



SECOND EDITION

THE COMPLETE

FAMILY OFFICE

H A N D B O O K

A GUIDE FOR
AFFLUENT FAMILIES
AND THE ADVISORS
WHO SERVE THEM

KIRBY ROSPLOCK, PHD

with Foreword by James E. Hughes, Jr.

"This second edition handbook by Dr. Kirby Rosplock is a true gift to our family wealth community. Before her first edition, there was hardly any book we could recommend to those searching for answers. With the advent of this new benchmark, private families and their advisors searching for an integrated guide on family offices need look no further. I continue to highly recommend this thoughtful resource, as private families deserve more clarity and guidance."

—*Thomas R. Livergood, CEO, The Family Wealth Alliance; Founder, Bespoke Advocate*

"Few institutions are changing as fast as family offices. As the global community is transformed and as enterprising families want to do more than shelter their wealth, their concerns for the future lead them to gather and define multiple financial and non-financial activities they want to pursue. The first edition was a treasure of information but in response to the vast changes taking place every day, a second edition adds even greater value by sniffing out the vast shifts that are occurring. This new edition is actually a new piece of work that should take its place beside the first edition as a more current view of practices that are more than just reactions to global change; they are defining the nature of the new global community that is continually being remade."

—*Dennis Jaffe, PhD, consultant; advisor; author, Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises; Cross Cultures: How Global Families Negotiate Change Across Generations; Stewardship in Your Family Enterprise: Developing Responsible Family Leadership Across Generations; and Working with the Ones You Love: Conflict Resolution & Problem Solving Strategies for a Successful Business*

"*The Complete Family Office Handbook* provides readers with tactical guidance, serving as a 'how-to' both for families looking into creating an office as well as those evaluating the wealth management structures they have in place. Kirby's willingness to go into detail and her use of case examples demonstrate that while every family office is unique, the factors that go into operational decisions tend to have similarities across different families."

—*Rebekah L. Kohmescher, CFP®, CPA, CEO, Altair Advisers, LLC*

"If you are one of the many executives and family members who bought *The Complete Family Office Handbook* upon my insistence, head back out and get this second edition, as it is probably time to reexamine how your office has (or hasn't) evolved with the family. For those looking to build a new office, this second edition is

even more powerful than the first. With expanded content, sharper insights, and more robust examples, it sets the nuanced context, which family members and executives alike need, to make wise decisions capable of aligning the office and the family.”

—*Jim Coutré, family office and philanthropy professional*

“Kirby Rosplock has written a book that will become an essential reference for families wishing to establish a long-term strategy for building an enduring legacy across generations. It helps to unwrap the mysteries of the family office and provides an invaluable guide, containing a wealth of cutting-edge information and insights. It is a comprehensive toolkit for any family embarking on the journey of establishing a family office and for executives who operate—or aspire to operate—within a family office.”

—*Dominic Samuelson, CEO, Campden Wealth*

“With thoughtfulness and clarity, Kirby Rosplock has brought to life the important questions to ask and steps to follow in creating and effectively governing a family office. Wealth owners, and their advisors, will gain insight into why long-term success depends on the ability to clarify shared values, vision, and purpose, at each generation, and how to dive into those challenging conversations.”

—*Anne Hargrave, consultant and coach to organizations, family businesses, and families of wealth*

“A comprehensive body of work that serves as an immediately useful tool to help families through the uncharted waters of family office formation and operation. As families struggle to find meaning beyond financial wealth, Dr. Rosplock’s book addresses the business, family, and philanthropic legacy that family offices can provide. The second edition of *The Complete Family Office Handbook* will be an indispensable tool sitting on the top shelf of your desk. Immensely helpful. “

—*Preston Root, Root Glass Company*

“My 2014 copy is full of Post-it notes. *The Complete Family Office Handbook* is current, independent, comprehensive, and compelling. Rosplock’s second edition has distilled the wisdom and guidance of all the major experts in the family office world and made it easy to read. I feel comfortable handing this book to CIOs and nonfinancial people alike. She summarizes big issues with great aplomb and catches the important details. A definitive handbook.”

—*Joseph Reilly, family office consultant*

THE COMPLETE FAMILY OFFICE HANDBOOK

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**A Guide for Affluent Families
and the Advisors Who Serve Them**

SECOND EDITION

Kirby Rosplock, PhD

WILEY

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data is Available:

ISBN 978-1-119-69400-7 (Hardcover)

ISBN 978-1-119-69409-0 (ePDF)

ISBN 978-1-119-69407-6 (ePub)

Cover image: © Alexandre Olive/Shutterstock

Cover design: Wiley

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

This book is dedicated to my family, the families involved in writing the book, and families who are seeking clarity on how to preserve, promote, and sustain family wealth.

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Foreword

A wise woman once told me, “Jay, the only reason to have resources is so I can have services.”

Kirby Rosplock has provided us with a handbook that comprehensively describes the services, both qualitative and quantitative, that family offices of various types can provide to families with resources. A “handbook” is defined by *Webster’s Third International Dictionary* as “a concise reference book covering a particular subject of field of knowledge—a manual.” Kirby’s book is just such a concise reference manual to the field of family office services.

What is the purpose of services provided to families by family offices, regardless of whether the family office is a single-family or multi-family office? The purpose is the removal of obstacles to an individual family member’s ability to integrate and use resources normally created by a previous generation of his or her family, toward that individual’s greater freedom, thriving, and flourishing. These obstacles, if not removed, may not only lead to the failure to flourish of those individuals, but to the risk of entropy—entropy as entitlement, dependence, and remittance addiction—that leads to the entire families’ system failing. These obstacles then become a detriment not only to the dynamic preservation of the individual’s and the entire families’ financial capital, but, much more importantly, obstacles to the growth of their human, intellectual, social, and spiritual capital.

As Kirby describes, these four capitals require services that are qualitative and substantially more complex to provide than those that serve families’ quantitative needs. She makes clear that distinctions between service providers frequently lie along the divide between services that are purely quantitative and those single-family and multi-family offices that offer qualitative services as well.

In my opinion, this distinction is of great importance to a family’s success in obtaining the family office services it needs to overcome the obstacles or, one may say, the “risks” to their family that entropy poses.

All of us who serve families seeking to avoid the suffering decreed for a family by the universal cultural proverb “shirt sleeves to shirt sleeves in three generations,” in its many iterations, are in Kirby’s debt for giving us a concise understanding of the services available to us and to the families we serve. This understanding will assist us to help these families avoid the proverb’s sad forecast and the suffering it represents as the bonds of family rupture. How much better to find and use the quantitative and, more importantly, qualitative services a family office offers to help families flourish for many generations through the enhancing of each family member’s journey of happiness!

Thanks, Kirby.

James (Jay) E. Hughes, Jr.

Preface

If you are reading this book, you are likely in one of three camps: you are an individual considering the possibility of building or joining a family office, you're an individual with an existing family office and looking for ideas of how to enhance or transform it, or you may be a professional working in wealth management or advising enterprising families who is looking for leading-edge resources to better serve your clients. Whichever category you find yourself in, this second edition book provides you with current knowledge, research, and cutting-edge approaches from thought leaders in the family office industry and gives you real-life examples and experiences to guide you as you envision, plan, and develop your family office. But, before you turn further in the book, you may find it helpful to understand that this book is geared to the *family owners and their offspring*, first and foremost; however, wealth advisors and other professionals may find the commentary and recommendations useful to apply with their families as well.

The first edition of *The Complete Family Office Handbook* was released by Wiley in 2014. Jay Hughes, Jr., who provided the Foreword, and I had conversations to the lack of practical information about how a family office operates, the services it provides, how it is managed, and why they exist in the first place. I never thought I would be the one to try and codify such a massive body of knowledge, but perhaps my curiosity or my hope to solve for similar issues in my own family was the catalyst. Thankfully, the support and wisdom from so many exceptional family office executives and families inspired my drive and determination to see this through to fruition. Our family office consulting firm, Tamarind Partners, Inc. (www.TamarindPartners.com), has been working closely with many notable family offices to carry on the research, knowledge, and advice provided in the first edition.

Fast-forward to 2020, a year that will be forever marked by the worldwide pandemic. Revising the book during a global crisis provides a lot of perspective to consider the permanency of the family office construct as well as how to make it disruption-ready. Yet, this journey to write this second

edition book is also deeply personal. As a family member, owner, board member, and a co-trustee of a family foundation, much of the content in this book is germane to me and my family. Since writing the first edition, I experienced a lot of change and witnessed how quickly the family office landscape adapts with new technology, AI, better security, cybersecurity, and new policies and procedures. The second edition also reveals new insights gleaned from working to bridge generational knowledge gaps on the family education front. Tamarind Learning (www.TamarindLearning.com), an education learning solution for families, their offspring, and advisors, was launched in 2019 to solve the learning gap and provide learning paths that are flexible and customizable.

Spending nearly two decades researching and writing in the family business and family office universe, the second edition that follows is a combination of more than 80 interviews with family office executives, family office owners, industry leaders, and family members. Additionally, I reviewed hundreds of articles, books, and research reports and collected data from families in the United States, to Europe, the United Kingdom, the Middle East, Asia, and Australia. Yet, the more I learned along this journey, the more I realized how much there is to learn. As a result, I collaborated with leading attorneys, from Withers Bergman LLP and Kozusko Harris Duncan LLP, independent advisors around governance, family banks, entrepreneurship, family office operations, and information technology. This book provides their wisdom, many years of experience, and thoughtfulness to the important and distinguishable needs of the family office client.

The *Handbook* is laid out in a chronological order. Chapter 1 introduces the family office concept, its purpose and definition, as well as key roles of the family office; Chapter 2 overviews the family office evolution from inception and highlights key archetypes; Chapter 3 compares the multi- and single-family office solutions; Chapter 4 discusses a family's values and how to create a family office mission and vision statement. Chapters 5 and 7 are written by prominent attorneys at Withers Bergman LLP. Chapter 5 provides guidance on family office formation and the legal structuring of a family office. Chapter 6 shares strategic planning considerations, capital sufficiency analysis, and the importance of reviewing the family office fact pattern on topics including estate, financial, wealth transfer, and insurance planning. Chapter 7 clarifies the legal, fiduciary, and compliance requirements for a successful family office today. Chapter 8 reviews the investment management approach of the family office. This chapter discusses investment concentration, measuring success, time horizon, and the investment governance including investment objectives, policies, and committees. Chapter 9, co-authored by two family

office experts, discusses family office IT and operations considerations. This chapter offers advancements and best practices in information technology, operations, and risk management to enhance your family office's performance. Chapter 10 expands on family office talent management, best practices with hiring talent, incentivizing, managing, and retaining key employees, compensation, and performance management. Chapter 11, which is co-authored with a leading family office governance expert, discusses family governance, succession planning, and the role of boards, hallmarks of good governance, and applications and process to set up governance. Chapter 12 sheds light on new thinking for family education and the family office, stewardship, psychology of wealth and developing an education plan. Chapter 13, which is co-authored with a leading family bank expert, provides insights to the setup, structuring, and planning to create a family bank and the use of intra-family loans to inspire the next generation wealth holder. Chapter 14 expands and includes discussion on legacy, philanthropy, and impact investing and the family office. Finally, Chapter 15 of the book concludes with a new chapter from leading attorneys from the law firm Kozusko Harris Duncan. The book provides fresh new cases with updated insights to the various attributes of the family office and gives research to the inner workings of some leading family offices. To learn more about Tamarind Partners, Inc. or Tamarind Learning, please visit our websites www.TamarindPartners.com or www.TamarindLearning.com.

Acknowledgments

This book took a village to write and there are many to thank for their support, wisdom, time, introductions, and professional experiences. First to the families and family offices who shared their personal stories—this book is only possible because of your trust. Thank you to my family and especially my husband, John, who provided constant support and encouragement and contributed to Chapter 9. Thank you to Jay Hughes for giving me the courage to take on this task and being an inspiration, advocate, and mentor.

My deepest appreciation for the wisdom and knowledge shared by (in first-name alphabetical order) Abby Raphael, Alex Scott, Allan Zachariah, Amy Braden, Angelo Robles, Ann Kinkade, Anna Nichols, Anne Ethridge, Annette Rahael, Barb Quasius, Barbara Hauser, Benjamin Kinnard, Bill Thomas, Bill Woodson, Bob Casey, Bruce Arella, Carolyn Friend and Jamie Weiner, Carly Doshi, Chad Harbeck, Charles F. Kettering, III, Charlotte Beyer, Chelsea Cannon, Chelsea Toler-Hoffmann, Chris Battifarano, Chris Cincera, Cricket Harbeck, Christin McClave, Christina Burroughs, Claudia Sangster, Clay Mathile, Dan Berg, Daniel Goldstein, Daniel Gottlieb, David Friedman, David Toth, Daisy Medici, David Friedman, David Guin, David Martin, David Lincoln, Dennis Jaffe, Dennis Kessler, Denny Charad, Dianne H.B. Welsh, Dirk Junge, Dominic Samuelson, Don Kozusko, Doug Borths, Doug Dubiel, Drew Mendoza, Ellen Miley Perry, Edouard Thijssen, Edward Marshall, Elizabeth Minkin, Euclid Walker, Fran Lotery, Fredda Herz Brown, Grant Kettering, Greg Curtis, Gregory T. Rogers, Gunther Weil, Hania Hammoud, Hartley Goldstone, Howard Cooper, Ian D’Souza, Iñigo Susaeta Córdoba, Iris Wagner, Ivan Sacks, Jack Parham, Jason Born, James A. Grubman, James E. Hughes, Jr., Jane Flanagan, Jay Totten, Jean Brunel, Jean Case, Jean B. Harbeck, Jennifer Barber, Jennifer Kenning, Jesus Casado, Jim Coutré, Jim Greer, Joanie Bronfman, Joe Calabrese, John A. Warnick, John Benevides, John Carroll, John Davis, John and Eileen Gallo, John Rau, Joline Godfrey, Josh Kanter, Joe Lonsdale, Joni Fedders, Juan Luis Segurado, Juan Meyer, Juan Roure, Judy Green, Julie Zorn, Justin Zamparelli, Karen Neal, Kathryn McCarthy, Kay Berglund, Keith Lender, Keith Whitaker, Kelly

Atkins, Kent Lawson, Kevin Morrissey, Kit Johnson, Laurent Roux, Lee Hausner, Linda Bourn, Liesel Pritzker Simmons and Ian Simmons, Linda Mack, Lisa Niemeier, Lisa Ryan, Lyat Eyal, Maria Elena Lagomasino, Mark Haynes Daniell, Martin Whittaker, Mark Tice, Matt DaCosta, Matt Walker, Maya Imberg, Michael Black, Michael Sallas, Miles Padgett, Mindy Kalinowski Earley, Mindy Rosenthal, MJ Rankin, Mykolas Rambus, Nava Michael Tsabaris, Nazneen Kanga, Norman Smorgon, Olivia Dell, Olivier Richoufftz, Patricia Angus, Patricia Cole, Paul Cameron, Paul McKibben, Paul Westall, Peter Carney, Phil Strassler, Preston Root, Preston Tsao, Rachel Gerrol, Ralph Wyman, Ray Maas, Rebecca Gooch, Rebecca Oertell, Reuben Vardanyan, Richard Arzania, Rino Schena, Richard Milroy, Richard Sauer, Rick Fogg, Rick Stone, Robert Kaufold, Robert Danzig, Robin Satyshur, Ron and Marty Cordes, Ryan Eisenman, Santiago Ulloa, Sara Hamilton, Sean Davis, Sebastian Lyle, Stephanie and Eric Stephenson, Stephen Campbell, Stephen Prozano, Steven Hoch, Steve Legler, Steven Weinstein, Steven Hirth, Susan Massenzio, Susan Remmer Ryzewic, Tayyab Mohamed, Thomas J. Handler, Esq., Thomas Mahoney, Tom Livergood, Tom McCullough, Thayer Willis, Tim Brown, Trish Botoff, Ulrich Burkhard, Victoria Vysotina, Vahe Vartanian, Warner King Babcock, Wayne Osborne, Wendy Spires, Wendy Craft, Will Froelich, William Kambas, and Zipi Shperling.

CHAPTER 1

Introduction to the Family Office

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Family offices serve a vast array of functions for a family and their wealth. Those family office functions are commonly bespoke to the needs of the specific family for whom they were designed; therefore, when asked about the definition of what a *family office* is, the answers often vary from person to person. Generally speaking, family offices are designed to prepare family members to collectively manage, sustain, and grow their wealth across multiple generations. Family offices can aid families in managing the numerous risks that accompany affluence. In addition to offering a potentially wide array of services, such as tax, fiduciary, and compliance needs; investment management, risk management, estate planning, and trust administration; philanthropic advisement, financial education programs for family members; and family governance and wealth-transfer planning, the family office ideally has a higher purpose to bridge generations in order to create continuity and cohesion for families around their wealth.

The last decade has featured disruptive turbulence in financial markets, impressive technological and medical advancements, and dramatic shifts in the global landscape. Family offices need to respond to these changes with equally dramatic adaptations if they are to remain relevant and effective. For example, in 1918, the average human life expectancy was roughly 39 years.¹ One hundred years later, the average expectancy was 80.3,² and current statistics indicate that approximately 500,000 people around the globe are aged 100 or older. Moreover, the 100-plus population is predicted to almost double with each coming decade.³ Increases in human longevity mean that family

offices, which once operated on the assumption of needing to survive 100 years, now need to plan on surviving 500 years and manage the multiple intergenerational wealth transfers and leadership transitions associated with this kind of longevity. Low-return financial market environments inject additional complexities, requiring that family offices and their staff members develop additional strategies, competencies, and skill sets to support the achievement of the family's multiple objectives. Thus, the aim of this volume is to construct a futurist lens of the family office: Rather than focusing primarily on concerns of luxury, buying, and traditional investing, we propose the 500-year view of the family office and introduce the leading-edge perspectives and practices for how family offices and their staff members can support the coming ultra-lifespan of the families they serve.

This second edition updates the first book that demystified the concept of the family office and clarified who should consider starting their own single-family office or joining a multi-family office. The second edition provides context, updates, and improvements to inform family office setup, structure, and design as owners more clearly define their family office's overarching purpose and vision. This book provides expanded coverage regarding the types of family offices in existence, along with who owns them and pays for them, and what services may be rendered by the offices. This guide is designed to be a useful tool for affluent families, individuals, and philanthropists, as well as for practitioners and industry professionals, as it outlines the important functions family offices may render today and for the generations of family members yet to be born.

In this chapter, we review the macro futurist trends in global wealth to provide context for understanding the basis, purpose, and definition of the family office. We then consider the family office's historical roots in Western economies, which is grounded in the growth and proliferation of family enterprise. The roles the family office plays regarding its client families are then discussed.

A Macro View of Global Wealth

Given that family offices exist to help families sustain and grow their wealth and successfully navigate the various risks that come with that endeavor, measuring affluence and understanding affluent families are important first steps. Yet, there is an art and a science to assess affluence, which begins with defining how much you must have to be considered wealthy. While we all have our own definitions, most industry research firms classify individuals with a minimum of \$1 million net worth as high net worth (HNW) and individuals with at least \$30 million net worth as ultra high net worth