

Setting up and efficiently running a family office?



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What are the challenges of setting up a family office?

There are many challenges when setting up a family office, and it depends on what the objective is. People look to set up family offices primarily because they’re managing a large amount of wealth, which can be obtained through inheritance or the sale of a company. The first challenge is setting the objective. What are you trying to do when you set up your family office? And in doing that, some people will set up a charter. The first challenge is, “Who do I use to advise me on how I need to set it up? What structure do I need?” A lot of times that’s where wealth advisory people come in and they help with the legal structure.

The next challenge is, “I have a large amount of wealth and how do I invest it?” And that’s where you need a competent investment manager or you’re outsourcing it to your banks. So there’s another partner involved. There’s also inheritance and how I want to transfer the wealth over time – and now there’s a lawyer involved. And now you have a multitude of advisors and you’re trying to achieve a multitude of things. The challenge is setting that all out. Set up a charter, figure out who the advisors are that you need to use, and how they’re going to work with you to set up the structures that are going to achieve your objectives. The first question should be, “Do I need a family office? And what do I want that family office to do?” The next thing is, “How do I operationalize that family office? Who do I hire? What do they do? And how do I set it up efficiently?”

Who I hire obviously is a critical point for family offices because they want trusted people working with them and they want very competent professionals to manage their money. Choosing the right people, when it’s a small family operation means that chemistry and personality are important. And getting the right mix of talent and making sure everybody’s aware of who’s doing what. Hiring the right people is important, and we’ll come back to that in terms of a challenge perhaps.

Then you need to understand, “What kind of operating systems or processes do I need?” And a lot of family offices start out with manual processes, Excel spreadsheets, and then they have a lot of documents they need to keep. Therefore, operationalising everything to meet those objectives that you’re set out becomes your next challenge. And then

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reporting, right? And keeping everybody. You've got a lot of stakeholders, you've got family members, you've got second gen, third gen maybe. How do I report and how do I keep people updated on how we are doing in terms of managing those objectives we set out for our family office. At a high level, it's really about, "What am I trying to achieve? How do I operationalize it? Who do I hire? And then how do I report back on it and show that I'm governing the inheritance in the way that was intended?"

When it's been set up how can it be run efficiently

Running a family office efficiently requires you to really think through the processes. This is where you need to understand there's multiple things in terms of managing a family office. There's payments, there's investments, there's adherence to policies and procedures that you set out in originally in the charter. So setting it up efficiently, it's not only a question of the right people, it's also the right sort of technology platform because in today's world, doing things manually with a lot of paper-based is really inefficient. And as we've seen through COVID, unless you can work remotely and efficiently, it's really hard to get things done. Thus, technology then becomes one of your big challenges because that's going to be the thing that will help you to run your family office the most effectively.

And technology is many different things. There's document retention, there's investment management, there's payments, there's general ledgers; technology is a very broad issue. Therefore, setting it up is really about finding the people and the technology and the processes that will help you to do things over time. Because some people when they're setting up their family office maybe are only thinking about today, "I have

this big inheritance, I have three family members and I need to worry about how to do it today." But you also need to worry about, "How am I going to do it tomorrow?" And in some cases, your family members may expand, you may want to co-invest with other partners or other people that you're interested co-investing. Thus, as you expand, your complexity and the processes that you're going to be needing to deal with will expand too.

One of the key challenges is having the foresight to know what you need to do today as well as tomorrow. And that will help you save money down the road and create scalability and operating leverage, which many people who are setting up family offices have come from businesses. If they've sold a large business, they've used to running that business in a fair and effective manner. The challenge is to make sure that they keep that same mentality when they come to set up their family office. They shouldn't just think that, "Well, it's a smaller operation, therefore I shouldn't be as demanding as I was as a CEO of my company I sold. The same principles apply in terms of accounting, accounting for investments and all of the processes around payments, controls and reporting."

As you setting it up efficiently, choosing technology becomes a key consideration to manage cost-base. How are you going to set up? There's all sorts of logistical things. "Do I need a big fancy office or not?" But it really comes down to defining your processes and working with your advisors to make sure everything's efficiently and effectively set up. And that is a challenge that many people struggle with.

Are there any other challenges and pitfalls?

I think the main challenge is you tend to be looking at smaller operations.

How do we gain operating leverage and how do we make sure we are setting up a family office with the right cost base? And that's what I mentioned in terms of how you need to look at technology, people. Maybe outsourcing, right? "Should we be doing all this stuff ourselves?" Because one of the pitfalls is when you're hiring people, you want to hire the right people, but you want to keep them engaged and motivated. One of the things we see quite often is if you don't have efficient platforms or processes, you have good people but they're spending a lot of time doing manual work and it's a little bit mundane, and that's a sort of motivational issue; maybe if it's a family member, they'll grin and bear it. But if you're hiring external professionals over time, job satisfaction is critical too, right?

In a family office, if you're small, what you want is people who are motivated and doing what they do best. Thus, they need to have the tools to create the information that they need to do what they do best. Therefore, the investment manager wants to have access to, "What's my portfolio? What are the risks?" He doesn't want to be the guy calculating all that. So you need a platform. The accountant needs to know, "Well, where's all the money coming to and from? How do I meet all the payments that I need to meet and dividends to family members?" He doesn't want to be running around cobbling that together on spreadsheets. He needs somebody to provide him the information so then he can manage upward into the family. Therefore, the primary pitfall is really not falling into the challenge of, "I want to just set this thing up really basically" because it's not a basic undertaking. A family office is no different than a corporate enterprise. It's just managed in a smaller, more personal manner because it involves family wealth.

How does Eton Solutions help in this process?

Eton Solutions is a technology and service company. We were founded by Robert Mallernee who was himself setting up his own family office. As he set up his own family office, it's called Eton Advisors, and today it has about 9 billion of assets and is a multi-family office. But he sat down and he went through all the different processes that exist in setting up a family office and running one. We look at this from a process base. There's approximately 150 to 160 different processes that any family office could use. Every family office is unique, every family office is different, but there are some basic things that all family offices do.

First and foremost, we've built a platform which takes into account all of those processes and puts it into one integrated platform. And that goes to the point of if you're thinking about setting up a family office, it's a lot more difficult to cobble together two or three systems, which you may think are best of breed, but then you're bringing in a whole lot of technical complexity of integration.

Our platform, AtlasFive, has been developed by family office for a family office. And it takes into account all the things we know family offices need to do. Today we have 450 billion of assets under administration running through

the platform and servicing over 390 families. Our platform is developed consistently and constantly based on these changing needs of families across a multitude of different industries, backgrounds, multi-family office, single family office, in some case, trust. So that's the first thing. It's built by a family office for a family office. When we talk to family offices, it's really about, if you're about to set up, here's how we recommend you do it based on what's in our platform, which is best practice based on hundreds of family offices who already use our platform. If you're an existing family office, then we sit with you and we do something called an as-is analysis and to-be. Where are you today? Where would you like to be tomorrow?

And today, most family offices that I've interviewed and seen in Asia are no different than they are in North America. They're starting out with Excel spreadsheets, QuickBooks, very rudimentary, manual-based platforms, which basically means that the mindset needs to change and we need to help people understand how technology actually adds that operational leverage and cost efficiencies I was talking about earlier.

And then the third thing we do is because we have a fully serviced orientated back office and middle office in our technology center, we enable clients to grow by outsourcing

all that mundane manual effort stuff. And that's where I was talking about creating motivated and productive senior employees because the cost of hiring the right people is going up and up and up globally. And so outsourcing some of the rudimentary reconciliation issues, data management, loading, all that kind of stuff, you don't want expensive employees doing that. What we do is we offer a full outsourced service model. When you combine all of that, we have the history of knowing over 300 families, which we've set up on our platform, knowing the processes inside and out, putting it all into one platform so from a technology perspective, it's in one and you're not managing multiple. And it's cloud hosted and it's SaaS and we have a mobile app. That's getting to the point of managing your stakeholders, pushing information to them through digital, right?

And again, going back to what we've learned through COVID, people are now much more familiar with digital, they're much more open to doing zooms and stuff, but they want to see their information now on their phone. We'll combine all of that into one solution. And we think we're very consultative in it because again, we realize every family office is different. They're coming from a different place, they have a different setup, and we can cater for that. ■

