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Family Offices

Fact Sheet

- *Which families should consider establishing a family office?*

  Traditionally, families with wealth in excess of USD100m would usually find the Family Office concept appealing and affordable. Each case needs to be examined on its own merits as family members can benefit financially by pooling their existing wealth management platforms and in the end the net cost can be considerably lower than the gross cost. Adopting a different model of Family Office (see below) can reduce the financial burden - and therefore the threshold - significantly too.

- *What are the three most common forms of Family Office?*

  (i) The Single Family Office: Set up, owned and managed for one family. The original and most expensive model, favoured by the most wealthy and globally active families

  (ii) The Multi-Family Office: Serves more than one family, with the families usually being linked commercially or by common values. Easier to attain economies of scale, so costs can therefore be shared more broadly and it may be easier to hire and retain top professionals

  (iii) Commercial Family Office Providers: Businesses specialising in the provision of Family Office services – usually private banks, wealth management firms and high calibre professionals.

- *Is there a correct time for a family to establish their own Family Office?*

  There are two main avenues by which families arrive at having a Family Office. One is by graduation: developing over time their international legal and tax planning structures; building a private trust company platform; augmenting the private trust company and merging it with a new family office. The other is usually triggered by a major event, such as the sale of some or all of the family business, by the need to emigrate or by having to conduct a major business reconstruction. Generally though, the correct time is sooner rather than later.

- *How is the viability of a Family Office calculated for a family?*

  Family Offices are not generally profit centres and therefore the costs have to be weighed against the benefits. “Protection” usually features in a family's immediate driving needs to establish the office - protection from taxes, the effects of the patriarch's eventual demise, dissipation of wealth by family members or from political and external threats. The absolute costs of maintaining an office can also be mitigated by other savings and services which the family office will deliver. The viability is therefore determined more by the family and the value it attaches to the solutions for the immediate problems it faces.

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- *What are some key considerations when setting out the framework for the Family Office?*

  Firstly, it is necessary to list clearly the objectives the family is trying to achieve. It can be useful to articulate this in a "mission statement", which helps encapsulate the core essentials that will define the family office. A business plan needs to be drawn up, which will include the legal structure, the activities, services handled (in-house and outsourced), budget, recruitment, allocation of costs to family members, governance and oversight. The family patriarch needs to consider roles family members can play, which of them will be involved in future deliberations and which not. Finally, a "family charter" document should be agreed and adopted by the core family members.

- *The Family Office charter and mission statements are important ingredients – but what should they address?*

  A mission statement will embrace the objectives and values the family is seeking to achieve and to maintain by establishing a family office. All core family members should participate in its creation, particularly if the mission is to cater for succession planning for many generations. It should in effect define an ethos for the family to adhere to.

  A family charter will govern the operations of the office, the guidelines and rules for investing, distributing, voting, reporting, outsourcing, inclusion and exclusion of family members on the family "council" and finally if and how the charter can be amended in the future.

- *For most Family Offices, outsourcing of certain services is inevitable – but what needs to be considered by the family when outsourcing?*

  Abiding factors will be privacy and trust. One of the key benefits of a family office is being able to limit personal and financial information to a highly trusted few. However, there need to be certain compromises to enjoy all the advantages of localised or specialised advice, tax optimisation, trust administration platforms, cross border investment and so on. Expense and complexity will escalate quickly without having the correct - and careful - approach to outsourcing. A line needs to be drawn between what can be compromised and never compromised as far as the family's privacy is concerned and this will define the outsourcing framework for a particular family office.

- *Which factors need to be borne in mind when considering where to locate a Family Office?*

  Once family offices were always located close to where the family lived. Today, families themselves are more widespread as indeed are their investment interests and commercial pursuits. Tax planning can dictate where companies locate their head offices and the same applies to family offices. However, it does make sense for the family office to be accessible and in a convenient time zone. Infrastructural support and the availability of competent qualified staff are also key considerations. If the family office is run in conjunction with the family's private trust company, this can be a strong influencing factor too.

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How does a Family Office work in conjunction with a Family Private Trust Company?

The family private trust company is the core legal structure containing much of the family's wealth and its personal and commercial interests. As such it is a vehicle packaging all these elements together incorporating the necessary governance and does not provide services as such. A family office is essentially a service provider and therefore the two together are completely complementary. It is therefore possible for the two to co-exist under the same roof or for them equally to be in different time zones, if absolutely necessary.

Finally, which are the ten most common activities family offices carry out?

Family offices range in size and scope with many services being outsourced to some degree, but the ten most common are:

- Investment / portfolio management
- Family business investment
- Document and data management
- Compliance and risk management
- Induction of younger generations
- Accounting, reporting and consolidation
- Tax planning and insurance
- Succession planning and trust administration
- Philanthropy
- Family logistical support and education

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IPG Family Office
P.O. Box N-3924
Montague Sterling Centre
East Bay Street
Nassau, The Bahamas

Telephone: +1 (242) 677 8700
Telefax: +1 (242) 677 8701
email: bahamas@ipgfo.com
Website: ipgfo.com