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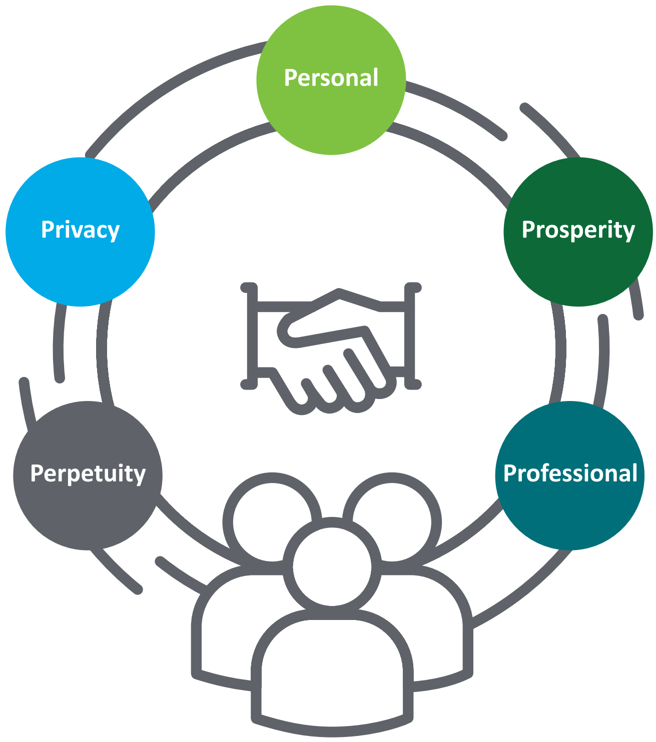
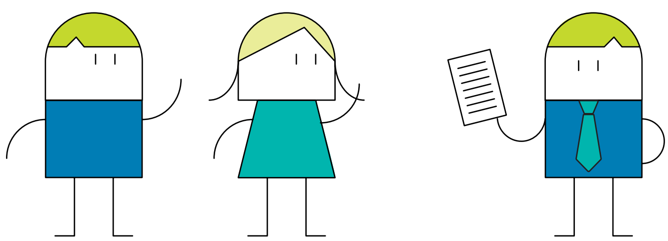



# The purpose of a family office

Family wealth is a very specific type of wealth. Just look at its shareholders. The relationship between the shareholders of this type of wealth is not merely a business relationship, like the shareholder relationship of a company. It is so much more. Emotions, needs, expectations, feelings, etc. that are inherently connected to a family relationship, also play a role. It may be a pitfall, and it is one of the reasons family businesses do not survive the third generation. But it also creates opportunities and advantages. Research has for example shown that family enterprises outperform listed companies. Again, there are many reasons for that, but the family shareholdership of these companies is one of the reasons of their success. Therefore, one could say that by managing the family wealth properly and by taking good care of the family relationship, one could unlock the true potential of the family wealth. Family wealth is, however, very specific and complex in terms of management. It does not only concern the business itself; it also concerns managing liquidity ratios, private equity investments, stock portfolio investments, debt structures, and even privately used assets. The management therefore requires a very specific approach.

The family office is a dedicated solution for the holistic management of the family wealth. There is no definition of a family office, as every family and hence every family office is unique. One could however say that it is a vehicle that supports the family in the day-to-day administration and management of the family's affairs and the long-term strategy. It is obviously much more than just 'managing' a portfolio, it is also making an analysis of future needs of the family and implementing that need in the investments and the structure of the assets.

We do not yet want to elaborate too much on what a family office can do for a family in this article. We think it is useful to start with 'why' a family should consider founding a family office. Only by conducting the exercise can a family determine 'what' a family office can mean for them. It all starts with why you need one. The structure of your family office must reflect the priorities of the family.



## There are five reasons why a family should consider setting up a family office.

The most important reason is that it is **personal**. A family office is tailor-made and—in contrast to other service providers—only works for one client, the family. This obviously does not only mean that they are always available, more importantly it entails that the family office has a unique and sole focus: serving the family.

It also serves **privacy**, which is crucial and of great value for wealthy families. A family office allows a family to have all the personal information, such as family compasses, family charters, deed of donations, shareholder agreements, deed of incorporations, etc. in one secure place, accessible by only a limited number of people. The family office can therefore serve as the guardian and gatekeeper of the privacy of the family.

**Prosperity** is the third reason. Families obviously want to create growth and revenues with the family wealth. But as family wealth is spread over several family members of different generations with different needs, one should also keep an eye on the revenue stream for family members. There will always be a need for a balance between wealth on the one hand and the financial needs of family members on the other hand. One cannot expect the family members individually to keep that balance. A much broader perspective on the family, its needs, business continuity, and diversity of investments is needed to make that analysis. The family office is the right solution for that exercise.

In a first stage, the family office is usually called 'the parents', and those founders of the family business are also taking care of and managing the other assets. After all, they founded the family wealth. These early stage family offices tend to grow in an unplanned way, and usually are a disaster for the family and their family wealth in case of sudden death. They are also not in line with a core value of wealthy families: **perpetuity**. Wealthy families usually have a much longer perspective than just one generation. Their wealth should also serve a specific purpose that transcends the family and the individual family members. This is a major challenger over time, especially when the family gets bigger over generations. The family office can help the family in defining a clear family purpose and therefore support them in creating a legacy across the different generations. In terms of perpetuity, family offices can also provide value as to personal estate planning of family members, to avoid unwilling consequences of sudden death or wrongly implemented succession plans by family members. The family office can also play a crucial role as to the governance of the family wealth. All too often family wealth is not managed properly because of a lack of good governance and putting the right man in the right place in case of the demise of a key member of the family office or the family.

Finally, a family office is also created to establish more **professionalism**. Family wealth is getting more and more complex, especially in international settings. The family wealth therefore grows beyond the ability and capacity of the family to manage it. There is clearly a trend that the personal investments of the family are managed as a business on its own, in addition to, for example, the core business of the family. Sometimes investments and private equity are even the sole activity of the family. As a business on its own, it should be run professionally with a dedicated team of experts. In doing so, the family office tailors the wealth management to fit the needs of the family and the specificity of the individuals within the family. Professionalism also has an advantage in terms of compliance and asset reporting. Consistent and uniform reporting is much more realistic if done by a family office with dedicated professionals instead of every family member individually.
In addition to the professional approach of the management of the wealth, there is also a psychological argument for external advice or management of the family wealth. Family members alone managing the wealth may result in undue mixing of family and business matters, which may distract the family members. Therefore, external advice or involvement is always to be considered in running a family office. Also, family wealth and family businesses are getting more international. Professionalism and a holistic approach are key in that matter.

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