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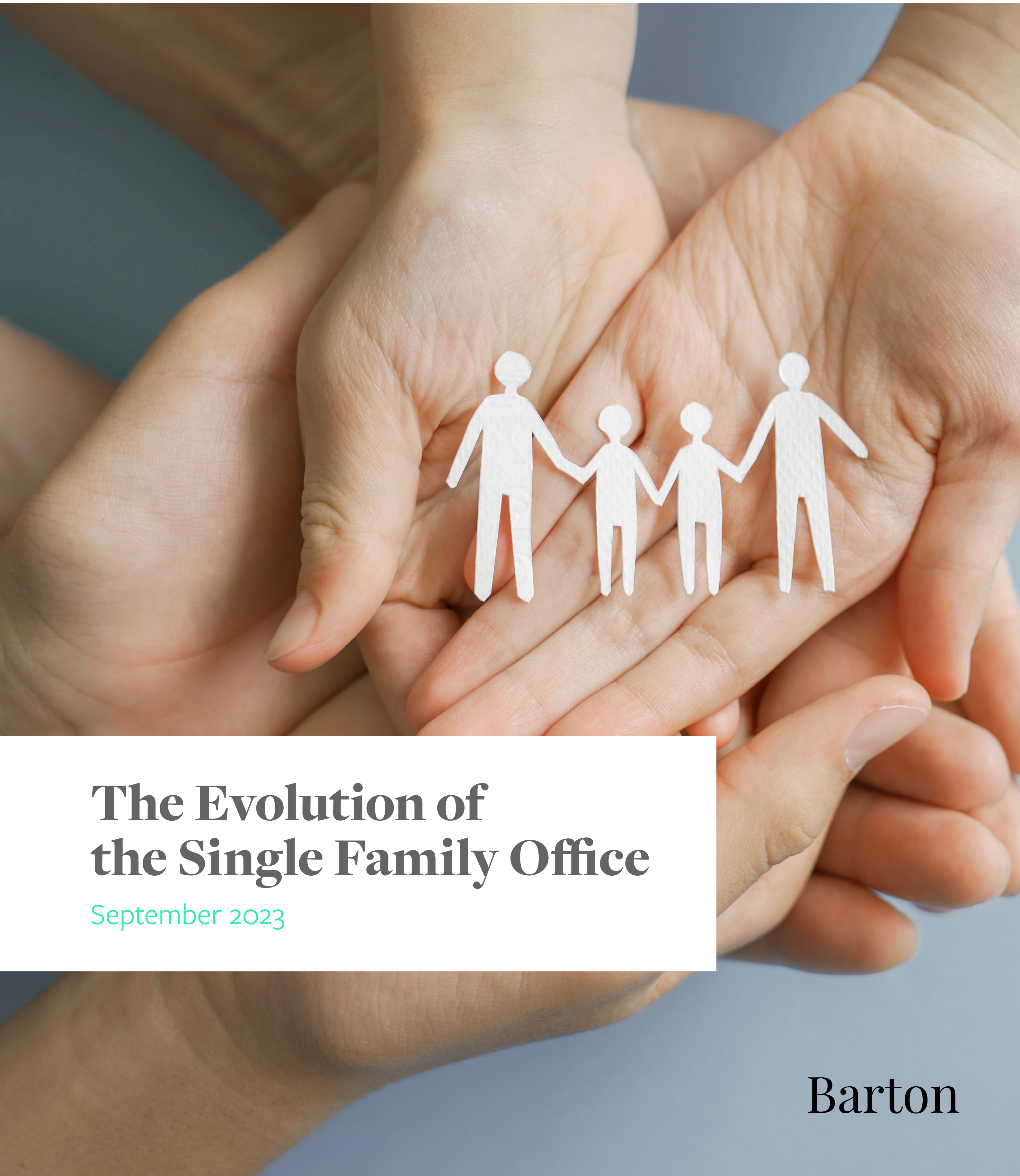

The Evolution of the Single Family Office

September 2023

Barton

Preface

Family offices are important stewards of family wealth and have been growing both in scale and sophistication across the globe. They act as financial gateways for ultra-high-net-worth (UHNW) families, protecting and growing family wealth while also increasingly acting more like an institutional player in terms of governance, the tools they employ and their investment firepower.

At IQ-EQ, we have been at the forefront of the evolution of family offices – both single and multi-family – and have supported them throughout their journey.

Single family offices represent central, 'in-house' governance hubs for wealthy families, covering end-to-end financial management, succession, reporting, concierge, philanthropy and investment solutions. This allows UHNW families to leverage their financial assets and bring in critical expertise and control over the family's wealth to ensure it is successfully transferred to the next generation.

Single family offices have grown exponentially over the past decade and this trend will only continue as we are in the midst of one of the greatest generational wealth transfers. The continuation of family businesses and transfer of assets with an unwavering pursuit of long-term protection, diversification and enhancement of family capital is clearly the highest priority for all family offices.

To trace the evolution of the single family office, we have commissioned Barton Consulting to take a deep-dive into single family offices; their origins, their current scale across the different worldwide regions and the key trends that will drive their future.

We would like to thank Barton Consulting for their crucial support in making this report a reality. To our readers, we hope you enjoy and find the insights useful.

by Ilias Georgopoulos

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History of the single family office

The single family office has its origins in the sudden establishment of enormous new wealth from the early 19th century. Until this period, the greatest fortunes in history mainly belonged to aristocratic families in Europe that held and grew power and influence over a longer period, often multiple generations.

With the establishment of the United States of America at the end of the 18th century, a new social order was born, one without an aristocracy or gentry of its own. And with the advent of the Industrial Revolution, large fortunes – which had hitherto been associated with large land- holdings – could be made from manufacturing, transportation and trading goods.

The establishment of these new fortunes in the New World, many of which dwarfed the old aristocratic ones, led to a need for a new way of managing and investing great wealth. As the aristocracy's wealth had largely been connected with land and art, these had been provided for by specialists for centuries. Newly wealthy families, with little land to speak of and no sense of inherited continuance, had capital but had to make do with banks and broking houses, which usually lacked the expertise and focus required to make the most of such large fortunes.

It was with the establishment of the House of Morgan in 1838 by JP Morgan's grandfather, Joseph Morgan III, that the modern 'single family office' was born.

Focusing on managing the family's assets, they hired specialists whose daily focus would be both safeguarding and growing the family wealth.

Other wealthy families followed suit throughout the 19th century. John D Rockefeller opened what is considered to be the first full-service single family office (incorporating the likes of philanthropy and generational planning as well as investment) in 1882. Other families with very large, newly created fortunes from the Gilded Age followed suit. Single family offices like this, with both professional and administrative capabilities and dedicated specialists, enabled them to circumvent the need to contract larger firms to handle their various affairs.

In the late 19th and early 20th centuries, single family offices were primarily focused on sustaining family assets and carrying out philanthropic work, such as the Ford Foundation, created in 1936. They have evolved to offer a variety of distinct services, such as milestone expenses for family members. This could be real estate purchases or an investment in education, or it could be handling a family's succession through a family council, composed of both family members and other advisors.

Single family offices today

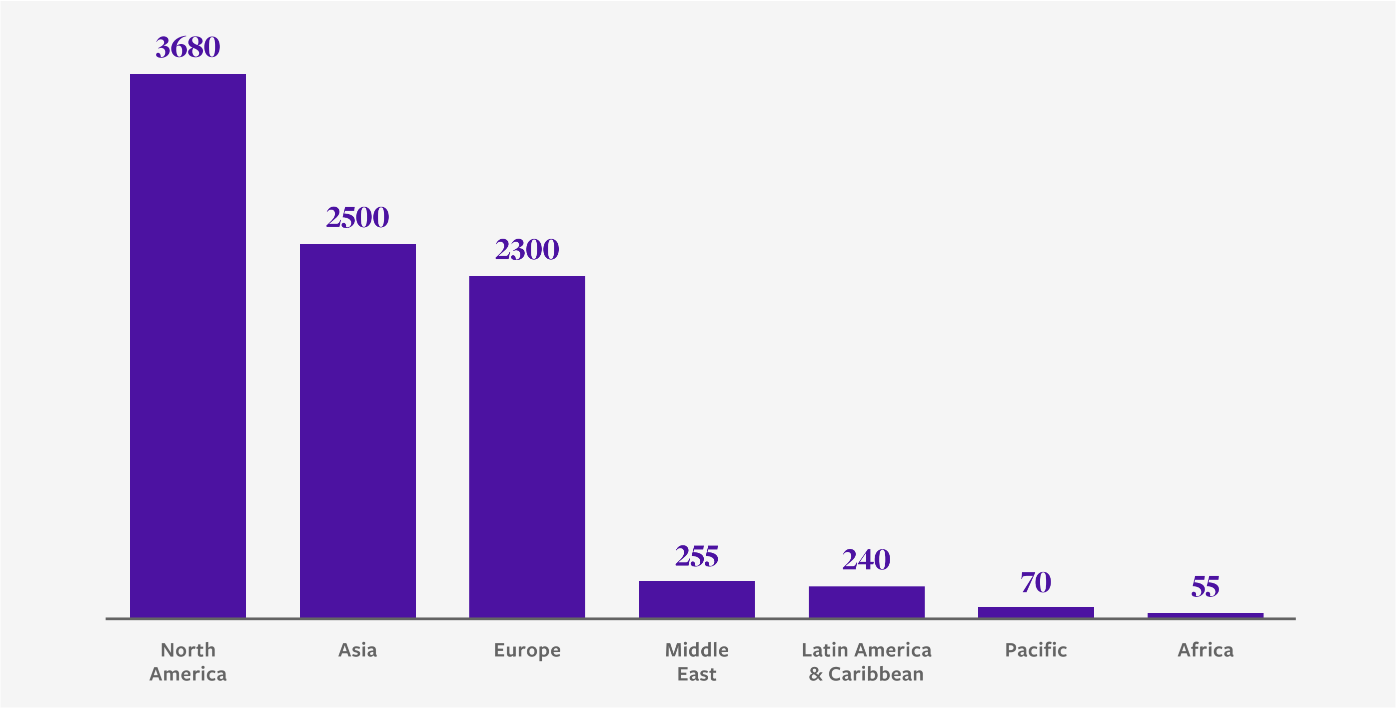
As the number of large fortunes across the world grew throughout the 20th century – both in number and sheer scale – so grew the number of single family offices. We estimate that by 2022, the total number of single family offices in the world had grown to 9,100.

Of these, around 40% are representing families in North America, which makes it the most significant global region for the creation of single family offices. The next largest region is Asia, the fastest growing wealth region in the world, with approximately 27% of the world's total, and most of which will have been created in the last two decades alone.

Europe, the oldest wealth region of the world, is third with 25% of the world's single family offices, leaving around 8% distributed amongst the remaining regions of the world: the Middle East, Latin America and the Caribbean, the Pacific, and Africa.

North America, the region in which the modern single family office originated, is also the region with the largest UHNW population overall, with 134,560 ultra-wealthy, equivalent to a 34% global share of the population, 6% under its global share of single family offices.

Asia has around 29.6% of the global UHNW population (116,080), slightly above its single family office share, and Europe has 100,370 as of 2022, around a quarter (25.6%) of the global UHNW population and the same proportion as its share of single family offices.



The future of single family offices

Given these trends, in the next few years, the global number of single family offices (SFOs) is estimated to exceed 10,000. A reflection of the growth of global ultra-wealth, but also of the enduring popularity of the modern single family office concept. For though it has evolved, the principle of the concept has remained constant over one and a half centuries: dedicated, long-term protection and enhancement of family capital.

Indeed, it is that focus on the long-term, and in particular effective succession in transferring family businesses and assets, that makes the single family office of peculiar attraction.

This is reflected in the greater role that various family members of wealthy families have in the modern world. Whilst in the past, younger and less experienced members may have had less significant input compared to the patriarch or matriarch of the family, there are strong signs of them becoming involved at an earlier stage in family wealth matters.

This reflects a greater interest in such matters from younger family members, particularly as many investment and philanthropic interests of the younger generations have diverged from that of the previous generation, such as ethical investment portfolios, which are often pursued more keenly by younger members. More than half of family offices now have allocations in sustainable investments. ESG integration continues to rise, with a growing focus on delivering on measurable targets and around four in ten single family offices expected their portfolios to be sustainable by 2025.[1]

However, it is also a reflection of the fact that elder members of the family are now wanting younger members to get involved earlier in the governance process of family wealth, better preparing them for the transfer of wealth when it comes, avoiding bad practices and irresponsible disposition of capital, and providing education when it comes to investment and donations.

There is also a growing need amongst single family offices to invest in private markets either directly or through co-investment vehicles. A recent survey[2] of single family offices conducted by Credit Suisse found that, on average, each SFO was involved in seven private deals in the past two years and only 13% did not invest in private markets at all.

Single family offices are becoming increasingly sophisticated and adopting institution-like practices. 40% for the largest SFOs (over $1 billion in assets) make decisions through a formal governance structure involving family members.[3] There is a convergence between single family offices and institutional asset owners such as pension funds and sovereign wealth funds.

Key numbers

Estimated number of SFOs

9,100

4 in 10

SFOs expected their porfolios to be sustainable by 2025

40%

of large SFOs make decisions through formal governance

[1] UBS Global Family Office Report 2020

[2] Credit Suisse (2022) Single Family Office – Survey Report

[3] Hatcher, R. (2021) Family Office Industry Report released: Part 3 of 3, Family Office Database. Available at: https://www.fintrx.com/blog/fintrx-family-office-industry-report-released-part-3-of-3 (Accessed: 03 July 2023).

There is a real sophistication of single offices and this comes with increasingly complex challenges in global wealth stewardship.

IQ-EQ Family Office Services provide a full suite of solutions to help manage these challenges.

Find out more here:

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Contact our experts for more information on our family office offering.

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