RESEARCH BRIEF

3 Keys to Creating a Sustainable Family Office

2023 Family Office Benchmarking Study

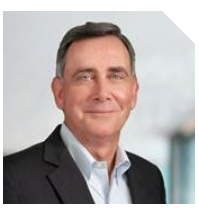
FOX Family Office Exchange

Introduction

When we recently asked ultra-high-net-worth (UHNW) individuals how they felt about the long-term prospects for their family offices, they were overwhelmingly optimistic. This confidence may seem obvious given an astounding rise in wealth in recent years. But this accumulation of wealth is also creating less-obvious burdens for anyone hoping to establish or maintain a family office ready to stand the test of time.

Our 2023 FOX Family Office Benchmarking Study found the tremendous surge in wealth is creating higher expectations about what can be done with that wealth, which, in turn, is adding complexity and increasing costs for many family offices. Creating and sustaining a successful family office has never been more fraught with challenges.

The good news is with thoughtful planning, a sustainable family office is within reach. We've identified three key ingredients for a family office that lasts: strong governance, a focus on leadership and succession planning, and a dedication to learning and development.



David F. Toth
President of
Membership

Growth and Complexity

The ultra-high-net-worth market is growing rapidly, and with growth comes complexity and challenges. Fueled by business cash flow, proceeds from the sale of businesses, and investment gains, the UHNW market is valued at $45.4 trillion, according to Wealth-X. This growth means more family offices are being created and they are managing larger portfolios. The average investable assets held by UHNW families in 2022 was $893 million, up 35 percent from 2020, according to our 2023 FOX Global Investment Survey.

The dramatic accumulation of wealth is putting increased burdens on family offices. Added wealth frequently brings with it more complexity, such as additional direct investments and more entities to manage. With complexity comes greater demands on family office resources as well as increased costs. In the past two years, we've seen the average family office grow from six employees in 2021 to more than eight in 2023. Added staff combined with technology needs, higher meeting expenses, and rising development and education costs have pushed the average cost of running a family office to $3.6 million, according to the 2023 FOX Family Office Benchmarking Study, based on data and insights from more than 150 family offices. We are also seeing rising fees for legal, tax, insurance, and other advisory services, as well as higher asset-based investment fees.

UHNW Family Investable Assets

$893m
Average 2022 investable assets

$663m
Average 2020 investable assets

Source: 2023 FOX Global Investment Survey

Size Characteristics

Market size
$45.4 trillion

UHNW individuals
395,070

UHNW represent 1.1% of those with $1.0mm+ net worth but hold 32.7% of this group's wealth

Centimillionaires
80,000+

Source: Altrata World Ultra Wealth Report 2023, powered by Wealth-X data

Family office costs

$1.7m - $6.0m

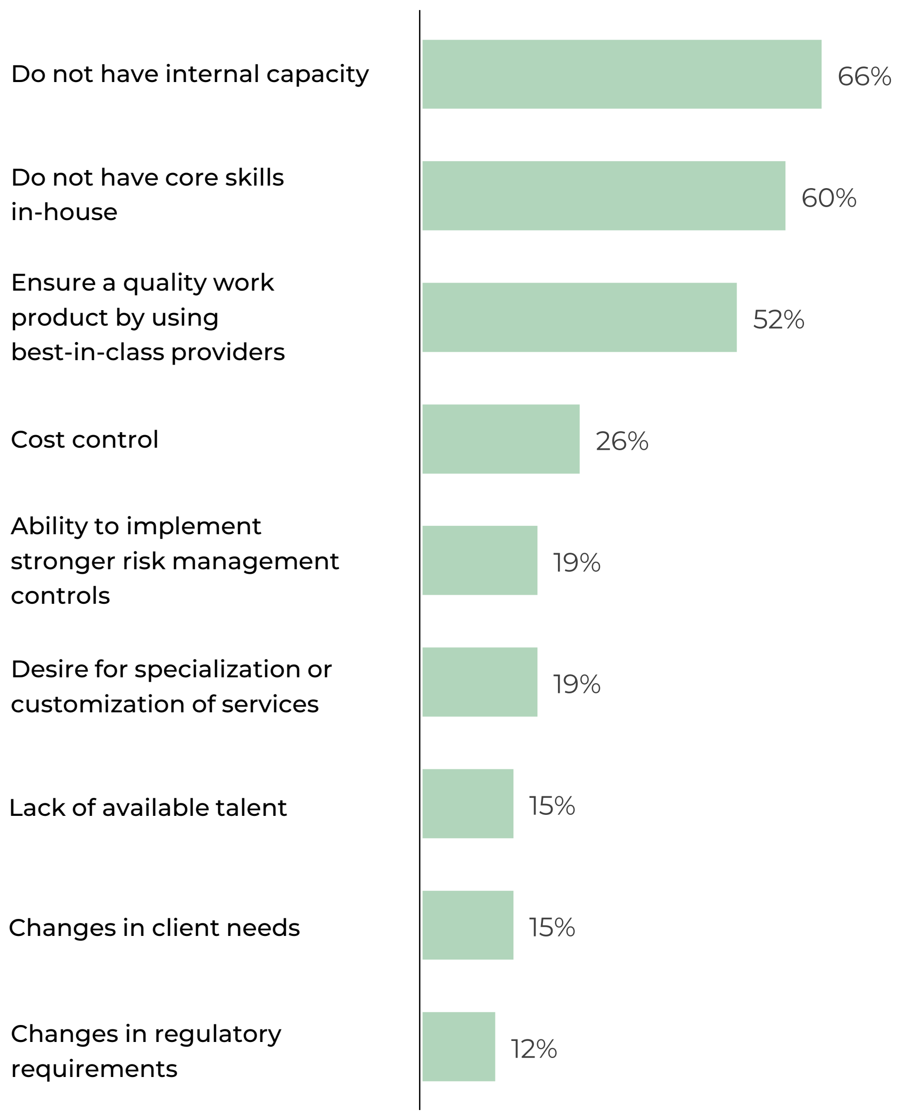
Average
$3.6 million

Employees
6.0 (2021) to
8.6 (2023)

Source: 2023 FOX Family Office Benchmarking

With costs climbing, family offices have stepped up monitoring of expenses, and are finding ways to operate more efficiently and outsourcing to meet their growing needs. In fact, only 14% of offices currently are not employing an outsourcing option. An evolving piece of the outsourcing picture is technology, where attention has shifted from supporting investments, portfolio management, and analytics to technology for specialized areas such as cash forecasting, estate planning, and philanthropic giving.

Reasons for outsourcing (n=144)



Source: 2023 FOX Family Office Benchmarking

2012

More than 50% of all technologies in the wealth management industry were forced on **investments**.

2022

Primary focus is **technology** itself.

Source: Combined data from G2, Capterra, CB Insights and Celent Technology Research.

3 Keys for a Family Office that Endures

Faced with these added pressures, family offices new and old cannot afford to be complacent about their long-term sustainability. Combining optimism about the future with three essential ingredients can help ensure the long-term success of a family office.

First, formalizing decision-making is critical. We've witnessed a sea change in governance over the past two years. Today, 85% of family offices have at least one formal governing board, up from just 59% in 2021. For many, the governance conversation has advanced beyond whether or not to have a board to a discussion about board composition.

Longevity for a family office also depends on leadership and succession planning. Here there is still room for improvement. Only about one-third of families have a succession plan, according to our 2023 FOX Family Office Benchmarking report.

Finally, sustainable family offices understand the value of learning and development. Supporting growth opportunities for current and future leaders is especially important. Yet, our research finds family offices dedicate on average less than 5% of the internal budget to education, with top quartile family offices spending significantly more than the median on education and leadership development.

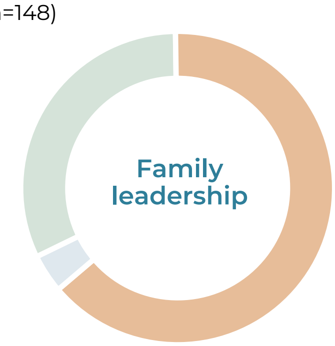
Internal family office costs (average, in thousands)

Expense category	Average
Compensation and benefits	1,944
Operations overhead	491
Technology	196
Staff development	31
Family meetings	103
Family education programs	39
Regulatory compliance	78
Other fees	713
Total internal costs	**$3,595**

Source: 2023 FOX Family Office Benchmarking

85%
Have at least one formal governing board for the family office

Formal succession plans
(n=148)



64% No

32% Yes

4% Not sure

Source: 2023 FOX Family Office Benchmarking

Conclusion

In the face of rising costs and complexity, families, family offices, and their advisors remain optimistic about the long-term prospects for their family offices. We've found those best-positioned. for the future are strengthening governance and decision-making, focusing on leadership and succession, and devoting resources to learning and development for their leaders. For more insights on building a family office with staying power, reach out to learn about our upcoming events and educational resources.

Questions to consider

1. What long-term plans and investments are being made to sustain the family office?

2. Where do you see growing demand for service and how might that impact your present and future ability to deliver?

3. Are you thinking of technology as infrastructure solution?

4. What is your resourcing strategy including hiring, development, outsourcing, and partnering and how might that evolve?

Contact Information

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