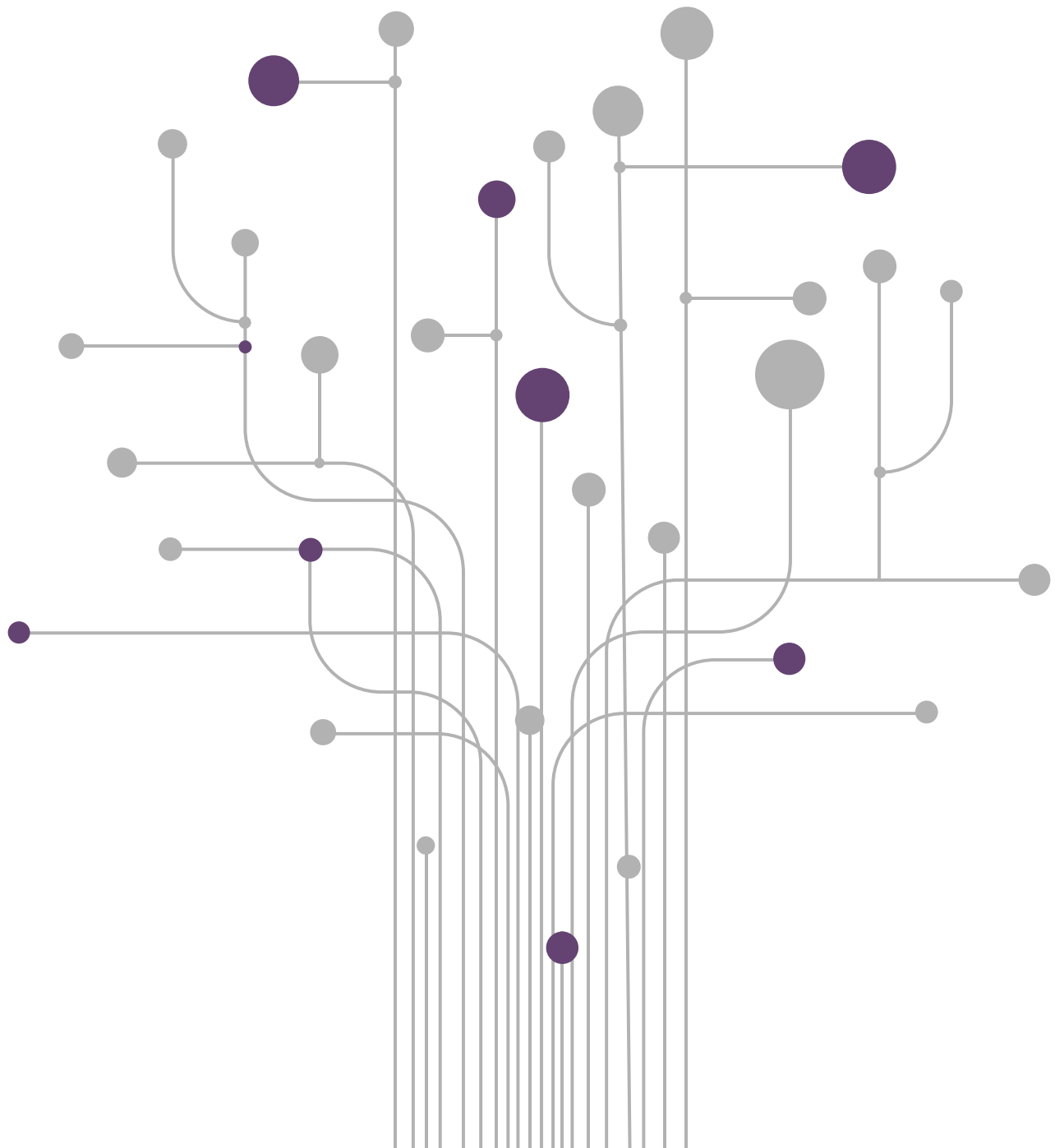


Family Decision-Making

Produced by Campden Wealth and Morgan Stanley Private Wealth Management



PRODUCED BY CAMPDEN WEALTH AND MORGAN STANLEY PRIVATE WEALTH MANAGEMENT

FAMILY DECISION-MAKING

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FOREWORD

As each of us knows, families can be incredibly hard to understand at times. Yet they are the backbone of our society and economy, and really important to decode both for family members and those who work with them.

This study focuses on probably the most important family segment globally – ultra-high net worth families in North America – and one key family characteristic – how they go about making decisions. By surveying and interviewing ultra-high net worth family members we were able to gain insight into what actually happens behind closed doors, and to help map how families make decisions.

The results are fascinating. We have found a growing formalization of decision-making particularly when it comes to investments, and evidence of growing democratization – albeit with elders retaining some control. The study also finds that advisors have the single biggest influence on family decision-making, which is a role they need to take very seriously.

Encouragingly, and contrary to some thinking, our study finds that decision-making is proving to be a catalyst for better family relationships. This is most certainly due to the existence of governance and decision-making structures within these families, which help to ensure smooth decision-making and minimize conflict.

It has been a great pleasure partnering with Morgan Stanley on this enlightening study and we hope that these findings are able to better inform and educate families and the advisory community on how to engage successfully.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'DS', followed by a long, horizontal, slightly wavy line that extends to the right.

Dominic Samuelson
Chief Executive Officer
Campden Wealth

FOREWORD

Morgan Stanley Private Wealth Management was created in 1977 to serve an exclusive group of ultra-high net worth individuals and families who face unique multigenerational challenges associated with significant wealth. We understand, from direct experience, that families who build enduring legacies are not only successful at transferring financial capital from one generation to the next, but they are equally successful at transferring values and social capital.

For almost four decades, we have made it our priority to understand the evolving inclinations and dynamics of successful families, so that we can share what we have learned with all of our clients. To that end, I am pleased to present this insightful report on family wealth decision-making that we developed in partnership with Campden. Our hope is that this report will provide you with some perspective, contributing to your family discussions for setting goals and creating strategies to achieve your financial, social and philanthropic ambitions.

I was delighted to learn that one of the key takeaways was that the vast majority of ultra-high net worth families value, and rely upon, the guidance they receive from their Private Wealth Advisors. We are honored by that trust and are deeply committed to continually improving the quality of services that we offer you.

I want to thank all who participated in this important study, and express my appreciation to Campden. We hope you will find it interesting as you think about your family's future path.

Sincerely,

A handwritten signature in black ink, appearing to read "Vince Lumia". The signature is fluid and cursive, with a large, stylized "V" at the beginning and a long, sweeping tail that extends to the right.

Vince Lumia
Head of Private Wealth Management
Morgan Stanley

ABOUT THE STUDY

The data examined in this study derive from a quantitative survey conducted from July to November 2015. The survey was designed to elicit respondent attitudes and behaviors concerning investment decision-making as well as provide a clear understanding of current portfolio construction, decision-making and governance structures within the family. The survey respondents were drawn from Campden Wealth's existing community of ultra-high net worth individuals in North America. A total of 59 wealth holders engaged in the quantitative survey, with analysis and aggregation taking place in November and December 2015. To add context to the quantitative component of the study, as well as to garner deeper insight into the ultra-high net worth investor mind-set, 15 in-depth qualitative interviews with wealth holders were conducted. For the purposes of this study, ultra-high net worth is defined as coming from a family of net worth in excess of \$35 million.

EXECUTIVE SUMMARY

Background

The expectations that ultra-high net worth individuals have towards the global economy and the investment climate generally are not positive for the year ahead. Yet these negative views do not hold when ultra-high net worth families considered their own portfolio performance with just 18% thinking it would perform worse. Advisors are the single most important influence on family wealth decision-making, with 50% of respondents describing them as having a 'strong' influence and 39% 'some' influence. When it comes to articulating investment goals, the study found a curious dichotomy, with 44% having a written investment policy, while roughly the same percentage do without any formal mechanism.

Family decisions

Wealthy families use the broad range of decision-making structures open to them, but the family committee is the most favored style for family governance decisions, philanthropy choices and family wealth education selections. Wealth education comes out as consistently important for ultra-high net worth individuals. When it comes to investment decisions, investment committees still feature strongly, but there is also widespread use of family advisors, family office executives and professional advisors. Some 56% of respondents see investment policy statements (IPS) as important, yet only 39% have them for their families. The majority of families use their IPS to define the investment and financial goals and objectives of the family, with the management of portfolio risk and types of appropriate investments also frequently being included. More widely, 58% of ultra-high net worth families either have a family mission statement or are currently developing one.

Family wealth strategy, interaction and use of financial advisors

Family members attach real importance to good, professional investment advice. A third of ultra-high net worth individuals said their advisors had decision-making authority over tactical moves. For strategic decision-making, advisors are used more for guidance and recommendations than actual decision-making. When selecting who should make decisions, experience is judged to be the most important factor, however decision-makers are also chosen within the family from their desire to participate and their skill sets. There are differences in the way that investment and non-investment decisions are made. Investment decision-making is more formalized, and as a result is viewed as being more efficient and effective than non-investment decisions.

Philanthropy and investing with impact

Just one third of families have a defined philanthropic policy. These levels are significantly lower than as seen in investment governance, where a vast majority of families have some sort of investment governance structure. Additionally a further 28% have a gifting policy which is not part of their philanthropic policy. Nonetheless, philanthropy and other values-based activities are important for most ultra-high net worth families. A majority of respondents believe that it is important that their wealth is directed towards making positive social or environmental impact and some 55% are actively involved in their family's philanthropy. Education is easily the most popular target for the ultra-high net worth community's philanthropic endeavors.



While pessimistic on the economic and market outlook, families surveyed believe their own portfolios will do better in the next twelve months;



Individuals believe the goals of family wealth are more important to them personally than to their family at-large;



89% see their wealth advisors as an influence in their financial goals;



Articulation of wealth goals are evenly split between formal and informal;



60% of the respondents formally articulate investment goals.

CHAPTER ONE

BACKGROUND

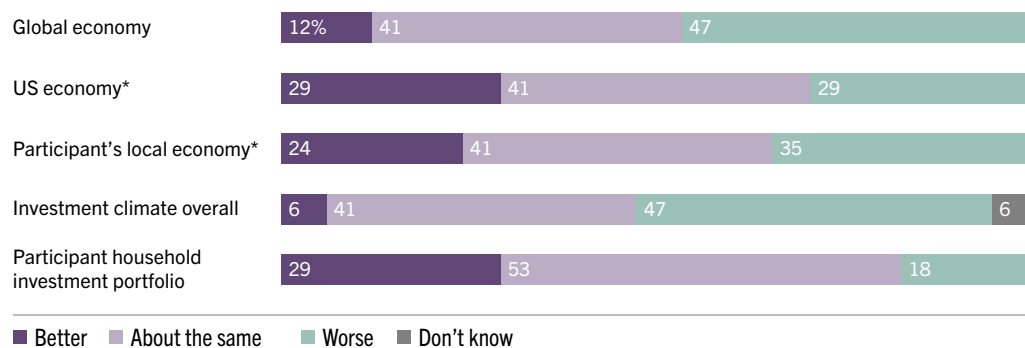
Families have a wide variety of investment goals, reflecting the great diversity of families of wealth. These goals can range from the purely quantitative (attempt to beat an index or achieve a certain growth figure), to the purely subjective and qualitative (for instance, sustaining the family's way of life). How these goals are articulated also varies significantly, from the use of formal documents, such as investment policy statements to informal expressions around the dinner table. Sometimes not all family members are involved in the setting of goals, nor the progression towards their accomplishment. Individual involvement in decision-making is

also a broad area of diversity. When it comes to decision-making within families of wealth, this diversity provides for a fascinating and rewarding study of behaviors and attitudes – and reactions – to wealth.

“Strong family values are at the center of everything we do and we try to make sure the individual’s values echo the family’s. The problems arise as the older the family gets the bigger it gets, and there’s a risk of divergence; a risk that family values get diluted, creating apathy.”

1.1 Expectations for the year to come

Source: Campden Wealth & Morgan Stanley (2016).

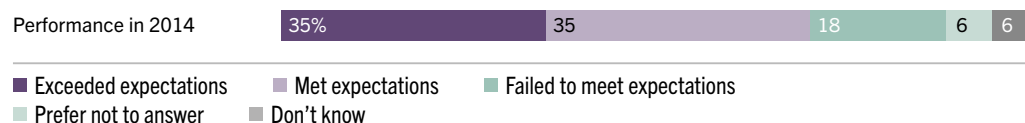


*79% of participants are headquartered in North America.

For illustrative purposes only. Due to rounding, totals may not add up to 100%.

1.2 Performance relative to expectations (2014)

Source: Campden Wealth & Morgan Stanley (2016).



Economy and outlook

Wealth does not insulate families from the broader economy and financial markets. And aggregate ultra-high net worth investor expectations for the coming year are not positive about the economic environment and the markets. Almost half of the respondents (47%) felt that the global economy would be worse in the next twelve months, with 41% believing it would stay about the same. The same portion of respondents felt the same about the investment climate overall. Opinions on the US economy were balanced, with 29% of respondents believing the outlook would be better and 29% believing it would be worse.

Yet these net negative views did not hold when ultra-high net worth families considered their own portfolio performance; 29% of the respondents believed their family's portfolio would do better in the next twelve months, while only 18% thought it would fare worse.

In 2014, ultra-high net worth family investors were very happy with the performance of their portfolios; Eighty-nine percent of families enjoyed growth in their portfolios and more than two-thirds (71%) said their portfolio performance either met or exceeded their expectations.

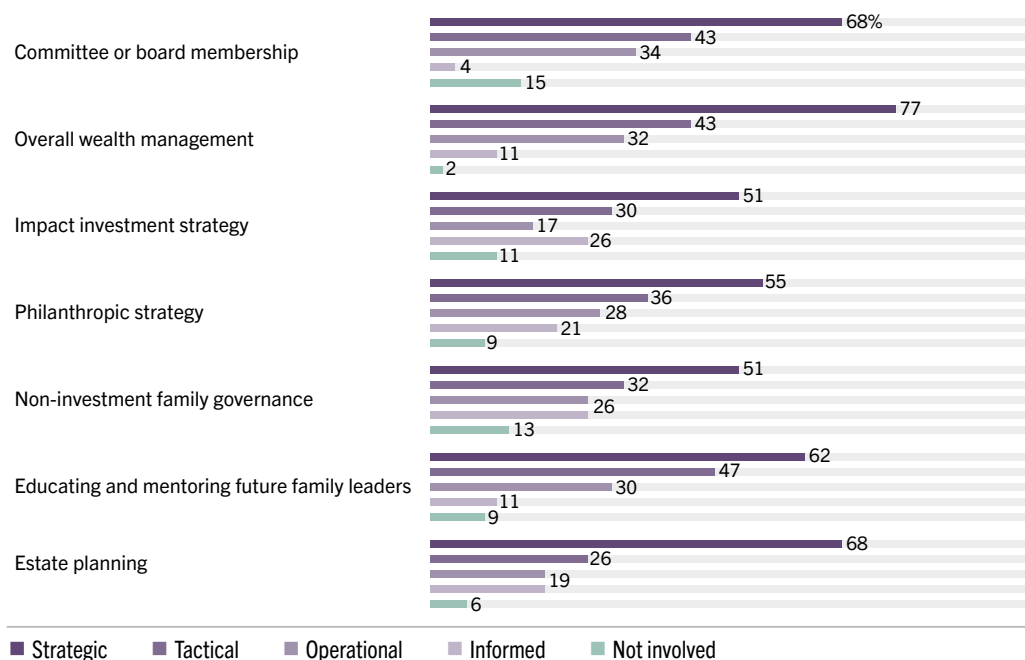
Involvement in managing the family wealth

The respondents of this survey were heavily involved in the decision-making in their family. Seventy-seven percent made strategic decisions on overall wealth management, and a majority made strategic decisions on philanthropy, impact investing, or non-investment family governance. Respondents were broadly less involved in tactical or operational decisions across all categories of decision-making. Rarely were respondents entirely uninvolved with decision-making. Only 2% of respondents said they had no involvement

in overall wealth management, and less than a fifth of respondents (15%) said they had no involvement whatsoever in any of the family's boards or committees. This study therefore focuses on ultra-high net worth individuals who are active decision-makers in their families. Tellingly, 68% of respondents said they made strategic decisions involving their family's estate planning – a function where matriarchs, patriarchs and other grantors ordinarily have a large amount of influence – further indicating their seniority within the family.

1.3 Personal involvement in managing the family wealth

Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

Importance of goals

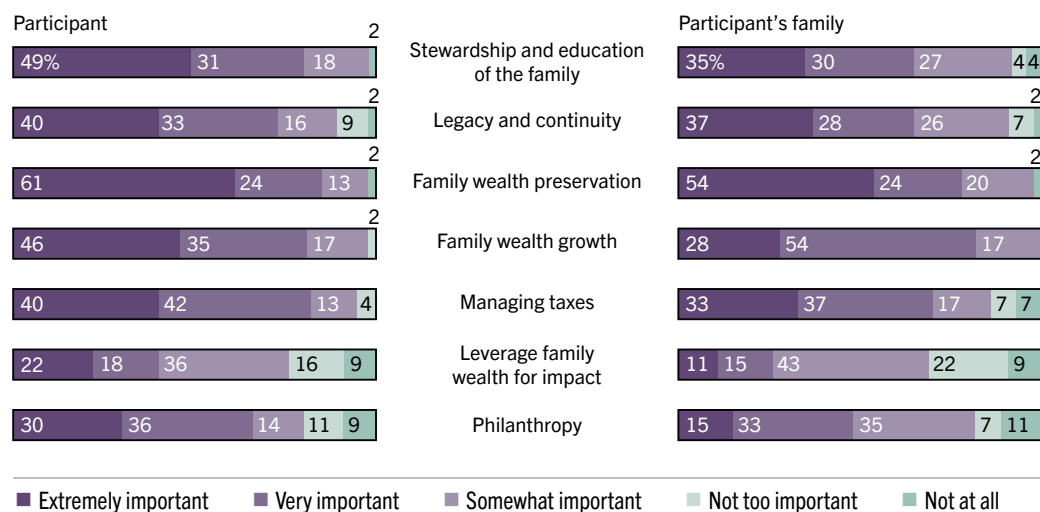
Almost without exception, individuals felt that the goals of family wealth – stewardship, legacy, wealth preservation, growth, etc. – were more important to them personally than to their family at-large. When asked the question, “How important are the following goals for you in your role as a family member/for your family?” the most important goal for individuals and their families alike was wealth preservation. Over 60% of respondents saw wealth preservation as ‘extremely important’ to them personally, yet 54% felt it was of equal importance to their family. Similarly almost 50% said ‘stewardship and education of the family’ was extremely important to them, versus just over a third felt it was extremely important to their family.

This is not to say that respondents felt family wealth goals were unimportant to other family members. Stewardship, maintaining the legacy, wealth preservation and growth were all seen by 90% of respondents as being of some level of importance to other family members.

For one wealth creator who cashed out of shares in a substantial IPO in the Bay Area in the late 1990s, it's about managing his own money for his immediate family. “I am conscious of setting up the right structure for when my children come of age and need to be involved,” he says. “This means making sure I have the correct estate planning structure and providing them with financial literacy.”

1.4 The importance of goals

Source: Campden Wealth & Morgan Stanley (2016).



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

For the non-family CEO of a multi-billion dollar single family office (SFO), the family office has two equally important goals for the investment portfolio: diversification of assets and long-term wealth preservation. “From the very beginning, the portfolio was set up to run independently from the holdings in the operating business,” says the CEO. “The operating business represents about two-thirds of the principal’s overall wealth, so from that perspective the family’s wealth is highly focused, placing a large importance on diversification of the family office-managed assets.”

Sharing the family wealth

As expected, ultra-high net worth individuals share their wealth with their immediate family. The wealth is predominantly shared

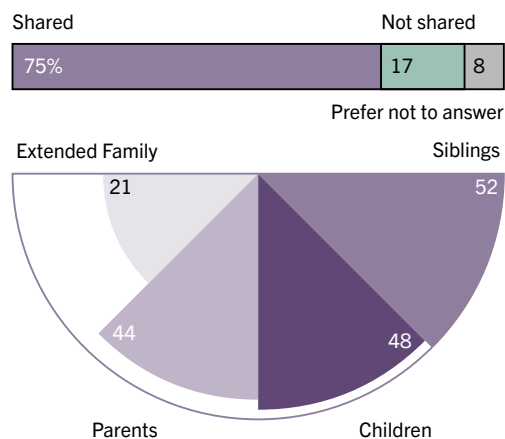
One second-generation principal whose father was the original wealth creator is now taking care of all the family’s assets. “We started the family office in 1998 with the goal of wealth preservation but now it’s as much about growth.”

amongst children, siblings and parents – 44% with parents, 48% with children and 52% with siblings. However, only a fifth (21%) of respondents said they shared their wealth with their extended family.

For one second-gen family member who is also the single family office’s chief executive, the main goal is managing the sharing of assets between her parents, five daughters and nine grandchildren. “We started the office in the late 1990s. It was a decision made by my parents and I to ensure succession planning and structure the wealth for preservation over the coming generations.”

1.5 How the wealth is shared

Source: Campden Wealth & Morgan Stanley (2016).



Influences on views about investment goals

But when it comes to the strongest influences on family wealth decision-making, advisors dominate. Asked, “How much do the following influence your views about investment goals?” 89% of the respondents said their wealth advisors were either a strong (50%) influence or some (39%) influence. That ultra-high net worth individuals arguably listen more to their advisors than their own family members shows the premium placed on good, professional investment advice.

The business strategy or partners and affiliates were the second-most influential entity (44% strong influence and 40% some influence). Parents were a strong influence for a third of ultra-high net worth individuals and spouses for a quarter. However, the family influence seemed to stop at the nuclear family, with 84% saying that grandparents had 'no influence'. Only 5% said grandparents, religion or politics were strong influences.

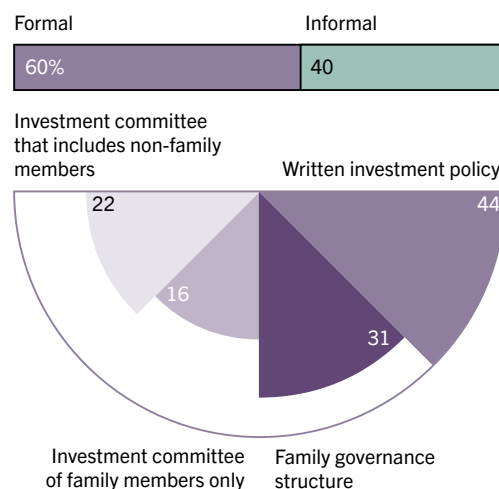
Articulating investment goals

There are many ways that families can articulate their investment goals, through written investment policies, various governance structure, investment committees, or simply through informal conversations. The study found a curious dichotomy in the formalized decision-making of ultra-high net worth families. When asked, "How does your family articulate its investment goals?" 60% said that they took the time to articulate goals. It could be argued that with such a large proportion of wealthy families essentially relying on tacit relationships for the articulation of their investment goals, there is a need for greater education and guidance in investment strategy formulation and execution.

Committees are used to articulate investment goals throughout the ultra-high net worth family community. Many respondents professed to using some sort of committee or board structure for their investment goals. Just over 30% use their family governance committee or board for these purposes. And of the 38% which use an investment committee, about 16% hold committees that only include family members, while 22% include non-family members on their board.

1.6 How families articulate investment goals

Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

CASE STUDY

Functional investment decision-making: a CEO outlines his family's approach

We have a small office that supports my parents (G2), my generation (me and two sisters) and young G4s.

As CEO I wrote the IPS with consultation specifically from my father and some from my sisters. We didn't use outside consultants, but I did look at the IPSs of other SFOs we know and trust. It's very basic: heavy use of passive indices, then find companies and direct investment areas where our family has a strategic advantage. But if I get hit by a bus, we're in real trouble. There's no backup plan at the moment and I'm the one who knows how everything works.

Eventually, when they're old enough, G4 will have to learn to work together. That means increasing the level of financial education, and exposing them to deals – and our process – so that they can build their experience, understanding of our goals, and embrace more fully that side of our family's culture. In fact, G3 needs to be able to work together better too!

In our family office, we do our own asset allocation and risk profiles for the heads of each nuclear family unit.

The IPS addresses the needs of the family over generations, our risk profile, broadly what the asset allocation should be, what types of investments the family likes, and how to go about sourcing and selecting them. But I doubt anyone else would be able to implement it without a lot of thought and training.

When we're selecting investments, as well as using the preset guidelines in the IPS, we also call other like-minded SFOs who we know tend to look at similar deals. If three SFOs are in agreement with us, then we use that consensus as a trigger to move forward. But these aren't the same SFOs all the time; we have a large network and we use "special teams". We also serve the same function for SFOs in our network, as sort of a quid pro quo. Sometimes we'll invest in the opportunities that other family offices bring to us, but often we won't and that's really not the point of the exercise.

The system is set up to deal with our biggest worry: legitimacy of the opportunity. We want to make sure that we vet it correctly, using third-party objective insight from people who have no interest in the deal, as well as making sure

we review the people actually involved. One of our basic tenets is to avoid the fund-raising commission model. If we see people getting a cut for bringing us the deal, we'll automatically stay out. We also don't believe that managers who do asset allocation don't add value if your SFO already understands what it's doing.

The hardest part of the whole process is not actually finding deal flow or vetting opportunities. It's getting the family to understand why particular deals are chosen and how they fit into the portfolio. Again, this harks back to our need to increase financial literacy in the family.

We're mindful of the need to educate the next generation. For the uninvolved next gens who are reaching the age of needing to understand more, we use next gen education networks, such as the Institute for Private Investors.

As CEO of the family office, I report annually to the family, but I know that they don't really understand what they're being told. When times are good, they don't really care, but I need them to understand the ebbs and flows of the markets and the reasons why we're doing things the way we are.

We don't have a family council, just a loosely structured annual family meeting. We talk about the operating businesses, the investment portfolio and the running of the family office, but most people aren't really listening and basically treat the whole affair like a mini vacation. The first G4s are just starting to come along and I want to make sure they're getting the most out of this time and processing the information.

We rebalance once a year and reallocate every two years.

Actually, the best investment you can ever make is in estate planning. I think about it often and make sure we understand the changing legislation and evolving structures in the jurisdictions in which we operate. Every deal we do, we also think keenly about structure so that we get the best out of it, from both a return and an estate planning point of view. The biggest challenge is getting the family comfortable with the various forms of trusts, etc; getting them to understand that you might not own something outright, but as a trustee or beneficiary you have control over it.



57% of family governance decisions made by family committee;



38% of the time, family advisors provide input for overall asset allocation;



58% of families have a family mission statement or are currently creating one;



56% see investment policy statements (IPS) as important;



84% of ultra-high net worth families use their IPS to define investment and financial goals and objectives of the family;



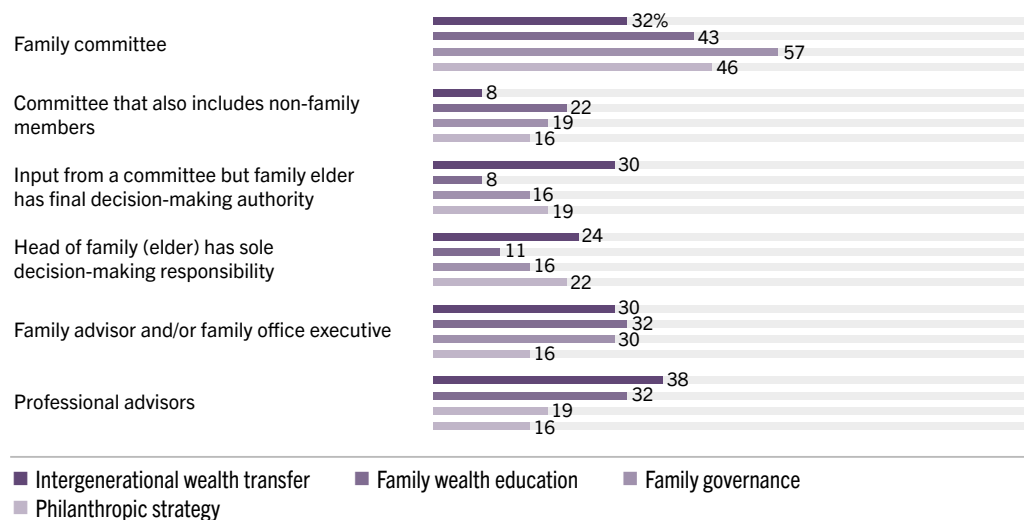
IPSs predominantly articulate risk tolerances, time horizons and distribution needs of family members.

CHAPTER TWO

FAMILY DECISIONS

2.1 How decisions are made within families

Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

Wealthy families use the broad range of decision-making structures open to them, but the family committee is the most favored style. Family committees are used by 57% of the respondents to make family governance decisions, 46% for philanthropic choices, 43% for wealth education selections and 32% for intergenerational wealth transfer determinations. However, when it comes to intergenerational wealth transfers, more prevalent than committee decision-making is the use of a professional advisor (38%).

Decisions relating to family wealth education are less likely to be made or overseen by the head of the family. Instead they are commonly made by committees or by family or professional advisors. This probably reflects the need for wider family buy-in as well as the importance of this area to ultra-high net worth families, evidenced in [Chapter One](#).

“Conflict usually happens when there are philosophical differences over issues involving the family business or the family office,” says the family member of a large New England family with its own large SFO servicing more than 200 family members. “These are handled by committee. Another large area of conflict is who would be involved in the family business, and how people who are and aren’t should be remunerated; the central issue is whether it’s enough just to be related to the family to take part in the profits.”

“We have a very active family council, which is elected and has various subcommittees, for instance for education and employment in the family business,” he says. “The trigger for forming the overarching council was a realization that we would no longer have a family member in charge of the family business.”

He explains that the nominating committee works out which family members can or should work for the business or family office, while the valuation committee works out remuneration for serving and non-serving family members.

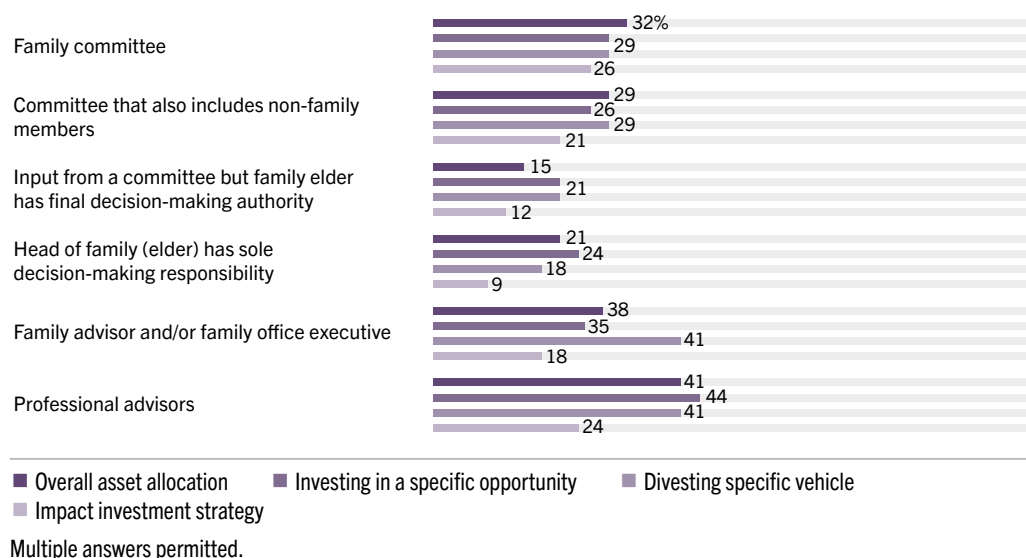
“Committees meet frequently, while the whole council meets annually,” he concluded. “The company board has family members on it and meets as would a normal company board (several times a year), while the major family committees meet more frequently.”

However, other families are less structured.

“Due to the small size of the family (principal, principal’s wife and his small children) we don’t have any family governance issues but I am already thinking ahead to develop a next gen education program and governance framework for the future,” says the non-family member CEO of a large West Coast SFO. “The goal is to incrementally teach the next generation the principals of wealth stewardship (and entrepreneurship) so that they can eventually take part in increasing levels of decision-making and ultimately take over as principals.”

2.2 How investment decisions are made within families

Source: Campden Wealth & Morgan Stanley (2016).



How investment-related decisions are made

When it comes specifically to investment-related decisions, again there is a wide diversity of methods, whether it be for overall asset allocation, investing in a specific opportunity or divesting from a specific vehicle. Yet for investment decisions the family committee generally is the least prevalent method for making decisions.

In less than a third of cases (32% of those surveyed), family committees exclusively made up of family members are used for overall asset allocation, deciding to invest in specific opportunities and disengaging from existing investments (29% respectively). Committees which include non-family members in their composition are equally involved in decision-making; 29% in overall allocation, 26% in investment selection and 29% in divesting.

While the data show strong use of the investment committee structure, comparatively, much more prevalent for investment decision-making is the use of family advisors, family office executives and professional advisors – which for overall asset allocation, investing in a specific opportunity and divesting from a specific vehicle are the first and second-most common way to make decisions.

The professional advisor is used in 41% of cases to provide input for overall asset allocation, and the family office executive in 38%. These same non-family members also help make decisions about specific opportunities in 44% and 35% of

cases respectively, and to divest in vehicles or companies 41% each.

When it comes to specific investment decisions – particularly the choice of whether to divest from a specific vehicle, it seems that many times when elders have a vested interest in some of the direct investments, they function as the sole decision maker; it is not investing in, but divesting where elders tend to get involved, says one family office consultant interviewed for this study.

One patriarch, who made his fortune in oil and gas, came up with a unique family office structure for decision-making: “I sold my operating business in the mid 1980s and formed a two-family office with a close friend who’d sold around the same time but in a completely different industry.”

He explains that from the beginning they had two overarching principles: “Every morning at 10am we would meet for five minutes and debate ideas. If one didn’t like the idea, it was off the table. Secondly, our commitment was that if something happened to the other principal, the remaining principal would take care of the other’s family. The second principle recently came into effect.”

This means that he now has to rethink the structure of the family office.

“We are currently looking at non-family member managers and new investment structures so

that we can operate in perpetuity if that is the road we take,” he says. “We always had combined family meetings and we will continue to do so to ensure transparent communication and to include everyone in the decision-making. The real question is what to do beyond our grandchildren’s generation. Do we continue the present structure or divest and operate separate trusts, at the same time outsourcing all parts of the investment apparatus? Presently we are looking at moving naturally into a multi-family office (MFO) and we are currently interviewing some existing successful MFOs. But at the same time we are also trying to get all the second generation (our children) more involved in the family office, so that they can understand the implications of the various roads we might take.”

Other families take more of a case-by-case approach to their decision-making and structure: “When it comes to investment decision-making, we write specific policies for specific investments or advisors, but there’s no overarching guide,” says an SFO CEO. “For investments, decisions are made by me, the family office CEO, and the patriarch, without seeking input from the other family members.”

How often committees meet and when internal fiduciary due-diligence reviews are done

Two-thirds of committees meet monthly while 17% each meet quarterly or twice yearly. Half have conducted their own internal fiduciary due-diligence review in the past year, while a third said they had never conducted such due-diligence (and 17% said it was currently underway).

“For non-investment issues, we’ve had irregular family meetings every couple of years,” said one family member. “We’re a large family. I have seven siblings and I’m the oldest boy, so people come to me for various issues. It’s a role that came naturally in the beginning but it doesn’t happen as much nowadays as we’re firmly established.”

“We have regular calendar meetings on family matters and quarterly performance calls where all family members are invited to dial in (and we know when family members do and don’t attend those calls, however, all calls are also recorded so that members can listen to them at a later date),” says a non-family member of one New York-based single family office servicing a multi-billion dollar family with hundreds of members.

“Meetings start casually, focused on a particular issue. There’s no set agenda and we don’t lay out rules for meetings, because our belief is that if you start by placing conditions on the meetings then you’re limiting input from the beginning.”

Primary challenges to decision-making

For most ultra-high net worth family investors surveyed, asset allocation is the primary challenge. But it’s not the only one. Eighty-three percent said asset allocation was one of their investment committee’s biggest challenges but a full half (50%) listed their main challenges as:

- ❖ A lack of consensus or the domination of certain personalities on the decision-making process;
- ❖ A deficiency of a long-term strategy for the investments;
- ❖ Time sensitivities, including the postponement of committee meetings, leading to sub-optimal decisions;
- ❖ The number of people – whether too few or too many – that sit on the committee;
- ❖ Problems, challenges or other issues surrounding the committee’s selection of managers;
- ❖ An investment bias, or perceived bias, of the committee itself.

“Family interaction can be an issue at times – especially during an investment transaction,” explains one family member. “With so many voices it can often be hard to reach a firm decision. Sometimes we don’t and we miss an opportunity or divest too late. We try to counter these problems by regularly checking in with the heads of the various branches.”

“Decision-making is relatively easy because we have a robust structure, but communicating decisions is another matter,” says a senior family member of one New England family office. “We don’t specifically have an IPS but we have a mission statement based on the desires of the generation which set up the family office, long ago. The money is managed based on the desired outcomes of perpetuating the family wealth and the tactical decisions underneath that are made by me and the professionals who work for me in the family office.”

The study found there were only a few factors that were not perceived to be a primary

challenge to ultra-high net worth investment decision-making; only 17% felt that the decision-making structure per se gave too much power to one individual. The same percentage felt the process led to fiduciary fatigue – a situation whereby the sheer amount of fiduciary responsibilities and the growing complexity of issues facing the investment committee was becoming an impediment to decision-making. Selective memory bias – a cognitive bias altering the collective memory of the committee so that they favor or disfavor certain decisions – was not seen as an impediment to decision-making by any of the respondents.

That absence of fiduciary fatigue from this list of concerns may raise an eyebrow. Since the global financial crisis, fiduciary responsibilities have tightened for those who manage other people's money and the regulatory frameworks have increased significantly. Families of wealth – especially those that structure their wealth in a family office framework, are nonetheless exposed to this increasing regulatory environment. Yet the investors polled for this study did not see fiduciary fatigue as an issue. One can only guess that either they have already dealt with their increasing regulatory burden, given the responsibility to others, or they are unaware of it.

“Big decisions – to buy or sell direct investments or assets that affect the allocation – are done by consensus vote, while I do the day-to-day tactical and balancing.”

Is decision-making autocratic, democratic, technocratic, meritocratic or representative?

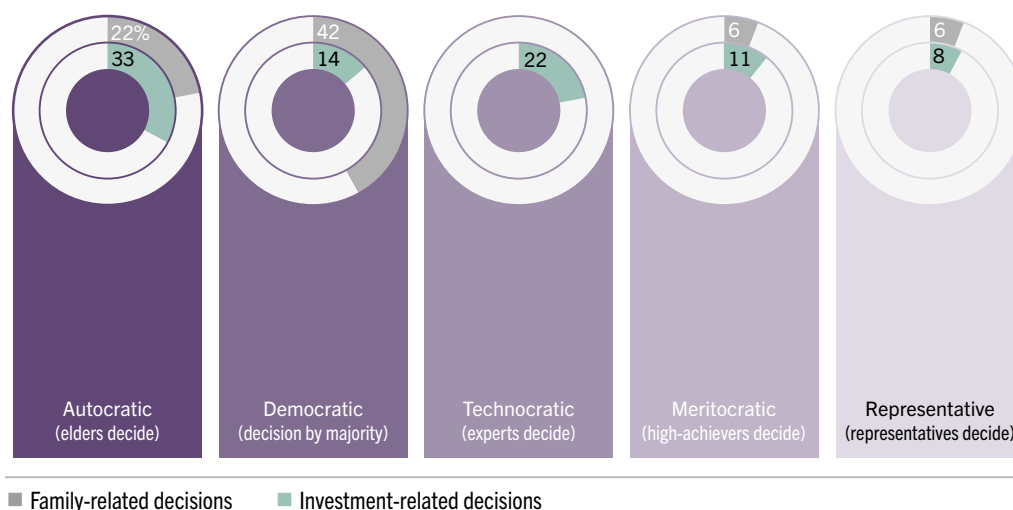
While there are many ways for families to make decisions – by committee, using professional advisors, leaving it to in-house specialists within the family office – ultimately the autocrat still often reigns supreme when it comes to investment decisions. In fact, investment decisions are much more likely to be made by an autocratic elder rather than be made democratically by a committee of family representatives. Family-related decisions are overwhelmingly likely to be made democratically. That said, almost 40% who considered their process democratic said votes weren't equally weighted, pointing to some sort of hierarchy of voting rights, whether it be by share, generational or weighted towards involvement or knowledge.

“In the past, investment decisions were unilaterally made by my father,” says the daughter of one patriarch, now running the family's SFO. “Now, as part of the initial stages of expanding governance, we're trying to set up an investment committee that includes me and my sisters.”

“Consensus and communication are of the utmost importance,” says one family member. “If people feel trapped into a structure they won't contribute – or they'll contribute negatively. So even though we have an excellent unified structure, no one is trapped in it. They can leave whenever they want and we'll split the money out. So far it's never happened and all our governance is structured to help people feel like they have a say and will always benefit from the unified approach.”

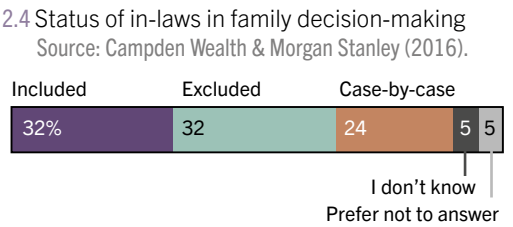
2.3 Nature of decision-making

Source: Campden Wealth & Morgan Stanley (2016).



For extremely large families in terms of members and assets, often the issue can be one of apathy. The non-family member CEO of one such office says unity and involvement is the key to combating this: “The family office is more than 50 years old and is well established in terms of assets and governance structure. It’s a geographically dispersed group, with equally different net worths and spending rates. That said, there’s great unity within the family. Luckily, the family hasn’t handed off decision-making to the family office; family members feel like owners as much as they do clients. We have a quarterly board cycle. The board is made up of family members representing different branches and generations. Decisions at board level are long term.”

Whether or not in-laws are included in family decision-making is entirely a split issue within ultra-high net worth families. Around a third of respondents (32%) said in-laws were included in the family’s decision-making, while the same percentage said they were not. Twenty-four percent said that it depended on the circumstances.



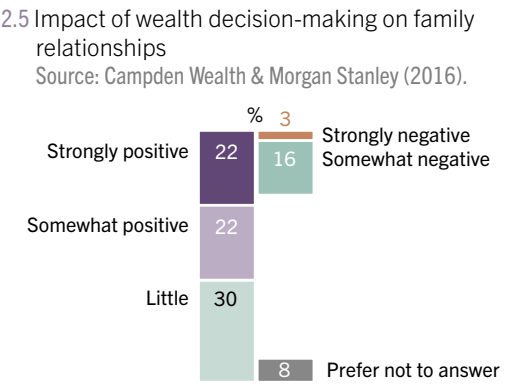
For illustrative purposes only. Due to rounding, totals may not add up to 100%.

“Our family is fairly inclusive of spouses,” says one family member. “In-laws can serve on the board or on committees and have the same voting rights. We also do surveys at many meetings so that all family members can have input.”

“To begin with, my father didn’t think we should allow in-laws to take part in this process,” explains one woman who runs her family’s office. “But I asked him, from his grandchildren’s point of view, who would they consider family? Of course they would start with their parents. So if one parent is excluded, how would that help family unity? The result was that we have different kinds of family meetings and decision-making. Spouses take part in some, and not in others.”

In any event, when it comes to people’s relationships with other family members, decision-making is perceived broadly as either

a neutral or positive factor. When asked, to what degree decision-making about family wealth impacts their relationship with other family members, 44% said it had a positive impact and 30% said it had little or no impact. Only 3% said it had a strong negative impact and 16% said it had some negative impact.



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

“Complications arise when people don’t read the reports that the family office provides,” says one SFO CEO. “Perhaps we need to look at how we actually communicate investment decisions to others in the family. Non-investment decisions or issues aren’t so much of an issue for us. The various branches pretty much do their own thing.”

Mission statements

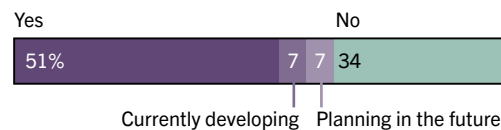
A family mission statement is a document put together to help families articulate their goals and values, and assist members in achieving alignment. By definition, family mission statements need to be tailored if they are to be useful to a family.

The majority of families polled either have a plan in place (51%) or they are developing one now (7%) or in the future (7%). Most families have created – or are creating – their own structure. About a third consulted external advisors, about a quarter like-minded families and a fifth consulted family members external to the committee. Rarely did external advisors write the whole policy and rarely did non-family employees have input. The results paint a picture of diverse inputs and consultation, with the family itself – whether as a committee or individual – ultimately setting the policy. Industry standards are used 20% of the time.

“We’ve recently done some values testing within the family to see if what we think our values are will hold up as a living document and basis for a mission statement,” says one SFO CEO currently developing a governance structure for her family. “Without the mission statement and formalized governance we think it will be harder

2.6 Prevalence of family mission statements

Source: Campden Wealth & Morgan Stanley (2016).

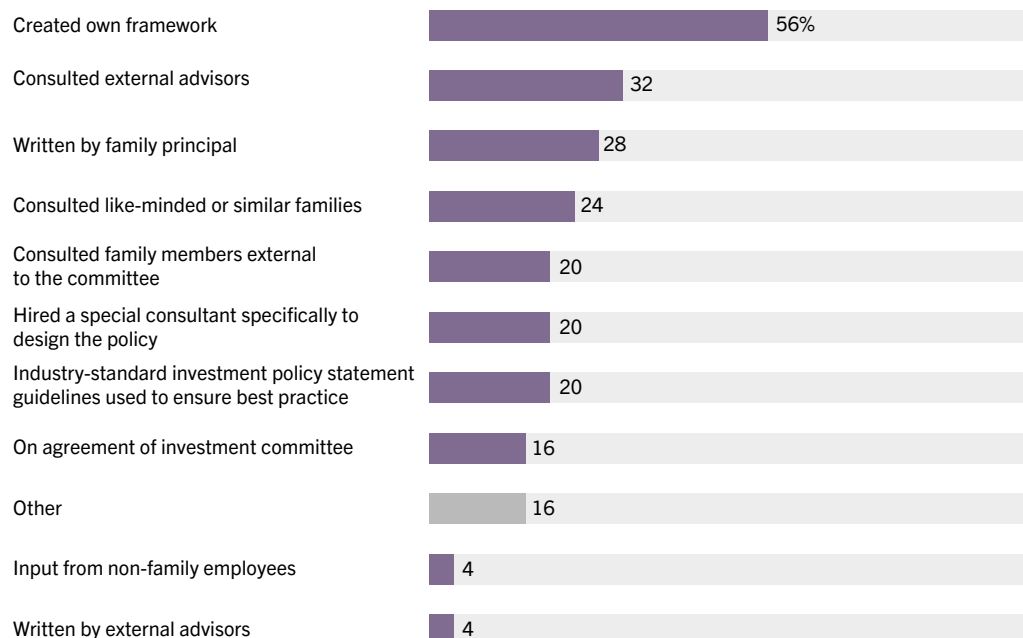


For illustrative purposes only. Due to rounding, totals may not add up to 100%.

to get buy-in from the next generation, which is coming to the age where they could potentially become part of the process. Essentially, we want the next generation to be active in the formulation of the mission statement and agree to it.”

2.7 How mission statements are devised

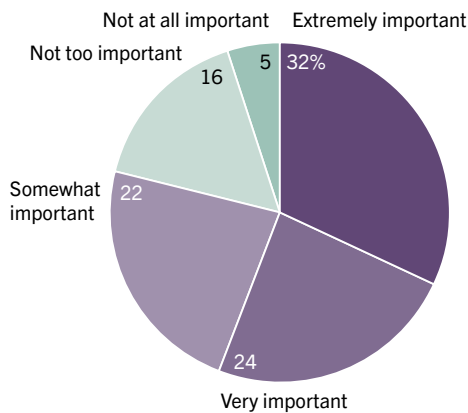
Source: Campden Wealth & Morgan Stanley (2016).



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Investment Policy Statements

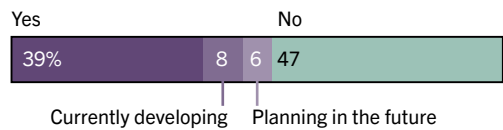
2.8 Importance of IPSs
Source: Campden Wealth & Morgan Stanley (2016).



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

Investment policy statements help to structure decision-making when it comes to investments, and commonly define goals but may also dictate stance on investments and risk. They are seen as extremely important by 32% of respondents. A further 24% consider IPSs very important, meaning a strong majority (56%) of individuals put their faith in such documents. Yet only 39% of respondents professed to having an IPS for their family, signifying quite a mismatch between use of IPSs and preferences for them.

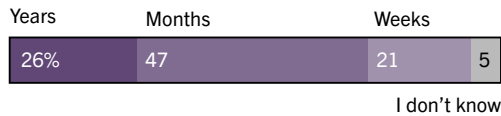
2.9 Prevalence of IPSs
Source: Campden Wealth & Morgan Stanley (2016).



A second-generation CEO of a family office noted that he had written the IPS in consultation with some family members. He decided against using outside consultants, but did look at the IPSs of other well-regarded SFOs.

“We have one shared family entity where everyone has a vote on investment and business issues and I – as family office manager – execute whatever decisions we come up with as a family,” explains another family member heavily involved in his family office. “We developed the IPS the same way. The succession plan is also built into the IPS, but it is left to the family branches to decide who will represent them and their voting seat. Luckily so far it’s fallen to people who are actually interested and have experience, whether it be from investing or philanthropy (we have always used philanthropy extensively to train the next generation).”

2.10 How long IPSs take to develop
Source: Campden Wealth & Morgan Stanley (2016).

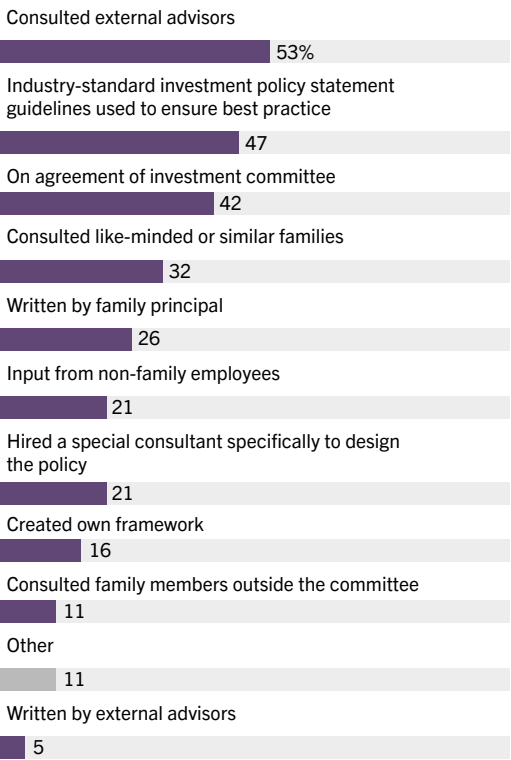


For illustrative purposes only. Due to rounding, totals may not add up to 100%.

“I have not yet written an IPS because my operations are small enough that there is no need to express my ideas in such a way,” says one recent wealth creator. “But eventually, I will go through the process, perhaps using it as a learning opportunity when my children start to come of age.”

These documents take a few months (47%) to develop, rather than dragging on for years (26%) or being done in just a few weeks (21%). This makes sense, as families need to have buy-in and ownership over the content of such documents for IPSs to work effectively. More than half the time (53%) external advisors were consulted in the writing process and in 47% of cases, industry-standard IPS guidelines were used to ensure best practice. Non-family member employees (such as family office staff) can have input (21%), and often (42%) the family’s investment committee comes to an

2.11 How IPSs are devised
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

agreement. And families sometimes seek out other people in similar situations to help them understand their own goals; about a third of the time (32%) they consult with other like-minded or similar families. But in more than a quarter of situations (26%), the family principal wrote the IPS themselves.

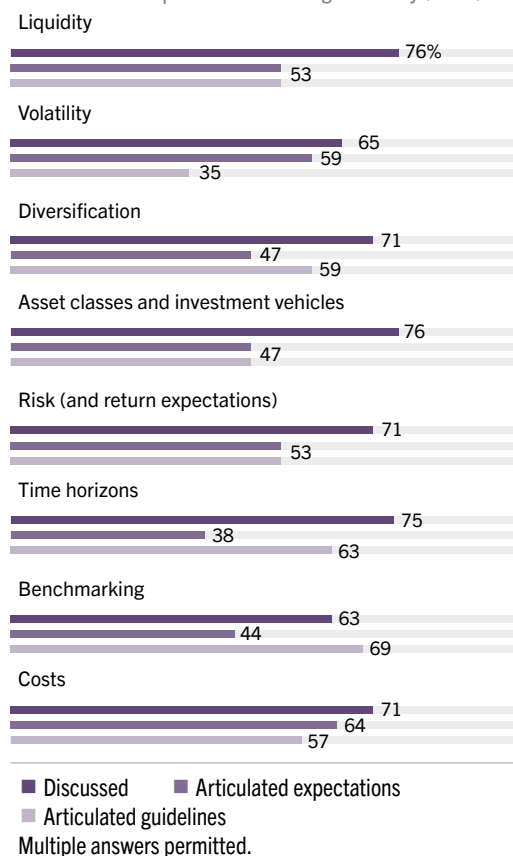
When formulating their IPS, families discuss a raft of issues they believe pertinent to the family's goals and imperative to be considered within the document. These include:

- ❖ Liquidity
- ❖ Volatility
- ❖ Diversification
- ❖ Portfolio construction
- ❖ Risk
- ❖ Time horizons
- ❖ Benchmarking
- ❖ Costs

These factors are always discussed prior to and during the development of the IPS. The result is that most IPSs will, at the very least,

2.12 What did you discuss when formulating your IPS?

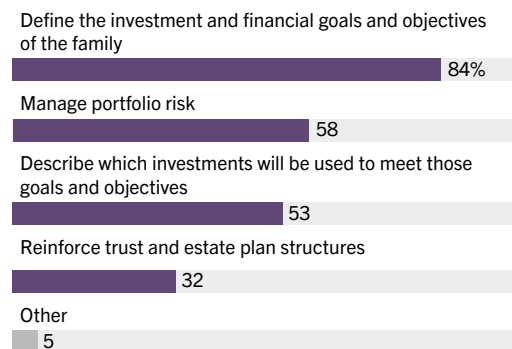
Source: Campden Wealth & Morgan Stanley (2016).



provide guidelines for these factors, and often expectations will be specifically articulated.

2.13 What does your IPS actually do?

Source: Campden Wealth & Morgan Stanley (2016).

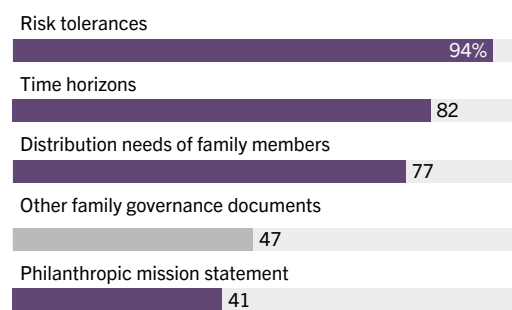


Multiple answers permitted.

The majority of ultra-high net worth families polled (84%) state that they use their IPS to define the investment and financial goals and objectives of the family, manage portfolio risk (58%), and describe which investments will be used to meet those goals and objectives (53%). A third of families (32%) also use their IPS to reinforce trust and estate plan structures.

2.14 What does your IPS articulate?

Source: Campden Wealth & Morgan Stanley (2016).

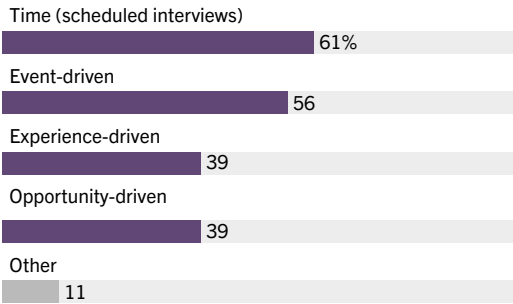


Multiple answers permitted.

The vast majority of family IPSs address risk tolerances (94%), time horizons (82%) and wealth distribution needs of family members (77%). They may also touch other family governance issues, including philanthropy.

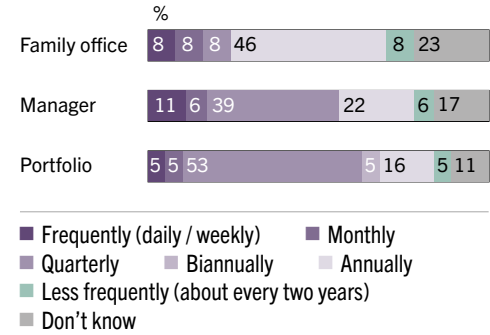
The documents themselves are reviewed mostly to a specific time schedule (61%) or because of specific events (56%). Experience-driven and opportunity-driven reviews are less likely but nonetheless happen slightly more than a third of the time (39%). If an "average" family IPS can be construed from the data, it is likely to review the family office CIO yearly, and managers and portfolios quarterly.

2.15 Motivations for reviewing an IPS
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

2.16 What's reviewed
Source: Campden Wealth & Morgan Stanley (2016).



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

IPSs are reviewed mostly to a specific time schedule or because of specific events.

CASE STUDY

Determining decision-making structures: the journey of discovery for one family

I'm part of the third generation and we are now charged with stewarding the wealth. Committees were unheard of in the second generation — the generation that executed the liquidity event of our initial operating business. We weren't set up for compromise — my father's generation's golden rule was "he who makes the gold, rules".

At the point where we were preparing to pass the chalice of stewardship to the third generation, we went through a time of upheaval and we very nearly divided up the wealth among family members. My mother wanted us to keep the money together but we didn't have the structure to do it. Her desire was to keep the family together. As a family we never committed to keeping the wealth together until my mother died. Eventually one family member forced us to break out his portion of the wealth but the rest was kept together.

Yet we still didn't really know how we were going to manage the wealth as a single family office with multiple clients. The family always spent a lot of time together, but we didn't have a history of making decisions as a family.

We ended up forming an investment task force — not strictly a committee but a group of interested family members that would investigate strategies and allocate portions of the wealth to various investments. But we found that our definitions of goals and desires were completely different and it became difficult to reach decisions. We worked out how to figure out what we generally wanted to accomplish, but even at that level we had incredibly different goals. There was incredible diversity of investment experience in the family. Some individuals had worked for investment banks and others had never worked. The family members with more investment experience believed that they should have more say. The whole situation was set up for conflict. At that point we hadn't yet brought anyone in from outside. We should have.

Eventually we brought in a facilitator to help us with the process after years of miscommunication and inaccurate asset allocation. For us it was imperative that the person we brought in was someone who had no allegiance to anyone in the family.

The consultant we chose wasn't a specialist in asset allocation or investing. They had an understanding of asset allocation, but their specialization was family dynamics rather than governance or investment.

We ended up having both collective assets and individual assets managed by the family office. This worked well for a time but we eventually realized that this meant that the collective assets were all invested a little too conservatively. But we also realized that maintaining family harmony was more important than anything else, and that we could accept a slightly too conservative portfolio.

In terms of decision-making, the model we went with was consensus driven, majority rule, with voting power based on pro rata economic interest. We found that the key to using a consensus decision-making process was everyone having an understanding of everyone else's perspective. Every decision will not necessarily be the decision you'd make on your own but because of your commitment to the family you go with the consensus. And never leave the room in silent disagreement. Always air your disagreement. The more the family understands each other, the easier consensus becomes, even if there is continued disagreement.



42% of the respondents have a primary advisor overseeing >50% overall wealth;



Investment decisions perceived as clearer than non-investment family decisions;



Experience, willingness and skill-set crucial to choosing family decision-makers;



In strategic decision-making, 38% use advisors in an advice-only capacity;



32% give advisors decision-making control over tactical investment moves.

CHAPTER THREE

FAMILY WEALTH STRATEGY, INTERACTION AND USE OF FINANCIAL ADVISORS

The role of professional advisors in the investment decision-making process

Family members attach real importance to good, professional investment advice, and 42% of respondents' families have a primary advisor who oversees more than half of their overall wealth, while 18% use internal resources for this function. Just over a third (36%) say they don't have a single advisor to oversee the majority of their wealth.

Advisors are influential when it comes to tactical investment decisions. A third (32%) of ultra-high net worth individuals said their advisors had decision-making control over tactical moves and a further 27% use advisors for counsel on tactical decisions.

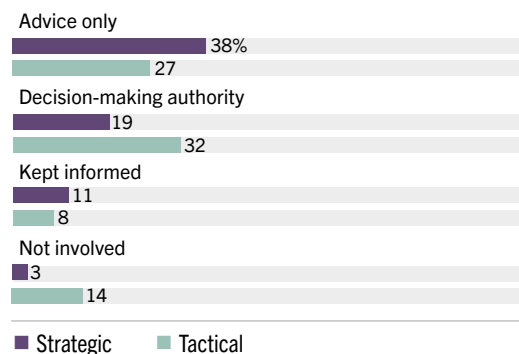
For strategic decision-making, advisors are used more for guidance and recommendations than actual decision-making, where 38% of respondents said their advisors were used in an advice-only function for strategic decisions, while 19% gave their advisors decision-making authority. Only 3% said their advisors were not involved at all in strategic decision-making, versus 14% not involved in tactical decisions.

The chart shows a varied use of advisors in strategic and tactical decision-making. Advisors who service wealthy families need to be flexible in their approach and able to fit in with whatever decision-making process suits the individual family. However, the data also points to opportunities for advisors to help families understand and benchmark their strategic and tactical investment decision-making capabilities.

"There isn't a principal external advisor, however, we have a strategic investment committee

3.1 Role of professional advisors in the investment decision-making process

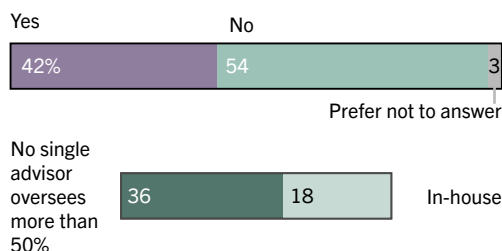
Source: Campden Wealth & Morgan Stanley (2016).



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

3.2 Does the primary investment advisor oversee more than 50% of the wealth?

Source: Campden Wealth & Morgan Stanley (2016).



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

(with no fiduciary responsibilities) made up of independent investment advisors," explains one non-family member CEO of an SFO. "One is the founder/owner of a hedge fund complex and the others are from various endowments. The board members, who are paid a flat fee, are there to be completely neutral and provide us with investment strategy, risk profiling, asset allocation determinations, benchmarking and manager selection. Because they are paid a flat fee, are independent and do not offer us investments, they are completely independent. That is what we want."

"We have a CIO in our family office who handles all the investment decision-making on our behalf. He has his marching orders and he's paid to stick to them," says one family member client of his SFO. "We hired the CIO a few years ago so that we had an investment specialist onboard who could concentrate on fulfilling the office's investment mandate of wealth preservation and diversification. Over the years, he's quickly built up trust with the family. We have some independent advisors to help with specific things. The foundation is totally outsourced to third parties who know how to implement our objectives."

Challenges abound for investment committees. "I see personality domination a fair amount, particularly where the family has an outside [investment] 'guru' on the committee," says one well-known family office consultant. "I find, particularly on investment committees, you want people who are willing to work as a team. So you can have a large personality, but in the end they have to work as a team."

The family member CEO of a 50-year-old SFO provided significant insight into the views that many mature family offices have of advisors.

“Even though the main generation of our family is quite small, our biggest problems over the years have been about communication.”

“My grandfather is the initial wealth creator and I now run the office. To be honest, we haven’t really changed the decision-making structure all that time,” he explains. “When the family has complete confidence in the family office’s decision-making, it’s actually a double-edged sword. It makes life easy for the family member CEO – you can make fast, unilateral decisions. But it also means you’re on your own in terms of making decisions for the family based on what you believe (but not necessarily what other family members would’ve done). So we’ve recently brought in a governance consultant. The outcome was we’ve tried to create a rigorous board of advisors for investment decisions (using some outside, uninterested professional people). In reality we won’t really be doing much meaningfully different than what we have done before. Only now we’ll have a structure that proves it.”

The effectiveness, efficiency and responsiveness of decision-making

In [Chapter 2](#) it was noted that decision-making processes differed remarkably when it came to investment versus non-investment family decisions. There also seem to be other distinctions. There is clear divergence between the clarity of investment decisions and family-related decisions; family decision-making seems to lag in clarity. While significant portions of the respondents felt that their investment decision-making was clear, understood by family members, was efficient, effective and let the family respond quickly, the same could not be said to such a degree for non-investment decisions.

When asked if they felt their investment decision-making processes were understood by relevant family members, 63% of respondents agreed, versus 38% for non-investment decisions. When asked if they enabled quick responses, 80% agreed versus 59% for family decisions.

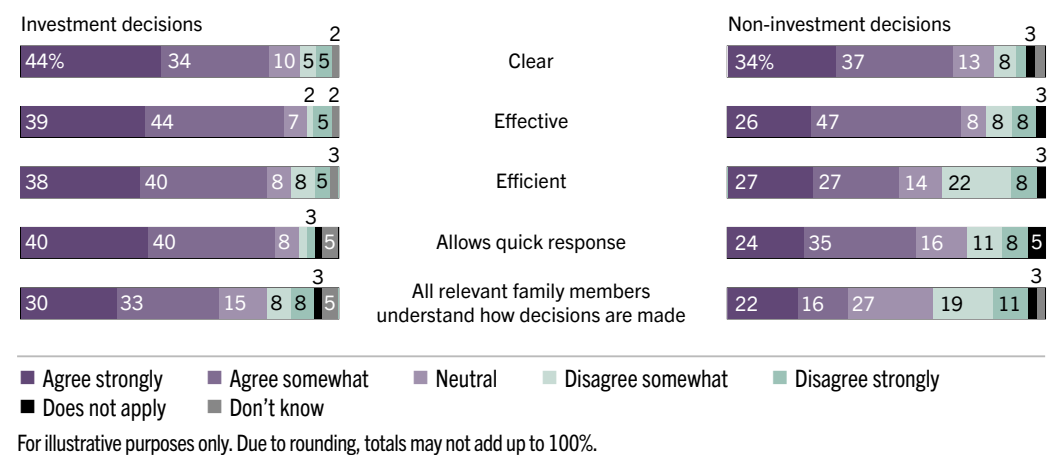
“The family has been almost completely uninterested in the family office decision-making, but I felt it was healthy for them to get more involved – not because the decisions that were being made were wrong or that the family members were losing confidence, but simply so that there was more visibility if anything ever happened to me, and for when we eventually need to deal with succession issues,” said one leader of his family’s office, concerned about transparency of decision-making.

While the gap between overall clarity (78% to 71%) and effectiveness (82% versus 73%) is smaller, the trend nonetheless remains. Across the board for every measure of decision-making analyzed, the result was that respondents were more positive about their investment decision-making process than they were about their family’s non-investment decision-making.

Deciding on the deciders

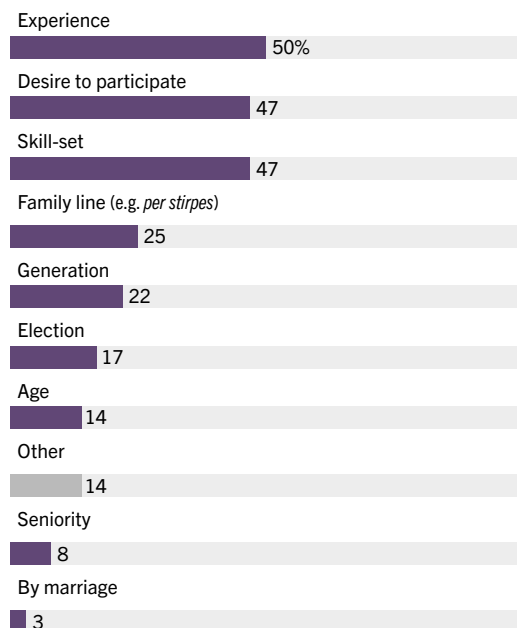
While experience is the most important factor, decision-makers are also chosen within the family from their desire to participate and their skill-set. Half of respondents said experience was one of the selection criteria for choosing who takes part in the decision-making process, while 47% each said desire to participate and skill-set were factors.

3.3 Quality of investment decisions
Source: Campden Wealth & Morgan Stanley (2016).



3.4 How decision-makers are selected

Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

Age, in and of itself, was only a criterion for 14% of respondents and only 8% said decision-makers were chosen because of seniority. However, the generation of the individual (22%) and which branch of the family (family line, 25%) were more important hereditary factors. Yet the systems described by respondents were not elective; decision-makers were only elected in 17% of cases.

"In terms of decision-making, other family members have input but the final decision is my father's and mine," explains the scion of one wealth creator. "There is no set IPS or mission statement, and we don't have family meetings that bring in the whole family. We do things informally. That's not to say the conversations aren't professional or rigorous. When it comes to succession, the starting point is that the person has to be a blood relative, but we won't do things by direct lineage — I am the second son and my older brother has little to do with the family office. More important will be competency and a demonstration of capacity to manage and lead. I wouldn't hesitate to choose a niece or nephew over my own children."

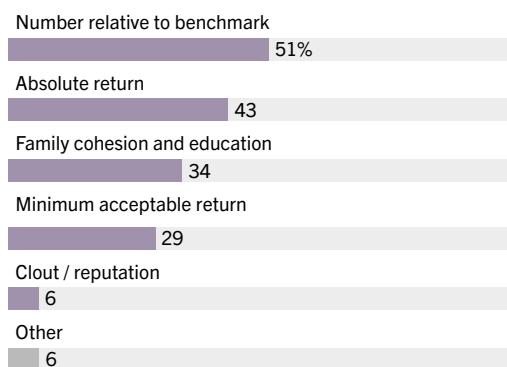
Defining success

When it comes to defining the financial objectives and success of an investment portfolio, there are many different tactics that families can take, even if the criteria are predominantly quantitative. Perhaps somewhat surprisingly, only a slim majority of respondents (51%) professed to judging the success of their portfolios by a number relative to a benchmark. There are a number of reasons why this may be the case. For one, benchmarks for family portfolios are thin on the ground. Not many exist specifically for the private portfolios of ultra-high net worth families. Hence many families that choose to benchmark their performance against other similar types of investors often find it difficult to find an adequate instrument. Even if they can find a suitable benchmark, families commonly discount such benchmarks as irrelevant to them because of a belief that all families are unique. The second-most popular way to judge performance was in terms of absolute return. Around 43% of families used absolute return to assess the success of their portfolios.

The third-most popular method of judging portfolio success was more qualitative in nature; 34% of families judge their portfolio success in terms of whether or not it continues to bring family cohesion and education. The use of such seemingly "fuzzy" assessment techniques arguably speak to the heart of the unique nature of family investment portfolios; it may be of lesser importance that the portfolio dramatically outperforms a chosen benchmark or high returns, as long as it continues providing utility to the family. In fact, 29% of respondents said they were happy if the portfolio made a minimum acceptable return.

3.5 Defining success when setting financial and wealth management objectives

Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

CASE STUDY

Wealth strategy decision-making for multi-billion dollar Single Family Offices: devolving responsibility while maintaining veto rights

My charge is a multi-billion dollar West Coast family in the first generation. I am the SFO CEO. The principal had a large liquidity event in the last decade, after cashing out a substantial portion of shares through an IPO in the operating business, however he still retains control of the business and serves in management.

The family office retains close to 200 staff in various capacities. Principle services offered are: portfolio management and asset allocation, bill paying and physical asset management, family agenda management, philanthropy, concierge services and security.

The family served by the family office is small in number but incredibly large in wealth and needs. Ultimate decision-making lies with the principal but due to the complexity of the assets there is a large amount of delegation of portions of the wealth.

The investment committee is made up of the principal as chairman, the SFO CEO as vice-chair, an internal CIO, three external investment consultants (one who manages some assets for the family and two non-managing investment professionals) and a member of an entirely unrelated wealthy family. The point of the latter three committee members is to provide an entirely independent and “uninterested” voice on investment decisions.

Overall investment policy was decided at the formation of the family office and we choose not to change that decision frequently. In fact, we have only ever made a conscious decision to revisit the policy once. And we didn’t change it.

Additionally, the risk profile has never changed. Since the bulk of the wealth will likely continue to be held in shares of the operating business, and the principal is relatively young (with a young family) the basic risk profile is not likely to change for at least a decade.

Asset allocation decisions are made annually. Performance is reviewed in depth quarterly and generally monthly. The committee makes decisions as a group but the principal has ultimate veto over any and every decision. However, it is rare that the principal ever uses his veto. This is because there are strict rules about staff proposing investment ideas at the strategic level. Ideas need to be in line with the policy and risk profile, not conflict with any other asset, fit into the asset allocation framework and pass a strict due-diligence process. Tactical investment decisions are left to the relevant operational staff (managers and analysts).

We have a principal advisor who belongs to one of the wirehouses and specializes in multi-billion dollar single family offices. The role of the advisor is to serve on the investment committee, help us with governance issues, act as a source of information on investment ideas, bring deal flow and introduce us to like-minded family offices that we can share information and benchmarking with.



One third of families surveyed have a defined philanthropic policy;



A further 28% have a gifting policy not part of their philanthropic policy;



Value-based activities are not well defined within ultra-high net worth families;



55% of ultra-high net worth individuals are actively involved in their family's philanthropy;



Education dominates as area of interest for ultra-high net worth family philanthropy.

CHAPTER FOUR

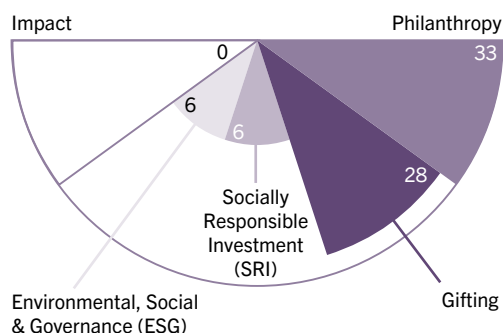
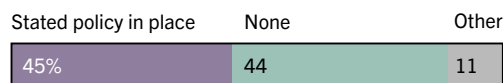
PHILANTHROPY AND INVESTING WITH IMPACT

Prevalence of values-based investing policies

Philanthropy is often identified as one of the key components for building family unity. It is used as a mechanism to educate younger members of the family on how to manage money, set targets, understand the importance of wealth and the family's values. Yet, despite its importance, the majority of responding families do not have a defined policy for their philanthropic activities. Just one third of the respondents said they had such a policy and 28% said they had a gifting policy that was not part of their philanthropic policy. Values-based activities in general seem to not be solidly defined within ultra-high net worth families. Just 6% said they had a socially responsible investment (SRI) policy and the same percentage an environmental, social and governance (ESG) policy. No respondent said their family maintained an impact investing policy.

"Our philanthropic causes have been around forever," says one family member CEO of his SFO. "We review the structures from time to time but we don't really do anything new, except for small grant making. What the philanthropy is very useful for is teaching the next gen the value of wealth. When they reach a certain level of maturity, we have our next gens active in the endowments and eventually have them sit on the boards to learn responsibility and accountability, as well as essential financial decision-making skills."

4.1 SRI, ESG, impact, philanthropy or gifting policy
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

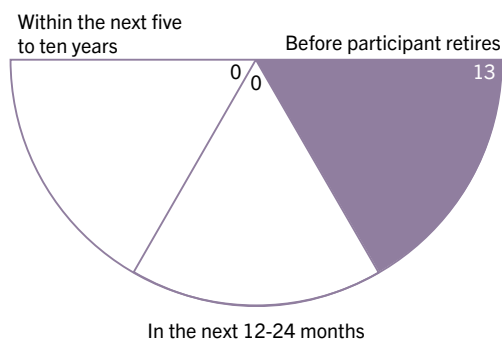
When those without a policy were asked if they planned to develop such policies, two-thirds said they did not, while 13% said they would do

it before they retired and a quarter had not yet decided. At face value, these findings lay in stark comparison to those on investment governance, where a vast majority of families have some sort of investment governance structure. Yet in [Chapter 2](#) we also saw that written investment policy usage was actually only implemented by about 39% of respondents. In fact, when comparing those who said their family had a written investment policy with those who had a written philanthropic policy, there was a high correlation of respondents; the more formalized your family's investment policies, the more likely your family is to have formally considered your philanthropic goals as well.

"Given our situation — as a relatively young family office effectively only serving one nuclear family — our philanthropy isn't structured much in terms of overriding policy statements," says the non-family member CEO of a multi-billion dollar SFO servicing a new wealth creator. "We basically do what the wealth creator wants. What is formulated professionally, given the large sums of money we are dealing with, is the structure of that philanthropy, in terms of tax-efficient vehicles and robust cause selection criteria."

4.2 Values-based policy development plans

Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

For illustrative purposes only. Due to rounding, totals may not add up to 100%.

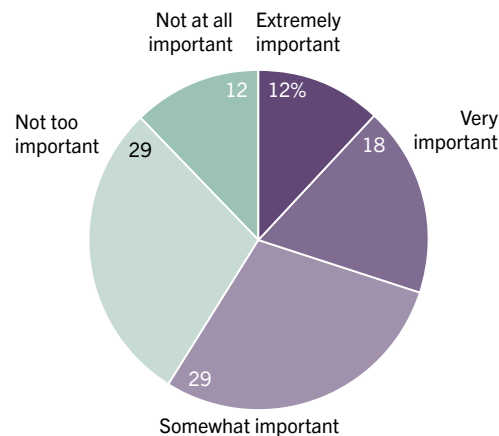
Nonetheless, philanthropy and other values-based activities are important for most ultra-high net worth families. A majority of respondents (59%) believe that it is important that their family's private wealth is directed

towards making positive social or environmental impact. Yet this belief isn't too strongly held by a majority; only 12% think it's extremely important and 18% very important. A further 29% said it was somewhat important. Only 12% said it was not at all important.

"Philanthropy is one of the functions that helps us tie the family together, both in terms of underlining our family culture and providing a focus where everyone can work together for a common purpose," says a third generation family member now charged with stewarding the wealth.

4.3 Importance of family's wealth directed towards making positive social or environmental impact

Source: Campden Wealth & Morgan Stanley (2016).



Philanthropic involvement

Regardless of whether or not they had a policy to guide their activities, a large portion of respondents were involved heavily in philanthropy; 44% said they were very involved and a further 11% said they were somewhat involved. That said, a third said they were not too involved and 11% said they were not involved at all.

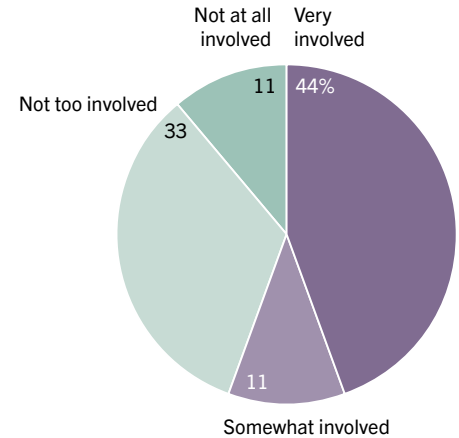
Even those families which do not necessarily agree on their philanthropic activities, giving is still seen as important.

"There are a lot of areas where the different branches of the family just don't agree, so as much as we can we take that out of the mix when it comes to functions of the family office. Philanthropy is one of them," says the family member CEO of a substantial Northeastern SFO. "Except for the very old and longstanding foundations and endowments, we basically let each branch do what they want in terms of

philanthropy. Admittedly we could be saving money and be more efficient if everything was done by the family office, but our position is that for the sake of family unity, this is the best way to handle it.

4.4 Philanthropic involvement

Source: Campden Wealth & Morgan Stanley (2016).

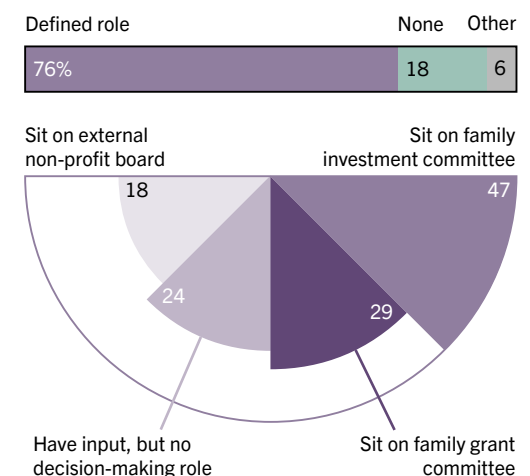


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Philanthropic involvement comes in a variety of forms. Almost half of respondents (47%) sit on the family's philanthropic investment committee, while 29% sit on the family grant committee and 18% sit on an external non-profit board. Almost a quarter (24%) have input but no decision-making role, while 18% profess to no role whatsoever.

4.5 Philanthropic roles

Source: Campden Wealth & Morgan Stanley (2016).

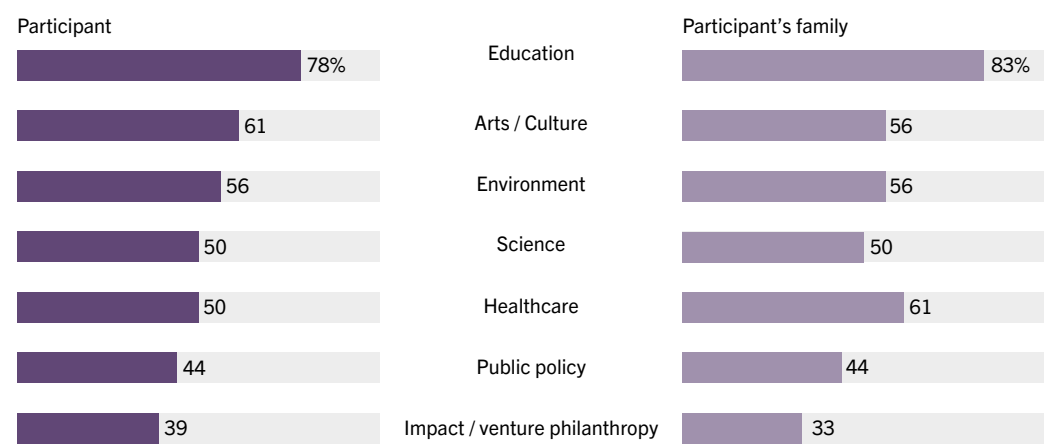


Multiple answers permitted.

Areas of interest

While ultra-high net worth individuals and families are interested in a wide array of philanthropic endeavors, education is overwhelmingly the most popular focus for the ultra-high net worth community's intentions. When asked which areas of philanthropy interested them personally and their family the most, 78% identified education for themselves personally and 83% for their family. Rounding out the top three personal interests was arts and culture (61%) and the environment (56%). For the family, the second-most popular philanthropic interest was healthcare (61%) and tied equally for third was the arts and the environment (56%). Of the interests polled for, only impact/venture philanthropy was not seen as a major interest for the majority of respondents (39%). Similarly, impact/venture philanthropy (33%) and public policy (44%) were not perceived as major interests for the family as a whole.

4.6 Philanthropic areas of interest
Source: Campden Wealth & Morgan Stanley (2016).



Multiple answers permitted.

CASE STUDY

A different view on the role of philanthropy: equipping the family to make investment decisions

I'm a family member and also the single family office's chief executive. I'm second generation, one of five daughters. There are also my parents and nine grandchildren. We started the office in the late 1990s. It was a decision made by my parents and I to ensure succession planning and structuring the wealth for preservation over the coming generations.

We believe in philanthropy as a way to give back to the community, and generally do good, but it has a slightly different place in our family office, compared to other SFOs that we know.

Last December we had our first official family meeting, with my four sisters asking to be part of the future governance of the family. Before that, it was really only me and my father who made large decisions, and minor decisions were made somewhat ad hoc with variable involvement from my siblings. The big question on the agenda was: keep the wealth together or split it up. After a year, we are now beginning to formulate what we do next, with strong support for keeping everything together.

But to do this we all recognize that we need to move from informal, verbal decision-making to a written structure. We're now having that discussion. In preparation, we've done some values testing within the family, to see if what we think our values are will hold up as a living document and basis for a mission statement. Our views on philanthropy have been a useful focal point for articulating our family values. Without the mission statement and formalized governance, we think it will be harder to get buy-in from the next generation, which is coming to the age where they could potentially become part of the process. Essentially, we want the next generation to be active in the formulation of the mission statement and agree to it.

The mission statement needs to be what we live by. It needs to function for the family as a whole and include not only our central values, but also things like how those values transpose into investments and philanthropy.

We have different kinds of family meetings and decision-making. Spouses take part in some, others they don't. They are particularly involved in the family philanthropy.

Now that we're beginning to put together formal governance, it's obvious that most of the obstacles for our decision-making in the past were to do with education and communication. Family members might say they have a right to take part in decision-making, but if they don't have the knowledge or education to consider the options seriously, then they don't have a right to help decide matters.

Our plans are to use impact investing to equip family members with the tools and experience to make investment decisions. We already use exposure to some aspects of philanthropy to educate the younger members and to promote our family's values, but there are critical elements of financial decision-making that are missing from philanthropy. Impact investing is much better suited, because one is looking at the financial consequences of an investment and seeking double bottom line returns – social impact and investment growth.

When I see people set up an endowment or philanthropic vehicle to teach the next generation, I sometimes question the usefulness if it isn't thoroughly thought out. What are your learning outcomes? What exactly is the philanthropy going to teach your next gens? Without thinking it through it can be an exercise in futility. Impact investing gives you a much clearer understanding of the different elements of financial management, and what you are supposed to be getting out of your investment.

CONCLUSION

KEY IMPLICATIONS

This report has provided some much-needed clarity into how ultra-high net worth families in North America selected in this survey make decisions. The results provide benchmarking opportunities for families and those that service them to compare and possibly challenge or validate the way they do things. In this final section, we offer some additional actionable ideas inspired by the study, for both advisors working with family members and families themselves.

FAMILY MEMBERS

Formalize, where possible

Logically, it follows that if there are common goals and agreed decision-making processes, better decisions will be made and conflict will be minimized. This is supported by the study. We see that when it comes to decision-making around investments, where there are more governance structure, it is more efficient and effective than non-investment decisions. This shows that many families would benefit from devoting greater attention to their decision-making processes and structures. Additionally, formalization allows families to better manage the outside advisors that are used to support decision-making — being more specific about their roles and requirements.

Questions to consider:

- ❖ What governance structure around decision-making do we have?
- ❖ How are decision-making processes around investments different from non-investments, and are these differences justified?
- ❖ What is the best way to organize decision-making given the family situation? What is optimal and what is possible?
- ❖ How could we motivate for this?
- ❖ How can I personally support this?

Philanthropic testing and proving

This study found that just one-third of families polled have a philanthropy policy. This area could be a very useful testing and proving ground for more organized decision-making within families. It is an area where many family members are already more engaged and naturally lends itself to innovation and fresh thinking. It also doesn't have the investment or family risks associated with decision-making in other areas and is embraced by the next generation, the natural innovators. This makes it an ideal area for families to try out formalization and different types of decision-making that can be rolled-out into other areas.

Questions to consider:

- ❖ How do we currently make decisions in this area?
- ❖ How might we involve more family members?
- ❖ What types of decision-making might we use in this area?
- ❖ How do we provide opportunities for the next generation to get involved?

Encourage participation, and family aspirations

To the uninitiated, it might be tempting to believe that decision-making puts a strain on family relationships. Instead, we find that it has a positive impact on family relationships. This situation is certainly likely to be helped by the presence of formalized decision-making structures, but it still holds that inclusivity and involvement are likely to reduce friction. Put more positively, drawing on the intellect and talent of family members will inevitably help to improve decision-making. An obvious source for this is the next generation, and families should be looking at establishing routes for these individuals to gain skills and experience, and possibly take on decision-making responsibilities within the families.

Questions to consider:

- ❖ How can we encourage more involvement in decision-making among family members?
- ❖ What decision-making areas could we better open up to family members?
- ❖ Are there established paths for the next generation looking to develop their skills and experiences?
- ❖ Are these paths properly communicated and understood by the next generation?
- ❖ How to accommodate the concerns that patriarchs may have about devolving decision-making to others?
- ❖ How can we mentor younger generation family members to become effective decision-makers?

ADVISORS WORKING WITH FAMILIES

Support family formalization

Advisors need to support the greater organization and formalization of decisions by families, which is in the families' best interests. They should do this by helping to articulate the benefits of this to family members, particularly those who hold the most power within families. They should also be tactfully exposing family members to some of the other ways in which decisions could be made and the importance of elements like mission statements and investment policy statements. Creating a mission statement can be challenging, and advisors can help by introducing them to a suitable framework or process, and guiding them through it.

Questions to consider:

- ❖ Do families really understand the benefits of formalization?
- ❖ How can I expose the family to some new alternatives?
- ❖ Are there barriers to patriarchs giving up power that I can challenge?

Provide holistic advice

Advisors play a very important role in family decision-making, and enjoy a special – and often very select – place at the table of these ultra-high net worth families. In seeking to service them as best they can, advisors should look to gain as wide an understanding into families as possible and think about their complete needs. The more that advisors can understand, the more holistic advice they can offer, and the more families will gain from their interactions. Advisors may even wish to be explicit about their desire to gain more knowledge into the family from the outset to help fast-track this process.

Questions to consider:

- ❖ How much do I really understand about the family I service?
- ❖ How can I enhance my knowledge?
- ❖ Have I looked beyond the immediately observable?
- ❖ What does my wider understanding of the family mean for the advice I give?
- ❖ Are there other things that I can do or contribute?

Evidence the value

Advisors should make sure to evidence the value that they add as widely as possible within the family. This is both for their own benefit and the family's – showing them the value that skills and experience can bring. The value should be evidenced as completely and quantifiably as possible.

Questions to consider:

- ❖ How am I currently evidencing my value?
- ❖ How can I do this in a more powerful way?
- ❖ What metrics can I use?

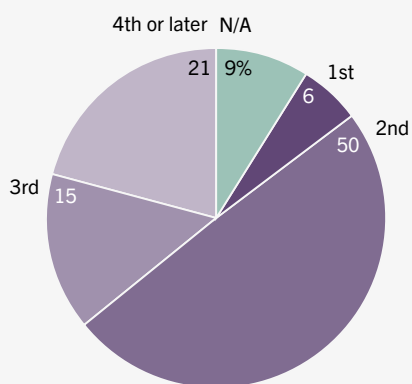
PROFILE OF PARTICIPANTS

In relation to the origin of the family wealth, half of this survey's respondents were in the second generation. Just over a third (35%) were in their fifties, while just under a quarter (24%) were in their forties. Three quarters (74%) were male.

The majority of families in this study (52%) had total net worth, excluding operating businesses, between \$251 million and \$1 billion.

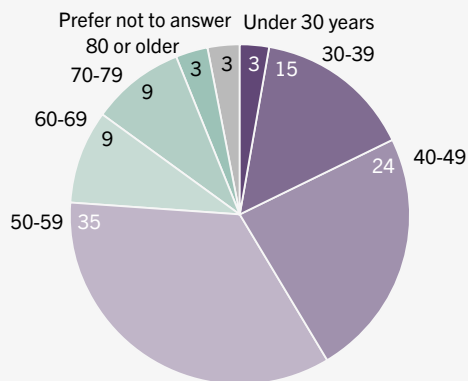
The majority of respondents (59%) were inheritors directly related to the wealth creator, while 47% also identified as a wealth creator themselves. Additionally, over half (55%) said the original source of their wealth was a previous generation's operating business.

A.1 Generational distance from wealth creator



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

A.2 Age

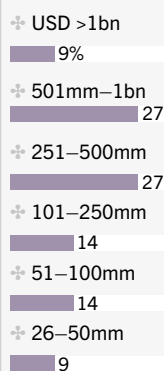


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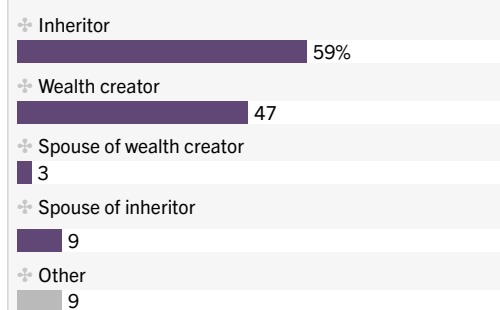
A.3 Gender



A.4 Overall family wealth

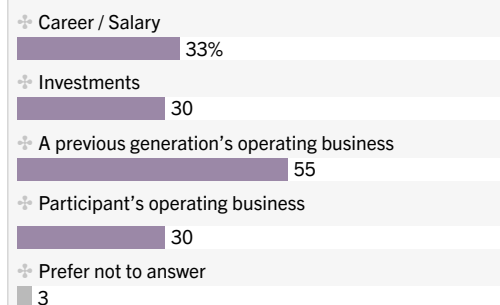


A.5 Relationship to the family wealth



Multiple answers permitted.

A.6 Original source of wealth



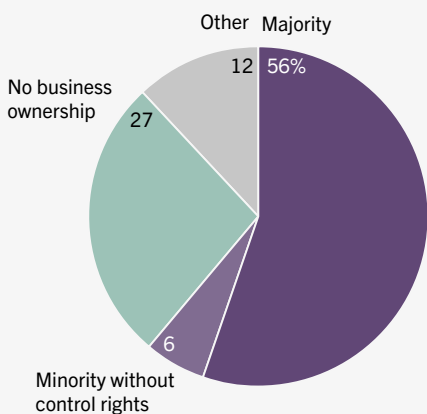
Multiple answers permitted.

FAMILY BUSINESS OWNERSHIP

More than half (56%) of respondents retained a majority share in the family's operating company, while 6% said they maintained a minority without control rights. Just over a quarter of respondents (27%) have no business ownership. The vast majority (79%) of these businesses are headquartered in North America but many operate throughout the world. Most of these businesses were founded either before 1950 or during the 1990s and almost half (45%) are run by the second generation.

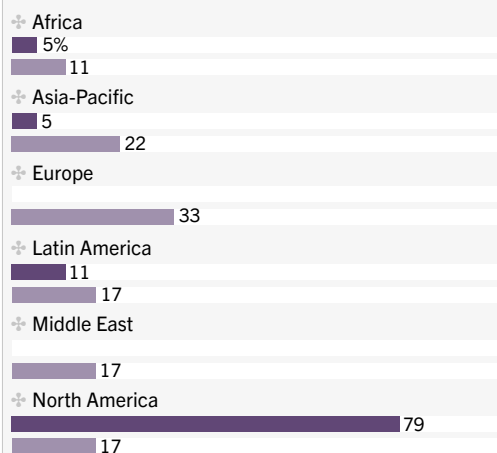
Of those which maintain interest in an operating company, the respondents of this report are active within their family's business; 70% in a strategic capacity, 65% on a committee or board, 50% on tactical decisions and 45% in operational.

A.7 Retention



For illustrative purposes only. Due to rounding, totals may not add up to 100%.

A.8 Regional distribution

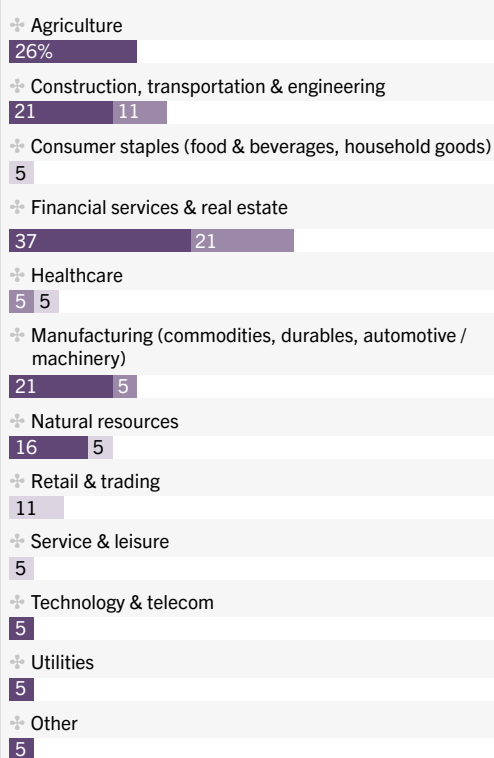


■ Headquartered
■ Additional operating regions*

Multiple answers permitted.

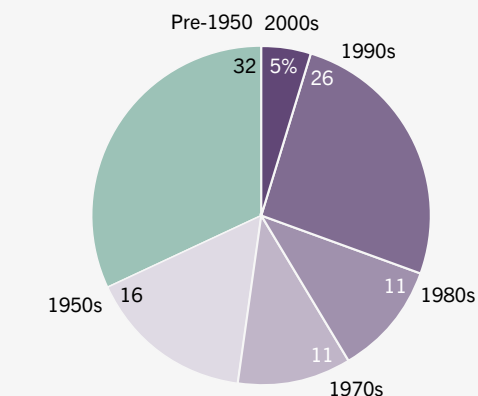
*44% of businesses do not operate in additional regions.

A.9 Sectors of operation



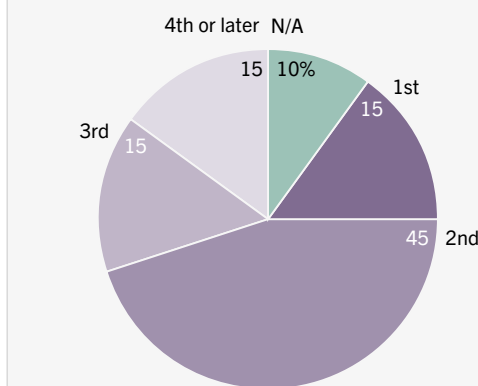
■ Primary ■ Secondary ■ Tertiary
Multiple answers permitted.

A.10 Founding year

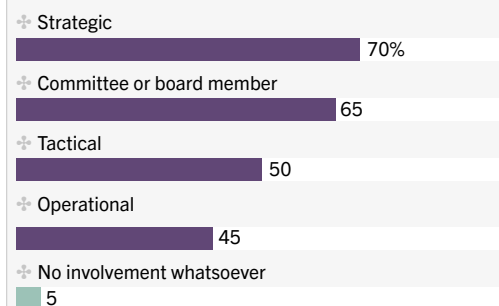


For illustrative purposes only. Due to rounding, totals may not add up to 100%.

A.11 Generational involvement



A.12 Involvement in the family business



Multiple answers permitted.

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