

TEN DYNAMIC FORCES FOR CHANGE

Each year brings new possibilities – and 2021 is no different. Emerging from the pandemic. Deepening social change. More predictable U.S. politics. The way we see it, 2021 will be a year many families turn optimistic and begin to act on rising opportunities.

And while much remains uncertain, some changes are already either steaming ahead, or emergent on the horizon. These Forces for Change are what you will need to prepare for, through 2021 and beyond.





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EXTERNAL DRIVING FORCES





Rising
Political Unrest
and Economic
Uncertainty

Crisis
Revealing
More
Opportunities

Converging
Technologies
Accelerate the
Transformation

KEY OBSERVATIONS



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Families are internalizing that we live in a crisis and they are working in a crisis management mindset.

Miguel López de Silanes
Market Leader,
Europe and Latin America



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We are clearly in the middle of the 4th industrial revolution. There is exponential growth in tools and technologies that integrate information far beyond traditional family wealth.

Glen W. Johnson
Chief Operating Officer

RISING POLITICAL UNREST AND ECONOMIC UNCERTAINTY

The latest financial crisis, Covid-19, and heightened social tensions have unveiled the fragility of many systems. The new normal is now a continuous state of uncertainty, unrest, and disruption. And 2020 made clear that resilient families have better odds in successfully navigating it.

After taking stock of their structural longevity, many families are starting to fix deficiencies by:

- Updating their values and vision
- Strengthening governance
- Accelerating succession
- Increasing next generation engagement
- Hedging and diversifying portfolios
- Proactively managing risk
- Escalating philanthropy and impact
- Incorporating more technology

Our new paradigm implies more frequent and recurring crises, which should force families to adopt and prepare a crisis management mindset.

Doing so will help them solve the urgent matters first to ensure continuity and safety, and then be able to focus on the eventual sustainability of the family and the family business.

In addition, the new paradigm of uncertainty and the complexity that goes with it are forcing many enterprise families to be more strategic. So instead of managing every task in-house, they now are looking for close partnerships with trusted advisors.

By deepening their global advisor relationships in areas such as legal, tax, risk, security, technology, education, investment, and operations, the enterprise family will put more advanced expertise at their fingertips.

The new normal is now a continuous state of uncertainty, unrest, and disruption.



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CRISIS REVEALING MORE OPPORTUNITIES

While uncertainty often carries a sense of unease, there is another side. Every crisis opens up new possibilities – opportunities for families to focus on making strategic and long-term changes to strengthen and reinvent their enterprise.

Some strategies our members are implementing include:

- Redefining a business' product or service offering
- Going into new market segments
- Making transformational acquisitions
- Ramping up investments to diversify across industries

Opportunities at other levels of the enterprise include helping family members adapt.

At the investment level, we're seeing:

- Increased direct investing in operating companies
- Greater focus on impact investments
- Moving out on the yield curve
- Striking a balance between investment insourcing and outsourcing
- Making a greater connection between the family's business strategies and their investment goals

Finally, some of the opportunities being seized at other levels of the family enterprise include helping family members adapt to the new paradigm and refine their appetite for risk-taking.



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CONVERGING TECHNOLOGIES ACCELERATE THE TRANSFORMATION

The family office industry isn't unique in being transformed by the fourth industrial revolution. Converging technologies are changing every industry. But specific to family offices, we're seeing significant growth in tools and technologies that integrate information beyond traditional family wealth, providing a more holistic view of the family's overall well-being. As a result, families are coming to expect deeper insights around current challenges and potential solutions.

The demand for real-time information access is getting louder, and offices are finding they can no longer control dissemination.

They also will expect a reframing of office roles given the permanence of virtual experiences and the resulting rapid change in the family's expectations. The demand for real-time information access is getting louder, and offices are finding they can no longer control dissemination.

Backing away from the need to manage everything, successful offices will be the ones engaging external strategic partners to meet some of the more complex, critical needs. By increasing its grip on real-time information, the office will be seen as more strategic itself, and more likely to achieve family goals.

More than anything else, the office's role as change agent needs to be taken seriously. The family's readiness for change and effectively managing its success is more critical now as generational transitions are occurring.

Further, today's volatile and disruptive environment necessitates fast-paced change. Family offices will need to facilitate and manage data flows and become a champion for change, helping the family and office staff acquire the new skills this new environment requires.



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CHANGING FAMILY VIEWS





Shifting Views in the Family Enterprise

Sustainable Direct Investment Ecosystem

Heightened Commitment to Family Learning

Evolving Views on Social Responsibility and Philanthropy

KEY OBSERVATIONS



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We must never forget that the governance structure is a living ecosystem to enhance the family's evolution over time. It gets updated as each generation evolves.

Gaby Griffin
Market Leader,
Business Owners and Family
Office Executives



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Families are weighing the impact of frothy public equity markets, especially in the US, and strong public company valuations forcing the hunt for returns away from traditional paths.

Jonathan Tunner
Director, Private Investment
Opportunities



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Year over year, we see a growing recognition and realization that education is the key ingredient to family cohesion, good communication, proper transition, and succession.

Mindy Kalinowski Earley
Chief Learning Officer

SHIFTING VIEWS IN THE FAMILY ENTERPRISE

How the family adapts to change is a critical issue for the next decade, separating innovators from the “wait and see” cultures. Families recognize the world is getting more complicated, perhaps because we’ve been locked down and finally have time to notice the complexity we need to manage. Being selective will help reduce complexity by separating the good from the not-so-good.

The average FOX member today invests in five to fifteen private companies. Keeping track of each and its diverse challenges adds to complexity. Having multiple companies, properties, and generations requires thoughtful planning and efficient structures. Families are diligently rethinking their legal and tax structures to simplify and better organize the disparate parts into a productive whole.

In the short term, many family businesses will be focusing on dividend policies, employment policies, and exit strategies to stay aligned with shareholders and prepare for oncoming dramatic changes.

A governance framework that can oversee and allocate resources across these disparate entities is part art, part science – understanding the goals and the decision-making process involves the science but understanding the decision-makers and structuring the engagement layers is the art.

Any governance structure is a living organism that should adapt and get updated as each generational stage evolves.

Developing a governance framework that allows the family to oversee and allocate resources across different entities is part art and part science. Understanding the goals and the decision-making process involves the science. But understanding the decision-makers and structuring the layers of engagement is most definitely the art.



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SUSTAINABLE DIRECT INVESTMENT ECOSYSTEM

For direct investing post-2020, the following forces will drive direct investing complexity, forcing the need for deeper assessment. That, in turn, will herald a return to durable and sustainable holistic direct investing programs.

Murky traditional and direct investing horizons.

- Families are weighing frothy U.S. public equity markets against strong private company valuations, forcing the hunt for returns away from traditional paths.
- Covid-19 forced business models to shift, and distinguishing winning from losing models – both new and existing – just became more complex and less clear.
- Discerning “cheap and good” from “cheap and risky” has taken on much deeper meaning as “cheap” increasingly means “distressed.” Business-model risk has far greater import.

An increasingly competitive landscape.

- Private equity funds raised substantial capital in 2020 for opportunistic buying. Flush with cash, funds with strong incentives to meet new mandates will make the competitive landscape even tougher.
- Special purpose acquisition companies (SPACs) have moved to the forefront, offering cheaper and quicker routes to going public. Families who normally participate in the pre-IPO market will need to determine how SPACs alter access to these opportunities.
- Funds are built to manage cycles. Families have longer-term horizons. The operational tempo differences will stress a family’s ability to stay competitive while being selective about partners.

Family investment teams are reassessing every facet of their direct investing programs. Investment policy statements, deal mechanics, process, and skill-set gap analyses are under way as they adjust to new challenges and forces.

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HEIGHTENED COMMITMENT TO FAMILY LEARNING

With families spending more time together, the rising generation is spurring a “great reshuffle” of changing jobs, relocating, wanting to influence the family philanthropic priorities, and increasing interest in the family business. Rising gen questions are prompting family action and sparking new initiatives. Families are considering what informal and formal engagement can look like, and how to make each happen.

- Relational connection is a component of family learning that leads to family cohesion. Families are capitalizing on the craving for in-person connection by hosting more virtual family meetings and using them to introduce the rising gen to the family business or family office. Often these efforts start with family values, guiding principles, and storytelling.

- They’re getting creative in how the family gathers and what they do together: online floral classes, wine tastings, or swag bags with activities sent to each house.
- Families are focused on intentional future leader training – increasing efforts to engage (and educate) the rising gen, whether through a lifelong learning committee, task force, or a Family Council agenda item. They are curating or customizing learning programs either themselves or with outside expertise.
- Families are realizing learning takes work, structure, and energy. As a result, offices are taking a multipronged approach using trusted external advisors and hiring dedicated learning staff, such as chief learning officers, learning specialists or consultants, and administrators.

Families successful in facing down future uncertainty will be the ones who seize today’s opportunity to make family learning omnipresent in the family system, as a component of family meetings, and through every opportunity to engage with office staff.

Can your family work together, make decisions together? Do they know each other well? Do they know the purpose of their work?



EVOLVING VIEWS ON SOCIAL RESPONSIBILITY AND PHILANTHROPY

Largely driven by the next generation, families are stepping up in ways not only addressing the pandemic, but also tackling deeper societal issues to have greater impact given 2020's social unrest and political divide. As a result, families of exceptional wealth are re-evaluating their investment and philanthropic priorities.

Some are giving away billions and finding new ways to collaborate between generations to serve the greater good and connect the family. Relaxed requirements for performance metrics are allowing resources to be more innovative and agile.

But this doesn't come without familial disruption – diverse views on social responsibilities and the purpose for wealth are leading to tense conversations across generations about philanthropic goals and approaches to achieve them.

Family attitudes towards social responsibility and philanthropy are now largely driven by the next gen. Ultra-wealthy families are stepping up in ways not only dressing the pandemic but tackling deeper societal issues.

Still, we don't see this transition slowing down—the youngest generations are leading the charge into the future.



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FAMILY OFFICE EVOLUTION





Growing Complexity Shapes Service Offering and Cost

Escalating Cybersecurity and Data Breaches

Integrations in Technology Increase Value

KEY OBSERVATIONS



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The complexity of families dictates the service delivery model used to support family clients.

Be cautious when comparing the cost of your office to those of other family offices unless you know how their complexity profile compares to yours.

Sara Hamilton
Founder and CEO



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Working from home has increased vulnerability and the need for greater protection and oversight.

Glen W. Johnson
Chief Operating Officer



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Capabilities that empower office staff to refocus time and effort on delivering more personalized and strategic advice to the family are quickly becoming the standard.

Kent Lawson
Director,
Technology Integration Services

GROWING COMPLEXITY SHAPES SERVICE OFFERING AND COST

As we look at the continuing evolution of the family, we are aware they're pressing for a more "modern" family office. The issue of complexity surfaces again. Because the family and the enterprise are getting more complex, the family office inevitably gets more complex as well.

- Family complexities dictate the service delivery model. For example, having many family members with personal liquidity requires more custom services compared to a single concentrated trust holding most of the assets and all beneficiaries being equal recipients.

- Families with multiple operating businesses and properties generate many unique challenges that financial families don't face – so be cautious when comparing your costs to those of other family offices you know. Their complexity profile might be very different than yours.

A family with a large number of clients with significant liquidity requires greater customization of services when compared with a single concentration of trusts holding most of the assets and all the beneficiaries being treated in the same way.

No one service makes servicing clients difficult. It's the sum of all the parts that define the complexity of the office. And the parts continue to grow and change. So it's important for family members to recognize that integrating hundreds of different services has a direct implication on the cost they're charged.



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ESCALATING CYBERSECURITY AND DATA BREACHES

In light of the work from home explosion it should be no surprise we're seeing rising instances of cyberattacks. Families of exceptional wealth and their offices are a natural target for cybercriminals. Increased internet data transmission driven by increased cloud-based computing has exposed vulnerabilities, leading to a large uptick in cyberattacks in 2020 – every family office has experienced an attack at some point (whether they know it or not), but two-thirds of all attacks recorded occurred in 2020.

The necessary move to cloud-based computing for cost, efficiency, and redundancy still requires increased cyber protection, training, and monitoring.

Of course, this isn't unique to families. The SolarWinds attack exposed the vulnerabilities of network management software and information security even at the government level. Vendor relationships are now requiring more robust protocols and external monitoring services to protect information.

Increased internet data transmission driven by increased cloud-based computing has exposed vulnerabilities, leading to a large uptick in cyberattacks.

With General Data Protection Regulation-like legislation coming to the United States (such as the California Consumer Privacy Act and eight others), and renewed data privacy interest in Congress, we should see greater control over personal data and who has access.



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INTEGRATIONS IN TECHNOLOGY INCREASE VALUE

In the technology explosion and ability to manage family office complexity, 2020 was the forerunner to the Modern Family Office movement. Now, 2021 begins with a new vigor for integrating these technologies and how they will transform the family office of today and tomorrow.

- **Emergence of “Family office as a service”** - Capabilities empowering office staff to deliver more personalized and strategic advice to the family are becoming the desired standard. Historically, family offices spent time and effort on counting, valuing, and reporting. The monthly, quarterly, annual historical reporting originally intended to serve generations one to three is bursting to serve generations three to five. To accommodate the complexity of each generation’s needs, technology now needs greater ownership of the activities, workflows, and automated reporting, so the office can provide more tailored, personal services to family members.

- **Merged or aggregated experience** – The new path technology firms are embracing is based on improving the overall experience -- where all the different pieces of technology meet or intersect. Technologists are moving away from building everything themselves or building the “best of breed” products in a silo. Instead, it is a new age where combining or partnering with other technology firms in providing integrated data is the norm.
- **Virtual world, anywhere operations** - Clearly the pandemic has thrown all industries into a “remote connectivity” environment. Virtual operations are now at the forefront. As technologies continue to embrace dispersed cloud, companies with operations and technology physically on-site (with remote operation contingencies) are now moving to completely virtual operations, removing a physical footprint entirely.

The technology trends are not limited to these three. But this taste of what’s to come should create an appetite for the next tech advancements in the family office industry.

The technology explosion is happening in every aspect of our lives, and will transform the family offices of today and tomorrow.



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WHAT NEXT?

All these forces for change have their own timeframes. The speed at which each comes into its own settled path remains to be seen.

Nonetheless, these pressures will be facing each family office in turn. The question remains, how ready are you to handle them? If 2020 was any indication, the family office industry may be less ready than most. Hopefully the lessons learned in 2020 will help more of you lead – instead of follow – the pack.

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