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National Family Office Forum: Adapt, innovate, and transform

2018 survey report

Introduction

Although no two family offices are alike, many single family offices (SFOs) do have a great deal in common. They offer many of the same services as elite private banks and investment firms. They reflect the attributes of the family they serve. And they share an ambition to administer the family's affairs via the most modern and effective means possible.

February 2018 marked the second National Family Office Forum at Deloitte University, following up the inaugural event from two years earlier. These forums are a place where SFO executives can share leading practices, build new relationships with peers in the industry, and discover what others in their field are doing to meet the family's needs.

To help with those objectives, we accompany each forum with a survey about the issues that are currently important to SFOs. The 2016 edition had 86 participants and covered a wide range of topics. This year, we updated the survey to reflect what we're seeing in the marketplace today. A total of 108 executives with significant SFO tenure told us about the key challenges they face in their efforts to adapt, innovate, and transform the offices they serve. Across the responses, an overarching theme of resiliency shines through. Here are the highlights.

Scope of services

From a comprehensive list of potential SFO services, participants identified those services that their own offices provided. Then, for each service, they indicated whether the SFO provided it in-house, outsourced it, or combined the two approaches. The responses yielded some interesting results in several service areas.

Philanthropy

One area of interest is philanthropy (Figure 1). From due diligence to oversight of the family foundation, philanthropy is a core undertaking of an SFO. And it shows: Three-quarters of respondents say they manage the family foundation and philanthropic missions without any outside assistance. Nearly as many indicate they carry out their own due diligence and miscellaneous philanthropic services. An exception? Charitable benchmarking, which 40 percent of respondents say is not a service their office is currently delivering.

Investments

Another area of interest is investments (Figure 2). About half of the survey respondents say they engage outside providers for help with benchmarking and performance reporting. However, the majority of offices handle investment policy, asset allocation, and manager selection on their own. This mirrors a priority among families to improve real-time transparency, retain control, and maintain objectivity among those making investments on the family's behalf.

Expanded service offerings

A few results highlight opportunities to expand the services a SFO delivers to it's clients (Figure 3). Among SFOs, 35 percent do not address reputational risk and 39 percent do not address physical security. And a surprisingly small proportion of SFOs manage social media themselves—because most do not manage it at all. This may be a risky proposition in an age where social media can have an outsized impact on the family brand.

Figure 1: Philanthropy

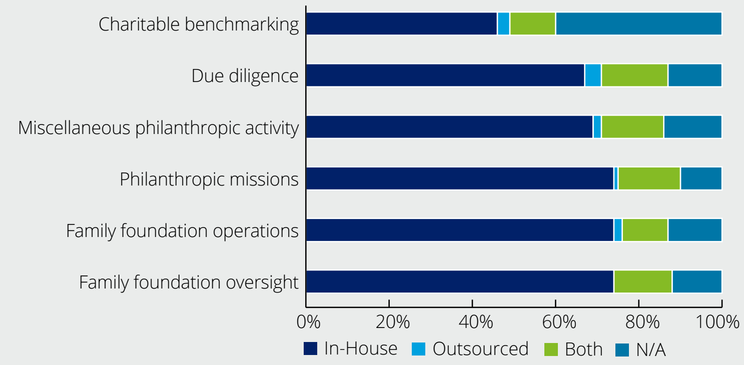


Figure 2: Investments

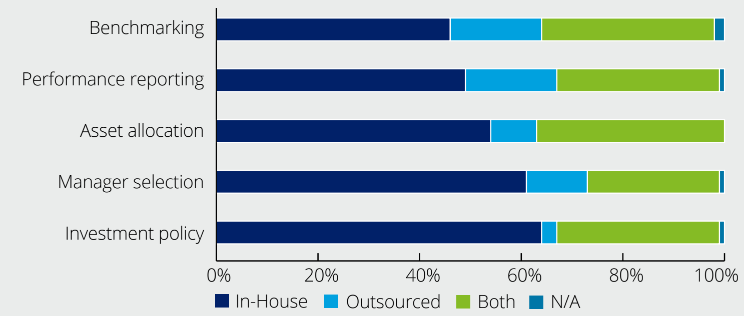
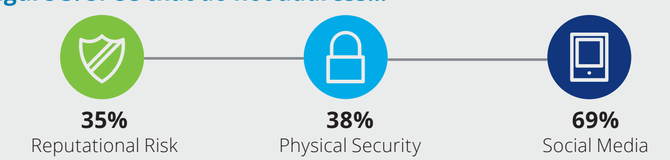
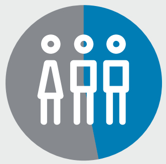


Figure 3: SFOs that do not address...



Strategic challenges

Figure 4: Greatest concern



47%
Meeting (or exceeding) family expectations

Figure 7: Most important challenge facing the family

49%
Educating and motivating the next generation

Figure 5: Most important challenge facing the executive leading SFO

- **34%** **Understanding the true expectations of the family**
- **29%** Attracting, retaining, and motivating the right talent
- **18%** Enhancing the operations of the office through process or technology changes
- **14%** Managing the investment returns and opportunities the family wants to pursue
- **5%** Other

Figure 6: Determinants of family office value

13% Tangible measures	**45%** Intangible measures	**33%** Both

Family expectations

Other risks do weigh on the minds of respondents, however. They include SFO continuity, family dynamics, and demonstrating the value of SFO services. But the greatest concern among this group, by a large margin, is meeting or exceeding family expectations (Figure 4). As the number of generations served by the SFO increases, this group will need to understand how the expectations may vary by generation and tailor their service delivery models toward the family members appropriately.

Consistent with that, about a third of respondents say their most important challenge is the ability to understand what the family truly expects of the family office and the executive(s) leading it (Figure 5). This challenge is important to more respondents than any other, edging out operational excellence, talent management, and investment management.

Measuring value

These concerns likely explain why hard measures, such as performance benchmarking, take a back seat to intangible measures, such as client feedback and overall satisfaction (Figure 6). Other goals notwithstanding, intangibles factor into most respondents' assessment of the value that the family office delivers.

Respondents' emphasis on intangible metrics also may reflect the difficulty of getting the family to articulate just what it needs out of the family office.

Next generation planning

SFO executives do have opinions about what *should be* the family's concern: educating and motivating the next generation (Figure 7). About half of all respondents say this needs to be the top priority, but only about a quarter believe that the family agrees with this. Even so, nearly three times as many respondents chose this priority over managing the family's existing enterprises. Four times as many chose it over building the next significant business enterprise.

Family philanthropy

Interestingly, given the weight of philanthropy among the typical SFO's scope of services, only five percent of respondents believe that creating a philanthropic and social legacy should be the family's number-one concern. That said, respondents indicate that charitable giving is becoming more strategic, with 34 percent noting a shift in collaboration and charitable network approaches and an equal share noting shifts in the way they measure the impact. It could be that these changes are a result of giving the next generation more of a voice in family philanthropy.

Strategic challenges, continued

Connecting with the next generation

What concerns do respondents have about the next generation of the family they serve? They are evenly divided on this point (Figure 8). Maintenance of family unity, the choice of 27 percent of respondents, indicates a recognition that the SFO is a platform for just that—a way to keep the family together. In this sense, then, the other concerns—motivating for personal achievement, buy-in of the family office value proposition, and demonstrating fiscal responsibility—can be viewed as pillars of family unity, working together to keep successive generations engaged in the family office's mission.

To that end, some respondents are trying to engage the next generation (Figure 9). The most common step, one that 60 percent say they have taken, is to increase the next generation's exposure to the SFO governance process. This can include bringing younger family members into the investment committee so they can learn about investments, or the philanthropy committee to learn about the grant-making process and family's charitable objectives. Either way, the aim is to find opportunities for the next generation to understand how decisions get made.

Figure 8: Most significant concerns with the family's next generation

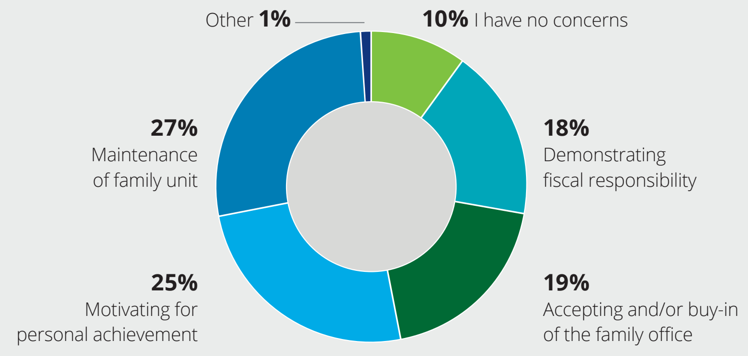
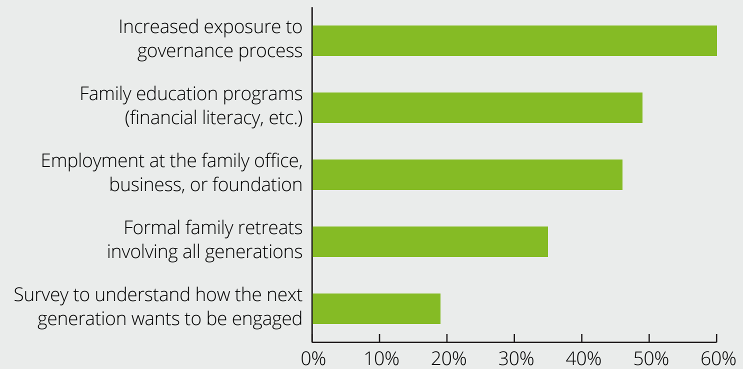


Figure 9: Steps taken to engage the next generation



The family office of the future

Figure 10: Family office succession

92%
have not lined up a successor for the SFO

73%
have not developed a family office succession plan

Figure 11: To ensure SFOs have the right talent

1 in 3 are hiring for new skill sets

1 in 4 are offering more flexible work arrangements

1 in 5 are promoting well-being in the office

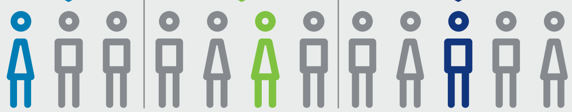
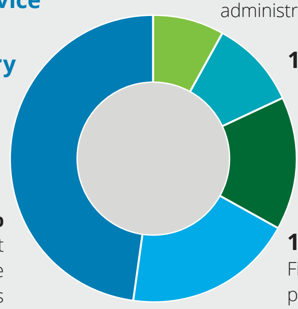


Figure 12: Biggest service gaps in the SFO industry



Succession planning

Family offices have a future to think about as well (Figure 10). For one thing, the SFO executive will eventually retire or possibly leave for another opportunity. Planning for these events does not seem to be a prospect that families relish, as well over half of respondents say the subject of succession has not come up with the family. Over 90 percent indicate the family has not lined up a successor. Meanwhile, only 27 percent of respondents indicate that the family has developed a plan to continue the family office through successive generations.

Hard as it is, these conversations need to happen. It takes time to transfer knowledge—institutional or otherwise—and build relationships so that the transition feels seamless. It also takes time to find a successor who can connect with the family's next generation in a way that enables their efforts to succeed. Lack of planning in this area could lead to significant hurdles down the road.

Talent expectations

Families can also plan on change in the makeup of the family office staff (Figure 11). A third of respondents have already begun to bring in talent with new skill sets. Respondents also say they are offering more flexible work arrangements, promoting well-being in the office, and making changes to their management approaches and compensation. All of these may be necessary to attract and retain up-and-coming talent.

A key priority for those new hires may be to provide new capabilities (Figure 12). Currently, a typical SFO deals with a broad variety of asset holdings, investment firms, and tax filing obligations. Investor reporting on all this activity requires deep financial and analytical knowledge. To date, aggregating this information has been very manual, which may be why half of all respondents point to technology as their biggest service gap. While technology systems that meet all SFO's needs may not exist today, identifying talent with strong technology backgrounds could help SFOs tackle data management and analysis in ways that may not have previously been considered. With talent who can deliver real time data, the SFO will be better positioned to bring insights that inform family decisions.

The family office of the future, continued

Technology transformation

Asked to select from a list of emerging technologies (Figure 13), respondents' second-most popular pick was cloud computing. This appears to reflect a growing comfort with using remote servers to process and store their information. It may also be a response to demands from the family for greater accessibility. In that light, respondents' number-one choice seems almost inevitable: cybersecurity technology. Given the frequency with which many offices move cash, the ability to guard against fraud, theft, and improper authorizations is essential.

Evolving investment strategies

While many families in prior years have taken a more passive approach to their investments, there has been a significant increase in the number of families who are choosing to make direct investments in operating businesses (Figure 14). According to 79 percent of respondents, families are directly buying and operating companies as part of their investment portfolio. This is likely because direct investing can provide an opportunity for outsized returns. Furthermore, many younger family members are willing to take risks, have the desire to make an impact, and strive to achieve repeated success. For all these reasons, respondents indicate that direct private equity investments are one of the highest priorities for future investment allocations, second only to marketable securities and ahead of real estate (Figure 15).

Figure 13: Tranformations the SFO is likely to adopt

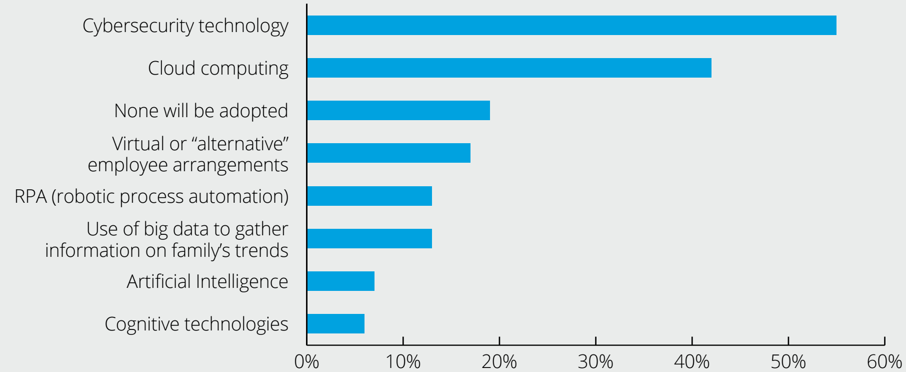


Figure 14: Current investments

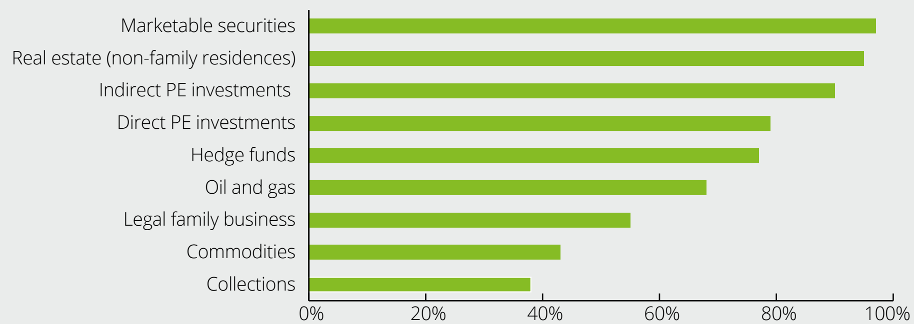


Figure 15: Areas of focus for future investments, ranked in order of priority:

1. Marketable securities
2. Direct PE investments
3. Indirect PE investments
4. Real estate (non-family residences)
5. Hedge funds
6. Oil and gas
7. Commodities
8. Collections

Concluding thoughts

SFO executives are a collaborative group, interested in learning what their peers think and about the effective practices others apply in their own SFOs. The spirit of this survey – indeed, of the National Family Office Forum itself—is to help SFO executives connect with others in similar positions and to encourage information sharing among them. Some may find themselves ahead of others in terms of experience and innovative practices; others may find themselves a little behind. But for all, there is an opportunity to learn. We hope this report inspires readers.

We welcome your comments, and look forward to hearing from you.

About the survey

This year's survey included 108 respondents, 94 of whom completed the entire survey.

Among respondents, 70 percent took an accounting career path to their SFO, and nearly half have worked with their current SFO for 10 years or more (Figure 16).

As for the SFOs themselves, most have been around for at least a decade, with 28 percent being older than 25 years (Figure 17). Most SFOs are staffed with no more than 25 professionals, with a third having fewer than five (Figure 18). Most SFOs serve three or more generations (Figure 19). Nearly half serve fewer than five households; only 12 percent serve more than 25 households (Figure 20).

About half of the SFOs represented in this survey serve families with a net worth of more than US $1 billion. The most common reason for forming the SFO was the need to manage existing wealth (outright or in trust).

Figure 16: Survey participants' tenure at current SFO

Figure 17: How long has the SFO been in existence?

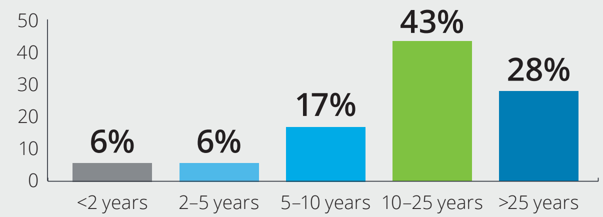


Figure 18: Professionals employed by the SFO

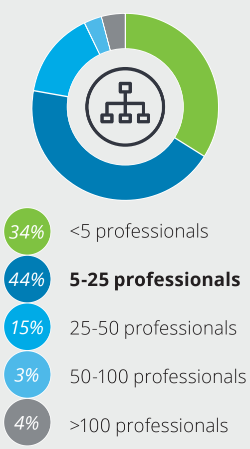


Figure 19: Generations served by the SFO

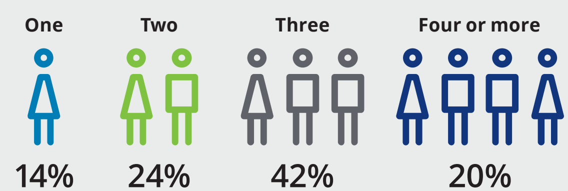
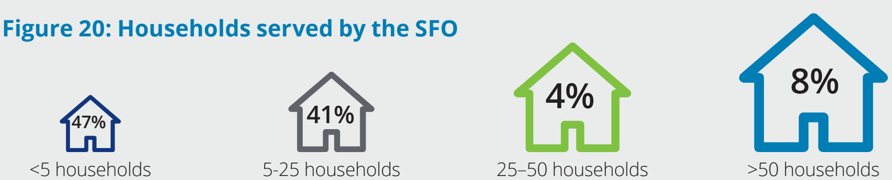


Figure 20: Households served by the SFO



Authors

Julia Cloud
Private Wealth Leader
Deloitte Tax LLP
+1 312 486 9815
jucloud@deloitte.com

John Silverman
Principal
Deloitte Tax LLP
+1 312 486 9886
josilverman@deloitte.com

Wendy Diamond
Private Wealth Tax Leader
Deloitte Tax LLP
+1 312 486 2576
wdiamond@deloitte.com

Eric Johnson
Tax Partner
Deloitte Tax LLP
+1 312 486 4442
ericljohnson@deloitte.com

Deloitte.