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Enhancing Family Offices Through Governance and Operational Oversight

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Family offices have a long history in the financial sector and continue to evolve beyond fundamental wealth management.

Today's family offices are sophisticated, multi-service organizations providing comprehensive financial, tax, and philanthropic services;sometimes across generations. Initially focused on wealth preservation for wealthy individuals and industrialists, the modern family office is a complex structure offering bespoke services, integrating technology, and increasingly engaging in different investment strategies.

Family offices are becoming more sophisticated in their overall investment strategies by expanding beyond investing in traditional asset classes and investing in commingled fund vehicles and other alternative assets. To properly assess those investments and conduct proper diligence many family offices have brought in experienced individuals to their staff to both assess the investments and institutionalize their operations programs whereas others are just beginning to develop their programs.

Navigating Governance and Operational Challenges in Family Offices

As family offices evolve into multi-family offices or deal with succession planning challenges, they may find themselves not only focusing on investment management but also juggling operational and regulatory oversight which is critical to safeguarding the family's assets. The owners of the family's assets may not have the requisite experience to manage the investments as they may have other interests or simply lack experience. In some cases, the family may hire external staff to assist with managing the family's assets whereas others will attempt to manage all these processes on their own. To maintain the family's values and objectives all while preserving their wealth and staying current amid the evolving landscape for safeguards and best practices, family offices may benefit from establishing a governance program or having a third party assist with developing a program or conduct a review of its existing governance program.

Key Complexities in Managing Modern Family Offices

1. Investment Complexity and Oversight
   Family offices often invest in multiple instruments of various asset classes both directly or via commingled investment vehicles. Not only will they need to keep track of the investments' strategy and performance, but they should be equally focused on the operations and risk management of their investments, valuation and net asset values. If the family office is investing via a commingled vehicle that is incorporated as a Cayman Mutual Fund, the fund would require a board of directors, preferably an independent majority and governance practices embedded in a framework effective to meet the regulatory standards.

2. **Regulatory Compliance and Risk Management**
The family office may need to adhere to certain regulatory requirements or compliance obligations of the jurisdiction where they operate. Often times this may include certain reporting or regulatory filings that will require additional oversight and monitoring. There is also the need for AML oversight, cyber security monitoring and maintaining technology.

3. **Succession Planning and Family Dynamics:**
Succession planning that is not well thought out may potentially lead to confusion among the asset owners, especially as assets shift to the next generation. As assets are passed down to the next generation, control of the finances may be distributed to extended family members who may not have the same goals or aligned interests or experience managing assets. Balancing family dynamics and creating an environment of trust without conflicts is key to the longevity of the family office. Additionally, formal reporting to the beneficiaries on the family's investments and activities may be expected.

4. **Scaling and Institutionalizing Operations:**
Some single-family offices may consolidate with other families to create multiple family offices and might eventually offer their investment strategies to third party investors. The core organization needs to be equipped to not only manage the investments but also respond to the expectations and needs of the various investors. This would require institutionalizing the overall investment and management processes within the organization and establishing controls which may be enhanced by a proper governance framework. Actively monitoring investments, conducting due diligence and legal document reviews, making prudent tax considerations, managing conflicts of interest and reporting to investors may be new areas of consideration that will require sufficient management and governance oversight.

Family Office Governance: Ensuring Operational Excellence and Compliance

There are several different forms of governance that a family office might consider that will also encourage proper checks and balances. Whether it is an internal group coming together to discuss matters, or external oversight by an advisory committee or board of directors; a well thought out governance structure can ensure alignment of family objectives while providing proper oversight of investments and compliance requirements.

Having focused meetings where those responsible for governance will regularly discuss the family offices objectives, tackle issues or concerns and check adherence to regulatory compliance and objectives is key to the success of the family office. Such discussions are an opportunity to consider any conflicts and ensure the family office operators are fulfilling their responsibilities, all while creating efficiencies.

A good governance program will also ensure that there is proper reporting provided to family member investor, accountants, administrators and other third parties that are critical to the overall success of the organizations.

The use of technology to manage assets, evaluate investments, conduct risk assessments and provide reporting will enhance a family offices governance program but also comes with its own risks. Cyber security concerns are real threats for family offices and should be something they do not take lightly and should be an area of focus in a proper governance program.

As family offices establish or further develop their governance programs, they may potentially benefit from having an external party conduct an assessment of their current structure and identify ways they might improve to a standard of best practices. A well-established governance program can assist a family office with maintaining its objectives and values while being accountable to family members, adhering to compliance and preserving wealth. Leveraging best practices in a cost and time efficient manner can make a considerable difference to the confidence and execution of governance programs, while allowing families to concentrate on their core obligations of asset management and fiduciary duties.

How Can Waystone Help

Waystone's independent governance professionals can assist with a review of your governance program to help you maintain a best practices led program by working with you to identify vulnerabilities or areas requiring improvement. Whether it is an independent assessment of your governance framework or an assessment of your existing governance board, our governance professionals will assist you with creating a culture of compliance and governance oversight. Waystone can also provide external director or advisory services to your organization or investment vehicles.

Waystone delivers high-quality fund governance through experienced, independent fund directors who provide independent oversight, navigate complex fund requirements, and enhance governance practices. Our professional fund directors meet rigorous fit and proper standards and work closely with our fund governance team to provide robust oversight. Leveraging industry-leading proprietary technology, our directors ensure a clearly documented audit trail that supports transparent and well-informed decision-making processes.

If you have any questions about the themes raised in this article or to learn more about how our independent director services, please contact your usual Waystone representative or reach out to us below.

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