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INDUSTRY OVERVIEW
MERGERS

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COST CHALLENGES DRIVE CONSOLIDATION

Recent merger activity in the multi-family office world in London demonstrates the fierce pressure on margins across the industry. Stonehage has merged with Fleming and Sandaire has scooped up Lord North Street, the consolidations driven primarily by the need to achieve economies of scale by attracting more profitable clients in the range of £25m-£30m upwards.

The Stonehage Fleming deal has created the biggest independent multi-family office (MFO) in Europe, the Middle East and Africa, advising on more than $40bn of assets for 250 families in eight countries. Anton Sternberg, partner and head of the investments division, says the deal brought Fleming a combination of services such as corporate finance and private capital resources that appeal to the firm's largely entrepreneurial client base. This broader offering has resulted in a number of significant wins that neither firm would have gained on its own, Sternberg says.

The main challenge for the industry is rising costs, which have soared by an average of 7 per cent among family offices globally over the year, according to the 2015 Global Family Office Report published by Campden Research and UBS. At the same time, returns have dropped by 2.4 percentage points on an average portfolio. The biggest hike is in administration costs, which have climbed from 15 basis points in 2014 to 24bps in 2015.

"The trend to consolidation has been led by considerations around the cost base such as the ability to acquire and retain good-quality talent and the increasing cost of technology and regulation, which are generally underestimated," says Dominic Samuelson, chief executive of Campden Wealth. "To preserve the investment management piece, you have to be seen to be delivering other more practical lifestyle services such as operational management of yachts and aircraft, philanthropy services and mentoring the next generation.

A PRESENCE IN TWO WEALTH CAPITALS OF THE WORLD IS CRITICAL

"The majority of the costs incurred are investment-related but families require concierge services — they need school fees to be paid and households to be managed — so it is a complex piece for these organisations which requires hiring experienced and skilled talent, but accepting part of their time will be allocated to services that may erode their value.

"The prime reason for consolidation is to scale up the assets under management," continues Samuelson. "If an MFO does not have AUM greater than $3.5bn-$4bn, then its sustainability beyond the next five years must be in serious question. If you look at the mergers in the US over the past decade, some of which were prior to 2008, many of those offices became unsustainable and had to be acquired."

The market has also been flooded with competition from professional firms, independent advisers and spin-off teams from investment management firms. Banks and asset managers have been keen to offload

'THE COST OF TECHNOLOGY AND REGULATION IS UNDERESTIMATED'

non-core operations; Jupiter, for example, sold off its private client business to Rathbones last year.

Similarly in the US, firms on the east coast are setting up arrangements with those on the west, in a bid to attract more high-end customers, while a handful of family offices are collaborating with non-US counterparts.

A presence in at least two or three wealth capitals of the world has become critical. Ultra-high-net-worth families — those with assets of more than $30m — are largely multi-jurisdictional and have to comply with initiatives, such as Fatca (the Foreign Account Tax Compliance Act), that they would not have faced in previous years. However, while a broader geographical base is increasingly seen as a prerequisite for clients facing greater complexity in many areas of their lives, the sweeping regulatory changes facing advisers, such as the Dodd-Frank Act in the US, for example, which will require firms to maintain additional records, are adding substantially to family office costs.

"For international clients, it is important to have local expertise," says Sternberg. "The resources need to be on the ground. This certainly applies to our US office which is small but frankly is necessary as our families do things in the US and we could not manage that out of our London office."

"The hype we hear is of cross-border acquisitions but we are not convinced we will see much of that soon," he adds. "The markets are very different. But there are constructive arguments for cross-border expansion. The UK client base is different — most families will do something in the US and Asia and offices in these regions allow the firm to have a level of local trust."

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