ABOUT THE CHECKLIST
This is a comprehensive guide to reviewing the important aspects of single family office operations to ensure best practice alignment, effectiveness and efficiency.

ANGELO ROBLES
CEO & FOUNDER
FAMILY OFFICE ASSOCIATION

www.familyofficeassociation.com
The Importance of Annual Reviews.

We all know the expression, “If you’ve seen one single family office, you’ve seen one single family office.” While it’s certainly true that SFOs are as unique as the families that they serve, there are best practices that we have uncovered in our years in the industry. Perhaps just as important as initial setup of your single family office, is a frequent review of your structure to ensure that you are staying in tune with industry shifts and best practices.

Single Family Offices are living entities that must evolve as the families they serve grow, adding new generations. We must respond to industry trends, changes in the investment landscape, technology advancements and more.

To help our member families navigate the evolving nature of their single family offices, I have created the Single Family Office Annual Checklist. By consulting with our members, industry experts and thought leaders and professionals in a variety of fields, I have drafted what I believe will be an invaluable asset as you navigate the waters of family wealth and success.

This checklist is meant to stimulate thought, encourage discussion and help you uncover potential weaknesses in your single family office that should be updated or addressed.

I hope you find this checklist a helpful resource. Throughout the checklist you will find references to additional resources for a more in-depth treatment of important topics. We are continuously adding and updated references for Single Family Offices Best Practices on our website, please visit our site for new resources.

If you are not currently one of our member families, I invite you to join the discussion at www.familyofficeassociation.com or on Twitter #SFOBestPractices. We are always interested to hear how other single family offices adapt and progress to serve their families.

Sincerely,

Angelo J. Robles
Founder & CEO, Family Office Association
Using the Checklist.

The checklist is intended as a guide and should not be considered investment, tax, legal or financial advice. Please consult with experts and counsel for decisions related to these areas.

The Single Family Office Annual Checklist is divided into three sections: Understanding the Family, The Single Family Office and Organizational Considerations. Within each section are subsections containing the most relevant categories.

Each category has a checklist of the most important aspects of the topic as well as links to additional resources that can be found on Family Office Association’s website. You will find:

- White Papers
- Videos
- Podcasts
- Question & Answers
- Research

Copyright © Family Office Association and Angelo Robles. All rights reserved. The Single Family Office Annual Checklist or parts thereof may not be reproduced in any form or redistributed for commercial use. It is intended solely for the members of Family Office Association. For more information about this publication, please contact angelo@familyofficeassociation.com.

Disclaimer: The Family Office Association (FOA) is an affinity group dedicated primarily to the interests of Single Family Offices. FOA is intended to provide members with educational information and a forum in which to exchange information of mutual interest. FOA does not participate in the offer, sale or distribution of any securities nor does it provide investment advice. Further, FOA does not provide tax, legal or financial advice.

This checklist contains confidential information and the recipient hereof agrees to maintain the confidentiality of such information. This document is intended solely for the information of the person to whom it has been delivered. Distribution of this information to any person other than the person to whom it has been originally delivered and to the advisors of such person who are also subject to a duty of confidentiality is unauthorized, and any reproduction or transmission of these materials, in whole or in part, or the divulgence of any of its contents to third parties, without the prior consent of FOA is prohibited.
Without the founding family there is no single family office. Before we can re-evaluate the family office, we must understand the family it represents.

Single Family Offices exist to serve the families which founded them. Over time families change, our priorities shift, we add new members, lose others, businesses change and the world in which we operate is constantly evolving. In light of these shifts, it is important to continuously strive to understand the family that you serve.

In this section we will look at:

- Mission and Vision
- Governance Structure
- Legacy
- Culture, Brand and Reputation
- Lifestyle and Care services
- Family Member Information
- Educating the Next Generation

Frequent review of these areas will ensure continued alignment between your family office and the family’s needs.
Family Mission & Vision.

A Single Family Office is only as good as its purpose. By defining your mission and vision and clearly articulating them in writing, you create a guide for the work of your SFO.

As time goes on, your family office might begin to experience “mission creep” or maybe the goals of your family have changed with the addition of a new generation. By revisiting your constitution you can guarantee that it continues to serve the family’s needs.

If your Single Family Office does not have a written mission, we urge you to take this critical step.

MORE RESOURCES

- **FOA Videos**
  - Successful Families Video Project: Video 1: Sense of Purpose
  - Successful Families Video Project, Video 4: Mission

- **FOA Q/A**
  - When SFO Mission Statements Do More Than Collect Dust with James Hughes, Barbara Hauser

- Define Your Mission and Vision
  Clearly articulate, in writing, your family’s mission and vision with input from multiple engaged family branches.

- Review/Update Your Mission and Vision
  If your family already has a written mission and vision statement, reevaluate it - does it still hold true? Do any new family members have input that should be considered?

- Share Your Written Mission/Vision
  Republish your mission and vision each year and socialize it among family members to ensure it still resonates. Share the documents with ALL family members via email or a private online family portal.
Family Governance Structure.

Your Family Governance Structure is simply the set of rules that define how your organization will make decisions, large or small, in service of your articulated mission and vision.

MORE RESOURCES

- FOA White Paper
  Creating A Single Family Office, Chapter 4: SFO Governance

- FOA Podcasts
  Volume 10: The Importance of Family Governance with Barbara Hauser
  Volume 4: The Intersection of Leadership, Stewardship and Governance with Don Trone

- FOA Video
  Successful Families Video Project, Video 2: Leadership

Review/Update Your Governance

Your family roadmap, process and framework on decision making should be revisited to ensure they align with your mission and vision. Large, multi-generational families should pay particular attention to keeping the family influencers updated to encourage collaborative decision making.

Commission an Independent Analysis

Have an outside advisor review your structure to help identify potential conflicts of interest that exist within the governance and trust structures. Has anything changed recently? Are there any issues that might lead to later conflict?

Reevaluate Existing Committees/Boards

Do the current committees and advisory boards still serve their purpose and add value? Some of the most prevalent committees include those devoted to:

- Family Governance
- Family Education
- Investment
- Compensation

Consider the Rising Generation

Is there a process for rising family members to be heard, involved and engaged? If not, how should you change the committee/boards to accommodate their voices?

Include Non-Family Members

Ensure you have impartial, critical-thinkers participating in your governance and serving on appropriate boards and committees.

“Family Governance, in its most basic sense is a way of providing a pathway for families to make fewer mistakes.”

FREDDA HERZ-BROWN, PHD
Family Legacy.

Attention to family legacy is important for younger generations to connect to the family roots and to understand how the wealth was created. This understanding can help foster a commitment to protecting the family wealth and interests.

MORE RESOURCES

- **FOA White Paper**
  Single Family Office: The Ultimate Wealth and Legacy Protector by Angelo Robles

- **FOA QA**
  Strengthening the Family and Its Legacy Through Travel with John Morris

- **FOA Podcast**
  Volume 14: An Intimate Interview with Jay Hughes

“*All good men and women must take responsibility to create legacies that will take the next generation to a level we could only imagine.*”

JIM ROHN

- **Review Legacy Documentation**
  How has your family legacy been documented so far? Are there any new stories, events or family additions that should be incorporated into the family history?

- **Create a Plan Share Your History**
  It’s important to educate family members of all generations about your legacy. Create a written plan for sharing your family’s history in the upcoming year. What tools will you use? Some options include written histories, one-on-one discussions, family retreats and legacy videos.

- **Plan a Family Retreat/Reunion**
  Plan frequent gatherings and more formal annual retreats. Try to engage members from each branch of the family as well as the most influential voices within the generations in the planning process. The goal of the event is to provide a forum for all family members to share their voice. Consider:
  - Date, Destination, Venue, Invitees
  - Agenda
  - Social Activities
  - Discussion Points
  - Guest Speakers

- **Incorporate Feedback**
  Once you have heard from family members you will need to develop a plan to incorporate the feedback into the family’s history in the upcoming year. Once you have a plan, assign someone to execute it.
Next Generation Education.

The children and grandchildren of wealth are in an advantageous position for education, healthcare, network, resources and more.

We see, all too often, a younger generation that is disengaged from the family business and/or office, or worse, individuals spoiled by the wealth and aimlessly floundering.

It is the task of the parents and family leaders to engage the younger generation, to educate them by fostering responsibility, empathy, curiousness and stewardship of the family resources.

Evaluate the Stage of the Next Generation
The age of the upcoming generation will greatly affect how much they want to, and should be involved in the family wealth. Ask yourself these questions about rising family members:

☐ Is he/she ready to become a part of the planning?
☐ How can he/she be involved in the decision making process?
☐ What knowledge gaps need to be filled?

Create an Education Plan
Once you understand the relationship between desire, necessity and knowledge gaps you can create an education plan. Involve the family member in the planning process to get greater buy-in to the plan. Things to consider include:

☐ Structure of Education
  Is it formal or informal? In-person or online?
☐ Frequency of Involvement
  Monthly? Weekly? Daily?
☐ Commitment Level
  Don’t waste anyone’s time, make sure your student is committed to the process and don’t undertake more than you can reasonably expect them to learn.
☐ Outside Resources
  Would an outside experience (like an internship) be a more appropriate learning environment at this stage?
Family Culture/Brand, Reputation & Communication.

Family Culture is what keeps a family moving together towards a goal through rules, roles, habits, activities and beliefs. The importance of culture cannot be underestimated in making a family successful and preventing loss of wealth. Brand and reputation are the outside perception of this culture. Families are beginning recognizing the importance of these areas and their role in managing the family office.

MORE RESOURCES

- **FOA White Paper**
  The Power of Family Culture in SFOs, Matt Wesley

- **FOA Podcasts**
  Volume 9: Culture and Leadership with Tim Kight
  Volume 13: Family Unity - How Do You Create It and How Do You Sustain It? with Gary Shunk

- **FOA Video**
  Successful Families Video Project, Video 5: Communication

---

☐ **Evaluate the Family Culture**
What is the current family dynamic? Are there conflicts that need to be addressed? Are there any habits - either of individuals or the group as a whole - that may need to be addressed with counseling or intervention? These might include health issues or spending habits.

☐ **Evaluate the Family Reputation**
It’s important to evaluate the public perception of the family. Review any media or press, Google results and family members’ social media activity. If the reputation is troubling to the health of the family consider consulting a reputation management company.

☐ **Review Mission/Culture/Brand Alignment**
The relationship between mission, culture and reputation is intertwined. Culture can drive or hinder goals so ensuring that it continues to serve the mission is critical. If the two are not aligned, what changes need to be made (either to the mission or the culture) so that the family / family office can work towards its goals?

☐ **Review Communication Protocols**
How does the family communicate with one another? With vendors? With media? With the family office? There should be mechanisms in place for each of these types of communications - and restrictions/guidelines where necessary.
Family Lifestyle & Care Services

The personal care of individual family members is important to the well-being of the family as a whole. Care should be given to medical needs, aging family members and illnesses among other things.

When dealing with alcoholism, substance abuse or mental disorders it’s important to help the family create an atmosphere of understanding and provide resources without the fear of stigma or backlash while also protecting the family’s assets and reputation.

MORE RESOURCES

FOA Podcasts
Volume 17: The Challenge of Alcoholism and Substance Abuse in Families of Wealth with Arden O’Connor

Volume 18: The Challenge of Mental Disorders in Families of Wealth with Arden O’Connor

Consider Medical Concierge Services
Consider using a medical concierge service for both convenience and privacy. Families benefit from the 24/7 primary physician access, international care, evacuation, and specialist appointments with little notice.

Plan for Aging Family Members
Are plans for medical services, elder care, preventative health measures and assistance with certain services necessary? Also consider the transition of leadership roles as family members age.

Plan for Drug/Alcohol Rehabilitation
Is there a protocol in place for family members in need of drug/alcohol rehabilitation? Addiction often has a stigma associated with it that prevents family members from coming forward to seek treatment. Recent research suggests that addiction is a disease and should be treated as such. Have a plan in place that helps family members seek treatment and defines any restrictions that are applied to resource access and decision-making processes.

Plan for Mental Health Issues
If there are individuals within the family suffering from mental health issues—anything from depression to more serious ailments like bipolar disorder—there need to be mechanisms in place for treatment as well as family counseling, and any necessary changes to protocols involving the family member’s access to resources and decision-making processes.
Family Member Information

Remember not to neglect basic housekeeping items like keeping an updated family directory with complete and accurate information.

☐ Update Family Contact Information
Keep an updated file on each family member that includes:

☐ Addresses (with primary noted)
☐ Phone numbers
☐ Social media handles

Take extreme care with storing this file to protect it from a security breach.

☐ Review Information Collected
Have there emerged any new methods of communication in the last year? Make sure your information file contains any new technologies (e.g. Snapchat, Instagram or LinkedIn) that might be new and relevant.

☐ Update/Add Passports
Keep a record of family passport expiration dates and renew as necessary as family members may need to be available on quick notice for travel.
The Single Family Office was created and exists solely to serve the needs of the family. It should be effective and efficient - does it continue to be so?

The number one question that the Single Family Office should continuously ask of itself is, “Is this the most efficient and effective way to serve our family?”

This question should be asked in a number of ways across a variety of services and functions that you will find in the lists that follow.

By aligning goals and measurement plans to the family’s interests, the family office will prove itself valuable for years to come. When this alignment breaks the question may become “is it time to dissolve the family office?” Our hope is that by using this checklist and being proactive about the value-add of your family office, you will never be in this position.
The Single Family Office and Measurement.

There is only one way to ensure that the Single Family Office is efficiently and effectively serving the family and this is through continuous and regular measurement.

Luckily, technology and processes for collecting data are more and more accessible. We have at our disposal the tools to collect and understand metrics for almost everything we do as a family office.

Make sure there are defined goals for every initiative and that these goals are evaluated on a regular basis.

MORE RESOURCES

FOA Podcast
Volume 15: Goals-Based Wealth Management with Jean Brunel

“When it is obvious that the goals cannot be reached don’t adjust the goals, adjust the action steps.”
CONFUCIUS

Revisit Your Goals
Every initiative in the family office should be goal-based. Whether it is “make more money through investments” or “minimize risk,” goals around each initiative should be in writing so that they can be reviewed with the family.

Create a Measurement Plan
Without a measurement plan there is no way to know whether you are achieving your goals. Make sure each initiative has a defined measurement plan with a regularly scheduled evaluation, typically quarterly.

Collect the Right Metrics
Data is king. Make sure you have the technologies and processes in place to collect the right data for your goals and measurement plan.

Get the Right People to Measure
The trouble with data is that a clever person can make it say almost anything. Make sure you have someone knowledgeable and skilled to interpret the data, going outside the family office if necessary.

Compare Results to Other Options
Don’t operate in a vacuum. Understand how your results compare to the industry and outside providers.

Shift Plans According to the Data
Be prepared to listen to the data by making changes to your approach, priorities, goals and measurement tactics.
Meeting the Family’s Needs.

A single family office’s client consists of ALL family members. It can be easy to fall into a pattern of responding to and/or serving only the most vocal family members. Ultimately, however, it is important to understand how all family members regard the family office.

Get Family Feedback
Understand how the family feels about the office and its success. Have an independent professional design and distribute a survey to family members to gauge their experience. Results should be anonymous and evaluated by the third-party. Open-ended conversations in small groups or one-on-one will give family members a chance to talk more freely about their experience with the family office.

Evaluate Brand and Culture Alignment
Every family has its own brand and culture and the family office should follow suit. In addition to the mission-vision alignment we discussed earlier, it’s important to understand if the image of the family office reflects that of the family. Is it a more casual family, active on social media and eager to use new technologies? Meet the family where they are by adapting technology and communication to their needs.

Assess the Success of the Family Office
There may come a time that a single family office no longer meets the needs of the family it has been serving. When and if that happens, some families decide to take apart the SFO and outsource many of the services it had performed. Based on family feedback and measurement analysis, is your family office still adding value? Are there changes in talent or approach that can get the family office back on track?
Human Resources & Compensation.

The value of Human Resources is often gravely underestimated in the family office business. Whether in-house or out-sourced, there should be a core fit between employees/contractors and the family’s culture, brand and governance.

MORE RESOURCES

FOA Research
Insights on Family Office Compensation 2015 with Botoff Consulting

FOA Podcast
Volume 1: The Value of Internal HR for SFOs with Lyn Christensen
Volume 6: Legal and Tax Structures in Organizing or Restructuring a SFO with David Berek

FOA QAs
A Growing Debate Amongst SFOs: To Outsource or Build Internally
Recruiting Top Talent at Family Offices with Linda Mack & Lisa Ryan

FOA White Papers
Playing Ball on Running Water - The Strategic Importance of Human Resources for SFOs

☐ Re-Evaluate HR Hiring & Onboarding Plans
New hires should be given the opportunity to succeed with proper onboarding. This includes debriefing on all relevant information, introductions to contacts and vendors, and a clear articulation of duties and goals.

☐ Conduct Employee Evaluations
Assess the performance of each individual in meeting the family’s goals and objectives for their position. Are they meeting, exceeding or falling short of expectations and why? Do they have the necessary resources to be effective in their position?

☐ Look for Personnel Gaps and Exceptional Hires
Are there areas that are not being fully-served by existing employees? Or has HR identified exceptional potential candidates who would be a good fit for the family office? These gaps and promising individuals should be brought to the attention of the family board.

☐ Evaluate Compensation
Are you being proactive and competitive with advanced compensation analysis and programs for current and prospective employees? High performing individuals have a higher expectation of compensation packages that may include salary, bonus, qualified and non-qualified benefits, carry on investments, loan forgiveness programs and other non-financial benefits. Review your compensation packages (for existing and potential hires) in relation to industry standards.
Human Resources & Compensation, cont.

Consult with Outside HR Experts
HR and compensation can be difficult to evaluate internally. Consult with outside experts to ensure an unbiased approach to the subject.

Update Employee Agreements
All employer-employee contracts and information should be reviewed and kept updated. In addition to family office employees, this review should include household help and personal assistants, etc.

Conduct a Legal Review of the Policy & Procedures Manual
Have a lawyer review, and update if necessary, your policy and procedures as they apply to HR. Things to consider include:

- Frequency of background checks (for employees and their spouses)
- Non-disclosure agreements
- Severance agreements

Review the Personnel Handbook
Either in a group setting or one-on-one, review the Personnel Handbook with your employees to establish expectations. Emphasize ethics, code of conduct, “rules of engagement,” checks/balance requirements, risk controls, and privacy in your discussions.

Evaluate Outside Vendors
Many family offices now rely on outside service providers to meet specialized needs. Conduct an annual review of your vendors, focusing on their reputation, ethos, governance structures, skills, and security protocols. Assess the degree of value and service in comparison to other potential vendors as well as in-house solutions.

Review Domestic Employees
Attention should be given to ensure that all local, state, federal and Department of Labor guidelines are being followed for any domestic positions like nannies, chefs, caretakers and drivers.

SFO Executive Compensation

Reported compensation for executive roles at Family Offices managing $500M-$999M in assets as reported in the 2015 Family Office Compensation Survey by Botoff Consulting.

- $550k
- $450k
- $350k
- $250k

CEO  CIO  CFO  COO
The Cost of the Family Office.

Running a family office can be costly, but a well-run and effective office is easily worth its price.

It’s important to be continuously aware of the cost of the family office and to keep the family informed.

Prepare Financial Reports
Provide a balance sheet, cash flow statements and overall cost-benefit analysis for the family office operations.

Prepare a Benefits Statement
Almost a mini-Annual Report, a benefits statement should justify the existence and cost of the family office and be shared with all family members.

Carefully Review the Budget
Does the budget still make sense for the stated purposes and goals of the family? Are there areas where the budget can be streamlined? Keep operations as lean as possible while still remaining as effective as possible.

Outside Audit
Consider an outside audit for financials to ensure efficient and effective use of funds, but also to uncover any potential misuse of family money.

“The value of any investment is, and always must be, a function of the price you pay for it.”

BENJAMIN GRAHAM
Succession Planning in the Family Office.

Succession planning is one of the most critical trials that a family office faces. Too often the focus is exclusively on planning without enough consideration given to execution of succession strategy.

MORE RESOURCES

FOA White Papers

How to Succeed by Really Trying: A Four-Part Template for Family Office Succession Success

Review the Current Succession Plan
All generations should be involved with the family office. Per Kirby Rosplock and Barbara Hauser in “How to Succeed by Really Trying: A Four-Part Template for Family Office Succession Success,” the four crucial components of successful succession are:

☐ Commitment by family members to the SFO purpose
☐ Communication to build a collective vision and design for governance
☐ Champion(s) who will inspire future generations and bridge the gap above and below themselves
☐ Cultural Change toward innovation so that future generations continue to build and maintain wealth

Emphasize Preparation Over Planning
Just as important as having a succession plan is being prepared to execute on it. The family leader (often the wealth creator) should be prepared to step into the role of coach to help guide the next generation in managing the family office.

Review Talent Strategies
Ensure that there is no person (whether family founder or SFO executive) who has exclusive knowledge necessary to run the family office. Debrief everyone involved with the family office to ensure that knowledge and skills match. Having cross-trained employees with shared knowledge will make any succession (whether the result of an untimely death or a sudden departure) easier.
The organizational considerations for your family office are the methods you employ to execute the vision and strategies of the family.

As Matt Wesley rephrased the popular saying, “Culture eats structures for breakfast,” it’s important to understand that good structure must be responsive to changes in family culture.

At its inception, your family office will have carefully crafted protocols around taxes, estate planning, investment management, accounting, risk management, technology, auditing and philanthropy. Changes in the family dynamics, regulations, asset value and more require a continuous reevaluation of the protocols and procedures around meeting the family’s needs.

This section will walk you through the basic topics that should be reviewed and addressed to ensure your organization continues to serve its mission.
Legal Mechanisms.

The setup of the family office and component entities should be evaluated for efficiency, legality and any changes that might be necessary due to shift in assets, family dynamics, laws/regulations and more.

MORE RESOURCES

- FOA White Papers
  Successful Families Video Project, Video 3: Litigation

- FOA Podcasts
  Volume 6: Legal and Tax Structures in Organizing or Restructuring a SFO with David Berek
  Volume 7: SFOs & Private Trust Companies with Holly Isdale
  Volume 16: Another Look at Private Trust Companies with Al King

- Review All Legal Entities, Corporate Entities and Partnerships
  Undertake a thorough review to verify that all entities are documented and corporate data sheets are up-to-date. Create a legal entity diagram that can be distributed to interested family members. Consider:
  - Is this still the most efficient business/asset ownership entity?
  - Is the entity situs still best or is change needed?
  - Are shareholder and unit ownerships appropriate?
  - Should trustees be updated?
  - Does a Private Trust Company exist? If not, should it? If so review goal alignment, ownership structure, board structure, situs, etc.

- Examine Legal Status
  Verify that your family office qualifies for the exemption from investor advisor status at both the state and federal level.

- Monitor Foreign Residences
  If any family members live abroad it’s important to monitor the tax and political changes of the host country. Consider dual citizenship where applicable.

- Review Prenuptial Agreements
  Prenuptial agreements protect the family in case of an unpleasant end to a marriage. Having prenups written in advance of potential marriages helps to prevent them from being taken personally. Review the standard agreement annually to ensure it aligns with the family’s interests.

“By failing to prepare, you are preparing to fail.”

BENJAMIN FRANKLIN
Tax Strategy.

Tax strategy is probably the most complicated and underutilized tool of advanced planning that family offices have. Given the importance and complexity of the tax structure, both here and abroad, we recommend devoting significant internal resources in coordination with exceptional external experts to tax strategy.

MORE RESOURCES

FOA Podcasts

Volume 6: Legal and Tax Structures in Organizing and Restructuring a Single Family Office with David Berek

Volume 21: Around the World of Single Family Offices with Joe Field

Review Interdisciplinary Tax Strategy Team

Your tax strategy team should include internal and external resources mapped to required competencies. Review:

- Communication channel/plan for team
- Staff training programs for building tax intelligence

Arrange Strategy Session with Tax Counsel

Include family estate planning counsel, the tax strategy team and all key advisors, SFO executives, and family members.

Coordinate Tax Compliance Materials

Do you have an outside system/protocol in place for gathering tax data? Include outside aggregation and reporting of financial assets that are submitted to a tax compliance firm.

Review Investments for Tax Inefficiencies

It's the net return on investments which truly matters. Things to consider include: state domicile of owner, gifting of resources to family members in lesser tax bracket, more tax efficient holding vehicles for actively traded strategies, particularly long-short hedge fund managers, including using private placement life insurance and annuities.

Create a Tax-Optimized Portfolio

Your portfolio management should be geared towards tax optimization. Consider:

- Concept and process basics for after tax asset allocation

© 2016 Family Office Association, LLC and Angelo Robles. All Rights Reserved.
Tax Strategy, cont.

☐ Applying the tax filter to manager and investment vehicle selection

☐ Integrating asset location, capital market solutions and asset allocation to optimize after-tax results

☐ Understanding the tax math - establishing hurdles and measuring the compounded cost of tax

Review the Intergenerational Balance Sheet
How does your balance sheet consider debt as an after-tax optimization tool? What steps are in place for integrating estate and income tax strategies to maximize wealth?

Review Potential Tax Deductions
Explore the tax deductibility of the family office and internal investment management as well as other services to the client family. This complex subject can involve (but isn’t limited to) situs, entities that they “control,” agreements between the family, the family office and legal entity holding assets.

Review Ownership and Ownership Structures
Is current ownership structure still logical in regards to tax and reporting concerns?

Review Citizenship/Residence
In cases of multi-residences make sure to evaluate the tax advantages (and requirements) of the situs.

Update After-Tax Measurement, Reporting & Benchmarking Processes
You should have clear guidelines on measurement and reporting in order to measure success and understand where adjustments might be necessary in your strategy. Make sure you have:

☐ After-tax benchmarks
☐ Applied the after-tax layer to performance and net-worth reporting
☐ Defined tax alpha

Review Tax Management Protocols
Management of the tax process is as important as the implementation of practices. Make sure to consider:

☐ Marginal benefit analysis for tax efficiency, not minimization
☐ Unbundling the tax management value chain
☐ The core rules of tax efficient wealth management

© 2016 Family Office Association, LLC and Angelo Robles. All Rights Reserved.
Estate Planning.

Estate planning provides the single greatest value to inheritors and beneficiaries of future generations, if done well. To fully maximize generational wealth transfer requires exceptionally progressive and practical planning in coordination with the family and outside advisors.

Schedule a Strategy Session
Schedule a regular (quarterly or semi-annually) session with an estate planning attorney and tax counsel.

Reasons to Review Estate Planning More Frequently
Use this list to understand when you should consider a new assessment of your estate planning (and a meeting with estate and tax counsel) when there are noteworthy changes to:

- Value of assets (increase or decrease)
- Discounting strategies
- Interest rates
- Situs
- Family member health

Trustee Review
Is the trustee selection still appropriate? Do they have the requisite legal, financial and administrative skills to carry out their fiduciary duties?

Review Illiquid, Non-Voting Interests
Make sure there is (1) a fair valuation process in place and (2) a pathway for those interests to be monetized by family members who don’t wish to be part of the business interests.

Explore Gifting Opportunities
Are there opportunities to take advantage of gifting for current investment holdings, shares/units of businesses or other interests or discounted values?
Estate/Succession Planning, cont.

- **Evaluate Family Holding Vehicles**
  Evaluate any holding vehicles like Trusts, LLCs, FLPs, etc. for any family changes as well as new business interests, sudden increase or decrease in assets, or other potential triggers.

- **Coordinate Estate/Tax Planning with Asset Protection Planning**
  Asset protection can be gravely affected by marriages, divorces, births and deaths. Therefore estate, tax and asset protection need to be reviewed in coordination for maximum effectiveness.

- **Review Trust State Location**
  Are trusts housed in those states that give the family the best asset protection afforded by statute? If not, what steps need to be taken to move the trust?

- **Create/Update Your Flow Chart**
  Your estate planning flow chart will help you visualize and understand often complex strategies for all engaged family members. Make sure yours is up-to-date, accounting for all changes to family dynamics.

- **Create/Update Trust Summaries**
  Trusts can be complicated. Ensure minimal confusion by creating a summary sheet for each trust that includes:
  - Reason for Trust existence
  - Key data points
  - Trust terms
  - Trustee information
  - Beneficiary information

- **Consider Letters of Wishes**
  Does the Trust creator want to leave letters to the beneficiaries? These often include simple language with the wishes and desires for the beneficiaries’ good.

- **Consider a Trustee Framework**
  Often times the creator will leave a framework vision for the heirs. A note of caution, frameworks should be carefully written or a “control from the grave” situation could arise.

- **Implement/Update Wills**
  Taking into account changes for marriage, divorce, birth, death and guardianship issues.

- **Review/Update All Other Documents**
  Documents might include:
  - Power of Attorney
  - Health Proxies
  - HIPAA Privacy Release Forms
  - Guardianship of Children
Investment Management.

Investment management is an evolving art AND a science. Family Office Association continuously provides updated thought leadership on investments to our members.

MORE RESOURCES

FOA Podcasts
Volume 3: The Future of Finance with Steve Lockshin

Volume 12: New Paradigm of Investing with Ashby Monk

Volume 16: 10 Things a Startup Manager Won’t Ever Tell You, Ever with Dr. Rishi Ganti

FOA QA
SFO Direct Investing 101 with Nathan Troutman

FOA White Papers
Family Offices and Alternative Investments
SFO Investments with FOA
A Dynamic Approach to Investing
The Endowment Model and SFOs
SFO Index-Tracking: The Benefits

Schedule Regular Family Meetings
The family office, the family investment committee and outside investment consultants/advisors should be present at regularly scheduled investment meetings.

Review/Update Documents
Investment protocols should be defined, written and shared and can include:
- Investment Policy Statement
- Asset Allocation Strategy
- Investment Philosophy
- Outside Managers Roster
- Direct Investment Portfolio

Investment Policy Statement
Your IPS is critical to family fiduciary/litigation protection and should contain the framework/standards for the direction of asset allocation and investments allowed given the goals, time frame, liquidity and risks of the specific entities that handle investment.

Asset Allocation Strategy
Asset allocation should be strictly defined and in line with the IPS. An annual review should seek to ensure that all assets meet the allocation criteria.

Review Direct Investment Policies
Are they allowed under the IPS? If so, are there resources in place to judge the effectiveness compared to third-party managers? Are there internal family resources in place to service the direct investments?
Review Impact Investing Policies
Consider impact investing and its place in your IPS. This tends to be an area interesting to rising family members and is a good way to engage the next generation.

Review Family Entrepreneurship
Are there policies in place to accommodate family members seeking capital for entrepreneurial ventures? Strict policies should be put in place to ensure the viability of potential ventures and protect the family. Consider:
- Business plan requirements
- Financial statement requirements
- Responsibility of applying family member
- Third-party analysis

Consider Annual Distributions
Are annual investments sustainable given investment performance, risks achieving performance, number of family members receiving distributions, family goals and percentage of assets distributed? Assess the viability of ongoing distributions as it relates to the goals of the family office and its long-term impact.

Audit Your Investment Committee
Review your family investment committee to ensure a good mix and rotation of family members and non-family members. Ensure that all members are:
- Familiar with the above documentation
- In attendance at regularly scheduled meetings
- Non-conflicted/biased

Audit Outside Managers, Consultants and Advisors
It is critical to review any outside participants in the investment strategy and management. Review:
- Governance principles and best practices
- Standards for transparency, conflicts of interest, ethos and integrity
- Performance against benchmarks and family goals
- Liquidity of investment
- Cost and net of taxes
Investment Management, cont.

- **Review Cash Management Strategy**
  Do you have a diversity of governments, currencies and custodians, including various national and global banks, government institutions, safety deposit boxes and residence placement of secure "modest" cash?

- **Review Public Securities Custody**
  These should be diversified among regional, national and global relationships. Review these institutions for:
  - Safety
  - Independent, third-party ratings
  - Governance practices
  - Access and security protocols

- **Review Family Collections**
  An annual review of alternative class investments should be conducted including inventory, appraisals, insurance, applicable investment, sentimental or passion value and continued interest. This applies to:
  - Art
  - Jewelry
  - Automobiles
  - Other collections

- **Consider Family Vacation Properties**
  Review the management as well as the applicable fair usage among family branches and members to prevent any infighting.

- **Review Aircraft/Watercraft Management**
  It’s important to regularly review:
  - Safety maintenance
  - Cost/benefits analysis
  - Alternative options
  - Insurance
  - Tax and legal ramifications
  - Fair usage
Accounting & Financial Reporting.

There should be stringent protocols in place for aggregating information and generating reports for all family office and external accounting. Following strict guidelines developed by external experts will help uncover both malicious action and unintentional mistakes.

MORE RESOURCES

FOA White Papers

Legal and Tax Structures in Organizing or Restructuring a Single Family Office with David Berek

A Discussion of Reporting & Technology Trends for the Modern Family Office with Rob Kaufold

- **Review Check-Writing Protocols**
  All checks should follow an established process which might include additional approvals for amount limits. Processes should be audited by an outside vendor.

- **Aggregate and Report All Assets**
  There should be a process in place to aggregate and assess all the assets owned: the various risks, tax lot accounting, interplay and allocations. All assets should adhere to the Asset Allocation Strategy. Consider outside help, but keep in mind potential privacy concerns.

- **Explore Reporting Software**
  Should you be using reporting software to improve your analysis? There are programs which easily compare all assets and performance across multiple custodians and even hand-completed private holdings. These programs provide useful visualizations and report summaries for easy comparisons/analysis. Consider programs for cash flow analysis, capital call, and distribution calendars.

- **Review/Update Software**
  If using software for finances make sure it’s up-to-date. Some families find software useful for:

  - General ledger
  - Investment management
  - Reporting
  - Feeding financial reports
Risk Management.

Risk Management is the evaluation and prioritization of potential financial risks accompanied by mitigating actions. In the family office risk needs to be assessed across categories like taxes, legal, accounting, investment, human resources and more. Good risk management often makes the difference between a successful family and family office and one that dissolves.

MORE RESOURCES

FOA Podcast
Volume 2: Institutional Quality Risk Management for SFOs with Sam K. Won

FOA QA
Cyber Security in the Digital Age with Walter O’Brien of Scorpion Computer Services

FOA White Papers
Family Offices: The Need for Risk Management
The Insider Threat: Red Flags and Risk Management Solutions for a Different Breed of Criminal

Review Insurance Policies
These include:
- Property and Casualty Insurance
- Umbrella Liability Insurance
- Health Disability and Life Insurance

Update Health, Life and Disability Insurance
Ensure all family members are covered for health insurance (including members living abroad and new members), disability and life insurance. Sophisticated life insurance policies can serve as a valuable estate, tax and asset protection vehicle. Coordinate advanced use of life insurance planning with legal and tax counsel.

Assess Personal Security Risks & Plan
There should be measures in place to consider personal security of individual family members, proactive security and eventualities for kidnapping, extortion or travel in dangerous territories.

Review Potential Tax Deductions
Explore the tax deductibility of the family office and internal investment management as well as other services to the client family. This complex subject can involve (but isn’t limited to) situs, entities that they “control,” agreements between the family, the family office and legal entity holding assets. Outside experts are a great help in this area for ensuring deductions aren’t missed and hold up in case of audit.
Risk Management, cont.

Consider Errors and Omissions Insurance
Consider liability exposure in outside board positions and other commitments. Do you need Errors and Omissions Insurance to mitigate possible risk?

Consider Employment Practices Liability Insurance
This often overlooked policy protects in case of lawsuit as the result of family office or family entity claims of sexual harassment, discrimination, etc.

Review/Update Disaster Protocols
In the event of a disaster there should be a professional coordinated plan that accounts for items like:

- Family communication (satellite phones?)
- Family safety
- Staples: food, water
- Emergency medical care
- Evacuation Plan
- Family financial information
- Financial resources, cash access

Professional guidance on this plan is often necessary to ensure security of information.

Consider a Family-Owned Captive Insurer
Although a complex vehicle, a family-owned and created captive insurer can offer powerful risk mitigation, tax and estate planning vehicles. Given its complexity, consulting experienced outside counsel is encouraged. Things to consider when setting up a captive insurer include: applicability, annual maintenance and service, as well as staying within the guidelines.

“The first step in the risk management process is to acknowledge the reality of risk. Denial is a common tactic that substitutes deliberate ignorance for thoughtful planning.”

CHARLES TREMPER
Technology & The Family Office.

There have never been more technology tools at the disposal of the family office. From reporting and investment tracking to family communication and auditing, tech giants and startups alike are providing new solutions to the family office space. We encourage you to explore, with caution, the technologies that might be right for your SFO.

MORE RESOURCES

FOA QA
A Discussion of Reporting & Technology Trends for the Modern Family Office with Rob Kaufold of Carriage Partners

FOA Podcast
Volume 21: Around the World of Single Family Offices with Joe Field

FOA White Paper
Creating a Single Family Office, Technology

Technologies
If your family office uses any of these technologies, you should have a written protocol in place that deals with risk management, password protection and usage guidelines:

- Email
- Social Media
- Cloud Storage
- Phones
- Cell Phones
- Computers

Make written protocols available to all relevant family members.

Review Social Media Guidelines
If your family is active on social media, you should frequently review your behavior guidelines. Take into consideration emerging technologies that may not have existed last year. Be sure to cover:

- Behaving responsibly
- Security/privacy concerns
- Protecting the family reputation
Family Office Auditing.

Audits, both internal and external, on the practices of the family office are an important part of the annual review. They not only protect against fraud and theft, but provide an added layer of assurance that things are set up correctly, particularly in regards to tax responsibilities and security protocols.

Depending on the complexity of your family office, semi-annual audits might make more sense.

☐ **Schedule Annual External Audit**
Outside auditing professionals should be consulted at least annually to review all aspects of the family office structure, paying special attention to the more complicated areas of your family office.

☐ **Review Internal Audit Plan**
Your internal audit processes should be established by an outside firm. Ensure that internal staff are meeting the responsibilities/requirements laid out by the audit plan. Are there any areas that need more attention?

☐ **Audit Security Plan**
The larger your family office, the more vulnerable you are to attack and malicious attention. The security plan should be audited by an outside firm on an annual basis, at a minimum.

☐ **Audit Technologies**
Family offices are relying on more technologies, resulting in higher convenience but also increased risk. At least annually, your family office should audit your technologies in use. Things to review:

- Password protocol (strength, frequency of changing)
- Are accounts limited to the right people?
- Process for making updates when someone leaves the family office
- Security of individual technologies

© 2016 Family Office Association, LLC and Angelo Robles. All Rights Reserved.

Philanthropy is personal and when possible shouldn’t be outsourced. Family members should be engaged in the process. It can provide the perfect training/proving ground for rising family members to learn empathy, diligence, and decision-making abilities.

It also provides an excellent feedback experience where family members can see the results of their actions and decisions, both positive and negative.

MORE RESOURCES

- FOA Research
  Family Philanthropy Survey Report

- FOA White Papers
  The Family Foundation and the L3C

- FOA Video
  Successful Families Video Project, Video 6: Philanthropy

☐ Review Philanthropic Governance

Is the decision making process in place for all charitable donations and philanthropic giving? Did the process work well in the previous year? If not, consider changing the protocols to make the process more seamless. Consider:

- Giving mission statement/goals
- Staffing requirements
- Internal/external service providers
- Decision-making calendar
- Tax benefits/considerations
- Capital management in relation to goals

☐ Review Goals and Measurement Plans

Goals should be clearly defined so that they can be appropriately measured regularly. Is the foundation meeting the goals laid out? What metrics are being used to define success? Do they need to be updated?

☐ Explore Charitable Tax Ramifications

Has outside counsel been consulted to consider the benefits of charitable lead trusts, charitable remainder trusts and other advanced planning strategies with a strong philanthropic benefit?

☐ Encourage Family Engagement

Are family members appropriately involved in the decision-making process? Consider the best ways to engage rising generations in the family foundation and charitable giving efforts.
At Family Office Association, I often get asked about the best practices for family offices. While the answers often vary on a case-by-case basis, I find myself suggesting the same reviews/checks on a regular basis.

I realized that there was value in having a checklist of the important tasks/considerations that should be done regularly. There will always be a need, especially in large or complicated family offices, to consult with experts and specialists. This document, however, provides the rubric for understanding what to look for and which questions are worth asking.

Building the perfect family office isn’t something that’s done in a day...it evolves over time with great care and consideration. I hope this checklist provides insight and help when wading through the complexity of your SFO.
About the Author.

Angelo J. Robles
CEO, Family Office Association

Angelo J. Robles is Founder and CEO of the Greenwich-based Family Office Association, a global membership organization that delivers thought leadership and solutions to multiple generations of wealthy families and the professionals who run their single family offices.

A member of the Princeton Council on Family Offices and the NYU Stern Family Office Council, Mr. Robles has a history of leadership at top financial-service companies, including UBS. He also served as president of the New England chapter of the Hedge Fund Association, and pioneered online retirement planning for Fortune1000 executives with two Internet startups — 401KRollover.com and IRARollovers.com.

Mr. Robles is regarded as leader in the single family office industry. His expertise is often sought by media outlets such as Bloomberg Television, the Wall Street Journal, Institutional Investor, Opalesque, HFM Week, Investment News, EurekaHedge and Private Asset Management, among others. He has authored two books and multiple articles on topics relevant to SFOs. Mr. Robles continues to lead in the SFO community with his proprietary research, best practices, global retreats and regular FOA Podcast.

A Special Thanks To:

Kirby Rosplock, PhD
Family Advisor Director

Roy Kozupsky
Moses & Singer

Bill Boer
SFO Consultant
Grey Dunes

Paul Morelli, CFA, CFP, CAIA
Vernal Point

Chris Hawk
Private Advisor to Families

Serge Pedro
SFO Operations Professional

© 2016 Family Office Association, LLC and Angelo Robles. All Rights Reserved.
ABOUT FAMILY OFFICE ASSOCIATION

WE ARE A GLOBAL MEMBERSHIP COMMUNITY FOR SUCCESSFUL FAMILIES AND THEIR SINGLE FAMILY OFFICES, COMMITTED TO CREATING VALUE FOR THE FAMILIES THAT WE SERVE BY PROVIDING INSIGHTS INTO FAMILY OFFICE BEST PRACTICES.

Family Office Association (FOA) is a global membership community of successful families and single family offices. We are committed to creating value for each family/SFO that we serve; value that enhances wealth, strengthens legacy, and unites multiple generations by speaking to shared interests and passions. FOA provides the resources to solve your most difficult challenges and help you achieve your collective goals: to invest intelligently, give strategically, and learn exponentially.

FOA is the community leader in serving all the key imperatives for successful families, respecting your privacy but enabling an intimate community of global families like yours. Our organization delivers education, content and programming opportunities, proprietary research, and access to salient thought leadership that will interest all generations of your family.

In addition to the deepest and most unique content in the community, throughout the year, we host a variety of exclusive events for those qualified and accepted into our highest level of membership including seasonal summits, investment forums and family retreats, all with carefully selected speakers and presenters. In these intimate face-to-face settings you will be able to truly engage experts and get personal advice and opinions on the best way to capture opportunity.

Our content and programming led by top professionals and thought leaders across a variety of key economic, family business, philanthropic and social fields, are the best in the community. This rich and diverse content and programming offering insight with thought leadership, yields the optimal combination for enhancing and nurturing successful families.

“[The FOA] event, the openness of the attendees, the dearth of salesmen, and the quality of the presentations was so far superior to anything I have experienced before.” - CT SFO Executive