

# Should You Have a Family Office Separate from Your Business?

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# Executive Summary

- A family office provides all the essential services for building and preserving family wealth
- In most buy not all -- instances, it makes sense to have a family office separate from the family business
- A separate family office can provide unique advantages

# I. What is a family office?

“The most effective approach for a family of significant wealth to preserve and enhance its wealth through the generations is by the creation of a properly functioning family office.”

-- Jonathan Carroll

# What is a family office?

- An entity that supports the financial needs of a specific family group
- A “chief advisor” to the family
- Provides personalized service, technical expertise, creative business leadership and day-to-day management for success
- Some have likened it to the family’s “quarterback” for all product and service providers and professional advisors

## II. Types of family offices

- Single Family Office (SFO) – set up by an individual family
- Multi-Family Office (MFO)
  - Serves the needs of more than one family
  - Combines resources for efficiency
  - Single point of contact for planning and implementation
  - A way of sharing family office functions
- Commercial Family Office (CFO)

# Components of a family office

- Tax Compliance, Planning, & Preparation
- Investment Policy & Asset Allocation
- Portfolio Strategy & Manager Selection
- Investment Performance Monitoring
- Portfolio Accounting
- Alternative Investment Tracking
- Trading
- Bookkeeping & Bill Payment
- Financial Reporting
- Cash Flow Management
- Estate & Wealth Transfer Planning
- Insurance & Risk Management
- Foundation & Philanthropy Management
- Personal Finance Management
- Concierge Services
- Data & Document Management



### III. What it must provide

- Advocacy for the family's best interests
- Personalized focus and control over family finances
- Formal communication processes
- Customized services
- Cost control and economies of scale
- Opportunities for each generation
- Ensures privacy and confidentiality
- Strengthens family mission and legacy

# A demanding task...

“Without a family office, the only glue holding together a growing, dispersed family is the business. So shareholders may cling to the business – in its current form – to preserve its identity and closeness, even if that means passing up opportunities to expand, evolve or sell the business.”

-- Francois de  
Visscher

Founder and President  
De Visscher & Co

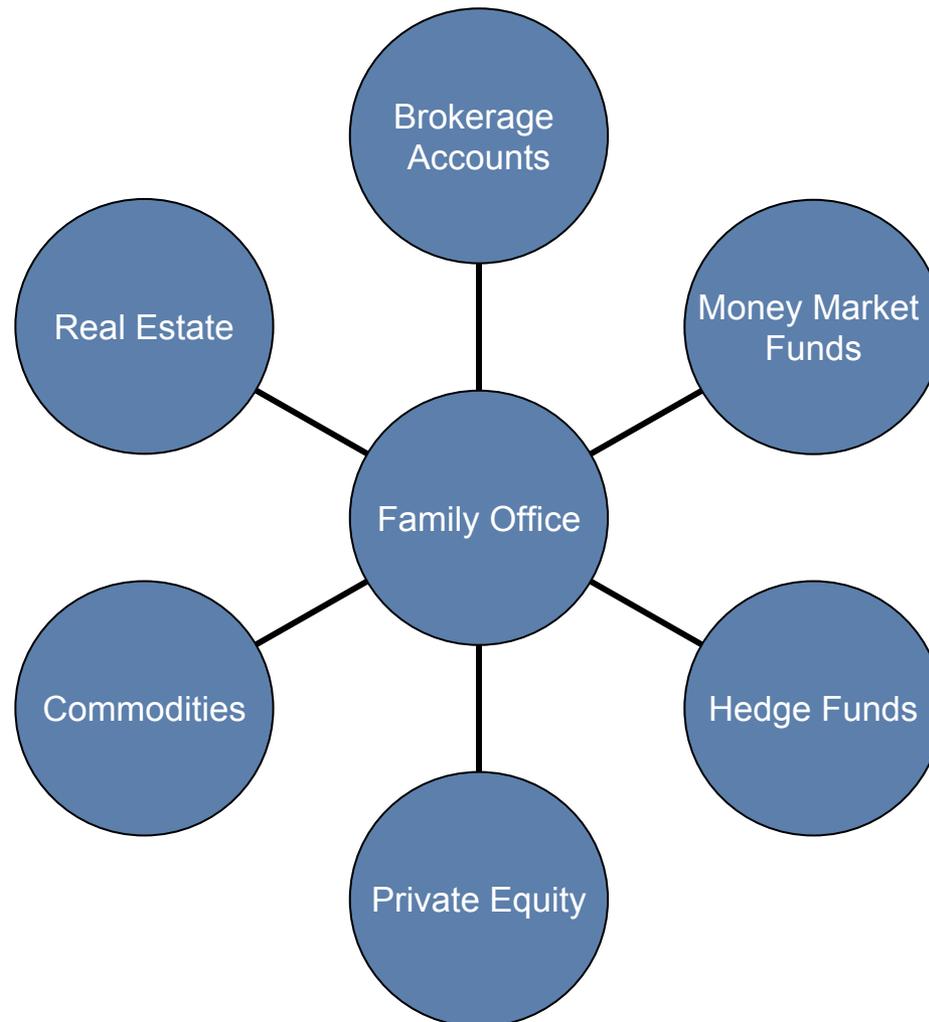
# Typically...

- The owners of a family business – particularly the founders -- lean on the infrastructure of their business for personal needs
- By default, the Chief Financial Officer of the family business often becomes the CFO for the family

# In addition, a family office must address the needs of multiple family entities

1. **John H. Smith**
2. **Jill Smith**
3. **John H. Smith Trust**
4. **John and Jill Smith Foundation**
5. **ABC Equity Partners Inc.**
6. **ABC Equity Investors LLC**
7. **ABC Investors Delaware LLC**
8. **ABC Equity Investors LP**
9. **Smith Jones Golf LP**
10. **John H. Smith Family Trust**
11. **Jill Smith Family Trust**
12. **A. Jones Trust**
13. **B. Jones Trust**
14. **C. Jones Trust**
15. **John H. Smith Personal Residence Trust**
16. **Jill Smith Qualified Personal Residence Trust**
17. **Jill Jones 2005 Charitable Annuity Trust**
18. **Smith & Company**
19. **Etc.**

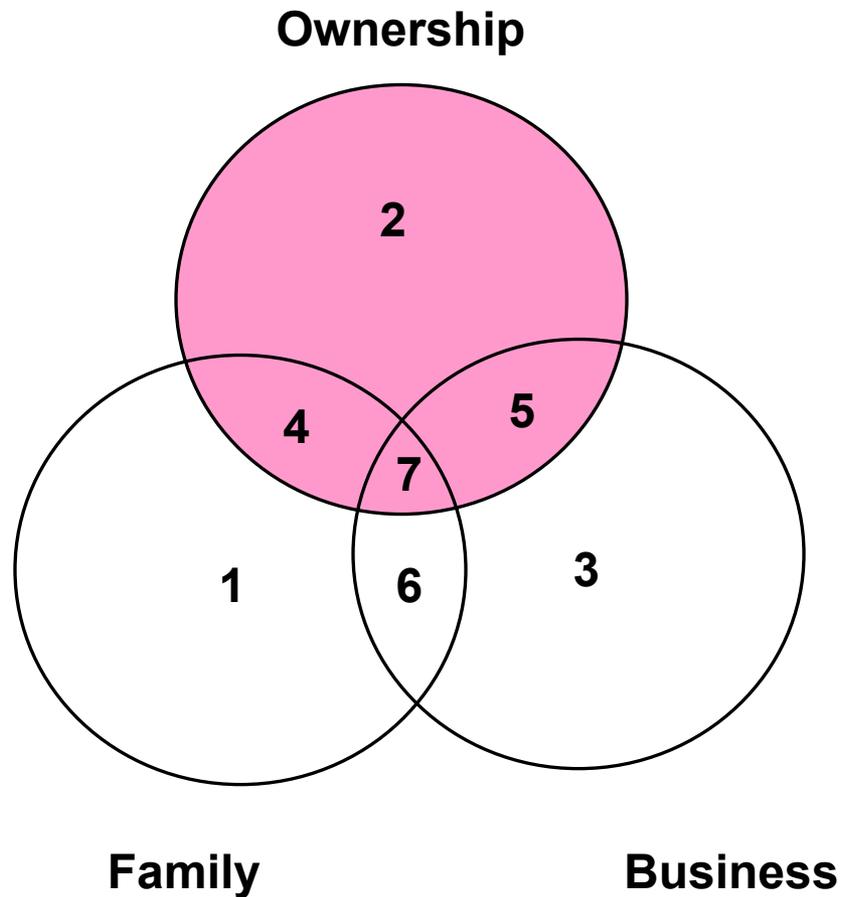
# And keep track of scores of investment accounts...



# Many entities have overlapping needs...

Entity	Cash & Expense Management	Tax Return Preparation	Financing Reporting	Investment Reporting	Document Management	Insurance & Asset Protection	Foundation Management	Alternative Asset Tracking	Trading
John H. Smith	♦	♦	♦	♦	♦	♦		♦	♦
Jill Smith		♦	♦	♦	♦	♦		♦	
John H. Smith Trust		♦		♦	♦			♦	
John and Jill Smith Foundation		♦	♦	♦	♦		♦	♦	
ABC Equity Partners Inc.		♦		♦	♦				
ABC Equity Investors LLC		♦	♦	♦	♦				
ABC Investors Delaware LLC		♦		♦	♦	♦		♦	
ABC Equity Investors LP	♦	♦	♦		♦	♦		♦	♦
Smith Jones Golf LP		♦			♦			♦	
John H. Smith Family Trust		♦		♦	♦			♦	
Jill Smith Family Trust		♦		♦	♦			♦	
A. Jones Trust		♦		♦	♦			♦	
B. Jones Trust		♦		♦	♦			♦	
C. Jones Trust		♦		♦	♦			♦	
John H. Smith Personal Residence Trust		♦		♦	♦			♦	
Jill Smith Qualified Personal Residence Trust		♦		♦	♦			♦	
Jill Jones 2005 Charitable Annuity Trust		♦		♦	♦			♦	
Smith & Company		♦		♦	♦			♦	♦

# IV. Should it be separate from the family business



1. Family Members
2. Shareholders
3. Company Employees
4. Family Shareholders
5. Employee Shareholders
6. Employed Family Members
7. Employed Family Members Who Are Shareholders

## In cases where all three intersect...

- Family members who are owners, shareholders and involved with the business (#7)
- Their needs may be well served by the business infrastructure

## However...

- When family members are not necessarily involved in the business (#1, #2, #4)
- Their needs may be better served by a separate family office
- Especially in cases with inactive shareholders

# Areas where a separate family office excels...

## As an advocate for the family

- Putting family needs first
- Educating and mentoring new generations
- Developing governance structures
- Promoting non-financial family goals

## Providing continuity for larger families

- As a family spreads its branches, it becomes harder to make group decisions
- Strong personalities can clash
- Education becomes more important for younger members

# Areas where a separate family office excels...

## Philanthropic planning

- Clarifying family values and vision
- Evaluating suitable philanthropic targets
- Involving younger family members

# Areas where a separate family office excels...

## Family education

- Determining family values and mission statement
- Providing a forum for discussion of issues not related to the family business
- Creating family education programs
- Developing a multi-generational plan

# Areas where a separate family office excels...

## Family forum

- What if there are family members who are not involved in the business... but still may be shareholders?
- Do they have a way to participate in discussions about the wealth of the family and future plans?

# Areas where a separate family office excels...

## Investment advisory

- Investment strategy and asset allocation
- Evaluating alternative investments
- Manager review and selection
- Trading, tracking, ongoing monitoring

# Areas where a separate family office excels...

## Tax & estate planning

- Diversification and monetizing concentrated holdings
- Reducing risk/dependency on the business
- Wealth transfer to future generations

## A family office enhances a family's cycle of wealth creation

- By identifying family objectives and priorities
- Marshaling family assets
- Clarifying family dynamics and governance
- Documenting financial plans
- Implementing family education programs
- Facilitating better communication
- Reaffirming family mission and vision

Now ask yourself...

Is your family's business infrastructure set up to accomplish all this?

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