Executing the family's vision

Investing and managing family wealth

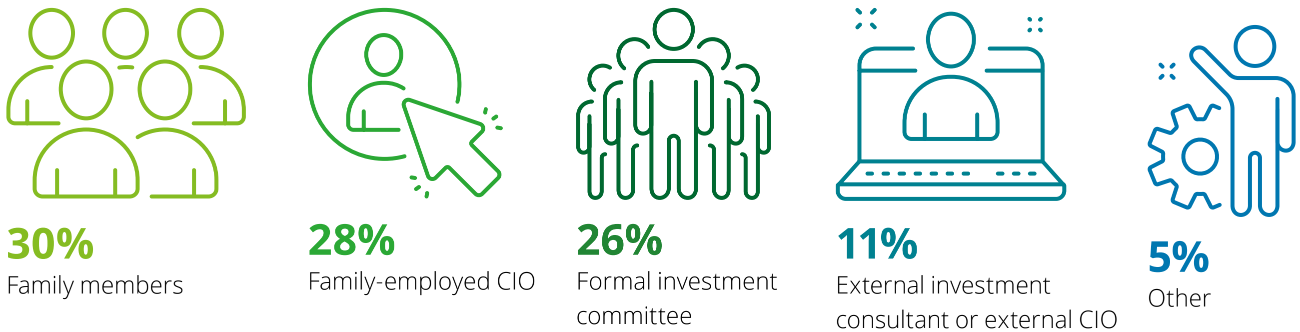
How the family wealth is invested typically defines the family office.

Investment services provided by or coordinated through family offices often include:

- Developing investment objectives for each family office client, including drafting of investment policy statements, assessments of risk tolerance and creation of appropriate target asset allocations
- Selecting appropriate investments based on the family office clients' short- and long-term needs, and periodically rebalancing or making adjustments to the portfolio
- Selecting, engaging, and managing relationships with investment advisers
- Reviewing asset holdings and investment performance
- Managing cash and liquidity
- Overseeing investment due diligence
- Providing periodic investment account statements and performance reporting

Figure 12. Who makes the investment decisions?

While families may have many advisers to supplement investment decisions, the family members or family office-employed chief investment officers (CIOs) are predominately making the investment decisions.



Source: Deloitte National Family Office Forum survey 2020.

Common themes and trends for family office investing:

- A long-term investment horizon, perhaps spanning generations
- Unencumbered by regulatory constraints placed on institutional investors
- Diverse and nontraditional asset allocations
- Significant interest in private equity direct-invest and co-invest opportunities
- Focus on wealth preservation vs. growth—the more generations served, the stronger the focus on preservation
- Liquidity preferences driven by the relative cash needs for the family
- Use of family pooled investment vehicles to promote co-investment
- A more recent emphasis on social impact investing and venture philanthropy

Tip:

Family investment partnerships (FIPs) can help families address their collective and individual investment goals while offering significant benefits, which may be absent when family members invest separately. Each FIP can be tailored to meet the short and long-term investment and liquidity needs of its investors. Before forming a FIP, it is important to understand the key considerations of structuring and maintaining one or more FIPs for the family.

Click the icon to learn more.

Executing the family's vision

Philanthropy

Philanthropy often unifies a family behind a purpose, encouraging effective governance and collaboration while giving the family an opportunity to create a meaningful impact on social and environmental issues in their communities and around the world. It also engages younger generations in the family vision and succession. Similar to investing, philanthropy is often a cornerstone activity for the family office.

Families today have more options to create social and environmental impact than ever before. Today's philanthropists can donate through a dizzying array of vehicles, ranging from private foundations and donor advised funds to board service, but one common thread is the desire to make a difference in their community (see figure 13). The abundance of charitable options is further complicated by the ever-changing tax laws that can affect the ways individuals may interact with tax-exempt organizations. There are also emerging methods for individuals to effect change through their investment portfolios by using a socially responsible investment filter or making direct investments in social enterprises that produce both financial and social returns.

Tip:

For the family that desires to create a legacy and have greater control over its charitable giving, a private foundation may be an appropriate charitable giving vehicle. Click here to learn more about the decisions that need to be made before committing to the formation of a private foundation.

Click the icon to learn more.

Figure 13. Philanthropy

The vehicles being used to effectuate social goals are evolving. See which vehicles are currently being used.

89% Private Foundation	**62%** Donor advised fund	**11%** Social Welfare Organization
72% Direct donation to public charities	**20%** Strategic (debt or equity) investment	**03%** Other

Source: Deloitte National Family Office Forum survey 2020. Survey respondents could select more than one answer.

Many philanthropists are becoming more active in direct and indirect political spending. Whether locally or nationally, expenditures can be leveraged to have an impact on social or philanthropic issues of importance to the family. These efforts do not have to be purely political, and families may adopt an active lobbying or advocacy agenda and form a tax-exempt entity to facilitate these activities.

The family office can be a key player in helping family members navigate these options. The family office executives can coordinate with expert philanthropic advisers to assist the family in understanding issues and effective practices, establish clear charitable goals, and align those objectives with overall strategies that can more effectively achieve the family's philanthropic vision.

The family office can also be a critical aid in helping philanthropists make sense of the complex tax issues related to charitable giving. To encourage philanthropy, the US Internal Revenue Code grants favorable tax treatment to charitable contributions by individuals and corporations. Although the public-spirited and moral aspects of philanthropy have always been the primary motivator for giving, the tax benefits that reduce the cost of philanthropy may also increase the amount of wealth available for charitable endeavors.

Executing the family's vision

Increasing global reach of family offices

The world is becoming more connected, and investments and investment strategies now routinely include international diversification as a key pillar. Wealthy families are at the forefront of this shift. Whether through geographic dispersion of family members, property ownership in foreign jurisdictions, or investments made in foreign companies, wealthy families are increasing their global footprint. Family offices are often tasked with providing the necessary support to address the wide variety of issues that can arise from the increased global reach of the family and their assets.

Global communication

Having a secure communication platform to share information among the family, family office, and trusted advisers in real time is critical, especially when family members work and live in different jurisdictions. As a key element of modernization efforts, the global family office should have access to appropriate technologies required to meet family members' needs, regardless of where they are and when they want to access information.

Global families

When spouses are from different jurisdictions, establish residency in foreign countries, or have children who may be dual citizens, many new issues can arise on top of the already complex issues wealthy families face with respect to their income, trust, estate, and gift planning. These considerations include:

- What are the implications to existing family trusts or to the investments held by those trusts when trust beneficiaries include spouses and descendants with different nationalities and/or residency status?
- If a spouse from a different jurisdiction has his or her own separate assets and makes gifts to children, or establishes trusts for the benefit of children, what are the reporting requirements? What additional complexity is introduced if the trusts are established in a jurisdiction other than the one in which beneficiaries reside?
- If the family resides in a foreign jurisdiction for all or a portion of the year, what are the financial, tax, and legal implications?

Global investing and informational reporting

As requirements for transparency increase, and various jurisdictions demand more information regarding investments and their owners, the family office may be required to assist with addressing the rules, registration, and reporting requirements related to the family's global investments.

For example, one far-reaching impact from a US tax perspective relates to investments in passthrough entities, including private equity funds, hedge funds, and passive foreign investment companies. These investments frequently require disclosures of detailed amounts of information on US tax returns.

The penalties for noncompliance can be onerous, and the family office, working with its tax adviser, can assist the family with meeting these requirements. Understanding the costs associated with the incremental reporting and disclosures attributable to foreign investments is essential for taxpayers to evaluate their after-tax investment returns.

In addition, families must consider the implications of holding these foreign investments in light of the amount of personal information regarding family members that may be required to be shared with various tax authorities.

The Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) have significantly increased the tax transparency for investors across the globe. Many family offices have committed resources within the organization to complete the initial and recurring documentation required by global investments. As more families commit capital to these investments, family offices are assessing the risks associated with disclosing family members' personal information to tax authorities around the world.

Figure 14. Countries with Deloitte professionals serving Private Wealth clients