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Third-party Search Consultants Growing Rapidly

Charles Paikert Editor in New York - Family Wealth Report

Helping wealthy families find the right multifamily office or wealth management firm as a third-party consultant has become one of the industry's hottest growth areas, figures in the industry are saying.

"We've seen a lot more movement around third-party consultants in the last year, and we see it continuing this year," said John Elmes, senior partner, GenSpring Family Offices.

"We've been seeing more outside service providers helping clients in their searches than we have in the past," said Rob Francais, chief executive of Los Angeles and San Francisco-based Aspiriant. "I think families want all the help they can get now," he said.

But industry executives are unsure if the growing number of firms and individuals providing a thirdparty search service is being driven by increased demand from families or simply an increased supply of consultants.

"We're seeing more firms popping up in that area," said Dune Thorne, managing director for Silver Bridge Advisors in Boston. "I just don't know how much of it is driven by families seeking advice or dislocation in the market."

"There's a bit of a Wild West frontier aspect to it," said investment banker Liz Nesvold, a managing partner at Silver Lane Advisors in New York. "There's definitely room for qualified consultants to help families, but I think there's also a feeling that some people are re-inventing themselves to be relevant in the industry."

What's more, a number of wealth managers say they're seeing more families use personal referrals to make decisions about MFOs rather than use third-party consultants.

"We're seeing more referrals than ever before," said Steven Reiff, national director, investment solutions and advice for Bank of New York Mellon Wealth Management. "Wealthy families are asking other wealthy families 'What have you done?' It's more personalized and something they feel comfortable with."

Nonetheless, there's little doubt that many third-party consultants helping families with searches are thriving and seen as providing a valuable service.

"Our experience has been very positive," said Mr Elmes. "We've worked with four firms: RayLign Advisory, Windward Advisors, Family Office Metrics and Family Office Exchange .They're able to put a process around the search effort, prioritize a family's requirements and narrow candidates down based on these requirements.

"In fact, we've found the experience to be really good whether they choose us or not because they tell us what we've nailed or where we fell short, so it's useful information for us," he said.

“Families need help defining their own needs and what type of structure is best aligned with their needs,” said Kristi Kuechler of IPI in New York. “The short list they end up with is often the equivalent of an apple, an orange and a pomegranate instead of three different kinds of apples.”

Cultural Fit Key

While objective criteria such as investment performance are important, third-party consultants say the real trick to their business is finding the right cultural fit between families and firms.

“There are often many firms who can satisfy an investment mandate,” said Kathryn McCarthy, a veteran New York-based advisor to wealthy families, “but a cultural fit is harder to find. For example, I worked with a family who specified that they were looking for a multifamily office where the founding family was a significant user.”

“Intangibles are very important,” said Karen Neal, managing director, consulting, for Family Office Exchange in Chicago, a membership organization for single and multi family offices. “A criterion for one family might be that they want a firm to have other families that look like them. Another family may want to be sure there’s a good personality fit between family members and the firm’s team.”

Consultants say they strive to align the needs of their clients with the capabilities of the advisory firm or family office.

“The MFO is in business to make a profit, and the family expects a level of service that is difficult to find unless people work directly for you, so setting expectations is important for both parties,” said Jon Carroll, president and chief executive of New York-based Family Office Metrics. “It’s more like matchmaking, and not like submitting a request for proposal for a product or measuring performance of an investment advisor.”

“There’s lot of firms that are now claiming to be MFOs,” said Jim Campbell, a partner for the Windward Advisory Group in Princeton, New Jersey. “But they focus on investments, and it’s the non-investment services that tend to fall short of a family’s expectations.”

“We try to find out what’s important to the family and make sure there is alignment with a firm emotionally and with resources and relationships,” said Greg Rogers, president of Greenwich, Ct.-based RayLign Advisory LLC.

Indeed, a family’s choice is often made at the margins, consultants say.

“The top-tier MFOs do the same sort of thing 80 per cent the same way,” said Mr Carroll. “The value of a consultant is that they understand and communicate the differences that are important to the decisionmaker.”

Once families decide on a firm, third-party consultants say they are usually not involved with on-going monitoring.

“We help them with implementation and conversion,” Mr. Campbell said, “and then we’re out of there.”

“In some cases we’ll work on the transition,” said Mr Rogers, “but a typical project involves looking at a family’s needs, educating the family about advisors and establishing benchmarks and making recommendations.”

Fees

While searches are highly customized for each family, the minimum fee families can expect to pay appears to be about \$20,000.

Mr Rogers said each phase of a project at RayLign can range from approximately \$20,000 to \$40,000, and Mr. Carroll said search fees at Family Office Metrics would start at \$20,000 and can range up to around \$50,000 for four to seven days work.

“There’s a fixed fee for a fixed deliverable,” he said.

Fees at SFO Advisor Select, a firm launched last fall in Greenwich, Ct. start at \$25,000, said Phil Strassler, a partner in the firm, which, like most third-party consultants, has a similar business model to a professional services firm such as a law firm, using per-project or hourly rates.

The need in the market for “conflict-free” advice was a key reason SFO Advisor Select was formed, said Elizabeth Mathieu, another partner in the firm.

“Typically families look for a word-of-mouth reference,” Ms Mathieu said, “but the right advisor for you may not be the right advisor for me. And centers of influence like lawyers may have another agenda where they refer business to someone who referred business to them.”

In addition, Mr Strassler said, families are beginning to realize how costly it can be to make a mistake when choosing an advisor.

“It’s many multiples of time and money to get rid of an advisor versus hiring one,” he said.

Concerns... and Confidence

As the field becomes more crowded, some industry veterans are also voicing concern about the quality – and motives – of new competitors.

Ms McCarthy said some multifamily offices were beginning to act as consultants to single family offices.

“They’re trying to be independent and will look at a family’s operation as a marketing tool,” she said. “Some are good at it and some are not.”

Other executives noted that the rise in third-party consultants has coincided with dislocation in the job market in the wake of the financial crisis.

“There a lot of people representing themselves as consultants now and some are not qualified,” Family Office Metrics’ Mr Carroll said. “Look and see who was around five years ago and see who is around now saying they know everything.”

But third-party consultants also believe their growth prospects are good. Most of the growth will come from families who are not ultra-wealthy, they say.

“We’re getting a significant amount of phone calls from families with smaller pools of assets,” Mr Rogers said of RayLign Advisory.

“I think you’ll see most of the activity come from families with less than \$200 million,” said Mr Carroll. “If a family has \$500 million or more they’re not running for the hills.”

While many searches are triggered by events in the family such as the sale of a business or the death of an older family member, the market shocks since September 2008 have also been a catalyst, consultants say.

“What’s happened in the markets have injected a new set of risks and operational complexity,” said Scott Budge, managing director for RayLign. “Being a globally diversified family along asset classes was harder than they imagined.”

According to Mr Campbell, demand for third-party consultants will be driven by “so many single family offices who will need services that they can’t do in-house.”

And don’t forget peer pressure, said Ms Neal from Family Office Exchange.

“The whole industry is changing,” she said. “Multifamily offices are more popular and more families are doing it.”