2009

Family Office Report

Family Offices Group.com

The Family Office Report is a free resource created by the Family Offices Group for family office professionals and those businesses that work with family offices.

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Single Family Office Investment Performance

Just found a recent article on the performance of investments made of single-family offices claiming that their returns were likely below those of other high net worth individuals. First off it is important to note when discussing single family offices that they need not relay their performance to anyone and often will not return the phone calls of journalists, publicists or surveys seeking information. This means that any reporting on this sector is skewed at best.

I believe the article noted below to be off base in several ways. First, single family offices conduct more due diligence on hedge fund investments than their high net worth peers so if we are really comparing apples to apples here it would be hard to believe that those who conducted 4-10x as much research on their investments would perform worse in the markets. Second, single-family office HNW individuals are more likely to have their investments more diversified and invested in less straight equity portfolios. While diversification may not have helped much over the past year it could prevent 60%+ drops in portfolio value seen within some concentrated equity portfolios. The last reason why I believe this article is off base is because it refers to alternative investments made by single-family offices as a negative aspect of them. Recent performance indicators by the HFR and HedgeFund.net show that hedge funds have outperformed equities...would being in hedge funds then be an advantage?

Here is the article referenced above:

Dugan said: “In many cases the credit crunch has hit family offices harder than the high net worth.”

He said that the tendency of single family office portfolios being highly exposed to alternative investments – which in some cases last year comprised as much as 50% of investments in hedge funds, private equity and other alternatives – has hit the very wealthy harder.

Alternatives are expected to comprise a significantly smaller proportion of family office portfolios in the next few years, said Dugan, who made his comments at the release of a report by Merrill Lynch and Campden Research, a London-based publishing company, into single-family offices in Europe. source

Hedge Fund Manager List

Over the last 12 months our team has received around 100,000 emails from professionals who have came and visited our websites. Many of these emails are in regards to accessing particular resources to help in career or potential client searches.

Below please find various state-by-state hedge fund manager contact lists available for under $100 each. These contain contact details for various funds and may be instantly downloaded.

- List of Hedge Funds in Massachusetts
- List of Hedge Funds In Connecticut
- List of Hedge Funds in New York
- List of Hedge Funds in California
- List of Hedge Funds in Chicago and State of Illinois
- List of Hedge Funds in Dallas, Houston & State of Texas

If you have been directed to this post via email we apologize for the less than personal response, please email us again if you have any further questions or concerns.

Carried Interest Taxes on Hedge Funds

In case you missed it last week Obama's new tax plan for 2010 calls for taxation of carried interest as ordinary income more than doubling what many will pay on taxes from such gains. Here is an excerpt from a related article:

Executives at buyout, venture-capital and hedge-fund firms will pay an estimated $24 billion more in taxes over nine years if President Barack Obama gets his way.

Obama’s 2010 budget proposal, released today, proposes raising taxes on the managers by treating carried interest, the portion of profits they take from successful investments, as ordinary income instead of capital gains. That change would boost the tax rate, starting in 2011, to 39.6 percent for most executives from the 15 percent they now pay.

The proposal applies to partnerships that receive a portion of the profits they make for their clients. It will likely reignite a debate begun in 2007 amid the biggest buyout boom in history, when firms including Blackstone Group LP and Och-Ziff Capital Management Group raised their profiles through public stock listings. While the House of Representatives approved the tax change that year, the measure wasn't taken up by the Senate.

"Obama and his team are up for a fight here," said George Teixeira, a managing director with accounting firm RSM McGladrey in New York. "They're missing key components of what these industries do." source

Philanthrocapitalism | Suspicious about Philanthrocapitalism

People are right to be suspicious about Philanthrocapitalism as a concept on its face. Too often rhetoric leaves the station before action and new behaviors board the train. We can all be better served by moving away from ceding authority to conceptual novelty and instead anoint best practitioners, all those that prove their chops by simply outperforming the status quo. A rather high standard these days.

In that light Matthew Bishop's book, Philanthrocapitalism, is rightfully reporting on a new, converging awareness sparked by doing differently and succeeding at it. (I spoke with Matthew briefly at a conference late last year and found him erudite, sincere and spot-on regarding insights of some easily observed philanthropic plate tectonics and business evolutions). His writing is for the masses and as such is packaged so as to be easy to digest. Bishop's primary truth is that there is an emerging movement of new behaviors that easily represent "fully integrating passion of the heart with common sense of the head" underneath his coinage of Philanthrocapitalism. Since Matthew already shared some real world vignettes in his book, here are some categorical examples to more easily track these convergences afoot:

Venture Funds. Capitalists are backing a surprising number of new venture funds promising competitive returns plus social impacts. Many of these funds focus on investing in portfolio companies in underdeveloped local and regional economies (Africa, South Asia, Eastern Europe) so as to fill gaps and provide local wealth creation infrastructure (i.e. they invest in small and mid-size companies privately run by locals as opposed to micro-finance, which has been routinely criticized as merely affording households an opportunity for consumption smoothing instead of real wealth creation). See www.springhillequity.com as an example.

Social and Mission Markets. Capitalists are creating online platforms to stimulate deal flow, due diligence, scrubbing and a host of routinely for-profit deal-making activities in order to upgrade social investments. One of the several most conspicuous failures of philanthropy over the past 100 years, in terms of social utility, is a pernicious lack of price discovery to buy a social good (e.g. how much does it cost to take a homeless person off the streets in Boston, In NYC, in LA? It sure would be nice to know that, wouldn't it.). The behavioral difference here is that we finally get to a competitive marketplace for price discovery of philanthropic acts, thereby strengthening incentives for innovation and enabling social entrepreneurs to confidently answer three questions their investors should always ask of them:

1. What am I buying here?
2. What's the probability I'll get it?
3. Is this the best use of my money?

See www.missionmarkets.com as an example.

Mission Related Investing. Foundations are also stepping up and now looking at new behaviors beyond their mandated (by the IRS) 5% per year, required distribution of grants and instead using their entire underlying 95% of corpus to support their social mission. Boutique firms are popping-up to serve this need, as it's not chump change with hundreds of Billions in play and an average of 1% annual management fee for the pleasure guiding these investments.

See www.imprintcap.com as an example.

Corporate Responsibility, Sustainability and Social Investing. Here's an area where the victims of the Corporate PR marketing machine might rightfully wax cynical--do we really trust corporations to do something good for society? Aren't they really out just to plunder natural resources and make a buck as fast as possible? Problem here is that until the past 15 years nobody has really tested and then proven the assumption that you can do both as a company and prosper handsomely. Ray C. Anderson is one example of moving away from transaction-point, business-as-usual to comprehensive supply chain and product life cycle reclamation at his company, Interface (view Anderson on You Tube or read his book, "Mid-Course Correction" for more details). Sustainability campaigns and Social Investing professionals are also driving Corporate Responsibility with both carrots and sticks, as NGOs take brands down by campaigns to inform their consumers (read "Branded" by Michael Conroy) and institutional investors take proxies to the boardroom for better behaviors, sustainable profits and brand integrity. See www.ceres.org as an example.

All this and much more is afoot and emerging from under the umbrella of Philanthrocapitalism.

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Philanthropic Giving Video

View: Future of Private Banking-Financial Advisory Advice for Wealthy on Philanthropy

Here is a short video on philanthropic giving. While it strays a bit from the core topic of philanthropy there isn't much online about ultra-high net worth management or charitable/philanthropic giving by these individuals. The main point of this video is that the popularity of giving is on the rise and gifts directed through private banking departments and family offices will continue to rise over the next 5-7 years.

Atrato Advisors Expands With New Hire

Atrato Advisors LLC announced today that Janna Sobolev has joined the firm as a partner. Ms. Sobolev brings over 10 years of expertise in quantitative analysis and risk management to the alternative investment-consulting boutique.

Ms. Sobolev's hiring represents Atrato's continued aggressive push toward the growth of its advisory practice, which was formed in response to the need for greater professional oversight of hedge fund investments following the worst year on record for the $1.4 trillion industry. "While no one wishes for this sort of investing environment, recent performance and adverse events are precisely the reasons why allocators should be looking for more bespoke analysis of their holdings and potential investments," says Brian Reich, Atrato's president and founder. "An individualized consulting approach is particularly ideal as the multi-manager community is so heavily focused on balancing the pooled and often disparate interests of its many different investor types," he contends. "In our opinion, every investor is fairly unique with respect to their risk and return preferences, liquidity needs, and time horizon. That said, each investor's solution should be based on the unique characteristics it presents."

The addition of Ms. Sobolev amplifies Atrato's platform, particularly from the standpoint of the firm's quantitative capabilities and entrepreneurial culture. Prior to joining Atrato Advisors, Ms. Sobolev was running her own independent consulting business, Red Square LLC. Before forming Red Square, she was responsible for quantitative research and manager due diligence at Gleacher Fund Advisors. Ms. Sobolev is also a veteran of SAC Capital Advisors, where she worked on the quantitative risk management desk. At SAC, she was responsible for due diligence, market, trading, and operational risk management for prospective and existing portfolio managers on the firm's trading platform.

"Working with Janna will tremendously deepen our research, advisory, and consulting capabilities," says Mr. Reich. "Investors and fund managers, especially in this treacherous environment, are highly demanding of those advising them. Atrato's business can only continue to be successful if we're constantly evolving and growing the depth and scope of our offering. In bringing Janna on board, we make an immediate leap forward in that respect."

Atrato Advisors was formed in October 2008, and its mission is to provide high-quality investment advisory and strategic consulting services to the hedge fund allocator and manager community. The firm was founded by Brian Reich, who formerly headed Hedge Fund Research globally at Deutsche Bank Private Wealth Management and Cantor Fitzgerald & Co. Inquiries should be directed to Mr. Reich at (212) 582-2200 or by email to breich@atratoadvisors.com. Permanent Link

Hedge Fund Risk Management

Below is a short guest post by Peter Curley of Nirvana Solutions:

Before the financial crisis the hedge fund industry was an industry fixated on returns. The industry claimed to have figured out a way to offer out-sized and absolute returns, no matter the market conditions. The crisis and the subsequent blow-up of hundreds of funds have reacquainted everyone with return's alter ego - risk. In this new world, investors are now demanding an intimate knowledge of the type and level of risk involved in generating returns. Managers that hope to raise capital in this environment will need to demonstrate that they have given as much thought to risk mitigation as they have to generating alpha. The following are the major types of risk and how a hedge fund can manage them:

1 - Portfolio Risk - The recent market volatility exposed some of the drawbacks of the legacy technology used by many hedge funds to understand their portfolio risk. Managers were forced to navigate the markets with systems that could only offer outdated views (typically end-of-day reports) of risk and return. These legacy portfolio management systems struggle with real-time reporting because they pre-date the advent of the FIX (Financial Information Exchange) protocol and therefore cannot not display the real-time impact of executions on a fund's risk and return profile. This lack of real-time transparency can no longer be tolerated. Newer, real-time portfolio management systems place the FIX protocol at the center of their activities and ensure that a manager has an execution-by-execution real-time view of risk and return.

2 - Counter-Party Risk - The demise of Bear Stearns and Merrill Lynch, and the bankruptcy of Lehman Brothers in 2008, abruptly brought the subject of counter-party risk to center stage. Overnight multiple prime broker relationships have become a prerequisite for all funds no matter the size. To attract (or retain) assets a fund must now demonstrate that they have diversified their counter-party risk. The operational complexity (and cost) involved in building a multi-prime infrastructure should not be underestimated (see "A Guide to Overcoming the Operational Challenge of Multi-Prime" by Peter Curley, Nirvana Solutions, October 2008). At the very heart of this complexity is the requirement to collect and aggregate the disparate cash, position, and transaction information, across multiple custodians. Additionally, the infrastructure must be flexible enough to support new, in vogue, risk-reducing structures, such as tri-party arrangements and separately managed accounts.

3 - Operational Risk - Anecdotal evidence suggests that investors' operational due diligence has become increasingly more stringent since the crisis. A fund must show that they have acquired a formalized middle and back-office functionality. Investors need to feel that the inner workings of the fund are completely transparent and that any area where there is potential for conflict, such as valuation or administration, is handled by an independent third-party. Any suggestion that a manager is relying too heavily on unproven processes or unsuitable infrastructure, such as Microsoft Excel, will result in the investor simply moving on to the next investment opportunity.

The renewed interest in risk mitigation comes at a time when funds are already under intense pressure dealing with redemptions and poor performance. For many funds the added burden of these new requirements will necessitate that they give a serious look at the outsourcing options available to them. Fortunately, a number of service providers, including the mini-primes and fund administrators, are in the process of creating new outsourced multi-prime service platforms that can meet these new requirements in a cost-effective manager.

Article contributed by Peter Curley of Nirvana Solutions.

Peter is a founding managing partner at Nirvana Solutions. His areas of responsibility include managing all of Nirvana's marketing activities as well heading their west coast sales team.

Prior to joining Nirvana Solutions, Peter was the product manager for Advent Software's order management system (OMS), Moxy. He oversaw all the product marketing activities for Moxy, which is used worldwide by over 800 firms. He had a special emphasis on trading and hedge funds and has authored a number of articles and whitepapers on these subjects.

After business school Peter joined IBM's Strategy and Change group as a strategy consultant. He was attached to IBM's Financial Services arm and completed a number of strategy assignments at major Wall Street firms as well as smaller start-ups.

Peter began his career as a registered representative at Charles Schwab and was a team lead for the introduction of Schwab's innovative e.Schwab electronic brokerage offering. He later was involved in the development of Schwab's active trader application, Velocity, which was merged with CyberTrader.

Peter holds a bachelor's degree in economics from University College Dublin, a Master's from University of Exeter and an MBA from Columbia Business School.

email: **peter.curley@nirvanasolutions.com**

The Hedge Fund Transparency Act

Just about to jump on a plane so I don't have must time to write up much of a summary here but two senators have proposed new legislature, which would force hedge funds to register with federal securities regulators. There is a 90% chance that this quickly be approved:

The Hedge Fund Transparency Act, sponsored by Senators Carl Levin, a Michigan Democrat, and Charles Grassley, an Iowa Republican, would require hedge funds to file an annual disclosure form with the U.S. Securities and Exchange Commission, comply with the agency's record-keeping standards and cooperate with its investigations.

"The problem is that hedge funds have gotten so big and are so entrenched in U.S. financial markets that their actions can now significantly impact market prices, damage other market participants and can even endanger the U.S. financial system and economy as a whole," Levin said...

"A major cause of the current crisis is a lack of transparency. The wizards on Wall Street figured out a million clever ways to avoid the transparency sought by the securities regulations adopted during the 1930s," said Grassley, who introduced a similar bill in 2007. read more

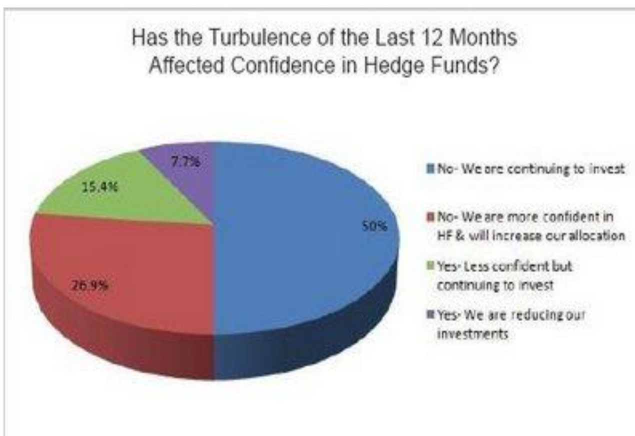
Hedge Fund Survey of Investors

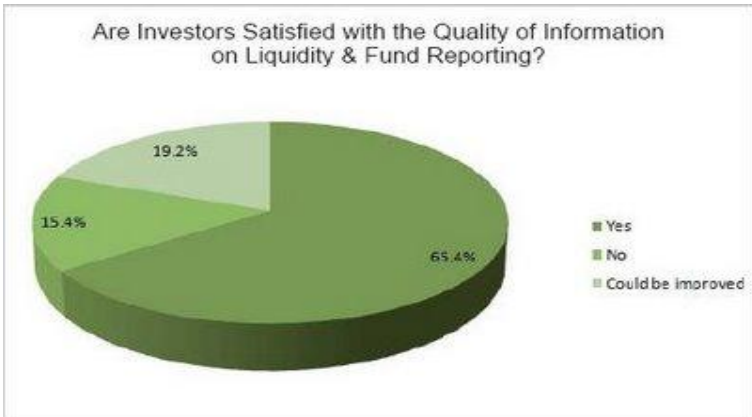
Preqin recently completed a survey while looked at the current investor confidence in hedge funds, demand for hedge funds from investors right now, and quality of information or transparency found within hedge funds today. Here are some interesting statistics:

There are more investors which are more confident in hedge funds now than there are investors that are less confident since the financial crisis began. Only 7% of investors are going to stop investing in hedge funds and over 25% of hedge fund investors will increase their investments into hedge funds.

Increased transparency and a fundamental understanding of the hedge fund's strategy have been rated as the most important change since the financial crisis began while risk management methods note as the least important change that should be made

Below please find charts and graphs from the Preqin newsletter:





Nir Brunstein Insider Trading Case

Yet another situation uncovered just this week in Israel. It seems that every two weeks some type of fraud is uncovered. While this is bad for the industry I do believe that taking a bath of bad news all at once and exposing all of these professionals now is better than letting them grow further, slowly identifying them over the next 5-10 years. Here are the details on this Israel-based insider trading case:

The Israel Securities Authority yesterday detained Poalim Capital Markets CEO Nir Brunstein and options speculator Ofer Eisenberg on suspicions of insider trading.

Brunstein is suspected of whispering to Eisenberg, a friend and colleague, that Bank Hapoalim had incurred heavy losses on derivatives before the bank released the news to the general public. Eisenberg is suspected of taking advantage of the information to dump his stock in the bank before it could tank.

Both men deny the allegations. Of all Israel's banks, Hapoalim had invested the most heavily in derivatives based on American subprime mortgages. The Securities Authority investigation found that on January 10, 2008, Bank Hapoalim announced that the value of its holdings in these mortgage-backed securities had dropped substantially. source

Read about hedge fund regulations, compliance and other cases of fraud and insider trading within our Hedge Fund Regulation Corner | Compliance & Law Notes.

Sir Allen Stanford Fraud Case | SEC

Below are several videos and resources documenting the fraud case of Sir Allen Stanford.

Resource: Video

Resource: **Video**

Resource: The Securities and Exchange Commission charged R. Allen Stanford with an $8 billion fraud centered around the sale of certificates of deposit, saying the flamboyant businessman hoodwinked investors by promising high and seemingly safe returns.
As the SEC charges were made public Tuesday morning, U.S. marshals and Federal Bureau of Investigation agents raided Stanford offices in Houston.

The SEC said that Stanford Investment Bank sought to lull investors into thinking their investments were safe, providing assurances that the bank invested the money in liquid financial instruments that were monitored by a team of more than 20 analysts. source

Resource: The England & Wales Cricket Board yesterday suspended relations with Sir Allen Stanford after he was charged with what United States investigators allege is a "massive, ongoing fraud.

A Dallas Federal court was asked to freeze Stanford's assets and his company was put in the hand of receivers after the Securities and Exchange Commission took drastic action following days of intense speculation about his company as US Marshals raided Stanford's office in Houston in the early hours of the morning Stateside.

"We are alleging a fraud of shocking magnitude that has spread its tentacles throughout the world," said Rose Romero, director of the SEC's Fort Worth office. source

Resource: We thought Bernie Madoff's world record in Ponzi-scheming would be safe for a while, maybe for all of time. But now comes the news that the SEC is investigating one R. Allen Stanford, a billionaire who runs a money-management firm out of tropical, tax-free St. Croix. To his moneyed clients, Stanford offers certificates of deposit that offer "unusually high and consistent returns" (double the market average, according to Business Week). Hmmm, where have we heard that phrase before? Oh, also: The company overseeing the firm's books is "a tiny accounting firm in Antigua" whose CEO recently died. Oh, dear. Stanford manages $51 billion, just nosing out the amount that Madoff had "under management." source

Life Settlement Funds: on Rise

Lately, through this website and recent networking events I have spoken to many startup and mid sized hedge funds who are working with or in areas connected to life settlements. If you have never heard of life settlements or funds which invest in them please see the article here below that I just came across:

The market for exotic securities hasn't entirely gone away. It's just gone underground—-six feet under, to be precise.

Hedge fund Davidson Kempner Capital Management is plunging into life settlements—a market in which speculators buy-up unwanted life insurance policies from wealthy individuals looking to score some quick cash. The $10 billion New York-based fund is planning on selling so-called "death bonds" to overseas investors, as part of a plan to potentially raise cash to finance its life settlements acquisition business.

In January, DK Life Settlements Acquisition Ltd, a foreign company with ties to Davidson, filed an offering statement with Irish regulatory authorities to sell up to $1 billion in "participating notes.'' The terms of the offering weren't made public, but the notes are due on Dec. 1, 2058. The long payout on the bonds is leading to speculation that the bonds will be backed, in part, by the death benefits the hedge fund collects on the life insurance policies it acquires—hence the name death bonds. source

Hedge Fund Performance Figures

Here is a video interview with the head of Hedge Fund Research. The interview discusses how hedge funds had the worst year last ever in terms of redemptions and performance. 2008 followed a year of record inflows in 2007 when almost $200B came into the industry. Macro funds had the best performance for 2008, due to their strength during volatile times.

Blood On The Hedge Fund Streets

While the economic conditions have shut down many funds, exposed fraudulent activity, and also created a unique set of opportunities for a small subset of traders and portfolio managers within the industry. The hedge fund and private equity industries are as entrepreneurial as ever.

In Q1 2009 there are hundreds of New York and London based hedge funds being started to take advantage of high volatility, historically low asset prices, and relatively cheap talent hungry for a fresh start. Many of these young hedge funds and private equity groups are not yet on the radar of institutional databases or mainstream media outlets but by Q3 and Q4 of 2009 they will be, and we will be able to see how many funds have been started around the world. I believe these figures will be high and will spur even more startup activity as others move to seize the current market opportunities.

Hedge Fund Business Model Discussion

Here is a short video interview discussing the topic of the typical hedge fund business model.

Private Equity & Hedge Fund Regulation

Here is an interview with Steven Rubenstein on the potential regulation of private equity. He believes that private equity will be regulated along with hedge funds in Europe while in the US private equity will possibly escape any increase in private equity regulations.

The interview also discusses leverage, the access to cheap leverage and how the private equity industry was really founded during periods of low availability of leverage.

Family Offices in Europe & US: An Evolution

Just found a PDF document on the history and evolution of family offices. This document also goes into some of the benefits of working with a multi-family office. Here is an excerpt from this article: Opposed to common belief, although the term “family office” originates from the U.S., the concept of generic “offices” or “gatekeepers”, “protectors of family wealth” etc. goes considerably further back, i.e. to the Crusades and the concept of the “trust”, but also to banking families in Europe (Medicis, Rothschilds). In fact, even during the Shang dynasty in China (1600 B.C.) and merchants in ancient Japan, there were individuals and groups of people dedicated to serving, protecting and preserving families and their members across several generations.

Read the full PDF by clicking here.

Independent Fund Administration Firms

Tom Zita from Globe Op sent me an interesting article by Advanced Trading on independent fund administration and how fund of funds and investors will be requiring this more in 2009 than ever before.

Here are a few great quotes from this article:

"The failure of the funds of funds that invested with Madoff was simply that they didn't do the due diligence that they ought to have done," says Rich Koppel, managing director at youDevise Ltd., a supplier of hedge fund technology that has offices in London, New York and Hong Kong...

"From where I sit in the fund-of-funds side, I've looked at [Madoff's] return stream several times and rejected it [based] on my gut," Vale adds. "It's checks and balances -- you have to check all the boxes." ...

Infinity Capital's Vale speculates that the feeder funds "depended on the numbers that [Madoff's] underlying funds provided." Even though some of the underlying funds had third-party fund administrators, even the third-party administrators appear to have accepted Madoff's numbers. "Madoff was providing those numbers. Nobody dug a little bit deeper to see that those numbers were just coming from in-house," Vale claims.

"There was no third-party firm at all looking at the numbers to verify even if they were real or correct," Vale continues. "That's a deal killer for us."...

"The major red flags were to do with predominantly back-office issues," adds James Freeman, senior relationship manager at Key Asset Management, a London-based fund of funds manager with $2 billion in assets invested in 90 underlying hedge funds. "A bad investment process can lose you lots of money, but a [bad] back-office business structure can lose you all of it," he warns. ..

"All the major classic frauds -- Beacon Hill Asset Management and the Manhattan Fund -- use that tactic, [in which] the broker is the sole source of the quote [aka, net asset value] and it's not being reconciled by a third-party administrator, to send out false information because there is no record of it and you have no independent validation if the information is correct," says Freeman. read the full article

GCC Family Wealth Management, a wholly owned subsidiary of GCC, announced today the Company is expanding their wealth management division and seeking qualified Business Development Officers (Family Wealth Advisors) to fill positions in Washington, DC, Nashville, TN, Los Angeles and San Diego, CA and Houston, TX.

“While other firms are downsizing because of proprietary trading gone bad and overhead costs soaring, we are in growth mode,” said Scott M. Freund, President of GCC Family Wealth Management. “The best thing about the advantages we offer our Family Wealth Advisors, is that they also benefit our clients. The consistent, formulaic payout means the Family Wealth Advisor can spend more time with the client instead of simply handing him off and looking for another, while the fiduciary advisor role aligns the client’s goals with the Family Wealth Advisor’s. It’s a true win-win.”

GCC Family Wealth Management is a multi-family office serving High Net Worth individuals, families and foundations. They offer a unique opportunity to Business Development Officers with a consistent, formulaic payout. It is based on total assets under management, as opposed to the traditional payouts from Private Banks and Third Party Money Managers who typically have a higher payout for the first year and then a much smaller payout, if any, in subsequent years.

Further, the Family Wealth Advisors are fiduciary advisors, free from having to balance the client’s objectives with a firm’s more profitable proprietary products. GCC Family Wealth Management is a pure open architecture advisory firm where there are no proprietary products to sell.

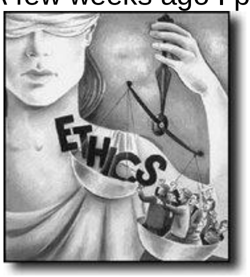
For more information on GCC Family Wealth Management’s business development opportunities, please contact April Spittle at aspittle@galencc.com or 703-893-0021 ext. 108.

About GCC Family Wealth Management

GCC Family Wealth Management (www.gccfamilywealth.com), a wholly owned subsidiary of GCC, is a multi-family office designed to manage the complex wealth of high net worth individuals, families and foundations. Our fiduciary advisors provide a collaboration of expertise from different wealth management disciplines including investment management, private banking, estate planning, insurance advisory and risk management. GCC Family Wealth Management is headquartered in McLean, VA, with offices in Los Angeles, CA; Nashville, TN and satellite locations in San Diego, CA and Houston, TX.

Hedge Fund Industry Ethics

A few weeks ago I posted a note hoping to create a conversation around hedge fund



industry ethics and best practices. Just this morning I found an interesting article on hedge fund ethics, again it appears that the most challenging part of setting any code of ethics for the industry is that hedge fund manager are so diverse, their operations, investments, and even scheduled life-spans are often drastically different from one fund to the next. As hedge funds are forced to innovate to produce returns in 2009 while also securing capital for distressed assets I believe this diversity will only increase over the next few years. Here is the article on hedge fund ethics:

Hedge funds took a battering 2008 - and as they have been battered by the storm two questions of "right" and "wrong" have been coming up that show that there are ethical codes at work here, but no agreement on what the "right" answer is.

And here's where the "ethical" questions come up:

If your fund is down and you know it is going to take years to recoup the losses and get paid at 20% of profits again do you:

a) stay with the fund until you have recouped the losses and made your investors whole - working for "psychic income" as Kenneth Griffin of Citadel fame told the New York Times or
b) leave - retire, switch to a new fund, start a few fund - basically start again? If you had many years of excellent performance before this one terrible year you may well be able to raise another fund.

In the first case there's a moral high ground to climbing back out and keeping your commitments to your investors, but maybe the second case makes sense if you can't climb back out from that fund. Maybe you can't keep your key players or your strategy no longer works and your investors are better off with you closing the fund and returning their money.

The second question is whether to allow investors to take money out of the hedge fund. Again hedge funds are not acting consistently. One of your investors wants to pull his money out - do you

a) allow him to knowing that doing so could hurt the remaining investors that are staying in because you'll be forced to selling into a falling market? Much of the volatility in November and December was redemption selling as hedge funds were force to liquidate equities and debt so investors could withdraw funds. Or do you
b) tell investors they can't take their money out and you are going to hold it until it is a more stable time to sell?

Again this is a current raging debate in the hedge fund world that takes on the ethical language of right and wrong. I know I'd want to be able to get my money out if I'd lost faith in a fund! source

Warren Buffett Interview Transcript

Below is a short interview with Warren Buffett who was featured on the PBS Nightly Business Report tonight.

PBS' Nightly Business Report & Warren Buffett
Full Transcript of NBR Anchor Susie Gharib's interview with Warren Bufffett airs January 22, 2009, Nightly Business Report's 30th Anniversary

SUSIE GHARIB, ANCHOR, NIGHTLY BUSINESS REPORT: Are we overly optimistic about what President Obama can do?

WARREN BUFFETT, CHAIRMAN, BERKSHIRE HATHAWAY*:* Well I think if you think that he can turn things around in a month or three months or six months and there's going to be some magical transformation since he took office on the 20th that can't happen and wouldn't happen. So you don't want to get into Superman-type expectations. On the other hand, I don't think there's anybody better than you could have had; have in the presidency than Barack Obama at this time. He understands economics. He's a very smart guy. He's a cool rational-type thinker. He will work with the right kind of people. So you've got the right person in the operating room, but it doesn't mean the patient is going to leave the hospital tomorrow.

SG: Mr. Buffett, I know that you're close to President Obama, what are you advising him?

WB: Well I'm not advising him really, but if I were I wouldn't be able to talk about it. I am available any time. But he's got all kinds of talent right back there with him in Washington. Plus he's a talent himself so if I never contributed anything for him, fine.

SG: But I know that during the election that you were one of his economic advisors, what were you telling him?
WB: I was telling him business was going to be awful during the election period and that we were coming up in November to a terrible economic scene which would be even worse probably when he got inaugurated. So far I've been either lucky or right on that. But he's got the right ideas. He believes in the same things I believe in. America's best days are ahead and that we've got a great economic machine, its sputtering now. And he believes there could be a more equitable job done in distributing the rewards of this great machine. But he doesn't need my advice on anything.

SG: How often do you talk to him?
WB: Not often, not often... no no and it will be less often now that he's in the office. He's got a lot of talent around him.
SG: What's the most important thing you think he needs to fix?
WB: Well the most important thing to fix right now is the economy. We have a business slowdown particularly after October 1st it was sort of on a glide path downward up till roughly October 1st and then it went into a real nosedive. In fact in September I said we were in an economic Pearl Harbor and I've never used that phrase before. So he really has a tough economic situation and that's his number one job. Now his number one job always is to keep America safe that goes without saying.
SG: But when you look at the economy, what do you think is the most important thing he needs to fix in the economy?
WB: Well we've had to get the credit system partially fixed in order for the economy to have a chance of starting to turn around. But there's no magic bullet on this. They're going to throw everything from the government they can in. As I said, the Treasury is

going all in, the Fed and they have to and that isn't necessarily going to produce anything dramatic in the short term at all. Over time the American economy is going to work fine.

SG: There is considerable debate, as you know, about whether President Obama is taking the right steps so we don't get in this kind of economic mess again, where do you stand on that debate?

WB: Well I don't think the worry right now should be about the next one, the worry should be about the present one. Let's get this fire out and then we'll figure out fire prevention for the future. But really the important thing to do now is to figure out how we get the American economy restarted and that's not going to be easy and its not going to be soon, but it's going to get done.

SG: But there is debate about whether there should be fiscal stimulus, whether tax cuts work or not. There is all of this academic debate among economists. What do you think? Is that the right way to go with stimulus and tax cuts?

WB: The answer is nobody knows. The economists don't know. All you know is you throw everything at it and whether it's more effective if you're fighting a fire to be concentrating the water flow on this part or that part. You're going to use every weapon you have in fighting it. And people, they do not know exactly what the effects are. Economists like to talk about it, but in the end they've been very, very wrong and most of them in recent years on this. We don't know the perfect answers on it. What we do know is to stand by and do nothing is a terrible mistake or to follow Hoover-like policies would be a mistake and we don't know how effective in the short run we don't know how effective this will be and how quickly things will right themselves. We do know over time the American machine works wonderfully and it will work wonderfully again.

SG: But are we creating new problems?

WB: Always

SG: How worried are you about these multi-trillion dollar deficits?

WB: You can't just do one thing in economics. Anytime somebody says they're going to do this and then what? And there is no free lunch so if you pour money at this problem you do have after effects. You create certain problems. I mean you are giving a medicine dosage to the patient on a scale that we haven't seen in this country. And there will be after effects and they can't be predicted exactly. But certainly the potential is there for inflationary consequences that would be significant.

SG: We all know that in the long run everything is going to work out, but as you analyze President Obama's economic plan, what do you think are the trade-offs? What are the consequences?

WB: Well the trade-off… the trade-off basically is that you risk setting in motion forces that will be very hard to stop in terms of inflation down the road and you are creating an imbalance between revenues and expenses in the government that is a lot easier to create than it will be to correct later on, but those are problems worth taking on, but you don't get a free lunch.

SG: What about the regulatory system, is it a matter of making new rules or simply doing a better job at enforcing the rules we already have?

WB: Well there are probably some new rules needed, but the regulatory system I don't think could have stopped this. Once you get the bubble going... once the American public, the U.S. Congress, all the commentators, the media, everybody else started thinking house prices could go nothing up, you were creating a bubble that would have huge consequences because the asset class was so big. I mean you had 22 trillion dollars probably worth of homes. It was the biggest asset of most American families and you let them borrow 100% in many cases of the price of those and you let them refi up to where they kept taking out more and more and treating it as an ATM machine.. the bubble was going to happen.

SG: But everybody is saying we need more rules, we have to enforce them, we need to go after every institution, every financial market. Do you think that new rules will do the trick or do we have enough rules that we just need to enforce them?

WB: Well you can have a rule for example to prevent another real estate bubble; you just require that anybody bought a house to put 20% down and make sure that the payments were not more than a third of their income. Now we would not have a big bust ever in real estate again, but we would also have people screaming that you're denying home ownership to all these people that you got a home yourself and now you're saying a guy with a 5% down payment shouldn't get one. So I think it's very tough to put rules out... I mean I can design rules that will prevent it but it will have other consequences. It's like I say in economics you can't just do one thing and where the balance is struck on that will be a political question. My guess is that it won't be struck particularly well, but that's just the nature of politics.

SG: You've said that we're in an economic Pearl Harbor, so how bad are things really?

WB: They're bad, they're bad. The credit situation is getting a little better now. Things have loosened up from a month ago in the corporate debt market. But the rate of business descent is at a pretty alarming pace, I mean there is no question things have really slowed down.

Peoples' buying habits have changed. Fear has taken over and fear is a tough thing to fight because you can't go on television and say don't be afraid, that doesn't work. People will get over it, they got greedy and they got over being greedy. But it took a while to get over being greedy and now the pendulum has swung way over to the fear side. They'll get over that and we just hope that they don't go too far back to the greed side.

SG: What's your view on the recession? How much longer is it going to last?

WB: I don't know. I don't know. I don't know the answer to these things. The only thing is I know that I don't know. Maybe other people think they know, but I have no idea.

SG: The last time we talked, you said back in the Spring, you said the recession is not going to be a short-haul thing. What is your feel for it right now?
WB: It isn't going to be short, but I just don't know Susie. There's no way of knowing.

SG: Berkshire Hathaway is in a lot of businesses that are economically sensitive, like furniture, paint, bricks. Do you see any signs of a pick up?
WB: No. No. The businesses that are either construction or housing related, or that are just plain consumer businesses, they're doing very, very poorly. The American consumer has stepped back big time and it's contagious and there's a feedback mechanism because once you hear about this then you get fearful and then don't do things at all. And that will end at a point, but it hasn't ended at this point. Now fortunately our two biggest businesses are not really tied that way- in insurance and in our utility business we don't feel that, but everything that's consumer related feels it big time.
SG: Do you think that the psyche of the American consumer has changed, becoming more savers than spenders?

WB: Well it certainly has at this point and my guess is that continues for quite a while. What it will be five years from now, I have no idea. I mean the American consumer when they're confident they spend and they're not confident now and they've cut it back but who knows whether.. I doubt that that's a permanent reset of behavior, but I think it's more than a one day or one week or one month wonder in that case.

SG: Is that a bad thing?

WB: Well it just depends who the consumer is. I mean consumer debt within reason makes sense. It makes sense to take out a mortgage on a home particularly if you aren't buying during a bubble. You are normally going to see house price appreciation if you don't buy during a time when people are all excited about it. So I don't have any moral feelings about debt as to how people should.. I think people should only take on what they can handle though and that gets to their income level…

SG: Let me ask it this way, with Americans saving more may be good for consumers, but is that bad for business?

WB: Well it's certainly bad for business in the short term. Now whether it's better for business over a 10 or 20 year period... if the American public gets itself in better shape financially that presumably is good for business down the road, but while they're getting themselves in better shape, its not much fun for the merchant on Main street.

SG: One thing that Americans aren't buying these days is stocks. Should they be buying?

WB: Well just as many people buy a stock everyday as sell one so there are people buying stocks everyday and we're buying stocks as we go along. If they're buying into a business that they understand at a sensible price they should be buying them. That's true at any time. There are a lot more things selling at sensible prices now than they were two years ago. So clearly it's a better time to buying stocks than a couple of years ago. Is it better than tomorrow? I have no idea.

SG: This financial crisis has been extraordinary in so many ways, how has it changed your approach to investing?

WB: Doesn't change my approach at all. My approach to investing I learned in 1949 or '50 from a book by Ben Graham and it's never changed.

SG: So many people I have talked to this past year say this was unprecedented… the unthinkable happened. And that hasn't at all impacted your philosophy on this?

WB: No and if I were buying a farm, I wouldn't change my ideas about how to buy a farm or an apartment house or a business and that's all a stock is. It's part of a business so if I were going to buy stock in a private business here in Omaha, I'd look at it just like I would have looked at it two years ago and I'll look at it the same way two years from now. I look at how much I am getting for my money, how good the management is, how the competitive position of that business compares to others, how durable it is and just fundamental questions. The stock market is... you can forget about that. Any stock I buy I will be happy owning it if they close the stock market for five years tomorrow. In other words I am buying a business. I'm not buying a stock. I'm buying a little piece of a business, just like I buy a farm. And that doesn't change. And all the newspapers headlines of the world don't change that. It doesn't mean you can't buy it cheaper tomorrow. It may turn out that way. But the real question is did I get my money's worth when I bought it?

SG: One of your famous investing principals is, "be fearful when others are greedy and greedy when others are fearful." So is this the time to be greedy, right?

WB: Yeah. My greed quotient has risen as stocks have gone down. There's no question about that. The cheaper something gets that you're going to buy, the happier you feel, right? You're going to buy groceries the rest of your life; you want grocery prices to go up or down? You want them to go down. And if they go down you don't think gee I got all those groceries sitting in my cabinet at home and I've lost money on those. You think I am buying my groceries cheaper, I am going to keep buying groceries. Now if you're a seller, obviously prices are higher. But most people listening to this program, certainly I, myself, and Berkshire Hathaway, we're going to be buying businesses over time. We like the idea of businesses getting cheaper.

SG: So where do you see the opportunities in the stock market right now?

WB: That one I wouldn't tell you about.

SG: Let me throw out some sectors and you just tell me quickly how you feel about these sectors.

WB: Susie, I am not going to recommend anything…

SG: Even in general, for example a lot of people now are looking at infrastructure companies, is that a sector that you find attractive?

WB: I wouldn't have any comment. What they ought to do is look at businesses they understand. They'd be happy owning for years if there was never a quote on the stock. Just like they buy in privately into a business in their hometown... They ought to forget all about what somebody says is going to be hot next year or the year after, whatever… because what's going to be hot you may be paying twice as much for as something that's not going to be hot. You don't want to think in terms of what's going to be good next year, you want to think of what's a good business to be in and then buy it at an attractive price. And then you can't lose.

SG: Do you see more opportunities in the U.S. compared to overseas?

WB: Well I am more familiar with the U.S. We have such a big market. I see lots of opportunities here and I see lots of opportunities around the world.

SG: Investor confidence was so shattered last year, what do you think its going to take to restore confidence?

WB: If people were dependent on the stock market going up to be confident they're in the wrong business. They ought to be confident because they look at a business and think I got my money's worth. They ought to be confident if they buy a farm, not on whether they get a quote the next day on the farm, but they ought to look at what the farm produces, how many bushels an acre do they get out of their corn or soybeans and what prices do they bring. So they ought to look to-the business as to whether to be confident compared to the price that they paid and they ought to forget about what anybody is saying, including me on television, or what they're reading in the paper. That's got nothing to do with whether they made a good decision or not. What's got to do with whether they made a good decision, what kind of business they bought and what they paid for it.

SG: People are reeling from this whole Bernie Madoff scandal. What would you say to people who have lost trust in the financial system?

WB: They shouldn't have lost... you don't need to lose trust in the American system. If you decide to buy a farm and you pay the right price for it, you don't need to lose faith in American agriculture you know because the prices of farms go down…

SG: But you know what I'm saying. People lost money last year in companies that they thought were rock solid. As I said the unthinkable happened and then on top of it, this whole Bernie Madoff scandal. It has undermined people's sense of well being about our system. So what do you say to people who have lost trust?

WB: Well they may be better off not being in equities. If they're really depending on somebody else and they don't know anything about the somebody else, they've got a problem. They shouldn't do that. I mean there are going to be crooks out there and this guy was a crook on a scale that we've never seen before. But you ought to know who you're dealing with. But if you're going to buy a stock in some business that's been around for a 100 years and will be around for 100 more years and it's not a leveraged company and it sells some important product and it's got a strong competitive position and you buy it at a reasonable multiple of earnings, you don't have to worry about crooks, you're going to do fine.

SG: Is there any take away lessons from the Bernie Madoff story?

WB: Well he was a special case. I mean here is a guy who had a good reputation for 30 years or something, and the trust of a lot of people around him. So it's very easy to draw assurances from the fact that if fifty other people that are prominent and intelligent trust the guy, that maybe you should trust him too. But I wouldn't put my trust in a single individual like that. I would put my trust in a very good business. I would want a business that was so good that if a social guy was running it, it would still certainly do well and there are plenty of businesses that are like that.

SG: So are you saying that investing has gotten so complicated that investors should stick to what they know? Is that the take-away lesson?

WB: You should always stick to what you know. I say the "know-nothing investor" and there's nothing wrong with being a "know-nothing investor". I spend 60 hours a week, thinking about investments and most people have got jobs and other things to do. They can buy index funds. And they're not going to do better then an index fund if they go around and trust some guy who's promising them very high returns. If you buy a cross section of American business and you don't buy it during a period when everybody is all enthused about stock, you're going to do fine over 10 or 20 years. If you buy something with the idea that you're going to do fine over 10 months, you may or may not. I do not know what stock is going be up 10 months from now, and I never will.

SG: What about Berkshire Hathaway stock? Were you surprised that it took such a hit last year, given that Berkshire shareholders are such buy and hold investors?

WB: Well most of them are. But in the end our price is figured relative to everything else so the whole stock market goes down 50 percent we ought to go down a lot because you can buy other things cheaper. I've had three times in my lifetime since I took over Berkshire when Berkshire stock's gone down 50 percent. In 1974 it went from $90 to $40. Did I feel badly? No I loved it! I bought more stock. So I don't judge how Berkshire is doing by its market price, I judge it by how our businesses are doing.

SG: Is there a price at which you would buy back shares of Berkshire? $85,000? $80,000?

WB: I wouldn't name a number. If I ever name a number I'll name it publicly. I mean if we ever get to the point where we're contemplating doing it, I would make a public announcement.

SG: But would you ever be interested in buying back shares?

WB: I think if your stock is undervalued, significantly undervalued, management should look at that as an alternative to every other activity. That used to be the way people bought back stocks, but in recent years, companies have bought back stocks at high prices. They've done it because they like supporting the stock…

SG: What are your feelings with Berkshire. The stock is down a lot. It was up to $147 thousand last year. Would you ever be opposed to buying back stock?

WB: I'm not opposed to buying back stock.

SG: Everyone wants to know your plans. What you're going to do with all of Berkshire Hathaway's cash, some 30 billion dollars? Is this now the right time to do a big acquisition?

WB: Well we've spent a lot of money in the last 4 months. We spent $5 billion on Goldman Sachs, $3 billion on GE, $6.6 billion on Wrigley, we've got $3 billion committed on Dow. We've spent a lot of money. We've got money left, but I love spending money. Cash makes me very unhappy. I like to always have enough and never way more than enough, but I always want to have enough. So we would never go below $10 billion of cash at Berkshire. We're in the insurance business - we got a lot of things. We're never going to depend on the kindness of strangers. But anything excess in that, I love the idea of buying things and the cheaper they get the better I like it.

SG: You've been talking about doing a big acquisition for a while now, what are you waiting for?

WB: Well we've spent $20 billion dollars... that might not be.

SG: I mean in terms of a company…

WB: Well we'll wait for the right deal. We had a deal to buy Constellation for roughly $5 billion and then events with the French coming in meant we didn't do it. But I was delighted to commit to that $5 billion dollars for Constellation Energy. And it could happen tomorrow. That one happened on a Tuesday afternoon I mean it happened like that. Constellation was in big trouble and we flew back that day, talked to the people at MidAmerican that Tuesday and made them an offer that night.

SG: It seems that you're pretty optimistic about the long-term future of the American economy and stock market, but a little pessimistic about the short term... is that a fair assessment of where your head is right now?

WB: I am unquestionably optimistic about the long term. I'm more than a little pessimistic about the short term, but that doesn't mean I am pessimistic about the stock market. We bought stocks today. If you tell me the economy is going to be terrible for 12 months, pick a number, and then if I find something that is attractive today, I am going to buy it today. I am not going to wait and hope that it sells cheaper 6 months from now.

Because who knows when stocks will hit a low or a high? Nobody knows that. All you know is whether you're getting enough for your money or not.

SG: As you know it's the 30th anniversary of Nightly Business Report. As you look back on the past three decades, what would you say is the most important lesson that you've learned about investing?

WB: Well I've learned my lessons before that. I read a book what is it, almost 60 years ago roughly, called The Intelligent Investor and I really learned all I needed to know about investing from that book, in particular chapters 8 and 20 so I haven't changed anything since.

SG: Graham and Dodd?

WB: Well that was Ben Grahams' book The Intelligent Investor. Graham and Dodd goes back even before that which was important, very important. But you know you don't change your philosophy assuming you think have a sound one and I picked up I didn't figure it out myself, I learned it from Ben Graham, but I got a framework for investing that I put in place back in 1950 roughly and that framework is the framework I use now. I see different ways to apply it from time to time but that is the framework.

SG: Can you describe what it is? I mean what is your most important investment lesson?

WB: The most important investment lesson is to look at a stock as a piece of business not just some thing that jiggles up and down or that people recommend or people talk about earnings being up next quarter, something like that, but to look at it as a business and evaluate it as a business. If you don't know enough to evaluate it as a business you don't know enough to buy it. And if you do know enough to evaluate it as a business and it's selling cheap, you buy it and don't worry about what its doing next week, next month or next year.

SG: So if we asked for your investment advice back in 1979 back when Nightly Business Report first got started, would it be any different than what you would say today?

WB: Not at all. If you'd ask the same questions, you've gotten the same answers.

SG: Thank you so much Mr. Buffett … Thank you so much, always a pleasure talking to you.

WB: Thank you, been a real pleasure.

Guinness Family Office Expanding

Below is a short article on the Guinness family's Iveagh family office and how it may be expanding to take in new money. I believe this is happening daily, we just don't hear about it. Many small wealth managers are raising their minimums while large single and multi-family offices slightly lower their standards or increase their marketing efforts in order to attract new clients. Here is the article excerpt:

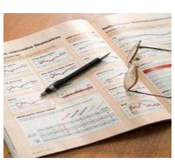
Iveagh Private Investment House is open to adding another family to its books, reinforcing its status as a multi-family office.

According to citywire, the final decision on who the new family might be has not yet been made, and the head of portfolio and senior partner Christopher Wyllie is very clear on the type of family he wishes to assist.

"Only those that gelled with the firm's strategy and culture would be considered, he is reported as saying. On the subject of how much money they would need, he only said "it would have to be a significant figure."

It is understood that Iveagh has had a lot of interest already but require any partner to possess a similar culture and goals. The report says the family office does not wish to get sidelined and have plans skewed by individuals wanting us to maintain their 'hobby horses'". source

Components of a Family Office



I just came across an educational PowerPoint presentation by a US-based family office firm. Within this powerpoint I found a list of services which are provided by family offices. For those of you who are selling to family offices, about to work for a family office or are looking to soon engage a family office this list could be useful.

- Tax Compliance, Planning and Preparation.
- Investment Policy and Asset Allocation
- Portfolio Strategy and Manager Selection
- Portfolio Accounting

- Investment Performance Monitoring
- Alternative Investment Tracking (Hedge Funds, Real Estate & Private Equity)
- Trading
- Bookkeeping and Bill Payment
- Financial Reporting
- Cash Flow Management
- Estate and Wealth Transfer Management
- Insurance and Risk Management
- Foundation and Philanthropy Management
- Personal Finance Management
- Concierge Services
- Data and Document Management

If you are interested in viewing the full PowerPoint presentation you may find it by clicking here.

Family Office Buyout

Cymric Family Office Services, a Costa Mesa firm that manages financial affairs for ultra-high net worth families, has been sold to GenSpring Family Offices, a wealth-management firm with $17 billion under advisement.

Pat Soldano, who founded Cymric in 1987, said last week she decided to sell her 12-member firm because she wants to assure clients that she has a succession plan in place.

"I'm turning 60 next year," she said. "That contributed to my decision to make sure there's always someone alive and viable." source

What is a Family Office? | Wealth Management

I just found a PDF on family offices that lays out 5 differences between wealth management firms and family offices. Since I get many questions related to what family offices do and how marketers can reach them I thought this list may help:

Top 5 Differences Between Wealth Management & Family Offices

They deliver objective advice that keeps clients informed of all the risks and advantages of every decision, thus empowering them to understand the impact of the choices they make and the effect on their long term goals.

They provide sophisticated investment advice and implementation to meet the customized needs of taxable families with complex wealth structures.

They add value by working collaboratively, combining internal resources with a client's team of advisors to develop unique solution to challenges that cross disciplines, such as estate, tax, risk management and similar fields.

They provide leadership in family governance and education, a critical factor in preparing future generations for the complex obligations of wealth management and preservation.

They take care of the day-to-day demands that wealth can impose, relieving family members of many routine worries and burdens.

Read more about family offices or read the rest of this PDF here.

Philanthropy and High Net Worth Giving

Family offices often provide philanthropic services to their clients. This is why we are creating a whole section of FamilyOfficesGroup.com dedicated to philanthropic management for HNW individuals. Here is one article within this collection:

The end of the year means holidays in many cultures, typically centered around universal sentiments of thankfulness, grace and a shared spirit of giving: it is our Giving Season.

Philanthropy, by contrast, embodies this shared spirit of giving all year long. It is a perennial act that renews itself, sometimes due to mandatory minimum requirements and tax codes, sometimes due to strategic intents and ambitious legacies and sometimes simply due to spontaneous expressions of warm compassion. In all aspects, Philanthropy expresses love of humankind at its most fragrant essence; it is the spirit of the Giving Season writ constant and companionable throughout each day and every walk of life.

We are all philanthropists to greater or lesser degree at this time of year. And being such doesn't take a fortune to give away, nor a cadre of advisors and intermediaries to distill clarity and effectiveness from the murky depths of good intentions towards others. Being a philanthropist begins simply and with ease. It starts with a sentiment of love for humankind and then, quite naturally, extends little by little into quiet and consequential gestures towards others; it arises wholesomely as day to day living: perhaps letting someone else take your parking spot or lane while driving, offering someone to go ahead of you at the grocery or department store, even being polite to telemarketers with a simple, "no thanks, but good luck to you". In so many instances at today's pace of life, philanthropy begins with natural contemplativeness of our circumstances and others living around us, followed by a conscious choice to slow down and then, as often unexpectedly, results in a spontaneous, natural act of kindness in the space we've just created for ourselves. And this brings us to the final point of this article for our Giving Season: you.

Though we may seasonally gush for others to give liberally and wisely counsel them to be truly thankful for what they have, sometimes we cast our wisdom in reflective light regarding another's bounty, a cautionary tale of woe observing another's loss, or as a shared ritual expression amidst our high holy days. However much we count on this cyclical genuflection each year, nudged by commercial, cultural and religious forces from without and solemn personal choices from within, we often forget to balance our awareness of others with the full aspect of our own grace and joy: giving honest recognition to ourselves for all that we've done for others during the year, such that they themselves may be thankful. This is something to be happy and joyous about.

In this Giving Season where we are all philanthropists, please take a pause and give to yourself. Recognize and be joyful for all that you've done for others during the year: we know Charity doesn't always begin at home, but it should be allowed to come back and visit us from time to time.

R. Mark Hanna is founder of Social Wealth Partners, a private philanthropy advisory firm for individuals, families of wealth and their trusted advisors. He has paused to acknowledge the good he has done for others during this year and wants you to know it feels great.

Corporate Philanthropy

A New Context (Part 2 of 2)

We began this two-part series (read part 1 here) positing Corporate Philanthropy is in serious upgrade and no longer relegated to fig-leaf functionality as an adjunct to marketing and sales. We also highlighted how Corporate Philanthropy now comprises a broad array of emerging operational disciplines including, but not limited to, Social and Mission Related Investing, Sustainability and Corporate Social Responsibility.

One outspoken corporate leader with an accessible vision extolling the merits of this tidal shift is Ray Anderson of Interface (http://www.interfaceglobal.com/), the world's largest manufacturer of modular carpet. Ray articulates comprehensive and complete innovation towards sustainability at every level of their supply chain and customer product cycle. As Ray relates, he moved his company from "The Way of the Plunderer" that wreaked havoc on the environment to one of sustainable manufacturer because of a kick in the pants by his customers. Not surprisingly, doing good for the environment also did well for their bottom line. Ray is not unique, as Gene Kahn, vice president of sustainable development at General Mills notes, "... sustainability really lives at the intersection of the interests of society and the interests of business... It illustrates the potential and necessity for systemic change in the corporation and links it to the formation of competitive advantage." These are just two outspoken advocates of what is known as managing for the "Triple Bottom Line" (people, profits, planet); to date, over 600 major corporations around the world have self-declared their participation and report annually on sustainable, triple bottom line practices and results, as noted by the Global Reporting Initiative.

Another integration of Corporate Philanthropy is the seamless shift by professional investors in defining their Alpha: more RIAs, CFAs and corporate financial officers responsible for investment portfolios are including social impact performance in their achievements. This Social and Mission Related Investing began globally as shareholder activism and disinvestment in South Africa to end Apartheid. Professional money managers have since evolved their social screens on equities from merely negative ones of disinvestment to more sophisticated filters seeking positive, triple bottom line impacts. Social investing has also made its way to retail products, whereby publicly traded funds now offer customers direct access to social good producing, financial portfolios. This trend is a sweeping opportunity for investment professionals to upgrade their own disciplines by offering superior insights and services to their private clients. Even the Wall Street Journal notes evidence in a recent article “Doing Good, and Not So Badly” that not including social good portfolios could lead to sub-par financial performance (November 2, 2008 http://online.wsj.com/article/SB122558025168290947.html#).

What a hopeful discovery for beleaguered times: social investing offers true Alpha (not simply negative correlation) to market indices and perhaps especially so in down-market environments where shareholders prefer to hold rather than liquidate ownership. Evidently, Doing Good really does lead to Doing Well after all!

R. Mark Hanna is founder of Social Wealth Partners, a private philanthropy advisory firm offering tailored workshops for individuals, families of wealth and the professionals that serve them.

Gating Clauses & Lock Up Periods for Investors

Hedge Fund Research's Global Hedge Fund Index was down 3.04 percent in November, after a drop of 9.26 percent in October (see FIN Alternatives article). That brings the index down 22.3% YTD through November. Continued poor performance has increased redemption requests, causing an increasing number of hedge funds to block investors from redeeming shares (see NY Times article). The increased addition of illiquid investments over the years (such as real estate and private equity) has caused many funds to start considering a new model that would require longer lock-up times for lower fees. High-water marks, which would force some under-performing funds to earn back 25 percent or more before taking profit fees, will cause additional funds to close, although others insist they will take the high road and not close until they are profitable again.

As of the end of last week, approximately 100 hedge funds have placed restrictions on withdraws, in what is becoming a financial roach motel where investors can check in, but they cannot check out (see Bloomberg article). The increased use of gates has even spread to some of the previous stars of the industry, such as Fortress Investment Group, Tudor Investment Corp., and D.E. Shaw & Company (see WSJ article). Furthermore, the problems are even worse for those funds investing in emerging markets, which continue to under-perform and are down an additional 1.41% on average in November (see Bloomberg article).

Finally, even with new gating restrictions, some hedge funds are also being forced to renegotiate borrowing terms with their prime brokerage lenders as losses and redemption requests increase (see Financial Times article). Many prime brokers are also seeing this as an opportunity to drop clients or renegotiate terms that were originally in favor of the large hedge funds who previously had bargaining power. No doubt many large investors with liquidity will be able to throw their weight around in a similar way as they begin renegotiating lower fee structures in return for longer lockup periods.
by Davide Enke

Family Office Marketers
Demand for Family Office Sales Professional

Below is an article on family offices and how they may be well positioned to pick up the pieces and grow their market share after this financial crisis has passed. I agree with the comment below that part of the reason that ultra high net worth individuals sometimes don't use family offices is because they don't know they exist or have never sat down with someone to discuss why it may make sense to work with one.

I believe this is a sign of pent up demand for expert family office marketers. If you can work within the industry for 7 years and build your marketing expertise you are worth your weight in Gold to a medium to large sized family office group which is looking to further expand their services.

Here is an excerpt from the article mentioned above:

When the dust settles from the financial crisis, multi-family offices are likely to be among the winners in Europe's wealth industry.

These businesses, which tend to advise ultra-wealthy families, expect to benefit from the damage wrought to the reputations of investment banks.

Geneva-based Global Wealth Management manages €2bn ($2.6bn) for about 30 European and Middle Eastern families. Peter Sartogo, its managing partner, says multi-family offices have until now failed to promote themselves effectively in Europe.

"One of the reasons multi-family offices haven't grown as rapidly as might have been expected is that clients simply don't know they exist. At the same time, there is no winning formula for a multi-family office – everyone does it differently."

Sartogo joined GWM three years ago after 15 years as an investment banker: "I think of it as my military service," he laughs. source

Family offices & Wealth Management Mergers

Below is a short piece on a recent family office related merger. I believe these will be increasing in frequency as highly profitable leaders within this industry look to re-invest cash in smaller family offices which could use best practices processes, centralized due diligence and manager selection services of the larger family offices. Here is the article excerpt:

Multi-family office Stonehage Group has announced the merger of TriAlpha, its asset management arm, with ACP Partners to create a combined business owned 50:50 by the two groups that will be known initially as ACP TriAlpha and has some USD2.5bn in assets under management.

Founded in 1997, TriAlpha is an asset management house with an absolute return bias that manages a range of multi-manager hedge funds, multi-asset class funds and direct securities products for clients including institutions and high net worth families.

London-based ACP was founded in 2001 by Joseph Sassoon, former founder and head of Goldman Sachs' European private wealth management business, and Alok Oberoi, who was head of Goldman's Asian private wealth management business and subsequently chief operating officer of global private wealth management in New York. Brett Lankester, the former head of private wealth management for Goldman in the UK, joined ACP in 2007. source

Corporate Philanthropy - A New Context (Part 1 of 2)

Below is part 1 of a 2 part series on corporate philanthropy. To read part 2 please click here.

Is Corporate Philanthropy an oxymoron or can for-profit companies step-up and altruistically love mankind?

Before answering that question, let's first face the music of rational chagrin shared between professionals in both not-for-profits and for-profits regarding philanthropy. Recently, both groups have been struggling under a two-handed assault from practitioner and policy critics alike. Even Michael Porter, one of the most influential writers and thinkers of our times, believes philanthropy is woefully ineffective in living up to its own hype, regardless the flavor. Unfortunately, the viewable facts to date do little to support the anecdotal claims of greatness in philanthropy, no matter who is shelling out the shekels.

As the intent of corporations is to generate greater private wealth for shareholders, similarly the intent of not-for-profits and philanthropy is to generate greater social wealth for society. We can thus view some comparable facts in light of this context:

- Philanthropy, in the US alone, employs ~15M people generating ~$1T in annual gross revenues; whereas,
- US corporations employ ~150M people generating ~$15T annually.

An interesting inference can be seen on the face of these big numbers: domestic corporations actually employ 10 times more people yet also generate 15 times more productivity than not-for-profits. If we expand our definition of Philanthropy only slightly, from one of not-for-profit, tax-free activities to one of actual social wealth creation and verifiable results we can begin to see how corporations are doing better at Philanthropy in a variety of areas, even without the soft-hearted intent of a social worker.

The answer to our initial question is thus an emerging YES. Our new vision is one of Corporate Philanthropy in significant upgrade. Each year more and more corporations are redefining the way they do business by producing social impacts that used to be viewed as the sole domain of not-for-profits. In this process they have integrated corporate philanthropy into their for-profit effectiveness to achieve direct, verifiable social and financial gains. Frankly these greater, measurable results are a much more valuable definition of Corporate Philanthropy than the old-fashioned touting of the amount of tax-free donations raised and then given away.

These social results also imply a tidal shift by the largest, global companies: they have moved beyond transaction-point incentives and organizational behaviors towards capturing greater value from their entire supply and consumer chain. This value creation includes reduced life-cycle costs and impacts of products (from initial development to reclamation and reuse) both within and well beyond their local communities. Another visible indicator of corporate philanthropy in upgrade is the wide variety of emergent corporate and professional disciplines supporting this tidal shift, including Mission Related Investing (the for-profit money management of tax-free corpus), Sustainable/Ethical Investing and Corporate Social Responsibility.

Each area is a broad umbrella unto themselves, yet they share a defining similarity of movement away from fig-leaf Philanthropy as a marketing function towards a holistic value-creating convergence of for-profit considerations that has become central to CFO, CEO and Boards regarding the strategic allocation of capital. And even better, the markets are now showing that new corporate philanthropy performances such as these are worth more than their peers, as priced from their shareholders point of view.

In the next part of this series we will outline the shifting focus of for-profit initiatives that are redefining Corporate Philanthropy as a blended venture of profit-seeking and social good in more detail. Please stay tuned.

R. Mark Hanna is founder of Social Wealth Partners, a private philanthropy advisory firm, and president of Social Wealth Investment Management, a for-profit, social wealth generating investment fund.

Read Part 2 of this article by clicking here.

UHNW Philanthropy & Giving Patterns

I recently was looking for interesting resources to post to this site and found a PowerPoint presentation on family offices, ultra high net worth individuals and their philanthropic giving patterns. To view this PowerPoint now please click. here

Family Giving

Family offices can improve client success in Family Giving much more than they realize. Many trusted legal, tax accounting and portfolio professionals have effortlessly created Family Giving vehicles (donor advised funds, foundations, etc.) for their clients; however, families of wealth now realize that even though easily obtained, such giving vehicles themselves have been insufficient to ensure philanthropic success. And worse, some giving vehicles could not even reach initial destinations once they become mobilized! What more can family office professionals do?

One solution is for family office professionals to look at already available skills in new ways. Wealth managers, legal and tax experts may not realize their existing expertise can directly improve success potentials in philanthropy. Here are a few soft and hard professional skills that quickly translate well to helping clients with their Family Giving:

1. Clarifying strategic intentions: what expected successes are to result from Family Giving? Are we focused more upon expressing and strengthening the inter-generational transfer of family values, supporting favored organizations, or achieving statistically significant impacts in community and society at large? The soft skills here are literally the same trusted insights applied to teasing out expectations from financial plans, legal strategies and investment portfolios: what results do you want by when; what costs are you willing to afford in order to get them?

2. Outlining portfolio options: since we know our desired results, what concentration and diversification of resources offer the best approach to achieving them? Do we support known organizations already producing impacts; do we seek social entrepreneurs with innovations? As in wealth management, such skills in balancing diversification and concentration in portfolio options similarly improves the probabilities for ongoing performance in Family Giving. These hard skills include research and due diligence needed to identify and engage high-performers in markets where Family Giving will occur.

3. Negotiating performance milestones: one great myth about philanthropy is that it’s impossible to use verifiable and measurable performance standards for targeting success. This is simply not true. Humans in all domains thrive on achievement and being rewarded for it. Since the family’s ultimate giving success is now clearly defined, consequential steps to achieve those results can be explicitly opened for discussion. As portfolio investments and managers can align by term sheet incentives tied to milestones, so too can charitable organizations and Family Giving align by rewards tied to interim accomplishments.

In these simple ways family office professionals can unabashedly apply their acumen on behalf of their clients' best interests and add greater value. At the very least, the soft and hard skills of a trusted fiduciary can quickly deliver one service needed by many Family Giving clients: simply getting them going in the right direction.

R. Mark Hanna is founder of Social Wealth Partners, a private philanthropy advisory firm, and president of Social Wealth Investment Management, a proprietary, social purpose investment fund.

Raising Capital from Single Family Offices

Here is a short piece on how many of the world's most sophisticated investors are looking to not only sustain current hedge fund related investments, but increase them. Here is the first shred of evidence that hedge funds are going to emerge 2x as strong in 2011 as they were in 2007:

Advisers for ultra-wealthy investors are bullish on hedge funds, with many planning to increase their allocations to the alternative investments next year, according to a new study.

A majority (58%) of single-family offices around the globe participating in the On the Rise survey indicated plans to increase asset allocations in hedge funds for 2009. The study was co-sponsored by Red Bank, N.J.-based G Capital Management LLC and Rothstein Kass & Co. PC of Roseland, N.J.

The study of 146 single-family offices was completed in late August, before the Wall Street turmoil began in mid-September, and as a result, many of these firms were contacted again to see if their plans were changing. However, in the ensuing follow-up interviews, an even greater percentage (62%) said they would boost hedge fund allocations next year.

Single-family offices are defined in the study as "created exclusively for or by a single exceptionally wealthy family to provide control, negotiating leverage and a defense for family members." The single-family offices surveyed had investible assets ranging from $312.2 million to $1.3 billion, with a majority of the firms (58%) based in Canada and the United States.

"I was surprised [that plans for increasing hedge fund allocations] was as strong the second time around," said study co-author Russ Alan Prince, president of Darien, Conn.-based Prince & Associates Inc. "I think it's going to stay strong." Read more...

Family Offices & The Super Rich

(http://FamilyOfficesGroup.com) I have worked with many family offices in the past within a hedge fund idea generation, HNW introduction and hedge fund marketing capacities. Most have been even more secretive over the past 3 months as the financial crisis has worsened and ultra-wealthy family members shy from poor press on the performance of their investments.

Here is a recent article I saw just come out about family offices and how they are fairing in the markets:
Charles A. Lowenhaupt spoke first on the conference call, informing 15 members of the very rich family that employs him that he could not in good faith promise that their fortune would remain intact through the economic crisis, then gently reminding them to

be grateful for their health, loved ones — and the hundreds of millions of dollars they still had.

Then five of Mr. Lowenhaupt's employees, each of them intimately familiar with the family's investment portfolio, real estate holdings, trust funds and charitable foundation — as well as the psychological particulars of the people on the call —took turns describing the ramifications of the market turmoil. Throughout the 30-minute telephone conversation on one of the many recent days of triple-digit declines in the Dow, there was silence from the wealthy family members. Mr. Lowenhaupt had put their lines on mute.

"I didn't want family dynamics to get in the way," he explained. "The way the patriarch feels the obligation to act like the patriarch. Nobody had to play out, 'I'm the smartest.' "

Mr. Lowenhaupt, 61, is chief executive of Lowenhaupt Global Advisors, an 18-employee firm that serves as the "family office" for four multigenerational clans whose ultra-wealthy members are spread throughout the United States and Europe — a rarefied perch from which to observe the financial fallout. He is a lawyer, investment manager, estate planner, philanthropy expert, intergenerational mediator and a hopeless proselytizer on the near impossibility of simultaneously being rich and happy, who makes sure his clients' bills are paid, homes are staffed, and annual family meetings planned.

Family offices were once, like ancestral country manors and inherited middle names, considered the province of old money (the Rockefeller family office is probably the best-known model). But the rise — and growing concentration — of astronomical wealth over the last couple of decades has expanded the demand for dynasty-like service operations. Wealth management experts estimate that there are now as many as 4,000 family offices nationwide handling a mix of financial planning and high-end concierge services, with the minimum net worth of clients in the nine-figure range. Which means, at least in terms of numbers, the people who have the most to lose. .Read more...

Family Office Industry

Top 3 Trends

Family offices are private wealth management advisory firms that serve ultra-high-net-worth clients. According to the Family Office Exchange, there are more than 3,500 family offices based in the United States. By offering a complete outsourced solution to managing finances and investments, including budgeting, insurance, charitable giving, family-owned business, and wealth transfer and tax services, these offices set themselves apart from traditional wealth management firms. Although they vary in their level of service, most typically invest heavily in consultants, databases and analytical tools that help them conduct due diligence on money managers or optimize a portfolio of investments for tax purposes.

In this article, we'll review the top three trends affecting family offices, including the rapid growth of the family office industry, the types of family office services provided, and the increasingly sophisticated use of hedge funds and alternative investments by both single and multifamily offices.

Family Office Facts

There are two types of family offices: single-family offices (SFOs) and multifamily offices (MFOs). Single family offices serve one wealthy family, while multifamily offices operate more like traditional private wealth management practices with multiple clients. Multifamily offices are much more common because they can spread heavy investments in technology and consultants among several high-net-worth clients instead of a single individual or family. According to the Greycourt White Paper "Establishing A Family Office: A Few Basics", the minimum size for a family office can vary, because "If the goal is simply to provide family-wide accounting and bookkeeping, a family with as little as $50 million will find it economical to establish an office. On the other hand, a fully integrated family office is probably accessible only to very large families, typically those with more than $1 billion."

Read the rest of the article here

Family Offices & Fund of Funds

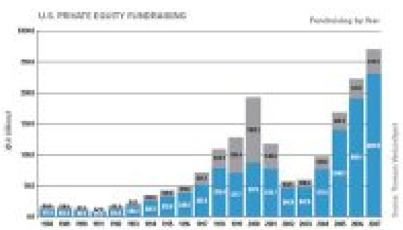
Aymeric Lechartier from Carne Financial service give a comment of how family offices select hedge fund for their investments “the larger a family office becomes, the more it behaves like an institutional investor, also called convergence of the institutional”.

Diversification is a must for family offices, so they tend to choose the best manager from fund of hedge funds. Alternatively, they could diversify themselves by investing in several single niche funds that each of them would focus on one asset class. Also family offices would consider word of mouth and passionate investing factors before investing in any funds. Some family office wouldn't invest in hedge fund that involve with defense sector.

More importantly, they need transparency. Just like an ultra high net worth investors, they want to know where the money goes to protect their interests. Read more here.

Private Equity & Family Offices

Choosing private equity investments



High risk, limited liquidity, taxes, and lack of regulation make investing in private equity challenging. However, the payoff is very attractive making private equity an interesting asset class for family office. The article shows two different points of view (fund of funds and direct private placement) of how family office would enter in private equity.

From the standpoint of diversification and lowest assumed risk, a fund of funds may present the best entry point to private equity given that you do not have specialist who can perform extensive due diligence. Additionally, it is an affordable way to test the water than any other approaches. On the other hand, direct private placement represents the highest level of risk. You must have capability to perform in-depth due diligence, and dig into the portfolio companies of what really happen. The upside of private placement is of course that your return would out-perform anything on traditional security market. Read more on this here.

Investment Consulting

Insti-Investment Consulting with Family Offices

Dr. Alan Starkie, "Wealthy families are "insti-viduals", individuals who have institutional needs in terms of complexity and sophistication". As a result the family office market is rapidly evolving, with more family offices, more MFOs, leading to more demands on providers of services, and more outsourcing expertise needs. There are some favorable trends and facts that support the needs of outside consultants; buying support consult is cheaper than build it internally, generation changes, acquisition, specialization, lack of omniscience, independency, advanced technology.

To keep pace and take advantage of the myriad opportunities, good consultants need to differentiate themselves in the industry through their objectivity, specialized services, product and service mix, and technological sophistication. Rather than focusing on performance, they should concentrate on providing a level of service commensurate with the demands of "insti-viduals." If they fail to do this, the perception will remain that consultants lack value added and wattage, are not "on the line" for results, and are not candid in their advice. Read more...

Single Family Offices in Dubai

I just found this article about how Dubai's DIFC is positioning itself as a center for single- family offices. They seem to be very skilled at positioning themselves for new money to come in so I'm sure they will be successful in this area. The country is trying to build many legs to stand on - as they take advantage of their oil and tourism based wealth. Here is the article...

New regulations provide platform for setting up family holding companies at DIFC. The Dubai International Financial Centre (DIFC) today announced new regulations to encourage family businesses to establish Single Family Offices (SFOs) at DIFC.

Created in consultation with the DFSA, the DIFC Single Family Office (SFO) Regulations specifically address the needs of family-run institutions and create a platform for wealthy families to set up holding companies at DIFC to manage private family wealth and family structures anywhere in the world.

HE Dr. Omar Bin Sulaiman, Governor of the DIFC said: “In recent times, family offices have become highly significant on the global economic landscape. In the Middle East, where family-run businesses make up over 75 per cent of firms and have total assets in excess of US$1 trillion, the need for a specialized legal and regulatory framework is especially acute.”

“In contrast to conventional financial institutions, Single Family Offices (SFOs) have no direct public liability as all their shareholders are bloodline descendants of a common ancestor. As such, their regulatory requirements differ significantly. By establishing the new Regulations, DIFC is once again reaffirming its commitment to family businesses and the development of DIFC into a hub for local, regional and international family offices.”

The enactment of the Regulations follows a period of consultation where companies were invited to comment on the proposed Regulations. Having received highly positive feedback, the new Regulations will come into effect on 2 September 2008.

Central to the new Regulations are changes to the DIFC Single Family Offices (SFO) platform and consequential amendments to other DIFC and DFSA regulations such as the DFSA’s General Module and Glossary Module.

The Regulations offer distinct benefits to Single Family Offices (SFOs) as they exclude them from many of the regulatory constraints placed on conventional organization located at DIFC. Read more...

Family Office Services - An Example

This is an article within the Washington Post I thought was interesting and relevant to the focus on family office.

It's early on a spring morning and Peter Kirsch is busily overseeing the fast-moving life of AOL founder James V. Kimsey. Seemingly everything that touches the mogul finds its way to Kirsch's desk in his ninth-floor penthouse office overlooking the White House, from philanthropy to investments, from politics to friendships to the management of the sprawling Kimsey household.

As chief of staff in the Office of James V. Kimsey, Kirsch is a quiet force on the local scene.

He arrives at the office at 7:30 a.m. to prepare for another day of controlled chaos. At 9 a.m., he gets his daily briefing. Office accounting manager Stephanie Weir reports nothing amiss in Kimsey's balance of payments big and small, be it DirecTV or NetJets, Burning Tree Country Club or Nationals baseball tickets, American Express (Black Card) or a utility bill.

Next up is receptionist Brie Hytovitz, the first person to greet office visitors, whether they be Ted Turner or Ted Leonsis. When the Potomac Conservancy wants to have a fundraiser at the Kimsey estate, Hytovitz makes sure the tent company, caterer and parking valet are there. She has recently been putting the final touches on Kimsey's next monthly "boys' lunch" with friends, scheduled for Oceanaire, a seafood restaurant in downtown D.C.

On it goes, as the meeting melts into the day. Pinning Kirsch down on the phone or in person takes effort. He jumps from one call to another, holding discussions with Hytovitz and a visitor at the same time, while an entrepreneur who needs cash cools his heels in the conference room. One minute Kirsch is on the phone with a big hedge fund manager, the next he is sweeping down the elevator to attend his son's sporting event. Read more...

Private Banking and Wealth Management Trends

Below is a short excerpt from a recent article I wrote for Investopedia on family offices, private banking and wealth management trends:

Family offices are private wealth management advisory firms that serve ultra-high-net-worth clients. There are more than 3,500 family offices based in the United States. By offering a complete outsourced solution to managing finances and investments, including budgeting, insurance, charitable giving, family-owned business, and wealth transfer and tax services, these offices set themselves apart from traditional wealth management firms. Although they vary in their level of service, most typically invest heavily in consultants, databases and analytical tools that help them conduct due diligence on money managers or optimize a portfolio of investments for tax purposes.

In this article, we'll review the top three trends affecting family offices, including the rapid growth of the family office industry, the types of family office services provided, and the increasingly sophisticated use of hedge funds and alternative investments by both single and multifamily offices.

Family Office Facts

There are two types of family offices: single-family offices (SFOs) and multifamily offices (MFOs). Single-family offices serve one wealthy family, while multifamily offices operate more like traditional private wealth management practices with multiple clients. Multifamily offices are much more common because they can spread heavy investments in technology and consultants among several high-net-worth clients instead of a single individual or family.

Tackling the Trends

Prominent trends fueling the growth of family offices include:

There is a growing number of high-net-worth and ultra-high-net-worth classes around the world. In most developed nations, the wealthy are accumulating assets more rapidly than the middle class. At the same time, many emerging economies are thriving, with annual growth rates of 4-8%. Many experts have noted that by 2015-2020, China's upper class will be larger than America's middle class. Growth in countries such as China, Brazil, India and Russia will ensure that the family office format of wealth management services continues to grow in popularity over the next five to seven years. (To learn more about emerging economies, see What Is An Emerging Market Economy? and Demographic Trends And The Implications For Investment.)

Profitability is a growing challenge for family offices. As populations amass greater wealth, large wealth management firms are competing on a cost basis and moving a larger portion of their core services online. While the average person might appreciate saving hundreds or even thousands of dollars in fees each year, many affluent individuals would much rather spend $20,000 to $100,000 a year to ensure that experienced professionals are managing their investments and taxes to fit their specific financial goals and risk tolerances. Read more...

Permanent Link: Private Banking and Wealth Management

Family Offices & The Cost of Being Wealthy

I spotted this interesting blog post by a WSJ bloggers on family offices and how some of the super rich need teams of 5-9 people to manage their assets and financial affairs. I thought it was interesting. Here's an excerpt and link to the full post:

Ah, the good life. You made your millions or billions. Now it is time to kick back, relax by the pool…and manage your costly and complicated family office.

Family offices are must-haves for Upper Richistanis. If you have $100 million or more, chances are you'll need a family office to manage your investments, travel plans, philanthropy, political activities, bill-paying and estate plans. That's not to mention the multiple homes and wives. If the lives of today's Upper Richistanis are businesses, the family office is corporate headquarters.

"I have four people (in the office) and five people at the house and I don't even have a job," says AOL founder James V. Kimsey (left), in an article in the Washington Post.

“Why it takes that many people to sustain me is hard to explain.” [Read more...]

Family Office Industry Growth

A recent article came out in the WSJ noting how popular starting a family office is these days. Maybe working for a family office will be as sought after as working for a hedge fund in the years to come...

Here's an excerpt from the article:

The people who run "Family Offices" -- private operations dedicated to managing the money and daily lives of the rich -- are increasingly getting rich themselves.

Wealthy Americans have set up 3,000 to 5,000 family offices, experts estimate. The growing number of families going this route, combined with the increasing complexity of investing, has led to heightened competition for the relatively limited pool of people qualified to manage these offices. Salaries for high-level family-office managers have risen more than 20% a year since 2002, reaching $3 million a year or more for the most experienced investment managers.

That's why some families have taken to poaching staff from other families. Others are showering their family-office chiefs with plush perks like club memberships, free meals, invitations to elite black-tie charity events -- and use of the family jet.

One family even offered guaranteed admission to an elite private school for the children of its family-office chief, since the patriarch of the family is a trustee of the school, says Jane Bierwirth, a New York-based executive search consultant at Higdon Partners who helps the rich find office managers. "People are getting more creative with perks," she says.

Competing With Wall Street

And a growing number of wealthy families are dangling the biggest perk of all: allowing their family-office manager to become a "participant," investing his or her own funds along with the family money in big deals with the possibility of becoming rich themselves. Richard Rainwater, the investment adviser who became wealthy managing money for the Bass family of Texas in the 1980s, has become the model for such family-office chiefs.

"The game has totally changed over the past five years or so," says Bob Hamshaw, managing director of the family office for the Santo Domingos, a wealthy South American clan. "Today, there's much more demand for the good investment people and true professionals." Read more

Iveagh Family Office

Iveagh Fund Launched

The family office created over 120 years ago to protect and grow the wealth of the Guinness family has launched a new fund. While many funds started by traditional wealth management firms are somewhat frowned upon in the industry or more heavily scrutinized I would think that if done right a family office fun could do very well. Family offices have unique needs - in having the right mixture of volatility, performance and reporting...and who best to understand those needs than another family office? Here is excerpt from the article:

Iveagh, the family office created 122 years ago to manage money for the Guinness family, has broadened the service it offers specifically to wealthy clients with the launch of a multi-asset fund targeting an annualized return of 9.5%.

The Iveagh Wealth fund is managed by the former senior vice president of Alliance Capital, John Ricciardi and Cambiz Alikhani, who joined Iveagh in September 2002 from Morgan Stanley to develop its fixed income proposition.

Extra input is provided by the Iveagh Investment Committee (IIC).
The fund combines valuation and behavioral analysis in a bid to achieve absolute returns over a market cycle.

It is a mirror of the Iveagh wealth management portfolio, which employs the optimization and asset allocation strategies Iveagh uses for its high net worth clients.

The optimized portfolio universe is drawn from alternatives (private equity, venture capital, hedge funds and structured products), real assets (precious metals, natural resources, global real estate), major market equities, emerging market equities, bonds and cash. Investments are almost entirely daily dealing quoted securities.

Meanwhile, the tactical asset allocation (TAA) strategy aims to increase the portfolio return and reduce downside risk by making tactical adjustments to holdings on a quarterly basis....

Read the full story here.

Private Wealth Management for HNW Families

Here is a short excerpt from a Malaysian based-newspaper's recent article on single and multi-family offices:

The multi-client family office in the United States is a multi-disciplinary wealth management firm that offers family office services for a number of clients. This is an option that offers the best of both worlds -- services that are tailored to the needs of high net worth individuals while taking advantage of economies of scale and the opportunity to delegate to professionals.

A multi-client family office makes sense for many individuals and family groups who want a provider that is intimately familiar with the needs of the client and capable of delivering a comprehensive service menu for a competitive price.

Families and individuals sometimes decide not to set up their own family office because they do not want to be responsible for managing a financial services business. They prefer the continuity offered by an established institution, which they can rely on to *evaluate and manage the various financial service professionals.*

There are many differences between the multi-client family office and the traditional single-family office:

l The single-family office normally services one family and the multi-client family office services multiple families. Families who use a multi-client family office find that they realize most of the advantages of a dedicated office without the overheads and responsibility of managing a newly formed financial business.

Despite the fact that a multi-client family office services more than one family, each family client still enjoys the full benefits of a single-family office. These include:

Integrated wealth management services under a boutique structure;

Access to a high level of client service from an experienced staff of professionals who serve a limited client base;

More direct family control over financial matters;

The satisfaction of affiliating with an organization whose goals are aligned with those of their family;

Comprehensive assessment of financial goals;

Customized solutions / strategies for each household;

Proactive management of client affairs;

Ongoing education about the responsibilities of ownership;

Focus on the continuity of the family across generations and branches; and

The assurance of confidentiality in the management of financial and personal affairs.

Read the full article here

Weak Dollar

Video Post

Here is a quick video on foreign currency exchange, and why a weak US Dollar can benefit some large multi-national corporations. This is a very simple easy to understand video on this issue.

Economic Crises

Video Post

[Here](#) is a short video on the economic crises, trends affecting the economy and how the US government recently bailed out Bear Stearns. Much of this talk refers to the need for the economy to pull back in order to grow in a healthy way in the future.

Financial Advisor vs. Family Office Marketing

Today I received this question from a New York based hedge fund marketer.

Question: *When marketing to financial advisors for your hedge fund, what necessary steps do you need to take dealing with these guys? Is it any different that dealing with family offices?*

Answer: Marketing to financial advisors is much different than marketing to single and multi-family offices. Here are the main differences between the two that I have noticed:

- Family offices have more established due diligence procedures, often involving consultants or internal analysts, which do nothing but look at hedge funds or alternative investment products.
- In my experience financial advisors seem much more sensitive and motivated by how they will earn a commission or income from the transaction whereas many family offices charge rich enough fees that this is less of an issue.
- While some financial advisors may take 16-24 months to really get "on board" with a relevant hedge fund manager, understand your investment process and possibly invest most will come to terms a bit before then. Family offices on the other hand often take 18-24 months just to complete their due diligence and committee meetings, it is a very long sales process.
- Both family offices and financial advisors require genuine relationship-building efforts and tenacity
- Financial advisors have lower minimum asset levels for what they will consider investing. 90% of family offices only seriously consider investing in hedge funds with at least $75M-$100M, and many require $250-$300M or even $1B in assets under management.
- Family offices are more tight-lipped. It will take more effort to develop a relationship, meet in person and get clear feedback on why or why a hedge fund is a good fit for what they are looking for.

Family offices are harder to identify in the first place. Financial advisors are easier to find, there are more of them and they advertise more openly. Some family offices advertise but many stay below the radar and some purposefully don't even have a website.

While family offices service to high net worth investors almost exclusively many financial advisors work with a broad spectrum of client types - this might require more caution by them and your fund in marketing products to them. It might also mean sorting through more financial advisors to find one with several HNW clients.

From a legal standpoint there may be other precautions your fund should take but I am not a legal expert so I can't provide any guidance within that space.

Latin American Family Offices

The following is a list of Latin American family offices, which have elected to be included within this service provider directory. Please feel free to reach out to the firms below to inquiry about their family office wealth management services.

To get a list or database of family offices please complete our form here: **Family Office Databases**

Family Office #1: If you would like to add your family office to this list of family offices in Latin America please send an email to Richard@HedgeFundGroup.org

American Family Offices

The following is a list of family offices in the United States, which have elected to be included within this service provider directory. Please feel free to reach out to the firms below to inquiry about their family office wealth management services.

To get a list or database of family offices please complete our form here: **Family Office Databases**

Family Office #1: If you would like to add your family office to this list of American family offices please send an email to Richard@HedgeFundGroup.org

If you would like to add your family office to these lists of family offices please send an email to Richard@HedgeFundGroup.org

Private Banking & Family Office Customer Service

Here is a short video that I found interesting about how Family Offices and private banking groups can improve their customer service. In this video a hotel manager from a prestigious 5 star hotel in Switzerland is interviewed about how to maintain industry-leading high quality customer service on a broad scale.

Family Office Consultants List

While working with family offices and running the Family Offices Group I have met many consultants in the industry. The following is a list of consultants, which work with family offices.

Riotta Jones & Company - Riotta-Jones is a leading consulting and search firm with over 26 years of experience focusing in all areas of family office and multi family office position searches.

Website: www.RiottoJones.com

Fund of Funds Video

Here is a short video on what a fund of fund is and what advantages a fund of funds might have over a single hedge fund investment.

Starting a Single of Multi Family Office

I just found this whitepaper on starting a family office. It is a quick read (3-4 pages long) and covers the current state of the family office industry, how much money family offices typically manage and what services that most family office firms currently offer.

Here is the abstract from this family office startup whitepaper: *"Many families who have experienced a significant liquidity event will consider setting up a family office. The purpose of this white paper is to discuss the reasons families consider establishing an office, to describe the typical duties of such offices and to suggest a basic framework for designing and setting up a successful family office."*

If you are starting up a family office let me know if I can help connect you with any resource

Online Family Office Resources

This is great article providing dozens of links out to other family office resources. The resources include articles, associations, family office services descriptions, PowerPoint presentations and research papers. To view this article please click here.

Philanthropic Giving Video

Here is a short video on philanthropic giving. While it strays a bit from the core topic of philanthropy there isn't much online about ultra-high net worth management or charitable/philanthropic giving by these individuals. The main point of this video is that the popularity of giving is on the rise and gifts directed through private banking departments and family offices will continue to rise over the next 5-7 years.

Family Office Marketing Tips

Everyone sells. The family office market is highly competitive but resources on family office marketing and sales are hard to find. Here are a series of 10 tips on how to be the

#1 marketing and sales professional at your single or multi family office.

Sovereign Wealth Funds

Davos 2008 on Sovereign Wealth Funds

Here is an interesting, 60-minute video on sovereign wealth funds from the Davos convention earlier this year. Video: http://youtube.com/watch?v=tT5IFD4DFFQ

Virtual Family Offices Trend

More high-end wealth managers seem to be taking a family office approach to managing a wealthy family's total financial exposure and budgeting instead of simply suggesting the most appropriate separate managed account or hedge fund product that they are familiar with.

One of the difficulties of doing this is building up the relationships and trust within a body of experts that can handle the tax, budgeting, reporting and accounting work required to really be able to offer a complete family office experience to high net worth individuals. There are a few firms that now utilize loose networks to provide this service and I see this trend growing very quickly over the next 5-7 years because it allows wealth management firms to give more complete services to less clients while making more money. When done right, everyone wins. I think it would help everyone do business more efficiently if there were 3-5 competitors online who all offered virtual family office services on a national level. Does anyone do this right now? I'm not sure, let me know if you have heard of a family office with this setup, I would like to take a look just out of curiosity.

I'm also collecting lists of family offices to create a free resource here. If you have any lists you could provide to me or online directories to point me towards please let me know. I'm not looking to replace a database company's product, I simply want to list out the top 100 family offices in the US, EU, Asia, etc. Thanks in advance if you can be of any help

What Services do Family Offices Provide?

Family offices are exclusive wealth management firms that usually only accept clients with at least $10-$25M of investible securities. They typically have less total clients but spend more time with each client often assisting with tax, estate planning, charitable giving, foundation, and even budget issues in addition to traditional wealth management services. The costs are typically a little higher than a traditional wealth management office but you get more personal comprehensive service and usually a more sophisticated view of portfolio construction with access to alternative investments.

Family office professionals will take the time to ensure your separately managed account investments and Hedge Funds are balanced and in line with your 401k or IRA investments. Their employees are often experienced and sophisticated enough to understand unified managed accounts (umas), and will be able to explain them to clientele so they may be employed where appropriate. While many family offices use hedge fund of funds, family office professionals will often find an individual hedge fund manager that fits you best if they do not already have one that they work with, and ultimately they are known for working harder to make you happy because they only work with a smaller group of core clients. Many high net worth individuals belong to health groups where doctors will take the time to set down with you for a couple hours each quarter or year and talk about your health and habits. This type of highly personal attention is equivalent to what you get in a financial sense at the best family offices