FOX Guide to the Professional Family Office
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 around the globe. This concept of a dedicated trusted advisor committed to serving the interests of a single family (or group of families) can be traced back through the centuries. European families have funded private family banks for generations, and family offices in their modern form really began to appear in the mid-19th century to serve the wealth creators of the Industrial Revolution – Rothchilds, 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 the point where it is today – a cottage industry with thousands of privately managed family offices around the world providing wealth management services for multiple generations of wealth owners.

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 working to provide services for 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 a team of external advisors on behalf of the owners. The family office is a unique family business that is created to provide tailored wealth management solutions in an integrated fashion while promoting and preserving the identity and values of the family.

Wealth Management as a Second Family Business

Families held together by a family-controlled business often share a feeling of pride about the business. Their identity as a family is tightly woven into the fabric of the business that houses the history of their hard work and success. Many entrepreneurs, who enjoyed the challenge of building a family business, face the decision to sell or take significant liquidity out of the business with mixed feelings and a certain amount of trepidation. While no one can argue that liquidity has its benefits, it is important to recognize the reality of this life-changing transition and take the time to ask the important questions, evaluate the alternatives, and plan accordingly.
Being in the wealth management business involves much more than hiring money managers to invest the proceeds of the sale. Preserving wealth requires owners to think of the wealth management process as a shared family business. This Guide outlines the complexity inherent in managing this new wealth management business and shares practices that have been used by other family offices with success. The critical aspects of family office management are illustrated below.

Managing Family Wealth – Why Is It So Hard?

Managing family wealth successfully is a complex and unique undertaking for each family. The job of the family wealth manager is to bring professionalism to the private work of growing and protecting a family’s assets for future generations. Success equals asset growth and protection, of course, but may also be measured by the peaceful transition of control from one generation to the next, or by a cohesive group of cousins 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 to have a professional way to address the challenges that financial families often encounter.

The financial and family issues that are most commonly addressed by a family office over time are shown below.

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

**Common Family Challenges**
- Developing all types of family assets (human, intellectual, financial and philanthropic/social capital)
- Deciding how much inheritance is enough for future heirs
- Providing leadership training experiences for future wealth owners
- Providing financial education for all members of the family
- Serving as a steward for future generations
How to Use the FOX Guide to the Professional Family Office

This Guide documents the challenges faced by 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 is an invaluable tool for families seeking to build a best practice family office or evaluate their current office operations. We encourage readers to share this Guide with:

• Family Office Board Members – every board member should understand his/her responsibilities in the context of the work of the family office and the overarching goals of sustaining the family’s wealth and legacy.

• Family Office Employees – every office employee can benefit from seeing his/her 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 document will help every client better understand and appreciate what is involved in taking care of everything from 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 role of the family office. Page 9

– The family office is often the chief risk manager for the family and is uniquely positioned to work with the family to systematically address the issues that keep family members awake at night. Consider the FOX Risk Roadmap as a discussion tool to help your family identify common risks and talk about ways to prioritize and mitigate them. Page 11

– No other service provider has access to all of the pieces of a family’s puzzle the way a dedicated family office does. In this section you will learn more about the role of the family office as financial integrator. Page 12

– The family office is ultimately the investment strategist for the family and is the only resource capable of helping the advisor team translate the clients’ goals into an actionable investment plan. Page 14

– As financial reporter the family office is charged with the task of consolidating and distilling financial data from multiple sources to provide clients with the data they need to make decision about their future. Page 14

– Preparing the next generation for leadership is a critical role of the family office. The family office serves as educator and mentor for family members. Read about ways to involve the next generation in the family enterprise. Page 15

– Families are constantly evolving. As transition coordinator, the role of the family office is to provide stability amidst this change and help the family navigate life’s inevitable transitions. Page 16

– What are the primary responsibilities of the family office? Most offices provide support for family governance, multi-generational financial strategies and individual wealth planning. Page 16
Section II: A Look Inside Today’s Family Office

- Successful multi-generational families make time to discuss their collective vision for the wealth and their future and rely on structures and processes to ensure the work of their family enterprise is guided by their collective vision. 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. Page 20

- The ownership and operating structure of the office are, like everything else, dictated by the goals of the family. The key is to ensure that the ownership and operating structure reflect the long-term vision for the family’s future together. See a typical family office ownership structure and learn about the seven issues to consider when evaluating these structures. Page 24

- What services does the typical family office provide? Are these services coordinated internally or outsourced? How does the office staff spend its time? Page 28

- Investment planning and management are critical functions in every family office. This section outlines: the key components of the investment process; who makes investment decisions; the role and prevalence of investment consultants and investment committees; and the 2013 target asset allocation for FOX Benchmarking participants. Page 30

- Selecting the right team of trusted advisors to support your family requires careful due diligence. Learn about who is on the typical family office team, the most important characteristics of these trusted advisors, and the due diligence process used to find qualified candidates. Page 35

- 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. Page 38

- What does it cost to manage family wealth? This section outlines typical family office costs and looks at comparable fees charged by multi-family offices. Common cost allocation practices – who pays? – are shared here, as well. Page 41

- Wealth owners rely on the family office for timely, accurate and meaningful financial information to help them make wise decisions. Learn about information management in the family office and see an example of a best practice family office systems architecture. Page 44

Section III: Measures of Success and Lessons Learned

- In this section we articulate the importance of an annual conversation about the value of the family office. We outline four critical areas that should be evaluated in a family office report card and share lessons learned from FOX members. Page 47

Section IV: Additional Resources

- Readers who want to send family members to trusted education programs should consider the University Programs for Families of Wealth. These programs have been recommended by FOX members. Page 52

- The FOX Recommended Reading List is a book list curated by FOX that is organized by topic, ranging from family wealth to parenting and philanthropy. Page 54
About Family Office Exchange

Family Office Exchange (FOX) is the world’s leading peer-to-peer network for ultra-wealthy families and their family offices, and is the leading authority related to matters of sustaining wealth. With more than 20 years of experience, and a staff of 40 people based in Chicago, New York, and London, FOX is a thought leader in the areas of family strategy and governance, family office best practices, and family risk and legacy planning.

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

Members rely on FOX (www.familyoffice.com) to help them make better, more informed decisions about their family legacy and their wealth management practices and providers. FOX has established a safe, confidential environment of common interest and mutual trust to enable members to compare experiences and learn from the collective knowledge of other members in the network.

Resources available to FOX members include proprietary research on wealth management best practices, peer benchmarking, bimonthly webinars on current trends, and an extensive library of articles and white papers, as well as online discussion forums, regional peer roundtables, and a variety of educational workshops and forums.

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

Sara Hamilton founded FOX in 1989 to provide objective information and advice on family wealth, family leadership, and different pathways available to sustain wealth across generations. Helping members preserve and enhance their true family wealth by providing education, insights, and peer exchange is the sole focus of FOX. The firm’s success is measured by the quality and value of the experience of its many private investors, family offices, multifamily offices, and wealth advisor members.

True to this original vision, FOX strives to address new challenges and to provide insights on current trends and issues regarding investing, philanthropy, and owner education. As an advocate for wealth owners, FOX provides leadership in the private wealth field, helping to shape the industry and develop standards of performance for industry professionals.