



WHITEPAPER SERIES

Ultra-High-Net-Worth Investors: Preparing for What's Ahead

*Consider the future and how to make your
wealth work on your behalf*

Family Office

How to Create, Organize and
Coordinate the Ecosystem



Introduction

In our last article, [*Typical Needs of Wealthy Investors*](#), we discussed planning, investment, and other needs of wealthy individuals and families (the “principals”) and the required expertise, resources and infrastructure to serve those needs. We also noted that the term “Family Office” (“F.O.”) is now often used in various ways to describe either a dedicated organization or the types of services delivered by an ecosystem of providers.

From a regulatory perspective, the term “Family Office” has a specific meaning in the United States. Empowered by the Dodd-Frank Act, the SEC defined the term: *“Family Offices are entities established by wealthy families to manage their wealth and provide other services to family members, such as tax and estate planning services.”* The SEC did so to exempt those entities established for a single family from the burden of registering as advisors.

While that practical definition is helpful, we at Bitterroot Capital Advisors view the concept of a Family Office slightly differently – **as a network of resources and activities that serve wealthy individuals or families.** These networks can take many forms to serve various family needs and priorities. As is so often the case, one size or shape does not fit all.

This paper examines that question more closely, describing several key functions of F.O.s, how they may be effectively organized, and which aspects are best suited to highly qualified third-party providers and which to dedicated (“in-house”) staff. Lastly, we also address the critical consideration of directing and coordinating a family office network.



Needs & Services

At BCA, we think it is helpful to group frequently needed activities and services into four areas:

General Professional Services

Estate planning, entity structuring/governance, tax planning, tax preparation

Investment-Related Activities

Goal-setting, planning and strategic asset allocation, investment selection/monitoring/reporting, direct investing and business support

Administrative Services

Accounting/bookkeeping, financial reporting, custodial accounts/treasury and bill-paying

Family Services

Residence/transportation management, concierge services, gifting/philanthropy/foundation

We think of the Family Office as the group of people working together to meet these needs. This can include professionals working at various firms engaged by the principals, people employed directly by the principals, or any mix of the two.



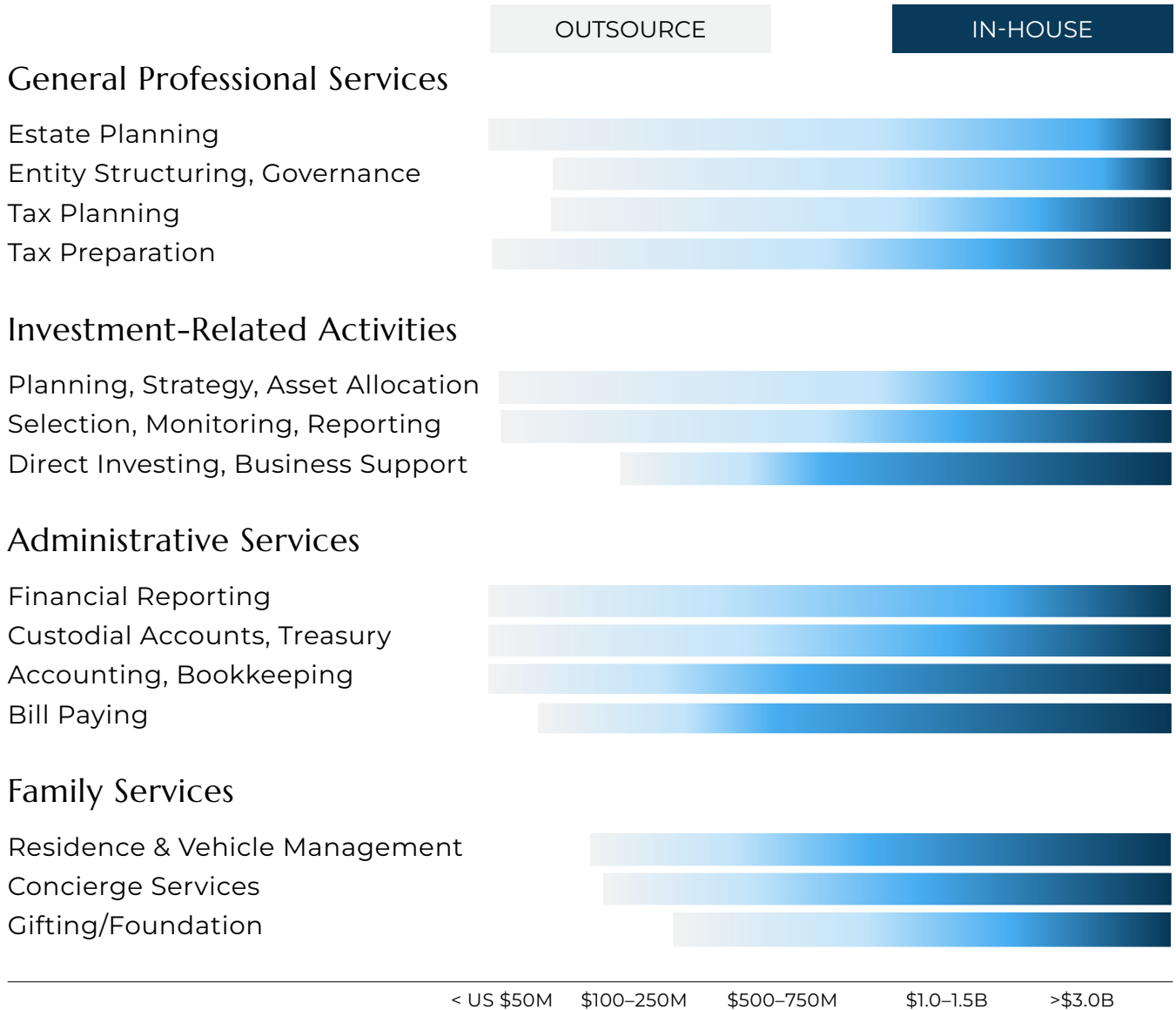
Infrastructure: Various Approaches are Possible

Your family's level of wealth is crucial when weighing benefits and costs to determine the most effective approach to developing a F.O. solution. This influences types of needs that may be relevant and whether those needs are best met by internal or external resources. As mentioned, by "external" we mean engaging a third-party firm/professional on an outsourced basis (ongoing or project-based), and by "internal" we mean a direct "inhouse" hire (in a full or part-time role). Externally provided resources tend to be variable costs, while the cost of internal resources are often fixed.

In our experience, the graphic on the next page represents general levels of wealth at which these various activities may become relevant and whether they may be best served by external or internal resources - or a mix of the two.



Evolution of Family Office Capabilities





General Professional Services

Fortunately, the activities that are more one-time or episodic are also those that require the most specialized expertise. As a result, in the General Services category, engaging third-party expert professionals is usually the most effective route for almost any level of wealth.

Such expert professionals include (but are not limited to):

- Trust & estate attorneys
- Tax attorneys
- Tax accountants and preparers

The frequency, complexity, specialization and responsiveness required (such as tax advice for cross-border investments or estate planning) may influence your decision on specific arrangements to engage the services of these professionals.

If you decide to use trust structures as part of your plan, there are many choices of trust types and related roles to be filled. These may range from using corporate trustees for more traditional services to individual trustees for what are sometimes more bespoke private trusts where more boutique trust companies provide administrative services.

Investment-Related Activities

The design and oversight of investment portfolios is a core need of family offices (and one of BCA's core competencies). Investment design, strategy, oversight and implementation should be a broad-scope and dynamic activity to:

- Define investment goals and policies to reflect your personal objectives.
- Allocate assets (i.e., what types and in what proportion), considering capital available and evolving market conditions.
- Execute the plan: Identify, evaluate, select and monitor a diversified collection of investment managers. We believe the management of specific investment strategies should be outsourced to specialty portfolio managers (both active and passive), each of which focuses on its particular expertise. The F.O. should have a comprehensive top-down plan to guide and evaluate this essential activity.
- Report: Providing an integrated picture of exposures and performance of the entire, holistic portfolio, regardless of the source or management responsibility for each investment.



Only the very largest family offices – with more than \$2 billion or so of investible assets in our estimation – may have sufficient scale to consider hiring an internal team of portfolio managers and related staff to both shape asset allocation and directly invest a significant portion of capital (and even then, should outsource many specialized investment strategies).

So principals are most often best served by using an investment advisor to design, execute and oversee a strategy using third-party managers. In our view, they should engage investment advisory services from independent firms without any commercial ties to portfolio managers (or their parent companies) or distributors selling those products. This separation creates inherent checks-and-balances and the best economic alignment between you and your advisor (while avoiding an advisor that is both referee and player).

Custodial relationships round out the investment infrastructure needs. They provide the vital functions of holding assets, executing trades and transferring funds. Our clients typically receive such services simply by opening accounts at bank subsidiaries and independent brokerage firms. For reasons like those discussed above, we generally recommend retaining custodians without ties to investment management firms or advisors.

Because this topic is very situation-dependent, we offer just a brief comment on the management of foundational assets/concentrated investments. A directly-held operating company or a larger real estate portfolio will typically have its own dedicated management team. If you have mostly sold your foundational, wealth-creating asset but still retain a residual stake, you may benefit from forward-looking advice on transaction planning and execution. We offer additional perspectives on this situation within our paper [*Thinking Broadly about Exit Planning*](#).

Administrative Services

Most principals (families or individuals) require some level of ongoing administrative support. These activities often include basic things like bookkeeping, bill-paying and executive assistance. As family members often prioritize freeing up time from tasks like these, this is an area where we see them looking for help early on.

As always, there is a wide range of approaches to procuring these Administrative Services. At the outsourced end of the spectrum, you can simply engage an accounting firm (or an accountant). However, we see that the first direct hire most families make



is often a person to help them with administrative matters. This may be a personal assistant and/or a bookkeeper. As F.O.s grow, this team may expand with individuals in more specialized roles in line with activities that are areas of emphasis for the family. However, we caution that even these first steps should involve some consideration of confidentiality, information security, and redundancy.

Family Services

While there are some important commonalities among the first three categories of activities and services, Family Services in particular can and should vary dramatically across families. In this realm above all, the resources you require and assemble should reflect your priorities, preferences and personality. If owning extensive amounts of personal property is important to you, the need for property management services may be significant enough that you employ a dedicated in-house person or team. The same reasoning applies to travel and related concierge services. On the other hand, if these needs are relatively insignificant, you will have little need for dedicated resources.

Rounding out the Family Professional Services category, the amount of assistance you need to pursue charitable activities can also vary dramatically depending on the capital and time you commit and your engagement with these interests. We often see individuals and families take this on themselves with no outside support when their giving is simple (and often local) or where they have a deep personal interest (and want to spend their time). At the other end of the spectrum, establishing an active foundation with the funding to last many years can require dedicated staff. In between, we see the use of third-party providers like donor-advised funds and services to evaluate and recommend charities.



Coordination is Key – the “Hub”

Our clients range from virtual Family Offices (with no direct hires) to those with substantial in-house staff – and almost everything in between. A range of approaches can work if they fit the principals' particular circumstances and needs. But, as we observed in our last publication, harmony and coordination are essential ingredients for a well-functioning solution.

Because various expert professionals naturally tend to stay in their own lanes, each Family Office (of whatever form) needs leadership with an overarching view of what you as principals are trying to accomplish to provide direction to the various professionals. Their specialized work and expertise must be coordinated and their (sometimes disparate) advice harmonized to deliver the best solutions for the family principals.

At BCA, we often describe this activity as a “hub” connecting the various experts at the end of the many “spokes.” How best to provide this hub function depends on the Family Office resources you have put in place. In the case of virtual F.O.s (i.e. without permanent staff), your wealth advisors should be capable of playing an important part in the hub role. They should have skills to analyze problems, communicate with and coordinate a team and deliver solutions. In this capacity, your wealth advisors should be working alongside you as principal. You will choose how to share this hub role, but the answer should depend on your management style, skills and ultimately how involved you like to be. Regardless, your fiduciary wealth advisor should adopt a perspective of “standing in your shoes” and putting your interests first. Importantly, your wealth advisory firm's business model and culture will weigh heavily on its ability and willingness to do so.

For example, our mission is to deliver Unconditional Advice of which holistic, multi-disciplinary solutions are central. Therefore, Bitterroot Capital Advisors as fiduciaries often (but not always), serves in that coordinating hub role. For clients with virtual Family Offices, we work alongside the principals. Our clients' leadership style and desire for involvement determine how this collaboration works. The resulting “hub” solution should reflect whether you prefer to set priorities and policies and then let the team execute the plan, or organize and direct the team yourself.

Where the Family Office has dedicated staff, the hub role may be filled by in-house F.O. professional or externally. The operations are similar – for example, when internal staff have sophisticated planning and coordination skills, we at BCA in our wealth advisory



role often serve alongside these professionals in the hub role or as expert contributors. Once again, depending on the family principals' wishes, a family member may also play a leading role in this collaboration.

Continue reading *Ultra-High-Net-Worth Investors: Preparing for What's Ahead*

STRATEGIC PLANNING

Nearing an Exit: Questions to Ask Yourself and Others

For those beginning to think about the sound management of wealth, possibly around an exit from a large investment, the following outlines some questions we might ask. The questions range from the sublime – family and philanthropic goals – to the more mundane – investment, administrative and tax matters. As you revisit your life goals and begin to embrace this new undertaking, identifying those resources that can help and how to engage with them is likely to become an early priority.



Click [here](#) or scan the QR code on the left

STRATEGIC PLANNING

Typical Needs of Wealthy Investors

While each individual and family has a unique mix of goals and requirements, they frequently share a need for planning and investment expertise and resources, and other support. Forward-looking, wise management is the most commonly needed ingredient.



Click [here](#) or scan the QR code on the left