Richest Family Offices Seeing Fastest Growth as Firms Oust Banks

By Anthony Effinger - Aug 6, 2012

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They call it “money camp.” Twice a week, 6- to 11-year-old scions of wealthy families take classes on being rich. They compete to corner commodities markets in Pit, the raucous Parker Brothers card game, and take part in a workshop called “business in a box,” examining products that aren’t obvious gold mines, such as the packaging on Apple Inc.’s iPhone rather than the phone itself.

It’s all part of managing money for the wealthiest families, says Katherine Lintz, founder of Clayton, Missouri- based Financial Management Partners, which runs the camp for the children of clients. Supplying the families with good stock picks and a wily tax strategy isn’t enough anymore. These days, it’s about applying the human touch, she says.

Lintz, 58, is on to something. Her 22-year-old firm was No. 2 among the fastest-growing multifamily offices in the second annual Bloomberg Markets ranking of companies that manage affairs for dynastic clans, Bloomberg Markets magazine reports in its September issue. The assets that FMP supervises grew 30 percent to $2.6 billion as of Dec. 31, just behind Signature, a Norfolk, Virginia-based family office that expanded 36 percent in 2011 to $3.6 billion.

In sheer size, the family office units of banks dominate the ranking. Nine of the top 10 are associated with banks. HSBC Private Wealth Solutions, a unit of London-based HSBC Holdings Plc (HSBA), is No. 1 by total assets under advisement for the second consecutive year, with $123.6 billion as of Dec. 31, an increase of 21 percent over 2010.

Small is Beautiful

No. 2 on the list is Northern Trust Corp. (NTRS), based in Chicago, with $90 billion, while No. 3 is BNY Mellon Wealth Management, a unit of Bank of New York Mellon Corp. (BK), with $64.5 billion.

The top family office in assets per family is 1875 Finance of Geneva, which manages the wealth of three multigenerational families, whose assets average $1.7 billion.

It’s easier to grow when you’re small. Even so, of the top 10 fastest-growing firms in the ranking, only one -- HSBC Private Wealth Solutions -- was part of a big bank. The other nine were boutiques such as FMP -- small companies that are often willing to accept thinner profit margins to mind money, prepare taxes, pay bills and arrange the purchase of private-jet shares for the ultrawealthy.

“We’re getting so good at providing things that people didn’t know they wanted,” Lintz says.

She was a financial planner at Chase Manhattan Bank, now part of JPMorgan Chase & Co., before moving to a sports agency called Bry & Associates, where her clients included professional football and baseball players. Many of them stuck with her when she started her own firm in 1990.

Pint-size Millionaires

Lintz kicked off her money camp three years ago. She hired a retired math teacher to design the curriculum for the pint- size millionaires -- sons and daughters of beer-brewing executives, Internet entrepreneurs and the athletes.

Much of this care and feeding comes out of the 30 to 70 basis points against assets that the firm charges the 140 families who utilize its services. A basis point is 0.01 percentage point.

FMP sometimes charges extra for extraordinary services. Lintz’s profit margins are 20 percent, well below the 40 percent she says traditional asset managers aim to earn.

“Multifamily offices have been trying to figure out a profitable business model for a couple of decades,” says John Davis, chair of the Families in Business program at Harvard Business School, who studies the firms. “They are seeing the limits of providing a lot of services.”

Demanding Clients

Clients can be demanding. One whose assets are overseen by Signature schedules weekly meetings with its staff, founder Susan Colpitts says. The firm manages the client’s money, buys and sells his real estate and helps hire household staff.

“We don’t walk the dogs, but we do pay the bills and help people with private aviation,” Colpitts says.

“The business of tax preparation and bill paying is a lousy business,” says G. Moffett Cochran, co-founder of Silvercrest Asset Management Group LLC, which ranked 18th, with $10.2 billion under advisement. “You can’t lever it up. We do it, but we insist we get paid for it properly.”

Low margins and all, the business is attracting savvy buyers. In July, Affiliated Managers Group Inc. (AMG) purchased a stake in Veritable LP, a family office firm in Newtown Square, Pennsylvania, that oversees $10.3 billion for 193 hyper-rich families and that’s No. 17 in the ranking. AMG won’t say how much of Veritable it bought or how much it paid.

Fund Rollups

AMG normally buys mutual funds and hedge funds, which charge higher fees because they manage money directly. Family offices often farm out clients’ money to professional managers. AMG’s stakes in 27 managers generated $553.4 million for the firm in 2011.

“I really don’t care what the margin is,” AMG CEO Sean Healey says. “A lower-margin business that is stable is perfectly fine.”

Boutiques such as Signature and FMP are eating into a business that the banks rely on. Their middle-class clients are getting poorer. Median household net worth in the U.S. declined to $77,300 in 2010, the lowest since 1992, according to a June study by the U.S. Federal Reserve. New laws designed to prevent a replay of the 2008 credit crisis have made trading less lucrative too.

That makes banking for the wealthiest more attractive than ever. To take in more family cash, many big institutions are trying to look smaller -- and more blue-blooded. In April, Wells Fargo & Co. (WFC) set up a unit called Abbot Downing to court family clans with $50 million or more.

Suspiciously Posh

The name -- which sounds suspiciously posh -- is real. Abbot-Downing Co. designed the Concord Coach, the 19th-century stagecoach that’s part of the Wells Fargo logo.

Mark Twain called it a “cradle on wheels” because of the rocking ride.

U.S. Bancorp last year rebranded its wealth-management unit, calling it Ascent Private Capital Management. Ascent has opened sleek offices in Minneapolis and Denver that look like Apple Inc. stores, all glass and white walls, where wealthy clients can take classes, hold meetings and even throw dinner parties for as many as 50 people, with china provided.

Michael Cole, president of Ascent, says the unit will earn pretax margins of more than 30 percent because it plans to charge for many of its noninvestment services and also lend money to clients and take deposits -- services independent family offices can’t perform.

Asia’s Wealth

Even Swiss banks, which have minded family money for centuries, are elevating their game. Zurich-based UBS AG (UBSN), whose Global Family Office is No. 6 on the Bloomberg Markets list, is working hard to gain clients in Asia, where new dynasties are forming at the fastest clip.

The number of millionaires in the region rose 1.6 percent to 3.37 million last year, for the first time surpassing North America, which had 3.35 million, according to a report by Capgemini and RBC Wealth Management.

In Hong Kong, UBS dedicated the 48th floor of Two International Finance Centre to its "ultra" clients, those with at least $50 million in assets, says Amy Lo, head of UBS's ultra-high-net-worth unit in Asia. There, clients can meet with a fixed-income or equity specialist or talk with an investment banker about an opportunity to buy into a company preparing to do an initial public offering, Lo says.

Boutique family offices question both the big banks' level of service and their motivation; they say the banks are too eager to sell their own hedge and mutual funds to clients.

Citigroup Case

A federal judge last year ordered Citigroup Inc. (C) to pay two clients $54.1 million for losses in a hedge fund that borrowed billions of dollars to try and extract higher yields from municipal bonds. Citi had pitched the fund to private-banking clients as a safe alternative to conventional bonds.

Citi spokeswoman Danielle Romero-Apsilos said in an e-mail that Citi acted appropriately at all times.

Lately, the boutiques have been emphasizing another low- margin service: family governance. Family offices convene clan meetings and help appoint councils whose members set an agenda for the family, Harvard's Davis says.

Some bank-based firms are also providing the service. Ascent Private Capital has two experts on staff, both with Ph.D.'s in organizational psychology, who coach families on leadership, decision making and managing change. "We don't just help our clients manage wealth," Ascent's Cole says. "We help them manage the impact of wealth."

Delicate Work

This delicate work can prevent breakdowns that might land fathers and sons, or brothers and sisters, in court, says Rick Pitcairn, chief investment officer at Pitcairn, a Philadelphia- based family office started by the descendants of John Pitcairn, founder of glassmaker PPG Industries Inc. (PPG)

Pitcairn serves the fourth and fifth generations of Pitcairns, plus 41 other multigenerational families. Most have from $75 million to $300 million in assets, Pitcairn says.

Unlike Signature and FMP, which serve mostly families that are newly wealthy, Pitcairn deals with old money.

"If you are able to serve one of these complex families in an excellent way, you have the added benefit of creating an annuity effect by forming long-term relationships," Pitcairn says. "While the margins may be smaller in the beginning, the opportunity to build and expand these relationships over time is far greater."

Creating long-term family relationships is part of what Lintz's money camps are about. She says about 30 kids had gone through the program as of mid-July. Another 20 high school and college kids have taken courses on budgets and taxes.

"The firms that are growing are committed to this kind of work," Lintz says.

The big banks, she says, had better upgrade their services -- and maybe hire some camp directors -- or risk losing clients to their smaller and more nimble competitors.

How We Crunched the Numbers to Find the Richest Family Offices

Our ranking of family offices is based on data compiled by Bloomberg from information self-reported by multi-family firms. The list was compiled through research by the Bloomberg Rankings team, and via a survey of more than 1,000 firms worldwide, using a database obtained from the Portland, Oregon-based Family Offices Group. More than 115 firms responded to the survey.

We ranked the top 50 by assets under advisement, which includes wealth directly managed by the family offices and funds outsourced to money management firms.

High Net Worth

Single-family office firms were excluded. Family offices that are part of banks were included if the bank has a unit that offers direct and comprehensive investment and noninvestment services to high-net-worth families. Figures for assets under advisement include only assets managed by the family-office unit of the bank.

Money managed for pension funds was excluded; money managed for private foundations was included.

The ranked firms provide a variety of noninvestment services, including organization of family meetings, financial education, art consulting, estate planning, family governance consulting, foundation management, business consulting and concierge services such as property management, private travel arrangement and shopping assistance.

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