# Nordwand Capital LLC

## Counting Jellybeans & the Wisdom of Crowds:

*The merits and method of utilizing a single-family or multi-family office*

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## Executive Summary

- *Depending on the level of family wealth, multi-family offices (MFO) present an attractive alternative or complement to single-family offices (SFO)*
- *MFOs benefit from the network effects of sourcing, underwriting, and monitoring investments for its members*
- *Leveraging existing MFO infrastructure to manage time and costs while gaining access to a broad range of external expertise expands families' areas of coverage*
- *Technical competencies from data protection, detailed and custom reporting, document management, and concierge services round out possible offering suites that combine to enhance comfort, security, and outcomes*

Global private net wealth stood at approximately $450 trillion at year-end 2022[1]. It is further estimated that roughly 10% of this figure – or $45 trillion – is concentrated in the hands of fewer than 400,000 ultra-high-net-worth (UHNW) individuals worldwide. This concentration of wealth can create an alluring array of opportunities for those families, but also often creates a daunting minefield of personal, logistical, and financial challenges.

Enter the family office structure: a business-like family unit organized to shepherd family resources to their best use and provide cohesion to investing, operating, philanthropic, and succession plans. In many cases, however, the goal of creating a family office to reduce confusion, increase family alignment, and improve investing and philanthropic outcomes leads to inefficiencies that do little to alleviate family burdens.

At issue is: 1) whether to create a family office in the first place, 2) what needs would a family office fulfill, 3) what are the costs in terms of time, commitment, and dollars associated with different structures, and 4) is a go-alone single-family office (SFO), a joint multi-family office (MFO), or a combination of both the optimal outcome?

When set up properly, a family office – be it an SFO, MFO, or a combination of both – can serve as a productive filter for opportunities while serving as an effective advocate for an UHNW family's needs across professional service providers in investments, tax, and legal.

Once this infrastructure is created, it can be leveraged to provide investment access, custom reporting, and high-touch service for any family affiliated with it. Even UHNW single families will find it challenging to access emerging managers and bespoke private offerings and combine that access with sophisticated full-picture reporting. But combine several of these families

[1] UBS/Credit Suisse Global Wealth Report 2023, p. 7.

together and the benefits compound while the costs drop. In our view, this is why MFO structures provide compelling benefits for their clients.

## *The organization of family wealth and how best to serve its needs…*

Globally, there are approximately 50 million millionaires, with that number narrowing to 2.5 million in the $10-50 million wealth range, with fewer than 250,000 of those having wealth in excess of $50 million. The United States represents approximately half of this >$50 million group.[2]

According to one recent large study, the average wealth of ultra-high-net-worth families with a family office is $1.4 billion.[3] Approximately 40% of these family offices serve five or more families, with the percentage of families opting to join a multi-family office rather than a single-family office growing in recent years.

Investment and asset management services are the most common areas of external advisory services for UHNW families, with many studies suggesting over 75% of these families utilize external advisors to help meet this need. In addition, however, are topics of growing importance that include cybersecurity; family governance, wealth education, and succession planning; and tax and trust/estate planning and structuring issues.

Cost can be a significant factor in determining whether a SFO or MFO is the right solution, as outsourcing some or all of these services to an external advisor can result in meaningful cost savings. Average family office operating costs are estimated at $3.2 million annually, with large established family offices incurring $6-10 million.[4]

Notably, whether investment-focused, administratively-focused, or full-service, the needs of an UHNW family are often bespoke for each family.

### *Investment & Asset Management*

Investment and asset management is a multi-faceted offering that spans several critical subsets including, among others: custody services, performance reporting, trade execution, asset allocation and portfolio construction, access to external managers, due diligence and underwriting, and ongoing investment monitoring.

An increasingly large number of UHNW families are interested in accessing private and direct investment. Given the critical nature of sourcing, underwriting, and assessing risk for private investments across equity and credit, it is quite understandable that these services should be considered table stakes for any external advisory relationship.

At Nordwand, we combine this competency with an institutional-quality approach to third-party manager and investment due diligence. We believe this helps our family office clients achieve better investment results more consistent with their risk and liquidity profiles through both prudent structuring and unearthing emerging managers with novel investment ideas.

[2] *UBS/Credit Suisse Global Wealth Report 2023, pp. 30-31.*
[3] *J.P. Morgan Private Bank, 2024 Global Family Office Report, p. 21.*
[4] *J.P. Morgan Private Bank, 2024 Global Family Office Report, pp. 3-8.*

### *Cybersecurity & Technology*

Increasingly families also are taking note of their technology-based risks. In J.P. Morgan's recent survey, approximately 40% of families cite cybersecurity as a gap in their family's services, even while almost 25% report being exposed to a cyber breach or fraud attempt.

An external family office structure – particularly a multi-family office with pooled resources – can help alleviate these risks by choosing the best technology solutions and customizing them for client needs in ways that reduce data risk and enhance reporting value.

### *Family Governance, Education & Succession Planning*

A common refrain among most UHNW families is the difficulty in setting up the right family structures while helping founding and inheriting generations to understand necessary details and remaining engaged in the management of wealth and businesses. This is true in both SFO and MFO situations.

Many of these conversations require a depth of understanding about family dynamics as well as investing and legal realities that can make intra-family navigation very complex. Having external advisors relay and reinforce this information has proven an effective way of building the right governance structures while enlisting and engaging future generations with its safekeeping so they are aware, educated, and empowered.

| Considerations | SFO | MFO | Structural Advantages |
|---|---|---|---|
| **Tailored Services** | ✔ | ✔ | Personalized services made to fit the unique requirements, objectives, and tastes of affluent households. As a result, asset management, estate planning, tax optimization, and other financial issues are approached with greater personalization and concentration. |
| **Cost Efficiency** | | ✔ | MFOs combine resources and knowledge to assist several families. This can enable families with significant holdings that do not support operating their own SFO to have easier access to sophisticated service offerings. |
| **Diversification and Risk Management** | | ✔ | MFOs can assist clients in diversifying their financial portfolios and lowering overall risk exposure by working with multiple families. They may also provide more advanced techniques and tools for risk management. |
| **Expertise and Resources** | | ✔ | MFOs often possess a wider range of knowledge and assets, such as professional networks, access to specialized investment opportunities, and the ability to conduct due diligence. For client families, this can improve investment plans and risk management. |
| **Networking and Collaboration** | | ✔ | MFOs can help client families communicate and work together, opening doors for cooperative initiatives, co-investment, and collaborative learning that might not be possible for a single family office. |
| **Control and Privacy** | ✔ | | Families utilizing a SFO have full oversight over their monetary undertakings and can keep an elevated degree of protection, as there could be no different families sharing the administrations or dynamic cycles. |
| **Family Legacy** | ✔ | ✔ | While family legacy can be a significant part of MFOs, SFOs can be instrumental in protecting and passing on family values, culture, and abundance the board systems across ages, as they are intended to serve the particular interests of an individual family. |

*Source: Nordwand Capital.*

## *MFO, SFO, or Both: Coming Back to the Jellybeans…*

In a classic experiment some of us may have encountered at school, individuals are asked to count the number of jellybeans in a large jar. The vast majority of guesses miss the mark by a wide margin, but a funny thing occurs as the data is aggregated: the average of the disparate guesses often tends to produce a result close to the right answer.

As unreconstructed capitalists we tend to believe in the wisdom of crowds, but we're reminded again when thinking of the jellybean example just how helpful it can be to put many minds to a task rather than a single one. It guides how we think about adding value to our client families and how we have organized Nordwand in that effort.

The operational complexities and cost of operating a family office tend to push most UHNW families with less than $1 billion in wealth toward utilizing an MFO for external assistance in setting up and monitoring their financial interests over time.

Even very wealthy families have limits in terms of in-house expertise and time. As we highlight in the table above, the ability to leverage existing knowledge, experience, and efficiency by accessing family office services through a multi-family office tends to resonate for families between $50 million and $1 billion in net worth.

Above $1 billion in net worth, we have found that the decision very often comes down to internal family dynamics and core skillsets among family members. We have seen from personal experience how combining the services of an in-house family office with an external MFO may liberate the family CIO to focus on core value-add items for the family while still relying on external guidance to augment internal efforts and drive the best result.

Regardless of the ultimate choice made with respect to how to handle your family's needs, the goals of reaching investing goals, philanthropic priorities, and ensuring family legacy are common to most. The road forward is hopefully long and almost certainly winding; putting the right structure in place to help your family and heirs achieve their goals can help reduce the burden and increase the odds of a successful journey.

## IMPORTANT DISCLOSURES: