

INSTITUTIONALIZING FAMILY OFFICES THROUGH OUTSOURCED TRADING

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FAMILY OFFICES DESIGNED TO INVEST AND GROW THE NET WORTH OF ULTRA-WEALTHY FAMILIES HAVE GROWN IN NUMBER, SIZE, AND SOPHISTICATION. THIS HAS BEEN DRIVEN BY SHIFTING ECONOMIC AND MARKET FORCES, ALONGSIDE FAMILIES' INCREASING DESIRE FOR FLEXIBILITY AND CONTROL. BY SHARPENING THEIR DUE DILIGENCE, EXPERTISE, AND ABILITY TO ISOLATE THE RIGHT COMBINATION OF IDEA, TEAM, AND ASSET ALLOCATION – MANY FAMILY OFFICES HAVE EMERGED AS INSTITUTIONALIZED PLAYERS. THESE MODERN OFFICES HAVE ESTABLISHED THEMSELVES AS SOPHISTICATED INVESTORS IN TODAY'S PUBLIC AND PRIVATE MARKET ECOSYSTEM.

Many institutionalized family offices pursue an intensive approach supported by best-in-class service providers. Critical and complex functions, such as portfolio and risk management, are frequently outsourced to experts to attain first-in-class service.

Here we examine how outsourced trading can deliver a greater level of institutionalization to family offices, which can be both cost-effective and value generative. With an understanding that each family office has unique and specialized needs, we explore various trading desk models and analyze key points when seeking to maximize the value from traders.

The opportunity to optimize trading

While many family offices have large exposures to real estate and external alternative managers, they also have exposure to yield products in the form of corporate and government bonds, FX, equities, and ETFs. Services supporting these traditional asset classes often fall short when compared to the sophisticated infrastructure family offices have grown accustomed to accessing via their alternative manager investments.

Trading family office assets is one such service with significant runway for optimization. Customarily, family offices have traded their bonds and equity holdings through private banking relationships. Trading through a private bank, however, is expensive and constricted. This approach limits liquidity sources and typically does not utilize professional highly experienced multi-asset traders.

One possible solution: Create an internal trading desk

To address the shortcomings of trading through a private bank, some of the largest single-family offices have built internal trading desks. While this solution provides a key benefit - superior execution - it requires large capital outlays to operate a single-family office, let alone the considerable costs for recruiting a team of top talent to work solely for one family. This strategy also incurs high costs to maintain the systems required to run a trading desk, not to mention the additional operational risks that follow. It is no surprise then that only a small percentage of families set up their own family office.

For most family offices, the value proposition of an internal trading desk is sub-optimal due to operational redundancies - most commonly, periods of inactivity during which no trading takes place. Without an immediate value additive task or project to fill the gap when traders have down time, the operational burden and fixed costs of an internal trading desk make it an ineffective solution. Furthermore, internal family office trading teams are often undersized, so execution quality suffers during busy and volatile days.

A more efficient solution: Partner with an outsourced trading provider

Family offices that partner with an outsourced trading provider garner the same and in most cases, superior institutional-quality execution generated by an internal trading desk but accomplished at a more efficient cost. Outsourced trading services empower family offices to cost-effectively achieve execution results in line with the high quality of service they have come to expect in the other areas of their business.

Family offices can choose from a range of models to secure the most compelling value proposition. In a variable cost model, for example, a fee is charged per trade. Family offices can also opt to pay a fixed monthly fee for all services rendered. The decision is often based on the number of trades and additional services a given firm requires.

Maximizing the advantages of outsourced trading

When considering an outsourced trading provider, family offices can maximize the potential advantage by partnering with a firm positioned to deliver on key objectives, such as:

Alignment – Maximum transparency, objectivity and alignment are vital to family offices. As such, it is important to identify an outsourced trading provider that always puts the interests of the family office first and commits to complete alignment with family policies. Family offices should examine how the outsourced trading provider earns money - including rebates, credits and funds earned by favoring certain relationships - and seek to understand the driving forces behind the firm's overall business model.

At Meraki Global Advisors, our services are conflict free. We are only paid by our clients for execution; we receive no other revenue streams.

Confidentiality – Discretion and confidentiality are paramount. Family offices should examine an outsourced trading provider's approach to confidentiality from multiple angles, including the number of clients covered by their trader(s) and legal protections in place. It is also important to understand the extent to which orders are visible as trades flow through the outsourced trading partner's system.

Meraki's processes have been engineered to create an environment of ultra-confidentiality. They are tried and tested by \$1+ billion hedge funds who place a similarly strong emphasis on confidentiality as family offices. Furthermore, our targeted client-to-trader ratio is 3:1.

Risk Management – IT security and infrastructure are other operational components of data security that family offices should consider. Cyber risk, improper trade authorizations, data breaches and fraud are all relevant in maintaining proper risk management. Ensuring your outsourced trading provider has a sound risk management framework with proven effective internal controls is paramount.

Meraki conducts audits of its information and security measures to ensure the protection of all sensitive data. Additionally, Meraki has an established Cyber Security Policies, which are periodically updated to mitigate risks.

Experience – When family offices can rely on experienced traders, they feel confident that a trusted team member is dedicated to helping the office navigate both calm and choppy waters. The ability to lean on a trader's experience-driven insight into complex situations and during moments of market volatility creates tangible value for the family office. We are experienced in trading global cross-asset. This means we can help family offices build or reduce stakes in companies through equity and/or derivatives trading and help put on hedge trades.

Meraki's team brings decades of industry experience from top hedge funds, family offices, traditional asset managers and the world's preeminent investment banks. With global visibility and acumen across every asset class, we are uniquely positioned to assess cross-product relationships and provide insights into the strength of potential or real market movements.

To learn more about Meraki Global Advisors' outsourced trading capabilities and capital introduction services, visit our website www.merakiglobaladvisors.com or email info@merakiglobaladvisors.com.

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