access, and other concierge services.

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Select the Optimal Structure

There are also different structures for family offices. Until this point in your consideration, the exact structure has been a flexible variable. Just like building physical structures, the motto employed by legendary architect Louis Sullivan applies here: "Form follows function." Purpose and objectives dictate the structure.

- What are our goals and how will they best be achieved?
- What are the types of family office structures we should consider?
- What are the costs of various family office structures?
- How do I begin to evaluate what is the right path for our situation?

A Single-Family Office, which can make financial sense for a family with approximately $300 million in liquid assets, typically comprises an experienced CEO and CFO and five or more other professionals with specific areas of expertise. This is the most complicated structure to create, with dedicated employees and a physical office. It is also the most difficult to walk away from due to the capital investments involved.

For SFOs, common structures are the LLC (over 50% of SFOs are formed with this structure), Partnership, C-Corp, S-Corp, and, a less typical but growing legal entity, PTC or Private Trust Company.

Tax efficiencies can be achieved based on the purpose of the office and its legal structure. For example, if the office is set up as a business entity, certain expenses can be deducted for tax purposes. An LLC can offer pass-through taxation, avoiding double taxation, and other benefits on investment gains. Wealth transfer strategies, through trusts, gifting, etc., can minimize estate taxes.

In addition to the legal structure, governance protocols are essential to the smooth operation and harmonious longevity of the family office and family. Building alignment across family branches and generations is critical to legacy. Beyond the family, professional governance includes protocols and policies for the family office staff.

Determining the family office structure can have long-term ramifications and should be carefully considered with professional advice and guidance.

Other families might be better served with a Multifamily Office, where staff members serve multiple families. Sometimes this structure is set up by a group of wealthy families with similar needs in order to achieve economies of scale. MFOs may also be established by advisors to serve multiple families. The MFO can be ideal for families who prefer to outsource most of their services and/or prefer not to make the capital outlay to build a dedicated SFO.

If company ownership is involved, Embedded Family Offices can operate within an existing business, using the CFO and finance staff to manage personal finance matters and to assist with lifestyle issues (e.g., helping with property management or providing concierge-type travel assistance). Often the existing staff manages the family's personal needs on an ad-hoc basis, but the core element here is convenience and trust. Embedded offices do carry potential risks and liabilities in terms of legal, audit, banking, and operational exposure. It is helpful to understand the often overlooked risks of this most common family office structure.

Another option is the Virtual Family Office, an à-la-carte approach where a great deal or all of the office management is outsourced with the wealth advisor serving as a quarterback of the family's needs, bringing in professional resources and expertise as needed. While there may be costs associated with those professional engagements, this structure offers the flexibility to tap into various experts—or switch service providers—without office overhead or salaried staff to manage.

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Underpinning all of William Blair's customized solutions is a network of experts within our firm and across multiple other industries that specialize in serving the unique needs of family offices and sophisticated clients, including business executives and entrepreneurs.

Select the Optimal Structure (continued)

The value we bring to family offices is anchored in the nine elements listed above, where William Blair has a deep reservoir of knowledge and resources to draw from as we collaborate to offer customized solutions. Our approach is differentiated and highly personal; combined with the significant resources of our firm and external experts, we can provide unique advice and specialized services.

In addition to proprietary solutions—including merchant banking, private shares trading, consolidated reporting services, philanthropy strategy—we work closely with our robust network of external resources to fill any gaps a family might have in their circle of professionals.

These include specialists in niche areas, such as:

- Art collection services
- Bill pay services and family office business management
- Coaching/consultants
- Concierge medicine
- Cybersecurity
- Elder care
- Family dynamics/succession planning
- Financial literacy
- Historians
- Independent valuation
- Lending solutions
- Mental health/addiction services
- Organization/moving/staffing
- Private aviation
- Travel planning/security services

With global reach and state-of-the-art platforms, we bring an innovative and thoughtful approach to holistic wealth management and myriad advisory services.

How to Get Started?

Our approach begins with a discovery process, to explore your family's strategic priorities and advise on which solutions may be right for you. Frequently, the answer is not a bona fide family office, but a central strategy that assembles key experts and advisors to fulfill the family's top needs.

We would be happy to engage in this discovery process with you and your family. Please contact your William Blair wealth advisor to get started.

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