

FOX Guide to the Professional Family Office

Wealth Management Challenges | Family Office Roles and Responsibilities
Today's Family Office Profile | Measures of Success | Lessons Learned





We wish to thank the many family members, family office executives, and industry experts who have shared their wisdom with Family Office Exchange since 1989.

We are dedicated to supporting your growth through industry leadership and forward thinking. FOX will continue to deliver value by helping you see what's coming; systematically sharing best practices and lessons learned; and identifying your closest peers and strategic industry partners.

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About the FOX Guide to the Professional Family Office

Families of wealth are often surprised by the challenges and complexities of managing it well for the long term. Managing family wealth is a business like no other. Family members are the stakeholders in their shared financial future and the board members for their own wealth management business. The work requires in-depth, technical knowledge of the financial services needed (investment, tax and wealth transfer planning, and philanthropy) to grow the family's financial capital, combined with the leadership skills and emotional intelligence required to cultivate the family's greatest resources — their sons, daughters, cousins, and grandchildren.

Since 1989, Family Office Exchange (FOX) has been privileged to work with and observe hundreds of financial and business-owning families of substantial wealth. While there is no single path to success, one distinguishing factor of the most successful wealth-owning families has been their commitment and desire to remain engaged — with each other and like-minded peers from whom they can learn. These families recognize the benefits of collaboration and rely on a network of insightful advisors to guide their family's strategic discussions.

Whether you have a family office or are just considering the possibility, this Guide's goal is to document the complexity of the wealth management process and provide an understanding of the family office's role and work. This document takes a look inside today's family office using data from the *2019 FOX Family Office Benchmarking Report*¹ and other FOX research.

FOX is grateful to the industry leaders and professionals who run successful family offices. Their wisdom and experience is shared throughout this Guide.

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¹FOX Family Office Benchmarking is a service for FOX members that allows wealth owners and executives to compare their office's performance to peers around the world.

How to Use the FOX Guide to the Professional Family Office

This Guide documents the challenges facing families who want to manage their wealth collectively for the long term, and opens the door to the inner workings of today's family office. Using concrete examples and *FOX Family Office Benchmarking* data, the Guide will help families build a best-practice family office or evaluate current office operations. We encourage readers to share this Guide with:

- **Family Office Board Members** – every board member should understand their responsibilities in the context of the family office's work and the overarching goals of sustaining the family's wealth and legacy.
- **Family Office Employees** – every office employee can benefit from seeing their role relative to the office's broader mission and to other family offices around the world.
- **Family Office Clients** – all too often, what happens in the family office is a mystery to its end users. This Guide will help every client better understand and appreciate what's involved — everything from taking care of tax returns to training the next generation.

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SECTION I: FAMILY OFFICE ROLES AND RESPONSIBILITIES

- **The goals of the family define the focus of the office.** We provide an example of the link between the owner's vision and the family office's role. **Page 7**
- The family office is often the family's chief **risk manager** and uniquely positioned to systematically address the issues that keep the family awake at night. Consider using the *FOX Risk Roadmap* to help your family identify common risks and talk about ways to prioritize and mitigate them. **Page 9**
- No other service provider has access to all the pieces of a family's puzzle the way a dedicated family office does. In this section you will learn more about the family office's role as **financial integrator**. **Page 10**
- The family office is ultimately the **investment strategist** for the family and the only resource capable of helping their investment advisors translate goals into an actionable investment plan. **Page 12**
- As **financial reporter** the family office has the task of consolidating and distilling financial data from multiple sources to provide clients with the data they need for better decision-making. **Page 12**
- Preparing the next generation for leadership is a critical family office role. The family office serves as **educator and mentor for family members**. Read about ways to involve the next generation in the family. **Page 13**
- Families constantly evolve. As **transition coordinator**, the family office's role is to provide stability amid change and help the family navigate life's inevitable transitions. **Page 14**
- What are the **family office's primary responsibilities**? Most offices provide support for family governance, multigenerational financial strategies, and individual wealth planning. **Page 14**

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SECTION II: A LOOK INSIDE TODAY'S FAMILY OFFICE

- Successful multigenerational families make time to discuss their collective vision for their wealth and future, and rely on structures and processes to ensure it guides the family enterprise's work. In this section on **vision and governance**, we outline common decision-making models, share sample mission statements, and document changes in governance structures over time.

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- The **ownership and operating structure** of the office are, like everything else, dictated by the family's goals. The key is to ensure the ownership and operating structure reflect the family's long-term future vision. See a typical family office ownership structure and learn the seven issues to consider when evaluating these structures.

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- **What services does the typical family office provide?** Are these services coordinated internally or outsourced? How does the office staff spend its time?

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- **Investment planning and management** are critical functions in every family office. This section outlines: key components of the investment process; who makes investment decisions; and the role and prevalence of investment consultants and investment committees.

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- Selecting the right team of **trusted advisors** to support your family requires careful due diligence. Learn who is on the typical family office team, the most important characteristics of these trusted advisors, and the due diligence process to find qualified candidates.

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- The talent and integrity of your **family office staff** has the greatest impact on your office's success. This section profiles the typical office staff and outlines best-practice family office compensation.

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- What does it cost to manage family wealth? This section outlines typical **family office costs** and looks at comparable fees charged by multifamily offices. Common cost allocation practices — who pays? — are shared, as well.

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- Wealth owners rely on the family office for timely, accurate, and meaningful financial information to help them make wise decisions. Learn about family office **information management** and see an example of a best-practice family office systems architecture.

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SECTION III: MEASURES OF SUCCESS AND LESSONS LEARNED

- An **annual conversation** about the family office's value is vitally important. We outline four critical areas that should be in a family office report card, and share lessons learned from FOX members.

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FOX Perspective on Today's Family Office

Family offices are professional organizations whose purpose is to manage the financial and personal affairs of families of wealth. This concept of a dedicated trusted advisor committed to serving the interests of a single family (or group of families) can be traced back centuries. European families have funded private family banks for generations. The modern family office really began to appear in the mid-19th century to serve the Industrial Revolution's wealth creators — Rothschilds, Flemings, Rockefellers, J.P. Morgan, and others. The idea of putting the most-qualified financial minds and service teams at the disposal of the wealthiest families has continued to evolve to today — a cottage industry with thousands of privately managed family offices around the world providing wealth management services for multiple wealth-owning generations.

Family offices vary tremendously in the services they provide and the form they take. Some family offices are organized as a separate company or legal entity; others are simply an extension of an existing operating business, with a few people serving the owner's family alongside the managers of the operating company. A third model is a virtual family office, often run informally by one family member who coordinates external advisors on the owners' behalf. The family office is a unique family business created to provide integrated, tailored wealth management solutions while promoting and preserving the family's identity and values.

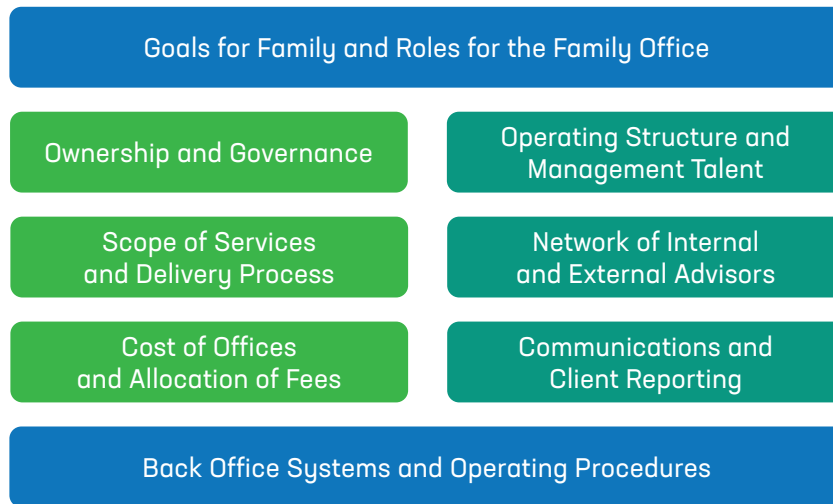
WEALTH MANAGEMENT AS A SECOND FAMILY BUSINESS

Families held together by a family-controlled business often share a feeling of pride. Their family identity is tightly woven into the fabric of the business that houses the history of their hard work and success. When facing the decision to sell or take significant liquidity out of the business, many entrepreneurs have mixed feelings and a certain amount of trepidation. They enjoyed the challenge of building a family business. While no one can argue that liquidity has its benefits, it's important to recognize the import of this life-changing transition and take the time to ask important questions, evaluate alternatives, and plan accordingly.

The business of wealth management involves much more than hiring money managers to invest sale proceeds. Preserving wealth requires thinking of wealth management as a shared family business. Approaching these complex, important issues with the energy and determination required to build a new family business will yield benefits for your children and grandchildren for years to come.

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Family Office Management - Critical Issues Map



MANAGING FAMILY WEALTH - WHY IS IT SO HARD?

Managing family wealth successfully is a complex and unique undertaking for each family. The family wealth manager's job is to professionalize the private work of growing and protecting family assets for future generations. Success will always include asset growth and protection, but may also be measured by the peaceful transition of control from one generation to the next, or by a cohesive cousin group collaboratively managing the founder's philanthropic wishes. Whatever the measures, the work of managing family wealth cannot be underestimated. Many families create a dedicated family office as a professional way to address the financial and family challenges they often encounter.

The family office's role in the wealth management process is uniquely determined by each family group. Its success depends upon the clarity of the family office mission, office role definitions, and office staff's professional expertise. To help you navigate your family's road to success, this Guide shares lessons learned by those who traveled that road before you.

COMMON FINANCIAL CHALLENGES

- Finding objective, integrated financial advice
- Accessing superior financial products and services
- Managing complex legal strategies and structures
- Balancing shared ownership and risk across family branches
- Managing complex family transitions (business sale, estate distributions, death of an owner, etc.)

COMMON FAMILY CHALLENGES

- Developing all types of family capital (human, intellectual, financial, philanthropic / social)
- Deciding how much inheritance is enough for heirs
- Providing leadership training experiences for future wealth owners
- Providing financial education for family members
- Serving as a steward for future generations




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