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# Single Family Office Governance and Compensation Report



# Foreword

The processes through which families make consequential decisions and convey them to their family offices are not only central to the functioning of the office, but also to the preservation of unity within the family. Because the structures families use to support those processes are of such importance, we decided to explore which governing bodies and strategies families use to oversee and advise family offices of various sizes across the United States. We also looked at the compensation levels of those who participate on various governing and advisory bodies. To those ends, we are pleased to present this report on single family office governance and compensation, developed in partnership with Botoff Consulting.

We want to thank all those who participated in the Family Governance and Compensation Survey and express our appreciation to Botoff Consulting for their partnership in facilitating this important survey. We hope you find the resulting information useful.

Morgan Stanley's Single Family Office Advisory, part of the Signature Access platform within Family Office Resources, was established to provide unique, customized resources to single family offices as well as families that are considering establishing one. These include services to help affluent families establish productive governance practices to support harmonious decision-making. Working together with the Family Governance & Wealth Education team, we help families strive to maximize the value of their human capital by preserving their shared values and creating an enduring family legacy.

Please contact your Private Wealth Advisor if there is any way we can help you, your family or your family office address your evolving needs.

Best regards,



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# Introduction

As new family offices are created and the industry continues to expand, governance practices are evolving to address the increasing complexity of family organizations. We identify the governing structures that U.S. family offices are using to gain advice and oversight as they work to balance diverse mandates and generational considerations. The goal is to provide benchmarks and a basis of comparison for the family office industry, and to identify best practices for governance and compensation. With great appreciation to the 75 family offices that participated in this inaugural survey, we offer these highlights to help family offices best address their unique needs and support their overall missions and objectives.

## Survey Highlights

Overall, **81%** of the family office respondents utilize some form of formalized governance structure, with Stand-Alone Investment Committees and Boards of Directors being the two most prevalent

Of the 19% of respondents not utilizing a formal structure, almost all noted that governance was important and acknowledged the need to adopt a more formalized approach

Often, governance structures consist of at least 50% family members, except for Advisory Boards, whose makeups, on average, are 43% family members

Term limits are not a common practice in family governance, with the exception of boards of directors, where term limits are reported for 54%

Following public company trends, families are compensating governance members primarily through annual retainers versus meeting fees

Overall, 97% of participants report utilizing a trust, with nonprofessional natural persons being the most prevalent choice for trustees

Nearly 75% of nonprofessional trustees are not compensated, whereas other types of trustees are typically compensated

# Best Practices in Family Governance

# Strategies, Structures and Foundational Documents

Single family offices, by their very nature, are expressions of optimism. While they are established to invest the assets and manage the personal and financial affairs of the founding wealth creators, they are almost invariably intended to shepherd that wealth for generations to come. Since family offices play a substantial role in safeguarding family legacies, it's important that they be managed with a clear understanding of their families' missions and decision-making processes. To impart that understanding, families must first have defined that mission and those processes for themselves.

This Family Governance Survey provides data on the systems and structures that single family offices have chosen. In this section, we define those structures and discuss their importance in family governance, as well as family office governance. While these are two independent efforts, they are clearly related. Families that have intentional processes to make decisions and manage conflict are better positioned to set a clear and consistent direction for their family offices. Conversely, the job of serving a family becomes significantly more difficult if family members are constantly in conflict, or even in court.

Because family governance is foundational, we will begin there and then move on to some of the additional governing structures that can be used to provide guidance to, and supplement the expertise of, family offices.



# Creating a Foundation for Family Governance

A sound family governance system often comprises both structures and documents. As each family's needs are different, there is no universal template to follow in creating a system, so families have tremendous flexibility to create one that works for them. To be most effective, however, whatever system is ultimately developed should facilitate two essential functions:

## 1. Articulating Shared Values

Many families find that the discussions needed to create foundational governing documents—including a family mission statement, constitution and bylaws—are a particularly effective way for them to begin the process of establishing a governing system. If a family can come together and engage in the collaborative process necessary to produce such documents, there's a good chance it will emerge with a set of principles that reflect what's important to the family, what they would like to accomplish and how they see themselves. Revisiting these principles on a regular basis and holding the family to them at all times can help family members stay connected to one another and to their collective goals.

## 2. Establishing Normative Decision-Making

It is far easier to accept a decision that goes against your wishes if you believe that the decision was made in a transparent and deliberate manner, free of any personal animus or conflict of interest. In other words, the process through which decisions are made can be as important as the decisions themselves. So, while discussions and documentation of family values are important steps, they don't create a practical framework within which a family can actually make important decisions.

Many affluent families find that family assemblies and family councils serve well as chief decision-making bodies, particularly when guided by strong family constitutions and bylaws. Whatever system is chosen, it's important that the family has a shared understanding and universal acceptance of decision-making protocols, and that they are applied consistently. For a process to gain legitimacy, and therefore become ingrained in family culture, all members of the family must have expectations that their voices will be heard and that decisions will be made judiciously.

Whatever system is chosen, it's important that the family has a shared understanding and universal acceptance of decision-making protocols, and that they are applied consistently.



# Foundational Documents and Structures

The three documents most commonly used to formulate and perpetuate a family governance system are family mission statements, constitutions and bylaws. It may be helpful to think of these as analogous to the founding and governing documents of the United States and other nations. In this analogy, the mission statement occupies the position of our country's Declaration of Independence, a document that sets out essential, defining beliefs and values — an aspirational statement of a natural standard to which the people should strive. It does not, however, create a government. That is left to the Constitution, the document that establishes the three separate but equal branches of our federal government, and parcels out powers and responsibilities among them. Finally, in this analogy, family bylaws are like the Internal Revenue Code — granular rules for the nitty-gritty business of governing.

## Family Mission Statement

A family mission statement is an aspirational document that articulates a vision of the legacy a family wishes to build together. A well-crafted statement should incorporate a sense of shared values and aspirations. It looks to the future while honoring the enduring lessons of their collective history. (Please see Sample Family Mission Statement in the Appendix.)

## Family Constitution

A family constitution is an operational document that defines how the family puts the broad, aspirational principles contained in its mission statement into practice. It tends to encompass important segments of affluent family life, perhaps the use of family wealth or the extent of the philanthropic commitment.

## Family Bylaws

Family bylaws are written to add more detailed guidelines and regulations, augmenting the more general expressions put forth in the Family Constitution. They tend to be far more specific in nature, perhaps delineating how often a family assembly should be held, or how many council members constitute a quorum.

## Family Governance Structures

Enduring family unity often depends on systems that enable the governance system to make decisions that will be respected by all family members over time. Without such a system, families are often ill-equipped to deal with certain conflicts when they inevitably arise. As families tend to grow larger and more complex with the passage of time, the need for sound family governance is a lasting one. Many affluent families choose family assemblies and/or councils to address this need.

## Family Assemblies

Family Assemblies are periodic gatherings that usually include all adult family members, and often include children of a certain age. Family assemblies can be thought of as more expansive (and often less structured) family councils. Providing a framework to perpetuate family culture, these assemblies are often used to bring the broader family up to speed on important developments in the family's business, philanthropic investments and other matters. They also provide opportunities to celebrate important events and milestones, and to reinforce the family constitution or mission statement. In families that adopt a representative form of governance (one in which family members chose other family members to exercise certain delegated powers on their behalf), the Family Assembly is typically the largest body of family members and the source from which the power of other family structures derives.

## Family Councils

Well-structured Family Councils arguably provide the most effective forum to make collective decisions and to educate family members on the family's joint enterprises (whether for-profit or philanthropic). Family Councils can play an extremely powerful role in preserving legacy and culture, managing conflict, and ensuring that the strategic and tactical plans of the business conform to the family's core values. Depending on the nature of the family and its concerns, the council can also address issues relating to the effective management of investments, trusts, philanthropic endeavors and everything in between.

As families grow and evolve over generations, it's important for family councils to have well-defined practices for making decisions and integrating new voting and nonvoting members. For example, there should be a clear policy on whether spouses should participate in council decisions, and at what ages younger generations will become enfranchised to vote.

The council should determine whether all votes count equally and whether a simple majority is required to make a decision. It is also good practice to define roles of any outside advisors to the council, and what rules should be in place to ensure an orderly succession process for the council's leadership.

In addition to representing the family's interest to the family office, family councils may appoint subcommittees to focus on areas of particular concern. For example:

**Investment:** Make investment portfolio decisions; oversee investment advisors.

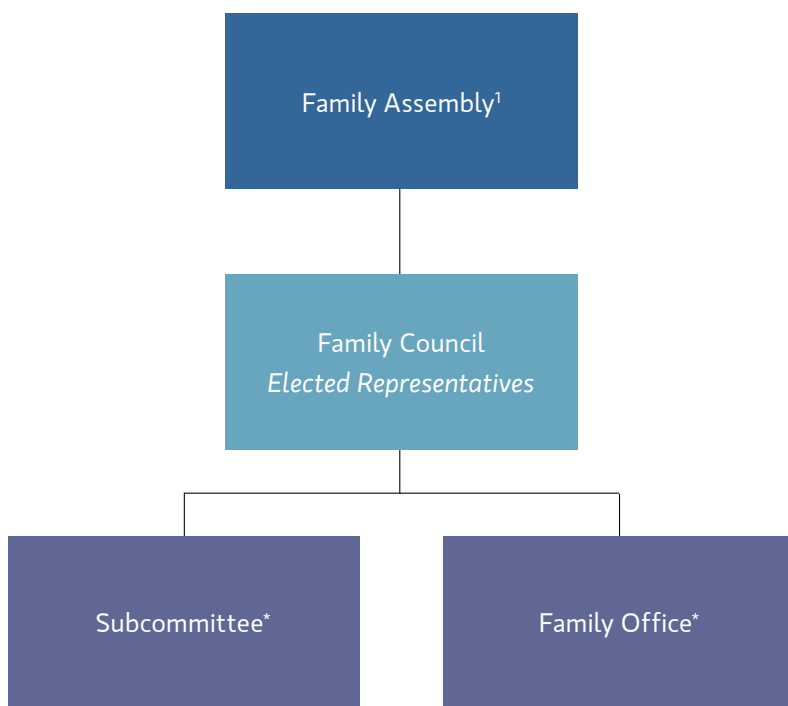
**Distribution:** Draft policy; establish guidelines on annual distributions; provide guidance and direction to Trustees.

**Culture and Education:** Organize wealth education opportunities for the next generation; manage family retreats and establish agendas.

As families grow and evolve over generations, it's important for family councils to have well-defined practices for making decisions and integrating new voting and nonvoting members.

# Family Office Governance Structures

## Organizational Structure



\*Composed of family members and/or external advisors

<sup>1</sup> The Family Assembly is typically the family governance structure that consists of the largest number of family members. To draw an analogy with the United States government, the Family Assembly occupies the position in the family structure that the people of the United States occupy in the U.S. governmental structure. That is, the Family Assembly is the ultimate source of power within the family and the body that delegates certain enumerated powers and responsibilities to that smaller group of family members—in this example, the members of the Family Council—who are charged with representing the interests of family members, just as our elected governmental officials are charged with representing us. The Family Assembly typically consists of a defined subset of the entire family; for example, the lineal descendants of a specified matriarch and patriarch who have attained a specified age or have other objectively ascertainable attributes or, as another example, such lineal descendants and their spouses.

# Family Office Governance Structures

Many family offices have governing bodies that provide oversight or supply additional expertise in key areas of their operations. These bodies typically include both family members and nonfamily members, and are often instrumental in bringing the family's voice into important family office decisions.

## Investment Committees

Stand-Alone Investment Committees are found at more than half of the family offices surveyed. Among all the governance structures, these committees are most likely to include both family members and nonfamily members. In addition to internal family office executives and investment staff, many committees also include outside investment advisors and consultants.

In forming an investment committee, it is important to gain a diversity of perspectives and expertise while preserving unity of purpose. High-functioning committees maintain open dialogues and allow for healthy debate on important issues. The best decisions tend to be reached by committees that can evaluate a given investment opportunity from various angles and make a consensus decision.

In forming an investment committee, it is important to gain a diversity of perspectives and expertise while preserving unity of purpose.

## Board of Directors

More than a third of surveyed single family offices report having a Board of Directors as a primary oversight and advisory entity. Family members constitute the majority of the board at most single family offices, but it is common practice to include the head of the office and a smaller number of outside members. Regardless of composition, the board serves as the family's representatives, providing strategic direction and holding the office leadership accountable for performance.

High-performing family office boards pay close attention to their own governing procedures and have methodical processes for bringing new members on board. It's important that all board members have a clear understanding of their roles, and respect the lines between oversight and interference in family office management. It's particularly important to educate younger family members about the requirements of serving in a fiduciary capacity. Special pains should also be taken to help nonfamily board members understand the family's history, values and vision for the future.

## Advisory Boards

Advisory Boards are primarily composed of nonfamily representatives who bring specialized expertise and objective viewpoints to the family decision-making process. Most advisory boards also include at least one family member to provide the family viewpoint. The most common nonfamily participants are trusted family friends, attorneys, tax and financial advisors, and former family office and operating company executives.

The key advantage of a well-composed advisory board is that it can provide dispassionate, expert guidance on complex issues that can be difficult to negotiate within the family. For example, sensitive issues like succession planning can benefit from the opinions of those who have a clear understanding of the often complex web of legal, financial, tax and business operating considerations, yet no personal stake in the outcome.

## Monitoring Performance of the Governance System

While measuring family office investment performance is a relatively straightforward matter, determining the effectiveness of a governance system can require more subjective criteria. A good place to begin is to simply ask family members what is, and isn't, working for them. Annual web-based satisfaction surveys can be a useful tool in that they can provide an anonymous platform for family members to raise issues and make suggestions. It's important that the results of these surveys be shared and discussed so that all family members understand that their opinions are valued.

More qualitatively, if family members are able to avoid unwanted publicity and devastating family conflict while still enjoying each other's company, that's a strong indication that the family governance system is working extremely well.

# Best Practices Overview

It's better to think of family governance as a verb than as a noun. It's an ongoing, multigenerational effort to define and refine how you will promote unity in your family so that you can accomplish your most important objectives together. In building a solid foundation for that work, you amplify the opportunity for long-term success. In establishing that foundation, consider the following best practices:

**It is generally beneficial to engage professional support**, even for the most accomplished and tightly knit families to develop and implement a governance system. The process is complex and calls for specialized knowledge and an independent perspective.

**Make an effort to surface and candidly discuss** the interpersonal family dynamics that affect both the design and the operation of the governance structure. Beyond that, encourage each family member to consider the personal attitudes that they bring to these conversations and how they might affect those dynamics. Honest and judgment-free conversations about family members' differences can bring forward the understanding and compassion necessary to make the governance structure work.

**Build exit strategies** that allow for family members to opt out of the governing system. While the design of the governance structure, and the foundational documents, can express a strong desire to keep the family together, it is important to be flexible and realistic. Those who wish to leave should not feel that the only way out is to destroy the system.

**Be inclusive when creating your governing system**, calling on outside advisors and involving younger generations. People tend to buy in to systems they helped create.

**Make the system actionable.** It should provide clear direction for how decisions will be made and not get bogged down in endless debate.

**Review the system annually** and make any changes or amendments needed through a clearly articulated process. You may even wish to add a sunset clause that dictates when a full review of the governance system is required.

Perhaps most important, you will only get out of a governance system what you put into it. Commit yourself to the process, really listen to those whose lives will be most impacted by it, and provide a solid foundation for your family to build upon its successes and its legacy.

# Single Family Office Governance Survey



# Profile of Participants

## Survey Participants by AUM and Net Worth

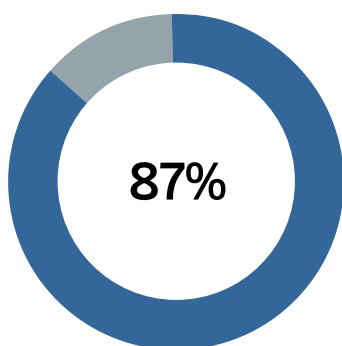
The 75 participating family offices represent a broad dispersion across assets under management (AUM) tiers. The tables below present a summary of participants by family office AUM and family total net worth.

FAMILY OFFICE AUM	
AUM	% of Participants
More Than \$2.5 Billion	17.3%
\$1 Billion–\$2.49 Billion	17.3%
\$500 Million–\$999 Million	28.0%
\$250 Million–\$499 Million	22.7%
Less Than \$250 Million	14.7%

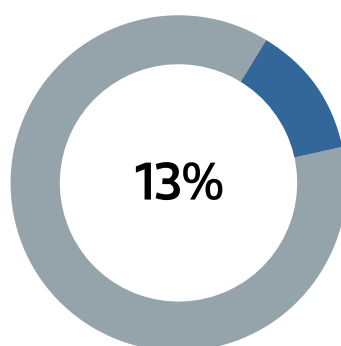
FAMILY TOTAL NET WORTH	
AUM	% of Participants
More Than \$2.5 Billion	29.6%
\$1 Billion–\$2.49 Billion	21.1%
\$500 Million–\$999 Million	22.5%
\$250 Million–\$499 Million	19.7%
Less Than \$250 Million	7.0%

## Firm Structures

Nearly 87% of participants report that family offices are stand-alone entities and 13% report that they operate as part of or are embedded within a family operating company.



Stand-Alone Entities

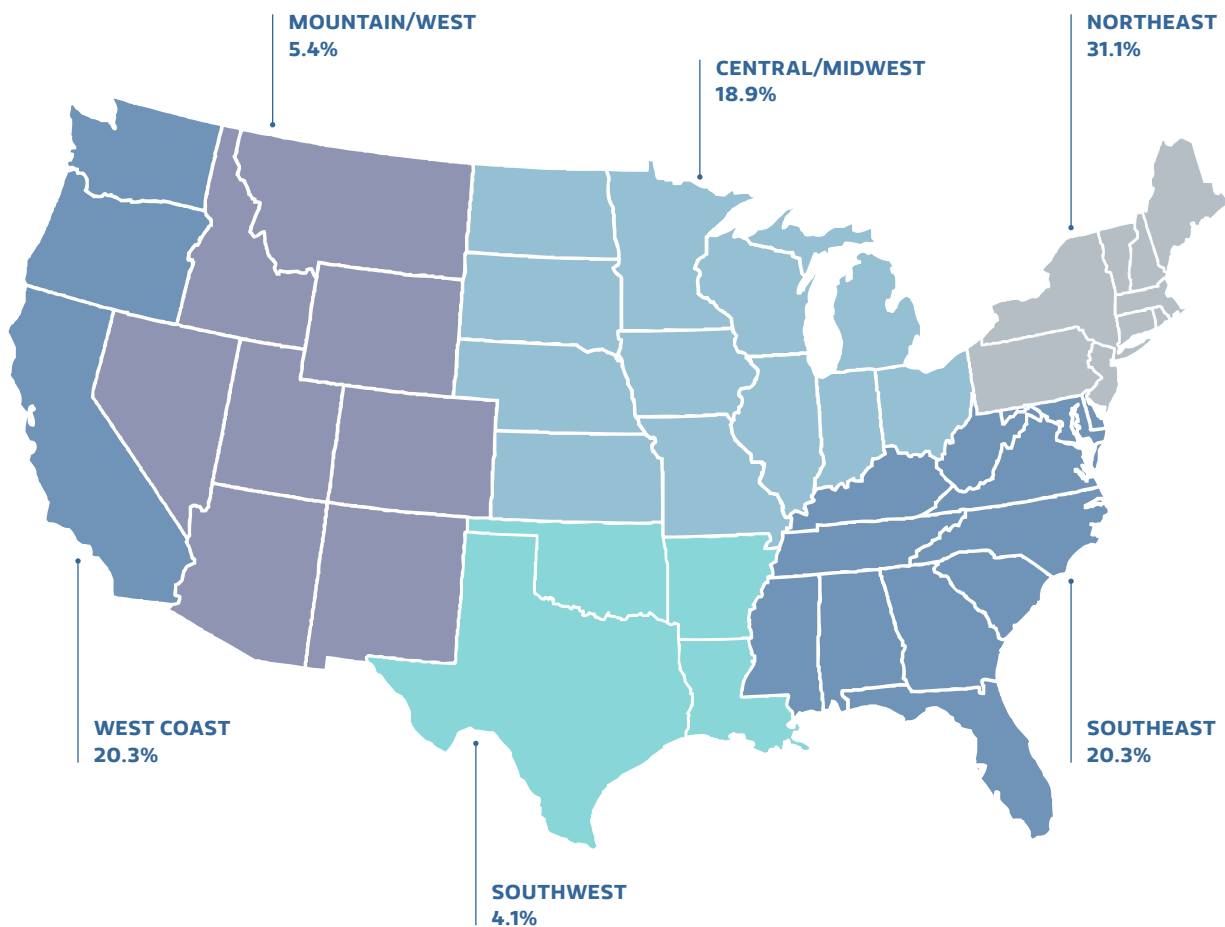


Within a Family  
Operating Company

## Survey Participants by Geography

Survey respondents are broadly dispersed across the U.S.

- The Northeast region has the highest representation at 31%
- The West Coast and Southeast regions each represent 20%
- Almost 30% of participants are split across the Central/Midwest, Mountain/West and Southwest regions



## Firm Characteristics

The complexity of a family office typically increases as AUM increases, often in alignment with an increasing average number of entities, in-house staff and family members supported. However, the number of generations supported by family offices continues to remain relatively flat across AUM tiers.

FIRM CHARACTERISTICS	ALL	MORE THAN \$2.5 BILLION	\$1 BILLION – \$2.49 BILLION	\$500 MILLION – \$999 MILLION	\$250 MILLION – \$499 MILLION	LESS THAN \$250 MILLION
Average number of in-house staff	13	35	18	7	6	4
Average number of households supported	9	18	12	5	5	7
Average number of family members supported	25	50	31	20	11	18
Average ratio of staff to family members	0.5	0.7	0.6	0.4	0.6	0.2
Average number of generations supported	2.8	3.0	3.0	2.6	2.8	2.5
Average number of entities supported	82	197	125	47	32	39

## Investment Management

Ninety-seven percent of family offices report that investment management services are provided by the family office. Private equity, public equity, real estate and fixed income are the most preferred investment vehicles.

While alternative investments have become increasingly popular with family offices, overall, venture capital and hedge funds still represent the least common investment categories. Family offices with AUM below \$250 million are least likely to participate in venture capital and hedge fund investments.

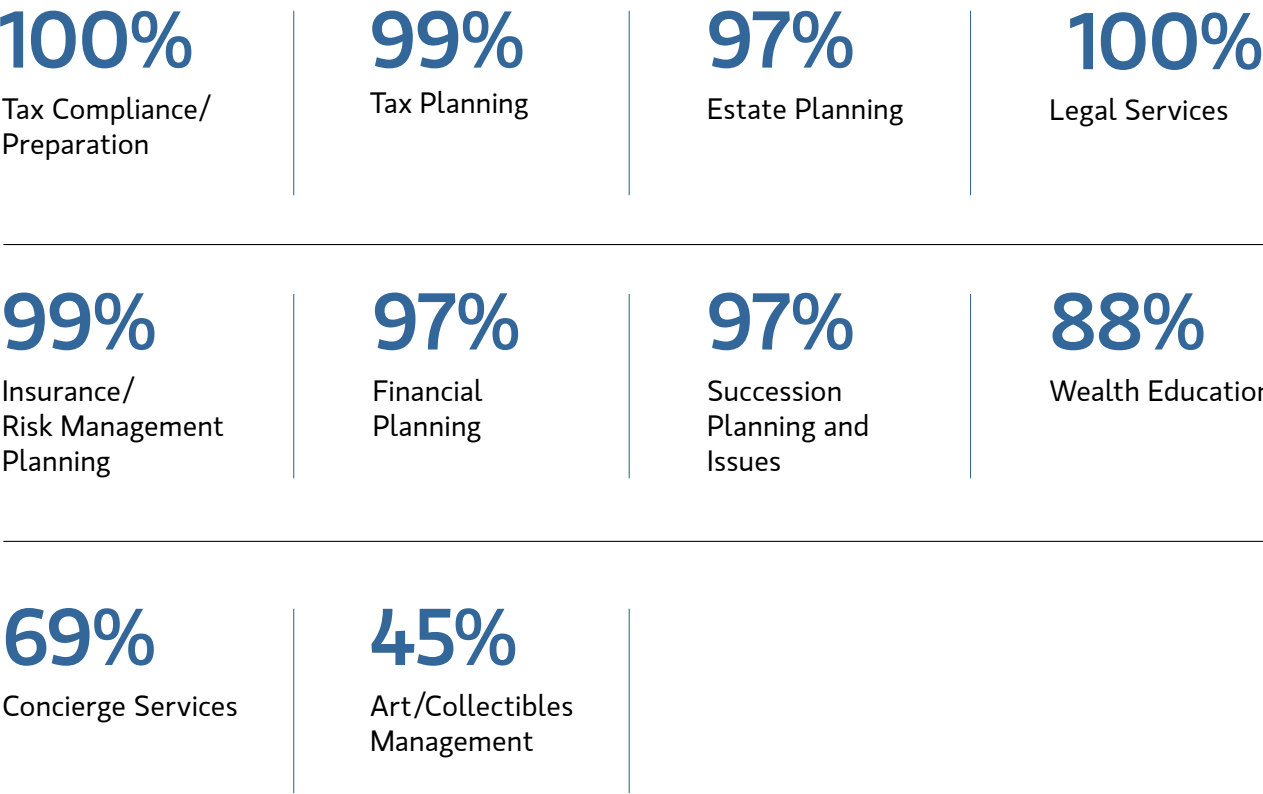
Forty-one percent of family offices report the use of “other” investment categories.

### Percentage of Investment Type Use

	PRIVATE EQUITY	PUBLIC EQUITY	REAL ESTATE	FIXED INCOME CASH	VENTURE CAPITAL	HEDGE FUND	OTHER
Less Than \$250 Million	91%	82%	82%	82%	36%	36%	36%
\$250 Million– \$499 Million	100%	100%	94%	100%	69%	81%	31%
\$500 Million– \$999 Million	95%	95%	86%	95%	76%	67%	57%
\$1 Billion– \$2.49 Billion	100%	92%	100%	77%	92%	69%	31%
More Than \$2.5 Billion	100%	80%	90%	80%	60%	70%	40%
All	97%	92%	90%	89%	69%	66%	41%

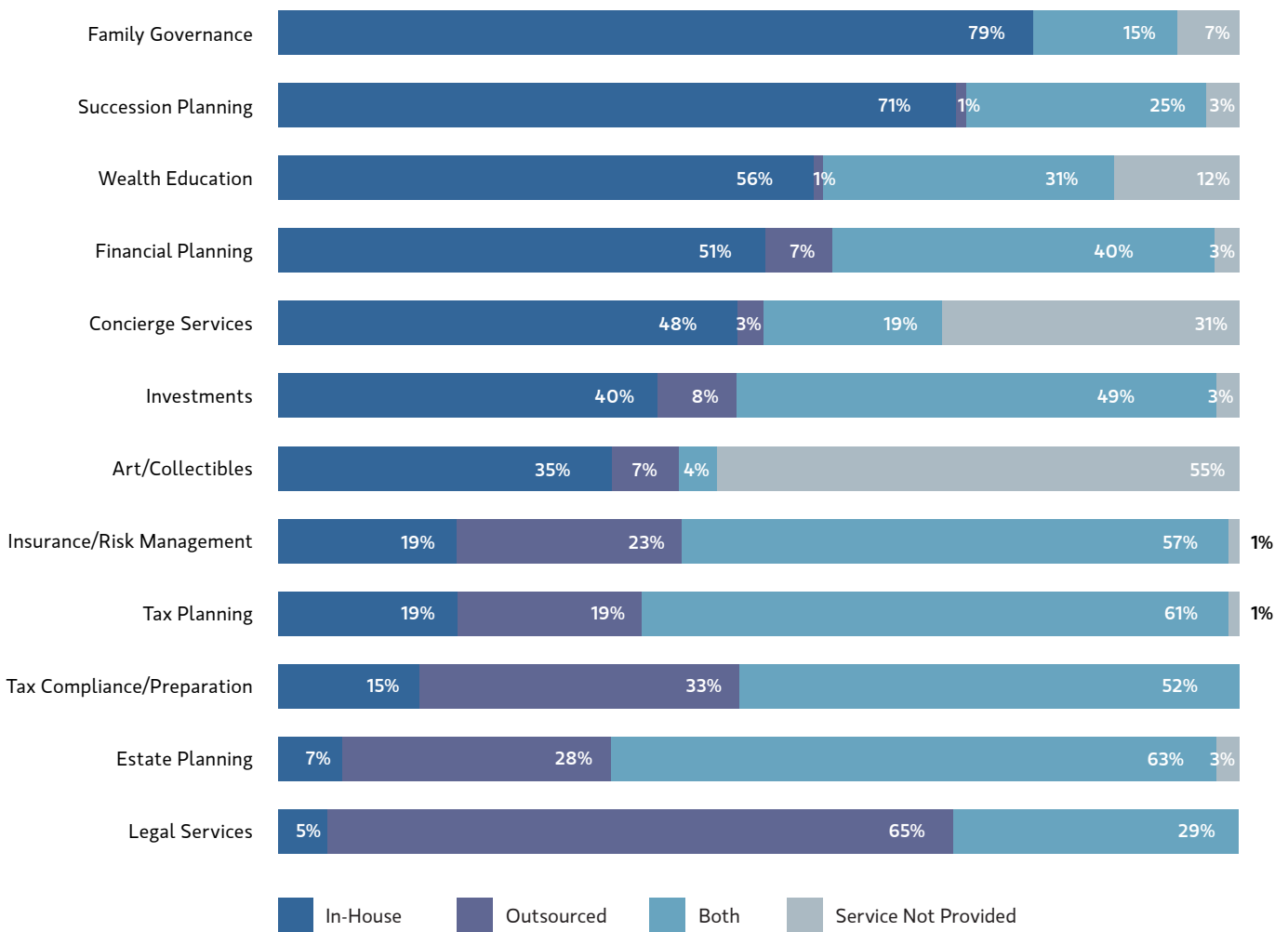
Family Office Services and Resources

There is a range of services that nearly all family offices provide, including tax compliance and planning, legal services, financial and estate planning, insurance and risk management, and succession planning. A new area included in this survey, wealth education, is provided by 88% of family offices.



## Family Office Services: Insourced Versus Outsourced

While the range of services varies among organizations, all family offices surveyed utilize a mix of in-house family office staff and outsourced resources to meet their families' needs. More than 70% of participants reported using internal resources for Family Governance and Succession Planning, the highest prevalence of in-house support, followed by Wealth Education at 56%. Legal Services are the only services for which family offices reported relying on a majority of outsourced services, at 65%.



# Governance Overview

## Governance Structures

Participants were asked to indicate which of the following governance structures were employed for family and family office governance:

**Advisory Board:** Often composed of some nonfamily and family representatives who help identify and prioritize issues objectively and recommend resources to address them. Advisory in nature and separate from trustees.

**Family Assembly:** A periodic (scheduled) meeting of adult family members that often serves as a forum for investment or business performance, family education, updates on important events and milestones, as well as an opportunity for family members to vote on issues.

**Family Council:** An entity composed of family members to address family and business issues, as well as the intersection of the two.

**Board of Directors:** An entity typically composed of some nonfamily and family representatives that has oversight authority, and to whom the family office head may report. Represents the family in establishing the strategy and direction of the family office.

**Investment Committee:** A committee established to provide direction on investment strategy; may or may not be a subset of above-noted structures or an independent governance entity.

## Other Governance Approaches

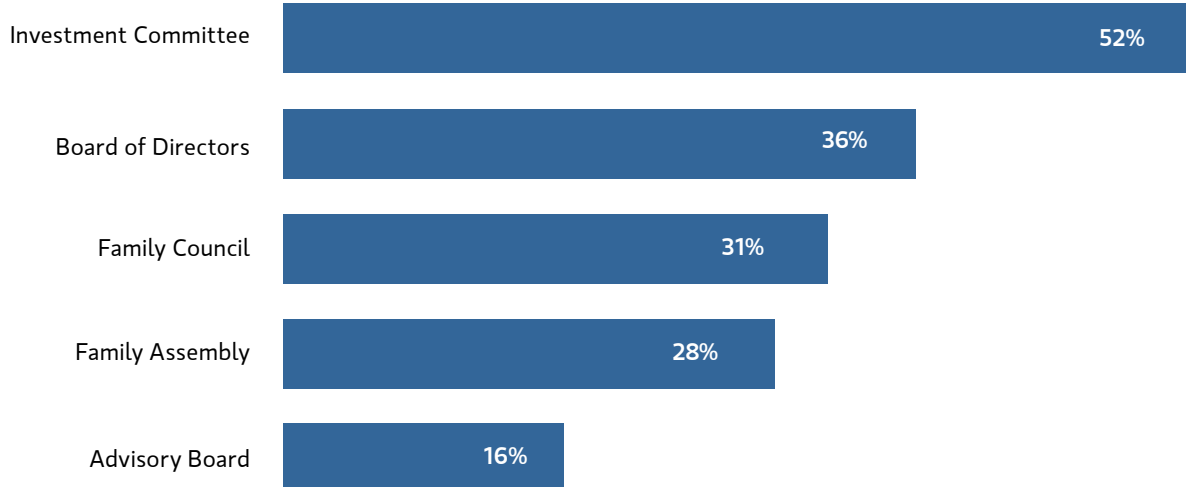
Twenty-three percent of participants indicated that none of the governance structures above are utilized, but reported use of these governance approaches:

- Quarterly or annual family meetings, but no formal governance structure in place
- Private trust company oversight of family office activities
- Patriarch/matriarch serve as the “council” and direct major decisions for the family/family office



## Prevalence of Governance Structures

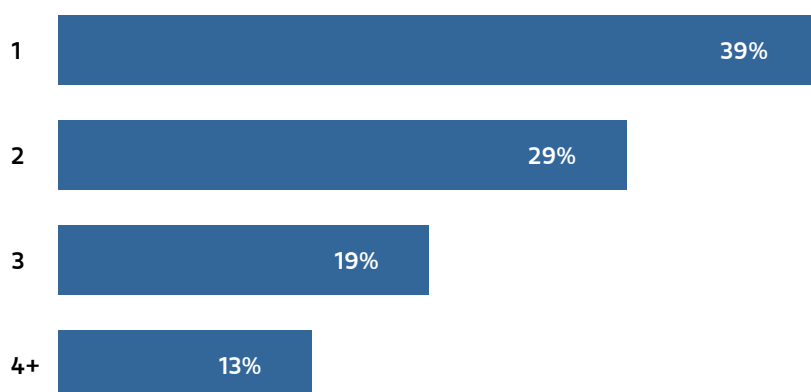
The most prevalent form of governance structure reported is a Stand-Alone Investment Committee (52%), followed by a Board of Directors (36%) and a Family Council (31%).



## Number of Governance Entities Used by Families

More than two-thirds of participants report the use of one or two types of governance bodies by the family.

The number of governing entities used does not seem to correlate with AUM, and is distributed across AUM tiers.



While all forms of governance structures were reported across all AUM levels, Family Councils were more prevalent among family offices with AUM below \$1 billion, while the Advisory Board had the highest prevalence by family offices with AUM above \$1 billion.

### Family Governance Structure

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY ASSEMBLY	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
Less Than \$250 Million	17%	15%	19%	26%	13%
\$250 Million – \$499 Million	8%	11%	14%	17%	18%
\$500 Million – \$999 Million	25%	37%	33%	35%	36%
\$1 Billion – \$2.49 Billion	8%	15%	10%	9%	21%
More Than \$2.5 Billion	42%	22%	24%	13%	13%
<b>Overall</b>	<b>16%</b>	<b>36%</b>	<b>28%</b>	<b>31%</b>	<b>52%</b>

## Importance of Governance

Participants were asked to rate how their family valued the various governance structures employed by the family, with the low end of the scale saying they “highly disagree” and the upper end of the scale saying they “highly agree.” The responses indicate that families place a strong value on guidance and advice provided by the various governance entities.

### Value of Governance Structure Advice

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
On a Scale of 0–100	74	79	69	77

## Governance Structure Composition

Governance structures have, on average, 4.1–5.5 members. Governance members are primarily family members, with the exception of Advisory Boards and stand-alone investment committees. Two-thirds to three-quarters of members are men, with the largest representation of women across all structures being found on the Board of Directors.

### Governance Structure Composition

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
<b>Number of Members:</b>				
Median # of Members	3.0	5.5	5.0	4.0
Average	4.6	5.5	5.3	4.1
Max # of Members	8.0	7.0	15.0	9.0
<b>Family Members Versus Outside Advisors:</b>				
% Family Members	43%	73%	100%	50%
% Outside Advisors	57%	27%	0%	50%
<b>Gender:</b>				
% Female	35%	36%	30%	24%
% Male	65%	64%	69%	75%
% Other	0%	0%	1%	1%

A wide array of professionals serve as outside advisors to families.

For **Stand-Alone Investment Committees**, families largely leverage internal family office executives and investment staff (often specialized by asset type) as well as external investment consultants.

For **Advisory Boards** and **Boards of Directors**, families tend to rely heavily on attorneys, tax/financial advisors, family friends and former family office/operating company executives.

Other professionals used as advisors with fewer references include real estate experts, bankers and trust executives. Respondents also highlighted the use of more specialized advisors, including governance experts, family culture experts, philanthropy advisors and even an economist.

## Meeting Frequency

There are some significant variances in the number of meetings reported between different governance structures. Boards of Directors meet least frequently, while Stand-Alone Investment Committees meet significantly more often than other structures.

### Average Number of Meetings Annually

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
In Person	3.3	3.1	3.5	5.3
Audio/Visual	2.5	1.5	5.5	12.5
Total	5.8	4.6	9.2	17.8

## Authority

Advisory Boards are most likely to be involved in day-to-day management of the family office. Boards of Directors are most likely to have authority and oversight. Family Councils and Stand-Alone Investment Committees tend to be advisory in nature.

Family Councils, Advisory Boards and Boards of Directors have oversight over broad areas. Stand-Alone Investment Committees are generally reported to have a narrower focus.

### Authority of Governance Structure

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
<b>Number of Members:</b>				
Advisory Only	18%	33%	45%	54%
Day-to-Day Management	82%	-	18%	22%
<b>Areas of Oversight</b>				
Compensation	45%	71%	50%	11%
Culture	45%	42%	55%	11%
Family Office Strategy	73%	75%	64%	30%
Investment Strategy and Risk	36%	58%	41%	95%
Security	18%	38%	23%	0%
Talent and Succession Planning	55%	67%	32%	11%

## Governance Committees

Boards of Directors and Family Councils are most likely to have subcommittees. Two-thirds of Advisory Boards and 100% of Stand-Alone Investment Committees do not have subcommittees.

### Governance Structure Committees

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
None	64%	38%	29%	100%
Audit Committee	–	8%	10%	–
Executive/Strategy Committee	–	8%	15%	–
Compensation Committee	9%	13%	15%	–
Family Governance Committee	18%	17%	25%	–
Investment Committee	27%	46%	35%	–



## Governance Member Service Terms

The vast majority of participants reported that there are no defined terms of service for members of governance structures. Where reported, three to five years was the most common term.

### Governance Structure Terms of Service

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	STAND-ALONE INVESTMENT COMMITTEE
1–2 Years	-	17%	5%	8%
3–5 Years	-	29%	18%	3%
More Than 5 Years	9%	8%	9%	-
Not Defined	91%	46%	68%	89%

## Family Governance Instruments

Family offices were asked to indicate governance documents that had been implemented. Family mission statements and strategic plans had the highest prevalence; family charters and family constitutions had the lowest prevalence.



### Family Governance Instruments

	FAMILY MISSION STATEMENT	STRATEGIC PLAN	FAMILY CHARTER/CONSTITUTION
Less Than \$250 Million	17%	11%	22%
\$250 Million–\$499 Million	23%	33%	17%
\$500 Million–\$999 Million	37%	22%	22%
\$1 Billion–\$2.49 Billion	13%	15%	17%
More Than \$2.5 Billion	10%	19%	22%
TOTAL	100%	100%	100%

## Performance Evaluation

Participants were asked to indicate if formal processes are used to evaluate performance and effectiveness.

- 55% report that formal processes are used to evaluate CEOs
- 52% report that formal processes are used to evaluate Family Offices
- However, only 15% indicate that there are formal evaluation processes in place to evaluate governance bodies

Use of formal evaluation processes is distributed across AUM categories, with no clear trends indicated based on family office size or complexity.

## Governance Compensation

Participants were asked if governance members are compensated and if travel is reimbursed. Advisory Board and Board of Director members are most likely to be compensated. Fewer Investment Committee members receive compensation because they have direct ties to the family office (employees, family members, etc.).

	ADVISORY BOARD	BOARD OF DIRECTORS	FAMILY COUNCIL	INVESTMENT COMMITTEE
% Compensated	73%	54%	32%	19%
% Travel Reimbursed	56%	75%	50%	47%

Compensation data for governance members has been aggregated for all structures to represent statistically valid samples. Compensation data reported below represents the 25th, 50th (median) and 75th percentiles.

#### Governance Compensation

	ANNUAL RETAINERS	ADDITIONAL CHAIR COMPENSATION	COMMITTEE MEMBER COMPENSATION	MEETING FEES
<b>Outside Advisors</b>				
P25	\$24,000	\$18,219	\$8,125	–
P50	\$50,000	\$22,500	\$17,500	\$3,750
P75	\$71,500	\$34,375	\$25,000	–
<b>Family Member</b>				
P25	\$5,500	\$12,000	\$4,000	–
P50	\$25,000	\$32,500	\$5,000	\$1,000
P75	\$50,000	\$50,000	\$7,500	–

Participants reported additional compensation arrangements outside the traditional methods. In some situations, the compensation is structured differently for the type of advisor. In some cases, outside advisors are paid their standard hourly rates. Special bonuses are used in some cases where significant time investment for projects is required. Several family offices mentioned that family office staff are not paid additional compensation for their involvement in governance meetings.

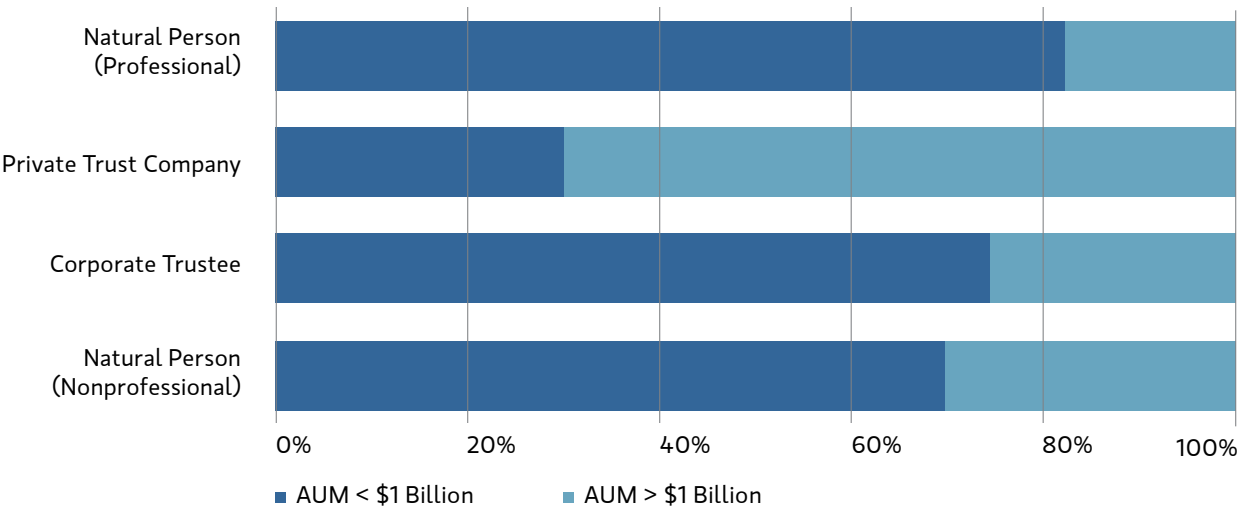
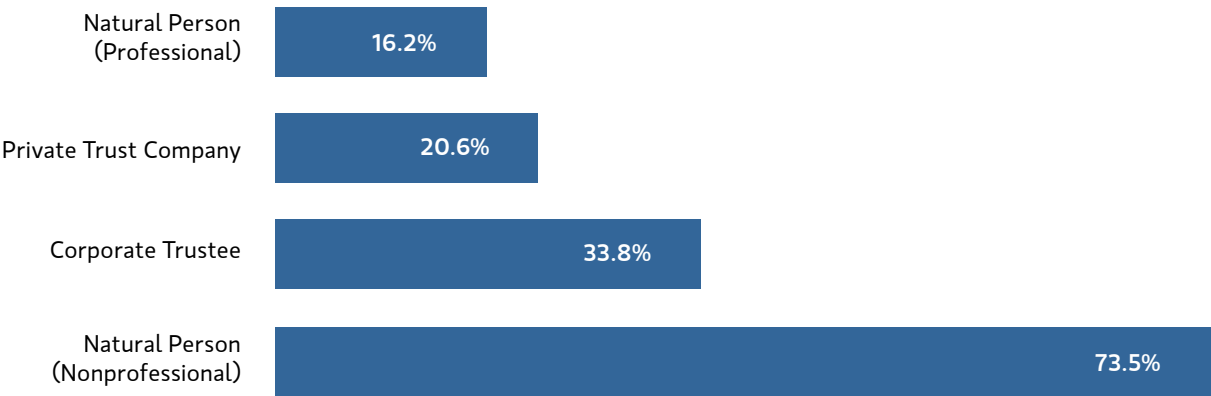
The use of benefits reported for members of governance structures is minimal. Where benefits are provided, health insurance is most prevalent. Other benefits reported include life and disability insurance, spouse/family travel, co-investment opportunities and D&O insurance for directors.

# Trustee Structure

## Trustee Structure Results

Ninety-seven percent of participants reported the use of trusts, with the use of nonprofessional natural persons acting as trustees far outpacing other options.

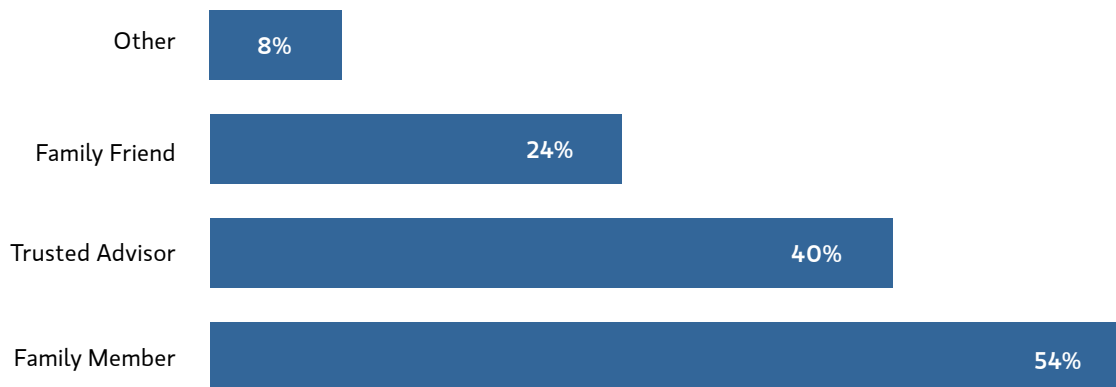
Notably, the use of Private Trust Companies is primarily by family offices with more than \$1 billion in AUM, while this segment makes up less than one-third of the respondents for use of other trust company structures.



## Natural Persons (Nonprofessional)

Nonprofessional natural person trustees are primarily family members and trusted advisors.

The “Other” category for nonprofessional trustees is largely reported as the family office CEO or other staff.



## Number of Trusts

The number of trusts varies by type of trustee but is generally consistent across trust types.

NUMBER OF TRUSTS	25TH PERCENTILE	MEDIAN	75TH PERCENTILE
Corporate Trustee	3.75	6.5	15
Private Trustee	5.0	10.0	17.0
Natural Person — Professional	4.0	6.0	18.5
Natural Person — Nonprofessional	4.5	10.0	16.5

## Trustee Compensation

Compensation for trustees varies by the type of trustee. Nearly three-quarters of nonprofessional trustees are not compensated. Of course, the professional trustees generally are compensated.

	CORPORATE TRUSTEES	PRIVATE TRUSTEES	PROFESSIONAL NATURAL PERSONS	NONPROFESSIONAL NATURAL PERSONS
% Compensated	100%	62%	78%	27%

- **Corporate Trustees:** Two-thirds are paid as a percentage of assets, varying based on the type of asset; 35% are paid a fixed fee, or a fixed amount per trust per year
- **Private Trustees:** 50% are paid a fixed fee, and 50% are paid based on a percentage of assets managed
- **Professional Natural Persons:** 57% are paid a fixed fee, with a median of \$5,000 per trust; the remainder are paid based on a percentage of assets managed
- **Nonprofessional Natural Persons:** The majority of compensated trustees are paid a fixed fee; reported fees vary widely, from \$40,000 to more than \$300,000; alternate forms of compensation include a percentage of assets managed and bonuses for family office staff serving as trustees



## Best Practices for Choosing a Trustee

The trustee named to manage and oversee the various trust structures is key to achieving the estate planning objectives of the family. The trustee may be an individual or an entity, or in some circumstances, benefactors may serve as their own trustees. It is essential to select a trustee who demonstrates a high degree of competence, judgment, reliability and experience.

Consider the following questions to determine whether you will be able to depend on a potential trustee to carry out the provisions of the trust for the long term:

### Does the Trustee Have the Time and Expertise to Address Complex Issues?

Discharging the fiduciary, administrative and investment-related obligations of a trustee takes specialized knowledge and a significant time commitment. Make sure that any individual or entity has the experience and support system to make prudent investment decisions, file accurate tax returns, ensure proper reporting and fulfill other important duties, and, where necessary, to hire other professionals to perform such tasks.

### Do They Understand the Family's Unique History and Dynamics?

In addition to technical knowledge, it is important for a trustee to understand the benefactor's intent and how decisions made within the trust will impact the life of the family. Trustees must be able to establish a comfortable working relationship with family members, particularly to ease tensions when difficult decisions need to be made. Be careful to ensure that a potential trustee does not hold biases either for or against a beneficiary of the trust they will manage. This may be of particular concern when a close family friend or advisor is being considered.

### Do They Have Record-Keeping Systems Capable of Administering an Irrevocable Trust?

Most irrevocable trusts require principal and income accounting, which necessitates the separation of income earned by the trust from the principal of the trust. Each "bucket" needs to be accounted for and reconciled. Banks and trust companies usually have the advanced record-keeping systems in place to handle this task.

### Do They Understand the Legal Requisites?

Trustees must be able to understand their legal responsibilities and fulfill their mandated obligations. For example, reports may need to be filed in court if the trust is created under a will or is otherwise subject to judicial supervision. Trustees should also understand that they can be sued for breach of their duties. Sometimes, beneficiaries disagree with how the trustee is handling, or perhaps mishandling, the trust. This can result in legal action between the two parties, and even individual trustees are subject to being sued. Unfortunately, it is not uncommon for individuals who are beneficiaries of trusts to sue the trustee, even if the trustee is a relative.

### Are Beneficiaries Protected for Breach of Fiduciary Duty?

While proper vetting can mitigate risk, you should understand what protections and recourses are available in case of neglect or misconduct. Determine if they are subject to scrutiny, supervision or audit by banking authorities.

### Can They Ensure Long-Term Continuity of Management?

If the trust is intended to serve multiple generations of a family, the potential trustee should demonstrate how they will ensure continuity of management over a long span of time. This may be of particular importance if a single trustee is appointed and/or if the trust is intended to support minor children.

### Do They Have the Capacity to Collect Funds Due to the Trust?

One of the trustee's principal responsibilities is to ensure that the trust receives any debts, income, accounts receivable and other funds it is owed. Accomplishing this may require specialized experience and facilities.

### How Much Will They Charge and What Is Included?

Make sure you to have a clear understanding of the trust company's fee structure and what services it will cover. Determine if any additional costs will be incurred for accounting, audit, administrative or investment-related services. If a family member or friend will serve as a trustee without charging a fee, provide them with proper support and determine how those expenses will be paid.

### Are Their Motivations Personal or Professional?

Consider whether beneficiaries would be better served by a trustee whose relationship with the family is strictly professional, or by a competent trustee who is motivated by family obligation or personal affection. If the latter, make certain that they understand the extent of the commitment and the time it may require to fulfill it.

### Do They Have Your Family's Best Interests at Heart?

Answers to the question above might reflexively lead to the conclusion that a trust company or other entity is nearly always preferable to an individual. That is not always the case, as many factors and nuances come into play. Knowledge, experience and continuity are important, but so is the ability to establish a trusting working relationship with your family.

If the trust is intended to serve multiple generations of a family, the potential trustee should demonstrate how they will ensure continuity of financial affairs over a long span of time.

# Appendix

# Sample Family Mission Statement

This sample of a family endowment fund is intended to be educational in nature and is for illustrative purposes only. It does not constitute and should not be treated as legal or tax advice. Morgan Stanley does not assume responsibility for any individual's reliance on this sample language. You should consult with your own legal advisor before using any of this sample language or implementing a family endowment fund. Morgan Stanley does not give legal or tax advice.

## Here Is a Sample Family Mission Statement:

Statement of Mission of the \_\_\_\_\_, \_\_\_\_\_  
and \_\_\_\_\_ Families.

### Purpose

This Statement of Mission is intended to express the values, philosophy, vision and mission of the \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ Families, referred to in this document as the “Family.” For simplicity, we refer to this document as our Statement of Mission. It reflects the participation of \_\_\_\_\_ generations of the Family, and is the result of lengthy discussion, careful thought and significant—though respectful—debate.

While the Family believes that the values that inform this document are to a great extent immutable, it believes that the document itself, like the Family, is organic, and that it is valuable to revisit this document from time to time, and to test its expression of the Family mission against the ever-growing store of Family experience. The Family recognizes that, as a result of such revisiting and testing, it may be advisable to amend this Statement of Mission from time to time. At the same time, the Family believes that such amendments should not be undertaken lightly, and that future generations of the Family should approach the task of review, testing and, if advisable, amendment with the same seriousness of purpose and the same respect and concern for ourselves and our posterity that guided this original statement.

## Who Are We?

We believe our special identity as a family begins with \_\_\_\_\_ and \_\_\_\_\_, whom we identify as our patriarch and matriarch. Numbering them as our first, there are now \_\_\_\_\_ generations of the Family and \_\_\_\_\_ living members, as of today. While we identify ourselves as one family, as the title of this document makes clear, we have different branches. We recognize that each branch has brought different and valuable energy, purpose and vitality to the Family. At the same time, we believe that our essence, as a family, transcends our different surnames and, as discussed more fully below, that we share certain qualities, values and goals, the sum of which makes us who we are as a family. We believe that we are special and we are proud of our Family identity.

Consistent with both the appreciation of our different branches and the recognition of our essence as one family, we believe that the spouse of a descendant of \_\_\_\_\_ and \_\_\_\_\_, while married to such a descendant, is fully a member of the Family. Members of our Family have experienced, and others someday may experience, divorce. While divorce, as a purely legal matter, in many ways constitutes a severing, the Family believes that the ultimate import of this event is, by its nature, uniquely personal. Thus, the Family believes that the extent to which the former spouse of a descendant participates in Family matters should be left to such descendant and former spouse to resolve (subject to certain agreements that impose restrictions with respect to the transfer or other disposition of particular assets). At the same time, the Family hopes that such resolution will be accomplished against the backdrop of the values and principles that inform this document.

## Our Values

We believe that our shared values are the essence of our Family identity and that the sum of those values is our single most important distinguishing characteristic. As a Family, we:

- honor the primacy of the Family;
- respect and encourage individual achievement and self-actualization;
- prize education, hard work and initiative;
- promote charitable activity and civic and community involvement;
- support the taking of reasonable and considered risk;
- understand and accept the challenges and responsibilities of significant economic wealth; and
- recognize that economic wealth, when managed wisely and carefully, can be a means to achieve spiritual, emotional and cultural wealth, but is not an end in itself.

We believe our Family name is in some sense our most important asset. At the same time, we recognize that we do not truly own it the way we do other assets, but merely rent it from our children, grandchildren and more remote descendants. We believe that life lived in accordance with the foregoing values is the best way to preserve and enhance the value of our Family name.

## The Role of the Family

We believe the Family:

- should be a haven, but not an island;
- should be close, but not confining;
- should be supportive, but not suffocating;
- should be a safety net, but not a crutch.

The Family is one of the structures within which each of us lives. It gives us the guidance we need to grow, the freedom we need to establish our separate identities, and the support we need to confront our challenges.

There are other structures, as well, within which we live, and the Family helps us to define our place within those structures. Most generally, we live within the entire human society; more particularly, we live within our country, our state, our community, our schools and our nuclear family. Our responsibility to the Family does not negate or diminish our responsibility to these other structures. It is our goal that our understanding of our responsibility to the Family will inform, enrich and enhance our understanding of our responsibilities to other structures.

## Family Wealth

The Company established by our patriarch and matriarch and the legacies they have provided have given the Family substantial economic wealth. The individual efforts of the descendants of \_\_\_\_\_ and \_\_\_\_\_, and the leadership of \_\_\_\_\_, our Family Office, have helped to preserve and increase this economic wealth.

We recognize that great economic wealth brings challenges and responsibilities that may be as significant as the benefits. We are thankful for our economic wealth but not idolatrous of it. We believe it is incumbent on all of us to teach our children to respect wealth and to understand its significance: to value it appropriately but not to be overwhelmed by it.

In that regard, we believe that the Family legacies given each of us, economic and otherwise, do not constitute entitlements. While the plans we establish for the benefit of our children and families are to some extent personal matters, the Family believes that such plans should reflect the expression of our shared values. To that end, we believe Family estate plans should encourage or explain the importance of (1) becoming self-sufficient (to the extent reasonable, taking into account all the individual circumstances of a particular individual), (2) leading a meaningful and satisfying life (based on age, health, ability and other relevant circumstances), and (3) making a meaningful and positive contribution to society.

Several of the trusts established by \_\_\_\_\_ and \_\_\_\_\_ will terminate upon the deaths of the members of the seniormost, now-living generation (the “Senior Generation”), and the then-remaining property will be distributed to the then-living descendants of \_\_\_\_\_ and \_\_\_\_\_. The outright distribution of wealth at the termination of these trusts creates the potential for a more significant disparity in wealth among Family members than previously has been the case. The Senior Generation believes that it is important to take into account this potential disparity, and each member has taken individual steps in their estate plans to provide, in different ways, for a Family Endowment that will continue in perpetuity. As explained more fully in other documents, the purpose of this endowment is not to provide an entitlement, but to (1) encourage Family members to pursue worthwhile and meaningful business, educational, cultural, philanthropic and civic opportunities and pursuits, and (2) provide a limited safety net in the event of emergency. The Senior Generation hopes that the example they have set will be followed by more junior generations.

We have considered and rejected Family governance documents that would set forth specific guidelines regarding consumption and spending.

### Family Accord and Discord

This document is tangible proof that there is much we agree on as a Family. We hope it is always the case, as it is now, that our agreements significantly outnumber our disagreements, especially on matters that are central to our Family identity. Nevertheless, we recognize that there will be disagreement and perhaps even discord within the Family. The instances of families irrevocably torn by selfishness, greed and self-

aggrandizement are legion. We believe there is much the Family can do to lessen the potential for destructive disagreement. To that end, we commit:

- to strive to be respectful of one another;
- to encourage full participation in Family matters, taking into account individual maturity and responsibility;
- to foster the open exchange of information, taking into account individual maturity and responsibility, and subject to an individual’s legitimate expectation of privacy; and
- to recognize the contribution that individual Family members make to the spiritual, cultural, emotional and economic wealth of the Family, both within and without the Company.

In addition, each member of the Senior Generation has implemented in their estate plan certain protective devices, which have been explained and discussed at several Family meetings, that are designed to lessen the potential for destructive disagreement and to protect the individuals who are charged with implementing the plan. The Senior Generation believes that these devices are critically important and that it is the responsibility of more junior Family members, as they become adults, to incorporate these or functionally equivalent devices into their own plans.

We sign this Mission Statement freely and enthusiastically this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

# Glossary

<b>Advisory Board</b>	Typically composed of some nonfamily and family representatives that help identify and prioritize issues objectively, and then recommend resources to address them. Advisory in nature and separate from trustees.
<b>Board of Directors</b>	Typically composed of some nonfamily and family representatives who have authority and to whom the family office head may report. Represents the family in establishing the strategy and direction of the family office.
<b>Investment Committee (That Is Not a Board Committee)</b>	A committee established to provide direction on investment strategy, where there is not a formal board governance in place.
<b>Family Assembly</b>	A periodic gathering that includes adult family members and serves as a forum for family education, updates on important events and milestones, and an opportunity for family members to vote on issues.
<b>Family Council</b>	An entity composed of family members to address family and business issues, as well as the intersection of the two.

# About the Study

This inaugural survey was conducted to provide families and family offices with insight into family office trends and best practices, including market information on family governance structures and data to guide and inform compensation decisions for family and family office advisors, directors and trustees.

Sponsored by Morgan Stanley and conducted by Botoff Consulting, the Single Family Office (SFO) Governance and Compensation Survey was conducted online from August 5, 2020, to August 31, 2020. The data was collected and analyzed by Botoff Consulting. Participation was by invitation only, with responses received from 75 single family offices (SFOs). As appropriate, SFO data are presented in categories of assets under management (AUM), including \$250 million and below, \$250 million to \$499 million, \$500 million to \$999 million, \$1 billion to \$2.49 billion, and greater than \$2.5 billion.



# About Morgan Stanley Private Wealth Management

Morgan Stanley Private Wealth Management is the division within Morgan Stanley Wealth Management that is exclusively focused on the ultra high net worth client segment. By providing advice founded on a culture of excellence and driven by global insight, Morgan Stanley Private Wealth Management is devoted to helping clients preserve and grow their financial, family and social capital.

Morgan Stanley's Single Family Office Advisory, part of the Family Office Resources Signature Access Platform, was established to provide unique, customized resources and consulting services to single family offices as well as families that are considering establishing one.

The Single Family Office Advisory team leverages Morgan Stanley's global franchise to help Private Wealth Advisors deliver tailored solutions as well as an expansive à la carte offering that enables single family offices to access everything, from a single service to a fully outsourced solution covering asset management, financial administration, wealth advisory, and lifestyle and concierge solutions.

To learn more, please visit [www.morganstanley.com/PWM](http://www.morganstanley.com/PWM) or contact: [sfoadvisory@morganstanley.com](mailto:sfoadvisory@morganstanley.com).

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# About Botoff Consulting

With a distinctive wealth of knowledge and experience in executive compensation and strategic advisory, we founded the firm in 2014 to better serve the needs of family office, family enterprise, private company and nonprofit clients across diverse industries and around the world.

Our services include compensation benchmarking, benefits benchmarking, compensation strategy and structure development, incentive plan design, performance management, compensation governance, company management and board support, litigation/expert witness support, and transaction-related support.

Our diverse team of consultants combines a deep array of insights and a long history of working together. This allows us to leverage one another's strengths to deliver in-depth analyses and highly customized client solutions tied to action plans and results.

To learn more, please visit [botoffconsulting.com](http://botoffconsulting.com).

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