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A guide to establishing a family office

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Introduction

Wealth creators and inheritors face numerous decisions when stewarding assets for future generations and serving the present day needs of extended family members. Increasingly, family heads or principals are creating family offices to manage their wealth and provide highly personalized services.

Over the past 20 years, growth in global wealth has resulted in the creation of an estimated 10,000 family offices around the world. No longer simply the province of the world's 2,500 billionaires, the family office concept now scales to those families with US$200 million or more in investible wealth.

How then might a family head decide if a family office is the right option, and if it is, what would be an appropriate size, structure, and cost? In this paper we explore the key factors, share best practices and pitfalls, and define a process so principals can structure their office around their family's specific needs and aspirations.

Growth in global wealth has resulted in the creation of an estimated 10,000 family offices around the world.

Definition

A family office is any collection of professionals, whether separate from a family business or not, which provides dedicated personal and/or professional services to a family. This often includes one or more individuals managing the operational aspects of family life — such as residences, travel, and asset collections — as well as professional staff managing accounting, tax, estate planning, legal, philanthropic, investment, and administrative matters. A family office can consist of as few as two people or as many as 350 or more.

A wide range of family office models are in use today. There are a number of key differences between single family offices, which is our focus here, and multi-family offices that serve several unrelated families. Variants also include private family trust companies that are legally constituted in a form that maximizes tax and estate planning, along with long-term fiduciary oversight. The private trust company may work in concert with a family office, or operate as a standalone entity.

Another model is the family investment company. These entities often undertake investment activities on behalf of the family, but do not offer support services (residence management, legal and accounting services, etc.) that are often provided by the traditional family offices. Regardless, the common denominator is that the office serves only one family, which may include multiple generations or even family branches.

No single family office model serves all families equally well.

Background

While it is often said that each family office is unique, they do share many common attributes in respect to operational practices and service delivery models. The 'uniqueness' of each family office is most often due to the values, interests, needs, and idiosyncrasies of the family it serves. In this regard, we often see great variety in governance, family engagement, communication practices, and the degree to which the office enables and enriches the lives of family members.

Structurally, family offices are often defined by three key factors:

1. Size - number of professionals
2. Complexity - legal entity structures, investment types, number of generations, etc.
3. Autonomy of the office – the degree to which professional functions such as investment management, legal, or accounting has been outsourced to third parties or carried out internally by staff

With such a wide range of business models, operating costs, and approaches available, the important question becomes: "What is best for a particular family?" No single family office model serves all families equally well. The specifics of an optimal family office architecture depend on the family's needs today, as well as upon how they might change over time. Indeed, many families are best served by not creating a family office but rather by engaging a private bank, multi-family office, or wealth management firm. As we shall see, the cost, time commitment, ongoing decision-making, and engagement with the family office may be beyond the capacity or interests of a family principal. In essence, creating a family office is in fact creating a new business, one that requires oversight, capital, and leadership.

With these factors in mind, a process-driven methodology best serves to guide a family's understanding of what a family office does, and helps them determine whether it is right for them. The following guidelines draw upon effective process principles, sound management practices, and general industry benchmarks to help clients create a family office of the appropriate size and complexity, helping to produce their desired outcomes.

Methodology

A thorough planning and evaluation approach should examine the following five factors:

1. Qualitative factors, helping to determine the appropriateness of creating a family office.
2. Quantitative factors, involving the size, cost, and benefits of a family office.
3. Strategy, operational and governance factors, including understanding the responsibilities that will be carried by the family office, and how the office will be managed.
4. Personnel factors, such as determining which skills are needed and how professionals are recruited, trained, managed, motivated, and compensated.
5. Family leadership factors, pertaining to the leadership role family members will take, how family decisions will be made, and how training and succession planning will affect future generations.

In this paper, we will focus on the first four factors.

Key qualitative factors

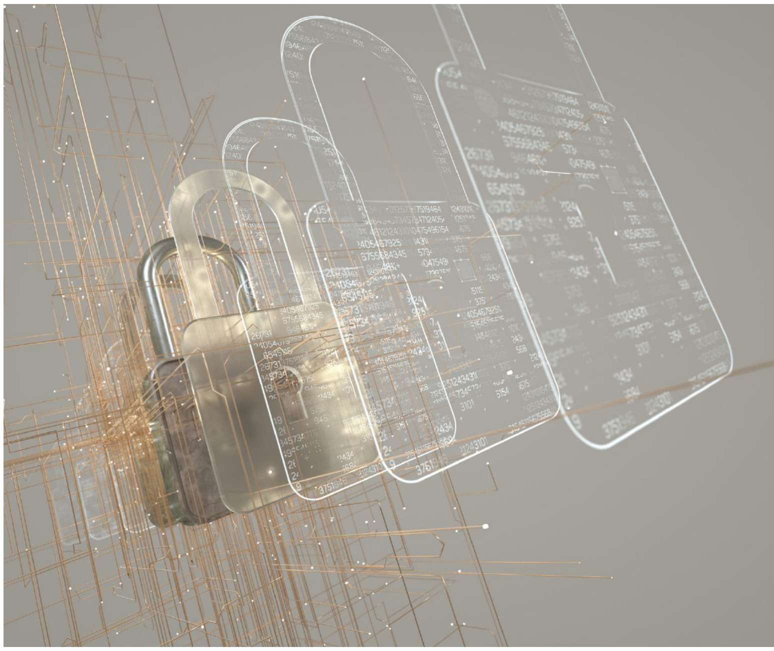
Affluent families generally choose to create family offices for reasons of privacy and trust, control, and personalization of services. Many turn to family offices after a major liquidity event such as the sale of a private company, initial public offering (IPO), or an inheritance. Others, having worked with a wealth management firm, bank, or multi-family office, choose to create their own office as their wealth and needs evolve.

Privacy and trust

Significant wealth often brings with it the unwelcome attentions and expectations of others who seek the principal's time, support, or capital. A family office allows for the management of family matters in a structure of near complete confidentiality. Knowledge of personal information can be restricted to trusted employees, who in turn can serve as a liaison with external service providers on the family's behalf.

Trust has increasingly become in some cases enough reason to justify the cost of a family office. Many affluent families have first-hand experience with advisors who exploited their relationship to the detriment of the families they served. Previous episodes of high fees, poor performance, irresponsible tax advice, needless legal work, fraud, litigation, and misrepresentation are also often cited as reasons for families to want a dedicated staff instead.

While there is no formal public, professional, or industry code of conduct for family office professionals, they are commonly bound by employment contracts that include strict confidentiality terms that may not be available in other third- party relationships. The degree of privacy that is exercised is at the complete discretion of the family.



Regrettably, personal and family security has become a more prominent facet of the family office practice. The personal safety of family members at home, at work, in public appearances, online, at school, and when traveling is of paramount importance. Security of residences, aircraft and yachts, and other assets often benefit from professional security advisors who are managed through the family office.

Another benefit of the privacy provided by a family office is the ability to field the sometimes awkward requests made by family, friends, and organizations for donations, career assistance, public appearances, political contributions, or personal investments in their business ventures. Such requests can be gently declined or managed by a professional, who provides the objective distance that may be difficult for a family member to achieve.

Control

The ability to shape and control the costs, policies, and practices affecting the family office is often the most appealing aspect of creating one. Family principals frequently have extensive experience of managing large organizations and have specific management philosophies and objectives regarding the desired culture, people, practices, costs, and scope of their family office.

Family control over such matters as charitable giving, investment policies, estate and tax planning, and the distribution of dividends and income from a family business can be controlled in very specific ways via a private family office. Matters of service quality and timeliness can be calibrated to the needs and expectations of the family.

Control also extends to the selection and management of family office personnel and third-party service providers employed by the family. One often-overlooked benefit of a single family office is the ability to create a more formal network of employees and advisors that best reflects the values and objectives of the family. Such relationships often endure long after the founding principal's passing, and help to ensure the continuity of family values and professional services to the family for many generations.

Families with existing offices in place also benefit from the ability to cede day-to-day responsibility over family affairs to a professional team. Freeing up time for family, friends, travel, a new business, political pursuits, hobbies, collections, and humanitarian and charitable endeavours can provide innumerable benefits to the family and to society. Delegating tasks and decision making to a professional family office team is often the first step toward realizing such benefit. Principals are advised to think beyond how a family office may help day-to-day support functions, but also consider how the office may enrich their lives.

Increasingly, we see family offices that not only respond to family needs but also enable and challenge their families through educational programs, next generation leadership development, arranging unique experiential activities, and crafting health and wellness initiatives.

Personalized service

A family office can organize itself around one family's specific needs and preferences and provide highly personalized services. This often results in a significantly higher level of service quality than might otherwise be available from a wealth advisor, trust company, or multi-family office.

A single family office dedicated to one family's specific needs, goals, and preferences of the family can be the most reliable and efficient option. This is because over time, professional staff become very adept at both responding to, and anticipating family needs. Therefore, a well-managed office should come to challenge the family in a wide range of constructive ways. This is the family office 2.0 model widely embraced today.

The degree to which a family wishes to involve professionals in helping manage such personal matters as medical care, adoptions, gift giving, and family dynamics is entirely at their discretion. Some families prefer to confine the work of the family office to tax, estate, legal, and investment matters, while others include management of personal staff (such as caregivers, attendants, and chefs) and encourage problem solving and advice-giving to all family members.

Principals are advised to think beyond how a family office may help day-to-day support functions, but also consider how the office may enrich their lives.

Planning exercise

When family offices fail, it can be traced back to a lack of clarity within the family as to the office's role, mission, scope, and accountability of all concerned. This can include family members, as well as staff and third-party professionals. Much like any well-run business, the clearer the goals and lines of accountability are defined, the better the outcomes.

Family principals are advised to begin the process by addressing key questions designed to elicit a more complete understanding of how their families might benefit from a family office.

To the extent that several family members are involved, some principals choose to discuss these topics with spouses, children, and heirs to identify areas of agreement and disagreement. Ultimately, the final decision lies with the family head or heads.

Recommended topics to explore include:

1. Does the family feel there are unmet or poorly met needs in key areas of managing family affairs — e.g., properties, finances, dependents, logistics, tax, etc.?

2. Are there additional or new activities the family would like to undertake if they had the right resources and expertise to make this happen?

3. How might a family office enrich the family's lifestyle? Are there individual areas of interest that have never been discussed or fully explored?

4. How well has the principal and family delegated important family matters to outside professionals in the past (e.g. tax, estate planning, and investment management) and what sort of people does the family work best with and why?

5. If the principal or family were to narrow down the list of all the things a family office might do to help manage affairs, what are the five most important?

6. Who, from within the family, is willing to and capable of overseeing the family office, providing leadership and direction?

7. Do special interpersonal dynamics or personal circumstances — e.g., business, medical, or lifestyle — within the family need to be factored into planning for a family office?

8. Would a private bank or multi-family office relationship fulfill many or some of the family's needs, and should some key functions be outsourced?

9. How important are legacy relationships with certain people and civic, religious, or cultural organizations to preserve and protect the interests of family members across multiple generations?

10. Does the principal wish to create a governing board comprising family members or outside experts to advise and inform decision making?

While the principal and key family members may not be in full agreement on these issues, reaching shared agreement on the basic mission and focus of an office is essential.

Keep in mind that common failure modes of family offices include:

1. A lack of agreement among family members upon their expectations for the role, mission, scope of the family office

2. Unrealistic expectations

3. Poor lines of management, oversight, and control, and inadequate decision-making by the family

4. Failure to view the family office as a real business

Key quantitative factors

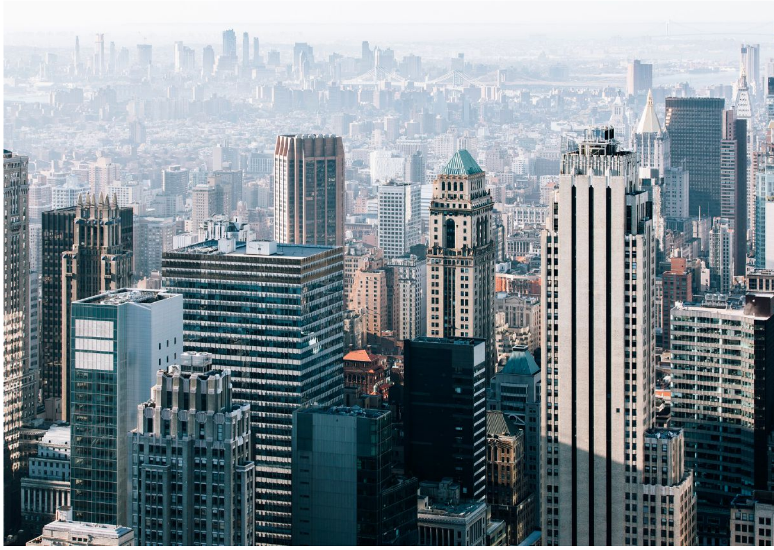
One of the major considerations in creating a family office is cost. This can be a particularly delicate topic, as many families fail to appreciate the need to fund the family office properly. While costs vary among locations, certain fundamental costs (e.g. personnel, office expenses, and technology) are common to family offices.

That said, expenses vary significantly with the size, scale, scope, and location of the office. A family's willingness to incur not only start-up costs but operating expenses over potentially long periods should be an important factor in their decision making process.

The full cost of maintaining a family office is largely dependent upon what the family expects from the office. The degree to which certain functions (e.g. bill payment) are outsourced, the size of the family, the number of legal entities maintained, and the complexity of the investment portfolio also increases or decreases costs. Seemingly innocuous items (such as the number of checks, wire transfers, and capital calls) can, in aggregate, drive up expenses.

Family office expenses generally fall into four categories:

1. Internal operating costs - salaries, benefits, overheads, technology, and telecoms
2. Direct family expenses - residences, art or other collections, travel, personal consumption, and taxes
3. External professional service fees - accounting, tax, legal, consultants, insurance, and security
4. Investment advisory fees - manager fees, custody, research/data, and aggregated reporting



Cost profiles

Figure 1 provides four basic cost models that are common to family offices around the world. Admittedly, these are simplified models and serve only as rough benchmarks. It excludes family offices that employ over 50 staff, largely because they are unique in their mission and often include such advanced functions as museums, large foundations, private equity or hedge funds, research and development organizations (e.g., science, space travel, or medical research), and business incubators.

Figure 1. Family office cost models

FAMILY OFFICE	FULL-TIME PROFESSIONAL STAFF	FULL-TIME SUPPORT STAFF	LOW-END ANNUAL COST	HIGH-END ANNUAL COST
Small	2	4	$1.5 million	$1.8 million
Medium	4	11	$3 million	$3.8 million
Large	8	16	$8 million	$10 million
Very large	16	32	$14 million	$22 million

Note: Professional staff compensation varies by profession, location, and experience. Data drawn from 2019 and 2020 Citi Private Bank Family Office Leadership Program Surveys, as well as direct review of a large sample of family office operating budgets. Figure 3 provides a general guideline. Household staff, drivers, security, pilots, yacht crews, and personal attendants are excluded from estimates.

Operating expenses vary greatly depending on location and economic circumstances. The estimates presented here reflect salaries plus 30% benefits and taxes as well as overhead expenses at 50% of compensation.[1] Third-party professional services — legal, accounting, tax, and third-party investment management fees — are excluded, as they are often already being incurred by the family. However, they should be added to the total budget estimate. Thus, the estimates are confined to incremental staff and overhead costs — office, equipment, insurance, services, etc. only. A thorough cost analysis should include both current and incremental costs as well as any reductions in third-party expenses due to family office staffing and efficiency.

Principals will often ask if spending at least $1 million to $2 million to create a family office is even necessary, and the answer depends on various factors.

Increasingly, outsourcing and technology solutions are driving down the cost of operating a family office. Mixing and matching in-house and external resources can also result in more modest outlays, particularly as the family office industry grows and matures. For example, a sizable percentage — often as much a one third to one half of the total cost — of a family office is maintaining investment staff.

Given the complexities of global investing, families are increasingly turning to private banks and asset managers to create asset allocation strategies and undertake investments. Arguably, family offices should always consider taking advantage of low cost services such as liquidity, cash, and fixed income management, along with passive investment strategies available from private banks and others before undertaking these activities in-house.

Size

The number of office professionals is a direct function of the tasks assigned to the family office – **Figure 2.** The evolution of many family offices begins with the hiring or assignment of accounting or legal staff, often from an existing family-owned business or trusted service providers. Bill payment, tax matters, and family logistics — e.g., travel, administrative tasks, and the management of residences — are often the initial core functions and responsibilities. In time, families almost always form multiple separate legal entities for tax and other ownership purposes, encouraged by tax and legal advisors. The greater the number of legal entities, the higher the attendant costs of accounting, legal, and compliance, a point not often appreciated by advisors.

[1] Data drawn from 2019 and 2020 Citi Private Bank Family Office Leadership Program Surveys, as well as direct review of a large sample of family office operating budgets.

Figure 2. Representative family office professional staffing patterns

	SMALL OFFICE	MEDIUM OFFICE	LARGE OFFICE	VERY LARGE OFFICE
Management	1	1	2	4
Administration	1	3	3	6
Residence management	1	2	3	4
Security management	-	-	1	2
Accounting/tax	2	3	5	10
Legal/estate	-	1	1	4
Investments	1	4	5	10
Travel Management	-	-	1	2
Philanthropy	-	-	1	2
Art/curators	-	-	1	2
Project management	-	1	1	2
Total	**6**	**15**	**24**	**48**

Note: Household staff, maintenance, gardeners, personal care attendants, caregivers, drivers, security personnel, pilots/crew/maintenance, yacht captains/crew/maintenance, and other support personnel are excluded from our staffing profiles, as such positions may vary significantly from family to family.

This table includes representative staffing patterns and does not include exceptionally large family offices that can have between 200 and 500 professionals. 1. Data drawn from 2019 and 2020 Citi Private Bank Family Office Leadership Program Surveys, as well as direct review of a large sample of family office operating budgets.

Geography

A family office's location has a direct impact upon tax exposure, regulatory requirements, privacy, proximity to family, availability of high quality staff, professional services infrastructure, and cost. With the increasing globalization of affluent families — residences, investments, business interests, and philanthropy — competition amongst jurisdictions is intense as countries modernize their trust, tax, civil law, regulatory, and fiduciary standards to keep up with the pace of evolving practices.

In considering jurisdictional issues, principals are well advised to seek expert legal counsel and make the final determination based upon the long-term needs of the family, while resisting trendy or popular solutions that are not time tested. Apart from tax, estate, and legal matters, the location of the family office has a direct bearing upon the ability of the family to attract and retain high quality professionals (both in-house staff and outsourced services), and the cost of those resources.

Scale

Economies of scale are often present in family offices. For example, consolidated performance reporting solutions can serve many family members and trusts. Dis-economies of scale may also be present, serving to increase operating costs, sometimes to unacceptable levels. For example, the overuse of legal entities, each of which may have multiple banking accounts, can result in several hundred bank accounts that need to be reconciled periodically.

Other cost drivers to consider include the number of family members, tax jurisdictions, and residences. Investment portfolio size, the complexity of the portfolio, and the use of active vs. passive investment vehicles also affect costs. More complex investments (e.g. direct venture capital investments in start-up companies) require specialized staff expertise. In addition, the total number of advisors and asset managers employed around the world are cost drivers. Sometimes, the most significant costs are not transparent. For example, hedge fund or private equity fees, particularly funds-of-funds, may have several layers of issuer and manager fees, such as pass-through fees, expenses, carried interest, and sales charges.

While families may be tempted to have family offices that perform a wide range of services, an inventory of the costs associated with each service element may result in foregoing or outsourcing certain services.

With the increasing globalization of affluent families, competition amongst jurisdictions is intense as countries modernize their trust, tax, civil law, regulatory, and fiduciary standards to keep up with the pace of evolving practices.

Outsourcing

One of the most exciting developments in the family office business today is the increasing availability of effective outsourcing solutions. Many family offices have long outsourced specialized professional functions such as tax strategy, trust and estate planning, custody, and investment management. They may maintain a small in-house accounting team to do much of the day-to-day general ledger work, and have a tax firm prepare quarterly tax estimates and annual returns.

This outsourcing trend has now reached a stage whereby families are looking to farm out such functions as investment strategy, risk monitoring, bill payment, general ledger, and financial reporting in order to improve efficiency and reduce costs. Principals are encouraged not to default to hiring staff but rather to consider a range of available technology and service bureau solutions. Specifically, families should look to outsource functions where there are:

1. Dis-economies of scale (where cost rises alongside volume) such as bill payment and account reconciliation

2. Specialized skills (e.g., aircraft maintenance, estate law)

3. Sound/low-cost alternatives (e.g., external fixed income manager vs. in-house)

4. New technology solutions (consolidated reporting, risk management)

> While families may be tempted to offer a wide range of services as part of their family office, an inventory of the costs associated with each service element may result in foregoing or outsourcing certain services.

Cost guidelines

In evaluating existing family office structures, a key question most families ask is: "What should my family office cost?" This is a difficult question to answer for two reasons. First, one needs to know the scope, scale, and complexity of the office. Second, regardless of the cost, the benefits to the family need to justify the expenditure of money and time. Some small, well-run offices produce an abundance of benefits relative to the cost. There are also large, costly organizations that fail to meet the expectations of the family fully. At the end of the day, 'value' and 'benefit' must be defined by the family.

One useful benchmark of cost is to divide the direct expense of the family office by the active assets under management. Family office expenses often approximate about 1% to 2% of the total active assets of the family, rather than of its net worth. Active assets include investment portfolios, trust assets, and liquid assets. Families should exclude the cost of large concentrated equity positions, family-owned operating business, fine art collections, and similar 'inactive' assets to avoid skewing the ratio. Thus, the approximate cost for a small family office for those with active assets of $155 million is about $1.5 million to $3.1 million annually.[1]

[1] Data drawn from 2019 and 2020 Citi Private Bank Family Office Leadership Program Surveys, as well as direct review of a large sample of family office operating budgets.

The expenses used in this calculation should reflect only the direct and incremental costs associated with running the family office. Expenses normally incurred by the family should not be included. This includes all personal expenses, donations, collections, legal and tax expenses, and other expenses normally associated with assets such as residences, vehicles, and directly managing investments. Therefore, investment expenses and fees — such as custody fees, transactional fees, and management fees — are excluded from these family office expense estimates.

While some expenses may be reduced or even eliminated by the family office, a family should not underestimate costs or rely on 'best case' outcomes when planning. For many families with assets well in excess of $1 billion, this cost ratio is much less relevant. Such families often set spending levels they deem reasonable given the scope of services expected from the family office.

In summary, not every family has the same level of sensitivity to the expense of a family office.

Some additional factors to consider include:

- If a family's wealth is growing at a robust rate, say at 6% net of fees annualized over the long-term, spending 1% on a family office may be reasonable. However, 1.5% or 2% office annual overhead will erode the spending value of the portfolio over time, much like fees and taxes.
- Whether the family wealth is expected to increase as a result of foreseeable liquidity events — such as the sale of a business — or substantial inheritance should also be anticipated. Higher rates of office expenses may be justifiable based on a highly probable and substantial increase in wealth.
- Multi-family offices, certain trust companies, private banks, and investment advisory firms offer a range of investment management, accounting and bill payment, tax advice and preparation, and other related personal business services for an annual fee of between 0.8% and 1% of active assets under management. While such service providers may not offer the personalization, privacy, responsiveness, continuity, and control available from a dedicated family office, this cost should serve as a useful comparison.[1]

> $1.5 million - $3.1 million
> The approximate cost
> for a small family office with
> $155 million in active assets.

[1] Data drawn from 2019 and 2020 Citi Private Bank Family Office Leadership Program Surveys, as well as direct review of a large sample of family office operating budgets.

Operational and governance factors

The three factors that most influence family office success are:

1. Scope (what gets accomplished)

2. Governance structure
(who has authority/accountability)

3. Staffing (quality of execution)

Individual family requirements dictate the scope and scale of operations. Principals are encouraged to use the following functions to inventory what is carried out today on their behalf, as well as what new or expanded functions might be carried out in the future. This list of typical basic and advanced functions serves only as a guideline.

Operational functions

Accounting and finance

- Basic: bill payment, banking, cash management, insurance, tax data, and general ledger accounting
- Advanced: tax analysis, tax compliance, filings, and planning; treasury functions, borrowing, and cash flow management; and balance sheet management

Investments

- Basic: investment manager interface, consolidated reporting, and performance monitoring
- Advanced: investment policy, asset allocation, portfolio construction, manager selection, direct investments, risk management, and research

Residences

- Basic: staff supervision, upkeep and maintenance, site management, expense tracking, and control
- Advanced: personal security for family, residences, and other assets; construction management; event management; and community involvement

Family logistics

- Basic: transportation, cyber security, event planning, personal services, and administration
- Advanced: family education, crisis management and intervention, health care concierge management, aircraft and yacht management, fine art and other collectibles management, and sports franchise management

Legal and estate planning

- Basic: overseeing legal entities, trusts and estate matters executed by external law firms, contracts review and management, and general legal advice
- Advanced: executing trust and estate matters; creation and management of legal entities; litigation; and complex investment, and business structures, and transactions

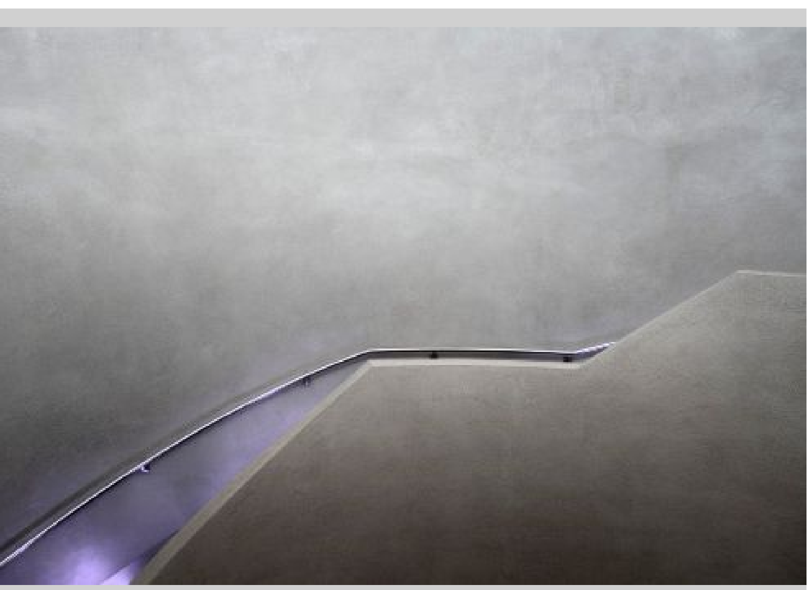
Philanthropy

- Basic: donor advised funds, gift giving, and charitable presence
- Advanced: family foundation, set up granting making, and administration

Governance factors

As discussed earlier, many family offices have their roots in the family's operating business. Initially, a trusted executive assistant or accountant may handle basic bill payment, banking, insurance, investments, and other family matters. In time, these offices often expand to include the addition of professional staff and the formation of a separate legal entity.

Governance refers to the methods the family use to make key decisions. Much like the operation of a company, the four basic models of decision making are:



1. **Principal directed:** One or two family members make all major decisions and exercise informal fiduciary responsibility for all family members. This is often augmented by the use of family meetings or regular means of communication.

2. **Family board:** Multiple — perhaps three to six — family members are elected to represent the entire family, with one acting as chairperson or manager. Formal meetings occur at least quarterly, and communication with and reporting to other family members occurs regularly and including an annual meeting. A formal family charter often defines the mission and shared values of the family.

3. **Family council:** Often advisory in nature and consisting of members of various branches and generations. Activities may range from arranging formal gatherings, family education, and philanthropy, to communicating family and financial information.

4. **Outside directors:** A board consisting of family members as well as outside directors or advisors makes all major decisions, often in close consultation with family members.

Regardless of the form of governance chosen, the three key elements of effective organizations are good communication skills, clear delegation of authority and responsibility, and engaged family members. Best practices include:

1. Frequent communication — with an emphasis on listening — among family members fosters engagement and understanding. This can take many forms. Ad hoc and formal family meetings, work groups or committees, regular reports, periodic strategy sessions, and an annual family offsite retreat can all be effective. While consensus may not be the objective, all members should have the opportunity to influence decision making within the boundaries of the family charter or applicable trusts. Principals might lead these activities, as well as family office CEOs, consultants, and advisors.

2. Clear and consistent lines of responsibility and authority should be established between the board and the professional team, as well as among professionals. C-suite staff should have clear reporting lines to only one person on the board that has meaningful authority within the family. Goals and objectives should be set and periodically measured. Family members should resist the temptation to issue directives. Rather, they should speak with the office's chairperson or Chief Executive Officer (CEO) of the office when raising issues. Best practices in this area entail having written delegations of authority as well as succession plans.

3. Engagement of family members varies by individual, their generation, and their personal interests. Implementing strategies that provide age/skill/interest-appropriate opportunities to lead, mentor, learn, influence, or grow builds family cohesion and communication. This is not a one-time endeavour, but a permanent cycle often led by the most senior family members.

Family office professionals

As with most businesses, family office success is a function of the ability to attract, retain, and motivate great professionals. Because the early hires set the tone and standards for those to follow, many families begin with a trusted professional from the family business. It is advisable to start with a modest staffing plan, which allows the family to shape the team carefully and then grow over time. A variety of successful approaches to hiring key staff — such as the CEO, Chief Investment Officer (CIO), or Chief Financial Officer (CFO) — include the following:

- Hiring a partner the family knows well from a law or accounting firm
- Recruiting senior staff from an investment advisory firm, private bank, or trust company with which the family has worked closely
- Hiring the general counsel, CFO, or controller from a family business
- Undertaking a national or regional search

Less successful strategies include hiring family members or friends, or taking recommendations from acquaintances, although there are notable exceptions. Similarly, 'sales oriented' professionals from major asset management firms should not be confused with those who possess actual investment experience. Unfortunately, there are often too few experienced family office candidates from whom to choose.

Why would accomplished senior executives join a family office, when it is likely they will receive a much lower compensation? The opportunity to work closely with key family members, travel less, have a better work-life balance, run a smaller team, family prestige, and experience a stimulating work environment can often attract talented people looking for a change.

Recruiting

Aside from the necessary technical credentials – investment, legal, accounting, etc. – and experience required in the family office role, the following personal characteristics are essential to identify when trying to make great hires:

- Successful candidates must be able to demonstrate a long track record of good judgement in a variety of personal and professional circumstances. This includes the ability to keep almost all aspects of their work with the family confidential, particularly from their own family and friends.
- Lack of ego. At the end of the day, family office professionals serve the family. Virtually all of their best work is unknown to the world. Families should be aware of candidates who need to stand out or self-promote, or who are overly enamoured of the family name and inner workings. At the same time, a family should want confident, strong advisors capable of delivering candid advice and, when necessary, bad news. Sycophants are best to be avoided.
- Teamwork. Not everyone is happy working in a small team or for a low-profile firm. Families should look for good communicators and great listeners, for the professionals will be acting on behalf of the family in a wide range of circumstances.
- Career stage. Often successful professionals late in their careers are drawn to the challenges of working for a family office and are willing to leave a law or investment firm for the opportunity to work closely with one client. Similarly, recent graduates seeking in-depth experience can be suitable entry-level candidates.
- Integrity. A lifetime of unblemished accomplishment, free from any ethical or legal lapses is a core requirement. A thorough background check carried out by a personal security firm is essential due to the delegation of authority, which creates the potential for fraud and theft. Hiring of friends and family in key family office roles has sometimes proven to be problematic. If a family member is to be appointed to an investment or executive role, a candid assessment of his or her skills, experience, and temperament should be made by all involved.

Three key errors families make that can lead to poor hiring decisions are:

1. Not having a clear understanding of what they want in a CEO or CIO, for example, and overstating or understating the role and expectations.
2. Hiring candidates who believe they understand what it is like to work in a family office, but have unrealistic expectations.
3. Hiring 'big guns' from a hedge fund, law firm, or major investment firm and each side getting more than they bargained for.

Figure 3. Representative family office compensation

	GENERAL BASE SALARY RANGE	
FUNCTION	LOW	HIGH
Management professional (CEO/COO)	$175,000	$500,000
Administrative nonprofessional	$45,000	$75,000
Residence security:		
Professional	$40,000	$65,000
Nonprofessional	$25,000	$40,000
Accounting:		
Senior professional	$125,000	$225,000
Junior professional	$60,000	$100,000
Investments:		
Senior professional*	$250,000	$750,000
Junior professional	$125,000	$225,000
Legal and estate planning:		
Senior professional	$150,000	$350,000
Junior professional	$100,000	$225,000
Transportation management	$50,000	$80,000
Philanthropy	$75,000	$140,000
Art/curator	$50,000	$80,000
Project management	$45,000	$75,000

* Excludes discretionary bonus, co-investment, or carried interest compensation

Note: the dollar amounts represent base salary only, excluding incentive compensation and bonuses. The figures also exclude employee benefits and taxes that can range from 20% to 36% of base salary. Compensation ranges are for illustrative purposes only and are highly variable depending on expertise, experience, and geography.

Data drawn from 2019 and 2020 Citi Private Bank Family Office Leadership Program Surveys, as well as direct review of a large sample of family office operating budgets.

Families should focus on incentives that promote desired results, healthy risk taking, and long-term relationships.

Motivation and compensation

Few things are discussed and debated as much as the topic of family office compensation. Two fundamental approaches are applicable to setting compensation for senior hires:

1. Alignment of interests. This approach advocates that carried interest, co-investment opportunities, and large bonus payments promote results favorable to both the family and the employee. The greater the financial returns, the better the financial outcome for the family, the CIO, the CEO, etc. Skeptics suggest that this promotes asymmetric risk taking by employees, as only the family stands to actually lose money.

2. Keeping it simple. Alternatively, this approach argues for a competitive base salary and an annual or periodic discretionary bonus tied to results. Some families add the potential for occasional personal use of a private jet/boat, vacation homes, and credit facilities. Skeptics suggest that this promotes hiring mediocrity (i.e., Why would anyone who is successful accept such compensation?).

Either model can work quite well, but often the 'keep it simple' approach is best. Why? Anger and resentment might arise on the part of both parties when financial markets are at major highs and lows.

Families might become alarmed that the team is receiving outsized compensation during a bull market, or the team could be offended that the family is holding them to meager compensation during bear markets.

Families should focus on incentives that promote desired results, healthy risk taking, and long-term relationships. When setting salaries, families should consult with their search firm, family office associations, or advisors, who may have access to family office compensation survey data. Some examples are provided in figure 3.

One word of caution on hiring: every family office employee should undergo a professional background check and be bound by an employment agreement on confidentiality. In addition, many offices leave open the option for unannounced employee drug testing and credit checks. Regrettably, there are far too many examples of fraud.

Conclusion

Successful family offices are run like a successful business. Given the breadth of choices outlined here, families have wide flexibility in shaping their family office to meet their needs best. While there are no basic templates, there is considerable experience and sound management practices to draw upon. As a family principal undertakes the process of evaluating and possibly establishing a family office, the planning insights outlined here should act as a useful starting point for further consideration. Family heads are encouraged to seek out other families in similar circumstances who already have family offices to learn of their experiences.

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Previously, he was Chief Investment Officer of a Seattle-based family office, and has held senior investment and technology roles with Fidelity Investments in Europe and the United States. Stephen was Founder and Chief Executive Officer of two financial technology companies, and has led investments in numerous early-stage companies.

NOTES

1. As used in this article, ‘family’ or ‘families’ may refer to an individual, a single family, a group of related families, or a complex, multigenerational family with domiciles in many countries. In the U.S., the SEC recently issued more restrictive 1940 Act exemption language that defines a family office as involving no more than ten lineal descendants from a common ancestor (subject to certain other qualifications).
2. Tax laws and financial regulation are important factors in the creation and costs/benefits of a family office, so expert advice is critical.
3. A multi-family office typically provides investment management, bill payment, cash management, and coordination of tax and estate planning services for multiple families. The range of service can vary significantly in quality and completeness.

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