CANADIAN ASSOCIATION OF ALTERNATIVE STRATEGIES & ASSETS

# GUIDEBOOK FOR FAMILY OFFICES

**Providing perspective and insight on establishing and maintaining an appropriate investment philosophy for those managing intergenerational family wealth.**

*We would like to thank the following CAASA members for contributing their perspectives and expertise to this paper:*

Private Bank

www.privatebank.citibank.com

kpmg.com/ca/familyoffice

www.northwoodfamilyoffice.com

Investor Services

www.rbcis.com

wealhouse.com

**About CAASA & This Paper**

*Inclusive, Active, and Pan-Alternative*

The Canadian Association of Alternative Strategies & Assets (CAASA) was created in response to industry requests for a national group to represent the Canadian alternative investment participants, including investors, asset managers, and service providers. CAASA is inclusive in that it welcomes participation from all companies active in the space (400+ members in 2024) who might want to participate in committees and working groups - or simply attend member events - without their employer being a member of the association.

CAASA is very active, organizing numerous conferences, webinars, socials, and podcasts throughout the year. Pan-alternative, for CAASA, encompasses all alternative strategies and assets including hedge funds/alternative trading strategies, private and public real estate (funds and direct), private lending, private equity, infrastructure, development and project finance, digital assets/crypto-assets, weather derivatives and cat bonds, and all aspects of diligence, trading, structuring, dealing, and monitoring alternatives in a standalone portfolio and as part of a larger investment strategy.

As with all our papers, we use an external writer to draft it from interviews with participating members and it represents, in the end, our views and not necessarily that of every participating member.

For more information, please visit www.caasa.ca.



## Introduction

Investor populations are commonly segmented into two main groups: retail investors, who invest individually for personal financial goals, and institutional investors, who invest on behalf of organizations according to objectives outlined in their governing documents, such as the investment mandate for many investment funds. But what happens when an individual is wealthy enough to invest on an institutional level?

They can create a single family office - an institution that provides wealth management services to a high-net-worth family, alongside tax and other financial matters. For the purposes of this paper, when we say family offices we mean single family offices or those managing the wealth of one family or family lineage; multi-family offices will be used to denote those entities that manage the money and/or affairs of a number of unrelated families, as discussed below. A further hybrid category is SFO+ which caters to the needs of more than one, and usually three or fewer, families and is not open to commercial relationships with other families in the manner of a multi-family office.

Just as no two families are the same, no two family offices are the same. They vary not only with respect to the amount of money managed, but also with respect to the services provided, their relationship with the family, and with the time horizon and investment objectives that guide their decisions.

There is a saying, “If you’ve seen one family office, you’ve seen one family office,” but one might see as little as 0.1 or 0.2 of a family office if a first meeting is not to their liking. They are typically quite private and have a tendency to cut relations with those who might be cavalier with their ‘secrets’ or even their very identity. Friends of those working at a family office lament that they do not know their chum’s employer’s name - as if they are in the CIA - but that is table stakes for some family office employees simply to have the job.

## Why create a family office?

A family office will most often be formed after a person comes into a significant amount of money and must decide what to do next. Most often, the person comes into that money through the successful sale of a business.

Having come into that money, the question then becomes: what is the purpose of that money? What is the legacy that the wealth creator wants to leave? Do they want their wealth to grow? Do they want that wealth to become generational wealth? Or do they want to leave enough to ensure their children are comfortable, and give the rest back to the community?

If that person decides that they want their wealth to become family wealth, to secure the family’s economic position through future generations, one option in front of them is to establish a family office.

A family office is an institution meant to manage the family's wealth for the family, and not for an individual. That means that wealth moves from being personal property to being a form of collective property, and that investment decisions must be made with the interests of multiple generations in mind.

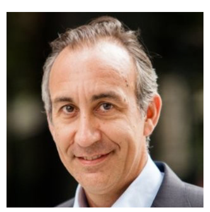
But those interests can sometimes become contentious. Imagine a hypothetical wealthy family: a 70-year-old founder who has retired and sold their business, with two children aged 30 and 35, one of whom has a child, with the other having decided to forego having children.

As the founder is retired, they do not need the money to grow. But the children might. They are looking to their own future and, in the case of the parent, that of the next generation. They will have different perspectives when it comes to timelines, investment risk, and illiquidity. The grandchildren may want to draw down the family money to buy property or to start their own business. But these desires may conflict with the desires of other family members.

Who gets to draw on the money, and under what circumstances? What kind of risks get taken with the family money, and when? If investments are made on the private markets, how long can those investments stay illiquid.

*"A family might decide to open a family office at multiple points. One point might be the sale of a business, where you go from owning an operating company to an investment portfolio - this is a great opportunity to really define your purpose and design your family office in a practical manner. Another point might be when you want to broaden the circle of stakeholders when the second generation matures."*

***Félix Boyer***
*Executive Director, Family Office*
KPMG in Canada



*"A family office can really serve a family by helping it manage four different types of capital. Financial capital, or financial wealth; business capital, which can be the operating business that created the wealth as well as direct investments; philanthropic capital, where the family gives back through a foundation, a donor advice fund or a charitable trust; and the family capital, which includes the values, vision and skills that keep the family together."*

***Alexandre Monnier***
*Family Office Advisory*
Citi Private Bank



## Multiple generations, multiple perspectives

Wealth is deeply personal, family is even more deeply personal, and conflicting opinions about what should be done about that wealth can be a source of friction. Successfully setting up a family office requires hashing out these differences - in advance - and getting strong processes put in place so that there is less friction when difficult decisions need to be made, or when economic conditions get tough.

Successfully setting up a family office starts with a period of discovery. This may include a series of interviews that can help a wealth creator come to a decision on what the purpose of that wealth is, and that can help the wealth creator's family understand that they now have decisions that they need to make together.

Then, with that purpose in mind, governance processes must be put in place to determine how those decisions are made.

No two families are alike, and so no two family office governance structures are alike, either. The investment decisionmaking might be governed by a Board of Directors consisting of family members. When it comes to investment decisions, the family might put in place a jointly-agreed-on investment policy statement that formally defines the family's target asset mix, risk tolerance, illiquidity tolerance, time horizon, and sectors of interest.

Another option is creating an investment committee consisting of family members and/or internal and/or external advisors. This committee can actively make investment decisions within the confines of the investment policy statement, with family participation ensuring full buy-in.

And family offices' mandates can extend beyond wealth management. With a multi-generational approach, and with a diversified portfolio, properly managing the family's wealth means assisting with tax optimization, preparation and filing, supporting estate and succession planning, managing the relationship between an operating company and the rest of the family's portfolio, and helping the family understand the pros and cons of a given financial decision.

Family office staff therefore have a dual job: managing the family's finances, and managing the family itself. They can help the family come to a consensus, putting governance in place, ensuring buy-in, and, where necessary, building financial literacy and the ability to understand and make investment decisions.

*“We approach every relationship with a goals-based philosophy, beginning with a deep understanding of each family member’s objectives. This extends beyond financial aspirations to include values, legacy intentions, and family dynamics. A crucial part of our discovery process surpasses data collection and relies on empathetic listening and thoughtful, open-ended questions delivered with high emotional intelligence. This approach helps reveal the nuances, tensions, and opportunities that shape outcomes for years to come. With this depth of insight, we can design strategies that are technically rigorous, fully integrated across domains, and above all personally meaningful to the families we serve.”*

***Trevor Hunt***
*Vice-President, Family Office Advisory*
Northwood Family Office

*“To set up your investment policy statement, you’ll need to consider a few foundational investing concepts. First, assess whether to handle management tasks in-house or rely on third-party professionals. For most investors, day-to-day responsibilities such as security selection are better left to seasoned professionals. Second, tackle the challenge of allocating to illiquid markets - an area known for its premium returns but nuanced trade-offs. Institutions like CPPIB and the Caisse de dépôt allocate over 40% to illiquid assets, while Yale and Harvard endowments go as high as 70% in alternatives. The right balance for you depends on your understanding of these complexities. Lastly, take a broader view of passive versus active investment strategies, ensuring your choice aligns with your overarching goals and risk tolerance.”*

***Félix Boyer***
*Executive Director, Family Office*
KPMG in Canada

## Preparing for wealth

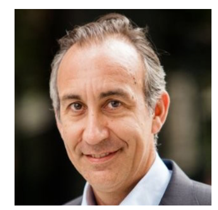
A family office is a multi-generational endeavour, but interest in financial matters might differ from generation to generation. In some families, the second generation may include children with relevant professional skills: an accountant or investment manager would be highly qualified to sit on the investment committee and guide decisions.

But this isn’t always the case. Although the founder of the family office might have built a business, this doesn’t guarantee that they will be an effective wealth manager, and even if the founder has that knowledge, there is no guarantee that financial skills or interest will have been passed down to the generation that will one day inherit the family office and become stewards of the wealth.

The professionals who work at, or service, a family office therefore have an interest in improving the financial skills of the next generation: as much as they manage the family’s money, they also must prepare the family to properly handle that money.

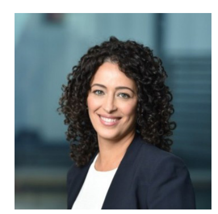
This might look like very basic financial education: advice on how to make big life decisions, like buying property or opening a business. It may look like a briefing on estate planning, or on what taxes might look like for people whose assets are international. And it might look like crash courses on investment basics and wealth management.

Every family is different, and the skills found in every family will also be different, but a family office’s wealth is jointly managed, and so it’s wise to raise the family’s baseline level of financial literacy, so everyone can understand the decisions being made on their behalf.



*“There’s a misperception that when you’ve created substantial wealth, the hardest thing that you’ll ever do in your life is behind you. But it’s just as challenging to preserve that wealth across multiple generations. … It’s challenging for people to become comfortable with the idea that if we join forces, if we share decision-making, risk, control, and ownership, we can achieve more together than we can individually.”*

***Alexandre Monnier***
*Family Office Advisory*
Citi Private Bank



*“Many family office clients don’t realize the difference between a broker and a custodian. With a broker, securities are held in custody on the broker’s balance sheets and are then part of the bankrupt estate if the broker becomes bankrupt. With a custodian, securities are held in nominee name meaning they are held in the name of the client and would not be brought into the bankruptcy estate in the event of insolvency. That added layer of safety is something many family offices value.”*

***Sylvia Rizk***
*Senior Director, Private Wealth Segment Lead*
RBC Investor Services

## Structuring a family office

Family offices typically face two main account-structure options: brokerage and custodian models. But the best fit depends on the office's priorities, such as risk appetite, return goals, and data consolidation needs.

In the brokerage model, the family office opens up an investment account directly with a broker. This enables the broker to settle trades, manage back-office functions, and commingle assets.

In the custodian model, the family office maintains more control and transparency. Assets are held securely in the family's name, and custodians facilitate operations. Working with a global custodian allows the family office to maintain relationships with investment managers while relying on shared infrastructure, making it easy to add or replace investment managers without disrupting structure or reporting.

While it's possible to manage a family's wealth through multiple brokerage accounts, this can create administrative work. In extreme situations, it could put the family's wealth at risk: brokers keep the assets in the family's account on their balance sheet, and the assets could be put at risk in bankruptcy proceedings. With a custodian, assets are fully segregated, and clients benefit from an economy of scale, reducing administrative work and increasing access to services like performance analytics.

## Multi-family office or single-family office?

Having made the decision to establish a family office, a family must then decide whether to open a single-family office, or whether a multi-family office would better fit their needs.

A single-family office is the traditional model, and there is merit to it: a single-family model allows a family to select a manager that they fully trust, who can design an investment strategy that fits the family like a glove, who can develop a relationship with the family and who can 'manage up' to ensure buy-in to the strategy from all stakeholders.

But family offices are more than just wealth managers. They frequently provide a very wide range of services: they can advise on tax issues, estate planning, philanthropy, as well as managing an operating company and its relationship to the family wealth, if needed. This is a very broad range of services for a single person to provide, even if things like tax or estate planning are outsourced to specialists.

A multi-family office can be a solid alternative solution. Multi-family offices benefit from a pooling of resources: with more assets under management, a multi-family office can not only deliver the benefits of economies of scale, but they can also


hire a greater number of investment and other professionals with diverse skillsets and provide a comprehensive team to meet the client's needs. However, because assets are pooled, there is less ability to design a bespoke investment strategy, and clients may not have the ability to direct or approve individual investment decisions.

## Diversification

While family offices will have distinct risk tolerances, time horizons and investment objectives, the principles of portfolio management still apply. The family wealth should be allocated to a diverse set of investments to mitigate risk and to secure an attractive risk-adjusted return.

There are sometimes challenges when it comes to diversifying a family office's portfolio. Families tend to be most comfortable in the sector where their wealth was originally created: if they made their money in real estate, they tend to focus on real estate; if they made it in healthcare, they will tend to focus on healthcare.

There are understandable reasons behind this: the sector is familiar, the family may have existing networks and contacts, and they may have within their ranks the professional skills required to identify solid investment opportunities.

Some family offices may choose to lean into this, with a special focus on those familiar sectors: it takes advantage of skills and keeps the family engaged in their investments. But at the end of the day, it is the duty of any wealth manager to help the family diversify.

This diversification is a compelling case for family office investment in private assets.

Family offices will have tens of millions of dollars in assets under management, at minimum, and are working against a multi-generational timeframe. These are investors who can afford to dedicate a portion of their portfolio to illiquid investments, and benefit from the illiquidity premium. Through investment in private assets, family offices will gain access to a much wider range of opportunities.

While it is true that the range of outcomes is much wider in the private markets than in the public markets, and that a greater level of due diligence is required, the professional advice given by family offices can help families make wise investment decisions.

*"Concentration - whether in a family business or specific assets - can be a powerful wealth creator, but it also introduces risk to intergenerational wealth transfer. Part of our role is to help families determine how much capital is needed to fund lifestyle goals, which typically calls for more liquid, conservative investments. Beyond that, legacy goals can be invested over longer horizons in less liquid, growth-oriented alternative assets. When aligned properly, this approach allows families to preserve capital and compound wealth while capturing opportunities across the full risk-return spectrum."*

***Trevor Hunt***
*Vice-President, Family Office Advisory*
Northwood Family Office

*"I find typically, in my career, when I meet real estate families, they have a tendency to have 90% of their assets in real estate. And I'm always amazed, sometimes, at how concentrated or clustered they can be - within a certain zip code or postal code or area code. We're not like that."*

***Scott Morrison***
*Senior Managing Partner, Founder, and CIO*
Wealhouse Capital Management

## Staffing considerations

Family offices provide services over and above traditional wealth management and so staffing at a family office must take this expanded scope into account. It's not enough to have a strong track record in wealth management.

Although tax preparation or estate planning may ultimately be outsourced to a specialist, someone managing a family office must be familiar enough with those fields to both select a capable specialist and understand and explain their recommendations to the family.

Family offices, therefore, tend towards hiring generalists, who can act as a quarterback and direct a team, rather than specialists with deep knowledge of a particular area. This is true even in multi-family offices: although teams can be assembled based on the client's needs, truly specialized tasks, like tax preparation for a family with assets in multiple jurisdictions that owns both public and private assets, will need to be outsourced.

*"Each family need to decide what structure makes sense for them. Is it a brokerage model with assets spread across multiple brokers? Or does it leverage a custodian and use this structure as a stable foundation and appoint multiple investment managers? Taking the time to make that choice - and ensuring it aligns with the legacy they want to leave - is essential."*

***Sylvia Rizk***
*Senior Director, Private Wealth Segment Lead*
RBC Investor Services

*"If you look under more rocks, you find more opportunities. If all you do is private [assets], you'll miss opportunities in the public markets. If all you do is public, you'll miss opportunities in the private markets. So, if you look at the way George Soros structured his firm, he literally has two CIOs - a public CIO and a private CIO. And they'll collaborate."*

***Scott Morrison***
*Senior Managing Partner, Founder, and CIO*
Wealhouse Capital Management

## Closing thoughts

Since family office dynamics are unique to the individuals who make up the family members (and their professional staff) the idea of having "the perfect solution for family offices" can be delusional at best. Each decision-making group has their own criteria, time horizons, and goalposts for success as well as various degrees of governance and 'professionalism' that can confuse those new to the space.

However they might be run, like many businesses, there are efficiencies that can be brought to bear on processes, administration, and overall structure of family assets and distributions or bequests to the beneficiaries - this is where trained and experienced internal or external professionals can be retained to ensure the result of all this effort aligns with the needs and preferences of the family.

At the end of the day, it's all about doing what's best for the family unit - however they might define success.

Read our other CAASA papers and primers, available at caasa.ca
under the Resources:Publications tab