

WEALTH & INVESTING

INSIGHTS FROM CFA SOCIETY SINGAPORE

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The modern family office: Balancing legacy, innovation, and risk

Vigilance, adaptability, and a commitment to excellence will be key to thriving in the evolving era of wealth management

FAMILY offices have evolved significantly from their origins as closely held structures for wealth management. Today, they are complex organisations facing an ever-changing landscape of legal, regulatory, reputational, and financial challenges and opportunities.

The increasing number of ultra-high-net-worth families has spurred the need for modernised approaches to wealth management – ways that emphasise digital presence, privacy, reputation, and robust risk management strategies.

This article explores how family offices are transforming, the innovative models they are adopting, and the practical steps they can take to address emerging risks while preserving wealth.

Emerging models in family offices

Many family offices, once dedicated to serving a single family, are transitioning into full-fledged asset management firms with funds seeded by the anchor family. Some operate under a unified brand, managing diverse strategies, while others fund independent managers who retain their own brands.

Many are adopting traditional endowment-style strategies, which emphasise diversification through hedge funds, private equity, and real estate. These new investment models include direct investments with and without co-investors, syndications, and closed-ended funds supported by third-party capital.

Model 1 showcases a unified brand with different products. Usually, the family office (LP) receives equity in the underlying general partners (GPs) management company.

Model 2 is one that seeds GPs, oftentimes with a management company stake.

These entities differ from other traditional asset management firms in that, oftentimes, they're closely related to the founding family and may have been a single-family office before and are effectively a spin-out of the internal investment team.

Many of these firms are strategically designed to invest across the entire capital stack, much like a traditional family office balance sheet, allowing for greater flexibility and alignment with family goals. In addition, they leverage the market relevance and reputation of their anchor family to attract top talent, engage investors, and access unique deal opportunities – distinguishing their position in the competitive financial landscape.

By pooling resources, these entities subsidise



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high-quality front-office operations while spreading middle- and back-office costs across their funds. Over time, such family offices may evolve into institutional asset managers, gaining enterprise value from fee streams and fund performance.

Oftentimes, this is a shared services platform that is offered to GPs either perpetually or until they become scaled and stabilised independently:

Key advantages of modern family office models:

Flexibility: Investments across the entire capital stack provide greater alignment with family goals

Cost efficiency: Shared services platforms help offset high-quality operational costs by pooling resources

Strategic growth: Over time, these family offices can evolve into institutional asset managers, generating value from fee streams and fund performance.

Next-generation leadership and strategic initiatives

A growing trend in family offices is the active involvement of next-generation family members, who often raise their own funds to extend the family's legacy. This shift fosters innovation and diversification in wealth management.

Key initiatives by next-gen leaders:

Raising special purpose vehicles (SPVs): Targeted investments with highly negotiated terms and governance

Seeding former in-house investors: Creating evergreen vehicles or blind pool funds to pursue specialised strategies

Direct investments: Engaging in real estate, venture capital, private credit deals, and other strategies

These approaches not only empower the next generation to build their own enterprises but also help cultivate relationships with other high-net-worth families and align with modern investment practices.

Layers of protection: Building resilient family offices

Risk management lies at the heart of effective family office operations. The integration of cultural, structural, and legal safeguards is crucial for preserving family wealth.

1. Cultural safeguards

A strong stewardship culture ensures ethical decision-making and alignment with family values. No legal structure can substitute for the trust fostered by responsible governance and integrity.

2. Structural safeguards

Proper ownership structures, such as trusts and foundations, isolate liabilities and shield the family's assets. Aligning fund formation with family goals prevents conflicts and promotes transparency.

3. Insurance coverage

Comprehensive insurance policies are essential for mitigating risks. These include:

- Directors and officers (D&O) insurance
- Errors and omissions (E&O) insurance
- Cyber liability insurance

These safeguards protect against financial loss and unforeseen challenges, ensuring long-term stability.

Understanding liability exposure

Family offices are increasingly exposed to market risks, particularly in industries prone to valuation bubbles or regulatory scrutiny. Examples include:

Emerging technologies: Sectors like blockchain, cannabis, and electric vehicles

Fraud and mismanagement: Associations with companies like FTX or Theranos can tarnish reputations even without direct involvement

Board member liability: Inadequate D&O insurance at portfolio companies and/or the lack of D&O insurance at the investment management company can lead to personal legal claims for investors serving as board members.

To mitigate these risks, family offices must ensure proper due diligence, diversified portfolios, and adequate insurance coverage.

Building resilience in the digital era

As digital threats grow, family offices must adopt robust cybersecurity measures to protect

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