FOX Family Office Forum™ & Family Security Workshop™

Insights & Takeaways

July 17-19, 2018 | Swissotel | Chicago, IL

At our recent **2018 FOX Family Office Forum**, we were joined by more than 100 family office executives representing a range of roles including Chief Executive Officer, Chief Financial Officer, Controller, Legal Counsel and more.

Our attendees revealed that the top two concerns for this year include taxes and security (cyber, physical, etc.), and the Forum provided an opportunity to explore these issues through engaging learning sessions and peer networking. Attendees also participated in discussions about technology selection supported by live demonstrations from leading technology providers.

ATTENDEE QUOTES

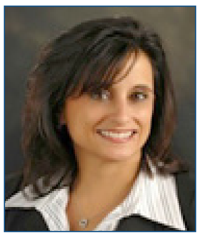
"Rarely are you able to learn from multiple technology demonstrations at one time. It was helpful to have the sales teams on-site for follow up questions and meeting face-to-face."

"An outstanding resource, truly experts in the field...strong experiences that are shared freely with families."

MEETING AGENDA AT A GLANCE

Key Considerations for Technology Selection and Application in a Family Office

PRESENTER



Danielle Valkner
Partner, Advisory Services, PwC

PRESENTER QUOTE

"Families are finding it harder to "go it alone." The focus is moving toward learning and collaborating among the family office associations, leveraging resources and best practices, and educating family members."

SESSION DESCRIPTION

Families often ask about the best technology platform for a family office – assuming there are just one or two types of technology solutions. In practice, most family offices require a combination of accounting, investment, and reporting tools, as well as various supporting systems. The specific tools vary based on the types of investments, activities performed within the office and by service providers, and the needs and desires of the family and its staff. This session provided an overview of family office technologies and the criteria to consider when making selections.

KEY TAKEAWAYS FROM THE SESSION

- As technology evolves, the rising generation wants information shared in a mobile/digital format with real-time information. Current systems make it difficult for families to get a comprehensive financial picture of the family's wealth. Technology can be a source of empowerment for all generations and should be an essential part of any service or communications strategy.
- Most offices require a mix of tools and technology across investment needs and financial/back office needs. There are over 300 solutions in the market and family offices should make decisions based on their own unique requirements. Vendors were highlighted in providing solutions across the following areas:
    - General Ledger
    - General Ledger/Investment Accounting/Partnership Accounting
    - Aggregation/Portfolio Management/Analytics
    - IT/Cloud/Cybersecurity
    - Reporting/Analytics/Visualization
- Best practices in determining technology selections include: 1) consider the range of devices used by family office staff and family members – within the office and in the various family homes; 2) evaluate the latest developments in technology platforms; 3) consider the impact of solutions on efficiency and effectiveness within the office; 4) take into account needs and interests of the younger generation, including accounting software, global custody relationships, investment advisor interactions; and 5) look out 5-10 years and select vendors who will grow with you.
- Emerging trends in Robotics and Intelligent Process Automation provide an opportunity to move from "low value activity" automation to systems that incorporate cognitive intelligence to execute tasks and update rules based on "learned" trends, with minimal human oversight.
    - Robotics Process Automation (RPA) are emerging tools that replace labor-intensive, repetitive activities across applications.
    - Intelligent Process Automation (IPA) combines RPA with Artificial Intelligence to make decisions based on large amounts of data. Using these new technologies will provide a more complete end-to-end solution.

A World of Increasing Risk – Are We Whistling in the Dark?

PRESENTER

Yung-Yu Ma, Ph.D.
Chief Investment Strategist, BMO Wealth Management, CTC | my CFO

PRESENTER QUOTE

"These risks are not linear in nature. There is a tipping point and some risks can put you over the edge and out of business. It is important to consider risk in a multifaceted way, where a set of moderate risks collectively could cause a problem."

SESSION DESCRIPTION

While most indicators predict a healthy economy in the near future, the inevitable downturn lurks ominously on the horizon. Tension with Russia and China, as well as the threat of renewed violence in the Middle East creates warranted anxiety among investors. The landscape of risks investors and family offices face continues to evolve. Some risks may play out slowly over years or decades, but even those discussed daily in the media could play out in different ways. A leading industry expert examined four sources of risk around the globe – environmental, economic, geopolitical, and cybersecurity – and discussed the underlying sources, and prudent positioning in light of these risks.

KEY TAKEAWAYS FROM THE SESSION

- Seven economic risks were identified; taken individually they pose a moderate risk but occurring in concert could pose a more substantial problem. Economic risks included: Inflation and Fed hawkishness; rising interest rates, profit margin pressure from wages, stretched consumers, declining equity valuations, China slowdown, and unsustainable growth.
- Economic risks: Beginning to experience inflationary pressures in wage growth and interest rate increases, but equity markets are coming to terms with rising rates and interest worries and have recalibrated to a more neutral expectation. Structural forces such as interest rates, availability of information, shareholder protections, passive investing, market liquidity, and demographics are all influencing equity valuations.
- Geopolitical: The current U.S. trade war with China may be the beginning of increasingly difficult relations with that country. The Chinese have long viewed the U.S. as hostile to its interests, and the U.S. may simply be playing catch-up in this regard. It is difficult to know what the U.S. end game is in the tensions over trade. It may be a push to focus on bilateral deals, or potentially to leave the World Trade Organization.
- Environmental: Climate change is driving costlier weather experiences, with some theories indicating a warmer climate will lead to more intense hurricanes. We are seeing greater scientific consensus that droughts and flooding will be more severe and cause greater damage than has been previously experienced. Densely populated coastal regions are especially at risk, and many are unprepared for catastrophes and are lacking in adequate insurance. The cost of reinsurance following significant weather events is also seeing significant increases.
- Cybersecurity: Experts estimate cybercrime damages will reach $6 trillion annually by 2021, leading many to increase enterprise security budgets. McAfee saw a 59% increase in ransomware in 2017 and a 35% spike in the 4th quarter alone. Security training is the best line of defense against cybercrime as the human element is the most vulnerable to phishing and social engineering – efforts to coerce people into providing access or information to bad actors.

ATTENDEE QUOTE

"A place to discuss the nuts and bolts of running a single family office without the distraction of investment issues."

Tax & Estate Update: How Clients are Responding to the Recent Tax Law Changes

PRESENTERS

Thomas W. Abendroth
Partner, Practice Group Leader, Private Clients, Trusts and Estates, Schiff Hardin LLP

Jesica Speer
Senior Manager, Private Wealth Services, Grant Thornton LLP

PRESENTER QUOTE

"It's critical to think about the 'all-in' cost of any of these strategies and not get sucked into cool-sounding tactics. You have time to be thoughtful."

SESSION DESCRIPTION

Since the Tax Cuts and Jobs Act was released at the end of 2017, family office professionals have been struggling to understand the implications for their clients. These industry experts discussed the opportunities the tax law has created and the practical strategies they recommend for making the most of the current tax climate. Topics addressed in this session included: gift planning and higher estate exemption exclusions, entity restructuring options, deductibility of trust expenses, investment expenses, investment interest, and donations to charity.

KEY TAKEAWAYS FROM THE SESSION

- The Tax Cut and Jobs Act of 2017 ushered in the most significant overhaul of U.S. tax code since 1986, and will have a profound impact on individuals, trusts, estates, and businesses. The tax law alters individual income taxation, reduces corporate income tax, introduces a new form of taxing pass-through income, and doubles estate tax exemption and GST exemption to $11,180,000.
- On business tax issues, the tax law changes prompt consideration of moving from an S-Corporation to a C-Corporation to take advantage of provisions within the law on pass-through deduction, distribution planning, timing, and utilization of losses and provisions around international holdings. Changes to rules on pass-through deduction warrant consideration on rental properties, multiple businesses, tiered entities, allocating W-2 wages, and interaction with other loss limitation rules. Tom Abendroth of Schiff Hardin cautioned everyone to consider the all-in costs of structure changes.
- The decision to move from an S-Corporation or partnership to a C-Corporation is complicated. There is no one-size-fits-all approach, and Jesica Speer of Grant Thornton encouraged participants to work closely with their legal and accounting professionals to make this decision. Please click to view **Sub-S to Sub-C Conversion Considerations** and **Planning Opportunities**.
- Limits to the state tax deduction are significant depending on the state of residence. Many families, especially in high tax states like California and Illinois, are thinking about changing domiciles.
- Section 67 (e) continues to allow miscellaneous itemized deductions for expenses associated with property being held in trust, including: trustee fees, legal fees related to administration of trust or estate, tax return preparation, appraisal, fiduciary accounting costs, state taxes (up to $10,000), and interest and other expenses based on the same rules as applied to individuals. Also, tax law changes included a repeal of the "Pease limitation," which increases the benefits of charitable giving.
- Estate planning exclusions were raised to $11,180,000, which is a significant increase over prior years. Recommendations include a review of allocations in wills and trusts based on "maximum applicable exclusion" or the "maximum GST exemption" to avoid unintended consequences. For ultra-wealthy estates, use and leverage the exclusion to "supercharge" the benefit of lifetime transfers. However, a technical corrections bill and IRS guidance are still to come, so there is no need to rush.

Creating an Effective Team for the Family Office

PRESENTERS

Cassie Atteberry
Human Resources Director, Chinquapin Trust Company

Bonnie Gauger
Human Resources Director, Johnson Keland Management

SESSION DESCRIPTION

The biggest asset of any family office is the staff that supports the family clients. In this session, two family office human resource executives presented the elements and processes to consider when attempting to build an effective team; one that delivers the best client experience for the family. The executives discussed leadership and team building strategies and offered practical examples to build the best team to support the family.

KEY TAKEAWAYS FROM THE SESSION

- There are four elements that create a strong foundation for an effective family office: culture, leadership, team, and talent. Culture is made up of the values, behaviors, and assumptions of an organization and its employees. To begin to address culture, it is important to assess the current state with 100% honesty. Consider doing SWOT (strengths, weaknesses, opportunities, and threats) analysis that takes into account Return on Investment (ROI).
- Get clarity of purpose for any culture changes. Start with why, assess organizational readiness, determine resources internally/externally, and make a plan that can be measured. Define the future state by using inputs from the current state analysis: continue what's good and change what's not. Identify key metrics to track over time and consider doing a survey to capture a baseline assessment.
- There is leadership in all employees – one must set a direction and create a map for growth. Create vision and inspire all to engage by coaching and building a team that is effective at achieving the vision.
- Building an effective team requires alignment, communication, collaboration, and shared values. Start by establishing trust and leading by example. Build relationships and foster that across the team. Strive to be transparent, open, and approachable to further engender trust. Support team member learning and growth – from mistakes and from one another. Finally, respect and understand differences.
- Managing your talent is important across the employee lifecycle. Assess current employees at hiring, performance reviews, and during daily feedback. Be prompt in addressing poor performers by setting them up for success, hold proactive conversations with high performers and make a plan to keep and motivate them for success.

PRESENTER QUOTES

"Performance reviews can be effective if you use '3 Stars and 3 Wishes.' Explain 3 things that demonstrate how the person shines and 3 things they can improve on."

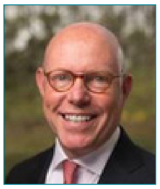
"Hire for attitude, train for skills."

ATTENDEE QUOTE

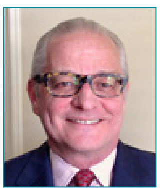
"It is a great way to learn about the current trends that are occurring in family offices today. By attending this, you will obtain some good ideas through the sessions and by networking with professionals in the family office area that will help with enhancing the family office you work with."

Virtual Family Offices and Meeting the Needs of Their Clients

PRESENTERS

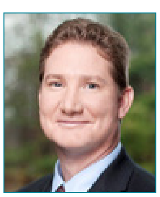


Andrew L. Busser
Managing Director of Strategy, Pitcairn



Steven Draper
Partner, Markets & Best Practices, ETON Solutions

Charles B. Grace, III
Managing Director, Family Office Exchange



Dain Kistner
Director of Family Office Innovation, Pitcairn

SESSION DESCRIPTION

The needs and goals of the family inform the attributes of any good family office. How the family office supports the family in that regard is a big question. Increasingly, certain families are considering transforming into a virtual family office, in part at least, as they think about the family client of the future. But what are the considerations that should be addressed as part of such a change? This session explored the impact of such a transformation on oversight, cost, technology, team and advisor ecosystem, as well as insourcing vs. outsourcing of services, among other considerations. What are the different types of virtual family offices that exist? Why have families chosen (or not chosen) this path? FOX Managing Director Charlie Grace and a panel of experts addressed these questions and took attendees through scenarios that explored the various iterations of a virtual family office as well as the lessons learned.

KEY TAKEAWAYS FROM THE SESSION

- Typically, a Virtual Family Office (VFO) has a lean staffing model (one to two internal staff with role of "super coordinator" supported by third-party service providers). There are little if any "service products" created by the VFO; most prevalent are financial reports minus investment performance reports.
- A virtual family office model will have lower internal costs compared to traditional single-family office.
- The VFO maintains a degree of control, customization, confidentiality, coordination and integration of services, and reduced conflicts (i.e. alignment of interest) associated with traditional family offices.
- VFOs rely more heavily on outsourced services such as the use of an external Chief Investment Officer (CIO), commercial multi-family office, and comprehensive third-party technology with support.
- Typically, a VFO is a valid option in situations where there is a smaller asset base and less complexity.

ATTENDEE QUOTE

"A great opportunity to network and get information about other family offices, hot topics, and software solutions."

Protecting Your Wealth Through an Enterprise Risk Management Approach

PRESENTERS

Mark Galante
President, Field Operations, PURE Insurance

James P. Kane, CIC, CRM
Senior Vice President of Personal Risk, USI Insurance Services, LLC

ATTENDEE QUOTE

"Family offices are a very niche environment. This is a great opportunity to gain global knowledge on topics that are very applicable to family offices."

SESSION DESCRIPTION

Enterprise Risk Management offers a robust approach to managing risk for families developing a cost effective, comprehensive plan taking into consideration the rapidly evolving nature of a clients' needs. It takes a holistic approach to identifying, defining, quantifying, analyzing, and providing solutions to all the identifiable exposures facing family offices. This session reviewed the Five Steps of Risk Management, Loss Control, Loss Mitigation, and Transfer of Risk. Case studies were then provided that demonstrated the emerging exposures with current and future generations and how to proactively address the needs of complex families.

KEY TAKEAWAYS FROM THE SESSION

- In an Enterprise approach to Risk Management, it is important to consider all sides of risk similar to investments. Consider designing protection for the most frequent and most severe exposures first, and control loss or mitigate damage as a first line of defense (sometimes a policy is not the answer). Finally, leverage premiums and accounts to maximize your protection.
- **The five steps to Enterprise Risk Management include:**
  - Identify risks
  - Analyze
  - Design a plan
  - Implement
  - Monitor & adjust
- Some common risks for ultra-wealthy families include: board participation; financial or estate plans; second homes, rental properties or vacant land; domestic help or contractors; pets (including dogs, cats, horses); collections of jewelry, fine arts, or wine; inexperienced drivers; pool/hot tub/trampoline; frequent domestic or international travel; and recreational vehicles.
- Surprisingly, the largest total claims cost for PURE (across all lines of business) was water damage other than flooding (burst pipes, etc.). With winter temperatures dropping across the globe, being mindful of unoccupied homes that might be at risk of exposure to freezing temperatures is important for preventing losses. Planning and insights are a key element to reducing exposure to damage due to water.
- Cyber-risk is on the rise, and the human element is the most significant risk factor (responding to phishing, social engineering, etc.). A recent survey of CEOs identified cyber security as their greatest personal risk, and the one they are least confident with their ability to protect themselves and their families. Cybercrime is on the rise, with attacks becoming more sophisticated and presenting new risks to members' wealth.

Considerations for Converting Business Structures

PRESENTERS

Mark J. Blumenthal, CPA
Partner, Plante Moran

Domingo Such
Partner, Firmwide Chair, Family Office Services Practice, Perkins Coie LLP

SESSION DESCRIPTION

The 2017 Tax Act presents planning opportunities around the choice of entity. Existing clients with pass-through entities like S-Corporations and LLCs should consider if maintaining this status is prudent given the recent changes in the tax law. In the past, C-Corporations considered becoming pass-through entities to avoid two tiers of tax. What is best for a particular client situation will challenge past thinking, as the choice of entity for optimization is dependent on facts and circumstances.

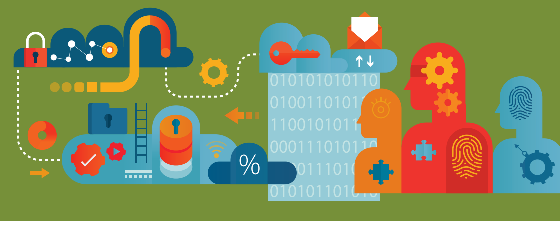
KEY TAKEAWAYS FROM THE SESSION

- Key tax law change highlights include: 21% corporate tax rate, elimination of personal exemptions, increased standard deduction, and modifications to many itemized deductions, including:
- The five steps to Enterprise Risk Management include:
  - New limitations on state and local tax deductions and home mortgage interest deductions
  - Elimination of miscellaneous itemized deductions
  - Elimination of itemized deduction phaseout
  - Increase in charitable cash contribution limitation
- Deduction changes for trusts include: $10,000 Limitation on State and Local Taxes; 2% itemized deductions eliminated; trustee fees remain deductible; tax determination and preparation fees remain deductible
- This illustration outlines the key considerations for anyone considering the sale of a Corporation or Partnership. Participants were encouraged to evaluate their options carefully and not rush to change entities to C-Corporations without considering the long-term realities of this decision. There is no one-size-fits-all solution. Please click to view **Operations and Exit Analysis.**
- While the Lender Management, LLC v. Commissioner ruling is considered a "win" for family offices that use a profits interest structure, it is critical to consider the specifics of each family's situation to determine whether a profits interest structure makes sense for the family. More insights on this topic can be found in the **FOX Hot Topics Webinar: Profits Interest Structure here.**
- The speakers explored several case studies on entities shifting from an S-Corporation to a C-Corporation, making it clear there are important considerations to keep in mind, including the uncertainty about the corporate tax rate after 2025, when the current provisions expire. Families converting to a C-Corporation should also be mindful of the provision requiring a five-year period before reverting to another type of entity.
- Participants were encouraged to include their accounting advisors in the evaluation process to ensure that all costs inherent in the accounting required of various structures are factored into the decision.

ATTENDEE QUOTE

"A great opportunity to learn about current topics impacting the family office space. With the networking options, you find out specifics of what others are dealing with."

FOX Family Security Workshop™



The **FOX Family Security Workshop** took place immediately following the FOX Family Office Forum. We were joined by more than 70 professionals for this inaugural workshop. According to our pre-event survey:

Security is one of the top two concerns for families

44% have a dedicated security resource

37% have a security resource on staff and **63%** outsource

PRESENTERS

Patrick Flanigan, CEH
Manager, Plante Moran

Rob Gray
Senior Director of Executive Security Programs and Operations
Cox Enterprises, Inc.

Stephen W. Locke, CISSP
Director of Security Technology
Northern Trust

Cory T. Lunn, CISA
IT Assurance Manager
Wolf & Company, P.C.

Joe Oleksak, CISSP, CRISC
Partner Cybersecurity
Plante Moran

Eric Powell
Chief Security Officer
Bayshore Global Management LLC

Colin Taggart, CISSP, CISA, CPA
Senior Manager,
Plante Moran

Brent White
Sr. Security Consultant, Threat Services, NTT Security

The workshop was organized around three key areas: personal, physical and cyber security and highlights from the sessions include:

- **Hacking Demystified** -- In this interactive session, experts from Plante Moran illustrated the importance of strong security controls through live, real-world examples of hacking.

  Key takeaways include: Hackers are counting on their victims to make a convenient choice versus the right choice. It is important to have the right controls in place to avoid hacks that can prove to be costly and result in a reputation risk for the family.

- **Protecting Your Family: The Importance of a Holistic Approach** – Rob Gray and Eric Powell, family security directors for two single-family offices, shared strategies they've employed and led a risk-assessment exercise with participants.

  Key takeaways include: Families should make it a top priority to create a robust security program. Don't wait until there is a crisis to put a plan in place.

- **Be a Better Partner: Strategies for Securing Your Communication with Trusted Advisors** – Steve W. Locke, technology security expert at Northern Trust, covered current threats, how to monitor and mitigate risks, and what a family office can do to implement security practices that will protect their financial assets and transactions.

  Key takeaways include: Create a protection plan, keep devices up-to-date, be cautious with public Wi-Fi especially when traveling, have strong authentication across your systems, be wary of suspicious emails, keep a back-up of your data, and know who to call in a crisis.

- **A Hacker's Guide to Physical Security** – Security consultant Brent White demonstrated methods of bypassing popular physical security controls, using only publicly available tools and social engineering.

  Key takeaways include: Create a culture of security with employees. Go beyond annual security awareness, and focus on establishing an understanding with employees of how to manage security risks. Employees are the first barriers to prevent security compromises.

- **Personal Security 101** – Rob Gray and Eric Powell also led this session focused on personal security. From travel safety to the skill sets to look for in a bodyguard, the session provided information, tips, and tools needed to make smart, practical decisions about personal security for the family office and the family.

  Key takeaways include: A security process should be looked at just like a process for evaluating business and investment risks. Implement procedures to assess personal security risks and create strategies to address them.

- **Cybersecurity: Policies and Practices for Every Family** - Cory R. Lunn of Wolf & Company, P.C discussed how to have productive conversations with family members about cybersecurity, how to enhance your current practices, and what steps you can take to develop and maintain a strong cybersecurity program.

  Key takeaways include: Education across the family is key. Create strong passwords, be aware of how to identify phishing attempts, avoid unsecure Wi-Fi, always apply firmware patches on devices, and be cautious of sharing personal information through social media.

FOX is for Everyone in the Family Enterprise

Connection • Guidance • Learning

Family Office Exchange (FOX) is the world's most respected peer-to-peer network for ultra-wealthy family enterprises, their family offices, and their trusted advisors. Working every day with the world's leading families, FOX has become a thought leader on family enterprise strategy, family governance, investment strategy, family office best practices, family learning, impact philanthropy, and advisor partnerships. Established in 1989, FOX is based in Chicago with offices in New York, San Francisco, Madrid, and Sydney and has a professional staff of 45.

FOX members come from 20 countries and include 375 ultra-wealthy families and 110 multi-family offices (MFOs) and advisory firms. Our global community is made up of more than 6,000 individuals.

What FOX is Known For

Who Belongs to FOX?

- Family Leaders
- Board Members
- Rising Generation
- Family Office Execs
- Trusted Advisors

Each person finds peers and programming to learn from within the FOX community. The triple benefits of membership are **Connection**, **Guidance**, and **Learning**.

Connection comes in a number of ways. FOX Peer Councils allow you to engage with other individuals with similar experiences. FOXChat™ allows members to answer questions and share experiences online. Members also interact at the FOX Forums and Regional Briefings.

Guidance Guidance is provided by an experienced Member Advisor familiar with your goals. The Member Advisor helps you 1) find the resources you need, 2) meet other members who can help you meet your objectives, and 3) stay informed about questions and issues you should be considering. FOX also offers custom Advisory and Education Services for families desiring bespoke solutions.

Learning is at the heart of the community. FOX keeps members up-to-date on a wide variety of topics through bi-weekly webinars, white papers, surveys, videos, content from other FOX Advisor members, and sessions at FOX Forums and Workshops. FOX also provides resources for educating rising-generation family members.

Further information is available at www.familyoffice.com.

For more information on upcoming
FOX Learning Programs, please visit:
www.familyoffice.com/learning-programs

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