THE FUTURE OF FAMILY OFFICES

Bloomberg

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IN A STATE OF FLUX

As governments push to close taxation loopholes, the private wealth management industry has come under sharp scrutiny. Yet keen to remain competitive, family offices are innovating to better serve their clients, while keeping well within the limits of the law.

Last year witnessed family offices opting for changes in structure and domicile, and the increasing use of niche investment choices. There was also a focus on improving risk awareness ahead of wide-ranging regulatory changes that lie ahead. The continuing low-yield investment climate has led family offices to take a more active role in identifying alternative investment opportunities, with increased interest in structured finance strategies and alternative investment areas such as direct lending and fintech investment.

LEGISLATIVE PRESSURES

A global crackdown on the exploitation of taxation treaty loopholes by the Organisation for Economic Co-operation and Development (OECD), and a range of forthcoming regulatory changes on trust ownership and transparency, have also been front of mind for those tasked with creating and preserving family wealth. A report released earlier this year by consultancy firm Cerulli Associates found that there are now more than 6,000 single and multifamily offices globally, with around 200 multifamily offices controlling more than $700 billion in assets alone. Traditionally, these offices have prided themselves on their privacy and discretion. However, increased global scrutiny of flows as a result of changes to money laundering legislation – including the latest European Commission Money Laundering Directive – has meant offices now need to have a firmer grasp of where they are investing as well as their overall risk exposure at any one time.

Ashley King-Christopher, partner at Charles Russell Speechlys, says family offices can sometimes be guilty of reacting too late to challenges, rather than anticipating potential problems. “Because they are so lean, many family offices have fallen into fire-fighting mode when it comes to regulatory issues in trying to de-risk what are sometimes inherently fragile personal/corporate closely held structures,” he explains. “Next year, the OECD's focus will turn to closely held private wealth. Family offices need to grasp the issues and get out ahead, rather than wait to be hit.”

King-Christopher warns that high-net-worth individuals are facing a triple whammy in 2015: rising taxation of private wealth around the world, strengthening inter-governmental co-operation on tax transparency and intensified targeting of closely held structures by Western governments. “National governments need money and will not stop at levies like the Google tax,” he says. “High net worths should be ready for the spotlight to fall on them.”

EVOLVING CLIENT DEMANDS

The challenges in 2015 are not purely regulatory, however. The increasingly multinational and multigenerational make-up of families has meant finding one-stop-shop outsourcing partners is also proving a headache for some, given the evolving regulatory environment. Paul Finn, head of global wealth management at Clarien Bank, says these families are finding it extremely difficult to find a wealth management organisation that will serve the family as a single relationship across multiple generations and regardless of nationalities.

Finn adds that these families face the additional challenge of finding a provider who can help with improving transparency and probity as a result of the heightened global regulatory scrutiny. On the investment side, family offices are once again embracing asset allocation strategies, despite many having lost confidence in hedge fund strategies after the financial crisis.

However, the prospect of strategies that offer the benefits of diversifying beyond traditional asset classes such as equities and bonds appeals to family offices looking for predictable growth in uncertain or volatile markets. A 2014 survey by investment intelligence firm eVestment found around 60 per cent of family offices planned to increase allocations to hedge funds over the next two years.

Additionally, multi-asset strategies that generate part of their returns from harvesting the risk premium generated between different trades are where family offices “by far have the largest portion of their traditional strategy assets”, according to the report. The research found that Global Tactical Asset Allocation (GTAA) strategies were those favoured most.

REGULATION

A plethora of new laws in the European Union and the US are forcing family offices to reassess their investment strategies. This is giving way to a new model office.

THE RISE IN COMPLIANCE COSTS AND REQUIREMENTS DUE TO NEW LEGISLATION WILL REQUIRE FAMILY OFFICES TO REASSESS THEIR INVESTMENT MODELS AND STRATEGIES

Snowballing levels of money laundering and terrorist financing risks, coupled with growing calls for a tighter regulation of financial institutions, have placed family offices under increasing legislative scrutiny. In the wake of higher compliance costs, family offices are now facing contentious proposals for an EU-wide beneficial ownership register that will be fully accessible to the public, among other directives.

Despite such mounting pressures, Rosalyn Breedy, partner at UK-based law firm Forsters, says family offices remain largely unaware of the implications of such legislative developments. This is partly due to historical reasons, as family offices have hitherto been exempt from most regulation, which was traditionally applied to mainstream retail and wealth management banks.

BLURRED LINES

However, a blurring of the lines of distinction between traditional family offices, wealth management firms, hedge funds and private and investment banking family offices as a result of various jurisdictive measures – including the 2011 Dodd-Frank Act – and the industry's swelling number of entrants, will increasingly lead to more family offices falling directly under the remit of regulators.

One such directive threatening to further undermine the once clear divide between family offices and other fund management firms is the Alternative Investment Fund Managers Directive (AIFMD). Enforced in July 2014, the AIFMD imposes pan-European obligations on alternative investment fund managers to report and disclose information to regulators and investors. Indeed, the search for better returns under difficult market conditions in recent years has meant that many family offices have incorporated investment funds as part of their core strategy.

According to Breedy, mounting legislative pressure across multiple geographic jurisdictions means that family offices must now ensure that their EU funds are not perceived as 'alternative'. In turn, alternative fund managers marketing alternative investment funds in the EU face the "hard-edged test" of qualifying family offices as 'professional investors' – as defined by the Markets in Financial Instruments Directive (MiFID). Thus while single-family offices (SFOs) – unlike multifamily offices (MFOs) – are specifically exempt from the full repercussions of the AIFMD, a number of factors, such as SFOs entering co-investment arrangements with an external investor or an SFO suddenly adopting an MFO structure, would place them at risk of breaching AIFMD requirements.

As a result, the growth in family office collaborations with direct private equity investments – which would place SFOs co-investing alongside external capital under the scope of the AIFMD – is of particular concern to SFOs and their advisers. Indeed the impact of these changes in legislation is far reaching, given that four-fifths of family offices co-invested in 2013, according to the findings of the Global Family Office Report 2014 produced by UBS Bank and Campden Research.

The hike in numbers of SFOs that once fell outside the scope of financial controls graduating to MFO structures – often in attempts to turn a high-cost entity into a revenue-generating one – comes at the expense of a heightened level of regulatory scrutiny under stringent risk-control and governance standards. SFOs considering the transition to an MFO structure would, therefore, need to consider the trade-off between more income sources and the additional costs and risk exposure that emerge with the possibility of breaching new regulatory requirements, says Ian Morley, chairman at consulting and communications specialists, Wentworth Hall Consultancy.

CONTROVERSIAL REFORMS

As the legal distinctions between SFOs, MFOs and other wealth managers become less clear under the AIFMD proposals, the Fourth EU Money Laundering Directive (MLD4) – first put forward by the European Commission in February 2014 – is expected to place them all under a new legislative framework. If the MLD4 is put into force, regulators would further curtail family offices' privacy and their data protection would be placed under the remit of a new EU-wide register. Developed as a way to identify and penalise 'shell companies', 'phantom firms' and tax avoidance among households and individuals with large offshore trust accounts, the MLD4 would also put more emphasis on making transparent stored details of direct and non-direct holders of securities.

Yet the MLD4's passage has faced heavy opposition and its proposal has provoked a fierce and continuing debate. While some groups – including the European Parliament and anti-corruption lobbyists – argue for full public access to an EU-wide registry, others – namely the European Council – are proposing national registers with restricted access. The concern of family offices and their advisers is likely to be on access rights to the registry and how they will differ across member states, according to Breedy.

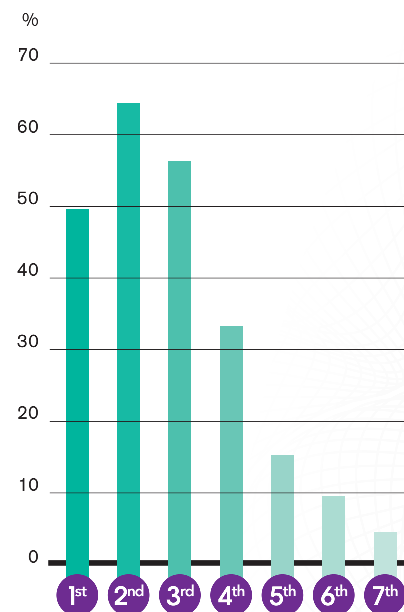
Indeed, tightening regulation has historically been poorly received by the

wealth management sector. A growing sticking point has centred on a lack of clarity on the storage of and access to private information relating to the accounts and investment vehicles of high-net-worth individuals. Many who oppose the changes feel that such a public register would not address the underlying issues such as tax avoidance that prompted such a legislative shake-up in the first place. Instead, there is growing apprehension that the proposed reforms to beneficial ownership requirements could place the financial and personal security of high-net-worth individuals and their families at risk and that that would be "the equivalent of publishing their personal bank account details," according to Catherine Grum, head of private office at Salamanca Group, a merchant banking and operational risk management business.

PARTNERSHIPS AND STRATEGY OVERHAULS

The inevitable rise in compliance costs and requirements of running a family office due to new legislative measures will require firms to reassess their investment models and strategies. For instance, in 2011 George Soros famously sidestepped Dodd-Frank regulation in the US by restructuring his Quantum hedge fund into an SFO and returning money to external investors, in order to evade the US Securities and Exchange Commission's registration and disclosure. This move prompted a slew of hedge funds to adopt a similar model. The family office industry could face further systemic changes ranging from moving to alternative jurisdictions and a greater use

GENERATION CURRENTLY SERVICED BY FAMILY OFFICE



of family offices co-invested in 2013

Source: The Global Family Office Report 2014, UBS & Campden Research

of corporate vehicles to engaging in more dialogue with legislators and politicians.

In particular, family offices seeking to minimise the financial squeeze of higher compliance costs, which can run into the millions, are increasingly likely to contribute to industry consolidation through mergers and acquisitions. According to Grum, there is a growing shift towards alternative structures and partnerships geared towards achieving efficiencies of scale – a trend that is likely to gain further momentum in 2015.

Indeed, the family office industry has witnessed increasing consolidation in recent years. This has been driven by the more bullish MFOs, as well as the larger wealth management firms. For instance, November 2014 saw a deal agreed between Fleming Family & Partners and Stonehage to create the largest independent MFO in the Europe, Middle East and Africa (EMEA) region serving more than 250 families. Prior to that, SandAire and Lord North Street joined forces in March 2014, and in 2013 Deutsche Bank merged Oppenheim Vermögenstreuhand and Wilhelm von Finck Deutsche Family Office to form Deutsche Oppenheim Family Office, which is Germany's largest family office with total assets under management worth $10 billion.

Regulatory reform is forcing change in the family office industry. As a result, more SFOs are increasingly grouping to become larger players. As legislative pressures for transparency and systemic reform weigh heavier on the sector, the challenge for family offices will be to navigate this new regulatory landscape while maintaining a competitive edge over the industry's emerging breed of players.

NAVIGATING CHOPPY WATERS

As family offices work to earn better returns for their clients, some firms are looking to the outsourcing industry to improve their internal reporting structures.

THE COMPLEXITY OF THE TASK OF CONSOLIDATED REPORTING CAN ULTIMATELY BE TRACED BACK TO THE GLOBAL ECONOMIC CRISIS

The rush to meet the terms of the ever-evolving regulatory compliance landscape continues to transform the wealth management sector. Indeed family offices, seeking better oversight of their assets, are causing a monumental shift in the consolidated reporting outsourcing industry as it shifts towards more effective risk management. Until recently, consolidated global asset reporting was achieved manually on Excel spreadsheets by much of the industry. However new legal compliance measures are steering family offices towards sophisticated infrastructure which is better suited to aggregating larger and more complex volumes of data.

Greater outsourcing demand from family offices unable to build their own in-house infrastructure has heralded the rise of both independent infrastructure providers and wealth management firms providing client-facing tools, says Bertrand Giger, managing partner at Bedrock RealTime (BRT), a Swiss asset management outsourcing firm and part of wealth management group Bedrock.

For instance, BRT has seen a considerable rise in requests for consolidated financial reporting outsourcing contracts in Switzerland, where new reporting requirements under the Swiss Financial Market Supervisory Authority (FINMA) has caused a growth in the use of external portfolio management solutions, according to Mr Giger.

BRT's pool of clients – ranging from individuals with 15 million Swiss Francs spread across four different custodians, to wealth management firms with assets totalling more than 2 billon Swiss Francs – benefit from its customised reporting infrastructure, as well as its suite of back and middle office platforms for other operational tasks, says Mr Giger.

Moreover as new market regulation increases consolidation within the wealth management industry, the trend in small independent asset managers regrouping or merging with other firms to stay afloat will lead larger entities to experience an even greater need for a centralized overview of their total assets.

The complexity of the task of consolidated reporting can ultimately be traced back to the global economic crisis. In the aftermath of the credit crunch, the financial industry's subsequent aversion to risk intensified the diversification of high net worth families and individuals' assets across multiple custodian institutions.

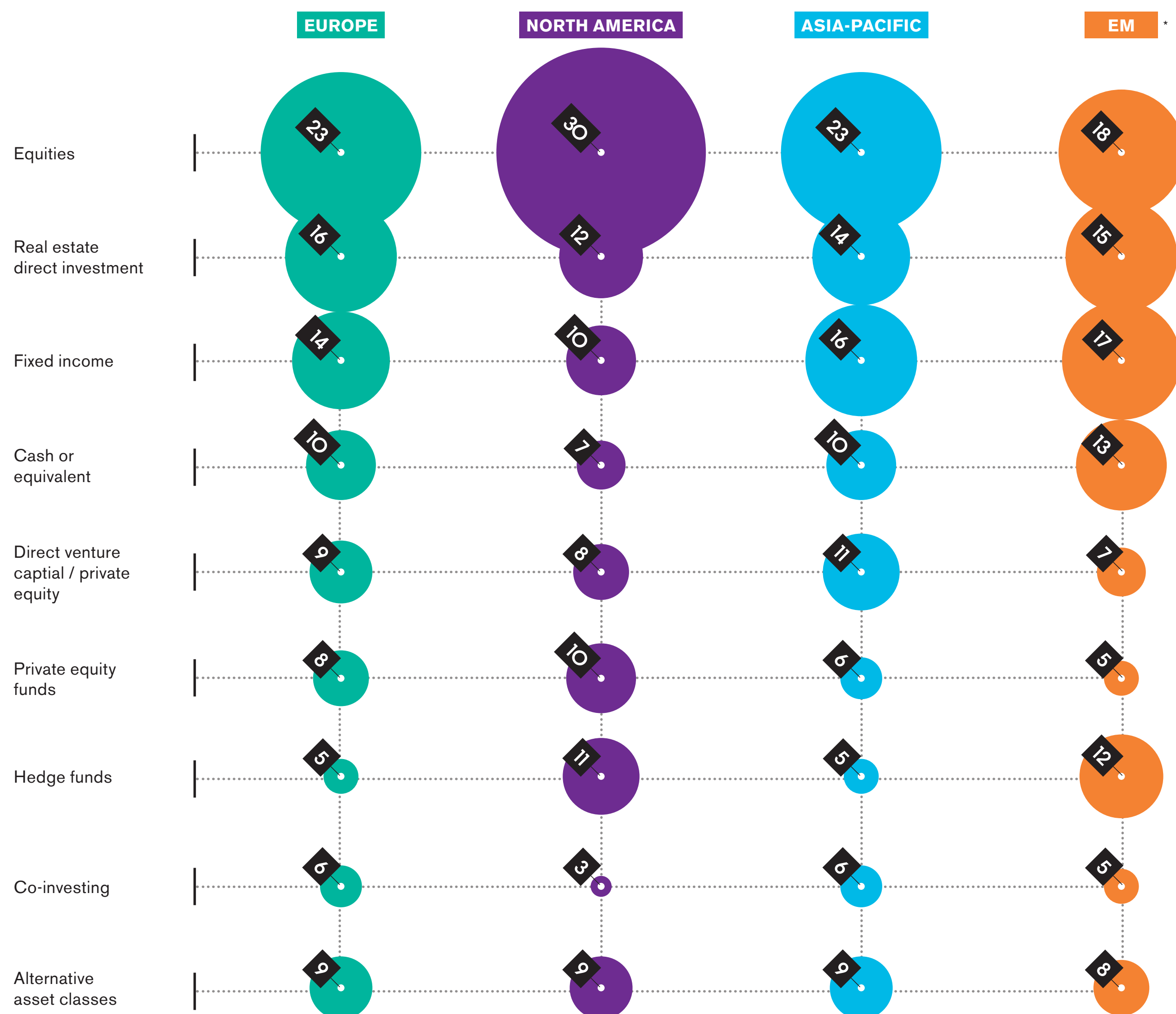
As a result, the challenge associated with building a consolidated overview of capital markets, and private equity and alternative investment assets of high net worth families -across multiple countries, legal jurisdictions and institutions- cannot be underestimated, according to Daniel Page, managing director at Cornerman Limited, an advisory firm for the asset management sector. Yet it remains to be seen whether family offices will be able to adapt rapidly enough, in adopting a data-driven approach in their asset allocation and risk management services.

MAPPING FAMILY OFFICES' INVESTMENT PORTFOLIOS

Despite witnessing losses from the global economic crisis, family offices' appetites for riskier, high yielding assets is on the rise.

TYPICAL INVESTMENT PORTFOLIO

(nine most likely asset classes), by region, in %



* EM refers to emerging markets, including Africa, Latin America and the Middle East

Source: The Global Family Office Report 2014, UBS & Campden Research

AVERAGE FAMILY OFFICE AUM AND TOTAL FAMILY NET WORTH

■ AUM ▨ Total family new worth

EUROPE

USD 890m 59
USD 1270m

NORTH AMERICA

USD 1180m 90
USD 1310m

ASIA-PACIFIC

USD 480m 58
USD 830m

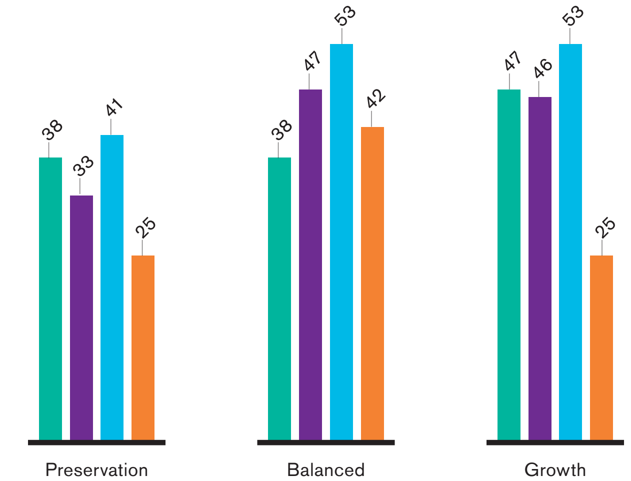
EM

USD 820m 82
USD 1000m

Source: The Global Family Office Report 2014, UBS & Campden Research

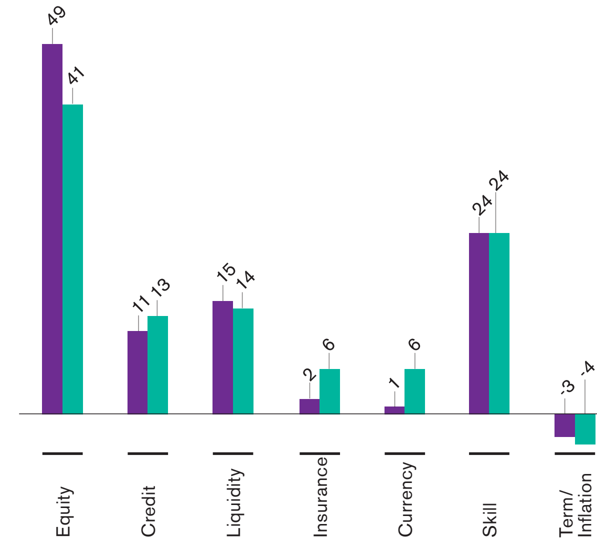
AVERAGE COSTS OF INVESTMENT ACTIVITIES

in basis points (of AUM)



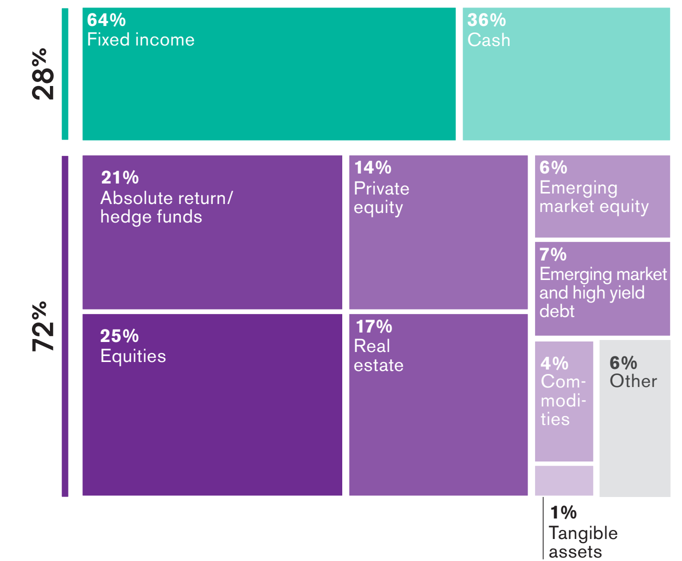
Source: The Global Family Office Report 2014, UBS & Campden Research

FAMILY OFFICES REMAIN RELIANT ON THE EQUITY RISK PREMIUM



Source: The Global Family Office Report 2014, UBS & Campden Research

THE AVERAGE FAMILY OFFICE ASSET ALLOCATION BY RISK



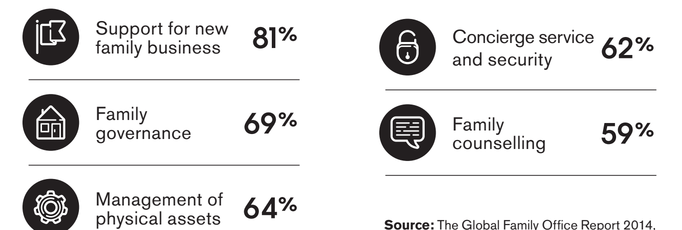
Source: The Global Family Office Report 2014, UBS & Campden Research

SERVICES MOST LIKELY TO BE PERFORMED IN-HOUSE

GENERAL ADVISORY

Service	%
Financial planning	60%
Trust management	35%
Estate planning	25%
Tax planning	17%
Insurance planning	12%
Legal services	5%

FAMILY PROFESSIONAL



Service	%
Support for new family business	81%
Family governance	69%
Management of physical assets	64%
Concierge service and security	62%
Family counselling	59%

Source: The Global Family Office Report 2014, UBS & Campden Research

EMERGING PLATFORMS

The emergence of a new cohort of technologically savvy scions, coupled with a growing group of digitally connected activist investors, is forcing more family offices to develop efficient IT platforms.

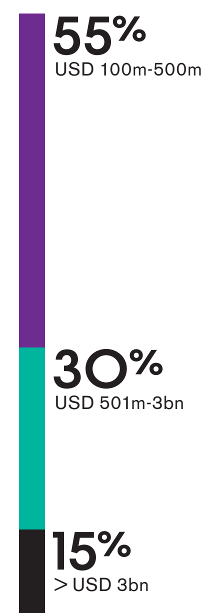
Family offices – which have historically operated in highly fragmented and secretive silos – have come under mounting pressure to leverage new technology, as newer players including large retail banks expanding their wealth management services enter the fray. While national financial regulators are placing more pressure on increasing transaction transparency, the coming of age of highly technologically savvy third-generation scions of ultra-high-net-worth families means that, as they demand more accessible services online, adopting innovative technology has taken centre stage as a strategic challenge for wealth managers.

SLOW UPTAKE

The adoption of innovative wealth management software has historically been slow and asset managers still have a long way to go to recognise and exploit big data and data analytics. This is largely due to a growing compliance burden and a patchwork of legacy systems that distract firms from building new platforms that are critical in serving the next generation of customers. While there have been some changes in the development and integration of sophisticated IT platforms, these have certainly not been dramatic, according to Per Wimmer, CEO of Wimmer Family Office, a UK-based single-family office (SFO). For instance, a study by US-based SFO Wilson Holding Company suggests that while providing virtual data room services is identified as a critical technological enabler, a surprisingly small number of $100 million and $1 billion SFOs use data rooms on a day-to-day basis.

Some firms find it difficult to justify the cost of such IT infrastructure, while others struggle to identify a system with functions and features that match their requirements. For example, the Wilson report cited one family, which asked to remain anonymous, that admitted being willing to spend $5 million on an off-the-shelf integrated system able to address all their needs, but felt that such a tool did not yet exist. Slow adoption can also be tied to a lack of industry formalisation, says Wilson's CEO and founder, Richard Wilson. According to his company's report, which is based on interviews with 180 family offices from 23 countries, only 56 per cent of family offices have office spaces. Fewer than one in three have a formal family charter and only 39 per cent have a formal investment committee.

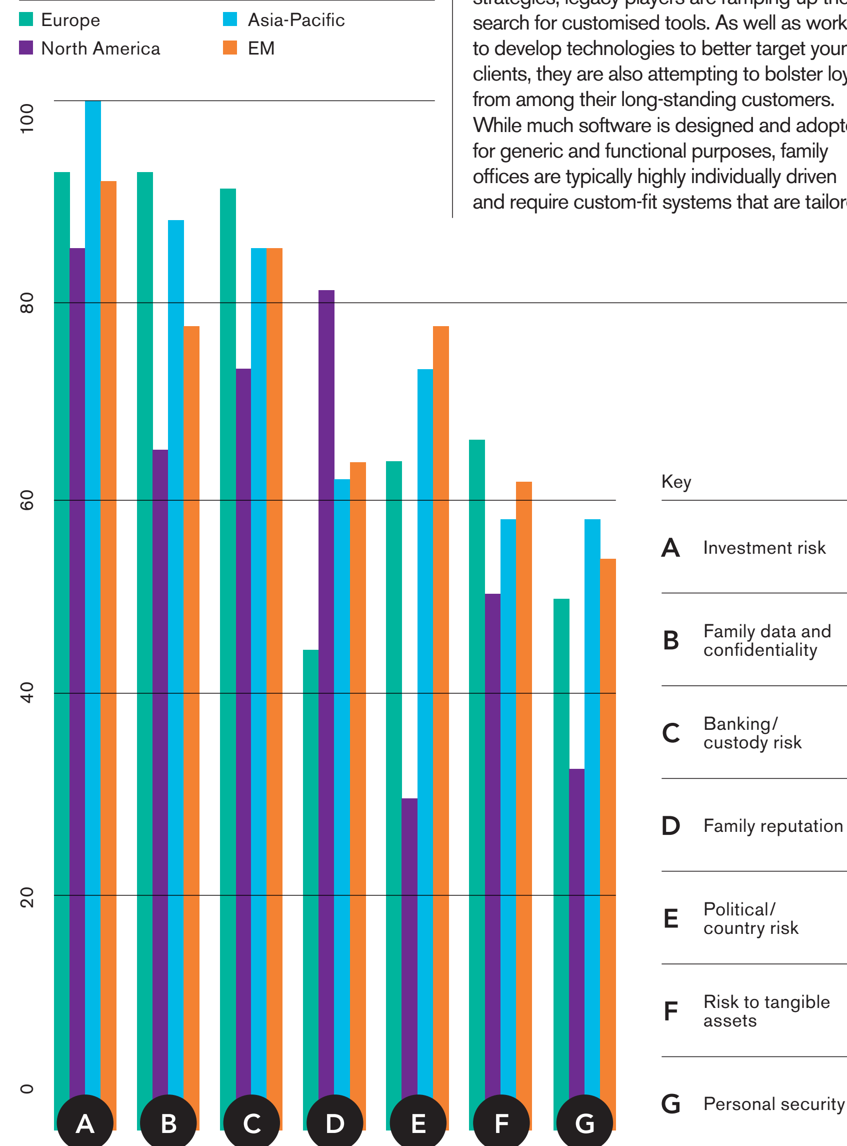
FAMILY OPERATING REVENUE (2013)



AS INVESTMENTS BECOME INCREASINGLY COMPLEX AND DIVERSIFIED, TECHNOLOGY BECOMES CRITICAL IN MITIGATING ASSOCIATED RISKS

IMPLEMENTATION OF INDEPENDENT CONTROL FOR RISK

by region, in %



Source: The Global Family Office Report 2014, UBS & Campden Research

GAINING LOST GROUND

Despite the industry's historical challenges, late adopters playing catch-up have begun working towards addressing the IT requirements for their digital asset management systems. Some firms have adopted social media as a tool to engage with their clients, while some have increasingly looked at new strategies of harnessing 'big data' and its analytical capabilities to innovate their product offering. Others have developed customised platforms and security software to bolster their clients' security systems, as well as improve their client experience.

Faced with mounting competition from newer entrants with cutting-edge data and digital strategies, legacy players are ramping-up their search for customised tools. As well as working to develop technologies to better target younger clients, they are also attempting to bolster loyalty from among their long-standing customers. While much software is designed and adopted for generic and functional purposes, family offices are typically highly individually driven and require custom-fit systems that are tailored to the specific needs of a family or group of families, according to Wimmer. Demand among third-generation clients for customised software platforms is growing rapidly with many family offices spending upwards of $400,000 on IT infrastructure, and families with more than $1 billion in assets spending more than $1 million, says Wilson.

HARNESSING BIG DATA

Much IT expenditure by family offices has been focused on harnessing big data to solve reporting issues. Indeed a growing number of firms have worked to aggregate vast amounts of data – on hard assets, real estate securities and private equity investments – on a software-as-a-service (SaaS)-based reporting platform, to actively monitor and manage their exposure. According to Stefan Kolb, head of financial intermediaries and Private Port at Deutsche Asset & Wealth Management, technology has evolved to enable family offices to actively manage their exposures by diversifying asset classes, investment vehicles, countries and managers. "We are experiencing strong demand from single and multifamily offices for consolidated reporting solutions – at best as part of an easy-to-use digital workplace," he says.

The decision by family offices to harness big data as a way of enhancing their reporting systems is largely down to the fact that as their investments become increasingly complex and diversified, across multiple managers and jurisdictions, technology becomes critical in mitigating associated risks. Therefore, more sophisticated tools for aggregating data, coupled with increasing levels of regulation, more complex portfolio requirements and the growing need for clients to access consolidated reports online and in real time, have established reporting tools as the 'holy grail' of wealth management technology, according to Catherine Grum, head of private office at Salamanca Group, a merchant banking and operational risk management business.

CYBER SECURITY

At the same time, however, greater adoption of these SaaS-based reporting platforms and other classes of technology comes with stark implications about data security online. The complexity of cyber security risks are not well understood by the sector and in many instances avoiding security breaches "starts and finishes with antivirus software," Grum notes, comparing the failure to conduct routine security audits on top of antivirus software to "installing a sophisticated alarm system but then leaving the back door unlocked." Additionally, breaches through mobile devices, amid developments in the "easily overlooked" internet of things, have wide-reaching personal safety implications. As Grum points out, private information "can be gleaned from the timings of their central heating system if it falls into the wrong hands."

As family offices customise their offerings and navigate the challenges of a new digitalised landscape, the use of data and technology will play an increasingly crucial role in allowing firms to both minimise competitive gaps and differentiate their services from others.

THE FUTURE ROLE OF FAMILY OFFICES

Although family offices have historically operated as exclusive and independent entities, big retail banks seeking greater returns are encroaching in the industry. As such, intensifying competition and growing consolidation is forcing more family offices to diversify their services.

Not since the Great Depression of the 1930s has the financial services industry experienced such a period of turmoil. With US and UK economies now on the brink of recovery, there is an opportunity for the wealth management industry to return to business as usual. But the sector has been changed by the events of the last six years and may never be the same again, says Catherine Grum, head of private office at Salamanca Group, a merchant banking and operational risk management business. She notes that wealth management – and the UK market in particular – remains very fragmented, where even the largest players have a relatively small overall market share.

Fragmentation has increased since 2008, as smaller, boutique wealth managers emerged, partly a result of the distrust of, but also loss of confidence in, larger banks. "There was a feeling that some of the larger operations with asset management and investment banking arms were using wealth management as a distribution tool for their products," Grum explains.

The resulting lack of independence of larger firms and perceived lack of transparency created an environment for smaller wealth managers to emerge, she adds, and allowed them space to develop their offering. "What the larger providers can offer the family offices in terms of institutional capabilities, the smaller boutiques have much more freedom and are better able to tailor their approach for their clients."

THE EFFECT OF CONSOLIDATION WILL LIKELY RESULT IN THE DEVELOPMENT OF A MORE INSTITUTIONAL TYPE OF SERVICE

Catherine Grum,
head of the private office
at The Salamanca Group

REGULATION

This rise of boutiques has coincided with many larger institutions refocusing on their core market. This has been driven by the increasing burden of regulation on both a local and international basis. Regulatory changes are increasing costs and introducing risks for non-compliance. As a result, many larger firms have become more discerning about whom they select as clients.

Barclays has had a recent review of the countries in which it operates and RBC is going through a similar process. This means family offices representing clients from frontier and emerging markets may discover they have limited choices in the future, Grum opines. "Some are having to find new wealth managers, despite quite a long relationship, because the managers have taken the view they no longer want to look after clients in a particular market. This is not because the individual client has changed their risk profile, but the firms have made a strategic decision to withdraw from certain markets because of the costs required to understand the regulatory environment in those markets."

CONSOLIDATION

The costs associated with complying with increased regulation in different jurisdictions are not only having an effect upon the larger institutions. The need for specialist knowledge will lead to a degree of consolidation within the family office sphere, Grum argues. "It won't be revolutionary, but we will see a trend over the next three years for consolidation, where smaller multifamily offices looking after two or three clients will join forces. Some single-family offices may look to join with other single-family offices as the possibilities of scale for splitting the cost of compliance across several families makes that model more viable."

Grum believes the effect of consolidation will be broader than the pooling of resources and managing risk. Instead, it will likely result in the development of a more institutional type of service, where each element – from meeting clients to dealing with custody arrangements – will become more formalised, like the services offered in the US.

"For instance, US family offices often choose a single custodian relationship, even if they have relationships with several wealth managers," Grum explains. "This makes it easier to compare performance of different providers and demonstrate that performance to clients."

TECHNOLOGY

The 'institutionalisation' process is reliant upon technology and specialist providers have become aware of the opportunity in this market. Family offices no longer consider it appropriate for risk profile analysis of portfolios run by different wealth managers to be held in spreadsheets with a couple of people in the back office crunching the numbers, Grum says.

"They are now increasingly looking for good consolidated reporting tools, so that they can manage the risk in-house themselves. This gives them more information and therefore more control." Family offices will increasingly gain access to new, flexible systems that will be developed in the cloud and delivered via a software-as-a-service (SaaS) model.

Without the arcane legacy systems with which many large institutions are saddled, family offices will be able to react quickly to technological developments and take advantage of slick management and reporting systems. Most importantly, the need to protect clients' data will hasten the move to modern, outsourced technology platforms that can offer unprecedented levels of security.

PHILANTHROPY

The new 'institutional' approach adopted by family offices will affect not only what offices can do for the client, but also how they can help the client do something for others. Philanthropy, a cornerstone of wealth management for generations, has offered a way of giving those not associated with generating the wealth a greater understanding of its full potential when put to use.

Grum says there will always be those who donate, but there is a new philanthropic class of what she calls 'doers'. These go further than simply donating money, or seeking a return on their charitable donation. Instead, they are forming charities that offer the skills they have developed in industry to other charities. In effect, their charitable donation is not merely money but expertise.

This is an area in which family offices are increasingly helping their clients – not just for their clients' benefit, but for others'. "I have seen an example of a charity that has a number of private equity investors using their skill of managing private equity funds to help other charities," Grum notes. "Charities are helping other charities through skills and knowledge, and a lot of value [is] being created."

A NEW APPROACH

Global economic recovery is taking hold and the coming year holds promise for the wealth management industry. Yet new legislation, developing technology platforms and sector consolidation means family offices cannot rest on their laurels.

Family offices head into 2015 in a position of strength on regulatory matters, with a greater degree of clarity of the regulatory headwinds on the horizon than they had a year ago. Most will now be familiar with their obligations arising from the Foreign Account Tax Compliance Act, Dodd-Frank or the rules on beneficial ownership. Regulators in 2015 will continue to pursue cross-border taxation policy in addition to what has been labelled a 'global approach' to money laundering.

CONTINUED CHALLENGES

In terms of investment performance, the low-yield investment climate looks set to persist for some time. Figures on asset allocation trends in 2014 from investment intelligence firm eVestment show that family offices are returning to hedge funds and hedge-fund-like strategies for returns. However, CIOs need to be mindful of the mistakes of the past that led to many funds losing heavily in the financial crisis.

While risk premia and synthetic factor-based investing offer a different way for offices to secure alpha, familiarity with the 'ingredients in the secret sauce' is key. Systems should be put in place to fully understand and differentiate vulnerabilities in the investment strategy from trading strategies.

Increased regulatory demands resulting from new rules on tax evasion and money laundering will mean family offices will need to ensure they have a comprehensive reporting system that allows them to keep close watch of investment performance and risk exposure in a real-time environment. The start of 2015 will therefore be a time for many to begin a comprehensive appraisal of their systems if they haven't already begun doing so.

GROWING TRENDS

The shift by family offices – as shown by the World Economic Forum's recent report – away from the traditional separation of philanthropy and investment towards the blended 'impact investing' approach, where investors seek social or environmental returns alongside financial ones, will likely persist throughout 2015. Research conducted by Campden Wealth and UBS found that North American family offices currently give philanthropic endowments of around $61 million a year, so the sums involved are considerable.

Mike Mompi, head of the investor network at impact investment firm ClearlySo, says that in the past two years he has seen more high-net-worth individuals entering the space, and that family offices need to be ready to offer their clients impact investment opportunities – from social impact bonds to direct equity or debt investments in early-stage companies. "This is particularly key for families thinking about next-generation engagement, where impact investing can be a way for the young people to engage with the family money in a way that is values-aligned and long-term in its outlook."

The diversification of capital across regions looks set to continue in a similar fashion to 2014 in response to continuing concerns of geopolitical risk in regions such as the Middle East. Western European and US real estate continues to be a favoured asset class.

Family offices are also likely to continue to favour 'club' deals in 2015, according to those familiar with the sector. These deals – where a number of families, sometimes from different jurisdictions, club together to invest in a trading business or an asset – will become increasingly common in 2015.

A final suggestion for the year ahead from consultancy Deloitte is that we may start to see families allowing the finance department of their own operating businesses invest the family's assets, following a trend which originally started to gain in popularity in Germany following the financial crisis.

However, Paula Higgleton, Deloitte partner who leads the family office practice, warns families to think twice before adopting this approach. "In some jurisdictions, such as the UK, the favourable tax reliefs afforded to family businesses may be jeopardised if the trading element of the balance sheet starts to be diluted by non-trading assets, such as investment properties and investment portfolios," she explains. "This can potentially have an impact on inheritance tax reliefs that need to be secured to pass the business down to the next generation tax efficiently or reliefs needed on sale of the business or indeed on reorganisation reliefs."

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