The International Family Offices Journal

Editor: Barbara R Hauser

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STEP ADVISING FAMILIES ACROSS GENERATIONS

Globe Law and Business

The International
Family Offices Journal

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Globe Law and Business would like to congratulate Barbara Hauser on being listed in *Spears 500* again in 2021 for Family Offices Services.

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Volume 6, Issue 1, September 2021

Welcome to the September 2021 issue of The International Family Offices Journal

Barbara R Hauser, Editor-in-Chief

Again, continuing thanks for all the positive feedback on our Journal. Remember, this is for the entire family office community – we solicit contributions and comments! As the word continues to spread, we enjoy receiving offers to write for us. We are already starting to fill the December 2021 issue. We have now passed the five-year mark for the Journal! We are hoping for a celebration reception in London in late October. Possibly one in Zurich in early October. And in New York in early November.

The focus of the Journal

We feature articles from leading experts in the field on a range of topics including the variety of family office models and structures, governance, investment approaches, succession planning, charity projects, family communication and consensus, and next generation issues among others. A key feature of the Journal is its international approach. We value our independence and our commitment to offering content without any conflicts of interest.

In addition to heavyweight substantive articles, we regularly feature in-depth country reports, profiles of family offices, interviews with industry leaders, a luxury corner, technology tips, book or film reviews, relevant news alerts from the Society of Trust and Estate Practitioners (STEP), and reflections by those who have grown up with wealth or advise those who have done so and what it has meant to them or their clients.

In this issue we are proud to include another fascinating variety of in-depth articles. We hope you enjoy them! This year, yet another with the pandemic making things uncertain, has been difficult for so many – we are hoping for brighter times ahead including the resumption of international travel.

We begin with a jurisdictional report on Singapore, by Sim Bock Eng, President of the STEP chapter in Singapore. She estimates that there are more than 200 single-family offices in Singapore. There are several factors that have made Singapore an attractive jurisdiction. In terms of options for the management of investments, which include limited partnerships, unitrusts and private limited companies, in 2020 Singapore created a new structure, called a 'variable capital company'. One special feature with appeal to families is the ability to pay dividends from capital whether or not there are profits. There are also several tax incentive funds managed in Singapore that are exempt from income tax. Trusts are another option – there are more than 60 licensed trustee companies. Using a single-family office can provide many benefits. The article helpfully lists features and requirements in detail, and concludes that "the core family office structure provides a foundation unto which various components – eg, trusts, family constitutions, philanthropic initiatives, etc – can be bolted on, scaled and tailored towards each family's specific needs".

Next we turn to an innovative structure being considered primarily in the United States, but applicable elsewhere, with an article by Laurent Roux, who proposes combining a virtual family office (VFO) with a private trust company (PTC). He argues that this combination allows wealthy families to "marry family wealth management, and family office services with multigenerational trust and estate planning". The VFO usually refers to an office with a limited number of personnel with most of the services outsourced, which is said to give access to otherwise expensive outside experts with a smaller cost of actual infrastructure. The private trust company is designed to allow the family to control the nature and identity of the trustee for family trusts. These have become popular in Asia according to Laurent. He includes overviews, with very helpful charts, of the comparison of strengths and weaknesses of single-family offices with multi-family offices. He adds charts comparing the VFO. Finally, he adds charts detailing the features of a PTC. He ends with "The PTC works well as a VFO with the proper construction and process, and dedicated administrator – as is the case with both SFOs and MFOs. The difference is efficiency relative to needs. There is indeed much to consider."

We then turn to physical and mental care in "Family office solutions for physical and mental health issues – understanding and utilising care management for families", by Arden O'Connor. Arden begins with a focus on the family office and notes that where the family office is used to take care of the needs of the family, when it involves physical or mental health, they may find themselves "in situations requiring expertise beyond their training. They may also encounter tense family dynamics, resistance to accepting help, and ongoing crises that may complicate their roles". Arden describes the role of several new professionals: professional care coordinators, case managers, and health advocates. She argues that not only should a care manager be retained – it is best to do so before one is needed. "By hiring care managers, family office professionals do not have to navigate an unfamiliar field and risk making a poor referral. They can also remove themselves and other family members from serving as 'default case managers'. Most importantly, care managers can provide options for clients to age in a way that honours their preferences." Arden gives practical advice about the selection of a care provider, and the questions to ask a candidate. She also gives suggestions for how to raise the subject with family members. In summary, she notes that care managers, who offer a wide array of expertise, "can serve as trusted partners to family office professionals, helping solve some of the most challenging health and well-being issues".

Our next featured article is a first for us – but we hope there will be more on this topic to follow. Daniel FitzPatrick explores the moral meaning of wealth from a Christian's point of view. In "The camel and the needle" he bravely tackles the Christian view that it is easier for a camel to go through the eye of a needle than it is for a rich man to enter heaven. As always, Dan writes clearly and persuasively. He opens with a comment about the current political attitude in the United States against the super wealthy – an attitude of "soak the rich". Dan, who has spent his career working with very wealthy families, writes that they are "the most caring and philanthropic people I know". Dan dissects several parables from the Bible with wit and insight. He closes by urging governments to partner with religious groups to improve the lives of everyone. He includes Margaret Thatcher's warning that, "The trouble with socialism is that eventually you run out of other people's money."

Returning to the family office world we have an intriguing piece by Jill Barber and Greg McCann, "The water we swim in – influencing the culture of your family office". They begin with a focus on the anticipated need for skilled family office leaders, a need that appears to be greater than the supply of leaders in the family office environment. To change a culture and promote the needed training, they offer a set of challenges. First the potential leaders need to have a capacity in four areas: self-awareness, empathy, framing and innovation. Next they need to be agile, meaning that they need to understand which method is the most appropriate at the time. They argue that "If you intentionally build capacity and agility into your culture, you will create leaders at every level of the organisation."

There seems to be a growing awareness in the family office world that in addition to future succession issues the family office would like help with caring for those who are ageing or displaying a diminished capacity. Karen Witherell has spent her legal career providing the documents to assist in this area. In "How to keep your mind when your clients are losing theirs", she gives a thorough explanation of the pros and cons of a multitude of legal documents. As she notes, this can be difficult to manage when different jurisdictions are involved. Even within the United States the forms and requirements can be different in different states. She advises that clients who spend significant time in more than one state should have attorneys in each of those states review the documents. Karen notes that the issues of diminished capabilities are especially difficult when there is a family office. "In a family office situation, the question of diminished capacity can be especially critical, and there could come a time when the capacity of a client becomes an issue that must be addressed. If the client can no longer act autonomously is there someone else designated to act for them?" Karen begins with a thorough comparison of the different legal meanings of capacity, then covers the wide variety of helpful documents, then stresses that planning ahead is the best approach. At the end of her article is a checklist of documents a family office should have in place.

Keeping an eye on trust law developments in Israel, Alon Kaplan and Meytal Liberman report on two recent cases, in the theme of "How to set up a trust to survive death". They begin by stating that under the Trust Law 1979 "there are two approaches to create a trust to survive the death of the settlor: to set up an *inter vivos* trust (a contract with the trustee or a trust deed signed before a notary as a *Hekdesh*); or to set up a testamentary trust". There is another law, however, that prohibits certain agreements about future inheritances. As the two cases are reported in some detail, the issue can get complicated. Alon and Meytal give a helpful summary:

- Creation of an *inter-vivos* trust (*Hekdesh*) by the execution of a trust deed before a notary. The settlor should then transfer the ownership in the assets to the trustee and by doing so be completely disconnected from them. If, however, this can't be done, then the settlor must make an irrevocable undertaking to grant the assets to the trustee and be solvent at the time they are transferred. Even so, there is always a risk that the undertaking would be contested.
- Creation of a testamentary trust (*Hekdesh*) by the execution of a valid will. The will must

comply with all the requirements of making a valid will. However, there is always a risk that the terms of the trust eventually probated would be different as a result of the intervention by the Administrator General or the court.

Shorter pieces – we have a great variety in this issue.

- Two new members of the editorial board: Nicola Saccardo and Russell Cohen;
- Interview with Andrew Pitcairn of the fascinating Pitcairn family and its current multi-family office;
- Luxury corner – manufactured diamonds, with an interview by Raimund Kamp;
- A critique of *The Great Demographic Reversal* by Richard Hokenson who disagrees with the analysis and conclusions of that book;
- Using art to finance a loan by Bethan Waters of Farrer & Co;
- A stroll among some favourite New York restaurants by Ronald Varney.

Finally, we continue to express our gratitude to STEP for their list of news alerts.

We hope you enjoy this issue. We love getting feedback so let us know!

Barbara Hauser

We welcome two new members of the editorial board

Nicola Saccardo is a partner of Maisto e Associati, an independent Italian law firm specialising in Italian tax law with offices in Milan, Rome and London. Nicola is admitted to the Italian Bar (and to the Italian Association of Chartered Accountants). His legal practice is focused on Italian tax law with particular expertise in taxation of trusts, estates and HNWIs; international and EU tax law; and estate planning in general. His clients include wealthy individuals, trustees, family offices and financial institutions.

Nicola is Chair of the Tax Committee of the International Academy of Estate and Trust Law, Chair of the International Clients SIG Global Committee of STEP and a member of a number of other international committees.

Nicola has written extensively about Italian tax law and is a frequent speaker at conferences. He has been ranked as a leading expert in several legal directories.

Russell Cohen is a partner at Farrer & Co in London. He has over two decades of experience in advising clients how to navigate the complexities of private wealth.

Russell works with individuals, families, trustees and family offices, generally in an international context. He advises clients on how best to structure their wealth, including wealth preservation, tax and succession planning.

He also provides guidance on family governance issues, taking a particular interest in how a family can structure its wealth in a way that is consistent with its values so as to preserve its reputation.

Russell is known for his informal style and for taking a collaborative approach, which enables him to work well with the clients' wider professional team. He has won various awards and is listed in the top-tier of leading directories.

Using a VFO with a PTC as an alternative to family offices

Laurent Roux

The Covid-19 virus as well as the intense and necessary analysis in deciding whether to establish, maintain or join a single-family office (SFO) or multi-family office (MFO) respectively, has led many families of wealth to consider the virtual family office (VFO) as an efficient variation and alternative solution. This is not necessarily a new idea but is very realistically achievable, efficient and effective. When coupled with a private family trust company (PTC), a VFO enables families of wealth to marry family wealth management, and family office services with multigenerational trust and estate planning. This article will describe the advantages of combining a VFO with a PTC.

The VFO is an outsourced family office organisation consisting of a limited number of internal members which enables service providers, advisers, attorneys, accountants and others to serve the family externally, giving best-in-class service and support without a significant office structure. The PTC is a family-owned company which serves the family as trustee; control and ownership are promoted through functionaries.

The PTC's advantage as a VFO, compared with the SFO and MFO, is its value as a fiscal planning vehicle, facilitating trust and estate planning and allowing the family control and ownership. It also allows the family greater impact with regards to investments, distributions, governance and education. This option avoids individual trustee risks and succession challenges, as the family can own the PTC in or near perpetuity, or as long as it wishes, when established in US states such as Wyoming, South Dakota and Tennessee.

From an international perspective, families have come to appreciate the need for fiscal planning and compliance over the past 25 years as US, OECD, CRS, etc reporting and sharing of information has expanded. These families should consider PTCs when US domestic trust services are required, as in the case of family members resident in the United States who are beneficiaries of foreign or US trusts, investments in the United States, especially real estate, also immigration planning, fiscal planning and creditor protection, and facilitating US fiscal compliance (eg, FATCA). They should also consider the PTC option where applicable internationally. Families in Asia, the United Kingdom and several other jurisdictions have indeed done so.

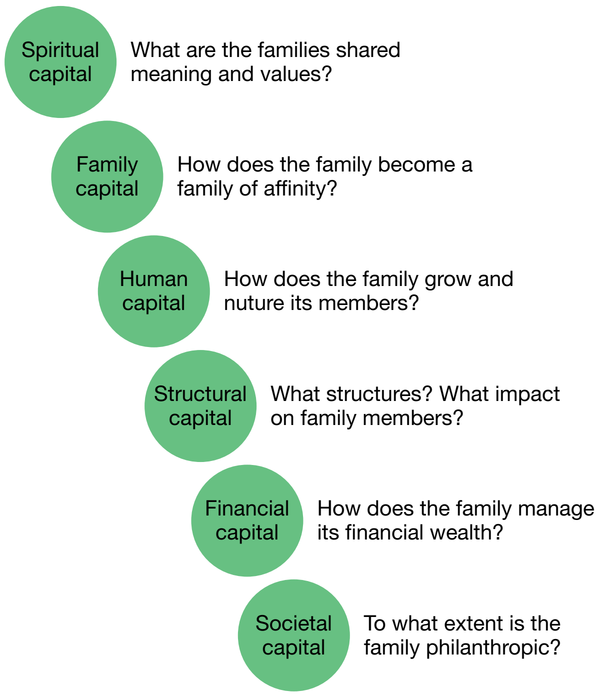
The objective of this article is to compare these family office structures, discuss their advantages and challenges from the perspective of their structural functionaries, as well as from the families they serve. It is also intended to share the value of the VFO and the PTC together as a modern-day option in family wealth management.

Family wealth

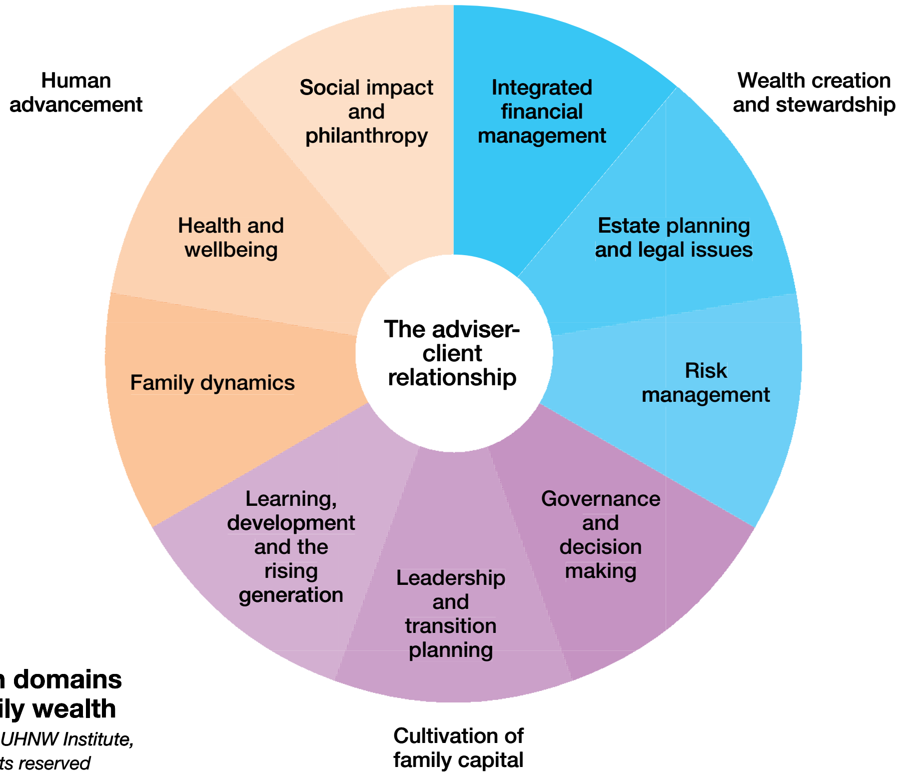
As we know all too well, family enterprise and wealth is not self-sustaining, it requires planning and stewardship. Preserving and growing family and wealth is a journey about family as much as it is money, of hopefully building harmony into the future versus falling into entropy and disunity. The key questions for the family in this regard are how does it:

- ensure dynamic ownership today and into the future;
- grow responsible owners;
- teach and promote stewardship;
- respect individuality; and
- make sure the financial wealth prospers for all?

Much has been written with regards to these concepts. But as a family, where to begin and how to move forward? It starts with an understanding of what is *family wealth*? Generally accepted definitions or elements include family, human, structural, financial and societal/philanthropic capitals:



Another way to understand family wealth is to view the 'domains of wealth':



The ten domains of family wealth
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In this context, both the family and their adviser (eg, family office CEO, MFO relationship manager, consultant) are considered together as a collaborative team, and the domains as critical components of family wealth incorporating the five capitals. The 10 domains encompass the areas of focus as families seek to manage their wealth and themselves into the future. They are a roadmap to successful stewardship.

Family wealth management

Let's assume a transition event – eg, a liquidity event – and the family asks itself 'now what'? This is especially applicable in the case of a family selling a part or the whole of its business, or the entrepreneur taking the company public. The starting point should be *purposeful thinking*, asking whether there is an understanding about what is *family wealth* rather than being a *wealthy family*? What are the family objectives? There are many moving parts: financial wealth preservation, growth and creation, consumption, family unity and cohesion, rising next generation interests and concerns, family education (legal, financial), family communications, control and decision-making, conflict resolution, philanthropy and more.

Next comes *strategic planning*, whereby the family seek to assess and agree the family's values, vision, needs and goals. Usually, two immediate concerns arise – how to deal with the money and what fiscal and legal work needs to be undertaken. This is especially relevant in regards to growing family complexity – multi-national members, diverse cultures, etc. As families have experienced all too often, the enormity and complexity of the constituent parts in the planning and implementation process can be daunting:

- family – values, emotions, individuals, dynamics;
- advisers – attorneys, consultants, trustees, trust protectors, bankers;
- service providers – accountants, custodians, investment managers, private bankers; and
- legal entities – trusts, foundations, GPs, LPs, FLPs, companies and investment vehicles.

There is indeed much to consider, and inevitably both coordination and potential conflicts to be managed.

If the objective is managing family wealth today and into the future, a key strategic goal is shaping the structure needed to achieve the family vision and objectives, and yet ensure 'function prevails over form'. This matters because form alone adds limited value in this context, while function responds to the needs of the family. A review of current structures, entities and partners is or should be undertaken; families quickly discover there are many options, and turn to their trusted advisers for assistance. They learn of the SFO, the MFO and private banking as options. Fiscal, trust and estate planning – more important today than ever, and relevant to both national and international families – are usually added to the mix. If the family does not have enough on its plate, the private (or regulated) family trust company (PTC), and the virtual family office (VFO) are often included as possible structural capital vehicles, not to mention governance, family councils and boards.

At this point, families, whether domestic or international, often begin this important journey by focusing on what matters most to them as they look out over the horizon. Research and experience highlight six fundamental concerns considered by families. They include:

- control, to what extent and how best to allow the family to impact its wealth;
- continuity, how best to enable the family to define the extent and manner it wishes to remain a family through the generations;
- confidentiality, to what extent is this important to the family and how can it be assured;
- organisation and fiduciary responsibility, how best to assure and deploy objective, well-founded advice and services;
- tailoring, how best to ensure services and advice fit the family;
- stewardship, how will education and responsible ownership be shared, understood, accepted and implemented by family members.

Structural considerations

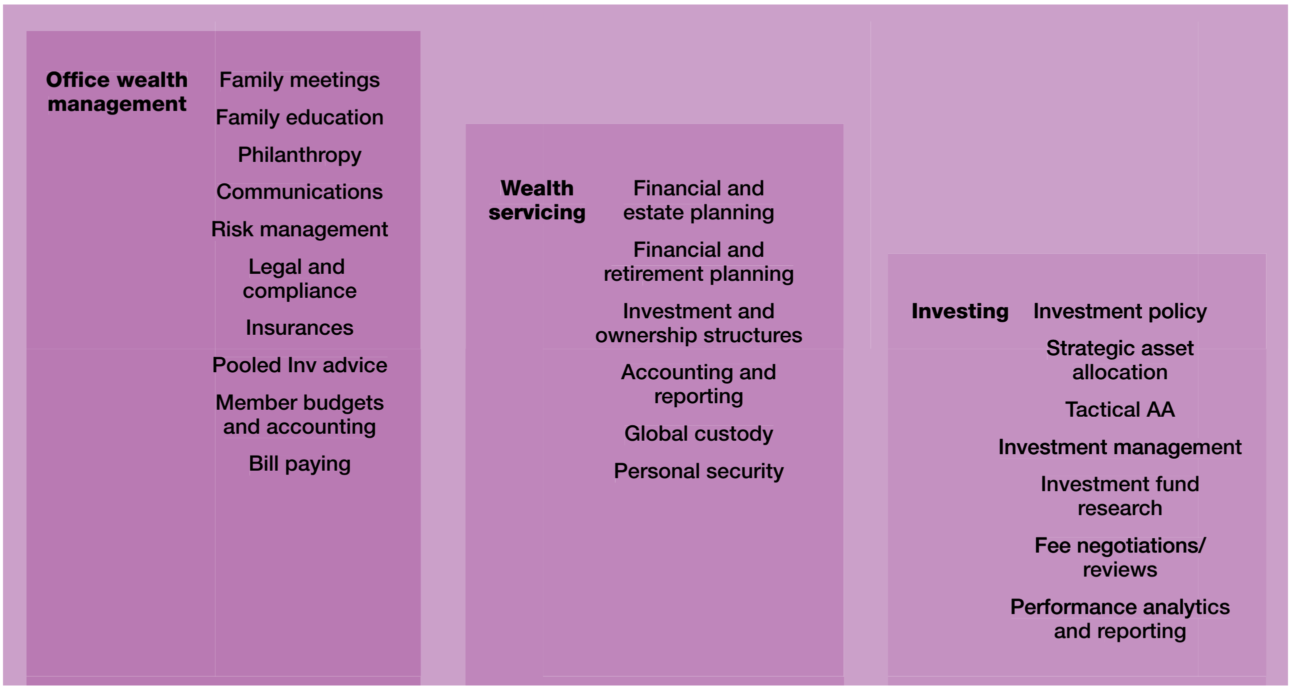
But which structure should a family consider to best deal with these concerns? They are usually presented as solutions by their legal and financial advisers – a structuralist approach as defined by my friend Matt Wesley. But much depends on the control it seeks, the services required and the family's objectives. A more culturalist approach (MW) is thus required taking into consideration family, dynamics, members, objectives and challenges.

As we know, the SFO comes in all shapes and sizes, the MFO can be institutional, independent, or consist of a few shared families. And the third option, the VFO, has found renewed interest.

Generally, advisers agree SFO and MFO services can be summarised as shown below.

We have learned through the many years of serving families and their experiences with SFOs and MFOs that both are viable, credible, practical options in managing family wealth. Families worldwide have adopted them and with success. Advisers have focused their services to support them, consultants adapted their offerings in collaboration, and a segment of the wealth management industry has grown exponentially. But nothing is perfect.

From a SWOT (strengths, weaknesses, opportunities, threats) perspective, the SFO offers several strengths – privacy, family control, responsiveness and a tailored service level. Weaknesses include costs – it's expensive, there may be potential service level inadequacies which can lead to dysfunctionalities and risk, bureaucratic behaviours thanks to the misconceived perception that one's job is very safe and secure. Opportunities are many such as peer exchanges, learning from others, an open architecture investing mindset – the SFO will be open to learn of new investment ideas for instance, and the SFO allows for family education and inclusion. Threats are not to be minimised – employee turnover and human resources management, remuneration, family conflicts, generational succession can all pose real problems.



SFO SWOT

Strengths	Weaknesses
Privacy Control Tailored service level Relationship focused Responsive	Cost efficient? Business platform Service level inadequacies CEO/family relationships Staff/family relationships
Opportunities	**Threats**
Open architecture investing Best in class services Family education platform Peer exchanges Cost efficiencies	Employee turnover Remuneration issues Cybersecurity MFOs Family conflicts Generational succession

The MFO is indeed a different animal to the SFO. The institutional or independent MFO is usually focused on asset gathering and wealth management. This is a strength in terms of expertise at the investment level and openness to co-investing, but can be a weakness in terms of dedication to family because family priorities may be different. Many of the opportunities seen in an SFO apply to the MFO such as open architecture and peer exchanges. Weaknesses are often MFO CRMs being too dispersed, as family relationships vary so service levels do as well, as may delivery. Threats to MFOs include employee turnover, remuneration and standardisation of services – the lack or failure in tailoring services to clients so that they are frustrated and leave. One other risk – offering consultancy services above and beyond expertise. They are and have been a viable option for families of wealth – very ‘private banking’.

MFO SWOT

Strengths	Weaknesses
Privacy Control Tailored service level Relationship focused Responsive	Cost efficient? Institutional platform Service level inadequacies CRMs too dispersed CRM/family relationships
Opportunities	**Threats**
Open architecture investing Best in class services Family education platform Peer exchanges Cost efficiencies	Employee turnover Remuneration issues Cybersecurity Standardisation Family conflicts Consultancy overreach

Family concerns

Regardless of structure, asset size and staff numbers, families and their family offices appreciate the burdens associated with establishing and running a business. For many it’s the source of their wealth, for others it’s a necessary functionality. But all have had to deal with internal resource management – dedicated personnel, payrolls, administration, IT, security, compliance, regulations and more. The costs involved and scalability issues have challenged many, as have ensuring state-of-the-art systems and services. Family member needs have expanded, service providers and services multiplied. The issue is, can the family office manage these and other challenges effectively, do families want or need to be running and overseeing such an enterprise? Many do not, are indeed tired of doing so, and looking for an alternative.

Other concerns have included family frustrations with institutional relationships limiting investments, compliance and regulatory barriers worldwide. Many institutions have ‘limited open architecture’ relative to investments; families may propose an investment only to learn there is no relation with the manager and either the institution itself or its compliance team do not want to change course. In the United States, Dodd Frank legislation requires family offices to register as RIAs unless they qualify as exempt – if clients do not extend beyond the family itself and its ‘key employees’. Many SFOs outsource investment management to avoid such registration. They keep investment policy decisions, monitoring of investments and risk in-house. Families working with MFOs or large institutions have often been on the receiving end of barriers to open architecture. Certain investments are disallowed by their provider for a variety of reasons such as lack of relationship, risk assessment disqualification, or even lack of knowledge or understanding.

The financial crisis of 2008 motivated families globally to review the notions of trust and fiduciary responsibility, and alignment of interests with their service providers against conflicts and risks of all sorts. Investment oversight, a better appreciation of asset allocation and underlying investments, as well as more emphasis on risk management have received greater scrutiny internally. Investment management costs and fee reviews are now more prevalent. Consequences – families better understand risk and return, are more selective in choosing service providers and investment partners, many have evolved from one-person investment committees to a more structured, multi-person process, and it should be noted, this has had an impact on the CEO and staff giving greater clarity in their work and responsibilities, greater emphasis and focus on family matters.

Questions have arisen around family members’

Family office staff roles and functions are questioned if they appear poorly structured, or there is turnover of personnel – the last thing a family wants – and more reason to consider both automation and outsourcing.

involvement and whether they micro-manage the family office and/or get in the way of operations, administration and process. This has led CEOs to consider automation and proactive information disbursement. Family office staff roles and functions are questioned if they appear poorly structured, or there is turnover of personnel – the last thing a family wants – and more reason to consider both automation and outsourcing. As for communications, reporting and to whom: family governing board, family members, annual reviews, communications processes have all become more relevant as family members become more aware of the family office/MFO role in their lives. Communication software has proliferated and added great value and with it concerns about privacy and security.

Service levels to family members have always varied by office, by people and management process. Family members each have their requirements, behaviours and more, while the same is true for staff – how do they deal with family members and one another, is there a solid service process in place, does management understand how things are evolving in their office? The team – staff and management – how do they get along, are they all pulling on the same rope or going in different directions, are they a team or individuals in an office, what is the annual turnover rate? Those serving in a family office are often a special type of individual. They have expertise and experience, garnered from working for an institution or partnership. They opt in favour of serving one or several families. They are prepared to place the family's interests first, their duty of care and loyalty are to the family – they advocate, protect and serve. But people management takes time and effort, and can be costly.

Finding the people is a real task. There are of course a number of specialised headhunters, many families try and find people on their own with or without selection criteria and process, while word of mouth and relationships are often key. Regardless of how a candidate is found, the fit must be good. This reminds us of the importance in establishing selection criteria and skill sets, and for the staff learning/appreciating what it means to serve a family. Big add-ons in the recent past are background checks, Myers Briggs personality analysis and more. As for compensation, arguably, you get what you pay for. Proper compensation varies, there are a number of studies on this subject, but the key from the family's point of view is hiring and keeping good people who will fit with the family, appreciate privacy and confidentiality matters, and stay with firm for the long term. In the past there was less structure, today family offices and MFOs are more sophisticated in their management. Again, managing people is a serious business.

Next/rising generation issues are now growing in importance – to what extent are they a part of the system, what impact do they wish to have or are having, are they being heard, some are interested in entrepreneurship, some have the requisite skills and others don't yet wish to start businesses – is there a process to deal with this – a concept known as the family bank. This concept treats family member capital investments as any investment – both a strategic and business plan are required, results monitored, etc. Others are keen to be involved in the family's investment process or philanthropy, while some wish to be left alone and others are entitlement beneficiaries – which presents a host of challenges. They are tech savvy as well, and want to have an impact. The family challenge is embracing the transition, while enabling the inclusion of these members and efficiently rendering services to all.

Much has evolved in the family office environment and, importantly, family members have become more knowledgeable and sensitive to family office/MFO effectiveness. They have focused on whether the family office is managed efficiently and whether its functions are or are not properly defined and provided. Costs and scalability have led some SFOs to open their doors to other families, while the plethora of software products are contemplated and/or implemented. As for cost-benefit issues, questions arise concerning to what extent and how the family office can be sustained into the future, also scalability involving other families, co-investments, etc. The annual cost of the family office varies, but a rule of thumb is 1–2% assets per annum. This arguably applies to both the SFO and MFO. It can exclude the cost of specialist external service providers.

In sum, these family office challenges persist and have led families to reassess whether their structure is really needed and effective. Families question whether there is an alternative.

The virtual family office

Today more than ever, there is a third option, also driven by an intent and desire for control and ownership and the range of services needed by the family: the virtual family office (VFO). It is simply a family office on steroids. Family wealth management in the broadest sense, and an appreciation for considering alternatives has led many families to consider the VFO as a practical, outsourcing-based, collaborative solution allowing them to benefit from a host of technological offerings, coordinated services from advisers, and tailor family office services to their requirements.

Historically, the VFO was a so-called 'founder's office' or often a family's investment office. The family office functions and the family business were commingled; family office services were often immersed in the business. This was and continues to be the case in Asia for example. The basic framework included the entrepreneur/patriarch and a member of his family, usually eldest son, and the in-house accountant in the office. They would coordinate with the family attorney, CPA, investment adviser and investment custodian, all of whom were elsewhere. Communications, coordination, administration, reporting, etc are done separately, often one at a time. Integration and efficiency are lacking, and there is a risk of error, mistakes and dysfunctionalities. But ironically the patriarch is comfortable thinking he is in control.

The mission critical elements of an effective, process-oriented VFO are indeed segregation, outsourcing, delegation, communication and risk management. The family can acquire best-in-class products and services which enables it to minimise staff, achieve cost-savings, improve efficiencies and refocus mission. It incites a reorientation and restructuring of roles and responsibilities. And it requires increasingly more attention to cybersecurity risk.

Aside from segregating the VFO from the business to avoid conflicts, the VFO is founded upon the notion of outsourcing. Simply put, why spend time and money on a service need internally, which is developed, offered, updated and state-of-the-art, by a third-party provider. On a more granular, practical basis, consider these services as available through outsourcing:

- *Office services* including, eg, bill paying, member budgeting, cash-flow analysis and accounting, pooled investment administration, insurance management, legal and compliance support, family communications, education, family meeting coordination, and personal security coordination.
- *Wealth services* including, eg, risk management, fiscal and estate planning, tax reporting, financial and retirement planning, investment and ownership structure management, custody administration support, accounting and reporting.
- *Investment services* including, eg, investment monitoring and reviews, performance reporting and analytics, and coordinating investment committees. Investment management itself is often outsourced.

SFOs and MFOs have been engaged in providing these services for years. Outsourcing has become more common. Personnel and operating cost issues have led many offices to consider the VFO as a means to reduce their human resource management, refocus the family office on family matters, while some SFOs have even closed or the families have joined MFOs. They have explored and considered the simplification and unbundling of service needs. One other point: the VFO allows family branches to co-exist, to stay together without being compelled to be a part of an SFO. One branch can have a VFO, others be part of an SFO, if that is what the branch families desire. One does not preclude the other; and this applies to the MFO as well.

The VFO needs a leader, a family member or professional who will function as a CEO. The decision

Personnel and operating cost issues have led many offices to consider the VFO as a means to reduce their human resource management, refocus the family office on family matters, while some SFOs have even closed or the families have joined MFOs.

There needs to be careful selection to ensure the provider understands the office, its services, its management and its offering.

depends on whether the person understands this role and has the capability to execute it. Do they understand their functions and responsibilities? Are there any conflicts? Contrary to the CEO in an SFO, the head of the VFO is often a family member. This person must act professionally, appreciate the family's wealth needs, and seek the people, products and services as and when required. They need an internal management process to ensure coordination and collaboration.

The VFO enables the efficient collaboration with advisers; service level agreements are constructive and productive. Selection criteria can be established for all, founded upon the family's values and mission, but also the alignment of interests. In other words, the adviser is selected if the family believes there is commonality of purpose, an affinity which will be the foundation of a close and productive relationship. One needs to understand the other, and be committed to the practical realisation of any goal. The risk is one of commitment failure. This applies for instance to communication software providers, aggregated reporting system providers, communication systems, cloud-based systems, investment research firms, investment managers, family business or wealth consultants, etc. The head of the VFO needs to know they will provide their services as contracted and more, and that they will be able to collaborate with one another if needed.

Undeniably, one of the biggest reasons to consider a VFO is technology, which can be a double-edged sword. On the one hand, it can bring great efficiencies while on the other it necessitates management of cybersecurity risks. It requires all family advisers to collaborate, they must be functional parts of a family wealth management system. This means data sharing must be open to the members as needed. Advisers can work remotely – as in telehealth – across the internet. Office, wealth and investment services can be automated or processed or managed on a digital basis. But such a process means risk management is critical and should focus more specifically on cyber risks. And more than ever it must be ongoing and dynamic. It can be outsourced, costs vary but are outweighed by the value. There needs to be careful selection to ensure the provider understands the office, its services, its management and its offering. A risk and threat assessment should be considered. Governance-type protocols need to be established. Secure remote working protocols with staff are key. Training and risk scenarios need to be entertained including social media risks. And there needs to be a clear understanding that the biggest risk is a human one. A protocol also needs to be established with advisers and the technology support team with respect to sharing information, what and how to securely store it, and managing access rights.

VFO SWOT

Strengths	**Weaknesses**
Privacy Control Tailored service level Family relationship focused Responsive	Family management Patriarch intervention Non-fiduciary functionality Service provider mis-selection Inadequate governance
Opportunities	**Threats**
Outsourcing Open architecture investing Best in class services Family education platform Peer exchange Cost efficiencies significant	Family conflicts/dynamics Provider cost management Cybersecurity Poor communications Inadequate collaboration with service providers Ill-defined VFO

The private trust company

Globalisation and international governmental collaboration, coupled with greater transnational and multi-cultural families, have meant family wealth challenges are not to be underestimated. For international families, the fiscal challenges have expanded, gone are the days of dubious legal structuring. Proper planning is the new normal, while control remains a key concern. For US families, intergenerational planning and strategic thinking have become common. Managing this complexity along with the desire of many families for simplification, family members seeking greater ownership of their futures, coupled with concerns about trust beneficiary roles and responsibilities, has led many families to think carefully as they undertake or revisit their trust and estate planning. Enter the PTC.

What is a PTC? The family owns a company, a corporation or limited liability company, which can live in perpetuity with limited liability, and acts as the trustee of the family's trusts. The 'trustscape', composed of all the constituent parts of trusts – grantor, trust(s), assets, beneficiaries, advisers, protectors, service providers – is managed on a fiduciary basis. Services are unbundled at the trustee level, and conflicts avoided. Dependence on the individual trustee is avoided, risk associated with that trustee's life expectancy too. Dissatisfaction with institutional trustees, whether for service, compliance or fees is also avoided. Indeed, the family pays for tailored administrative services rather than for-profit third-party trustees often engaged in asset gathering and charging a percentage of assets under management. The PTC is cost-based not profit-based. Transparency prevails. It enables family members to sit on various committees (eg, investment), family and beneficiary engagement allows for impact, collaboration, communication, education and much more, not to mention effective governance. With respect to administration, the PTC is managed by a board of managers with administrative roles and responsibilities. These include committee formation and oversight, officer appointment and oversight, financial coordination of the PTC's annual budget, accounting, tax returns, controls including audit. Other responsibilities include coordination with service providers, establishing PTC governance with the family, trust administration, document execution, compliance oversight.

The PTC is illustrated in the diagram below.

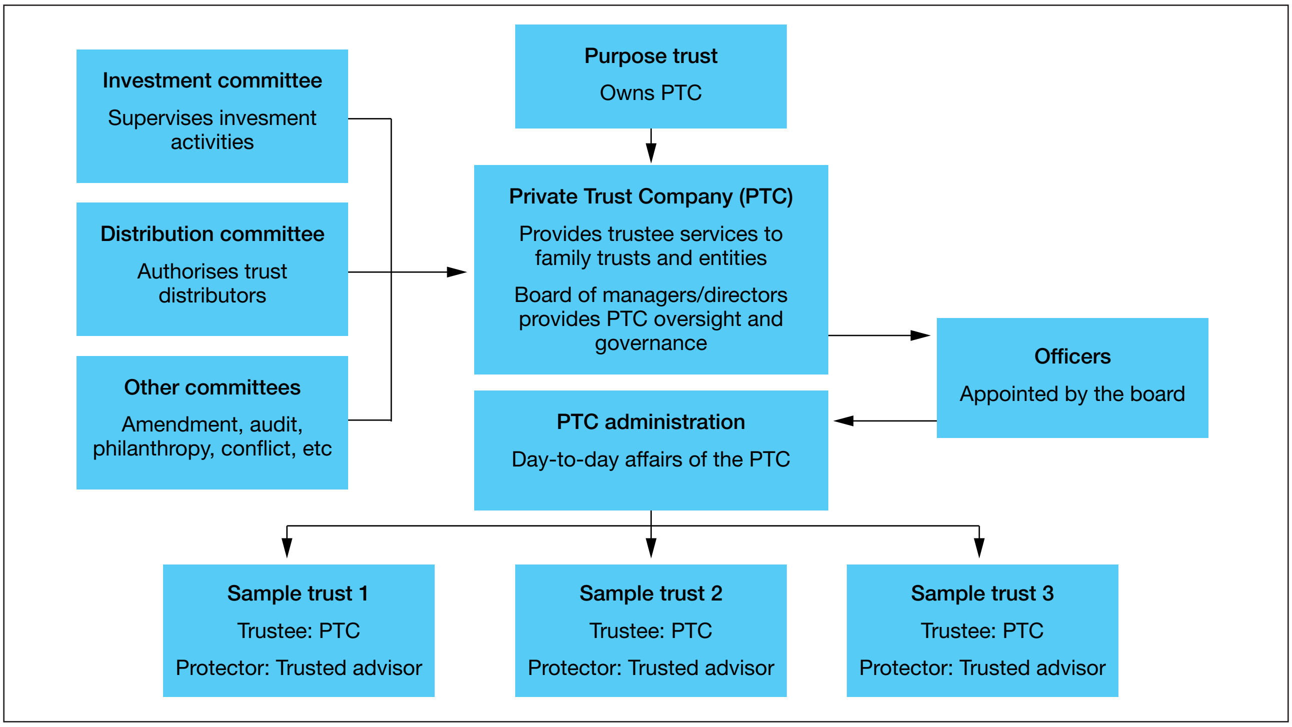
The purpose trust owns the PTC, and is itself owned by the family; its sole purpose is ownership.

PTC SWOT

Strengths	Weaknesses
Privacy Control and ownership Tailored service level Relationship focused Responsive	Family perception Family member interventions Governance challenge Grantor intervention Administrator selection
Opportunities	**Threats**
Outsourcing Open architecture investing Best in class services Family education platform Peer exchange Cost efficiencies significant	Family conflicts/dynamics Provider cost management Cybersecurity Poor family communications Inadequate collaboration with administrator Ill-defined VFO

Key success factors include the level of family engagement and buy-in, their respect for fiduciary responsibility, effective use and collaboration with the administrative and other service providers, implementation of technology, to name a few.

An advantage of the PTC is that it can be a VFO.



Courtesy Willow Street Group

Many PTCs are distinct from the family's SFO or MFO relationship. But as families consider the various issues discussed above, the PTC allows for both fiscal planning and administration, and family office services. If a VFO is a practical, outsourcing-based, collaborative solution which couples technological offerings, coordinated services from advisers, and tailoring of family office services, the PTC can be the organisational structure and framework.

From an operational perspective, the PTC requires a trust administrator. There are many trust administration options: banks, trust companies, independent firms, wealth management firms to name a few. The trust administrator has fiduciary obligations legally and practically to be effective. Finding the right administrative provider is the big challenge. Each family should prepare its own selection criteria; the following can be included:

- The firm
  - history of the firm, focus and strategy
  - ownership structure and interests
  - specialisation, if any
  - differentiation
  - transition management – policy, process
  - client education/information
  - registrations, disciplinary actions if any, litigations, client complaints
  - conflicts of interest disclosure
- Personnel
  - affinity with the family
  - comprehensive review of relevant investment professionals
  - compensation structure/practice
  - employee turnover rate
- Monitoring
  - annual comprehensive review
  - quarterly key monitoring criteria
  - risk management – signals
- Back office/operations
  - who, what, how
  - process
  - performance reviews, reconciliations
  - back-up systems, disaster recovery
- Fees
  - transparency
  - rebates, incentive fees
  - potential conflicts

Once the provider is selected, on-boarding is crucial. There must be a clear communication process between family and administrator. Effectiveness will dictate the sharing of a detailed plan and schedule. In addition, families should consider PTC governance. It can begin with a conversation discussing the PTC generally and specifically – advantages and disadvantages – its optionality to directed trusts for instance. Fiduciary duties, process, policies and procedures, committees, coordination with administrators and advisers should all be explored by the family. Family values, vision, history can all be included in a preamble. Roles and responsibilities of the board of managers and committee members should be discussed and defined. The leader – settlor or a professional – must understand how to collaborate with the PTC administrator. Many services will be provided or coordinated by the administrator. This relieves the leader of certain functions except for monitoring and service level reviews. If the settlor intercedes, he or she can violate trust law. Proper delegation of authority and responsibilities is mandatory. Advice and counsel from the family office or family council should be included if applicable. Family meetings, family education, succession planning, incapacity, communication process/methodology, and a conflict resolution process should all be included. Family culture will guide the extent and depth of governance.

The Sublette family

Consider the Sublette family (not their real name) which had an SFO composed of eight people engaged in offering the family many of the services discussed previously as well as working with external advisers. The founder established trusts for each of his three children, with a close personal friend as co-trustee along with each child and their mother. Three trustees per trust. The value of the assets was over $100 million. The friend co-trustee was responsible for overseeing investments and keeping the two others informed. A meeting would be held twice a year with the mother and each child – the latter in their 40s. The cost of the office was about $1 million per annum and the trustee fee paid the friend nearly $350,000. The children were frustrated with the family office and its staff, and with the lack of investment information as the bi-annual meetings were of very short duration and limited information. They considered closing the family office and enquired what options were available in their trusts with respect to their co-trustees. The solution they selected was twofold: first close the office and establish a VFO, second, establish a PTC. They merged the two under the administration of an independent corporate trust company in a tax-efficient state. The co-trustee friend was retained on the investment committee for several years, but the children were also members and could impact both investments and information. They also established a philanthropy committee, which was composed of the children only. As for trust distributions, the children are not involved, the corporate administrators and two advisers comprise the distribution committee. The cost of the VFO and the PTC were less than one quarter (25% or $335,000) of the $1.350 million.

There are many experiential stories such as this one. There were many issues in this case which underscore the challenge families face when considering their strategic structural options. The PTC in many ways avoids this problem. The legal hurdles – trustee/beneficiary relations in particular – were resolved. The PTC as a fiduciary vehicle solved this challenge. It also provided privacy and confidentiality and did not need to register as an RIA as it outsourced investment management. If it had wished to do so internally, it could register with its state of jurisdiction as a regulated PTC and avoid SEC registration. The establishment and reorganisation of the SFO as a VFO required the family to select an administrative partner in its state of jurisdiction. The partner needed to be a fiduciary, free of conflicts. An independent firm was chosen on the basis of its values, alignment with the family, people, and with whom the family felt it could trust and work closely. Importantly, the manner in which the firm collaborated with other service providers was a key component of the selection process.

Finally, what of cybersecurity? The risks have grown exponentially, and whether a VFO, SFO or MFO, it needs serious consideration. Families are often unaware of such things as how much information is available about them in the public domain, how much is shared by family members through social media. Cyberattacks have multiplied. All three office types are often interested in leading-edge technology and these can become gateways to cyberattacks or increase risk thereof. There is currently a drive to the bottom among service providers – commoditisation with low fees. Services include real-time threat detection, rapid response commitments, sharing and informing of threat types and possible avoidance and remediation, process reviews, and more. Leading firms offer tailored and proactive security and investigative solutions. These can include online data aggregator removal, reputation management, dark web monitoring, ongoing risk assessments. And the real risk is always human – much education is needed to ensure this risk is minimised. Customised learning experiences are available aimed at improving individual resilience, self-reliance and teamwork.

First conclusion: family offices are a fascinating and important structure being subjected by many families to greater scrutiny as a result of their costs, administrative requirements and effectiveness relative to family needs. Second conclusion: families expect a very professional approach from service providers yet the latter need a personal, relationship-based approach to servicing them, no matter what the structure. Third conclusion: the focus should be on the family, understanding their history, their character, their culture in order to serve them. In the case of the SFOs, MFOs and VFOs, understanding respective missions and assessing whether and to what extent each serves a family merits an open, thoughtful, appreciation and critical thinking.
The PTC works well as a VFO with the proper construction and process, and dedicated administrator – as is the case with both SFOs and MFOs. The difference is efficiency relative to needs. There is indeed much to consider.

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Appendix – A comparative SWOT view

	SFO	MFO	VFO	VFO/PTC
Strengths	• Privacy • Control and ownership • Tailored service level • Relationship focused • Responsive	• Privacy • Control • Tailored service level • Relationship focused • Responsive	• Privacy • Control and ownership • Tailored service level • Family relationship focused • Responsive	• Privacy • Control and ownership • Tailored service level • Relationship focused • Responsive
Weaknesses	• Cost efficient? • Business platform • Service level inadequacies • CEO/Family relationships • Staff/Family relationships	• Cost efficient? • Institutional platform • Service level inadequacies • CRMs too dispersed • CRM/Family relationships	• Family management • Patriarch intervention • Non-fiduciary functionality • Service provider mis-selection • Inadequate governance	• Family perception • Family member interventions • Governance challenge • Grantor intervention • Administrator selection
Opportunities	• Open architecture investing • Best-in-class services • Family education platform • Peer exchanges • Cost efficiencies	• Open architecture investing • Best-in-class services • Family education platform • Peer exchange • Cost efficiencies	• Outsourcing • Open architecture investing • Best-in-class services • Family education platform • Peer exchange • Cost efficiencies significant	• Outsourcing • Open architecture investing • Best-in-class services • Family education platform • Peer exchange • Cost efficiencies significant
Threats	• Employee turnover • Remuneration issues • Cybersecurity • MFOs • Family conflicts • Generational succession	• Employee turnover • Remuneration issues • Cybersecurity • Standardisation • Family conflicts • Consultancy Overreach	• Family conflicts/ dynamics • Provider cost management • Cybersecurity • Poor communications • Inadequate collaboration with service firms • Ill-defined VFO	• Family conflicts/ dynamics • Provider cost management • Cybersecurity • Poor family communication • Inadequate collaboration with administrator • Ill-defined VFO

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