

## Rich families bring wealth in-house

Private banks face an exodus of business from high net worth individuals, writes William Hutchings

Super-rich families are threatening to take away business from private banks and manage some of their trillions of dollars of assets in-house.

Almost \$29 trillion (€24 trillion) of assets are owned by high net worth individuals and wealthy families, according to estimates made last year by Capgemini, the consultant, and Merrill Lynch, taking \$1m as the lower threshold. They said they expected this to grow to more than \$40 trillion in three years' time. At least \$2 trillion is owned by 70,000 individuals and families owning \$30m or more.

In the UK the Flemings with more than £1bn (€1.5bn) and the Brenninkmeyers with more than €4bn are among the families that have eschewed private banks in favour of in-house asset management teams.

The Manuli, Martini and Fernet families of Italy and the Yagloms of Switzerland, each with more than €300m (\$350m), are managing their money rather than using private banks, according to Emmanuel Arbib, chief executive of Integrated Asset Management, a fund of hedge funds manager and brokerage firm.

Setting up a family office with an active management approach requires minimum assets esti-

mated at about €300m and wealthy families are increasingly clubbing together to form multiple-family offices. This is the route taken by the Fleming family, whose Fleming Family & Partners has seen assets under management rise from £1.8bn at March last year to £2.3bn, according to financial statements it published last week.

Italy's Pallavicini family has amassed €1.5bn in its multiple-family office, Global Wealth Management, which it started five years ago. Another multiple-family office, Stanhope Capital in London, has raised €500m.

Capgemini and Merrill Lynch said they had noticed high net worth individuals taking more interest in growing their families' wealth through active portfolio management. Their recent report said: "Families with \$50m to \$100m in assets address their advisory needs through the formation of a family office with a team of professionals providing access to a wide variety of specialised products and services. Demand for these has increased sharply."

Arbib said: "The huge families are doing it on their own more. Attitudes are changing – the second and third generations would rather



**Volume has increased due to the disaffection of clients**

Peter Sartogo, Global Wealth Management

make money through investment than through owning companies."

Peter Sartogo, who has just left Deutsche Bank to join Global Wealth Management as a partner, said there was a trend away from using private banks. Sartogo, who became one of the youngest managing directors in Deutsche's global equities division in London in 2003 when he was 32, said: "In the past few years the volume of business

in multiple-family offices has greatly increased due to the disaffection of clients with large institutions and their excellent earnings."

This is a departure from the old model of the family office, which used to act as accountants keeping track of money while relying on private banks to make investment decisions. Many family offices remain loyal to a private bank as a custodian but this, too, is changing: Fleming Family & Partners has looked at custody and administration providers.

Family offices have three attractions over a private bank, according to Sartogo: alignment of interest, a long-term relationship and greater depth of advice.

He said: "We are paid, based on the returns of the client, according to their risk profiles. We give more advice than a private banker would: I sit on the boards of family companies. One of the clients is potentially floating a company and we are involved."

Capgemini and Merrill Lynch said the increased demand for active family offices is creating a shortage of talented family office professionals. Sartogo said: "Everybody's dream is to be asked by one of these entrepreneurs to work for them, managing their money. When you work for a bank, you take only a small proportion of what you make for it. A bank is keen for you to sell its products; by working for a family office you have a view of the total assets."