

The Modern Family Office

Strive not to be a success, but rather to be of value.

- Albert Einstein



THE MODERN SFO/MFO

Understand the Modern Family Office - SFO and MFO's

THE FAMILY OFFICE

* WHAT AND WHY

* THE APPROACH

* THE STRUCTURE'S

* REQUIREMENTS

* OPERATIONAL MANAGEMENT

* THE EXECUTIVE AND ADMINISTRATIVE TEAM

* THE CALENDAR AHEAD

Bryan J Larrison, Partner - Portfolio Manager - Chief Equity Strategist

Understand the Modern Family Office

Investors must understand the Brokerage Culture to gain a sense of what the New World of Financial Advisory Services means to every individual.

The three largest brokerage firms employ a combined sales force of nearly 50,000 brokers. Once hired, these individuals are given the opportunity meet two standards of success:

- . 1) Increase assets under management (AUM).
- . 2) Avoid complexity and controversy.

Typically, those who succeed are capable cold callers, meeting schedulers and social gadflies. The mega-brokerage firms have a vested interest in training salesmen, not capable advisors. Nowhere in the review, compensation or advancement process does financial acumen, critical thinking or financial analysis come into play. The firms may respond by saying that those who advance must, by dint of their abilities to accumulate assets, exhibit some analytical or investment ability. But, that is not the case. Compensation and bonuses are solely based upon new assets gathered. Advisor compensation has nothing to do with financial planning, or effective portfolio or risk management. Simply put, more assets equals better compensation.

The mega-brokerage firms are replete with licensed brokers having recently been integrated from other industries. These brokers are trained, provided with a phone and office space, and given the opportunity to troll for assets. Success is judged by the ability to accumulate relationships and so assets under management. Those incapable of doing so, regardless of their financial expertise, are given a stern warning, and eventually let go.

The result? Those introverted financial engineers who prefer not to make 200 calls per day are released. Those salesmen capable of systematically lining up prospects willing to endure a fast-food drive-through approach to investment management are eventually awarded an office, as well as the moniker, "vice president of investments."

Thus, these individuals are given little training on the issues that matter most to clients. Further, they have little time to spend on portfolio management, market diagnostics, fundamental or technical analysis, or much else that will be helpful to the client's bottom line. Why? They are not rewarded for portfolio performance. The game is to gather clients/AUM, avoid problems, hone one's marketing capabilities. Rinse and repeat.

A family office (FO) is a private company dedicated professionals exclusively devoted to the investment, legacy and personal needs of a wealthy family. The concept of an FO can be traced back to the Roman major domus (head of the house) and the Medieval major-domo (chief steward), but the modern FO originated in the 19th century for the benefit of families of significant wealth created during the American industrial age.

Interest in FOs has grown over the last decade as worldwide wealth has expanded exponentially due to entrepreneurialism, access to capital, market globalization, and Technology. Recent global economic turmoil, coupled with banking failures and investment fraud, has motivated many families of significant wealth to take total control of their personal and financial affairs and preserve their family legacy.

An effective FO provides a family of significant wealth (i.e. \$30,000 +) with ultimate in:

- *Control of investment, business and personal services
- *Privacy
- *Customization of services and benefits
- *Coordination and effective management of outsourced providers
- *Purchasing leverage and cost savings
- *Dedicated focus on needs and requirements of the family
- *Integrating investments, philanthropic causes and passion interests successfully
- *Family unity and legacy sustainability
- *Vision and Value development

Although a private company of dedicated professionals exclusively devoted to the investment, legacy and personal needs of one family is the classic definition of an SFO, the services the family desires as provided by their own FO vary widely. An FO almost always acts as a private investment office for the family. In addition, a variety of services can be provided to the family from their FO including:

- *Private Investment Allocation and Implementation
- *Investment Due Diligence
- *Custom Aggregation and Reporting of Assets
- *Accounting Services (business and personal)
- *Trust and Estates Planning
- *Asset Protection
- *Risk Mitigation
- *Family Banking and Private Trust Formation
- *Managing Family Business Enterprises
- *Identify and Filter Business Opportunities
- *Family Philanthropy and Foundations
- *Family Mission and Governance
- *Preserving Family Legacy and Values
- *Family Retreats
- *Residence Management and Staffing
- *Managing Passion Investments (i.e. art, collectables, sports, etc.)
- *Family Medical Management
- *Family Lifestyle (i.e. concierge, travel, aviation, leisure, ect.)

A great benefit for family of significant wealth is the customization of their own FO. No two FOs are alike. Other topics and services which families often consider from an FO include:

- *Engaging Younger Generations in Entrepreneurialism
- *Socially Responsible Investment and Business Opportunities
- *Family Connectivity and FO Management through Technology
- *Integrated Investment Approach (business, passion, philanthropic)

THE FAMILY OFFICE (FO) MARKET

According to the 2008 CapGemini Merrill Lynch World Wealth Report, there are 103,000 ultra high net worth individuals worldwide, defined as having at least \$30,000,000 in financial assets, excluding collectibles, consumables, consumer durables and primary residences.

Currently, there are approximately 1,000 single family offices in the world. There are many reasons for the modest number of SFOs, including the lack of awareness and education on all the benefits of an SFO, perception of costs, set up and management complexities, challenges in hiring talented employees, and the lack of professional guidance.

The majority of wealthy families currently have fragmented and frequently uncoordinated relationships with multiple private banks, wealth managers, and other providers of services for their business and personal needs. Now, more than ever, wealthy families need to coordinate these relationships, centralize their investments and manage their family affairs more efficiently and effectively to build their wealth and sustain their legacy for generations. An FO for a family of significant wealth offers benefits that are too hard to ignore.

Some families mention the cost of an FO as a deterrent. Through education and professional help, families can learn how to determine benchmarks and create an FO that delivers measurable ROI to ensure they receive value in return.

With the globalization of investments, technology advancements, and the speed of market changes, a family of wealth not weighing their options and considering an FO, or dismissing such solely on cost, can be detrimental to a family's investment portfolio and sustainability.

Technology and outsourcing has significantly reduced both the costs and minimum net worth for a family of significant wealth to consider an FO.

When to Consider an FO

Frequently, the question “when to consider an FO,” focuses only on net worth. Making a decision based solely on whether a family has a certain net worth is not looking at the full picture of the benefits that can be realized from establishing an FO. There are many benefits and value for a family with net worth of \$30 million+ to start an FO, including:

**Creating a team of internal dedicated professionals advancing family investment and business opportunities through proactive research and sourcing to expand upon the family's net worth in any market condition*

**Total control and privacy of the family's personal and business affairs, buffering the family from undesired solicitations*

**Internal due diligence and safeguards (reviews, audits, ect.) to avoid ponzi schemes, frauds and downward market conditions*

**Crystallizing family values and developing a mission statement and plan that guides and encourages generations to follow the family vision*

** Building a sustainable family legacy through a unifying entity (the FO)*

**Philanthropic giving coordinated within the complete family investment, tax and estate plan, promoting family values and reputation worldwide*

**Coordinated Family effort educating younger family members on the family's mission, financial resources, business enterprises and opportunities to improve wealth and reputation*

**Passion investment opportunities synchronized in a coordinated effort with all assets owned by the family*

**Effective and fully integrated coordination of the family's investment, estate, tax, business, philanthropic and personal affairs*

An effective FO synchronizes the efforts of talented professionals exclusively focused on the desires of one family, offering much more than a private investment office. An FO coordinates and fosters family legacy and wealth sustainability, philanthropic initiatives personal passions

A family would have a very difficult time establishing an FO on their own due to the multiple considerations, tax implications, hiring, technology sourcing, and other actions required. The family needs a team of experts organized and coordinated by a family office expert to help them formulate and execute a plan that covers holistic view of the family and future generations, with benchmarks and measurable goals in place to ensure success.

MARKET CONDITIONS

The Current global economic conditions are unprecedented, and families of significant wealth desire to stabilize their investments from further disastrous declines and secure their legacy for generations. This coupled with ponze schemes and the fear that similar frauds exist that have not been uncovered, are leaving families of significant wealth seeking new solutions.

An FO provides the ultimate option for a family desiring to take control of their finances and family legacy. NO other option allows for such total control, privacy and customization. The FO provides the family with internal entities with sole focus on THEIR best interest.

A proactive FO increases the likelihood of family financial and legacy success and allows the family to adapt faster and effectively to global changes and opportunities, market downturns, and the best investment strategies.

Every family of significant wealth should consider an SFO due to the complexities of life, magnitude of global business opportunities, control of personal and business affairs, as well shaping and guiding the family's values and legacy for generations to follow.

WHERE TO BEGIN

Because of the time and focus needed to set up an FO, families should seek the advice of experts, including organizations, consultants or service providers that are solely focused on the task at hand. Private bankers, legal, accounting, and other service providers for families of wealth may be able to provide some guidance, but these companies are focused on their business, not the creation of FOs. Many professionals lack enough knowledge to guide families in the establishment and management of an FO.

In considering starting an FO, the family should retain a knowledgeable expert who can objectively compare all options and prepare a feasibility study. A family office consultant is one such professional.

If progressing with an FO (after feasibility study) the family office consultant develops a family mission statement, business plan, assists in organizing the FO advisory committee (sometimes multiple advisory committees for different areas covered by the FO) and the FO infrastructure.

A family office consultant is not afraid to challenge the family to fully understand the dedication (especially early on) in organizing and running an FO. Does the family want to organize and manage this business entirely? In reality, it is like running a business, only the business is focused on the family it serves. An FO still needs to be run like a business with a mission statement, business plan, performance benchmarks, governance, budgets and advisory committee. The family will need to hire and fire employees-are they up to that?

An FO clearly defines and focuses its capabilities on that one family protecting wealth, procuring wealth creation and opportunities and advancing the family legacy. An FO that navigates through the current financial crisis and protects the family from mismanagement and fraud is easily worth the costs.

CRITICAL PLANNING STEPS

Below are critical planning actions and documents that are absolutely necessary when deciding to move forward with an FO to ensure success and a positive return on investment.

MISSION STATEMENT

The family, in conjunction with the family office consultant, first develops the family mission statement. The mission organizes the family vision around the family's desires, values and expectations, not simply for the current generation, but those that follow. Without a family mission statement, a family often deviates off course and their wealth and legacy may suffer. In developing the family mission statement, the family frequently improves internal communication. A family mission statement provides for a stewardship of timeless family values, objectives and passions. In times of challenge it reminds, motivates and unites the family of a sense of purpose.

BUSINESS PLAN

The family office consultant, in close collaboration with the family leaders, needs to develop the family business plan. Although the family leaders are paramount to helping to shape the FO, the family office consultant should talk with many family members from multiple generations (if applicable) to get all input needed to complete the business plan.

The family business plan needs to breakdown each area of interest that the FO will address and provide framework in coordinating an action plan to bring it all together. There needs to be a process (a hierarchy as well as a system for all to follow), including outlining measurable benchmarks the FO needs to accomplish, a short-term and long term timeline, employee qualification and performance goals, and employee hiring and firing policy and employee manual.

The family business plan outlines and coordinates all aspects of the services provided within the FO (i.e. wealth management, estate planning, philanthropic, passion investments, personal services, etc). The plan focuses on a process for each service rendered, describing in detail the services to be provided, employee talent required, projected costs and measurable benchmarks to gauge the effectiveness of the services rendered and employees responsible for these services.

An example of a benchmark for a wealth management function could be setting expectations for investment returns of 3% above a measurable inflation index (i.e. CPI, etc.), with a specified diversified asset allocation-mix of cash, bonds, and equities. The portfolio is reviewed quarterly by the family and FO advisory committee and/or specific investment committee against a total standard deviation of measurable investments not to exceed a negative 15%. In addition, no one money manager manages more than 5% of total family assets.

SFO PRO FORMA

As with any new enterprise, in addition to a strong mission statement and business plan, a newly created FO requires a pro forma with detailed estimated

costs of every area, including administrative, infrastructure, employees, outsourced services, etc. The pro forma should be used to establish many goals and benchmarks for the SFO is properly managed and achieves a positive return on costs.

EMPLOYEE HIRING AND MANUAL

The employee positions within an SFO (i.e. CEO, CIO, CFO, etc.) , need to be identified in the family business plan, including qualifications of each desired position, job descriptions and responsibilities. Sourcing qualified employees can occur through existing family relationships and professional SFO recruiters. All candidates should have a complete background check and the family should develop a process for reviewing each hire (i.e. family leader advisory committee all agree on a candidate of hire).

An employee manual describing expectations, family privacy policy and FO guidelines and benefits should be developed to assist in providing an organized and professional environment. The employee manual should also include vacation and sick time, dress, employee leave, and other policy important to the family.

SFO ADVISORY COMMITTEE

The family, in collaboration with the family office consultant, should organize and advisory committee. Initially this may consist of only family members, however, the committee can include independent, unbiased professionals that add needed specific expert insight. In larger FOs or established smaller FOs, multiple advisory committees are created to focus on various single family office functions (i.e. financial, trust, and estate, philanthropic etc.).

CONTINGENCY PLAN

The family needs to develop a contingency plan in the event of a natural disaster, theft or technology breach. At the most basic level, this includes a back up of all contact information, calendar management and important investment and business accounts and reports. A more comprehensive plan allows for emergency office space and reorganizing hardware and software capabilities within days or hours of disaster.

REVIEW PROCESS

The family office consultant needs to commit the family to periodic reviews of all activity within the FO. Initially, the consultant will help to establish goals and benchmarks and review each against results to measure success.

All areas should be reviewed, including the family's mission statement, business plan, pro forma, contingency plan, advisory committees, employees, infrastructure, and technology. Reviews should occur at least every year however, quarterly reviews should be considered (especially in a newly established FO), to adjust goals, strategies, and plans as needed.

FINAL PRESENTATION

The family office consultant helps the family crystallize their vision and desires, and organize the blueprint for the FO. The family needs to be actively engaged in the process and provide the information to be correlated by the family office consultant into a presentation for final approval by the family leaders.

FINE TUNING THE FINAL FO PLAN

Not uncommonly after the final presentation, the mission statement, business plan, pro forma, employee

hiring plan and manual, and other processes and documents are fine tuned. This fine tuning takes into account further reflection and feedback from all parties on the direction of the FO, including what will be performed in-house, what will be outsourced and cost considerations.

INFRASTRUCTURE OF THE FO

It is at this stage that the family along with the family consultant, engages legal council experienced in FO's to organize the business entity (or entitles, see below) of the FO. Legal council also assists as needed with advisory committee documents, employee confidentiality, non disclosure agreements and other guidance and documents.

"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat."

~ Sun Tz



BUSINESS ENTITIES

Coordinated legal and tax counsel, along with a family office consultant, frequently advise to organize multiple business entities (usually LLCs), which make up the FO. One business entity may be the core FO that manages the family money, another for real estate, another for personal affairs and a separate entity for the family philanthropic foundation.

One reason is to segregate the legal liability to each specific entity. Another viable reason may include the ability to clarify and obtain tax deductions for some of the expenses within these business entities.

Certain expenses within legitimate business entities may be tax deductible, including start up costs, employee salaries, hardware and software. This effectively reduces the “net cost” of the FO. If all family services are under one business entity, including services for personal family affairs, this may cloud the tax issue. Separation of business entities and appropriate internal structure of such by legal and accounting council experienced in FO infrastructure can assist in helping the family take the appropriate deductions.

Situs (location) of the SFO entities (particularly the private investment company) should also be a consideration of the family and its legal, tax and family office consultant. Most common location is the family’s primary state of residence (if in the U.S.). However, depending on family desires and needs, more favorable tax havens and/or active and vibrant financial centers may be a better option. The location can also be important in recruiting talented employees for the FO.

REGISTERED INVESTMENT ADVISORY (RIA)

It is highly recommended that experienced legal council also advise on whether the FO should or is required to register as a registered investment advisor (RIA). If only internally managing money for the family, this is rarely required; however, it is best to have legal council review.

PRIVATE FAMILY TRUST COMPANY

A private family trust company is worthy of consideration by a family of significant wealth in conjunction with an FO (or in place of the money management FO entity).

A Private Family Trust Company is a formal family trust company created by the family leaders to provide maximum privacy and control of family trust and trustee engagements.

Few U.S. states allow for a private family trust company organized outside of the family’s domicile. South Dakota is one of the states that does allow non-domiciled family formation of a private family trust company and has highly favorable privacy laws and asset protection clauses (of trust assets), making this state a popular choice for U.S. citizens.

The process and costs of organizing a private family trust company have come down, making this opportunity even more attractive. The benefits of a private family trust company include:

**Highly private family trust services*

**Reduce liability of family members acting as trustees. Such trust entities commonly allow for directors and officers (D&O) and other insurance solutions to such family fiduciary risks (acting as trustee of family trust)*

**Depending on private family trust company situs and the situs’s rule against perpetuity, continuity of family trust administration over multiple future generations.*

**Reduce likelihood of needing to register investment management function of an SFO (as registered investment advisory “RIA”) by organizing investment management through the private family trust company*

**Improve ability to maximize tax deductions of expenses related to managing the family money*

**Formally provide fiduciary services directly to the family as opposed to simply supporting the family’s trustees*

There are multiple oversight and other obligations and decisions within the private family trust company. A family office consultant, in coordination with legal and expert trust council, should present the opportunity to the family, who ultimately need to make the decision whether establishing a private family trust company is right for them.

INSURANCE RISK

The family office consultant needs to address insurance risk. Many FOs, as well as family business and personal assets, are underinsured.

This represents significant risk to the family. An FO is business entity like any other. There are needs to be an insurance valuation and implementation of applicable coverage, including:

- *Business property
- *Personal property
- *Liability
- *Excess liability
- *Employment practice liability
- *Error & omissions (E&O)
- *Directors and Officers (D&O)
- *Workers compensation

CAPTIVE INSURANCE COMPANY

A Captive Insurance Company is a multi-faceted family company utilized for many purposes, including insurance risk management (specifically for difficult to insure risks), income tax, asset protection and estate-planning purposes that warrants consideration by the family. A family formed captive insurer is a very powerful vehicle that is highly underutilized by families of significant wealth. A detailed discussion is beyond the scope of this white paper, however, this strategy is worthy of follow up discussion with the family office consultant and appropriate legal council to determine if it is right for the family.

OFFICE LOCATION

The FO for the family's enterprise(s) should be at a formal business location, separate from the personal residences and usually separate from the family business locations (other businesses owned by the family).

Earlier in this chapter we discussed FO domicile considerations for various FO entities that factor in family needs, tax haven considerations and vibrant financial centers.

TECHNOLOGY

Integrated with the infrastructure decisions for an FO is the supporting technology. State of the art technology is essential for an impactful and well managed FO. This is an area where many FO's fail to maximize technology capabilities. Technology within an FO needs to address:

- *Account aggregation
- *Customized accounting and reporting of all FO investments and costs
- *Risk metrics/analytics
- *office management
- *Family connectivity and communication
- *Security of information
- *Family history (photos, videos, documents etc.)

CUSTODY OF ASSETS

The family's liquid assets are often held in custody by financial institutions of choice. The largest custodians of assets (many of the world's largest financial companies) have significant global platforms which allow almost all imaginable cash instruments, bonds and equities to be traded and held in custody.

Some custodians, depending on the value of assets under custody with them (substantial assets) as well as the family's total services utilized with them, can aggregate and comprehensively report on assets held both inside and outside of their platform (other custodians, hedge funds, illiquid investments, etc.).

A potentially significant expense from a technology perspective is the ability to aggregate all assets and then report on those assets in an organized format. Leveraging relationships with financial institutions that provide needed custody services and may also provide aggregation and reporting on all assets may result in a savings, however, this also affords less privacy from a family's perspective. A family office consultant can add great value in choosing and negotiating with custodians to provide total aggregation and reporting solutions of family assets.

CUSTOMIZED REPORTING OF ASSETS

Customized reporting of assets, pulled from the information provided through account aggregation, should include considerations on how the family wants to access the data, the frequency, and the reporting structure to view their total assets. Reporting requirements may include cost basis, current value, currency conversions (if applicable), assets in trusts and partnerships, and other customized needs.

RISK METRICS AND ANALYTICS

Risk metrics and analytics is another area that should be considered when developing the technology infrastructure. Certain custodians have basic programs and tools, which may be included in their offerings to FOs. More comprehensive programs identifying measurable risk factors within the portfolio and illustrating multiple "what if" scenarios and possible solutions are available through technology service providers.

A small to mid size FO can expect to pay \$60,000-120,000 per year for comprehensive risk metrics and analytics solutions. Larger SFOs can expect to pay \$150,000-200,000+ for such services.

A family office consultant can also assist in sourcing qualified outsourced professionals with an expertise in risk metrics and analytics specifically to FOs. In addition to advising on technical solutions, these professionals have the internal products and experience to provide significant value to the FO as an outsourced consultant.

Families should consider all of these areas as they develop their technology infrastructure as they are highly valuable and provide a great customized service to the family. The FO personnel must understand how to utilize and maximize all the benefits these solutions provide. Ongoing training of the FO personnel and desire to maximize the capabilities of these solutions by the team is critical.

HARDWARE AND SOFTWARE

The family office consultant should recommend the best hardware and software solutions based on the specific needs of the family and the infrastructure of the FO.

A secure document storage system is highly important to FO's, as well as back up systems and secure calendar management and family communication devices.

Security is critical for the family's private information and communication. A technology expert or outsourced IT company should be contracted to advise, implement coordinate the desired choices and solutions.

FAMILY COMMUNICATION

Secured intra-net sites, telecommunication solutions, and connectivity strategies should be implemented to facilitate family business and personal communication. Customized IT solutions can foster family connections and enhance communication with service providers around the world, thus improving the timeliness and effectiveness of decisions and actions.

FAMILY HISTORY

A great asset to any family is their ability to record and share their history, including important documents, photos, videos, etc., for current and future generations. Technology offers the family various options to record and secure their history, including professionally produced DVDs, secure servers, web sites, and other mediums that are secure, but easily accessible by family members.

SFO PERSONNEL

With the mission statement, business plan, and all the other pieces in place, the family and their family office consultant (and other advisors) are now ready to source and hire the FO team.

Commonly, as noted in prior sections, the FO key personnel are involved in the process of the infrastructure and technological solutions. It is

recommended that the family hires key personnel before finalizing the FO infrastructure and determining the technology solutions needed.

With any position, there needs to be a process for hiring and due diligence investigation conducted for all potential hires. More than simply a credit and criminal check, a comprehensive report compiled by a professional investigative firm with a focus on comprehensive background checks is a must.

A family office consultant solely focused on FO's can help with sourcing appropriate and experienced staff as well as developing the process of qualifying and interviewing candidates.

The family office consultant may be aware of available candidates and the family's inner circle of business relationships could be a good source as well.

FO RECRUITERS

The family office consultant should have multiple and completely independent high-level, relationships with recruiters who specialize in FO's (there are very few recruiters that specialize in FO placement). No compensation is necessary to the family office consultant in introducing any relationships

There are FO positions that are specific to the personal needs of the family, which can be placed through over recruiters specializing in the high end services area, including luxury hotel and travel.

The key positions soon to be outlined require experienced professionals who are not only talented, but a good fit for the family. The executives hired for the FO is highly personal and customized by every family.

COMPENSATION SPECIALIST

The family office consultant should engage a compensation specialist experienced in FO's to assist in designing a compensation and benefits plan to attract, retain and motivate the most qualified candidates. More than simply base salary ranges, a compensation specialist artfully designs a compensation package that may include short and long-term incentive bonuses, carried interest opportunities, co-investment opportunities, qualified retirement plan offerings, insurance, deferred compensation (409Q) and phantom stock "golden handcuff" strategies. The right mix encourages long-term employment and productive relationships.

HIRING THE TEAM

The most common FO positions are outlined below. It is recommended to hire slowly to ensure the right personnel and cost control. A family should hire ONLY the employees that are absolutely required initially and outsource the other services needed. Over time, additional employees can be hired to replace outsourced services in a phased approach where the benefits outweigh the costs.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer (CEO) is a business savvy, highly diversified and connected to professional who spearheads the FO. This can be an actively engaged and suitably knowledgeable family member. In new or small FO's, that is most commonly the choice. In med size or larger SFOs, a professional outside the family is more common.

JOB RESPONSIBILITIES

Usually, the CEO is an experienced business professional and leader (whether family or non family member CEO). They should have expertise in financial, accounting and other technical areas, however, the do not have to be true experts in every aspect of the FO.

There are times when a very strong accounting financial, or legal background is preferable to business and leadership savvy. There is no set

formula and the FO and its personnel are customized per a family's specific needs.

The CEO needs to be engaged in all aspects of the FO, yet understand they must delegate and trust the talent in the FO to perform their specific functions (with oversight and accountability). The CEO needs to communicate on an on-going basis with the family and focus all their efforts on the FO fulfilling its mission to serve the family. This position answers directly to the key family leaders and FO advisory committees.

Although the CEO must be a fit for the family and follow the protocol of the assignment, the ability to engage multiple family members and generations is critical. The abilities of the younger generations with determine the long-term success of the family and the FO. A CEO encourages and fosters involvement and education of critical business areas is a great asset.

In larger, more established and geographically diversified families, the ability of the CEO to understand family dynamics and communicate solutions facilitating family unity is critical.

A CEO should embrace modern technology as a family communication and business management tool to advance the success of the FO in servicing the family.

Depending on family desires and the expectations from this position, a well connected business-savvy CEO can create opportunities to expand family wealth by sourcing business, real estate, passion and other investment opportunities for the family.

Additionally, some families desire to seed fund and develop partnership interests with young and talented traders (i.e. hedge fund, private equity, etc), as well as invest in emerging growth companies. A proactive CEO can help with researching and sourcing valuable opportunities.

The CEO needs to carry out the mission and coordinate effectively all aspects of the FO in a synchronized effort in fulfilling the family's mission and vision.

CHIEF INVESTMENT OFFICER

The second position filled in a FO after the CEO is the Chief Investment Officer (CIO).

JOB RESPONSIBILITIES

The CIO, under the direction of the family leaders, investment advisory committee and CEO/CIO position), initiates and coordinates the primary investing decisions in fulfilling the family investment objectives. Such families are already significantly wealthy (at this stage it is a matter of degree), therefore, the CIOs primary obligation is to maintain and expand the family's wealth. Some families take a more aggressive investment approach, however the majority of the families DO NOT want to lose their wealth through risky investments.

The challenge to a family in remaining significantly wealthy is much more than smart investment decisions. The effects of income, capital gains and estate taxes play a significant role, which involves tax, trust and estates issues. So does business and entrepreneurial pursuits, particularly in the generations to follow. The CIO plays an integral role in assisting the family by fulfilling investment objectives as laid out by the family, and coordinating efforts with other in-house and out sourced financial professionals to minimize risk and maximize returns.

The CIO needs to be able to create, implement and coordinate a comprehensive family financial strategy, including an accompanying Investment Policy Statement (IPS). The CIO commonly needs to develop multiple family financial strategies and IPSs for various intra-family financial (if applicable) as well as assets titled within trusts and partnerships.

The CIO coordinates family financial objectives and outlines investment parameters and benchmarks. As with almost all activities of the CIO, the family financial plan and IPS needs to be approved by the family leaders, investment advisory committee and CEO.

Paramount to all this is the ability for the CIO to organize and implement an asset allocation strategy

built around the principles and benchmarks as indicated and agreed upon by all the decision makers in the IPS. A comprehensive plan on asset allocation and the method, tactical or strategic asset allocation, is a critical responsibility of the CIO, but beyond the scope of this white paper.

Our terminology "family" is singular, however if an SFO is serving multiple intra-family fractions (various siblings and relatives within the same family), then multiple and segregated family financial strategies, IPS and asset allocation strategies need to be maintained and monitored.

A traditional challenge for families and their consultants sourcing vetting a CIO, was the limited availability of qualified individuals who possess the diverse talents required by families of significant wealth. The current global financial crisis has left many qualified candidates out of work, or desiring the favorable environment working directly for the family. This is an optimum time to create an FO given the qualified talent available to fill the financial leadership positions.

In addition, the CIO needs to be able to work with the staff and outsourced financial service providers and communicate effectively with the CEO and family. The CIO should be able to seamlessly utilize the available account aggregation, reporting and risk metric/analytics capabilities of the FO in customizing the services and data to the desires of the family.

We have yet to discuss actual investment decisions in carrying out the coordinated family financial plan, IPS and asset allocation strategy. A question that needs to be answered by families is whether they want to CIO to choose the underlying investments.

Broadly, the asset classes that make up an asset allocation strategy include cash, bonds, equities, alternatives (technically, alternatives are one of the three prior asset classes, however allow for various shorting, leverage and other strategies, by a talented manager) and derivatives.

Although there exceptions, it is usually recommended that the CIO does not actually choose

the underlying individual investments that make up the allocation in each particular assets class. However, the CIO researches and identifies the best money managers around the world to implement the applicable allocation towards each specific asset class.

Very large SFOs may elect to employ an investment research team and hire internal experts in each asset class in designing a truly custom portfolio for the family, all coordinated and managed by the CIO.

The CIO needs to be first and foremost excellent at planning, organizing, sourcing (money managers and business opportunities), monitoring validating and reporting on all investment activities.

Once the investment plan is in place, including the family financial plan, IPS and asset allocation strategy with approval from the family leaders, CEO and advisory committee, the CIO needs to source best in class money managers who carry out the actual investing of their given allocation. Again, the choices on money managers should be presented approved by the family leaders, investment advisory committee and CEO.

The CIO needs to be able to source, select, diversify and monitor the money managers who carry out the actual investing of various aspects of the portfolio, including cash management, bonds, equities, and alternatives and derivatives. Consideration should be given to highly competent outsourced consulting firms specializing in alternative and other illiquid investments, which can maximize returns for the family on these specialized investments.

Because of the major financial losses from investment scandals and ponzi schemes and the troubled global banking system, diversification of investments and the thorough research and monitoring of those individuals, companies and institutions investing a family's money, are so imperative.

These issues and parameters need to be addressed in the IPS. There needs to be diversity among multiple money managers executing the investments for each applicable allocation. This diversification and allocation to multiple money managers requires more

management work from the CIO, but it is a critical strategy for successful FO's.

For example, the strategy could be the equity portion of the portfolio, agreed to in the IPS and asset allocation strategy, will be 30% of the overall portfolio (ignoring for now the actual breakdown of growth, value, domestic, foreign, etc), and the selected money managers will manage no more than 5% of the amount allocated towards equities.

Besides diversity of well chosen money managers experienced and proven in their given specialty, further risk management efforts need to be taken beyond performing basic due diligence. The following key questions need to be asked about money managers before selection is finalized:

**Who is the money manager's clearing firm?*

**Who is their legal and accounting council?*

**If an alternative investment manager is used, who is their prime broker?*

The CIO or other trusted FO employees need to verify all information provided to ensure accuracy and validity.

Risk metric/analytic programs and services at the FO's disposal were reviewed earlier, which perform mathematical evaluations as well as monitor potential portfolio risk. A risk management consultant can provide excellent value to the FO and assist the CIO in managing investment risk.

Additionally, an investigative background check on the money management firm and its principals and selected money managers is highly suggested. More than simply a quick online check, a more detailed background report should be done. The family office consultant and/or the CIO should be able to source reputable investigative firms to perform this important task.

Families of significant wealth and their FO leaders, including the CIO, need to be more cautious than ever before with their selection of individuals and companies managing the family's money. Working with selected legal firms who specialize in comprehensive investment due diligence is highly

recommended (your family office consultant should source such relationships) to review your portfolio, and in particular, alternative investments. The %50,000- \$200,000 in legal consulting fees is well worth avoiding costly investment mistakes.

In addition to the basic due diligence and background checks, the legal firm can evaluate alternative investment contractual provisions, provide advice on alternative investment offshore governance , source for silent partners and review criminal and regulatory concerns.

Many families and their FO leaders may not realize that such legal firms, highly experienced in alternative investments and BUY SIDE representation (representing the purchaser of such investments), can sometimes negotiate special contractual terms, including lower fees and improved liquidity of that family's assets within the fund. Not only is this a critical step for reducing risk, but could result in cost savings in the long run.

The CIO also needs to organize, coordinate and monitor the money managers in a tax sensitive manner. In addition to providing data to make smart decisions, various tax overlay software programs and analytics can assist in monitoring many aspects, including an overlap in actual holdings among the various money managers, tax basis of holdings, capital gains exposures, and more. This should be coordinated with the FO's in -house or outsourced tax professionals.

CHIEF FINANCIAL OFFICER

Many families of vast wealth in organizing and building out their FO see great value in hiring a Chief Financial Officer (CFO). For a family with substantial business interest and/or significant personal, trust and partnership accounting requirements, the CFO is a highly desired professional.

Traditionally, the candidate would have a strong combination of business and personal accounting background, preferably from the big four as well as CFO experience in a successful private company.

It is not uncommon in scenarios where the family has multiple business interests for the FO CEO, to be a CFO by training, with a very strong accounting background, and the accounting function remains core to their CEO duties. The trend is hiring highly qualified and diverse accounting and legal professionals to assume the CEO positions within FO's.

JOB RESPONSIBILITIES

The CFO position within an FO differs from a traditional CFO position in other companies in that this position is also responsible for the personal tax issues and returns of the family members (including family trusts and partnerships). In large FO's with multiple accounting personnel on staff, this may b e under the supervision of the CFO, but the function is completed by the staff.

The CFO should be experienced in complex multigenerational estate planning and needs to coordinate efforts with family legal council (whether in-house or outsourced). In certain areas of extreme tax specialty on these issues, the CFO should source appropriate accounting council coordinate efforts.

The CFO should coordinate with the CIO on tax strategies for the family involving their investment portfolio. Tax overlay, capital gains decisions on sales, and many other aspects dictate that an efficient FO has synchronized efforts among all personnel. Coordinated and integrated management is one of the primary benefits of establishing a FO.

Many family leaders, as well as the CEO, desire to constantly view updated cash flow reports, family income and expense statements, as well as financial statement (i.e. balance sheet). The CFO needs to perform this function and maximize utilization of the applicable infrastructure and technology systems at their disposal in preparing documents and reporting. If there is no CFO, then the CEO may take on this function directly or manage and compile the data from internal sources (CIO, bookkeeper, accountant, etc.) or outsourced providers.

Although sometimes sourced to bookkeeping and/or an executive assistant, the CFO may also handle bill paying for the FO as well as the family (partially automate through custodial relationships, cash management and other online resources).

The CFO commonly assists in evaluating business and real estate opportunities for the family, managing lines of credit, business and family loans, as well as cash distributions to family members.

A combination of business and personal financial management capabilities is highly preferred for a CFO, but if the family has a specific need for this role, the expertise of the CFO may reflect that need and then the CFO can coordinate hiring or outsourcing for the other areas of responsibility.

CHIEF LEGAL OFFICER

A chief Legal Officer (CLO) is common in more substantial SFOs. However, as stated throughout, it is all about what is best for the family's needs. A key benefit for the family is building out an SFO organization that is highly customized.

JOB RESPONSIBILITIES

Families with highly complex and/or multiple business interests can benefit greatly from hiring an in-house legal professional. The CLO can evaluate business, real estate and complex investment opportunities from a different perspective than the other senior executives of the FO. The CLO can negotiate business transactions and perform closings as well.

The CLO may be hired for both business and personal needs, or have a focus on the personal family needs, organizing and monitoring family trusts and partnerships, as well as trust and estates issues.

As noted earlier in the CEO section and again in discussing the CFO position, there is a trend among families with significant business interests and/or complex personal legal needs, to hire a legal professional for the CEO position.

Families of vast wealth often need multiple specialized experts in business, patents, litigation, marriage law/pre-nuptials, trust and estates, etc. A well diversified and connected CLO can manage these areas through internal staff and outsourced relationships with coordinate all efforts.

DIRECTOR OF INFORMATION TECHNOLOGY

Large SFOs frequently hire a Director of Information Technology (IT). This position is vastly underrated and should be considered in all FOs. This position advises and coordinates the technical infrastructure of the FO. Many FO's have critical computer needs and highly specialized software requirements that all need to be supported and upgraded on an ongoing basis.

This position should positively impact family connectivity and communications as well as costs and control of the technology infrastructure required.

This position can range from \$75,000-\$150,000, depending on the complexity of the technology infrastructure required

DIRECTOR OF PHILANTHROPY

Some families elect to create a Director or Philanthropy position. Most commonly the family's philanthropic initiatives are directed through a separate entity, such as a family foundation (s), as opposed to directed by the family FO.

It is always recommended to create separate entities for the FO and the family foundation(s). Until a family's philanthropic mission and giving level is expansive to warrant hiring a full time director, typically an engaged family member assumes the responsibility for the role.

Most families of significant wealth desire to improve their ability to identify and verify philanthropic opportunities for causes that are in specific philanthropic advisory committee, sources and vets philanthropic opportunities aligned with the family mission statement and business plan. If desiring outside contributions, fundraising experience is preferred, with both traditional and online expertise. Executive management experience at a foundation or other charitable experience would be recommended.

How the family should donate money to various organizations involves legal and tax implications. This is best left to experienced in-house or outsourced legal and tax professionals. Family foundations, charitable remainder trusts, and charitable lead trusts are all viable options. The director of Philanthropy should assist in managing the process and distributions to charity (no matter the vehicle), as well as following through to gage and measure the results.

Families are encouraged to organize applicable philanthropic giving vehicles only after they are fully committed to giving. The first step is to develop a philanthropic strategy built around the family mission statement and business plan. A truly engaged family member is often needed to drive this process. Philanthropy is an excellent way for younger family members to feel active in the family decisions.

Philanthropic giving goes deeper than tax benefits, and helps to teach the younger family members about compassion, giving and choices.

FAMILY OFFICE MANAGER

The Family Office Manager (sometimes referred to as general manager or "GM") is a unifying position that focuses on the FO running as efficiently and effectively as possible. This position can involve HR functions (managing directly or in coordination with an outsourced firm). The Family Office Manager frequently is the conduit for the family and in-house staff and assists with coordinating outsourced professionals.

The Family Office Manager is commonly less defined by a traditional role than other positions. The position requires a person of diverse talents who learns quickly, is highly organized, and initiates solutions.

In smaller FO's, the Office Manager will coordinate business and personal services , in conjunction with the executive assistant, for the family.

EXECUTIVE ASSISTANT

Families can have one or multiple executive assistants depending on the size and number of employees of an FO. Frequently, there is an executive assistant to the key family leader (s) and another executive assistant assigned to key FO personnel.

The responsibilities of this position, particularly at the personal level, can vary widely. An executive assistant may act as the primary person coordinating household management and personal household staffing needs. They may manage multiple personal matters such as medical information, insurance, family vehicles, child care, and collectibles. They may be the primary conduit to the family leader for personal appointments, calendar management and Children's needs.

Personal service and highly organized are the hallmarks of this qualified professional. Infallible under pressure and proactive in the needs of the family or key FO personnel are a must. Commonly, the executive assistant is excellent at communication (written and verbal) and proficient in technology.

BOOKKEEPER

This position often supports the CFO, or in smaller FO's without a CFO, may take on additional responsibilities. Managing payroll (or coordinating with an outsourced firm), handling receivables, paying business and personal family bills, coordinating medical and insurance claims, processing and coordinating mail (this may also be handled by an executive assistant) are just some of the traditional responsibilities of this position.

This position can range from \$50,000-\$90,000.

FAMILY ART DIRECTOR

Many families of significant wealth enjoy collecting art. Some families have an art director to purchase, sell and manage their collection. The art director may also catalogue collections, coordinate transportation, manage insurance and act as a curator showcasing and educating the family and guest at home functions and events.

This position can range \$75,000-\$200,000.

FAMILY SECURITY DIRECTOR

Many families are rightly concerned about security and are finding a need to hire a Security Director to manage and mitigate family residence, business, cyber and outside activity risks. If not a direct employee of the family or the FO, the security director can be an outsourced specialist. In larger FO's, the Family Security Director is also responsible for the security measures within the FO, including offices, technology security and family safety.

This position can range from \$100,000-\$200,000.

TRENDS

There are many trends that may change the future of FO's or add to the requirements from a family. These include:

**Increase in the number of new FO's as the number of families of significant wealth expands worldwide and more families became aware of the benefits of organizing an FO.*

**Increased interest in private family trust companies managing the family wealth across multiple generations as families desire even greater control and privacy*

**Significant increase in the utilization of technology, specifically in family connectivity and communication. Most FO's are behind the technology curve, however, younger entrepreneurs and family members demand it*

**Families incorporating their philanthropic focus into their investment portfolios, including clean energy, green living, micro lending, volunteer vacations and other options*

**More creative hires by FO's, as many traditional professionals for important positions can be difficult to source. Their backgrounds will be more diverse in technology, engineering, family dynamics, language and luxury services, which will add fresh perspectives to the FO*

**More interest from younger family members in private company purchase opportunities, or start ups, through the family FO*

**Greater interest from families in sourcing and seeding globally talented traders (i.e. hedge funds, private equity, venture capital, etc.) and creating wealth through partnerships and investment in emerging growth companies around the world*

**Families supporting education and training for FO key personnel to further maximize performance of results.*

The family and their FO executives should conduct extensive research, connect to other families, service providers and professionals in the industry, and attend conferences and education events to keep up with all the trends and changes in the marketplace that may affect the results of their FO.

No longer can a family keep up with all of the information, education and connections needed. Through an FO, qualified staff can recommend changes in the FO strategy to protect against downturns, and take advantage of opportunities to create wealth.

"The greatest good you can do for another is not just to share your riches but to reveal to him his own."

~ Benjamin Disraeli



Securities and Investment Advisory services offered through [Ausdal Financial Partners, Inc.](#), 5187 Utica Ridge Road, Davenport, IA 52807 (563)326-2064. Member: [FINRA/SIPC](#). Praxis Capital and Investment Management, Ltd. and Ausdal Financial Partners are independently owned and operated.