FAMILY
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Reputation Management For Family Offices: New Life In The Spotlight

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It's time for family offices to tell their stories, or they risk having those stories told for them.

Demands for transparency have transformed the financial services industry over the last thirty years, though private wealth has managed to remain soft spoken and free from scrutiny to the extent that it remains aloof and stays out of trouble. This is changing.

The sheer size of the dynastic fortunes behind the world's family offices and the types of investment programs they are pursuing, will draw both regulatory and public interest. The United States has created millionaires at a rate five times faster than the growth of the general population since 1983, according to New York University professor Edward N Wolff. Generational wealth is also emerging from the world's emerging markets as innovation and new business creation have spread worldwide. The number of family offices, private wealth management operations with average investable assets of $750 million, now number 10,000 worldwide - double the tally from the start of the century. *The Economist* estimates that the world's billionaires control assets worth $9 trillion. Such an amount cannot be invested without the world taking notice.

At the turn of the century, my firm predicted that the investment industry would become the "emerging market of marketing." We saw that as these firms gained influence and power within the economy and society, they would actively and forthrightly trade offence for defense for their brands, think differently about marketing and engage in reputation management.

Family offices remained quiet, but will soon be pressed to tell their stories, if they haven't already. They will take a forward stance towards telling their own stories because of their growing influence as investors in public and private markets, the desire of the next generation of family fortunes to pursue social impact investing and the need to recruit investment talent in a world where job seekers want to work for firms with healthy corporate cultures and strong values.

Growing financial power

Most family offices are the result of successful entrepreneurship. A business has been created, often from outside of the financial sector and the assets have been formed into an investment company. Because their founders have successfully built businesses, family offices are well-suited to making investments in private companies. And because family offices have grown, they now compete for deals that were once the sole province of private equity funds.

The consultant Cambridge Associates argued in a February 2019 report that family offices have so little need for immediate liquidity, that they should consider allocating 40 per cent of their assets to such investments. Such a move would turn some family offices into major holders of significant private companies, with global reach and thousands of employees. If family offices make the types of investments that made KKR, General Atlantic, The Carlyle Group and Bain Capital into household names, they will soon share in that attention.

To compete with global banks and private equity firms for transactions, forward-thinking family offices will use their stories to attract the best deal flow. If well told, the entrepreneurial origins of many of these dynasties should appeal to management teams who are seeking capital.

Investing with impact

Nearly two thirds of next generation heirs are expected to take control of their family offices over the next fifteen years. These Millennial and Gen-Z investors told a UBS survey that they plan to manage their money with purpose. Currently, more than a third of family offices already practice some form of impact investing, 39 per cent of family offices expect that they will increase their allocations to environmental, social and governance investing under new leadership.

Sara Hamilton, founder of Family Office Exchange - representing more than 380 ultra-wealthy families across 27 countries - says they often work with families to help them recognize their enterprise value and determine a family brand narrative. Telling the positive stories behind impactful investments in operating businesses and the community will help to mitigate criticism and negative attention by political populists who are skeptical of concentrated wealth. It will also be crucial towards successfully implementing changes in corporate behavior through shareholder and public activism.

Winning the battle for talent

Family offices need to compete for the best investment talent and that means creating a company culture and brand. The largest family offices have hundreds of employees and engage in an array of activities.

Because of their growing size, family offices now have access to talent that would have previously only considered working at banks, hedge funds or large asset managers. Ben Ingram of Berwick Partners, a recruitment firm, told *The Economist* that he has seen "enormous growth" in the number of highly skilled finance professionals willing to consider working for family offices. The typical advantages include better work-life balance and positions of greater responsibility.

Multi-family office potential

Multi-family offices are also growing in assets and number. They share similar needs of a single-family office, except that they also need to market to wealthy families to expand their asset bases.

With just a handful of clients, multi-family offices can quickly build up enough assets to attract both regulatory and social scrutiny. They also tend to be global, so they will have marketing and reporting needs in multiple jurisdictions.

Every family office is an investment platform that can be expanded by taking outside money. Conversions from single to multi-family office structures will likely become more common as taking in outside money is a logical way for a family office to leverage economies of scale inherent to asset management while generating fees that will nourish the underlying fortune for years to come.

This has long been a quiet corner of the financials universe, but nothing in this world escapes attention forever. It's time for family offices to tell their stories, or they risk having those stories told for them.

Guarding a family's reputation – as news stories continually remind us - is important, and family offices are part of how this can be achieved. Protecting a family's best interests is far more than about hard money.

This publication is pleased to share insights on reputation management from Jennifer Prosek, founder and chief executive of Prosek Partners, the international public relations and financial communications consultancy operating in the US and the UK.

If readers want to respond to the comments here, please email tom.burroughes@wealthbriefing.com