



The State of the Art in Family Wealth Management

2013 - 2014 FOX Thought Leaders Council Summit Report





100 South Wacker Drive, Suite 800 ▪ Chicago, IL 60606 USA

T: 312.327.1200 ▪ F: 312.327.1212

10 Rockefeller Plaza, 16th Floor ▪ New York, NY 10020 USA

T: 646.504.0776 ▪ F: 212.713.7621

Adam House, 7-10 Adam Street

London WC2N 6AA ▪ United Kingdom

T: +44 (0)207 520 9443 ▪ F: +44 (0)207 520 9441

info@familyoffice.com ▪ www.familyoffice.com

Confidentiality and Distribution

This publication has been prepared by Family Office Exchange (FOX) for the exclusive use of licensees. It contains valuable proprietary information belonging to FOX. This publication is not for public distribution and no part of this publication may be reproduced, distributed, or posted electronically except as expressly permitted in the FOX Content License Agreement (the "CLA") contained on FOX web site at www.familyoffice.com/CLA.

FOX member licensees may distribute this publication solely to other members of the organization that holds a FOX membership. Non-member licensees may not distribute this publication without expressed written permission from FOX. If you wish to make additional distribution of this publication, or if you are not the licensee named in the publication, additional licensing options are available from FOX. See Contact Information below.

If you are unwilling to assume these confidentiality and distribution obligations, please promptly return all physical copies of this document to FOX and delete any electronic copies of the file in your possession.

Citation

As part of the CLA, authorized licensees may reference information contained in this FOX publication in another work as long as FOX is cited as the copyright owner of this information. An authorized citation includes the FOX document title, publication date, and Copyright © Family Office Exchange in close proximity to the location of the cited FOX information in the authorized licensee's work.

Copyright

The views contained within this publication are those of the authors at the time of writing. ©2014 Family Office Exchange. All Rights Reserved. Except as expressly permitted in the CLA, Licensee shall not modify or create derivative works from this FOX publication without the express written consent of FOX. Licensee may not remove, obscure, or modify any copyright or other notices in the FOX publications.

Contact Information

If you have any questions about the use of this publication, please direct inquiries to info@familyoffice.com or call 312.327.1200.

FOX Editorial Team

Teresa Bellock
 Amy Hart Clyne
 Jane Flanagan
 Heather George
 Charlie Grace
 Sara Hamilton
 Michael Sallas

Contributors

This publication would not be possible without the wisdom and generosity of the FOX member community. We are indebted to the members and industry experts who shared their stories and experiences for the benefit of the group.

FOX Thought Leaders

Abbot Downing
 AIG
 ARIS Title Insurance Corporation
 Ascent Private Capital Management
 Deutsche Bank Private Wealth Management
 Eton Advisors, LP
 Fiduciary Trust Company International
 GenSpring Family Offices
 HUB International Personal Insurance
 Plante Moran
 PwC Private Company Services
 Rockefeller & Co.
 Schiff Hardin LLP
 South Dakota Trust Company, LLC
 TriState Capital Bank
 U.S. Trust, Bank of America Private Wealth Management
 Warner Norcross & Judd LLP

Guest Contributors

Foster Holdings, Inc
 Foundation Source
 Gresham Partners
 Kinship Trust Company, LLC
 KKP Group, LLC
 Market Street Trust Company

CEO & Publisher

Sara Hamilton

Table of Contents

Introduction	5
Section One: Understanding the Family Enterprise Framework	6
Section Two: The Hallmarks of State of the Art Advice	10
Section Three: State of the Art in Practice	15
Part 1: Family Processes.....	17
Governance	18
Education	21
Strategic Opportunity and Risk Management.....	24
Part 2: Integrated Financial Solutions	27
Integrated Planning.....	28
Investment Planning	30
Tax and Estate Planning	33
Insurance Planning as a Risk Management Strategy	35
Philanthropic Planning	39
Consolidated Client Reporting	41
Appendix	43
FOX Risk Roadmap	43
About FOX	44

The FOX Thought Leaders Council™

FOX invites the finest advisors across all disciplines in the private wealth management industry to come together as members of the FOX Thought Leaders Council. FOX Thought Leaders currently include those who are at the top of their fields in family business planning, information management and reporting, integrated planning, insurance planning, investment planning, philanthropic planning, and tax and estate planning. This diverse working council is united by their commitment to serve the needs of ultra high net worth individuals and families. FOX member recommendations and proven examples of advisor vision and expertise are taken into consideration for membership in this select group.

The Thought Leaders Council Summit

At the annual Summit meeting, FOX Thought Leaders work collaboratively to address strategic issues impacting families and advisors. Bringing together the best thinkers in the industry to focus on important topics is one of the many ways that FOX delivers unparalleled advice, knowledge and education to serve its member community and the industry as a whole.



Summit Participants

Thomas Abendroth, **Schiff Hardin LLP**
 Mark Blumenthal, **Plante Moran**
 David Bokman, **GenSpring Family Offices**
 Harmon Brown, **Schiff Hardin LLP**
 Michael Cole, **Ascent Private Capital Management**
 David Diefenbach, **U.S. Trust, Bank of America**
Private Wealth Management
 Bryan Dunn, **Kinship Trust Company, LLC**
 Charles Fawcett, **TriState Capital Bank**
 Lisa Featherngill, **Abbot Downing**
 Philip Fontana, **KKP Group, LLC**
 Wallace Head, **Gresham Partners, LLC**
 David Hubbard, **AIG**
 James Kane, **HUB International Personal Insurance**
 Lisa Marcus, **Fiduciary Trust Company International**
 David Martin, **Foster Holdings, Inc.**
 Joe Oleksak, **Plante Moran**
 Judith Pearson, **ARIS Title Insurance Corporation**
 Jeffrey Power, **Warner Norcross & Judd LLP**
 Elisa Shevlin Rizzo, **Fiduciary Trust Company**
International
 Mark Rogozinski, **Rockefeller & Co. RockIT Solutions**
 Ned Rollhaus, **Ascent Private Capital Management**
 Brittney Saks, **PwC Private Company Services**
 James Sekel, **TriState Capital Bank**
 Page Eberstadt Snow, **Foundation Source, Inc.**
 James Steffel, **Warner Norcross & Judd LLP**
 Matthew Tobin, **South Dakota Trust Company LLC**
 Loraine Tsavaris, **Rockefeller & Co.**
 Doug Wiescinski, **Plante Moran**
 Marianne Young, **Market Street Trust Company**

Introduction

Managing family wealth is an exceptionally complex undertaking. This unique work requires in-depth, technical knowledge of the strategies and services needed to preserve the family's financial capital, combined with the leadership skills and emotional intelligence to cultivate the family's greatest resources – their sons, daughters, cousins and grandchildren. Perhaps most importantly, in order to transfer wealth and legacy for several generations, family members must have a shared outlook that is characterized by a long-term view and rooted in a common sense of purpose. They also must have a framework to work within in order to achieve their goals.

The Family Enterprise Framework, which will be discussed at length in these pages, is flexible enough to support growth and the inherent diversity of opinions that comes with it as long as there is the necessary desire, creativity, flexibility and follow through on the part of the family. Over time, as the number of shareholders increases, the beauty of the Family Enterprise Framework becomes increasingly apparent.

In July 2013, FOX convened a Summit of the Thought Leaders Council along with a select group of veteran family office executives to address the following challenges that are commonly faced by even the most sophisticated of enterprise families:

1. Understanding the Family Enterprise Framework and how its components work together
2. Knowing where to focus the family's efforts
3. Discerning the difference between State of the Industry and State of the Art practices among financial service providers

These challenges are especially critical today. Over the next 10 years, record numbers of wealth owners will be preparing for succession events. Meanwhile, the landscape of wealth management providers continues to change shape in an effort to meet the needs of these owners. As a result, the gap in knowledge between wealth owners and advisors is starting to widen – getting worse before it gets better. Our hope is that this report will provide the information and education necessary to help keep the gap from becoming a chasm by addressing the challenges described above.

Section One: Understanding the Family Enterprise Framework

As the scope of a successful multi-generational, business-owning family's activities expand and the family grows across generations, the organic shift from a business-centric family to a family-centric enterprise or "family enterprise" begins. The collective activities of the family grow beyond the boundaries of the original business. For example: a vacation property is shared with all of the children; a foundation board is formed to manage the philanthropic goals; or a pooled investment fund is created to manage the liquid assets distributed from the original business. Things start to get complicated, and before long the family is faced with the question of how to preserve the family wealth and well-being beyond the first generation.

Contrary to popular belief, it isn't the size of the fortune that determines the family's ability to build a successful family enterprise. Instead, there is a proven set of behaviors and practices that enable success. The first major steps are for family members to realize they have something worth pursuing together and to set goals to maintain the family's financial and human capital for multiple generations into the future. That's what we call "taking the long-term view" of the family enterprise. The key to achieving these goals is to follow the best practices used by hundreds of multi-generational families and do it in an integrated fashion. The Family Enterprise Framework, which is described in these pages, demonstrates how several systems, processes and disciplines come together to support the goals of the family.

Choosing to Take the Long-Term View

Choosing to take the long-term view requires family members to formalize their commitment to each other and articulate the benefits of staying together for the long-term. The process of evaluating whether or not to stay together requires an honest exploration to determine if there are compelling reasons for taking a long-term view and sustaining a renewable bond among the branches of the family.

Families around the world stay together for generations and reap significant benefits. Third and fourth generation families in the United States say they have greater impact as a family by staying together. These cousins know there are significant tax advantages to passing assets from one generation to another in trust. They recognize the value of pooling their purchasing power for the benefit of the smaller investors in the family. Many note that having a structured investment policy provides the discipline to adhere to a long-term strategy, which ultimately benefits the entire family, especially those who are impatient and eager for income. Furthermore, they are proud to be identified as a legacy family. They have grown up with an understanding of stewardship and the rewards of watching out for future generations.

Setting Goals for Shared Ownership

Often, family enterprises will organize around family goals and priorities that relate to preserving different types of family capital. Some shareholders care most about the growth of the business capital; others care more about the growth of their social capital and its impact on the community; and still others care more about the growth of the human capital and the development of each individual shareholder. The family enterprise can support the interests of all family stakeholders, as long as the family possesses the necessary desire, creativity, flexibility and persistence. (See the Defining Enterprise Roles and Responsibilities diagram on page 8).

Defining Enterprise Roles and Responsibilities



Source: Family Office Exchange Research

Working Within the Family Enterprise Framework

Building a family enterprise is like building a house. Several systems must come together in an integrated fashion to form the structure, and professionals from various disciplines must collaborate to build them, each following specific processes and using specialized tools and materials to carry out their part.

Family Goals Provide Direction: Serving as the architectural blueprint are the family’s shared goals as they relate to family values, wealth, business and philanthropy. Successful multi-generational families revisit these goals with regular frequency to ensure that they continue to reflect the interest of the family’s current constituents.

Family Processes Provide Structure & Support: Like the shell of a house (the floor, walls and roof systems) the family processes provide consistency, shape, and structure to the family enterprise. These processes include establishing ownership and control, evaluating opportunities and risks; governing for shared decision-making, engaging and educating owners, providing family leadership and planning for succession. Proper execution of these processes is what ensures that not only wealth, but also legacy can be transferred from one generation to the next. If any one of them is weak or neglected, shared ownership will not be sustainable.

Family governance is especially important, providing the foundation on which to build. Without it, everything else falters. For it is within the structure of governance that shared decisions for every other aspect of the framework are made. Family governance also provides oversight of all of the processes and financial solutions to ensure that they are executed in a way that is faithful to the goals and values of the family. (See Section 3, Part 1 for more information on family processes.)

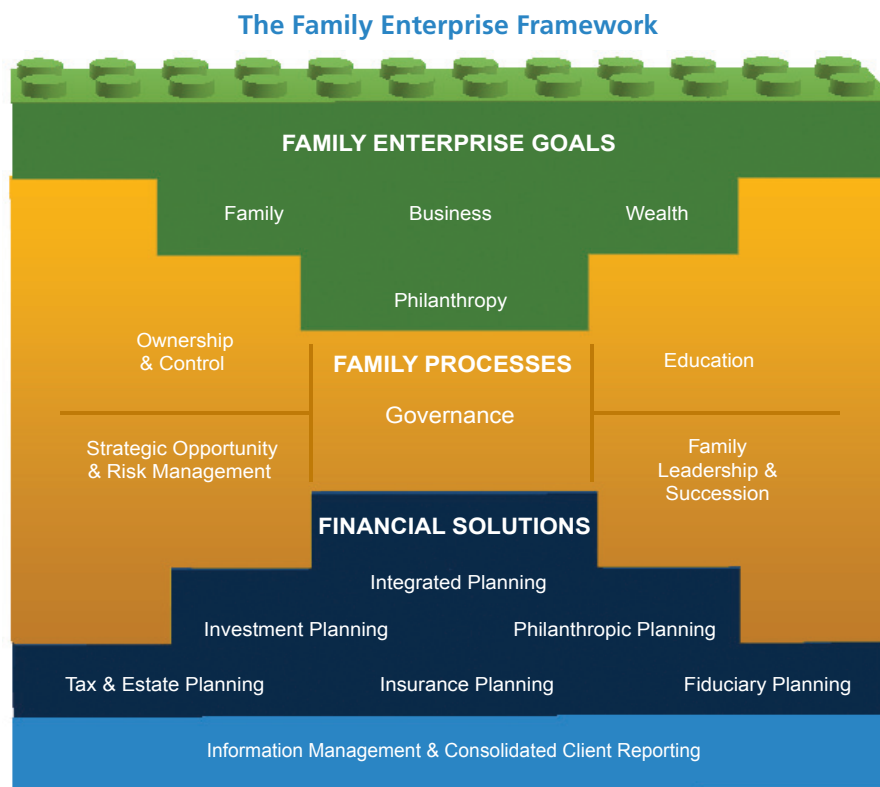
Integrated Financial Solutions Provide Power: As the electrical and mechanical systems provide the necessary power for the home, the integrated financial services (investment planning, risk planning, tax planning, estate planning, fiduciary planning, philanthropic planning, information management and reporting) work to translate the family’s goals into action. (See Section 3, Part 2 for more information on integrated financial solutions.)

Using An Integrated System of Building Blocks

Each component of the Family Enterprise Framework is made up of smaller parts or building blocks. When these building blocks integrate with one another, the whole structure is stronger. At the 2013 FOX Fall Forum, we used the LEGO™ integrated system of bricks to illustrate this point. Each LEGO brick is carefully architected to fit tightly with others, allowing several pieces to work together to create much larger structures. The following illustration provides a sampling of the building blocks that come together to form different parts of the Family Enterprise Framework. In Section Three, State of the Art in Practice, we explore in greater detail the components of the Family Enterprise Framework and how they work together.

A Matter of Emphasis

While the family must stay abreast of the workings of all aspects of the Family Enterprise Framework, some areas require greater focus from family members than others. Furthermore, the focus may need to shift depending on the life stage of the family and the current challenges it faces. However, as more than one family office executive at the Summit table asserted, there are certain efforts that cannot be hired out and others that can.



©2014 Family Office Exchange. All rights reserved.

Source: Family Office Exchange Research

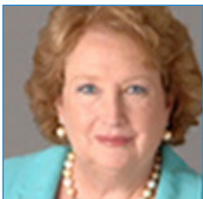
The family process areas (ownership and control, evaluation of opportunities and risks, owner engagement and education, family leadership and succession, and family governance) are those that require the greatest focus from family members. These are also the areas where the highly personalized service of a professional family office staff tends to add the greatest value.

Once high quality advice has been secured, the integrated financial solutions should require less focus in the form of day-to-day, hands on involvement. However, family oversight and regular assessment of performance is essential.

Section Two: The Hallmarks of State of the Art Advice

Stamping precious metals and other items of significant value with an official mark to attest to their purity is an old practice, believed to have started in Great Britain and going back hundreds of years. Still today, these “hallmarks” give buyers confidence that they are getting what they paid for and that the goods are, in fact, the “genuine articles.” When it comes to procuring advice and services, similar markers have not been readily available but would be useful as the process of identifying and hiring high-quality, trustworthy advice can be very difficult.

At the 2013 FOX Thought Leaders Council Summit, the group of industry leading advisors and sophisticated family office executives identified hallmarks of State of the Art advice that cut across the various disciplines of family wealth management discussed at the table. These distinguishing characteristics relate more to behaviors than to traits. While on paper the services that are offered from one firm to the next are much the same, note that the greatest differentiators between State of the Industry and State of the Art are rooted in “HOW” advice is delivered. In some cases State of the Art advisors offer the same services as State of the Industry advisors, but the way in which they do things is what makes all the difference. The hallmarks of State of the Art advice include distinct ways in which State of the Art advisors approach their client relationships, communicate with clients, ensure client understanding, and proactively collaborate with other advisors to ensure the seamless execution of the client’s overall strategy.



“Everyone says that strategic planning is critical, but on the other hand you have to execute – it’s all about the HOW. Strategy and execution are two ends of the barbell. Everything we do is in between,” says Loraine Tsavaris, Rockefeller & Co.

Overall Approach: Asking Why Before Answering How

State of the Art advisors approach their work by first ensuring that they understand their clients’ goals. These advisors realize that without that context, they cannot effectively apply their knowledge and expertise to assist their clients. They may be able to provide some initial value, but the risk is that it will be short-lived. If you’re in it for the long-haul, you must understand the big picture.



“You have to ground the entire governance exercise in values – the core values of individuals and how they align and don’t align with other family members. From there you can determine the common mission, structures, policies and decision-making frameworks. While this is challenging work, it is a very rewarding process and essential to the successful transfer and sustainability of multi-generational wealth,” says David Bokman, GenSpring Family Offices.



“We prefer to take the holistic approach rather than the piecemeal approach. To do that, we have to sit down with the client to understand their need set and the different needs by generation. Then we can talk about how much premium to spend, how to manage the risk, how we communicate, and how we will know it’s working,” says David Hubbard, AIG.



"Every wealthy family has trusts, trust structures, trustees, and fiduciary relationships. These should be reviewed, updated, and modernized to fit an ever changing family and its needs," says Matthew Tobin, South Dakota Trust Company, LLC.



"Successfully managing wealth today involves so much more than managing money and families that are taking a strategic and dynamic approach are making an amazing impact on themselves and the world around them," says Michael Cole, Ascent Private Capital Management.

Communication With the Goal of Understanding

Too often the act of relaying information is mistaken for communication. State of the Art advisors know that true communication is more than a transaction where information is passed from one person to another. These advisors communicate strategically and proactively, anticipating their clients' needs, with regular frequency, as well as responding to on demand requests. In addition, especially where important decisions with far reaching implications are at stake, advisors also test for understanding. State of the Art advisors also make a point of utilizing a variety of channels and media in order to broaden their reach and increase their effectiveness.



"Seventy-six percent of family businesses say they plan to keep the business in the family. Statistics show that the number of family businesses that accomplish this is much lower, in part because of a failure to do proper planning. We advise our clients to start the process early and help them document a formal written succession plan, which is monitored regularly to ensure that they are prepared for unforeseen events," says Brittney Saks, PwC Private Company Services.



"I constantly find that we have to look back on ourselves and answer this question: As we're working with the clients over the years are we considering what they've told us, capturing it, and are we using it? That's where our responsibility lies," says David Diefenbach, U.S. Trust, Bank of America Private Wealth Management.



"My 'aha moment' came when I realized that the estate plan is not final until it's been communicated to the rest of the family. Until it's in action, it just doesn't have life. And until it's been communicated, you don't have engagement. Without engagement, you won't be successful," says Lisa Featherngill, Abbot Downing.



"Families implemented more wealth transfers in 2012 than ever before, creating even more questions about how to prepare beneficiaries to receive that wealth," says Thomas Abendroth, Schiff Hardin LLP.

Integration: Understanding How All the Pieces Fit Together

Integration is one hallmark of State of the Art advice that FOX has been promoting for many years now. Typically, we have discussed integration in terms of integrated planning and coordinating advice across wealth management disciplines. We talk about the role the family office executive or MFO plays as the conductor of the orchestra, with the advisors as musicians. What's important to note from the Thought Leaders discussion is that there must also be integration vertically and diagonally. In other words, advisors in each discipline must take an integrated approach to the advice and service they offer (vertically). They must also proactively understand the roles and strategies of the other advisors who are on the team (diagonally) and know how and where their strategies impact one another.



"The time has come for art to be treated like all other asset classes, but there is a disconnect between how collectors view current art transactions and evolving best practices. Factors like gaps in provenance history and other title defects that affect ownership rights of collectors should be examined so risk management tools can be used to protect tax and trust and estate plans," says Judith Pearson, ARIS Title Insurance Corporation.



"Best in class tax planning integrates with all personal, business, and investment functions of the family while recognizing that taxes are a significant drag on current returns and a family's wealth legacy," says Mark Blumenthal, Plante Moran Family Office Services.

Promoting Teamwork Among Advisors

State of the Art advisors understand the value of teamwork to integration and actively work to put it into practice in the way they work with their own staffs, with their clients, and with other advisors. To promote teamwork among their staffs, State of the Art advisors have gone so far as to develop team-based incentives in the form of performance goals and shared compensation. They promote teamwork with clients by encouraging open dialogue and structuring fees in a way that supports it. Last but not least, they actively seek opportunities to partner with other advisors to leverage natural synergies and ensure strategies are aligned. While this approach has benefits to all parties, it requires a concerted effort as there are still many natural barriers in place. Clients may not readily accept the benefits of connecting different advisors, fearing that doing so will add expense. Advisors may feel uncomfortable going outside their area of expertise or may not be fully aware of how their processes overlap with those of other advisors.



"State of the Art family office services begin with internal and external teamwork at the highest levels of confidentiality, competency, trust and value," says James Steffel, Warner Norcross and Judd, LLP.



"By serving as a partner to families as we handle their loan and deposit needs, we provide an edge that helps them be ready to seize opportunities when they arise," says Charles Fawcett, TriState Capital Bank.

In Section Three, you will see that these hallmarks are threaded throughout the outlines of State of the Art practices in wealth management disciplines today.

Section Three: State of the Art in Practice

Even the most sophisticated families and family offices find themselves challenged at one point or another by discerning what constitutes high quality advice, staying on top of best practices, and understanding when and how State of the Art providers deliver superior value.

In Section Two we explored the hallmarks of State of the Art advice and service that cut across all wealth management disciplines. In this section the exploration will be vertical, looking carefully at each of the key disciplines that come together to form the Family Processes and Integrated Financial Solutions parts of the Family Enterprise Framework. For each discipline, we will 1) define the core purpose it serves within the Framework; 2) examine the gap between State of the Industry and State of the Art, and 3) highlight key risks and challenges.

Part 1: Family Processes

- Governance
- Education
- Strategic Opportunity and Risk Management

Part 2: Integrated Financial Solutions

- Integrated Planning
- Investment Planning
- Tax and Estate Planning
- Insurance Planning as a Risk Management Strategy
 - Spotlight on Title Insurance for Art and Collectibles
- Philanthropic Planning
- Consolidated Client Reporting

Section Three, Part 1: Family Processes

Governance

Family governance, relies on a set of decision-making and leadership processes that the family employs to achieve shared goals. Strong, effective family governance translates family vision and legacy into strategic plans and actions.

To be most successful, family governance representative of the constituents, should be periodically reaffirmed by the participants, and re-energized in each succeeding generation. Family leaders must be empowered to act on behalf of the group and should be trusted to execute their duties properly. Decisions should be reached by the leadership only after careful consultation and consensus building with other members of the family.¹

Families are increasingly employing family office executives, other family members, advisors and consultants to develop and implement family governance structures that strengthen the family enterprise and enhance the odds of sustainability. In a 2012 Family Office Exchange Benchmarking study, it was determined that 56 percent of families surveyed have a family office governing board and 38 percent have a governing board for the broader family enterprise.²

The Gap Between State of the Industry and State of the Art

Within the realm of family governance there is a subtle, yet sophisticated, difference between the State of the Industry and State of the Art. The fundamental difference is in the consistency of “how” the core family governance process operates. State of the Art practices engage family constituents on a path of discovery to identify what is best for the family. In this capacity, family governance becomes a dynamic, consistent function involving “group process” activities that must continue for the life of the enterprise. To create effective governance, family members must make a commitment to work together within established structures and procedures and must agree to stay involved throughout the process. This allows the family to systematically make better decisions over time and therefore, to more successfully preserve the enterprise and its wealth through the generations.³

Risks and Challenges

Family leaders report difficulties in the following areas:

- Lack of alignment of mission and vision with family values
- Engagement of family members
- Effective communication strategies
- Resolution of family conflict

¹ Source: *FOX 50 Best Practices for an Enduring Family Enterprise*

² Source: *FOX Family Office Benchmarking™ 2012*

³ Source: *FOX 50 Best Practices for an Enduring Family Enterprise*

Governance

Interdependencies: Education, Leadership, Strategic Opportunity and Risk Management, Integrated Planning		
	State of the Industry	State of the Art
Family Vision and Guiding Principles	The family has created vision statements and a set of guiding principles that are consistent with family values to drive the governing process.	The family has documented the vision and process and regularly reviews them to ensure that they continue to be aligned with family values.
System of Governance	<p>A definition of family is identified (bloodline, spouses, stepchildren, etc.)</p> <p>The family has selected a system of governance (patriarchy, oligarchy, federation, or confederation) that includes an appropriate voice for all branches, all generations, and all geographies, accommodating both active and inactive owners of varying financial means.</p> <p>Board roles, functions and meeting frequency are determined and documented.</p>	<p>The family enhances the strategic effectiveness of the governing body by using the expertise and experience of non-family professionals as board members to broaden insights and counteract insular thinking.</p> <p>The governing board carries out primary leadership responsibilities, which include:</p> <ul style="list-style-type: none"> • Development of family enterprise goals • Use of an effective strategic planning process for managing change • Leadership development for managers and board members • A periodic assessment of the success of the family enterprise • An annual assessment of the value of the enterprise functions. <p>Younger family members are invited to participate in governance activities (e.g. board meeting attendance, committee participation). These are available to younger family members to prepare them for future leadership positions.</p> <p>An intentional or strategic planning process is undertaken every three to five years. This plan drives the governance process.</p> <p>An annual report on the progress of the family enterprise is shared with the entire family.</p>

Governance (continued)

	State of the Industry	State of the Art
Guidelines and Policies	The family operates according to a set of “unwritten” rules.	<p>The family has met to develop and adopt guidelines/bylaws for the governing process that stipulate:</p> <ul style="list-style-type: none"> How decisions are made (per member, per share, per capital or per branch) How board members are elected (by consensus, by majority, or by super majority) How terms and term limits are set How board members are compensated. <p>The family has established guidelines for the enterprise including, but not limited to, such items as:</p> <ul style="list-style-type: none"> Code of conduct Community reputation policy Confidentiality policy Investment risk policy Management policy
Decision-Making Process	Decisions that impact the family enterprise are made on behalf of, or with input from, family members.	<p>An effective decision-making process that is workable within the family’s history and feels equitable to the participating stakeholders has been identified for the family enterprise.</p> <p>A consistent process for making decision is used by all boards and committees.</p>
Family Communication	<p>Information that impacts the family enterprise is consistently communicated to all affected stakeholders in a timely fashion.</p> <p>The family hosts an annual assembly or family meeting for all family members to gather to stay informed about the family enterprise.</p>	<p>The family recognizes that effective involvement by the family requires consistent communication. The family establishes multiple methods (e.g., periodic family meetings, newsletter, website, etc.) to ensure that all members of the enterprise have access to important family information and stay connected.</p> <p>The family has explored effective communication techniques, created an awareness of how individual family members comfortably communicate, and communicates appropriately to all family constituents.</p>

Education

The purpose of family education is to support the family enterprise by preparing individual family members for the various roles and responsibilities that they will take on over the course of their lives as they navigate responsible wealth ownership. While the emphasis is likely to be different from one family to the next, family education goals generally include cultivating future leaders for the family and the business, developing responsible shareholders, and fostering entrepreneurship in the next generation, and hopefully all of the above.

Too often, family education is delivered on an ad hoc basis with no overall framework for education or true oversight. Successful, effective education systems are those that are designed with the goals of the enterprise in mind. State of the Art family education relies heavily on effective governance and strong leadership. Ideally, the family has already reached agreement on the purpose for staying together, has a shared vision for the future, and has identified long-term goals for the family enterprise before undertaking an education initiative.

Once that work has been done, an education plan can be established and programs and resources can be identified to help develop the competencies needed to support the goals of the enterprise. Effective family leadership ensures that the people and resources are in place to get the job done, and that individual members of the enterprise are invested in its success. Effective leadership of the family education effort requires keeping tabs on the shifting needs of the individuals within the family and the needs of the enterprise, making sure the education plan and system support those needs, and making sure they adapt when necessary.

The Gap Between State of the Industry and State of the Art

Thoughtful, proactive owner education is essential to family success through the generations. In addition to working hand in hand with governance and leadership to support the transfer of wealth and legacy through the family enterprise, State of the Art family education is characterized by:

- Consensus that family education is essential for the support of the family enterprise and is the responsibility of all stakeholders, not just primary stockholders.
- A strategic approach to the management of a family education system that includes leadership, governance, resource management, program design for groups, and customized plans for individuals
- A well rounded curriculum that covers topics in these four dimensions: family, business, finance and philanthropy

Risks and Challenges

Family leaders and family office executives report facing obstacles such as:

- Difficulty getting buy-in from key stakeholders
- Time constraints
- Lack of program design expertise
- Trouble identifying the right resources
- Lack of constancy in educational opportunities

Education

Interdependencies: Governance, Estate Planning, Succession, Wealth Transfer, Legacy, Sustainability		
	State of the Industry	State of the Art
Commitment	Family leaders know that the creation of an education strategy is essential to the sustainability of the family enterprise.	There is consensus within the family that family education is the responsibility of all family stakeholders (including advisors), not just the family leaders.
Formal Education Framework	Family education is provided to family members in an as needed fashion by family members and advisors when the need arises. Education programs often don't tie to a larger strategy or curriculum.	<p>A champion has been identified and empowered to oversee the execution of a family education strategy and delivery of family education programs.</p> <p>Family members have been engaged to take a leadership role in family education by:</p> <ul style="list-style-type: none"> • Formalizing an education committee or tying into an existing governance structure • Aligning education strategy and goals to family vision, values and family enterprise goals • Adopting a continuous improvement model for educational programming and learning opportunities • Delivering new family member on-boarding programs • A specified amount of time is designated by the leadership group for family education activities. <p>Experienced learning experts or organizations have been engaged to facilitate the process.</p> <p>Educational opportunities are consciously threaded throughout the activities of the family and the family office.</p>

Education *(continued)*

	State of the Industry	State of the Art
Individualized Learning Programs	<p>The focus is on basic financial fluency (e.g., income statements, balance sheets, personal accounts, and the skills of saving and investing).</p>	<p>The family has established a coherent vision for family education that is supported with individual learning goals and clear outcomes.</p> <p>Learning opportunities are designed to enable family members to enjoy their rights, and fulfill their responsibilities in their various roles such as trustees, beneficiaries, shareholders, board members, general partners, limited partners and philanthropists.</p> <p>Each family member has an individualized plan of education that focuses on what they need to learn during the current calendar year.</p> <p>There is family-wide accountability for each member of the family for getting the educational goals accomplished.</p> <p>Family education is understood and practiced as an ongoing, lifelong process.</p>

Strategic Opportunity and Risk Management

Risk management is typically described as the process of planning, organizing, and controlling the activities of an organization in order to minimize the effects of risk on the organization's capital and earnings. In the context of a family enterprise, the definition must be expanded to include not just the risks associated with financial losses, but also, strategic, operational, and leadership risks. It should also encompass risks to family and business capital as well as financial capital and should take global/systemic risks into account.¹ These risks should be evaluated regularly and opportunities should be considered as well as potential losses. No one can predict the future, and all families are subject to unexpected changes and uncertainties. An intentional planning process provides a family and their advisors, however, with a more integrated view of the family's current situation as well an understanding of how different issues overlap and relate. Having a better command of these issues and an ability to see their connectivity gives family members the ability to better predict and tackle problems before they lead to a crisis.

When a family develops a consistent process for addressing potential risk, they are institutionalizing a process for managing any unforeseen crisis that may arise. The rest of the family will gain comfort from knowing that there's a Risk Committee functioning to manage any crisis that occurs.

While the family should seek out the best resources for helping them understand and assess the options and hazards before them, this work cannot be entirely delegated to the family office or an external advisor. The family office or wealth advisor plays the role of "chief risk manager" in terms of maintaining a constant awareness of changes, threats or opportunities that affect family goals, but the family members have to be active partners in voicing their priorities and making decisions about their future as a family.

The Gap Between State of the Industry and State of the Art

The gap between State of the Industry and State of the Art for risk management is defined not only by the family's approach to risk assessment and management, but also by the family's perception of risk and how risk relates to their view of present and future opportunity. Wealth can never be guaranteed into the future with 100 percent certainty, but families who take a proactive approach to preserving and growing their wealth stand a far greater chance of sustaining their lifestyle and legacy for generations to come.²

Risks and Challenges

- The world has become a more interconnected place in which all families are impacted by systemic risks. Therefore, families must be prepared to face more external threats and unforeseen circumstances, and they must have the awareness and flexibility to identify and seize new opportunities.
- The greatest challenge is motivating family members and their advisors to formally commit time and effort to assessing risk, evaluating alternatives, and making long-term plans.

¹ See the FOX Risk Roadmap for an illustration of risks to the family enterprise in the Appendix.

² Building a Family Enterprise Plan to Deal with Future Uncertainty

Strategic Opportunity and Risk Management

Interdependencies: Family Education, Family Governance, Insurance Planning, Philanthropic Planning, Investment Planning		
	State of the Industry	State of the Art
Understanding of Risk	<p>The family understands that risk encompasses far more than the family’s approach to investing or insurance, but includes a wide range of issues such as family communications and relations, governance and decision-making, and family or business leadership.</p>	<p>The family is comfortable talking about what keeps them awake at night and meets periodically to arrive at a common understanding of the family’s collective risks and opportunities.</p> <p>The family identifies likely scenarios and analyzes the pros and cons of each outcome, so they are prepared for all outcomes.</p> <p>The family understands its role as the decision-maker about risks and opportunities to be addressed and they recognize the importance of the family office’s role as chief risk manager.</p>
Systematic Process for Managing Risk	<p>Reactive approach to risk and opportunity management: processes and procedures are often developed in response to specific trigger events.</p>	<p>Investment in strategic or intentional enterprise planning exercises every three to five years to surface, prioritize and develop plans to mitigate risks and seize opportunities.</p> <p>Reliance on a risk management process led by a risk planning committee. This committee works with the broader family to systematically prioritize risks and opportunities (using the FOX Risk Assessment Process and Risk Map) in order of likelihood and impact on the family/family office and develop action plans to address risks and develop opportunities.</p> <p>Disciplined annual review process to measure the progress of risk management efforts.</p> <p>An intentional or strategic planning process is undertaken every three to five years. This plan drives the governance process.</p> <p>An annual report on the progress of the family enterprise is shared with the entire family.</p>

Strategic Opportunity and Risk Management *(continued)*

	State of the Industry	State of the Art
<p>Opportunistic and Entrepreneurial Culture</p>	<p>The family is reluctant to discuss risks and opportunities except in an emergency. This culture of avoidance keeps the family from cultivating a risk management mentality. Without dialogue to surface collective risks and opportunities, family members spend their energy wondering and worrying about potential outcomes (e.g what happens when dad retires?) rather than working toward positive outcomes.</p>	<p>Proactive families understand that with risk come unique opportunities. State of the Art families are always poised to embrace those opportunities, because they have a culture that fosters change and innovation.</p> <p>Family leaders encourage dialogue about opportunities and risks and seek input from all stakeholders.</p> <p>Family members understand that they cannot delegate risk and opportunity management to advisors. They must play an active role in the process.</p> <p>The family works to cultivate an entrepreneurial spirit within the next generation. This involves hands on training, permission to fail, and opportunities for next generation family members to work collectively on investment partnerships, new businesses, philanthropic endeavors, etc. to create a healthy appetite for responsible risk taking.</p>

Section Three, Part 2: Integrated Financial Solutions

Integrated Planning

Integrated planning is a multi-disciplined wealth planning process that consists of a series of important elements. Information about a client's mission and values, their goals and objectives, financial structure, and family structure, is identified and clarified with the family, shared with the advisory team and then considered in all investment, trust, estate, tax, risk, banking and fiduciary advice. The impact of each financial decision on the entirety of the client's situation is considered in order to optimize the financial goals of the individual and, just as importantly, of the family enterprise as a whole, when the individual's assets are strategically tied to other enterprise assets.

The Gap Between State of the Industry and State of the Art

For families, integrated planning has become more universally accepted as mandatory. For some, integrated planning is more limited in scope than for those families that are operating within the family enterprise framework. The State of the Art practice around integrated planning is one that is more comprehensive, including all of the financial services and family processes based on their overall goals.

For advisors, the gap in State of the Industry and State of the Art stems from the advisory firm business model that does not support, from a human resource and compensation structure standard, the fully integrated family enterprise system. In the case where the advisor considers the complete array of solutions as well as governance, education and the other critical family processes, a gap might arise where the staff is not motivated to find optimal financial solutions that serve the client best. A performance management and compensation system that supports full integration will narrow that gap. In the case where several advisors, of different kinds are committed to a relationship, the gap in integrated planning is inherent in that disparate framework and is often only ameliorated by having in place a strong advisor whose primary role is integration for the whole family enterprise.

Risks and Challenges

Pending one's perspective, the risks to an enterprise driven integrated planning approach differ. In general, however, the challenges include the following:

- Efficiently sharing client goals and information across teams and with external advisors
- Data integrity when using multiple systems for fiduciary, investment, relationship management, planning and CRM
- Keeping costs under control to preserve profitability for multi-family offices and sustainability for single family offices
- Lack of broad client experiences to be able to see optimal opportunities, risks, and financial strategies

Integrated Planning

Interdependencies: Investment Planning, Tax and Estate Planning, Insurance Planning, Education, Governance, Opportunities and Risk		
	State of the Industry	State of the Art
Goals Based Planning	Integrated wealth planning considers the impact of any financial decision on the wealth owner’s overall financial situation to ensure that each decision moves the owner’s goals forward. The focus is on traditional, functional, financial solutions.	Services go beyond the integrated traditional financial services areas to include enterprise planning and family dynamics – governance, leadership succession, education, ownership and control.
Financial Integration	<p>As part of the discovery process, the following reviews are done, but not necessarily in a coordinated way with a single team:</p> <ul style="list-style-type: none"> • Estate review • Financial review • Legal document review • Insurance risk evaluation <p>Each service area is reviewed and analyzed to determine if goals of the specific service were met.</p>	<p>During discovery, the reviews at left are done in a coordinated way. In addition, the following will be done and findings will be shared with all advisors.</p> <ul style="list-style-type: none"> • Family tree with relationship mapping • Articulation of family goals • Family dynamics review (overview of family strengths, priorities, risks, and concerns) • Strategic risk assessment • Net worth statement including history of wealth transfers in the family <p>Assessment and quality control mechanisms are used to ensure that recommendations are analyzed for appropriateness and consistency with the client’s overall objectives.</p>
Communication with the Goal of Understanding	Devise an integrated plan for the family patriarch or matriarch and communicate it to him or her.	Proposed plan is reviewed with all clients and other key advisors to integrate the optimal solutions. Planning is discussed with advisor team and progress is communicated regularly.
Team Based Collaboration	Compensation is based on individual performance goals.	Teams are multi-disciplinary and compensation structure encourages collaboration.

Investment Planning

Fundamental to an effective family wealth strategy is a strong investment plan and a process to support that plan. Investment planning is the process by which investment-specific decisions are made, with a focus on how to create and manage a client's investment strategies so as to be consistent with overall family wealth objectives. Investment planning is both the art and science of working with each client and their family to document financial goals around expected return, cashflow needs, income and spending requirements, risk and volatility issues, and administrative and operational activity.

Just as the investment plan must address the family wealth objectives, the plan itself must support the larger family enterprise view. The investment plan is a single component in support of the family enterprise. It is critical to derive an investment plan in the context of all the other functional elements of family wealth planning, with a focus on succession, wealth transfer, tax and fiduciary matters, risk management and insurance, philanthropic planning and consolidated reporting. Integration of all of these functional components results in the greatest likelihood that the family assets and other interests pass from one generation to the next.

The Gap Between State of the Industry and State of the Art

While the investment industry as a whole has made significant advancements in its approach to managing family wealth over the last several decades, the three keys to State of the Art investment planning are 1) incorporating the broad goals of the family and its members at many levels, including within the planning, implementation, and monitoring phases; 2) seamless integration of the investment plan into the family's total wealth plan; and 3) advice on management of investments opportunities and risk.

Risks and Challenges

The challenge and therefore inherent risk is to manage broad considerations such as investor expectations and likelihood of meeting objectives, possible scenarios and outcomes, but also more specific investments risks, Including among others:

- Economic uncertainty
- Inflation
- Illiquidity
- Loss of capital
- Market volatility
- Regulatory or legal restrictions
- Concentration of assets
- Over diversification of assets

A family's acceptance, commitment and adherence to longer term objectives (over shorter term objectives) that address risks and challenges as well as opportunities is the 'brass ring' of State of the Art practice.

Investment Planning

Interdependencies: Strategic risk assessment & management, Succession Planning, Integrated Planning, Estate Planning, Tax Planning, Fiduciary Planning, Philanthropic Planning, Insurance Planning, and Consolidated Client Reporting.		
	State of the Industry	State of the Art
Objective and Investment Policy Statements	<p>The client investment objective serves to outline in a basic written statement or checklist the parameters of the client’s investment return and risk expectations and at a minimum indicates an asset allocation.</p>	<p>In an effort to provide seamless integration, the investment advisor seeks holistic view of family’s overall wealth goals through a documented discovery process. It is a highly consultative approach across all functional disciplines.</p> <p>Goals based investing focuses on the household and family’s needs/obligations, priorities/opportunities, and desires/aspirations and associated time horizons (akin to asset liability management). Behavioral biases are addressed in the decision-making.</p> <p>A customized and comprehensive written Investment Policy Statement (IPS) details all aspects of the client situation including objectives and a process for managing investments. The IPS describes the purpose of the wealth, investment philosophy, investment objectives, reporting and benchmarks, process for selection of advisors, delegation of duties, conflicts of interests, and statement of acknowledgment. The policy is reviewed at least annually.</p>
Asset Allocation	<p>Asset allocation is implemented using a basic style-box approach and does not consider all the asset classes and strategies available to multi-generational families.</p> <p>Longer-term, tactical and opportunistic investments are not distinguished from or reflected in the asset allocation.</p>	<p>Asset allocation is developed using a strategic investment outlook and a strategic purpose approach. The latter includes: the ability to segregate portfolios and tailor these to multiple objectives. The approach allows families to take more control over their portfolio by giving them the levers to allocate among between portfolios with different objectives.</p>

Investment Planning *(continued)*

	State of the Industry	State of the Art
Security/Manager Selection	<p>Investment managers are assessed, selected and changed by a central committee, with changes communicated and applied by client service teams.</p> <p>Implementation may include proprietary and non-proprietary asset managers in separately managed accounts and commingled vehicles.</p>	<p>The selection process is a highly transparent one and uses an open architecture best of breed platform to identify the best asset managers and ideas globally. The only selection criteria is what is best for the family and there is no position where the firm could have a conflict of interest in selecting managers (e.g., revenue sharing arrangements, kickbacks, proprietary funds, etc.).</p> <p>Managers are selected based in part on after-fee performance characteristics and tax efficiency (the latter, if in a taxable portfolio).</p> <p>Best asset manager ideas are delivered to families by leveraging the expertise of third party partnerships (especially for alternative investments) to enhance internal capabilities.</p>
Investment Reporting and Portfolio Review	<p>Periodic reports on the portfolio and how it is performing is a standard part of the client relationship, often focusing on short-term performance and comparing portfolio returns to strategy-specific and blended benchmark returns. These reports usually do not include risk metrics, are not net of all fees and expenses, and do not track progress toward investor goals.</p> <p>Portfolios are assessed annually for tax efficiency.</p> <p>No regular communications or meetings occur that integrate the activities of all of the individual investors' or the family's wealth management advisors.</p>	<p>An aggregate report is supplied showing all the client's assets (not merely those managed by a single firm) and tailored to the family's needs, interests and knowledge level. Reports pay as much attention to absolute and relative risk as to absolute and relative returns. The primary focus is on how the investment performance is contributing to the achievement of the client's goals rather than how individual investments or managers are performing relative to narrow benchmarks. Reports provide look-through capability so partial ownerships at various levels can be rolled up to owner, household and family reporting levels.</p> <p>Periodic portfolio explanations focus on intermediate and longer term performance relative to absolute goals and blended or policy benchmarks, net of all fees and expenses, with special attention paid to risk metrics and assessments.</p> <p>At least annually, regular communications and meetings are held that integrate the activities of the family's entire advisory team.</p>

Tax and Estate Planning

For families with multi-generational wealth, effective tax planning and estate planning must work hand in hand for successful wealth transfer. Tax planning attorneys and estate planning attorneys work with their individual clients and each other to preserve assets, minimize taxes, and transfer wealth both during their clients' lives and for future generations.

Taxes are a significant drag on investment returns and a family's legacy. **Tax planning** aims to discover how to accomplish all of the other elements of a financial plan in the most tax-efficient manner possible so that these elements can interact most effectively. Tax planning strategies may include the timing of income and expenditures, selection of investments and types of retirement plans, as well as strategies related to filing status and tax deductions.

Estate planning aims to eliminate uncertainties over the administration of an estate and maximize the value of the estate by reducing taxes and other expenses. Estate planning services range from the preparation of wills and trusts to the implementation of multifaceted transactions that reorganize business holdings in order to minimize transfer taxes.

Effective planning in both these areas can address the special concerns associated with specific assets – such as an art collection – in ways that achieve the client's goals. For example, best in class wealth management advisors are increasingly applying the same tax and estate strategies to art objects and other precious collectibles that they have traditionally applied to other assets.

The Gap Between State of the Industry and State of the Art

For both tax planning and estate planning, the gap between State of the Industry and State of the Art is related to the advisor's ability to not only provide best in class technical advice, but to do so with empathy and in a way that helps their clients understand how their plans support the family's goals. In addition, State of the Art advisors proactively collaborate with other advisors across disciplines to ensure integration of strategies for best results.

Risks and Challenges

- For planning strategies to be successful, communication must be a two-way process. Clients must keep their advisors up to date on life events, changes of ownership, and other changes. Failure to do so can negatively impact strategies.
- Education of all wealth owners – not just the principal contact – is essential for success but can be very challenging to implement.
- Death and taxes are both inevitable, yet sensitive topics for many people. Thus, empathy and effective communication techniques are essential.

Tax and Estate Planning

Interdependencies: Investment Planning, Insurance Planning, Risk Management, Philanthropic Planning, Governance, Education, Business Succession		
	State of the Industry	State of the Art
Goals Based Planning	Develop comprehensive plans that transfer wealth to future generations.	Work to fully understand the client’s current situation and future goals.
	Review plans to make sure they still function properly.	Partner with client to identify sophisticated planning strategies that reflect this knowledge and understanding. Work with other advisors to integrate planning with other key strategies.
Team Based Mutual Support	Lawyers with all levels of training and experience offer estate planning services. Some operate merely as drafts persons, using very rigid commercially purchased forms. Many, both within and outside large metropolitan areas, are highly sophisticated and excellent personal counselors.	The tax and estate planning lawyers operate as key team members in collaboration with each other and with other advisors. They develop creative strategies for solving unique problems.
Trustee and Beneficiary Education	Corporate trustees are required to provide beneficiaries with information that is reasonably necessary to enforce their rights and prevent a breach of trust. Periodic statements, clear reporting, online account access and published fee schedules are industry standards.	The estate planning attorney who drafts the trust makes sure the grantor understands what’s required from a trustee and helps the grantor identify the right person or institution to act in that capacity. The attorney may also help the grantor educate the trustee so that the trustee can make an informed decision about accepting the role.
	Personal trustees are selected because they are trusted friends or family members who seem responsible and are willing to accept the role.	The trustee educates the beneficiary on the trustee’s own responsibilities not only to the beneficiary, but also to the grantor. The trustee clearly establishes and communicates the working relationship, so the trustee and the beneficiary know what to expect from each other. For effective tax planning and execution, all parties are educated about tax strategies so that they understand their implications. In a single family office environment, a family office executive coordinates the advisors, advocates for the needs of the family and makes sure that all key players get the education they need to perform their duties.

Insurance Planning as a Risk Management Strategy

Insurance planning involves strategic, comprehensive management of a family's insurance needs. When done within the context of risk management, insurance planning is essential to a family's overall wealth management strategy. Insurance planning best practices that enable families to be better prepared for future uncertainty and less exposed to risk than their peers include:

- Developing a systematic process for aligning risk exposures with the overall risk management strategy: The risks perceived by families and their advisors often do not align with the severity of family risk exposures. This means family office executives must develop new techniques for assessing the risks facing families, continually monitor changing family circumstances and enlist the support of third-party experts in assessing and mitigating non-financial risk.
- Leveraging the buying power of the family: Wealthy families can improve their overall protection and receive more favorable pricing by leveraging group purchasing strategies.
- Extending insurance coverage and services to the next generation: Effective risk management requires family office executives and insurance advisors to have a deep, multigenerational understanding of the family's financial and personal situations.
- Outsourcing insurance to an expert: While data suggest many family offices relegate their insurance broker to a limited support role, a good broker is able to identify the best insurance structures for complex and diverse family groups, and recognizes the insurance implications of changing family situations. Family offices should serve as insurance service coordinators and rely on their insurance advisor for issue expertise and support.¹ (See Case in Point on page 37.)

The Gap Between State of the Industry and State of the Art

The State of the Industry for insurance planning is to match risks to policies. In contrast, State of the Art involves approaching insurance from a risk management viewpoint, so as to help mitigate risks and prevent losses rather than solely relying on policies to insure against them. In order for this approach to work, insurance planning must be integrated with the planning efforts in all other disciplines.

Risks and Challenges

- Family members are often reluctant to discuss risk and uncertainty
- Many family offices have limited insurance expertise and may not have a history of managing insurance for the family.
- Families may not take the time to accurately disclose pertinent facts that may affect the proper asset protection strategies.

¹Source: *Insurance Matters: The Case for Strategic Insurance Planning*, Copyright Family Office Exchange 2010

Insurance Planning as a Risk Management Treatment

Interdependencies: Tax and Estate Planning, Investment Planning, Risk Management, Governance, Education, Business Succession		
	State of the Industry	State of the Art
Evaluating Needs and Identifying Solutions	<p>Meet client’s expectations to provide a policy that will cover their risks and keep the premiums low.</p> <p>Take a product-centered approach to servicing the client, matching the client’s perceived risks to available policies.</p>	<p>Begin by sitting down with the client to understand their needs. Find out how many generations are involved and identify different needs by generation.</p> <p>Consider the family’s goals as well as their life style and enterprise approach to managing the family’s exposures to loss.</p> <p>Discuss standards for communication and measures of success in order to ensure that needs are met and continue to be met as things change over time.</p>
Assessment and Management of Risk	<p>Assess risk faced by the family business enterprise, family office, and family members.</p> <p>Treat exposures to loss through risk management and transfer techniques that include insurance.</p> <p>Design a customized insurance program that is consistent with family appetite for risk and current exposures.</p>	<p>Expand the discussion of risk management beyond the purchase of insurance to include:</p> <ul style="list-style-type: none"> • Vulnerability assessment, including business continuity planning • Business continuity planning and execution • Human resources training for employment practices • Creation of products and services to help to mitigate and prevent losses • Cyber security for the family office and family members • Protection from natural disasters such as wildfires and hurricanes • Personal property management – inventory, appraisals and video records • Loss mitigation and prevention <p>Assess risk, prioritize transfer of risk with consideration given to frequency and severity, and then identify risk management techniques including the purchase of insurance coverage. Discuss current and future exposures.</p>

Insurance Planning as a Risk Management Treatment *(continued)*

	State of the Industry	State of the Art
Client Education	<p>Educate family office executives and family members regarding best practices and risk management.</p> <p>Establish governing rules, procedures and processes for risk management and insurance for the benefit of the family office and the family members.</p>	<p>Make sure that the family and its team of advisors understand the interdependencies between insurance planning and all other aspects of the family’s overall wealth management plan.</p>
Team Based Planning		<p>Ask to be included in the “all hands meeting” to facilitate the integration of insurance planning in other aspects of the strategy.</p>

Case in Point

Title insurance for art and collectibles is a good example of an area where families and family offices should seek expert advice. Historically the art market has preserved the secrecy of transactional details on the basis of confidentiality and this practice continues today. As a result, the risk of defective title –that the collector does not actually own the work of art or other important collectibles in their possession – is the greatest legal and financial risk faced by art collectors. Fiduciaries and other wealth or professional advisors (lawyers, CPAs, family office managers, trustees, bankers, etc.) are often not aware of the consequences of defective title and the impact it can have on their clients’ wealth management strategies.

Spotlight on Title Insurance for Art and Collectibles

Dependencies:	Tax and Estate Planning, Risks and Opportunities, Philanthropic Planning, Investment Planning	
	State of the Industry	State of the Art
Transaction Standards	<p>Art transactions close with little to no paperwork or diligence.</p> <p>Collectors unconditionally trust their art advisors.</p>	<p>The family office articulates and follows transactional standards similar to those used in all other asset classes. Equally important, a family buying art doesn't look to the selling dealer to provide a title guarantee but rather leverages title insurance (and premium cost) as a negotiated term in the transaction. A title insurer's underwriting process includes systematically analyzing available information provided by the applicant, reviewing proprietary, confidential databases, and researching external sources to discern gaps in legal title and to verify transactional documents.</p>
Insurance and Risk Management	<p>Even the most reputable dealers acting in good faith, who do not believe they are selling works with defective title, cannot always be 100 percent certain because title issues are often unknowable.</p> <p>If family members serve as trustees for museums (general or university), in almost all instances trustees are not covered for their decisions connected to title-related losses flowing from acquisitions either by purchase or gift, de-accession or exhibition of works.</p>	<p>Insurance professionals for the family office review fine art policies and advise the office as to how, when and where physical loss and damage stops and legal title claims are covered (especially in the context of consignment agreements, warranty clauses, contractual liability, insurable interest (item sold and then the claim arises), exhibitions, irrevocable trusts and import/export documentation).</p>
Valuation	<p>Market valuation standards are based on comparables of the purchase price in private treaty or auction sale of works and are not necessarily aligned with the Uniform Standards of Professional Appraisal Practice (USPAP).</p>	<p>Family office internal and external lawyers, accountants and appraisers are knowledgeable about USPAP valuation standards to avoid tax penalties and planning mistakes.</p>

Philanthropic Planning

When done well, philanthropic planning involves taking a holistic integrated approach to putting resources (mission, investments, operations, governance, administration, and engagement) in service of results for society and the family. Because 95 percent of FOX members have one or more foundations, we focus here on philanthropic planning in the context of the family foundation.

Philanthropic foundations play several key roles in affluent families. In addition to their stated missions, foundations can serve the family by:

- Providing a venue for the siblings and cousins to gather and work together toward a common goal, which strengthens engagement and family ties.
- Serving as a tangible manifestation of values, vision, and family traditions – a time capsule for transferring family legacy.
- Giving family members an opportunity to develop and demonstrate skills in a safe environment.
- Building human capital by giving family members a channel for pursuing their passions.

The Gap Between State of the Industry and State of the Art

In order for foundations to reach their full potential and be sustainable, it's important for the mission of the foundation to be connected to the mission of the family and for everything from investments to grantmaking to be aligned with the family's shared purpose. This integrated approach is State of the Art. However, often philanthropic planning and family planning are completely separate, which leads to splintering and causes the philanthropic effort to lose momentum and that's State of the Industry.

Risks and Challenges

- Philanthropy may have wide-reaching implications for other aspects of the family's financial strategy, such as tax planning and estate planning. However, philanthropic advisors and foundation leaders are often left out of the discussion with other advisors.
- Foundations must be careful not to cause factions to develop in the family because of different values and different charitable causes.
- Lack of proper training about the differences between charitable acts and philanthropic strategies can impede the development of future philanthropists.
- Family members who retain control of the philanthropic progress in the family may not realize the compliance requirements that accompany a regulated not-for-profit entity like a family foundation.

Philanthropic Planning

Interdependencies: Tax and Estate Planning, Family Education, Family Governance, Risk and Opportunities		
	State of the Industry	State of the Art
Goals Based Planning	There is a compartmentalized, silo approach in which every aspect of foundation strategy and operations is considered separately.	There is an integrated, unified approach with everything pulling in the same direction. A holistic approach puts all foundation resources in service of social results/family engagement.
Mission	Often the mission statement is very basic and does not relate to family priorities. The two major purposes—social impact and family engagement—are often not aligned. Internal mission is usually general and meaningless. It is disconnected from the external mission.	Philanthropic strategy is based on shared family priorities. The area of focus is selected based on family expertise, networks, or life skills and responds to a pressing societal need. Internal and external missions are linked based on family values and priorities.
Grantmaking	Grantmaking is plain vanilla, transactional, and scattershot, fractured by individual interests.	Grantmaking shifts from funding organizations to focus on larger strategic issues.
Governance	Family board membership is automatic. Board members are selected based on genealogical or geographic ties rather than by expertise or commitment. Accountability is often lacking.	Board membership is contingent on commitment to the foundation and its mission. Individual roles are based on passion and expertise. There is ongoing accountability.
Family Education and Engagement	Board education is ad hoc.	Education increases knowledge and understanding of focus area and prepares the next generation for board service/wealth management.
Investments	The focus is on generating returns, not tied to mission and in some cases, actively working against the mission.	Investments are entrained to mission. The power of even a small foundation is magnified when all of the assets work toward the mission.
Administration	Often administration becomes the primary focus, draining energy and time from the mission.	Administration is outsourced to an external provider, freeing up resources and restoring enthusiasm.
Compliance	Compliance often deters the foundation from undertaking risky initiatives, such as grants to individuals, direct charitable activities, etc. because of uncertainty.	Compliance is outsourced to an external provider with expertise in federal and state regulations, freeing the foundation to pursue more adventurous grantmaking strategies

Consolidated Client Reporting

In the family office context, consolidated reporting involves collecting, verifying, analyzing and consolidating data from multiple providers (e.g. custodians and investment managers) to create financial reports that help clients understand what they own and how it is performing to allow them to make informed decisions about the future.

Family offices typically coordinate the reporting function in one of three ways:

1. Purchase off-the-shelf software solutions for the various functions (everything from asset allocation to trust accounting) and integrate them as best they can.
2. Outsource the reporting function to an application service provider (ASP).
3. Build a custom solution.

Each of these solutions has its pros and cons, but all are viable options based on the needs of the family office. The level of complexity related to the nature of the investments and reporting needs of the family, combined with the level of effort involved in implementing and maintaining the solution typically directs the decision.

Complexities include: global investment reporting, custodial and manager relationships, alternative investments, accounting and tax requirements, trust and partnership accounting, performance measurement and analysis, and investment analytics and research.

The Gap Between State of the Industry and State of the Art

State of the Art versus State of the Industry for consolidated client reporting is all about clarification, integration, and automation. Best practice offices invest in the most integrated software solution their budget allows and work to minimize manual intervention in the process. But integration doesn't stop there. In addition to the technical aspect of integration, State of the Art consolidated client reporting is developed with input from clients to ensure that the end result is a meaningful report that outlines performance relative to each client's unique goals and priorities. State of the Industry is a standard quarterly report that consists of a statement of investment holdings with annual distributions of balance sheets and cash flow statements.

Risks and Challenges

Customization is the ultimate challenge for every family office and provider. It is difficult to satisfy the majority when everyone wants something different. Microsoft Excel continues to be the preferred tool for family offices that are working hard to translate complex financial data from multiple sources into meaningful, consolidated financial reports.

Every family office is also challenged by arriving at solutions that are:

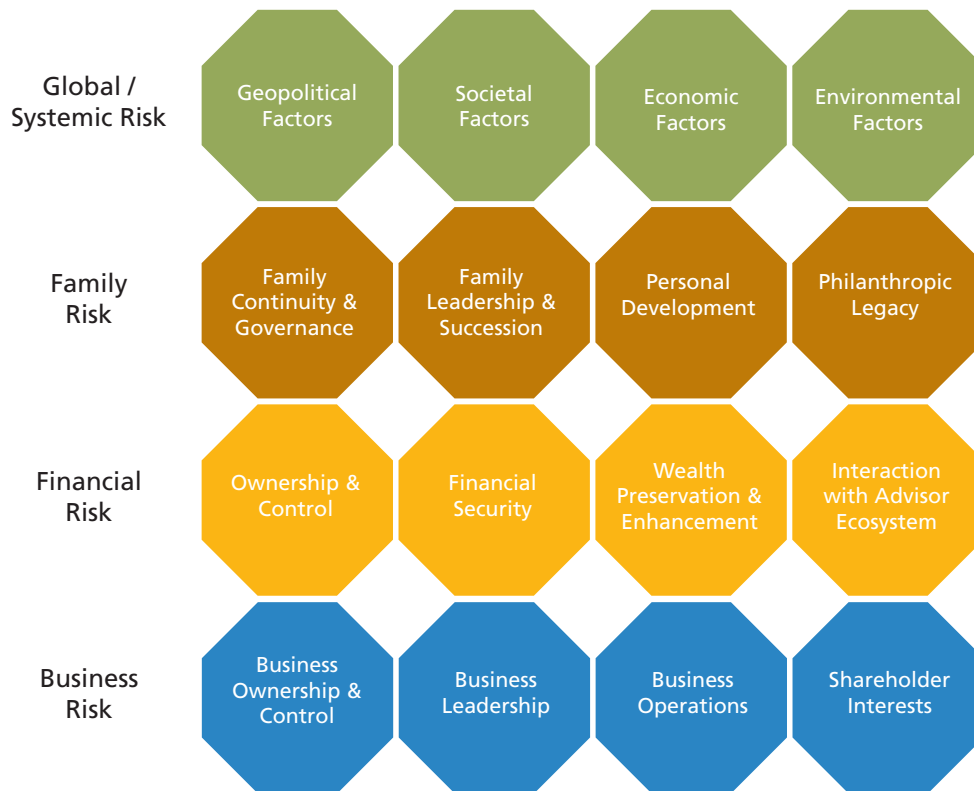
- Sophisticated enough to allow for thoughtful analysis of the investments.
- Flexible and easy for the staff to use.
- Affordable for the office budget.

Consolidated Client Reporting

Interdependencies: Investment Planning, Tax and Estate Planning, Family Education, Family Governance		
	State of the Industry	State of the Art
Data Collection	Data from external providers (bank, custodian, investment managers) is received electronically where possible and is transferred to multiple software solutions for analysis and reporting. Once this data is verified and aggregated, Excel serves as the bridge from the various software packages to the final client report.	Data from external providers (bank, custodian, investment managers) is received electronically into a data warehouse where the data is verified, coded and analyzed for consolidated client reporting. Data visualization and other software tools are used to create consolidated client reports.
Customization and Usability	<p>Clients of the family office receive a quarterly report that includes:</p> <ul style="list-style-type: none"> • Income and expenses • Investment holdings • Investment asset allocation and performance • Cash flow summary <p>Clients also receive an annual statement of net worth.</p>	Clients of the family office have access to an online library of reports that have been developed in partnership with the office staff for various purposes. These reports are designed to provide the information each client needs in a visually pleasing manner and in an encrypted format for security. Investment performance is shared relative to the client's short- and long- term goals as well as to industry benchmarks.
Technology and Platform Integration	The nature of the family's investments and ownership structures (e.g. investment partnerships) drives these software purchases. The office relies on a combination of off-the-shelf software packages (the average FOX member uses four different packages) to account for their various holdings. Excel serves as the communication bridge across packages and, ultimately, as the final client report.	The family office invests in the most integrated software solution possible for their family's unique circumstances. For some, outsourcing the accounting and reporting functions to an external provider/ASP is the best and most integrated solution. For the majority, investing in the most integrated off-the-shelf products (from CRM to tax) and automating as many of the processes involved in receiving and reconciling the data from external sources is best practice.
Delivery	Quarterly and annual reports are delivered to clients in paper form by mail.	Custom reports are available to clients electronically via a secure family web based portal and can be viewed on the client's tablet/ phone/computer.
Communication with the Goal of Understanding	The family office staff meets with clients at the client's request to review quarterly financial reports.	The family office staff views every client conversation as an opportunity to educate and inform clients about the status of their finances and encourages regular (at least quarterly) face-to-face meetings to formally review each client's performance relative to their personal and financial goals.
Data Security	Financial information is delivered in paper form or in face-to-face meetings.	Clients have 24/7 access to financial information via a dedicated family office portal/private website.

Appendix

FOX Risk Roadmap



Source: Family Office Exchange Consulting

About Family Office Exchange

Family Office Exchange (FOX) is the world's leading peer-to-peer network for ultra-wealthy families and their family offices, and is the leading authority related to matters of sustaining wealth. With more than 25 years of experience, and a staff of 40 people based in Chicago, New York, and London, FOX is a thought leader in the areas of family strategy and governance, family office best practices, and family risk and legacy planning.

FOX serves family groups and their advisors in 20 countries, providing trusted insight and best practices for managing family wealth. The network includes 330 ultra-wealthy families, as well as 160 multifamily offices (MFOs) and advisory firms. More than 6,000 individual family members are served by the FOX global community.

Members rely on FOX (www.familyoffice.com) to help them make better, more informed decisions about their family legacy and their wealth management practices and providers. FOX has established a safe, confidential environment of common interest and mutual trust to enable members to compare experiences and learn from the collective knowledge of other members in the network. Resources available to FOX members include proprietary research on wealth management best practices, peer benchmarking, bimonthly webinars on current trends, and an extensive library of articles and white papers, as well as online discussion forums, regional peer roundtables, and a variety of educational workshops and forums.

The annual FOX Fall Forum held in Chicago in October provides an opportunity for FOX members to gather with peers and thought leaders to discuss global issues and important challenges facing wealthy families. The Forums address many of the issues of greatest concern to wealthy families and their advisors in the areas of legacy and leadership. Perhaps most valued by members is the collective intelligence of the FOX network. This accumulated wisdom has been methodically captured by the FOX staff, with full respect for confidentiality and discretion, and archived in a secure searchable database for the exclusive use of FOX members. This collective knowledge is what truly sets FOX apart.

Sara Hamilton founded FOX in 1989 to provide objective information and advice on family wealth, family leadership, and different pathways available to sustain wealth across generations. Helping members preserve and enhance their true family wealth by providing education, insights, and peer exchange is the sole focus of FOX. The firm's success is measured by the quality and value of the experience of its many private investors, family offices, multifamily offices, and wealth advisor members. True to this original vision, FOX strives to address new challenges and to provide insights on current trends and issues regarding investing, philanthropy, and owner education. As an advocate for wealth owners, FOX provides leadership in the private wealth field, helping to shape the industry and develop standards of performance for industry professionals.



100 South Wacker Drive, Suite 800 ▪ Chicago, IL 60606 USA
T: 312.327.1200 ▪ F: 312.327.1212

10 Rockefeller Plaza, 16th Floor ▪ New York, NY 10020 USA
T: 646.504.0776 ▪ F: 212.713.7621

Adam House, 7-10 Adam Street
London WC2N 6AA ▪ United Kingdom
T: +44 (0)207 520 9443 ▪ F: +44 (0)207 520 9441
info@familyoffice.com ▪ www.familyoffice.com