

FAMILY OFFICE MANAGEMENT

March 29, 2023: When family offices cross borders, they encounter challenges ... and opportunities

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Family offices with members spread across the globe have to deal with a host of challenges — from taxes to cultural differences around money and investing — that can cause tension. It takes proper planning, communication and some healthy perspective to address these issues, Steven Weiss reports.

Also in this issue, we talked with Jochen Wermuth, one of the leading proponents of sustainable investing for family offices, who describes his own environmental awakening as a youth. He also talked about his investing strategy, how family offices can move to a more climate-conscious approach, and why he doesn't want to be the only one making money on clean-tech investments.

We're making some big changes. Next week, this newsletter will hit your inbox on Monday morning. And we'll launch a new Thursday newsletter, Peer-to-Peer Insights, featuring commentary and Q&As with some of the brightest minds in the family-office space.

Crain Currency is always looking to invite new members into our exclusive network of family-office professionals and family members being served by them. If you know someone who would benefit from being part of our network, please take a moment to invite him or her into the fold by clicking [here](#).

And as always, we'd appreciate any comments, ideas and insights that would make this newsletter more useful. Please forward these to Executive Editor Frederick Gabriel at fred.gabriel@crain.com or me at marcus.baram@crain.com.

Share the Crain Currency experience today. Know someone who works in a family office or is served by one? Invite them to become a charter member of the Crain Currency community by clicking [here](#).

HANDPICKED: When family offices cross borders, they encounter challenges ... and opportunities



By STEVEN I. WEISS

As family offices proliferate and family members move to different parts of the world, more wealthy families are crossing cultures — whether national, religious or ethnic — through marriage, relocation, adoption or the expansion of the family business into countries around the world. That growth can bring all kinds of unexpected challenges and complications, from tax and estate issues to new twists in finding common ground on approaches to investments and philanthropy.

When dealing with multiple jurisdictions with varied laws and traditions, there is no one way to handle these matters, family-office advisers say. But it's key to have a team of professionals in place to review the options and for the family to establish a common ground when it comes to their shared needs and goals.

"Be aware of these complexities, and hire local talent to offer specialized advice," said Harsh Agarwal, a Dallas-based managing director at Bank of America Private Bank.

THE HIGHLIGHTS:

- When family members relocate across borders, it can present legal, regulatory and cultural challenges.
- Addressing those challenges comes down to planning and communication.
- It also helps to hire local talent who can offer specialized advice.
- Cross-cultural family offices can also take advantage of new investing opportunities.

Taxes: One of the thorniest issues is taxes, which can cause friction within different branches of a family. Susan Schoenfeld, a family office adviser, recalls working with one family where one of the primary members had moved to a jurisdiction where that person's distributions would be subject to "an enormous amount of tax." That family member "wasn't taking any distributions and, as a result, was the poor relation," which shifted the family dynamic. Proper planning can help avoid such complications.

Cultural differences: Cultural differences — especially around attitudes and values about money and business — can present challenges. In the case of one family Schoenfeld worked with, they "had emigrated from a Latin American country [and] the daughter married an Irish-Catholic guy" who'd grown up in the United States and didn't come from the same level of wealth. "The son-in-law had encouraged the family to invest in his business," she said, but their differing cultural attitudes on sharing details about how his business was performing created disharmony. The family expected him to take the lead on transparency, but the son-in-law interpreted their lack of questions as a lack of interest.

"He felt that he couldn't talk to them about it, and they felt that he didn't talk," Schoenfeld said. Eventually, the family came together to communicate through those differences.

Philanthropy: Agarwal cited his own family's cultural differences as an example of how to bridge divides on philanthropy. While his father grew wealthy as a corporate executive in India, Agarwal made his life in the U.S. and married a woman who grew up in America and was of Polish descent. While his family in India had focused their philanthropy on working to alleviate extreme poverty, "my wife, who's employed here in the U.S. as a paralegal in the family-law space, wanted to empower other women to take on roles in law," Agarwal recalled. When his family members heard about her plans during discussions at regular meetings, they thought it sounded "like an entitled goal."

That division forced Agarwal to "play the broker in helping both sides see each other's perspectives."

The family began seeding his wife's project with a small allocation, and she "ran with that baton and started offering KPIs and metrics." Now, Agarwal said, "My mom is actively reaching out to her to see what else we can do."

Family cohesion: Agarwal got the idea to focus heavily on family meetings as a way to bring together an international oil and gas family of a prominent client in Texas. By the third generation, many members had moved to Europe.

To keep their bonds strong and involvement in the family office consistent, a physical office was established in Europe, and family meetings now alternate between there and the U.S. every year. As an indicator and reminder of the entire family, a photo taken at every year's annual meeting is blown up large and placed at the entrance of both the U.S. and European offices "so family members can walk in and recognize they are part of the larger family fabric," Agarwal said.

Divorce and succession: The tensions that arise during divorces and around succession battles can be amplified when the drama crosses borders. In the U.S. specifically, families benefit from an estate-tax provision that grants spouses the right to inherit tax-free from a spouse who dies — but that's only when the inheriting spouse is a U.S. citizen. International families need to prepare trusts and other mechanisms if they want to avoid that tax hit.

In the case of a divorce, Agarwal said, it's not uncommon for a settlement to include requirements about how children are raised — including religious activities — in order to be eligible for distributions from the family. Again, it helps to be prepared.

New investing opportunities: Of course, the global expansion of family offices provides new opportunities along with these challenges. When it comes to investing, embracing multiple cultures can increase returns, said Francois Schramek, managing director of the Los Angeles-based wealth management firm Manhattan West. "Every investor has biases," he said, and "the most basic bias that most people have is people tend to invest in their local country first."

For families who want to diversify globally, having a presence in another country and a keen understanding of other cultures can be an advantage, said Schramek, adding that he himself is a product of a marriage between French and German families and has benefited as an international adviser from having a foot in both cultures.

"Probably half of my time is spent with people who have some kind of international presence," Schramek said, whether "through marriage or a business entirely located in another country." He emphasized that all countries are not the same when it comes to gaining access to investment opportunities and advice and that families should consider where they locate their hubs to best capitalize on their opportunities.

While many family offices remain fairly homogenous — Agarwal said that of the more than 60 strategists who are advisers to families within Bank of America, only a handful need to specialize in global families — the continued blending of cultures around the globe and increasing globalization of investment means that families need to take all manner of legal, regulatory and cultural differences into account as they expand.