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High-net-worth families look harder at wealth managers

New approach is more systematic and drills down to finer details

By Charles Paikert

Wealthy families are applying an increasingly rigorous level of scrutiny to their selection process when choosing wealth managers and family offices, industry executives say.

"Families are asking tough questions and doing more due diligence," said Joel Treisman, group chairman for Tiger 21 LLC, a New York-based peer-to-peer organization for high-net-worth investors.

One of Tiger 21's most popular offerings are "field trips" to local family offices and wealth managers, he said.

The participants ask questions about fee structure, services, philanthropy and investment vehicles, and then discuss the responses they received afterward, according to Mr. Treisman.

"Members become particularly frustrated when they ask a manager "how are your clients doing?' and don't get an answer. That doesn't build confidence," Mr. Treisman said.

Wealthy families, with $10 million to $20 million in investible assets, are also beginning to use a more systematic selection process when choosing a family office or wealth manager, according to experts who spoke this month at the annual Family Office Forum in Chicago, which was sponsored by the Institute for International Research in New York.

"In the old days, decisions were made on price, performance and chemistry," said Charles Grace III, a New York-based member of the board of directors of Ashbridge Investment Management LLC, the Grace family's single-family office in Philadelphia.

"Today, families are more sophisticated and they're taking a systemic selection approach," he said. "They're also using more background checks."

Defining the family's needs and the type of adviser best able to meet them is critical for a systematic search process, Mr. Grace said.

One evaluation approach used by a wealthy family and presented at the Chicago conference included a list of criteria, detailed questions, and a matrix grid that rates firms from 1 though 5.

For example, the long-term-stability criteria are subdivided into categories such as years in business, average duration of clients' business within the firm, ownership structure, staff continuity and insurance. Each category is then subject to an evaluation based on a range.

In the years-in-business category, "over 100" ranked highest and "10 years or less" ranked lowest. Average duration of clients' business within the firm ranged from "multigenerational" to "10 or less"

and the ownership structure category ranged from “fully covered” to “highly leveraged.”

Other criteria included independence, innovation, investment savvy, service type and pricing.

Other questions on the evaluation sheet include “Do I trust them?” and “Did they show a clear understanding of the family’s business and needs?”

The systematic approach reflects that fact that one size doesn’t fit all, Mr. Grace said.

“You want to customize criteria to fit your search, and you should document the process to see how the final decision is being made,” he said.

A similar theme was voiced by Brian Hughes, managing director of strategic relationships for Threshold Group Inc., a multifamily office based in Gig Harbor, Wash., with about $1.5 billion in assets under management.

“All clients care about is value, and they want a process to take them through their evaluation,” Mr. Hughes said.

A more simplified, traditional approach included questions concerning investment performance, products offered, clients, assets and fees, he said.

By contrast, a more comprehensive approach should allow families to uncover “gaps” and find out what they need to know better about themselves and the firms that they are evaluating, Mr. Hughes said.

For example, he said, families should ask about the firm’s vision for growth, how they help clients achieve and establish their goals and how the firm demonstrates transparency.

Necessary nuts-and-bolts questions include an evaluation of compensation, client and employee turnover, profitability and capital structure.

Family offices and wealth managers should be heartened by the increased scrutiny, Mr. Treisman said.

“There’s an increased level of interest in multifamily office offerings,” he said. “Families who have sold their businesses realize they don’t have the time or knowledge to make the transition from being an entrepreneur and running the business to running the family wealth operation.”

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