

KEY ISSUES FACING FAMILY OFFICES

Author:
Craig Holland
Managing Director
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INTRODUCTION

Family offices face a range of challenges and issues, depending on their size, structure, and investment objectives. Some key issues that family offices may face include:

- **Governance and succession planning:** Family offices often have complex governance structures, involving family members, trustees, and external advisors. Ensuring effective decision-making and succession planning can be challenging, particularly as family dynamics and investment goals evolve over time.
- **Talent acquisition and retention:** Recruiting and retaining talented professionals with the skills and experience required to manage complex investment portfolios can be difficult, particularly as the demand for skilled investment professionals continues to grow.
- **Risk management:** Family offices typically manage a range of asset classes and investment strategies, which can introduce a significant level of risk. Ensuring effective risk management and compliance with regulatory requirements can be a complex and time-consuming process.
- **Tax and estate planning:** Effective tax and estate planning is critical for preserving wealth and ensuring a smooth transfer of assets across generations. Family offices may need to navigate complex tax laws and regulations, particularly if they have investments in multiple jurisdictions.
- **Portfolio diversification:** Achieving a diversified portfolio that meets the investment objectives of the family office while managing risk can be challenging. Family offices may need to consider a range of investment strategies and asset classes, including private equity, real estate, and alternative investments.
- **Impact investing:** Many family offices are increasingly focused on impact investing, which involves investing in companies and projects that have a positive social or environmental impact. Balancing financial returns with social or environmental goals can be challenging, particularly as impact investing is a relatively new area.

Overall, family offices face a range of complex issues that require specialized knowledge and expertise to effectively manage. Working with experienced advisors and professionals can help family offices navigate these challenges and achieve their investment objectives.



GOVERNANCE AND SUCCESSION PLANNING

Effective governance and succession planning are critical for the long-term success of family offices. Some key items to consider when addressing these issues include:

- **Establishing a clear governance structure:** This involves defining the roles and responsibilities of family members, trustees, and external advisors, and ensuring that decision-making processes are transparent and well-documented.
- **Creating a family constitution:** A family constitution is a document that outlines the values, vision, and goals of the family and the family office. It can help to establish a framework for decision-making, succession planning, and conflict resolution.
- **Developing a succession plan:** A succession plan outlines how leadership of the family office will transition from one generation to the next. It should consider factors such as leadership qualities, family member readiness and interest, and the timing of the transition.
- **Identifying and developing future leaders:** Succession planning involves identifying and developing the next generation of leaders within the family office. This may involve providing training, mentoring, and other support to family members who are interested in taking on leadership roles.

- **Establishing effective communication processes:** Effective communication is critical for ensuring that all stakeholders are informed and engaged in decision-making processes. This may involve regular family meetings, written communications, and other forms of engagement.
- **Ensuring compliance with regulatory requirements:** Family offices are subject to a range of regulatory requirements, including tax, legal, and compliance obligations. Ensuring that the family office complies with these requirements is critical for mitigating risk and avoiding potential legal and reputational issues.

Overall, effective governance and succession planning require a long-term view and a commitment to ongoing communication and engagement with all stakeholders. Working with experienced advisors and professionals can help family offices navigate these challenges and ensure a smooth transition to the next generation of leadership.



TALENT ACQUISITION AND RETENTION

Talent acquisition and retention is critical for the success of a family office, as it relies on the skills and experience of its investment professionals. Some strategies that family offices may adopt to attract and retain talented professionals include:

- **Offering competitive compensation and benefits:** Family offices should offer competitive compensation packages, including salaries, bonuses, and benefits, to attract and retain talented professionals. They may also consider offering equity or profit-sharing arrangements to incentivize long-term performance.
- **Providing a supportive work environment:** Family offices should provide a supportive work environment that encourages professional development and work-life balance. This may include flexible work arrangements, professional development opportunities, and a positive corporate culture.
- **Developing a clear career path:** Family offices should provide a clear career path for their investment professionals, with defined roles, responsibilities, and advancement opportunities. This can help to motivate and retain talented professionals by providing a sense of purpose and direction.

- **Building a strong employer brand:** Family offices should build a strong employer brand that highlights their unique value proposition as an employer. This may involve highlighting their investment philosophy, culture, and commitment to professional development.
- **Engaging with the wider community:** Family offices can engage with the wider community to build their reputation as an employer of choice. This may involve supporting local charities, sponsoring events, or providing educational opportunities.
- **Investing in technology and infrastructure:** Family offices should invest in technology and infrastructure to provide their investment professionals with the tools and resources they need to succeed. This may include access to research and analysis tools and other technology solutions.

Overall, if a family office is going to insource its talent, then the family office should adopt a comprehensive and strategic approach to talent acquisition and retention, focusing on both short-term and long-term goals. It is noted that many family offices outsource many of the professional services required in running a family office. This can include an outsourced CEO, CIO and/or CFO.



RISK MANAGEMENT

Risk management is a critical aspect of managing a family office's investments and overall wealth. A family office should adopt a proactive approach to risk management, which includes the following steps:

- **Identify and assess risks:** The family office should identify and assess the risks associated with its investment portfolio, as well as its overall wealth management strategy. This may involve a review of market, credit, liquidity, operational, and reputational risks.
- **Develop a risk management plan:** The family office should develop a comprehensive risk management plan that outlines how risks will be managed and mitigated. This plan should include risk management policies and procedures, risk limits, and contingency plans.
- **Implement risk management processes:** The family office should implement processes to monitor and manage risks on an ongoing basis. This may involve setting up risk committees or working with external advisors to review and monitor risks.
- **Monitor and report on risk:** The family office should monitor and report on risks to ensure that the risk management plan is effective. This may involve regular risk reporting to family members, trustees, and other stakeholders.



- **Review and adjust the risk management plan:** The family office should review and adjust the risk management plan on a regular basis to ensure that it remains relevant and effective. This may involve revisiting risk assessments, updating risk policies and procedures, and adjusting risk limits.
- **Incorporate risk management into investment decisions:** The family office should incorporate risk management considerations into its investment decisions. This may involve using risk management tools and analytics to assess investment opportunities, and considering the impact of risks on the overall portfolio.

Overall, effective risk management requires a comprehensive and proactive approach, which involves identifying, assessing, and mitigating risks on an ongoing basis. Working with experienced professionals and advisors can help family offices to develop and implement effective risk management strategies.

TAX AND ESTATE PLANNING

Tax and estate planning are important considerations for family offices, as they can help to minimize tax liabilities and ensure the smooth transfer of wealth across generations. Some key tax and estate planning matters that a family office should be mindful of include:

- **Estate planning:** The family office should have a comprehensive estate plan in place that addresses how the family's assets will be transferred to future generations. This may involve setting up trusts, establishing gifting programs, and developing a succession plan for the family business.
- **Tax planning:** The family office should engage in tax planning to minimize tax liabilities and optimize the family's after-tax returns. This may involve utilizing tax-efficient investment structures, such as family trusts, and taking advantage of tax credits and deductions.
- **Asset protection:** The family office should consider strategies to protect the family's assets from potential creditors or lawsuits. This may involve setting up asset protection trusts, or other legal structures to hold assets, and obtaining appropriate insurance coverage.
- **Charitable giving:** The family office may consider incorporating charitable giving into their tax and estate planning strategy. This can help to reduce tax liabilities, while also supporting causes that are important to the family.

- **International tax considerations:** For family offices with global investments or operations, international tax considerations can be complex. The family office should work with tax advisors who are experienced in cross-border tax planning to ensure compliance with relevant tax laws and regulations.
- **Retirement planning:** The family office should engage in retirement planning to ensure that family members have adequate retirement savings and income. This may involve setting up retirement plans, such as developing a long-term retirement income strategy.

Overall, tax and estate planning are important considerations for family offices, and should be approached in a comprehensive and proactive manner. Working with experienced tax and estate planning advisors can help family offices to develop and implement effective tax and estate planning strategies.



PORTFOLIO DIVERSIFICATION

Portfolio diversification is an important aspect of managing a family office's investments. Diversification helps to spread investment risk across different asset classes and geographies, which can help to reduce volatility and protect against downside risk. Here are some strategies that family offices can use to achieve portfolio diversification:

- **Asset allocation:** The family office should develop a comprehensive asset allocation strategy that considers the family's investment objectives, risk tolerance, and time horizon. This strategy should include a mix of different asset classes, such as equities, fixed income, real estate, and alternative investments.
- **Geographical diversification:** The family office should consider investing in assets across different geographies, including both developed and emerging markets. This can help to reduce the impact of regional economic shocks and geopolitical risks.
- **Sector diversification:** The family office should consider investing in assets across different sectors of the economy, such as technology, healthcare, and consumer goods. This can help to reduce the impact of sector-specific risks, such as changes in consumer preferences or regulatory changes.
- **Manager diversification:** The family office should consider investing in assets managed by different investment managers. This can help to reduce the impact of manager-specific risks, such as poor performance or unexpected management changes.
- **Asset class diversification:** The family office should consider investing in different types of assets within each asset class, such as different types of fixed income securities or alternative investments. This can help to further spread investment risk within each asset class.
- **Regular review and rebalancing:** The family office should regularly review and rebalance their investment portfolio to ensure that it remains diversified and aligned with their investment objectives and risk tolerance.

Overall, achieving portfolio diversification requires a comprehensive and proactive approach that considers a range of different investment factors. Working with experienced investment advisors and managers can help family offices to develop and implement effective diversification strategies.



IMPACT INVESTING

Impact investing is a type of investing that seeks to generate both financial returns and positive social or environmental impact. Family offices may apply a range of criteria when making impact investments, depending on their specific investment objectives and values. Some common criteria that family offices may consider when evaluating impact investments include:

- **Social or environmental impact:** Family offices may prioritize investments that have a measurable positive social or environmental impact. This impact may be measured using a variety of metrics, such as greenhouse gas emissions reduction, job creation, or access to healthcare or education.
- **Financial returns:** While impact investing seeks to generate social or environmental impact, it is still an investment activity, and family offices will typically require a financial return on their investment. The expected financial returns may vary depending on the specific investment opportunity and the family office's risk tolerance.
- **ESG criteria:** Family offices may apply environmental, social, and governance (ESG) criteria when evaluating impact investments. ESG criteria may include factors such as carbon footprint, diversity and inclusion policies, or board diversity.
- **Alignment with values:** Family offices may seek to invest in companies or organizations that align with their values and mission. This may include investing in companies that prioritize sustainability, ethical business practices, or social justice.
- **Impact measurement and reporting:** Family offices may require impact investments to have robust impact measurement and reporting mechanisms in place. This allows them to track the social and environmental impact of their investments over time, and make informed decisions about future investments.

Overall, family offices may apply a range of criteria when evaluating impact investments, and these criteria may vary depending on the family's investment objectives and values. Working with experienced impact investing advisors can help family offices to identify and evaluate impact investment opportunities that align with their specific criteria and values.



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