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HSBC Tops Family Office List as Money Firms Manage Rises 17%

By Anthony Effinger and Elizabeth Ody - Aug 8, 2011

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Seth Abraham, former president of New York's Madison Square Garden, has used the same barber for 37 years.

"I followed him through five salons," Abraham, 63, says.

Abraham is equally loyal to his money managers, Sam Katzman and Paul Tramontano, who have looked after his assets for more than 15 years. When Katzman and Tramontano left Citigroup Inc. (C)'s Smith Barney brokerage unit -- now Morgan Stanley Smith Barney -- in 2007 to form Constellation Wealth Advisors LLC, Abraham also jumped ship.

Constellation is a family office, a luxe kind of financial adviser first established by the Rockefellers, the Guinness brewing family and other dynasties. Family offices manage money, handle taxes and, in some cases, buy private jets, scout vacation homes, hire butlers and find drug treatment programs for wayward progeny, Bloomberg Markets magazine reports in its September issue.

The latest financial titan to set up a family office is George Soros. In July his hedge fund, Soros Fund Management LLC, told clients it would during the rest of the year return money to all outside investors, amounting to less than $1 billion of its $25.5 billion in assets, and would then operate as a family office. Single family offices are not required to register with the U.S. Securities and Exchange Commission.

These days, you don't have to be a Carnegie or a Soros to have a family office cater to your every whim. If you have as little as $5 million, you can take your pick of hundreds of multifamily firms.

Constellation, with $4 billion under management, is tied with Pitcairn, based in Jenkintown, Pennsylvania, for No. 23 in Bloomberg Markets' first annual ranking of family offices.

HSBC No. 1

The list, which ranks 50 firms by assets, is topped by HSBC Private Wealth Solutions, a unit of London-based HSBC Holdings Plc (HSBA)'s private bank. Private Wealth Solutions oversees $102 billion for families in 18 offices around the world.

New York-based Bessemer Trust Co. is No. 2, with $44.5 billion under management.

Seven of the top 10 providers of family-office services are owned by or affiliated with big banks. In addition to HSBC, the list includes Switzerland's UBS AG (UBSN) (No. 3), San Francisco-based Wells Fargo & Co. (WFC) (No. 5) and Atlanta-based SunTrust Banks Inc. (STI), which bought 70 percent of Palm Beach Gardens, Florida-based GenSpring Family Offices LLC (No. 7) in 2001.

The amount of money managed by the 50 top firms increased 17 percent, to $477 billion, in 2010 from 2009. The number of multifamily-office firms in the U.S. has doubled in the past 10 years, according to Wheaton, Illinois-based Family Wealth Alliance LLC, which provides consulting services to the industry.

Growing Families

Banks and independent firms pursue the business because one client can beget many more as a family grows, says Anna Nichols, a managing director at the Family Office Exchange, a Chicago organization that represents 330 wealthy families.

"They can be clients for generations," Nichols says.

To make the list, the normally secretive companies had to serve more than one family and provide the amount of assets they oversee and the number of clients they serve. Those that declined weren't included.

The tussle in the business is between banks and independent firms. The boutiques say the banks are more likely to break the cardinal rule in the industry: Don't flog your products.

"The big firms have become manufacturing companies -- manufacturers of financial products," Constellation's Tramontano says.

Conflict of Interest

Pushing clients to buy shares of mutual funds or hedge funds run by a bank is a conflict of interest, says G. Randolph Webb Jr., chief executive officer of Signature, a family office in Norfolk, Virginia, with $2.2 billion of assets under management.

"Capital is moving away from the product-driven side of the industry," Webb says.

HSBC offers its families both its own funds and those managed by outside firms, says Mary Duke, head of global family wealth in New York.

"They are not compelled to choose us," she says.

HSBC Private Bank, which manages funds for some family- office clients, will no longer maintain overseas accounts for U.S. residents, the bank announced in July. The move comes amid a crackdown by the U.S. Internal Revenue Service and Justice Department on U.S. residents who use offshore accounts to avoid taxes.

Letters to Clients

Before it announced the global change of policy, HSBC had begun sending letters to U.S.-domiciled clients with accounts in India, saying they would need to close their offshore accounts. In April, a New Jersey businessman named Vaibhav Dahake pleaded guilty to conspiring with bankers at HSBC to hide money in India from the IRS.

Asked about the Dahake case, HSBC spokeswoman Juanita Gutierrez said, “HSBC does not condone tax evasion, and we have no further comment.”

Independent registered investment advisers such as Constellation controlled 11.5 percent of the $13.4 trillion U.S. wealth-management market in 2010, up from 9.5 percent in 2007, according to data from research firm Aite Group LLC in Boston. Brokers from the largest banks manage 38 percent, down from 41 percent in 2007, Aite says.

By any measure, catering to the wealthy is a growth business. The number of individuals worldwide with $30 million of liquid assets to invest rose 10.2 percent to 103,000 in 2010, according to a June report by Cap Gemini SA and Merrill Lynch Global Wealth Management, a unit of Bank of America Corp. That $30 million club controls $15 trillion of capital in total.

Fee Squeeze

Getting clients with big money doesn’t mean you’re going to make big money, says Elizabeth Nesvold, managing partner at Silver Lane Advisors LLC, a New York-based investment bank that specializes in mergers and acquisitions of wealth-management companies.

The heavy increase in competition means many new family offices are willing to cut rates, she says. Most charge annual fees equal to a percentage of a family’s liquid assets; 0.35 to 0.75 percent is the normal range, according to the Family Office Exchange.

Labor-intensive work such as taking a client’s son or daughter on a college tour is often included in the fee, Nesvold says, and if those tasks multiply, profits go down quickly.

Bessemer had a profit margin of 13 percent in 2010 compared with 21 percent at Goldman Sachs Group Inc. (GS), whose internal family office is called Ayco Co. (Goldman chose not to participate in the ranking.)

Personal Service

Bessemer is owned by its employees and the descendants of Henry Phipps, a partner of Andrew Carnegie. Phipps started the firm in 1907 to manage his proceeds from the sale of Pittsburgh- based Carnegie Steel Co. Bessemer now serves more than 2,000 multigenerational families.

John Hilton, CEO of Bessemer, says the advantage of working for a private firm like his is that there are no shareholders to satisfy. And it means he can go the extra mile for his clients. One of his employees once waited in line at the Department of Motor Vehicles in New York for a client who had just moved to the city and needed a license. The Bessemer staffer called the client as she reached the front of the line.

No. 1 HSBC Private Wealth Solutions has grown partly by catering to Asia's newly rich. Last year, the region housed 3.3 million millionaires, according to Cap Gemini and Merrill Lynch, compared with Europe's 3.1 million.

Asia's New Billionaires

Bernard Rennell, global head of HSBC Private Wealth Solutions, who's based in Hong Kong, says his group targets families with $500 million or more. Asia's new billionaires often come seeking help with succession plans, Rennell says. HSBC came up with a bespoke solution for an Asian tycoon who wanted to pass along a controlling stake in his company to his seven children without giving all of them a chance to meddle in the company's day-to-day workings.

The banks' family offices have gotten bigger partly by buying boutiques. Bank of Montreal (BMO) bought the name and client assets of MyCFO Inc., founded by technology entrepreneur Jim Clark, in 2002. Now called Harris MyCFO, it's No. 9 in the Bloomberg Markets ranking, with $18.3 billion. Atlantic Trust, No. 11 with $14.8 billion, is an amalgam of three wealth managers that Atlanta money-management company Invesco Ltd. (IVZ) put together from 2001 to 2004.

Kirk Bowman, a venture partner at Accel Partners, a venture-capital firm in Palo Alto, California, says he looked at the big investment banks before handing his fortune over to MyCFO.

"It's better to have someone who's investment-vehicle agnostic as opposed to someone who's got an unnatural incentive to put you in their product," Bowman, 45, says.

Nimble Investor

Unlike the big banks, Constellation is nimble enough to pounce on unique investments, Tramontano says. Recently, Abraham and other clients invested in a partnership that's buying apartment buildings across the U.S. The venture is projected to deliver a 7 percent cash flow yield, without the fees that come with doing such an investment through a fund. Abraham even got to meet the partnership's managers before committing his cash, he says.

It's that kind of personal touch that makes family offices popular, Tramontano says. The strategy has certainly worked for Constellation. It has gone from zero to almost $4 billion in assets in just four years.