

FOX FORESIGHT™

WHAT'S ON THE MINDS OF FOX MEMBERS

2018 TOPICS

► Trends Impacting Families

Future of Family Learning

Disruptions in the
Investment Industry

Appeal of Direct Investing

Family Office Practices

Impact of Talent

FOX FORESIGHT™

FOX Foresight keeps FOX members up to date on the latest thinking on matters that affect enterprise families. It summarizes what we have been learning from our members and our subject matter experts over the last year. Please share it broadly within your family and your office.



Trends Impacting Families

Pg. 2

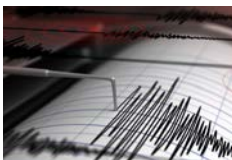
The three main forces that will have significant influence on the future of wealth management are distrust in all major institutions by individuals, the rapid pace of innovation, and people everywhere living longer.



Future of Family Learning

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The Future of Family Learning addresses the need every family has to prepare its next generation to manage their wealth well and participate in the family enterprise by sharing examples of best practice programs in learning and development.



Disruptions in the Investment Industry

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Many investors are frustrated with the returns of a traditional, diversified portfolio and are reevaluating their investment approach. This article discusses the disruptions facing the investment industry.



Appeal of Direct Investing

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The interest in private company investments continues to grow stronger. This article tells the story of families who are pursuing this opportunity, highlighting the top themes from our recent research and ongoing conversations with FOX members.



Family Office Practices

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Based on FOX's study of family offices, this article highlights key challenges that families are working on including: scope and cost of services, the value of family learning, the role of governing boards, as well as the role of trustees.



Impact of Talent

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This article defines trends relating to finding talented advisors, reveals best practices to address the talent challenge, and provides a simple self-assessment for members to gauge their readiness to address these talent trends.



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Trends Impacting Families

Introduction

We are at a crossroads in human history where three powerful forces are coming together.

- First, individuals have lost trust in the major institutions that have served as the framework of our modern society.
- Second, innovation is moving more quickly and with a broader reach than ever before.
- Third, people everywhere are living longer, with implications for society that range from how we think about life, how we plan our personal and shared resources, and how we interact with one another.



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In addition, each of these trends is intertwined with social and geopolitical mega trends that have associated risks as well as unprecedented opportunity for those who know where to look.

According to the FOX Thought Leaders Council, these are the main trends that will have a significant influence on the future of wealth management. At the 2017 FOX Thought Leaders Council Summit, Family Office Exchange challenged this select group of leading thinkers across key wealth management disciplines to create a shared vision of the future for wealth management in the year 2030 and to identify actions that advisors and families can take in the short and long term to manage uncertainty, take advantage of opportunity, and achieve the best outcomes for tomorrow.

In this article, we will describe key anticipated impacts of decreased trust, rapid, pervasive innovation, and increased longevity. We will also look at how the social/geopolitical megatrends of global resource constraints, shifting social paradigms, and post-globalization economy relate and share recommended actions that family wealth owners and their advisors can take as they prepare for the future.

Trends Tomorrow: Imagineering the Future

True thought leadership emerges where knowledge and imagination intersect. With this in mind, Family Office Exchange invited the FOX Thought Leaders Council™ to imagine the future at the 2017 Thought Leaders Summit, held at New York City's Columbia University. Travelling forward in time with great intention to the year 2030, we borrowed the term "imagineer" from Walt Disney to set the tone for the journey. Imagineer, a portmanteau combining the words "imagination" and "engineering," means implementing creative ideas in practical form.

With the help of skilled graphic facilitators, FOX senior executives and members of the FOX Thought Leaders Council participated in thought-provoking design exercises and engaged in creative thinking about where we are and where we've come from. Design thinking techniques were utilized with the goal of influencing where wealth management is headed.

FOX experts and the council members reflected on our own professional disciplines, engaged in group discussions about the future needs and expectations of the ultra-wealthy client, and collaborated to develop sound plans of action to help family wealth owners to prepare for the changes to come. Highlights from our discussion are reflected in these pages.



Trend #1: Trust

The FOX Thought Leaders Council's view of the future was certainly influenced by the fact that 2017 was a year of almost unimaginable upheaval—a year where trust was imploding worldwide. Globally, trust in business, media, government, and nongovernmental organizations has dropped according to the 2017 Edelman Trust Barometer, bringing it to the lowest level it has been in the history of the annual study.



Surprisingly, Edelman's 2017 research showed that in the major financial markets, trust in financial services was up across the board. Members of the FOX Thought Leaders Council expressed a healthy skepticism about these results, believing that trust took a significant hit in 2008 and hasn't recovered fully within the ultra-wealthy client population.



While the University of Chicago found that the majority of people disagree that "most people can be trusted," Edelman found that in 2017 for the first time "a person like yourself" is considered as credible

a source of information as a technical or academic expert. Along these lines, the World Economic Forum reported that a sense of community will be omnipresent as we imagine the future, and that belonging to and trusting a community will be higher on the "need" or "value" spectrum than ever before.

The Impact

One of our great fears about a world where trust is imploding across the board is that families will be driven to turn away from their external advisors and become more self-directed or insular. Their instinct may be to do so in order to protect themselves and their interests, but the reality is that this course of action is likely to make families more vulnerable to traps and jeopardize their ability to meet family wealth goals.



On the other hand, in times of great vulnerability and distrust, the loyalty of strong inner circle partners often becomes more valued. Those advisors who persevere with the family through significant

transitions have been known to be among the most successful at forging trusted relationships that stand the test of time. These are the partnerships that tend to be retained by the next generation.

We have already seen evidence that the value of belonging to a trusted community of peers is on the rise. The decision made by the FOX Direct Investing Network, a community of avid investors, to explore direct investment opportunities with their liked-minded peers rather than other traditional financial intermediaries, is a prime example. The growth and strength of the FOX Councils is another strong indicator.



The loss of trust in institutions and the rise in networks of peers may also mean that new social paradigms will be created. Peer groups will be based on common interests and values and function without regard to geographic boundaries. They will operate formally and informally through various social platforms and across generations. They will be enabled by technology, but will also manifest themselves in in-person gatherings. Entrepreneurship will be facilitated and new businesses are likely to be developed as new networks of customers, suppliers, and funders are formed.

What to Do— Ideas to Consider

1. Share What You Stand For—Your Vision

Not since the post world war has the notion of being ‘authentic’ garnered so much interest and attention. This is likely due to the millennial generation’s unwavering commitment to authenticity. Family leaders of wealth must figure out what “being authentic” means to the family and should be careful to consider how their own personal thoughts of authenticity might influence the family office and the enterprise. One way to demonstrate authenticity within the family is to create a vision and mission statement or an ethical statement or oath. Telling the public “where you come from” by consistently articulating your family story fosters trust, especially for business-owning families. For more information on the ultra-wealth millennial generation, refer to the FOX Study entitled “[*Engaging the Client of the Future.*](#)”

2. Revisit Your Operating and Decision-Making Model

The operating framework created to manage the affairs of the family must consist of a strong leader and a team that evolves with the family. As the framework supports family goals, trust and confidence naturally follow. In addition to an appropriate partnership model that includes the best people resources, trust is also supported when there is a strong, reliable decision-making process. A set of parameters that defines a family decision-making model will engender greater family harmony and avoid what can become irreparable family conflict. For more information, refer to the FOX Study entitled “[*Strengthening the Partnership Between Families and Advisors.*](#)”

3. Trust But Verify Your Advisor Ecosystem

Members of enterprise families choose to work together for many reasons, not least of which is to have the ability to engage wiser advisors and get better advice than they could attract and retain on their own. Individuals give up a degree of personal control and decision-making power in exchange for this benefit. For this collaborative approach to work, the individuals have to trust the advisors working for the group. Performing due diligence on those advisors fosters confidence and trust and is essential in order to maintain a strong supportive system.

4. Identify and Recommit to Trusted Communities

Embrace the trend toward relying more heavily on trusted communities. However, do your due diligence here too. Look for alignment of interests and establish a vetting process. Find out how the community serves and protects its members. The most valuable communities provide not only networking but opportunities for education and learning for those navigating similar life journeys and confronting similar issues.

5. Redefine Personal Touch and Connection

Since authenticity plays such a large part in establishing an emotional connection, figure out what that means to you, your office, and your family enterprise. Be open to using modern communication processes and vehicles to facilitate those connections. At the same time, keep in mind that even digital natives value personal touch and want to engage in person too.

6. Expect Simplicity, Transparency, and Explanations

Simplification, especially in big data, and transparency in all areas, especially around costs, will provide more opportunities to build trust. The more family members understand, the more trusting they will be. Demystifying technology goes hand-in-hand with supporting transparency efforts in eliminating and disclosing conflicts of interest. Don't be reluctant to ask for greater levels of clarity or explanation. Look for applications where simplification can help you better comprehend pros and cons. Better information supports better decision-making and helps families of wealth to feel more secure and confident.

7. Build Understanding & Engagement Through Education

Owners and their family office executives seek content that helps support awareness and responsibility around matters of wealth ownership for the rising generation. Addressing topics such as financial and investing basics, trustee and beneficiary concerns, philanthropic activities, family business goals and objectives, serves to develop and support more sophisticated decision makers with better judgment. The confidence that results from these kinds of educational opportunities not only builds trust but also builds greater life perspective and family engagement.

"I don't trust words, I even question actions, but I never doubt patterns."

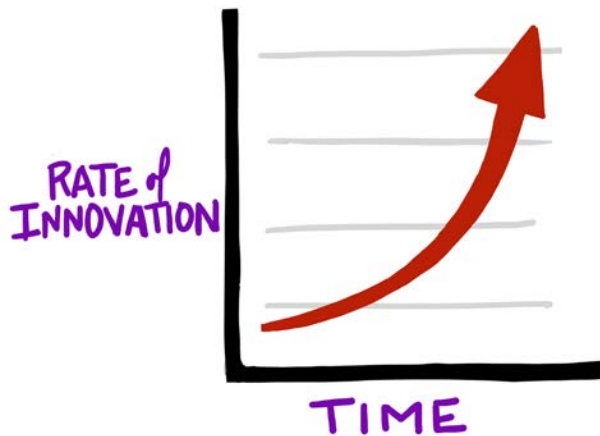
– Unknown

Trend #2: Innovation

Innovation has always been a key driver of the future. What's notable is the incredibly rapid pace and pervasiveness of the innovation happening now and is expected to increase as we look to 2030. Innovation is rapidly transforming how we live and work, resulting in the end of the world as we know it.



With the increasing speed of innovation in information technology, bio-technology, and engineering, the physical, digital, and biological spheres are blurring and we are moving from the Third Industrial Revolution, which was digital, into the Fourth Industrial Revolution. The changes we will experience will transform entire systems of production, management, and governance. As they do, the needs, expectations, and risk profiles of all, especially families of wealth will also change.



The Impact

As the Fourth Industrial Revolution plays out, all aspects of our daily lives will be impacted, as will our understanding of self and the meaning of privacy, ownership, and citizenship. The ability to adapt will increasingly determine survival for all players – whether they are businesses or laborers, governments, or citizens. The impacts will be significant for human, intellectual, social, and financial capital.



In terms of human and intellectual capital, innovation will affect how we learn, how we hire, how we work, how we eat, how we travel. Some argue that privacy will be impossible to achieve and maintain down the line. Guarding one's anonymity will be extremely difficult and will likely be extremely expensive.

Social capital will be dictated by what community looks like, how we establish and navigate community, how we influence, what philanthropy looks like, how we protect our reputations, and how we maintain our personal and professional brands. While virtual accessibility is seemingly limitless, families express concern about physical isolation, even while socialization facilitated by connected devices increases.

"The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow."

– Rupert Murdoch

In terms of financial capital, there will be many new opportunities and challenges. How we invest and what we invest in will change as local and global industries, institutions, economies, and societies are disrupted by innovation. Unforeseen risks cause even greater uncertainty suggesting an even greater need for integrated strategy than ever before.



Widespread innovation is expected to help relieve the strain on global resources. The transition from traditional energy to renewable energy will be accelerated. Alternative food supplies like cultured meat will be adopted. Unfortunately, these transitions won't be equally distributed throughout the world right away. Initially, inequalities of health and wealth are expected to increase throughout the world, leading to class conflicts and increasing social unrest.

We may be entering a phase of de-globalization, similar to the one we experienced between 1900 and 1940. If so, innovation will have a role to play here too. Connectivity already allows us to move information and ideas instead of people and goods. Manufacturing on a smaller, more local scale will be enabled by 3D printing and other innovations. Technology such as self-driving vehicles and delivery drones will increase transportation efficiency and lower the cost of distance.



"Innovation is moving at a scarily fast pace."

– Bill Gates

What to Do— Ideas to Consider

1. Build Owner Commitment and Dedication to Innovation Response

The success that got you where you are will not necessarily set you up for tomorrow. Consider your "innovation strategy" for the entire family enterprise. Incorporate ways to anticipate change and develop resilience into your family wealth strategy. Ask tough questions about how innovation will not only support future endeavors but may also threaten them.

2. Guard Privacy and Protect Reputation

Protect your privacy and reputation and broaden your view of modern day risks. As the rise of digital identity impacts the financial services world, indeed all areas of the world, make sure the public and private selves of your family members are aligned as there may no longer be the liberty of having such a distinction. Personal brand is just as important as corporate brands.

3. Focus on Client Experience

The client experience bar set by large tech firms such as Apple and Google can and must be met in financial services. It's easy to anticipate that the owners of the best client interfaces will have leverage. However, there's much more to it than that. Enlightened advisors will constantly seek to find out where customer's pain points are and solve them. It sounds simple enough, but to do that the leading advisor must really understand where the client is coming from, what their problem is, and why they want a solution. Successful, forward-thinking advisors will take nothing for granted. The client experience mandate relates to family office advisors as well as external advisors. In fact, FOX is already seeing a trend toward larger multi-generational families forming client experience task forces to support the increasingly sophisticated demands of family members for cutting edge technology and personalized services.

4. Develop Your Risk Governance System

Building a process you can trust extends to putting a risk governance system in place. In the 2017 FOX Family Office Study, long term, successful families were those with an established governance board that identified and managed their risks in a comprehensive and integrated manner. Due to technological innovation, risk governance mandates must be strategic and include not just financial risk, but family risks, security and privacy risks, and succession planning risks to name a few. Incomplete or non-existent risk management processes threaten modern families as their view remains siloed, leaving vulnerabilities exposed that threaten trust.

5. Align Talent and Technology

As innovative technological resources converge with people resources, be sure to preserve the human component within your operating framework and your office. The office executive as risk manager cannot be supplanted by better, faster technological solutions, but instead should be supplemented by them. As family offices become increasingly professional, they must utilize the advisors within to navigate relevant data and information. Pay close attention to how talent and technology align. Also keep in mind that with more advancement, you will have to hire for a different skill set. Family enterprises are going to have to manage talent and capital together, in a way like they have never done before. Massive retraining and retooling efforts must be explored, especially for the older demographic cohorts who have been trusted advisors and loyal protectors of the family enterprise.

Trend #3: Longevity

The average life expectancy in America today is longer than in any other period in history. More specifically, data from a United Nations report shows that the number of people in the United States who are 65 years and older rose from 8 percent to 12 percent of the total population between 1950 and 2000. What's more, this figure will rise to 20 percent by 2050 and is likely to continue rising steadily thereafter. This is largely due to significant improvements in healthcare services, investment in medical research, and universal health coverage.



Compared to the previous generations, the elderly today are more educated. Specifically, 84% of seniors 65 years and older have completed high school or higher education programs. In addition, 26% of seniors in the same age bracket have earned a bachelor's degree or a higher form of education. Besides being better educated, seniors today are better off financially compared to the previous generations.

With these statistics in mind, it's no wonder that 95 percent of baby boomers want to travel in retirement. Volunteering is another popular retirement activity with 24 percent of people over 65 participating. More than 40 percent of adults over age 65 are getting some type of education. At least 7 in 10 people say they want to work in their later years, which means that we will have five generations working side by side.

"For everybody in their busy lives, you need to invest in sharpening your tools, and you need to invest in longevity." – Ryan Holmes

The Impact

Teenagers and retirees are 20th century concepts born of improved quality of life and longer life spans. Before that, there were only children and adults. As we continue to age more slowly and live longer, our definition of life stages will continue to change. The impact of greater longevity will be broad and deep. The systems and structures that support our lives will also change. The way we define family will continue to evolve. The way we plan and build the infrastructure of our cities will be rethought. The demographics of the labor force will shift. The need to rethink our healthcare system and reduce costs will increase. Educational institutions will be redesigned. Our expectations for retirement will be redefined. Even our social contract will change.

Families of wealth won't be immune to the direct cost implications resulting from a higher spend rate for lifestyle and healthcare. The lifetime cost of disability issues will also become much more significant. The indirect costs will also hit families of wealth as taxes will rise to fund the overall cost of longevity. Multi-generational wealth issues will also become more complex. With not three or four but four or five generations sharing the wealth, staying together might prove too challenging for many families. Therefore guiding families through complex governance systems, successions or perhaps orderly separations will become increasingly needed. Conventional wealth planning may not sustain the stress of multi-generational issues, and families may need help revisiting and adapting their planning.



Family philosophies on the purpose of the wealth are likely to evolve, driven by various multi-generational aspirations. We're already seeing a fundamental shift. The previous family wealth model was typically meant to preserve the wealth for future generations. The new model is increasingly about putting money to work in the wealth owner's lifetime.

The goal for many modern wealth owners is to have an impact on their children, on philanthropy, on fostering a generation of entrepreneurs, or on other causes they care about, in their lifetime.

Global resource constraints will bring challenges such as increased taxes to fund infrastructure needs and an aging population, but also opportunities like investing in infrastructure globally or impact investing in food or water resources. We're already seeing a change in family investment needs, from top-down asset allocation models to bottom-up due diligence on less traditional investments.

What to Do— Ideas to Consider

1. Developing a Longevity Strategy

Make managing longevity challenges and opportunities an integral part of your purpose and vision and offer permission to your advisory team to partner with you in identifying the strategy.

Tapping a true multi-generational advisor who can help develop a longevity strategy for families is an extraordinary value-add and helps address issues related to this "elephant in the room."



2. Communicate Your Wishes

Aging and death and the issues associated with them, such as end-of-life care and funeral plans, are sensitive topics and taboo in many families. However, to be able to lead the development of a longevity strategy, you need to be able to discuss issues related to longevity openly with your family. Someone needs to raise the topic, be courageous, and share stories to convey the implications of poor versus adequate planning. Engage elders and their children. Make longevity an on-going topic discussed along with family enterprise goals. The two go hand in hand.

3. Rethink Planning

Family wealth owners have to re-engineer their planning to sustain the test of a 100+ year life expectancy. It's very likely that wealth preservation alone won't be enough to sustain the wealth through generations. Families will need to generate new cycles of wealth creation. New structures, around governance in particular, might need to be considered. The older generation might need coaching to find their future role and relinquish control. Or, if increased longevity means staying together is not sustainable, then separation planning will be needed.

4. Enhance Risk Management

Families need a forum to discuss the implications of longevity as a whole group. A family risk body of some form will ensure ongoing discussion with all generations. Such a forum will also serve as a safeguard in the event that potential legal situations arise. Potential legal conflicts need to be thought through ahead of crises.

Advisors also need to mitigate risks associated with longevity by helping other advisors think of risk holistically across the family enterprise and by fostering communication among advisors to bring an integrated approach to longevity planning.



Closing Thoughts

Without a doubt, the forces of trust, innovation, and longevity as well as the related social geopolitical trends around resource constraints, new social paradigms, and a post-globalization economy mean that we will see major changes in the next 10 to 15 years. However, the private wealth management community has the knowledge, experience, and tools to meet the challenges and opportunities these changes will bring.

As shown in the recommended actions in this article, an integrated approach to family wealth management will continue to be critical as enterprise families work together with their advisors to put plans in place to realize their shared goals. Established family wealth disciplines of integrated wealth management, education, and succession planning will be especially critical for success. Trusted communities such as those offered by FOX will play an expanded role.

Indeed, we have the opportunity and the ability to shape our future for ourselves and future generations. In order to do so, we must keep the conversation going. We encourage your thoughtful consideration of how these trends will impact your family wealth planning and family enterprise planning efforts. Whether it be with your spouse, your children, your extended family, your family office staff, your family business leaders, your trusted partners, or perhaps just your quiet reflection, Family Office Exchange hopes that we have got you thinking.

What's your big trend? What is your commitment to addressing your big trend? FOX will continue to ask these questions in our trusted network of communities and will encourage dialogue among our members as we move forward into the future. We hope you will join us and participate in the discussion.



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The FOX Thought Leaders Council™

FOX invites the leading advisors across all disciplines in the private wealth management industry to come together as members of the FOX Thought Leaders Council. FOX Thought Leaders currently include those who are at the top of their fields in family business, information management and reporting, and integrated planning (insurance planning, investment planning, philanthropic planning, and tax and estate planning). This diverse, working council is united by its commitment to serve the needs of ultra-wealthy individuals and families. FOX member recommendations and proven examples of advisor vision and expertise are taken into consideration for membership in this select group. The FOX Thought Leaders Council contributed to the content in the first article of this publication titled *"Trends Impacting Families."*

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