



Case Study

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Setting up a Family Office

The breadth, scope, and focus of a Family Office are as unique and personal as the family that creates it.

The primary functions of a Family Office are to centralise the management and preservation of the family fortune, and to effect over time a financially astute and tax-efficient transfer of the family's wealth. Additional Family Office functions include family governance, estate planning, philanthropy, education and maintaining a critical complement (if relevant) to the core family business to the extent it continues to operate in family hands.

Fashioning a successful Family Office is a business process requiring a clear vision, a realistic business plan, a thorough understanding of the resources available, internally and externally, and a granular roadmap by which to design, launch, and operate.

In this paper we review the actions taken by our clients over the years, so it's an amalgamation of their actions and our experience rather than a specific family, to help understand the journey that they have started on. This also protects the privacy of our clients, a factor that is always prevalent in our minds.

Laying the groundwork

This is often the most crucial phase of the process as good intentions and clear communication are the bed rock for the formation of a Family Office.

These discussions are often led by the principal with individual family members being briefed on the expectations of their involvement in the coming weeks, months, and years. We have found that the more the entire family are involved in the process the more successful the outcomes are and the longer the cohesion lasts.

Considerations around the family's wealth to endure beyond the lives of the principal and his / her





spouse, often a time horizon measure in decades, is a very relevant conversation to have at the beginning. Other considerations are family resources for education, housing, income, and spending also need to be discussed and resolved. We find its best to have these issues ironed out upfront rather than presumed along the way.

Another consideration, and popular with our “younger” principals, is resolving how individual family members take responsibility for their own allocation of capital as well as the entire family. This inclusivity is to be encouraged as it increases the family’s collective knowledge and adds to the cohesion.

Once engaged we are then on hand to agree on overall strategy for the family including governance, structure, gifts, philanthropy, income, and long-term management.

At this point we also agree on timescales, milestones, and begin the process of researching the external advisors, such as the lawyers, accountants, investment managers and so on.

Recording the family’s objectives informs future decisions and reduces the possibility of uncertainty or misunderstandings (including of course adding new members to the family through birth and marriage). Typically, this record takes the form of a “Statement of Intention” or a more fully articulated “Family Constitution.” The more detailed this document is the better.

Governance

In many respects the Family Office should resemble a business and so whilst some of the terminology and practices for some family members may be familiar, for others they enter a situation where many of the activities and processes can be a little alienating.

We find that the creation of a “Board” (as in Board of Directors in company speak) works best. This is often led by the principal (as CEO, keeping the company theme running) alongside family members (Directors). Cavendish assumes the primary advisory relationship and is sometimes supported by key non family members in a “non-executive” role.

The principal will be bound to lead initially but as family members become more engaged, they quickly join the process. Much as for company’s the family will need to hold meetings, which in the initial stages are very regular (once every 1-2 weeks) and then converted to monthly. After the initial set up, and thus during the monitoring phase, the meetings can then move onto a quarterly basis.

External advisors, such as lawyers, accountants and investment managers are then selected on their expertise by the Board.





Structure & Tax

The appropriate framework for holding and managing the family's wealth could involve a combination of a family investment company, a shareholders' agreement, a trust arrangement, suitable wills, a philanthropic vehicle, and lasting powers of attorney. These arrangements should be coordinated to form part of an overall plan to ensure that regardless of events, jurisdiction or circumstances, the ownership and management of the family wealth will continue as intended.

Tax mitigation forms part of the above process and the strategy should incorporate flexibility to accommodate changing circumstances. This planning is best thought of as a "process" over a number of years rather than an "event" that is dealt with in the short term.

Investment Managers

One area where we have found that we can add significant value is the appointment of an investment manager, as typically this relationship can last many years. Ideally this is a process that starts well before the money is invested as often our clients require help in just understanding how the investment markets work let alone deciding on which advisor is the most suitable.

We have a constant dialogue with our clients about how their investment managers are doing and in conversations the following observations almost always come up:

- They sometimes seem to be speaking a different language to me!
- How do I know if my investment manager is really doing a good job?
- Against what matrix should I really be measuring them?
- I am not sure I understand their fees?
- How is my asset allocation worked out?
- What is relative performance?

This is where we can help. We have created a service for our clients where we answer all these questions, and more, whilst providing it very cost effectively. The genesis of this service is now nearly 30 years in the making.





Monitoring Phase

The monitoring phase is a combination of ensuring that the strategy and advice remains current as well as keeping the family updated on the management of their wealth.

Meetings are held quarterly, unless there are urgent matters which need to be considered beforehand. Cavendish prepares for quarterly meetings, helps set the agenda, provides any reading material, and organises the attendees.

To keep the meetings on track, and to provide independence, we often Chair these quarterly meetings, although this is very much at the principal's discretion.

After each meeting Cavendish provides minutes and action points for each family member as well as for the "non-exec's" (we would also envisage a significant amount of work as well). We also monitor the external advisors and report on any issues or progress since the previous meeting.

Often a significant element of the monitoring phase is the oversight of the investment managers where usually a large element of the family's wealth is placed. We speak to them at least once a month, review the transactions and performance, and have a thorough review mechanism in place. A report on the investment managers is always included in the quarterly meetings.

Conclusion

We often describe ourselves as the "entrepreneurs' entrepreneur" as many of our clients require an independent and thoughtful solution to their problems rather than a product off the shelf.

We are therefore independent in thought, word, and deed.

We are seeking to build relationships with our clients, and their external advisors, so our job is often the lynch pin in the client communication and relationship, project managing the work and ensuring that any advice implemented is suitable, for both their immediate needs and for the long term as well.

If you would like more information on how to set up a Family Office, or require our help in other circumstances, such as managing your investment manager, then please do get in touch.

