INSIGHTS & TAKEAWAYS

FOX FAMILY OFFICE FORUM™

Purposefully Navigating Change

July 16-17, 2019 | Swissotel | Chicago, IL

The 2019 **FOX Family Office Forum**™ brought together CEOs, HR managers, technology heads, and financial executives to focus on practical approaches to the many trends and issues affecting families and family office executives. In this exciting program, we heard from leading experts about developing leaders in both the family and family office, explored the latest issues in cybersecurity, and sought to understand the family office's role in preparing families for transition.

We hosted over 120 family office leaders and advisors in discussions on the common challenges that leaders are actively addressing within their family offices, in order to better prepare for what's ahead.

56% of attendees were returning to the program and 44% attended for the first time. Attendees identified the top three technology issues they are facing as artificial intelligence, mobile technology, and reporting. Other changes that attendees are grappling with this year include taxes, estate planning, security, and investment decisions.

ATTENDEE QUOTES

"Great way to connect and meet other family office members. This is such a unique niche in the financial planning profession and Fox does a great job of helping family office members to connect with one another."

"This was my first Forum but will not be the last. It was great to network with other family office peers, and especially the office size breakout session."

MEETING AGENDA AT A GLANCE

Increasing Efficiency: Automation, Bots, and the Family Office

PRESENTER

Danielle Valkner, CPA
US Family Office Leader,
PwC

PRESENTER QUOTE

"The digital revolution is not just about technology, but rather finding new ways to solve problems, create unique experiences and accelerate business performance."

—Danielle Valkner

ATTENDEE QUOTE

"Danielle clearly explained the future of automation in the Family Office space and really helped me understand what we could do today in my office."

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

Every family office has a long list of labor-intensive, repetitive activities that require data processing across multiple applications and currently consume precious staff hours. What if there were another way? This session provided an overview of new developments in Robotics Process Automation (RPA) and Intelligent Process Automation (IPA) and the possibilities they offer for family offices.

KEY INSIGHTS

- Digital is adopting new technology innovation, being data-driven in every decision, designing experiences to achieve 100% adoption, and moving with start-up speed and behavior to drive productivity and new or accelerated growth models.
- The need for greater operation and financial efficiencies has driven the demand for automation in the middle and back offices – desire to achieve cost savings and grow revenue as well as deliver on a better customer experience. Automation provides tools and technologies such as macros/scripts, workflows, software robots, and artificial intelligence to perform a set of activities.
- Robotic Process Automation (RPA) can provide real and measurable benefits if implemented effectively. The move to "digital labor" creates hard benefits like reduced costs over time, increase efficiency, agility and quality. Additionally, RPA can provide a 24/7 workforce, increased service quality (reduced errors and improved experience), compliance and control improvements through audit, risk and fraud reduction.
- RPA is best applied to processes that are high volume/low complexity, delivered by large teams (more opportunity to scale efficiencies across large teams performing the same tasks), have high levels of standardization, and operate in a stable environment.
- Intelligent process automation (IPA) can fill in some gaps where RPA is limited including: low volume/high complexity processes and those with ambiguous rules.
- The goal is to balance efficiency and effectiveness in order to reduce time dedicated to manual/non value-added activities and to maximize the time available for business insight.
- It is important for advisors to connect the dots to build the advisory firm of the future, investing in enabling technologies to support client experience, responding to new client demands and transitioning roles in response, as well as recruiting, developing, and retaining the right talent to support the new client.

Performance Reviews Revisited

PRESENTER

Bonnie Gauger
Human Resources Director,
Johnson Keland Management, Inc.

PRESENTER QUOTE

"The performance management process you choose has a lot to do with the culture you want to drive in your family office. We get so caught up in the 'what' that we lose track of the 'why'."

—Bonnie Gauger

ATTENDEE QUOTES

"Bonnie did a great job. Big topic, summarized nicely."

"I love Bonnie's presentations and perspectives on HR!"

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

Getting the right people engaged in the right activities to have the most impact on your business and the families you serve is the key to ensuring a high-functioning organization. Performance reviews are an opportunity to "take the pulse" of the organization and staff and can establish a healthy dialogue that provides space to exchange feedback and assess performance. This interactive session explored how a performance review process can be a manageable, meaningful dialogue that improves performance, and employee engagement. A family office HR practitioner, who reinvented their performance review process, provided key insights and best practices to help participants do the same.

KEY INSIGHTS

- With performance reviews, we are trying to accomplish three goals: (1) develop people (individual development, coaching and mentoring, retaining top performers, and developing leadership); (2) reward equitably (pay fairly, promote and advance, and offer total rewards); and (3) drive organizational performance (align goals, develop culture, create a shared purpose).

- There is no "perfect" performance management process, but it is important to start with culture. Performance management can be used as a lever to change the employee experience and evolve the culture.

- The traditional performance management process that many organizations use today was based on a military model from the 1950s and tends to be one-way and top-down. It is typically focused on past performance that is addressed only annually or semi-annually. It can be time-consuming, focused on filling out forms, it is ratings based, and can be stressful for managers and employees alike.

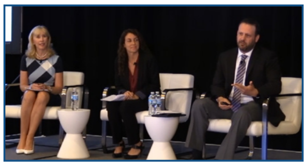
- Johnson-Keland Management moved to a Performance Conversation Framework that is focused on an ongoing conversation and is about relationship building. Performance conversations provide more frequent check-ins with shorter conversations, can be flexible, and offer "in-the-moment" feedback. They are future-focused and not based on ratings.

- Discussion guidelines provide structure for the conversation beginning with a climate review (focused on job satisfaction, morale), followed by a discussion of strengths and talents, then opportunities for growth and learning and development. Finally, a discussion on ways to improve efficiency and effectiveness of the business with innovation and continuous improvement.

- Biggest hurdle has been a shift in thinking about how to reward employees without ratings as well as encouraging manager trust in the process.

Advisor Briefing: Managing Elder Care, Aging and Incapacity

PRESENTERS



Nicholas Van Brunt
Partner, Sheppard Mullin

Daisy Medici
Managing Director of Governance and Education, GenSpring Family Offices

Margalit Tocher
President, Home Care Assistance

ATTENDEE QUOTE

"Talked a lot about things we hadn't thought about in taking care of our parents."

CLICK TO VIEW PRESENTATION SLIDES AND VIDEO

SESSION DESCRIPTION

As we age physically and mentally, our ability to care for ourselves and capacity to manage family affairs often diminishes – sometimes unexpectedly and rapidly. This presents significant problems that next generation family members and family office executives must manage under very stressful circumstances that can change day-to-day. In addition to the types of care required, there are myriad legal, financial, and personal matters that must be delicately addressed and thoroughly planned for. This session brought together experts to discuss a multi-disciplinary approach to managing elder care.

KEY INSIGHTS

What happens if I don't plan ahead?

- Usually, it is too late, and you will need someone to intervene if a matriarch or patriarch is no longer capable of managing her/his affairs. Typically, this will be a Direction in Trust or Power of Attorney (if outside of court) or a Conservatorship/Guardianship (if inside of court).

Dementia

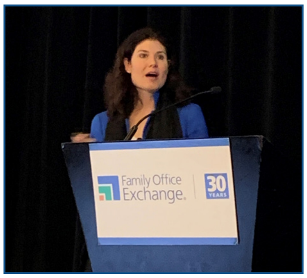
- When something is changing cognitively, you may see a change in cognition and typical behavior, and it may be presenting in memory, attention, and language. First step is a medical evaluation to rule out other possible factors (depression, UTI, medicine complications, sensory changes, or chronic conditions like diabetes).
- Four facts about dementia: (1) it is chemical and structural brain death, reducing brain function by up to 2/3; (2) it cannot be stopped or fixed (but can be slowed down); (3) it is constantly changing, and (4) it is terminal. Dementia is not a diagnosis, but an umbrella term for 85-90 conditions including: Alzheimer's, vascular dementia, Lewy body dementia, Korsakoff Syndrome, Parkinson's, and frontotemporal dementia.
- Create a Decision Roadmap when you are healthy, putting in to place important legal documents (will, living will, advanced healthcare directives, healthcare, and financial power of attorney) and create a roadmap for all family members. Include who can "pull the trigger" on the plan. Review regularly and consider issues of when to remove car keys, transfer powers of attorney, succession plans, and when to change care arrangements.

Planning Ahead: What a Novel Idea!

- We don't tend to plan because it is a difficult topic to discuss and privacy issues might prevent disclosure, however failure to plan can undermine how a family works effectively together. Building a comprehensive approach to decision-making and communication can help alleviate challenges and unforeseen consequences. Use the three-circle model: Family/Ownership/Business.
- Decide on a repository, a "just in case" book that includes all pertinent information regarding your wishes, preparations that have been made, location of important documents, all important information regarding insurance, investments, bank accounts, and important contacts for advisors, doctors.

Estate Planning Considerations for the Modern Family

PRESENTER



Kim Kamin
Principal and Chief Wealth Strategist, Gresham Partners, LLC

PRESENTER QUOTE

"It is incumbent upon us to balance the family's desire for control with the understanding that views and beliefs evolve over time."

—Kim Kamin

ATTENDEE QUOTE

"Kim did a great job with a broad subject in a small amount of time. She brought up a few things that made us realize we need to go look at some wording in our documents to make sure all who were intended to be covered in the estate planning are."

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

The traditional nuclear family is no longer the presumption. With multiple demographic trends including same-sex marriages, blended families, and cohabitation alongside different paths to parenthood, including adoption and assisted reproductive technologies, there are numerous estate planning challenges that ultra-high net worth families and their advisors must now consider. Advisors must become familiar with the needs and nuances that are unique to modern family members, structures, and dynamics. We explored some of these important considerations when working on estate planning for the modern family.

KEY INSIGHTS

- The modern UHNW family comes in many shapes, sizes, and configurations, and estate planning considerations must adapt to fit this new family structure as it will impact family governance, how services are provided, how existing trusts are interpreted, and how new estate planning instruments are drafted.
- Today we must consider different definitions of family that don't fit in our traditional understanding of marital status. Divorced couples, single clients, cohabiting couples, same-sex couples, remarriage and blended families, polyamorous relationships, and multi-national families are a few considerations. There are 1.4 million adults in the U.S. who are transgender and are identifying as transgender or non-binary at younger ages. Important to consider how assistance for transitions will be handled; planning should also pay attention to nouns, pronouns, and honorifics.
- Special family member needs can be considered utilizing ACA and Medicaid Planning and third-party trusts to "supplement, but not supplant". Self-settled trusts, where the individual already has own assets or received a settlement, are also potential options. ABLE accounts are similar to 529 accounts – the individual can contribute to their own account and draw from it as needed.
- The changing nature of families requires attention to how we describe and define descendants. Biological children are now joined by step-children, adopted children, nonmarital children, and children from assisted reproductive technologies (either within the lifetime of the family member or posthumously). Adoption considerations also require specific drafting techniques and can pertain to the adoption of minors or adults, including special issues.
- Modern families may own new asset classes (i.e. digital assets, cloud services, bitcoin) that should be clearly defined. There is a new uniform act stating that fiduciaries must be defined as agents with access. This can still be overridden with specific social and email accounts. Families also need to be thoughtful about keeping record of any cryptocurrencies.
- While the successful revival of a frozen human does not exist, the choice is appealing to some clients and estate planners should consider costs as well as structure of a revival trust. Additionally, there is a variation for cryonics and planning for pets, including cloning.

Tax & Estate Update

PRESENTERS

Tom Abendroth
Partner, Schiff Hardin LLP

Mark Blumenthal, CPA
CPA, Partner, Plante Moran

PRESENTER QUOTE

"The biggest impact [of the Tax Cuts and Jobs Act of 2017] is the loss of the 2% miscellaneous itemized deductions. The QBID [Qualified Business Income Deduction] is a big deal and something to pay attention to."

—Mark Blumenthal

ATTENDEE QUOTE

"Raised important questions to bring back to our CFO and Controller as well as our outside CPA advisor."

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

It has been over a year since the Tax Cuts and Jobs Act of 2017 brought a multitude of changes to the tax code. As families continue to learn about the impact of the new law on their future, advisors await further guidance from the treasury department while simultaneously evaluating the challenges and opportunities presented by the changes for their clients. Always a popular session, Tom Abendroth of Schiff Hardin and Mark Blumenthal of Plante Moran led a thorough discussion of the most important tax and estate planning updates for ultra-high net worth families.

KEY INSIGHTS

- For individual taxpayers, the Tax Cuts and Jobs Act of 2017 saw the elimination of personal exemptions, an increase in the standard deduction and a modification of many itemized deductions including: new limitations on state and local tax deductions and home mortgage interest deductions; elimination of miscellaneous itemized deductions, elimination of itemized deduction phase-out, and an increase in charitable contribution limitation. For trusts, there is a $10,000 limitation on State and Local Taxes, the 2% itemized deductions were eliminated, trustee fees remain deductible, and tax determination and preparation fees remain deductible.
- Qualified Business Income Deduction (QBID) is a deduction for individuals and trusts of up to 20% of qualified business income and applies to domestic business income, qualified REIT dividends, and qualified publicly traded partnership income. It does not apply to wages or guaranteed payments paid by the business to the owner.
- State statutes rely on various grounds to tax trusts: the residence of the settlor, the residence of the trustee and/or administration in the state, and the residence of the beneficiary. The trend of state case law has been to limit state authority to tax trusts. In the Kaestner 1992 Family Trust case, under the due process clause, the residence of the beneficiary was not a sufficient link for the state to tax the trust; in the Fielding case, found that trust created by a Minnesota resident and governed by Minnesota law were too attenuated to support Minnesota's right to tax the trust's income.
- Higher estate tax exclusion, coupled with time and appreciation, makes transfer tax planning much easier. For many couples, the focus increasingly is on structuring of lifetime transfers and trusts to maximize income tax benefits. Basis step-up includes: gifts of high basis assets, ability to swap assets with a grantor trust, portability and double step-up, upstream transfers, and estate inclusion of existing irrevocable trusts, and option to trigger in the future.
- H.R. 1994 SECURE Act is a bill to encourage greater retirement saving and expand certain retirement opportunities and would be paid for by limiting the payout of most inherited IRAs to a maximum of ten years; lifetime minimum distribution rules and spousal rollover would not change. If passed, account holders may want to consider conversion to Roth IRA's. Additionally, payment of an IRA to a Charitable Remainder Trust would provide opportunity for longer term deferral of income tax.

BREAKOUT A

Internal Controls to Support Cybersecurity

PRESENTERS

Doug Herman
Principal, Technology & Business Transformation Services, BDO USA, LLP

Jason Lipschultz
Managing Director, Third Party Assurance, BDO USA, LLP

PRESENTER QUOTES

"You can outsource the process, but not the risk. You can have the greatest policies and procedures in place, but if you're not auditing them regularly it does not matter."

—Doug Herman

"The bad guys are always one step ahead of us. We're always reactive to the latest threat. It's an uphill battle, however artificial intelligence will begin to level the playing field."

—Jason Lipschultz

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

There are a myriad of cybersecurity issues facing families and family offices in today's complex private wealth environment. While some of the challenges may seem unavoidable, families may unintentionally put themselves at risk because the complexity of family office activities and the potential impact of external factors aren't proactively identified and addressed. This session explored how to assess, evaluate, and mitigate some of the risks commonly found in the family office environment, key considerations that participants should keep in mind when evaluating cybersecurity risks and solutions, and best practices they should be incorporating into their internal controls processes.

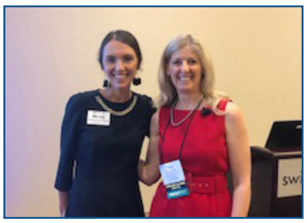
KEY INSIGHTS

- To prevent cyberattacks, it is important to remember that technology is only as good as the processes and controls that manage it. Key business process areas of focus include: purchasing, accounts payable, disbursements, HR and payroll, and general accounting. Key control considerations: policies and procedures, access management, delegation of authority (who approves what), segregation of duties, vendor master and, periodic reviews, and reconciliations.
- In addition to the internal controls, you might also consider risks in vendor relationships and banking services and may establish proactive relationships with PR and Crisis Management firms as well as law enforcement.
- Controlling human behavior remains your biggest asset and biggest risk. Most human behavior is driven by a desire for convenience and efficiency. The best way to instill best practices is through training, supported by testing, followed by auditing. But, before training can be accomplished, a clear and concise set of policies and procedures need to be developed, including: storage and handling of documents containing sensitive information or PII; transition of sensitive documents; and verification of transactions.
- Best practices for maintaining confidentiality include: verification of vendors or other individuals for which disbursements are being made; servers are encrypted at rest; encrypted email communications; don't use personal services for FO business (personal Gmail, DropBox, etc.).
- A compromise is the external breach into your infrastructure, an internal breach where an employee leaked sensitive information, or ransomware. If you suspect a compromise has happened, involve outside counsel and investigate but don't stomp on key artifacts. Involve external incidence response parties at the appropriate time.

BREAKOUT B

Addressing the Complexities of Communication and Family Learning

PRESENTERS



Emily Bouchard
Strategic Wealth Coach,
Ascent Private Capital
Management

Mindy Kalinowski Earley, CMP, CFBA
Chief Learning Officer,
Family Office Exchange

PRESENTER QUOTE

"Make sure each family member is prepared for their role in family learning."

—Emily Bouchard

ATTENDEE QUOTE

"I thought the topic was fascinating. My family office's management does not value this type of programming yet, but I hope that in the future they will."

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

How do you prepare next generation teens, and young adults to be responsible wealth owners? What meaningful activities can you organize to provide the training they need for their future roles as family leaders on the family council or governing board? A well-planned education and communication plan for the rising generation can dramatically boost a family's chances for producing responsible wealth owners. Two experts in family learning and dynamics shared best practices, practical tips, and fun activities to inspire learning and engagement.

KEY INSIGHTS

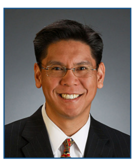
- Family learning and communication should start with the why. Why do family members need to learn and "why" is communication important? Once the why is understood, they can move on to what they need to learn.
- The "how" of family communications provides methods to stay engaged and connected. This might include repeated messages, a family portal or communication platform. It should be transparent with clear expectations and two-way communication. Family meetings provide a great way for family members to connect and learn in a face-to-face setting. For these to be effective, they must have ground rules, provide a safe place (no repercussions), avoid jargon, and be as open as possible.
- For learning to be effective is must be personalized, offer a variety of learning modalities and settings, be relevant, interesting, and agile to adapt/adjust to the generation.
- Some learning activities that will engage family members in preparing for their role within the family as future leaders might include: work groups or committees, brainstorm sessions, events or retreats, individual learning plans, annual client meetings, or special projects.
- Learning plans should be tailored to the individual and represent their learning style, preferences or age. These plans can include a variety of resources including online activities, games, and books.

BREAKOUT C

Ask the Expert: An Interactive Dialogue on Profits Interest Structure

PRESENTERS

Wally Head
Vice Chairman, Gresham Partners LLC



Domingo Such
Partner, Firmwide Chair Family Office Services, Perkins Coie LLP

ATTENDEE QUOTES

"This seemed to be the one session that everyone was waiting for. The presenters spent most of the time answering member questions. Having access to SMEs on particular topics is invaluable."

"Best FOX session to date. Many take-aways."

CLICK TO VIEW PRESENTATION SLIDES

SESSION DESCRIPTION

Many families have spent time in the last year working with their accounting and legal teams to evaluate their current structure and weigh the pros and cons of moving to a profits interest structure. Two experts shared insights and facilitated discussion for those with a profits interest structure and those considering one, sharing experiences, and posing questions to peers in similar circumstances—with technical experts leveraging the wisdom and experience of the group.

KEY INSIGHTS

- One of the most material impacts of the Tax Cuts and Jobs Act of 2017 on high net worth individuals was the elimination of "miscellaneous itemized deductions." As a result of this elimination, investment management expenses—including management fees paid to a family office management company in a conventional family office structure—are no longer deductible. The utilization of a profits interest structure allows the family office to recapture these lost deductions.
- Under the profits interest structure, family members contribute assets (i.e., investments) to a family investment limited partnership in exchange for an interest in the limited partnership. The family office acts as the manager or general partner of the limited partnership. Rather than compensate the family office for its investment advisory services with a non-deductible management fee, the family office receives a carried interest or profits interest in the limited partnership. [NOTE: profits interest is synonymous with a carried interest].
- Whether a profits interest family office structure can withstand IRS scrutiny, however, depends on whether the structure creates a true trade or business. The answer to that question lies entirely in the facts. If the facts belie the structure, the structure will fail to be the very tax shield it was created to provide.
- Facts indicating that a family office profits interest-structured management company is in the trade or business of providing investment advisory services include:
    - Imposing corporate discipline (i.e., creating an operating agreement, maintaining by-laws, conducting board meetings, and memorializing the meetings in minutes)
    - Adequately capitalizing the entity, including putting the appropriate amount of expenses in the bank account (i.e., anywhere from 18 mos. to 36 mos. worth of expenses)
    - Providing health insurance, a retirement plan, and other benefits to employees
    - Creating contracts with attorneys, accountants, and other service providers
- To proceed with the expense of creating and maintaining a profits interest structure, there should be an annual minimum of $500K in management fees that need to be sheltered.

For more information on upcoming
FOX Learning Programs, please visit:
www.familyoffice.com/learning-programs

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