BUSINESS PROFILE: J STERN & CO.

Most family offices are either a 'single' or 'multi', but J Stern & Co. has been both. *Oliver Williams* talks history, investments and Brexit with co-founder and managing partner Jérôme Stern

Oliver Williams: How do you invest your family's wealth?

Jérôme Stern: We've been bankers for more than 210 years. We had our first bank in Frankfurt in 1805.

We were neighbours and were always very close to the Rothschilds. Both families always had the view that when one invests, one invests long term.

Within our family, my grandfather started to invest in great companies, after the family fled to the US during World War II. At the time, he established three principles on how you should invest in markets. Firstly, you need to invest long term, because short term, anything can happen. Secondly, you need to do your own research, because that's the only way you can get conviction. Thirdly, you buy only quality, because quality prevails throughout generations and throughout crises, wars and everything else. And if anything happens, you can sell that quality, because quality always has a price.

This evolved into a strategy that we call 'long-term value stock picking'. As an example, we've held Nestlé since 1956, and it has compounded every year since - 13% per annum.

OW: When did you set up the family office?

JS: We sold Banque Stern, our family bank, in 1988 to Swiss Bank Corporation, now part of UBS. We then created a family office in Geneva in order to take care of our assets, following only one investment strategy: long-term value stock picking.

I had 17 years of investment banking experience, and joined the family business after the Lehman Brothers bankruptcy. I then co-operated with a friend who had been at Lansdowne Partners, Christopher Rossbach. With him, we started reviewing the strategy. The more we reviewed it the more we felt we could continue it – and that's what we did.

OW: How did you go from a single- to a multi-family office?

JS: In 2012 we met another family who came to us and said: 'I like what you do. Can you please do the same for me?'

He is a successful entrepreneur that had, over the years, successfully built and sold his family company and done really well. Following that, he had $50m to invest.

He then asked three banks to pitch for that mandate, and received three proposals. He found all three appalling: they were complicated, intransparent, very expensive and definitely being run in the bank's interest rather than his.

We then gained the entire amount to manage, $50m, because we really understand his needs and also because we were able to do what he wanted. That's actually what a bank should do. Since then we have opened up to third parties. We have about 50 families for which we manage accounts.

As we have been in this industry for six generations, we are used to managing a financial services business, so for us it was not even a discussion between a single- or multi-family office. That's what we do.

OW: What can you offer your client families?

JS: We have three businesses: our largest is investment management. Our other businesses are merchant banking and a consulting business, which we call private office.

Jérôme Stern, J Stern & Co.

In the investment management business we manage three in-house strategies, of which the largest is our long-term value stock picking strategy. We have a bench of 10 investment professionals who meet with companies, do the research, kick the tyres; this approach allows us to generate 8-10% per annum.

In our merchant banking business we co-invest with other families. What we want to do is seed our own opportunities first, before bringing them to others. When we see that the investment strategy works, then we open it up, allowing others to invest alongside our family.

OW: Why did you choose to set up in London?

JS: When Chris [Rossbach] and I took over my family's investment business, we had a choice. We could have gone back to Geneva, but we didn't because London is a global financial centre and synonymous with investment competence. Hence, it is also easier to find competent investment, operations and other professionals here in London.

OW: Are you regretting that with Brexit?

JS: Our exposure to the UK, from an investment point of view, is relatively small: we estimate it to be around 5%.

Most of my family is outside the UK so for us we did not need to do much, but we meet often with families who are really worried.

If Labour comes in as a result of Brexit, people will be concerned about their capital, given what Labour are saying, and may look as a consequence to move their capital out of the country. The rhetoric is project fear in another fashion. ■

FAMILY OFFICES: THE BIGGEST THREAT TO PRIVATE BANKING

A growing dissatisfaction with private banks is driving more and more UHNWIs to join a family office – or set up one of their own. *Oliver Williams* asks what these discreet money managers offer that the banks do not

"I went to a very good Swiss private bank and I asked them: 'If I were to give you $50m, but I want you to build a portfolio of 25 stocks and I want to speak to the analyst and I want to be involved, do you offer that service?' They said: 'No, we'll put you into a fund.'"

This attitude from various private banks caused Jérôme Stern, heir of the Stern banking family, to establish his own family office, J Stern & Co. His story is far from unique, according to the family offices interviewed for this article.

"We had two founders," says Jonathan Bell, partner and chief investment officer at Stanhope Capital. "Both were looking for investment solutions, and they had gone to private banks and investment management firms and both felt that, actually, they preferred the model of someone like [US multi-family office] Bessemer Trust."

"Mandeep Nalwa was a private banker in his own right," says Mithun Ghosh, reciting the history of Singapore's Taurus Wealth, of which he is COO. "He was at a stage where he believed working in the mandate of a private banking setup was limiting. It was sales-dominated and institution-driven, and he was feeling a bit conflicted, so he set up a family office."

SELF-SERVING STRATEGIES

All these family office founders cited a dissatisfaction with the services provided by private banks, but what exactly was it that annoyed them enough to set up their own offices? For some, it was the self-serving sales strategies of private banks that drove them away.

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> **BANKS ARE STUFFED FULL OF SALESPEOPLE AND NOT RELATIONSHIP MANAGERS**

"From a bank's point of view, they're just trying to push products," says Tayyab Mohamed, director at Agreus Group, a recruiter for family offices. "Families would go to the big banks and they would be sold a product."

"Banks are stuffed full of sales people and not relationship managers," adds Dr Michael J Oliver, co-founder of Global Partnership Family Offices, a business networking forum for family offices.

Sales are fine for some, but only if the product being sold is quality. "You don't mind being sold to if the evidence is that you're being sold good things," says Bell. "But if the evidence is that you're not being sold good things, then you question it in a way that is different from questioning someone's judgment.

"There's always that niggling doubt: 'Was I put into it so that he could get a high commission or high fee, not because it was the best investment?'"

Stern believes wealthy families and individuals are increasingly asking those sorts of questions as they become more financially savvy. "Over the last 20 years, I think the competence of the clients has increased significantly – sometimes even more than the private banks themselves," he says.

FEES FOR WHAT?

Many private banking clients start questioning the fees they pay after a period of poor returns. Normally, the questions run along the

Jonathan Bell, Stanhope Capital

lines of: why am I being charged such high fees for meagre returns?

"I would resent paying a huge amount of money to people who manage money and return sweet FA, when I can put my money into a passive fund which costs much less and returns the same," vents Oliver.

According to Paris-based consultancy Capgemini's *World Wealth Report,* he is far from alone: HNWIs were largely unsatisfied with wealth manager returns in 2018. "Strong investment returns in 2016 and 2017 did not yield an overall 70% HNWI satisfaction level globally – arguably the 'passing grade' for the industry," the report noted.

By contrast, the average portfolio return for family offices in 2017 was 15.5%, according to the UBS *Global Family Office Report.*

But there is no one reason why family office returns are often – but not always – superior to private banking ones: each family office invests differently. As the industry adage goes: "If you've met one family office, you've met one family office."

Many give more weight to alternatives; Stanhope Capital has just doubled its hedge fund allocation to 15%, for example. "Hedge funds have done really badly for about 10 years, and we've seen an increase in the number of strategies recently which we think might be able to outperform," says Bell.

For London-based multi-family office (MFO) Oracle Capital Group, it is about being able to provide the kinds of personalised service that the banks cannot. "Family offices do not simply offer to clients specific products, but rather can turn to the entire market to provide a solution which is required for each client," a spokesperson tells *PBI.*

The long-term investment outlook of a family office also means portfolio plans are enduring. J Stern & Co. has evolved from a single-family office (SFO) to an MFO, but has always adhered to its 'long-term value stock picking' philosophy. "You pick 25 of the great global stocks, which you buy and then hold with little turnover," explains Stern, whose family has stuck to the same approach since World War II.

SFOS AND MFOS

Opinions vary on the definitions of an SFO and an MFO. Strictly speaking, the former manages the wealth of one family while the latter manages the wealth of two or more. However, many are seeing a grey space open up between the two, where SFOs use the services of MFOs.

"That is something that is happening, and that is the model which we have been capturing," says Stern.

"An interesting market for us is the single-family office market," James Fleming, CEO of Sandaire Family Office, told *PBI* in December. "We have examples of a couple of single-family office clients where we manage their liquid wealth for them. We also have another family office where we manage the private equity side of their allocation."

Outlining some of the benefits of this approach, Ghosh says: "You're leveraging a larger team of experts, back-office set-up and, of course, the regulatory and compliance costs and the benefit of cross-pollinations from a wider client base."

FAMILY OFFICE FUTURES

The swing of UHNW affinity in family offices' favour is also coupled with a rise of their number. Recent research from estate agency Knight Frank showed that the global UHNWI population is forecast to rise by 22% over the next five years. Surely that means more family offices popping up?

Two-thirds of the family offices that participated in UBS's *Global Family Office Report* were established in 2000 or later. In Singapore alone, the number of family offices has quadrupled between 2015 and 2017, according to the Monetary Authority of Singapore. But more family offices opening does not necessarily mean more family offices overall. As Bell puts it: "There is a natural life-span of a family office, in that a family starts a family office with the patriarch normally in their 50s or 60s. By the time they're in their 80s, either they close it, they merge it or the next generation takes it on."

The succession of family offices is their biggest killer, he adds, especially when

James Fleming, Sandaire Family Office

multiple siblings take over. "They may disagree on what they want to do. Sometimes it works, sometimes it gets split up and sometimes it closes," he notes.

Founders might be wary about handing down their family office. "Some principals still have a steely control on family offices. There's inevitably going to be tension," says Oliver.

MFOs are no exception. Mohamed explains: "A lot of multi-family offices which are unheard of often fall apart. There are different opinions and views on the long term." The cost of operating them is also a killer. Mohamed continues: "We think if you're [worth] over $100m, it's a percentage point in the costs to have staff employed in a private office."

MFOs, which are designed to spread the cost over multiple families, can also feel the financial pressure. "There are a lot of family offices that struggle to get beyond being a boutique for a small number of families," says Bell. Stanhope Capital employs a research team of 20; other major MFOs have similar-sized teams.

However, MFOs that do get beyond 'boutique' status quickly become something else. Stanhope Capital now manages capital from 40 institutions as well as 150 families, so does not fit the strict definition of a family office. "We're an investment office," says Bell.

Europe's largest MFO, Stonehage Fleming, looks after 250 families, making it more akin to a small bank or wealth manager than its origins as an office for the Fleming family.

It is this kind of fractionalisation that keeps the family office sector in check. It is an industry that does not quite know what it is, not aided by the fact most family offices do not label themselves as such and most family office service providers do.

"I really don't like the term," insists Stern. "We're a private investment office." ■