WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

Industry Agenda

The Single Family Investment Office Today: A primer on structuring an investment office to achieve family objectives and societal value

Prepared in collaboration with J.P. Morgan

August 2016

Contents

REF 220716

Case: 00020760

Introductory letter from the World Economic Forum & J.P. Morgan

The World Economic Forum and J.P. Morgan are pleased to present *The Single Family Investment Office Today: A primer on structuring an investment office to achieve family objectives and societal value.*

This study is part of the World Economic Forum's decade-long effort to illustrate how investors with a long-term outlook can make meaningful change in economies and societies. Family offices are an important stakeholder group in this space, as they are often driven by the values and outlook of their founding families.

Because many of the families we work with have expressed an immense interest in all aspects of family offices, the World Economic Forum and J.P. Morgan offer this detailed analysis of their structure, objectives and status today. It reflects one of the largest and most diverse studies conducted on single family offices to date.

Our two institutions have long been partners in bringing thought leadership to our clients and communities, and we believe our respective expertise and experience allow us to bring you fresh and useful insight on this important topic.

We would like to thank the many World Economic Forum community members and J.P. Morgan clients who participated in this effort. We appreciate your trust and the relationships we have built together. Additionally, we are grateful to all subject-matter experts and our internal teams who have opened their doors, shared their perspectives and collaborated on this important topic.

We hope you enjoy this report.

Kind regards,

Michael Drexler
Head of Investors Industries
Member of the Executive Committee,
World Economic Forum USA

Andrew L. Cohen
Chief Executive Officer,
J.P. Morgan Private Bank, Asia

Introduction

In an increasingly complex, interconnected world shaped by the Fourth Industrial Revolution, long-term investors are crucially important – and the World Economic Forum has for many years been committed to working on the ecosystem affecting their choices. Family offices, private companies that serve as investment and trust managers for high-net worth families, play an important role as they collectively control more than $2 trillion in assets. In addition, they are less constrained in their choices than other types of investors, giving them a unique role in shaping the world with a long-term view.

The role of the family office goes beyond asset management. Family offices can serve multiple functions, from helping to preserve and build wealth, to securing a legacy and promoting the family's values. They can also leverage their resources for impact by investing in new, less proven asset classes.

Given the many functions they serve, designing the correct strategy and set-up for a family office is critical to ensure that long-term value is created for families, local economies and society at large. This report, *The Single Family Investment Office Today*, explores the important role that family offices play in society through the investment choices they make and how this is informed by their underlying values. The report forms part of a multi-year effort at the World Economic Forum, helping to understand and engage vital sources of long-term capital.

Over the past year, the World Economic Forum, in collaboration with J.P. Morgan, has conducted extensive research on family offices, interviewing and polling our global networks of high-net-worth families. This report is one of the most comprehensive and in-depth explorations of this topic, drawing on a unique and globally diverse set of contributors.

The goal of this insight report is to help families ask the right questions as they contemplate setting up a family office, and to provide examples of how peers have structured their own vehicles. This includes insights on how they have dealt with talent and governance issues, as well as the influence and reflection of family values through generations. One of the most important insights is that successful and long-lasting family offices are based on a clear set of family values and the belief that doing well and doing good are not mutually exclusive.

It is with this in mind that we offer this report as a resource for families to begin conversations and to craft their own models so that they can instil family values and future focused legacy into their asset management ethos. This is by no means a one-size-fits-all recommendation, as each family office is as unique as its family. Rather, we hope to contribute to helping families achieve success that benefits society – and equally, for other stakeholders to understand an increasingly important investor group that can help improve the state of the world.

Cheryl Martin
Head of Centre of Global Industries
Member of the Managing Board,
World Economic Forum

Executive Summary

Family offices play an important role in society. There are now approximately 3,000 single family offices worldwide, which collectively control over $2 trillion in assets. This amount of wealth, and the unconstrained choices families can make with their investments, makes family offices increasingly important across the investment landscape.

Going beyond asset management – by design

In addition to preserving and building wealth, a family office can secure and nurture legacy and values. The correct structure ensures that long-term value is created for families as well as society at large.

This report describes the state of family offices and how they have been set up to fulfil a family's objectives. Our findings are based on in-person interviews and a survey of 81 families, 76% of which are in the $1 billion+ bracket and 51% are located outside the United States and Canada.

We discovered that private investment firms (as family offices are often referred to) are as widely diverse as the needs of the families they serve, although several common themes emerged.

Wealth management is primary. More than 90% of the single family offices surveyed cited wealth management as the top objective, even though family offices today can serve many purposes.

Expect evolution. As families grow in size and complexity, so does the need for auxiliary services such as legal advisory, concierge services and philanthropic advice and planning.

Investment approaches vary widely. Almost 60% of family offices surveyed relied on at least two different models for evaluating and managing investments.

Investment governance is a family matter. Decision-making almost always involves family members, even when there is a formal investment committee.

Trust is as valued as talent. Families often struggle to recruit and retain highly experienced professionals, seeking out trustworthiness and alignment of values, in addition to relevant and deep professional experience.

Next-Generation risks are clear. Matriarchs and patriarchs take active steps to minimize their concerns, including engaging the next generation with seed investments or professional/philanthropic benchmarks.

Social impact is a given. Philanthropy and impact investing are powerful, cohesive forces within families.

Chapter 1: Introduction & Methodology

"Once you've seen one family office, you've seen *one* family office."

The saying goes "once you've seen one family office, you've seen one family office." This alludes to the unique imprint families have on the structures of their family offices (FOs). While there are profound differences between FOs, a detailed examination indicates a range of common models employed that reflect a family's objectives and values.

These commonalities reflect the focus families have on dealing with the complexity of managing wealth, which has grown due to increased regulation, evolving financial instruments and globalizing economies. The estimate that 60% of families lose their wealth by the end of the second generation and 90% by the third generation[1] further highlights the need for a professional set-up, a sound strategy and proper controls.

Today, approximately 3,000 FOs globally manage an estimated $2 trillion of assets. Given their private nature, FOs are not well understood and benchmarking one FO's approach against another is challenging. This body of research attempts to partially fill this void. It serves as a primer on five topics of interest:

1. Purpose of a single family investment office. Why do families set up FOs, and what services do they provide? How are they staffed and structured to provide these services?
2. Investment approach & governance. What models do FOs employ in organizing their investment activities? To what extent should family members be involved in decision-making?
3. Talent. How do families hire and motivate talent, and how do they align the interests between family principals and their agents?
4. Next Generation. How do families prepare the next generation to inherit and manage wealth?
5. Social impact and philanthropy. How do families think about social impact and philanthropy, and what levers can they pull in expressing their values through the capital they deploy?

On each topic, we identified a variety of approaches that families use, illustrating some with real-life examples. We are not presenting them as best practices, but rather as a range of solutions that suit the specific needs of a given family and reflect the most recent trends. We intend for this paper to inspire families setting up a FO, provide comparative information to families looking to benchmark their FOs, and spark discussion and debate for all who are interested.

[1] Cochell, P.L. and Zeeb, R.C., "Beating the Midas Curse," Heritage Institute Press, 2005, p7

Family Office origins

The modern notion of a family office (FO) dates back to the 18th century, when merchants would hire a trusted adviser to manage their wealth. At the time, family wealth was illiquid, limited to local business ventures and real estate, and thus relatively uncomplicated to manage. Two developments rapidly changed this picture.

The Industrial Revolution created an explosion of new business ventures that generated tremendous public and private economic value. In parallel, stock exchanges offered a mechanism to capitalize those ventures for growth as well as allow founders to liquidate and diversify their wealth. New investment opportunities brought increased complexity, leading the world's wealthiest families to turn to dedicated advisers to manage their assets.

Two examples from this period include the family of J.P. Morgan, who established the House of Morgan in 1838, and John D. Rockefeller, who established an office in 1882 that continues to provide the family with a variety of services to this day.

Methodology

The research consisted of more than 50 structured interviews with family members and/or their key FO staff (typically, CEOs or CIOs) and an anonymous survey completed by 81 families across the world. Findings presented in the report are based on survey responses received between 9 December 2015 and 25 April 2016. It is one of the largest and most diverse surveys of billionaire families ever conducted, with 76% of families in the $1 billion+ wealth bracket and 51% based outside the United States and Canada.

This report is "from families, to families"; that is, taking the perspective of families as much as possible. We address a variety of topics including objectives, services, investments, talent, next generation and social impact, and keep legal structures, international tax considerations and family governance out of scope.

Figures 1-1 through 1-4 show the diversity among survey respondents, who represent more than $200 billion of aggregate wealth.

Figure 1-1: Family's primary residence

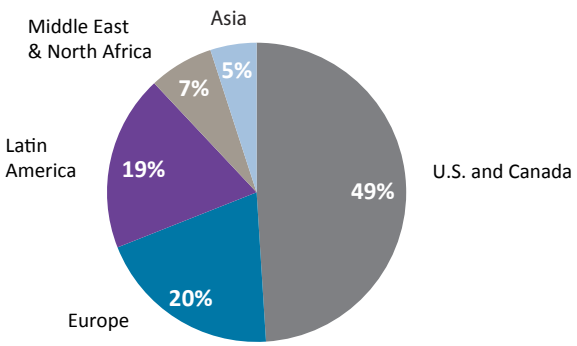


Figure 1-2: Family wealth

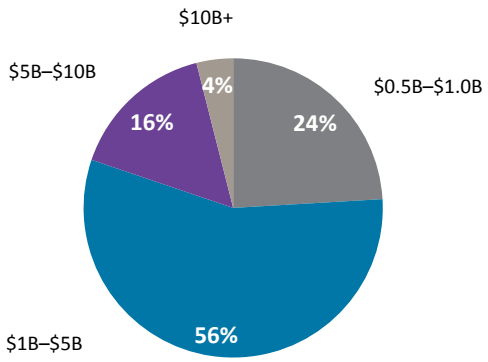


Figure 1-3: Generations served by FO

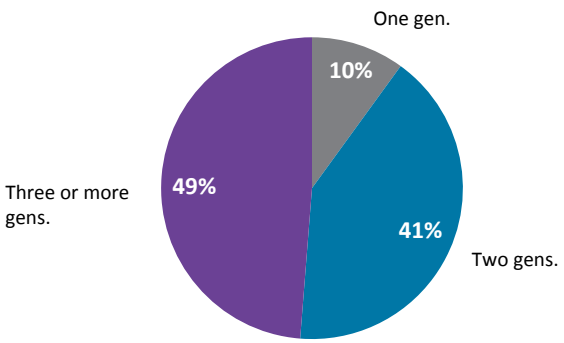
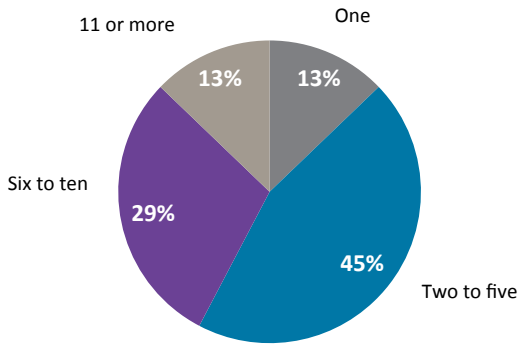
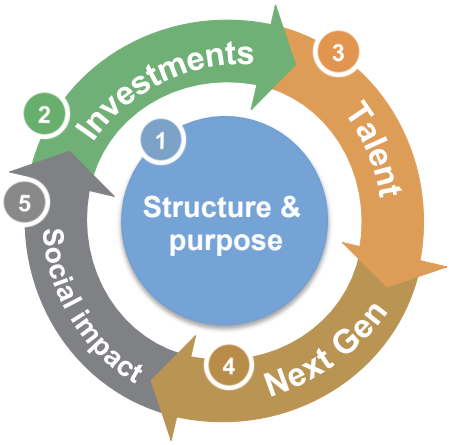


Figure 1-4: Households served by the FO





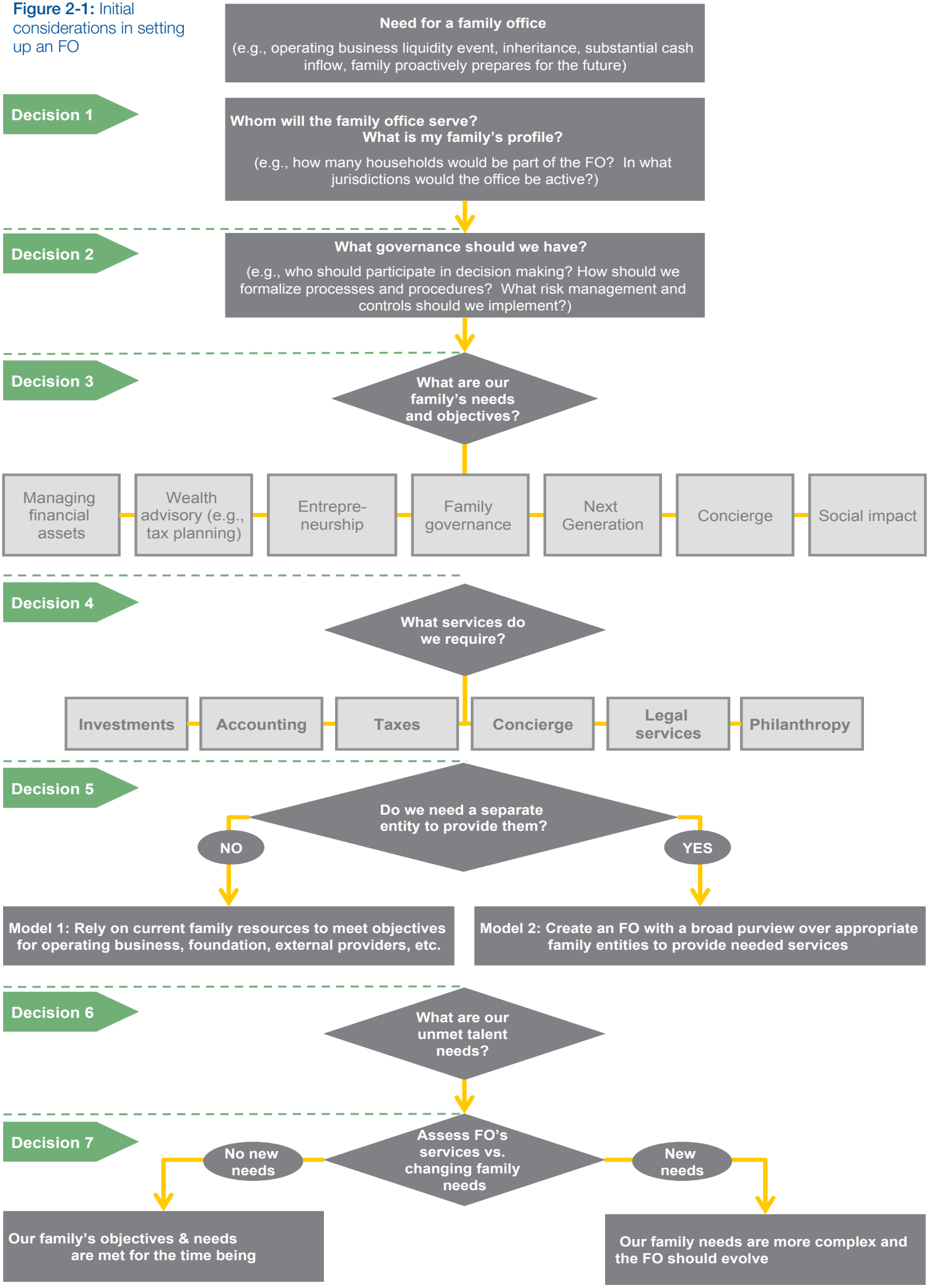
Chapter 2: Structuring, Objectives and Services of a Family Office

Wealth management is key, and evolution is likely

- Managing wealth and fostering entrepreneurship were most often mentioned as key goals of the FO.
- Structuring an FO is an ongoing process driven by the family's evolving needs and objectives.
- Many FOs add services and employees as the family's needs become more complex. Most offices with one to five employees start with investment and accounting services; larger FOs usually also offer legal, philanthropy and concierge services.
- The FO is central to the family and often plays a key role in managing family risks.

FO structure is ongoing. Family offices often develop organically out of an operating business or investment fund as family affairs become increasingly complex. Other motivations for establishing an FO include various liquidity events, such as inheritances, and preparing proactively for the future. During interviews, families often mentioned that the FO structure continues to change along with their needs. At least one patriarch re-evaluates his office's objectives and resulting services annually.

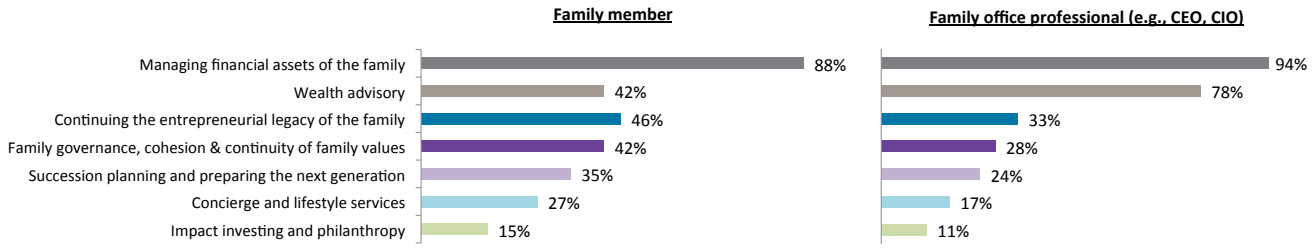
Figure 2-1: Initial considerations in setting up an FO



FOs are as different as the families they are set up to serve. The 50 families interviewed differ in their approach to FO structure, which touches on deeply held personal values and generation-long traditions; it often serves as a means of bridging generations or leaving a legacy for the community, in addition to wealth management.

Many principals referred to their FO as the central entity that provides oversight over all the family's activities. Strong interdependencies exist between the FO, the family foundation and the operating business. For example, 56% of families have operating business employees dedicated to the FO, and 21% of survey respondents say an FO representative serves on the family foundation's board of directors.

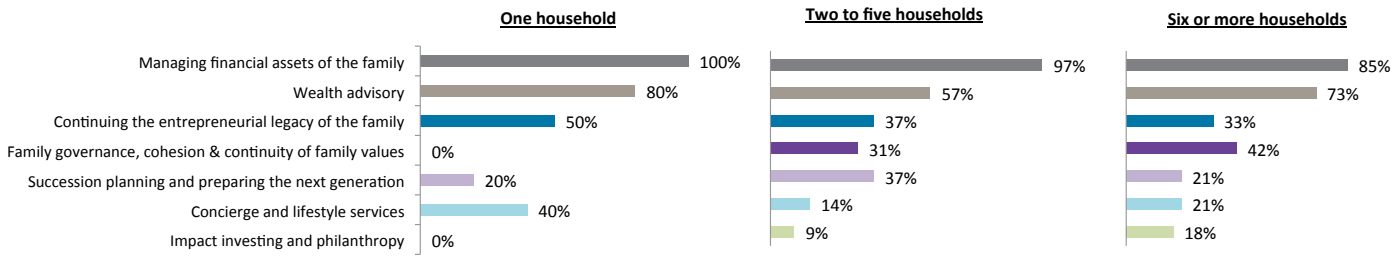
Figure 2-2: Top family office objectives by responder status



Families need strategic alignment with FO staff. Ensuring that FO chief executive officers (CEOs) and chief investment officers (CIOs) understand and act in the family's best interest is key. As Figure 2-2 shows, FO professionals see wealth advisory as one of the top three family office objectives. Matriarchs and patriarchs, in contrast, tend to prioritize entrepreneurial legacy of the family, family governance and succession planning.

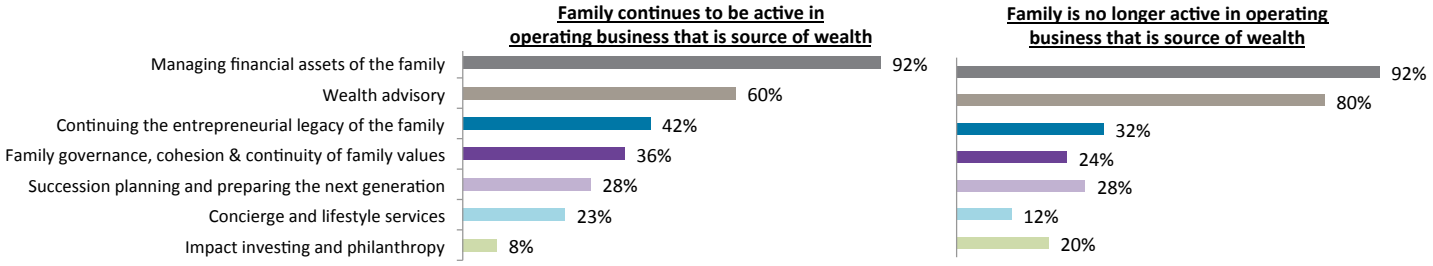
This disconnect suggests that families can improve strategic alignment with their staff to ensure family office CEOs and CIOs act in the family's best interest. This creates an opportunity for principals to inform FO professionals of other objectives seen as equally important by the families.

Figure 2-3: Top family office objectives by households served



Objectives evolve as families evolve. This trend can be attributed to the increasingly complex family structure of larger families and the challenges that come with it. For example, family governance, cohesion and continuity of family values are perceived as a top objective by 0% of one-household offices and by 42% of offices that cover six or more households (Figure 2-3).

Figure 2-4: Top family office objectives by involvement in operating business



Families shift their objectives as they become more removed from the source of wealth. Those who continue to remain active in the operating business tend to stress entrepreneurship, family governance and continuity and concierge services, while those families no longer active in the operating business tend to emphasize wealth advisory and philanthropy/impact investing (Figure 2-4) more often.

Figure 2-5: Family office services by number of generations served

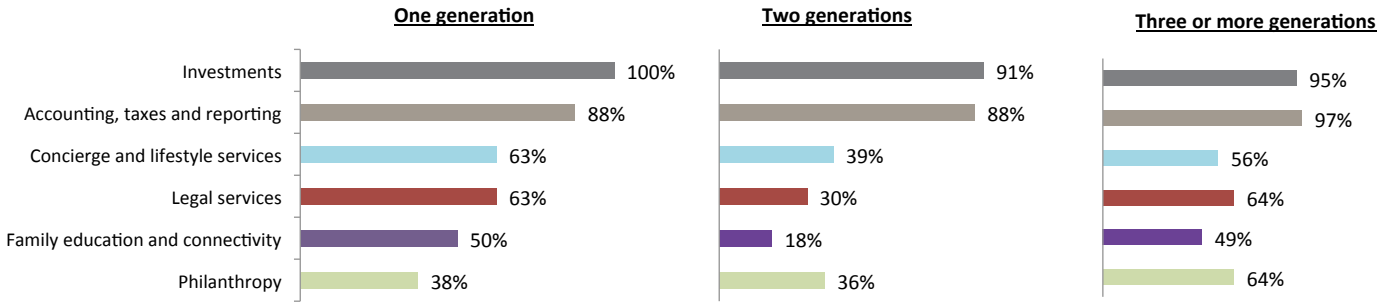
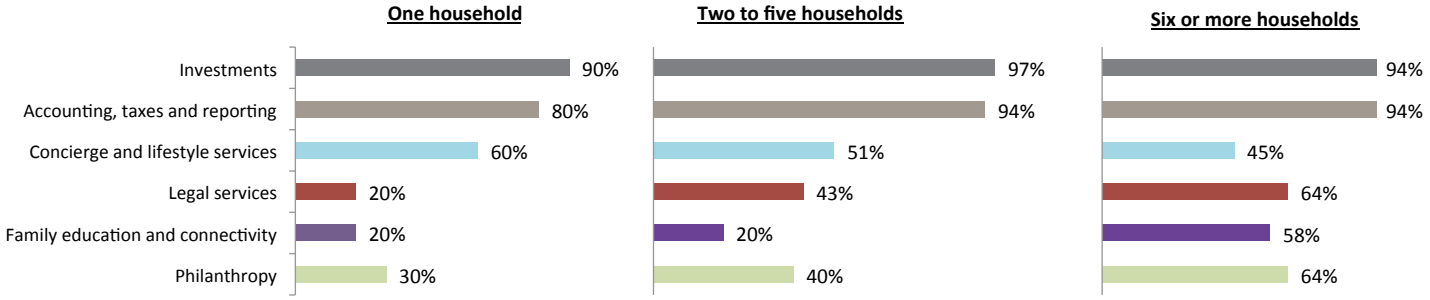


Figure 2-6: Family office services by number of households served



Philanthropy increases as families grow. FOs covering three or more generations tend to be more active in philanthropy. Those with six or more households are far more likely to engage in philanthropy, family education and legal services, such as the structuring of legal entities (Figures 2-5, 2-6).

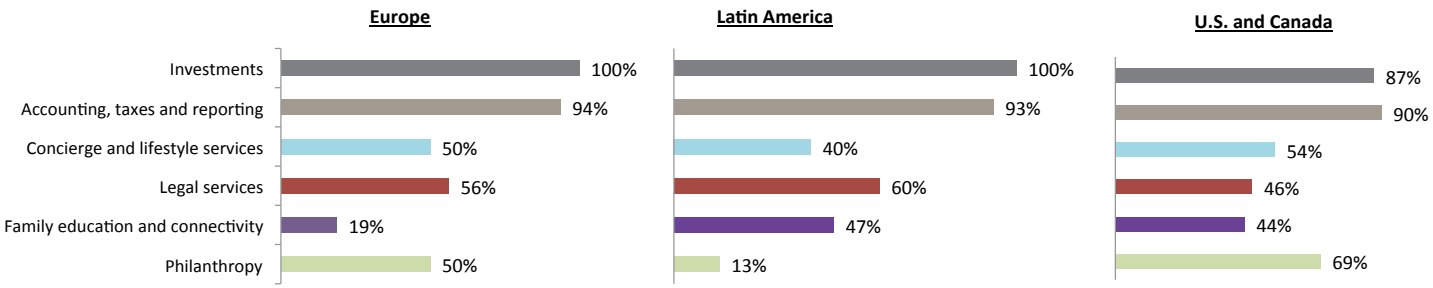
"I had always been engaged in causes that support education and economic opportunity for the underprivileged. When my daughter expressed interest in coordinating the family's philanthropic activities, I saw this as an opportunity to formalize and centre them in the family office." – *An entrepreneur from the Middle East*

Figure 2-7: Most common family office services

Number of services provided	% of all responses	Most common	Services			Least common	# of employees in family office
Two	38%	Investments	Accounting, taxes and reporting				1–5 Employees
Four	25%	Investments	Accounting, taxes and reporting	Concierge and lifestyle services	Philanthropy		6–10 Employees
Five	37%	Investments	Accounting, taxes and reporting	Legal services	Concierge and lifestyle services	Philanthropy	11+ Employees

Expect the FO to grow as services are added. As families grow in generations and households served, the complexity of their needs increases as well. Employees increase alongside the number of services added (Figure 2-7).

Figure 2-8: Family office services by geography

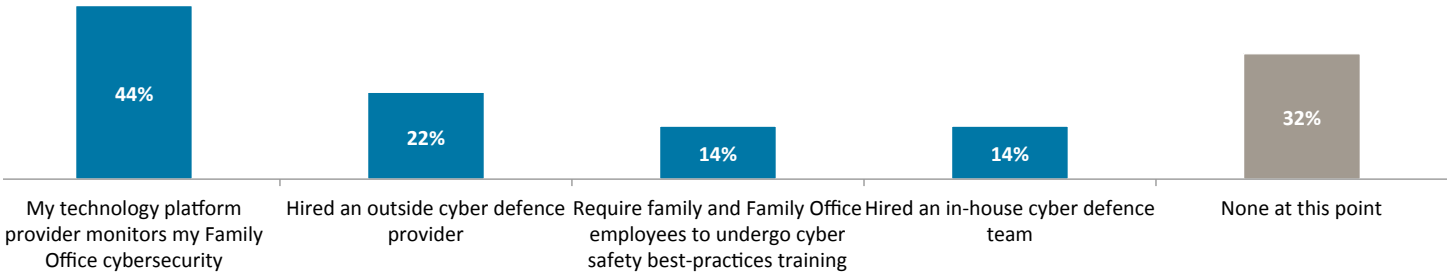


Services vary by geography. Attitudes differ by region particularly on family education and connectivity and the FOs' approaches to philanthropy (Figure 2-8).

European families tend to keep family education and maintaining of family values separate from the FO. In one instance, a European family described its FO as focused mostly on wealth preservation, while family retreats (with educational components) and philanthropic endeavours were the responsibility of the youngest members of the family without the FO's involvement.

In another instance, a Venezuelan family explained that while there is connectivity between the family foundation and the FO, these two entities are run and governed separately.

Figure 2-9: Cybersecurity measures taken
Blue shading indicates at least one measure taken (more than one can be selected)



Cybersecurity has recently become highly relevant to family offices. Fifteen per cent of survey respondents acknowledge that their office has been exposed to a cybersecurity break, while another 20% are unsure. Families employ various measures to counter cyber threats (Figure 2-9).

A Brazilian family ensures that its FO provides cybersecurity for all family businesses and foundations. This model creates significant cost savings as the cybersecurity function is centralized in the FO that monitors all activity and educates all employees in best practices.

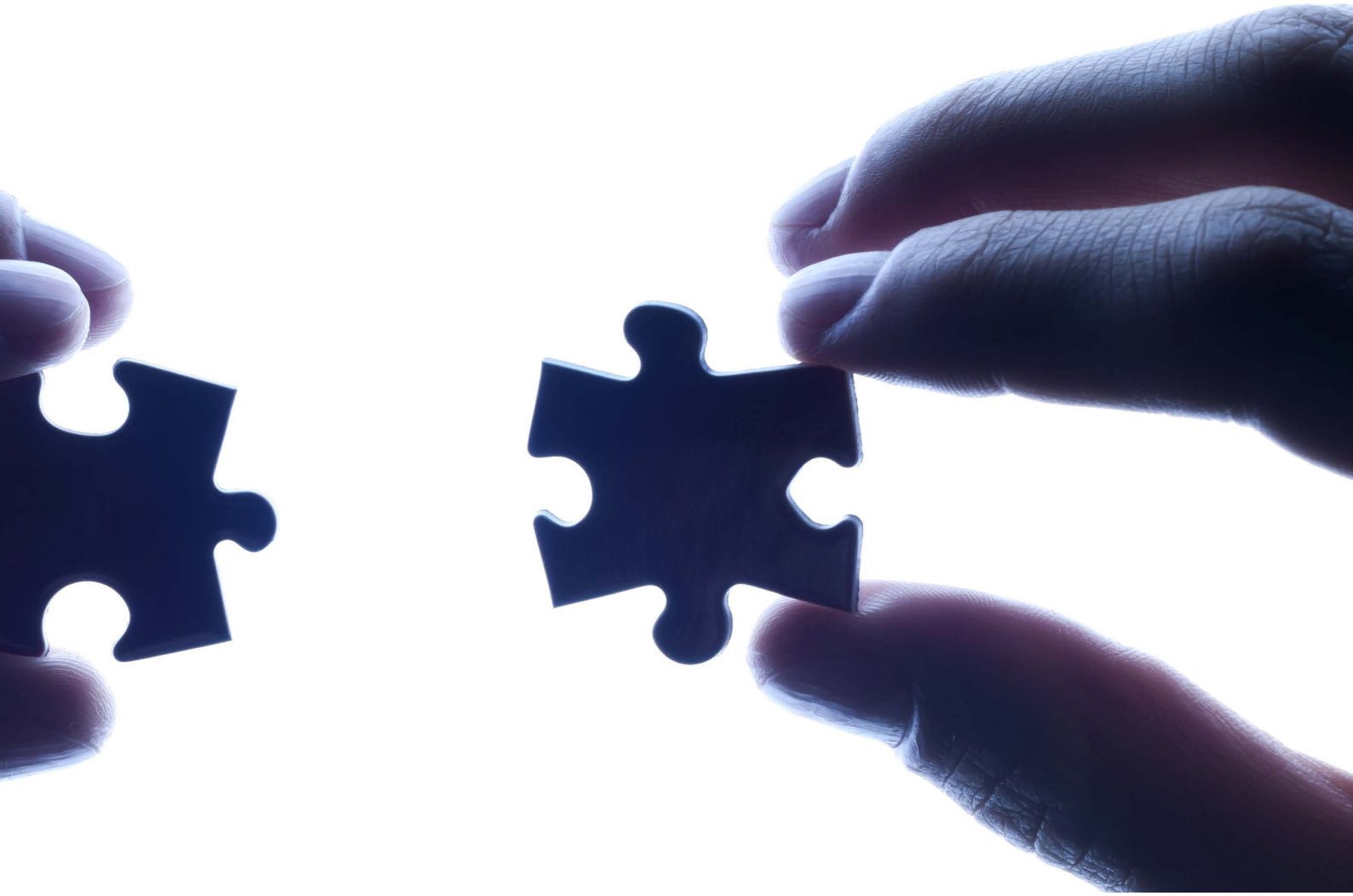
Family offices and sovereign wealth funds

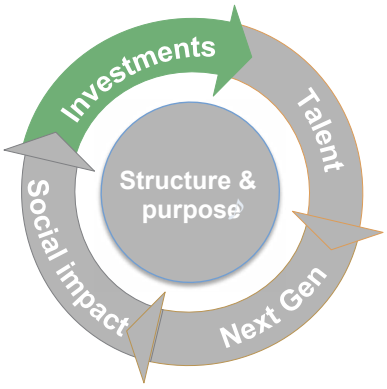
One important area to be highlighted is the similarities and challenges faced both by FOs and sovereign wealth funds. For FOs, one of the objectives in setting one up (Figure 2-1) is to provide for the needs of successive generations. Similarly, one of the main objectives in the creation of some sovereign wealth funds is to manage wealth for future generations. In particular, commodity-based funds were created to transform assets derived from a concentrated source into a portfolio of diversified assets to ensure preserving the wealth for the long term. The International Monetary Fund (IMF) has classified these as "savings funds", and examples include Abu Dhabi Investment Authority (ADIA) and Qatar Investment Authority (QIA). To achieve this objective, a strong and disciplined governance structure is required.

What lessons can FOs learn from sovereign wealth funds – and vice versa? One of the key areas is adopting a true long-term investment outlook. Sovereign funds such as Singapore's GIC publicize their 20-year annualized return, and their investment outlook examines expectations over the next five to 10 years. This contrasts with the more typical quarterly performance reporting by other asset managers. Chapter 3 of the report discusses the varied investment approaches undertaken by FOs. The four models presented apply very well to sovereign wealth funds as well. Sovereign wealth funds have been evolving into more active investors, moving away from the outsourced and manager of manager models to increasingly participating in direct investments.

One important difference between FOs and sovereign wealth funds is scale. While the largest FOs can manage in excess of $10 billion in AUM, in general FOs are nimbler, which allows them to access certain venture investments unavailable to sovereign wealth funds. On the other hand, sovereign wealth funds are uniquely positioned to invest in transformational projects such as infrastructure both due to their size and long-term perspective.

Given the move to direct investments, both FOs and sovereign wealth funds have been more focused on hiring talent from more traditional asset management firms. Instead of competing through traditional remuneration models, some FOs are allowing managers to co-invest with the office in deals that are sourced. Similarly, some sovereign wealth funds have also introduced carried interest and equity participation as incentives, along with expatriate packages designed to make relocation a smoother transition.





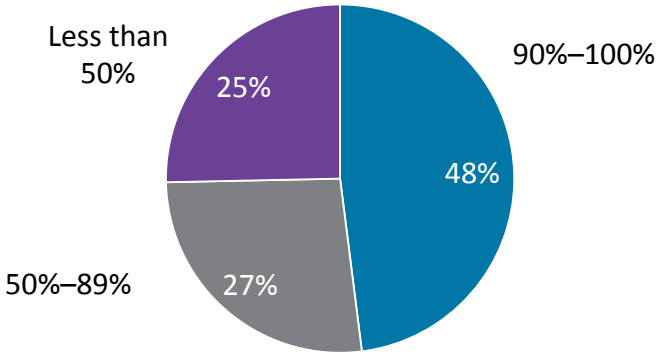
Chapter 3: Investment Approach

Investment approaches vary widely

- Sixty-three per cent of offices use more than one investment model to meet their objectives.
- Many FOs have a significant concentration of family wealth held within their operating business and are not actively trying to diversify away from it.
- Governance mechanisms for investment decisions range from formal committees to informal consensus from family members.
- Benchmarking performance is challenging as FOs manage differing portions of their respective family's total wealth and may not have purview over all family assets.
- Seventy-five per cent of FOs manage more than half of their family's net worth, with 33% managing all of the family's wealth.

Investment activities and the FO construct are inseparable. In our survey, 74% of respondents cited managing financial assets of the family as the primary objective, and 93% identified it as one of the top three.

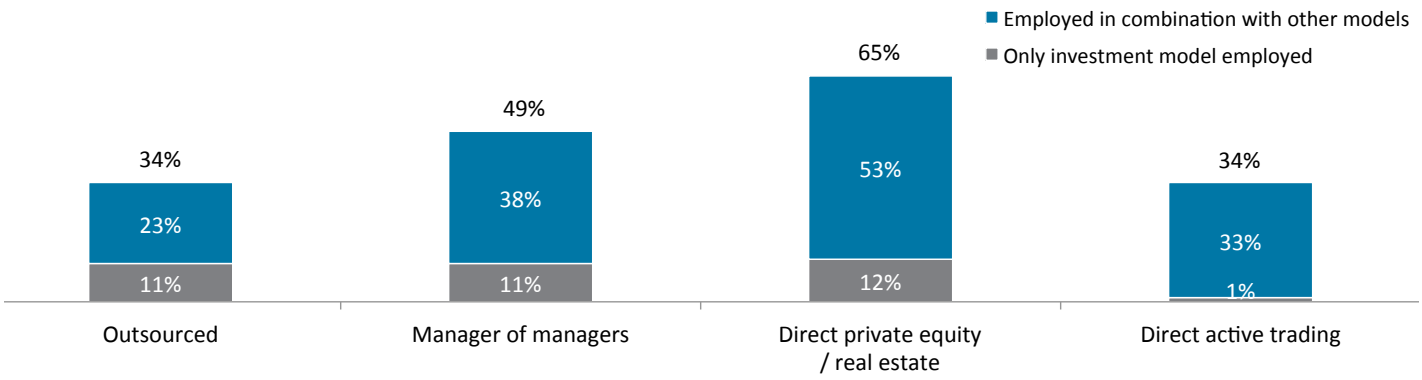
Figure 3-1: Share of the family's net worth managed by the family office



The FO is central to the family's wealth. While it is clear that many FOs do not oversee the entirety of a family's assets, it is often because operating businesses are managed separately. Seventy-five per cent of FOs manage more than 50% of the family's net worth (Figure 3-1).

There are four main FO investment models. While FO approaches to investments vary considerably, four distinct models are prevalent: outsourced, manager of managers, direct private equity and real estate, and direct active trading. The basic investment activity is composed of: 1) asset allocation – determining the appropriate mix of asset classes (e.g. equity, fixed income, alternatives) based on an FO's risk/return objectives, liquidity needs and other constraints; 2) manager selection – identifying, conducting due diligence on onboarding, overseeing and terminating third-party managers across traditional and alternative investments; and 3) asset/security selection – buying and selling companies, real assets and securities.

Figure 3-2: Family office investment model



Most FOs use a combination of models. Figure 3-2 depicts the investment models that rely on the basic investment activities in varying proportions, with 63% of FOs employing more than one model.

- **Outsourced** – Investment activity is mostly performed by banks, outsourced CIO providers, asset managers and consultants. Typically, one FO investment professional focuses on asset allocation, overseeing external providers and aggregating results.
- **Manager of managers** – The FO staff performs asset allocation and manager selection. FOs have similar set-ups to endowments, with investment professionals focused on asset classes.
- **Direct private equity and real estate** – FO professionals emphasize illiquid assets, usually taking equity stakes in private companies and real assets. Transactions are sourced through private equity funds or third-party managers with which FOs have existing relationships: investment bankers and families' personal and business networks. This model was the most popular investment approach among FOs surveyed.
- **Direct active trading** – FOs select securities with a hedge fund-like operation focused on liquid markets. While active trading was the least common sole investment model, 34% did indicate that it constituted at least one of their investment models.

Most families have a moderate appetite for risk (i.e., achieving returns comparable to a 60% equity/40% fixed-income portfolio). Families with an operating business report a slightly more conservative risk appetite (i.e., 90% are conservative or moderate) than families without one (i.e., 83% are conservative or moderate). (Figure 3-3.)

Figure 3-3: Risk appetite for financial assets

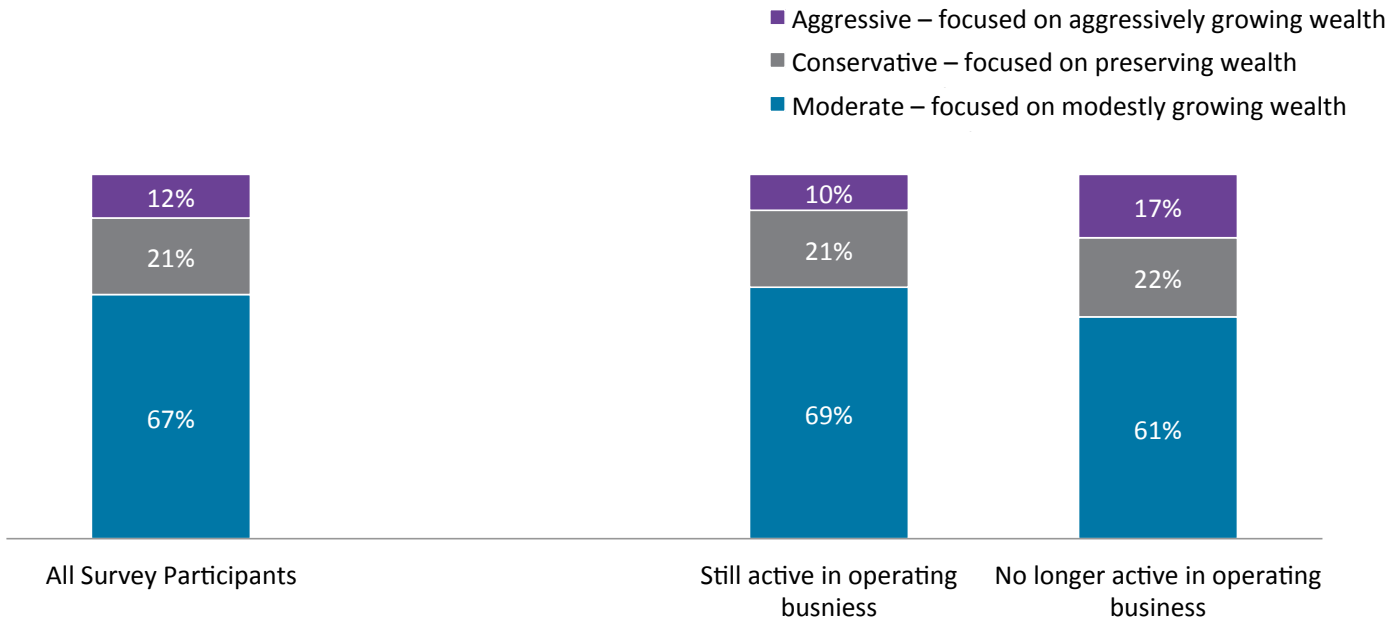


Figure 3-4: Share of family net worth tied to an operating business

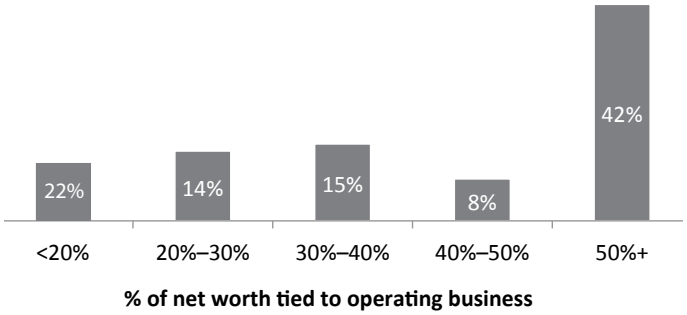
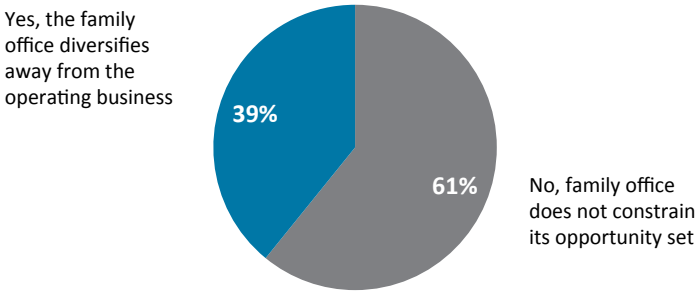


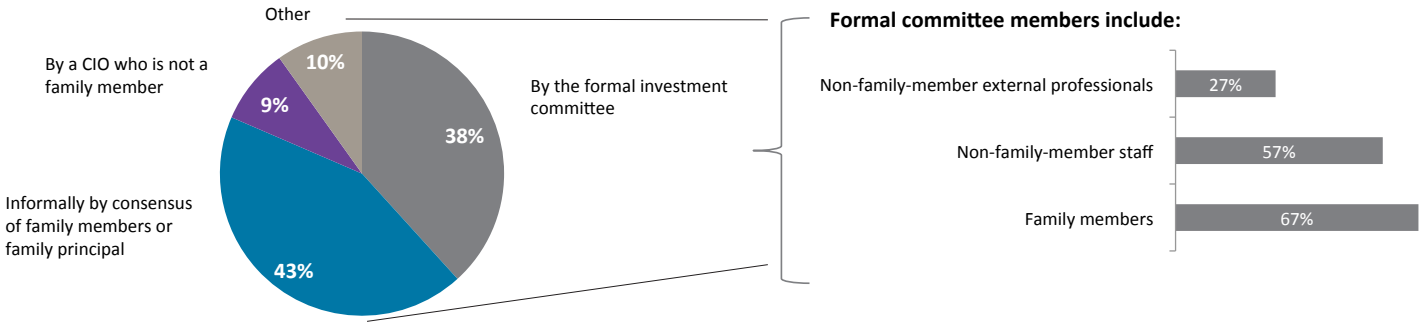
Figure 3-5: Use of family office to hedge operating business exposure



Concentration of net worth tied to an operating business is high. More than 40% of families have over half of their net worth tied up in their operating business. In this subset, only 39% of respondents state that they use their FO portfolio to diversify away from company-related risks (Figures 3-4, 3-5).

Diversifying risks in the operating business may include limiting exposure to the region in which the operating business is based or to its core industry. Excluding regions from the FO portfolio can be less practical for families with operating businesses in the United States or Europe; these FOs may choose to reduce overall risk within their liquid portfolios to mitigate the risk from their operating business.

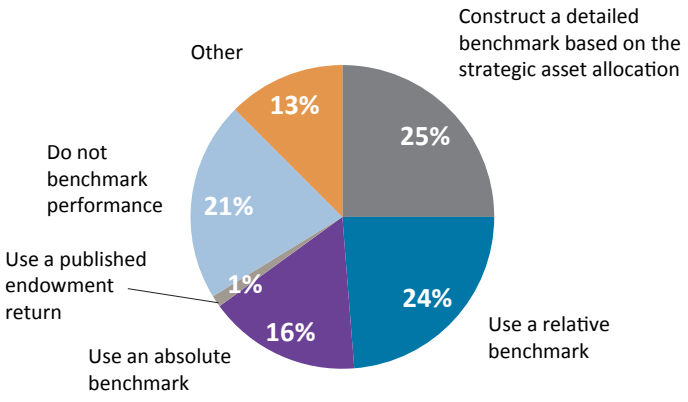
Figure 3-6: How are investment decisions made?



Investment governance is typically a family matter, but ranges from rigorous to informal. With a formal investment committee (which can comprise family members, non-family-member staff and/or external professionals), the investment team conducts due diligence and prepares investment memos for the committee, outlining merits and risks and making recommendations to invest or divest. Most families take a less formal approach; decision-making is primarily driven by a single family member or by consensus of multiple members, based on the recommendation of a CIO if there is one (Figure 3-6).

The extent and nature of family members' involvement in decision-making has implications for attracting and retaining investment talent (see Chapter 4) and on family dynamics. In single-household families, decision-making by the principal may be a perfectly acceptable and effective model. In multiple-household families, especially when a matriarch or patriarch is unable to be actively involved, a more formalized governance model helps clarify decision-making authority and may help to avoid contention arising amongst family members about the operation and decision making of the FO.

Figure 3-7: How do family offices benchmark performance?



Benchmarking investment performance in an FO is challenging. FOs have a unique challenge. They often do not have purview over a family's entire pool of assets; for instance, there may be investment activity in two separate entities – an FO that manages the liquid/third-party investments and a separate direct investing entity – where benchmarks differ and performance and risk are managed separately.

Seventy-nine percent of survey respondents indicated using some type of investment benchmark. A large minority did not benchmark performance at all, reflecting the disparate asset holdings many FOs tend to hold and the informal manner in which some families managed their FOs (Figure 3-7).

Align investment benchmarks with family objectives.

While there is no single "right" answer when it comes to choosing a benchmark, FOs should construct them to reflect the family's investment objectives. Common objectives for benchmarking include:

a) Having a measure of risk and expectations around potential drawdowns for the portfolio

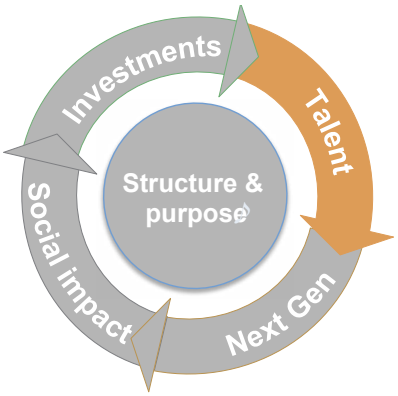
b) Measuring over/underperformance and compensating investment professionals

c) Measuring intended portfolio outcomes (e.g., "I need my portfolio to outperform inflation by 3% or return 6%")

An appropriately constructed asset class-based benchmark can achieve objectives (a) and (b). An absolute or relative (to inflation or cash) benchmark can achieve objective (c). Peer benchmarks (e.g., average endowment performance) can also be helpful in identifying chronic underperformance.

Multiple benchmarks may be required to achieve desired objectives.

FOs may wish to use multiple benchmarks to measure multiple objectives. For example, families with separate investment teams for direct investment activities and their liquid portfolio may choose to separate their portfolio into components, each with its own benchmark. This allows each team to be measured against their respective benchmark, which could then be combined to assess overall portfolio performance.



Chapter 4: Talent and Alignment

Trust is as valued as talent

- Recruiting and retention for the FO starts with assessing technical skills and appropriate incentives, but trust and alignment on values often take priority.
- Frequently, FOs function within the broader family ecosystem and draw on staffing resources from the family's network.
- The CEO and CIO roles are most often combined and compensation for the joint role is greater than for either individual position.
- Family members sometimes drive investment decisions that the FO professionals do not endorse, creating tension between investment performance and metrics-based compensation.

Figure 4-1: Family Office models

	1. Core (36%)	2. Established (27%)	3. Institutional (37%)
Number of FO employees	1 – 5	6 – 10	More than 10
Overview	■ In-house team supports some family needs, with extensive outsourcing of many services ■ Staff serves multiple roles and has broad responsibilities ■ In-house professionals coordinate with external providers	■ In-house team supports all family needs, with outsourcing of some services ■ Staff has well-defined roles and responsibilities	■ In-house team supports all family needs with little outsourcing ■ Staff has well-defined roles and responsibilities
Staffing overlap with Operating Business	**High:** significant overlap between FO and Operating Business	**Medium – Low:** some overlap for specific roles & tasks	**None:** FO managed separately with dedicated employees
Typical services provided	Investments, accounting, taxes, reporting	Investments, accounting, taxes, reporting, concierge, philanthropy	Investments, accounting, taxes, reporting, legal services, concierge, philanthropy
Investment decisions	Few formal investment committees	Mostly formal investment committees with family involvement	Formal investment committees with family oversight
Investment model	Outsourced / manager of managers	Outsourced, manager of managers, and direct investments (most common)	

This study has found that FOs employ three main staffing models. FOs mainly operate within one of three main staffing models: Core, Established and Institutional. Each is closely aligned with the FO's key objectives and the services they provide. While the models are usually associated with an AUM range and number of households served, the main distinction is the number of employees.

- **Core model** – represents a common starting point, especially for those families who continue to manage an operating business. Family members are often heavily engaged in all parts of the FO operations. Core offices tend to have a joint CEO and CIO role and usually outsource investments or use the manager of managers model. Core FOs may evolve into the Established model as individual staff become more specialized and more services are brought in-house.
- **Established model** – the family office has an established organizational structure and substantial in-house resources devoted to serving the family. Family engagement continues to be strong but not pervasive throughout the FO, with principal involvement typically at a higher, more strategic level. While there may be synergies between the FO and the family's Operating Business, the entities may have begun to separate.
- **Institutional model** – the FO has a highly sophisticated investment function and governance structure, and often resembles a hedge fund or a private equity fund. Institutional offices usually have a dedicated CIO, separate from the CEO, who manages distinct teams for one or more investment strategies. Under this staffing model, the FO invests on behalf of the family, with the family's involvement usually less pronounced.

Figure 4-2: Family office CEO/CIO responsibilities and professional path

	Responsibilities	Typical professional background
CEO	■ Responsible for management and oversight of all office activities and all staff ■ Executes the family's vision and addresses all stakeholder needs through the FO's activities	■ Former executive within the family's operating business ■ Trusted financial advisor, portfolio manager, or legal counsel
CIO	■ Responsible for managing the FO's investment portfolio ■ Outlines investment policy and approach, portfolio allocation, and investment process ■ Oversight of due diligence activities ■ Monitors all strategies and all positions	■ Former portfolio manager at an endowment, PE fund or hedge fund

Hiring for the FO is complex. Roles and responsibilities vary greatly across FOs, especially as offices grow more specialized and service more complex family needs. In many cases, the exact CEO job description evolves as the FO expands, making the hiring process and candidate selection all the more difficult. Figure 4-2 summarizes key responsibilities for a CEO and CIO, as well as commonly observed professional paths.

A limited number of candidates are flexible and skilled enough to be generalists at first, and then grow into specialized roles as family needs expand. This leads to a challenging hiring process. Many families recommended the following regarding hiring practices (based on their experiences):

- Hire FO employees for the long term.
- Consider professional background important, but also prioritize personal character, integrity and agreement with the family's value system. The degree to how much trust and their value system is prioritized versus the applicant's professional background depends on the staffing model.
  - Core – emphasis on trust and the candidate's value system
  - Established and Institutional – stress the applicant's professional background and skill set
  - In all cases, FOs must trust but also verify their employees. One family mentioned that it reserves the legal right to monitor each employee's online activity.

A first look at current long-term relationships

One Swiss family mentioned that its first FO employee was a senior finance manager from the family's operating business. As another example, a Colombian family hired a longstanding friend of the family whose professional background was in investing. In both cases, the families had good insight into the person's character and had developed a trust-based relationship over an extended period of time.

Figure 4-3: Most often-used external professional service providers

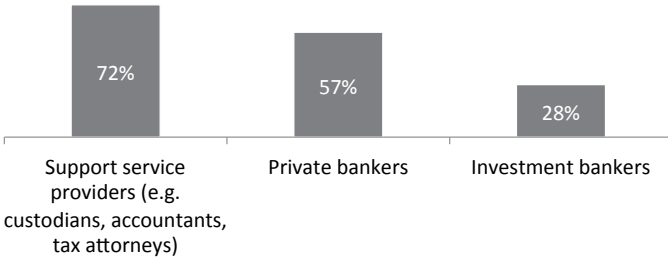
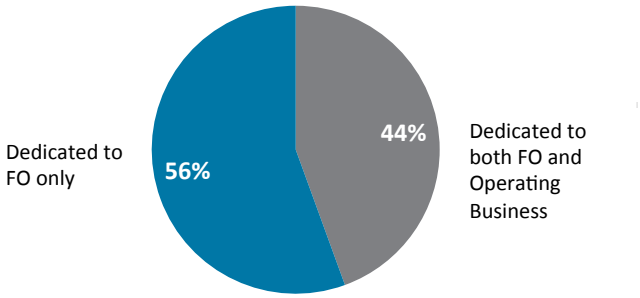


Figure 4-4: Employees across the family entities

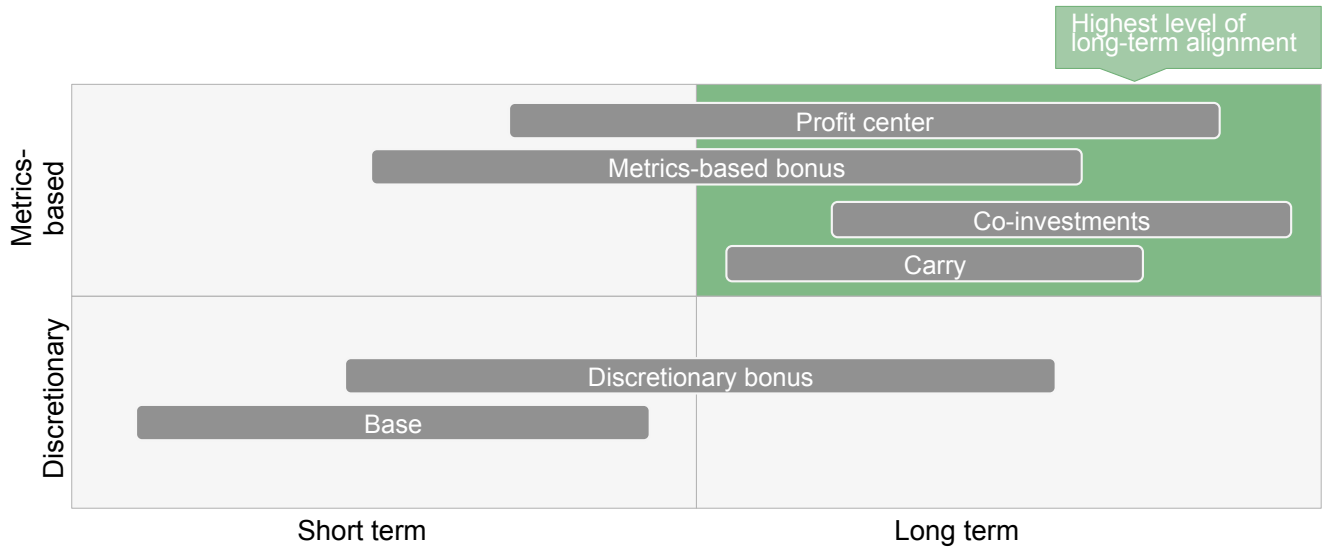


Staffing arrangements change over time. FOs often first employ a CEO and/or CIO, an accountant who is responsible for aggregated reporting and taxes, and an office manager who takes on day-to-day services, operations and technology/vendor management. Over time, many FOs add a concierge to handle travel arrangements, a philanthropy head, legal counsel and a technology head.

External assistance at the FO is common. When there is a short-term need for additional skills, many offices consider external professional services providers or subject-matter experts. Families, particularly those operating under the Core model, will also draw on employees from their operating business to help in the FO (Figures 4-3, 4-4).

FOs often bring subject-matter experts in-house for short periods; for example, to help with discrete organizational or governance issues such as drafting a family constitution or structuring a legal entity, or industry experts to advise on specific direct investment opportunities. Families may also use investment banking services for companies in their direct investment portfolio or as an avenue to source direct investment opportunities.

Figure 4-5: Remuneration components



The right payment structure aligns employee and family interests. There are two fundamental dimensions to consider when thinking of the right incentive structure: a short-term versus long-term incentive timeline, and a fully discretionary versus metrics-based incentive approach. One American principal pointed out that a well-structured incentive package awards outstanding performance in the long term, without encouraging excessive risk-taking by the employee in the short term. Including equity in underlying investments as part of compensation can create a stronger bond between the family and the FO professionals, and can also establish appropriate incentives. Ultimately, the investment team needs to develop an ethical and literal sense of ownership that will give the family comfort.

Families usually rely on a mix of components. Base salary is standard for many CEO packages; however, the proper mix of incentive components can provide the correct long-term alignment (Figure 4-5).

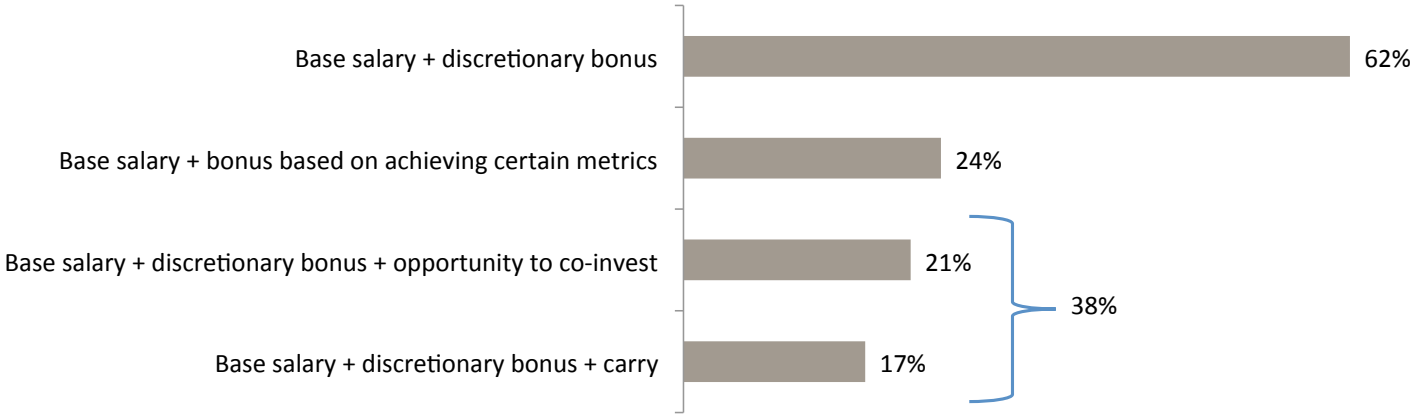
Carry and co-investment opportunities can align family employee goals, but are less commonly used. Thirty-eight per cent of the surveyed FOs offer carry or co-investing opportunities to FO professionals (Figure 4-6).

CEO and CIO compensation trends
CEO and CIO compensation has always been an area of great interest for FO principals. A number of annual studies are devoted solely to the topic of actual compensation levels to provide some insight into FO practices.

Pay-package components for CEOs (percentage of survey respondents in parenthesis)

- **(86%) Base salary:** Standard component of most FO packages.
- **(65%) Discretionary bonus:** An important part of incentivizing investment teams in FOs where some investment decisions may be driven by subjective family preferences.
- **(31%) Metrics-based bonus:** Based on objective performance indicators such as total fund return, IRR targets or reaching a certain milestone. Only 31% of families employ this mechanism, mainly because in many cases investment decisions are often influenced by the family.
- **(23%) Carry in underlying investments:** Similar to PE funds, many FOs today offer carry in underlying investments to the investment team. This may drive the team to execute as many deals as possible because they benefit from successful transactions, and pay no consequence for unsuccessful ones – misaligning incentives between the team and the family.
- **(27%) Co-investments alongside the family:** Key FO leaders are able to allocate their own equity into investments the FO is pursuing. This creates long-term alignment of incentives between the family and senior staff.
- **(7%) Profit centre:** FO leaders own a minority stake in the FO. The office is treated as a service provider, earning fees for services. Profits accrue to the FO leaders, ensuring that leadership has a full "owners' perspective."

Figure 4-6: Most common packages for CEOs



Compensation grows with total family net worth. For families with a net worth greater than $5 billion, all CEOs and most CIOs received more than $0.5 million and some in excess of $1 million (Figures 4-7, 4-8).

Figure 4-7: CEO base and cash bonus compensation band by family net worth (for both separate and combined CIO & CEO roles)

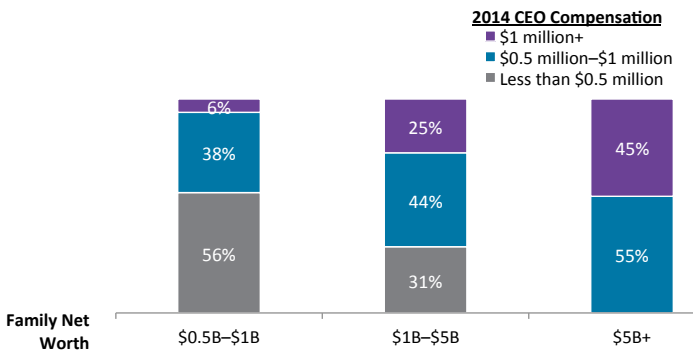


Figure 4-8: CIO base and cash bonus compensation band by family net worth (when CIO is separate from CEO)

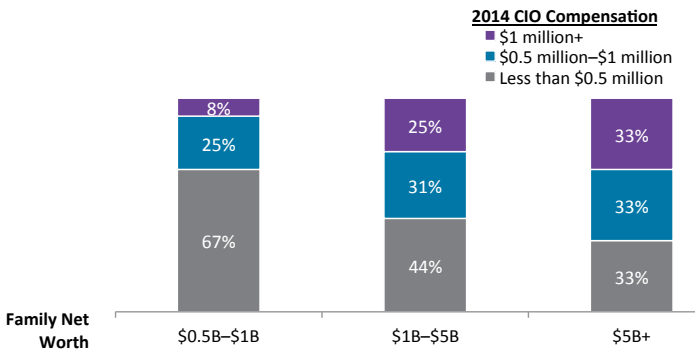


Figure 4-9: CEO base and cash bonus compensation band by family net worth (when CIO is separate from CEO)

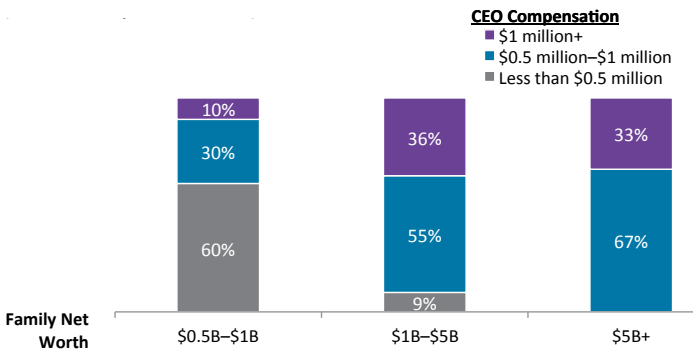
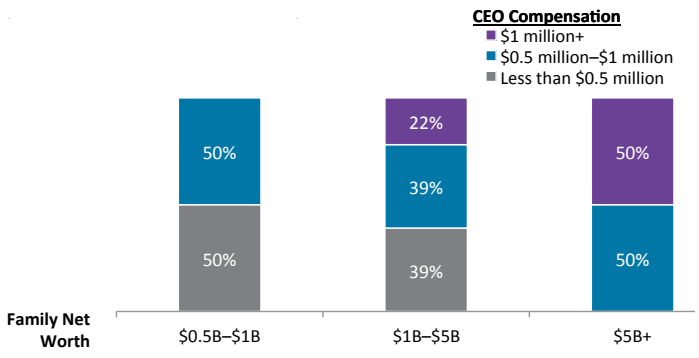
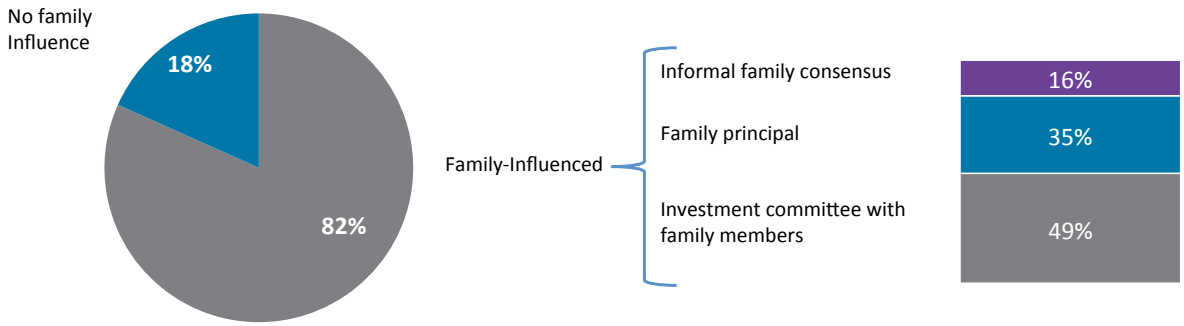


Figure 4-10: CEO base and cash bonus compensation band by family net worth (when CIO and CEO are the same role)



Combined CEO and CIO roles result in higher compensation. CEO compensation tends to be greater when the roles are held by the same individual among families whose net worth is above $5 billion.

Figure 4-11: Family's involvement in investment decisions



Addressing family influence in investing

To a great degree, families stay involved in investing. They influence portfolio decisions formally or informally and families may adjust compensation accordingly (Figure 4-11).

In many cases, family members have investment experience or professional expertise that allows them to contribute knowledgeably to the investment process. However, in some cases family members do not have investment experience but participate in the investment process as informal contributors.

Many principals face the conundrum of how to reward investment professionals if portfolio performance suffers because of family members' steering certain investment decisions. Many principals solve this issue by moving away from a metrics-based bonus; instead, they offer discretionary bonuses to the investment professionals. One CIO mentioned another solution: a partner-like relationship with the family that allows asking for an adjustment to his bonus in years when the formula-based compensation award does not reflect the investment team's effort.

Three primary talent-related issues and best recommended solutions

Families and FOs often encountered three talent-related issues regardless of geographical location: key person risk; limited talent pool; and lack of camaraderie. While some of the issues are more prevalent in smaller offices (Core and Established models), many pertain to highly developed (Institutional model) ones as well.

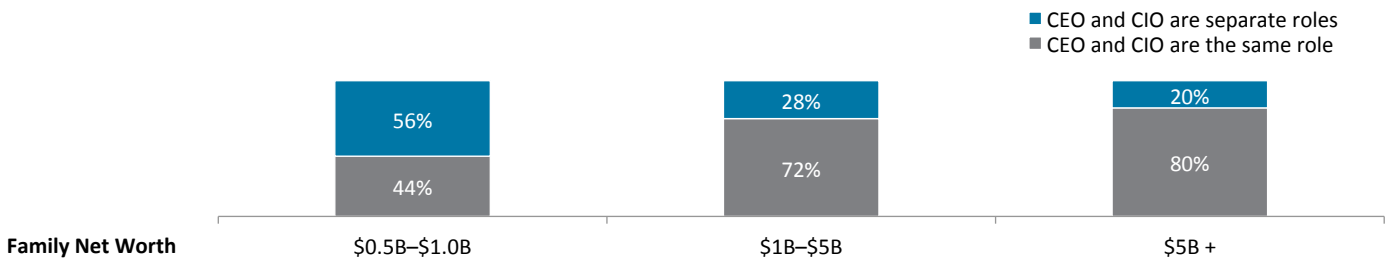
Figure 4-12: Talent-related issues faced by FOs

Risk: High | Med | Low

	Issue description	Core	Establ'd	Instit'l	Observed solutions
i Key person risk	■ Reliance on one individual (family or professional) for multiple facets of the FO operating model ■ Concentration of services under one person's leadership	High	Med	Med	■ Separation of CEO & CIO roles ■ Compensation package with long-term vesting components ■ Succession plan for key people designed by a specialist, with buy-in from all family representatives
ii Limited talent pool	■ Inability to recruit professionals with adequate skill set and appropriate value system	Med	Med	Low	■ Highly competitive compensation packages ■ Job description with embedded growth stages and long-term development plan ■ Transforming FO into a profit center with equity participation for non-family employees ■ Geographical location with a deep talent pool (e.g., New York City, London, Singapore)
iii Lack of camaraderie	■ Limited opportunity for thought partnership and social interaction given office size	High	Med	Low	■ Involving FO team in family and operating business activities ■ Renting office space with another FO (cost synergies, social interaction with peers, enhanced deal pipeline)

i. Key person risk – Many FOs rely on one person for leading investments, managing operations of the office and maintaining connectivity with the family. While in some cases this individual is a family member, in others a hired professional becomes the focal point of the FO.

Figure 4-13: CEO/CIO relation by family net worth



The combination of CEO and CIO roles creates the most significant key person risk. Yet only 37% of surveyed families have two separate positions (Figure 4-13).

How have families solved this problem?

- **Separation of CEO and CIO roles** – By separating these two functions, families are able to minimize the leadership gap when one of these roles becomes vacant.
- **Long-term incentive package** – Allowing high-level executives in the FO to benefit from the FO's financial returns. As previously discussed, this can be accomplished through carrying in underlying investments, co-investing alongside the family, and/or structuring the FO as a profit centre in which key staff would own equity and benefit from the FO's net income.
- **Succession plan for key people** – A succession plan is key no matter the size of the FO. Whether the plan is informal or formalized through the FO constitution or by-laws, well-prepared families ensure that potential successors (whether family members or external) receive appropriate training ahead of assuming key positions.

ii. Limited talent pool – Many families struggle to recruit professionals with an adequate skill set and appropriate value system. This typically stems from the perceived lack of dynamism or limited opportunities for growth at the FO, as well as the cultural fit and values of candidates, which often further limits the recruiting pool of qualified professionals.

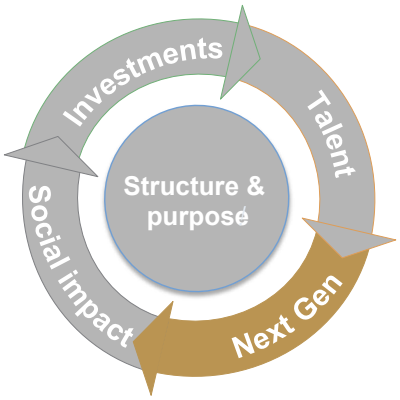
How have others solved this problem?

- **Competitive compensation packages** – FOs often compete for talent with wealth advisers, hedge funds and banks. Competitive pay is critical for attracting the right calibre of staff.
- **Job descriptions with embedded long-term development plan** – While the perception of a lack of dynamism is typically more of an issue at smaller offices, FOs can address candidates' concerns with a detailed long-term development schedule linked to an increasing level of responsibilities. FO professionals also emphasized prestige, breadth of roles, job safety and better lifestyle as key benefits to working at an FO.

iii. Lack of camaraderie – Given the smaller size and often heightened level of privacy of FOs, FO professionals may have a limited peer group and thus feel shielded from the outside world.

How have others solved this problem?

- **Involving the FO in family and operating business activities** – Many families choose to intertwine their FO, operating businesses and family activities, which not only can yield cost synergies but also social and operational benefits.
- **Sharing office space** – Often a productive solution for Core model offices, sharing office space can be cost-effective (due to benefits such as greater rent negotiating power and shared administrative services) and provide FO professionals with social interaction with similarly minded people, sharing of investment ideas and even access to a broader transaction pipeline and club deals.



Chapter 5: Next Generation

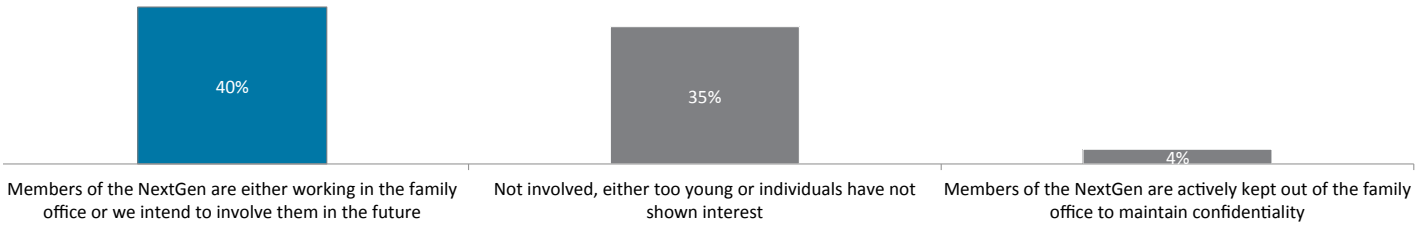
Next-Generation risks are clear

- The single greatest concern families have about their Next Generation (NextGen) members is potential lack of personal achievement.
- The second concern centres on preparedness for inheriting wealth.
- Some principals address these concerns by encouraging external professional and philanthropic endeavours, or seeding direct investing funds or start-ups.
- Other families have no structured approach or purposely shield children from knowledge of the family wealth.

In the survey, "NextGen" is defined as all family members who are in line to inherit wealth. In the families interviewed, members of the NextGen varied greatly: some were small children and thus unaware of the family's wealth, while others were young adults with a track record of professional success.

While many parents believe there are no right or wrong career choices, they share a real concern about preparing children for managing the family's wealth. Statistics support their fears: 60% of families lose all of their wealth by the second generation, and 90% lose it by the third generation.[2]

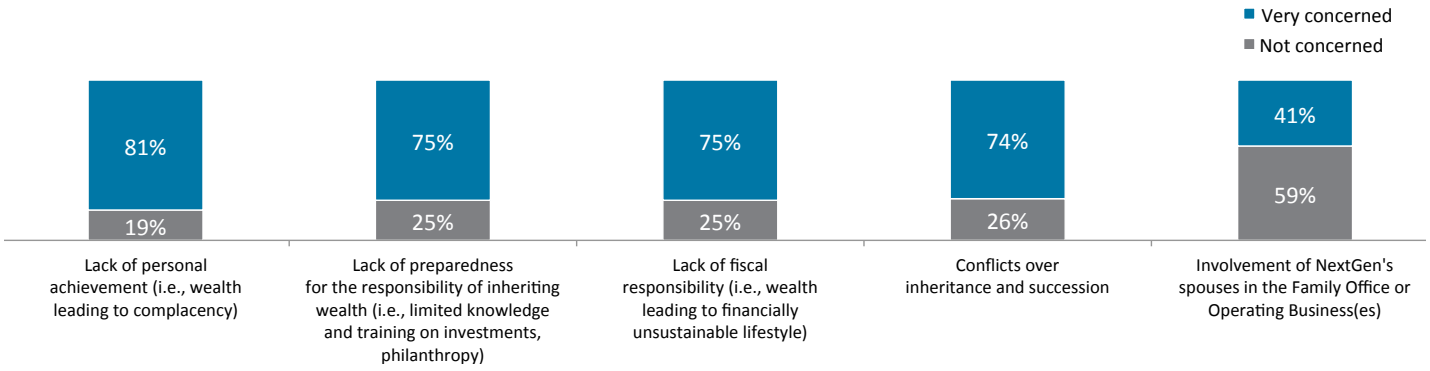
Figure 5-1: NextGen's involvement in the family office



Working in the FO helps prepare NextGen members for the responsibilities of managing wealth. However, only 40% of those surveyed indicate that the NextGen is actively involved in the FO or intend to be in the future (Figure 5-1).

Families have four main concerns regarding the NextGen.

Figure 5-2: With respect to the next generation, what are the areas of concern?



1. **Lack of personal achievement** – Families worry that their children will grow up attributing personal successes to the family's wealth and position in society. The question remains: how can the family's wealth be used to allow offspring to thrive in their own right? How can the FO construct enable NextGen to pursue its own ambitions?

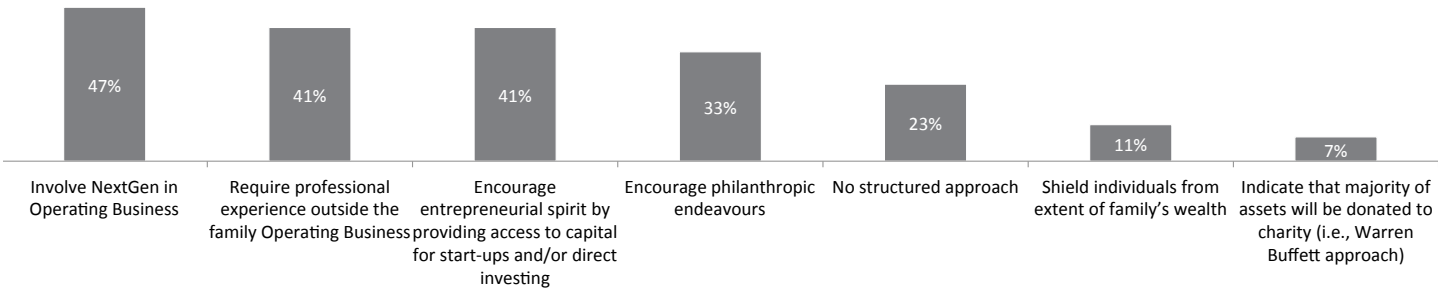
2. **Perceived lack of preparedness for the responsibility of inheriting wealth** – Families recognize that the NextGen might not have the training or knowledge needed to assume the stewardship of the family's wealth. The key question is: how can children be educated to manage the family's assets so that the family's wealth will last for generations to come?

3. **NextGen's lack of fiscal responsibility** – Families believe the NextGen may grow up to take the family's wealth for granted, leading to extravagant consumerism. The key question is: how can the family instil an understanding and appreciation of fiscal responsibility in the Next Generation?

4. **Conflicts over inheritance and succession** – Family conflict is a well-recognized problem that could lead to family divisions, negative impact on the family's legacy, lack of leadership at the family operating business and possibly losing family wealth. Proper family governance is critical to ensuring harmony. The key question is: how can NextGen's upbringing position them for conflict-free lives?

[2] Cochell, P.L. and Zeeb, R.C., "Beating the Midas Curse," Heritage Institute Press, 2005, p7

Figure 5-3: Measures families put in place to ensure the NextGen has a sense of personal achievement



Families use a variety of measures to prepare NextGen members. Instilling a sense of personal achievement is crucial. Principals attach great importance to ensuring that their offspring grow up with a sense of personal achievement and are well-positioned to succeed as stewards of the family's wealth. Business experience is considered the primary path (Figure 5-3).

- **Involve the next generation in the family operating business** – Almost half the families groom offspring from a very young age to assume leadership positions in the family operating business. NextGen members who experienced success at the family operating business often gained prior external experience at a related company. Many families shared that they start the NextGen in a junior position within the operating business, allowing them to gain exposure, trust and credibility with the other employees.

- **Require experience outside the family operating business** – Many families require work elsewhere before allowing their children to start in the family business. One FO head shared that their family requires a minimum of five years of outside experience before allowing the children to join the FO or the operating business. Families report that this helps the NextGen build confidence, as well as a track record of their own professional success.

Many families also emphasized providing their children with the best possible business education before joining the operating business. Many business schools offer programmes that allow NextGen members to explore issues around managing a family operating business and meet like-minded peers.

- **Encourage entrepreneurship through the FO** – Most families' wealth originated from founding an operating business and many seek to continue that tradition. Families indicated two common ways their FOs help to support NextGen ventures: access to capital for start-ups; and/or direct investing opportunities.

- **Emphasize philanthropy** – Allowing children to manage the family's philanthropic endeavours creates a number of opportunities for them to connect with the community and develop a view on where contributions add the greatest value.

- **Establish a clear succession plan** – If families are committed to having a child eventually control the operating business, there must be open communication about expectations and roles to all NextGen members.

In one instance, a Middle Eastern family with three maturing sons has allowed all three to pursue their own passions (one in the arts, one in philanthropy, and another in academia) and hired an external management team to lead the family business into the future.

What do others do?

While still in college, a son of a prominent New York family developed a business plan for a venture. His father carefully reviewed the assumptions and funded the start-up with a few explicit conditions: part of the funding came from the son's inheritance; the father co-invested with his own equity, allowing him access to regular progress updates; and the son would work on his start-up while completing his college degree.

Building investing skills

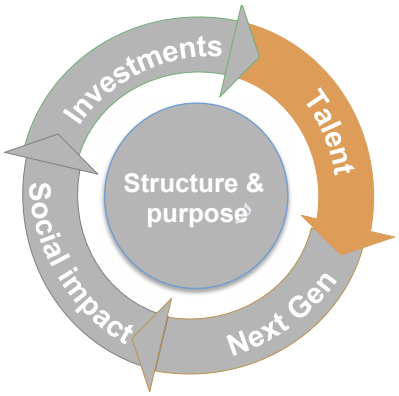
A European family earmarked a pool of funds for a son to invest in direct minority stakes in tech-related companies. Both the main family fund and the son's fund are based in the same FO, using the same rigorous investment process. The son is responsible for sourcing, analysing and monitoring his own portfolio.

Instilling philanthropic values

One New York City-based family requires all three of their children (aged 14 to 21) to give away 5% of their philanthropic foundation's $300,000 every year (tax requirement to maintain the private foundation's tax-exempt status in the US). The family believes this approach allows the children to form a view on what they care about and what is close to their hearts. It also spurs many questions that require critical assessments: "Should I spread my 5% over two or three causes, or donate all of it to one?" or "Should I donate through a large multinational established umbrella organization, or should I give directly to the local non-profit?"

NextGens taking it upon themselves

We also spoke with NextGens who seek to better understand the FO construct and prepare themselves for succession. One NextGen founded an organization that connects young investors and entrepreneurs. Started in 2011 as an informal breakfast gathering, the group brings together like-minded peers who need a forum to exchange philanthropic and investment ideas in a safe and informal environment. The founder is a strong supporter of the concept of Next First Generation (NextFirstGen): a notion that the next generation can also be the first generation to put new ideas into life and embark on a new legacy. The knowledge acquired from exchanging ideas with peers and the NextFirstGen mindset give these young individuals a strong platform to add value to the FO and operating business.



Chapter 6: Social Impact and Philanthropy

A deep sense of social responsibility motivates most families that engage in philanthropy and impact investing. These efforts can also create meaning and cohesion within families. They can bring families together around a common purpose, provide an identity to entrepreneurs who have sold their business, and instil meaning to NextGen members.

The traditional approach to social impact has been through philanthropy, or providing grants or donations to worthy social causes. A second, increasingly popular approach is through impact investing, which aims to take into account positive social and environmental criteria in investments without sacrificing risk-adjusted returns. The third model is a hybrid of the prior approaches, called a programme-related investment (PRI). PRIs offer inexpensive capital (primarily through loans, loan guarantees and equity) to address pertinent social and environmental challenges when grant-making is not necessary but expectation of market returns are unrealistic. This approach is most often used by US-based foundations.

Social impact is a powerful force within families

- Philanthropy and impact investing are powerful, cohesive forces within families, with 94% participation across the two categories.
- There are a number of levers available to FOs that wish to incorporate social impact into their portfolios (e.g., ESG – environmental, social and governance – factors in financial analysis, shareholder activism, positive/negative screening and/or direct investments).
- Programme-related investments (PRI) is a hybrid of impact investing and philanthropy where families can solve issues when grant-making is unnecessary.
- Numerous studies refute a widely held belief that socially-conscious investors are settling for lower returns.

Figure 6-1: Three approaches to philanthropy and socially motivated investing

	Philanthropy	Investing	
	Grants	Program Related Investing	Impact Investing
Return type	None	Below Market Returns "Concessionary"	Risk-Adjusted Market Returns "Non-Concessionary"
Key highlights	▪ Funds or products provided by a grant maker to a recipient, who is often a nonprofit entity, educational institution, business or individual.	▪ Provides foundations an alternative beyond traditional grant-making to make philanthropic investments. ▪ Investments may qualify as part of a foundation's 5% annual payout. ▪ Aim is to recover principal and reuse the same money for future investments.	▪ Aims to achieve positive social and environmental impact while targeting risk-adjusted market-rate returns. ▪ Includes utilizing approaches such as ESG integration, corporate engagement and shareholder action, positive/negative screening, and direct equity/debt investments.
Examples	▪ Charles Stewart Mott Foundation: $200,000 grant to the Institute for Conservation Leadership.	▪ Bill and Melinda Gates Foundation: $7mm equity fund investment to stimulate health-related ventures in Africa.	▪ Investing in public renewable energy companies (e.g., SolarCity, First Solar, Phoenix Solar).
Prevalence among survey respondents	▪ 74%	▪ N/A	▪ 20%

Impact investing aims to accomplish two goals. Impact investing aims to achieve positive social and environmental impact, as well as market returns. This model can be implemented through public equities, fixed income, private equity and venture capital funds, real estate, infrastructure and direct investments. While direct investments may provide an FO with the greatest opportunity to have direct influence, it may not be an appropriate investment channel for FOs without the expertise or infrastructure in place. FOs do have several other ways to see that their investment portfolio incorporates the social and environmental values important to them:

- **ESG integration** – investment managers systematically include ESG factors in their traditional financial analysis (e.g. adjusting earnings forecasts, growth estimates and discount rates to reflect ESG data).
- **Corporate engagement and shareholder action** – use the power of shareholders to influence corporate behaviour (e.g. communication with senior management, filing shareholder proposals and proxy voting).
- **Positive/negative screening** – selecting investments based on positive ESG relative to industry peers or excluding investments based on specific ESG criteria.

Using a combination of levers to achieve results

Consider the Rockefeller Brothers Fund, a philanthropic foundation created and run by members of the Rockefeller family, which announced in September 2014 that it would divest from holdings in fossil-fuel companies. They also previously engaged in shareholder activism by trying to influence ExxonMobil on issues related to the environment and climate change.[3]

Other families have chosen to allocate a portion of their portfolio to impact investments; for instance, by applying ESG screens to portions of their liquid equity exposure. They embrace the view that doing good and doing well are not mutually exclusive, that companies ranked well on ESG factors are generally better-managed firms that will perform well relative to their peers.

The Blue Haven Initiative, the FO co-founded by Liesel Pritzker Simmons and Ian Simmons, invests to achieve social and environmental impact while seeking market returns. With its third-party managers, they implement this philosophy across their entire portfolio of public equity, fixed income, alternatives and direct investments. They employ a combination of mechanisms, including screening, ESG criteria, shareholder advocacy and proxy voting strategies to shape their strategies. One manager Blue Haven partners with for its equities portfolio develops a "social score" ranking based on ESG performance criteria. This helps to create customized equity portfolios tailored to its clients' parameters. For a deeper dive into impact investing, please see the World Economic Forum's December 2014 report, Impact Investing: A Primer for Family Offices, for more details.

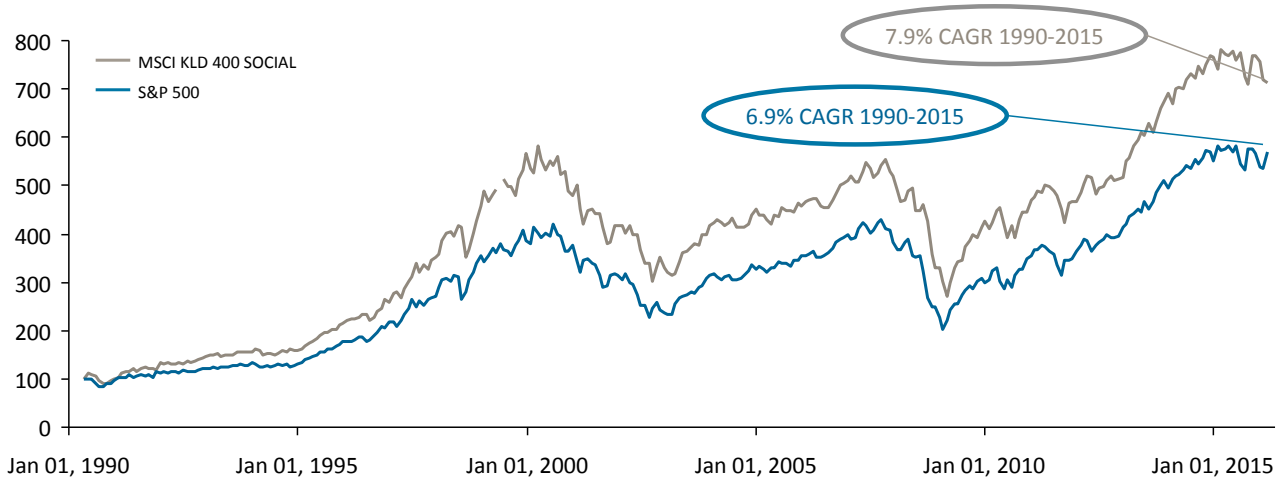
[3] Schwartz, J., "Rockefellers, Heirs to an Oil Fortune, Will Divest Charity of Fossil Fuels," *The New York Times*, 21 September 2014.

Gains for investors as well as society. We encountered the notion that employing socially motivated constraints such as ESG integration or positive/negative screens on investments would detract from the FO's overall portfolio returns. The literature on the subject suggests otherwise.

- According to Empirical Research Partners, in a review of over 60 separate academic studies, 80% found no significant performance difference between SRI (socially responsible investment) funds and non-SRI funds.[4]
- A recent Harvard Business School study indicates that firms with good performance on material sustainability issues outperform firms with poor performance.[5]
- The same Harvard Business School study also found investments in material sustainability issues can be value-enhancing for shareholders.[6]

In addition to the above literature, the MSCI KLD 400 social index, a market capitalization weighted index of 400 US securities exhibiting outstanding ESG ratings (the parent index is MSCI USA IMI, an equity index comprised of large-, mid- and small-cap companies) has outperformed the S&P 500 over the past 26 years (Figure 6-2).

Figure 6-2: ESG performance

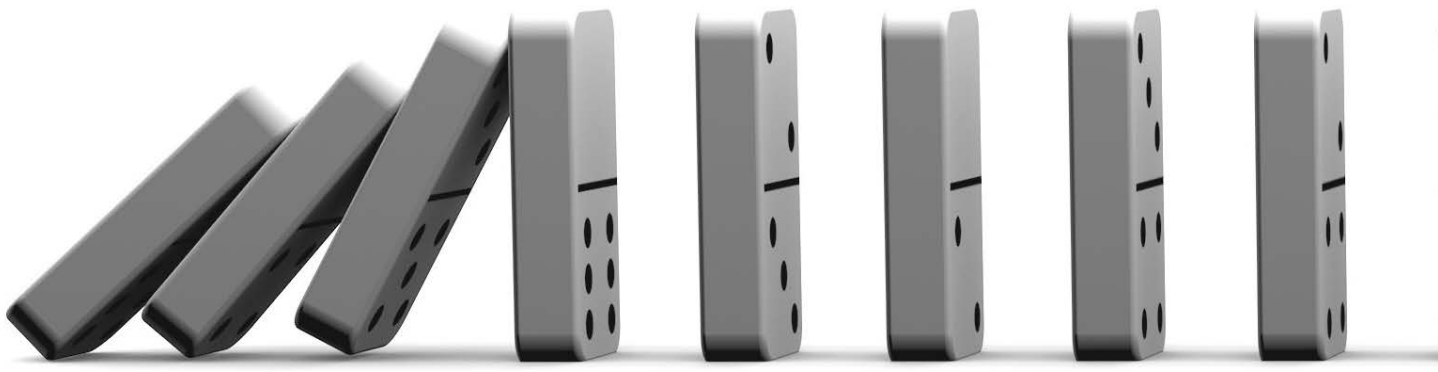


Based on MSCI data through 2/29/16. Series indexed to 100

Note: The 10-year CAGR for the MSCI KLD 400 index, calculated on a monthly basis beginning in April 2000, outperformed the S&P 500 index approximately 70% of the time.

Source: Historical prices sourced from Yahoo Finance and www.msci.com

[4] Stock Selection: Research and Results, May 2014: Investment Ideas from the Ivory Tower – Perspectives on Socially Responsible Investing," Empirical Research Partners, 2014.
[5] Khan, M., Serafeim, G., and Yoon, A., "Corporate Sustainability: First Evidence on Materiality," Harvard Business School, 2015.
[6] Khan, M., Serafeim, G., and Yoon, A., "Corporate Sustainability: First Evidence on Materiality," Harvard Business School, 2015.



A hybrid approach: programme-related investments (PRI). PRIs are a lesser-known way that FOs and their US-based foundations can make social and environmental investments. PRIs may be counted towards a US-based foundation's 5% annual contribution requirement if:

- the investment is made primarily to accomplish one or more of the foundation's exempt purposes
- production of income and appreciation of property are not significant reasons for the investment
- the investment must not be used for political purposes or lobbying

Similar to a grant, PRIs provide inexpensive capital for non-profit or for-profit enterprises that address social and environmental challenges. In contrast to a grant, PRIs' principal and any nominal interest or financial gain are expected to be repaid. Foundations generally reuse the money for a new charitable investment. The most common forms of PRIs include:

- **No- or low-interest loans** make up the majority of PRIs. One example is a $5 million loan made to Freshwater Trust's water-quality trading programme by the David & Lucile Packard Foundation, the Gordon and Betty Moore Foundation and the Kresge Foundation.[7]
- **Loan guarantees** help organizations and individuals with limited ability to access capital from traditional banks by pledging the foundation's credit or assets as security for a grantee. One loan guarantee example is the Erich and Hannah Sachs Foundation's purchase of a $200,000 certificate of deposit in the Santa Cruz Community Credit Union, allowing that organization to give residents and small businesses greater access to low-interest loans and financial services.[8]
- **Equity** is a smaller, but growing type of PRI in which a foundation makes an equity investment in a for-profit "social enterprise". They are typically made in start-up companies or other risky ventures in unproven markets or products, such as the Bill and Melinda Gates Foundation $7 million equity fund investment focused on investing in Africa's health sector.[9]

Mission-driven

Capricorn Investment Group, a firm that manages capital for the Skoll Foundation and Jeff Skoll, who was the first president of eBay, seeks to fully integrate impact and ESG considerations into its investment approach. The firm was born from a belief that values-based, sustainable investment practices can enhance return rates. Through a number of investment strategies, ranging from real assets and clean technology venture capital to sustainable real estate and ESG-focused equities, Capricorn Investment Group makes the case that huge investment potential resides in breakthrough commercial solutions to the world's most pressing problems.

[7] "Program-Related Investments: Program Overview," David and Lucile Packard Foundation
[8] Schneider, S. and Snow, P., "10 Things You Didn't Know You Could Do With Your Foundation: Program-Related Investments: An Overview", Foundation Source, 2012
[9] Bill and Melinda Gates Foundation; "New Private Equity Fund Launched to Strengthen Healthcare in Africa," African Development Bank Group, 6 August 2009.

Chapter 7: Conclusion

Family offices: creating value for families and society

As this report has discussed, FOs are uniquely positioned to address specific family needs and make a significant impact on society. The private nature of FOs has often made it difficult for wealthy families and FO professionals to compare and evaluate FOs. Despite their uniqueness, there are several common themes surrounding objectives, services, investments, talent, Next Generation and social impact that FOs share.

The approximately $2 trillion in wealth managed by FOs worldwide positions them to make a significant social and financial impact on their communities. Families' role in society has allowed FOs to be pioneers in philanthropy and impact investing, while the principals' entrepreneurial legacy has positioned them to be key proponents of fostering future entrepreneurship.

A common misconception is that FOs only function as vehicles to preserve and build the wealth of families. In fact a key mission of a FO can also involve securing and nurturing legacies and values for future generations. Therefore, it is important for current FOs, and those families looking to establish one, to constantly evaluate how the FO is serving their broader needs and helping their family achieve its objectives.

The World Economic Forum hopes that this report will serve as a starting point for families to begin conversation around these topics. It is our hope that reports such as this one can support these conversations and that we have demonstrated pragmatic and visionary approaches FOs can take to improve the state of the world. In particular, the families that participated in our survey named Next Generation training, measuring performance, compensating FO staff, and digital solutions for the FO as areas that need further research.

We look forward to hearing our readers' feedback. Please contact Tomek Siergiejuk (Tomek.Siergiejuk@jpmorgan.com) or Katherine Bleich (Katherine.Bleich@weforum.org) with any questions or comments.

Appendix 1: Glossary of Terms

AUM – Assets Under Management

Aggregation – reporting of all assets and liabilities together to present the family's full net worth

Carry – carried interest, a share of profits given as compensation that does not require upfront investment; frequently given to align incentives between investment team and principals

CIO – Chief investment officer, an individual responsible for oversight of investment activity, including development of an asset-allocation plan or selection of outside managers

Co-investment – the ability (or requirement) for FO investment personnel to commit their own capital to investments made by the office

Club deals – typically private deals with participation from a small number of parties; used by FOs to reduce outsize exposure to any particular deal

Cybersecurity – measures taken to protect IT systems from disruption or information loss; can include physical infrastructure security, software and personnel training, among others

Direct investment model – a model in which an FO invests in direct liquid (trading) or illiquid (private equity and real estate) assets

Discretionary bonus – compensation decided at the sole discretion of management; not linked directly to performance against benchmarks

ESG criteria (environmental, social and corporate governance criteria) – a set of standards for screening investments: environmental criteria relate to a company's effect on the natural environment; social criteria relate to how a company manages relationships with its stakeholders; and governance criteria relate to how a company is led

Family foundation – an independent private foundation whose funds come from members of a single family; family members often serve as officers or board members of family foundations and usually have a significant role in their grant-making decisions.

Family investment firm – see family office

Family office – a private entity that manages finances and investment for an affluent individual or family

Household – may be a one-person or multi-person household, composed of an individual or couple and their dependents

Illiquid assets – investments not readily priced or sold on public markets; typically includes private equity holdings, property and other real assets

Impact investments – investments that are made with the dual purpose of generating financial return as well as social and/or environmental impact

Investment committee – group of individuals who evaluate investment proposals for the FO; may comprise family members and non-family-member employees and external advisers

Key-person risk – arises when knowledge or skills are concentrated in one individual or a small group of individuals, creating the potential for significant disruption if an individual leaves the firm

Liquid portfolio – portfolio assets, except operating business holdings and other illiquid investments, such as property and additional real assets

Manager of managers (Endowment) investment model – a model in which an FO internal staff performs asset allocation and manager selection; external managers invest directly on behalf of the FO

Metrics-based bonus – compensation linked directly to performance against benchmarks; not necessarily based on financial return

Net worth – total value of family's liquid and illiquid assets, minus any debt

NextGen – Next Generation, offspring of individuals currently in charge of FO who are in line to inherit the family wealth

Operating business – any business outside the FO or foundation that generates revenue directly for the family; usually the source of a family's wealth

Outsourced investment model – a model in which an FO outsources its asset allocation and investment activity to banks and other asset managers

Performance benchmark – standard to measure the performance of an investment manager; can range from broad-based equity or fixed-income indices to customized measures that take into account investment preferences of the family

Principal - business owner or head of the family responsible for wealth creation and/or management

Private investment firm – see Family office

Profit centre – method of structuring an FO that allows investment professionals to have a minority equity stake in the office, with financial incentives to investment personnel through distributions based on FO's net profits

Single family investment office – see Family office

Appendix 2

Acknowledgements

Authors

Tomek Siergiejuk

Tomek Siergiejuk works in J.P. Morgan's Corporate Strategy Group, focusing on domestic and international projects spanning across multiple business lines, geographies, and functions. His studies include assessing and planning new product and market entry, improving client coverage, digital wealth management, cybersecurity, designing and implementing solutions addressing Bank-wide priorities. Tomek joined J.P. Morgan from Credit Suisse where he worked as an investment banker focusing on M&A in the Global Financial Institutions Group. He started his career as an emerging markets investment analyst at a hedge fund based in London.

Tomek holds an A.B. degree in Economics and in German Studies from Yale College and an MBA from Harvard Business School.

Ravi Arulanantham

Ravi Arulanantham is with J.P. Morgan Asset Management in Strategy & Business Development. Since joining the firm nearly 3 years ago, he has partnered with senior leaders across Investment and Wealth Management to assess their businesses and competitive position, and deliver on their priority business objectives. Before joining JPMorgan in 2012, Ravi was SVP of Strategy and Senior Advisor to the Chairman at the Export-Import Bank of the United States. Prior to that, he was on the investment team at Silver Creek Capital and a management consultant at McKinsey & Co. and CSC Consulting.

Ravi holds an A.B. in Chemistry from Dartmouth College and an M.Phil in Economics from the University of Cambridge.

Working Group

(in alphabetical order)

Ravi Arulanantham

Katherine Bleich

Andy Cohen

Laura Drachman

Michael Drexler

Maha Eltobgy

Claude Kurzo

Max Neukirchen

Jonathan Quigley

Tomek Siergiejuk

Han Yik

J.P. Morgan Chase & Co.

Michael Lamson, Grant Van Horn, Andy Xu

This report synthesizes the ideas and contributions of many individuals to whom the working group is thankful for generously contributing their time, energy and insights. In particular, the team would like to offer our gratitude to those who participated in workshops, interviews, survey and project conversations.

Appendix 3: Bibliography & Further Reading

2015 Private Wealth Outlook, Deloitte Center for Financial Services, 2015

Environmental, Social and Governance (ESG) Landscape, J.P. Morgan Asset Management, September 2015

Family Business in Transition: Data and Analysis, Family Business Institute, 2016

Family Office – Special Report, Bloomberg, June 2014

Impact Investing – Charting the Course, World Economic Forum

Philanthropic Lives: The Unique Experiences of Eight UK Philanthropists, J.P. Morgan Private Bank

World Wealth Report 2015, Capgemini

2015 Preqin Investor Network Global Alternatives Report, 2015

Asia Family Enterprise Study, J.P. Morgan Private Bank, 2015

Insights on Family Office Compensation. Sample findings from the 2015 Single Family Office, Fidelity Family Office Services, 2015

J.P. Morgan Family Office Survey 2012

Osili, U., et al., *Leveraging the Power of Foundations: An Analysis of Program-Related Investing*, Lilly Family School of Philanthropy, Indiana University and IUPUI

Philanthropic Lives, J.P. Morgan Private Bank, 2015

Program-Related Investments: Program Overview, David and Lucile Packard Foundation

Strategies to Maximize Your Philanthropic Capital: A Guide to Program Related Investments, Mission Investors Exchange in conjunction with the Thomson Reuters Foundation and Linklaters LLP, April 2012

Succession planning: principles and practice, J.P. Morgan Private Bank, 2015

The Future of Long-Term Investing, World Economic Forum in collaboration with Oliver Wyman, 2011

Amit, R. and Liechtenstein, H., *Benchmarking the Single Family Office: Identifying the Performance Drivers, 2009*, Wharton Global Family Alliance, 2009

Amit, R. and Liechtenstein, H., *Benchmarking the Single Family Office: Identifying the Performance Drivers, 2012*, Wharton Global Family Alliance, 2012

Amit, R., Liechtenstein, H., Prats, M. J., Millay, T., and Pendleton, L. P., *Single Family Offices: Private Wealth Management in the Family Context*, Wharton Global Family Alliance, 2008

Amit, R. and Perl, R., *2012 Family Governance Report: Sources and Outcomes of Family Conflict,* Wharton Global Family Alliance, July 2012

Amit, R., Ding, Y., Villalonga, B., and Zhang, H., *The Role of Institutional Development in the Prevalence and Family of Family Firms*, 17 November 2009

Bill and Melinda Gates Foundation, www.gatesfoundation.org

Schneider, S. and Snow, P., *10 Things You Didn't Know You Could Do With Your Foundation: Program-Related Investments: An Overview*, Foundation Source, 2012.

Hoque, F. and Voorhes, M, *Unleashing the Potential of US Foundation Endowments*, US SIF Foundation, 2014

Brende, B. and Quigley, J., *A Primer on Governance of the Family Enterprise*, World Economic Forum, June 2013

Brest, P. and Born, K., *When Can Impact Investing Create Real Impact?*, Stanford Social Innovation Review, 2013

Cochell, P.L. and Zeeb, R.C., *Beating the Midas Curse*, Heritage Institute Press, 2005, p7

Drexler, M. and Mendelssohn, I., *Direct Investing by Institutional Investors: Implications for Investors and Policy-Makers*, World Economic Forum in collaboration with Oliver Wyman, November 2014

Drexler, M., Noble, A., and Leytes, M., *Impact Investing: A Primer for Family Office*, World Economic Forum, December 2014

Empirical Research Partners, *Stock Selection: Research and Results*, May 2014; Perspectives on Socially Responsible Investing, 19 May 2014.

Khan, M., Serafeim, G., and Yoon, A., *Corporate Sustainability: First Evidence on Materiality*, Harvard Business School, 2015

Schwartz, J., Rockefellers, *Heirs to an Oil Fortune, Will Divest Charity of Fossil Fuel*s, The New York Times, 21 September 2014.

Appendix 4: About the World Economic Forum and J.P. Morgan

About the World Economic Forum

The World Economic Forum is an international institution committed to improving the state of the world through public-private cooperation in the spirit of global citizenship. It engages with business, political, academic and other leaders of society to shape global, regional and industry agendas. Incorporated as a not-for-profit foundation in 1971 and headquartered in Geneva, Switzerland, the Forum is independent, impartial and not tied to any interests. It cooperates closely with all leading international organizations.

About J.P. Morgan

J.P. Morgan is a global leader in financial services to corporations, governments, for-profit and not-for-profit institutions and wealthy individuals. Through the Private Bank at J.P. Morgan, the firm delivers customized wealth management advice and solutions to wealthy individuals and their families, leveraging its broad capabilities in investing, family office management, philanthropy, credit, fiduciary services and special advisory services to help its clients advance toward their own particular goals. For more than 170 years, the Private Bank's comprehensive and integrated product offering, commitment to innovation and integrity, and focus on placing the interests of its clients first and foremost have made J.P. Morgan an advisor of choice to people of significant wealth around the world.

Appendix 5: Disclaimers

Information about your investments and potential conflicts of interest

Conflicts of interest will arise whenever JPMorgan Chase Bank, N.A. or any of its affiliates (together, "J.P. Morgan") have an actual or perceived economic or other incentive in its management of our clients' portfolios to act in a way that benefits J.P. Morgan. Conflicts will result, for example (to the extent the following activities are permitted in your account): (1) when J.P. Morgan invests in an investment product, such as a mutual fund, structured product, separately managed account or hedge fund issued or managed by JPMorgan Chase Bank, N.A. or an affiliate, such as J.P. Morgan Investment Management Inc.; (2) when a J.P. Morgan entity obtains services, including trade execution and trade clearing, from an affiliate; (3) when J.P. Morgan receives payment as a result of purchasing an investment product for a client's account; or (4) when J.P. Morgan receives payment for providing services (including shareholder servicing, recordkeeping or custody) with respect to investment products purchased for a client's portfolio. Other conflicts will result because of relationships that J.P. Morgan has with other clients or when J.P. Morgan acts for its own account.

Investment strategies are selected from both J.P. Morgan and third-party asset managers and are subject to a review process by our manager research teams. From this pool of strategies, our portfolio construction teams select those strategies we believe fit our asset allocation goals and forward-looking views to meet the portfolio's investment objective.

As a general matter, we prefer J.P. Morgan managed strategies. We expect the proportion of J.P. Morgan managed strategies will be high (in fact, up to l00%) in strategies such as, for example, cash and high-quality fixed income, subject to applicable law and any account-specific considerations.

While our internally managed strategies generally align well with our forward-looking views, and we are familiar with the investment processes as well as the risk and compliance philosophy of the firm, it is important to note that J.P. Morgan receives more overall fees when internally managed strategies are included. We offer the option of choosing to exclude J.P. Morgan managed strategies (other than cash and liquidity products) in certain portfolios.

Important Information

Purpose of this material
This material is for information purposes only. The information provided may inform you of certain investment products and services offered by J.P. Morgan's private banking business, part of JPMorgan Chase & Co. The views and strategies described in the material may not be suitable for all investors and are subject to investment risks. Please read this Important Information in its entirety.

Confidentiality
This material is confidential and intended for your personal use. It should not be circulated or used by any other person, or duplicated for non-personal use, without our permission.

Regulatory status
In the United States, bank products and services, including certain discretionary investment management products and services, are offered by JPMorgan Chase Bank, N.A. and its affiliates. Securities products and services are offered in the US by J.P. Morgan Securities LLC, an affiliate of JPMCB, and outside of the US by other global affiliates. J.P. Morgan Securities LLC, member FINRA and SIPC.

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

In the United Kingdom, this material is issued by J.P. Morgan International Bank Limited (JPMIB) with the registered office located at 25 Bank Street, Canary Wharf, London E14 5JP, registered in England No. 03838766. JPMIB is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In addition, this material may be distributed by: JPMorgan Chase Bank, N.A. ("JPMCB"), Paris branch, which is regulated by the French banking authorities Autorité de Contrôle Prudentiel et de Résolution and Autorité des Marchés Financiers; J.P. Morgan (Suisse) SA, regulated by the Swiss Financial Market Supervisory Authority; JPMCB Dubai branch, regulated by the Dubai Financial Services Authority; JPMCB Bahrain branch, licensed as a conventional wholesale bank by the Central Bank of Bahrain (for professional clients only).

In Hong Kong, this material is distributed by JPMCB, Hong Kong branch. JPMCB, Hong Kong branch is regulated by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. In Hong Kong, we will cease to use your personal data for our marketing purposes without charge if you so request. In Singapore, this material is distributed by JPMCB, Singapore branch. JPMCB, Singapore branch is regulated by the Monetary Authority of Singapore. Dealing and advisory services and discretionary investment management services are provided to you by JPMCB, Hong Kong/Singapore branch (as notified to you). Banking and custody services are provided

to you by JPMIB. The contents of this document have not been reviewed by any regulatory authority in Hong Kong, Singapore or any other jurisdictions. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

With respect to countries in Latin America, the distribution of this material may be restricted in certain jurisdictions. Receipt of this material does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. To the extent this content makes reference to a fund, the fund may not be publicly offered in any Latin American country, without previous registration of such fund's securities in compliance with the laws of the corresponding jurisdiction.

Non-reliance

We believe the information contained in this material to be reliable and have sought to take reasonable care in its preparation. However, we do not represent or warrant its accuracy, reliability or completeness, or accept any liability for any loss or damage (whether direct or indirect) arising out of the use of all or any part of this material. We do not make any representation or warranty with regard to any computations, graphs, tables, diagrams or commentary in this material which are provided for illustration/reference purposes only. The views, opinions, estimates and strategies expressed in it constitute our judgement based on current market conditions and are subject to change without notice. We assume no duty to update any information in this material in the event that such information changes. Views, opinions, estimates and strategies expressed herein may differ from those expressed by other areas of J.P. Morgan, views expressed for other purposes or in other contexts, and these materials should not be regarded as a research report. Any projected results and risks are based solely on hypothetical examples cited, and actual results and risks will vary depending on specific circumstances. Forward-looking statements should not be considered as guarantees or predictions of future events.

Investors may get back less than they invested, and past performance is not a reliable indicator of future results.

Risks, considerations and additional information

There may be different or additional factors which are not reflected in this material but which may impact on a client's portfolio or investment decision. The information contained in this material is intended as general market commentary and should not be relied on in isolation for the purpose of making an investment decision. Nothing in this document shall be construed as giving rise to any duty of care owed to, or advisory relationship with, you or any third party. Nothing in this document is intended to constitute a representation that any investment strategy or product is suitable for you. You should consider carefully whether any products and strategies discussed are suitable for your needs, and to obtain additional information prior to making an investment decision. Nothing in this document shall be regarded as an offer, solicitation, recommendation or advice (whether financial, accounting, legal, tax or other) given by J.P. Morgan and/or its officers or employees, irrespective of whether or not such communication was given at your request. J.P. Morgan and its affiliates and employees do not provide tax, legal or accounting advice. You should consult your own tax, legal and accounting advisers before engaging in any financial transactions. Contact your J.P. Morgan representative for additional information concerning your personal investment goals. You should be aware of the general and specific risks relevant to the matters discussed in the material. You will independently, without any reliance on J.P. Morgan, make your own judgement and decision with respect to any investment referenced in this material.

J.P. Morgan may hold a position for itself or our other clients which may not be consistent with the information, opinions, estimates, investment strategies or views expressed in this document.

JPMorgan Chase & Co. or its affiliates may hold a position or act as market-maker in the financial instruments of any issuer discussed herein or act as an underwriter, placement agent, adviser or lender to such issuer.

References in this report to "J.P. Morgan" are to JPMorgan Chase & Co., its subsidiaries and affiliates worldwide. "J.P. Morgan Private Bank" is the marketing name for the private banking business conducted by J.P. Morgan.

If you have any questions or no longer wish to receive these communications, please contact your usual J.P. Morgan representative.

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

The World Economic Forum, committed to improving the state of the world, is the International Organization for Public-Private Cooperation.

The Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.

World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744
contact@weforum.org
www.weforum.org