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Alpine attraction: Switzerland is a magnet for family offices

Institutions set up to manage the financial assets of rich families have quietly become key investors in financial markets

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Novum founder Gabriele Gallotti

It used to be said the rich would go from shirtsleeves to shirtsleeves in three generations: a domineering patriarch would earn the wealth, his spiritually crushed children would unimaginatively sit on it, and their profligate charges would, in turn, squander it.

And the next decade will see the biggest of these generational wealth transfers in history, from the world's richest — who are wealthier than any who have gone before them — to their children and grandchildren.

But, today, few of the ultra-wealthy plan to leave their legacies to chance, indolence or folly. In the years since the 2008 global financial crisis — a period of great enrichment for billionaires — a profound shift has been under way in asset management: the rise of the family office.

Family offices — institutions set up to manage the financial assets of rich families or sometimes collections of families — have quietly become key investors in financial markets.

The largest are hard to miss: organisations such as Cascade Investment (managing wealth for billionaire Bill Gates) in the US and the Harald Quandt Family Office (for the family behind German carmaker BMW). French tycoon Bernard Arnault, chief executive of luxury group LVMH, has a family office, as does Italy's Agnelli industrial clan. But there are many smaller, more low-key organisations that are equally sophisticated and active in the markets.

Some are larger than general asset management companies. They compete with big-name investors for private equity deals, they poach the best banking talent and they are, for the most part, opaque and unregulated.

Operating out of public view remains a hallmark, though perhaps not one that will survive into the future as the systemic importance of family offices becomes more evident — causing regulators to increase their scrutiny — and as widening inequalities push the world's super-rich to explain their role in society more fully.

Business historians date the family office to the turn of the last century. Wealth had formerly been based almost entirely on land. But, with the rise of entrepreneurial capitalism in the Victorian era, liquid wealth became more common. And the very richest needed resources to manage it.

The Rockefellers created the template when they set up their family office in 1882.Operating in later years from Suite 5600 in New York's Rockefeller Center, surrounded by works of art, the family office team managed trusts for the heirs of oil tycoon John D Rockefeller. Still going, it serves dozens of branches of the Rockefeller family and others — 250 in total.

Hundreds of similar organisations were set up over the subsequent decades. But, since the 2008 crisis, this niche financial field has expanded dramatically. In 2008, estimate advisers EY, there were about 1,000 single-family offices worldwide, a number that grew tenfold over the following decade.

"There is an increasing number of [family offices] due to the fact that there is an increasing number of wealthy families," says Laurent Pellet, head of external asset management at Swiss private bank Lombard Odier. "But the mission of these organisations has really changed in recent years. There has been a huge professionalisation and growing sophistication in what they do."

Switzerland, thanks to its status as

one of the world's leading private-banking centres, sits at the heart of the family office boom, though it faces competition from London, New York and, increasingly, Hong Kong and Singapore. The wealth management arms at Switzerland's two biggest banks, UBS and Credit Suisse, have moved towards catering for these new family offices.

The country has become a base for wealthy people from the rest of the world, alongside the family offices of Swiss billionaires. These include the vehicle of the Sandoz family — hoteliers and founders of the eponymous pharmaceuticals company that is now part of Novartis — and Loreda, which manages the wealth of Hansjörg Wyss, a prominent supporter of environmental and scientific causes.

Among the foreign families are Denmark's Kristiansens, of Lego fame, who run their wealth from the village of Baar in the canton of Zug, through an entity called Kirkbi, Similarly, Austria's Swarovski family, makers of crystal and glassware, operate Swarovski HNW from the "gold coast" of Lake Zürich. In Geneva, Mirelis Advisors jointly runs the wealth of the Lawis, a Middle East banking dynasty, and the Kadoories, Hong Kong property developers and hoteliers.

Most single-family offices have only a handful of staff — 10 or so is typical — but there are larger operations with more than 150, according to one private banker. Many of the big offices have branches around the world, to keep an eye on international family assets.

The Bertarelli family, former owners of Swiss bio technology company Serono, which was acquired by Merck in 2007 for $13.3bn, now manage their wealth through Waypoint Capital. The family office, headquartered in Geneva, runs six separate specialist investment managers, focusing on fields as diverse as US life sciences and Swiss property. Waypoint has offices in Jersey, Boston, San Francisco and Luxembourg.

While investment advice remains at the core of any office, many provide their patrons with extensive extra services. They are what a Zurich-based banker calls the "Hollywood aspects"; wealth managers term them "concierge" services and they include diary-keeping, checking children's school reports and making travel arrangements, right down to ensuring the private jet has the right food on board.

But there are also other serious advisory functions that increasingly are provided in-house, from tax planning to succession. Coaching has become big business, as has high-end relationship therapy — designed to limit family disputes, including when people die.

It is common for big family offices these days to be run like any company, with written rules and just as dispassionately. One adviser describes the two-day annual conference for one wealthy South American family that takes place in an exclusive Zürich hotel. As at a company annual meeting, investment outcomes are pored over in presentations to family members, who attend just like shareholders. There are seminars and advice sessions. The same family spends about $1m a year educating their young children on financial matters.

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Nicole Curti, Stanhope Capital

"There are as many different kinds of family office as there are wealthy families," says Robert Cielen, European head of Credit Suisse's international wealth management division. The real focus though, he says, is that many family offices now take a very long-term view about preserving their wealth. "The prime occupation and mandate of the family office remains financial in nature, but [now] it is a multigenerational asset allocation." Or, as a 2021 report from Goldman Sachs, the US bank, puts it: "We see many family offices looking to acquire similar assets [to] traditional institutions but with a greater capacity to hold in perpetuity."

Cielen says the biggest two investment trends, driven by that long-term view, have been a shift into private equity and venture investing, and a huge focus on sustainability.

Private equity investing has become so pronounced that many family offices have their own in-house teams to source deals and close transactions. Mousse Partners, for example, which oversees most of the estimated $30.8bn fortune of Alain and Gerard Wertheimer, the brothers behind French fashion house Chanel, has become an active player in the luxury private equity field.

Some might scoff at the super-wealthy's declared aims to save the planet, but many in private banking say the movement is real. Rockefeller Capital Management, for example, which has a portfolio of $5bn originating from the riches generated by Standard Oil in the 19th century, announced last year it would divest entirely from fossil-fuel holdings. A partner in one prominent Swiss private bank recounts his discomfort at having to tell emissaries from Saudi Aramco, who were visiting Switzerland in 2019 on a road show to drum up interest in the oil giant's flotation, that none of his wealthiest clients had any interest.

A survey by UBS of family office clients, with SFr225bn ($240bn) under management between them, revealed that, globally, 56 per cent are engaged in sustainable investing. The bank reports a consensus belief that, within five years, about a quarter of portfolios will be focused on environmental, social and governance strategies. In western Europe, the trend is even more marked: 76 per cent of family offices are investing heavily in sustainable products, according to the UBS report.

"Sustainable investing is not just an Instagram thing. I know one family from Europe whose money is originally from oil and gas," says Cielen. "Now, the second generation has pushed the investment agenda to the point where they are divesting from that. We're now providing financing for them to acquire a sustainable packaging company."

Nicole Curti, a partner at Geneva-based wealth adviser Stanhope Capital, describes a younger client base that takes sustainable investing seriously and expects an adviser to be able to talk to them about

UN climate goals or philanthropy as easily as about portfolio risk. “There’s a new generation today coming to the fore that, compared with 10 or 15 years ago, has a completely different approach to life . . . in terms of technology, values and expectations,” she says. “Ten years ago, it was all about, how do I make more money? Now, it is all about, how do I use that money?”

The boom in family offices has come at a price, however: a lack of transparency and regulation, combined with increased competition among banks for clients, has generated more hidden risks.

The situation was exposed dramatically this year, with the implosion of Archegos Capital, an organisation that was effectively a hedge fund investing with spectacular leverage in the guise of a family office.

The collapse of Archegos inflicted a heavy cost on the banks: Credit Suisse was hit hardest, with a $5bn loss, while UBS lost $774m. Japan’s Nomura and Morgan Stanley of the US took hits of $2.9bn and $1bn, respectively.

The incident triggered panic in banks’ risk management departments. Both UBS and Credit Suisse have been reviewing all of their relationships with family offices. Many have woken up to the fact that they have little, if any, insight into exactly what the risk positions of family offices are, because there are few, if any, disclosure rules.

Part of the problem has been the extent to which large private banks have sought to juice profits by encouraging some big family office clients to make greater use of the prime brokerage services — a lucrative model championed by both UBS and Credit Suisse. Whether, in the wake of Archegos, it will continue to be so profitable remains to be seen.

Archegos, most private bankers insist, was an extreme outlier. The vast majority of family offices undertake very little trading. One banker described one of his biggest clients as having a “play account” of about $1bn for trading in liquid markets, but said this was a fraction of the value of the family’s overall portfolio.

Still, the Archegos affair has prompted calls for a regulatory review, including from Carolyn Rogers, secretary-general of the Basel Committee on Banking Supervision, who says disclosure is “an issue”.

Alongside the proliferation of single-family offices there has been a boom in multi-family offices, which are effectively highly specialised asset management firms with a few wealthy family clients. With no single family to answer to, the checks on investment managers are often weaker.

After 14 years working for the private bank of JPMorgan, the US group, Gabriele Gallotti left with the intention of joining a multi-family office. “I did my due diligence, I went around, had a lot of interviews with a lot of family offices, and eventually I decided the only good option was to open my own,” he says. Of the 15 or 16 family offices and investment advisers he saw, Gallotti says, all had what seemed to him to be conflicts of interest or problematic work practices.

The business model of many is broken, he says. “Bankers who come here to me to be interviewed say they want a [pay] package that is equivalent to 60 or even 70 per cent of the revenues they generate. I immediately stop the discussion. You can only do that— and there are lots of places in the market who offer that — if your revenue stream goes above what the family pays you.”

That, says Gallotti, means “kickbacks [from banks getting the office’s business] or running your own parallel funds”. Does that go on? Yes, he says, “a lot”.

Novum, the multi-family office Gallotti set up, has 17 families as clients, with $2.1bn in assets. He does not see any value in expanding further. “Scaleability is not really an option. What we need to focus on is serving the needs of our clients with integrity and having a tailored service for their needs,” he says. “The more clients you have, the harder it is to do that.”

Gallotti is convinced, however, that family offices will only become more dominant in the wealth management world. He says many senior managers are keen, as he was, to leave big banks as increasing regulation and margin pressures squeeze their ability to be creative and serve their clients well. “In the same way we saw in early 2000 people leaving investment banking — in both sales and trading — to set up hedge funds, I think we will see a similar trend now with people moving out into family offices,” he says. “The smart thinkers, the ones that own their clients, they will leave the banks.”

This article is part of FT Wealth, a section providing in-depth coverage of philanthropy, entrepreneurs, family offices, as well as alternative and impact investment